



ESRC Research Group on  
Wellbeing in Developing Countries

**WeD Working Paper 05**

**POVERTY STUDIES IN PERU:  
TOWARDS A MORE INCLUSIVE STUDY OF EXCLUSION**

**Teofilo Altamirano, James Copestake,  
Adolfo Figueroa and Katie Wright**

Copyright Ó Teofilo Altamirano, James Copestake, Adolfo Figueroa and Katie Wright  
December 2003



## **WeD - Wellbeing in Developing Countries ESRC Research Group**

WeD is a multidisciplinary research group funded by the ESRC, dedicated to the study of poverty, inequality and the quality of life in poor countries. The research group is based at the University of Bath and draws on the knowledge and expertise from three different departments (Economics and International Development, Social and Policy Sciences and Psychology) as well as an extensive network of overseas contacts and specific partnerships with institutes in Bangladesh, Ethiopia, Peru and Thailand. The purpose of the research programme is to develop conceptual and methodological tools for investigating and understanding the social and cultural construction of well-being in specific countries.

### **Correspondence**

The Secretary  
Wellbeing in Developing Countries ESRC Research Group (WeD)  
3 East 2.10  
University of Bath  
Bath BA2 7AY  
UK

E-mail [wed@bath.ac.uk](mailto:wed@bath.ac.uk)

[www.welldev.org.uk](http://www.welldev.org.uk)

Tel +44 (0) 1225 384514

Fax +44 (0) 1225 384848

### **Working Paper Submission**

For enquiries concerning the submission of working papers please contact Ian Gough ( e-mail: [hssirg@bath.ac.uk](mailto:hssirg@bath.ac.uk) ) or by writing to the above address.

Editorial Assistant: Becky Lockley

### **Acknowledgement**

The support of the Economic and Social Research Council (ESRC) is gratefully acknowledged. The work was part of the programme of the ESRC Research Group on Wellbeing in Developing Countries.

## SUMMARY

This paper presents an overview of published literature on poverty and related concepts in Peru. Its purpose is to contribute to a universal and interdisciplinary understanding of poverty, while at the same time giving due weight to discipline-specific and local understandings. Following an introduction exploring these issues, the next three sections review the differing understandings of poverty offered by economics, anthropology and sociology. The scope of empirical economic analysis has broadened in its analysis of the multiple dimensions of poverty, but remains weak in explaining reasons for the persistence of poverty. The anthropological perspective offers a rich account of local understandings of poverty and has an important role to play in strengthening the voice of poor people themselves in research and policy processes. Sociological perspectives have highlighted the tension between a deterministic explanation of the persistence of poverty and research into how poverty can be influenced by individual and collective action.

The last section proposes that these three perspectives can be incorporated into a single framework centred on the concepts of inclusion and exclusion. Peru is conceived of as a *sigma* society characterised by a profound initial inequality in social assets. The self-interested actions of the main domestic actors prevent block significant reforms, and the capacity of external development agencies to break the impasse can be counterproductive due to the sensitivity of the cultural and political issues involved. In contrast to the 'tragic optimism' of Sender, this theory of social exclusion can be summed up as 'constructive pessimism'.

## KEY WORDS

Peru, poverty, inequality, well-being, interdisciplinary, exclusion

## ACKNOWLEDGEMENTS

We are particularly grateful to David Clark, Ian Gough, Cristobal Kay and Laura Tilling for their helpful comments on earlier drafts; also to Mark Lewis of DFID in Peru for providing unpublished background information on "the voices of the poor" study.

James Copestake and Katie Wright,  
Department of International Development,  
University of Bath,  
Bath, BA2 7AY, UK  
[j.g.copestake@bath.ac.uk](mailto:j.g.copestake@bath.ac.uk)  
[k.e.wright@bath.ac.uk](mailto:k.e.wright@bath.ac.uk)

Teofilo Altamirano and Adolfo Figueroa,  
Centre for Social, Economic, Political and  
Anthropological Studies (CISEPA), Catholic  
University of Peru, Peru.  
[afiquer@pucp.edu.pe](mailto:afiquer@pucp.edu.pe)  
[taltami@pucp.edu.pe](mailto:taltami@pucp.edu.pe)

## 1. INTRODUCTION

The Peruvian economy has grown in nine of the last ten years and looks stronger than that of most of its neighbours.<sup>1</sup> Peru has also experienced a transition to more open and democratic government. Yet throughout the country there are signs of discontent; manifest, for example, in prolonged strikes, social protest and high rates of emigration. Peruvians, it seems, have limited belief in the potential of liberal democracy in the current global context to deliver sustained growth in employment, incomes and well-being.<sup>2</sup> But neither is there any clear consensus over what alternatives or compromises to the liberal democratic model might serve them better.

The literature on poverty, inequality and well-being in Peru is large. The aim here is not to review it comprehensively, but to organise selected material coherently with a view to identifying pointers for further research. More specifically, the purpose of the paper is to contribute to ongoing research into the scope for improved interdisciplinary understanding and use of these concepts. Definition and measurement are not viewed as ends in themselves. Rather the paper is intended to contribute to research into how different definitions are linked to analysis of economic and social outcomes, and to policy and practice.

The paper sets out with the premise that the tensions between different perspectives on poverty are not solely ideological. Rather, confronted with the complexity of the issue they reflect the responses of different disciplines to the necessity of abstraction or construction of theory. According to Levins (1966), there are three main criteria for good theories: realism, generality and precision. By realism, he means whether a theory fully captures our understanding of a particular situation. By generality, he refers to how applicable the theory is to different situations. And by precision, he refers to how precisely the theory permits changes to be measured and forecast. Controversy arises because choosing between rival theories almost always

---

<sup>1</sup> Annual growth rates for gross domestic product (GDP) from 1993 to 2002 were 4.8, 12.8, 8.6, 2.5, 6.7, -0.5, 0.9, 3.1, 0.6 & 5.3% (Banco Central De Reserva Del Peru, 2002:126). GNP per capita was negative in three of these years.

<sup>2</sup> For more detailed discussion of how Peruvians feel about the country see [www.latinobarometro.org](http://www.latinobarometro.org)

entails a trade-off between these criteria. Trade-offs in the social sciences are particularly acute because social systems are not only diverse and complicated, but also prone to unpredictable (including self-conscious) change. The process of modelling and theorising is always constrained by time and resources, and these constraints are particularly acute when it comes to the need to allocate resources between different disciplinary approaches. One purpose of this paper is to help construct an interdisciplinary "meta-theory" that can contribute to such decisions.

This Section takes a first step, following Wilk (1996) by distinguishing between the three broad disciplinary indicated in Table 1. Sections 2 to 4 draw on the Peru literature to review how poverty, inequality and well-being have been defined, measured and analysed in ways that are broadly consistent with each. These differences in underlying assumptions about the nature of human well-being and behaviour go some way towards explaining different normative positions about development policy and practice. At the same time, the boundaries between the three approaches are blurred, and many social scientists draw upon more than one of them (Wilk, 1996).<sup>3</sup> Section 5 reviews the application of exclusion theory to Peru as an example of such an interdisciplinary approach, and then considers how it can be further developed.

**Table 1. Three approaches to well-being and poverty**

Dominant discipline	Economics	Anthropology	Sociology
Key level	Individual	Culture	Group
Nature of well-being	Having, functioning	Meaning	Relating
Poverty	Absolute material deprivation, low income, vulnerability	Anomie, alienation, inferiority	Relative deprivation, marginalisation, oppression, exclusion
Modes of behaviour	Rational, optimising, self-interested	Moral or affective, affirming, symbolic	Social, belonging, conforming

<sup>3</sup> See Bevan (2002) and Dean (2003) for more detailed analysis of disciplinary differences and discourses.

Before proceeding it is worth adding a brief note about the relationship between well-being, inequality and poverty. Well-being is defined broadly to include both objective indicators of the quality of life and subjective perceptions and feelings about personal well-being. It can be measured on a cardinal scale (e.g. annual income, self-reported happiness or some composite index) or based on ordinal ranking. Observations may be of individuals, groups or even distinct cultures. Inequality refers to the distribution of cases along these different scales. The concept of poverty entails identifying one or more points of discontinuity along the scale or ranking. All this is simply a matter of definition and measurement. However, the meaning and relative importance of the three concepts vary between approaches.

## **2. ECONOMIC APPROACHES**

A large number of studies of underlying determinants of poverty in Peru have been undertaken by economists, (for example, Cotlear, 1989; Webb, 1975; Figueroa, 1983; Figueroa, 1983; Figueroa, Altamirano, & Sulmont, 1996; Gonzales de Olarte, 1984; De Soto, 1989; Carbonetto, Hoyle, & Tueros, 1988; Vásquez, 1989). A central focus of their analysis has been the link between the urban and rural economy, as well as the impact of government economic policies on the poorest sectors. Well-being is defined in terms of material wealth and income. Poverty has often generally been defined in relative terms, and analysed as the outcome of an unequal and volatile process of capital accumulation.

For those authors dealing with the peasant economy (such as Figueroa, Gonzales de Olarte and Cotlear), this is construed as a specific entity, although immersed in a wider regional, national or international context. The formal sector is based on what Gertz (1963) called the “firm economy” as against the “bazaar” economy that is informal. Informality can be seen as a social and cultural response to the failure of government to provide employment in the urban formal economy. The existence of the informal economy is seen as a manifestation of the failure of formal mechanisms to adequately distribute resources such as land, water, technology, education and market information. Structural analysis of the economic determinants of poverty are further discussed in Sections 4 and 5.

Economists have also been in the vanguard of the project to define universal and easily measurable standards of well-being against which to assess performance of individuals, groups and countries. The mainstream neo-classical tradition assumes that actors at these various levels are rational in seeking to maximise their well-being (defined as a welfare function) subject to constraints on their freedom (including laws, limited resources, technology, the behaviour of others and imperfect knowledge). The remainder of this section briefly reviews four areas: monetary measurement of poverty, measurement of income inequality, multidimensional measurement of poverty, and multivariate analysis of the determinants of poverty.

## 2.1 Monetary measures of poverty

Many recent economic studies have adopted a poverty line approach to assessing the welfare outcome of government policies and programmes.<sup>4</sup> There are two main national sources of data (Diaz & Torero, 2002). The first comprises annual household surveys carried out by the government statistical service (INEI). The second comprises national household income and expenditure surveys carried out by the *Instituto Cuánto* following the methodology of the World Bank's Living Standard Measurement Survey (LSMS). These were conducted in Peru for 1985-6, 1991, 1994, 1997 and 2000.<sup>5</sup> Table 2 provides a summary of recent poverty data, which is also available in the form of poverty maps (INEI, 2001; UNDP, 2002). Surveys carried out by INEI also provide poverty estimates for the 24 administrative departments of the country. Estimates of income poverty for the 194 provinces and 1,812 districts are calculated indirectly by imputation from other poverty indicators available at these levels (Schady, 2002).

---

<sup>4</sup> The concept of quality of life is rarely mentioned by those adopting this approach as they consider subjective meaning to be unmeasurable, intangible and not sufficiently objective (De Soto, 1989; Carbonetto et al., 1988; Vásquez, 1989; Vásquez, 2000).

<sup>5</sup> Recent surveys using LSMS guidelines in Peru have been carried out by *Instituto Cuánto* in Lima, and are also referred to as the '*Encuesta Nacional de Hogares Sobre Medición de Pobreza*' (Instituto Cuánto, 1996; INEI, 2001; World Bank, 1988).

**Table 2. National poverty rates for 2000<sup>6</sup>**

	Total population		"Poor"			"Extreme poor"		
	'000	%	'000	Rate	Share	'000	Rate	Share
National	25,625	100	13,863	54.1	100	3,792	14.8	100
Lima	7,400	29	3,345	45.2	24	348	4.7	9
Other coastal urban	4,552	18	2,417	53.1	17	382	8.4	10
Coastal rural	1,326	5	854	64.4	6	362	27.3	10
Highland urban	3,235	13	1,433	44.3	10	213	6.6	6
Highland rural	5,742	22	3,761	65.5	27	1,734	30.2	46
Jungle urban	1,548	6	797	51.5	6	179	11.6	5
Jungle rural	1,822	7	1,261	69.2	9	574	31.5	15

Source: UNDP 2002 Human Development Report for Peru 'Realising the potential'.

While LSMS data has been the source of much insightful analysis it does also have limitations, particularly as the source for income distribution studies such as those by Diaz et.al (2002) and Pascó-Font (2001). Figueroa observes that household income and expenditure estimates of respondents are not reconciled. Moreover there is a weak correlation between household incomes, expenditures and assets. In addition, wealthy households (controlling as much as a third of national income) are excluded from the LSMS. The top percentile shows an average household income of near US\$2,200 per month, which is more representative of the mean annual income of middle class households.

## 2.2 Monetary measurement of inequality

Richard Webb (1977) produced the first detailed account of income distribution in Peru, covering the period of 1950-1973. Figueroa (1984) updated it for the 1980s. In both studies the distribution refers to the national income level, and includes estimates of both functional income distribution and personal income distribution. The results of the studies cited above showed that Peru is one of the most unequal countries in the world. The

---

<sup>6</sup> This data is included solely for illustrative purposes and is not discussed in depth in this article.



Gini coefficient, calculated on the basis of deciles for the mid-seventies, was near 0.60. The top 1% of families commanded one third of the national income, while the bottom third received only 5%.

Webb also devised an income pyramid and during the mid-seventies, the most notable finding was the small size of the property class - no more than 500 families. The middle class was also small, around 5% of the total population. Workers employed in the modern sector of the economy comprised another 20% and mostly belonged to the top income quartile. Finally, he found the bottom tercile to mostly comprise the indigenous population.

Since the 1990s the question of inequality has received less attention in the literature, and from the 1980s national accounts stopped estimating business profits, and national income. Figueroa (2001) re-estimated Webb's income pyramid. Due to the lack of national income data the estimates are based on stocks of assets. Data on physical capital was calculated from data on the property structure of the largest firms in Peru. Data on agricultural land ownership came from the national agricultural census of 1994 and data on human resources from the population census of 1993.

When the results of Figueroa's estimate were compared with those of Webb, he found that while the relative position of the social groups has remained the same, their relative size has changed. The economic elite continues to be a tiny group (only 5,000 people, or 0.1% of households), and the middle class remains small. However, the urbanised share of the population has increased to 70%, with approximately 20% of Peruvians now living in *pueblos jóvenes* (shantytowns). The bottom tercile of the national pyramid now includes not only the indigenous population but also a segment of urban households, particularly those living in shantytown areas. Finally, the city of Lima-Callao contains around 30% of total population, with one-third of them living in the *pueblos jóvenes*.<sup>7</sup> These statistics are summarised in Table 3.

---

<sup>7</sup> Using data on inhabitants' dwellings, he argues that the top 70% of the income pyramid are urban households and the bottom 30% are rural (this latter including many inhabitants of small towns often classified as urban). The number of years schooling received by inhabitants of rural areas is much lower than those in urban areas. They also have less physical capital available to work with.

**Table 3: Peru: Distribution of Households, 1993-1994 (percentages)**

Region	Total	"Middle Class"	Other urban	Shanty Towns	Rural	Peasantry
Lima-Callao	29.2	4.0	15.7	9.4	0.1	0.0
Other coastal	23.6	0.4	12.4	5.4	1.3	4.1
Andean	36.6	0.3	6.6	7.8	7.8	18.5
Amazonian	10.6	0.3	2.2	4.0	4.0	3.1
Total	100	5.0	36.9	13.2	13.2	25.7

Source: Figueroa (2001)

### 2.3 Multidimensional measurement of poverty

A growing literature emphasises the multiple dimensions of human development and poverty in Peru. This section highlights three leading examples. First, the United Nations Development Programme (*Programa de Naciones Unidas para el Desarrollo* or PNUD) is responsible for production of the first "Human Development Report" for Peru (PNUD, 2002). The most distinctive feature of this document is that it provides source statistics for and estimates of the human development index (HDI) for each of the 192 provinces in the country.<sup>8</sup> It also provides a more comprehensive set of statistics on physical and human resources for the 24 departments. Table 4 reproduces estimates of the HDI at department level, roughly organised by geographical zone. It reveals considerable variation between departments - generally highest on the coast and lowest in the sierra, with predominantly jungle areas occupying an intermediate position. Overall, Peru's overall HDI increased from 0.639 in 1975 to 0.755 in 1999, although its international ranking dropped over the same period from 45<sup>th</sup> to 73<sup>rd</sup>.

---

<sup>8</sup> This is a multi-dimensional indicator of human development that takes into account relative per capita income, life expectancy and literacy. See PNUD (2002), or any other of the Human Development Reports produced by the United Nations Development Programme.

**Table 4. Human Development Indicators by department, 2000**

<i>Mainly coast</i>		<i>Mainly sierra</i>		<i>Mainly jungle</i>	
Tumbes	.620	Cajamarca	.495	Loreto	.621
Piura	.561	Huanuco	.494	Amazonas	.515
Lambayeque	.625	Pasco	.575	San Martín	.553
La Libertad	.613	Junin	.578	Ucayali	.565
Ancash	.577	Huancavelica	.460	Madre De Diós	.650
Lima/Callao	.747	Ayacucho	.488		
Ica	.667	Apurimac	.457		
Arequipa	.635	Cusco	.537		
Moquegua	.666	Puno	.512		
Tacna	.681				

Source: UNDP 2002 Human Development Report for Peru 'Realising the potential'.

The report stresses the importance of productive systems, social capital and public policies at the macro and micro level. Amongst the obstacles to human development stressed by the report are gender inequalities. However, its analysis of the structural constraints to development is limited, and it concludes with an upbeat affirmation of the capacity of Peruvians to confront the negative impact of poverty, recession, weak governance and natural disasters. While the emphasis of the report is on material and human resources, it does at least mention in passing the importance to well-being of social networks and world view (*cosmovisión*). It further suggests that abundance of cultural resources can coexist with scarcity of material resources such as income, employment, housing, health and adequate nutrition.

The *Centro de Investigaciones de la Universidad del Pacifico* (CIUP) under the leadership of Vasquez have studied the links between good governance, poverty, vulnerability and well being in Peru. With regard to well-being, the central aspects of analysis are the social exclusion of women, children, the elderly and indigenous people. With regard to education and health, it concludes that the major reasons for lack of access to these services are inequality, poor public administration and budget cuts. To overcome these barriers the authors propose a new agenda that must take into account demands, possibilities, equity in services, access for women and indigenous population to education and the creation of employment opportunities to foster more income generation in order that

they gain access to education and medical services. Finally, the authors recommend that the government should increase the budget in these areas and work more closely together with local authorities.

A third important strand of research into multiple dimensions of poverty has been carried out by Queen Elizabeth House at Oxford University. They used a mixture of ENNIV data (data from national household surveys on quality of life – *‘Encuesta Nacional de Hogares Sobre Medición de Niveles de Vida’*) and primary sources to investigate how different approaches to definition and measurement of poverty affect the way households are classified. Laderchi (1999) uses 1994 data to explore the hypothesis that monetary measures of poverty are an acceptable proxy for multiple dimensions of poverty including child stunting, illness and access to schooling. She finds that the relationships are weak, and concludes that reliance on monetary measures for targeting programmes addressing these dimensions result in significant targeting errors. This finding was confirmed by Franco and Saith (2003).<sup>9</sup>

## **2.4 Multivariate analysis of the determinants of poverty and inequality**

Many independent econometric studies of determinants of poverty have been conducted using LSMS data.<sup>10</sup> These range from studies of non-farm income diversification (Escobal, 2001), to the effect of women’s education on the nutritional level of *their neighbours’* children (Alderman, Hentschel, & Sabates, 2002). For articles on migration see Hill (1988) and Sabatés (2000).

Researchers have also used LSMS and other survey data to investigate the economic impact of specific policies and services. For example, Schady (2002) and Laderchi (2001) study the effect of different targeting methods

---

<sup>9</sup> See also Laderchi, C., Saith, R., and Stewart, F (2003). Laderchi also compared monetary poverty with more participatory approaches that focus on self-perceptions of poverty. Results again showed a lack of overlap between the two. For example, in the rural field site 29% of those who declared themselves to be poor were not poor according to the monetary indicators. Similarly 42% of the monetary poor did not conceive themselves as being poor. See also Franco and Harris-White (2002).

<sup>10</sup> The World Bank LSMS website lists nearly one hundred published works that use Peruvian LSMS data. See

[www.worldbank.org/html/prdph/lms/research/country5.html](http://www.worldbank.org/html/prdph/lms/research/country5.html)

on distributional outcomes of food transfer policies. *MiBanco*, Peru's largest microfinance organisation, has used LSMS data to build a poverty profile of their clients in order to understand the poverty outreach of its different products and services.<sup>11</sup> This provides an interesting point of contrast with Field (2002) who investigates the impact of urban property titling by *COFOPRI*. Although she does not look specifically at poverty effects she finds that property titles did have important effects on time use – making it easier for people to work at home and reducing reliance on child labour. Research into relationship between poverty and macroeconomic policies are less common. Glewwe and Hall (1998) investigate vulnerability of different (broadly defined) social groups to macroeconomic shocks. Crabtree (2001) explores the impact of structural adjustment on peasants, and Diaz, Saavedra and Torero (2002) investigate the impact of trade policy reform on inequality, with particular reference to income of informal sector workers in Lima.

## 2.5 Interim assessment

The literature reviewed above reflects the tension between 'orthodox' neoclassical approaches and more heterodox, political economy approaches. The former are motivated in part by the goal of producing scientific findings that are politically neutral. However, the danger is that reductionism inherent in the analytical separation of economic and political itself introduces political biases. There is also a danger that an emphasis on narrowly defined technical research leads to a neglect of analysis of the functioning of the entire society.<sup>12</sup> This tension reflects the wider debate over the relationship between economics and the so-called "post-Washington consensus" (Gore, 2000; Fine, 2002).

Inequality has also begun to receive more attention again, after a period in which it was relegated to absolute poverty as the main object of policy oriented research. One sign of this is the recognition of the influence of

---

<sup>11</sup> See Acción (2003) available from [www.accion.org](http://www.accion.org)

<sup>12</sup> For example, rural small farmers are no longer conceptualised as a distinct kind of economic organisation (forming part of the peasant economy), rather they are now seen as simply "the rural poor". See Section 4 for further discussion of this point. For a more holistic analysis of the peasant economy see Gölte (1980) and Mossbrucker (1990), Crabtree (2001), Meyer (2003).

inequality on growth elasticities of poverty reduction (De Janvry, 2000). Other examples of this broadening of scope is new institutional economics, so-called 'social capital' and the recent growth in behavioural economics. The last not only challenges the assumption of methodological individualism, but also provides a point of departure for further research into subjective dimensions of well-being. Section 5 picks up on these threads in the context of discussion of the scope for interdisciplinary research.

### **3. ANTHROPOLOGICAL APPROACHES**

#### **3.1 Pure anthropology**

Much of the vast anthropological literature about Peru is not directly concerned with poverty. Indeed it is in the nature of much anthropological research to minimise such prior categorisation, albeit while recognising that no researcher goes to the field devoid of his or her own ideas and biases. At the same time much anthropological work has been motivated by poverty related research goals, particularly since the influential work by Oscar Lewis on the 'culture of poverty.'<sup>13</sup> However, such work aims to bring out the perspective of the poor and non-poor themselves, rather than restricting analysis solely to prior 'outsider' categories.

A recurrent point of reference in this regard for Peru and other Andean countries is the debate over the nature of 'Andean culture' (*Lo Andino*). Scholars who have given emphasis to the importance of a distinctive Andean perspective in their analysis of rural poverty include Orlove (1974), Isbell (1973) and Flores (1977). Doughty (1970), Lobo (1982) and Altamirano (1988b) are among those who have brought the same analysis to bear on urban poverty. According to these authors, so-called 'Andean culture' reflects a historical legacy and other cultural components such as language, material and non-material values, which vary from one region to another. In Peru such research is particularly linked to ethnography of the

---

<sup>13</sup> Brass (2002:3) observes that "the same kind of epistemology informed Murra's theory of Andean 'verticality', applied by him and others subsequently to the study of Peruvian rural communities. In these kinds of framework, peasants were depicted as being economically backward because they chose to be so, and for non-economic reasons to do with culture and the nature of peasant society itself.

two major indigenous ethno-linguistic groups, *aymaras* and *quechuas*, to ethno-linguistic families based in jungle areas, and to the many members of these groups who now live in the cities and constitute part of the urban poor.

To the extent that local world-views are given equal status to that of outside researchers then a 'classical' economic, sociological or political analysis is open to the charge of paternalism. The concept of '*Lo Andino*' is complex and some authors, such as Starn (1991) have argued that no such thing exists. He has criticised anthropologists such as Isbell (1973) for essentialising peasant experiences and over-emphasising the 'unchanging' nature of highland ways and thus ignoring capitalist and political transformations taking place in the countryside. However, the position adopted by Starn has also been criticised, amongst others by Poole and Renique (1992) who argue that ignoring *Lo Andino* (and by extension Andean studies) risks allowing Western cultural discourses in Peru to predominate, thus invalidating ways of life and means of production that remain distinctly Andean.

This debate echoes the wider debate between formalism and substantivism within anthropology (Wilk, 1996:3 ), and offers similar scope for compromise. In brief, while it tends to a more materialist view, formalist analysis of well-being also allows space for non-material dimensions, such as confidence, strength of identity and questions of belonging. Likewise formalist analysis of survival strategies and other forms of behaviour need not exclude an appreciation of their cultural dimensions – indeed of their potentially overwhelming importance (McGregor & Kebede, 2003). This position is eloquently argued in relation to the debate over *Lo Andino* by De Vries and Nuijten (2002). Andean peasants, in short, often rationally pursue material self-interest and hence models of such behaviour can be illuminating. But their behaviour is also informed by more complex 'mental models' including a strong preference for (and interest in) preserving a degree of cultural otherness - even if the nature of the otherness is mysterious even to themselves.

### **3.2 Applied anthropology**

The work of anthropologists has historically been less oriented to development policy and practice than that of economists, although this is changing (Lewis, 1996; Hobart (ed.), 1993; Pottier, 1993). But whether

intentionally or otherwise, anthropological perspectives have potentially profound implications for development policy and practice. For those who take a post-modern and post-development perspective, their work is relevant to the identification of alternative visions of development – each with its own implicit definition of the nature of well-being and ill-being. For example, policies aimed at poverty reduction or improving ‘basic needs’ are counter-productive to the extent that the processes adopted undermine cultural and political autonomy of subordinate groups. The work of *PRATEC* exemplifies a radical critique of western interventionism rooted in a purist Andean perspective (Apfell-Marglin (ed.), 2003).<sup>14</sup>

A more moderate and pragmatic approach (though no less controversial) is to draw upon anthropological perspectives in order to seek reform of development policy and practice.<sup>15</sup> For example, anthropologists have helped to draw attention to the importance of cultural categories such as "*waqcha* and "*apu*".<sup>16</sup> Arguably, these are the closest conceptual synonyms in Quechua for “poor” and “rich” respectively. However *waqcha* translated literally refers to an orphan who lives without parents, relatives or social networks. This conception of poverty suggests that social networks are considered to be an important asset in Andean societies which influence the economic opportunities of the poor and may or may not determine the economic condition of individual members. In societies where material resources are scarce, social networks become crucial for survival. Therefore reciprocity, kinship, exchange and the sense of belonging gained from being part of a specific ethnic group become assets with instrumental as well as intrinsic value.<sup>17</sup>

---

<sup>14</sup> Pieterse (2001) provides a useful overview of anti- and post-development thinking, while Escobar (1995) provides a powerful critique of the aid industry from a Latin American perspective.

<sup>15</sup> For a historical review of the history of anthropology in Peru, including the political tensions between Peruvian and foreign anthropologists, see Degregori (2000).

<sup>16</sup> Given the importance of kinship links for ensuring economic survival, it has been argued by Altamarino that the concept of poverty in Andean society is associated with a lack of these relationships (1988a: 27). Thus, the poorest in society is a person who belongs to no family group - an orphan.

<sup>17</sup> For discussion of Andean reciprocity, kinship and exchange see Mayer (2003), Mayer and De la Cadena (1989), and also Golte (1980).



Development practice (particularly of NGOs) has also sought to learn from anthropology and other disciplines the techniques and skills for listening more effectively to intended beneficiaries of their interventions. A leading example, here is the “voices of the poor” programme of the World Bank.<sup>18</sup> DFID and World Bank (2003) reports on the first “participatory poverty assessment” for Peru that set out to be national in scope. Primary data collection was carried out in nine communities (in Lima, Puno, Ayacucho and Piura) and involved 730 participants. Findings are summarised in Table 5.

**Table 5. Summary findings of Peru’s first national participatory poverty assessment.**

<b>1. "Families confronting poverty"</b>	
1.1	Women still bear the brunt of household reproduction. Migration of men for work and alcohol abuse make things worse, but male violence in the household is declining.
1.2	Access to health is a major problem, as is physical security, especially in urban areas (partly due to gangs, drugs and youth unemployment).
1.3	In crisis (unemployment, illness, harvest failure) what matters most is the support of immediate and extended family.
<b>2. "Poverty and the world of work"</b>	
2.1	Agriculture is stagnant, and further undermined by land shortage, uncertain weather and market instability. Livestock rearing is generally more productive than growing crops.
2.2	In urban areas, long hours, abuse from employers, low and uncertain income are common experiences.
2.3	Rural-urban links are crucial to consumption smoothing: rural areas links as a source of food, urban of income.
2.4	Land rights are a major issue in rural areas. Employment protection, education and property rights are the main concerns in urban areas. Access to formal credit is an issue in both areas, despite the risks of indebtedness.

---

<sup>18</sup> The programme originally consisted of a review of participatory poverty studies involving 40,000 poor people in 50 countries around the world. In 1999 a further 23 countries were added and interviews conducted with an additional 20,000 poor men and women. In each of these studies, respondents were asked to comment on: their perceptions of a good and bad life; their most pressing problems and priorities; the nature of their interactions with public, market and civil society institutions; and changes in gender and social relations. These ‘consultations’ with the poor were an inputs into the World Development Report 2000/01 on poverty. See <http://www.worldbank.org/poverty/voices>

<b>3. "Poverty and institutions"</b>	
3.1	Public and community institutions are perceived as uncoordinated. Discrimination and maltreatment is common. Public officials are perceived as inefficient and corrupt.
3.2	FONCODES and PRONAA are the organisations that have the greatest impact and work most closely with community level organisations. <sup>19</sup>
3.3	Water and electricity are valued highly, and poor users are willing to pay for these services so long as they get an efficient service.
3.4	Education is seen as the most important long-term solution to poverty. But participants were acutely aware of the deficiencies of the public system. They also complained about the high cost of uniforms, materials and contributions solicited for special events.
3.5	Poor health is seen as the main factor leading to increased poverty. But access to health services is impeded not only by high costs, but also by discrimination and verbal abuse experienced from health workers.
3.6	Rural areas benefit from the presence of <i>ronda campesina</i> and <i>teniente gobernador</i> [translation?]. In contrast, the police are viewed as a threat, and the justice system as distant and corrupt. Municipal authorities do not respond to the concerns of the poor, whereas NGOs and church organisations are regarded as more reliable and effective.
3.7	Communal organisations are important in rural areas, but less responsive to the interests of women and those in extreme poverty. Neighbourhood organisations in urban areas are scarce and weak, especially once basic services have been secured. Their leaders are easily co-opted by politicians. Mothers' clubs and communal kitchens are regarded by women as their main source of support in the struggle against poverty, although their involvement in food distribution brings unavoidable internal conflict.
<b>4. "Proposals of the poor"</b>	
4.1	More government support is needed to reduce market uncertainty, and to improve access to credit and to technical assistance.
4.2	There is scope for more participation in administration of schools and social programmes, and for better coordination between government agencies, as well as more transparent legal processes of securing land titles.
4.3	Women need more training opportunities on how to deal with male violence, nutrition and food programmes need to be more reliable. Policies and programmes need to work with traditional medicine and family networks, rather than ignore them.

Source: DFID and World Bank (2003):222-27

Another policy-oriented study that consulted widely was *Agenda Perú*. This stressed in particular the importance of dialogue and consensus building across society.<sup>20</sup> Similarly, the *Mesas de Concertación para la lucha contra*

<sup>19</sup> FONCODES is "*el Fondo de Compensacion para el Desarrollo Social*" and the main central government agency for organising public works programmes. PRONAA is "*el Programa Nacional de Alimentos*" and supplies milk and other food supplements through *comedores populares* (community kitchens), nurseries and mothers' groups.

<sup>20</sup> 'Agenda Perú: Charting a shared national vision for the future' edited by Sagasti (2001) is a report published by the International Development Research Centre which tried to promote a common national vision including instituting political

*la pobreza*<sup>21</sup>, were set up precisely to counter the top-down nature of decision making processes in Peru (Blackburn, 2001). Their impact has been limited, in part because of lack of will to share information, stemming from a lack of a culture of participation in decision-making, and in part due to a lack of belief that such an approach will bring about lasting change. Critics of the participatory approach stress the populist limitations of instrumental participation if it is not linked to a political strategy designed to bring about real transfer of power. The importance of connecting society and politics is a major theme in the broader social science literature in Peru, most notably in the work of Grompone (1991; 1995). This again highlights the importance of a multidisciplinary approach to the analysis of poverty.

## 4. SOCIOLOGICAL PERSPECTIVES

### 4.1 Class analysis

This approach is rooted in a social class analysis of capitalism. Poverty is a product of the entrenched social and economic class structures characterising Peruvian society. In urban settings, workers and petty commodity producers can only break out of exploitative relationships through political change brought about by class struggle. Early examples from Peru include Patch (1967), Gianella (1970) and Quijano (1971). Analysis of rural areas is dominated by the 'agrarian question' and debates between what Brass (2002:3) refers to as "rival *campesinista* (= peasant persistence) and *descampesinista* (= peasant disappearance) interpretations". Scholars who contributed to this analysis in Peru include Montoya (1979; 1980), and Sanchez (1974). Crabtree (2001) updates the

---

reforms to prompt more public participation in decision-making processes in the eve of the presidential campaign of Toledo in 2001.

<sup>21</sup> The *mesas* were originally intended as institutional spaces through which a range of public and private actors would meet to: (i) agree on a 'diagnosis' of poverty in their province or district (*un diagnóstico*); (ii) establish budgetary priorities for public and private investment to alleviate poverty in their area; (iii) assess the impact of government social programmes to combat poverty; (iv) set up a monitoring and evaluation system of these government programmes. For a summary of the origins, achievements and limitations of the *Mesas de Concertación* see Blackburn, (2001:12-14).

analysis with a detailed examination of rural losers and gainers from the 1990s experience of structural adjustment and liberalisation.

The main arguments maintained by the social class approach are that peasant and urban migrant dwellers constitute a specific social class that exist in tension with socio-economic and politically more dominant groups. The crucial determinant of income distribution and hence poverty is the wage rate (both explicit and implicit in the terms of trade between industrialised, peasant and artisanal products). According to this perspective, many urban dwellers as well as peasants are marginal to capitalist economy, which is incapable of absorbing them fully into the formal labour market.<sup>22</sup> Economic marginality in turn results in social, cultural and even psychological marginality as well. Internal migration is seen as the direct consequence of rural poverty and a process of "depeasantisation" and decapitalisation. Rural-urban migration, from this perspective, is not a solution to rural poverty, but rather an additional problem created by the capitalist system.

## **4.2 Social differentiation**

Social class analysis downplays internal cultural differentiation of rural and marginal urban societies. Emphasis on cultural difference (including language, religion, rituals, symbols) is seen as the potential basis for 'false consciousness' or a distraction from a more profound class analysis. On the other hand, the failure of land reform and other forms of developmental state intervention to achieve more radical social transformation have undermined the case for giving more emphasis to the latter. As neo-liberalism re-emerged as the dominant influence on policy, so researchers interested in poverty lowered their ambition from grand narratives to

---

<sup>22</sup>Amongst those adopting this view is Portés (1994) who has argued that the "absorptive capacity" of the formal sector has been grossly underestimated. Informalisation is thus seen in a negative light as a process whereby, in the interests of economic growth, the state weakens the rights of workers and the unions. Portés argues that a high proportion of the informal labour forces is in reality composed of "disguised wage workers who toil for modern firms but are not formally employed by them" (1994:119). For more discussion of the theoretical debates surrounding the informal sector in Peru see Wright (2001).

researching more modest, diverse and complex processes of socio-economic differentiation.

The internal social, cultural and economic differentiation approach spans sociological and anthropological analysis and has been applied to both rural and urban settings. Examples include Fonseca (1972), Plaza (1979), Altamirano (1984), Roberts and Long (2001; 1978) and Grompone (1985). These scholars recognise the importance of economic differences both among the poor and in relation to the non-poor. But they also emphasise the importance of understanding the social and cultural mechanisms by which these differences are reproduced and can be overcome. An analysis of rural differentiation, for example, entails exploring not only access to land, but also ability to draw on social networks, family attachments and ethnic loyalties.

From this perspective, the informal sector is not only a consequence of lack of access to economic resources. Rather, it is the product of social and cultural networks, co-operation, reciprocity and work ethics that are influential prior to and during migration to the cities.<sup>23</sup> Likewise, unemployment is analysed not only as an aspect of poverty, recession and social crisis, but also as an outcome of lack of skills rooted in differential access to social as well as economic resources. Researching cultural adaptation to different economic conditions, both in rural and urban areas, is also important. The key question addressed is: why are certain groups of indigenous, peasant, rural and urban people more likely to succeed economically than others? (Altamirano, 1984; 1988a).

Brass (2002) provides an important critique of the social differentiation approach. One danger is that renewed emphasis on social and cultural difference can lead to a neglect of political economy. He refers to this as "new populist postmodernism, a form of "analysis-lite" that has led to the "dumbing down" of the development debate, or the substitution of celebration for investigation." But the more profound danger is that such

---

<sup>23</sup> The work of Gölte and Adams (1987) which documents migrants' use of cultural resources to optimise their opportunities whilst inserting themselves into the informal sector in Lima can be seen as a major contribution to the internal social, cultural and economic differentiation approach. See also Adams and Valdivia (1994).

analysis is combined with an unrealistic or populist affirmation of the potential for “from-below” empowerment.

Such utopianism has perhaps been most strongly associated with NGOs (see, for example, Caravedo (1995)). But it is also evident in the adoption of asset and livelihood frameworks by official development agencies (Bebbington, 1999; Moser, 1996; Moser, 1998; Rakodi, 1999). The danger is that these substitute for, rather than a complement for a more holistic (and realistic) analysis of the opportunities for and constraints to upward mobility within highly unequal capitalist societies. In its lowest form they replace it with a sanitised ‘game’ of poverty reduction through individual asset accumulation supported by heroically benign aid agencies. In so doing they enable development agencies to maintain at best a mildly reformist (at worst a cynically apolitical) stance in relation to governments, big business and the well-meaning but naïve citizens and subjects of rich countries. Part of this conjuring trick is to convert often-ugly social relationships (e.g. urban gangs) and processes into a stock of 'social' capital. McGregor and Kebede (2003) review the alternative "resource profiles approach" which seeks to avoid this by replacing capital and livelihood frameworks with a typology of resources, including political and cultural resources. However, the next section argues for an analytical framework that emphasises *relationships* and *processes* (of inclusion or exclusion) over *states* or *stocks* (of assets or resources).

## 5. INTERDISCIPLINARY APPROACHES

An interdisciplinary perspective already crept into the foregoing discussion of the social differentiation approach. Without denying the importance of material differences and power structures, the approach seeks to accommodate essentialist analysis of cultural differences. At the same time, the emphasis on agency leaves space for economic analysis of rational livelihood and coping strategies of different actors. However, increased *generality* at the micro level may come at the price of *realism* in macro level analysis of historical outcomes, particularly the obstacles to upward mobility or social reform.

## 5.1 Towards a general theory of exclusion

The social exclusion approach has been promoted globally by the International Institute for Labour Studies of the International Labour Organisation (ILO), but has deep and diverse intellectual roots (see for example, Room, 1995). This ILO perspective stresses patterns of social disadvantage which are closely linked to employment and unemployment. The concept also provides a framework within that deal not only with micro-level livelihood strategies of the poor, but also with opportunities and constraints at the macro-level. A crucial distinction is that poverty is viewed not as a state, but as an active process of exclusion orchestrated by others. Figueroa, Altamirano and Sulmont (1996) provide a review of the three main ways of being socially excluded in Peru: economic, political and cultural.

Economic exclusion refers to marginalisation from the productive system through the way markets operate; principally from employment, credit and insurance. Markets do not favour poor people in large measure because of their lack of human and physical capital. This in turn influences the price that the poor obtain for the resources that they do command, of which the most important is their labour power. Those without skills are more likely to be unemployed or underemployed. The terms of employment, when it can be obtained, are consequently low and insecure. Self-employment is constrained by lack of capital, but this in turn restricts access to credit. And when credit is obtained it is more likely to be on unfavourable terms.

Insecure employment, lack of assets and credit all contribute to vulnerability and a need for income and consumption smoothing mechanisms. But access to social insurance (whether through state or market) is also restricted. In addition, poor people encounter difficulties in product markets. As consumers they are forced to purchase in small quantities, while as producers they are generally restricted to more competitive (hence less profitable) activities. In summary, unequal access to labour markets, credit and insurance all contribute to poverty. With unemployment and underemployment ranging between 10% and 50% respectively, the economic exclusion process in Peru is all the more glaring.

Political exclusion refers to unequal access to individual and collective rights within civil society; and citizenship rights refer to freedom to represent and

to be represented within a democratic context. Thus, democracy implies the free exercise of power with certain individual and social duties and rewards. Citizenship is the right to have not only a voice but also to be recognised as a human being. In Peru such rights vary in practice with income, formal education, occupation, race, gender and age. Poor people are subject to human rights abuses in part because of lack of formal education, knowledge and time to engage in formal political activities. Social subordination, weak representation, and the prevalence of patronage and violence as norms for resource distribution in public and private spheres are also important. The result is that mechanisms for redistribution of the material resources that underpin economic exclusion are very weak.

The institutions, rules and norms governing economic and political exclusion all have cultural or normative underpinnings. A starting point for understanding this cultural dimension is the investigation of horizontal relations (based on reciprocity, loyalties, interpersonal networks, exchange of symbolic practices and so on) within distinct groups. These are sustained in part by continuous and contested comparison-making and status ranking. There is of course much fluidity and mobility. Many Peruvians acquire an ability to sustain a repertoire of “cultural performances” - not least through migration (Ferguson, 1999). But by identifying with, and investing in different sub-cultural traditions individuals cannot avoid processes of labelling and vertical social differentiation which reinforce and are reinforced by the processes of economic and political exclusion already discussed.

In this context, the terms *criollo*, *mestizo*, *campesino*, *indígena* and *zambo* can be viewed as overlapping and shifting identities that together contribute towards “*el imaginario*” (self-image, vision or world-view) Peruvians have of themselves. These categories are only partially ethnic. For example, an individual may be *campesino/ serrano* (growing up as a peasant in a rural Andean setting) but culturally *mestizo* (having appropriated Western influences, with respect to dress, for example). The relation between *mestizo* (mixed race) and *campesino* (peasant), for example, are influenced by differences in wealth and hence market interactions. But they are also moulded by institutions such as *compadrazgo* (co-parenthood).

An additional, but even more complicated category is that of ‘*cholo*’. Primarily, but not exclusively, it refers to migrants living in the city who are



originally from the *sierra* and speak *Quechua* or *Aymara* as well as Spanish. President Toledo, for example, was coined by the Peruvian press as '*Choledo*' because of his *serrano* origins and western education and dress. People labelled '*cholo*' may be conceived to be naïve or even 'backward' in their ways and it could be argued that this term has a racist overtone. The term encapsulates the attempt of those of *serrano* origin to improve their social and economic standing by assimilating Western dress and culture.<sup>24</sup> Such categories exist in people's conscious and subconscious minds and directly affect how people are treated and hence processes of inclusion and exclusion.

This brief discussion of the concept of exclusion has sought to emphasise the inter-relatedness and self-reinforcing processes of economic and social (including political and cultural) exclusion in Peru. Together they contribute to a deep stratification of Peruvian society – from a rich, privileged, mostly white and westernised elite at one extreme, to an excluded majority of mostly indigenous populations, peasants and slum dwellers who are severely limited in their ability to exercise their legal rights. In addition this larger group is characterised by having higher levels of illiteracy, high rates of infant and maternal mortality, low levels of life expectancy, and high levels of malnutrition and sickness.

## **5.2 A formal model – Peru as a *sigma* society**

The foregoing discussion of exclusion combines the three disciplinary perspectives reviewed in the previous sections. It also goes beyond static poverty measurement and asset/livelihood frameworks in emphasising active processes behind the reproduction of poverty. Exclusion is not an absolute, and this framework accepts possibilities for individual and collective economic advancement. But it also emphasises the formidable economic, political and cultural barriers to this. A criticism, however, is that

---

<sup>24</sup> Much however depends on how this term is used. It is likely to be perceived to have pejorative 'colonial' and racist connotations if used by (white) westerners. But Peruvians may use it amongst each other as a put-down, to tease or as a term of affection or endearment, depending on context. For more discussion see Portocarrero (1989), Manrique (1999), Gölte (2001). For research into emerging identities and new senses of belonging in Peru see Portocarrero and Komadina (2001).

as it sacrifices analytical precision for generality. Partially, in response to this criticism, Figueroa (2001; 2002) presents a formal model of exclusion. This is also described and reviewed in Copestake (2003).

The explicit purpose of Figueroa's analysis is to explain the persistence of the convergence problem - namely that the gap between the income of rich and poor countries is not closing. In order to explain this he distinguishes between three abstract kinds of capitalist society: *epsilon*, *omega* and *sigma*. These societies differ principally in terms of the conditions under which they became capitalist. This "foundational shock" determined an initial level of inequality with respect to the distribution of both economic and social resources. In *epsilon* and *omega* societies there is complete equality in the individual endowments of social assets. However, *sigma* are characterised by an initial inequality in social assets. As Figueroa states: "*sigma* society was born to capitalism as a heterogeneous and hierarchical society; and *omega* and *epsilon* societies were born socially homogeneous" (Figueroa, 2002:11).

The *epsilon* economy has homogeneous skilled labour, though unemployment persists as a device for disciplining workers. The *omega* economy is characterised by excess labour supply, divided between direct employment by capitalists, unemployed and self-employment in an informal sector with limited access to financial services. The *sigma* economy has two types of labour: y-workers are skilled, and divided between the same three activities as workers in the *omega* economy. In contrast, z-workers lack the skills to secure high-productivity employment and can secure income only through self-employment, and in generally lower productivity activities than y-workers due to their lack of skills. Two questions immediately arise. First, what prevents z-workers from acquiring skills and thus becoming y-workers? In other words, what stops the *sigma* economy transforming into an *omega* economy? Second, what prevents capital accumulation proceeding to the point at which all y-workers are either unemployed or employed in high-productivity activities? In other words, what prevents the *omega* economy from transforming into an *epsilon* economy?

To answer these questions it is first necessary to provide a fuller description of the *sigma* economy. This model is designed to explore static equilibrium and then dynamics of an economy comprising four stakeholder groups:

capitalists, government, y-workers (skilled) and z-workers (unskilled). Capitalists seek profits. To do so they are willing to take risks, so long as these do not expose them to such large losses that they would cease to belong to the capitalist class. Government seeks to maximise political power, and workers seek to maximise income and minimise effort. Capitalists, self-employed y-workers and self-employed z-workers all produce a standard good B.<sup>25</sup> There are five types of assets or resources: physical, skilled labour and unskilled labour (=“economic assets”), political and cultural (=“social assets”). Political resources include influence on government powers to tax, to spend and to regulate. Cultural assets comprise mainly of hierarchically ordered social networks (reinforced by language, rituals, role models, institutions and so on) through which political capital is mobilised, protected and used. Cultural capital is strongly linked to personal attributes, particularly ethnicity, and hence is not easily transferred between individuals. Capitalists own most physical capital, and derive most of their income from profits. They are also rich in political and cultural capital. Y-workers own little physical capital, but are skilled. Their endowment of political and cultural capital is less than that of capitalists, but greater than that of z-workers, who have least human, physical, political and cultural capital.

Static equilibrium positions of each group of stakeholders are explored in two stages. First, Figueroa reviews what he calls *basic* markets for labour, capital and insurance. Second, he considers the role of government, acting as a power broker between other stakeholders. In the labour market, the private cost of training z-workers exceeds the private benefits to capitalists. As a result they are excluded from wage employment, and restricted only to self-employment at relatively low levels of productivity. Their first preference of y-workers is to work for capitalists at a wage set at a premium over that required to employ all z-workers. Otherwise they either remain unemployed or seek self-employment, but returns to the latter are constrained by limited access to capital and technology.

Capital markets are segmented because risk-adjusted benefits are less than the costs of providing financial services to both y-workers and z-workers. Segmentation of the insurance market is also critically important. Capitalists

---

<sup>25</sup> In other words, the *sigma* model abstracts from sector (e.g. agriculture/industry) models. However, insights from the two approaches to explaining income distribution are complementary.

have sufficient wealth and income to be able to at least partially insure against the failure of risky investments. As a result they not only invest more, but can also commit to high-risk, high-return investments. Self-employed workers, in contrast, are limited in their ability to make risky investments by fear of losing the little physical capital they have. Their lack of access to financial services helps to explain why output from self-employment is less productive than in capitalist wage employment. Lower productivity of z-workers can also be explained partially by lack of physical capital as well as by lower skills.

Given this exclusion from capitalist controlled credit and insurance markets, workers seek their own personalised and inter-linked forms of security. These institutions are an effective form of collective social protection, but rules of "reciprocity and redistribution" limit the scope for individual accumulation (Figuroa, 2002:119). Mutual forms of social and financial protection are also linked into patronage from capitalists and the government.

Why does the government fail to raise taxes from the rich in order to address the market failures identified above? There are three policy propositions to consider. First, government could provide free education so as to turn unskilled workers into skilled workers. Second, they could subsidise financial services. Third, they could provide a social protection system. Table 6 takes a first look at each of these policy propositions from the perspective of each stakeholder.

**Table 6. *Sigma* model analysis of government initiatives and economic exclusion.**

	Provide free education	Provide subsidised financial services	Provide social protection
Z-workers	Z-workers would be the main beneficiary in each case. But Figueroa emphasises their inability to turn strength of numbers into political capital for three reasons. First, poverty limits their time and energy for doing anything other than meeting immediate material needs. Second, they face the Olsonian collective action problem. Third, they are handicapped by lack of cultural capital (a polite way of saying they suffer ethnic/racial discrimination).		
Y-workers	Opposition due to fiscal cost, plus fear of seeing their own employment opportunities weakened (a labour aristocracy argument).	Support, to the extent that this could strengthen their prospects for self-employment and low level capital accumulation. But opposition from those for whom benefits are likely to be more than offset by the fiscal cost.	
Capitalists	Support to the extent that there are skill shortages, and W can be lowered by increasing the supply of skilled labour	Opposition to the extent that increased self-employment raises the opportunity cost of labour, hence W, and reduces profits. <sup>6</sup> For some it may also undermine their own powers of patronage.	

Z-workers should benefit from political intervention in each market. However, Figueroa suggests that their ability to bring mass support to bear on the government is weakened by lack of cultural and hence political capital. In the case of education they also face opposition led by those y-workers most likely to face competition from an erosion of education as a barrier to entry into skilled jobs. In the case of financial services and social protection, opposition is led by capitalists fearful of a resulting rise in the wages of skilled workers. Both groups are better endowed than z-workers with the political and cultural resources to ensure government responds to their wishes. Capitalists can also threaten the government with disinvestment if it demands too much on behalf of the workers. These arguments suggest that government will not do much to offset social and economic exclusion, at least in the short-term.<sup>26</sup>

<sup>26</sup> Figueroa (2002) formally sets out the assumptions of the model and derives from them a set of testable reduced-form equations. Exogenous variables include the money supply, the international terms of trade, technological knowledge, and (critically) the distribution of economic and social assets. He then draws on Latin American evidence to explore how far changes in each over time are associated with the predicted direction of endogenous variables.

Moving from comparative statics to dynamics, Figueroa asks what happens when the profits of capitalists are all reinvested, resulting in capital accumulation, which may also be augmented by technological progress and net foreign investment. Z-workers are completely insulated from the resulting economic growth. Y-workers, on the other hand, benefit from increased wage employment. Their wages also rise as excess skilled labour supply is absorbed.<sup>7</sup> The overall effect on income inequality is indeterminate, depending on whether the “enrichment and enlargement effects” on the income share of y-workers outweighs the falling income share of z-workers cf., (Fields, 1980:30).

Political reactions to these changes in income distribution are also indeterminate. But relative income changes of any kind may upset the social order, even to the point of triggering political violence. This represents a potentially powerful negative feedback loop: capitalist growth disturbs income distribution, this upsets the political order and undermines the confidence of capitalist investors, hence capital accumulation dries up. The key issue is then whether government can sustain economic growth by mitigating the destabilising effects of induced changes in income distribution.

This argument runs counter to the usual assumption that capitalist growth is stabilising precisely because it creates new jobs. The reason for this is that many workers perceive themselves to be excluded from securing those new jobs. Hirschman's (1973) “tunnel effect” argument (that people will tolerate temporary inequality so long as they believe that their turn is about to follow) cuts no ice. On the other hand, government may have some discretion to alter fiscal and spending policies in response. Capitalists will accept higher taxes to pay for actions to reduce cultural, political and hence economic exclusion of z-workers if this reduces political instability, as well as reducing skilled labour shortages. On the other hand, y-workers' support for continued capital accumulation and job creation will eventually disappear if the price of this are policies that undermine their cultural, political and labour market privileges.

This is a delicate balance, and Figueroa adds a final twist by suggesting that style of political management may also be endogenous. The reaction to social and economic exclusion in richer societies, he notes has been a

political process of establishment of universal rights. But this is not necessarily an effective way for government of a *sigma* economy to maximise power. First, no credit is given to those who deliver them, since a right is by definition an entitlement, not a gift. Second, universal provision limits powers of patronage. Third, rights are not easily reversed. Other strategies include restricting access to information about the process of government (hiding costs) and repression. Hence we have an endogenous theory of authoritarianism.

In sum, Figueroa offers a profoundly pessimistic model of failed development as the outcome of the self-interested actions of the main domestic actors. Both z-workers and capitalists would benefit from labour market integration. But in isolation from each other - and perhaps even if they could form an improbable alliance - they lack the political resources to force the pace of integration in the face of resistance from y-workers and government. Figueroa is also pessimistic about the capacity of external development agencies to break the impasse. If the main issue was one of income or asset redistribution then this might be the case. But reflecting on the historical failure of land reform to transform *sigma* economies in Latin America, he observes that the key battles have to be fought in sensitive cultural and political arenas where external support can be counterproductive. There is also, of course, the issue of how to model the incentives of the intervening agencies (and their local intermediaries) themselves.

### **5.3 Conclusions**

An important objective of this paper has been to carry out a 'stock-taking' exercise of poverty related studies in Peru as a guide to future research. Personal feelings of pessimism or optimism perhaps inevitably intrude on any attempt to arrive at an overall conclusion. Many economists seek to avoid this by adhering to a strict scientific positivism. But their neglect of the social context of economic behaviour has rendered them susceptible to the optimistic assumption that a benign modernisation (in the form of gradual economic integration) is inevitable - eventually. Anthropologists have been more attuned to the experiences, ideas and feelings of poor and excluded people themselves. This has served as a reminder that material poverty can at least in part be offset by the quality of relationships (with the environment as well as other people) and by the strength of cultural identity. Meanwhile

sociological pessimism emanating from analysis of class structure continues to clash with optimism borne from the rediscovery of individual and collective ingenuity or agency in the face of adversity. In contrast to the “tragic optimism” of Sender (1999:110), the theory of social exclusion reviewed here can perhaps be summed up as “constructive pessimism”.

Average per capita national incomes in Peru were no higher in 2000 than in 1965 or 1980, and there is as yet no clear downward trend in the number of people living in absolute poverty. Our emphasis in this paper on the exclusion framework is informed partially by these facts. The framework also provides a counterbalance to the institutional optimism of government and development agencies. But it also (in our view) provides a useful framework for reconciling universal and local perspectives on poverty. On the one hand, its central concern is to explain trends in production and distribution of material resources. On the other hand, it can explain how political and cultural processes moulded by a history of inequality critically influence these economic outcomes. While universal and objective measures of poverty are central to the analysis, subjective perceptions of well-being are also important – both in their own right, and because of their influence on processes of inclusion and exclusion. By offering a unified analysis of economic, social, political and cultural dimensions of poverty the theory provides a general but realistic framework for identifying and analysing opportunities and barriers to progressive policy and practice.

There are many ways in which this framework could be extended. First, there is scope for multidisciplinary empirical investigation of inclusion and exclusion processes. Much of this should be linked to specific policies and programmes, and involve key stakeholders themselves. A case in point is analysis of opportunities and constraints to action in response to publication of the report of the Truth and Reconciliation Commission. But there is also scope for more open-ended longitudinal research of particular rural communities and urban neighbourhoods. These can help to chart broad trends, linked to different aspects of globalisation, endogenous (including demographic) and the effects of major strategic policy changes, including market liberalisation and government decentralisation.

Second, there is scope for further elaboration of inclusion/exclusion theory, perhaps most importantly by testing it against (and hence using it to interrogate) other literature. The *sigma* model could also be extended to



incorporate a larger number of hierarchically ordered social groups, to take more account of gender and age differences within them, and to accommodate product market specialisation. By so doing it would be possible to explain more complex patterns of social mobility resulting from changing market conditions, foreign investment, technical change, migration and government policy. Finally, there is scope for more research into micro-level activities and institutions of specific groups to explain variation in their success in mobilising public goods, both internally and from external agencies. Economists, sociologists and anthropologists can usefully join with psychologists to study empirically some of the assumptions about human behaviour and the nature of well-being that they previously took as given.

## References

- Adams, N. and Valdivia, N. (1994), *Los otros empresarios: Ética de migrantes y formación de empresas en Lima*, Lima: IEP.
- Alderman, H., Hentschel, J. and Sabates, R. (2002 in press), 'With the help of one's neighbors: externalities in the production of nutrition in Peru', *Social Science & Medicine*.
- Altamirano, T. (1984), *Presencia andina en Lima metropolitana*, Lima: Fondo Ed. PUCP.
- Altamirano, T. (1988), *Cultura andina y pobreza urbana: Aymaras en Lima Metropolitana*, Lima: Fondo Ed. PUCP.
- Apfell-Marglin, F. (ed.) (2003), *The spirit of regeneration: Andean culture confronting Western notions of development*, London: PRATEC/ Zed Press.
- Bebbington, A. (1999), 'Capitals and Capabilities: A Framework for Analyzing Peasant Viability, Rural Livelihoods and Poverty', *World Development* 27(12), 2021-2044.
- Bevan, P. (2002), 'ESRC Research Project - Towards a Post-disciplinary Approach to Global Poverty', Global Poverty Research Group Workshop on 'The Concept of Wellbeing: A multidisciplinary approach', 10-11 October 2002, unpublished.
- Blackburn, J. (2001), 'Stock-take of recent poverty and social development fora in preparation for the World Bank/ DFID participatory poverty diagnoses (draft)', unpublished.
- Brass, T. (2002), 'Latin American Peasants - new paradigms for old?', *Journal of Peasant Studies* 29, 1-40.
- Caravedo, M. (1995), 'NGOs, state, society in Peru: Anchors of the Utopian vision.', in Reilley, C. A. (ed.), *New paths to democratic representation in Latin America*, Boston and London: Lynne Rienner.
- Carbonetto, Hoyle and Tueros (1988), *Lima: Sector Informal*, Lima: Cedep.
- Copestake, J. (2003), *Theorising the Links Between Social and Economic Development: the sigma economy of Adolfo Figueroa*, WeD Working Paper 03, Bath: Wellbeing in Developing Countries Research Group, University of Bath.

Cotlear, D. (1989), *Desarrollo campesino en los Andes: Cambios Tecnológicos y transformación social en las comunidades de la sierra*, Lima: IEP

Crabtree, J. (2001), 'The impact of neo-liberal economics on Peruvian peasant agriculture in the 1990s', *Journal of Peasant Studies* 29(3-4), 131-161.

De Janvry, A. and Sadoulet, E. (2000), 'Growth, poverty and inequality in Latin America: A causal analysis 1970-94', *Review of Income and Wealth* 46(3), 267-288.

De Soto, H. (1989), *The other path*, London: IB Tauris.

De Vries, P. and Nuijten, M. (2002), 'Some reflections on the (mis)-use of the concept of culture in Andean studies', in Salman, T. and Zoomers, A. (eds.), *Imaging the Andes: Shifting margins of a marginal world*, Amsterdam: Het Spinhuis.

Dean, H. (2003), *Discursive Repertoires and the Negotiation of Well-being: reflections on the WeD frameworks*, WeD Working Paper 04, Bath: Wellbeing in Developing Countries Research Group, University of Bath.

Degregori, C. I. (Ed.) (2000), *No hay país más diverso: Compendio de antropología Peruana*, Lima: IEP.

DFID and World Bank (2003), *Perú: Voces de los Pobres*, Lima: DFID / World Bank.

Diaz, J., Saavedra, J. and Torero, M. (2002), 'Peru stabilization, liberalization and inequality', in Vos, R., Paes de Barros, R. and Taylor, L. (eds.), *Economic liberalization, distribution and poverty: Latin America in the 1990s*, Cheltenham: Edward Elgar.

Doughty, P. (1970), 'Behind the back of the city: Provincial life in Lima, Peru', in Mangin, W. (ed.), *Peasants in cities*, Boston: Houston Editorial.

Escobar, J. (2001), 'The determinants of nonfarm income diversification in rural Peru', *World Development* 29(3), 497-508.

Escobar, A. (1995), *Encountering development: The making and unmaking of the Third World*, Princeton, NJ: Princetown University Press.

Ferguson, J. (1999), *Expectations of modernity: Myths and meanings of urban life on the Zambian Copperbelt*, Berkeley, Los Angeles, London: University of California Press.

- Field, E. (2002), 'Entitled to work: urban property rights and labour supply in Peru', Princeton: Princeton University, unpublished.
- Fields, G. (1980), *Poverty, Inequality and Development*, Cambridge: Cambridge University Press.
- Figueroa, A. (1983), *Crisis distributiva en el Perú*, Lima: PUCP.
- Figueroa, A. (1984), *Capitalist development and the peasant economy in Peru*, Cambridge: Cambridge University Press.
- Figueroa, A. (2001), *Reformas en sociedades desiguales: la experiencia peruana*, Lima: Fondo Editorial, Catholic University of Peru.
- Figueroa, A. (2002), 'A Theory of Economic Development', Lima: PUCP, unpublished.
- Figueroa, A., Altamirano, T. and Sulmont, D. (2001), *Social exclusion and inequality in Peru*, Geneva: ILO.
- Fine, B. (2002), 'Economics imperialism and the new development economics as Kuhnian paradigm shift?', *World Development* 30(12), 2057-2070.
- Flores, J. (1977), *Pastores de Puno*, Lima: IEP.
- Fonseca, C. (1972), *Sistemas económicos Andinos*, Lima: Biblioteca Andina.
- Franco, S. & Harris-White, B. (2002), *Alternative realities? Different concepts of poverty, their empirical consequences and policy implications*, Oxford: QEH.
- Franco, S. and Saith, R. (2003), 'Different Concepts of Poverty: An Empirical Investigation and Policy Implications', Paper prepared for the UNU/WIDER conference on 'Inequality, Poverty and Human Well-being', 30-31 May 2003, Helsinki, unpublished.
- Gertz, G. (1963), *Peddlers and princes: Social change and economic modernisation in two Indonesian towns*, Chicago: Chicago University Press.
- Gianella, J. (1970), *Marginalidad en Lima metropolitana*, Cuadernos Lima: DESCO.

- Glewwe, P. and Hall, G. (1998), 'Are some groups more vulnerable to macroeconomic shocks than others? Hypothesis tests based on panel data from Peru', *Journal of Development Economics* 56, 181-206.
- Gölte, J. (1980), *La racionalidad de la organización Andina*, Lima: IEP.
- Gölte, J. (2001), 'Migración Andina y cultura Peruana', in Lohmann, G. (ed.), *Historia de la cultura Peruana II*, Lima: Fondo editorial del Congreso de la República del Perú.
- Gölte, J. and Adams, N. (1987), *Los caballos de troya de los invasores: estrategias campesinas en la conquista de la gran Lima*, Lima: IEP.
- Gonzales de Olarte, E. (1984), *Economía de la comunidad campesina*, Lima: IEP.
- Gore, C. (2000), 'The rise and fall of the Washington consensus as a paradigm for developing countries', *World Development* 28(5), 789-804.
- Grompone, R. (1985), *Talleristas y ambulantes*, Lima: DESCO.
- Grompone, R. (1991), *El velero en el viento: Política y sociedad en Lima*, Lima: IEP.
- Grompone, R. (1995), *Instituciones políticas y sociedad: Lecturas introductorias*, Lima: IEP.
- Hill, A. (1998), 'Migration of male and female workers in Peru: A study using the living standards measurement survey', Delaware: University of Delaware, Department of Economics, unpublished.
- Hirschman, A. O. (1973), 'The Changing Tolerance for Equality in the Course of Economic Development', *Quarterly Journal of Economics* 87(4), 544-563.
- Hobart, M. (ed.) (1993), *Anthropological critique of development: The growth of ignorance*, London: Routledge.
- INEI (2001), *La pobreza en el Perú 2001: Una visión departamental*, Lima: INEI.
- Instituto Cuánto (1996), *¿Cómo estamos? Análisis de la encuesta de niveles de vida*, Instituto Cuánto: Lima.

- Isbell, B. J. (1973), 'La influencia de los migrantes en los conceptos sociales y políticos tradicionales', *Estudios Andinos* Año 33.
- Laderchi, C. R. (1999), *The Many Dimensions of Deprivation in Peru: theoretical debates and empirical evidence*, QEH Working Paper Series, 29, Oxford: QEH.
- Laderchi, C. R. (2001), *Killing two birds with the same stone? The effectiveness of food transfers on nutrition and monetary poverty*, QEH Working Paper Series, 74, Oxford: QEH.
- Laderchi, C. R., Saith, R., & Stewart, F. (2003), *Does it matter that we don't agree on the definition of poverty? A comparison of four approaches*, QEH Working Paper Series, 107, Oxford: QEH.
- Levins, R. (1966) 'The strategy of model building in population biology', *American Scientist*, 54(4), 421-431.
- Lewis, D. G. K. (1996), *Anthropology, development and the post-modern challenge*, London: Pluto Press.
- Lobo, S. (1982), *A house of my own*, Tuscon Arizona: University of Arizona Press.
- Long, N. and Roberts, B. (1984), *Miners, peasants and entrepreneurs: Regional development in the central highlands of Peru*, Cambridge: Cambridge University Press.
- Manrique, N. (1999), 'Algunas reflexiones sobre el colonialismo, el racismo y la cuestión nacional', in CIDIAG (ed.), *La piel y la pluma*, Lima: Sur.
- Mayer, E. (2003), *The Articulated Peasant: Household Economies in the Andes*, Boulder: Westview Press.
- Mayer, E. and De la Cadena, M. (1989), *Co-operación y conflicto en la comunidad Andina: Zonas de producción y organización social*, Lima: IEP.
- McGregor, J. A. and Kebede, B. (2003), 'Resource Profiles and the Social and Cultural Construction of Wellbeing', Paper presented at the inaugural workshop of the ESRC Research Group on Wellbeing in Developing Countries, University of Bath, 13-17 January 2003, unpublished.
- Montoya, R. (1979), *Producción parcelaria y universo ideológico*, Lima: Editorial Mosca Azul.

- Montoya, R. (1980), '¿A dónde va el campo Andino?', *Sociedad y Política* 8.
- Moser, C. O. N. (1996), *Confronting crisis: A comparative study of household responses to poverty and vulnerability in four poor urban communities*, Washington D.C.: World Bank
- Moser, C. O. N. (1998), 'The asset vulnerability framework: Reassessing urban poverty reduction strategies', *World Development* 26(1), 1-19.
- Mossbrucker, H. (1990), *La economía campesina y el concepto 'Comunidad'*, Lima: IEP.
- Nederveen Pieterse, J. N. (2001), *Development theory: Deconstructions/reconstructions*, London: Sage Publications.
- Orlove, B. (1974), 'Reciprocidad, desigualdad y dominación', in Mayer, E. and Bolton, R. (eds.), *Reciprocidad y Intercambio en los Andes Peruanos*, Lima: PUCP.
- Pascó-Font, A. and Saavedra, J. (2001), *Reformas estructurales y bienestar: Una mirada al Perú en los años noventa*, Lima: Grade.
- Patch, R. (1967), *La Parada*, Lima: Mosca Azul Editores.
- Plaza, O. (ed.) (1979), *Economía campesina*, Lima: DESCO.
- Poole, D. and Renique, G. (1992), 'Perdiendo de vista al Perú', *Alpanchis* 39, 73-92.
- Portés, A. (1994), 'When more can be less: Labour standards, development and the informal economy', in Rakowski, C. (ed.), *Contrapunto: The informal sector debate in Latin America*, New York: State University of New York Press, pp. 113-129.
- Portocarrero, G. (1989), 'La cuestión racial: Espejismo y realidad', in *Violencia estructural*, Lima: PUCP.
- Portocarrero, G. K. J. (2001), *Modelos de identidad y sentidos de pertenencia en Perú y Bolivia*, Lima: IEP.
- Pottier, J. (1993), *Practising development: Social science perspectives*, London and New York: Routledge.

Programa de Naciones Unidas para el Desarrollo (2002), *Informe sobre desarrollo humano: Aprovechando las oportunidades*, Lima: PNUD and COFIDE.

Quijano, A. (1971), *Polo marginal de la economía y mano de obra marginal*, Lima: PUCP.

Rakodi, C. (1999), 'A capital assets framework for analysing household livelihood strategies: Implications for policy', *Development policy review* 17, 315-342.

Roberts, B. and Long, N. (1978), *Peasant co-operation and capitalist expansion in central Peru*, Austin and London: University of Texas Press.

Room, G. (1995), 'Poverty and Social Exclusion: the new European agenda for policy and research', in Room, G. (ed.), *Beyond the Threshold: the measurement and analysis of social exclusion*, Bristol: The Policy Press.

Sabatés, R. (2000), 'Job Search and Migration in Peru', *Journal of Regional Analysis and Policy* 30(2), 55-79.

Sagasti, E. (2001), *Agenda Perú: Charting a shared national vision for the future*, Lima: IDRH.

Sánchez, R. (1974), *Los movimientos campesinos en Andahuaylas*, Lima: IEP.

Schady, N. R. (2002), 'Picking the Poor: indicators for geographic targeting in Peru', *Review of Income and Wealth* 48(3), 417-433.

Sender, J. (1999), 'Africa's economic performance: Limitations of the current consensus', *Journal of Economic Perspectives* 13(3), 89-114.

Starn, O. (1991), *Reflexiones sobre las rondas campesinas, protesta rural y nuevos movimientos sociales*, Lima: IEP.

UNDP (2002), *Informe sobre Desarrollo Humano: Perú 2002*, Human Development Report, Lima: UNDP.

Vásquez, M. (1989), *¿Cómo reducir la pobreza y inequidad en América Latina?*, Lima: IDRC, PLPS.

Vásquez, M. (2000), *Inversión social para un buen gobierno en el Perú*, Lima: Universidad el Pacífico, CIUP.



Webb, R. (1977), *Government policy and the distribution of income in Peru*, Harvard: Harvard University Press.

Webb, R. and Figueroa, A. (1975), *La distribución del ingreso en el Perú*, Lima: IEP.

Wilk, R. R. (1996), *Economies of cultures: Foundations of economic anthropology*, Boulder and Oxford: Westview Press.

World Bank (1988), *World Development Report 1988*, New York: Oxford University Press.

Wright, K. (2001), *Women's participation in microcredit schemes: Evidence from Cajamarca and Lima, Peru*, Liverpool: Institute of Latin American Studies, University of Liverpool, Doctoral thesis (unpublished).

Wright, K. (2003 forthcoming), 'The darker side to microfinance: Evidence from Cajamarca, Peru', in Fernando, J., Milgram, L. and Rankin, K. (eds.), *The perils and prospects of microfinance: Globalization, neo-liberalism, and the cultural politics of empowerment*, London: Routledge.

## **WeD Working Paper Titles**

WeD 01 'Lists and Thresholds: Comparing the Doyal-Gough Theory of Human Need with Nussbaum's Capabilities Approach' by Ian Gough (March 2003)

WeD 02 'Research on Well-Being: Some Advice from Jeremy Bentham' by David Collard (May 2003)

WeD 03 'Theorising the Links between Social and Economic Development: the *Sigma* Economy Model of Adolfo Figueroa' by James Copestake (September 2003)

WeD 04 'Discursive Repertoires and the Negotiation of Well-being: Reflections on the WeD Frameworks' by Hartley Dean (September 2003)

WeD 05 'Poverty Studies in Peru: Towards a more Inclusive Study of Exclusion' by Teofilo Altamirano, James Copestake, Adolfo Figueroa and Katie Wright (December 2003)