

2001

## Hemisphere Volume 10, Fall 2001

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Hemisphere Volume 10, Fall 2001

# *Hemisphere*

A MAGAZINE OF THE AMERICAS

Volume 10  
Fall 2001  
<http://lacc.fiu.edu>

## *Old Age in Latin America:*

**Pension Reform**

**Health and Longevity**

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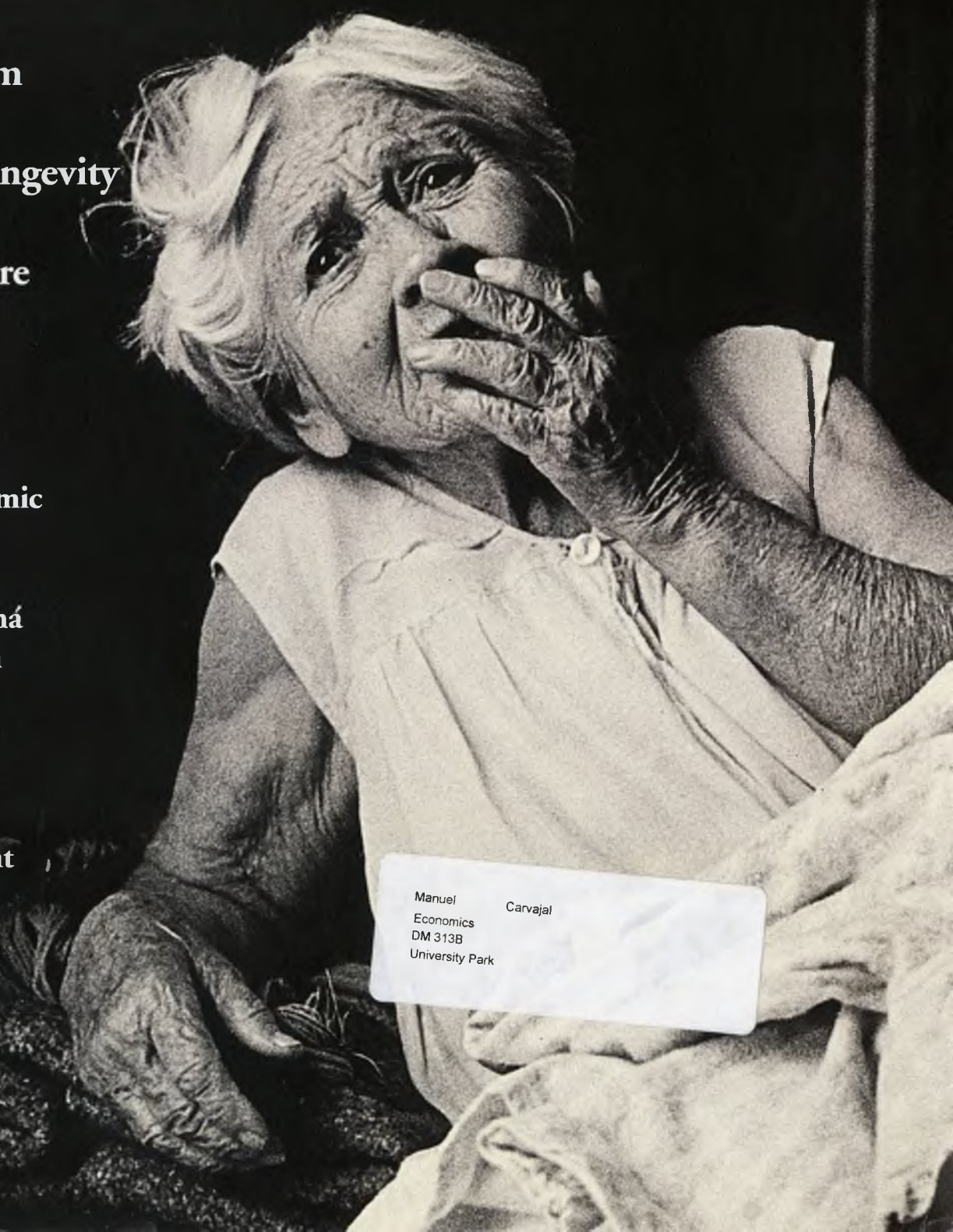
## *Also in this issue:*

**Argentina's Economic  
Crisis**

**The Puebla-Panamá  
Development Plan**

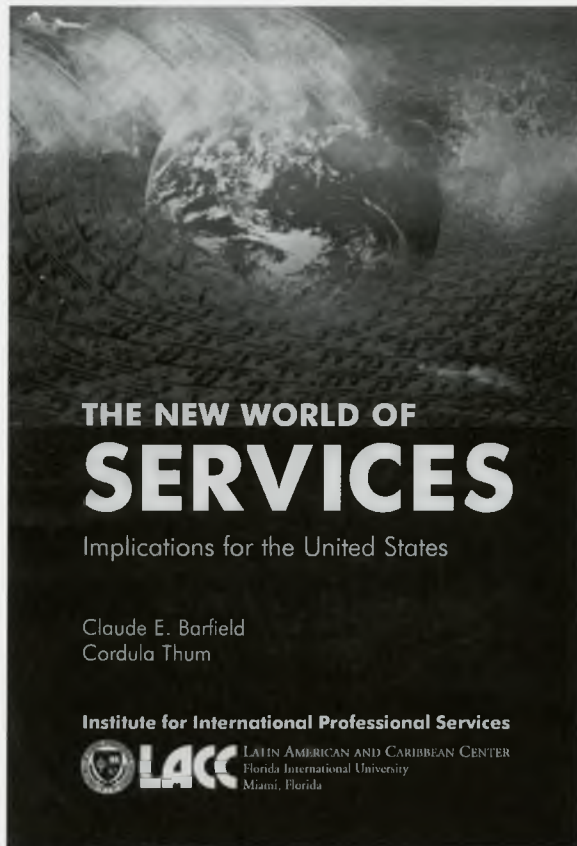
**Lessons from the  
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**Spanish Investment  
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# *The New World of Services: Implications for the United States*

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*"This short book covers the scope of trade in services. [Barfield and Thum] have produced a long-awaited, comprehensive, and brief bible on the topic."*

--Harry L. Freeman, Chair  
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Volume 10

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**COVER PHOTO:** *Vida Yovanovich*



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# FROM THE EDITOR

This issue of *Hemisphere* looks at a growing demographic and social problem in Latin America: aging populations and the shortage of services to meet their needs. The feature articles in this issue address different aspects of the problem.

As health indicators and medical care in the region have improved, more Latin Americans are living to reach old age. As María Esther Lozano points out in her report on a pneumonia vaccination campaign in Mexico, lifestyle and demographic changes are bringing Latin America closer to the developed world in terms of chronic disease rates. Ailments typical of old age and sedentary lifestyles, such as diabetes and heart failure, are becoming more of a threat than the epidemic infectious diseases that limit longevity in developing countries. The region's medical infrastructure is racing to meet the health needs of the elderly.

Improved medical treatment and longevity also take their toll on social services. Elderly people who survive illnesses but can no longer care for themselves create challenges for their families and other caregivers. Ursula Karsch's article on long-term care arrangements in Brazil describes how families cope when changing work patterns and economic circumstances make it difficult to maintain traditional extended family care networks.

The burden on families sometimes takes tragic expression in violence toward the elderly. Max Rothman and Burton Dunlop share their research on elder abuse in Miami and the need to raise community awareness of the problem here and elsewhere.

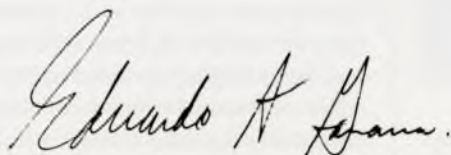
The decades of neoliberal reform in Latin America have also changed the way pension and retirement systems work. Carmelo Mesa-Lago reviews the different pension models adapted across the region and their implications for consumers and national economies.

Vida Yovanovich provides a devastating glimpse of the realities behind the statistics on aging with her photo essay of images from a Mexican old-age home. Her powerful photographs are a personal reflection on the fears of dementia, loss of dignity, physical decay and isolation that haunt many of us as we face the prospect of growing old.

Finally, Marian Goslinga brings back one of *Hemisphere's* most popular features, a publications update of recent titles published on the topic of aging in Latin America.

Also in this issue are reports touching on some of the top issues in the news from Latin America in recent months. Juan Carlos Gamboa explores the Fujimori phenomenon and its implications for understanding presidential popularity in Latin America. George Grayson considers the potential benefits and pitfalls of the Puebla-Panamá plan, Mexican President Vicente Fox's proposal to integrate Central America and southern Mexico. The economic crisis in Argentina and its political and social costs is the focus of Robert Harding's article. Further insight into the region's financial state is provided by Greg Cancelada's review of a new book by Pablo Toral—an FIU graduate student—on the logic behind Spanish expansion into the Latin American banking sector.

Coming up in the spring, the next issue of *Hemisphere* will feature a collection of articles on Colombia, a country that dominates the news from Latin America these days with stories of armed conflict and controversy over the eradication of illegal drug crops. Look for more LACC events and publications focusing on Colombia in the coming months.





# Argentina on the Edge

by Robert C. Harding II

Arriving at Argentina's Ezeiza International Airport, one cannot immediately appreciate the depth of the country's current economic and political problems. Along the Highway to the South, the ultra-modern six-lane expressway from the airport to Buenos Aires, the initial perception is one of tranquility, the landscape broken only by miles of pampas grass and palm trees.

Once in Buenos Aires, however, it quickly becomes apparent that the "Paris of Latin America" is not as interested in glamour or commercialism as it is in economic recovery. On streets throughout the city billboards advertise not the newest Sony computer or French perfume, but rather the success of President de la Rúa's administration in negotiating a \$40 billion economic bailout package (at a 16% interest rate) from the International Monetary Fund. This so-called *blindaje* (armor) has temporarily staved off possible default on the country's massive \$145 billion foreign debt, but the situation is far from resolved. By the mid 1990s, following a prolonged period of impressive economic growth (called "one of the great economic successes of the century" by former US Secretary of State Warren Christopher) and political calm, many Argentines had begun to feel relatively confident about their country's future. But now, three years of economic recession have left Argentines almost neurotic with worry over the economy.

"Latin America is very fond of the word 'hope.' We like to be called the 'continent of hope.' Candidates call themselves the 'candidates of hope.' This hope is really something like a promise of heaven, an IOU whose payment is always being put off. It is put off until the next legislative campaign, until next year, until the next century."

—Pablo Neruda

## THE LEGACY OF NEOLIBERALISM

The 1990s began with hope for change. In 1989, Carlos Menem's main goal as Argentina's new president was to resolve the country's economic and political malaises. After a bloody and, ultimately, economically disastrous decade of military rule (1973-1983) and the subsequent civilian administration of Raúl Alfonsín (1984-1989), Argentina was reeling from hyperinflation of more than 5,000% annually, military revolts by disgruntled veterans of the Dirty War (*los carapintadas*) and general public apathy about the future. Through implementation of a strict neoliberal economic program, Menem gave up his Peronist traditions and was able to arrest the country's economic seizures, breathing life back into the Argentine economy. Inflation was slashed and budget deficits were reduced.

Menem's recovery plan consisted of two main initiatives. The first was privatization of state-owned enterprises. Though occurring amidst widespread, endemic corruption, the privatization program provided the Argentine government with a huge influx of cash and rid it of many ineffective enterprises. Practically all major state-owned firms and enterprises were sold off, including the buses, the phone system, the national airline and the Buenos Aires subway system. The second part of the plan was a monetary convertibility system linking the value of the Argentine peso to the US dollar. This had two immediate effects: It brought a previously unknown stability to a currency that, like others in Latin America, had been frequently devalued to relieve debt, and it bolstered public confidence because corrupt public officials, for which Argentina is legendary, could no longer manipulate



## *Pulling back from the brink of economic and social chaos*

the exchange rate system. Bank accounts were frozen and a fresh round of loans was procured to pay off old debts. Not surprisingly, economic growth returned with a vengeance, rising to an impressive 12% between 1990 and 1995. Many foreign observers praised Argentina as a model of economic reform in Latin America.

A decade later, the costs of this equilibrium are becoming apparent. Menem's successor, Fernando de la Rúa of the Radical Party, took office amid world financial turmoil caused, in part, by Russia's economic problems. Argentina was experiencing the highest domestic interest rates in more than three years, and economic growth had declined by half. Moreover, the much lauded fixed exchange rate and reduced tariffs had spurred large trade deficits.

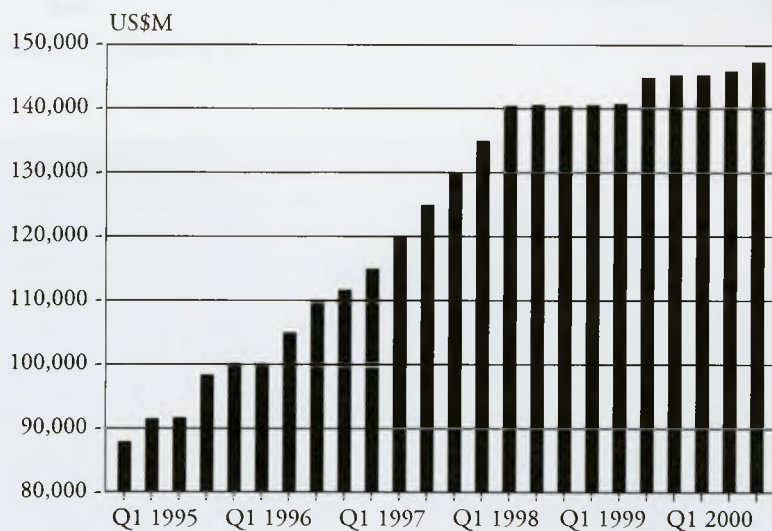
The signs of recession are everywhere. Though government statistics put unemployment at 15%, this figure is dubious since the official unemployment rate in 1996 (pre-crisis) was 17%. Most Argentines scoff at the official figure, recognizing that the actual number is much higher, perhaps 30%. Underemployment is also widespread; for an increasing number, participation in the informal economy is the only thing standing between survival and destitution.

A perfect example of the current dilemma is Buenos Aires's ubiquitous taxis. After privatization, former state workers were given severance payments of approximately \$25,000 each. An astonishing



*Miming for money in the streets of the San Telmo district of Buenos Aires.  
Photo by author.*

**ARGENTINA'S EXTERNAL DEBT (Q1 1995 – Q4 2000)**



Note: Total external debt only.  
Source: Banco Central de la República Argentina.

number of these freshly fired workers took this money and invested in a taxi to make a living. Today, about one-fifth of all vehicles in Buenos Aires are taxis and many drivers spend their days prowling the city's wide avenues and quaint café-lined streets seeking potential riders. Most come up empty-handed, and their frustration has led to a dramatic rise in taxi-related robberies in which it is the driver robbing the passenger rather than vice versa.

Other warning signs abound. The city is littered with stores on whose front windows is forever emblazoned *liquidación* and, in the past year, many businesses have reduced prices considerably in an only partly successful attempt to lure customers back. The unemployed protest almost daily in front of Congress and the Casa Rosada presidential palace, and participants report that their numbers are growing.

**THE SEARCH FOR ECONOMIC SOLUTIONS**

On March 3, 2001, in an effort to kick start the flagging economy, President de la Rúa dismissed his entire cabinet following the resignation of the economics minister and the vice president. The next day, Defense Minister Ricardo López Murphy was named the new economics minister. But, in a move that displays the volatile nature of this crisis, López Murphy was sacked only two weeks later and replaced by Domingo Cavallo, Menem's former economics minister and the mastermind of the peso-dollar convertibility plan.

Cavallo has stated that Argentina will not proceed to full dollarization and is, in fact, talking about devising a scheme to provide multiple convertibility for the peso with other world currencies, particularly the euro. Upon taking office, he obtained broad powers from Congress enabling him to intro-

duce new fiscal initiatives in an aggressive bid to revitalize the economy, including a tax on financial transactions and lower tariffs on capital goods. He successfully engineered a \$29.48 billion swap of short-term bonds for longer-term securities, saving a total of \$16 billion in debt-service costs and prompting some analysts to predict an easing of the crisis. International financial organizations also praised the move to cut public-sector salaries and pensions by 13%, and the IMF approved an \$8 billion loan—\$3 billion of which is dependent on restructuring of the public debt.

But the solutions to Argentina's problems may be more elusive than one would expect due to some particular characteristics. If it were a first-world country, Argentina's debt would not be a problem given that its debt-to-GDP ratio is at about same level as the United States' was eight years ago. But Argentina occupies a nebulous middle position among nation-states: It is too poor to be rich and too rich to be poor.

First and foremost, future development continues to be hampered by a lingering reliance on agricultural exports. The country is so dependent upon these exports that it has even used them to try to subsidize its industrial sector (via agricultural profits), a self-defeating strategy. Nonetheless, efforts to diversify the economy by using Argentina's middle development niche to market basic technologies to lesser developed countries have had only limited success, as in the sale of solar water pumps and robotics to Iran in the late 1990s. The legendary beef and wheat of Argentina's glory days at the turn of the twentieth century still dominate, but do not promote growth in the economy.



Argentina benefits from many natural resources, a highly literate population, an export-oriented agricultural sector and a diversified industrial base. However, it suffers from chronic economic turbulence, which recent policy has exacerbated. Ironically, the current economic instability is partially the result of previous attempts under Menem to salvage the economy. The average Argentine's salary or pension has been deflated since mass privatization left most Argentines in the ranks of the self-employed or in private-sector jobs. The looming danger is the possibility of a complete structural downturn.

#### POLITICAL AND STRUCTURAL CHALLENGES

Argentina's difficulties owe more to historical and structural lapses than merely poor policymaking. An example of what Guillermo O'Donnell has called a "delegative democracy," Argentina suffers from an ineffectual and burdensome policymaking structure. The Argentine president commands too much power, enabling him essentially to rule by decree. (Menem issued more than 12,000 decrees between 1989 and 1993). This not only overrides the legislature but also inhibits any sort of meaningful participatory policymaking with opposition parties or business and labor associations. Concentration of power has resulted in gross mistakes, given the lack of consultation with Argentina's interest groups.

A baffling and inefficient revenue-sharing program between the provinces and the capital further complicates this economic muddle. All tax revenues collected in the provinces are sent to Buenos Aires and, in turn, the provinces can take out huge advances against the National Treasury, regardless of the availability of funds. This arrange-

ment has created incredibly strong provincial corporatist systems. In the outlying poorer provinces, such as the wine-growing Mendoza region, most employment is still with the government, allowing provincial governors to administer virtual fiefdoms. In fact, a recent central government plan to impose a countrywide hiring freeze until 2005 to address budget deficits raised howls of opposition from the provinces, which are themselves some of the greatest contributors to the national debt.

These are merely symptoms of a much worse affliction. Argentina has become trapped by its own good intentions to lead Latin America's neoliberal march out of the inflationary chaos of the 1980s. The latest IMF bailout has bought Argentina some time, but the long-term prognosis is not promising. The currency convertibility scheme brought temporary stability, but in the long term it has hampered the country's ability to run its own economy and shape its future.

Argentina's monetary policy is effectively being decided by the United States Federal Reserve, which does not necessarily take Argentina into account. Argentina's ability to devalue its currency in an economic crisis, such as the one the country is experiencing now, has been essentially eliminated. Argentine exports are expensive compared to those of neighboring countries, especially Brazil, which can (and does) devalue its currency. In addition, Argentina's fairly strict pro-labor laws put it at a disadvantage vis-à-vis its Mercosur partners, which are undercutting Argentine exports. And now that hoof-and-mouth disease has been discovered among Argentina's valuable cattle herds, the damage may be irreparable in the short term.

Lastly, there are ominous signs that the Argentine people are

expecting long-term economic instability. All over Buenos Aires on weekday mornings, customers line up outside banks to convert their savings into dollars. One bank teller described it as the worst run on accounts he had ever seen. And the Spanish and Italian consulates (countries from which most Argentines trace their ancestry) are deluged by applications from children and grandchildren of immigrants seeking to reclaim their European nationality as a safeguard if things get too bad.

Many local economists are calling for an end to peso-dollar convertibility, even though a switch would go against the rising tide of dollarization in Latin America (in Ecuador, Panama, and El Salvador the official currency is the US dollar, and in Peru it is de facto). Proponents argue that historical evidence strongly supports the theory that a country must be able to devalue its currency to promote exports, as was done successfully in Chile (1974-1979) and Mexico (post-1985).

To salvage its economy, Argentina may have to desecrate the altar of neoliberalism and curtail some of the free market policies that have ruled the country for the past decade. The alternative is not inviting. Argentina stands at the edge, looking into the chasm of deep recession. Unfortunately, the bottom is nowhere in sight.

*Robert C. Harding II is assistant professor of international relations and Spanish at Lynchburg College in Virginia. He is the author of Military Foundations of Panamanian Politics (Transaction Publishers, 2001). This article is partially based upon his research during a March 2001 visit to Argentina.*



# Puebla-Panamá

by George W. Grayson

**M**exican President Vicente Fox seeks to expand his country's role in world affairs. The six-foot-five-inch chief executive—known as the Marlboro Man because of his imposing height and rugged good looks—is vigorously pursuing a two-year seat on the UN Security Council, acting to contain US military involvement in Colombia and shaping the bilateral agenda with Washington, especially on immigration questions. Another priority for Fox is the Puebla-Panamá Plan (PPP), a proposed 1,000-mile development corridor that would integrate southeastern Mexico with Central America, including Belize and Panama. So far the plan, which is being touted as a boost to historically marginalized economic areas and indigenous communities, has generated as much controversy as it has support.

## ECONOMIC AND POLITICAL GOALS

Fox, a former president of Coca-Cola for Mexico and Central America, is an ardent promoter of the PPP, which some proponents have christened a latter-day Marshall Plan. According to the Mexican chief executive, the initiative would create “all the necessary highway, airport and port infrastructure required for development,” as well as electricity, oil and gas supplies essential for sustained growth.

Mexico contemplates building two refineries and a petrochemical complex in the zone, with pipelines linking the oil-endowed Isthmus of

Tehuantepec to Panama. Even before the five- to seven-year PPP is completed, *Petróleos Mexicanos* (Pemex), Mexico's petroleum monopoly, will open gas stations in Central America—a move that Guatemalan President Alfonso Portillo claims will end “abusive exploitation” by multinational corporations.

Fox insists that the economic boost from the PPP will uplift indigenous communities, especially those in Mexico's southern Chiapas state. This area is home to the small but noisy Zapatista National Liberation Army (EZLN), which launched an uprising on January 1, 1994. In recent weeks, the ski-masked rebels have condemned as a “farce” the indigenous rights provisions added to Mexico's Constitution in August 2001. The Puebla-Panamá gambit, Fox says, would enable Mexico to pay “the enormous debt” that it owes to the 10 million Indians living in its territory.

Geopolitical goals also underlie the venture. When Central Americans speak of their “big brother” to the north, they are referring to Mexico, not Uncle Sam. Even as he presents an increasingly benign Mexican image in the region, Fox wants to broaden his nation's influence in Central America, where Venezuelan President Hugo Chávez is trying to win friends by supplying discounted oil to the depressed, energy-starved area.

Of course, there is also the domestic political angle. Southern Mexico remains a stronghold of the Institutional Revolutionary Party

(PRI), which Fox bounced from power in mid 2000. Attracting businesses, spawning jobs and propitiating Indians in this region could further weaken the PRI, which governed Mexico for 71 years. Already, the PRI has lost the governorships of Chiapas and Yucatán.

## SUPPORTERS AND DETRACTORS

Portillo and other Central American leaders, whose countries are beset by poverty, unemployment and economic woes, have cheered the PPP like aficionados at a World Cup soccer match. They have already championed 16 potential projects to modernize higher education, promote technological literacy, spur tourism, impel industrialization, uplift border areas and aid the five million Central American migrants who cross into Mexico each year.

Fox and the Central American presidents hope that private investors and international lending agencies—spearheaded by the Inter-American Development Bank (IDB)—will come up with the lion's share of the monies for this multi-billion-dollar undertaking. Faced with a stagnant Mexican economy, the Fox administration can contribute only \$15 million to \$20 million annually.

The plan has an important backer in IDB President Enrique Iglesias, who coordinates the commission for the PPP's financing and promotion. “The Puebla-Panamá Plan can be a catalytic force to turn into reality many projects long desired in the Mesoamerican region,” he has said.

## *Regional bonanza or boondoggle?*

Governors in most of the dozen affected Mexican states also have endorsed the program; however, the three holdouts govern strategically located states—Chiapas, Oaxaca and Tabasco—which boast large Indian populations.

Subcomandante Marcos, the leader of the Zapatista guerrillas, has excoriated the PPP as a ploy by “international capitalists and their lackey Fox to eradicate the indigenous culture, exploit the region’s resources and keep the local population in servitude.” Although the EZLN largely engages in guerrilla theater and propaganda appeals to the domestic left and foreign NGOs, it is capable of sabotaging the road, communications and energy projects that must pass through rainforests and rugged, flood-prone terrain. Strengthening Marcos’s hand is the opposition voiced by the smaller, but better armed and trained, Revolutionary Army of the People’s Insurgency (ERPI), which has carried out strikes in states that lie in the PPP’s likely route.

In addition, Central America’s Catholic bishops have blasted the “neoliberal” plan for focusing on energy and infrastructure to the exclusion of human development and poverty. “Globalization in Latin America...has widened the gap between the rich and poor,” averred Gregorio Rosa Chávez, auxiliary bishop of San Salvador, who also highlighted the pernicious impact of corruption and impunity in the region.

Meanwhile, energy analysts worry that Fox’s grandiose design may

precipitate wrongheaded investments by Pemex, long a PRI honey pot, to which Fox pledged to give a “businesslike” orientation. The state enterprise, which generates 37% of the national budget, cannot produce the volume of petroleum products required for a country where demand is rising by 4% per year. The firm’s director general has talked about building two new refineries and petrochemical plants in the PPP zone. But erecting new refineries may not be cost effective, and the idea baffles many economists. “Wouldn’t it make more sense,” one Pemex watcher asked, “to take advantage of shuttered refining capacity in the southeastern US and the Caribbean basin than to spend billions of dollars on new facilities?”

Of course, labor leaders love the notion of more refining and petrochemical activities, regardless of efficiency. Such undertakings help avoid layoffs of Pemex’s 137,000 employees, who produce about the same quantity of hydrocarbons as Venezuela does with less than half as many oil workers.

Environmental groups also denounce the project. They worry that convoys of heavy trucks, giant bulldozers and cranes will devastate the unique biodiversity in the corridor, where the rainforest is already being cut at an alarming rate.

### **THE CHALLENGES OF IMPLEMENTATION**

While lauding the PPP, Mexico’s private sector has been slow to match its rhetoric with cash.

Owners of money-losing construction firms, for instance, have urged the government to barrel ahead with the megaproject, which they hope will generate contracts for their hard-pressed companies. Despite their eagerness for official largess, relatively few Mexican entrepreneurs regard the 65 million people—more than half of them dirt poor—in the region as an attractive market for sophisticated goods and services.

Although emblematic of Fox’s penchant for big concepts, the Puebla-Panamá Plan raises more questions than it answers. In view of the deep recession afflicting the region, the Mexican president, his Central American colleagues and local governors should move cautiously. Without first obtaining rigorous cost-benefit analyses, they could squander billions of dollars of public monies. Their failure to mobilize grass-roots support for the PPP—particularly in rebel-infested Chiapas—could find insurgents bombing expensive energy facilities, communications networks and highways. Such an outcome would do little to brighten Mexico’s star in the international firmament.

*George W. Grayson teaches government at the College of William & Mary and is an adjunct fellow at the Center for Strategic and International Studies. His forthcoming book, Mexico: the Changing of the Guard, will be published by the Foreign Policy Association.*



# The Politics of Hope

by Juan Carlos Gamboa

In November 2000, after allegations of electoral fraud and the release of videos showing the head of his intelligence agency bribing opposition politicians, Alberto Fujimori resigned as president of Peru. He tendered his resignation from the safety of a hotel room in Japan, away from the ire of the Peruvian population.

Although many Peruvians today view Fujimori as the personification of corruption and deceit, they were once quick to hail him as the savior of their country. How do we account for this change of heart? Is distaste for corruption and impunity a sufficient explanation? Are current theories of presidential popularity useful in explaining the issue? What lessons can other leaders draw from Fujimori's experience? The following discussion analyzes Fujimori's popularity ratings during his first term in office (1990-1995) in an attempt to answer these questions.

## PUBLIC OPINION AND THE PRESIDENT

The study of presidential approval ratings is a relatively new phenomenon in transitional democracies, but it has been pursued in the United States and Europe for at least four decades. During this time, three perspectives have come to dominate the field.

According to a first approach, time is the most important factor in determining an executive's approval ratings. This line of thinking argues that a president's successful showing in public opinion polls is only distantly related to his actual performance. After a brief honeymoon peri-

od immediately following his election, a president can expect his ratings to begin a process of slow decline. This downward trend may be interrupted by the successful handling of specific policy crises, but the erosion of presidential support is largely inevitable and inexorable.

A second approach correlates the rise and fall in presidential approval with economic indicators, based on the argument that the economy is the most important factor affecting evaluations of presidential performance. Proponents of this theory might disagree over the role of personal ("pocketbook") or national ("sociotropic") economic considerations in determining citizens' political preferences, but they share the assumption that voters are rational and self-interested actors. From this perspective—which can be summarized in James Carville's well-known phrase "it's the economy, stupid"—presidential ratings rise when economic conditions are good and drop as the economy falters.

A third widely accepted approach to presidential popularity focuses on the media's agenda-setting capabilities. From this viewpoint, news coverage determines the topics society considers important, affects public attitudes toward certain issues and defines the areas in which presidential performance is judged.

Consequently, popular presidents should be considered the result of frequent and favorable news coverage, while unpopular ones are the product of the media's constant criticism.

Are any of these perspectives sufficient to explain Fujimori's public

opinion performance? Not really, this article contends.

## STABILITY AT A PRICE

The story of Fujimori's first term in office is well-known. He took power in 1990 amidst a profound economic and political crisis, which included violent guerrilla activity countrywide. After his upset victory over novelist Mario Vargas Llosa, the new president took decisive steps to reform an economy that had nearly half of Peruvians living in extreme poverty. Faced with inflation rates of more than 7000%, he implemented a shock program that included the elimination of subsidies, price hikes for gasoline and public services, a liberalized exchange rate, cuts to the federal bureaucracy, more "flexible" labor laws, and the creation of a new agency (SUNAT) to combat tax evasion.

The initial result of these measures was even higher inflation and an erosion of public support. But as Fujimori negotiated with global lenders to "reinsert" Peru into the global economy, enthusiasm for his programs began to increase. It grew even more after he dismissed Congress and suspended constitutional rule in 1992. Eighty percent of Peruvians supported the *autogolpe*, allowing the president to overcome a weak start marked by popular distrust of his economic program. This support was solidified with the capture in September 1992 of Abimael Guzmán, the leader of the Shining Path guerrillas. Once it became evident that Fujimori's government had gained formal legitimacy and that terrorism no longer represented a



## *Explaining presidential popularity in Fujimori's Peru*

Fujimori's case suggests that, rather than being led by time variables, economic success or positive media coverage, public approval ratings—at least in transitional democracies—could instead be guided by the executive's capacity to alter popular expectations of the future via policy strikes.

major threat to the state, new and repatriated capital began flowing into Peru, providing a substantial boost to the economy.

But while Fujimori's economic reforms succeeded in controlling inflation, promoting investment and stimulating growth, they had a strong negative effect on other important indicators, among them poverty and employment. During Fujimori's first term, the number of poor people in Peru grew from seven million to 12 million. By 1995, half of the country's population was living in poverty. Joblessness also soared; by the end of 1995, only 10% of Peruvians had stable work, 70% were underemployed and 20% had no job.

Despite these grim statistics, and regardless of Fujimori's unapologetically authoritarian style, his popularity grew at an impressive pace after 1992 and stayed high until the end of his first term, as evidenced by his easy re-election in 1995. In fact, contrary to what could have been expected from a time-based explanation of presidential popularity, Fujimori's approval ratings were sub-

stantially higher in 1995 than they were at the beginning of his administration.

Moreover, according to surveys carried out by Apoyo S.A., a respected public opinion firm, the president was able to draw on the support of the population as a whole, including those sectors that most ardently fought his 1990 candidacy (high-income groups) and those most affected by his economic policies (low-income Peruvians). Could this be an example of "sociotropic" attitudes toward the economy outweighing personal, "pocketbook" factors? Surveys suggest that this is not the case (see Figure 1). Peruvians supported the president, but continued to evaluate both their families' and the nation's economic situation as negative or "average." Despite the commonly assumed correlation between economic conditions and presidential approval ratings, factors relating to economic performance are insufficient to explain Fujimori's popularity.

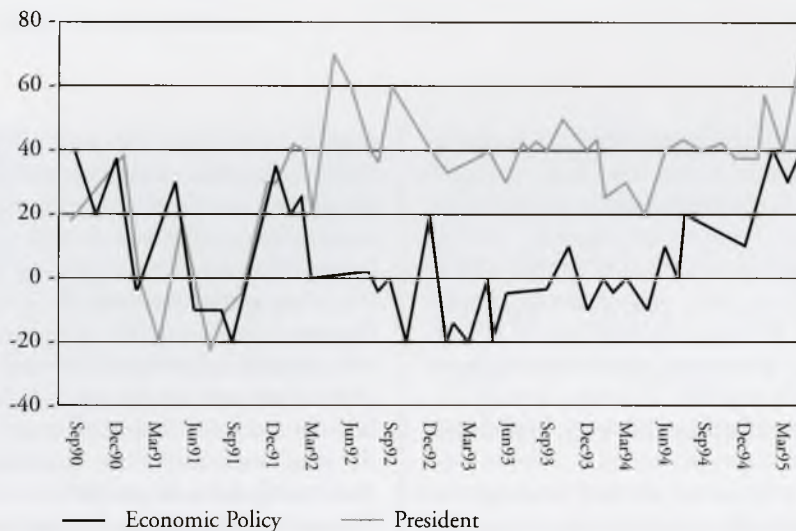
A careful look at news coverage also calls into question the validity of media-based explanations of presi-

dential popularity in this case. Peru's lively news media offered generally favorable coverage of Fujimori, presenting him as an active, hands-on leader. However, the news items they featured did not coincide with the issues that the public cited most often in polls. Between 1990 and 1995, Peruvians consistently identified the economy and terrorism as the issues most important to them. But during the same period, Peruvian newspapers and magazines devoted most of their front-page coverage to high-profile political events, such as the closing of Congress and constitutional referendums. Social issues also took a back seat to political coverage, although Peruvians consistently ranked poverty and hunger among the country's most serious problems.

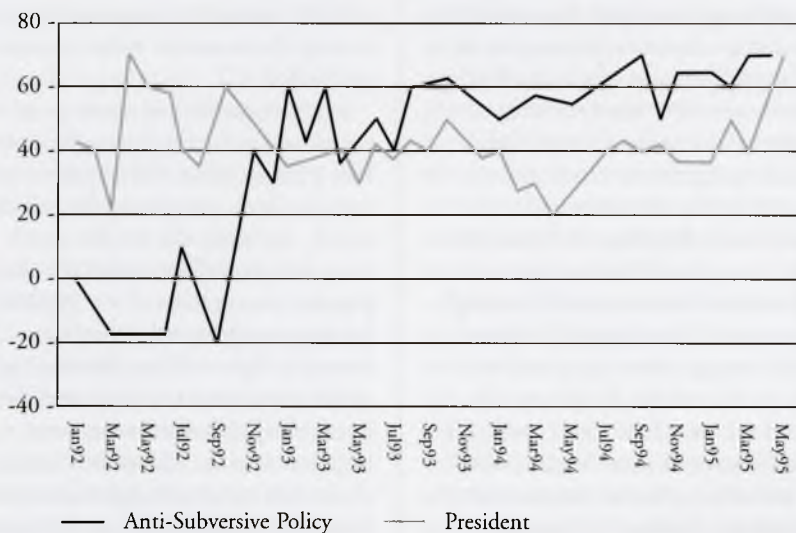
In short, privileged coverage of issues in the media during Fujimori's first term in office did not seem to translate into salience in the public mind. At most, the media could have had an indirect influence on popular perceptions of the president by presenting his initiatives in a favorable light. Given the discrepancy between news coverage and the issues the public ranked as most important, it is reasonable to conclude that news coverage could not have had a direct effect on Peruvians' evaluations of presidential performance.

Once we have discarded time, economic and media-based theories, what is left? Close analysis of Apoyo's polling data suggests that the most important factor behind Fujimori's appeal was eradication of the terrorist threat and, especially, the

**Figure 1: Comparative Net Approval Ratings (1990-1995):  
The President and Economic Policy**



**Figure 2: Comparative Net Approval Ratings (1990-1995):  
The President and Anti-Subversive Policy**



enormous expectations this issue created among Peruvians (see Figure 2).

After the capture of the Shining Path leadership in September 1992, the administration's antiterrorism policies earned Fujimori wholeheart-

ed support from a population that had been growing impatient with economic recession and the lack of a government social program. This achievement seems to have been enough to compensate for the presi-

dent's perceived shortcomings in other areas, as illustrated in Table 1.

Reducing the terrorist threat was vital for the transformation of the national mood, single-handedly reversing Peruvians' perception of the country's future prospects at a time when a recession made it difficult to recognize the benefits of the administration's economic program. Indeed, by March 1993, just a few months after Guzmán's capture and despite serious doubts about the country's economic performance, Peruvians began to feel optimistic for the first time in years. This situation was confirmed in June of that year, when positive evaluations of the country's future surpassed the vital 50% mark.

#### EXPECTATIONS AND DEMOCRACY

Fujimori's case suggests that, rather than being led by time variables, economic success or positive media coverage, public approval ratings—at least in transitional democracies—could instead be guided by the executive's capacity to alter popular expectations of the future via policy strikes. Judging from the Peruvian example, issues such as government corruption and regard for democratic procedures may be of little importance to voters.

In light of the astonishing popularity he achieved, it is remarkable how little attention Fujimori paid to democratic formalities. Equally striking is the negligible effect this factor had on public evaluations of his performance. Some of his policies—especially those related to the government's antiterrorist strategy—undoubtedly contributed to political and economic stability in the short term, but they also implied a de facto militarization of Peruvian society. Instead of moving the country toward a consolidation of democratic practices, Fujimori led Peru in a political regression characterized by blatant



TABLE 1: EVALUATIONS OF FUJIMORI'S GOVERNMENT (Source: Apoyo S.A.)

**Which has been the most positive aspect of Fujimori's government in the past year?**

DATE	LOW INCOME	MIDDLE INCOME	HIGH INCOME
July 1991	Financial "reinsertion"	Financial "reinsertion"	Financial "reinsertion"
July 1992	Close Congress	SUNAT	Reduce inflation
July 1993	Capture terrorists	Capture terrorists	Capture terrorists
July 1994	Sendero's defeat	Sendero's defeat	Sendero's defeat

**Which has been the most negative aspect of Fujimori's government in the past year?**

DATE	LOW INCOME	MIDDLE INCOME	HIGH INCOME
July 1991	"Shock" program	"Shock" program	"Shock" program
July 1992	Inflation not controlled	Lack of social program	Lack of social program
July 1993	Economic recession	Economic recession	Economic recession
July 1994	Lack of social program	Dependence on military	Economic recession

neglect of the law and open disregard of civilian institutions.

Such a governing style—which some analysts have come to call “delegative democracy”—concentrates power in the presidency at the cost of other established institutions that play a balancing role, opening the way to abuses. Perversely, this concentration of power gives presidents the ability to conduct effective actions in economic, political or social areas bound to increase their popularity among their citizens. Through executive decrees and other forms of vertical governance, the president can take sole credit for the expedient and successful handling of specific problems, producing a phenomenon similar to the “rally around the flag” effect observed during for-

eign policy crises in advanced democracies. Even if carried out by questionable means, successful policy strikes, feeding on public frustration, create hope among the population, allowing the government to resist and render ineffective scrutiny by the media, constitutional experts and other political actors.

In contrast, in any true representative democracy, one with functional institutions, the decision-making process is the product of protracted negotiations between divergent interests. As a result, government initiatives in a democratic setting tend to emerge slowly. This characteristic, which some might consider a defect, should actually be interpreted as a virtue, for it provides society with a certain degree of protection against

erroneous policies and ensures that responsibility for mistakes is shared among various political actors.

Fujimori's concentration of power made it possible for him to deliver speedy solutions (which most Peruvians gratefully supported) and take full credit for them. In the process, however, he debilitated the country's institutions and increased his chances of committing serious mistakes. Peruvians have had to pay the price for their willingness to support such a strategy.

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# Pension “Privatization”

by Carmelo Mesa-Lago

In the last two decades, half of the countries of Latin America have undertaken structural reforms, or “privatization,” of their social security pension systems. This article discusses how much is true about this so-called privatization and the role of the state; in addition, it examines the impact of the reform on the insured, as well as its macro- and microeconomic effects.

## THREE MODELS OF REFORM INSTEAD OF ONE

In 1979-1981, Chile pioneered a profound structural reform of its social security pension system. It did not have an impact on the region until the 1990s, and then mainly as a result of World Bank policies and pressures. By the end of 2000, 10 Latin American countries had enacted pension reforms but, instead of copying the supposedly universal Chilean prototype, they followed three general models:

1. *Substitutive*, similar to the Chilean prototype and implemented in Bolivia (1997), Mexico (1997), El Salvador (1998) and Nicaragua (enacted in 2000 but not enforced yet). In these countries, the public system was closed (new affiliations were not allowed) and replaced with a “privately” administered system (except in Mexico, where management is “multiple”; i.e., public, private or mixed). The new “private” system pays a pension based on the sum accumulated in the insured’s individual account at the time of retirement.

2. *Parallel*, implemented in Peru (1993) and Colombia (1994). Under this model the public system was not closed but reformed, becoming an alternative option to a private system with similar characteristics to Chile’s. The current and future insured are allowed to switch between the two systems in Colombia. The administration is exclusively private in Peru but multiple in Colombia.

3. *Mixed*, implemented in Argentina (1994), Uruguay (1996) and Costa Rica (2001). Here too the public system was not closed but reformed, becoming one of two integrated components of a new, mixed system: the public component pays a basic pension, while the “private” component is administered by multiple institutions and pays a supplementary pension.

## OVERSOLD PRIVATIZATION AND THE KEY ROLE OF THE STATE

In spite of “privatization,” half of the systems in the 10 countries are not exclusively managed by private corporations. Four countries with substitutive systems have exclusive private administration (Chile, Bolivia, El Salvador and Nicaragua, in law), as does Peru in its parallel private system. The three mixed systems have a combination of public administration in the basic component and multiple administrators in the supplementary component. In the parallel models of Colombia and Peru, the public system is managed by social insurance, and both Colombia’s parallel “private” system and Mexico’s sub-

stitutive system have multiple administrators. The percentage of insured in the “private” system or component varies significantly among countries, from 100% in Bolivia and Mexico to 97-90% in Chile and El Salvador, 78-79% in Argentina and Peru, and 49-40% in Uruguay and Colombia (no data are available yet for Costa Rica and Nicaragua).

State intervention has proven to be absolutely necessary for the proper function and sustainability of the “private” system, through such mechanisms as mandatory affiliation; strong and detailed public regulation of the system; control, monitoring and sanctioning through a supervisory public institution (state-financed in several countries); strict regulation of investment instruments and ranking of them by a public institution; and a triple fiscal subsidy.

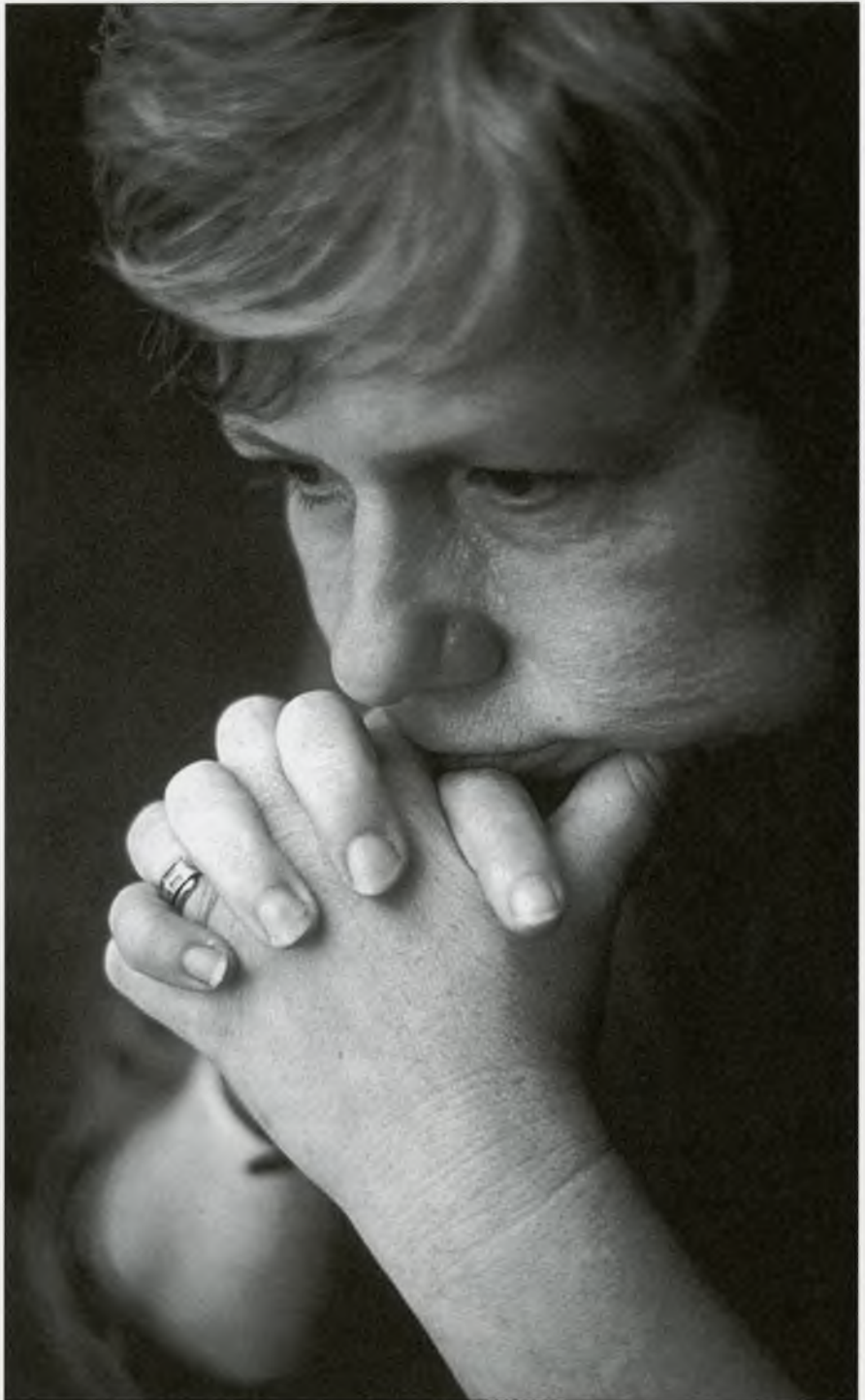
Pension reforms of the substitutive and parallel types provoke heavy fiscal costs that account for this triple subsidy. First, the public system incurs a deficit; left without contributors, or only a minority of them, it retains the burden of all current pensions and those that will be eventually granted to the insured who stay in that system. The state finances this deficit in all countries. The second cost is the value of the contributions paid to the old system by all insured who move to the new system (often called a “recognition bond”). This value is adjusted annually to inflation (except in Nicaragua), and two countries (Colombia and Chile) also pay an interest rate.

## *A review of the results after two decades*

The state is responsible for this cost in all countries except Mexico and Uruguay (Peru has granted few recognition bonds.) Third, a minimum pension is guaranteed to all insured in the new system whose accumulated sum in the individual account is insufficient to finance the minimum level. The state is responsible for this difference in five countries (Chile, Colombia, El Salvador, Mexico and Nicaragua, in law). Neither Bolivia nor Peru effectively grants this benefit. Under the mixed model, the public component may generate a deficit (Argentina and Uruguay) or not (Costa Rica), but there is no need for a recognition bond, as the insured is guaranteed a basic pension in the public component.

### **THE ELIMINATION OF EMPLOYER CONTRIBUTION AND ITS EFFECTS**

Chilean reformers eliminated the wage contributions paid by employers to pension systems, arguing that they caused a distortion in the labor market (i.e., an incentive to substitute capital for labor, hence restricting job creation). Bolivia and Peru later followed suit. This argument has not been theoretically or empirically proved. The employer contribution may be transferred to consumers or back to the workers, thereby avoiding labor market distortion. Most countries have not eliminated the employer contribution; four kept it unchanged (Argentina, Costa Rica, El Salvador and Mexico), one slightly reduced it (Uruguay), and three actually increased it (Colombia, Costa Rica





and Nicaragua). The insured contribution was slightly reduced in Chile's private system (but not in the public one), remained unchanged in Argentina, Costa Rica and Mexico, and was increased in six countries: Bolivia, Colombia, El Salvador, Nicaragua, Peru and Uruguay. The financial burden of pension reform, therefore, has been shifted in most countries from the employer to the insured, and the elimination of the employer contribution has led to either an increase in the insured contribution or the fiscal subsidy.

#### DECLINE IN LABOR FORCE COVERAGE

The percentage of pension coverage of the labor force in Latin America has been positively correlated with the level of development and, specifically, with the size of the formal, salaried sector in any given country. Prior to the reform, the 10 countries under consideration fell into three groups: (1) Argentina, Chile, Uruguay and Costa Rica, with 70% to 80% coverage; (2) Colombia, Mexico and Peru, 32% to 44%; and (3) Bolivia, El Salvador and Nicaragua, 12% to 23%.

The percentage of the labor force covered after the reform can be measured based on the number of affiliates or active contributors. The former are all those who have joined the system at some point, while the latter are affiliates who contribute regularly. At the end of 1998, the percentages of coverage based on affiliates and active contributors were, respectively: 72% and 66% in Uruguay; 109% (statistically impossible) and 59% in Chile; 63% and 30% in Argentina; 44% and 23% in Colombia; 36% and 23% in Mexico; 29% and 20% in El Salvador; 26% and 13% in Peru; and 13% in Bolivia (no

## "Privatization" of pensions varies among countries and cannot be achieved without significant state intervention and subsidies.

data on active contributors). Estimates of affiliates before and after the reform indicate a decline in coverage in four countries; the exceptions were Uruguay and El Salvador (no significant change) and Chile and Colombia (an increase, but of doubtful magnitude in the former). Estimates of coverage based on active insured cannot be compared with data prior to the reform but they are significantly lower than those based on affiliates; the increase in the insured contribution could be one explanation for the fact that only an average of 55% of affiliates are active contributors (actual percentages range from 44% in Peru to 65% in Uruguay).

#### INADEQUATE COMPETITION AND HIGH ADMINISTRATIVE COSTS

Adequate competition among administrators of "private" pension programs is essential to improve efficiency and reduce management costs. In theory, administrators compete for an insured population that has sufficient information to choose the best option, based on the highest capital return and lowest management commission. Available data suggest, however, that this model of competition is not functioning properly. The eight pension reforms demonstrate that the higher the number of insured, the higher the number of administrators, and vice versa. Thus Mexico has 14 million insured and 14 administrators; Argentina, eight million and 13; Chile, six million and eight; Colombia, three million and six

(albeit with multiple types of administrators, which facilitate entry); Peru, two million and five; El Salvador, 670,000 and three; and Bolivia, 492,000 and two. In the latter country, the number of insured was so small that the government decided the market would allow only two administrators, divided the insured between the two by area of residence, and prohibited changes. As a result, Bolivia has no competition, but rather a duopoly.

Even with a fair number of administrators, a significant percentage of insured is concentrated in the biggest three: 100% in El Salvador and Bolivia (divided between its two administrators); 78-75% in Chile and Peru (in Chile this concentration has steadily increased from 59% in 1983); 69-60% in Uruguay and Colombia; 54% in Argentina; and 45% in Mexico, which sets a maximum of 17% to each administrator. In Chile, the three administrators with the highest number of insured have neither systematically charged the lowest commissions nor paid the highest capital returns over time. Other reasons explain why the insured select these administrators: the work of salesmen who earn a commission for every insured they move; gifts and other treats given to the insured as an incentive to switch; lack of information or skills to make educated decisions; and huge advertising campaigns that fail to provide data on performance.

If competition works improperly, then administrative costs should



not decline, a conclusion supported by data from nine countries. The commission, exclusively paid by the insured and usually imposed on salaries, ranges from 4.1% in Mexico; 3.8-3.0% in Peru, Colombia, Argentina, El Salvador and Nicaragua; and 2.6-2.5% in Uruguay, Chile and Bolivia. Historical trends show that commissions have been stagnant or experienced very little reduction. The heavy administrative burden on the insured can be assessed by the percentage of wages that go toward commission over the total discount (commission plus deposit in an individual account): 32-30% in Peru, Argentina, El Salvador and Mexico; 26-20% in Colombia, Chile and Bolivia; and 17.5% in Uruguay.

#### HIGH CAPITAL ACCUMULATION AND RETURNS BUT DOUBTFUL IMPACT ON NATIONAL SAVINGS

According to the World Bank, structural pension reform has several beneficial macroeconomic effects. These include increased capital accumulation and investment in the capital market (which becomes more developed and generates a high capital return or investment yield), and diversification of the pension fund portfolio. These results in turn generate higher national savings and economic growth.

The data support some of these assumptions but reject others. Eight countries have registered significant capital accumulation in their pension funds: \$33.24 billion and 40% of GDP in Chile; \$16.78 billion and 5% of GDP in Argentina; \$8.30 billion and 2.5% of GDP in Mexico; \$2.92 billion and 2.3% of GDP in Colombia; \$2.274 billion and 2.5% of GDP in Peru; \$472 million and 4% of GDP in Bolivia; \$477 million and

1.3% of GDP in Uruguay; and \$118 million and 0.4% of GDP in El Salvador (in all cases, percentages are for 1998 or 1999 GDP). Annual real average yields from the inception of the reform until the end of 1998 or mid 1999 have been fairly high, too: 13% in Argentina; 11.3% in Chile; 10.1% in Colombia; 8% in Mexico; and 7.5-7.4% in Bolivia, Peru and Uruguay. But these yields must be interpreted with some caveats. The figures are gross and administrative costs should be deducted to obtain net yields. In addition, all of the systems, except Chile's, began in the 1990s when international markets had very high returns; the regional crises of 1995 and 1997-1998 reduced the yield considerably. Oscillations of the capital market can generate quite different pensions in times of boom or bust. In Chile, for example, an insured who entered the system in the 1980s will have a significantly higher pension than one who joined later.

Two studies of Chile, the country with the longest reform in operation and where many assumptions have been tested, show contradictory evidence concerning the impact on capital markets and national savings. The first study, commissioned and published by the IMF, concluded that the empirical evidence coincided with the claim that pension reform contributed to financial market development and a more diversified portfolio, but cautioned that the results did not constitute sound proof that the reform was the decisive factor in this outcome. The IMF study also acknowledged that the assumed impact of the Chilean pension reform on national savings was doubtful. The second study, carried out by a high official of Chile's Ministry of Finance,

demonstrated that the net effect of pension reform on national savings was negative. In 1981-1996, it found, the annual average capital accumulated in individual accounts was 2.7% of GDP, but the fiscal cost was -5.7%, resulting in a negative net outcome of -2.6% of GDP.

Chile's pension fund portfolio is more diversified than it was in 1983, when it was overwhelmingly invested in public debt instruments or deposited in state banks. By 1999, however, 37% of the portfolio was still in state debt paper, and only 13% was in stocks. Other countries have experienced little diversification of their portfolios; in Mexico, El Salvador, Bolivia and Uruguay, from 64% to 97% of the investment was in government debt paper in 1999. The proportion of investment in stocks was nil in five countries and only had significant shares in Peru (27%), Argentina (17%) and Chile (13%).

As these results show, "privatization" of pensions varies among the 10 countries and cannot be achieved without significant state intervention and subsidies. The outcome of reform has been mixed and many of its alleged positive effects have not materialized. This is an important lesson for the rest of Latin America and other regions of the world considering reform programs.

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# A Silent Enemy

by Max B. Rothman and Burton D. Dunlop

Elder abuse in the United States, as in many other countries, traditionally has not been a high-priority policy issue. Typically, it has been overshadowed by more visible cases of domestic violence and child abuse. Except for an occasional high-profile case in a nursing home or other institutional setting, elder abuse, particularly when it involves family members in the home, does not receive much public discussion or analysis. Unfortunately, as case-loads continue to rise, many important issues remain in addressing the dynamics of treatment and prevention. Better understanding of these issues in the United States may help countries throughout the Americas identify concerns in their own societies and design policies and programs to confront them.

## PATTERNS OF ABUSE

Elder abuse can be an act of commission whereby either physical or psychological injury is inflicted on another person. It also can be manifested as neglect, the failure to fulfill an obligation or duty to another person, or as exploitation, the illegal use of another's property. A national US study of 1996 data estimated that of approximately 44 million older adults 60 and above, 450,000 had experienced abuse, neglect or exploitation. This figure constitutes an incident rate of around 10 per 1,000 older adults.

A study the authors conducted of 1997 data for Miami-Dade County, Florida identified an incident rate of 5.36 per 1,000, or only 54% of the national rate. The discrepancy most



likely involves the underreporting of actual cases, but additional issues were identified that may be of importance to other jurisdictions. These include understanding the profiles of abuse victims and perpetrators; the level of recidivism; race, ethnicity and cultural influences; risk factors; the use of available data to assist policymakers and those responsible for investigations; the availability of appropriate treatment models; professional training; and community awareness.

The reason for the apparent underreporting of cases of elder abuse in Miami-Dade County is unclear. Hispanics represent nearly 60% of all older adults in the county. We speculate that this group is significantly less likely to report elder abuse, especially when it occurs in the family. Unfortunately, the state of Florida agency responsible for investigating and providing services for victims does not collect data on ethnicity. Therefore, we could not analyze the profiles of victims and perpetrators based on this critical variable.

A crucial factor that emerged from the data, however, is the age of both the victims and the perpetrators of abuse. Nearly one-half of substantiated cases involved victims 80 years of age or older. People in this age group were victims of maltreatment at a rate more than 2.5 times their proportion in the total population of older adults. Approximately three-quarters of victims were white and one-quarter were black. Women were victims in nearly two-thirds of substantiated cases.

More than 86% of perpetrators were under 60 years of age compared to 66% nationwide, strongly suggesting that perpetrators are significantly younger in Miami-Dade County. More children or younger family members seem to be committing elder abuse in this area, but again, the reasons are unclear. Three-fifths of perpetrators were white and a little more than one-quarter were black (the rest were categorized as "other" or "unknown"). Approximately 53.5% of cases involved female perpetrators, climbing to 56.2% in cases involving a male victim.

## TRACKING THE WARNING SIGNS

Some of the patterns that emerged from the Miami-Dade data have significant implications for the way authorities address elder abuse. For example, a third of the South Florida cases involved at least one previous incident within the last year. This statistic leads us to conclude that the system of intervention and assistance to victims is not working effectively.

One major reason for this failure may be a lack of important information at the state agency responsible



## *Elder abuse in Miami-Dade County, Florida*

for this system. Knowledge of risk factors or indicators that can be used to predict future abuse is critical to the state's ability to respond effectively in terms of identification, intervention and prevention. If case data that address the issue of risk are not collected and made easily retrievable for those engaged in the system, the state's ability to carry out its responsibilities is dramatically reduced.

Many different factors may contribute to elder abuse. Researchers have been able to describe the elements typically identified in family abuse situations, including victim characteristics, perpetrator characteristics, and the history and dynamics of their interaction. The literature strongly suggests that the primary risk factors are: 1) past abuse; 2) physical or mental dysfunction of the older person; 3) financial dependency of an adult child; 4) emotional ill health of a dependent adult child; and 5) social isolation of the family. Such patterns could be discerned if information were available to track health status measurements, such as household structure (including the ages and relationships of each household member), and mental or personality disorders of victims and alleged perpetrators. Recording and computerizing the data that could help track these factors would assist key staff in achieving the state's goals.

Another major factor that limits the state's ability to respond more effectively to abusive situations is the low level of funding and the scope of services provided. The only source of funding in Florida is for long-term care services for the victim; e.g., in-home services designed for frail

elders. These services are limited to addressing the victim's physical situation, not the underlying issues of intra-family violence and prevention of future episodes of abuse. The state has no responsibility to address issues related to the perpetrator.

### **KEEPING THE PROBLEM IN THE PUBLIC EYE**

Elder abuse is a complex issue that requires a more comprehensive model of explanation and treatment. Experience in responding to the broader category of domestic violence in the United States offers insight into the elements required to design a more comprehensive approach.

Models for addressing elder abuse should emphasize crisis intervention. In addition to the hotlines that already exist to report abuse, they should provide for special shelters, support groups, safety planning for the victims, imposition of legal sanctions, and anger management services for the perpetrators. All of these approaches are intended to underscore the importance of providing opportunities for victims to become more independent.

One of the most valuable lessons learned from the domestic violence experience is the importance of insuring that the issue of elder abuse has high visibility among both professionals and the public. Designers and implementers of treatment and prevention models have an ongoing responsibility to ensure that professionals working in the system—investigators, police, fire-rescue personnel and others—receive both pre- and in-service training in the issues

addressed here. Training in investigative skills, understanding the importance and usefulness of case information and other related topics, such as substance abuse and sexual abuse, is vital to the success of state efforts. Those most likely to report elder abuse—doctors, nurses, social workers and others who come into regular contact with older adults—should be educated about risk factors and how to identify them. All professionals need to understand the cultural dimensions of abuse and should be part of the continuing effort to expand community awareness about elder abuse prevention, reporting and intervention.

Public awareness is perhaps the most important factor in a community's effort to prevent the occurrence of elder abuse. Public education campaigns related to each of the issues discussed here should be launched in collaboration with clergy and religious institutions as well as the local media, which can be effective in targeting geographic areas with high rates of abuse. The more information the public has about what constitutes abuse, how to recognize it, how and where to report it, what happens when a report is made, and what resources are available to assist victims, the more effectively a community can generate resources to combat it.

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# Battling a Killer

by *María Esther Lozano Dávila, Jorge Chávez Samperio and Martín Pérez Ramos*

One of Mexico's most notable social accomplishments in recent years is a significant decline in mortality rates. Over the last four decades, average life expectancy has increased dramatically. Forty years ago, Mexican men could expect to live to the age of 56.5; today, male life expectancy is 72.8. The increase for women has been equally impressive, from 59.3 to 77.3. This change, along with a decline in the birth rate, has altered the demographic profile of the country. For the first time, Mexico has had to confront the social impact that results from a steady increase in the aging population.

As the nation's largest health care provider, the Instituto Mexicano de Seguro Social (IMSS) has experienced the pressure of this population shift. In 1999, IMSS services—a benefit available to workers and their families—reached 43,249,762 Mexicans, or 53.23% of the population. Older adults accounted for 12% of this total. The number of older adults using the institute's services increased significantly during the latter half of the 1990s. In 1994, IMSS had 2,495,571 clients who were more than 60 years old; by 1998, this figure had risen to 3,040,460, or 60.9% of Mexicans in this age group.

Over the same period, an economy geared more toward industrial development has led to lifestyle changes that imply new health risks for older adults. A shift toward diets high in fat and salt; increased

alcohol and tobacco consumption; longer and more stressful work schedules—all have affected patterns of health, illness, infirmity and death. Mexico is experiencing an epidemiological transition typical of developing countries, in which communicable diseases such as respiratory and intestinal infections continue to be a problem even as chronic degenerative diseases are on the rise.

## EDUCATION AND PREVENTION

In recognition of the growing numbers of elderly Mexicans, IMSS has made serving this group one of its priorities via a special area known as the Programa de Atención a la Salud del Adulto Mayor (Older Adult Health Awareness Program). The program has a double focus: first, it encourages seniors to volunteer as community health advocates; and second, it emphasizes a holistic approach that includes a range of educational, preventive, assisted living, recreational, cultural and social programs. Among the most important preventive measures is vaccination against pneumonia, one of the leading causes of death and illness among older IMSS patients.

In the last three years, cardiovascular ailments, cancer, diabetes and pneumonia topped the list of the 10 leading causes of death among the 65 and older population in Mexico. This held true for both the national population and IMSS patients. The very young and the elderly are the populations most susceptible to pneumonia. The

risk increases if the patient already suffers from heart problems, chronic respiratory difficulties, diabetes, alcoholism, cirrhosis of the liver, or any condition that weakens natural immunological defenses to the disease.

IMSS introduced the pneumococcus vaccine as part of the Older Adult Health Awareness Program in 1994. The previous year, the institute attempted to overcome public skepticism with an educational campaign to increase understanding of the importance of immunization for those over the age of 60. The campaign culminated with a nationwide health fair, where the vaccine was offered for the first time. Since then, Mexico has instituted National Health Weeks two times a year to reinforce the vaccination program across the country. In 1994, 485,230 people were vaccinated; by 1998, the figure had nearly doubled, to 940,933. Six years after it was introduced, the vaccine had been applied to 77.54% of IMSS patients in the 60 and older group.

The type of vaccine used by IMSS—a combination of 23 polysaccharides considered to be responsible for 80% of pneumonia cases in most countries around the world—has been reported in the medical literature to confer an average of five years of immunity to pneumonia, and in some cases up to 10 years. The period of immunity can be significantly less in children with diseases of the spleen or kidneys, and in older adults with multiple myeloma, Hodgkin's disease or renal failure.



## *Public health campaigns reduce pneumonia cases among older Mexicans*



### EARLY SUCCESS RATES

In 1994, when the vaccination campaign started, IMSS patients had a slightly greater incidence of pneumonia than did patients using clinics affiliated with the Secretary of Health, which are open to all Mexicans. Over the next several years, however, this tendency was reversed. From 1994 to 1998, the rate of pneumonia among IMSS patients rose by 57.41%, compared to 67.30% nationally. The rate of infection among IMSS patients began a gradual decline in 1997, although mortality rates from the disease remained relatively constant.

In addition to the decline in infection rates, the vaccination effort can be credited with launching public health awareness campaigns that have found a positive response among the older adult population, as evidenced by the nearly 80% vaccination rate among this group.

Vaccination campaigns cannot be judged by their short-term effects. Many other factors may have contributed to the decline in cases of death and illness from pneumonia in Mexico, among them socioeconomic levels and cultural and environmental influences. These factors may play a role in the discrep-

ancy between the illness rates reported by IMSS and the Secretary of Health.

Epidemiological studies to determine the level of antibodies in the older adult population will be key to rating the vaccine's ultimate effectiveness.

*Dr. María Esther Lozano Dávila runs the Older Adult Health Awareness Program at the Instituto Mexicano de Seguro Social (IMSS). Dr. Jorge Chávez Samperio and Dr. Martín Pérez Ramos are medical program coordinators.*

# Surviving at Home

by Ursula M. Karsch

**B**razil holds the second highest mortality rate for stroke victims in the world. This cerebrovascular accident is the number one cause of death among Brazilian men and women aged 65 and over. However, although reliable data on survival rates after stroke and degrees of disability are not yet available, the proportion of cerebrovascular disease as a cause of death in Brazil has been decreasing in the last 20 years among both sexes (male: 18.7% in 1980 and 16.7% in 1991; female: 21.0% in 1980 and 18.1% in 1991). As more patients survive strokes, many require ongoing care to cope with disabilities and perform routine daily tasks. The observed declining trend in case fatality makes it likely that the prevalence of stroke-related disability will increase in the coming decades. In a health care system that lacks the resources for long-term care, this places a heavy burden on families, the most common caregivers for dependent elders. The largest share of this burden falls on women—daughters and wives—who often must give up jobs that they hold outside the home to care for their relatives, even when the additional income from their employment is sorely needed.

This article presents a few results of a study sponsored by the Overseas Development Administration, with grants from the Sandoz Foundation for Gerontological Research and Brazil's Conselho Nacional de Pesquisa. It examined the caregiv-





## *Caregiving arrangements for stroke survivors in São Paulo, Brazil*

ing arrangements of 102 people who experienced functional losses after suffering a first episode of stroke at age 50 or over. In addition to yielding a profile of primary caregivers, the findings allow a glimpse of trends in the living situations of elderly stroke victims, many of whom are housebound after they are discharged from the hospital, and the coping strategies adopted by their caregivers.

### THE SAMPLE

The study began in 1992 with an initial sample of 168 cases recruited among seven hospitals in various districts of São Paulo, Brazil's largest city. According to the 1991 Brazilian census, the proportion of men and women aged 65 and over living in urban centers increased by more than 30% since 1950. The latest figures available show 72.6% of men in this age group and 79.7% of women living in cities, making urban areas the most likely setting for elders surviving in dependent care arrangements.

Like most of Brazil's major metropolitan areas, São Paulo is located in the southeastern part of the country. This region boasts excellent medical assistance and a relative abundance of hospitals, and it has the highest level of per capita income in the country. It is also characterized by better working conditions and living standards than other parts of Brazil.

Of the initial 168 cases, 17 were used for pre-testing the questionnaire. The research began with the remaining 151 cases. During the data collection process, many cases

were lost as patients refused to take part in the study, moved away from town, were unreachable for data collection, survived with no functional loss or died. The final sample included 102 cases.

Patients aged 50 years and over were visited in their homes three times over a period of about one year after the first stroke episode. On each of the visits their caregivers were interviewed by means of a questionnaire. The interviews gathered data about the profiles of the caregivers and the family support they received, as well as the dynamics of care provided for the dependent person.

Of the 102 patients, 80 survived with functional loss: 44.6% had partial paralysis, 3.6% were completely paralyzed and 25.0% experienced partial hemiplegia. In addition, 19.6% of patients had difficulty in communicating, 9.8% presented visual problems, 14.7% had difficulty swallowing, and 34.3% suffered mental disorders. Most patients had more than one of these impairments combined with other losses of functions. More than 50% were unable to perform their usual daily activities and 71.6% were unable to leave the house on their own. Almost 70% were totally dependent on someone else to accomplish at least one basic everyday task.

Of the patients surveyed, 61.8% were married and 23.5% were widowed. Forty-five (44.1%) were married to their caregivers. Eighty-nine (87.3%) of the caregivers were women; 67 of them (67.6%) were between 40 and 74 years old. In

total, 80.3% of the caregivers were 40 years old and over and 78.43% were aged 60 and over. Almost 58.8% of the caregivers were of the same generation as their patients—50 years of age and over—with a high concentration (38.2%) of caregivers aged 60 and over taking care of 80.3% of patients aged 60 and over. In other words, two-thirds of the sample featured one elderly person looking after another. Of the primary caregivers, 39.2% were the patients' wives and 31.3% were daughters, confirming the vital role played by spouses as caregivers. Children were second to spouses in acting as caregivers (36.2%); 6.9% were sons-in-law or daughters-in-law.

### HOUSEHOLD CARE ARRANGEMENTS

Finances were a strain for most families in the sample. Nearly two-thirds—62.8%—had monthly incomes below \$500 and 10% earned less than \$100 a month. Almost 18% were couples living together, 11% on \$200 monthly income. This amount corresponded at the time of the study to two pensions of one Brazilian minimum wage each.

More than three-quarters—79.4%—of the stroke survivors lived in households of more than three persons, including themselves. Fifty-six percent were living in their own homes and had acquired those properties 30 or 40 years before, when they were in a better financial situation and real estate prices were lower. Only two patients lived in shantytowns. Twelve percent lived in their children's homes and 11%

The largest share of the burden falls on women—daughters and wives—who often must give up jobs that they hold outside the home to care for their relatives, even when the additional income from their employment is sorely needed.

in their caregivers' homes. Most—81.4%—lived in detached houses, which had been enlarged to accommodate married children over the years. The high cost of rent in Brazilian cities probably explains this kind of living arrangement for different generations. It seems to be the basis for strategies of reorganizing family roles and is also a means for cooperation when an older relative becomes impaired. Ninety percent of the houses visited were in older parts of town where sewage, electricity and water supplies were available, confirming the fact that a large proportion of Brazil's elderly reside in well-established urban districts.

Most of the dwellings were simple. The majority were modest masonry houses, which in many cases lacked final touches such as painted walls or even cupboards. Bedridden patients (18%) always occupied what appeared to be the best bed in the house. Twenty-eight percent slept alone in their own bedrooms and 53% with the caregiver in the same room.

#### CREATIVE SOLUTIONS

New living arrangements required many families to devise ingenious methods to meet the challenges of caring for a disabled relative. A quarter of the cases, especially those involving two-story houses, showed evidence of home

modification to meet patients' needs. On the ground floor, living rooms were adapted to enable patients to spend the day there. Extra bathrooms were added on, usually making use of kitchen pipe systems, so that patients would not have to climb the stairs to reach the facilities. Beds were equipped with bars taken from the cradles of grown grandchildren. Eighteen percent of the families reported recycling and adapting various materials they had at home for use in daily care, thereby avoiding the need to buy new items. Metal containers were turned into bedpans; plastic chairs from the kitchen served double duty as shower chairs; broomsticks were transformed into walking sticks. The kitchen sink substituted for an exercise bar, and in one house, a pulley with a hanging rope was installed on the bedroom ceiling to help the patient exercise his legs. In other cases, bed sheets or towels served the same purpose.

Although 76.5% of patients' children did not live with their parents before the stroke, family reorganization resulted in some 4% moving back into their parents' homes. Fifty percent of patients began receiving regular visits from their children, and in 25.5% of these cases the children took over shopping previously done by the patients before the stroke episode

occurred. Grandchildren and friends also visited more often during the first year after the stroke episode.

Thirty percent of the caregivers changed their daily domestic routines to care for the stroke patient. They varied their sleeping schedules, going to sleep after the patients and waking up before them. They began dressing patients in clothing that was easier to put on and to remove, and special pads and sheets were adapted to the beds of those suffering from incontinence.

A 63-year-old alcoholic, who had been separated for a year and a half from his wife of 35 years, stopped drinking and moved back into their house to take care of her after she suffered a stroke. This man was a bricklayer who earned around \$250 a month. Without proper equipment or any type of orientation, he created his own coping strategies. At first, he gave his wife sponge baths in bed and carried her to the bathroom in his arms. Later, he began to transport her by placing her feet on top of his feet and, in a move that resembled dancing, walking her around the house or outdoors to get some sun.

One woman who used to live alone began to look after her 66-year-old neighbor. Every day she would go to the patient's house to help with chores. When she returned home, she would leave the neighbor sitting by the window so that she could keep an eye on her.

A patient who could not leave her bed when the interviewers first visited was supported by her five children. One of her daughters left her job to take care of her impaired mother. A year after the stroke, the interviewers returned to find the patient in the kitchen, where she was able to cook meals for the family. She had learned to get around



with the aid of a walking stick, thus allowing her children to go back to work and bring in a higher monthly income.

#### FAMILY BURDENS

Home health care in Brazil is a role traditionally undertaken by the family, especially by women, even when they have employment responsibilities outside the home. Men take on caregiving tasks most often when they are the spouse or son of the dependent person.

Caring for a dependent elder puts heavy strains on a family. Money, time, space and privacy are all concerns. These pressures appear to be most pronounced immediately following the patient's arrival home and after a longer period has elapsed. In the three cases described above, for example, the

caregivers' outlooks varied during the first year following the stroke. Most (64.3%) were more positive about their situations when interviewed for the second time. More of those interviewed on the third visit, one year after the stroke episode, were likely to have a negative assessment, reflecting the strain of long-term caregiving.

The lack of social policies in Brazil for dependent elders and of public health programs to provide long-term care for adults with functional losses and social handicaps leaves family and friends with the responsibility to provide care and support. The percentage of patients in this study requiring assistance with personal care routines in the 12 to 14 months following the first episode of stroke shows the need for a public health

program to provide caregivers with information, orientation and some kind of support network. Such a program would be cost effective in the long term, contributing to faster rehabilitation and improved coping strategies while reducing re-hospitalization and the use of nursing homes.

*Dr. Ursula M. Karsch is a professor and researcher at the Pontificia Universidade Católica in São Paulo, Brazil. The research for this project was initiated by Dr. Alexandre Kalache, director of the World Health Organization's Program on Health and Aging, who at the time of the study was a professor at the London School of Hygiene and Tropical Medicine.*

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# Prison of Dreams

by *Vida Yovanovich*

I was about to reach 40, and so much was moving inside of me...My mother had just been diagnosed with Parkinson's. I'm terribly afraid of old age!

My first self-portrait was the product of a self-imposed task. One morning I set my camera on the tripod, stood in front of it, and clicked. Well, this is pretty simple, I thought. Later, when I looked closely at the contact sheet, I closed my eyes and cried. I could not believe it. How could a self-portrait give away everything inside like that, everything that's hidden and protected?

The image was perfectly framed, with a hardness that, even today, hurts me when I look at it. The photograph remained in a drawer for years. I did not mention it, I did not show it, I did not recognize it within myself. I hid it.

I think it is difficult to put what one feels into photographs, the things one goes through as one takes them, and at the same time it is impossible to forget, or become detached from the experience.

It took me quite a few years to finish this project, set in an old-age home in Mexico. Time, the passing of time, and the fraying the passing of time causes...

And I took my time, to little by little come closer to this world of women's old age...Most were women, there were only a handful of men because men die younger. Women are alone in the end, easily abandoned.

It was like ripping myself open. At first, whenever I left the home,

I'd wash my hands with a terrible sense of contagion. I could not photograph, I could only feel.

Over the years, I became transparent. I became one of them, part of the place itself. It was hard at night. The women who during the day had been my friends, at night became my enemies and, in the dark, would scream at me to go away.

When I took my self-portrait, I guess I was depicting my inability to face up to time, my passage through time, my fear of death, and the knowledge that not only the old women were dying, but many things inside me were also dying.

These are photographic closeups, to help me understand and accept in me, the passing of time.

*Vida Yovanovich is a photographer in Mexico City. Her work has appeared in books, magazines and exhibits around the world. She was awarded a Simon Guggenheim Fellowship in 2000 and has served on the board of directors of the Mexican Council of Photography. The text and images in this photo essay are excerpts from her book, *Cárcel de los sueños* (Mexico City: Casa de las Imágenes, Dirección General de Publicaciones, Centro de la Imagen, 1997). Her photographs are also displayed at [www.zonezero.com](http://www.zonezero.com). She can be reached at [vidayov@terra.com.mx](mailto:vidayov@terra.com.mx).*





E S S A Y

*A photographer confronts her fears of aging*









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Photo Essay: Aging





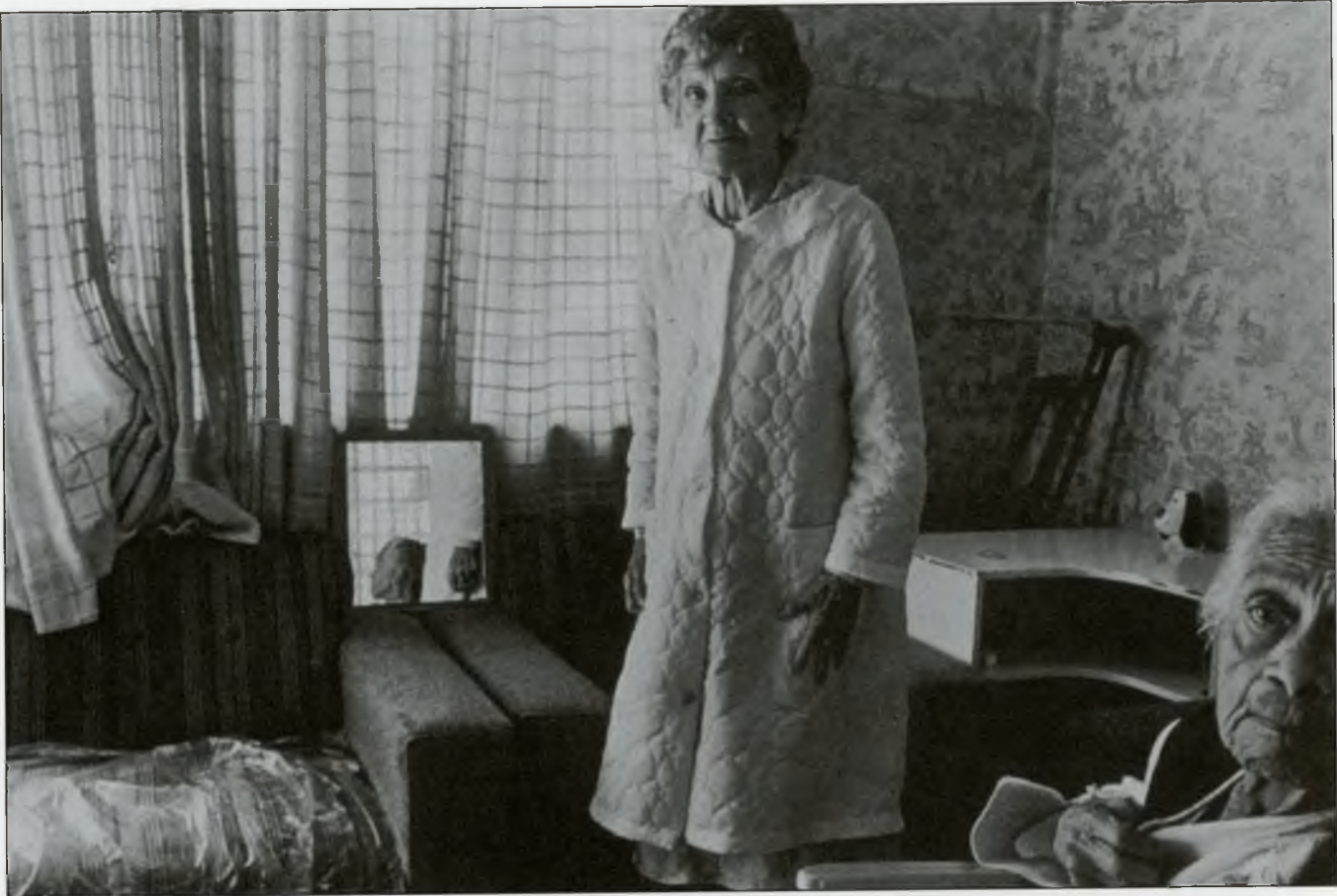


Photo Essay: Aging























# Spain's New Empire

by Gregory D. Cancelada

*The Reconquest of the New World: Multinational Enterprises and Spain's Direct Investment in Latin America*, by Pablo Toral. United Kingdom: Ashgate Publishing Ltd., 2001.

While covering the 1998 annual conference of the Inter-American Development Bank, I asked a French banker about the Spanish invasion of Latin American banking. The topic intrigued me since I found pat answers unconvincing and unable to explain why other global players stood on the sidelines while BBV and Santander gobbled up local banks.

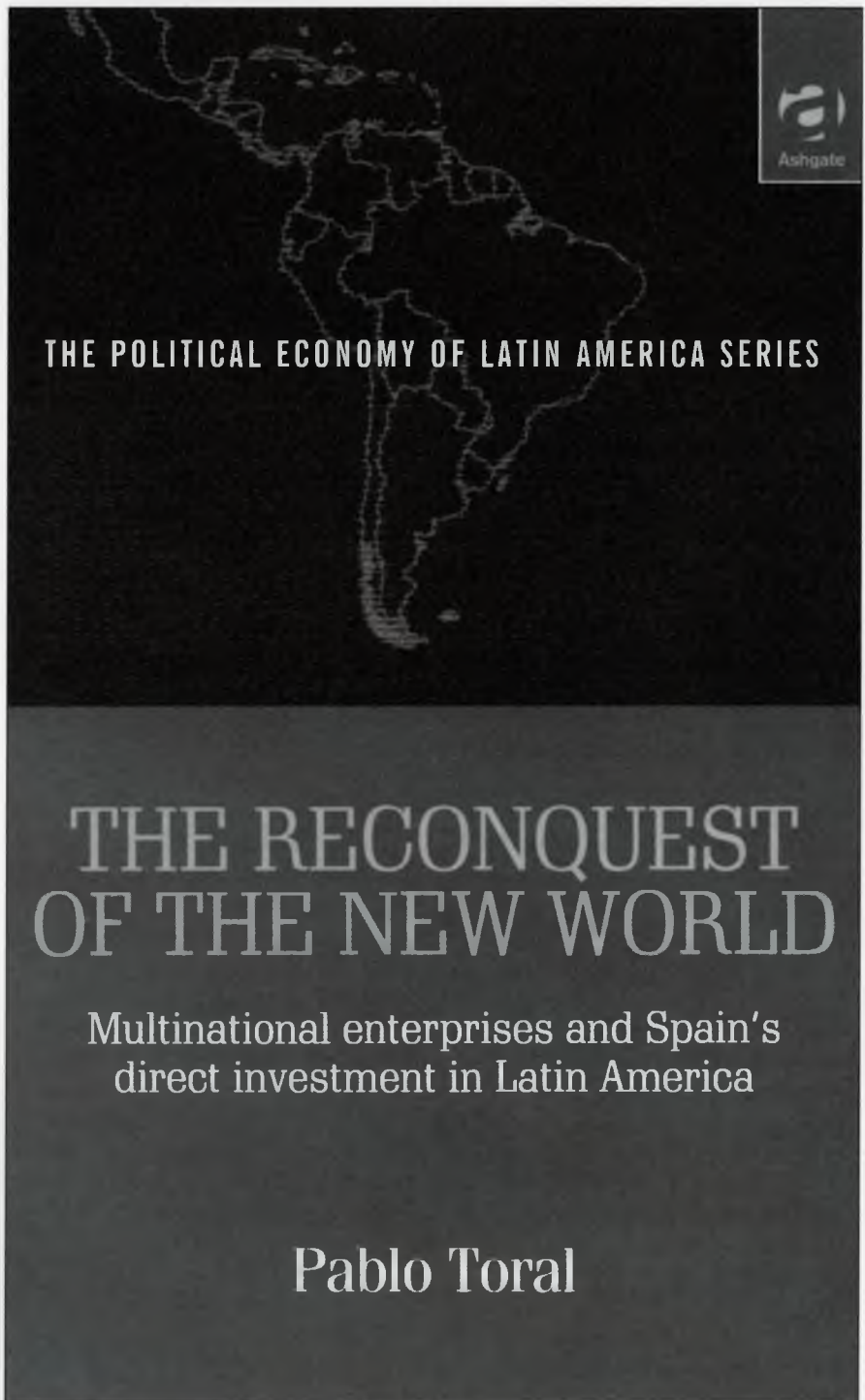
"Of course they have to go to Latin America. Where else can they go? They can't compete in Europe," the banker snorted.

Although clearly an example of sour grapes and in no way a complete explanation, the comment was illuminating.

I was searching for further insight from *The Reconquest of the New World: Multinational Enterprises and Spain's Direct Investment in Latin America*, by Pablo Toral.

The book, based on Toral's master's thesis, is an ambitious work and quite timely. The Spanish multinational enterprise (MNE) has had a tremendous impact on the Latin American banking, telecommunications, energy and aviation sectors, and until now no extensive studies have explored why and how.

Toral's biggest contribution is linking Spanish MNE behavior to the liberalization of Spain's econo-



## Spanish firms were forced to become multinational enterprises in response to greater competition in their home markets as the European Union forced down trade and investment barriers. This coincided with Latin America's own liberalization and need for foreign capital.

my. He paints an interesting picture of Spanish firms forced to become MNEs in response to greater competition in their home markets as the European Union forced down trade and investment barriers. Foreign competition at home was a key impetus for moving abroad, which in turn coincided with Latin America's own liberalization and need for foreign capital.

The author then tries to explain why particular Spanish sectors went into Latin America and other foreign MNEs failed to compete aggressively against the Spanish. He offers some diverse reasons, such as cultural affinity and the activist role of the Spanish state, but finds they aren't adequate explanations for the behavior of Spanish MNEs.

Drawing on the ideas of economist Stephen Hymer, Toral distills two reasons that Spanish MNEs aggressively entered Latin America. He integrates other theories, but these appear to be the key ones.

First, the Spanish had a different perception of risk in Latin America than did other foreign competitors. For a variety of reasons, Spanish businessmen had more confidence in the ability of Latin American policymakers to implement profound economic reforms.

Second, Spanish MNEs were looking to control Latin American businesses, versus making portfolio investments, to make the most of their competitive advantage. This advantage stems from the fact that Spain only recently became a developed country and thus had valuable knowledge of how a developing economy functioned and what kind of services it needed.

These arguments raise some important questions about the link between MNE theory and the actual behavior of the Spanish MNEs.

For example, the author says that Telefónica, the Spanish telephone giant, had a competitive advantage in Latin America since it could expand access to the general population, while US telecom MNEs only focused on implementing the latest technology (pp. 132, 172). This assertion is extremely important for Toral, since it plays into point two and is really the only reason he gives for Telefónica's success in the region.

Is he right? The argument sounds reasonable, but only a vague comment by a Telefónica executive is offered to back it up.

In fact, line growth—a basic yardstick for measuring fixed-line expansion—for Teléfonos de

México (Telmex) in 1999 and 2000 was much higher than rates by Telefónica's Argentine, Peruvian and Chilean operations. Yearly line growth by Telefónica's Latin American operations managed to stay in double digits over the past two years due solely to the company's Brazilian operations. Telmex, which is controlled by Carso Global Telecom, has SBC Corp of the United States as its strategic telecommunications partner.

Toral uses similar assertions to explain the success of the Spanish banks. He argues that banks such as BBV (now BBVA) and Santander (now BSCH) were attracted to Latin America not because the region offered higher returns than in the Spanish market, but because they could meet the financial needs of the public and local businesses (p. 149, 150). This competitive advantage was due to the fact that Spain was a developing financial market during the 1970s and 1980s, according to Toral.

But if the Spanish offered a range of financial products and services seen as superior by the general public, why was the Spanish business model driven by acquisitions? Why not head-to-head competition, in which the Spanish banks expanded their business by building new branches and offices?

I suspect that acquisitions are not only a cheaper route, but also that Spanish products are not in fact superior to those offered by local bankers. The heavy promotion of lotteries to bank account holders is an indication that gambling is more effective in attracting customers to Spanish banks than the strength of their products.

Instead, Spanish banks' competitive advantage versus local banks probably lies in greater efficiency,



which translates into enhanced profitability rather than higher deposit rates or lower transaction fees for the public. The Spanish banks are able to be more efficient thanks to better lending and credit risk experience, technology and access to cheap international capital.

Still, the Spanish banks' advantages are no greater than those enjoyed by other foreign banks. The question remains why other foreign competitors have had a low profile in Latin America, at least until the last few years.

As Toral points out, Spanish banks were quite aggressive in the privatization of local banks seized by Latin American governments during financial crises in the 1980s and 1990s. Again, he claims that Spanish banks had more confidence in policymakers' ability to turn around the macroeconomic situation, and saw growth potential instead of the risks seen by other foreign banks (p. 149).

An equally convincing explanation, however, is that Spanish banks, due to their lack of international experience prior to the 1980s, didn't understand cross-border risk and expanded well beyond a conservative banker's limits.

This is not as farfetched as it might sound. BBVA and BSCH are facing a tough situation in Argentina, where the country may not be able to sustain the 10-year-old currency board system that pegs the peso to the dollar.

If Toral needs to construct elaborate competitive advantages that are unique to the Spanish MNEs it is because he rejects return on equity (ROE) as a driving force for MNE behavior (p. 4).

While he is correct in noting that ROE by itself does not properly explain MNE behavior, dis-

missing it outright removes a powerful tool in understanding MNE motivation, at least among public companies with active shareholders.

ROE not only can explain why Spanish banks jumped into Latin America, but it also offers a reason why US banks avoided the region.

During the 1980s and 1990s, financial liberalization was occurring in the fragmented US banking industry. Banks were not only able to offer new products and services that were previously regulated heavily or prohibited, but also could now easily cross state and regional borders. US banks could sharply raise their ROE by entering new lines of business or through mergers and acquisitions.

On the other hand, Spanish banks were already universal banks—i.e., they could offer a full range of financial products and services—and the market was highly consolidated. The possibility of higher ROE in fragmented and underdeveloped markets seems a more compelling incentive.

That isn't to say that Spanish MNEs didn't have a particular competitive advantage versus other multinationals. Toral points out some possibilities, but one of the most important is undoubtedly the Spanish language itself.

Toral sees language as merely facilitating interactions (p. 130) and puts it in the general category of "cultural affinity."

The common language is extremely important, however. It permits Spanish firms not only to move human capital (managers, technicians) more quickly and efficiently than US firms, but also allows them to impose their business model through the export of Spanish managers into Latin America. Replicating management on such a scale would seem to

greatly reduce the risk that a business model can't be successfully executed.

The main weakness of the book lies with its sourcing. The author obtained much of his material from official sources (reports by Spanish government and multilateral organizations), economists and academics, with a smattering of newspaper and magazine items. However, to understand the behavior and local environment of MNEs, one should consult such basic sources as annual reports, filings with US and Spanish securities regulators, analysts' reports, industry magazines, specialty financial publications, intensive searches in key newspapers, and interviews with executives and analysts who cover the companies and sectors. Toral sourced the Telefónica annual report for only one year (2000) and included no annual reports for Spanish banks, a serious omission.

Toral's study is a useful overview of the MNE literature and global analysis of Spanish capital flows into Latin America. It is a first step in developing a solid, insightful and credible explanation of Spanish MNE behavior.

*Gregory D. Cancelada began covering Latin American business news in 1990. Previously the Caracas bureau chief for Dow Jones and the Mexico City bureau chief for BridgeNews, he is currently a business reporter at the St. Louis Post-Dispatch.*

# Aging in Latin America

by Marian Goslinga

In today's youth-oriented culture, aging is not a popular topic. Yet the graying of the world's population is forcing us to come face to face with the issue and its corollaries—retirement, living facilities, pension funds, medical care and poverty.

No longer can we ignore the challenges posed by an aging population. Global life expectancy has grown more in the last 50 years than over the previous 5000. Until the Industrial Revolution, people aged 65 and over never constituted more than 2% or 3% of the population. In today's developed world, they amount to 14%. By the year 2030, according to United Nations estimates, they will reach 25% to 30%, placing an unprecedented burden on working-age people.

As far as Latin America and the Caribbean are concerned, it is expected that, by the year 2025, the region's elderly will constitute 10.8% of the population—an increase of more than 3.5% since 2000.

This stunning growth of the elderly—due mostly to medical advances and social provisions—demands the urgent attention of governments, think tanks and research centers.

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