

# POVERTY IN PANAMA

- Why economic growth is not enough

## Master's Thesis



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## Abstract

This thesis analyzes the dynamics between economic growth and the reduction of poverty in Panama. Following the understanding of neoclassical economic theory, economic growth is the main driver behind the reduction of poverty. Panama has had some of the highest growth rates in the world. Directly correlating this economic growth with the reduction of poverty, however, shows that Panama underperforms in decreasing its poverty rates in comparison to other Latin American countries. Accordingly, growth does not reduce poverty as successful in Panama as it does in other countries. To find out why this is the case, two social science theories that show two different perspectives on poverty are combined. The ideas of neoclassical economic theory and structural violence guide the analysis which is structured following the PIE-model. This model is chosen as the framework to operationalize the two social science theories and gives an overview over a society by considering the three subsystems- politics, institutions and the economy. The argument is that only an eclectic approach allows to get a deep understanding of a complex issue such as poverty. This is also why mixed methods are used. A field study in Panama allowed for an in-depth understanding of the country's society through 12 interviews.

It is concluded that there are two reasons for the uneven correlation between economic growth and the reduction of poverty in Panama. One, the original trickle-down effect of neoclassical economic theory is too simplistic. For wealth to be more evenly distributed, "good governance" needs to be assured. Second, there is structural violence in Panama that keeps some people from participating in society and thereby take advantage of the country's economic wealth. Panama's society is in a vicious circle where the elite contains power over economic resources and institutions. This latter answer cannot be uncovered unless there is a shift in paradigms of acknowledging that environmental factors can cause poverty as well. Accordingly, this research implies that international development organizations and governments should broaden their understanding of poverty and direct policies towards changing structures that keep people marginalized. It is emphasized that a "one-size-fits-all" approach is not suitable and poverty should always be solved accounting for the local context.

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# 1 Introduction

*'We are at a critical juncture, because this country keeps on growing ... but not inclusively'*

*(R. Quevedo 2017, pers. comm., 10 February)<sup>1</sup>*

Panama is one of the fastest growing economies in the world. Between the years 2001 until 2013, the country's economy grew annually at 7.2%. It thereby outperforms all other countries in the region (World Bank 2017). Some refer to its capital city, Panama City, as the Singapore or New York of Latin America because of its many skyscrapers (Sigler 2014a, p.261). Ever since the Panama Canal and its surrounding zone were transferred to the country in 1999, Panama has been able to use its geographical location to become an important epicenter for trade in the world (Sigler 2014a, p.261; Koehler-Geib et al. 2015, p.2). This also triggered Panama's tremendous economic growth rates (Sigler 2014a, p.261). Even during the 2008 financial crisis, Panama was able to maintain high growth levels (Ahijado et al. 2016, p.44), since the Panama Canal is a great resource to assure a constant flow of income (Wharton 2016).

Still, Panama is amongst the 10 most unequal countries in the world (Worldbank 2016, p.11). Sigler (2014b, p.5) writes that as soon as one leaves behind the skyscrapers facades of the city, '... one encounters subsistence farmers with very little engagement with the metropolitan economy...'. The newest enlargement of the Panama Canal has spurred an uprising of tumults in the small Central American country. Many Panamanians are of the opinion that the income of the Panama Canal does not benefit all. Yearly, the government receives one billion USD of the Panama Canal Authorities (EFE 2016). This is expected to triple with the enlargement (EFE 2016), for which reason Panama's growth potential is supposed to further accelerate (Cox et al. 2011, p.3). Therefore, during the celebrations of the new enlargement of the Panama Canal, unionists and opposing politicians were requesting a shift of focus from the government. Away from infrastructure projects towards more inclusive policies that help decrease the persistent problem of poverty in the country (EFE 2016). In some parts of the country, up to 90% of Panamanians still live in poverty nowadays (UNDP 2017).

International Development Organizations such as the World Bank have been driving the debate of poverty for decades now (Green 2006, p.1109). A very common ideology that influenced the development policies for many years and still does nowadays is neoliberalism (Leftwich 2005, p.574). For neoliberals, the idea of eradicating poverty is by achieving economic growth (Saad-Filho 2016, pp.69–70). It '...presumes that poverty

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<sup>1</sup> All translations from the original Spanish interviews were done by the Thesis author.

is caused by exclusion from labor or commodity markets, and that market- led growth spontaneously tends to eliminate poverty...' (Saad-Filho 2016, p.68).

## 1.1 Research Question and objectives

Panama has implemented several policies to foster economic growth following neoliberal ideas (Sigler 2014c, p.887). Furthermore, the country has continuously experienced a decrease in its poverty rates (Worldbank 2017a). In an interview with a local Panamanian newspaper, a representative of the Ministry of Economics and Finance directly relates the reduction of poverty rates to the country's economic growth (La Estrella 2015). However, a report published by the World Bank assessing Panama's poverty rates, establishes that in comparison to other Latin American countries Panama underperforms in decreasing its poverty rates. Especially considering the country's economic success (Cox et al. 2011, p.6). Also, a more recent report by the International Monetary Fund (IMF) concludes that Panama still faces high poverty rates despite its high per capita income levels (Ahijado et al. 2016, pp.43–45). This reveals that contrary to the neoliberal assumption, economic growth is not as successful of a means for decreasing poverty in Panama as it is in other countries. This leads to the main research question of this thesis:

### ***Why is there an uneven correlation between economic growth and the reduction of poverty in Panama?***

The main objective of this paper is to provide an insight of the persistent problem of poverty in Panama. The goal is to understand some of the most striking underlying dynamics of Panama's societal system that keep poverty from decreasing as much as would be expected when comparing it to other Latin American countries. In order to answer the research question, an eclectic approach is chosen that not only combines two theories of different social sciences that seek to explain poverty, but also using a mixed method approach. Newer research on poverty concludes that poverty is no longer seen solely as a problem of monetary deprivation but also a deprivation of capabilities. Furthermore, it is suggested that the issues of poverty are very context dependent and one-size-fits-all solutions are unlikely to sustainably help (Green 2006, p.1111). The idea of structural violence is sometimes used as a critique to the neoliberal approach (see (Farmer 2004; Sanchez R. 2006)). The theory argues that neoliberalist ideas have led to a bigger gap between the rich and the poor (Tortosa 1994, p.4). This is because in some cases, the policies have strengthened structures that marginalize some people (Rylko-Bauer & Farmer 2017). Respectively, structural violence entails the idea of a new paradigm of understanding poverty (see (Rank 2015, p.866)). Because Panama is always sold as a success story due to its economic growth and strong competitiveness (see (Thomson 2017)), there is little research on Panama that goes beyond the reports published by the International Development Organizations. It is suggested that this is inter alia the case because Panama is an upper-middle-income country and much of

the research on poverty nowadays still focuses on Low Income Countries (LICs) (Sigler 2014b, p.4; Sumner 2012, p.875). Nevertheless, Sumner (2012, p.875) explains that internationally, there has been a shift from poverty being an issue for low-income countries to more and more middle income countries having problems with high ratios of poverty. However, donor agencies still focus a lot on LICs (Sumner 2012, p.875). In this thesis, besides using statistics, 12 interviews with Panamanians conducted during a field study are the main source for the qualitative analysis of poverty in Panama to get a deep understanding of the case study. Thereby, it is argued that the mixed method approach allows to uncover findings that have not yet been considered with regard to the case of Panama. To sum up, this thesis' main contribution to the debate is to use an eclectic approach to understanding poverty in Panama.

## 1.2 Thesis structure

This thesis is split into six main chapters. Following this introduction, it is further elaborated on the different views on poverty in the Literature Review. Two theories, neoclassical economic theory and structural violence, are used as examples of how poverty is conceptualized within different social sciences. Subsequently, the theoretical framework, called PIE-model, is described that combines the ideas of the two theories on poverty. Afterwards, the Methodology chapter sheds light on the applied methods chosen to answer the research question. Then, in Chapter 4 the theoretical framework is applied and analyzed based on the case study of Panama. In the discussion, it is then critically reflected on the dynamics of the PIE-model and how the results are related to the two theories on poverty. Furthermore, the results are discussed with a specific focus on the local context. Lastly, the conclusion sums up the findings of the thesis and elaborates on potential implications.

## 2 Literature Review

In this chapter, poverty is explained through two theories, namely neoclassical economic theory and structural violence. Consecutively, the theories of neoclassical economics and structural violence are described. These two theories represent two opposing understandings of poverty. After that, a sub conclusion describes what has been learned until that point. Lastly, the PIE-model is introduced. For this thesis, it will serve as the framework that guides the structure of the analysis, incorporating the ideas of the two theories on poverty.



## 2.1 Poverty

Poverty has been a longstanding issue and a heatedly discussed topic over the past decades. There have been different stages in understanding poverty and who is considered poor or not (Green 2006, p.1109). Nowadays, it is more acknowledged than ever before that the issue is highly complex and thereby requires thorough research to get a proper understanding of poverty and its causes (Mosse 2010, p.1156). Within the international community, it is agreed that poverty should be reduced. Nevertheless, how that should be done is a topic for discussion. Different ways of understanding poverty lead to a diverse range of ideas on how to measure it. Accordingly, the implementation of policies to eradicate poverty is dependent on how the concept is interpreted (Agola & Awange 2014, p.41).

Vu (2010, p.999) puts social science theories that aim to understand poverty on a spectrum from individual factors to environmental factors. The former explains that ‘the unit of analysis in these studies is by definition the individual rather than the wider social or economic structures...’ (Hong-Sik Yoon & Hirschl 2003, p.5)<sup>2</sup>. Neoclassical economics considers poverty to be the result of individual decision-making. Correspondingly, it is of the individual’s interest to maximize well-being at all times. Not going to college, which would eventually lead to higher-paid wages, is a choice (Vu 2010, pp.999–1001). This means that social policies aimed to diminish poverty are directed at individuals (see (Saad-Filho 2016, p.76)). There has, however been a shift in paradigms amongst some social scientists that set the issue of poverty at a macro level, whereby poverty is analyzed considering structures that keep people poor (Hong-Sik Yoon & Hirschl 2003, p.3). Instead of ‘...”blaming the victim”...’ (Vu 2010, p.1004), large-scale environmental factors are analyzed. It is thereby understood that individuals are often handicapped in their capabilities through such factors that they have no control over (Vu 2010, p.1003). Structural violence has the focus of understanding poverty on such environmental factors (Rylko-Bauer & Farmer 2017). Following the recommendation of Vu (2010, p.1007), it is argued that it is important to consider both individual as well as environmental factors when wanting to understand poverty. This is why neoclassical economics and structural violence were chosen. In the following, the two theories are described to show two extreme perspectives on how poverty can be understood.

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<sup>2</sup> This article refers to it as individual and structural failings

### 2.1.1 Neoclassical Economic Theory & Neoliberal Policies

Neoclassical economic theory has been driving poverty debates for many years (Leftwich 2005, p.579). Until nowadays it still is one of the most prevalent theories that is used to direct policies (Kiely 2007, p.415)<sup>3</sup>. An important factor within economics has always been the idea of economic growth and how to increase it (Agola & Awange 2014, pp.51–52). A traditional economic theory is neoclassical economics, which strongly supports the idea of capitalism (Ferguson 2009, p.171). Within this approach it is believed that governments should be limited in their capabilities. Instead, the market regulates itself. This is because markets drive competitiveness, which is the ultimate driver for economic growth. This would then lead to a market equilibrium with production being at optimal levels. This idea was brought forward by Alfred Marshall, who argued that it would be the “optimal state” for a market to be in balance. According to him, the goal is to make production more efficient by minimizing its costs (Peet & Hartwick 2015, pp.53–55). This is a common belief amongst orthodox economists, who explain income disparities with the idea of marginal productivity. Accordingly, people earn as much money as deserved, measured in their productivity (Agola & Awange 2014, p.54). In addition to that, Alfred Marshall supported the belief that ‘...capitalism could raise the standard of living for ordinary people’ (Peet & Hartwick 2015, p.53). He thereby makes reference to the so-called “trickle-down” effect that explains that even resources given to the rich eventually increase everyone’s well-being (Stiglitz 2015, p.134). This occurs, because the market automatically gets into equilibrium whereby income amongst people spreads evenly. Accordingly, poverty would decrease by increasing economic growth (Agola & Awange 2014, p.53). This is in accordance with understanding poverty as monetary deprivation; income poor (Vu 2010, p.999). A person is considered to be poor when the income is not high enough to afford certain necessities. Often, these necessities are a certain amount of food. Taking this approach to understanding poverty, policies are aimed to reduce poverty by assuring people to have enough income (Agola & Awange 2014, p.73). This is called the absolute approach to poverty which means that a specific income level is determined at which a person is considered poor (Agola & Awange 2014, p.42). This poverty line is nowadays at an income level of 1.90 USD a day, which is when one is considered to be extremely poor (Saad-Filho 2016, p.70).

The concept of neoclassical economics was operationalized by neoliberal policies. This was done by the so-called Washington Consensus that led the idea of development aid until the start of the new century. The Washington Consensus is a term first coined by Williamson (Leftwich 2005, pp.579–580). He thereby explained ‘...a list of ten reforms that ... were practically universally agreed in Washington to be desirable in

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<sup>3</sup> Neoclassical Economic Theory is operationalized through neoliberal policies (Leftwich 2005, pp.579–580).

most Latin American countries as of 1989' (Williamson 2004, p.195). These were aimed to induce economic growth in the Latin American region. Inter alia the reforms included policy measures such as using public expenditures more effectively in economic sectors that led to the highest returns. Furthermore, low tariffs and more Foreign Direct Investment (FDI) were to increase trade. Also, many of the state enterprises should be privatized (Williamson 2004, p.196). This neoliberal idea of development aid was instrumentalized through structural adjustment programs. These were aimed to decrease state involvement and instead create open market economies to foster economic growth (Leftwich 2005, p.579). The idea regarding poverty eradication was that an open market economy would create new employment opportunities. This, in turn, would eventually lead to a rise in wages, because the now more competitive economy has increased productivity. Following this, poverty is decreased, because there are more employment opportunities. Inequality would initially rise but in the long-run also decrease. Accordingly, it is believed that economic growth is ultimately the best means to eradicate poverty in a country (Korzeniewicz & Smith 2000, p.17). Furthermore, economic return could be reinvested in the educational and health care sector, as well as the country's infrastructure (Williamson 2004, p.196). This is the long-term effect. In the short-term, in order to decrease poverty rates, transfer programs help to bridge the gap between rich and poor (Saad-Filho 2016, p.70).

However, the neoliberal policy approach led by the Washington Consensus has received its fair share of criticism. 'Academic critics and political opponents argued that Washingtonian reforms and neoclassical economics more broadly lacked a coherent theory of growth and were bound to result in long-term negative trends in popular welfare and social inequality' (Korzeniewicz & Smith 2000, p.7). The connection between economic growth and poverty eradication was questioned with poverty remaining a large issue in the 1990s (Korzeniewicz & Smith 2000, p.17). The Latin American region, which had passed structural reforms in accordance with the neoliberal ideas, did not perform as expected (Rodrik 2007, p.86). Still, other regions of the world managed to decrease poverty rates. However, it became clear that the idea of economic growth leading to the eradication of poverty is not as clear cut as promoted or believed before (Korzeniewicz & Smith 2000, p.19). The so-called "trickle-down" effect that is argued for by neoclassical economists to eradicate poverty has not shown the expected outcomes. Instead, inequality rates have increased (Stiglitz 2015, p.134). For that reason, the neoclassical economic approach has been criticized (Agola & Awange 2014, pp.52–53). It is argued by opponents of neoclassical economics that inequality and poverty are too complex systems that cannot be understood by only considering '...differences in factor endowments...' (Agola & Awange 2014, p.53). Alternatively, the importance of institutions as influential factors should be included in an analysis about poverty (Agola & Awange 2014, p.53; Stiglitz 2015, p.140). As a response, the Washington Consensus institutions adjusted their development aid programs to incorporate some of the criticisms. The

focus was shifted toward actively creating policies that were aimed at eradicating poverty (Korzeniewicz & Smith 2000, pp.19–20). This included the idea of promoting “good governance” (Wade 2010, p.150). ‘That meant formalizing and enforcing property rights, reducing corruption, improving the effectiveness of the bureaucracy, the judiciary and the police, and strengthening transparency and political accountability’ (Wade 2010, p.157). Nevertheless, critics emphasize that one of the main problems within orthodox economics is and remains that it is assumed that the ideas are applicable universally (Leftwich 2005, p.574). Especially structuralist economists from Latin America are skeptical about using the neoclassical approach to understanding poverty in their region (Peet & Hartwick 2015, p.76). Furthermore, it is observed by researchers such as Wade (2010, p.157) that the institutional factors focused on by “good governance” approaches are not what differentiates the development between countries. Accordingly, it is important not only to consider but also explain institutions to grasp their influence onto markets (Stiglitz 2015, p.140).

All in all, it can be summarized that neoclassical economics and neoliberal policies do not provide a complete understanding of poverty and how to eradicate it (Agola & Awange 2014, p.58). Using Panama as an example, the country has experienced tremendous economic growth in the past years. Its poverty reduction, though, has been mediocre at best (Cox et al. 2011, p.6). ‘Compared to the rest of Latin America, the country has actually underperformed’ (Cox et al. 2011, p.6).

### 2.1.2 Structural Violence Theory

Structural violence is a term that was first coined by Johan Galtung in 1969 (Farmer 2004, p.307). The idea of structural violence is to create an understanding for why people find themselves in poverty or other forms of harm. It thereby underlines the importance of a holistic analysis, because of the complexity of issues such as poverty. Accordingly, poverty is the result of inequities in a system of social structures (Rylko-Bauer & Farmer 2017). These structures are shaped by economic, cultural and political capital (Galtung 1969, p.176). Farmer emphasizes that these structures are created outside the national borders (Vu 2010, p.995). Accordingly, local realities are shaped by the surrounding world and different kinds of processes (Rylko-Bauer & Farmer 2017).

*‘...The general formula behind structural violence is inequality...in the distribution of power...’ (Galtung 1969, p.175).*

Power is often ‘...monopolized by a small group...’ of people within a society (Galtung 1969, p.171). Correspondingly, people that do not form part of this social group are restricted by structures to take part in decision-making processes (Galtung 1969, p.177). Ultimately, structural violence leads to poverty (Tortosa

1994, p.34). Instead of blaming the victims, this theory considers the wrong-doings of the most powerful (Metz et al. 2010, p.18).

Johan Galtung defines structural violence as processes that limit people in their needs (Kohrt & Worthman 2009, p.238). In his definition on structural violence, Farmer (2003, p.43) makes direct reference to Sen's capability approach. Sen defines capability as '... the substantive freedom he or she enjoys to lead the kind of life he or she reasons to value' (Sen 1999, p.87). The main criticism by Sen (1999, p.87) is thereby that poverty should not only be measured in how much income a person has, but instead, a more holistic approach should be employed that allows for a broader scale of poverty. By measuring poverty purely based on income levels, a lot of other influential factors that lead to people living in precarious conditions are ignored. For instance, gender inequality is and has been a persistent problem in many countries of the world, including in the so-called "Western" countries. Nevertheless, by measuring the income of a household, it is not accounted for the potential gender inequalities amongst that household. Furthermore, even though some people might have sufficient income to not be considered poor, if they live in a relatively expensive area they experience poverty (Sen 1999, pp.87–89). Accordingly, money is only a means to improve people's lives but should not be the end goal of poverty eradication (Sameti et al. 2012, p.48).

Structural violence constrains people's agency to keep themselves out of marginalization of society (Kohrt & Worthman 2009, p.238). Structures are social relations embedded in a societal system and thereby shaped by it. Violence is not only the physical violence, but also explains how people are being excluded from society (Rylko-Bauer & Farmer 2017). Respectively, violence is present when people find themselves in worse situations than possible, and if that could be avoided (Galtung 1969, p.169; Vorobej 2008, p.85). This violence can be of direct nature or structurally created and thereby indirect in nature (Galtung 1969, p.170). The coining of the term was chosen to emphasize the importance and extent of the problem (Vorobej 2008, p.93).

It is suggested that '... structural violence occurs when, for example, different individuals within a society enjoy unequal life chances ... and there is no clearly identifiable agent causally responsible for this avoidable discrepancy' (Vorobej 2008, p.88). Accordingly, it might often be the case that structural violence is not perceived to be existent as it is most of the time invisible (Vorobej 2008, p.93). Therefore, it can be difficult to understand the concept of structural violence. Frequently, the concept is associated with the idea of social injustice (Galtung 1969, p.171). Differences in power relations and other social factors shape institutions, and social structures over time so that it is perceived to be normal (Benson 2008, p.591). For that reason, structural violence can be institutionalized and thereby create injustice (Galtung 1990, p.302; Rylko-Bauer & Farmer 2017; Kohrt & Worthman 2009, p.239).

Just like neoclassical economics and neoliberal policies, also structural violence has been criticized. One of the main critiques is that structural violence is very difficult to measure (Vorobej 2008, p.86). One needs a thorough understanding of the context in order to develop a good analysis of explaining structural violence. For that reason, the concept has been used to comprehend many different types of violence in all kinds of contexts. Accordingly, the interpretation of the concept varies a lot, with researchers adjusting it so that it fits best to their case (see (Rylko-Bauer & Farmer 2017)). Also Galtung recognizes that the definition of violence leaves room for discussion in what it means exactly (Vorobej 2008, p.86). In a comment by Nancy Scheper-Hughes and Phillipe Bourgois, the operationalization of structural violence is critically reflected upon. According to them, there needs to be a clearer cut understanding of the causes and consequences of the violent structures (Farmer 2004, p.318).

## 2.2 Sub conclusion

As can be concluded from above, poverty is a complex issue. Neoclassical economic theory and structural violence are very different ideas to understanding poverty. As suggested above, two seemingly opposing theories are used to get a more holistic picture of the dynamics of poverty. Therefore it is argued that only considering both approaches to poverty can reflect its complexities and have serious implications for future policies. Table 1 gives an overview of the different perspectives on poverty according to the two theories.

*Table 1: The two theories in comparison*

*(Own work)*

|                                       | <b>Neoclassical Economic Theory</b>        | <b>Structural Violence</b>                    |
|---------------------------------------|--|---|
| <b>Focus on understanding poverty</b> | Individual Factors/<br>Individual Failings | Environmental Factors/<br>Structural Failings |
| <b>Measure poverty</b>                | Income Poverty                             | Capability Perspective                        |
| <b>Means of decreasing poverty</b>    | Economic growth                            | Power equality                                |

Neoclassical economic theory underlines the importance of economic growth. Despite recent debates about critically assessing the importance of economic growth and the downsides of governments solely focusing on improving growth rates, this thesis argues that economic growth still is an important tool to be used to decrease poverty (see (Korzeniewicz & Smith 2000, p.44)). It is thereby recognized that economic growth cannot be assumed to have a trickle-down effect, but instead policies have to be implemented to directly try to eradicate poverty. Accordingly, income produced by growth can be used as an effective tool to establish policies that decrease poverty rates (Green 2006, p.1109). While the theory of structural violence does not

make explicit suggestions of measures to decrease poverty, it implies that power needs to be equally distributed for poverty to decrease. Poverty is thereby a result of structural violence that keeps some people marginalized from society. Following this sub conclusion, economic growth is good but cannot reduce poverty entirely, if there is structural violence.

## 2.3 The PIE-model

Based on the above, there is a call for an eclectic understanding of the underlying issues of poverty. The PIE-model can help operationalize and integrate these two different takes on poverty that are represented through the theories of neoclassical economics and structural violence. It is the framework that will guide the structure of the analysis. Niels Mygind (2007, p.1) originally created the PIE-model for companies to get a thorough understanding of a potential market that they were interested in. Since then, the model has, for instance, also been used to analyze the relation between economic growth and social equality in Brazil (see (Midtun 2015)). 'The idea is that it can be used for a relatively simple analysis of the framework of a given society' (Mygind 2007, p.1).

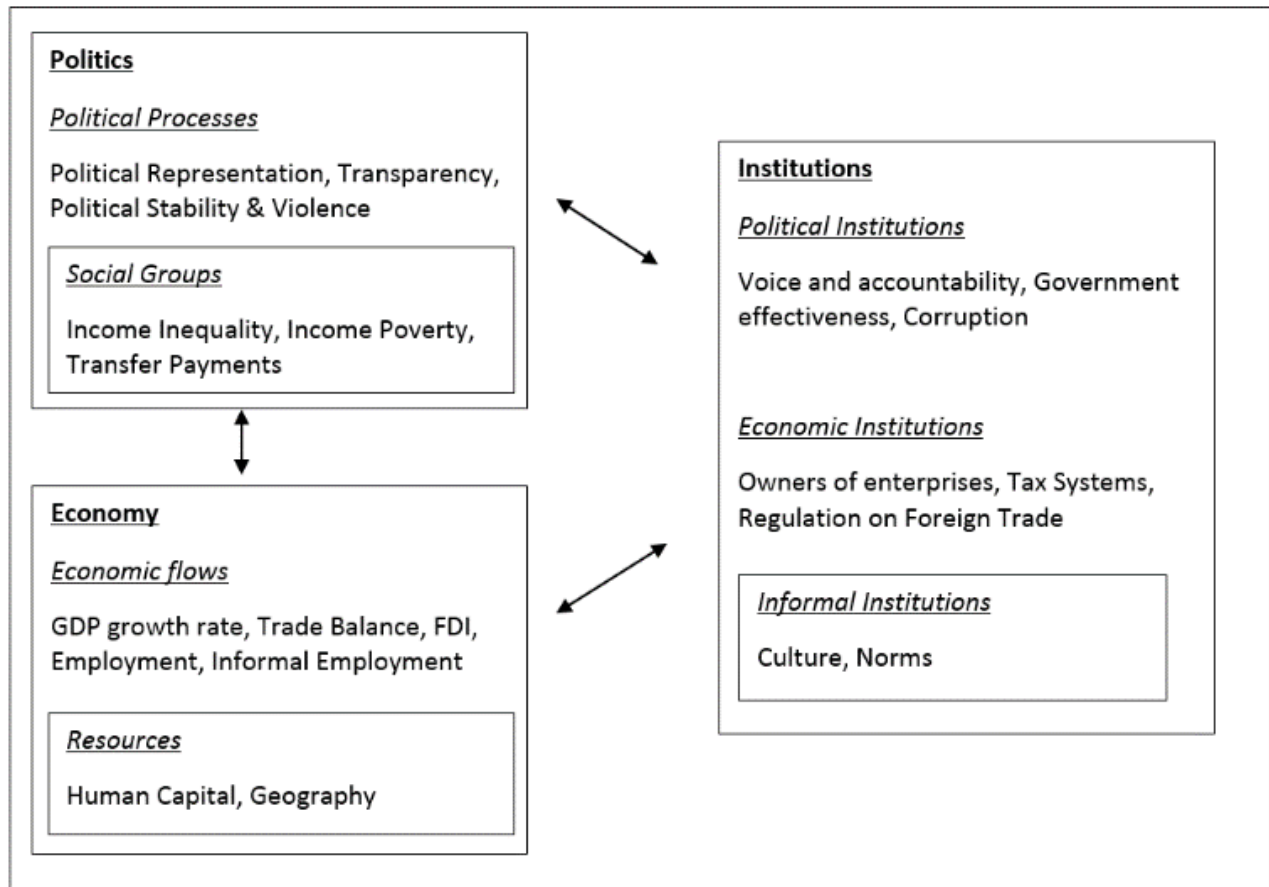
According to Mygind (2007, p.5), the principal design of the model is to grasp the dynamics of the three systems- politics, institutions and economics. This is in agreement with the understanding of poverty using the idea of structural violence, in which it is often embedded within these systems (see (Benson 2008, p.591)). Furthermore, Mygind (2007, p.17) stresses the importance of the surrounding world as an influential factor on the three systems. This is an important point that is underlined in Farmer's diverse research on structural violence (Vu 2010, p.995). Lastly, structural violence emphasizes the complexity of poverty (Rylko-Bauer & Farmer 2017). Also Mygind (2007, p.1) stresses that a society and its issues should be analyzed holistically due to the complexity. Consequently, the PIE-model serves as a way to operationalize structural violence and understand whether and how it is present in Panamanian society. Also, the PIE-model includes economic aspects, such as openness for trade, that explain the mechanisms of neoclassical economics. Also the governance indicators promoted by the World Bank are included in the framework (see (Mygind 2007, p.22)).

Figure 1 gives an overview over the different components that make up the PIE-model. The elements are the underlying factors that help explain why there is potentially poverty in a country. It is hypothesized that with an imbalance in the societal system shaped by political, economic and institutional factors, as well as the surrounding world, some form of structural violence is likely to exist. With respect to Mygind's recommendation (see (2007, p.2)), Figure 1 is adjusted to the research topic of poverty.

Figure 1: The PIE-model adjusted

(Own work with ideas from (Mygind 2007, pp.3&21–25) and readings mentioned below)

### Surrounding World



#### 2.3.1 Politics

‘Politics are based on the distribution of power, income and resources on the citizens...’ (Mygind 2007, p.2). Politics play an essential role in shaping institutions and governance and are amongst others shaped by social groups (Mygind 2007, p.5; Leftwich 2005, p.574). Originally, neoclassical economists were not very concerned with politics. Later on, the importance of political accountability was added to the policy reforms suggested by the Washington Consensus (see (Wade 2010, p.157)). Within the theory of structural violence, it is believed that politics shape structures (Galtung 1969, p.176).

Taking a Marxist understanding of social classes, people are grouped according to their economic resources (Mygind 2007, p.5). Expanding on this stance, Bourdieu argues that it is often the case that classes are defined in this way, but it is not necessarily like that. Accordingly, social groups can also be understood given their symbolic position in society. This, in turn, depends on the power of certain people and how they construe



classes (Swartz 1997, pp.146–148). Different social groups have different levels of power (Aledo Tur 2006, p.84). These understandings of social groups can often be passed on from one generation to the other and build strong structures within a society. This goes against the idea of human beings always maximizing utility, as believed in within neoclassical economic theory (Guidetti & Rehbein 2014, p.3). Often, the ones with the most resources can use this form of economic power to also gain political power (Mygind 2007, pp.5–6). Social groups that do not have many resources can gain political power by being organized through unions and political parties. Correspondingly, it is of interest to look at the distribution of political parties and their representation of the population (Mygind 2007, pp.6&21). The formation of social groups is thereby very dynamic and can change over time. Inter alia a shift in power relations can be influenced by the surrounding world, institutions, or economics (Mygind 2007, pp.6–7). One factor, but not exclusively, that contributes to the inequality of power is the difference in economic resources (see (Swartz 1997, p.145)). While these are further explored in the later section on economics, income inequality is considered to have a large influence on power distribution, also within politics. The ones in charge have the power to distribute the income. Accordingly, a largely skewed income distribution can potentially reveal uneven representations of different social groups within the institutions that decide on distribution. Some researchers state that in many countries income poverty would not exist or would be much lower, if the income share was allocated more evenly (Korzeniewicz & Smith 2000, p.13). Milanovic (2016, p.10) argues that transfer payments lead to a decrease in income inequalities.

Moreover, access to information plays a crucial role with regard to power in politics. This includes how transparently is information transmitted (Mygind 2007, p.7). Additionally, Mygind (2007, p.21) points out the importance of analyzing the political stability and violence in a country. This can be an indication of the integrity of the government, but also, the importance of political processes in a country (Mygind 2007, p.7).

### 2.3.2 Institutions

‘Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction’ (North 1990, p.3). The PIE-model emphasizes the importance of institutions according to the definition of North (1990), who has established that institutions can both be formal as well as informal (Mygind 2007, p.2). The formal institutions shape the society through managing it, inter alia through policy-making (Leftwich 2005, p.582). This also means, that the distribution of power is regulated within formal institutions. Informal institutions on the other hand, determine the social behavior and are shaped by cultures. Institutions can be changed through politics (Mygind 2007, pp.8–9). It is argued within the idea of structural violence that institutions can be used to exploit structural violence (Galtung 1990, p.302). In a study of 14 countries, it was found that economic growth did lead to the reduction of poverty

rates. However, there were differences in how much poverty was reduced. These differences were associated with the distinctive institutions in the countries. Accordingly, the countries whose institutions expanded on the poor's opportunities, also increased the poor people's well-being (Leftwich 2005, p.593).

Institutions shape societies and are embedded in the rules, norms, power and other processes of such. Whereas some institutions enhance social development, others hinder it (Leftwich 2005, pp.588–589). Mygind (2007, p.8) suggests that a high quality of institutions is desirable because it makes the system of society more efficient. How this quality is assured is dependent on the culture and the connected understanding of quality (Mygind 2007, p.8). Therefore, the indicators used in the category *Institutions* are not described as thoroughly. Instead, a few indicators are picked to set a frame for the analysis and then the qualitative data leads the closer look at institutions in Panama.

Mygind (2007, p.3) divides the formal institutions into political and economic institutions. Political institutions can be measured through governance indicators in order to understand the division of power (Mygind 2007, pp.10&22). The idea of “good governance” established by the Washington Consensus promotes factors such as less corruption and crime and more political accountability through transparency (Rodrik 2007, p.5). ‘The economic institutions cover the rules governing the economy’ (Mygind 2007, p.11). Mygind (2007, p.23) inter alia suggests to consider who the owners are of the biggest enterprises in a country are. Additionally, the regulation on foreign trade can reveal whether preferences are given to foreigners or locals (Mygind 2007, p.23). Furthermore, looking at taxation levels can give an insight into potential discrimination policies. ‘In highly unequal societies, powerful social groups are able to extract political rents and advance claims for subsidies and distorting taxation policies that place the poor at a disadvantage’ (Korzeniewicz & Smith 2000, p.22). Lastly, institutions can influence the social life through cultural practices or norms (Robeyns 2005, p.96).

According to Acemoglu and Robinson (2013, pp.3–4), the main reason for poverty to exist and continue to exist in many parts of the world, is because elites remain in power and want to keep on doing so by keeping the political rights within a small section of society. Also political institutions are shaped by power. When this power is narrow and in the hands of only a few, the people who have the power can use economic institutions to become rich. These are called extractive institutions whose dynamics cause elites to have both political power, as well as being economically wealthy. When power is more evenly distributed and diverse, institutions are inclusive. However, for the economic institutions to be inclusive, the state needs to be centralized enough in order to be able to enforce the law (Acemoglu & Robinson 2013, pp.79–81). Nevertheless, it is typically not in the interest of the elite to change the situation of them being both politically as well as economically well off, giving power to others (Acemoglu & Robinson 2013, p.86).

### 2.3.3 Economics

‘The functioning of the economy and the results on flows such as GDP is determined in a complex interaction between economic institutions, culture, economic policies, and resources’ (Mygind 2007, p.13). Economics influence the different actors within a society (Mygind 2007, p.13). As stated above, both neoclassical economic theory, as well as the theory of structural violence point out the importance of economics. Galtung (1969, p.171) writes that experiencing an accumulation of uneven resource distribution, such as having little education and being low on power, usually provokes a worsening of living conditions. When understanding poverty taking the capability perspective, education is considered a very important aspect to consider (Sameti et al. 2012, p.49).

According to neoclassical economic theory, to achieve economic growth, the competitiveness needs to be high. This is in agreement with Mygind’s understanding of that topic (see (Mygind 2007, p.14)). This can be accomplished through various different policies, inter alia the opening up for trade, as mentioned above. Besides GDP growth, other macroeconomic measures according to Mygind (2007, p.24) are how much FDI a country has and in which sectors people are employed. Within the capabilities approach promoted by Sen, unemployment rates are used to reveal the capacity of people to join the labor market. Research in Argentina and Bolivia showed that including unemployment in the definition of poverty increased the amount of people perceiving to live in poverty tremendously (Perry et al. 2006, pp.27–31). Another important macroeconomic aspect to consider is the informal employment within a country’s economy. It is argued that people that work in the informal economy are more likely to be poor because they are not legally protected (Korzeniewicz & Smith 2000, p.26).

Lastly, economic resources are an important part to understanding differences in power relations in a country. Often, social groups are shaped by economic resources (Mygind 2007, p.4). ‘...Social inequality is rooted in objective structure of unequal distributions of types of capital’ (Swartz 1997, p.145). One of these types of capital is human capital, which includes the access to education (Mygind 2007, p.15). Being enabled to receive learning opportunities positively impacts the reduction of poverty and simultaneously improves conditions for economic growth (Perry et al. 2006, p.4). The more education a person has, the higher the probability to be less poor. If public education is not provided, inequality between different social groups increases. This happens when economic policies are only aimed for more competitiveness and thereby more highly skilled labor, but not provide access to education (Korzeniewicz & Smith 2000, p.27; Milanovic 2017). ‘Education enhances earnings potential, expands labor mobility, promotes the health of parents and children, and reduces fertility and child mortality’ (Perry et al. 2006, p.6). Another important factor that contributes to a country’s competitiveness is the geography of the country (Mygind 2007, p.16). Farmer (2003, p.42)

states that an analysis to understand suffering must be considering history, geography, as well as social factors. This is of special interest in Panama, which has profited from its location and geography for many years now as a gateway between North and South America (see (Sigler 2014a, p.264)).

#### 2.3.4 The surrounding world

The surrounding world influences economics, politics, as well as institutions (Mygind 2007, p.4). Generally speaking, taking advantage of globalization by opening up for trade has led to countries' well-being (Rodrik 2007, p.2). For instance, globalization could help exploited workers to gain more labor rights (Milanovic 2016, p.7). But, historic events and world politics such as economic liberalization and globalization have also shaped structural violence (Messer 2009, p.12). 'International relations and political developments in other countries are important for the actual problems and the political agenda in a given country' (Mygind 2007, p.17). For the ideas of the Washington Consensus to work, the Latin American countries also heavily relied on the success of the other countries (Williamson 2004, p.197). Furthermore, the fact that the Washington Consensus influenced the policy-making in that region shows how international organizational bodies can influence local politics (Mygind 2007, p.17).

#### 2.3.5 The Dynamics

Lastly, Mygind points out the importance of recognizing the dynamics between the three subsystems of society and the surrounding world. In Figure 1, the elements surrounded by boxes are the ones influencing the other elements within their subsystem (Mygind 2007, p.18). This is in accordance with the theory of structural violence, whose proponents point out the interconnectedness that contribute to the worsening of a person's well-being (see (Galtung 1969, p.171; Rylko-Bauer & Farmer 2017)).

Perry et al. (2006, p.5) refer to vicious circles being one of the main problems that exclude parts of the population from the benefits of economic growth. This is supported by the researchers Acemoglu and Robinson (2013, p.364), who state that vicious circles in a society give negative feedback. This includes that some people are restrained to participate in political decision making so that their opinions are not represented (Pearce 2004, p.485). Furthermore, when institutions are extractive, only a few people, the elites, become wealthy from economic growth (Acemoglu & Robinson 2013, p.343). Also Mygind (2007, p.18) states in his paper on the PIE-model that many countries in Latin America '...got caught in a vicious circle of poor institutions and lagging economic performance'. Power is being monopolized amongst a few privileged people, which in turn can lead to a slowing down of the economy. Though, if that country has natural resources that produce income, the façade can be kept alive (Mygind 2007, p.18).

A virtuous circle, on the contrary, gives positive feedback and leads to more people being included in the societal system (Acemoglu & Robinson 2013, p.308). This means that the three sub systems described in the PIE-model are in line with each other (Mygind 2007, p.19). Power is more evenly distributed amongst people and so is the wealth produced by society, which increases overall satisfaction levels (Acemoglu & Robinson 2013, pp.309&332). The dynamic aspect of this model is also aimed to show that the sub systems are not fixed, but instead changes can occur (Mygind 2017, p.18). Accordingly, investing in the poor can lead society into a virtuous circle (Perry et al. 2006, p.6).

This review on the PIE-model shows that it is a useful tool to combine the two theories on poverty. Both neoclassical economic theory as well as structural violence are integrated into the framework. The model shapes the structure of the analysis that follows after the Methodology chapter.

### 3 Methodology

In the following, the methodology of this thesis is outlined. The chapter starts with a description of the underlying research philosophy. This is followed by depicting the research approach. Then, the research design is explained, with a special focus on the chosen strategy of a case study and the mixed methods approach. Afterwards, the research process and data collection are summed up. In this part, the themes that are used for the structuring of the analysis are outlined. Lastly, the limitations of the data collection and process are outlined.

#### 3.1 Research Philosophy

The research philosophy explains how the researcher sees reality (ontology), what this reality is comprised of (epistemology), as well as how this is best validated and through which means of data collection (Hart 2003, p.51). One of such research philosophies is pragmatism<sup>4</sup>. This philosophy is very practically oriented

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<sup>4</sup> You can find a descriptive table of the four research philosophies used in management research in Appendix 1.

with the researcher adjusting the research approaches to most adequately explain the posed research question(s) (Saunders et al. 2008, p.119). For this thesis, the aim is to gain a comprehensive understanding of poverty in Panama. Considering the debate on poverty as pointed out in the *Literature Review* of this thesis, it is acknowledged that there can be multiple perspectives of what is real to one problem (see (Burke Johnson & Onwuegbuzie 2004, pp.16–18; Saunders et al. 2008, p.119)). Correspondingly, it is recognized that the knowledge obtained is inter alia subjective. Taking this ontological view, it is emphasized that the world and how its reality is seen is strongly influenced by its social actors. These actors do not only shape reality, but constantly change it through social interactions (Saunders et al. 2008, p.111). Often, taking a subjectivist ontological understanding, research helps to inductively<sup>5</sup> develop new theories (Creswell 2013, p.25). However, pragmatism also recognizes that these processes of social interactions that shape truth ‘...happen within a frame of specific objective social conditions’ (Döring & Bortz 2016, p.75). The epistemological position of pragmatists is a pluralistic one (Burke Johnson & Onwuegbuzie 2004, p.15). This means that the obtained knowledge is used as a tool to make research more effective (Döring & Bortz 2016, p.75; Burke Johnson & Onwuegbuzie 2004, p.15). Accordingly, pragmatists make use of various methods and combine several theories to mix different perspectives for the most suitable interpretation (Saunders et al. 2008, p.119; Burke Johnson & Onwuegbuzie 2004, p.19). Lastly, axiology is concerned with the importance of values. Pragmatists recognize that values influence the interpretation of data. Following, the results are automatically bound to be subjective but can have some objectivism to it (Saunders et al. 2008, p.119).

There are a range of benefits taking the pragmatist research philosophy. Using an eclectic approach to understanding a phenomenon allows for a broader recognition of different understandings of the world. In order to accomplish that, opposing theories can be combined to reach unexpected results (Burke Johnson & Onwuegbuzie 2004, p.19). This is highly relevant for this thesis with regard to the argumentation in the *Literature Review*. Poverty should be understood using more than one theory. Furthermore, neoclassical economic theory and structural violence are very opposing theories on the spectrum from understanding poverty considering individual or environmental characteristics. A weakness of pragmatism is, however, that it is taken less serious by some philosophers, because it is sometimes used as the easy way out as it is not a purist position (Burke Johnson & Onwuegbuzie 2004, pp.16–19). This means that pragmatists accommodate ideas of pure research philosophies such as positivism or interpretivist to their understanding of what answers the research question best (Burke Johnson & Onwuegbuzie 2004, p.14; Saunders et al. 2008, p.119). Still, it is argued that pragmatism is the research philosophy that allows best to accommodate the ideas of

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<sup>5</sup> This is explained in the next sub-section *Research Approach*.

the two theories. It is suggested that this is because the theories represent two different understandings of how to approach poverty. Whereas orthodox economists assume an objectivity that allows to generalize findings (see (Leftwich 2005, p.574)), it is very important to regard context specificity using structural violence (Rylko-Bauer & Farmer 2017). As mentioned in the paragraph above, pragmatism accommodates such seemingly opposing ideas.

### 3.2 Research Approach

According to Saunders et al. (2008, p.127) a researcher does not solely use deductive or inductive research, but uses both research approaches. Taking a deductive approach, a hypothesis or theory is tested (Burke Johnson & Onwuegbuzie 2004, p.17). Using the inductive approach, a theory is developed through the collection and analysis of data (Saunders et al. 2008, p.124). Pragmatists often combine deductive and inductive approaches (Döring & Bortz 2016, p.75). In this thesis, the deductive approach is used to critically examine the direct correlation between economic growth and poverty (see (Saunders et al. 2008, p.125)). Then, by integrating qualitative data from semi-structured interviews in the analysis of the PIE-model, it is not excluded that patterns are discovered that the introduced theories did not suggest. By doing so, the structure of the research design is kept more flexible to be able to find potentially alternative reasons for poverty in Panama. Accordingly, also the inductive approach is applied (see (Saunders et al. 2008, p.126)).

### 3.3 Research Design

This thesis is both explanatory as well as an exploratory study. For one, the aim is to understand the relation between economic growth and poverty. Furthermore, by making use of a single case study, Panama, it is explored how the idea of structural violence potentially identifies additional issues with poverty in the country. Furthermore, the direction of research was kept open for potential changes in direction during the data collection process (see (Saunders et al. 2008, pp.139&140)). The research strategy and research choice will reflect further on what makes it both an explanatory as well as an exploratory study.

#### 3.3.1 Research strategy

Case studies are often used for explanatory and exploratory research (Saunders et al. 2008, p.146). In a case study, the researcher explores a bounded context with the aid of a case to get an in-depth understanding of a problem or issue (Creswell 2013, pp.97&98). A single case study is employed, because the aim is to understand the phenomenon of poverty in Panama (see (Saunders et al. 2008, p.146)). The original neoclassical economic theory suggests that economic growth reduces poverty (Agola & Awange 2014, p.53). Panama is sold to be a success story of economic growth (see (Koehler-Geib et al. 2015; Thomson 2017)).

However, a report by the World Bank shows that the growth the country has been experiencing is not as inclusive as in other Latin American countries (Cox et al. 2011, p.6). This makes Panama an interesting case to investigate why this correlation between economic growth and the reduction of poverty is not as effective as in other countries.

A case study allows a researcher to develop a thorough understanding of an issue, its context and processes that shape it (Saunders et al. 2008, p.146). Often, case studies are criticized for producing subjective and value-laden knowledge (Darke et al. 1998, p.278). Flyvbjerg (2006, pp.221&222) argues that knowledge produced by researchers is always in some context and thereby case dependent. Accordingly, it is of relevance to understand the context in which the researcher intends to implement the idea of a theory or concept anyways, which is done by considering a case (see (Flyvbjerg 2006, pp.223–224)). Following this understanding, it makes sense to analyze poverty in a specific case and thereby context, which in this thesis is Panama. In addition to that, making use of mixed methods can work against the accused subjectivity of case study research (Darke et al. 1998, p.278).

### 3.3.2 Research Choice

The research choice, in accordance with pragmatism, is that of mixed methods (Burke Johnson & Onwuegbuzie 2004, p.14). Generally speaking, applying the mixed method approach refers to using both quantitative as well as qualitative data (Saunders et al. 2008, p.152). ‘A key feature of mixed methods research is its methodological pluralism or eclecticism, which frequently results in superior research (compared to monomethod research)’ (Burke Johnson & Onwuegbuzie 2004, p.14). By understanding the strengths and weaknesses of quantitative as well as qualitative research, their strengths can be combined in a mixed research (Burke Johnson & Onwuegbuzie 2004, p.18). This, in turn, allows to reap the advantages of both quantitative as well as qualitative research and to limit their weaknesses (Burke Johnson & Onwuegbuzie 2004, pp.14–15). Following, the conclusions that can be drawn from research that has applied the mixed method approach can expand the understanding of a particular topic (Burke Johnson & Onwuegbuzie 2004, p.19). In addition to that, the mixed method approach ‘can provide stronger evidence for a conclusion through convergence and corroboration of findings’ (Burke Johnson & Onwuegbuzie 2004, p.21). A downside to the mixed method approach is that it is more time consuming than other methods. This is inter alia because it requires a profound knowledge of both qualitative as well as quantitative methods (Burke Johnson & Onwuegbuzie 2004, p.21).

For this thesis, the mixed method approach is chosen to underline the importance of poverty not being exclusively a measurable problem, but also to show the potential structural issues that keep poverty from decreasing in Panama. Whereas poverty is often explained in measurable variables within neoclassical



economics (Vu 2010, p.999), structural violence focuses on qualitative explanations (see (Rylko-Bauer & Farmer 2017)). The benefit of using some quantitative measures remains that it 'provides precise, quantitative, numerical data' (Burke Johnson & Onwuegbuzie 2004, p.19). For this thesis, it makes it easier to compare Panama's performance to other Latin American countries and thereby put the information into perspective.

Using qualitative data, on the other hand, allows for the discovery of new information. Furthermore, the researcher's understanding of a phenomenon can be deepened. Finally, a researcher can shift the focus of the study depending on the new information gathered (Burke Johnson & Onwuegbuzie 2004, p.20). This was also done in this thesis, where the original focus was supposed to be on the Panama Canal, but soon it became clear that the issue of poverty is much larger and one needs to apply a macro lens to understand it.

### 3.4 Methods and Data Analysis

In this section of the methodology chapter, it is described how the qualitative as well as quantitative data were gathered and analyzed. Lastly, it is reflected on the validity, reliability and generalizability of this researched based on the chosen methodology.

#### 3.4.1 Qualitative Data Analysis

In order to provide a thorough understanding of the case of Panama, multiple forms of qualitative data were collected (see (Creswell 2013, p.98)). This includes research articles, newspaper articles, documentaries, books and, most importantly, interviews. It is recognized that newspaper articles are not very scientific, but for some of the newer information on Panama it was the only possible source. Furthermore, it was tried to solely use this data when interview partners made similar topic suggestions. Much of this information was gathered during a field trip to Panama from late January 2017 until mid-April 2017. The field study was done in corporation with the local office of the Friedrich-Ebert-Foundation (FES). It included reading and analyzing documentary sources that were available in local libraries, talking to the employees of the Friedrich-Ebert-Foundation and their understanding of the issue of poverty, as well as gathering primary data via a total of 12 semi-structured interviews<sup>6</sup>. It was chosen to conduct interviews, to get in-depth information about poverty in Panama that goes beyond the already established reports by international development organizations and the Panamanian government. Peet and Hartwick (2015, p.15) write that institutions have a strong influence on how poverty is conceptualized. It is argued that interviews with Panamanians who do

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<sup>6</sup> You can find a description of each person interviewed in Appendix 2.

not form part of powerful institutions such as the government, enrich the poverty discussion in Panama. In continuation to this argument, it was deemed important to keep the interviews open for the interviewee to be able to point out potential phenomenon. Accordingly, the form of semi-structured interviews was chosen, where a list of themes and questions preexisted but were adjusted to the interview flow (see (Saunders et al. 2008, p.320)). Table 2 gives an overview over all interview partners, their main profession, the location of the interview, as well as the date of the interview.

*Table 2: Information about interview partners<sup>7</sup>*

*(Own table)*

| <b>Name</b>                               | <b>Profession</b>  | <b>Place of interview</b>                         | <b>Date of interview</b>        |
|---|--|---|---------------------------------|
| <u>Quevedo</u> , R.                       | Public Consultant  | FES Office, Panama City                           | 10th February 2017              |
| <u>Jované</u> de Puy, J.                  | Economist professor<br>(& former presidential candidate) | University of Panama<br>Campus, Panama City       | 13th & 15th February 2017       |
| <u>Porras</u> , A.                        | Anthropology professor                                   | University of Panama<br>Campus, Panama City       | 16th February 2017              |
| <u>López</u> Tirone, H.                   | Owner of alternative farm<br>(& former Ambassador)       | Granja Alternativa,<br>Coclesito del Norte, Coclé | 19th February 2017              |
| <u>de León</u> de Bernal, A.              | Economist professor                                      | University of Panama<br>Campus, Panama City       | 23rd February 2017              |
| <u>Sánchez</u> González, S.               | Deputy Minister of the Presidency                        | Presidential Palace of<br>Panama, Panama City     | 6th March 2017                  |
| <u>Quintero</u> , I. A.                   | Sociologist professor                                    | University of Panama<br>Campus, Panama City       | 14th February & 8th March 2017  |
| <u>Gandásegui</u> Paz<br>Rodríguez, M. A. | Sociologist professor                                    | University of Panama<br>Campus, Panama City       | 20th February & 14th March 2017 |
| <u>Camargo</u> , J.                       | Independent Consultant                                   | FES Office, Panama City                           | 14th March 2017                 |
| <u>Tapia</u> Lu, O.                       | Sociologist professor                                    | University of Panama<br>Campus, Panama City       | 20th March 2017                 |
| <u>Alvarado</u> , J. D.                   | Advisor at Center for<br>Democratic Initiatives          | FES Office, Panama City                           | 22nd March 2017                 |
| <u>Rodríguez</u> Zúñiga, A.               | Project Manager at FES                                   | FES Office, Panama City                           | 22nd March 2017                 |

Most of the interview partners were found with the help of the Friedrich-Ebert-Foundation office in Panama. This assured confidentiality with the interview partners because they are all connected to the FES office and

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<sup>7</sup> The main last names are underlined and these will be the names used when referred to the according interviewee.

share similar political views. In this way, it was observed that the interviewees spoke freely about their opinions without restriction (see (Saunders et al. 2008, p.331)). The strategy implemented to finding interview partners was that of purposeful sampling which means that interview partners were chosen that could best contribute to the research with their knowledge (see (Creswell 2013, p.156)). The interviews were taken with academic elites. It is believed that they could provide valuable knowledge to the research, as they had been doing research on poverty in Panama for many years and the local understanding to it. Furthermore, all of the interviewed people had a different perspective onto the issues, due to different fields of work and research. All interviews were conducted in Spanish in person from interview partner to author of this thesis and lasted from 1 hour up to 2 hours.

‘Elite interviews are with persons who are leaders or experts in a community, people are usually in powerful positions’ (Kvale 2007, p.70). This required a profound knowledge of the topic beforehand so that the interviewee would have an interesting conversation partner (Kvale 2007, p.70). For that reason, a questionnaire<sup>8</sup> was developed to guide the interview. It was divided into four themes with related questions. The themes of the questionnaire were aimed to reveal whether there is potentially structural violence in Panama that hinders some people to get out of poverty. It was deemed best to thereby use specific examples. This was done by focusing on the enlargement of the Panama Canal, the status symbol of Panama. Furthermore, the social group of Ninis, young adults who neither work nor study, was chosen as the focus group. Selecting this specific group of people was based on a newspaper article that stated that it was an ongoing issue that many young people could not find jobs. As an answer to that, a pilot project was supposed to integrate these so-called Ninis into the logistics sector (see (Coriat 2014)). The interviews, however, have shown that there should be another focus than only the Panama Canal. Inter alia because the direct connection between social politics to integrate Ninis into the Panama Canal market was deemed impossible to make. Also because the pilot project never actually happened. Accordingly, the research question was broadened again to cover macroeconomic aspects of poverty. This process of data collection through interviews revealed that there is a lack of research on poverty per the newer paradigms of understanding poverty such as structural violence. Therefore, this thesis can contribute to a lack of research about poverty in the case of Panama using both primary, as well as secondary data.

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<sup>8</sup> The questionnaire can be found in Appendix 3.

As a first step for making use of the data obtained in Panama, the data was organized through transcription of the audiotaped interviews<sup>91011</sup>. Afterwards, the data was divided into themes for analysis. This was done by coding the data. Before doing so, the transcripts were read thoroughly and the audio tapes listened to several times while notes were taken. Lastly, this data was then related to the analytical framework, the PIE-model (see (Creswell 2013, pp.180–183)). Table 3 lists all the themes and sub-themes worked out with the help of the PIE-model and the interviews that were used for coding. This way, it is reflected on the interview data with a profound knowledge on relevant theory (Kvale 2007, p.117). The themes that were eventually kicked out because they did not seem relevant for the focus of the thesis are in italic. Themes that were added because they seemed important are bold.

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<sup>9</sup> All audio files and interview transcripts have been retained and are available on request in the Spanish language.

<sup>10</sup> All interview partners gave consent to audiotaping the interview. Each interviewee, but Marco A. Gandásegui, signed a declaration of consent that confirmed that it was okay to use the information obtained in the interview for the master thesis as well as a potential publication. Gandásegui verbally agreed to use all the information given in the interview.

<sup>11</sup> One of the interviews was cut out, as the interviewee, Abdiel Iván Quintero, had no time to finish the interview and the audiotape was too bad to be able to hear anything.

Table 3: Themes and sub-themes for the structure of the analysis

(Source: own table following the results of the Literature Review & Interviews)

| Themes                   | Sub-themes I           | Sub-themes II  |
|--------------------------|------------------------|--|
| <b>Poverty</b>           | Income Poverty         |  |
|                          | Capability Poverty     |  |
| <b>Politics</b>          | Social Groups          | Income Inequality  |
|                          |                        | <b>Elites/</b> Social Groups   |
|                          |                        | Ninis  |
|                          |                        | Social Transfer Programs   |
|                          | Political processes    | Political Parties/ Political Representation/ Political Power   |
|                          |                        | Transparency   |
|                          |                        | Political Stability & Violence   |
| <b>Institutions</b>      | Political Institutions | <ul style="list-style-type: none"> <li>- Voice and accountability</li> <li>- Government effectiveness</li> <li>- Corruption <ul style="list-style-type: none"> <li>o <b>Clientelism</b></li> </ul> </li> </ul> |
|                          | Economic Institutions  | <ul style="list-style-type: none"> <li>- Owners of enterprises/ Monopolies</li> <li>- <i>Regulations on foreign trade</i></li> <li>- Taxation</li> </ul>   |
|                          | Informal Institutions  | Cultures/ Norms/ Identity <ul style="list-style-type: none"> <li>o <b>Transitismo</b></li> </ul>   |
| <b>Economics</b>         | Macro-economic flows   | <ul style="list-style-type: none"> <li>- <b>Neoliberalism</b></li> <li>- Trade Balance</li> <li>- Employent &amp; Unemployment</li> <li>- Informal Employment</li> </ul>                                       |
|                          | Economic resources     | <ul style="list-style-type: none"> <li>- Education</li> <li>- Geography <ul style="list-style-type: none"> <li>o <b>Panama Canal</b></li> </ul> </li> </ul>  |
| <b>Surrounding World</b> |                        | <ul style="list-style-type: none"> <li>- <b>Migration</b></li> <li>- <b>History</b></li> </ul>   |
| <b>Dynamics</b>          |                        |  |

### 3.4.2 Quantitative Data Analysis

The quantitative data used in this thesis is secondary data. The secondary data comes mostly from statistical databases such as from the Panamanian government or the World Bank. Also from reports from international organizations. The foundation of this research is based on a report published by the Worldbank in 2011, in which attention is called to the phenomenon of Panama's underdevelopment of people's well-being in comparison to the Latin American average (see (Cox et al. 2011)). Most data used starts around 2000 until the most recent. This start date was chosen, because the Panama Canal was transferred to the country in the end of 1999 and is said to have triggered much of Panama's economic growth (see *Introduction*, p. 5). Figures and graphs are used to illustrate the development of economic growth and poverty in Panama. But also the World Bank's governance indicators aim to describe Panama's governance performance. There is a lot of criticism about these indicators. For instance, Wade (2010, p.154) disapproves that the governance indicators are, inter alia, based on surveys that asked foreign businessmen who were present in that country. This assumes that they have the same understanding of governance as the local population (Wade 2010, p.154). Furthermore, the governance indicators contain several variables at once (see (Maurseth 2008, p.18)). This makes it difficult to pinpoint where exactly the country is performing well or bad within each indicator. Still, as mentioned above, considering statistical data makes it possible to compare Panama to other Latin American countries.

### 3.5 Validity, Reliability and Generalizability

In order to avoid bias as much as possible and assure the validity of this research, triangulation is used. 'Triangulation refers to the use of different data collection techniques within one study in order to ensure that the data are telling you what you think they are telling you' (Saunders et al. 2008, p.146). This is done by using different methods, theories and sources (Creswell 2013, p.251). This also secures a wide enough perspective of the research, even though the interview partners all have similar political views (see (Darke et al. 1998, p.286)). This is also why mixed methods allow for more reliable conclusions (Burke Johnson & Onwuegbuzie 2004, p.19).

Despite criticism it is argued that a case study can be generalized just like other research in the sense that any research should be replicated before generalizations are made (Dul & Hak 2008, p.7). 'However, statistical generalization to a population is not the goal of case study research...' (Darke et al. 1998, p.278). Instead, the goal of this thesis is to develop a theoretical generalization out of the following results (see (Darke et al. 1998, p.278)).

### 3.6 Limitations

There are two main limitations to this thesis: 1) Cultural barriers, 2) Limited access to data.

There are many cultural differences between Germany, the nationality of the author, and Panama that contribute to discrepancies in intercultural communication. These were tried to avoid as much as possible by conducting the interviews in Spanish rather than English. In this way, the interviewee could speak more freely about the happenings in Panama. However, this made it more difficult to interpret the data because Spanish is only my third language and was learned in Nicaragua and Mexico. Still, regular meetings with Lily Cherniak, the Financial Administrator at the FES office there, who has studied German culture and has been living in Panama for many years helped to clear misunderstandings. Furthermore, in order to keep the power asymmetry as small as possible (see (Creswell 2013, p.173)), all interviews were arranged through the FES in Panama. However, Panama remains to be a very hierarchical country, where the power distance between individuals is very large (Hofstede n.d.). Accordingly, it cannot be excluded that that impacted the way in which the interviewees answered the questions to an outsider. Still, this might also have led to people speaking more openly about their thoughts. Furthermore, the interpretation of time is very different in the two cultures. Many of the interview partners did not arrive on time, which sometimes caused that the interview had to be cut short. This, then, was taken up on another day, but the flow of the conversation had been interrupted.

Lastly, especially within anthropology, a social science in which the concept of structural violence is often used, it is common to interview the people who live in poverty (see (Vu 2010, p.996; Saunders et al. 2008, pp.169–173)). Unfortunately, it was not possible to conduct any interviews of that kind. Many of the poor live outside of Panama of which many are indigenous and often do not speak the Spanish language (CIA 2017). Furthermore, there was no direct contact to any poor Panamanians via the channels that were used to finding interview partners. In addition to that, as mentioned above, the majority of the interviewed people (all besides Quevedo and Tapia), were connected to the office of the Friedrich-Ebert-Foundation. This foundation represents a certain political spectrum and its collaborators are usually politically close. Accordingly, the interview partners represent a relatively homogenous group that is critical towards the current government. However, they did reveal different perspectives onto the issues presented. Furthermore, it is argued that the pro government documents are easily accessible online for which reason this perspective is not left out. However, it is recognized that interviewing other people could have led to different results. For instance, having more interview partners outside of Panama City would have probably shifted the focus toward issues in rural areas.

In conclusion the pragmatist view is chosen to find the best answer to the research question posed in the *Introduction*. It is suggested that the mixed method approach accommodates the two theories on poverty best and will provide a solid understanding of poverty in the case of Panama.

This thesis analyzes the dynamics between economic growth and the reduction of poverty in Panama. Following the understanding of neoclassical economic theory, economic growth is the main driver behind the reduction in poverty. Panama has had some of the highest growth rates in the world. Directly correlating this economic growth with the reduction of poverty, however, shows that Panama underperforms in decreasing its poverty rates in comparison to other Latin American countries. Accordingly, growth does not reduce poverty as successful in Panama as it does in other countries. To find out why this is the case, two social science theories are combined that show two different perspectives on poverty. The ideas of neoclassical economic theory and structural violence guide the analysis which is structured following the PIE-model. This model is chosen as the framework to operationalize the two social science theories and gives an overview over a society by considering the three subsystems- politics, institutions and the economy. The argument is that only an eclectic approach allows to get a deep understanding of a complex issue such as poverty. This is also why mixed methods are used. A 2.5-month field study in Panama allowed for an in-depth understanding of the country's society through 12 semi-structured interviews.

It is concluded that there are two reasons for the uneven correlation between economic growth and the reduction of poverty in Panama. One, the original trickle-down effect of neoclassical economic theory is too simplistic. For wealth to be more evenly distributed, "good governance" needs to be assured. Second, there is structural violence in Panama that keeps some people from participating in society and thereby take advantage of the country's economic wealth. Panama's society is in a vicious circle where the elite contains power over economic resources and institutions. This latter answer cannot be uncovered unless there is a shift in paradigms of acknowledging that environmental factors can cause poverty as well. Accordingly, this research implies that international development organizations and governments should broaden their understanding of poverty and direct policies towards changing structures that keep people marginalized. Furthermore, it is emphasized that a one-size-fits-all approach is not suitable and poverty should always be solved accounting for the local context.

## **4 Results: The Case of Panama**

In this chapter, it is first reflected upon the two main variables that have led to the research question: economic growth and income poverty. Afterwards, the PIE-model is analyzed and its subsystems are interpreted based on the case of Panama.



## 4.1 Economic Growth in Panama

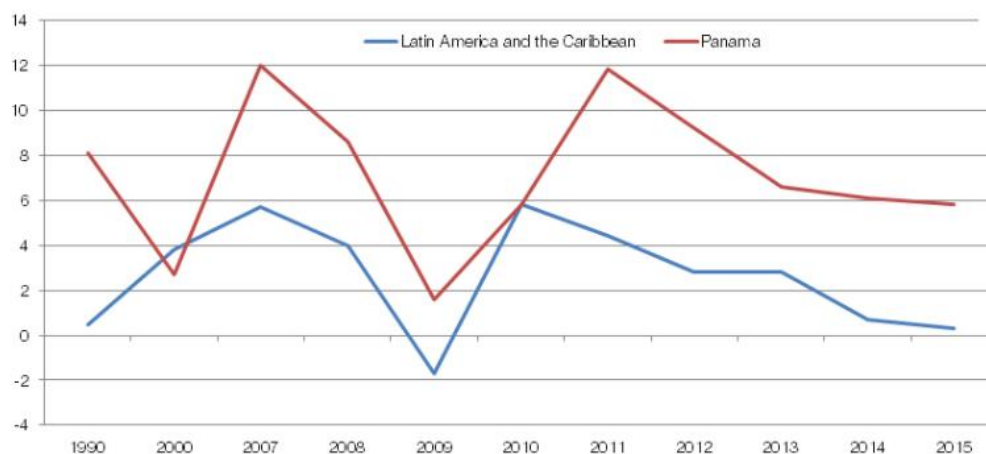
Throughout the past years Panama has experienced tremendous economic growth rates (World Bank 2017). 'Panama's real growth since 2001 has averaged 7.2 percent, more than double the average for Latin America and the Caribbean (LAC)' (Koehler-Geib et al. 2015, p.23). This can be seen in Figure 2 which compares the annual GDP growth of Panama with that of the Latin American average between 1990 and 2015. Within these 25 years Panama experienced its highest growth in 2007 at a rate of 12% annually. Its lowest GDP growth rate was in 2009 with 1.6% (Worldbank 2017b)<sup>12</sup>. Figure 2 also shows that since the year 2000 Panama has always outperformed the Latin American growth average. Only in 2010 Panama's GDP growth rate met with that of Latin America at 5.8% (see (Worldbank 2017b)).

*Figure 2 : GDP growth in Panama in comparison to the average of LAC*

*(Source: (Thomson 2017))*

### Panama: a Latin American success story

Annual GDP growth (%)



Source: World Bank

Many connect this success of economic growth to the country receiving full control over the Panama Canal Zone from 2000 onwards (Koehler-Geib et al. 2015, p.2). While R. Quevedo (pers. comm., 10 February 2017) points out that this meant that the country received all the profits of the ships that paid tolls to pass via the

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<sup>12</sup> It is referred to the data which was used to make Figure 2.

canal, A. Rodríguez (pers. comm., 22 March 2017) refers to the additional infrastructure the Canal Zone provided. Furthermore, H. López (pers. comm., 19 February 2017) says that since 2000 the country was no longer governed by the US American authorities but could choose its own economic model which was that of free trade. The country built new ports and improved its existing ones. More companies started to invest in Panama (H. López 2017, pers. comm., 19 February). A. Porras (pers. comm., 16 February 2017) highlights that the Panama Canal has made the country so well accessible for which reason it has become a hub for logistics and ‘...forms part of the conglomerate of transport and international maritime commerce’.

Figure 2 also shows that in Panama, just like in the rest of Latin America, economic growth has been decelerating. There can be several reasons for that and it is important to mention that the economic growth is not stagnating but the growth rate slowed down. Panama’s very liberal and open economic model is affected by the surrounding world. For one, Panama, just like many other countries around the world, was hit by the economic crisis in 2008. The Deputy Minister of the Presidency, S. Sánchez (pers. comm., 6 March 2017), argues that Panama could recover from that relatively well, because the agreed upon enlargement of the Panama Canal. Even though some commerce slowed down, the US had just started allowing fracking, which created new business opportunities and thereby other types of boats that could now pass through the enlarged canal (S. Sánchez 2017, pers. comm., 6 March). J. Jované (pers. comm., 15 February 2017) says that Panama’s history and its economic development go in cycles. During some periods there is an economic boom and then, some years after, the boom is over. This has often been related to the Panama Canal and when parts are being built onto it. When there is something new to construct such as the enlargement of the canal in 2006, a construction boom hits the country, creates a lot of employment, and increases economic growth. This growth then slows down once the first excitement is over (J. Jované 2017, pers. comm., 13 February).

## 4.2 Income Poverty in Panama

In the following, it is reflected on the poverty rates in Panama throughout the past years and compared to the rest of Latin America. Afterwards, the increase in economic growth is brought into relation with the decrease in moderate and extreme poverty in Panama in relation to 17 other Latin American countries.

Figure 3 shows that at the poverty lines of 1.90 USD for extreme poverty and of 3.10 USD, the ratio of Panamanians in poverty has decreased a lot between 2000 and 2014. Accordingly, there are 74% less Panamanians who live in extreme poverty in 2014. The poverty headcount ratio at 3.10 USD decreased by 13 percentage points. Figure 4 shows a comparison with the poverty lines of the LAC average. Here, the poverty lines are set only slightly higher and already it can be observed that the percentage of people living in poverty

is much higher in Panama than what is shown in Figure 3. This is an indication that there are people living right above the global poverty lines but still in precariat living conditions. J. Alvarado (pers.comm., 22 March 2017) says that this is the group of people in Panama that should not be ignored, because their social mobility has been downward if anything.

Figure 3: Income Poverty in Panama, 1998-2014

(Own figure, Source: (Worldbank 2017a))

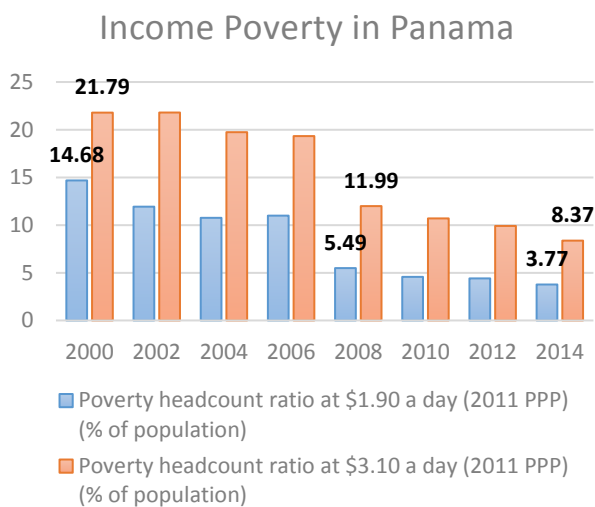
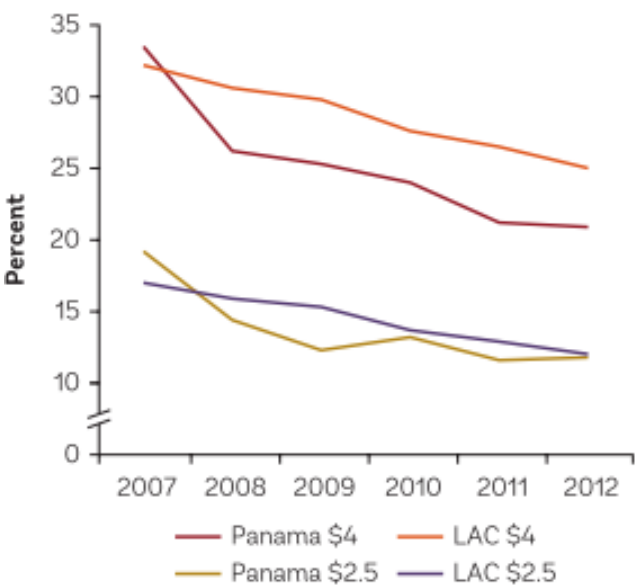


Figure 4: 'Poverty in LAC and Panama, 2007-2012'

(Source: (Koehler-Geib et al. 2015, p.9))



Source: World Bank data.  
Note: LAC=Latin America and the Caribbean.

In comparison to LAC, Panama's moderate poverty has experienced a stronger decrease. In 2012, Panama had 20.9% of people living on 4 USD a day or less. In LAC that was 25%. The poverty line at 2.5 USD is the same in Panama and the average LAC in 2012 (see (Koehler-Geib et al. 2015, p.9)). Koehler-Geib et al. (2015, p.10) explain the decrease in poverty rates with the increase in people living in the middle class. 'Average income growth among the bottom forty percent of the population was seven percent compared to 6.3 percent overall ... with the resulting fall in overall poverty...' (Koehler-Geib et al. 2015, p.61).

### *Economic growth and Income Poverty in Panama*

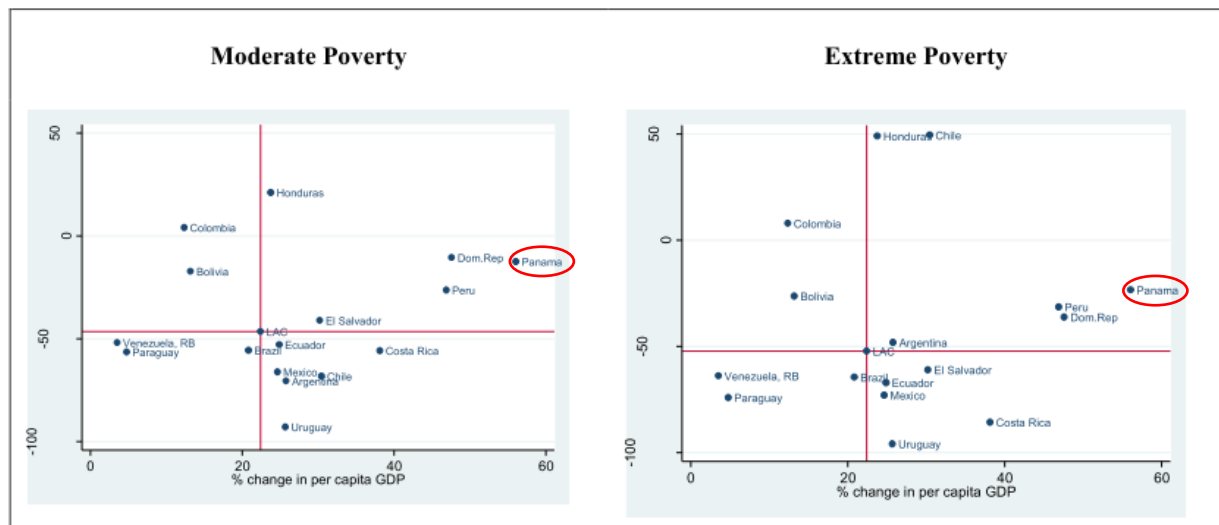
The numbers in the two sections above clearly indicate that Panama has had both an increase in economic growth, as well as a decrease in poverty rates. Both moderate poverty and extreme poverty. While this is a success, it is, however, always a matter of perspective and comparison. A report published by the World Bank in 2011 that looks at numbers for these two variables between 1997 and 2008, states that Panama is underperforming in reducing its poverty rates relative to its economic growth in comparison to the 17 Latin American countries included in the study (Cox et al. 2011, p.6). This can be observed in Figure 5 below. It indicates that Panama outperforms all other Latin American countries in that study regarding economic growth, having experienced a 56.1% change in per capita GDP. The region's average is a bit less than half of that at 22.4%. The vertical axis in Figure 5 shows the reduction in poverty rates; moderate poverty in the graph to the left and extreme poverty in the graph to the right. The red horizontal line indicates how much the two types of income poverty were reduced in percentage change by the Latin American regions' average<sup>13</sup>. In both cases, it is visible that Panama reduced poverty rates between 1997 and 2008 but performed worse than the average; the Latin American region managed to reduce moderate poverty by 46.5% and Panama's poverty rate only decreased by 12.3% (Cox et al. 2011, p.6). Especially with regards to reducing moderate poverty, the World Bank (2011) recommends that effective policies are directly targeted at poverty (Cox et al. 2011, p.6).

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<sup>13</sup> Cox et al. (Cox et al. 2011, p.55) refer to an '...annual extreme poverty line of B.\640 per capita consumption'. It is not clear out of the report what the moderate poverty line is in this case.

Figure 5: 'Growth and Poverty Reduction in Panama and LAC between 1997 and 2008'

(Source: (Cox et al. 2011, p.7))



Note: LAC average is the population weighted average of the sixteen countries included in the analysis. These countries were selected because they had poverty and extreme poverty measurements circa 1997 and 2008.

Source: World Development Indicators (2010), World Bank

Thus Figure 5 suggests that economic growth does not reduce moderate and extreme poverty in Panama as effectively as is the case in other Latin American countries. However, these statistics only show Panama's performance until 2008 and the statistics under the section 'Income Poverty in Panama' clearly indicate that poverty rates have continued to decrease. Still, J. Camargo (pers. comm., 14 March 2017) believes that, especially in a society like Panama, poverty should not be analyzed without considering the power relations between different social groups. To uncover some potential reasons for why there is an uneven correlation between economic growth and the reduction of poverty the three subsystems – Politics, Institutions, and Economics – are analyzed for Panama.

### 4.3 Politics in Panama

This section of the analysis describes the different social groups in Panama. First an overview of social groups is given and then it is analyzed how income inequality and transfer payments contribute to power relations. Afterwards, the political processes are reflected upon considering Panama's political stability and transparency of politics and media. Mygind (2007, p.2) points out that power relations between different social groups are most visible when analyzing politics. Politics play a crucial role in shaping structures according to the idea of structural violence (Galtung 1969, p.176).

#### 4.3.1 Social Groups

While there are many different social groups in any society, this thesis focuses on the groups in Panama that were singled out by the interview partners. The interview partners roughly divided the society into three social groups: lower, middle, and upper class, corresponding to the income level of households. Most people who live in poverty are indigenous people (Koehler-Geib et al. 2015, p.83). J. Alvarado (pers. comm., 22 March 2017) refers to a group of people living in precariat conditions. In his account, these are people that are part of the lower middle class and close to being poor. H. López (pers. comm., 19 February 2017) says that there has been a strong decrease in the number of people forming part of the middle class. However, most of the interviewees attributed themselves to the Panamanian middle class. Overall, it is suggested that they are part of the academic elite. Lastly, there is the upper class. Many of the interviewees continuously referred to an elite in Panama that has power over both politics as well as economic resources.

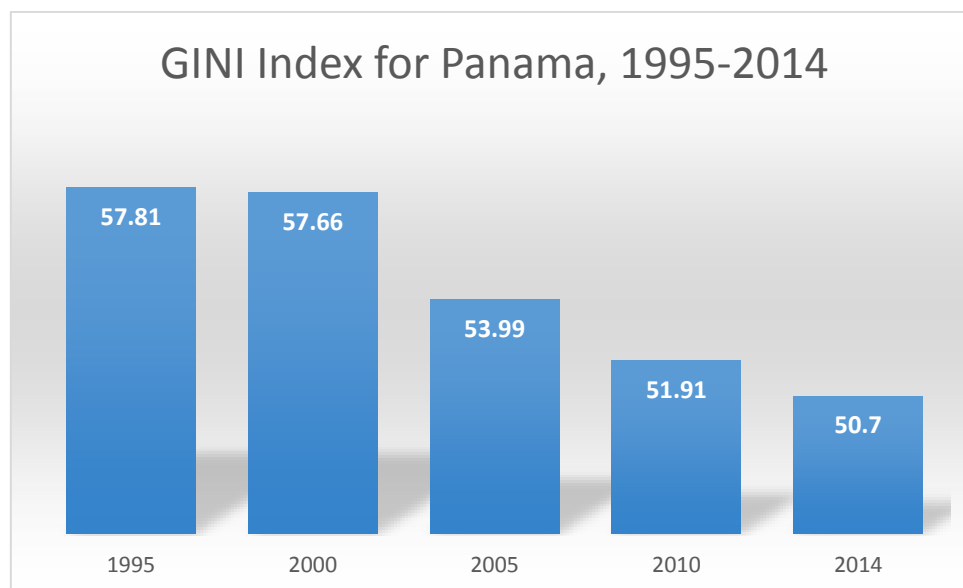
#### *Income Inequality*

As pointed out in the literature review, Korzeniewicz and Smith (2000, p.13) state that income inequality can be an indication for strong divides between social groups. Perry et al. (2006, p.45) state that income poverty could be tremendously decreased in Latin America, if there were not such high income inequality rates. The Gini coefficient is one of the most common measures for income inequality. The ranking is between 0 and 1. The lower the ranking, the less income inequality exists in a country (Perry et al. 2006, p.19). Figure 6 shows that overall, there has been a consistent decrease in income inequality in Panama from 1995 to 2014. The index went down from roughly 58 in 1995 to 51 in 2014<sup>14</sup>.

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<sup>14</sup> The numbers are on a scale from 0 to 100 instead of 0 to 1.

*Figure 6: Gini Index for Panama, 1995-2014*  
*(Own work with data from (Worldbank 2017a))*



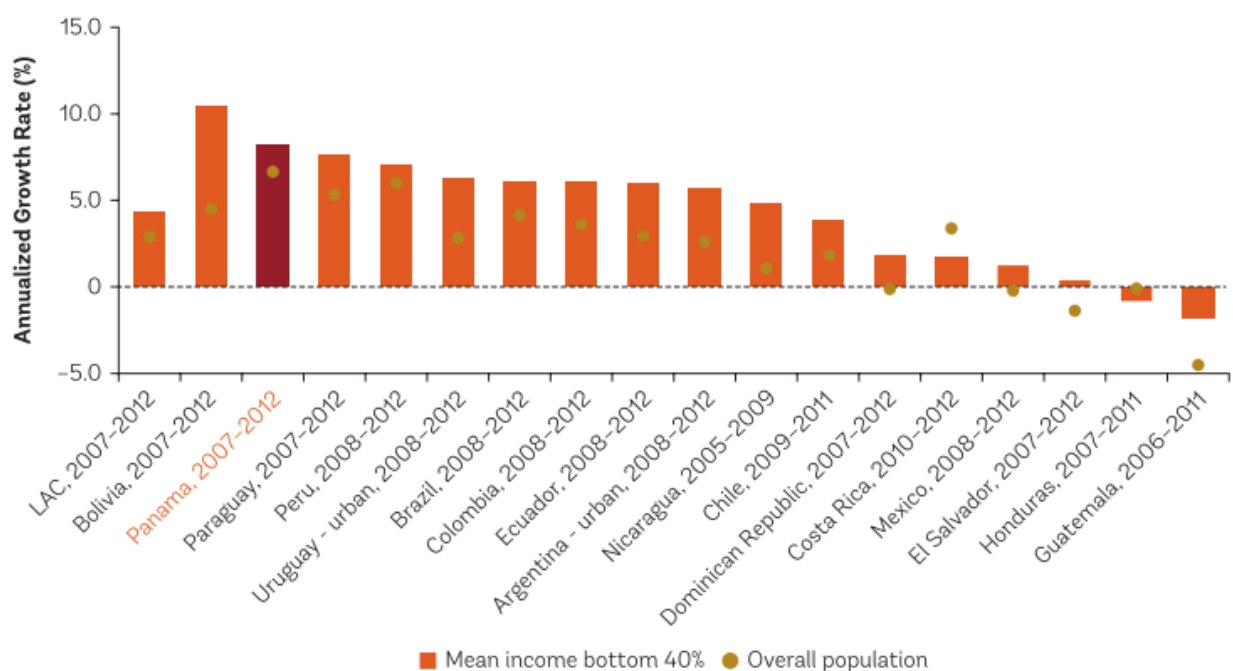
This, however, is not noteworthy in itself, as decreasing income inequality rates was the overall trend in the world. Accordingly, despite Panama having a lower Gini Index now than ever before, a report published recently by the World Bank announced Panama to be among the 10 most unequal countries in the world (Worldbank 2016, p.11). This shows the uneven distribution of income in Panama and reveals that there are strong social divides in society regarding economic resources. Many of the interview partners support this data on Panama being unequal. M. Gandásegui (pers. comm., 20 February 2017) points out that ‘Panama and all the Latin American countries have always been rich. The problem is that they have a social structure that promotes inequality’. Also J. Camargo (pers. comm., 14 March 2017) and H. López (pers. comm., 19 February 2017) believe that only a small share of people, the elite, gains most of the money in Panama. An explanation for this can be found considering Panama’s recent history. J. Alvarado (pers. comm., 22 March 2017) says that the independence from the US has given the elite additional power and access to more economic resources. He further expresses that the years between the US invasion in ‘89 and the handing over of the Panama Canal in ‘99 were a critical juncture for the structures of social groups. He suggests that the elite managed to take charge of political and economic institutions and used the forced democratization process to their own advantage (J. Alvarado 2017, pers. comm., 22 March). M. Gandásegui (pers. comm., 14 March 2017) recognizes that the US gave the power to the same elites that governed the country before the military coup. J. Jované (pers. comm., 15 February 2017) says that this has led to an increase in social divides,

which continues to grow. He thinks that there is an oligarchy in Panama that continues to control Panama's politics and the people who are marginalized from society continue to be marginalized.

Yet, other evidence reports positive characteristics of Panama's growth. Figure 7 shows that from 2007 to 2012, the economic growth has been more inclusive. This means that the bottom 40% of Panama's population have had a higher mean income than the overall population. 'Average per capita income, as measured by household surveys, grew by 6.6 percent between 2007 and 2012 whereas the average incomes of the bottom 40 percent of the population rose 8.2 percent...' (Koehler-Geib et al. 2015, p.12). Accordingly, the income inequalities and thereby also the Gini coefficient are decreasing with the help of the economic growth Panama has been experiencing.

*Figure 7: Panama's inclusive growth in comparison to LAC, 2007-2012*

*(Source: (Koehler-Geib et al. 2015, p.13))*



Source: Latin America and the Caribbean Equity Lab tabulations of the Socio-Economic Database for Latin America and the Caribbean (SEDLAC) produced by the Center for Distributive and Social Studies (CEDLAS and the World Bank); World Development Indicators (database), World Bank, Washington, DC, <http://data.worldbank.org/products/wdi>.

### *Transfer payments*

It is important to mention that the Gini coefficient is made up of household disposable income. This also includes public cash transfers that some households receive (OECD 2017a). The Panamanian Ministry of Economics and Finance states that income inequality would have been even worse if it weren't for transfer payments (Lasso 2017b). This is in accordance with neoclassical economic thinking. It is believed that transfer

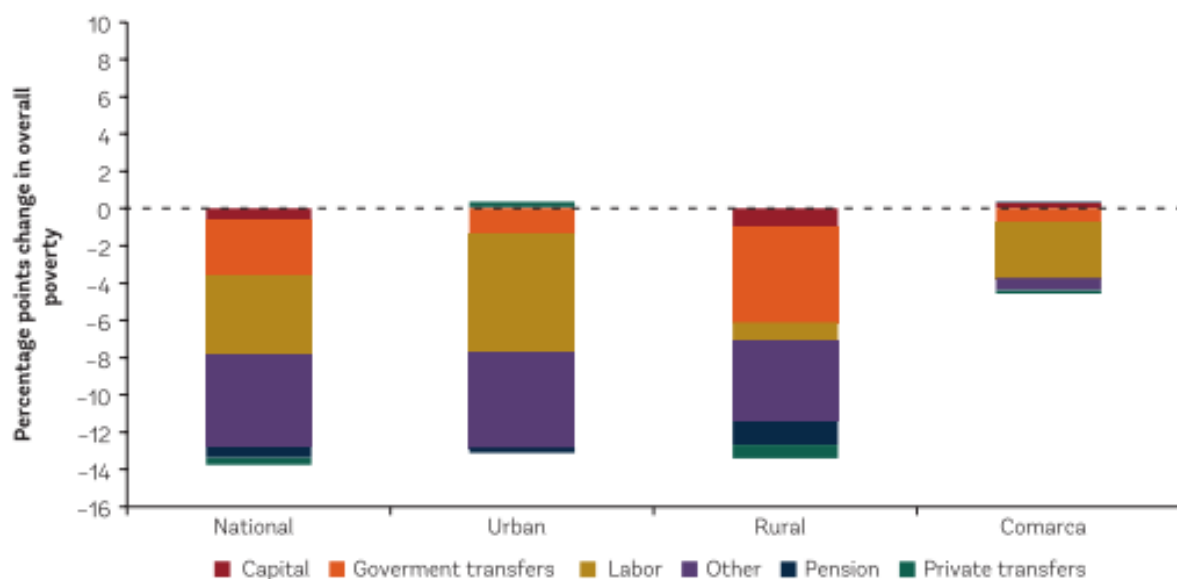


payments decrease poverty (Saad-Filho 2016, p.70). Because Panama has experienced a lot of growth in the past decade, the government has been able to use some of that money to invest into more social programs (Koehler-Geib et al. 2015, p.73). These social programs can be split into two categories. The first category is the establishment of subsidies for products that are very crucial to the Panamanian people in their daily lives. One of such is the subsidy for the consumption of electrical energy. The other kind of social subsidy are programs directly targeted at vulnerable people: Transfer payments. One of such projects introduced by the Panamanian government is the project called *Red de Oportunidades* (Network of Opportunities). This project is about a direct transfer of money to people in need (Fisher & Rivas 2013, p.13).

In their systematics country diagnostic on Panama, Koehler-Geib et al. (2015, p.78) state that the country's government has been able to reduce overall income poverty with its spending on social programs. This can be observed in Figure 8. It shows that especially in rural areas, government transfers have contributed a lot to reducing the numbers of people living in poverty.

Figure 8: 'Contribution of Different Income Sources to Changes in Overall Poverty, 2007-2012'

(Source (Koehler-Geib et al. 2015, p.75))



Source: Authors' calculations based on EML (INEC 2007-2012).

Note: Other incomes include imputed rent, private scholarships, and other sources not included in existing categories.

Figure 8 also shows that with the exception of rural regions, government transfers are not the primary source for reducing poverty rates. Instead, "Labor" and "Other" are the two most influential sources of income to contribute to a decreasing poverty rate. Perry et al. (2006, pp.4-5) evaluate that on average, the Latin American countries are very unsuccessful in decreasing their income inequality through transfers. Furthermore, these statistics also reveal that especially decreasing poverty rates in rural areas of Panama is

highly dependent on the continuance of the government's social transfers. This is also one of the main criticisms by the interview partners: Dependency. A. Rodríguez (pers. comm., 22 March 2017) says that the problem with these programs is that they do not solve poverty in a sustainable way. Instead, they represent a short-term solution. When there is a change in government and it cuts social spending, the people might just be back to where they were before; living in poverty (A. Rodríguez 2017, pers. comm., 22 March).

The issue of dependency relates to another concern expressed by some interview partners. The concern is that the transfer payments promoted by the government do not aim to develop society. J. Jované (pers. comm., 13 February 2017) says that the many investments of material nature do not lead to sustainably improving peoples' living conditions, because they are not aimed to develop Panamanian society. J. Camargo (pers. comm., 14 March 2017) adds that the social transfer programs that the government promotes do not change the structural inequalities in the country. A. Rodríguez (pers. comm., 22 March 2017) sees these programs for people as a disincentive to integrate into the formal market. Because working conditions are often so marginal, he believes that some people prefer working in the informal sector and receive monetary benefits from the Panamanian government. Furthermore, he states that if these programs exist, the government is incentivized not to improve labor rights. In his opinion, people should earn a decent living through being employed in the formal sector so that they had no need for government transfers (A. Rodríguez 2017, pers. comm., 22 March).

A. Porras (pers. comm., 16 February 2017) says that '... [the government] is promoting ... a conservative concept of charity versus rights.' However, this model is outdated and needs revision to create an inclusive society where all people have the possibility to receive adequate education and access to other basic capabilities. While she believes that some of the programs should be kept, she believes that the elite in power does not have an interest in wanting to change the inequalities but instead rather pretend to care about poverty. She says that the transfer payments are only crumbs of what should be done to eradicate the persistent inequality in the country (A. Porras 2017, pers. comm., 16 February). J. Alvarado (pers. comm., 22 March 2017) thinks that the social programs are okay as a short-term solution but '...cannot resolve systemic inequality which happens ... when the economic system of the country is presumed'. J. Camargo (pers. comm., 14 March 2017) says that these programs do not solve structural inequalities and thereby keep people socially excluded.

#### 4.3.2 Political Processes

The social groups influence the political processes of a society (Mygind 2007, p.6). For this thesis, the political processes are reflected upon by considering how the different social groups are represented in the

government. Furthermore, it is considered how transparently information of government actions is distributed. Lastly, the governance indicator promoted by the World Bank, *Political Stability and Absence of Violence*, is reflected upon.

Panama is a Presidential Republic divided into ten provinces and three territories that are owned by indigenous people. Its current president is Juan Carlos Varela who was elected in 2014. He received a total of 39.1% of the votes representing the Partido Panameñista (Panamanian Party). In total there are five main parties in the country (CIA 2017). Since the invasion of the US in Panama in 1989, Panama's politics have been considerably improved. Presidents were democratically elected and stayed in office five years (Sullivan 2011, pp.682–687).

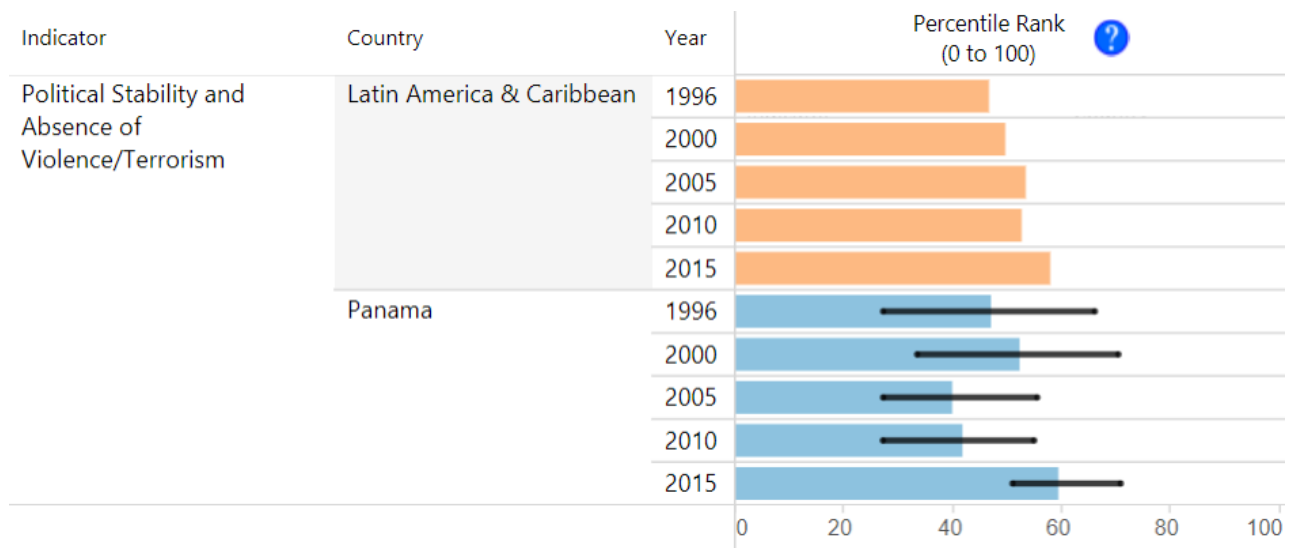
A. Porras (pers. comm., 16 February 2017) says that it is very uncommon for the same party to be in political power twice in a row, which leads to a certain balance of interests. She counter argues, however, that it seems that all of Panama's political parties represent the interests of the elite. Also M. Gandásegui (pers. comm., 20 February 2017) thinks that the groups who do not form part of Panama's elites are less and less politically represented. J. Alvarado (pers. comm., 22 March 2017) explains that the current Panamanian government is the most center oriented than any government has been in a long time. This means that, according to him, the government promotes social democratic values. Still, J. Jované (pers. comm., 13 February 2017) disputes that there has ever been a government that represented the interests of the poor that promoted real solutions to poverty in Panama.

#### *Political Stability and Absence of Violence*

Table 3 shows the performance of Panama in one out of a total of six governance indicators promoted by the World Bank. These indicators are made up of several variables each and the data was collected through surveys (Kaufmann et al. 2010, p.i). The indicator for *Political Stability and Absence of Violence/Terrorism* examines '... the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including domestic violence and terrorism' (Worldbank 2007, p.2). The higher the percentile rank, the better the country performs in the indicator (Worldbank 2017c). It can be observed that Panama has improved its score overall. However, the country scored low in 2005 and 2010. This indicates that there was some social unrest that threatened the political stability in Panama.

Table 3: Worldbank Governance Indicator Political Stability & Absence of Violence, 1996-2015

(Source: (Worldbank 2017c))



Maurseth (2008, p.27) suggests to consider protests when analyzing this governance indicator. J. Jované (pers. comm., 15 February 2017) points out that there were many protests during the initial planning phase of the enlargement of the Panama Canal around 2005. The Panamanian citizens, especially people in the farming business, were not satisfied with how the enlargement was planned, as this would have meant for many farmers that they had to move. J. Jované (pers. comm., 15 February 2017) says that eventually, these protests stopped once the plan of how to enlarge the Canal was changed to accommodate the complaints. It is further analyzed that there were many protests in 2010, when the Martinelli government changed the tax system. Protestors feared that poor people would suffer from this change. Furthermore, in the years '08 and '09 homicide rates increased. The reason being an increase in drug trafficking. These numbers were reduced again in 2010 (Sullivan 2011, pp.689–690). Statistics provided in a report on Latin Americas social protests show that in the years 2009 and 2010, Panama has had the highest ratio of conflicts in the Central American region and one of the highest in all of Latin America (Calderón Gutiérrez et al. 2012, p.123). Calderón Gutiérrez et al. (2012, pp.125–126) refer to the bumpy transition between a government led by Martín Torrijos and Martinelli<sup>15</sup>. Panama's performance of political stability and absence of violence seems quite typical for a Latin American country in 1996 and 2015.

<sup>15</sup> Martín Torrijos was president from 2005 until 2009. Ricardo Martinelli was president from 2009 until 2014 (Sullivan 2011, pp.685&687).

### *Transparency*

Another variable to consider when analyzing a country's politics is how transparent information is transmitted, as this can be an indicator for diversified political opinions through media (see (Mygind 2007, p.7)). To assess the transparency of politics, this thesis analyses the progress of the Panama Canal enlargement. According to the Panamanian Constitution, the Panama Canal Authorities (ACP) are obliged to hold a referendum whenever significant changes of the canal are planned (Sullivan 2011, p.711). Thus, a referendum was held in 2006 when a proposal for enlargement of the Canal was put forward (Ahijado et al. 2016, p.54). According to the Panamanian Constitution, the Panama Canal Authorities are obliged to hold a referendum whenever significant changes of the canal are planned (Sullivan 2011, p.711). People could vote whether they wanted an enlargement or not (Sigler 2014c, p.886). 78% of referendum participants said yes to the project (Sullivan 2011, p.711). M. Gandásegui (pers. comm., 20 February 2017) points out that only few Panamanians actually participated in the elections. The low participation could be explained by people's deprivation of opportunity to take part in the decision-making process of the project, infers J. Alvarado (pers. comm., 22 March 2017). He says that the problem with the idea of a referendum is that people can only agree or disagree but not make any suggestions as to how the policy should look like. That was also the problem in this referendum. The No campaign did not have as many funds which means their ideas were not heard, nor promoted as strongly as the Yes campaign (J. Alvarado 2017, pers. comm., 22 March).

Before the referendum took place, Aledo Tur (p.76) writes that the ACP kept its plans hidden from the public. He further addresses that some journalists that spoke out against the way the ACP has dealt with the enlargement project were censored and persecuted (Aledo Tur 2006, p.83). According to J. Camargo (pers. comm., 14 March 2017) this is because the government was in favor of the enlargement and promoted the SI (Yes) side. However, J. Jované (pers. comm., 13 February 2017) says that information was and is available but the channels through which it is being promoted do not reach the average Panamanian citizen.

### *Sub Conclusion Politics in Panama*

The first section on politics in Panama depicts the different social groups in Panamanian society. The results show that even though the government has programs that try to decrease social divides, Panamanian society is split. Income inequality is amongst the highest in the world and the interview partners lead this back to an elite receiving most of the economic benefits. While social transfer programs have helped to decrease these numbers a bit, their effectiveness is seriously questioned. Some interviewees point out the dependency they create, as well as the lack of sustainably developing an inclusive society. The analysis on the political processes shows that mostly this wealthy elite is represented in the five political parties in Panama. This may

also be an indication why Panamanians like to protest. Still, there is no risk for the government to be overthrown any time soon, according to the statistics.

## 4.4 Institutions in Panama

In his paper on the PIE-model, Mygind (2007) repeatedly stresses the importance of institutions. He writes that power is regulated through formal institutions and shaped by informal institutions (Mygind 2007, pp.8–9). In the following, the political and economic institutions, who make up the formal institutions, are reflected upon. Then, a section on corruption describes how politicians and the ACP have recently been in the news for corruptive activities. Afterwards, it is elaborated how one specific cultural trait shapes Panamanian society.

### 4.4.1 Political Institutions

Many of the interview partners point out the importance of politics and political institutions to eradicate poverty but also inequality in Panama. Overall, it can be observed that between the years 1996 until 2015, Panama has improved its percentile ranks in both governance indicators that are shown in Table 4. This is shown in more detail in each sub section.

*Table 4: Worldbank Governance Indicators for Political Institutions in Panama, 1996-2015*

*(Source: (Worldbank 2017c))*

| Indicator                       | Country | Year | Number of Sources | Governance Score (-2.5 to +2.5) | Percentile Rank (0 to 100) | Standard Error |
|---------------------------------|---------|------|-------------------|---------------------------------|----------------------------|----------------|
| <b>Voice and Accountability</b> | Panama  | 1996 | 6                 | 0.00                            | 51.44                      | 0.21           |
|                                 |         | 2000 | 7                 | 0.60                            | 65.87                      | 0.21           |
|                                 |         | 2005 | 11                | 0.44                            | 62.50                      | 0.17           |
|                                 |         | 2010 | 13                | 0.52                            | 63.98                      | 0.14           |
|                                 |         | 2015 | 11                | 0.50                            | 65.02                      | 0.13           |
| <b>Government Effectiveness</b> | Panama  | 1996 | 4                 | 0.03                            | 57.56                      | 0.25           |
|                                 |         | 2000 | 5                 | 0.24                            | 62.44                      | 0.20           |
|                                 |         | 2005 | 8                 | 0.06                            | 57.07                      | 0.17           |
|                                 |         | 2010 | 10                | 0.14                            | 59.81                      | 0.20           |
|                                 |         | 2015 | 9                 | 0.30                            | 65.38                      | 0.22           |

### *Voice and Accountability*

The governance indicator *Voice and Accountability* reflects on the ability of citizens to decide on their government and freely speak out about government opposing opinions (Mygind 2007, p.22). It is about respecting peoples' rights and the fairness of elections (Worldbank 2007, p.16). While the example of the referendum for the enlargement of the canal in the section on *Transparency* already sheds some light onto the topic of *Voice and Accountability*, this section is kept more general.

Usually a large percentage of Panamanians participate in their elections. J. Jované (pers. comm., 13 February 2017) says that it is part of their culture to vote. M. Gandásegui (pers. comm., 20 February 2017) explains that this is due to Panama's electoral system: '...when you go to vote, you don't only vote for the president but also the deputies, as well as the mayors and also the councilors, the representatives, 500, 700 representatives'. And since Panama is a country with only a small population<sup>16</sup>, the sociologist professor says, there is a very high probability that you will know one of the people nominated for the election. In this way, the advertising for presidential candidates and others is through personal ties. Accordingly, Gandásegui Paz Rodríguez (2017) says, are the high numbers of the election turnouts of up to 70%.

Looking at Table 4, Panama has improved its ranking of *Voice and Accountability* by 14 percentile ranks. Still, the governance score, which explains the degree of governance with 2.5 being the best (see (Worldbank 2017c)), is still only at 0.5. J. Alvarado (pers. comm., 22 March 2017) explains that the government regularly holds round tables, which have become more and more inclusive throughout the past twenty years. A. Rodríguez (pers. comm., 22 March 2017) criticizes that these round tables are less meant for discussion and rather the government introducing their newest visions. He thinks that the only reason for these round tables to take place at all is because the government is worried that else the social groups not represented would protest (A. Rodríguez 2017, pers. comm., 22 March).

The many protests of Panamanians are also an indicator for the dissatisfaction of society with regard to the policy choices the government makes. J. Alvarado (pers. comm., 22 March 2017) refers to the policies to promote economic growth to have been authoritative: '...We didn't democratize the large capitalist growth at the expense of civil and politic liberties of the previous administration...'. A. De León (pers. comm., 23 February 2017) explains that the government is not interested in the common opinion but instead act according to what they think is best for Panama. Furthermore, following the statements of the interviewees, it is questionable, how much voice the different social groups have with regard to governance. A. De León

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<sup>16</sup> 3.9 million people live in Panama (World Bank 2017)

(pers. comm., 23 February 2017) says that the elite described in the section *Social Groups* is a small social group of a few families that have managed to stay in political power for decades. In an interview with a Panamanian newspaper, the political scientist Manuel Alcántara says that in Panama the political power has been within a few families since the country's independence from Columbia in 1903. Also Porras is cited in this article. She says that ever since the military regime led by Omar Torrijos, a new oligarchy has developed. This new elite is much more closely knit and moves in the same circles (LaEstrella 2013). In the article it is stated that two thirds of all the politicians in the Panamanian National Assembly have had family members of theirs be in the assembly before them or at the same time (LaEstrella 2013). A. Rodríguez (pers. comm., 22 March 2017) relates this to the population size of Panama. He says that this so-called "Republic of Cousins" continues to exist because they have managed to keep the power amongst themselves in politics, as well as economics. He further adds that a weak middle class of a few academics does not manage to collectively assert more power. He then asserts that the indigenous groups are often excluded from the decision-making process. J. Camargo (pers. comm., 14 March 2017) describes that this might be, because people living in Panama's rural areas have little access to information. Still, in her opinion, the middle class is slowly becoming louder and proclaiming more just power relations.

Lastly, it should be critically reflected on how government critical voices are reflected in Panamanian news. With a law passed in 2007, Panama's freedom of press has been seriously questioned (Sullivan 2011, p.693). '... The legislature approved penal code amendments in May 2007 that allow for the prosecution of journalists who violate the privacy of public officials or who publish classified information' (Sullivan 2011, p.693). Also A. Rodríguez (pers. comm., 22 March 2017) says that the current and previous governments have blighted political resistance by offering government skeptical people positions within the government. And then, after some years, these peoples' opinions will have changed and support everything the government says. This has caused there to almost be no critical voices in Panama and the few left remain within the boundaries of the given system, quietly, as they do not manage to collectively speak up (A. Rodríguez 2017, pers. comm., 22 March). Still, when reading the Panamanian news, there are plenty of government critical articles. Also the Freedom House states that Panama's freedom of press has improved under the current administration (Freedom House 2017).

### *Government Effectiveness*

*Government effectiveness* aims to explain how efficient a government works (Worldbank 2007, p.16). It describes '... the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies' (Worldbank 2007, p.2). Table 4 shows that the governance



indicator Government effectiveness has increased with a similar development as the governance indicator Political Stability and Absence of Violence/Terrorism. Acemoglu and Robinson (2013, pp.80–81) explain that a government should be sufficiently centralized in order to be able to successfully govern. J. Alvarado (pers. comm., 22 March 2017) says that the Panamanian government is very centralized with everything happening in Panama City. In his opinion, that is maybe even a bit too centralized.

Regarding the quality of civil service, the Panamanian government is said to have a shortsightedness that is reflected in its policies. As pointed out already in the section on *Social Groups*, all interview partners had some concerns regarding the social policies the Panamanian government chooses to eradicate poverty and inequality in the country. This also reflects on the government's performance and the quality of policy implementations. For one, the effectiveness of social transfer payments is questioned. A. Rodríguez (pers. comm., 22 March 2017) says that, because these programs are connected to political interests, governments are reluctant to make changes that might mean to have to cut some programs. As this would lose them some voters. For instance, he has observed more students not graduating, because they receive scholarships that continuously financially support them. A. Porras (pers. comm., 16 February 2017) argues that she has evaluated some of the scholarship programs and concluded that it does not have any impact on the school attendance of children. Only in very remote indigenous communities, this scholarship program causes more children to attend school. A. De León (pers. comm., 23 February 2017) refers to similar results. A. Rodríguez (pers. comm., 22 March 2017) says that this is because the programs are badly monitored.

Accordingly, some families receive several funds at once whereas others don't receive any (A. Rodríguez 2017, pers. comm., 22 March). Subsequently, many of the subsidy programs are ineffective the way they are being implemented. In the end of 2016 a new law was approved by the Panamanian National Assembly that states that there should be a single database for all social transfer programs in order to assure more transparency, as well as that the money was evenly distributed (López Guía 2016). It was effective the day after it was passed (Presidency of the Republic of Panama 2016).

Furthermore, it is questioned by the interview partners, how committed the Panamanian government is to eradicating poverty. It is suggested that it is a politically smart strategy. A. Rodríguez (pers. comm., 22 March 2017) believes that these subsidy programs help the Panamanian government to keep one's countenance in front of the international community and international organizations such as the UN or World Bank. O. Tapia (pers. comm., 20 March 2017) goes in so far as to say that the powerful want poverty to remain. In his opinion, it is a great tool for them to pretend to make social politics: 'The attack on poverty is a political banner ... but it is not real because poverty is necessary for wealth' (O. Tapia 2017, pers. comm., 20 March). Another political reason for doing social transfer policies is clientelism. A. Rodríguez (pers. comm., 22 March 2017)

observes that people have become critical about the programs, believing that they might just be another possibility for politicians to expand their political agenda. Accordingly, he says, that some families benefit much more from the programs than others, as they are in several programs at once. Following this, it is not necessarily actually the poorest who receive the monetary assistance. He says that the past governments all invested extra money in the regions that gave them most support during the elections (A. Rodríguez 2017, pers. comm., 22 March). For that reason, J. Jované (pers. comm., 13 February 2017) refers to these programs as being used for political clientelism. M. Gandásegui (pers. comm., 20 February 2017) thinks that even though the social transfer programs might not be very effective, the government will not get rid of them to invest, for instance, more money into the educational sector. They are worried that that would cause a revolt amongst the people who receive these funds (M. Gandásegui 2017, pers. comm., 20 February).

This leads to another problem that questions the government's effectiveness: Social Politics. Several interviewees say that there are no politics that try to eradicate the persistent inequalities in Panama. A. De León (pers. comm., 23 February 2017) thinks that all these subsidy programs do is covering up a system that is substantially broken. A. Rodríguez (pers. comm., 22 March 2017) points out that a benefit of these social programs is that they have called attention for an institutionalization of social politics that would try to mitigate the persistent inequality in Panama. This is not the case in other countries. He criticizes, however, that most of these programs are of subsidy nature and thereby do not solve the problems at their roots but rather try to put a band aid on them (A. Rodríguez 2017, pers. comm., 22 March). Accordingly, the interview partners question the government's commitment to its social policies. H. López (pers. comm., 19 February 2017) concludes: 'What [the government] has done is instead of letting the least favored section of the population develop, it has poisoned them to form part of the leonine programs that castrate people instead of thinking of the future.' He believes that the programs implemented by the Panamanian government in the 21<sup>st</sup> century only serve to keep people poor (H. López 2017, pers. comm., 19 February).

#### 4.4.2 Economic Institutions

Economic institutions are responsible for redistributing a country's wealth (Acemoglu & Robinson 2013, p.80). In their book on *"Who are the owners of Panama?"*, Hughes Ortega and Quintero (2000) list the most powerful family names and their connections to Panama's most lucrative businesses. It shows that there is a small group of people that are closely knit into an exclusive social group (the elite) that has managed to assume responsibility for most businesses. This is also reflected in the state agency, the Panama Canal

Authorities<sup>17</sup>. In order to assure a successful transition of the power over the canal from the American to the Panamanian government, the Panamanian government established the Panama Canal Authorities, short ACP (Autoridades del Canal de Panamá). The organization was given autonomy over the canal with the justification that the government was not stable enough to manage such a megaproject. This organization was also the one creating the Master Plan for a time span of 20 years, which included an enlargement of the canal. Its main goal was thereby to strengthen Panama's position as a maritime route (Aledo Tur 2006, p.64).

However, 17 years after the transition, the ACP still exists. And the majority of interview partners say that the ACP has more power than just over the canal. J. Jované (pers. comm., 15 February 2017) claims that, due to Panama's politics being focused on competitiveness and growth, economic institutions such as the ACP decide how the country is run. He exemplifies that when running for presidential office, the CEO of the ACP called each presidential candidate. His goal was, in Jované's opinion, to make sure that whoever was going to be president knew not to meddle with the ACP and their plans. This shows that the ACP is very exclusive. Which leads to an additional worry pointed out by several interviewees. Already in 2006, Aledo Tur (2006, p.75) wrote that the ACP is said to represent the interest of the few rich in the country, wanting to increase their wealth by taking advantage of the potential growth the enlargement might bring to the country (Aledo Tur 2006, p.75). This could be an indication for rent-seeking practices, which is further discussed under the section *Economic Resources* in the category *Economics*. A. Porras (pers. comm., 16 February 2017) says that the Board of Directors is made up of '...white catholic men' who do not represent the Panamanian people. J. Camargo (pers. comm., 14 March 2017) thinks that the ACP is made up of the Panamanian elite. J. Alvarado (pers. comm., 22 March 2017) says that the Panama Canal is sold by the government as well as the ACP as being '...for everyone...' but it is not democratized. This is also reflected in their mission to make profits. A. Rodríguez (pers. comm., 22 March 2017) says that even though it is a state agency, the Canal Authorities do not in any way promote a plan for socioeconomic development in the country. Instead, A. Porras (pers. comm., 16 February 2017) says, the ACP seems to be more interested in satisfying the international maritime community. This is problematic, if an economic institution has as much power as the ACP does. J. Alvarado (pers. comm., 22 March 2017) identifies that institutions ensure social inclusion. But, if the institution is only made up of elites, A. Porras (pers. comm., 16 February 2017) points out, the common interest is not represented and thereby not reflected in the policies.

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<sup>17</sup> It could also be argued that the ACP is a political institution. However, because the canal brings in a lot of Panama's economic growth and the ACP has a strong voice in deciding how Panama's economy is supposed to be, it was chosen to have it in this section of the thesis. Still, it is regarded a political economic institution.

Stiglitz (2015, p.148) writes that the correct taxation on income can diminish inequalities. However, taxation is not an easy subject in Panama, asking some of the interview partners. For one, a couple of interviewees point out that the rich people are not at all taxed or very little. The highest income tax is at 25%. The first 11000 USD are not taxed (PwC 2017). 'Taxes on the labour income of the average worker in Latin American and Caribbean (LAC) countries totalled 21.7% of total labour costs in 2013, one-third lower than in OECD countries, where the average was 35.9%...' (OECD 2017b). Following this, Panama has a low tax rate on income in comparison to the average LAC, accounting for that only a small share of Panamanians actually pay 25% tax on their income<sup>18</sup>. The economics professor J. Jované (pers. comm., 15 February 2017) thinks that the high profits the country receives from the Panama Canal allow to keep the rich peoples taxes low. A. Porras (pers. comm., 16 February 2017) is certain that Panama's wealthy make use of the offshore opportunities the country. This makes the middle class, according to her, upset. Because the social transfer programs to eradicate poverty and inequality are paid with tax money. Therefore, she says, many people are against the programs, especially because they are considered to be ineffective (A. Porras 2017, pers. comm., 16 February). However, (J. Jované 2017, pers. comm., 15 February) argues that it is not an option to increase taxes anymore. He says that people are not willing to pay more, because they distrust they system.

Furthermore, A. Porras (pers. comm., 16 February 2017) says that the government not only subsidizes the country's poor but also its rich citizens. Only then it is not called social transfers but instead stimuli to increase the country's competitiveness. This includes, according to her, inter alia, preference taxation or supporting large port projects. And these subsidies, she says, by far outnumber the money spent on social transfer programs (A. Porras 2017, pers. comm., 16 February). M. Gandásegui (pers. comm., 14 March 2017) explains that this is bad for the well-being of the country. In his opinion, the private sector should support the fight against poverty but instead it keeps money away from the poor because it is given so many subsidies.

### **4.4.3 Corruption**

Even though corruption is not an institution in itself, the problem of corruption strongly influences both political as well as economic institutions (Mygind 2007, p.22). Locatelli et al. (2017, p.253) stress the negative

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<sup>18</sup> Only with a salary of 50.000 and more, a person pays 25% tax on their income (PwC 2017). The International Labor Organization (ILO) reported the average monthly salary to be 646 USD (ILO 2017).

effects of corruption onto inclusive development of a society. There is a governance indicator promoted by the World Bank for the *Control of Corruption*. However, this is the indicator with most controversy around it, for which reason it is not used for argumentation in this thesis (see (Maurseth 2008, p.15)). Instead, the perception of the interview partners on corruption in their country is analyzed.

There is a lot of critical reflection on the issue of the corruption of politicians. A. Porras (pers. comm., 16 February 2017) says that the corruption levels have skyrocketed since the turn of the century. In H. Lopez's (pers. comm., 19 February 2017) opinion this is because the tremendous economic growth Panama has experienced in the past fifteen years was not controlled. A. Rodríguez (pers. comm., 22 March 2017) examines that Panama was not ready for the handing over of the Panama Canal in 1999. Because this did not only include governing the canal but also the whole zone around it (A. Rodríguez 2017, pers. comm., 22 March). During the time of the field study, in February 2017, the two founders of Mossack Fonseca were arrested. This is the law firm whose information was leaked in 2016, nowadays known as the Panama Papers. These documents revealed thousands of private people as well as companies being involved in offshore schemes to avoid taxation. Mossack and Fonseca were further accused to be involved in corruption scandals with the Brazilian construction company Odebrecht (Garside 2017). 'Odebrecht ... has admitted to bribing officials in Panama and other countries to obtain government contracts in the region between 2010 and 2014' (Garside 2017). While Fonseca denied that their law firm has any connection to Odebrecht, he blamed Panamas current president, Juan Carlos Varela, to have accepted donations from the Brazilian company (Garside 2017). Fonseca further says that construction projects such as the Cinta Costera (Coastal Strip) were in transparently given to Odebrecht even though other companies had offered cheaper prices (TVN Noticias 2017). Fonseca was not only a former adviser to Varela (Garside 2017), but also a friend of many years (ElDiario 2017). Varela denied these accusations (Garside 2017). As a response to these accusations, the Panamanian government published a brief a day later stating that Varela made the donations he received for his election campaign public (Gobierno de la República de Panamá 2017). Still, in the interview a week after this scandal, A. Porras (pers. comm., 16 February 2017) says that Panamanians no longer trust their politicians. She thinks that Panamanian politicians are corrupt. So does M. Gandásegui (pers. comm., 14 March 2017) who expresses that the issue of Panama's politicians being corrupt is more present than it has ever been. Furthermore, A. Porras (pers. comm., 16 February 2017) sees this scandal as only one of probably many others. She is of the belief that Panama would have perfect schools if it weren't for corruption. This was also pointed out by J. Jované (pers. comm., 15 February 2017) who, being asked about making the Panama Canal Authorities more inclusive, explained that there is so much distrust towards politicians in society, that they don't want the Canal to be more integrated in worry of it becoming less efficient and more corrupted.

However this trust in the Panama Canal Authorities (ACP) has also diminished. In January 2017, the entire board of the ACP was accused of being involved in businesses out of their operating range (Coriat 2017). Some of the interview partners, such as J. Camargo (pers. comm., 14 March 2017), state that several of the board members have been involved in corrupt activities. She further goes on to say that this is also known to the public, but still, not much has changed. People who were said to be corrupted, are still member of the board nowadays (J. Camargo 2017, pers. comm., 14 March). A. Rodríguez (pers. comm., 22 March 2017) says that the ACP forms part of the corruptive scheme driven by the elite. He explains that much has been promised with the enlargement of the Panama Canal. However, the project manager at the FES office in Panama regrets that these seem to just have been empty promises. There was a cost overrun and guaranteed jobs were much less than predicted (A. Rodríguez 2017, pers. comm., 22 March). H. López (pers. comm., 19 February 2017) thinks that these predictions were purposefully falsified so that the people would vote for the enlargement in the referendum.

#### 4.4.4 Informal Institutions

Informal institutions are very complex to grasp and need a lot of understanding of a country's culture (see (Mygind 2007, p.24)). For this reason, this is only reflected upon but it should be noted that the following gives in no way a full picture of Panama's society. Still, the information is too important to be left out.

Both J. Alvarado (pers. comm., 22 March 2017) and A. Porras (pers. comm., 16 February 2017) point out the importance of the canal in shaping the identity of Panamanians. R. Quevedo (pers. comm., 10 February 2017) says that 'the identity of the country is the canal'. A very context specific understanding to Panama's culture is that of *Transitismo*<sup>19</sup>. O. Tapia (pers. comm., 20 March 2017), who has published several books about understanding Panamanians and their identity, explains transitismo as follows. He says that Panama's culture was shaped by its geographical location of being a transit country throughout history. This has led to a constant flow of capital. This, in turn, has influenced the behavior of Panamanians, which, in Tapia Lu's words, has led to a shortsightedness. He further explains that instead of considering long-term developments, Panamanians base their lives on improvisation. This has promoted poor conducts such as corruption. In addition to that, this has led to a very individualized Panamanian society (O. Tapia 2017, pers. comm., 20 March). 'This results in a low level of developed conscience and political culture' (O. Tapia 2017, pers. comm., 20 March). In his book *"To understand the Panamanian: an approximation to his/her cultural identity"*, he

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<sup>19</sup> There is no direct translation for this term, but it is explained in the next few sentences.

writes that events such as the US invasion have shattered all feeling of collective identity in Panama (Tapia Lu 2008, p.11). A. De León (pers. comm., 23 February 2017) adds that the idea of cultural transitismo has developed into a passivity of people. According to J. Alvarado (pers. comm., 22 March 2017), this culture of transitismo also leads Panamanians to believe that poor people should be able to get out of poverty on their own.

However, this idea of transitismo has a negative connotation to it that should be accounted for. M. Gandásegui (pers. comm., 20 February 2017) thinks that passivity and activity of any society go in cycles. Panama, having only recently experienced an invasion of the US that killed thousands of Panamanians, is currently acting passive. Because, in his opinion, Panamanians are still traumatized from this event and do not want to stir up problems (M. Gandásegui 2017, pers. comm., 20 February). Furthermore, J. Alvarado (pers. comm., 22 March 2017) thinks that Panama's economic model has contributed to an individualization of society. Accordingly, it is promoted that the wealth the country experiences overall will eventually trickle-down to everybody. Therefore, he says, people believe that a collective cohesion for poverty eradicating policies is not necessary (J. Alvarado 2017, pers. comm., 22 March).

#### *Sub conclusion Institutions in Panama*

In their book *"Why Nations Fail"*, Acemoglu and Robinson (2013, pp.79–82) refer to political and economic institutions being either extractive or inclusive. While Panama's institutions do have some inclusive mechanisms such as round tables, a lot of the indicators analyzed in the section *"Institutions in Panama"* point towards Panama having extractive institutions. Panama's National Assembly is also called the "Republic of cousins", because a few families have been in political power for many years. Most interviewees don't trust that the government actually wants to decrease poverty. Instead they think that social transfer programs are used for political clientelism. Furthermore, Panama's elite takes advantage of economic institutions such as the Panama Canal. The Board of Directors of the ACP is made up only of Panama's elite. And it is believed that the high profits the canal makes are used as a justification for low income taxes. Accordingly, a small group of people, elite, has the power over both the political as well as the economic institutions in the country. Now, usually extractive institutions would lead to a decrease in economic growth (Acemoglu & Robinson 2013, p.83). However, Acemoglu and Robinson (2013, p.91) write that in some cases, a country can still experience economic growth even though its institutions are extractive. This happens, inter alia, if a country has an economic resource such as the canal (see (Acemoglu & Robinson 2013, p.94)).

## 4.5 Economy in Panama

In the *Literature Review* it was emphasized that it is of crucial importance to analyze the distribution of economic resources to establish whether there is an uneven distribution of power. First, Panama's competitiveness and other factors contributing or hindering economic growth are reflected on under the section *Economic flows*. Then, the country's economic resources, education and the Panama Canal as an income source, are analyzed.

### 4.5.1 Economic flows

Economic flows reflect on the competitiveness of a country which is an important driver for growth (Mygind 2007, p.14). Panama is the second most competitive country in Latin America and the Caribbean after Chile. The World Competitiveness Report 2016-2017 from the World Economic Forum (WEF) further states that the country has improved its rank by 8 positions to be the 42<sup>nd</sup> most competitive country out of 138 that are included in the study (Schwab 2016, p.20). Three of the underlying factors that contribute to these pillars are analyzed in the next few sub categories of economic flows.

#### *Trade Balance*

Trade balance forms part of a country's competitiveness. For instance, if a country has too little exports, its markets become less competitive, because the demand for the country's goods decreases (Schwab 2016, p.27). Figure 9 illustrates the goods, services and financial flows of Panama in 2012<sup>20</sup>. The circle around the data from goods flows shows the enormous difference in the goods flowing in and the goods flowing out. Following this, Panama exports only a tenth of the goods it imports. Panama also has more financial inflows than outflows. In services, it is the other way, that Panama actually exports twice as much as it imports. This shows that Panama has a very strong focus on the services industry and imports a lot of its goods rather than producing it at home. A. Porras (pers. comm., 16 February 2017) is worried about this trend, because this means that Panama has no food security. J. Jované (pers. comm., 15 February 2017) says that Panama '... used to be self-sufficient in producing rice, now we are not anymore'. However, Figure 9 further shows that even though Panama imports more goods, the 10-year growth rate for the goods outflow has increased by 24%. Accordingly, more goods are exported in 2012 than before (Manyika et al. 2014, p.158).

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<sup>20</sup> Definition according to report: 'We define goods and services flows as the sum of imports and exports of goods and services for each country; financial flows are the inflows and outflows of foreign direct investment, equity and bond flows, and cross-border lending and deposits...' (Manyika et al. 2014, p.20).



Figure 9: 'Flows by region and country'

(Source: (Manyika et al. 2014, p.158))

|                                 | Goods flows          |                               |                      |                               | Services flows       |                               |                      |                               | Financial flows      |                               |                      |                               |
|---------------------------------|----------------------|-------------------------------|----------------------|-------------------------------|----------------------|-------------------------------|----------------------|-------------------------------|----------------------|-------------------------------|----------------------|-------------------------------|
|                                 | Inflow               | Outflow                       | Inflow               | Outflow                       | Inflow               | Outflow                       | Inflow               | Outflow                       | Inflow               | Outflow                       | Inflow               | Outflow                       |
|                                 | 2012<br>(\$ billion) | 10-year<br>growth<br>rate (%) | 2012<br>(\$ billion) | 10-year<br>growth<br>rate (%) | 2012<br>(\$ billion) | 10-year<br>growth<br>rate (%) | 2012<br>(\$ billion) | 10-year<br>growth<br>rate (%) | 2012<br>(\$ billion) | 10-year<br>growth<br>rate (%) | 2012<br>(\$ billion) | 10-year<br>growth<br>rate (%) |
| <b>Total</b>                    | 17,514               | 11%                           | 17,514               | 11%                           | 4,400                | 10%                           | 4,400                | 10%                           | 4,016                | 6%                            | 4,016                | 6%                            |
| <b>Developed</b>                | 10,886               | 5%                            | 10,042               | 8%                            | 2,662                | 8%                            | 3,219                | 8%                            | 2,492                | 1%                            | 2,479                | 2%                            |
| <b>Emerging</b>                 | 6,628                | 14%                           | 7,030                | 16%                           | 1,543                | 15%                           | 1,181                | 15%                           | 1,404                | 22%                           | 1,537                | 20%                           |
| <b>United States and Canada</b> | 2,767                | 7%                            | 1,946                | 8%                            | 548                  | 7%                            | 720                  | 7%                            | 767                  | -1%                           | 256                  | -3%                           |
| Canada                          | 451                  | 10%                           | 437                  | 6%                            | 106                  | 9%                            | 79                   | 9%                            | 185                  | 17%                           | 121                  | 9%                            |
| United States                   | 2,316                | 4%                            | 1,509                | 8%                            | 442                  | 7%                            | 640                  | 7%                            | 581                  | -3%                           | 135                  | -8%                           |
| <b>Western Europe</b>           | 5,276                | 8%                            | 5,335                | 8%                            | 1,525                | 8%                            | 1,850                | 8%                            | 1,021                | -3%                           | 1,439                | 0%                            |
| Belgium                         | 438                  | 7%                            | 445                  | 8%                            | 92                   | 10%                           | 97                   | 10%                           | -68                  |                               | -67                  |                               |
| Denmark                         | 92                   | 6%                            | 105                  | 7%                            | 58                   | 9%                            | 65                   | 9%                            | 9                    | -7%                           | 34                   | 6%                            |
| France                          | 662                  | 6%                            | 554                  | 6%                            | 173                  | 10%                           | 212                  | 10%                           | 28                   | -16%                          | -48                  |                               |
| Finland                         | 76                   | 6%                            | 72                   | 5%                            | 30                   | 12%                           | 30                   | 12%                           | 52                   | 14%                           | 32                   | 4%                            |
| Germany                         | 1,165                | 6%                            | 1,407                | 9%                            | 295                  | 7%                            | 262                  | 7%                            | 182                  | -1%                           | 460                  | 7%                            |
| Greece                          | 62                   | 5%                            | 35                   | 13%                           | 16                   | 5%                            | 34                   | 5%                            | 61                   | 11%                           | 57                   | 17%                           |
| Ireland                         | 63                   | 6%                            | 118                  | 3%                            | 112                  | 10%                           | 116                  | 10%                           | 41                   | -12%                          | 25                   | -16%                          |
| Italy                           | 487                  | 5%                            | 493                  | 7%                            | 107                  | 5%                            | 104                  | 5%                            | 8                    | -15%                          | -13                  |                               |
| Netherlands                     | 499                  | 6%                            | 552                  | 10%                           | 120                  | 8%                            | 134                  | 8%                            | -86                  |                               | -5                   |                               |
| Norway                          | 87                   | 10%                           | 161                  | 10%                           | 49                   | 11%                           | 44                   | 11%                           | 47                   | 3%                            | 101                  | 8%                            |
| Portugal                        | 72                   | 5%                            | 57                   | 8%                            | 13                   | 7%                            | 25                   | 7%                            | -7                   |                               | -5                   |                               |
| Spain                           | 324                  | 7%                            | 282                  | 8%                            | 90                   | 9%                            | 137                  | 9%                            | 44                   | -9%                           | 56                   | -5%                           |
| Sweden                          | 163                  | 8%                            | 172                  | 8%                            | 55                   | 9%                            | 76                   | 9%                            | 45                   | 14%                           | 63                   | 12%                           |
| United Kingdom                  | 683                  | 4%                            | 477                  | 5%                            | 180                  | 5%                            | 284                  | 5%                            | -57                  |                               | -95                  |                               |
| <b>China region</b>             | 2,600                | 15%                           | 2,792                | 16%                           | 392                  | 15%                           | 409                  | 15%                           | 486                  | 29%                           | 616                  | 19%                           |
| China                           | 1,818                | 19%                           | 2,049                | 20%                           | 281                  | 20%                           | 191                  | 20%                           | 334                  | 21%                           | 451                  | 17%                           |
| Hong Kong, China                | 504                  | 5%                            | 443                  | 8%                            | 57                   | 8%                            | 123                  | 8%                            | 151                  |                               | 158                  | 38%                           |
| <b>Northeast Asia</b>           | 1,403                | 11%                           | 1,336                | 9%                            | 285                  | 7%                            | 256                  | 7%                            | 330                  | 28%                           | 434                  | 12%                           |
| Japan                           | 885                  | 4%                            | 792                  | 7%                            | 177                  | 5%                            | 146                  | 5%                            | 298                  | 34%                           | 355                  | 11%                           |
| South Korea                     | 518                  | 7%                            | 545                  | 13%                           | 108                  | 11%                           | 111                  | 11%                           | 32                   | 10%                           | 79                   | 16%                           |
| <b>Latin America</b>            | 1,120                | 13%                           | 1,032                | 12%                           | 229                  | 13%                           | 166                  | 13%                           | 345                  | 16%                           | 214                  | 16%                           |
| Argentina                       | 68                   | 17%                           | 79                   | 12%                           | 19                   | 14%                           | 15                   | 14%                           | 12                   |                               | 7                    | 8%                            |
| Brazil                          | 223                  | 16%                           | 239                  | 15%                           | 81                   | 19%                           | 40                   | 19%                           | 115                  | 23%                           | 59                   | 25%                           |
| Chile                           | 79                   | 14%                           | 77                   | 16%                           | 15                   | 11%                           | 13                   | 11%                           | 44                   | 26%                           | 34                   | 29%                           |
| Mexico                          | 371                  | 5%                            | 363                  | 8%                            | 29                   | 5%                            | 16                   | 5%                            | 87                   | 16%                           | 56                   | 32%                           |
| <b>Panama</b>                   | 69                   | 11%                           | 7                    | 24%                           | 4                    | 11%                           | 9                    | 11%                           | 7                    |                               | 3                    |                               |
| Venezuela                       | 63                   | 15%                           | 85                   | 14%                           | 18                   | 17%                           | 2                    | 17%                           | 7                    | 37%                           | 15                   | 11%                           |

### Employment

Employment also reflects on a country's competitiveness and thereby the economic flows of a country (see (Schwab 2016, p.12; Mygind 2007, p.24)). H. López (pers. comm., 19 February 2017) points out that a lot of employment in Panama is always created through mega projects such as the enlargement of the canal. Statistics from the Panamanian Statistics Database show that construction is the category in which the second most people are employed. First is commerce which employs 18.6% of the population. If accounting for gender differences, construction is the category that employs most men at 20.3% in 2014. This means that almost a fifth of all men work in construction. The third largest category that employs people is

agriculture (INEC 2017b, p.1)<sup>21</sup>. The agricultural sector still creates 6.7% of employment in Panama in 2014 (INEC 2017b, p.1), but only 3.3% of Panama's Gross Value Added (UN 2017b). J. Jované (pers. comm., 13 February 2017) critically reflects on these numbers. He thinks that the Panamanian government should focus more on promoting sectors that lead to new employment as well as long-term employment. This includes, in his opinion, more investment in the agricultural sector as it still makes up the third most employment. The statistics in Figure 9 show that the current trend is more towards exporting services. In Jované de Puy's opinion, this focus might bring in capital but in the long run employment needs to be assured for a growing population. He adds that this creation of jobs should go beyond what is connected to the Panama Canal (J. Jované 2017, pers. comm., 13 February).

A problem with many jobs in construction is that employment is very short-term. A. Rodríguez (pers. comm., 22 March 2017) says that therefore, the number of people working can sharply change within a few months, once another construction project is over. However, Panama has a low unemployment rate. It did slightly increase again in 2014 but is still low at 4.8%. Before that it was only 4.1% in the years 2012 and 2013 (see (INEC 2017a, p.1)). For instance, Costa Rica's unemployment rate was estimated to be 9.6% in 2014 (UN 2017a).

Furthermore, some of the interview partners point out that immigrants make it more difficult for Panamanians to find decent jobs. There are several reasons for that. For one, A. De León (pers. comm., 23 February 2017) says that the local population is often not educated enough for the employment positions that institutions such as the ACP offer. Hausmann et al. (2016, p.39) refer to a law passed by the government that is specifically aimed to attract well educated people to live in Panama. They critically reflect that 'high premiums paid to foreign workers seem to indicate that the immigrants bring skills that are in short supply in Panama' (Hausmann et al. 2016, p.39). A report by Nathan Associates, says that up to 45% of the position being offered will go to foreigners due to a lack of qualifications from Panamanians (Nathan Associates 2012, p.146). A. Rodríguez (pers. comm., 22 March 2017) thinks that this is because the educational sector is divorced from the labor market in Panama. In addition to that, R. Quevedo (pers. comm., 10 February 2017) explains that Panamanians often have higher salary expectations than immigrants. Accordingly, they have it difficult to compete with the foreigners. An article published by the WEF points out that Panama's success in competitiveness is because of its many immigrants (Thomson 2017).

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<sup>21</sup> These statistics can be found in a table in Appendix 4.

### *Informal Employment*

A country's amount of people working informally can reflect on people living in poverty. This is because they fall out of the legal grid and are thereby not protected (Korzeniewicz & Smith 2000, p.26). J. Alvarado (pers. comm., 22 March 2017) says that informality is increasingly becoming an issue in Panama. Even though there are low unemployment rates in Panama, a large share of the population is excluded from the benefits of formal employment: '...the work is informal, the work is temporal, the work does not provide stability, does not provide social security...' (J. Alvarado 2017, pers. comm., 22 March). The Institute for National Statistics and Census (INEC) (2017c, p.1) reported that 40.2% of the working population, excluding the agricultural sector, had informal employment in 2016<sup>22</sup>. A. Rodríguez (pers. comm., 22 March 2017) says that this means that often payment is so low, that people cannot cover their living costs. But, because the government has social transfer programs, the project manager explains, that people do not mind not forming part of the formal economy (A. Rodríguez 2017, pers. comm., 22 March).

#### **4.5.2 Economic Resources**

The distribution of economic resources is often a strong indicator for differences in power relations (Mygind 2007, p.4). Many of the interviewees feel like Panama's wealth is distributed unfairly and goes only in the pockets of a few. This section of the thesis sheds light onto these claims. First, it is reflected onto the education system in Panama. Afterwards, it is analyzed how Panama's geographical location has contributed to the country's wealth.

### *Education*

The quality of education as well as its accessibility is an important indicator for understanding poverty (Sameti et al. 2012, p.49). Furthermore, education is an important indicator for a country's competitiveness (Schwab 2016, p.4). In 2011, the government used 3.3% of its GDP to invest in the education sector (UN 2017b). Hausmann et al. (2016, p.3) state that educational expenditure has increased since then. The Panamanian government is amongst the governments in Central America that spends most money on the education and health system (Fisher & Rivas 2013, p.12). However, this investment has not translated into any significant improvement. 'Although quantitative indicators of education have improved, quality remains a big concern'

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<sup>22</sup> Definition of informal employment according to INEC: 'Entails the employed population of 15 years and more, excluding the agricultural sector, both in the formal sector as well as the informal sector or households during a period of determined reference; considering all occupations with exception of managers, administrators and professionals, always and when they work on one's own account or as bosses. This information is based on the principal work.' (INEC 2017d, p.4)

(Hausmann et al. 2016, p.3). Within the competitiveness rank done by the WEF, Panama is said to potentially perform more poorly in the future, because of its educational system (Schwab 2016, p.57). This is in agreement with the interview partners. All of them think that there needs to be a lot of improvement in this category. A. Porras (pers. comm., 16 February 2017) points out that education has become worse over the past few decades. The anthropologist thinks that especially now that Panama's economic growth has been slowing down, the country has an even stronger necessity for a better education system.

There are several problems with the current education system. For one, the government is said to use the money inefficiently. A. Porras (pers. comm., 16 February 2017) thinks that also within the education sector there is corruption with people taking money that does not belong to them. J. Jované (pers. comm., 13 February 2017) says that most money is spent on school administration rather than actually improving what is being taught. Furthermore, there is a strong divide between public and private schools. A. Rodríguez (pers. comm., 22 March 2017) points out that the private schools are much better than the public schools. This leads to a division in society in J. Jované's (pers. comm., 13 February 2017) opinion. Additionally, children who come from income poor families have more difficulties to attend school. First, A. Porras (pers. comm., 16 February 2017) points out that sending a kid even to public school is expensive, because the system requires students to wear a uniform. This costs money that some families do not have. Then, J. Jované (pers. comm., 13 February 2017) says that while primary school attendance is no longer a problem in Panama, there is an issue with children going to High School. He thinks that this is where the problem comes in with Panama having so much employment in construction. This is an industry that does not require much school attendance so that especially income poor youth chooses to work rather than go to school for a couple more years (J. Jované 2017, pers. comm., 13 February). Another issue is that 'Panama is the Latin American country with the largest proportion of adolescents who see education as a loss of time' according to R. Quevedo (pers. comm., 10 February 2017). A. Rodríguez (pers. comm., 22 March 2017) understands this trend. He says that the problem is that a university degree does not necessarily guarantee one a better job. Hausmann et al. (2016, p.39) call this a "mismatch" between tertiary education and the labor market. R. Quevedo (pers. comm., 10 February 2017) thinks that that is also because of the constant focus of international organizations on education but not training. He says that this missing connection between the labor market and education needs to be made to avoid social exclusion of young adults (R. Quevedo 2017, pers. comm., 10 February). Lastly, A. Rodríguez (pers. comm., 22 March 2017) and A. Porras (pers. comm., 16 February 2017) are of the belief that the education system is kept badly intentionally. The project Manager at FES Panamá thinks that the people in powerful positions do not want their population to become more critical in worry of losing their positions. He says that if people are not taught to think critically, they will not question a system such as the Panamanian one. A system where economic growth seems to justify everything else (Rodríguez Zúñiga 2017).

### *Geography & the Panama Canal*

Also geography can have a strong influence on a country's global competitiveness (Mygind 2007, p.16). Panama's location in the isthmus between North and South America has always been a competitive advantage (M. Gandásegui 2017, pers. comm., 14 March). One, of which the country itself only recently got to take part in. This is when Panama obtained full rights over the Panama Canal in 1999 (Ahijado et al. 2016, p.53). A. Porras (pers. comm., 16 February 2017) explains that the canal has enhanced Panama's biggest economic resource: Its geography. Also nowadays, A. Rodríguez (pers. comm., 22 March 2017) says that Panama's economic model is very concentrated around its maritime vocation. The Panama Canal and its benefits to Panamanian society is where the interviewees' opinions were most split. Whereas R. Quevedo (pers. comm., 10 February 2017) thinks that the Panama Canal is great for Panama's economy, others, such as A. De León (pers. comm., 23 February 2017) think that it has led to be one of Panama's strongest structural weaknesses. Sigler (2014b, p.5) writes that the canal is one of the main contributors of social divides in Panama. In the following, these two opposing opinions are compared with each other.

The interviewees agree that the Panama Canal brings a lot of income to the country. Each year, the Panamanian government receives shares of the income in order to use these for public policies. R. Quevedo (pers. comm., 10 February 2017) thinks that this income is very important for the country. It can be used for any project the government considers important. This does include spending money on social policies. Furthermore, he says that the Panama Canal and its surroundings have made it possible for the country to create a logistics hub. This makes Panama a very important junction for commerce in Latin America. This, inter alia, has also created many jobs. In his opinion, Panama's economy is much larger thanks to the country having power over the canal nowadays (R. Quevedo 2017, pers. comm., 10 February). A. Porras (pers. comm., 16 February 2017) recognizes that the Panama Canal is a strong competitive advantage for the country. It has been driving Panama's economy since 2000. She says that the canal has boosted also other industries such as tourism. She thinks that people come to Panama to see the canal and then go to see other places as well (A. Porras 2017, pers. comm., 16 February). S. Sánchez (pers. comm., 6 March 2017) says that the canal's income are used to develop the whole country.

However, even though O. Tapia (pers. comm., 20 March 2017) thinks that the canal is a symbol of Panama's victory and therefore the people's identity, he does agree that a lot of decisions are made behind closed doors. Therefore, A. Porras (pers. comm., 16 February 2017) says that the Canal Zone is perceived '...like a different country' by many. The interview partners who are very critical towards the newer policies around the canal, such as the enlargement, think that it more and more contributes to social divides. J. Jované (pers. comm., 13 February 2017) says that the development of the canal has strengthened and formed its own elite

that not only decides over the canal's strategy but might also, one day, decide over the country's economic strategy. He further explains that the rich use the income of the canal as an excuse not to pay taxes. 'Because if there was tax activity and additionally the income of the canal, this is where things could be done. But because there is no tax activity the income of the canal is what justifies this lack of tax equity in which the rich people contribute little' (J. Jované 2017, pers. comm., 15 February).

What Jované explains with this is the so-called resource curse<sup>23</sup> (see (NRGI 2015, p.2))<sup>24</sup>. This means that the Panamanian government does not need to charge high taxes, because the canal as its resource pays for that. Because it is not transparently reported what the income of the natural resource is used for, the citizens are often not aware of this (NRGI 2015, p.2). This is also the case in Panama. Also the Deputy Minister of the Presidency admits that there is no report on how the money the canal brings in is spent (S. Sánchez 2017, pers. comm., 6 March). Furthermore, this little transparency can help elite take some of the funds for themselves, which leads to social divides (NRGI 2015, p.4). This also means that '...elites in natural resource-rich countries are less likely to invest in productive enterprises, such as job-creating manufacturing industries, and instead pursue rent-seeking, that is, fight for control of these resources' (NRGI 2015, p.4). This is what the economist A. De León (pers. comm., 23 February 2017) refers to when she says that the canal is one of Panama's biggest structural weaknesses. It has led to a very narrow economic model. 'Panama inserts itself in the global geopolitics as a function of transit and this weakens the productive structure of the country...' (A. De León 2017, pers. comm., 23 February). J. Camargo (pers. comm., 14 March 2017) says that Panama's production has deteriorated because the ships that pass the canal bring all the goods. Also J. Jované (pers. comm., 13 February 2017) thinks that this is not a sustainable economic model. Without more diversification, economic growth will eventually come to a halt (J. Jované 2017, pers. comm., 15 February). J. Alvarado (pers. comm., 22 March 2017) explains because Panama has had such economic growth success with its current economic model, it is not being touched. A. Rodríguez (pers. comm., 22 March 2017) thinks that because there is such a tight knit "Republic of cousins", the economic model of services is not being changed even when there is a change in government. However, he explains that especially now that economic growth is decreasing, it's a sign for Panama that it cannot always live off of its canal (A. Rodríguez 2017, pers. comm.,

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<sup>23</sup> He also makes direct reference to this curse. Even though the Panama Canal is obviously not directly a natural resource, it is considered as such considering that it brings a lot of income for little effort for the Panamanian government.

<sup>24</sup> A figure that explains the resource curse is in Appendix 5.

22 March). M. Gandásegui (pers. comm., 20 February 2017) says that relying on the Panama Canal as a source of income only and in order to ship material goods is a waste of potential. He says, this only creates dependencies and thereby leads to a society's impoverishment and inequalities (M. Gandásegui 2017, pers. comm., 20 February).

#### *Sub conclusion Economy in Panama*

Panama is a strongly competitive country. The economy's emphasis is on the services sector. This has led to a deterioration of the agricultural and industrial sector in Panama. Interviewees think that the problem with this is the lack of employment creation. Furthermore, a lot of employment in construction has led to many young Panamanians dropping out of High School to earn money. The Panama Canal brings in income but also socially divides Panama into two. It is argued that the elite uses the funds to its own benefit rather than developing policies that keep Panama competitive in the long-run.

## 4.6 The Surrounding World

*Figure 10: Panama's official emblem*

*(Source: (Berrío-Lemm 2015, p.13))*



As pointed out by A. De León (pers. comm., 23 February 2017), Panama's slogan on the official emblem is "Pro Mundi Beneficio" ("For the benefit of the World") (see Figure 10). She explains that ever since Panama was discovered as being a country of transit, its mission has been to serve the international community. Accordingly, she says, the country has always had its focus on the services industry (A. De León 2017, pers. comm., 23 February). But the country's geographical location has also been of interest for other countries that tried to take charge over potential transit routes (Ahijado et al. 2016, p.53). One of the most dominating and most recent nations was the United States, who negotiated Panama's independence in 1903 in return for being allowed to

build the Canal and owning its surrounding zone (Sigler 2014b, p.3). A. Rodríguez (pers. comm., 22 March 2017) describes this point in time as an independence of Columbia, but '...an annexation as a North American colony'. Accordingly, R. Quevedo (pers. comm., 10 February 2017) says that until the Canal was passed over on December 31<sup>st</sup> 1999, Panama was split into two halves. The zone being exclusively accessible for American

citizens and a few Panamanians only (Romero 2010). Nowadays, even though the canal is run by Panamanians, A. Rodríguez (pers. comm., 22 March 2017) and J. Jované (pers. comm., 15 February 2017) agree that it is still being coordinated as if it were owned by US Americans. The project manager at FES Panama demonstrates that the salaries paid to the ACP are assimilated to US American salaries and much higher than in the rest of the country. He further claims that until this day there are very strong ties with the US American administration (A. Rodríguez 2017, pers. comm., 22 March). J. Jované (pers. comm., 15 February 2017) says that 'sometime the understanding was that other countries didn't even notice that there was a change in administration'. So, despite Panama having received the Canal Zone and the US Americans having officially left the country, it seems that its identity is still connected to the US.

### *Conclusion of chapter*

The overall conclusion to this chapter is discussed in the next chapter by reflecting on the Dynamics of the PIE-model.

## **5 Discussion**

In the Discussion Chapter, the consequences of the analysis and its interpretations are outlined. First, the dynamics of the PIE-model are evaluated based on the results of the case of Panama. It is thereby discussed, how the two theories, neoclassical economic theory and structural violence, contribute to the understanding of the uneven correlation between economic growth and the reduction of poverty in Panama. Following, the ideology debate of how to understand poverty sheds light onto the importance of an eclectic approach to evaluate complex issues such as poverty. In the last section of this chapter, the overall approach to this study is critically reflected upon. This includes an assessment of the PIE-model, the chosen sources as well as the mixed method approach. This is done in light of the generalizability of the results.

### **5.1 The PIE-model dynamics: Panama's vicious circle**

In this section, it is exemplified how the different aspects of Panamanian society analyzed in Chapter 4 correlate with each other. Furthermore, it is evaluated how this outcome responds to the research question posed in the introduction of this thesis.

In the PIE-model, Mygind emphasizes the importance to consider the dynamics between the different systems- Politics, Institutions and Economy. He thereby refers to a society being either in a virtuous or a vicious circle (Mygind 2007, p.18). With the help of the analysis of the PIE-model based on the case of Panama it is possible to identify some aspects that point towards Panama being stuck in a vicious circle of



development. This is because there are strong social divides in the country. Panama has been experiencing a lot of economic growth. However, the country remains to be one of the most unequal countries in the world with regard to income inequality. Furthermore, even though the poverty rates have decreased, Panama underperforms in comparison to the Latin American average considering its growth. Instead, only a few, often referred to as Panama's elite, have reaped the advantages of an increased income. This is because the elite has power over the country's institutions which, in turn, was used to get power over the economic resources through political processes. Accordingly, Panama's National Assembly mostly represents only one social group: Panama's wealthy. Also the economic institution presented in this paper, the ACP, has exclusively elite in its Board of Directors. The policies that have been passed in the past decade are said to be authoritative with all decision being decided on in Panama City (see (Alvarado 2017)). Following this, Panama has extractive institutions (see (Acemoglu & Robinson 2013, p.343)).

Usually when a society is in a vicious circle, its economic performance lags. However, Panama and its governing elite have been able to use the advantage of the income of the Panama Canal to be able to justify their economic model and according actions (see (Mygind 2007, p.18)). In order to stay in power, the elite creates mechanisms that allow them to continue to be in charge (see (Acemoglu & Robinson 2013, p.345)). This is reflected in several ways for the case of Panama. For one, instead of promoting social politics that sustainably get people out of poverty, the government has a lot of direct monetary transfer programs. Even though the effectiveness is questioned by statistics and the interview partners, the elite can use these politics as a tool to pretend to care for eradicating poverty. Additionally, it can further strengthen its political agenda by handing out money to their most supportive voters. Secondly, corruptive schemes lead to an increase of economic resources for the elite. Thirdly, the current Panamanian elite managed to take charge over political and economic power at a vulnerable time for Panama. While Panamanians suffered from the invasion by the US, the elite was one step ahead and took charge during the country's democratization process. Nowadays, Panamanians are still in search of a collective identity. Therefore, there is no other social group besides the elite that is organized enough to present a political counterweight. Lastly, Panama's education is one of the worst in Latin America. In this way, unless people are wealthy enough to afford private education or studying abroad, they will not be taught to think critically. But because the statistics on Panama's education have improved, the governing elite can use this as a justification in front of the international community.

Being in a vicious circle is not good for Panama. Especially for the people who do not form part of the elite as they are marginalized from society. O. Tapia (pers. comm., 20 March 2017) refers to a '...continuously growing discomfort...' amongst Panamanians. However, it should also be of interest for the elite to get out of a vicious into a virtuous circle of development. This is because a vicious circle brings economic growth to

a halt in the long run as it continuously gives negative feedback (see (Mygind 2007, p.18; Acemoglu & Robinson 2013, p.364)). And the Panama Canal cannot always be the only reliable source of income for the country. Even though the canal was recently enlarged in order not to become obsolete, ships are already being built that don't fit onto the newest set of locks either according to A. Rodríguez (pers. comm., 22 March 2017). Furthermore, Panama's neighboring countries such as Costa Rica are working on projects that will be serious competition for the canal (Murillo 2016). Also, R. Quevedo (pers. comm., 10 February 2017) points out that already, more and more commerce is via air rather than maritime traffic. Therefore, it is suggested that the current model focusing on the Panama Canal as an economic strategy, which the elite is promoting, cannot be kept forever. In addition to that, the recent corruption scandals make it questionable, how much longer Panamanians are going to accept an unjust system in which power relations are unevenly distributed.

This discussion reveals two important answers to understanding the uneven correlation between economic growth and the reduction of poverty in Panama. First, it is recommended to accommodate the changes the Washington Consensus made to its neoliberal policies. Accordingly, it is not only economic growth that reduces poverty but also there needs to be "good governance"<sup>25</sup> in the country. Adding this idea of governance, which was done in this thesis by considering some of the governance indicators provided by the World Bank, definitely gives a better insight into potential factors that hinder poverty from decreasing in Panama. However, it does not help to uncover context-specific issues, because the indicators are tangible; nor grasp the complexity of the problem of poverty in Panama. It is the accumulation of different aspects of unfair power relations that keep economic growth from being as effective a tool as it is said to be to eradicate poverty. This leads to the second answer: The discussion of the PIE-model dynamics shows that there is structural violence in Panama that keeps some social groups from participating in the three subsystems-politics, institutions and economy. The social relations, alias structures, shape Panama's society. In this case, the elites have power over all other social groups and use this power to control the three subsystems. Panama is a wealthy country and the interview partners agree that Panamanians could be much better off, if it weren't for a single social group that reaped all advantages the country has to offer. Therefore, there is an invisible violence that keeps people from participating in society.

## 5.2 Poverty in Panama: The ideology debate

Actively and sustainably bringing people out of poverty is one way to bring a society into the virtuous circle

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<sup>25</sup> This is a policy strategy suggested by the Washington Consensus after being criticized for its structural adjustment programs (see *Literature Review* for more details).

(Perry et al. 2006, p.6). It is evaluated that the current neoliberal policies to eradicate poverty in Panama through social transfer programs and economic growth are not very effective. This is because, as established above, there is structural violence in Panama. However, it is asserted that structural violence cannot be uncovered within a society, unless there is the shift in understanding poverty more holistically. This section of the discussion elaborates on the differences in understanding poverty between the two theories, based on the example of Panama. First, it is considered who has the responsibility for the persistent problem of poverty. Second, based on the examples of Sinsins, it is critically reflected upon the idea of income versus capability poverty.

### 5.2.1 Individual vs. Environmental Factors

When considering who is responsible for poverty, the two extremes are individual failings versus environmental, or, structural failings (Hong-Sik Yoon & Hirschl 2003, p.3). This means that either people find themselves in poverty because of their own wrong-doings, or the environment causes some people to live in poverty (Vu 2010, p.991). In neoclassical economic theory it is believed that poverty is due to individual failings (Vu 2010, p.1001). Accordingly, when analyzing poverty, 'the unit of analysis in these studies is by definition the individual rather than the wider social or economic structures...' (Hong-Sik Yoon & Hirschl 2003, p.5). Furthermore, this means that social policies aimed to diminish poverty are directed at individuals. One of such strategies are direct transfer payments like the Panamanian government does. This means that then it is the individual's task to change his or her living conditions (see (Saad-Filho 2016, p.76)). In Panama, these programs have shown little positive effect to diminishing poverty (see p. 41 *Results*). This is where the understanding of environmental factors uncovers some of the problems Panama's poor face. As the name already suggests, proponents of structural violence are of the belief that poverty is caused by structural forces (Vu 2010, p.995). It is thereby suggested that poverty can also be caused by the economic game (Hong-Sik Yoon & Hirschl 2003, p.5). In Panama, poverty is an effect of subsystems that discourage and dismiss the engagement of some social groups in society. This means that Panama is ineffective in integrating its own people into society. This is further elaborated on in the next section where the example of Ninis is given.

### 5.2.2 Sinsins and Capability Poverty

Another important difference between neoclassical economic theory and structural violence is the understanding of what poverty is. Whereas the economic theory considers poverty to be a lack of income (Vu 2010, p.999), structural violence emphasizes that people can consider themselves poor even if they do have income above the indicated poverty lines (Farmer 2003, p.43). Instead, a person is poor, when he or she is restricted in their capability to live life as wanted (Sen 1999, p.87). Accordingly, poverty might not be

a problem of income but that of social exclusion (Mosse 2010, p.1156). Based on the example of Sinsins, it is exemplified how structural violence keeps young adults from actively participating in Panama's society and thereby restricts them in their capabilities to live freely. In an interview with a local newspaper, "*La Estrella*", a former Finance Minister of Panama, Ricaurte Vásquez, analyzes that the signs of social injustice in the country pose a problem for future generations (Guardia 2016). Quevedo (2017, p.3) refers to the marginalization of young adults as one of the main reasons why Panama is so unequal. The discussion is based on the outcome of the analysis, the chapter before this one.

Sinsins<sup>26</sup> are a group of young adults between the ages of 15-29 who are without a job and do not go to school (Quevedo 2017, p.6). Nowadays, 23% of young adults are Sinsins out of which '...71% are women and 68% live in urban areas' (Quevedo 2017, p.2). J. Alvarado (pers. comm., 22 March 2017) is of the opinion that many Sinsins form part of the precariat and is worried that in the future, many of the Sinsins will also be income poor because of the restrictions on their capabilities. However, he also points out that not all Sinsins are poor or at the edge of being poor. It can also be young adults from wealthy families who have the choice to neither work nor study. On the other hand they can also be young adults who do work but because they don't have a job with decent working conditions, they are considered Ninis. He recognizes that, overall, the attention that is on Sinsins through media is very negative. Often, they are portrayed for being lazy and therefore they don't have a job nor education (J. Alvarado 2017, pers. comm., 22 March). Accordingly, they are referred to as Ninis (Nini= No trabaja, ni estudia (Neither works, nor studies)). However, that name has a negative connotation to it. Therefore, in this thesis Ninis are indicated as Sinsins in order to take away the blame from this social group. Instead, it is argued that structural violence in Panama keeps young adults marginalized from society. It is thereby not their personal fault that they lack access to economic resources, but a faulted system that keeps them from participating, ergo structural failings.

Sinsins are a social group that is not officially considered poor by the Panamanian government. This is because they are not income poor and thereby A. Porras (pers. comm., 16 February 2017) calls them an '...invisible group...'. This is also why there is so little research on Sinsins in Panama. There are several problems for young adults in Panama. First, the education system is bad. According to R. Quevedo (pers. comm., 10 February 2017), the problem is that students are not being educated for the labor positions that are needed in the industries that the Panamanian economy focuses on. In this way, young people have difficulties finding jobs once they are done with their education. 'Between march 2005 and march 2009, 1 out of 3 newly generated jobs through the economy benefited a young person between 15 to 29 years, but

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<sup>26</sup> (Sin trabajo, sin educación = Without work, without education)

between march 2009 and march 2016 it was only 1 out of every 20 jobs' (Quevedo 2017, p.3). The unemployment amongst young people increased from 13.1% in 2015 to 15.8% in 2016 (Rodríguez P. 2016). A. Porras (pers. comm., 16 February 2017) thinks that one of the problems is that people do not go into pension because the social security system is so bad. Accordingly, fewer jobs are available for young people. In addition to that, 50% of Panamanian teenagers drop out of High School (Quevedo 2017, p.4), but the average amount of years to get a decent job in Panama is 13.3 years. This means that people who have attended High School and not been to university have difficulties finding formal employment (Quevedo 2017, p.4). Therefore, a lot of young adults end up working in the informal sector. 56% of the newly created jobs between 2011 until 2016 were jobs in the informal sector (Quevedo 2017, p.6). Forming part of the informal sector makes it difficult for them to move between social classes (Lasso 2017a). But even if young adults attend university, it is not guaranteed that they will find a decent job according to O. Tapia (pers. comm., 20 March 2017). H. López (pers. comm., 19 February 2017) says that most job opportunities for young adults in Panama are in construction or tourism. This is also a reason why many move to Panama City. However, this also means that there is a larger demand for infrastructure, public services, etc. (Quevedo 2017, p.4). But because the government is not fast enough in accommodating an increase in such demand, there has been '...a land invasion of belts of misery around the cities...' (Quevedo 2017, p.4).

This example shows that poverty in Panama is not only a problem of differences in monetary resources, but also a problem of uneven power relations, ergo Panama is in a vicious circle. Unless these structural processes are changed that keep some Panamanians such as Sinsins excluded to participate in the societal system of politics, institutions and the economy; poverty can probably not be eradicated sustainably. Sinsins are restricted in their capabilities not because they choose to but because the system is inefficient. However, because they are not necessarily income poor, there is little to no focus on changing conditions to better integrate Sinsins. By merging the understanding of capability poverty into the decision-making of policies, social groups such as Sinsins could become more recognized. This could potentially lead to a more inclusive Panamanian society. However, it should be mentioned that the idea of individual factors that neoclassical economic theory suggests should not be ignored. Not all people are poor because of structural failings. Therefore, integrating the ideas of neoclassical economic theory and structural violence aids to get a more holistic and deeper understanding of poverty. Accordingly, by integrating a more eclectic approach to poverty, better suited solutions can be found to make the correlation between economic growth and the reduction in poverty even.

### 5.3 Reflections on the study

In this section, the methods used are discussed. Then, the PIE-model and its suitability for the chosen research topic is reflected upon. Lastly, the generalizability of this study is evaluated.

Using the interviews to reflect on the statistical data helped shed light onto mechanisms that could not have been detected just from considering statistical data. Because of that it is discovered that there is structural violence that keeps some people from participating in society. Often, the concept of structural violence is associated with premature deaths (see (Lee 2016, p.111)). This is inter alia measured in life expectancy (Rylko-Bauer & Farmer 2017). This is not an issue in Panama, where the life expectancy at birth is 78.6 years (CIA 2017). Instead, structural violence keeps social progress from happening in the Central American country (see (Lee 2016, p.111)). Without a qualitative analysis in addition to statistical data, it would not be able to uncover this type of structural violence.

The PIE-model was used to structure the analysis in order to accommodate for the ideas of the two theories suggested to shed light onto finding an answer to the research question. Thereby, the model helped to integrate two seemingly opposing views of how to understand poverty and its causes. In this way, the eclectic approach to understanding poverty could be taken. This helped to find a structure for the analysis. This is especially helpful when a theory such as structural violence is used. This theory has been applied in so many different fields of study that there seems to be no common denominator in how to analyze whether there is structural violence in a society or not (see (Rylko-Bauer & Farmer 2017)). Accordingly, the PIE-model is useful for forming complex issues in an understandable way. In a personal conversation with the author of the model, Niels Mygind (pers. comm., 23 May 2017), he pointed out that the PIE-model is not meant to be used as a strict guideline but instead serve as a template. In this way, it can accommodate different foci of topics of interest. Furthermore, it allows the researcher to use the framework also when doing an exploratory study. On the one hand this makes it possible to accommodate topic suggestions obtained from interviewees. On the other, this also makes it very difficult to compare studies that apply the model. Still, if it weren't for the flexibility of the PIE-model and how to understand its subsystems, it would not have been possible to identify social groups such as Sinsins as a potentially capability poor group. This is especially important when trying to account for context specificities as is when theories are applied to a case study. Furthermore, recognizing dynamics in the PIE-model is very important in the context of Panama. Without the analysis on the interactions between the subsystems, the vicious circle of structural violence could not be uncovered. Again, this shows that the local context is very important for understanding poverty in the case of Panama. However, there are some limitations to the model as well. For instance, has it not been used very much yet and is still being developed (N. Mygind 2017, pers. comm., 23 May).

Because this research reveals the importance of considering the local context when trying to understand poverty, it is not aimed at being generalizable universally (see (Easton 2010, p.126)). This is also usually not the idea of a case study. However, a theoretical generalization can be taken out of this research (see (Darke et al. 1998, p.278)). It is that the neoclassical economic theory does not give a full picture of the causes of poverty. This is because poverty is a complex issue. Therefore, taking an eclectic approach using both neoclassical economic theory and another theory that recognizes the shift in paradigms, such as structural violence, gives a better understanding of poverty. Furthermore, the case study of Panama shows that a one-size-fits-all approach to explaining poverty does not answer local context-dependent problems related to poverty. Accordingly, it is important to consider each society by itself if one wants to uncover the issues that keep poverty from decreasing.

## 6 Conclusion and Future Implications

The objective of this thesis was to get a deep understanding of poverty in Panama. The goal was thereby to be able to explain why there is an uneven correlation between economic growth and poverty in Panama in comparison to other Latin American countries. It was established that the traditional neoclassical economic theory assumes economic growth to be the main driver behind diminishing poverty rates. However, in comparison to its peers, Panama underperforms in decreasing poverty when directly correlating it to its growth rates. Due to a shift in paradigms of how to understand poverty, it was chosen to integrate two social science theories. Neoclassical economic theory because it influences the policies of governments and international development organizations until nowadays. Furthermore, the research question is based on the underlying assumptions of this theory. Structural violence on the other hand was chosen because it was established as a critique to neoliberal/neoclassical policies. Additionally, it reflects the change in paradigm of how to understand poverty. The idea of integrating these two theories was thereby to get a more holistic understanding of poverty as it is argued that it is a very complex issue. Furthermore, it was hypothesized, that the criticisms of structural violence toward neoclassical economic theory could be an indicator for a potential answer to the research question. By integrating the two theories into one framework, the PIE-model, it was possible to take an eclectic approach to understand poverty in Panama. Furthermore, using both quantitative as well as qualitative data allowed to uncover aspects in Panamanian society that would not be possible using only one or the other method.

Following, the results and discussion chapters reveal two reasons for the uneven correlation between economic growth and the reduction of poverty in Panama. First, Panama's governance could be improved.

In the Literature Review it was established that the Washington Consensus, who had promoted neoliberal policies, added the idea that institutions mattered for an inclusive development and thereby poverty eradication in the 90s. This happened after the organizations that form part of the Washington Consensus were criticized for their previous policy strategies that had solely focused on economic growth and competitiveness. This leads to the second answer to the research question on why there is an uneven correlation between economic growth and the reduction of poverty in Panama. The analysis of Panama's politics, institutions and economy, as well as its dynamics reveals that there is structural violence in Panama. This is reflected through a vicious circle of development that hinders some Panamanians from benefitting from Panama's economic success. This is because there is an inequity in power relation between different social groups. Accordingly, only a small portion of Panama's population, the elite, has most of the power in political as well as economic institutions. Correspondingly, the elite uses this power to reap the advantages of the country's economic growth for their own good. However, because the country has a steady income through the Panama Canal, the powerful elite can use this as a justification for its policies despite them disadvantaging some Panamanians. However, it is suggested in the Discussion chapter that structural violence cannot be uncovered, unless the understanding of poverty is broadened. This includes that poverty should not be blamed on the individual but instead one should also consider structural failings that cause some people to be poor. Furthermore, the definition of who makes up the poor should include the capability perspective. Lastly, structural violence is a very context-specific problem. Using mixed methods with much of the qualitative data coming from semi-structured interviews could give an insight that would not have been possible else. This also shows the importance of local understandings of their society and their problems.

Accordingly, this study reveals several implications. First, international development organizations and governments should integrate the new paradigm of understanding poverty into their policies. This could potentially make policies directed at eradicating poverty more effective. These results could thereby be interesting for the Panamanian government which still uses mostly neoliberal ideas to decrease poverty. Second, when policies are created, it should always be accounted for local specificities. The idea of neoclassical economic theory to apply one idea everywhere (one-size-fits-all) is not suitable for a complex issue such as poverty. Lastly, the study implies the importance of a combination of qualitative and quantitative data. For future research one could go more in-depth with a narrower subset of the Panamanian population. For example how structural violence sustains rural poverty or indigenous poverty. Furthermore, when considering the limitations of this thesis it is suggested that in order to gain an even deeper understanding of the subject matter, it would be beneficial to conduct further research with the poor population.



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## 8 Appendices

### 8.1 Appendix 1 Comparison of four research philosophies in management research

Table 4: Comparison of four research philosophies in management research  
(Saunders et al. 2008, p.119)

**Table 4.1** Comparison of four research philosophies in management research

|   | <b>Positivism</b>  | <b>Realism</b>  | <b>Interpretivism</b>   | <b>Pragmatism</b>   |
|---|--|---|---|---|
| <b>Ontology:</b> <i>the researcher's view of the nature of reality or being</i>                   | External, objective and independent of social actors   | Is objective. Exists independently of human thoughts and beliefs or knowledge of their existence (realist), but is interpreted through social conditioning (critical realist)   | Socially constructed, subjective, may change, multiple  | External, multiple, view chosen to best enable answering of research question   |
| <b>Epistemology:</b> <i>the researcher's view regarding what constitutes acceptable knowledge</i> | Only observable phenomena can provide credible data, facts. Focus on causality and law like generalisations, reducing phenomena to simplest elements | Observable phenomena provide credible data, facts. Insufficient data means inaccuracies in sensations (direct realism). Alternatively, phenomena create sensations which are open to misinterpretation (critical realism). Focus on explaining within a context or contexts | Subjective meanings and social phenomena. Focus upon the details of situation, a reality behind these details, subjective meanings motivating actions | Either or both observable phenomena and subjective meanings can provide acceptable knowledge dependent upon the research question. Focus on practical applied research, integrating different perspectives to help interpret the data |
| <b>Axiology:</b> <i>the researcher's view of the role of values in research</i>                   | Research is undertaken in a value-free way, the researcher is independent of the data and maintains an objective stance                              | Research is value laden; the researcher is biased by world views, cultural experiences and upbringing. These will impact on the research  | Research is value bound, the researcher is part of what is being researched, cannot be separated and so will be subjective                            | Values play a large role in interpreting results, the researcher adopting both objective and subjective points of view  |
| <b>Data collection techniques most often used</b>   | Highly structured, large samples, measurement, quantitative, but can use qualitative   | Methods chosen must fit the subject matter, quantitative or qualitative   | Small samples, in-depth investigations, qualitative   | Mixed or multiple method designs, quantitative and qualitative  |

### 8.2 Appendix 2 Description of all interview partners

1. **René Quevedo.** A professor of Business Administration at the private Catholic University of Santa María La Antigua. Currently working as a consultant with emphasis on helping the

government develop programs to include young adults in the Panamanian labor market, Quevedo has collected a broad range of work experience. For example, Quevedo has worked as a consultant in corporation with the Panama Canal Authorities, the Panamanian Ministry of Economics and Finance, the Inter-American Development Bank, as well as the International Labor Organization.




2. **Juan Jované de Puy.** An economist professor at the public University of Panama, Jované is most known for his independent presidential candidacy in the last presidential elections in 2014, actively advocating for a more social Panama. He was the Director of the Panamanian Social Security Fund from 1999 until 2003.
3. **Ana Elena Porras.** Currently an anthropology professor at the public University of Panama. Coming from an influential Panamanian family, Ana Elena Porras is actively engaged and the driver behind the National Movement of Panamanian Identity (Movimiento Ciudadano por la Identidad Panamena). This groups' main goal is to promote the importance of keeping Panamanian identity alive.
4. **Humberto López Tirone.** Nowadays owner of an alternative farm in the countryside of Panama, López was the ambassador to Panama in both Portugal, as well as Spain. Representing the Democratic Revolutionary Party, he took part in the negotiations in which the Panama Canal was handed over to Panama, as well as the decision to enlarge the Canal.
5. **Aracelly de León De Bernal.** An economist professor at the University of Panama, Aracelly de León advocates for female rights in her position as the head of the Institute of Women at the university. Furthermore, she is a consultant on gender issues to the United Nations. Her experiences from different Latin American countries enable her to analyze the structural issues in Panama.
6. **Salvador Sánchez González.** Currently the Deputy Minister of the Presidency, Sánchez is a political scientist and lawyer of education. He has published several books on issues that surround Panama and other Spanish speaking countries. Furthermore, he was the National Director of the Council of Legal Advising in Administrative Matters in the National Assembly of Panama. He founded the Organization for Democratic Initiatives in Panama which not only promotes the idea of democracy but also human rights.

7. **Marco Antonio Gandásegui Paz Rodríguez.** A sociologist professor at the public University of Panama, Gandásegui has also founded the Center for Latin American Studies (CELA) that regularly publishes articles on issues in Panama. Additionally, he was the founding father of the Panamanian Association of Sociology (APSO).
8. **Juana Camargo.** A sociologist of education, Camargo is a political activist speaking up for indigenous rights and women empowerment. She is a consultant at the institute of Women at the Ministry of Social Development in Panama and has published several articles on the development model of Panama.
9. **Octavio Tapia Lu.** A psychologist of education, Tapia has published several books on the Panamanian identity and has thereby contributed to pushing the idea of Panamanians having a “transit” identity (identidad transitista). Nowadays he teaches sociology at the public University of Panama and used to be Director and Founder of Institute of Studies about the Panama Canal at the University of Panama.
10. **Juan Diego Alvarado.** Recently graduated with a Master’s Degree in Political Science from King’s College London, Alvarado is now working as a technical advisor at the Center for Democratic Initiatives.
11. **Anastacio Rodríguez Zúñiga.** Project Manager at the local office of the Friedrich-Ebert Foundation in Panama, Rodríguez also teaches as a guest lecturer at the George Washington University. An economist of education, he also works as a consultant and evaluator of social programs with focus on gender equality for the United Nations Development Program, as well as the Panamanian Ministry of Social Development.
12. **Abdiel Iván Quintero.** A professor of sociology at the University of Panama, Quintero is most known for co-authoring his publication about the families that reign Panamanian society (¿Quiénes son los dueños de Panamá?).

### 8.3 Appendix 3 Questionnaire Layout for Interviews

(Poverty and inequality in Panama)

**Datos personales** (Personal information)

-  Nombre (Name)
-  Organización (Organization)
-  Trabajo (Employment)

**Pobreza y Desigualdad en Panamá** (Poverty and Inequality in Panama)

1. ¿Es actual el tema de la pobreza y desigualdad para Panamá?  
(Is the topic of poverty and inequality a prevailing issue in Panama?)
2. ¿Qué está haciendo el gobierno para disminuir la pobreza y desigualdad en el país?  
(What is the government doing to eradicate poverty and inequality in the country?)  
¿Según su opinión, el plan del gobierno para combatir y/o disminuir la pobreza es eficiente?  
(In your opinion, is the plan of the government to combat and/or eradicate poverty efficient?)
3. Según nuevos estudios del Banco Mundial (Enero 2017) se registra mayor desigualdad en Panamá hoy día que hace unos años atrás.  
(According to new studies published by the Worldbank in January 2017, Panama is experiencing higher inequality rates nowadays than a few years back.)

Según entendido, el Ministerio de Economía y Finanzas lo afirma pero a la vez justifica la situación.  
(The Panamanian Ministry of Economics and Finance confirms these statistics but justifies the situation.)

¿Según su opinión, qué sucede?  
(In your opinion, what is happening?)

4. ¿Está de acuerdo que existe una tendencia de un crecimiento continuo del desarrollo económico del país y una lenta disminución de la pobreza? ¿Cuál es su opinión con relación a este tema?  
(Do you agree with the tendency that there is continuous economic growth in the country but only a slow eradication of poverty? What is your opinion in relation to this topic?)
5. Panamá es uno de los países de LA que gasta más en su educación, pero aun así el sistema educativo no parece (¿?) ser muy eficiente. ¿Cómo lo explica Usted? ¿Por qué sucede esto?  
(Panama is one of the countries in Latin America that spends most on its education, but still the education system does not seem (?) to be very efficient. How would you explain that? Why does this happen?)



### **La ampliación del canal** (the enlargement of the canal)

1. ¿Cuáles son los actores principales de la ampliación del canal?  
(Who are the principal actors of the enlargement of the canal?)
2. ¿Cómo se manejaba la información sobre el Proyecto de la ampliación? ¿Había acceso a la información del público en general?  
(How was the information about the Project of the enlargement handled? Was there access to the information for the public?)
3. ¿Piensa Usted que la mayoría del país estaba interesada en la ampliación del canal? ¿Han participado los panameños en la toma de decisión para la ampliación del canal?  
(Do you think that most the country was interested in the enlargement of the canal? Did the Panamanians partake in the decision to enlarge the canal?)
4. ¿Cómo justificó el gobierno la ampliación del canal?  
(How did the government justify the enlargement of the canal?)
5. ¿Ha generado la ampliación del canal mayor cantidad de trabajo en todo el país?  
(Did the enlargement of the canal generate more employment in the country?)
6. Hay opiniones que existe el Canal de Panamá y el resto del país que no se ve beneficiado por el Canal. ¿Qué piensa Usted? ¿Ayudó al desarrollo socioeconómico de la región? ¿Cuál grupo de la población panameña ha recibido el mayor impacto negativo y por qué?  
(There are opinions that there is the Panama Canal on the one hand, and then the rest of the country, on the other, that does not see itself benefitted from the canal. What do you think? Did it help the socioeconomic development in the region? Which group of the Panamanian population has experienced the most negative experience and why?)

### **Problemas socio-económicos y la ampliación** (Socioeconomic problems and the enlargement)

1. ¿Ha contribuido el canal a las divisiones sociales en el país y cómo?  
(Has the canal contributed to the social divisions in the country and how?)
2. ¿Sabe Usted lo que la ACP ha propuesto como objetivos nacionales y socio-económicos con respecto a la ampliación del canal?  
(Do you know what the Panama Canal Authorities have suggested as national as well as socioeconomic objectives regarding the enlargement of the canal?)

3. Según el gobierno, el canal beneficia al desarrollo de todo el país. ¿Es verdad? ¿Cuál desarrollo? ¿Cuáles son los beneficiarios?  
(According to the government, the canal contributes to the development in the whole country. Is this true? What development? Who are the beneficiaries?)
4. ¿Piensa Usted que, tal vez, la ampliación del canal ha traído mayor desigualdad al país?  
(Do you think that, maybe, the enlargement of the canal has contributed to more inequality in the country?)
5. ¿Existen programas para usar las ganancias del canal para la disminución de la pobreza y desigualdad?  
(Are there any programs to use the profits of the canal to eradicate poverty and inequality?)

**Los Ninis y la ampliación del canal** (The Ninis and the enlargement of the Canal)

1. ¿Cómo describiría Usted a los Ninis de Panamá?  
(How would you describe Ninis in Panama?)
2. ¿Por qué hay tantos Ninis en Panamá?  
(Why are there so many Ninis in Panama?)
3. ¿Qué ha hecho el gobierno para disminuir el número de los Ninis?  
(What has the government done to diminish the number of Ninis?)
4. ¿Cuáles oportunidades de trabajo existen para los adolescentes en Panamá? ¿Cómo están incluidos en el mercado laboral?  
(What work opportunities exist for adolescents in Panama? How are they included in the labor market?)
5. Las últimas estadísticas señalan que hoy día los nuevos empleos van a menos jóvenes que hace unos años atrás. ¿Por qué?  
(The last statistics show that nowadays the new jobs are less likely to be given to young people than some years ago. Why?)
6. Según entendido, hubo un Proyecto piloto para integrar a los ninis al canal. ¿Se ha ejecutado este plan?  
(In my understanding there was a pilot project to include Ninis into the canal. Has this plan been executed?)
7. ¿Cree Usted que muchos jóvenes se mudaron a la ciudad en busca de una mejor vida y para conseguir trabajo? ¿En el canal? ¿En otros sectores?

(Do you believe that a lot of young people moved to the city in hope for a better life and do get a job? In the canal? In

## 8.4 Appendix 4 Panama's employment distribution

Figure 11: Panama's employment distribution, 2011-2014

(Source: (INEC 2017b, p.1))

Cuadro 012-79. DISTRIBUCIÓN PORCENTUAL DE LA POBLACIÓN OCUPADA DE 15 Y MÁS AÑOS DE EDAD, EN LA REPÚBLICA, POR SEXO, SEGÚN ÁREA, PROVINCIA Y CATEGORÍA EN LA ACTIVIDAD ECONÓMICA: AÑOS 2011-14

| Área, provincia, sexo y categoría en la actividad económica  | Distribución porcentual de la población ocupada de 15 y más años de edad (1) |              |              |              |              |              |              |              |              |              |              |              |
|--|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|  | 2011   |              |              | 2012         |              |              | 2013         |              |              | 2014         |              |              |
|  | Total  | Hom-bres     | Muje-res     | Total        | Hom-bres     | Muje-res     | Total        | Hom-bres     | Muje-res     | Total        | Hom-bres     | Muje-res     |
| <b>TOTAL</b>   | <b>100.0</b>   | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> |
| Agricultura, ganadería, caza, silvicultura, pesca y actividades de servicios conexas   | 7.5  | 12.2         | 0.9          | 7.5          | 12.0         | 0.9          | 6.8          | 10.9         | 0.9          | 6.7          | 10.9         | 0.8          |
| Explotación de minas y canteras  | 0.2  | 0.3          | 0.1          | 0.3          | 0.4          | 0.1          | 0.3          | 0.5          | 0.1          | 0.2          | 0.3          | 0.2          |
| Industrias manufactureras  | 6.1  | 7.8          | 3.7          | 5.9          | 7.7          | 3.4          | 6.7          | 8.5          | 4.0          | 6.3          | 7.9          | 4.1          |
| Suministro de electricidad, gas, vapor y aire acondicionado  | 0.5  | 0.7          | 0.2          | 0.4          | 0.5          | 0.4          | 0.5          | 0.5          | 0.4          | 0.5          | 0.7          | 0.3          |
| Suministro de agua; alcantarillado, gestión de desechos y actividades de saneamiento   | 1.0  | 1.2          | 0.8          | 0.6          | 0.9          | 0.3          | 0.9          | 1.2          | 0.5          | 0.7          | 0.9          | 0.6          |
| Construcción   | 11.6   | 18.3         | 2.2          | 11.8         | 18.4         | 2.2          | 12.9         | 20.1         | 2.4          | 12.8         | 20.3         | 2.5          |
| Comercio al por mayor y al por menor; reparación de vehículos de motor y motocicletas  | 17.5   | 17.5         | 17.5         | 17.8         | 17.5         | 18.2         | 17.4         | 17.4         | 17.5         | 18.6         | 17.6         | 19.9         |
| Transporte, almacenamiento y correo  | 5.8  | 7.6          | 3.2          | 6.3          | 8.4          | 3.1          | 6.2          | 8.4          | 3.0          | 6.0          | 8.4          | 2.6          |
| Hoteles y restaurantes   | 5.3  | 3.7          | 7.6          | 5.5          | 4.0          | 7.5          | 5.8          | 4.2          | 8.3          | 5.4          | 4.2          | 7.0          |
| Información y comunicación   | 1.4  | 1.5          | 1.3          | 1.7          | 2.1          | 1.2          | 1.7          | 1.7          | 1.6          | 1.1          | 1.2          | 1.1          |
| Actividades financieras y de seguros   | 3.5  | 2.2          | 5.4          | 3.5          | 2.2          | 5.4          | 3.4          | 1.9          | 5.6          | 3.2          | 2.1          | 4.7          |
| Actividades inmobiliarias  | 0.9  | 1.0          | 0.9          | 0.8          | 0.9          | 0.7          | 0.9          | 0.7          | 1.1          | 1.1          | 0.9          | 1.3          |
| Actividades profesionales, científicas y técnicas  | 2.4  | 1.9          | 3.1          | 2.2          | 1.8          | 2.8          | 1.8          | 1.4          | 2.4          | 2.6          | 2.2          | 3.2          |
| Actividades administrativas y servicios de apoyo   | 3.6  | 4.1          | 2.9          | 4.0          | 4.4          | 3.4          | 3.7          | 3.9          | 3.4          | 3.3          | 3.7          | 2.8          |
| Administración pública y defensa; planes de seguridad social de afiliación obligatoria   | 10.1   | 9.6          | 10.7         | 9.6          | 8.9          | 10.6         | 9.4          | 8.6          | 10.5         | 9.1          | 8.3          | 10.1         |
| Enseñanza  | 7.9  | 4.1          | 13.2         | 7.8          | 3.9          | 13.3         | 7.8          | 4.1          | 13.2         | 8.0          | 4.0          | 13.5         |
| Servicios sociales y relacionados con la salud humana  | 4.7  | 2.1          | 8.2          | 4.4          | 2.0          | 7.9          | 4.2          | 1.9          | 7.5          | 4.9          | 2.5          | 8.2          |
| Artes, entretenimiento y creatividad   | 1.3  | 1.2          | 1.6          | 1.2          | 1.2          | 1.3          | 1.0          | 0.8          | 1.3          | 1.1          | 1.0          | 1.2          |
| Otras actividades de servicio  | 1.7  | 1.4          | 2.1          | 1.9          | 1.6          | 2.3          | 1.9          | 1.5          | 2.5          | 1.6          | 1.3          | 2.0          |
| Actividades de los hogares en calidad de empleadores, actividades indiferenciadas de producción de bienes y servicios de los hogares para uso propio | 6.9  | 1.7          | 14.1         | 6.7          | 1.2          | 14.6         | 6.5          | 1.6          | 13.7         | 6.8          | 1.6          | 13.9         |
| Actividades de organizaciones y órganos extraterritoriales y actividades no declaradas   | 0.2  | 0.1          | 0.2          | 0.2          | 0.1          | 0.3          | 0.1          | 0.1          | 0.1          | 0.0          | 0.0          | 0.1          |

## 8.5 Appendix 5 The resource curse explained

Figure 12: The Resource Curse explained

(Source: (NRGI 2015, p.2))

### No Resources



### Resource-Rich

