

Reducing poverty in Latin America: an alternative view

Galiani proposes three solutions and covers them soundly and thoroughly, but I have two main criticisms. First, he pays almost no attention to inequality, and looks only at average benefits. Second, his focus on investment in children will do little to relieve immediate poverty, and several recent transfer payment schemes show that this can be done successfully in the region. Reasonable weighting of benefits by income can produce far higher benefit-cost ratios.

Review of Galiani's solutions: Looking first at *nutritional interventions*, the evaluation of breastfeeding promotion is based on the assumption that hospitals promote formula feeding. This is no longer the case in Latin America, so the cost of this intervention per death averted rises considerably and the solution is no longer economically justified, given the good progress already made. Micronutrient supplementation – with the probably exception of iron – may also be less necessary now in Latin America as these investments can only have high benefit-cost ratios if many people are deficient. In LAC, micronutrient deficiencies are not as severe as in Africa or South Asia. So the benefits may be less for these interventions in LAC than in other places.

Conditional cash transfers are carefully covered by Galiani. However, I believe that the benefits should be weighted according to income distribution, which would increase the BCR significantly.

In the case of *early childhood development*, returns on pre-primary education may be lower if the children attend poor quality schools later on. It is also doubtful that the relatively limited supply of pre-primary education can be effectively targeted at lower income groups without being captured by the middle classes.

The scope of Galiani's solutions: Inequality was an important reason for the choice of poverty and inequality as a challenge, and yet it receives little attention. The solutions proposed will reduce both poverty and inequality *if* they are targeted at the poor, but Galiani implicitly values each person's well-being equally. There is also a strong focus on benefits which are only achieved many years' hence, when the children enter the labor market. Conditional cash transfers (CCTs) are only found to be cost-effective taking return to human capital investments into account, and yet in recent years there is strong evidence that transfers can be achieved with modest administrative costs and significant redistributive benefits.

Why weight?: Although the range is large, opinion surveys and laboratory experiments suggest that social welfare functions weighted towards the poor are appropriate and provide a better basis for assessing the cost-effectiveness of poverty-reduction programs. For well-designed programs – with the Mexican *Progres a/Oportunidades* as the best-known example – benefits calculated on this basis are many times the costs involved.

Conclusions: In summary, the solutions Galiani proposes are likely to improve the well-being of poor people by much more than the costs of the programs themselves. However, my main concern is that such initiatives should value benefits to the poor more highly than the average for the population. On this basis, well-targeted cash transfer programs become much more attractive.