

Testimony of Joy Olson
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Subcommittee on the Western Hemisphere

Hearing on
“Poverty and Inequality in the Americas: The Unaddressed Problem”

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My name is Joy Olson and I am the Executive Director of WOLA, the Washington Office on Latin America. The Washington Office on Latin America (WOLA) is a 33 year-old human rights and advocacy organization that has worked to advance U.S. policies in Latin America that promote human rights, democracy and social justice.

It is an honor to testify before the committee on such important issues as inequality and poverty in the Americas. WOLA believes that inequality and poverty pose the greatest impediment to the fulfillment of human rights and to the consolidation of democracy in the region. This belief that poverty and inequality are the central problem in the region is now widely held from analysts and activists to bankers and the Organization of American States. Jose Miguel Insulza, Secretary General of the OAS said on March 12, 2007 that the persistence of inequality and poverty are one of the main challenges “to development, democratic governance and security in the hemisphere.”

According to the Economic Commission for Latin America and the Caribbean, the number of Latin Americans living in poverty reached approximately 290 million as of 2005, of which 81 million were classified as living in extreme poverty. That is to say, over 55 percent of all Latin Americans live in poverty or in extreme poverty. This despite two decades in which most Latin American governments implemented policies oriented toward free trade and economic liberalization, policies that were predicted to generate growth and reduce poverty.

It is not just that poverty itself continues to plague Latin America. Latin America has the world’s most unequal distribution of wealth, where the richest 10 percent earns 48 percent of total income while the poorest 10 percent earns just 1.6 percent. In contrast, the top 10 percent in industrialized countries earn 29.1 percent of total income, while the bottom tenth earns 2.5 percent.¹ Furthermore, income and wealth inequalities across and

¹ World Bank, [Inequality in Latin America & the Caribbean: Breaking with History](#), 2003.

within countries in Latin America have increased since 1990 in most Latin American countries.²

These disturbing figures are at the heart of the political realities of Latin America. They drive the politics of the region.

The Bush Administration now rhetorically recognizes poverty and inequality as central political factors in the region. However, to date, our policy prescriptions have not done enough to address them.

If the U.S. wants to change the dynamic of its relationship with Latin America then it must show that it cares about addressing this problem. Fundamentally, it needs to show that people in the region matter. They matter because they are people and have social and economic rights, not because they present a security threat or because they might migrate to the U.S. They need to know that even though they are poor and marginalized, their voices are just as important as those of the rich and influential.

Herein lies the secret to why Hugo Chavez is popular in many parts of Latin America and why, conversely, President Bush's trip fizzled.

We can all criticize Chavez but we need to understand what fuels his popularity. A big part of his appeal is that he talks to the poor and oppressed as if he were one of them. He funds programs that change their daily lives, and they feel it. Programs such as literacy, health care and small business loans. The U.S., by comparison has reduced Child and Maternal health care and essential development assistance steadily in since 2001. When the U.S. prioritizes the problem of poverty and inequality in its policies and programs, addressing the poor and unequal as if we are on their side in the struggle for life, our relationship with the region will improve.

² Andres Solimano, "Beyond Unequal Development: An Overview," Policy Research Working Paper, the World Bank, Latin America and Caribbean Region, Mar. 1999.

With that general comment, I want to focus on poverty and inequality in the rural sector, followed by concrete policy suggestions this Committee should take into consideration. It is important to focus on the rural sector because for most countries, it is where poverty and extreme poverty are concentrated, impacting women and indigenous populations the most. It is increasingly recognized that the rural sector, long abandoned by official development policies, can contribute positively to national well-being, and strong economic growth and development. According to a recent World Bank publication, rural economies have positive effects on the rest of the economy.³

Let me quickly share some figures with you in order to demonstrate the severity of the problem in the region.

Poverty is concentrated in the rural sector. According to the International Fund for Agricultural Development, approximately 62 percent of the region's rural populations are poor. In some countries such as Bolivia, Guatemala, Honduras, Nicaragua and Peru at least 70 percent or more of the rural poor live in poverty. Furthermore, studies show that the total number of rural poor has increased since the 1970s in the majority of countries.⁴

The rural sector has suffered because official development policies have had a pro-urban bias and the rural development schemes that have existed favored the production of monoculture crops for export such as coffee, melons or flowers. Small farmers and agricultural producers have been viewed as outdated, quaint and inefficient compared to more modern enterprises.

The Deadly Combination of Low Economic Growth and Asset Inequality in Latin America

There are two major reasons for the persistent poverty and inequality in the region. The first is that economic growth has been insufficient to help the poor out of poverty. In the

³ World Bank, *Beyond the City: The Rural Contribution to Development*, Feb. 2005.

⁴ World Bank, *Inequality in Latin America & the Caribbean: Breaking with History*, 2003.

last twenty-five years, Latin America experienced its slowest period of economic growth in more than a century. Per capita income grew by 82 percent from 1960 to 1980 (after adjusting for inflation), whereas it grew only by 9 percent from 1980 to 2000, and only by 4 percent in the first five years of this century.⁵ Without strong economic growth, living standards cannot be raised, and poverty and inequality cannot be addressed because there are fewer resources to address the magnitude of the problem. As will be seen below, NAFTA has not been the economic tide that lifts all boats, especially for people in the rural sector.

A second significant factor is unequal access to productive resources, such as land. Take Guatemala for example, 70 percent of the population lives in the rural sector with agriculture and forestry accounting for more than 60 percent of the land use and providing for over 50 percent of employment. Yet, less than 1 percent of landowners hold 75 percent of the finest agricultural land.⁶ There are similar patterns of unequal land ownership throughout Latin America that date back to Colonial times. Inequality in productive resources perpetuates and in some cases, worsens poverty in the rural sector. World Bank economists de Janvry and Sadoulet suggest that where land inequality is high, growth in agricultural production and productivity has worsened rural income inequality.⁷ Under such conditions people are not needed to increase productivity, so jobs are not created and there is no pressure to increase wages for the rural poor.

Studies have also shown that poverty and inequality retard economic growth and consequently, a vicious cycle ensues. Poor and landless people don't have access to productive resources that could contribute to the economy and to improving their lives. And, low economic growth diminishes the possibility that governments will be able to direct resources to address the problem of poverty and inequality.

⁵ Mark Weisbrot, "The End of an Era," *International Journal of Health Services*, Vol. 36, No. 4 (2006)

⁶ Peter Rosset, et al. *Promised Land: Competing Visions of Agrarian Reform*. (Institute for Food and Development Policy, 2006), 24.

⁷ Quoted in Nancy Birdsall et al. "Bootstraps Not Band-Aids: Poverty, Equity and Social Policy," Center for Global Development, (2003), 7.

Trade, Agriculture and the Rural Sector

A third area that must be discussed is the role that U.S. trade agreements have in perpetuating poverty and inequality in the region. The agricultural and rural sectors in Latin America have been losers in trade deals. As a country with the longest-standing trade agreement, Mexico is the best example of the negative impact trade agreements can have on these sectors. NAFTA was sold on the Mexican side as a net generator of employment. More jobs at home would mean less need for migration. Then President Clinton promised that "there will be less illegal immigration because more Mexicans will be able to support their children by staying home."⁸ Furthermore, the development gap, it was argued, between the more developed nations in the agreement--Canada and the US—and Mexico would begin to close.

Yet NAFTA has not delivered on its promise. From the time NAFTA went into force until 2001, there was indeed economic growth. Direct foreign investment rose from \$42 billion to \$167 billion and export earnings increased from \$11 billion in 1994 to \$21.8 billion in 2001. However, asymmetries did not decrease and reduction in poverty was insignificant. Joseph Stiglitz reported that income disparities between Mexico and the U.S. grew by 10.6 percent in the first decade of the trade agreement and that real wages have been falling at the rate of 0.2 percent a year.⁹ Economic growth did not translate into improved living conditions and the promises of NAFTA were not realized. In fact, the opposite has occurred.

Since 1994, an estimated 1.5 million peasants and small farmers have lost their livelihoods. The International Network on Migration and Development found that from 2000 to 2005, 900,000 jobs in the country-side disappeared and 700,000 in the industrial sector.¹⁰ Sandra Polaski, the Director of the Trade, Equity and Development Project at the Carnegie Endowment for International Peace, concurred. She testified before the Senate

⁸Jeff Faux, "NAFTA's Failure and the Increasingly Desperate Mexican Economy: What's Bush's Speech on Immigration will Miss," Counterpunch, 15 May 2006.

⁹ Joseph Stiglitz, "The Broken Promise of NAFTA", New York Times, 6 Jan 2004.

¹⁰ Diego Ayala "NAFTA the Cause of Migration," Excelsior 13 Feb 2007.

Subcommittee on International Trade of the Finance Committee that NAFTA has produced a “disappointingly small net gain in jobs in Mexico,” in both the agriculture and manufacturing sectors. And, that “Mexican agriculture has been a net loser in trade with the United States,” where more “farmers lost than gained from NAFTA-induced changes.”¹¹ Mexican farmers and small producers were unable to compete with cheap, subsidized corn imported from the U.S. and consequently lost their employment. Similarly, total manufacturing employment in Mexico declined from 4.1 million in 2000 to 3.5 million in 2004.¹² Loss of employment in both sectors has had a downward pressure on wages, and wages are lower than when NAFTA took effect.¹³

In fact, according to Polaski, inequality in Mexico decreased in the years immediately before NAFTA but increased afterwards. She states that compared to the period before NAFTA, the top 10 percent of households have increased their share of national income, while the other 90 percent have lost income or seen no change.¹⁴

Agriculture and rural areas are significant economic sectors in many Latin America countries. In Guatemala, Honduras and Nicaragua agriculture remains the largest source of employment, engaging 52.5, 43.9 and 43.2 percent of the economically active population, respectively. In Peru and Colombia, 34 percent and more than 20 percent of the population depend on agriculture for their livelihood.¹⁵ In contrast, only 2 percent of the labor force is employed in the rural sector in the United States. While rural economic activities contribute only 12 percent of the region’s GDP, the World Bank reports that their effect on national growth and poverty reduction is nearly twice as large due to forward linkages to other economic activities.¹⁶ Latin American farmers face unfair

¹¹ Sandra Polaski, “The Employment Consequences of NAFTA,” Testimony submitted to the Senate Subcommittee on International Trade of the Committee on Finance, September 11, 2006, pg 12.

¹² Louis Uchitelle, “NAFTA Should have Stopped Illegal Immigration, Right?”, New York Times, 18 Feb 2007.

¹³ Polaski, pg 1.

¹⁴ Polaski, pg 2.

¹⁵ Patricia Amat, Song of the Sirens: Oxfam America Briefing Paper, Jun 2006 at 8. “Field Listing- Labor Force by Occupation,” CIA World Factbook, 19 Dec 2006.

¹⁶ Amat, pg 13.

competition due to U.S. subsidies that enable U.S. agribusinesses to export goods at prices below production cost.

The lack of employment opportunities or access to productive resources in rural areas is a major push factor for out-migration to cities, neighboring countries and the United States.

For example, the undocumented population from Mexico present in the U.S. increased from 2.0 million in 1990 to 5.8 million in 2000 and to 5.2 million in 2002. As of 2002, Mexicans made up 57 percent of the foreign born population in the U.S. and other Latin Americans 23%.¹⁷ Why people migrate is a complex issue and causal factors are difficult to ascertain. However, research suggests that there is a connection between low wages, lack of jobs and outward migration. Economist and trade specialist at Harvard University, Dani Rodrik, argued that a rapid increase in Mexican wages would be the only thing to curtail the flow of people across the border.¹⁸ If you travel in Mexico or Central America, people will tell you that the biggest export they have is their people.

What to Do?

The reduction of poverty and inequality is an essential policy objective. It is important morally because it is a human rights issue but also because studies have shown that inequality and poverty impact other policy objectives such as strong economic growth, development and the consolidation of democracy.¹⁹ Specifically:

1. In order to contribute to poverty and inequality reduction, Latin American countries need a comprehensive, holistic rural development policy that addresses the sticky issue of land reform. Land reform is a politically sensitive issue and many of you might be skeptical because land reform in Latin America has not worked. But it has not worked for largely three reasons: 1) lack of political will to challenge unjust land-owning structures; 2) relying on models of market-based land reform²⁰; and 3)

¹⁷ Jeffrey Passel, "Mexican Immigration to the U.S.: The Latest Estimates," Migration Information Source, 1 March 2004.

¹⁸ Uchitelle, 2.

¹⁹ Solimano, pg 4,11,28.

²⁰ Market-led model was implemented largely due to the influence of international financial institutions but studies show that this model has not led to a genuine redistribution of wealth. This is primarily due to the

not providing the beneficiaries of land reform the sufficient technical support for the reform and subsequent development to be successful. The U.S. government should support more just attempts at land reform. For example, Bolivia's Morales government is pursuing land reform by implementing a revised version of a law originally passed in 1996 during the Gonzalo Sanchez de Losada government. Under the revised law, land that is not already serving an economic, social or ecological function, or that has been identified as having been illegally obtained, may be allocated to indigenous or campesino communities with inadequate or no land. The law also provides economic compensation to landowners. International technical and financial support for Bolivia's land reform could promote more equitable and successful initiatives to improve the economic situation of Bolivia's poor. Providing poor people access to land can have a broad range of social and economic benefits including poverty reduction, economic growth and development, improved governance and empowerment of women and indigenous groups.

2. Support for land reform must be accompanied by the provision of quality social services such as education and health, and broader access to credit by low-income households and small scale producers – programs the U.S. government has traditionally supported. Unfortunately, the Bush Administration has cut development assistance steadily since 2001 and by 26% from FY 2006 to FY 2008. While the Millennium Challenge Account provides significant amounts of money it is only to three countries, or 4% of Latin America's population and is financing large infrastructure programs such as an industrialized corridor in northern El Salvador. Congress should increase AID funding for the Development Assistance and Child Survival accounts. Congress can also support development in the region by approving Senator Menendez's Social Investment Fund, legislation I understand he will introduce soon. This bill will provide the region with \$2.5 billion over 5 years for programs designed to reduce poverty and inequality. In the future, Congress should look for ways to increase funding for comprehensive rural development

fact that landowners who sell their land are fully compensated whereas campesinos assume a liability (such as a state loan) in order to buy the land.

strategies supporting organizations such as the Inter-American Foundation that have in-depth experience in working with small scale development programs in the region.

3. Last of all, total liberalization of the agricultural sector harms agricultural and rural sectors in Latin America. Given the significance of these sectors culturally and economically, the U.S. government should allow for special and differential treatment for agricultural products in Latin America specific to each country. Trade agreements should also allow governments the autonomy to determine how to effectively use trade to support long-term development goals and impose measures to protect sectors that are negatively impacted. Finally, the agricultural chapters of trade agreements (signed and forthcoming) should be reevaluated or renegotiated in light of their impact on the livelihoods of the people living in the rural sectors. One such opportunity before you is renegotiating the final reduction in January 2008 of tariffs for beans and corn in the NAFTA agreement. You have heard the devastating consequences of market liberalization on Mexico's small farmers and agricultural workers, and can act now to change that. You can vote against the pending trade agreements with Colombia, Peru and Panama – not just because they lack labor rights protections, but because they will also have a devastating affect on farmers and laborers in the rural sector. Finally, in this year's debate on the Farm Bill you can reduce commodity subsidies that distort trade in Latin America and in other developing countries.

The poor in Latin America have waited decades for democracy to change their lives. For far too many it has not. For decades as well, the poor have seen their own national development and trade policies ignore or worsen their plight. The more you make decisions that take into account how U.S. policies impact the poor in Latin America -- because they are people who matter -- the more our relationship with Latin America will improve.

Thank you.