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Recent studies underscore the importance of international organizations in transmitting norms, ideas, and values to developing countries. But has this diffusion influenced government policy in less developed countries? During the past two decades, the World Bank has emphasized the need for Third World governments to increase the stock of human capital by investing in education and health. Specifically, it has encouraged developing countries to shift an increasing share of their resources toward primary education. The authors examine 13 Latin American countries between 1980 and 1992 to establish the relationship between World Bank project lending and government investment in human capital. They combine time-series cross-sectional analysis with field research to evaluate the World Bank's influence on government spending on education and health. Although the World Bank may be successful in convincing developing country technocrats to "invest in people," this research suggests that it is less successful in convincing the politicians who control the purse strings.

## WORLD BANK DIRECTIVES, DOMESTIC INTERESTS, AND THE POLITICS OF HUMAN CAPITAL INVESTMENT IN LATIN AMERICA

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**D**o international financial institutions (IFIs) significantly affect the development strategies their borrowers pursue or do domestic forces prevail over IFI influence? A growing body of literature suggests that

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international organizations (IOs) exercise considerable influence on policy making in the developing world.<sup>1</sup> An increasingly prominent current in this literature underscores the contribution of IOs in diffusing antipoverty norms to the Third World (Ayres, 1983; Finnemore, 1996; Myers, 1996, p. 17; Sanford, 1988).<sup>2</sup> To understand the transmission of norms and ideas, scholars of international relations have devoted particular attention to the role IOs play as “teachers” (Finnemore, 1993) or “tutors” (P. J. Nelson, 1995, p. 119). Far less attention has been paid, however, to assessing whether developing countries “learn.”<sup>3</sup> Official government statements on human capital and basic needs—norms championed by the World Bank—have been a prominent feature of developing country rhetoric (Finnemore, 1996, p. 118). But have less developed country (LDC) governments moved beyond rhetoric when the implementation of IO-sponsored policies entails challenging powerful domestic interests? Because scholars of international relations focus on the “teaching” of norms, it is both necessary and fitting that analysts of comparative politics determine what has been “learned.”

We examine World Bank project lending and government spending on human capital in Latin America to assess the impact IFIs have on government policy. By investigating whether client countries have actually incorporated and generalized the ideas promoted by the World Bank, our study focuses on the “learning” end. Our study also diverges from previous work insofar as it focuses on project lending rather than on stabilization and structural adjustment reforms (e.g., Bird, 1996; Haggard, 1986; Kahler, 1989, 1992; Mosley, Harrigan, & Toye, 1995; J. M. Nelson, 1990a; Stallings, 1992). Specifically, we examine government spending on education and health both in per capita terms and as a percentage of gross domestic product (GDP) for 13 Latin American countries between 1980 and 1992. In a more refined test of the World Bank’s influence, we consider the distribution of resources allocated to primary, secondary, and university education. The World Bank has long advocated shifting resources from higher education to basic education, where the return on investment is higher (World Bank, 1990b, pp. 79-81). A redistributive reform,<sup>4</sup> such a shift generally entails charging tuition at public universities, thereby challenging a long-held and strongly defended privilege

1. This is especially the case since Keohane and Nye (1977, pp. 35-36).

2. A related literature focuses on transnational “epistemic communities” (Haas, 1992) and “issue-networks” (Sikkink, 1993) in the diffusion of humanitarian and egalitarian norms.

3. Gallarotti (1991) makes a similar point in contending that “the traditional literature has placed much emphasis on institutional origins and developments in the frameworks and objectives of specific organizations and has paid considerably less attention to the effects of these organizations on international relations” (p. 185).

4. Lowi (1964, pp. 690-691) distinguishes between distributive and redistributive reforms.

of middle- and upper-class Latin Americans: the right to a “free” university education. Have Latin American countries—following the policy prescriptions advocated by the World Bank—directed an increasing share of their resources to basic education?

Our findings suggest that the World Bank has not had a significant impact on human capital investment in Latin America. Instead, powerful domestic forces tend to override World Bank directives. First, there is no upward trend in overall education spending since the World Bank began to emphasize education’s importance. Nor has there been a redistribution of resources from university to primary education. Furthermore, despite highly varying levels of social spending among Latin American countries, our findings show little correlation between World Bank lending and social spending priorities. On the basis of these results, we conclude that Latin American governments have been less than forthcoming in adopting the World Bank’s recommendation to “invest in people.”

The first part of this article documents the rise of human capital investment as a development objective among international development organizations. The second part lays out our analytical approach and specifies the model used in the statistical analysis. The third part reports the results. Finally, we present evidence collected in the field to propose a plausible explanation of our “null” result.

### **THE RISE OF HUMAN CAPITAL AS A DEVELOPMENT GOAL AND IFI INFLUENCE**

Normative as well as instrumental concerns lie behind the push for basic education by world organizations. Since the late 1950s, researchers have investigated the contribution of basic education to social change and economic growth. Schultz’s (1959, 1963) pioneering work on human capital stimulated a large body of research that has established two important empirical findings: (a) Social returns on investments in human capital are greater than those on physical capital in the developing world, and (b) investments in basic education yield higher returns than those in higher education.<sup>5</sup> The spectacular economic success of Japan, Taiwan, and South Korea—countries that invested heavily in basic education—has lent credence to the importance of developing human resources. The percentage of public

5. This does not mean that secondary and tertiary education are not important in the development of human capital. They are especially important in wealthier developing countries. But there is much more potential for private resources (through tuition, student loans, etc.) to be mobilized to finance higher education.

spending on education directed at basic education has been consistently higher in East Asia than elsewhere. According to the World Bank (1993a), "The allocation of public expenditure between basic and higher education is the major public policy factor that accounts for East Asia's extraordinary performance with regard to the quantity of basic education provided" (p. 119).<sup>6</sup>

In addition to its direct impact on production, education influences several intervening variables that have positive consequences for per capita income. For example, as the level of education in a society rises, fertility rates drop, an important factor in raising living standards. In addition to reducing fertility rates, education influences economic growth by increasing the utilization of technology, therefore raising productivity among workers of various kinds. Whether through intervening variables such as fertility or more direct effects on production, education is vital to economic growth. In a recent World Bank study of 68 economies from five different regions between 1960 and 1987, analysts found that increasing the average amount of education of the labor force by 1 year raises GDP by 9% (World Bank, 1991, p. 43).

Clearly, concrete data have reinforced normatively based arguments about the importance of developing good primary schooling. That governments *themselves* need to expend money on this goal, rather than simply leaving the task to individuals and families, deserves underscoring. Even when poor families recognize schooling's impact on upward mobility, many cannot afford to educate their children without public assistance. The social gains from basic schooling—for example, improved nutritional, health, and family planning practices among the population—must also be considered.

Neoliberalism, which gained global prominence in the 1980s, has reinforced the emphasis that human capital proponents place on primary education. In line with the principle of "user fees," an integral tenet of neoliberal social reform is that public resources not be allocated to those who can afford to pay for private social services. In many developing regions, highly subsidized university education—the beneficiaries of which are generally the middle and upper classes—typically crowds out investment in basic education. This is inequitable as well as wasteful. A 1987 study showed that students from families in the upper two income quintiles receive about 75% of higher education subsidies in Latin America, whereas those from families in the lower two income quintiles receive just 13% (World Bank, 1993b, p. 105). In Africa, where "the tilt toward higher education is most acute," public

6. In 1985, Korea's government allocated about 10% of the education budget to higher education, compared with 43% in Venezuela, extreme even for Latin America (World Bank, 1993b, p. 199). McGuire (1994, pp. 213-215) and Puryear & Brunner (1994, pp. 4-5) present statistics that reflect the disproportionate attention paid to higher education in Latin America.

spending is about 44 times greater per student in higher than in primary education (World Bank, 1997, p. 53).<sup>7</sup> There, as in Latin America, government subsidies are frequently directed at young people from the most well-to-do families.

In addition to its technical rationale, the World Bank's push for basic education has a strong normative component. Under the presidency of Robert McNamara (1968-1981), the World Bank advocated poverty alleviation and the meeting of "basic needs" as essential to human dignity (Kraske, 1996, chap. 5; Meier, 1984, pp. 159-166). The definition of *development* came to include a certain level of welfare for the population, and not just the infrastructural trappings of modernity. McNamara proposed expanding education lending to the primary level.<sup>8</sup> Yet, the human capital approach did not triumph until the late 1970s, when George Psacharopoulos—an economist known for analyzing rates of return on education—joined the World Bank's staff (Jones, 1992, p. 106). As a further stimulus for change, the debt crisis led World Bank officials to promote the privatization of social services for higher income groups.

The World Bank's research focus, policy advice, technical assistance, and lending patterns have reflected these multiple concerns. Shares of World Bank lending for human resources have increased, whereas shares going to infrastructure have fallen (Finnemore, 1996, p. 113). Since 1981, human resource lending as a percentage of all World Bank lending has nearly quadrupled. Moreover, annual World Bank lending for human resources has more than tripled in absolute terms since 1981. The composition of human resource lending has also changed over time. The share of education loans for primary schooling increased by a factor of six between 1965 and 1994. Macroeconomic and sectoral policy reform packages now routinely include measures to protect and increase public expenditure on primary education and essential health services (Psacharopoulos, 1995, pp. 39-41).

Given the World Bank's increased emphasis on human capital investment, what methods are used to induce compliance? The major sources of World Bank influence stem from its financial resources as well as the important role it plays in diffusing knowledge among development professionals. "Leverage" (Stallings, 1992, pp. 55-59) or "bargaining" (Kahler, 1992, p. 94) represents one kind of influence. International agencies promise financial support in exchange for specified policy changes, threatening to withdraw aid if these conditions are not met. The World Bank has often attached conditions, either

7. Heyneman (1997) shows the ratio that different regions of the world spend on primary schooling versus tertiary education.

8. Previously, the World Bank had focused education lending on tertiary technical training.

explicitly or implicitly, to project loans (Mosely, Harrigan, & Toye, 1995, p. 27). Because World Bank officials want to assure that sectoral policies do not work at cross purposes with the broader intent of specific project loans, even absent explicit conditionality on a given loan, the World Bank considers efficiency in the sector as a whole in deciding on future sectoral loans (D. R. Winkler, personal communication, September 15, 1997). For example, because the lion's share of World Bank education projects are aimed at improving primary schooling, officials want to see this emphasis reflected in the policies that recipient countries formulate toward education more broadly.

Although a given education loan typically comprises only a small percentage of the overall education budget of a country (on average, between 2% and 3%), World Bank money typically accounts for a considerable percentage of discretionary spending and new investment in education. Also, given that governments in client countries often continue funding items that initially began as World Bank projects, these initiatives can effectively put in motion recurrent expenditures (D. R. Winkler, personal communication, September 15, 1997). As such, the influence of the World Bank can be expected to exceed what a quick glance at the financial value of individual education loans might imply.

Structural as well as sectoral adjustment loans represent another opportunity for IFIs to exert influence. Both inevitably entail "considerable policy dialogue, advice, and some pressure" (J. M. Nelson, 1990b, p. 25). In the course of negotiating macroeconomic as well as sectoral policy reform packages, the International Monetary Fund (IMF) and World Bank have together begun to criticize countries that spend large sums on defense relative to education and health<sup>9</sup> and to make sure that programs they regard as essential are protected (e.g., basic education and preventative health care). Although IMF austerity measures often call for a decrease in total spending, IMF officials are particularly determined to eliminate market distorting mechanisms like price supports and subsidies as well as nonessential social items. Cutting out free university education is consistent with this approach.

In addition to bargaining leverage, IFI influence is also transmitted through social learning (Kahler, 1992, p. 123): the role IOs play in the "international marketplace of ideas" (Ayes, 1983, p. 10). One variant of social learning envisions IOs as "teachers" who impart knowledge to developing countries through the research they conduct, the publications they circulate, the training sessions they offer, the technical assistance they provide, and the speeches their leaders make. Another variant rests on "linkage," which is

9. See "The Big Question Mark Over Conditionality," *Asian Finance*, September 15, 1991.

rooted in the “tendency of certain groups in the Third World to identify with the interests and outlook of international actors and to support coalitions and policies reflecting them” (Stallings, 1992, p. 52). Exemplified by Chile’s Chicago Boys (Valdés, 1995), top-level technocrats in many developing countries have often studied abroad or worked for an international organization in the United States or Europe. Intense professional contacts and the constant exchange of ideas often lead these technocrats to adopt IFI views, norms, and ideas. Furthermore, IFI support and pressure can help LDC technocrats gain legitimation for their ideas.<sup>10</sup> Thus, international agencies typically seek out allies within the government “who share the underlying intellectual maps of the IFIs” and “whose interests *are* aligned more closely with the policy preferences of the IFIs” (Kahler, 1992, p. 126).

With these financial and ideological resources, has the World Bank succeeded in transmitting the norms and ideas associated with human capital investment to its clients? The analysis below examines World Bank project lending and spending on education and health. If government spending patterns on education and health have not shifted in the direction of World Bank preferences and are not correlated with the distribution of its loans, neither conditionality nor learning appears particularly effective. If spending is strongly associated with World Bank lending, at least one mode of influence has been operative.<sup>11</sup>

## ANALYTICAL APPROACH

There are compelling reasons to expect a strong, positive correlation between World Bank lending and government investment in human capital in Latin America. As the “most influential development institution in the world” (Meier, 1984, p. 25) with “unparalleled influence with top government officials in developing countries” (Crane & Finkle, 1981, p. 516), the World Bank possesses resources for poverty alleviation incomparable in the development assistance community. Today, the World Bank is the largest single source of external finance for education, as well as health and nutrition (Psacharopoulos, 1995, p. 40). It is also judged by some to play a central role in promulgating and revising norms and ideas about development in the international system (Ayres, 1983; Finnemore, 1996, p. 90; Myers, 1996, p. 17; P. J. Nelson, 1995, pp. 119-121; Sanford, 1988). During the past 15 years, the

10. J. M. Nelson (1996: 1551) goes so far as to claim that “reformers in many countries often welcome[d] the support of conditioned loans” (p. 1551).

11. A debate exists about whether conditionality or social learning is more important. Our data, however, do not allow us to assess the relative contribution of each.

World Bank has been heavily and increasingly engaged in promoting the expansion and improvement of primary education in Latin America.<sup>12</sup>

During the same period, Latin American countries have experienced important economic and political changes, increasing their susceptibility to World Bank doctrine. The debt crisis and the subsequent turn to neo-liberalism invited growing IFI involvement in the region and enhanced the standing of domestic *tecnicos*, many of whom—by virtue of education and socialization—think like World Bank experts. Many domestic *tecnicos* or experts have urged Latin American governments to allocate social expenditures as efficiently as possible, making the diversion of resources from higher to basic education more likely in a region that has paid disproportionate attention to the former.

Economic crisis also led governments to recognize the need to open their economies to global competition, making the development of human resources all the more important in a region of low educational achievement.<sup>13</sup> Global competition has underscored the need to make the most efficient use of resources, for example, by investing in areas with the highest rates of return, such as primary school investment. Beyond the pressures generated by economic problems, democratization in the region could be expected to have generated calls for redistributive reform by empowering poorer sectors of the population, whose votes are often decisive in elections. Important pressures, both economic and political, thus created a climate conducive to adopting World Bank prescriptions. In Latin America, then, we would expect to find a significantly positive correlation between World Bank lending and government spending on education and health. If this expectation is not borne out, doubt is cast on the extent of the World Bank's influence.

We use several variables—all involving government expenditures—to measure the level of government commitment to investment in human capital.<sup>14</sup> The main component of our analysis involves estimating the correlation between World Bank project lending and central government expenditures in education and health. We control for a number of possible extraneous influences, including bureaucratic inertia, economic development, regime type, and the debt burden. With respect to education spending, we also conduct a

12. It has also invested considerably in Africa, but the data on spending levels in Africa are particularly poor. The data on spending levels for Latin America are much better and allow for a comparison between countries.

13. World Bank (1993b, pp. 44-48) discusses educational achievement in Latin America.

14. According to the Inter-American Development Bank (1993), "Despite problems of inefficiency, the evidence studied shows that the greater the amount and the continuity of social expenditure, the higher the indices of health, education, quality of life and human development in general" (p. 32).

more refined test of the World Bank's influence. Although the World Bank encourages countries to increase aggregate investments in education, it tries more specifically to convince them to redistribute spending, that is, to direct an increasing share of government resources toward basic education. Given the World Bank's emphasis on diverting funds from higher to basic education, its influence may affect the distribution of resources within education rather than the aggregate amount allocated to the sector. Thus, we also examine the correlation between World Bank project lending and the distribution of education spending among the primary, secondary, and university levels.

### STATISTICAL MODEL

Data on aggregate spending for education and health are available for 13 Latin American countries between 1980 and 1992. The data form a time-series cross-sectional (TSCS) panel data set. Two problems are inherent when analyzing TSCS data: autocorrelation and heteroskedasticity. Beck and Katz (1995) propose an estimation technique that accounts for these problems while retaining the data in a form that yields a more intuitive interpretation of the coefficients. Beck and Katz advise using ordinary least squares (OLS) with a lagged dependent variable, which, they argue, produces unbiased coefficients. Because the standard errors are likely to be underestimated and hence biased in the OLS framework, Beck and Katz recommend a procedure that generates panel-corrected standard errors (PCSEs), producing inferential statistics that are unbiased. The statistical model we employ follows this solution.

With data on government spending and a comprehensive set of control variables, we used the following lagged-dependent variable model to estimate the correlation between the concentration of World Bank project lending and government spending on education and health.

$$\begin{aligned} \text{Dependent variable} = & \alpha + \beta_1 \text{lagged dependent variable} \\ & + \beta_2 \text{concentration of World Bank funds} \\ & + \beta_3 \text{population (logged)} \\ & + \beta_4 \text{debt service ratio} \\ & + \beta_5 \text{regime type (dummy variable)} \\ & + \beta_6 \text{GDP/capita} + \beta_7 \Delta \text{GDP/capita.} \end{aligned}$$

Below, we describe the variables we use and justify their inclusion in our model.

## VARIABLES

### Dependent Variables

To assess the impact the concentration of World Bank funding has on public investment in human capital, we examine central government expenditures on both education and health. In addition to spending expressed as a percentage of GDP, we collected spending data expressed in dollars per capita, providing a concrete measurement of the public resources being directed toward human capital.<sup>15</sup> There are, then, four different dependent variables we examine under the lagged-dependent variable setup: central government spending on education (expressed in per capita terms), central government spending on health (expressed in per capita terms), central government spending on education (expressed as a percentage of GDP), and central government spending on health (expressed as a percentage of GDP). All of the spending data were taken from a recent study by Cominetti (1996) at the Comisión Económica para América Latina y el Caribe (CEPAL).

### Independent Variables

*Concentration of World Bank project lending.* World Bank influence can be captured by measuring the concentration of project lending (the percentage of World Bank lending to Latin America disbursed to a specific country) as a fraction of the home country's economic output (expressed as its share of the region's GDP). We constructed the following ratio:

$$\frac{\text{\% of World Bank Funding in Latin America Approved for Country } X_i}{\text{Country } X\text{'s Share of Latin America's GDP}_i}$$

The numerator captures where World Bank funds are distributed. The denominator controls for the size of the country. For example, Brazil and Mexico—Latin America's two largest economies—receive the bulk of World Bank lending to Latin America. But do they receive shares of World

15. Because accounting methods vary among countries, there are some discrepancies that bear noting. In education, for example, 2 out of the 13 countries exclude funds directed through the Ministry of Culture and Sports. In health, 2 of the 13 countries do not report spending on health channeled through the social security system. Despite these inconsistencies, differences in accounting methods do not seem to bias our results for two reasons. First, there is no systematic pattern associated with the accounting methods. They are not confounded with the magnitude of the dependent or independent variables. Second, the discrepancies appear to account for only a small fraction of total expenditures.

Bank funding commensurate with their size? Our measure captures the distribution of World Bank resources, controlling for the relative size of the economy.

Overall spending by the World Bank is a sound predictor of its influence for several reasons. The World Bank's greatest capacity to effect significant policy change lies with finance ministers and other top officials (e.g., planning ministers and presidents) concerned with economic policy making. It is the total contribution of World Bank money to the economy, if anything, that has an impact on their decisions. Officials in these positions, not those who head individual ministries, exercise the most power over the government budget. While external loans specific to a social sector (e.g., education) might sway the decisions of leaders in the relevant ministry, such officials are less able than their counterparts in the economics ministries to influence how government money is spent.

Moreover, because they tend not to be tied down by sector-specific interests, finance and planning ministers are more apt to enact significant reform than education ministers and heads of social sector bureaucracies, who are typically recruited from within the sector and are thus inculcated with its values and traditions. For example, it is common for ministers of education to be former university rectors and therefore unlikely to abolish free university education for the sake of better basic instruction. That significant change tends to occur as part of comprehensive reform packages rather than by issue area lends further credence to the notion that top officials in the economic ministries, not those in the social ministries, are mainly responsible for profound policy change. World Bank project lending, therefore, constitutes a more accurate measure of influence than spending in specific sectors.<sup>16</sup>

Beyond gaging financial "leverage," our measure is also intended to provide a first approximation of the World Bank's "hidden" influence. To the extent that the flow of World Bank resources is accompanied by increased contact and the exchange of ideas between World Bank officials and home country technocrats, our measure captures the informal ties that the World Bank establishes in its attempts to foster economic and social development. It is reasonable to assume that the higher the concentration of World Bank funding, the higher the level of ancillary support and advice.

*Lagged dependent variable.* Bureaucratic momentum and the difficulty associated with eliminating existing programs often make the previous year's

16. We also substituted individual education loans for overall spending but this had no impact on our results.

budget an excellent predictor of this year's spending. Methodologically, the correlation between this year's and last year's spending violates an important assumption underlying the OLS regression: The OLS framework assumes that the residual from case  $t$  is not correlated with the residual from case  $t - 1$ . Because this year's spending is highly correlated with last year's, a strong correlation will exist among the residuals. Including a lagged dependent variable term provides a solution to the problem of autocorrelation.

*Gross domestic product per capita.* GDP per capita is included to control for the level of a country's economic development. There is a fairly strong relationship between GDP per capita and social spending because governments in high-income countries collect more revenue. Poor countries are not able to allocate the same level of resources to social spending as wealthier countries. So that the results are not generated by the level of economic development and its correlation with the concentration of World Bank funds, we include GDP per capita in our model.

The GDP per capita data are taken from Summers and Heston's (1991) data set, which bases its estimates of output on purchasing power parities. Several measures of output are available in their data set. The per capita income variable used in the analysis below is designed to allow for cross-temporal as well as cross-sectional comparisons.<sup>17</sup> So that linear methods of estimation can be applied to the data, we use a logarithmic transformation of the GDP per capita variable.

*Economic growth.* The annual percentage growth in GDP per capita is included because it represents an important constraint on government spending. When economies contract, government revenues also decline. Negative growth rates force governments to reduce expenditures if they want to avoid inflation. To operationalize growth, we used the Summers and Heston data, calculating the percentage change in GDP per capita on an annual basis.

*Debt service ratio.* The debt service ratio is the total debt service as a fraction of the exports of goods and services (including workers' remittances). The data were taken from the World Debt Tables published by the World Bank (World Bank 1990a, 1996). The debt service ratio accounts for another important constraint on government spending. High debt service ratios indicate that a large portion of export earnings are designated for debt repayment. Because a large share of Latin America's external debt was contracted or

17. The variable we used is code-named RGDPC in the Summers and Heston data set.

assumed by the public sector, a high debt service reflects the pressures faced by governments in terms of debt repayment. To fulfill their external obligations, governments often have to cut domestic spending, particularly on social programs. We therefore include the debt service ratio as a crucial control factor in our model of social spending.

*Domestic political institutions.* Domestic political institutions—the rules of the game—may influence the resources governments invest in human capital. In keeping with what has been a rich tradition in the literature on policy making in Latin America, we include in the model a dummy term that distinguishes between authoritarian and democratic regimes. Because democracy might be related to social spending and the concentration of World Bank project lending, failing to account for it could lead to a biased estimate of the correlation between World Bank lending and social spending.

The measure of democracy we use was developed by Alvarez, Cheibub, Limongi, and Przeworski (1996).<sup>18</sup> It is a dichotomous measure that registers zero when a case is democratic and one when authoritarian.

*Population.* Population is included in our analysis because it is correlated with the concentration of World Bank project lending and some of our dependent variables (education and health spending as a percentage of GDP). Population is negatively associated with the concentration of World Bank funding: Even though our measure controls for the relative size of a country's economy, the lowest values of fund concentration are associated with the largest countries (Brazil and Mexico), whereas the highest values of fund concentration are associated with the smallest countries (Costa Rica, El Salvador, Honduras, and Guatemala). There is also a positive correlation between population and spending on education as a percentage of GDP; the largest countries typically register the smallest figures. There may be economies of scale at work, explaining why the largest economies devote smaller shares of their GDP to social spending. To obtain estimates generated not simply by the confoundment that exists between the concentration of World Bank funds, country size, and social spending, population is included in the model. The population figures are taken from Summers and Heston's data set. So that linear methods can be applied to the data, we use a logarithmic transformation of the population variable.

18. Unfortunately, their data stop at 1990. On the basis of their 1990 figures and our knowledge of the region, we classified regimes for 1991 and 1992 to extend the coverage of the data. The operationalization of democracy is presented in the appendix.

Table 1  
*Education Spending (dollars per capita) Regressed on the  
 Concentration of World Bank Funding and Several Control Variables*

Variable	Coefficient	SE	<i>t</i> Ratio	<i>t</i> Ratio (PCSE) <sup>a</sup>
Constant	-10.0413	15.14	-0.663	-0.704
Lagged dependent	0.944737	0.027	34.5*	25.8*
Gross domestic product (GDP) growth	69.4515	11.80	5.89*	6.38*
Debt service	6.19261	3.914	1.58	1.61
GDP (logged)	5.22249	5.727	0.912	0.94
Regime type	-0.579633	1.370	-0.423	-0.38
Population	-1.97000	1.745	-1.13	-1.28
World Bank	0.329464	0.444	0.742	1.04

Note:  $R^2 = 95.8\%$ ; adjusted  $R^2 = 95.6\%$ ;  $s = 7.424$  with  $156 - 8 = 148$  degrees of freedom.

\* Denotes statistical significance at the 95% level of confidence.

a. PCSE = panel-corrected standard errors.

## RESULTS

First, we estimated the relationship between the concentration of World Bank funds and spending on education expressed in dollar per capita terms. The results reveal how important previous budget allocations are in accounting for this year's spending. The coefficient for the lagged dependent variable—last year's spending on education—is substantively and statistically significant. The *t* ratio based on the PCSE is 25.8 (see Table 1).

The coefficient indicates that for every dollar per capita spent last year on education, the government currently spends 94 cents. Economic growth is the only other factor that yields a statistically significant coefficient. The concentration of World Bank funding is not correlated with aggregate spending on education. The coefficient and *t* ratio suggest that the allocation of World Bank resources has no impact on education spending. We subjected the regression model to a number of tests. Eliminating any, some, or all of the control variables has no significant impact on the coefficient for the concentration-of-funds variable. Therefore, although multicollinearity exists, our results are extremely stable. In addition to testing the model's stability with respect to its specification, we checked for outliers by using a variety of methods.<sup>19</sup> In all of the regression results from this and subsequent regressions, there were no outlying cases that unduly influenced the results.

19. Cooks distances, leverages, and DFFITS were used to identify any such outlying cases.

The same regression analysis was repeated for education spending as a percentage of GDP, spending on health in dollar per capita terms, and spending on health as a percentage of GDP. In each case, the concentration of World Bank funds had no impact. The consistent finding across such a wide array of indicators offers strong evidence that the concentration of World Bank funding exerts little influence on social policy. To the extent the concentration of World Bank project lending captures the World Bank's "hidden" influence, it appears that the World Bank's efforts to persuade its clients to shift spending toward programs that invest in human capital have met with little success.

### SHIFTING PRIORITIES

As a more refined test of the World Bank's influence, we examined the relationship between the concentration of World Bank funding and the distribution of educational resources between the primary, secondary, and university levels. Having recognized the budgetary constraints many developing countries face, the World Bank has turned its attention to the distribution of finances within education. Specifically, its officials have advocated substituting public resources with private funding for university education, thereby freeing up money for basic education (where the social rate of return on investment is higher). Does the World Bank's priority on de-emphasizing university education have an impact on policy?

Data on the distribution of spending on primary, secondary, and university education were taken from various United Nations Educational, Scientific, and Cultural Organization (UNESCO) (1980-1992) yearbooks. There are enough missing data to preclude us from using the lagged-dependent variable regression model with PCSEs. A more serious potential problem is that governments use a variety of accounting methods.<sup>20</sup> Yet, problems stemming from accounting inconsistencies are less worrisome if we assume World Bank lending is not systematically associated with these differences. Under that reasonable assumption, our results will not be biased. Given the quality of the data, we paid close attention to any outlying cases that might affect the estimates. There were no such cases. To further check the reliability of the UNESCO data and the conclusions we draw from them, we examined data

20. For example, spending data by level of education are usually derived from all government sources. However, in some cases, the data reflect only the funds disbursed by the Ministry of Education. The problem is diminished as long as the unreported spending is spread evenly to all levels of education. In addition, the unreported spending seems to be very small in relation to the overall education budget.

from the Cominetti (1996) study, which provides expenditures—by level of education—for seven Latin American countries. The results, we found, did not differ significantly from our previous estimates.

Looking at the share of education resources devoted to primary education over time, there is a gradual decline: Primary education's share of the education budget fell between 1980 and 1992. The median value of primary education's share fell from 44% in 1981 to 32% in 1992. The declining trend represents an absolute decrease because spending on education—in per capita dollar terms—declined during the period as well. The general trend, therefore, has been downward both in absolute and relative terms.

As noted earlier, the data contain missing values that prohibit us from using the lagged dependent variable model we employed in the previous section. There remain, however, important variables we need to account for when examining the relationship between the concentration of World Bank funds and spending by level of education. The most important is perhaps GDP per capita. The relationship between GDP per capita and the share of educational resources devoted to primary education is strong. Countries with high levels of income witness high levels of enrollment at the university level, compelling governments to devote a larger share of their education budget to university education. There is also some evidence that regime type has an impact on primary school enrollment, particularly in the poorest countries (Brown, 1995). If the poorest democracies do indeed place more emphasis on primary education than their authoritarian counterparts and if regime type is correlated with World Bank lending, we need to control for regime type to obtain an accurate picture of the World Bank's influence on basic education. Pooling the data from each country between 1981 and 1992 and applying OLS, we regressed the share of the education budget going to primary education on GDP/capita, regime type, and the concentration of World Bank lending:<sup>21</sup>

$$\% \text{ of education budget to primary education} = a + b_1 \text{GDP/capita} + b_2 \text{regime type} + b_3 \text{World Bank lending.}$$

The resulting estimates demonstrate that the concentration of World Bank lending is not correlated with primary education's share of total education spending.<sup>22</sup> These results were stable even when eliminating the control variables. Without controlling for autocorrelation and heteroskedasticity, the

21. Because the lagged dependent variable was not used, we did not use information from 1980. The data set, therefore, only runs from 1981 to 1982.

22. The null result was stable. Even when removing the control variables, there appeared to be no significant correlation between World Bank lending and the resources allocated to primary education. We conducted the usual diagnostic tests (Cooks distance, DFFITS, leverages) and found there were no outlying cases that exerted undue influence on our results.

estimates probably exaggerate the statistical significance of the independent variables, in which case it is safe to argue that the magnitude and significance of the estimate for the World Bank lending variable is very small at best.

To give a graphical representation of our results, we produced a partial regression plot of World Bank lending and the percentage of education resources devoted to primary education. The plot shows the relationship between spending on primary education and World Bank lending with the linear effects of GDP/capita and regime type removed. As Figure 1 illustrates, high concentrations of World Bank funding have virtually no impact on the share of educational resources devoted to primary education. The scatter plot forms an amorphous cloud, suggesting there is no correlation between spending on primary education and World Bank lending.

To confirm these results, we examined the relationship between project lending and the share of educational resources allocated to university education. If technocrats and politicians are able to implement the World Bank's policy prescriptions, we would expect to see a negative correlation between increasing World Bank presence and the share of resources devoted to university education. However, in fact, over time—between 1980 and 1992—the share of the education budget destined for university education averaged a small increase (about 3 to 4 percentage points). As was observed with spending on primary education, GDP per capita and regime type may influence the share of spending going to university education. To evaluate the World Bank's influence on the share allocated to university education, we employed the pooled OLS regression applied earlier. After controlling for GDP/capita and regime type, there appeared to be no relationship between the concentration of World Bank funding and the share of education spending allocated to university education.<sup>23</sup>

Although the results consistently show no correlation between the concentration of World Bank funding and the distribution of government resources, our tests could be somewhat misleading because the period under examination was marked by economic crisis, which, in turn, led to shrinking government budgets. When resources dry up, it may be easier for politicians to make cuts across the board than to target one particular program. The insignificant results might then merely reflect the constraints politicians face when the absolute size of resources declines. Under these conditions, we would not be surprised to discover that the concentration of World Bank funding has no impact on the distribution of government spending. Do our results, then, simply derive from the inability of the World Bank to overcome

23. The same analysis was performed for the percentage of the total education budget dedicated to secondary education. The estimates confirmed our previous results.

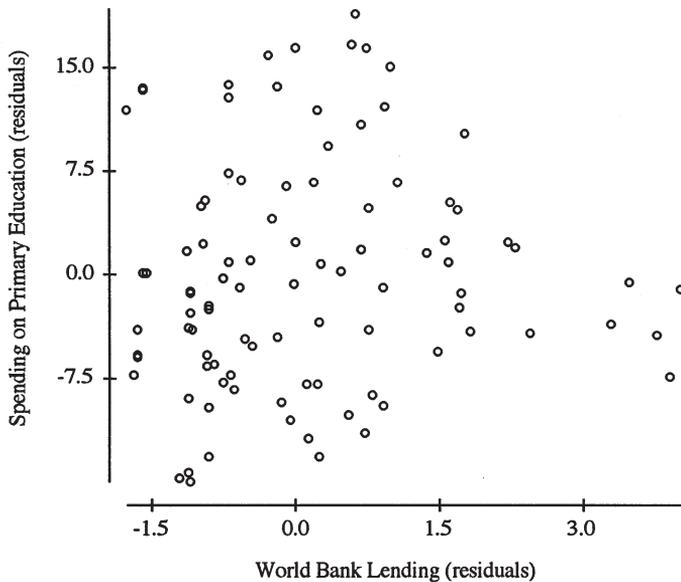


Figure 1. Partial regression plot of the share of education spending on primary education and World Bank project lending.

the pressures imposed on policy makers in times of economic crisis? To account for this explanation, we added the annual change in education spending (in dollars per capita) to the previous regression model:

$$\begin{aligned} \% \text{ of education budget to primary education} = & \\ & a + b_1 \text{ GDP/capita} + b_2 \text{ regime type} \\ & + b_3 \Delta \text{ education spending (\$s per capita)} \\ & + b_4 \text{ World Bank lending.} \end{aligned}$$

Again, we pooled the data from each country and applied OLS. Even after adding the annual change in education spending to the regression, the estimate for the World Bank lending variable remained insignificant (see Table 2).

As a final check, we controlled for the percentage of the population age 5 to 14 years. Countries with a large school-age cohort are more likely to devote significant shares of their education budget to primary education. Adding a variable that records the percentage of the population age 5 to 14 had no impact on our estimate of World Bank lending. The results are consistent with our previous findings: There is no relationship between the

Table 2  
*OLS Results for Two Regressions: The Dependent Variable Is the  
 Share of Total Education Spending Allocated to Primary Education*

Variable	Coefficient (Model 1)	Coefficient (Model 2)
Constant	133.4 (7.06)	139.16 (7.34)
Concentration of World Bank lending	.40 (.61)	0.19 (.29)
Gross domestic product (GDP)/capita	-27.0 (-5.13)	-28.54 (-5.14)
Regime type	2.26 (1.23)	2.71 (1.48)
Annual $\%$ in education spending		13.1 (1.77)
$R^2$	24.8% ( $df = 91$ )	27.4% ( $df = 90$ )

*Note:*  $t$  ratios are reported in parentheses. OLS = ordinary least squares.

concentration of World Bank project lending and the share of educational resources devoted to primary education.

## INTERPRETATION OF RESULTS

What accounts for our “null” result on education and health spending in general and on the distribution of education spending in particular? We draw on intensive fieldwork conducted in two Latin American countries—Brazil and Chile—to advance some hypotheses about the World Bank’s apparent lack of influence. Although fieldwork on two cases cannot yield definitive general conclusions, it does provide information and lends itself to insights unavailable through the broad statistical analysis.

The most probable explanation centers on the political weakness of domestic technocrats. Although they are the most likely to be swayed by the ideas of multilateral lenders, technocrats often lack the political power—within the bureaucracy as well as the broader political system—to transform their preferences into policies. Hence, although the World Bank has the financial resources and the technocratic allies to buttress the transmission of its ideas, bureaucratic and political forces often get in the way.

Despite the prestige that comes with traveling in international circles, the technocrats who serve as domestic interlocutors for the World Bank are often relatively small in number and weak within the bureaucracy. This is especially true for the smallest and poorest countries (Kahler, 1992, p. 129). Education ministries in Latin America are typically highly politicized. Bureaucrats other than the top *tecnicos* with international linkages are usually more numerous, have different interests, and have greater political strength. Ministers of education are frequently political appointees with little or no experience in the substantive area. Or, they come from within the education bureaucracy, are inculcated with its norms and traditions, and are thus unlikely agents of reform. Furthermore, many so-called *tecnicos* are often little more than the state allies of societal interest groups. For example, the Ministry of Education in Brazil is fragmented between *tecnicos* intent on improving the quality of basic education and other administrative personnel susceptible to clientelist appeals and other lobbying efforts. In fact, the technocrats who align themselves with the education norms of the international community reside more in the Instituto de Pesquisa Econômica Aplicada (IPEA) (or Institute of Applied Economic Research), a government think tank in Brasília, than in the education ministry itself (D. Gusso, personal communication, July 8, 1996). Notably, the ministerial coordinator of the World Bank's education project in Northeastern Brazil tried to insulate project personnel from the politics of the ministry by physically moving them to a different location (E. Marques, personal communication, July 8, 1996). In Brazil, as elsewhere in Latin America, the fierce bureaucratic politics that characterize decision making undermines the emergence of a technocratic core able to promote serious proposals to "invest in people" (Weyland, 1996b). This fragmentation hurts reform.

To make matters worse, the IFI's technocratic allies are often vulnerable in the broader political arena. Under democracy, proposals inspired by domestic technocrats cannot go forward unless politicians pass them. But most politicians care little about reform ideas or conditionality. Proposals to reallocate spending in education (e.g., to require students to pay tuition at public universities) need legislative as well as executive approval, opening up the reform process to interest group lobbying, the media, and the public at large. When this happens, middle- and upper-class groups, the bulk of the constituency for higher education, tend to win out.

These groups have strong incentives and capabilities to keep public universities free. With few exceptions, Latin America's public universities are of superior quality to private institutions. Students who can successfully compete for positions in them have typically attended private primary and secondary schools. Thus, their parents feel especially entitled to have the state pay

for education at the next level. There also exists a fundamental expectation that university education should be free, as it has been in most of Latin America since the early decades of the 19th century. This tradition was begun by 19th-century Liberals, who constructed national universities as a way to promote secularism in opposition to Conservative forces. Public universities were virtually the only source of higher education until the mid-20th century (Levy, 1986). The political dynamics of the 1960s, in which student movements throughout Latin America demanded more funding and autonomy for public universities, reinforced the expectation that the state would continue to subsidize higher education at a tremendous rate. To demobilize groups that took to the streets, governments often gave way to their financial demands (Levy, 1981). Had governments been able to increase overall revenues, primary education need not have suffered at the expense of higher learning. Because this was generally not the case, however, the politicization of university students and their ability to extract public funds worked against improvements in basic schooling.

The political resources that vested interests in higher education can bring to bear vastly outweigh those of poor people, who stand to benefit more from policies aimed at concentrating resources on primary education. In general, elite groups are more organized, politically articulate, and enjoy better access to the political arena. Militating further against reform is the internal politics of public universities in Latin America. University rectors are elected by faculty and students, often in contests that are highly politicized. They are thus prone to try to please their constituents. Some rectors even use their offices to eventually launch political careers. Many rectors, as well as student leaders, have campaigned in defense of state subsidies and university autonomy. Most have proven reluctant to support government proposals to restructure the financial basis of public universities, thereby placing a significant obstacle in the path of such reform.

Although the explanation above and the case illustrations below focus on the obstacles to redistributing funds within the education budget, the difficulty of allocating more funds to education and health as a whole needs to be addressed at least briefly. Investments in these areas face keen political competition from powerful interests. For example, business firms—which reap enormous profits from infrastructural development—lobby for contracts and projects that lead to inflated budgets in transportation and energy ministries. Social security—a program that establishes quasi-contractual rights—is generally difficult for governments to compress within the short and medium term. Military spending is a sacred cow in some countries. These vested interests have strong bureaucratic and political allies to protect them, thereby diminishing the resources available for education and health care.

## CASE ILLUSTRATIONS

In Brazil, a country the Bank has criticized for not following its prescriptions, powerful interest groups representing narrow sectors of the middle and upper classes have long succeeded in skewing social policies toward themselves (Paul & Wolff, 1996; Weyland, 1996a, chap. 7; Winkler, 1994, chap. 5). The failure to charge tuition in public universities provides a public subsidy to those least in need and hurts the expansion and improvement of basic schooling in a country that should be making every effort to improve the education of the average person.<sup>24</sup>

Under Brazil's military regime (1964-1985), many economists (especially those with backgrounds in human capital) advocated cuts in higher education spending (Ames, 1987, p. 179). Accordingly, the planning ministry tried to insulate policy making in education from interest group politics. Yet, strong opposition from students, parents, faculty, rectors, and their allies in the media overcame this effort. In an attempt to placate these groups, the military regime transferred public funds from lower grades into higher education, especially following the radicalization of universities in 1968 and 1969.<sup>25</sup> Despite World Bank pressure, primary education's share of federal resources dropped considerably between 1968 and 1972 (Brown, 1996, p. 22; Mello & Silva, 1992, p. 7). The regime's quick response to rioting university students shows that it was more concerned with support from middle- and upper-class groups than from the poor.

Under the last military government, headed by General João Figueiredo (1979-1985), the share of the education budget for primary schooling began to grow. With the heightened electoral competition that accompanied Brazil's political opening, support for the government party was sought from more broadly based groups, most of whom were likely to benefit mainly from improvements in primary and secondary education.

After the transition to democracy in 1985, Congress took measures to ensure that primary schooling receive a certain level of government expenditures. The most important advance in this regard involves a 1996 constitutional amendment (No. 233) that requires states and municipalities to devote at least 15% of their tax revenues exclusively to primary education, and states to subsidize municipalities unable to meet the minimum investment specified per student (\$300/year).<sup>26</sup> Yet, despite World Bank pressure, the same

24. Paul and Wolff (1996, p. 543) discuss the parental incomes of university students in Brazil.

25. To accommodate students, it also relaxed accreditation standards for private universities.

26. The Constitution of 1988 stipulated that they devote at least 25% of their tax revenues to education as a whole.

amendment fails to address, much less rectify, a long-standing policy that effectively diminishes the funds (federal as well as state) available for basic schooling: tuition-free university education (*gratuidade universitária*). Notably, those técnicos and politicians interested in changing the policy initially tried to do so within the context of the amendment. However, political pragmatism ultimately dictated against it. The fear was that groups interested in preserving the current system would have vetoed the entire amendment if the elimination of *gratuidade* had been proposed (E. Abrahão, personal communication, July 9, 1996; E.M.S. Araújo, personal communication, July 12, 1996).

Although the problem of *gratuidade universitária* has yet to be resolved, many técnicos and some politicians see an urgent need for change. According to one congressman, "There is no way the present system can remain viable financially, but political considerations make rectors and politicians more attuned to their constituents than to the financial soundness of the system" (E. Abrahão, personal communication, July 9, 1996). In the view of a top education bureaucrat,

The public universities are a huge drain on public finances and everyone knows it. But every time the World Bank negotiates a big loan with Brazil and the need to end *gratuidade* is discussed, the student unions (e.g., União Nacional dos Estudantes) politicize the issue and claim that any move to do so would represent Brazil "selling out" to international financial interests. (E. Machado, personal communication, July 15, 1996)

In the final analysis, the World Bank can pressure but cannot force the Brazilian government to adopt its recommendations. Perhaps the caution World Bank officials have begun to exercise with regard to developing country sovereignty actually impairs their ability to combat poverty and champion basic needs. In this connection, an education bureaucrat in Venezuela, where government expenditures favor higher education even more than in Brazil (World Bank, 1993c), underscored the heavy dependence of reform-minded technocrats on the World Bank to combat the pernicious effects of politics. In her view, the "excessive respect" World Bank officials accord to domestic political processes undermines technocratic decision making and hurts the poor (C. Vicentini, personal communication, June 26, 1996).

Chile stands out in sharp contrast to Brazil and Venezuela, where educational priorities are much more representative of Latin America as a whole. In the past 25 years, Chile has managed to redistribute educational resources from higher to more basic levels of education, a policy change that represents a dramatic break with Chile's past (Levy, 1981, p. 34). It has done so in large

part by requiring public university students to pay for their own tuition instead of relying exclusively on public subsidies.

It was the military dictatorship of Augusto Pinochet (1973-1990) and the neoliberal ideas of the “Chicago Boys” that set in motion the change in spending priorities. In 1981, 27.65% of public expenditures in education were devoted to higher education, but by 1990, this figure had fallen to 18.10% (República de Chile, 1994, p. 207).<sup>27</sup> Whereas 47.3% of overall spending in education was consumed by the richest 40% of society in 1974, only 34.5% was allocated to this group in 1986. Conversely, the poorest 30%, which accounted for 28.6% of educational spending in 1974, claimed 37.5% in 1986 (Castañeda, 1992, p. 62).

Although the Pinochet regime managed to depart from the regional norm of favoring higher public education, two factors greatly detract from the value of Chile as a model to be emulated. First, brutal repression was used by the government to mute discontent from vocal and politicized interest groups—namely, university students, faculty, rectors, and staff—as it pressed on with privatizing higher education and increasing tuition payments. In the words of one analyst, “The continuity of the reform efforts was remarkable in Chile, particularly in view of the sharp budget restrictions that obliged the government to temporarily suspend major policy decisions . . . and that gave time and ammunition to opposing groups” (Castañeda, 1992, p. 222). In short, rationalizing reforms came at a high price as far as political liberties and human rights are concerned.

Second, whereas the Pinochet government assigned greater relative importance to basic education, it decreased absolute expenditures at all levels of education, especially in the 1980s.<sup>28</sup> Although it hurt higher education disproportionately, the compression of overall spending hurt schooling for all age groups. In the context of shrinking absolute expenditures, greater relative equity did not translate into real improvements in primary schooling (Raczynski, 1995, p. 210). Focusing reduced spending on extremely poor groups hurt lower-middle income groups, who, unlike their better-off counterparts, could not rely on private means to substitute for diminished public resources (Vergara, 1994, p. 243).

Whereas the Pinochet regime compressed social expenditures but diverted a larger share of them to the poor, Chile’s democratic governments have increased expenditures overall but shifted a larger share to the middle class. Although the administration of President Patricio Aylwin (1990-1994)

27. Until 1980, even private universities depended substantially on public financing (Castañeda, 1992, p. 40).

28. Real spending in education fell from 10,695 (1985) pesos in 1979 to 8,727 in 1989 (Vergara, 1994, p. 242).

increased public funding for the university system and sought to reemploy professors who had been purged under the Pinochet regime, it attempted to maintain the prior regime's focus on primary education. It raised tuition prices and kept government loans restricted.<sup>29</sup>

The current government of Eduardo Frei (1994-present) has called for further privatization and increased tuition payments in higher education. In June 1996, it issued a proposal to alter the laws of subsidization. Whether the bill will pass remains to be seen, however. The announcement of the modernization plan in June 1996 sparked massive protests involving more than 45,000 students and a strong faculty. Demanding lower tuition, more access to student loans, an end to privatization efforts in higher education, and greater student participation in the drafting of development plans, students took over buildings and virtually shut down two universities in Santiago. Protest spread to other campuses as well. A similar wave of protest broke out anew in June of the following year. The extent to which student protests can be ignored in the new democratic context is in question.<sup>30</sup>

Even if Chile's Center-Left democratic governments do not succeed in their efforts to further substitute private for public funding in higher education, their tendency to increase educational spending overall will provide effective protection for primary schooling. Between 1990 and 1996, expenditures in education increased from 33,797 (1995) pesos to 59,081 pesos (Raczynski, 1997, p. 147). Similar increases have taken place in health and housing. These additional resources make possible a strengthening of education at various levels, including basic schooling. Several programs to improve primary and vocational instruction are currently being put into place (Raczynski, 1995). Most Latin American countries, however, will not be able to protect basic education by expanding overall expenditures. Less prosperous than Chile, they will be forced to make painful choices.

In sum, small groups of *tecnicos*, however prestigious and linked to IO networks, frequently face difficulties in implementing politically sensitive redistributive reforms. They encounter resistance from traditional bureaucrats as well as societal interest groups and the politicians who back them. International actors can provide external legitimation to those endorsing new policy orientations, but policy change ultimately depends on the political dynamics that exist within borrowing countries.

29. "As Democracy Takes Hold, Chile's Universities Anticipate Administrative, Financial Changes," *Chronicle of Higher Education*, May 2, 1990, p. A-36.

30. "41 Mil Alumnos Sin Clases en las Universidades" (41,000 University Students Without Classes), *El Mercurio, Edición Internacional*, May 29-June 4, 1997; and "Gobierno Estima Inviabile Petitorio de Universitarios" (Government Considers University Students' Petition Unfeasible), *El Mercurio, Edición Internacional*, June 5-11, 1997.

## CONCLUSION

The World Bank has made great efforts to promote policy change in the Third World. Yet, it has not managed to induce Latin American borrowers to invest more in human capital. Government budgets on average have shown no spending increases on education and health care after the World Bank became a forceful advocate of "investing in people." There is also no correlation between World Bank lending in a given country and the resources a country devotes to education and health. Domestic politicians do not appear to internalize and extend the policy prescriptions implied in project lending or in the World Bank's macroeconomic and sectoral policy reform packages.

Our field research suggests that domestic political forces prevail over international technocratic linkages when it comes to redistributive social policy making. International alignments, although backed by prestige and money, simply lack the political clout to override vested societal groups. Thus, in the face of all the evidence pointing to a sea change in economic policies brought on by new economic realities and pressures from international financial agencies, there is at least one important area where change has not occurred. Our finding, thus, bears out the notion that policy change is not uniform across issue areas: Some government practices and institutions are more easily transformed than others. Current efforts to restructure education, health, and social security systems in the region are indeed proving difficult, arguably more difficult than envisioned based on the widespread adoption of IMF-style stabilization programs and liberalization measures.

From the standpoint of their political implications as well as the context of their implementation, many of the neoliberal reforms that remain to be enacted as of the late 1990s present unique challenges. The restructuring of higher education is one of the major structural reforms yet to be successfully implemented in the region. In many ways, the general fiscal austerity characteristic of the previous stage of neoliberal reform presented fewer political complications than reforms (e.g., restructuring education spending) to be decided in the current stage, in which governments will be forced to confront the politics of reallocating resources (Naím, 1995). Many of the remaining reforms will require Latin American governments to increase spending to finance the provision of crucial public goods. Should governments find themselves unable to increase revenues (but in need of maintaining a stable fiscal situation), they will be forced to reallocate resources. With respect to education, this means that funds for basic schooling will have to be transferred from higher levels. Whether future governments can rise to this challenge with any more success than their predecessors is doubtful.

In addition to the difficulties presented by the content of many current reform tasks, the political process through which they must pass to be enacted is replete with obstacles. Whereas executive orders altering the macroeconomic environment were largely responsible for Latin America's initial economic recovery, the region has entered a new stage in the reform process where "the era of decree-driven, hard-to-decide but simple-to-execute macroeconomic shocks is mostly over" (Naím, 1995, p. 31). Early stabilization measures and market reforms were launched by a small number of high-level officials in an atmosphere of secrecy and crisis. Current reforms, by contrast, are taking place during a longer time frame and in a relatively open political atmosphere, inviting politicians and interest groups to intervene (J. M. Nelson, 1996, p. 1555). This context allows groups affected by the reforms to resist or overturn them, setting the stage for special interests to prevail over collective interests. Tilting the balance in the other direction represents a formidable task for any government or international organization.

### APPENDIX

#### Democracy Classification and List of Countries Used in the Analysis

Country	Democratic	Authoritarian
Argentina	1983-1992	1980-1982
Venezuela	1980-1992	
Brazil	1980-1992	
Costa Rica	1980-1992	
Chile	1990-1992	1980-1989
Ecuador	1980-1992	
El Salvador	1984-1992	1980-1983
Guatemala	1981, 1986-1992	1982-1985
Honduras	1982-1992	1980-1981
Mexico		1980-1992
Panama	1991-1992	1980-1990
Peru	1980-1991	1992
Uruguay	1985-1992	1980-1984

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