

A CRITIQUE OF INTER-AMERICAN DEVELOPMENT BANK'S  
NEOLIBERAL DISCOURSE OF EXCLUSION

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## **ABSTRACT**

### **A CRITIQUE OF INTER-AMERICAN DEVELOPMENT BANK'S NEOLIBERAL DISCOURSE OF EXCLUSION**

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Exclusion has become a popular term in the recent two decades which is used to designate to the relatively disadvantaged people, groups, parties in different societies. Given the fact that concepts are not innocent, there is a need to think on the question of what “exclusion” as a concept excludes and includes different from other relevant concepts such as poverty, marginalization, and/or underclass.

This thesis will try to answer these questions by focusing on the Inter-American Development Bank's (IDB) discourse on exclusion in Latin America. It will argue that the IDB's discourse on exclusion aims to reproduce the dominant neoliberal ideology in its post-Washington version. For by differentiating “exclusion” from “poverty” by associating the former with the practices, acts and cultures of social and political institutions specific to particular societies and states, IDB's exclusion discourse creates a legitimate ground to proceed with the neoliberal transformations of states and societies in line with good governance.

**Keywords:** Exclusion, Inclusion, New Poverty, Inter-American Development Bank

## ÖZ

### INTER-AMERICAN DEVELOPMENT BANK' İN NEOLİBERAL DIŞLANMA SÖYLEMİNİN ELEŞTİRİSİ

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Dışlanma son yirmi yılda nispeten dezavantajlı insanları, grupları ve kesimleri tanımlamak için kullanılan popüler bir terim haline gelmiştir. Kavramların masum olmadıklarını göz önünde bulundurarak dışlanma teriminin diğer benzer terimler olan yoksulluk, marjinalleşme ve altsınıf gibi terimlerden farklı olarak neleri dışladığı ve kapsadığı düşünülmelidir.

Bu tez, bu sorulara Inter-American Development Bank' in (IDB) Latin Amerika' da ki dışlanma söylemi üzerine odaklanarak cevap vermeye çalışacaktır. IDB' nin dışlanma söyleminin egemen neoliberal ideolojinin post-Washington uzlaşması döneminde yeniden üretimini amaçladığını öne sürecektir. IDB' nin dışlanma söylemi dışlanma ve yoksulluğu birbirinden ayırarak, dışlanmayı bazı devletlerle ve toplumlara özgü uygulamalarla, davranışlarla ve kültürlerle özdeşleştirerek, devletlerin ve toplumların iyi yönetimle birlikte neoliberal dönüşümlerine meşru bir zemin hazırlamaktadır.

Anahtar Sözcükler: Dışlanma, Kapsama, Yeni Yoksulluk, Inter-American Development Bank

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# **CHAPTER 1**

## **INTRODUCTION**

Exclusion has been a popular issue in social sciences in the recent decades. Literature of exclusion seems to be about the people that have paid the highest price of neoliberalism. It has been designating relatively disadvantageous people, groups, parties in societies that are suffering from lack of rights of citizenship, lack of access to social services, lack of access to credit, low intergenerational mobility, undemocratic measures, informal employment, underemployment, unemployment, discrimination, and violence. Given the fact that concepts are not innocent, we still need to think on the question of what “exclusion” as a concept excludes and includes, and whether it is different from other relevant concepts such as poverty, new poverty, urban poverty, or underclass.

Exclusion and poverty are two concepts that are hard to be differentiated from each other. The main difference between the terms “poverty” and “exclusion” is arguably the latter is being a multidimensional term that includes not only issues of material deprivation like unemployment, underemployment, low income, and informal sector but also participation, representation, violence, security, space, housing, discrimination, identity, democratization, citizenship, disabled people, and the HIV. The second difference between the two terms has argued to be exclusion is covering a narrower space than poverty. This means that most of the people that suffer from exclusion suffer also from poverty but it does not mean that two terms always overlap. For example a person who is employed in formal sector with a low wage is

subject to poverty but he/she is not necessarily subject to exclusion even if he/she is not suffering from discrimination, violence, under-representation, lack of participation, lack of formal security, or lack of access to social services like education or health. Literature of exclusion is about the lowest strata of the new poor that have paid the highest price of neoliberalism.

The term exclusion is first used by Richard Lenoir in 1974. He claimed that people that had mental or physical disorders, drug addicts, or asocial people were the socially excluded people. Their common point was that they did not fit to the structure of the industrial society (Bhalla & Lapeyre, 1999: 1, 2). The term exclusion was first utilized in political discussions by the Mitterrand administration to define a particular section of the new poor which could not benefit from the Republic in order to get the support of the middle classes (Silver, 1996: 113). Then, it was adapted by the European Union in a neoliberal fashion. The EU made a distinction between poverty and exclusion, and preferred to use exclusion instead of poverty to refer to human deprivation. Because poverty reduction concerns of the 1970s were considered to be too radical in their implications. Thus, the EU has started to identify social integration as a solution to human deprivation replacing successfully the earlier concerns for redistribution (Munck, 2005: 22). The neoliberal debates on exclusion claims to provide a solution to the problems of the lowest strata without making systemic changes or engaging in redistribution. Non-systemic and non-economic measures like increasing participation and representation, extending rights of citizenship, and democratization are defined as solutions to the problems of the lowest strata. However, as a multidimensional term exclusion can also be used to relate the political implications of capitalist relations of production by indicating how problems like discrimination are related to class relations and capitalist exploitation. In his book called *Globalization and Social Exclusion: A*

*Transformationalist Perspective* (2005) Ronaldo Muck argued that exclusion is caused by globalization. By departing from such arguments, exclusion can be taken as a problem that has systemic reasons which means that non-systemic measures like “extending rights of citizenship” cannot solve exclusion. In other words, the term exclusion has to be considered seriously by critical studies.

The terms underclass, new marginality, new poverty, and new urban poverty are also used to designate similar problems identified by exclusion. The reason of the existence of different terms to refer to similar groups of people is political in some cases, and only a matter of different usage in others. Underclass is a US oriented term and mainly used by American and British conservatives. New marginality is a Latin American conception and used by some followers of the dependency school. Exclusion is a Europe-originated term. It is mainly used by Tony Blair’s new labor cabinet, Mitterrand’s socialist administration and the European Union. It is also used by some international institutions like the International Labor Organization (ILO), the World Bank as well as the Inter-American Development Bank (IDB) besides some critical scholars. It seems to be the most popular term to define the lowest strata of the new poor that have paid the highest price of neoliberalism.

The terms new poverty or new urban poverty are used by some scholars to refer to those aspects of poverty that is caused by neoliberalism and/or globalization. They don’t seem to have a directly political meaning for they are practically used to make a distinction between the contemporary poverty that is caused by neoliberalism and former types of poverty that can be related to Bretton-Woods regulations, import substitution industrialization (ISI)

strategies, and welfare states. These two terms have been rejected though by those scholars who recognize no difference between these poverty forms. Scholars using the term exclusion (or social exclusion) tend to make a separation within the layers that are suffering from new poverty or new urban poverty. Excluded people are mainly in the urban areas but they exist in rural areas as well. That is why identifying exclusion as a sub part of new poverty is more suitable rather than limiting it with new urban poverty.

Latin America is one of the best regions to overview the debates on exclusion. Debates on exclusion have been particularly important in Latin America for two reasons: firstly, exclusion is arguably intensive in the region, a condition which increases the number of case studies to be investigated on exclusion. Secondly, debates on marginalization which resembles debates on exclusion were made in Latin America in the 1960s and 1970s between the modernist and dependency schools, and among dependency scholars. There are continuities and similarities in these debates on marginalization and exclusion. These factors make Latin America an appropriate region to focus on debates on exclusion.

It might be argued that the IDB has been one of the significant sides within exclusion debates in Latin America that has defined “exclusion” from a neoliberal point of view. On the basis of Robert Cox’s famous statement that “[t]heory is always for someone and for some purpose” (Devetak, 2001: 159), this thesis will argue that IDB’s discourse on exclusion aims to reproduce the dominant neoliberal ideology in its post-Washington version. By differentiating “exclusion” from “poverty”, and by associating the former with the discriminatory practices, acts and cultures of social and political institutions which are specific to particular societies and states, IDB’s

discourse on exclusion has prepared a legitimate ground to proceed with the neoliberal transformation of states in Latin America in line with the “good governance” agenda.

The IDB’s discourse on exclusion has three main premises. First is the separation of economic and political spheres from each other which is very common in all liberal approaches. By this separation the IDB regards poverty as an unavoidable aspect of human development. Poverty, to an extent, is naturalized as an outcome of the market forces while exclusion is recognized as a product of discrimination, bad governance, or non-democratic measures of institutions and cultural practices. The second premise of the IDB’s discourse of exclusion is the argument that exclusion can be avoided to a large extent if states, societies and cultures can be properly restructured. The solution to exclusion is arguably inclusion which might be ensured through non-discriminatory, democratic, participative, representative, and efficient neoliberal policies. In other words the problem of exclusion can be solved if neoliberalism is implemented in a correct way. The third and final premise of the Bank’s discourse is that exclusion is a problem due to its costs and inefficiency. In other words exclusion would not be a problem if it wouldn’t lead to inefficiency. This definition leads the reader to consider policies of inclusion that are aiming at increasing efficiency as a solution to exclusion.

Cox has made a distinction between problem solving theories and critical theories. Problem solving theories accept international structure as taken for granted and seek to legitimize it. They are also guides for better ruling. Critical theories on the other hand seek to understand the structure in order to change it (Devetak, 1996: 159, 160). Theories and methodologies of the IDB are included to the category of problem solving theories for there is no

systemic level criticism in the works of the IDB. As will be examined in the following chapters, IDB takes neoliberalism for granted and does not blame it as a process that has led to exclusion. Just the contrary, the IDB has argued that better implementation of neoliberalism can help overcome exclusion. This thesis will comprehensively decipher the problem-solving character of the IDB's discourse on exclusion in relation to its concern to remain within the neoliberal paradigm in the fight against exclusion.

A careful analysis of the IDB's discourse on exclusion reveals that it fits fine with the post-Washington turn in neoliberalism after the 1990s. The Washington consensus is the period starting from the emergence of neoliberalism in the 1980s to the late 1990s. The Washington consensus harmonized the policies of Washington centered institutions like the IMF, World Bank, and the US Federal Reserve to produce a well-defined neoliberal agenda to be implemented in developing countries. Other neoliberal institutions like the World Trade Organization (WTO), the IDB and the European Central Bank also joined to this consensus. Principles of the Washington consensus were withdrawal of the state from economics in order to promote growth, and limiting the functions of the state only with national defense, infrastructure and negotiations among different interests. Washington consensus led to many problems including current account deficits which increased the influence of multilateral lending institutions' influence on developing countries (Saad-Filho, 2008: 191-193). The first generation reforms of the Washington consensus in the 1980s and 1990s that focused on macroeconomic stability, anti-inflationary policies, exchange rate stability, structural adjustment, privatization, liberation of trade and finance and were implemented with big confidence until financial crises started substantially delegitimizing the whole process. After the financial crisis in Mexico in 1994 and the East Asian Crisis in 1997 in particular, neoliberalism

has become subject to criticisms both within and outside. The post-Washington consensus has hence emerged in late 1990s to reformulate the priorities of the neoliberal agenda in a way to focus on the importance of institutions, good governance, anti-poverty measures, anti-corruption policies, and labor market reform. The new institutionalist school<sup>1</sup> has started to be influential on neoliberal policies and discourse to some extent in this period (Saad-Filho, 2008: 198). The neoliberal agenda has started to include issues like environment, human rights, democratization, and income inequality.

The most profound reflection of the post-Washington consensus was inclusion of the poverty reduction programs to the neoliberal agenda. Multidimensional poverty reduction approaches have started to occupy space in the programs of the World Bank, the IDB, and the United Nations (UN). However, poverty reductions programs of the post-Washington consensus era have not perceived poverty as a result of neoliberalism. They have rather focused on non-systemic factors like bad governance and social unrest (Johnston, 2007: 229,231). The IDB's studies on exclusion can also be read as good examples to this new set of policy proposals.

Under conditions of post-Washington consensus, exclusion has become a part of the neoliberal agenda. Just like the poverty reduction programs of the post-Washington consensus, "inclusion policies" of the neoliberal agenda have not perceived neoliberalism as a factor that creates exclusion. Rather, exclusion debates focus on factors like promoting democratization, extending rights of citizenship, privatization, and "increasing economic opportunities" of the excluded people in order to reduce exclusion.

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<sup>1</sup> An economic paradigm which focuses on the institutional failures in explaining economic problems instead of market and competition as neoclassical economics would do. New institutionalism accepts not only the increase in GDP per capita as a factor of development but also other factors like democratization.



In this thesis, the reports, projects and articles that are published and/or sponsored by the IDB on exclusion will be used to grasp the main premises of the IDB's exclusion discourse. The IDB's 2008 report on exclusion which is titled *2008 Report: Outsiders?: Changing Patterns of Exclusion in Latin America and the Caribbean* will be the primary focus of analysis in this regard. Besides this report, books and articles published by the IDB will also be utilized though the Bank does not accept these as its formal documents.

The next chapter makes an overview of the concepts developed to make sense of human deprivation up to the 1980s prior to the rise of neoliberalism. It in a way focuses on the background discussions to exclusion. Conceptual overview up to 1980s will be categorized under three perspectives that are conservative, liberal and critical. Malthus' theory of population and the term "culture of poverty" that is developed by Lewis are views that will be included to the category of conservative views. Liberal conceptualization will include Germani's and *Centro para el Desarrollo Economica y Social de America Latina's* (Center for Social and Economic Development of Latin America, the DESAL School) views on marginalization based on the premises of the modernization school. And finally critical proposals such as Marx's concept of reserve army of labor, the Dependency school's views on marginalization and reserve army of labor will be overviewed. Political and economic contexts of these discussions will also be reminded to provide the reader with a better understanding of these concepts and perspectives.

The third chapter will provide an overview of the debates on exclusion within the context of neoliberalism. Debates on exclusion will be categorized here under two main headings which are problem-solving and critical approaches.

Different from the established categorizations made on exclusion, this thesis will consider individualistic conceptions such as underclass as well as those developed by Murray and Silver, and collectivist perspectives that base on Durkheim's solidaristic definition of society and comprise also the views of some social democrats, Catholic theologians and republicans within the same category. Conceptions of "exclusion" which seem to serve to the reproduction of the neoliberal agenda a deliberative manner like the one promoted by the EU will be categorized in this thesis as the European Union approach. After examining the problem-solving premises of the individualist, collectivist and EU approaches to exclusion, this chapter will finally overview the critical arguments developed mainly by some Marxist scholars on exclusion.

The fourth chapter, which can be considered as the main chapter of this thesis, has two sections. The first section will cover the history, structure and functions of the IDB as a regional development bank, while the second will attempt to investigate critically the underlying neoliberal premises of the IDB's discourse on exclusion.

Fifth and the final chapter of this thesis will make some concluding comments in a attempt to restate once more the main contributions of the thesis as well as make some recommendations for future studies on exclusion.

## **CHAPTER 2**

### **CONCEPTUAL OVERVIEW UP TO 1980s**

Making sense of human deprivation has always been a significant concern of social sciences in history. This endeavor has brought about different conceptualizations produced by generally competing perspectives for explaining the reasons of poverty, inequality and/or deprivation is a political and ideological act. This chapter aims to make a critical overview of some of these conceptions such as the Malthus' theory of population and culture of poverty, marginalization and reserve army of labor developed by the conservative, liberal, and critical perspectives respectively from the 18<sup>th</sup> century to the 1980s. Such an investigation will help one understand the historical roots of the contemporary neoliberal discourse of exclusion, which is followed by the IDB as well.

#### **2.1 Conservative Approaches**

Conservative approaches up to the 1980s had perceived the lower classes from an aristocratic, elitist and moralistic point of view by associating the reasons of their social deprivation with their lower class-specific cultural characteristics. Although conservative perspectives on exclusion today do not rely on Malthus as a theorist who influenced their approaches -due probably to the “individualist” emphasis they have adopted today as capitalism has now become the order to be preserved-, Malthus' theory of population developed in the 18<sup>th</sup> century England seems to have a great relevance to their arguments.

Malthus had lived (1776-1834) in a period in England, when the land owning capitalist class relying on agricultural profits was still the leading political group in the British parliament though the industrial bourgeoisie had been in rise, threatening the former's dominance. The Industrial Revolution was in its early phase that only a small percentage of the poor masses could have been capable of finding a living though under the violent working conditions of the early textile factories and coal mines. Working class could only afford hence its survival costs. Women and children were the preferred groups by the employers as a result of their low wage demand and low uprising capacity. The rapid urbanization of the late 18th and early 19th centuries had led to intensified stratification among different classes in the cities with novel social implications (Hunt, 2002: 99-103).

Malthus' theory of population, developed within such a historical context, had two main premises. Firstly, stratification among people was inevitable, and secondly, pain among masses was natural. According to Malthus, these were the results of unsatisfied sexual desires of the human beings which led to the geometrical rise of population when not controlled though the food production could have only risen arithmetically. Most common means of control to avoid rise of population were sexual diet, birth control and sterility. When people failed to control geometrical increase of population that exceeded the rise of food production, famines, wars and extreme poorness would have done it for the survival of humanity. These catastrophes that would cause mass deaths helped decrease the population decreases to a level that it was equal to the number of people that could be fed by the available food (Hunt, 2002: 107-116). Hence, for Malthus, huge catastrophes that would cause mass deaths were the natural stabilizers for the asymmetrical relationship between the rise of population and the increase in food production.

According to Malthus, higher classes could keep their reproduction in a manageable limit but lower classes failed to do so because of their sexual perversion, laziness as well as their habits like spending money on alcohol and gamble, babies without marriage which were much more common among lower classes. As a result of this, the lower classes could not preserve their population growth in accordance with arithmetic increase of food. This was the main reason why starving was a problem of the lower classes but not the higher classes. Malthus strictly opposed the redistribution of income because lower classes would do nothing but immediately spend their money on alcohol or sex. A short period of wealth caused by redistribution would be followed by famines in the long run (Hunt, 2002: 107-116).

As seen, Malthus had made a very strict cultural distinction between the social attitudes and habits of the higher and lower classes in England in a rather conservative manner for his own time. Lower classes were defined as uncivilized savages that were led by natural laws while the higher classes were the civilized people that were superior to natural laws. The lower classes were hence blamed for the hunger, famines and poverty they faced, and perceived as a useless bunch of people.

The term culture of poverty which is developed by Lewis in 1968 is another view that predated conservative approaches on exclusion. By culture of poverty, Lewis meant values, behaviors, and traditions like laziness, violence, fatalism that were reproducing conditions of poverty (Erdoğan, 2007: 32). Culture of poverty approach also blamed the poor for their position and assumed that poverty among poor was produced by themselves; the poor would stay poor unless they changed their culture. Hence, the ways Malthus

and Lewis had made sense of poverty in their own times were quite similar to each other despite one-and-a-half century lag in between the two thinkers. They both made a strict distinction between the cultures of the lower classes and higher classes, and analyzed the problems of the lower classes as products of their own culture, an argument that led them to blame the lower classes themselves for their poverty.

## **2.2 Liberal approaches**

Liberal approaches before the 1980s shared a common ground with their conservative contemporaries due to their emphasis on the cultural differences between the lower and higher classes. Liberals also blamed the poor though not explicitly as the conservatives would have done while proposing modernization and integration as solutions to the problems of the lower classes. The Modernization School's arguments on "marginality" were influential in shaping this attitude, and in line with Rostow the liberals argued that as underdeveloped countries would modernize and thus develop, the problems of marginalization of their lower classes would also be solved.

Marginality as a term was first introduced by Park in 1928 who was a sociologist in the United States. By marginality, he pointed out the problems people had faced when married with migrants due to the conflict of different cultures. In the 1960s, this term was imported to Latin America to describe the people that were suffering from problematic urbanization, urban poverty, population growth and migration that slums became the main research areas on marginalization (Kay, 1989: 89). Bretton Woods system of the post-World War II era and the import substitution strategies in Latin America were the key developments to understand these debates. Within the Bretton-Woods

system, as a result of welfare state and corporatism, class tensions were less intensive compared to the 19th century and most countries of the region were enjoying high growth rates and social rights.

ISI strategies were aiming at substituting the imported products by extending industrial production. Simple production was carried out by domestic entrepreneurs whereas technology-intensive production used to be done by the MNCs, and social investments like infrastructure, communication, railways by state owned enterprises. Although ISI strategies led high growth rates and stable economies in Latin America, they had their own problematic implications such as insufficient foreign exchange, nonfunctional domestic finance system that prevented the development of advanced domestic industry, insufficient tax revenues, inflation, and finally lack of coordination between policies that were related with development (Saad-Filho, 2007; 362-364).

During the implementation of ISI strategies, foreign direct investments were encouraged to Latin America. 1960s were the beginning of liberalization by keeping corporatist state-market relations. The role of capital-intensive technology increased, engineering gained importance, technology transfer increased, export oriented industries were encouraged by the states, strategic industries were nationalized, GDPs of most of the Latin American states grew, and finally as a result of all these, industrial proletariat increased in number (Vanden & Prevost, 2006: 159,160).

Germani's views on marginality, which powerfully shaped the liberal perspectives on poverty in Latin America in this period, were developed within such a historical context. Hauser and Hoselitz can be named as other

important scholars of modernization that were working on marginalization in the region (Ward, 2004: 184)

According to Germani, the main reason of marginality was the insufficient integration of the marginal people to modern society due to lack of chances of participation. “Participation problem” of the marginal people was mainly caused by their traditional behaviors, cultures, institutions, and life styles which were not in accordance with modernity. Marginality was hence an outcome of transition to modernity (Kay, 1989: 92 ; Germani, 1980: 64-65). According to Germani, the main difference between marginality and poverty was that poverty was a legitimate position while marginality was not for the marginalized people were the ones who could not enjoy, or were deprived of, rights of citizenship. If they could acquire these basic rights and freedoms, they got integrated to modern societies and saw their problems of marginality solved by modernization (Germani, 1980).

Germani’s works on marginality were supported by the DESAL school in Chile. DESAL school claimed that roots of marginality had to be found in the process of colonization within which certain groups were not integrated to the transforming societies. DESAL school also claimed that marginality was a problem of participation in its origin but did not accept that economic growth would lead to social integration and political participation (Kay, 1989: 93-95). Although the DESAL school seems to rest on socialist arguments, it might be misleading to define this perspective as a critical perspective. For according to the DESAL school, there were two types of participations that were active and passive. In case of passive marginalization, marginalized parties did not participate or participate at the minimum level to the social and economical benefits of modernization; they had little or no access to social



services such as education, health, and unemployment benefits. In case of active participation, on the other hand, marginalized parties were already integrated to the modern society though they used to enjoy relatively low level of representation and participation in the political processes, and have very little influence on the decision making. DESAL school also blamed the marginalized parties as being incapable of participating to the process of modernization. This “incapability” was a result of psyco-sociological characteristics of the marginalized peoples. Their beliefs, habits, culture, individual standings prevented them from being included to the modern life. These people were self-employed, unemployed and/or irregularly employed people (Kay, 1989: 93-95). DESAL school did not clearly distinguish between poverty and marginality as Germani did, and used rough definitions that could fit to any group of people that was suffering from low income.

### **2.3 Critical Approaches**

Contrary to the liberal and conservative approaches, critical approaches in the pre-1980 period engaged in systemic analyses to make sense of poverty and human deprivation. Marx’s concept of reserve army of labor, Dependency School’s (to be identified with Cardoso, Nun, Quijano and Perlman here) views on marginality were the key perspectives to be investigated in this regard in Latin America.

Reserve army of labor (or relative surplus population, or relative overpopulation) was a term, developed by Marx in the first volume of *Capital*. According to Marx, reserve army of labor was the category of unemployed and underemployed people, and was a natural outcome of capitalism in relation to capitalist accumulation dynamics.

Marx opposed to the idea that a law of population can be abstracted universally as Malthus had done. He believed that every era had its own laws, and relative overpopulation was the population principle of industrialized capitalist societies. In response to Malthus, Marx argued that a universal law of population could be applied to the cases of plants and animals, but not to human beings (Marx, 2004: 602). By the term reserve army of labor, Marx defined the functions of those people that Malthus had downgraded. Marx believed that famine, hunger and extreme poverty that these people faced were neither inevitable nor natural, but had to be understood as part of the production and reproduction of capitalist social relations.

The second half of the 19<sup>th</sup> century in which Marx lived was a period of economic boom based on mechanization of industrial production while leading simultaneously to unemployment as the workers replaced by the machines saw their jobs disappear (Marx, 2004: 600). This process led to the emergence of a reserve army of labor in capitalism, the existence of which would help ensure the capital's discipline over labor. For when the labor demand was high, the shortage of labor would increase the wages of labor. This would lead however to a relatively lower capability for capital to accumulate, bringing about its lower demand on labor, leading in turn to lower wages on the one hand, and the emergence of a reserve army of labor in the long run on the other. Reserve army of labor had two functions; in times of economic booms, reserve army of labor would function as an instrument for fulfilling the demand on labor. When demand on labor would decrease as a result of mechanization, the function of the reserve army of labor would change towards putting pressure on the working class to accept harder working conditions (Bottomore, 2001: 631-632).

Marx claims that there were three types of reserve army of labor. The first of these was the floating one. This type of reserve army of labor existed in large industrial centers where the workers occasionally lost their jobs and found new ones compared to other types. The second category was the latent reserve army of labor. This category was covering the people that were employed in the rural areas but could easily migrate to the cities. Their position was a result of capitalist accumulation that affected rural areas. As a result of worsening of their life conditions, they were waiting to be employed in the cities as part of the urban proletariat. Third category was the stagnant one. It was covering the people that were subject to those production types that were gradually collapsing. It was specific to transition periods. Their employment and unemployment were hence very irregular (Marx, 2004: 610-612).

In the 1960s and 1970s, the main question the theorists of dependency<sup>2</sup> posed was whether the reserve army of labor still existed, or marginalized people who were no longer functional in the traditional way for capitalism replaced the reserve army of labor. The latter answer was proposed by Quijano and Nun, who used marginality to designate the people living in conditions worse than the blue collar workers. In other words, the term marginality was introduced to show the stratification among the lower classes (Ward, 2004: 184). This distinction resembles to Lenin's concept of "labor aristocracy" which was used to show the difference between the well- and low-paid labor, where the former was expected not to support a socialist revolution.

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<sup>2</sup> Dependency theory is a Marxist perspective. It was popular in Latin America during the 1960s and 1970s. According to the theorists of dependency, ISI model would not lead to development in underdeveloped countries due to the dominance of imperialist exploitation. Hence, they rejected Marx' distinction between historical stages of primeval communism, slavery, feudalism, capitalism, socialism and communism due to the challenges posed by imperialism.

Dependency theory's assumptions on “marginality” emerged as a response to the Modernization School. According to the theorists of Dependency, the rise of marginality was related with the ISI model. By the 1950s, the main consequences of the ISI were the following; (1) Latin American countries’ specialization on raw materials due to the international division of labor, (2) migration from rural areas to urban areas, (3) late modernization that limited the immigration of the labor force, (4) increasing capital intensive production that replaced labor intensive production, (5) elites were consuming local capital, also for investments in capitalist centers, and (6) small domestic market which prevented the self-sustainability of investments (Perlman, 1976: 252). These features of ISI strategies were associated by the monopolization tendency within capitalism, and this was the underlying reason for the emergence of marginality in Latin America.

Nun believed that the term reserve army of labor was required to be revisited due to the transition of capitalism from the competitive to the monopolistic stage, a process which brought about underdevelopment and dependency as well. He preferred to call these people as the marginal mass. The difference between the marginal mass and the reserve army of labor was that marginalized people of the monopoly stage of capitalism were dysfunctional, and could hardly be absorbed by the system. As a result, marginal mass did not have the functions and characteristics of the reserve army of labor for while some parts of the unemployed or underemployed people could be included in the industrial reserve army, the marginal mass could hardly be. According to Nun, the marginal mass was consisting of four categories; first was a portion of the employed labor in the competitive industrial sector, second was temporary workers in the service sector that received low wages, third was most of the unemployed people, and the final category comprised

the labor in the commercial capital that was not mobile (Kay, 1989: 101, 102).

Quijano called the marginalized parties as the marginal pole. He believed that there was no direct link between the marginal pole and the production system, but the marginal pole had a direct relation with the petty bourgeoisie. Surplus of the low intensity production which is done by the marginal pole is extracted by the petty bourgeoisie. According to him, the marginal pole was comprised of the marginal petty bourgeoisie (self employed people) on the one hand, and the marginal proletariat (people that could only find temporary employment) on the other. Main difference between the reserve army of labor and marginalization was that latter was a product of monopolistic ISI strategies (Kay, 1989: 103-105 ; Quijano & Westell, 1982).

Several theorists of dependency did not agree with Quijano and Nun on the conception of marginality. First critique was made by Cardoso in 1972. He claimed that concepts like marginal pole, marginal labor, or marginality assumed too much a distance between the marginalized people and the capitalist accumulation, but their role in capitalist development was more than these concepts would have assumed. The arguable marginalization of the people that is associated with new forms development strategies in Latin America was exaggerated as Nun and Quijano did not make structural analyses. Hence, those who they defined as marginalized could still be included to the category of the reserve army of labor. Cockfort and Dale Johnson were other influential scholars that shared a similar perspective with Cardoso on marginality and reserve army of labor (Kay, 1989: 107-113).

CEBRAP (Centro Brasileiro de Análise e Planejamento – the Brazilian Center for Analysis and Planning) is another school that was critical of Nun's and Quijano's ideas on marginalization. Their criticism was that Nun and Quijano had exaggerated the role of monopoly capitalism. CEBRAP School argued that the people defined as marginal were part of pre-capitalist production modes in Latin America, which were though serving to the process of capitalist accumulation. According to CEBRAP, people that were categorized as marginal by Nun and Quijano had five main functions; i) reserve army of labor, ii) providing cheap food to the rural poor, iii) providing goods and services with low prices, iv) doing some activities that provided surplus value like repairing and trading simple products, v) providing cheap goods and services directly to the capitalist accumulation by the marginal petty bourgeoisie. Hence, the functions of those people that were categorized as marginal by Nun and Quijano were greater than these two authors would have assumed (Kay, 1989: 113-115).

Perlman also made important contributions to the discussions on marginality from the perspective of Cardoso-CEBRAP fraction. She had criticized the marginalization approach in its modernist and Marxist versions together. She argued that “[e]xploited groups in such a situation are not marginal but very much integrated into the system, functioning as a vital part of it. In short, integration does necessarily imply reciprocity” (Perlman, 1976: 245). According to Perlman, people that were categorized as marginal had many functions that were not recognized by the marginalization approach. People that were claimed to be marginal provided cheap labor, bought goods and services that were not demanded by rest of the society, provided culture for the consumption by the bourgeoisie like samba in Brazil, divided lower classes which enabled their manipulation by the bourgeoisie in elections (Perlman, 1976: 258-262).

## **2.4 Comparative Overview**

The overview made in this chapter has indicated that liberal and conservative approaches to human deprivation until the 1980s have had many common points. Both of these approaches have assumed a strict cultural differentiation between the higher and lower classes, and explained deprivation of the lower classes on this basis. Non-systemic level analyses were another common point of these approaches. Liberal and conservative perspectives did not recognize that capitalism had a role in the “marginalization process”. Lower classes have been blamed for their own miseries. Contrary to these two approaches, critical approaches have made systemic analyses, and blamed capitalism for the existence of reserve army of labor or marginality. Because capitalism was in fact the reason of the existence of the reserve army of labor or marginality that people to be included to these categories should better be defined as the victims.

## **CHAPTER 3**

### **NEOLIBERALISM AND THE DEBATES OF EXCLUSION**

Since the 1990s “exclusion” has been added as a new conception to social sciences vocabulary to make sense of the reasons of human deprivation and/or social inequalities. It has become quite popular in a short period of time that mentioning the excluded condition of the poor, unemployed, and/or exploited has become a standard reflex of the social scientists dealing with different forms of social inequalities. In contrast to the agent-free “poverty” conception however, “exclusion” has implicitly referred to an “excluding agent”, be it the individual him/herself, or different institutions such as the state, or society, a premise that has had significant ideological connotations. The aim of this chapter is to provide a short critical overview of different approaches to exclusion which might be categorized, in line with Cox, as problem solving and critical perspectives.

As the problem solving perspectives on exclusion have been concerned to find solution to the problems of neoliberalism, the first section of this chapter will provide a short discussion on this political project. Then in the second section, conservative, neoliberal and critical approaches to exclusion will be problematized with reference to their political and ideological implications.



### **3.1 A Brief Overview of Neoliberalism**

Neoliberalism is the most important subject for studies on exclusion. It is stated in numerous studies that aggravation of social inequalities best indicated by the persistently decreasing real wages of by of the middle and lower classes in contrast to the further enriching higher classes has been among the most significant implications of neoliberalism since the 1980s. Consequently, unemployment, underemployment, poverty, informality and decline of social services have become the main features of the lives of the lower classes. These issues are also the key problems identified in studies on exclusion. Hence, following Munck (2005), establishing a connection between neoliberalism and exclusion is necessary to make better sense of the sources of exclusion in contemporary capitalist societies.

Dumenil and Levy state that the period between 1970 and 1980 is very important to understand the emergence of neoliberalism. Prior to this period, the Keynesian consensus used to prevail in the developed capitalist countries such as the USA, Canada, Western Europe and Japan –as well as in some developing countries to an extent- which might be identified with high growth rates, well functioning social services like retirement, education and health and low unemployment. This process was disrupted by the 1970s as a result of falling profits, increasing unemployment and decreasing levels of growth. This process began in the Western countries and extended to the rest of the world. The year 1979 when Federal Reserve Bank in the USA bank increased the interest rates is usually accepted as the beginning of neoliberalism (Dumenil & Levy, 2007: 25, 27, 28). The emerging problems led to the decline of the Keynesian consensus and the welfare state and to the emergence of neoliberalism.

Internationalization of the capital –which is the main feature of globalization- and intensification of other international activities had in fact begun in 19<sup>th</sup> century. Dumenil and Levy state the differences between neoliberalism and previous types of internationalizations as such: the growth of activities that are related with foreign currencies, spread of the MNCs and new roles acquired by such international institutions as the World Bank and the IMF (Dumenil & Levy, 2007: 26). Main features of neoliberalism are stated by the same scholars as a new labor discipline that is in favor of lenders and shareholders, the states' decreasing roles in growth and welfare in contrast to the increasing roles of the financial institutions, establishment of new relations between finance and the real sector in favor of the former, new legislations that are facilitating marriages and purchases among corporations, and finally strengthening central banks to ensure price stability and the transfer of wealth from the periphery to the center (Dumenil & Levy, 2007: 27).

Most of the neoliberal institutions -including the IDB- consider neoliberalism as a natural and value-free process under the label of “globalization” while critical approaches defined neoliberalism as a project, motivated by political factors. According to Munck, these political motives were part of the activities of many transnational actors from 1970 to the 1980s in particular. Pressures of these actors to facilitate the mobility of capital, liberalization of trade, and ensure flexible working conditions had a very important role in the move towards neoliberalism. Regulations and policies of various international institutions like the IMF, World Bank and WTO has also included many political motives driven by neoliberal concerns since then. Many issues that are related with the law of agreements, patents in the WTO for instance have been solved in line with the interests of powerful capitalist states and

transnational actors (Munck, 2007: 109, 110). Decline of socialism in the 1980s was another political motive behind the emergence of neoliberalism. According to Colas, weakening of socialism in Central America by counter-revolutionary activities, radical Islam's increasing power after the Iranian Revolution, and the replacement of neoliberal democracies with authoritarian regimes in Latin America, Asia and Africa have been important developments that have created available political conditions for the implementation of neoliberalism (Colas, 2007: 135-136).

### **3.2 Debates on Exclusion**

Issues of space, housing, security, violence, identity, race, ethnicity, gender, civil society, democratization and new social movements have been new issues associated with "exclusion", a characteristic that cannot be observed in the earlier relevant discussions on marginality and/or culture of poverty.

As a multidimensional term, exclusion is not only about economic issues but also social, cultural and political ones. Issues of exclusion can be categorized under three headings such as social, political and economic. These spheres are covering different but related issues. Economic exclusion is usually perceived as a matter of long-term structural unemployment and "bad jobs". Self-employed people, people that are subject to long term structural unemployment, informally employed people, and people that are employed in insecure sectors are considered to be facing economic exclusion. According to Rogers (1989), main features of this category are lack of protection, instability, social and economical vulnerability, and insecurity (Bhalla & Lapeyre, 1999: 62). Studies on economic exclusion are about labor markets, income distribution, unemployment and employment.

Social exclusion is another dimension of the debates on exclusion. According to Bhalla and Lapeyre (1999; 22), social exclusion is related with the “(i) access to social services (for example, health and education, drinking water and sanitation facilities), (ii) access to the labor market (precariousness of employment as distinct from low pay) and (iii) extend of social participation reflected in the extend of weakening of the social fabric, as measured by greater crime, juvenile delinquency and homelessness, and so on”.

The question of space is also an important component of the debates on social exclusion. David Byrne argues that exclusion through space is a significant process to be problematised due to two reasons

[f]irst, much of the actual expression of exclusion in urban industrial societies is through spatial segregation. This both defines immediate everyday living conditions and determines, at least in part, subsequent life course trajectories. Such determination is a consequence of differential access to spatially defined collective services and in particular to schools. Second, the structuring of urban life as a process illustrates very clearly the forms of exclusion from the exercise of power. In post-industrial capitalism the organized working class and its immediate political agents have had the capacity to determine the form of social space taken away from them (Byrne, 1999: 10).

It is very clear that economically excluded people are also spatially excluded. It is very profound especially in the urban areas for cities have always been divided among social classes. However, by the exclusionary processes embedded within neoliberalism, this division has further intensified. Danson and Mooney introduced a new term called “dual city” to refer to the two different spaces in a city (Byrne, 1999: 112). Regions where minorities, immigrants, and/or blacks concentrate in most of the cities are like ghettos. Chance indicates the Irish and the Jewish as the spatially excluded groups in

the UK while the Pakistani and Bangladeshi population is also suffering from spatial exclusion (Byrne, 1999: 115). Byrne (1999: 114), with reference to Rex's book *Race, Colonialism and the City*, argues in a similar fashion that non-white minorities are the underclass<sup>3</sup> in the U.K. In Latin America as well as in the documents of the IDB, issues of ethnicity, race and exclusion are concentrated on discrimination of Afro-descendants and indigenous populations in the region.

Political debates on exclusion are related with basic political and human rights. According to UNDP these basic political and human rights are freedom of expression, participation, security and rule of law (Bhalla & Lapeyre, 1999: 22). Issues of citizenship, race and ethnicity are also important aspects of the discussions on political exclusion. However, as will be discussed validity of concept of citizenship is disputable.

Obviously, there are many overlapping points in the debates on social, economic and political exclusion. Groups, people or parties that are excluded through one type of exclusion are usually subject to other types of exclusion as well. In order to develop hence a more comprehensive categorization, identifying the ideological differences between various usages of exclusion would be better. Before engaging with this task, it is necessary to have a quick look at the history of the popularization of the term exclusion in the political arena.

As stated before, the term exclusion was first used with a political meaning by the Mitterrand administration in France in the 1980s as a reaction to which the opposition popularized the term "new poverty". In the same period, the

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<sup>3</sup> A similar term that has a close meaning to exclusion which will be discussed in this chapter

term “underclass” was started to be used in the UK and the USA to refer to the same problem. Thus, “exclusion” and “underclass” can be seen as competing conceptions developed within French and Anglo-Saxon politics respectively (Silver, 1996).

In its origin, the term “exclusion” is related to the conservative French solidarity paradigm. It is based on the thoughts of Durkeim and Rousseau who were concerned with re-establishing a social bond between the state and the poor. It was adapted by some French official institutions like the CGP (Commissariat General du Plan), and frequently used by both republicans and Catholic charities due to its solidaristic connotations. “Underclass” which can be associated with the Victorian term “dangerous classes” did not become popular in France for its individualistic premises were not in accordance with the French republican thinking (Silver, 1996: 106-113).

“Exclusion” acquired such legitimacy in France until the 1980s that the term new poverty was only used by the opponents of the French Republic like the communists and extreme right. In the mid-1980s, both the French right and the communists refined their terminology by adapting the “new poverty” in order to attack the Mitterrand cabinet for the rising inequality and unemployment in France. Mitterrand administration in this period re-popularized the solidarity-concerned term “exclusion” to get the support of the middle classes who were traditionally close to the republican thinking. By the term exclusion, Mitterrand administration associated the rising long-term unemployment and instable social relations in France with the declining class solidarity among lower classes (Silver, 1996: 113).

The term exclusion was opposed not only by the communists and conservatives but also by the extreme right. Le Pen opposed to the term exclusion in order to have a stricter standing against immigrants. The French communists, Castells and Balibar, also opposed to the term exclusion by claiming that no one is outside of the society. Jensen and Verdes-Leroux rejected the term exclusion by claiming that it ignored the class conflict. Later in France, the term “exclusion” was re-interpreted by some new left social movements with an emphasis on multiculturalism, tolerance, pluralism and human rights (Silver, 1996: 115).

### **3.2.1 Problem-Solving Exclusion Approaches**

The quick popularity the term “exclusion” has acquired in social sciences and politics invites one to search for the reasons of this success. This sub-section will try to answer this question by focusing on the capacities of the conservative and neoliberal discourses of exclusion to reproduce capitalist relations of production.

#### **3.2.1.1 Individualist Perspective**

Individualist interpretations tend to problematize exclusion with reference to the market and individual. There are those who put the blame of exclusion on the peoples’ own individualistic choices. Murray and Silver can be named as the most important scholars of the individualistic exclusion approaches.

Individualistic conservative approaches take neoliberalism for granted, and seek the reasons of exclusion either in the individual or in the wrong

implementation of neoliberal policies. According to Silver, individualistic approaches to exclusion perceive exclusion as an outcome of either the distortion of the market or individual choice (Silver, 1995). The Anglo-Saxon term “underclass” which was mentioned before is a more preferable term for the writers to be placed within this perspective. The term underclass was first used by Myrdal in 1963 in the USA to define the blacks that were suffering from structural unemployment. When Myrdal introduced this term there wasn't much discussion on it. However, it became a popular term later when it was started to be used instead of “exclusion” by the neo-conservative scholars (Byrne, 1999).

Blaming the excluded people is the most profound feature of individualist approaches. For example Mead claims that because unemployed people in the developed countries refuse to work instead of competing with the immigrants they are included to the underclass (Byrne, 1999: 21). Another important feature of the individualist approach is negatively stereotyping the excluded people. Shankar's wrote about turning underclass into good citizens by getting them job and earning them as members of the society (Silver, 1999: 123).

Since the 1980s, underclass has been used by conservatives in the USA and the UK to define people that were not living in accordance with conservative lifestyle. Theorists of underclass claim that exclusion from the rights of citizenship is the boundary for the definition of underclass. Those who do not have rights of citizenship would not have a place in the society. As some of the old people, most of the young people, illegal immigrants, the poorest blacks, the homeless and the dropouts do not have rights of citizenship, they can be considered as the underclass. Different from exclusion which might



deal with similar topics as well, underclass would also refer to alcoholics, drug addicts and single mothers as “burdens on society”.

Including single mothers, alcoholics and drug addicts to the category of underclass is an influence of culture of poverty, which was mentioned before. Murray, a theorist of underclass For instance, has argued in the same fashion that government aids serve to the creation of the underclass by making the aid-receivers lazy. Such an individual-focused analysis can also be identified in the moralist claims on underclass that ultimately blame the lower classes for their deprived position in the society.

#### **3.2.1.2 Collectivist Perspective:**

This perspective of problem solving thinking on exclusion tends to emphasize the role of society rather than the individual in the making of the exclusion. Social democratic, some Christian approaches such as Catholic solidarism, Jacobin republicanism, non-transformational socialism and Keynesian approaches can be mentioned in this regard. This approach is also supported by Mitterrand’s socialist and Blair’s New Labor administrations. The ultimate aim of these approaches can be defined as making capitalism more inclusive through strengthening social solidarity. Silver attaches the collectivist approach with Durkeimian and republican thinking (Silver, 1996; 111)

The main difference between the collectivist and individualistic thinking is that, collectivist approaches are in search for a solidaristic citizenship to solve the problem of exclusion. Individualistic accounts depart from an elitist and moralist understanding of citizenship however which perceive the ultimate

aim of extending citizenship rights as one of making good citizens out of underclass.

### **3.2.1.2.3 European Union Perspective**

Exclusion conceptions which seem to serve rather intentionally to the reproduction of the neoliberal agenda can be categorized under this label, the best example of which is the European Union's (EU) adaption of the term in the 1990s.

The term exclusion was first used by the EU in its third anti-poverty program which was declared in 1990. The importance of the involvement of the term "exclusion" to the program was that it served to moderate the radical premises of the "poverty reduction" discourse, which had been on the EU agenda since 1975. Hence, the EU in 1990 preferred to focus on exclusion rather than poverty to interpret the new poverty in rise among the European lower classes and to make proposals to enhance European competitiveness within a globalizing new world (Munck, 2005: 21, 22).

While the EU approach to exclusion in the 1990s comprised conservative characteristics as well by its emphasis on the need to socially integrate people to the society, it is primarily associated with the transformation of states' political structures in a more participatory way by the extension of rights of citizenship including the rights to have equal access to employment, material resources as well as decision making, participation and representation. In this way, exclusion has arguably become a multidimensional term (Munck, 2005; 21-22 ; Bhalla & Lapeyre, 1999; 8).

EU's views on exclusion resemble to the views of the IDB as it also makes a distinction between poverty and exclusion by naturalizing the former and defining the latter as a "non-economic" term. The specific definition of exclusion in relation to restrictive political processes would thus pave the way for the legitimation of the neoliberal governance agenda, promoted most by the European Commission. The following citation hence best describes how the Commission interprets the problem:

Looking beyond the diversity of national situations, the debate will emphasise the structural nature of a phenomenon which is tending to establish within society a mechanism which excludes part of the population from economic and social life from their share of the general prosperity. More particularly, they point to an important change over the past 15 years in nature of the challenge itself; the problem is now the only one of disparity between the top and the bottom of the social scale (up/down), but also between those comfortably placed with society and those on the fringe (in/put). (European Commission, 1992: 7 cited in Bhalle & Lapeyre, 1999: 8).

### **3.2.2 Critical Perspective**

The main distinctive feature of the critical approaches to exclusion is that they do not take neoliberalism for granted. They accept it as a political project that has been produced by the class dynamics in the late 1970s and early 1980s. Moreover, exclusion according to critical approaches is a result of neoliberalism (Munck, 2005) just like other problems of the new poor.

Ronaldo Munck can be considered as one of significant critical voices in the debates on exclusion with his book titled *Globalization and Social Exclusion: A Transformationalist Perspective* (2005). According to Munck, exclusion is an important topic due to three reasons. Firstly, it directly narrates the

problems created by globalization. Secondly, given the fact that neoliberalism has had similar impact in both developed and underdeveloped countries, exclusion is not an issue specific to Europe but needs to be extended beyond Europe through a more radical interpretation. And finally understanding exclusion would help one understand that markets cannot regulate themselves (Munck, 2005: 25-26). Munck's most important contribution to exclusion debates has been his ability to link restrictive political processes to capitalist relations of production. In his own words:

[t]he concept of social exclusion allows us to break definitely with the economic and individualistic definitions of poverty. It does not focus on the individual but rather on the social relations that create and reproduce the complex process of exclusion/inclusion that lie at the core of contemporary capitalist society (Munck, 2005: 30).

According to Munck (2005: 101-116), globalization leads to the exclusion of minorities in a process which goes hand in hand with racism. This situation has raised new problems of citizenship which are central to the discussions on exclusion. He also points out the class-solidarity dissolving impact of globalization related to the development of information technologies, and the replacement of class identities with those defined on race, gender, age and sexual orientations (Munck, 2005: 122-124).

Cox's views on exclusion are very illuminating though Cox himself cannot be considered as a theorist of exclusion. He powerfully states that

[o]ne contradiction of globalization is that social polarization exists both among and within countries. The social structure of the world shaped by the globalization takes the form of a three part hierarchy. At the top are people who are integrated into the global economy, including everyone from the global economy managers down to the relatively privileged workers who serve global production and finance in reasonably stable jobs. The second

level in the hierarchy includes those who serve the global economy in more precarious employment – an expanding category segmented by race, religion, and sex as a result of the “restructuring” of production by post-Fordism. The bottom level consists of superfluous labor – those excluded from the global economy and who serve it only as a potentially destabilizing force: at this level are the objects of global poverty relief and riot control (Cox, 1996: 26).

Similar distinction among the three social layers as a product of globalization is also made by Therborn in his book called *Why Some People Are More Unemployed Than Others* where he labeled this process as one of “Braziliization of advanced capitalism” (Byrne, 1999: 52).

As it is the case in the debates on marginality, the question of whether reserve army of labor is still applicable to contemporary times is an important discussion today. Ongoing discussions on reserve army of labor deal with the functions of the excluded people. One interpretation has been made by Friend and Metcalf in 1981 in their book called *Slump City: Politics of Mass Unemployment*. Their main point is that excluded people contribute indirectly to the production of surplus value. Black economy is the most profound example of it. They prefer to call reserve army of labor as surplus population rather than the term relative surplus population which Marx had developed. They claim that excluded people -people that are subject to long term unemployment or insecure part time jobs- create a pressure towards low wages and long working times in the labor markets. That’s why the reserve army of labor is a still valid concept today and it is hard to make a clear distinction between the excluded people and the lower classes (Byrne, 1999: 46, 47).

Although it is possible to make sense of exclusion within the context of the reserve army of labor, the case of illegal immigration can be thought as a

good example to grasp the specific connotations “exclusion” would have additional to those implied by the reserve army of labor. Illegal immigrants are obviously part of the reserve army of labor though their illegal social existence can better be defined with the term “exclusion”. Another illuminating example would be the case of informal employment. Although people that are informally employed have jobs they are considered to be excluded as a result of lack of legal protection.

### **3.3 Concluding Remarks**

The main difference between “exclusion” and other terms that are used to define human deprivation is the inclusion to the discussion some new issues such as discrimination, identity, space and crime which were not considered by the 19<sup>th</sup> concept of reserve army of labor, and discussions on marginality and culture of poverty.

Critical approaches can grasp better why and how exclusion exists. Conservative, individualist and EU perspectives on exclusion cannot grasp the real social processes as they lack systemic analyses and criticism. Hence, without problematizing capitalism in general and neoliberalism in particular, processes that produce exclusion cannot be identified.

As discussed in this chapter, problem solving approaches to exclusion underline citizenship as the borderline between the excluded people and rest of the society. Solution of exclusion is also related with citizenship. However the consideration of citizenship as an inclusive process has also been disputed by Woods. He claims that an illusionary identity is created by “citizenship”

about the imaginary solidarity among different stratas in the society (Turner, 2007). Once this illusion is accepted, proper conditions are generated for conservative exclusionary practices through the identification of those who are not “good citizens”. In other words, “extending rights of citizenship” cannot be a solution to exclusion.

## CHAPTER 4

### INTER-AMERICAN DEVELOPMENT BANK AND ITS DISCOURSE OF EXCLUSION

Inter-American Development Bank (IDB) in Latin America has made one of the significant contributions to exclusion debates in 2007 by publishing a report titled *2008 Report: Outsiders?: Changing Patterns of Exclusion in Latin America and the Caribbean*. This chapter aims to critically evaluate this report and other related articles that are published by IDB in an attempt to understand the political and ideological implications of defining human deprivation as exclusion for the report claims to make a wholesale effort to define, explain, and overcome the reasons and conditions of exclusion in Latin America.

This chapter has two sections. The first part will focus on the history, structure and functions of the IDB while the second one will examine the IDB's discourse of exclusion from a critical point of view by problematizing the main arguments of the report and articles in relation to its sources of inspiration like Amartya Sen as well.



#### **4.1 IDB as a Regional Development Bank**

IDB is a very influential institution that shapes the political debates in Latin America on questions such as multilateral finance, development and technical advice. IDB was established in 1959 as a result of negotiations between the Latin American states and the USA. IMF was accepted as the model for its structure. The establishment of a similar institution had been attempted in 1889 when an Inter-American Conference was held to discuss the opportunities for strengthening the connections between Latin American and US banks. This proposal was however rejected by the US Congress at that time due to concerns for state control over the market. IDB could be established when such concerns were eliminated, and in fact disproved within the post-World War II atmosphere (Barria & Roper, 2004: 621-623).

The main function of the IDB is identified as lending credit and providing grants to the borrowing member countries. IDB borrows credit from the international finance market and provides lending to the borrowing member countries of IDB on competitive rates. As one of the most influential institutions in Latin America and Caribbean, it also provides research, advice and assistance to borrowing member states, corporations and civil society actors.<sup>4</sup> It is also the institution that supplies the greatest amount of loans for Latin America.<sup>5</sup> IDB has four priority initiatives which are Water and Sanitation Initiative, Education Initiative, Opportunities for Majority Initiative, and Sustainable Energy and Climate Change Initiative. Exclusion

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<sup>4</sup> Downloaded from <http://www.iadb.org/aboutus/> in 10.10.2009.

<sup>5</sup> Downloaded from <http://www.iadb.org/aboutus/whatWeDo.cfm?lang=en> in 4.12.2009.

has been researched and problematised within the Opportunities for Majority Initiative, which among other initiatives seems to have a further priority.<sup>6</sup>

IDB's headquarter is in Washington. This makes the IDB the only regional development bank that does not have its headquarter in a borrowing member country, indicating the influence of the USA in the Bank. USA's voting power in the IDB is close to 1/3 (Tussie, 1995: 17-18).

In contemporary times IDB has arguably seven main roles: 1) promoting economic growth by helping the Latin American countries in tax reform, improving the quality of the institutions and increasing the efficiency of public services as well as to switch from import substitute industrialization strategies to export led strategies in borrowing member countries 2) consolidation of social and economic reforms by improving the quality of social services like education and health, 3) improving infrastructure, 4) promoting human development, 5) promoting modernization of the state through decentralization and anti-poverty policies, 6) increasing the savings by encouraging decreases in foreign borrowings and promoting domestic savings, 7) improving the private sector by loans and managerial skills by technology transfer (Scheman, 1997: 90-95).

Members of the IDB are separated into two categories that are borrowing and non-borrowing members. Borrowing member countries are also separated into two categories that are group I and groups II. Countries in group I have higher GDP per capita compared to the group II. Group I is consisting of Venezuela, Uruguay, Barbados, Brazil, Chile, Mexico, Trinidad and Tobago. Group II is consisting of; Peru, Paraguay, Panama, Nicaragua, Jamaica, Suriname, El Salvador, Guatemala, Belize, Bolivia, Colombia, Costa Rica,

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<sup>6</sup> Downloaded from <http://www.iadb.org/aboutus/III/priorityinitiatives.cfm> in 4.12.2009.

Dominican Republic, Ecuador, Guyana, Haiti, Honduras and Jamaica, and have % 65 of the total borrowing. Borrowing member countries have % 50.02 voting power in total.<sup>7</sup>

Non-borrowing members are the United States, Canada, Italy, Japan, Israel, Republic of Korea, Croatia, Germany, Netherlands, People's Republic of China, Austria, Portugal, Belgium, Denmark, Finland, France, Norway, United Kingdom, Slovenia, Spain, Sweden and Switzerland. Non-borrowing countries have voting power and quotas for their citizens as employees.<sup>8</sup>

The IDB was initiated as an alternative to the Bretton-Woods institution, particularly the World Bank. Since the 1970s –especially since 1980s– however, the IDB is cooperating rather than competing with the World Bank and there is now a division of labor among the two. IDB has started to put more emphasis on small countries and the World Bank on the large ones; also the IDB has started to concentrate on small infrastructural projects and the World Bank on big projects; structural adjustment loans have been left to the responsibility of the World Bank whereas the IDB has specialized on sectoral loans; training and assistance programs and policy reforms have been left to IDB. The IDB and the World Bank have started to have regular meetings to discuss implementation of their policies. At the same time, the IDB has also increased its cooperation with other regional organizations like the Organization of American States (OAS) (Tussie, 1995: 95-119).

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<sup>7</sup> Downloaded from <http://www.iadb.org/aboutus/VI/borrowing.cfm> in 4.12. 2009

<sup>8</sup> Downloaded from <http://www.iadb.org/aboutus/VI/nonborrowing.cfm?language=English> in 4.12.2009.

By the 1980s, neoliberalism has started to shape IDB's discourse. The IDB argues that from the 1980s until the mid-1990s, besides anti-inflationary policies, democracy and development became central issues of the IDB (IDB, 2001: 151). The seventh replenishment in 1989 was seen by the Bank as an important indicator of this for it comprised emphasis on the increasing role of environmental issues, increasing loans on low income groups, putting more emphasis on microenterprise, increasing the role of women for development, and supporting the projects for institutional development (IDB, 2001: 162-165). Since the eighth replenishment in 1994, the IDB has arguably given priority to increasing the role of the private sector, the modernization of institutions, production, increasing technology transfer and increasing competitiveness, overcoming extreme poverty, increasing productivity, increasing opportunities for the informal sector, financial reform for increasing the status of small and medium sized enterprises, strengthening civil society, decentralization, increasing the role of low income groups, promoting democratization, the decrease of the shares of the USA, Canada and Latin American states, and the increase of shares of non-regional members (IDB, 2001: 171,172).

The 1990s was a milestone for the IDB for in this decade the Bank increased its influence and functions in Latin America to a great extent at the expense of the Economic Commission for Latin America and the Caribbean (ECLAC), another influential institution in the region. In the 1990s, as a result of budget deficits of the developed countries, available aid to the developing countries decreased leading to increase in the importance of the IDB loans (Sheman, 1997: 87). The 1990s also saw the end of most of the aid programs that were popular during the post-war era, particularly those provided by the United States to the developing countries. Hence, the IDB since then has taken up this mission with the US Trade Representative still

playing a decisive role in most of the IDB's aid programs though (Scheman, 1997: 95-97).

The 1990s also saw the changing functions of the IDB. Until the late 1980s and early 1990s, the IDB's main function was technical assistance projects to promote communication in Latin America for regional integration, and its loans had been directed to the public enterprises. During the 1980s, the Bank concentrated on balance of payment problems of the Latin American states. By the late 1980s, IDB also started projects for acquiring the intellectual leadership in issues of development from ECLAC. Today, the IDB's main aim is arguably poverty reduction and development (Bull & Boas, 2003: 254 ; Barria & Roper, 2004: 630, 636).

IDB started its studies on exclusion in the 1990s. In 1990, it started to supply loans for micro enterprises which is considered to be an important issue for studies on exclusion. In 1993, IDB started multilateral investment funds for growth strategies that are promoting inclusion.<sup>9</sup> IDB's eighth replenishment determined the principles of exclusion. And finally, in 2008, its annual report, which is published each year on a different subject, chose "exclusion" as its topic.

IDB's initialization of studies on exclusion and eighth replenishment can be related with the changing pattern of regionalization in the 1990s. The 1990s faced new multidimensional trade arrangements that took into account social, political and cultural factors that were not considered in the previous types of regionalization projects. Especially, civil society started to be regarded as a more important element of regionalization. Also in 1988, the IDB accepted

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<sup>9</sup> <http://www.iadb.org/ar/2008/timeline.cfm>, downloaded in 10.10.2009

“New Regionalism” as a part of “structural reforms” (Bull & Boas, 2003: 246, 247, 255). However, perhaps the most important factor that has led the IDB to redefine its priorities has been the emergence of post-Washington consensus that includes “issues of multidimensional poverty reduction” to the neoliberal agenda. The IDB's initialization of studies on exclusion in the 1990s is directly related with the changing priorities of the neoliberal agenda. For the initialization of programs on exclusion is not only specific to IDB but other multi-lateral development banks like the World Bank have also started emphasizing exclusion within their studies. The 1980s led to the emergence of social costs that were paid for the adaptation of neoliberal policies. During those times changing the market structure forced de-unionisation and unemployment due to privatizations. In line with the neoliberal policies, IDB's annual reports in the 1980s were published on subjects like external debt, transition of agricultural policies, technology. After the first most destructive phase neoliberal agenda was completed by the 1990s, managing the social costs of this process has gained importance and studies on exclusion have been part of this process. Encouraging participation has started to be popular among the neoliberals. Issues like civil society, poverty reduction and governance have started to occupy more space in the neoliberal discourse. In the 1990s, the annual reports of the IDB were on subjects like social service, de-centralization, human capital, social security. Reports in the 2000s covered other issues that are part of the post-Washington Consensus process like new-regionalism, labor market reform, informality, and non-economic issues of development. In 2008, publishing the annual report on exclusion is also a product of this process.

## **4.2 IDB's Discourse of Exclusion**

This section aims to examine critically the IDB's discourse on exclusion with a particular focus on its 2008 annual report and other related articles. In this examination, not only this report but also articles and books that were published by the IDB will also be used. The IDB does not accept these latter works as its official statements for there might be disagreements between those articles and books, and the institutional documents of IDB. However the difference between the 2008 report of IDB and other articles are not necessarily important. In this section, while the 2008 annual report will be the main focus of investigation, other articles and books published by the IDB will still be taken into consideration for sometimes what is written in an indirect way in the institutional documents of the IDB is written in a direct way in other studies; hence, the latter would help "de-code" the IDB's arguments on exclusion. For example, a statement like "structural unemployment is natural" is never used in the documents of the IDB and the Bank instead prefers to make comments like "poverty is not devoid in inclusive societies", while other sources related to the Bank feel relatively free to use such expressions. Before engaging in this analysis, the main premises of Amartya Sen's book titled *Development as Freedom* will be overviewed for the IDB (2007: 5) mentions Sen and his book as the main inspiration of its report on exclusion.

### **4.2.1 Amartya Sen's Views on Freedom, Development, Poverty, Exclusion**

Amartya Sen (2000: 3) begins his book *Development as Freedom*, which is the published work of his lectures in the World Bank, by saying that

“[d]evelopment can be seen ... as a process of expanding the real freedoms that people enjoy.” Indeed, there is a reciprocal relation between development and freedom, and for Sen (2000: 4), development promotes freedom as freedom promotes development. He specifies that “poverty as well as tyranny, poor economic opportunities as well as systematic deprivation, neglect of public facilities as well as intolerance or overactivity of repressive states” should be removed to ensure human freedom, hence development. This seems to be a comprehensive definition of development that does not neglect the so-called “economic” aspects of development but enhances them through the inclusion of social and political requirements (Sen, 2000: 3).

Hence, Sen's multidimensional views on poverty are not only about low income but also about violence, housing, health, education etc. He uses the term “individuals' capabilities” to refer to opportunities for functions of the individuals. What he means by functions are social achievements and basic needs and the main problem of poverty is that it decreases “individuals' capabilities”. Although exclusion and poverty are closely related, exclusion covers new social problems that are not assumed by the poverty debates (Bhalla & Lapeyre, 1999: 11-13). He states the difference between capabilities and functioning as follows:

The concept of “functionings,” which has distinctly Aristotelian roots, reflects the various things a person may value doing or being. The valued functionings may vary from elementary ones, such as being adequately nourished and being free from avoidable diseases, to very complex activities or personal states, such as being able to take part in the life of the community and having respect.

A person's “capability” refers to the alternative combinations of functionings that are feasible for her to achieve. Capability is thus a kind of freedom: the substantive freedom to achieve alternative functioning combinations (or, less formally put, the freedom to achieve various lifestyles) (Sen, 2000; 75).



Functionings and capabilities contribute to the freedom to choose of a person (Sen, 2000: 75).

Contrary to the mainstream view, Sen believes that poverty is a matter of capability deprivation rather than low income. The relation between income and capability deprivation has three elements: i) poverty as a problem of capability deprivation is not an instrumental problem. It is instructive; ii) poverty is not the only reason of capability deprivation; iii) there is not an absolute relation between poverty and income deprivation but every community has a different one (Sen, 2000: 87-88). Hence, the relation between poverty and capability can be established in different ways. For example, a person with high income but no ability for political participation is not poor in the traditional way though poor with respect to freedom (Sen, 2000: 93-94). Similarly, unemployment has also many other harms than simply low income that cannot be compensated with helps (Sen, 2000; 94). Hence, inequality can be defined as unequal distribution of freedom (Sen, 2000: 119).

Freedom to participate in the labor market is one of the main elements of freedom (Sen, 2000: 7) while social, political and economic freedoms go hand in hand with each other. Lack of any of these would mean the lack of others as well. That is why development should include all sorts of freedom (Sen, 2000: 8). Freedom is both an end and mean of development (Sen, 2000: 10).

According to Sen, unfreedom has many forms. Famines, undernutrition, unemployment, insecure employment, discrimination, lack of access to health, education services and clean water, and lack of political and civil

rights are types of unfreedoms (Sen, 2000: 15). Development requires removal of these unfreedoms (Sen, 2000: 16) for development and freedom the key elements for enhancing people's capabilities (Sen, 2000: 18).

Sen does not believe that development is a painful process. Development by freedom can be achieved without harsh measures (Sen, 2000: 35). Freedom is an end for development, in the same it is a mean for it. In other words, freedom has both instrumental and constitutive roles (Sen, 2000: 36). Instrumental freedoms are opportunities, transparency, security, political freedom and economic facilities which promote and are dependent on each other (Sen, 2000: 38, 40). Constitutive role of freedom is the fact that it is also an end in itself.

On the relationship between the market and freedom, Sen proposes two arguments: first, unnecessary control over market leads to decline of opportunities; and second, over-controlled markets lead to other reductions of freedom (Sen, 2000: 25-26).

Freedom is a key element for both the market and the labor. Denial of freedom to participate in the market are directly related to the pressures from traditional bosses (popular in Africa and Asia) or bureaucratic socialism, the use of child labor, and the denial of women's access to the market (Sen, 2000: 113-116). According to Sen, markets contribute to development and freedom but not by themselves. Institutions have an important role on development and freedom as well. Social justice and equity should also be ensured in order for the market to create development and freedom. Public policy is also part of the same process (Sen, 2000: 142,143). Social opportunities that are

created by markets contribute to expansion of health, education and security services which increases social opportunities (Sen, 2000: 144).

Sen claims that questions such as “which is more important: reducing poverty or increasing liberty?” are useless because poverty and liberty complement each other (Sen, 2000: 147, 148). Criticizing arguments that state that authoritarianism in South Korea and China had contributed to development in these countries, Sen argues that

judging economic development it is not adequate to look only at the growth of GNP or some other indicators of overall economic expansion. We have to look also at the impact of democracy and political freedoms on the lives and capabilities of the citizens. It is particularly important in this context to examine the connection between political and civil rights, on the other hand, and the prevention of major disasters (such as famines), on the other. Political and civil rights give people the opportunity to draw attention forcefully to general needs, and to demand appropriate public action (Sen, 2000: 150, 151).

Democracy’s roles for development are stated under three categories which are intrinsic (as an end itself), instrumental (makes rules responsible for the economic necessities) and constructive (provides information and different selections) (Sen, 2000: 151-157).

Avoiding famines and other shortages of food has three main elements that are endowment, possibilities of production and conditions of exchange (Sen, 2000: 162, 163). Most common measures for preventing famines are making the potential victims more competitive, funding them by public projects, and more equally share of the supply (Sen, 2000: 177). Such measures can be done in democratic countries but not in authoritarian and colonized ones. For example, famines were prevented in India immediately after its independence

(Sen, 2000: 180). For democracy prevents famines due to the existence of two political factors: the responsibilities of the rulers to the voter, and the free press that provides information about famines (Sen, 2000: 180-181).

Discrimination towards women reduces the wellbeing of everyone. It is also a factor that prevents development (Sen, 2000: 191). Reducing birth rates is a key policy to increase the standing of women (Sen, 2000: 198). Access to resources is mainly controlled by men. This situation is the primary reason that reduces the standing of women. Microcredit is a very efficient way to solve this problem (Sen, 2000: 200, 201).

Sen disagrees that people are selfish. Other things than self-interest like social responsibility and justice also motivates the behaviors of the people (Sen, 2000: 261). Norms and values are parts of capitalism (Sen, 2000: 262). Codes of behaviors, collective understanding, trust, confidence influences institutional developments (Sen, 2000: 265). He gives the example of how Japanese business activities are motivated by nonprofit motives (Sen, 2000: 266). Reducing rationality to self-interest and self-interest to selfishness is a very reductionist approach on rationality for Sen. Concerns and sympathy on others, public welfare and justice should also be considered in analyses (Sen, 2000: 270).

According to Sen, changing the world and contributing to its development is an individual responsibility (Sen, 2000: 282) for social responsibility cannot replace individual responsibility (Sen, 2000: 283). Acquiring responsibility requires freedom. For example a person cannot have responsibility if he/she does not have the minimum education or a landless peasant may not develop

responsibility as a result of unfreedom. Civil society, market and institutions are included this process (Sen, 2000; 284).

As this short overview indicates, while Sen makes comprehensive arguments on the necessity to overcome poverty and unfreedom together to ensure development, his proposals strategically prioritize ensuring freedoms while freedom is considered to be a magical means to overcome poverty. Hence, historical analyses on the development of poverty within and inter-states simply lack in his work. The main premises of liberalism are preserved in his studies and Sen's position can best be described as “neoliberalism with a human face”, a contradictory political attitude in rise since the 1990s.

#### **4.2.2 IDB's 2008 Report and Other Related Articles on Exclusion**

At the beginning of its *2008 Report*, the IDB underlines that the Bank takes exclusion seriously for it is a serious problem for democracy. Excluded people are no longer a small part of population but becoming more and more the majority as time goes on (IDB, 2007; 215). In the IDB's own words;

Social exclusion is the most dangerous threat that democracy faces in Latin America and Caribbean. The advent of democracy in our region was the result of a dramatic social struggle that engaged the majority of the population under the banner of creating more modern, more prosperous, and fairer societies. Indeed, the past quarter century has witnessed significant progress that made our political systems more democratic, confronted the corrosive effects of rampant inflation, and integrated our economies life expectancy, health, literacy, and other indicators of well-being have improved and continue to improve. But poverty, inequality, and lack of good jobs and opportunities to facilitate social mobility for the majority represent areas in which a great deal of work remains to be done (...) Promoting social inclusion requires well coordinated and

carefully considered actions on the part of both governments and civil society to advance the rights of excluded groups. This includes changing both the wider rules by which societies operate and specific ways in which programs and policies are implemented .... Social exclusion is an inefficient and dysfunctional dynamic social, political, and economic process whereby individuals and groups are denied access to opportunities and quality services to live productive lives outside poverty (IDB, 2007; 5).

Deprivation, labor markets and socio-political issues are the main headings of the literature on exclusion that are used by the IDB. Deprivation covers issues of unemployment, underemployment, poverty, lack of access to education, health systems, housing and infrastructure. Labor market covers issues related to the access to the labor market and formal jobs, and policies to eliminate discrimination in the labor market. And finally socio-political issues are covering participation, representation and security (IDB, 2007; 16-29).

In line with Sen's arguments, the IDB argues that exclusion occurs when "individuals and groups are denied access to opportunities and quality services to live productive lives outside poverty". Exclusion is a big problem for the Bank for it leads to inefficiency and dysfunctional social, political, and economic outcomes, besides resulting in the deterioration of the individuals' own well-being (IDB, 2007: 5). One can talk about "social exclusion" when some groups are consciously targeted in the society in order to exclude them from conditions of productive life (IDB, 2007; 15). According to IDB,

[a]n inclusive society is not necessarily devoid of poverty and social ills but is a society where the color of one's skin or the wealth of one's parents are not key determinants of whether one is poor or receives a quality education or proper medical care. Equality of opportunities, increasingly representation, and high mobility are characteristics of inclusive societies (IDB, 2007; 12).

This statement not only naturalizes poverty but also prioritizes exclusion vis-à-vis poverty. However, given the fact that excluded people today are the

lowest strata of the societies and elements of exclusion like informal employment, long term unemployment, underemployment, being subject to discrimination in the labor market, insecure employment, not being able to benefit from social services are features of new poverty as well, distinguishing conditions of poverty and exclusion that easily is rather questionable. Hence, rejecting to prioritize any of the problems vis-à-vis the other, Buvinic (2004: 26) argues that “[i]n Latin America and the Caribbean, social inclusion policies should go a long way towards reducing structural poverty and inequality, accelerating growth, and strengthening the functioning of democratic societies” (Buvinic, 2004; 26). However, ending poverty is not the aim of the IDB’s inclusion policies. Inclusion policies are rather aiming at increasing mobility, decreasing discrimination, increasing opportunities of education, and increasing efficiency. They are seeking ways to increase opportunities of the poor people for increasing their chances of upward mobility but in the same time accept poverty as granted. Existence of poverty itself is not questioned.

IDB’s basic solution to exclusion is “inclusion” of the excluded through the cooperation between the civil society, market and states and within a process in which the excluded people should democratically participate in the determination of inclusion policies. It should be kept in mind that different excluded people may have different priorities of inclusion. For instance indigenous people may give priority to representation but disabled people may give priority to extension of social services (IDB, 2007: 205-206). Hence, the process of inclusion is a multidimensional and dynamic process in which careful and case-sensitive changes in the laws, institutions, and instruments should be accomplished by a participatory process of public policy-making (IDB, 2007: 242, 243). According to the Bank,

the principal “drivers” of such a process identified in the literature are political leadership (as manifested in “political will”) to implement needed social, political, and economic changes; civil society (more highly organized and active civil society organizations lead to both pressure and support for public policy changes); and socioeconomic and cultural change. When functioning well, dynamic inclusion process includes organized and representative civil society organizations with both national and international links, representative and more proactive political leadership and institutions, and wider cultural and social change, which propels acceptance of and leadership in regard to inclusion. At the center of many analyses of the forces propelling inclusion is the role played and leadership exerted by representatives of excluded groups themselves (IDB, 2007: 210).

Evidently, the IDB claims that policies of inclusion can work if institutions and culture can perfectly be restructured in accordance with the market. This is a very unrealistic expectation. Such a statement means that policies of inclusion can never be properly implemented.

Coming to the IDB’s analyses on exclusion in Latin America and the Caribbean, the Bank argues that

the evolution of democratic systems in the region towards greater representativity and participation .... Without greater advances in inclusion based on fundamental citizen rights, Latin America and the Caribbean will continue to suffer from its legacy of exclusion and remain the most unequal region in the world” (IDB, 2007: 242, 243).

According to the IDB, the main reason of exclusion in the region is the debt crisis in the 1980s and the way economic reforms were conducted in the 1990s. It is a fact that globalization, democratization and macroeconomic stability reforms have decreased states’ capabilities to promote integration today. However, the IDB also recognizes that the Latin American history of slave trade and colonialism should also be taken into account in the analyses



of the reasons of exclusion for discrimination by gender, race, ethnicity or other identities have their roots in the colonial times. Additionally, excluded people are not completely outside the society, just the contrary their interactions with the “modern society” are an important reason of their exclusion (IDB, 2007: 3, 4, 6, 9 ; Buvinic, 2004: 7).

The IDB’s arguments above that perceives exclusion as a matter of interaction between the “modern” and “traditional societies”, and its views on the historical roots of exclusion have many points in common with the DESAL school, which -as examined before- also separates the society into traditional and modern spheres, and considers marginality as a problem that has its roots in the interactions between the colonizers and natives in the colonial times. Such statements ultimately perceive exclusion as a matter of integration of “traditional societies” to “modern societies” ignoring the class-based explanations to exclusion. Critical of such accounts, Perlman argued as early as 1976 that people that were categorized as traditional and modern were not necessarily different from each other, and these politically motivated distinctions were products of prejudices and stereotypings towards the “traditional people”. Perlman also stated that due to their political, economic and cultures functions, “traditional people” were already “integrated” to the “modern” societies.

One of the most significant characteristic of the IDB’s 2008 Report on exclusion is its dedication to promote neoliberal policies as a solution to exclusion given the fact that today’s “modern” societies are ones being subject to neoliberal transformations. This concern can easily be identified through a short overview of the Bank’s analyses on some specific topics,

which have been severely criticized hitherto due to their poverty and inequality generating implications by the critiques of neoliberalism.

#### **4.2.2.1 Trade Liberalization, Technological Change and Exclusion**

Contrary to those criticisms that have underlined the job-cuts made as a consequence of trade liberalizations in Latin America and the Caribbean, the IDB claims that trade liberalization did not directly lead to the rise of unemployment but it primarily contributed to de-unionization. Hence, people have lost their jobs due to the decline of their organized power. However, the IDB claims, related job losses are compensated by the increase of new job opportunities (IDB, 2007: 59, 60).

The IDB also argues that increasing unemployment is in fact an outcome of technological advances. In order to compete in the international markets, domestic enterprises are adopting technology-intensive productions while the decline of tariffs that makes foreign technology more affordable further contributes to this process. As a result, because non-skilled workers' labor is replaced by machines, unemployment among low skilled labor increases (IDB, 2007: 92). According to IDB, technological change also increases the wage difference between the skilled and the non-skilled people for it increases the demand for the former and decreases the demand for the latter. As a result, exclusion among low skilled labor increases (IDB, 2007: 92).

This statement is in accordance with the mainstream discourse on technology which claims that technological advances are contributing to the efficiency. This understanding of technology ignores how class struggle is shaping

technological shifts. In such discourses technology is analyzed as a factor that is advancing and existing by itself isolated from politics, economics and society. Technological advances that are claimed to increase efficiency but have a negative impact on distribution of income is an unavoidable aspect of neoliberal development. Levidow however claims that most of the technological advances are aiming at decreasing the power of the lower and middle classes. He gives the example of the emergence of neoliberalism in England, where information and communication technology contributed to breaking the solidarity among coal workers with the deliberate and funded attempts of the UK state and corporations to extend the control of the managers over workers. These technological developments were intentionally motivated towards increasing the demand on high skilled labor and decreasing the demand on low skilled labor (Levidow, 2003: 95). So, technological advances that contribute to exclusion among non-skilled lower classes are the results of neoliberalism. The IDB seeks to legitimize this situation by claiming that “inequality that is claimed to be caused by trade liberalization is caused by technological advances”. In the documents of IDB, technological advances are analyzed as “scientific” and non-political changes, which imply that the outcomes of these changes are legitimate.

#### **4.2.2.2 Growth and Exclusion**

According to IDB, economic growth promotes inclusion by reducing low wage employment in the long run. Assuming that labor supply is fixed, high growth rate increases the demand on low wage which increases the low wage in the long run. This is expected if the growth is increasing the demand on the goods that are produced by low wages, and hence decreasing the rate of unemployment and underemployment. Influence of the growth on inclusion

will be less if unemployment or underemployment is high and the growth does not increase the demand on the goods that are produced by low-wage labor. In order to increase inclusion, the growth should be directed at the excluded areas, especially the ones that cover ethnic and racial minority through improvements in credit opportunities, land reform, property rights, market, infrastructure and transportation. IDB argues that lifting clientilism would also contribute to inclusion by promoting development because clientilism prevents the establishment of new opportunities (IDB, 2007: 84, 233, 234). Ocampo has also made important contributions to this issue in line with the IDB. According Ocampo, there is a dualism between equality and development in Latin America which is exclusionary. He puts emphasis on the role of institutions which promote integration as an inclusive development policy. Institutions can promote integration by coordinating economic and social policies. Macroeconomic institutions, like the central banks, should shift their policies to increase employment, changing tax policies by making them more redistributive (Ocampo, 2004: 39).

According to IDB, growth is inclusive but the Bank also accepts that this is not a perfect assumption. In some cases the growth may not be inclusive. As stated above, if growth is not a result of the growing demand on the goods that are produced by low wage employees, the result of growth may not be inclusive. But, in general the IDB assumed a positive correlation between growth and inclusion. Neoliberal understanding of growth needs to be questioned to question this argument. Chang and Grabel state that Argentine's neoliberal development has resulted in a serious crisis, which has also led to collapse of the economy of Uruguay. By the 1980s, the only country that was successful in development was Chile though Chile's development was far from being neoliberal due to heavy government subsidies on copper. And finally, developing countries' growth rate was 3 % during the ISI times but

this ratio fell to 1 % after the adaptation of neo-liberalism (Chang and Grabel, 2004: 33). That means that Latin American countries can not face growth as long as they accept growth strategies that are supported by the IDB like trade liberalization, privatization, and decentralization. It can also be argued that the neoliberal growth model leads to the emergence of new problems like crises that are related with banking, money and finance as well as increasing poverty and inequality. People's losses within neoliberalism cannot be compensated as the social spending of states are substantially reduced (Chang and Grabel, 2004: 35, 36). Therefore, growth as the IDB points out cannot be expected to be beneficial in overcoming exclusion.

#### **4.2.2.3 Labor Market and Exclusion**

The majority of the population's employment and unemployment is related with the labor market. That is why labor market has a very important role in studies on exclusion. According to the IDB, exclusion in the labor market means unemployment, material deprivation, bad jobs, informal employment, discrimination and low wages. Especially growing informal employment in particular is a serious source of exclusion. Youth, women, agricultural workers and low-skilled people are usually the primary victims of exclusion in the labor market. Exclusion in the labor market, which is growing since the early 1990s, is sometimes produced by the institutions and regulations related to labor. High security taxes, rigid conditions of firing and hiring are the reasons of this type of this exclusion. In such cases informal sector can be more functional than formal sector due to the flexibilities it provides for companies (IDB, 2007: 71-72, 79 ; Buvinic, 2004: 9).

According to Buvinic, in order to make labor market more inclusive, participation of the excluded people to the labor market should be encouraged. Especially, programs and assistances to increase participation of women, disabled people, indigenous people and Afro-descendants are effective. These measures are summarized as “[s]pecialized programs for the excluded when appropriate, such as workforce training for those with disabilities; [u]niversal programs with recognition of excluded groups' special needs, such as national youth training programs with outreach efforts to increase female participation; [r]ights-based legislation and enforcement to overcome labor market discrimination” (Buvinic, 2004: 19). According to Mazza, human capital is an important issue for inclusion. Because excluded people do not have much access to many areas that are discussed above, human capital is very important for them as an income generator (Mazza, 2004: 179). Enhancing employment in the formal sector should also be taken into account to ensure inclusion because it leads to social security, insurance and unionization which facilitate political participation while informal sector lacks these (IDB, 2007: 71).

Identifying the way IDB associates exclusion and labor market is useful to understand the political bias of the Bank. According to the IDB, informality is used to define the people that are employed outside the official control of the state. Portes and Centeno argue that the increase of the role of the informal sector in Latin America had two main reasons: firstly, industry was no longer able to create new job opportunities for the masses, and secondly most of the states were no longer able and willing to officially regulate the labor. As they state

[n]ewly privatized firms not only shed employment but also, in the absence of strong unions and government regulators, make free use of temporary and off-the books workers or subcontract

production and sales to informal microentrepreneurs. The end result is decline of formal protected work, a significant rise in microentrepreneurs and informal employment, and a sustained increase in economic inequality (Portes and Centeno, 2006: 38).

Some international institutions like the ILO (International Labor Organization) and RPELAC (Regional Program for Education in Latin America and Caribbean) as well as some neoliberal scholars like Hernando de Soto have praised informality as a way for reducing the costs. Bonacich and Light however have claimed that informality is a new and indirect way of exploitation, which decreases the political activeness of the lower classes (Fernandez-Kelly, 2006: 2, 3).

Most of the excluded people are arguably part of the informal sector because they do not have any legal protection. Subcontraction is the main informal employment area. Increasing informality is one the most profound features of the new poor. Most of the informally employed people are employed in the spheres that are created by the new coalition between the sectors of finance and industry. As stated by Centeno and Portes (2006) informality is a new form of domination over the lower classes. Informally employed people have the function of reserve army of labor over formally employed people for the former who are seeking formal employment force the latter to accept harder working conditions. Perceiving informality as a way to increase efficiency thus means taking neoliberalism for granted.

IDB's claim that regulations, taxes and strict conditions of firing and hiring are important sources of exclusion in labor market is an orthodox neoliberal explanation. As stated above, neoliberal scholars like Hernando de Soto claim that informal sector is sometimes an efficient way of employment instead of

formal regulations of the institutions. In an article that is published by IDB, Oakley has made a distinction between exclusion that is a result of social and economic operation, and permanent exclusion. What IDB means by the “exclusion that is a result of regulations, taxes and strict conditions of firing and hiring” is included to the category of the former type of exclusion that is categorized by Oakley. Such an approach to informal sector would mean that, informal sector that is not a result of “bad governance” is natural and required while informal sector which is a result of institutional acts is avoidable. Hence, people unemployed due to the latter can be “integrated” to the formal employment by making formal employment more flexible. So the reasoning serves to legitimize the post-Washington call for labor market flexibility which practically means de-qualifying the formal employment to a stage to equate it to the informal working conditions. Together with the IDB’s argument that certain amount of informal sector is required, this perspective can be read as the confirmation of Marx’ reserve army of labor.

#### **4.2.2.4 Discrimination and Exclusion**

The IDB's views on discrimination are about race, ethnicity, gender, disability and migration. The terms “unequal treatment for the same productivity” and “unequal treatment for the same characteristics outside of the labor markets” are used to define conditions of non-discrimination by the IDB. Discussions on labor market also have space in the arguments on discrimination and exclusion. According to the IDB, discrimination rests in Latin American collective subconscious (IDB, 2007: 31, 37, 42). IDB aims arguably to overcome discrimination in the labor market, public services, public goods and representation. For the indigenous people, women and Afro-descendants are the most likely social groups to be subject to discrimination. It leads to



increasing income gap between the whites and Afro-descendants, indigenous and non-indigenous populations, males and females in Latin America and the Caribbean. For example, according to a research done by Crenshaw in 2000, even though life standards of women increased in Latin America, there was no progress in the life standards of women that belong to excluded groups. Unequal political representation and participation, unequal access to public goods and services are also issues discrimination (IDB, 2007: 37-42; Buvinic, 2004: 10). IDB also recognizes discriminations based on class differences and unequal distribution of income is the most profound evidence of it (IDB, 2007: 43). Zoninsein has made an important contribution to issues of racial discrimination and exclusion and argued that racial discrimination towards Afro-descendants and indigenous populations leads to inefficiency meaning that the cost of racial discrimination is paid by everyone. Low income, low human capital investments among indigenous people and Afro-descendants contribute to the decrease of national production, income and wealth of everyone. Lack of access to credit, justice, participation, labor market, infrastructure, rights of citizenship is the main reason of exclusion among Afro-descendants and indigenous populations” (Zoninsein, 2004: 41-42). Similarly, Berhman, Gaviria and Szekely (2002: 7) also claim that race have an impact on participation, social capital and opportunities.

In order to overcome discrimination, affirmative action is needed. This measure is very important especially for the groups that are subject to systematic discrimination. Programs and policies of affirmative action aim to providing judicial assistance because discriminated people usually do not have the required power to seek their rights (IDB, 2007: 228,229). According to Vega on the other hand, participation of indigenous communities to the local decision making process is not only a must of inclusion but also an obligation (Vega, 2004: 57).

IDB in this analyses neglects however that discrimination towards indigenous and Afro identities in Latin America is a result of the politicization of identities. As belonging to a certain ethnic or religious has started to include political meanings, discrimination has also started to emerge as an important problem. It needs to be recognized that the reason for politicization of identities is part of the second movement which is a result of neoliberalism.<sup>10</sup> For the main reason of the contemporary double movement is the transnational character of the contemporary capitalism. As a result, society is more fragmented and polarized. (Mittleman, 1996: 3). Politicization of identities and the rise of ethnic and religious conflicts, neo-fascism and religious fundamentalism can be included to the “second movement” together with the reactions of those social groups that are not pleased with the neoliberal globalization (Gill, 1996). That is why indeed exclusive discrimination, which is caused by neoliberalism, cannot be overcome through the IDB’s post-Washington formulations. One needs to recognize that the rise of Kurdish identity struggles, the Lebanon civil war, the strengthening of the Solidarity Movement in Poland, and ethnic and religious questions combined with class conflict in Latin America are results of the same process that has led to the rise of ethnic or religious oriented new social movements like Shining Path in Chile, EZLN in Mexico, MST in Brazil. For identities which do not have access to decision making process and cannot be represented might become subject to discrimination in the labor market and other spheres. Due to this reason, the discriminated people cannot be “included” under conditions of neoliberalism.

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<sup>10</sup> This argument is in line with Karl Polanyi’s “double movement”. According to Polanyi (1957), The first movement is the international capitalism and the second movement is the reaction of the part of the society that is damaged from the first movement. The sum of these two movements is double movement.

#### **4.2.2.5 Mobility and Exclusion**

Mobility is another important topic related to exclusion in Latin America. According to Ocampo, exclusion is not an outcome of development models in Latin America but a result of low intergenerational mobility (Ocampo, 2004: 34, 35). IDB also argues that in societies with high mobility, excluded people will be less displeased with their positions as a result of their expectations for the future. A society with a high mobility is one with equal opportunities among different classes, and in such a society people are less likely to continue to remain in the same class of their birth. Social and political discontent would be higher in societies with low mobility where people do not have hopes for upwards mobility. Mobility in Latin America is low and this increases exclusion (IDB, 2007: 101).

In order to increase mobility, legal reforms for increasing participation to both responsibilities and benefits of the society, improving education quality of the lower classes, increasing access to health and credit, improving social security, labor institutions and redistribution are required (IDB, 2007: 120-121). According to Buvinic, education is the most efficient tool for combating exclusion related to low mobility. In order to increase mobility, an education system should include bilingual education (especially indigenous languages), extending physical services to cover the needs of disabled people, multicultural regulations such as proper curriculum and supplying quotas, scholarships (Buvinic, 2004: 17).

In Latin America intergenerational mobility is arguably dependent on efforts of people, abilities, family background, functioning of the market, available credits, access to markets and basic services. As in Latin America, the middle

classes are more mobile than the lower and upper classes, lack of mobility emerges as a problem that aggravates the exclusion of the lower classes (IDB, 2007: 106-110). Spatial issues like lack of transportation and communication opportunities, geographic isolation, discrimination, urbanization and migration also contribute to low intergenerational mobility (IDB, 2007: 115,117).

The criticisms that are directed towards the IDB's views on discrimination can also be directed towards its views on intergenerational mobility. Intergenerational mobility is a problem because it prevents equal access to credit and education of different classes. Decline of social services like education -which is the main reason of low intergenerational mobility in Latin America according to the IDB as well- is an outcome of neoliberalism that ignoring the role of neoliberalism while analyzing the reasons of exclusionary low mobility is ideological.

IDB accepts extending access to education among excluded people as the most efficient way to increase mobility. In other words, inclusion of the excluded people that is caused by low mobility can be achieved by extending education services. However this statement accepts education as a value-free sphere. Levidow argues that

[o]verall, neoliberal strategies for higher education have the following features. All constituencies are treated through business relationships. Educational efficiency, accountability and quality are redefined in accountancy terms; courses are recast as instructional commodities. Student-teacher relations are mediated by the consumption and production of things, e.g. software products, performance criteria, etc (Levidow, 2003: 98).

So, the neoliberal education policies cannot be universalized as good for everyone though the IDB tends to ignore this.

Another problem with IDB's views on the relationship between intergenerational mobility and exclusion is that exclusion is perceived as an individual failure under conditions of high mobility. This argument takes us back to the premises of "culture of poverty" approach which blames the lower classes for their problems. In other words, in an "inclusive society" exclusion would be an individual choice or failure. This kind of thinking is also influenced by Murray's views which perceive exclusion as either an individual choice or distraction of the market. The underlying neoliberal logic of the IDB reflects such an attitude that was shared with earlier conservative approaches.

#### **4.2.2.6 Privatization and Exclusion**

According to the IDB, privatizations in Latin America<sup>11</sup> mainly aimed at increasing efficiency, and they largely reached their aims. "Politically motivated" state owned enterprises (SOEs) that cause inefficiency were arguably replaced by efficient and profitable enterprises. Decline of social benefits, increase of short term jobs, increasing unemployment and informality were the cost of privatizations though these should not be considered as the sole criteria to believe in the exclusionary impact of

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<sup>11</sup> Privatized SOEs in Latin America are usually in the sectors of telecommunications and electricity. Privatization of sanitation, water and transportation were not as common as others. Because industry and finance were carried out by private enterprises, privatizations in these sectors were not very common either. Also Latin American states preserved their banks related with natural resources like oil, copper and natural gas as public (IDB, 2007; 150-151).

privatizations (IDB, 2007: 152). IDB states that whatever they are, these costs can be compensated in the long term. That is why outcomes of privatizations were not necessarily exclusionary. Main exclusionary outcome of privatization was de-unionization which led to the decrease of the bargaining power of the workers. Other exclusionary outcomes were the emergence of some permanently unemployed workers as a result of rise of demand on short term workers, and the rise of prices of the products and services that were formerly produced or supplied by the SOEs (IDB, 2007: 151).

IDB states that privatization excludes those who lose jobs while extends at the same time services provided to the excluded people. Services like water and electricity would start to reach more people. Also, most of the lost jobs were compensated in the long run. In the long run, among the lower classes temporary and low skilled workers benefit from new employments that would be created by the market efficiency led by privatizations (IDB, 2007: 11, 151-157).

Hence, for the IDB privatization is exclusionary to some extent though inclusive in the long run. IDB's arguments on privatization and exclusion are similar to those neoliberal premises that claim that public enterprises are inefficient, corrupted, poorly managed and a burden on economy as they prevent competition and lead to monopolies. Such premises are not directly stated but they can deduced from IDB' documents on privatization. Chang and Grabel have responded to these premises by claiming that poorly managed corporations exists also in private sector, and public enterprises like Renault are capable of competing with private corporations while public enterprises successfully contributed to the growth in Western Europe in the post-World War II era (Chang and Grabel, 2005: 117-119). Insel's views on

privatization are also important as critiques towards neoliberal statements on privatization. He states that when insurance corporations are privatized, they are no longer willing to supply insurance for the risky ones (Insel, 2004: 217) which is a good example for showing the exclusionary influence of privatization. He also states that most of the beneficial public enterprises are not given enough resources. And once they are privatized lower classes that used to benefit from those services or products would no longer be capable of doing this due to the prices increases in those privatized sectors (Insel, 2004: 224). It can also be argued that “long term inclusive benefits of privatization” can also be achieved by the public enterprises. Privatization is not a necessity to avoid exclusion.

#### **4.2.2.7 Democratization and Exclusion**

According to the IDB, democratization, macroeconomic stabilization and globalization are important outcomes of the past three decades that shaped policies of inclusion (IDB, 2007: 45) although the IDB gives priority to democratization measures in all these. IDB claims that pressure from the middle and working classes was the main reason for democratization in Latin America. The Bank states that

[s]trikes and demonstrations by the working classes in Peru and Argentina were decisive in ousting military governments in 1977 and 1983, respectively. In Chile a multiparty alliance was formed that defeat President Agosto Pinochet in the historic plebiscite of 1988. In Brazil, the famous metalworkers' strike of 1980 and the formation of the Workers Party aligned the working class with the business sector to form a common front that eventually led to the removal of the country's military government in 1985. Latin America's middle classes gave their support to these antiauthoritarian fronts and broadened demands to include human rights, freedom of social organization, and corruption control.

The varied forms of expression and organization of “civil society” were crucial in replacing armed confrontation with electoral competition in El Salvador, Guatemala, and Nicaragua in 1990s and in the Mexican democratic opening in 2000. Consequently, democratization process essentially sprang from pressure from previously excluded groups under the risk of being left out of political power (IDB, 2007: 46).

IDB accepts that democratization process has not developed as working class expected. In the long run, working class seems to get worst off as a result privatization, de-unionization, and unemployment. Indigenous populations that were not able to raise their voices in the authoritarian regimes have been the main beneficiaries of democratization. In Bolivia the emergence of *Movimiento Revolucionario Tupac Katari de Liberacion* (MRTKL) and *Movimiento al Socialismo* (MAS), in Ecuador *Confederacion de Nacionalidades Indigenas del Ecuador* (CONAIE), in Guatemala Nueva Granada Democratic Front emerged due to democratization in Latin America. Women have also been better off as a result of gender quotas enabled by the same process (IDB, 2007: 46-48). According Vega, citizenship as a part of democratization has positively contributed to participation and identity to issues of development (Vega, 2004: 56).

According to IDB, even though democratization made a considerable contribution to political rights, there wasn't an important progress in terms of social rights. Democratization has not had a noticeable effect on economic inclusion (IDB, 2007; 161).

Contrary to the claims of the IDB however, democratization is not an outcome of the pressures from below and like strikes, grassroots movements of alliances between business and workers' organizations, but military dictatorships, “third wave democratization” and localization should be understood as superstructures of different stages of neoliberalism. In other



words, so the called democratic regimes in Latin America are continuations of the military regimes. The IDB's views on the relationship between democratization and exclusion not only misinterprets the reasons of so called democratization process in Latin America but also prevents the reader to grasp that the so-called democratization process is not independent from the military dictatorships.

During the "third wave democratization", working class has been in fact in its weakest position in Latin American history. Working class could not prevent the establishment of military dictatorships in the 1970s when it was at the peak of its power. How can it contribute to the collapse of authoritarian regimes and help replace them by democratic ones when it is in its weakest stage then? That is why democratization should be taken into account in relation to other outcomes of neoliberalism.

The IDB's conception of civil society should also be questioned in discussions on democratization. What is meant by the IDB as civil society is NGOs, new social movements, grassroots actors and other non-state actors. These are claimed to be outside the market and the state. The main argument of neoliberalism on civil society is that especially in developing countries states and markets are not capable of managing all social issues. Thus some of the work load should be left to civil society. One should not still forget that while civil society is given such a positive role in democratization, growth and good governance, non-neoliberal and anti-neoliberal actors like Greenpeace, EZLN are also included in the civil society (Sinha, 2008: 271-276).

Advocates of civil society claim that civil society in Latin America has emerged as a result of the decline of corporatism and authoritarian regimes. In Latin America, especially grassroots actors like indigenous organizations are believed to be included to political decision making due to the strengthening of the civil society. Contrary to the views of the IDB however, civil society is not a politics-free area. Making a distinction between the civil society, state and market is part of the neoliberal discourse. Radcliffe correctly argues that

[i]n many countries, a 'neoliberal' form of politics (with strong presidents and executive bureaucracies) has led to delegative or 'partial democracies' in which citizens' rights are comprised by lack of participation and exclusionary political cultures. With deregulated labour markets, budget cutbacks and limited, targeted welfare systems, larger numbers of citizens are reliant upon the harsh realities of the market at a time when global economic insecurity has plunged many countries into low growth" (Radcliffe, 2004: 203).

Hence, a more holistic approach to civil society in relation to states and markets is required in order to better grasp the political developments in Latin America.

#### **4.2.2.8 New Social Movements and Exclusion**

The IDB claims that emergence of new social movements is also related with the inclusionary democratization process. Firstly, democratization has allowed some new groups to get organized, participate in decision making processes and formal institutions. Second, they have been frustrated by the reforms, debt crisis, stabilization programs and corruption as well as the historically inherited problems like discrimination of indigenous people, unequal distribution of land and repression of women. IDB's official view on the new social movements is "political opportunity" which means that social

movements need political spaces in order raise their issues. New social movements cannot get organized in a political system that it is not sensitive to the demands of grassroots movements. According to the IDB, there is a reciprocal relation between the rise of new social movements and democratization. Democratization promotes new social movements as new social movements promote democratization (IDB, 2007: 161-163, 166, 167). The IDB's view on new social movements is best summarized in the following citation:

[s]ocial movements are not the cause of the erosion of democracy but rather the consequence of structural dysfunctions that lead to expressions of discontent. Claims from ethnic and culturally based movements have challenged the nature of the state and the understandings of citizenship. Beyond that, ethnic and cultural boundaries tend to overlap with socioeconomic classes. In that sense, protest has revolved not only around the fact that individuals belonging to these groups lack the same opportunities as the average citizen (i.e. *individual rights*) but also around the fact that the group's distinctive culture needs are not recognized (i.e., *collective rights*) (IDB, 2007: 169-170).

The IDB's view that democratization contributes to inclusion by giving way to the emergence of new social movements has been criticized by Thorne, who has found out that indigenous groups succeeded to force governments for legislations that are improving their democratic rights but failed to force the implementation of these constitutional rights (Thorne, 2004; 329).

According to the IDB, issues of democratization, participation, representation, citizenship and civil society are important issues for new social movements. Three main paradigms on new social movements are discontent, political opportunity and organizational capacity. According to discontent approach, discontent among people leads to emergence of new social movements. Besides the premises of political opportunity stated above, organizational capacity claims that social networks are the essence of new

social movements (Ondetti, 2008: 24, 28). Although the IDB gives reference to all of these paradigms in different parts of its report while identifying their cultural inheritance, their discontent and democratization as the reasons of the emergence of new social movements in Latin America and the Caribbean, it primarily relies on the political opportunity approach to explain emergence of new social movements. Hence, the enhancing the “rights of citizenship” is the most important part of “inclusion of new social movements” and “new social movements' contribution to democratization”. This however is in contradiction with Amartya Sen's views on Latin America which considers political inclusion and economic inclusion as complementary to other.

Another disagreement is; discontent/grievance approach grasps the emergence of new social movements better than the political opportunity approach. For example, neoliberal agricultural policies is the main reason of discontent among participators of MST which led to emergence of MST. After Washington Consensus reached to Brazil, more than %90 of the agricultural production in Brazil started to be controlled by multinational corporations. This caused prices to be set by multinational corporations in order to compete in the global market. All the prices of the agricultural products and wages paid to agricultural peasants were set according to prices in the international market, prior to neoliberal agricultural policies every state in Brazil was setting its own price of wages. Another change is that, agricultural production in Brazil is oligopolized and peripheral structure of Brazil became more profound. For example, milk production is only carried out by Nestle, Gloria and Parmalat. Milk that is produced by Parmalat is sold for 1 real per liter and 20 cent is paid to peasants in Brazil, in Italy its 50 cents (Harnecker, 2006: 67). Participators of MST were consisting of people that paid price of what is written above. Their discontent led to emergence of MST. Which means that emergence of new social movements is not related with the democratization. In other words, political opportunity approach

which is accepted by IDB to explain emergence of new social movements cannot grasp how the new social movements emerged.

#### **4.2.2.9 Decline of the ISI and Exclusion**

IDB states that due to neoliberalism, populist policies are no longer applicable, exchange rates have shifted from fixed to floating, decentralization has increased the participation of the geographically disadvantaged people, directed credit has ended and increasing exports has led to a new industrial policy. Interestingly, these developments have inclusionary implications for the rural populations by enabling their participation to the decision making process more than ever at the expense of the urban working and middle classes to whom the ISI policies were mostly beneficial (IDB, 2007: 54,55). Prior to the globalization, urban middle and working classes were arguably enjoying populist measures while the rural populations were not organized and hence did not have any bargaining power. After various populist measures that used to be beneficial to the urban middle and working class have been lifted, rural populations have started to occupy a place in the decision making process (IDB, 2007: 53).

The first question to be asked on this assumption is whether the rise of “political rights” of the rural populations has gone hand in hand with the rise in their “social rights.” Secondly, such a statement ignores class distinctions in the rural areas. Before the implementation of neoliberal policies, most of the Latin American states pursued land reforms but they weren't sufficient to solve the agricultural problems in the region. Local land owners succeeded to block significant changes in the field of agricultural. In the neoliberal period, the Latin American agriculture has entered in a deep transformation. This

transformation has led to a more complicated rural structure, increasing inequality, the emergence of rural based new social movements and the increase of non-agricultural activities in the rural areas. The neoliberal policies of the Latin American states have been clearly in favor of the interests of the land owners. The land owners have enjoyed cheap importation of industrial products and credits for already subsidized agriculture. Technological gap between the peasants and agricultural corporations has increased, and due to the power of land owners and lack of proper legal regulations, peasants were not able to get organized against these trends. Public enterprises in the agriculture have been privatized whereas collective lands have been de-solved. De-collectivization has been usually carried out by the sale of lands to the indigenous people that were collectively owned before. Latifundia system has been also de-solved to a great extent. Another influence of neoliberalism has been that the population that engages in agricultural activities has decreased from % 35 to % 21 (Kay, 2004: 232,233, 235).

Neoliberal agricultural policies have led to five major changes within the Latin American agricultural laborers: wage labor takes the place of tenant labor while the number of seasonal and temporary agricultural labor, the number of women among agricultural workers, the number of urban workers that are working in the agricultural sector, and finally non-agricultural activities in rural areas have all increased (Kay, 2004; 235,236). Hence as Kay summarizes,

[t]he main cause of rural poverty is structural, being related to the unequal land distribution and the increasing proportion of semi-proletarian and landless peasants. Contributory factors for the persistence of rural poverty are the neoliberal policies that further an exclusion pattern or rural development marginalizing the peasantry. Tackling the root causes of poverty will require major

land redistribution and rural investments, raised employment opportunities and improved agricultural productivity, particularly of smallholders. Particularly promising for reducing rural poverty are also policies that promote rural non-farm activities, but this should not be done at the expense of policies promoting agricultural development (Kay, 2004; 242).

It can be recognized that IDB's views on the "inclusion of the rural populations by globalization" are part of its multidimensional approach to exclusion though this approach serves to nothing but to the naturalization of poverty by making a separation between exclusion and poverty, by putting more emphasis on exclusion, and by identifying exclusion as a problem that can be solved by participation only. As the quotation above clarifies, those who suffer from the neoliberal agricultural policies do not have any interest in the "inclusion of the rural populations" and "increasing participation" under conditions of neoliberalism is not that beneficial for the rural poor.

#### **4.2.2.10 Finance and Exclusion**

According to the IDB, those parties that do not have access to services of finance are subject to financial exclusion. These financial services are insurance, credit and transaction services. Financially excluded people cannot benefit from savings, security of income, anti-inflation measures, and increase of productivity especially for middle and small size enterprises. Hence, they either cannot obtain financial services or obtain them through informal ways such as borrowing from informal moneylenders, relatives and/or informal saving associations. Informal finance is hence more common in rural areas (IDB, 2007: 183-185).

In order to be inclusive, financial services such as insurance, mortgage, and formal credits should be extended to the poor and excluded people. This extension should go hand in hand with the extension of microfinance as well (IDB, 2007: 191). In Latin America, during the past two decades informal microfinance institutions have already increased to a great extent. These institutions have been extending financial services to the excluded people as well as to small and medium sized enterprises. According to the IDB, these microfinance institutions which are very successful in meeting the demands of the excluded people should be formalized (IDB, 2007: 188).

It has to be recognized that the IDB takes a one-sided approach to the finance sector. Other aspects of finance should also be analyzed in order to understand to what extent finance is inclusive. According to some critics, the increasing role of the finance sector has an important impact on exclusion. It has been argued that rise of finance sector in Latin America has been due to two factors: firstly, the success of the Brady plan<sup>12</sup> led to the expansion of long term stock exchange markets in the US and the UK as well as Japan until the 1990s; secondly, the adaptation of finance markets by the developing countries in order to finance their domestic lending has made debt easier to be paid back. Financial liberalization in this process has provided the private sector with the required sources. Financial liberalization has hence led to intensification of the domestic and international financial transactions within which even the pension funds have been directed towards financial markets. This process has facilitated the activities of international speculators, paving the way for the financial crises in Mexico, East Asia, Russia, Turkey and Argentina (Toporowski, 2007: 185-186).

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<sup>12</sup> A plan that is aiming at dealing with the debts of the third world countries by US secretary of treasury Nicholas Baker



The outcomes of increasing role of finance have been hence dreadful to the lower classes. It has created new job opportunities for the skilled labor though the large non-skilled masses cannot benefit from it. Increasing demand on skilled labor that began in the 1950s reached its peak in contemporary times. As a result, unemployment and inequality among lower classes have substantially increased side by side with the gap between reserve army of labor and rest of the unemployed –those who are not expected to be employed again –. Hence, the IDB's argument that relates exclusion in the finance sector to the lack of access to finance should be questioned.

The IDB's financial inclusion policies are mainly about extending micro-finance opportunities like micro-credit. Brunhoff criticizes this view in a very good manner by arguing that

[t]he *culture of individual opportunity* has been promoted by neo-liberal policies and by the ideology of the 'new economy'. Popular access to credit for consumption goods and housing has been developed, which sustains global demand. But, since the 1980s, the access of workers to property in shares, however limited and passive it may be, was also encouraged and it has contributed to the new culture of opportunity (Brunhoff, 2003: 149).

#### **4.2.2.11 Underdocumentation and Exclusion**

According to the IDB, underdocumentation is another exclusionary practice in Latin America and the Caribbean. This type of exclusion is very common among indigenous populations and Afro-descendants. Underdocumentation prevents the legal recognition of people that inclusion policies may not reach to the target. Also most of the excluded people do not have a place in official statistics (IDB, 2007: 193-195; Buvinic, 2004: 7). The counter-arguments

developed to such comments in relation to exclusion in the informal sector can also be repeated under this sub-heading. Underdocumentation is related to the decrease of states' regulatory capacities as a result of neoliberalism.

#### **4.2.2.12 Violence and Exclusion**

IDB argues that in the regions where excluded people live, violence is an important problem. In such regions communities are organizing their own security means. Formal institutions of security do not always reach to the excluded people. That is why excluded people like residents of favelas are likely to seek security from informal illegal, alternative or illegal security from drug cartels or community organizations. As a result of exclusion from formal security institutions, economic needs are met by violence which leads to inefficiency. In order to prevent this, states' security services should be extended to the excluded people (IDB, 2007: 171,177,180).

The increase of violence in places where states' authority does not reach is also related with the rise of neoliberalism. As a result of this change, states' capabilities of control weakened to a great extend. The resultant gap was filled by the informal armed groups. That is why preventing exclusion that is a result of violence under conditions of neoliberalism is not possible.

## **CHAPTER 5**

### **CONCLUSION**

This thesis has underlined the increasing importance attached to exclusion in neoliberal studies after the 1990s. This has to be understood within the context of the post-Washington consensus which has underlined the need for state restructuring in line with global governance, and more concern for the social question. For the discourse of exclusion has provided a good cause for legitimacy to proceed with this reform agenda.

As seen, the term exclusion is used more by the neoliberals than anti-neoliberals. The thesis has attempted to clarify the specific interpretation of exclusion adapted by the neoliberals not only to decipher particular neoliberal discursive strategies but also to enable moving beyond the conservative usage of the term “exclusion”. For it is believed that “exclusion” can in fact offer a lot to criticize specific choices made by capitalist states and societies, paving the way for a wholesale criticism of capitalist relations of production. To this end, Munck’s studies, which attract attention to the structural reasons of exclusion can be a good starting point (Munck, 2005).

This thesis has underlined that the dominant neoliberal discourse of exclusion has been mostly produced by neoliberal international institutions such as the World Bank and ILO as well as the IDB in Latin America. The thesis has comprehensively criticized the IDB’s arguments on exclusion for it is hoped that the findings can be used to criticize similar arguments developed by other

neoliberal international institutions as well. Indeed, issues that have been underlined in this thesis like democratization, discrimination, citizenship, privatization, mobility, participation, gender, informal employment, technology, and growth have all been important topics discussed in different parts of the world through the help of specific interpretations provided by international institutions like the World Bank and ILO and, some supra-national ones like the European Union.

As the critical analysis of the IDB's discourse on exclusion in the last chapter has displayed the IDB tends to differentiate "exclusion" from "poverty" by associating the former with the discriminatory practices, acts and cultures of social and political institutions specific to particular societies and states. Such an interpretation help reproduce some important neoliberal premises that ultimately lead to the need to restructure states and societies in accordance with market-friendly neoliberal policies, in favour of the capital and at the expense of the laboring masses.

Firstly, differentiating poverty and exclusion rests on the assumed separation between the economic and political fields, where the economic field identified with the market is naturalized, and the political field which is considered to driven by the power-seeking states and individuals is made the main object of reforms. On the basis of this assumption, some amount of poverty is also naturalized as an unavoidable aspect of human development, and the market is recognised as the best mechanism to decide on who would be the poor and who would be the rich on a power-free basis. Exclusion on the other hand is considered to be the products of states' and societies' conscious acts, and can arguably be avoided to a large extend if states, societies and cultures can be restructured. Hence according to the IDB, if an Afro-Brazilian cannot be employed as a result of his/her identity, he/she is considered to be excluded. On the other hand, the IDB does not recognize a

problem when he/she is not subject to any discrimination but still remains unemployed as this latter case is an example of poverty determined by market conditions.

It has to be still recognized that some amount of exclusion is also naturalized by this discourse. As Oakley argues in an article published by the IDB, “while the dimensions of exclusion interact and may coincide, they are not necessarily congruent. Permanent exclusion needs to be distinguished from exclusion that is created and recreated by the operation of social and economic forces” (Oakley, 2004: 97). This interpretation indicates that a differentiation is made between the “natural” and “artificial” forms of exclusion.

Secondly, the IDB has insistently underlined that neoliberal policies can be a cure to include the excluded people, who have to face this problem due to the wrong policies of the post-World War II era. It has to recognized that in comparison to Amartya Sen, the IDB seems to be rather fervent supporter of neoliberalism in its 2008 Report on exclusion. There the Bank has argued that the better implementation of neoliberal policies within non-discriminatory political and social contexts would lead to inclusion. Also there are some contradictions that are related with application of Amartya Sen’s premises in *Development as Freedom* (2000) especially in the issues of democratization, new social movements and citizenship.

On the basis of these analyses, the thesis has maintained that the IDB’s discourse on exclusion serves to reproduce the dominant neoliberal ideology in its post-Washington version. The way exclusion is defined by the Bank provides an ample opportunity for this because given the fact that proper transformation of states and societies has been an endless process, best exemplified by modernisation, the ultimate aim of the neoliberal reforms is

practically made unattainable with the reform process turning into an unending one. These qualities of the IDB's discourse on exclusion make it a very successful problem-solving theory for it successfully defines the solution of exclusion within the neoliberal paradigm.

Although the IDB has insisted that solution to exclusion is inclusion through neoliberalism, Munck (2005) powerfully opposes this conclusion by analyzing exclusion as a problem of neoliberalism. As the thesis has underlined the IDB uses statements like "export led growth strategies increased exclusion among urban classes", or "debt crisis increased exclusion", or "technological changes increased unemployment among low-skilled labor" to explain the reasons of exclusion without making a systemic criticism. As long as capitalist relations of production are taken for granted, neoliberalism acquires a value-free, non-political and a natural character.

It can be argued that the IDB's discourse on exclusion stands somewhere between the collectivist and individualist approaches to exclusion. IDB problematizes exclusion as a matter of inefficiency which is in accordance with the individualistic approaches but it also refers to democratization and comes closer to collectivist approaches. IDB's emphasis on the decline of individuals' capabilities and functions to problematize exclusion fits also well with the former stand. The IDB does not identify the excluded people as underclass and blame these people themselves for their exclusion. This helps the IDB to direct attention to the states and societies as the sources of exclusion in line with the neoliberal approaches to exclusion.

On the basis of these critical analyses, future research on exclusion might take "exclusion" seriously for the excluded people have been still paying the highest price of neoliberal capitalism today. The neoliberal discourses on

exclusion have persistently denied any relationship between neoliberalism and exclusion. That is why conducting research on the question of how neoliberal capitalism has led to exclusion should be a key aspect of discussions on exclusion from critical perspectives. The relationship between exclusion and neoliberalism should be deciphered by focusing of issues like informal employment, long term “structural unemployment”, landless peasants, rise of the finance sector, de-industrialization, and de-unionization. Through such critical endeavors, exclusionary practices of capitalist states and societies can be understood within the context of capitalist relations of production.

Future critical studies on exclusion can help produce anti-racist arguments. Racist arguments towards migrants in developed capitalist countries are very close the individualist approach to exclusion such as those that define these people as underclass. Associating migrants -especially the illegal migrants- with criminality and seeing them as the main reason of unemployment are some key aspects of anti-immigration statements.

Critical studies on exclusion can also be beneficial to understand how the discrimination of minorities is an issue of modernization, which needs to be problematized in relation to capitalist development. Understanding the politicization of ethnic and religious identities due to their discontent/grievance, and how frustration among minorities caused by exclusion has been turning into insurgencies would be interesting topics to investigate.

Exclusion is a problem of capitalist relations of production that have taken novel characteristics by neoliberalism. It will remain as a problem as long as

neoliberalism stays with us. Criticizing neoliberal discourses on exclusion is hence important in order to develop counter hegemonic discourses.



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