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# Poverty and *adjustment:* the case of Honduras

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The impact of the structural adjustment process on the level of poverty has been a highly controversial issue in recent years. In this article, a macroeconomic approach is used to analyse the adjustment's short-term effects on income levels, especially among the poor. Income has been chosen as the chief determinant of poverty levels because, in a market economy, income and related inflows are what determine how much control individuals have over the main factors influencing their living conditions. This variable is also quite elastic in respect of macroeconomic conditions and therefore reflects short-term effects. A distinction is made here between earned income, disposable income, social income and real income, and a summary analysis is made of those categories for which information is available. In an effort to formulate an explicit definition of poverty, a seemingly simple measurement of poverty levels is taken using a reference line based on both biological factors and considerations relating to basic needs, and the evolution of poverty levels in recent years is then examined. The author concludes that the capacity for ascertaining the impact of the adjustment by empirical means needs to be strengthened and that measures should be designed and implemented to place the poor in a better position within the "virtuous circle" of the production system.

# I

## Conceptual and methodological approaches

Various conceptual and methodological approaches have been used in an attempt to formulate a more precise definition of what we mean by "poverty".<sup>1</sup> Over the years, poverty has been thought of as an endogenous phenomenon of the individual and as an effect of economic and social structures. Many people would say that "poverty, like beauty, is in the eyes of the beholder",<sup>2</sup> thereby implying it is nothing more than a value judgement.

The main studies on the subject in Honduras<sup>3</sup> have used a normative working concept: that is to say, their definition is based on a certain set of minimum requirements as regards the satisfaction of individuals' basic needs. This entails setting a minimum threshold for the coverage of material and other needs that will ensure a given level of well-being.

### 1. The poverty line

This threshold—or poverty line—is based on a measurement of two types of consumption: one is the necessary level of expenditure to meet a minimum nutritional standard and to acquire other basic items; the other relates to the concept of well-being and includes access to health care, literacy and goods within the public domain. The criterion used in setting the poverty line is thus a combination of biological elements and factors relating to basic needs.

The poverty line is defined as an income level sufficient to meet basic nutritional and other needs (health care, education, housing, etc.). The indigence line is drawn at an income level that is just sufficient to meet an individual's nutritional needs as defined by a shopping basket of staple foods. Thus, a typical

household would be classified as indigent if its members' monthly income is only enough to cover the per capita cost of this shopping basket.

In contrast, the poverty line adds a percentage for the consumption of other items to this minimum food intake level. Thus, if in urban areas of Honduras about 50% of the average per capita income is used to buy food, then the poverty line would be twice the value of the indigence line while, in rural areas, if around 75% of the average income goes for food, then the applicable poverty line would be only 1.33 times the value of the indigence line.<sup>4</sup>

This serves as the basis for what is essentially a biological concept of poverty, one which is absolute rather than being relative to income distribution. In a country such as Honduras, where the unsatisfied needs are so great, the problem of poverty overshadows considerations of equality.

### 2. Information sources

Since 1970 Honduran experts have been working on the definition and quantification of a shopping basket of staple foods that would cover the average caloric and protein requirements of the Honduran population. This government-defined shopping basket was subjected to an exhaustive analysis in early 1991 and is the one used here (Honduras, SECPLAN, 1991). This basket is structured in such a way that its value can be calculated on the basis of the price information compiled by the Central Bank of Honduras for its computations of the general consumer price index (Central Bank of Honduras, 1982).

<sup>1</sup> There is a great deal of literature on this subject. For an excellent analysis of the concept, see Sen, 1992.

<sup>2</sup> Sen (1992) attributes this statement to Mollie Orshansky.

<sup>3</sup> Reference is made here, in particular, to the studies conducted by the Ministry of Planning, Coordination and the Budget (SECPLAN) with support from United Nations bodies.

<sup>4</sup> This standard is based on the proportion of household income spent on food and other basic items, as measured by expenditure and income surveys conducted in Honduras in 1978 and 1979 and ECLAC studies prepared by O. Altimir.

The only regular source of information on income in Honduras is the Multipurpose Permanent Household Survey Programme run by SECPLAN. This programme was launched in September 1986 and, as of September 1991, it had conducted seven biannual surveys (May and September) of the labour force and one survey on own-account workers and micro-entrepreneurs. One of the programme's objectives is to gather information on the ways in which wage-earners receive their incomes. These surveys are not specialized income surveys, however, and the reliability of the information they provide may therefore be questioned on those grounds; they do, however, provide a wealth of useful data for the identification of income trends.

Using the information obtained from these sources and the methodology described above, the per capita cost of the shopping basket of staple foods was calculated for the years from 1986 to 1991 (see table 1); these figures reflect an upward trend in prices as well as price fluctuations. It may also be seen from the table that urban prices moved downward from the general trend in 1988. The reliability of price information obviously influences the placement of the poverty line.

### 3. Recent poverty trends

Once household indigence and poverty lines have been calculated, we can determine how many households are below each of these lines and how many are

above them. As shown in table 2, between September 1988 and May 1991 the percentage of poor households rose from 68.5% to 73.0% and the proportion of non-poor households fell from 24.5% to 18%, while the percentage of indigent households climbed from 54.1% to 58%. Hence, during this period there was an increase in the number of households which, statistically speaking, had incomes below those needed to buy the shopping basket of staple foods. The percentage of poor households, on the other hand, tended to hold steady, although the increase in indigence might be expected to be due to the movement of households from the "poor" to the "indigent" category. The decrease in the number of non-poor households could, however, account both for the increase in indigence and the constant percentage of poor households.

### 4 Has poverty grown worse following the implementation of adjustment policies?

In circles linked to international lending agencies, the aims of typical adjustment policies, involving measures such as devaluation, are clearly defined as being to increase foreign exchange earnings, improve the countries' creditworthiness and bring about more efficient allocation of resources. It is admitted, however, that it is not known whether these policies lead to lower levels of well-being for the population in the short run (Squire, 1991). Behrman and Deolalikar (1991) have concluded that it is virtually impossible

TABLE 1

**Honduras: poverty and indigence lines based on the per capita cost of a shopping basket of staple foods, 1986-1991**  
(In current lempiras)

|                             | 1986  | 1987  | 1988  | 1989  | 1990  | 1991  |           |
|-----------------------------|-------|-------|-------|-------|-------|-------|-----------|
|                             |       |       |       |       |       | May   | September |
| Cost of food basket (daily) |       |       |       |       |       |       |           |
| Urban                       | 2.34  | 2.68  | 2.59  | 2.86  | 3.66  | 5.15  | 5.56      |
| Rural                       | 1.59  | 1.68  | 1.82  | 1.98  | 2.44  | 3.77  | 4.02      |
| Indigence line (monthly)    |       |       |       |       |       |       |           |
| Urban                       | 70.2  | 80.2  | 77.7  | 85.8  | 109.8 | 154.6 | 166.80    |
| Rural                       | 47.7  | 50.3  | 54.7  | 59.4  | 73.2  | 113.0 | 120.75    |
| Poverty line (monthly)      |       |       |       |       |       |       |           |
| Urban                       | 140.4 | 160.4 | 155.4 | 171.6 | 219.6 | 309.1 | 333.60    |
| Rural                       | 63.6  | 67.0  | 72.9  | 79.2  | 97.4  | 150.3 | 160.60    |

Source: Data based on the shopping basket of staple foods formulated by the Ministry of Planning, Coordination and the Budget (SECPLAN) and price information provided by the Central Bank.

TABLE 2

**Honduras: incidence of poverty among households, 1988-1991**  
(Percentages)

| Households         | 1988<br>(September) | 1989<br>(September) | 1990<br>(May) | 1991<br>(May) |
|--------------------|---------------------|---------------------|---------------|---------------|
| Indigent           | 54.1                | 52.0                | 57.7          | 58.0          |
| Poor               | 14.4                | 16.0                | 14.4          | 15.0          |
| Below poverty line | 68.5                | 68.0                | 72.1          | 73.0          |
| Not poor           | 24.5                | 25.5                | 19.6          | 18.0          |
| No response        | 7.0                 | 6.5                 | 8.3           | 9.0           |
| <b>Total</b>       | <b>100.0</b>        | <b>100.0</b>        | <b>100.0</b>  | <b>100.0</b>  |

Source: Permanent household surveys, Ministry of Planning, Coordination and the Budget (SECPLAN).

## II

### The adjustment and income

#### 1. General aspects

The impact of stabilization and adjustment programmes on income in general and on variations in the poor sectors' real income levels, in particular, has been the subject of particularly heated debate in recent years.<sup>5</sup> The relationship between income distribution and economic policy has long been a recurring issue, however, in the debate regarding development strategies.

Thus, following the Second World War it was argued that as economies grew and developed, the benefits of that growth would trickle down to the poor. However, even though many economies grew rapidly, the benefits did not in fact reach this segment of the population. New approaches were then devised, such as those focusing on "growth with social equity", "basic needs", "assistance for the poorest of the poor", "redistribution with growth", "payment of the social debt", "adjustment with a human face", "changing production patterns with social equity" and "human

to ascertain *a priori* the impact of adjustment policy measures on the poor; they contend that such an impact can only be determined empirically *a posteriori* and that people must simply have faith that, in the long run, the adjustment will serve to raise the population's level of well-being.

Not all the poverty in Honduras is due to the adjustment process, since the country exhibits a high percentage of structural poverty. Be that as it may, the figures indicate that, rather than having halted its expansion, poverty is actually on the rise. At the same time, however, it cannot be categorically argued that poverty has grown worse as a result of the stabilization and adjustment effort until the question has been analysed further.

development". The World Bank (1980 and 1990a) has studied the causes and extent of poverty in the world, as have other international bodies (ECLAC, 1990 and 1992; UNDP, 1990). Generally speaking, these studies have related primarily to long-term development strategies. Less research has been done on the short-term effects of financial stabilization and structural adjustment programmes in terms of income distribution and the real income levels of the poor.<sup>6</sup> Even the chief proponents of adjustment acknowledge, however, that it has a social cost; at first, they asserted that this effect was only temporary, but more and more of them are beginning to admit that greater attention needs to be devoted to protecting the poor, especially since, as they themselves note, the adjustment process generally takes years, and its costs may be high during the transition (World Bank, 1992, particularly p. 3).

Today, however, practically everyone realizes that the economic model in use until recently has now run its course and needs to be replaced, and more and more people are accepting the fact that adopting a

<sup>5</sup> In 1990 the World Bank held a symposium on the subject and later devoted an entire issue of *The World Bank Economic Review* to an analysis of poverty and adjustment (World Bank, 1991b). The preceding issue (World Bank, 1991a) included articles on the subject of measurement.

<sup>6</sup> There are differences of opinion on this score among international bodies (see Berg and Hunter, 1992). This question was addressed by the Honduran authorities in a continent-wide television conference on 23 June 1992 organized by the United States Information Agency and the United States Agency for International Development (USIA/USAID). The topic of the conference was "economic stabilization programmes and their effects on the poor".

new model means changing the economic structure and the ground rules for resource allocation. The question as to what kind of policy package should be implemented is still being debated, however, particularly in regard to the kinds of measures that, along with the correction of major financial and real disequilibria, will also eliminate or at least mitigate the drop in the real income levels of the poor.<sup>7</sup>

It is axiomatic that the structural adjustment process will have effects on income and its distribution. At any given point in time, economies have a certain production pattern or structure for tradeables and non-tradeables, a given level and composition of aggregate demand, and an associated set of prices and payments to factors of production. This, in conjunction with an array of implicit and explicit monetary transfers, is what determines the distribution of income as well as the income levels of social and economic actors in absolute terms.

By definition, financial stabilization and structural adjustment programmes seek to modify the level of aggregate demand (usually the aim is to reduce it in order to bring expenditure into line with income) and the composition of production (by increasing the proportion of internationally tradeable goods and reducing that of non-tradeables) and to realign the prices of goods, services and factors. Obviously, with all these changes, income distribution and levels will be altered.

Consequently, this process will inevitably create winners and losers, especially in the short run, since in the long run the whole of society should be far better off. What interests us here, however, is how this process affects the poor and most vulnerable sectors of society.

Although some economic policy-makers are often skeptical about the existence of indicators that can measure the impact of the adjustment process on the population's well-being, the scheme proposed by Corden (1986) and a number of others with respect to income levels can certainly be of use in such an analysis.<sup>8</sup> If we use the logic of adjustment in regard to

resource allocation—since the main factors influencing people's living conditions are to be found in the market—then income is the element which, generally speaking, determines how much access people have to those factors. The total income of persons or households can be analysed in terms of their earned income, disposable income, social income or real income. Earned income is income obtained through the sale of labour and capital. When taxes and direct transfers are subtracted from or added to this sum, the result represents disposable income. Social income, for its part, represents the value of services provided by the government. When disposable income and social income are added together, and then deflated by a price index corresponding to the group in question, this gives a person's or household's real income.

This scheme permits us to move closer to an evaluation of the degree of success achieved by an adjustment programme, especially if we bear in mind Keynes' famous observation to the effect that, in the long run, we will all be dead anyway. This type of evaluation will be all the more reliable if income and its distribution are based on a sustainable type of performance, such as rapid, sound economic growth of a type that creates jobs, rather than on temporary measures.

## 2. The cost of the adjustment in Honduras

Ever since the intensive phase of the adjustment process began, the Honduran authorities, along with international organizations, have acknowledged that the macroeconomic programme has certain costs. Thus, the World Bank predicted that the economic reform programme would hurt employment and that the unemployment rate could rise to 17% (this figure is four points above the actual rate for 1988). It also felt that the economic adjustment would probably have sufficiently negative impacts on health and nutrition indicators to reverse the trend of steady improvements observed over the preceding 20 years (World Bank, 1990b, p. 42). The same opinion was voiced by another World Bank mission in one of its reports (Castañeda, 1990) when it noted that the programme was being accompanied by sharp price increases in staple foods, transport and other services and that the consumption of staple foods would quite probably decrease as a result of the reduction of real wages and rising unemployment, especially among persons living in marginal urban areas, small farmers who were net food consumers, and agricultural wage-earners,

<sup>7</sup> The International Monetary Fund (IMF) asserts that the effects of the adjustment process on the poor depend on the structure of poverty and the policy mix (see Heller *et al.*, 1988).

<sup>8</sup> Advocates of adjustment policies generally contend that aggregate indicators of well-being should not be taken too seriously and that it is better to analyse trends in social indicators over the medium and long terms. They also focus their economic and social analyses on the question of what would have happened if previous policies had been continued.

despite the favourable exchange rate for exports. The report also said that other social indicators were expected to reflect severe impacts as well.

The World Bank, the IMF and the United States Government acknowledged Honduras' impoverishment when they classified it as eligible for aid from the International Development Association (IDA) and for the IMF's extended structural adjustment facility, as well as condoning part of its external debt. The Government of Honduras, for its part, faced with the prospect of newly poor contingents of the population joining the ranks of the structural poor, has responded to the situation with a poverty relief strategy.

Be that as it may, analyses of this process need to establish whether or not, after being in operation for two and one-half years, the Government's economic and social compensation programmes have managed to halt the deterioration of the population's living conditions or, better yet, whether living conditions have improved to a point where they exceed the levels achieved in the past. Some partial answers to these questions can be provided by applying the income method described earlier.

#### a) *Earned income*

The level of earned income will depend primarily on the demand for labour generated by production activities. This makes necessary an analysis of the aggregate growth of the gross domestic product and, even more importantly, of sectoral growth, since the demand for manpower varies from sector to sector. According to official figures,<sup>9</sup> production fell in real terms in 1990. The decrease was particularly sharp in manufacturing and construction, and was less severe in services; agriculture and extractive activities, on the other hand, continued to show some growth. In 1991, production began to find its way back to the path of recovery, and agriculture and extractive activities (especially mining and quarrying) exhibited some buoyancy, in contrast to their weak performance of the year before. The rest of the country's sectors of production remained somewhat sluggish (see table 3)

<sup>9</sup>Since there is no other source of information with which to corroborate the official figures, the latest revised statistics of the Central Bank of Honduras (1992a and 1992b) have been used. These figures, which were discussed at the Seventh National Congress of Economists in Tegucigalpa in July 1992, have been received by the Association of Economists with some reservations.

TABLE 3

**Honduras: principal macroeconomic variables**  
(Real growth rates)

|                                       | 1988 | 1989 | 1990  | 1991  |
|---------------------------------------|------|------|-------|-------|
| Gross domestic product at factor cost | 4.6  | 5.4  | -0.4  | 1.2   |
| Agriculture and extractive activities | 1.0  | 10.2 | 0.5   | 3.5   |
| Manufacturing and construction        | 7.1  | 6.4  | -0.2  | 0.8   |
| Other                                 | 5.7  | 2.4  | -0.2  | 0.1   |
| Exports                               | -0.9 | 3.9  | -0.6  | -2.0  |
| Private investment                    | 18.7 | 31.6 | 3.0   | 11.5  |
| Public investment                     | 4.0  | 10.3 | -32.3 | 30.3  |
| Private consumption                   | 2.5  | 5.7  | 0.1   | 3.9   |
| Public consumption                    | 9.0  | 2.8  | -13.5 | -11.4 |

Source: Based on data supplied by the Central Bank of Honduras, May 1992.

In the farm sector, the output of all the basic grains (i.e., maize, beans, paddy rice and sorghum) except maize increased considerably, especially in 1991. On the other hand, production levels of traditional export products (coffee, bananas, unginced cotton and raw tobacco) declined; this setback did not affect sugar cane or African palm, however. In 1990-1991 the number of agricultural, agro-forestry and coffee-growing cooperatives plunged to one third its former level, with the drop in agricultural cooperatives being the sharpest.

This trend in agricultural production was reflected in a real decrease in exports. The volume of banana exports followed the downward path of banana production levels, but exports of coffee, cotton and tobacco were maintained despite the smaller harvests of these crops. Chilled meat and shrimp and lobster showed an improvement, although that of the latter was less marked. The output of extractive activities, especially of lead, zinc and cement, was below 1989 levels. In current values, export performance was so disappointing that the IMF granted approximately US\$61.9 million in assistance to offset foreign exchange losses on exports.<sup>10</sup>

<sup>10</sup>IMF press release No. 92/18 (14 February 1992) announced the award of US\$44 million in Special Drawing Rights through the Fund's compensatory financing facility and standby arrangements.



Following a slump in 1990, the manufacturing and construction sectors stagnated in 1991. Production of sugar cane, pasteurized milk, vegetable oil and vegetable fats –but not wheat flour– went down, and the same was true of cement and iron rods, though the output of asbestos cement sheets continued to rise. The volume of cement exports was not even 15% of the 1989 level, and the commercial and industrial construction projects approved, as measured in square metres, for the first quarters of each year in the 1990-1992 period showed a significant decline, even though the current value of industrial construction has risen considerably.

The rest of the country's economic activities virtually stagnated; this was especially true of activities related to the civil service and to community, social and personal services, which for the most part are still below their 1987 levels. It is somewhat surprising that –despite reductions in electricity sales, water use, the number of inter-urban passengers carried and the number of people entering and leaving the country by air– electricity, gas and water, transport, and communications services all displayed some vitality.

To sum up, after slackening in 1990, production made a slight recovery in 1991 but still did not show strong growth; in fact, it did not even regain the average levels recorded in 1987-1989. Economic growth can therefore not be said to have led to an improvement in living conditions. As regards employment, the available figures are not conclusive but do provide an indication of a general trend.

In agriculture and related activities, the total number of people employed in 1991 declined, as did the sector's share as the leading employer in the economy. The same trend was seen in mining and quarrying, following an unusually sharp increase in 1990. The same tendency to employ fewer people was observed in electricity, gas and water services as well (see table 4).

Open unemployment registered a series of slight increases as it moved from 4.0% to 4.3% between 1989 and 1991, while concealed underemployment climbed from 31.7% to 34.3%. Nevertheless, in keeping with the expansion of production, the overall percentage of the workforce experiencing employment difficulties shrank slightly after having risen from 52.0% in 1989 to 54.7% in 1990.

These unemployment figures confirm that the Honduran economy needs to gather more momentum in order for an improvement to be seen in living conditions. Indeed, as noted by the Regional Employment

TABLE 4

**Honduras: employment in selected branches of activity in September of each year, 1988-1991**

(Number of persons)

|                            | 1988             | 1989             | 1990             | 1991             |
|----------------------------|------------------|------------------|------------------|------------------|
| Agriculture                | 654 733          | 628 571          | 641 833          | 616 210          |
| Mining and quarrying       | 2 021            | 2 553            | 6 434            | 3 932            |
| Electricity, gas and water | 7 614            | 8 776            | 8 290            | 8 250            |
| <b>Total</b>               | <b>1 365 862</b> | <b>1 394 281</b> | <b>1 482 902</b> | <b>1 523 097</b> |

Source: Permanent household surveys for each period, Ministry of Planning, Coordination and the Budget (SECPLAN).

Programme for Latin America and the Caribbean (PREALC), "the adjustment has caused a slowdown in job creation, higher unemployment and underemployment, and a decline in labour income" (Wurgaft, 1991).

*b) Disposable income*

In respect of disposable income, it may be noted that the Government's policy regarding direct taxes has been to streamline the tax structure, raise the minimum income level at which income taxes begin to be levied, and enforce income tax laws more strictly. In other words, those who are in a position to pay income taxes are doing so in accordance with the law, while the growing number of people whose ability to pay income taxes had been eroded are now exempted from that obligation.<sup>11</sup> None the less, the aim of securing a progressive taxation system has for all intents and purposes been replaced by a regressive, undifferentiated system as the Government has come to rely more heavily on indirect taxes, and although such taxes do not affect the level of disposable income, they do lower that income's purchasing power. Thus, the sales tax was hiked from 5% to 7%, and excise taxes on such items as beer, liquor and petroleum products were also raised or modified.

Receipts from indirect taxes climbed from 1 098 million current lempiras in 1989 to 1 674 million in 1990 and 2 343 million in 1991. Generally speaking, Honduras' tax burden is one of the heaviest in Central America, and it is still heading upwards, since tax revenues rose more rapidly than income did (thanks, in particular, to a reduction in tax evasion).

<sup>11</sup> As a result of this streamlining, the number of wage-earners paying income tax went down from 92,992 in 1989 to 12,714 in 1990 and 7,628 in 1991 (see De Figueroa, 1992).

The Government's policy has been to eliminate, as far as possible, the more general types of explicit and implicit transfers and subsidies and to replace them with explicit ones targeted at the most vulnerable groups, as well as to eliminate any element that distorts the prices of goods and services. Obviously, this policy too has created winners and losers. Implicit subsidies applying to the rates charged for such public services as electricity, water and telecommunications are among those that have now been eliminated. Explicit subsidies for low-volume electricity consumers are being provided on a temporary basis, while for all other consumers the rates have been rising steadily; it is expected that all such electric power subsidies will have been terminated by 1993. Decree 18-90 also provides for other subsidies (while altering the way in which they are administered) on urban passenger transportation and on some foods, mainly grains.<sup>12</sup>

One important component of the adjustment programme is the monetary transfers made under the Family Allowance Programme in the form of vouchers issued to women heads of household and new mothers. These explicit monetary transfers are intended to help offset the social costs of the adjustment programme, as well as to mitigate structural poverty. The Family Allowance Programme was designed to operate for a set amount of time, i.e., during the transition to a more dynamic economy, but recently the Government has been taking steps to extend its duration and expand its coverage. This decision reaffirms the view held by international bodies that the transition may take many years.

In order to improve the employment programmes which Honduras has been carrying out since 1974 in an effort to counteract the devastation caused by Hurricane Fifi and other natural disasters, in 1990 the Honduran Social Investment Fund (FHIS) was created. Although its original purpose was to create temporary jobs and to help bring marginal workers into the labour market, it has developed into a flexible mechanism for attracting and managing resources and for setting up projects to meet basic needs, and as such has complemented and in some cases displaced traditional executing agencies. The FHIS has not been very energetic in its efforts to facilitate the incorporation of

marginal or quasi-marginal workers into the production process on a permanent basis under more favourable conditions, however, as shown by the fact that it has allocated only 7% of its resources to micro- and small-scale enterprises; moreover, in many cases these resources have been used to provide working capital for commercial activities, such as those engaged in by market vendors. Nor has the development of economic infrastructure works such as small-scale irrigation and soil conservation projects been a concern of this compensatory mechanism. According to a report of the IDA (1992), however, the FHIS has directly contributed to the creation of the equivalent of between 17% and 33% of the total number of jobs estimated to have been lost as a result of the adjustment programme.

One of the beneficial spinoffs of the compensatory or monetary-transfer programme has been the methodological progress made in respect of targeting. In order to reach the poorest or most vulnerable groups, the Government has been fine-tuning its "poverty maps" and, as a result, is now in a better position to provide compensatory assistance to the neediest groups within the population.

### c) *Real income*

An across-the-board process of price increases coupled with a realignment of relative prices will inevitably have a distributive impact on the economy, and the inflation thus generated creates a great deal of uncertainty within the production apparatus, thereby discouraging both production and investment and, hence, job creation.

Between 1990 and the end of 1991, Honduras witnessed an inflationary process unlike anything it had ever seen in its entire history, coupled with an absence of economic growth and what the World Bank (1992) euphemistically referred to as a "lull in investment". The country's traditional sectors –which are not known for their flexibility, speed or adaptability– came out of this process as losers. Wage-earners also saw their real incomes fall simply because of time lags in the adjustment of minimum wages,<sup>13</sup> while poor, marginal sectors watched helplessly as the cost of the shopping basket of staple foods rose and their chances of earning any sort of income at all diminished (see table 5).

<sup>12</sup> For 1990 and 1991, 30.5 and 67.4 million lempiras, respectively, were allocated for transportation, while 3.4 million and 13.3 million lempiras went for staple goods (Honduras, Ministry of Finance and Public Credit, 1992, p. 20).

<sup>13</sup> Minimum-wage adjustments were made on the following dates: 15 July 1981, 30 December 1989, 1 October 1990, 15 July 1991 and 30 May 1992.

TABLE 5

**Honduras: average prices nationwide for selected essential goods between January and June of each year, 1989-1991**  
(In current lempiras)

|                | Unit   | 1989  | 1990  | 1991  | 192   |
|----------------|--------|-------|-------|-------|-------|
| Beans          | Pound  | 1.16  | 1.19  | 1.19  | 1.40  |
| Maize          | Pound  | 0.28  | 0.34  | 0.64  | 0.48  |
| Vegetable fats | Pound  | 1.46  | 1.59  | 2.65  | 2.75  |
| Vegetable oil  | Gallon | 14.83 | 15.02 | 23.90 | 30.67 |
| Milk (liquid)  | Litre  | 1.11  | 1.22  | 2.04  | 2.46  |
| Beef           | Pound  | 3.40  | 4.40  | 7.07  | 8.36  |
| Sugar          | Pound  | 0.60  | 0.58  | 0.89  | 1.06  |
| White bread    | Loaf   | 1.47  | 1.64  | 2.67  | 2.82  |

Source: Central Bank of Honduras, *Boletín, índice de precios al consumidor*, Tegucigalpa, June 1992.

One of the few economic agents that exhibited a high degree of flexibility and an ability to adapt to the inflationary process was the Government, which indexed electricity rates and "dollarized" the rates charged by the National Port Corporation (ENP) and HONDUTEL, as well as some business taxes.

### 3. Income concentration

Income distribution is one of the most rigid structural elements in any economy. It can take years for the effects of measures aimed at improving income distribution to make themselves felt, even when achieving a more equitable distribution of income and of an economy's productive assets is an explicit policy objective. The situation becomes even more complex when an improvement in labour income is a long-term policy goal and when policymakers look to market mechanisms as a possible means of bringing about a redistribution of assets. In addition to all the above, the analysis of income distribution is an exercise which places heavy demands on the information systems of low-income countries.

In Honduras, one of the first studies on income distribution was conducted in 1967 (see table 6). In that year, the poorest 40% of the population received just 7.3% of total income, while the richest 10% of the population accounted for 50% of total income. The Gini coefficient for this distribution pattern (0.6038) shows how deplorable this situation was (García Tudero, 1990).

TABLE 6

**Honduras: income distribution, 1967**

| Percentage of population | Share of income (%) |
|--------------------------|---------------------|
| 20                       | 2.3                 |
| 40                       | 7.3                 |
| 60                       | 15.3                |
| 80                       | 32.2                |
| 90                       | 50.0                |
| 100                      | 100.0               |

Source: García Tudero, *Reclasificación de Honduras como país de menor desarrollo relativo*, Mission report, Ministry of Planning, Coordination and the Budget (SECPLAN)/United Nations Development Programme (UNDP), June 1990.

TABLE 7

**Honduras: distribution of labour income, 1989 and 1990**

| Percentage of population | Share of income (%) |       |
|--------------------------|---------------------|-------|
|                          | 1989                | 1990  |
| 10                       | 0.6                 | 0.5   |
| 20                       | 2.2                 | 1.9   |
| 30                       | 4.8                 | 4.3   |
| 40                       | 8.4                 | 7.7   |
| 50                       | 13.1                | 12.3  |
| 60                       | 19.3                | 18.3  |
| 70                       | 27.3                | 26.3  |
| 80                       | 38.6                | 36.9  |
| 90                       | 55.2                | 53.0  |
| 100                      | 100.0               | 100.0 |
| Gini coefficient         | 0.56                | 0.58  |

Source: Ministry of Planning, Coordination and the Budget (SECPLAN), on the basis of household surveys for September 1989 and 1990.

Some of the later studies suffer from numerous limitations and are of only partial coverage, mainly due to the lack of updated household expenditure and income surveys (the last was carried out in 1978-1979). Recently, attempts have been made to take measurements using household surveys, but the information obtained by this means includes labour income only while failing to pick up interest, rent and profits. Moreover, nearly 10% of the respondents do not answer the question on income.

### III

## Conclusions

The adjustment's impact on the most vulnerable groups in society will continue to be a controversial issue. Although there are many different conceptual and methodological definitions of poverty, in a country as poor as Honduras quite a basic approach suffices for analysis and policy formulation and the design and implementation of the corresponding measures.

A clear understanding of the ultimate objectives and effects of adjustment policies leads to a growing realization that the transition may take many years. What is more, it has proved virtually impossible to determine *a priori* how adjustment policy instruments will affect the poor; the only possibility left to us, therefore, is to make an empirical *a posteriori* evaluation and have faith in the idea that, in the long run, once all the reforms entailed by the adjustment process have been completed, the population will be better off.

In Honduras an empirical assessment is hindered by the scarcity and unreliability of information on the subject. Subject to these limitations, the available indicators show that the percentage of households below the poverty line rose from 68.5% in 1988 to 73% in 1991. Moreover, the lacklustre performance of production activities, the low rate of job creation and the unprecedented resurgence of inflation are signs that overall poverty in the country may rise still further.

Studies carried out in 1990 by SECPLAN 14 show that in 1989, the households in the bottom 40% in terms of wage income were earning 8.4% of total labour income, whereas the households in the top 10% were drawing 44.8% of the total. The Gini coefficient was estimated at 0.56. By 1990, the proportion of total income earned by households in the bottom 40% had slipped to 7.7%, while the portion accounted for by the richest decile had climbed to 47% (see table 7).

None the less, the empirical data do not in themselves conclusively prove that the adjustment has increased poverty or that, if reforms had not been implemented, the population would be worse off than it is now. Therefore, setting ideologies aside, Honduras needs to strengthen its capabilities for the preparation of empirical evaluations of the adjustment's impact and for the design and implementation of measures that will put poor people in a better position to participate fully in the virtuous circle of the production system. A parallel effort needs to be made to rework existing systems of economic and social indicators so that up-to-date, reliable information can be made available.

In the end, we have no choice but to ask ourselves the same question as was posed by *The Economist*: Will Central America's poorest citizens wait patiently for the benefits of growth to trickle down to them too? <sup>15</sup>

<sup>14</sup> Namely, the study by García Tudero (1990) and studies conducted by the Project on Population Policies, Poverty and Employment.

<sup>15</sup> *The Economist* (1992).

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