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Poverty

Description and analysis of policies for overcoming it

*Sergio Molina S.**

For a number of years CEPAL has conducted an inter-agency project financed by UNDP and UNICEF on critical poverty in Latin America, in which systematic consideration is given to the characteristics of poverty and policies for overcoming it are suggested. The present article, whose author is the co-ordinator of the project, deals with both the diagnostic and the policy aspects of this question.

In the first part, which is descriptive, the magnitude and characteristics of poverty in the region are traced, and it is concluded that economic growth is a necessary but not in itself sufficient factor for overcoming it, while furthermore State action is essential, since the free play of economic forces does not ensure that resources are assigned in the desired direction.

The second part is devoted to an analysis of the policies for overcoming poverty, which are divided into two broad categories. The 'distributive' policies alter the primary distribution of income resulting from the structure of ownership and the operation of the economic system, and their application is essential for overcoming the root causes of poverty; 'redistributive' policies, for their part, correct the primary distribution through transfers of income and goods and services among the different population groups. Both types of policy complement one another, and the manner and extent to which they are combined will depend on the situation and potential of each country; likewise, they must form part of the global development strategy so as to ensure that economic policy is always oriented, in all its aspects, towards benefitting the most needy.

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Introduction

The poverty and even indigence in which a large proportion of the world's population lives is one of the most dramatic manifestations of underdevelopment. Although in Latin America poverty is not observed to the same degree and magnitude as in other regions, it is still a very widespread phenomenon, since at least one out of every three persons does not have enough income to meet such a basic need as sufficient food for his normal development. The extensiveness and degree of poverty is directly related to the specific conditions of any given country. Thus, for example, there are some countries which are poor in human and material resources and where the average income is close to what has been called the poverty line, i.e., the income needed to satisfy the basic needs; in such cases it is impossible to overcome the poverty situation with the countries' own resources within a reasonable amount of time. It may also happen that a given country has natural resources but that its degree of development is insufficient for it to use them productively. The quantification of poverty may give similar figures in both cases, but in the second, at least, there is potential for greater development.

There is also the case of the countries which have achieved a degree of development such that the average income is considerably higher than that corresponding to the applicable poverty line. When fairly generalized poverty is seen to exist in such countries, the explanation no longer lies in the scarcity of human and material resources, but in the inequitable distribution of wealth and income and consequently of the goods and services produced by their economies.¹

Our observations will refer above all to the third of these situations, since the first two are extreme cases which, although they are the most dramatic, are not those most frequently encountered in Latin America, while moreover each situation would have to be dealt with very

¹Although empirical evidence shows that inequitable income distribution is also observed in the first two cases mentioned, in these instances the root cause of the generalized poverty lies in the inadequate supply, type and degree of utilization of the available resources.

specifically, which is beyond the scope of this article.

A second clarification which must be made relates to the concept of poverty used here. In general, poverty in a given country is measured in terms of the relative levels of well-being between the different groups of society; consequently, from this point of view, there will always be people who are relatively poor, and indeed this happens even in the most highly developed countries in the world.

On the other hand, we have the concept of absolute poverty, as in the case of those social groups which are unable to satisfy their basic material needs according to a previously established and socially accepted pattern.

Absolute poverty constitutes an extreme situation of inequality and is therefore a special case within the broader concept of income distribution.

The concept of poverty to which this study refers, both in its quantitative aspect and in the identification of situations for which solutions must be found, is the concept of absolute poverty in terms of material deprivation.

Finally, it must be pointed out that the phenomenon of poverty exists in a certain political, social and economic context and is, to a large extent, the result of the way in which these variables interact. Consequently, if the causes of poverty are to be effectively eradicated, efforts to surmount the problem must be part of a global strategy taking into account the changes which must be introduced in the sociopolitical system.

This article seeks to give a broad picture of the magnitude and characteristics of poverty in Latin America and to suggest some policy lines for overcoming it.

I

Background material for a diagnosis

1. *The magnitude and characteristics of poverty in Latin America*

To determine the magnitude and characteristics of poverty it was necessary to establish a criterion for identifying the poor population in a given society. The yardstick used in CEPAL's research has been food;² i.e., on the basis of the production, consumption and price characteristics of each country an estimate was made of the cost of a 'basket' of food which would satisfy, at the lowest cost, the minimum calory and protein requirements for an individual's normal development. The values of the basket of food, expressed in the currency of each country, were converted into a common currency unit (the United States dollar) so that comparisons could be made between the different countries. This in turn makes it possible to

establish poverty lines which reflect the minimum acceptable levels of satisfaction of a group of basic needs: failure to meet these levels would constitute a situation of critical privation as regards the development of individuals and families in that situation.

On the basis of this criterion, a basic line was drawn which was called the 'indigence line' and was equivalent to the value of the basket of food. Consequently, all those people whose disposable income was lower than the value of the basket of food were considered to be indigent, since even if they spent all their income on food they would not succeed in covering their minimum requirements.

Obviously, food is only one of the basic human needs, and it was therefore necessary to determine how the amounts spent on food related to the value of the remaining basic needs. As a result of analysis of the available data, it was determined that those urban groups whose income exceeded the value of the basket devoted about 50% of their total consumption ex-

² See Oscar Altimir, "Poverty in Latin America. A review of concepts and data", *CEPAL Review*, No. 13 April 1981.

penditure to the purchase of food. The poverty line was therefore set at twice the value of the basket of food, since those whose income was below this line would be unable to satisfy their basic needs.

Both the indigence line and the poverty line were calculated on the basis of data corresponding to the period around 1970. Since it was impossible, when preparing the present article, to conduct research similar to that carried out at that time, measures were taken to bring the poverty lines up to date. In doing so, consideration was given to the fact that during the intervening years the average standard of living of the population as a whole has risen, so that there are now new basic needs, while moreover there is now a larger proportion of urban population, which makes it necessary to have a larger income to pay the higher prices and to meet the wider basic needs of urban inhabitants.

The new poverty lines were estimated on the basis of the simple assumption that they grew at a rate equivalent to one-fourth of the increment in the average income of any given country.

Table 1 shows the percentage of the population whose income was under the poverty line in 1970 and 1981. It also shows how this percentage will evolve up to the end of the century provided that the assumptions used in the projection are correct, using two different hypotheses with respect to economic growth.

The data recorded in this table indicate the incidence of poverty in each country and for all the countries together. This information, although valuable, is inadequate since two countries may show an equal incidence of poverty but differ in the degree of poverty. The latter variable, which is known as the poverty gap, is determined by the difference between the average income of the poor and the line of poverty. To put this in another way, the poverty gap is "the total extra income or consumption needed by poor households as a whole to bring them up to the poverty line".

Table 2 shows the evolution of the poverty gap, which in 1970 amounted to 5.3% of the gross domestic product and is estimated at 3.6% of the GDP in 1981 and either 1.6% or 2.1%

Table 1

LATIN AMERICA: PERCENTAGE OF
THE POPULATION IN A STATE
OF POVERTY

Countries	1970	1981	2000 ^a	
			High growth	Low growth
Argentina	8	8	7	7
Brazil	49	43	29	35
Chile	17	16	13	14
Colombia	45	43	40	41
Costa Rica	24	22	17	19
Honduras	65	64	62	64
Mexico	34	29	19	21
Panama	39	37	30	32
Peru	50	49	46	48
Venezuela	25	24	22	23
Latin America (10 countries)	39	35	26	30

Source: Enrique de la Piedra, "Nota sobre la evolución probable de la pobreza hasta el año 2000" (mimeographed), Santiago, Chile, 1982.

^aThe projections in the "high growth" column were based on an average annual economic growth rate of 5.9% for all the countries. The "low growth" variant was based on a rate of 4.7%. The rate actually recorded between 1970 and 1981 was 5.5%.

(depending on the economic growth rate assumed) in the year 2000.

From the data shown in table 2, it may be seen that for a substantial proportion of the countries of the region it is becoming increasingly feasible to overcome poverty, from an economic point of view, in spite of the increase in the number of poor people. Obviously, the effort involved in transferring resources to the poor groups, even in a lower proportion than in the past, constitutes a very large-scale economic, social, political and administrative task. It should, however, be pointed out that this task, which seemed impossible for the great majority of the countries 20 years ago, now constitutes an economically possible undertaking, and the problem of poverty is increasingly linked with lack of equity in the distribution of national resources rather than limitations on such resources.

In the 1960s it was widely held that economic growth would solve the serious and

Table 2
**LATIN AMERICA: THE POVERTY GAP, AS A
 PERCENTAGE OF THE GROSS
 DOMESTIC PRODUCT**

Countries	1970	1981	2000 ^a	
			High growth	Low growth
Argentina	0.5	0.5	0.3	0.3
Brazil	8.2	4.2	1.4	1.9
Chile	1.9	1.6	0.9	1.0
Colombia	7.7	5.3	2.6	3.3
Costa Rica	3.6	2.7	1.2	1.6
Honduras	23.1	21.8	18.0	21.3
Mexico	3.9	2.6	1.1	1.5
Panama	6.8	5.7	2.6	3.3
Peru	13.4	12.8	9.2	10.9
Venezuela	2.8	2.6	2.0	2.4
Latin America (10 countries)	5.3	3.6	1.6	2.1

Source: Enrique de la Piedra, "Nota sobre la evolución probable de la pobreza hasta el año 2000", *op. cit.*

^aSee the note for table 1.

widespread problems of poverty, the excessive inequalities and the unemployment which prevailed in nearly all the Latin American countries.

At the present time, after having lived through a long period of high growth rates, it is difficult to go on believing that economic growth, independently of the type of development, is enough to correct the most flagrant social inequalities.

Thus between 1950 and 1981 the per capita gross domestic product of Latin America, measured in United States dollars at 1970 prices, rose from US\$ 398 to US\$ 895; i.e., it more than doubled thanks to an average annual growth rate of 2.6%. In spite of the persistently high growth rate attained during three decades, however, the incidence of poverty did not decline proportionally, and the number of poor people continued to grow.

Nor was there any substantial decrease in the inequalities in income distribution or labour conditions. With respect to the latter, it may be noted that the overall rate of under-

utilization of labour³ dropped from 23% of the economically active population in 1950 to 20% in 1980. As for the inequalities in income distribution, these actually increased, since the share of the poorest 20% of the population in total income fell from 3.1% in 1960 to 2.3% at the beginning of the 1980s.

There can be no doubt, however, that although economic growth alone is not enough to overcome the main social problems of the region, it is an essential requirement for doing so. Growth is the process which generates the resources required for combating poverty. Moreover, mention must be made of the advances registered in social conditions thanks to economic growth, which in large measure have benefitted the low income groups. For example, between 1960-1965 and 1975-1980, for Latin America as a whole, the general mortality rate fell by 30% (from 12.2 to 8.5 per thousand), while life expectancy at birth rose by 11% (from 58 to 64 years). As for infant mortality, it fell by 37% between 1960 and 1975 (from 78 to 49 per thousand live births), and between 1960 and 1970 illiteracy declined by one-fifth (from 34% to 27%).

The economic system within which the economic growth process takes place has a significant impact on the latter's results. Nearly all the Latin American countries have a mixed economic system in which the market plays a fundamental role in the allocation of resources. Such allocation is obviously determined primarily by the distribution of income among the different social groups, and as long as that distribution does not change, the market will continue to reflect the demand to which this distribution gives rise. Consequently, the free play of economic and social forces in the market will not serve to orient the allocation of resources towards the production of goods and services to satisfy the basic needs of the poor groups.

Thus, even if the high growth rate of the per capita product mentioned above were maintained, which is not very likely in the light of present conditions in the Latin American economies, the century would close without

³That is to say, the rate of open unemployment plus the equivalent, in terms of open unemployment, of the rate of under-employment.

poverty having been overcome unless at the same time there was a dramatic change in the factors determining the distribution of the benefits of economic progress among the different social groups.⁴

This process also explains why, in spite of the seemingly admirable figures regarding the economic growth process in Latin America and the major investment efforts recorded during the past three decades, there has been no reduction in the extent to which labour is under-employed, which is one of the main factors determining poverty. Although the growth of formal non-agricultural employment has been acceptable (3.7% per year in the period 1950-1980), the proportion of under-employed labour fell only from 46% of the economically active population in 1950 to 42% in 1980.

In addition to the high and growing cost of moving a market from the traditional agricultural sector to the modern urban sector, the use and composition of the economic surplus have played a key role⁵ and, in the last analysis, it has not been possible to offset the combined effect of the high natural growth rate of the urban labour force, the rural-urban migrations, the behaviour of the urban participation rates and the initial magnitude of urban under-employment. It is important to emphasize that these factors are responsible not only for the persistence of the problem of under-employment but also for its progressive transfer to urban areas. Thus, whereas in 1950 70% of the under-employment in Latin America was rural, in 1980 that percentage fell to 54%, coinciding with the big increase in urban poverty.

Table 3 clearly shows that the economic growth process, in view of its present characteristics, will be incapable in itself of producing an overall improvement in employment conditions. In order to bring the rate of total under-utilization of labour down from 20% in 1980 to 6.5% in the year 2000, an annual growth rate of 8.3% would be required for Latin America as a

⁴Oscar Altimir, *op. cit.*, and Sebastián Piñera, "¿Se benefician los pobres del crecimiento económico?", E/CEPAL/PROY. 1/2, Santiago, 1979.

⁵See the article by Norberto E. García, "Growing labour absorption with persistent under-employment", in this present issue of *CEPAL Review*.

Table 3

LATIN AMERICA: GROWTH RATES
REQUIRED FOR A SUBSTANTIAL DECLINE
IN THE TOTAL UNDER-UTILIZATION OF THE
LABOUR FORCE

Countries	Total rate of under-utilization (percentages)		Annual growth rate of GDP required ^a (percentages)
	1980	Goal for year 2000	
Argentina	4.0	2.0	5.7
Bolivia	41.5	10.0	13.4
Brazil	19.9	5.0	8.3
Chile	18.7	5.0	6.5
Colombia	28.0	5.0	7.7
Costa Rica	13.2	2.0	6.8
Ecuador	34.1	10.0	12.1
El Salvador	33.6	10.0	8.8
Guatemala	23.6	10.0	7.0
Mexico	17.0	10.0	8.8
Panama	25.8	3.0	6.5
Peru	36.3	10.0	10.5
Uruguay	12.6	2.0	4.2
Venezuela	12.2	2.0	8.6
Latin America (14 countries)	19.9	6.5	8.3

Source: PREALC, *Dinámica del subempleo en América Latina*, Estudios e Informes de la CEPAL Series N° 10, Santiago, Chile, 1981.

^aCalculated on the basis of figures expressed in thousands of US dollars at 1970 prices.

whole over the next 20 years. Such a rate is of course beyond the real possibilities of growth. The case of the three countries with the highest rates of under-utilization of labour (Ecuador, Peru and Bolivia) is especially severe, since they would need annual growth rates of between 10% and 13% in order to reduce the under-utilization of their labour to 10%.

2. Some conclusions of the diagnostic analysis

The rapid economic growth rate of Latin America during past decades has not had a proportionate effect in terms of the reduction of absolute poverty in the region or a decrease in under-employment. This fact leads to the conclusion that economic growth is a necessary but not in itself sufficient factor for overcoming poverty.

The projections based on historical data

indicate that if the existing style of development is maintained during this and the next decade, the incidence of poverty will decline only very gradually, while the number of poor people will actually rise in absolute terms.

Although it is true that economic growth does not resolve situations of extreme inequality, it is no less true that the degree of development reached in a number of countries of the region is such that it can be said that the problem of overcoming poverty is more closely related to the distribution of growth among the different social strata than to any limitation on resources. Thus, economic growth has made it more feasible to overcome poverty from the point of view of the resources available.

The free play of the economic forces on the market does not make it possible to correct the inequalities in income distribution or to direct the allocation of resources towards the production of the goods and services needed to satisfy the basic needs of the poorest groups of the Latin American population. Consequently, State intervention is required if, either through the market or outside it, the present distribution of property and income which determines the structure of production and consumption is to be modified.

Structural transformations and changes in the operation of the economic system will make

it possible, in the medium or long term, to remove the obstacles now impeding the spread of economic progress to the poorest groups of the population. At all events, however, such transformations will have to be accompanied in the short term by redistributive measures to relieve the state of poverty in which a large proportion of the Latin American population lives.

Redistributive action by the State in Latin America has been inadequate because it has not succeeded in reaching the poorest sectors to any substantial extent, nor has it placed the burden of its financing on the richest sectors of the population.

In view of the present magnitude of poverty and the likelihood that its decline will be very slow—to say nothing of the moral, economic and political significance of this situation—the development strategies of the Latin American countries must give very high priority to the surmounting of absolute poverty. The fulfilment of this objective calls for the allocation of greater material and human resources, as well as a greater effort to promote the organization of the most under-privileged groups and to fit the administrative apparatus to cope with the requirements which must be met if the basic needs of the whole population are to be satisfied.

II

Analysis of policies for overcoming poverty

There is no theory of poverty, and some people tend to seek an explanation for it in the theory of development itself. Massive poverty is undoubtedly a symptom of under-development, and its roots lie in the factors determining the latter phenomenon. Nevertheless, it is possible to identify structural and operational factors of the economy which, although they do not claim to cover the global phenomenon of under-development, make it possible on the one hand to explain the inequalities in income distribution and on the other to design more effective policies aimed at improving the conditions in

which the target groups it is desired to benefit live.

As we understand it, absolute poverty is a particular situation within the broader case of income distribution, and neither of them is independent of the prevailing political, social and economic structure.

We do not believe that the currents of theoretical thought now prevailing contain a satisfactory explanation as to why income in the Latin American countries is distributed in a certain way.

The assumptions of neoclassical theory

are more valid for the developed countries, but they lose their validity when they come up against the reality of under-development, where the keynote is economic, social and political heterogeneity. Post-Keynesian theory loses its value as a means of explaining income distribution when the assumption of stability, both in capital/production relations and in the propensity to save of capitalists and workers, is applied to situations marked by institutional and political discontinuity (uncertainty) and high rates of unemployment. Nor does Marxist thought provide a satisfactory explanation for the extreme inequalities in income distribution, maintaining as it does, in its more traditional form, that the basic problem lies in the antagonism between two social classes—capitalists and workers—from which it deduces production relations which concentrate the surplus value of labour in the hands of the owners of capital.

Moreover, general theories refer in particular to the functional distribution of income in which its family distribution is more important for the purpose which concerns us here, which is the surmounting of absolute poverty.

We agree with a statement made in a publication on income distribution, to the effect that what is needed for a better understanding of the distributive process in our countries is a more disaggregated analysis: "the division into two factors (capital and labour) or two sectors (investment goods and consumer goods) or two social classes (exploiters and exploited) is not enough"⁶

In order to carry out our intention of providing some guidelines for the design of policies aimed at overcoming poverty, we have chosen a less ambitious approach than that of formulating explanatory hypotheses based on some general theory. It seemed more useful to us, from the point of view of those responsible for policy formulation, first of all to set ourselves a central objective, then to determine the factors on which the fulfilment of the objective depends and, finally, to identify the priority areas for intervention, in some cases indicating the most appropriate policy instruments. It is of

course true that the choice of instruments has a strong political connotation and that a particular instrument cannot be recommended without reference to a specific case.

As already noted in one of the conclusions of the diagnostic analysis, the surmounting of absolute poverty calls for substantial and systematic action on the part of the State. Therefore, what is subject to discussion is the form of this intervention, and not the need for it.

The final objective pursued in making the intervention is to ensure that the permanent real income (monetary and non-monetary) of each family is at least equivalent to what is required to meet its basic needs as determined in conformity with certain socially predetermined normative criteria.

The fulfilment of that objective depends on the employment opportunities available to the target groups, the remuneration associated with that employment, the quality of the manpower available, the capital endowment and productivity of the assets possessed by the poor and, finally, the transfers they receive from other agents.

The intervention which the State can make in order to create suitable conditions for overcoming poverty may be classified in many ways. In order to simplify their presentation, we have placed them into two broad categories.

The first category comprises interventions or policies of a distributive nature, i.e., those which affect the primary distribution of the income resulting from the structure of ownership and the way in which the economic system operates. This kind of intervention is normally linked to the quantity and quality of the jobs which the economy generates, the productive factors available to the poor groups, the productivity of those factors, and the prices which the operation of the economic system assigns to them. Such intervention is in the final analysis aimed at increasing the income-generating capacity of the poor groups.

The second category comprises interventions or policies of a redistributive nature, which, instead of affecting the primary distribution of income, correct it by transferring income and goods and services between the different population groups. This kind of intervention is basically related to the way in which

⁶ See Alejandro Foxley (ed.), *Distribución del ingreso*, Mexico City, Fondo de Cultura Económica, 1974.

the State obtains the public resources (the incidence of taxation) and the way in which it spends them (the incidence of public expenditure and investment, particularly social expenditure for the direct, free or subsidized provision of goods and services which are considered to be basic).

There can be no doubt that much public action or policy comprises both a distributive and a redistributive component. The longer the period whose effects are taken into consideration is, the truer this is likely to be. This characteristic of duality necessarily makes any attempt at classification in accordance with the two categories referred to somewhat arbitrary.

From the point of view of resources, interventions of these two types are reciprocal, in the sense that an increase in the expenditure on one of them will, other things being equal, imply a decrease in the expenditure of the other. From the point of view of their results, however, the two types are complementary, for at least three reasons: first, because failure to satisfy basic needs is in itself a major cause of the low income generating capacity of the poor groups. Second, because if consideration is given to the consumption habits of these groups and to the availability of some basic goods and services, it will be seen that increases in real income do not guarantee that their basic needs will be met. Finally, because there is no doubt that, for some groups, distributive action is either not viable or involves long lead times which are incompatible with the urgency of the situation to be resolved. In these cases, action of a redistributive nature seems to be absolutely indispensable.⁷

In short, the development strategy of each country should seek the optimum combination of distributive and redistributive action, bearing in mind the individual characteristics of each case and considering any contradictions which might arise between the different objectives.

1. *Intervention of a distributive nature*

The main feature of distributive policies is

⁷See Ernesto Tironi, *Políticas gubernamentales contra la pobreza: el acceso a bienes y servicios básicos*, E/CEPAL/PROY.1/11, Santiago, 1979.

that they increase the primary income of the people they are intended to benefit.

A variety of policies may be included under the category of intervention of a distributive nature, but they can be divided, in turn, into two groups: those intended to increase, together or separately, the amount and productivity of the employment generated by the economy, and those which are aimed at increasing, together or separately, the amount and productivity of the assets possessed by poor groups.⁸ The policies in the first category will increase the job remunerations of the target groups, while those in the second will increase the income of those with insufficient or low-productivity assets.

The main areas of intervention are indicated below, with attention being drawn to some specific policies and instruments; this is intended to provide a frame of reference for the design of specific policies which are as compatible with each other as possible.

- (a) *Policies aimed at increasing the amount and productivity of the assets possessed by poor groups.*

It would be beyond the scope of this study to suggest specific policies to achieve a more equitable distribution of land ownership and physical capital and bring about a significant reduction in the differences of productivity of the assets possessed by the different social groups. Nevertheless, in view of the importance of measures designed to increase the amount and productivity of the assets in the hands of poor groups, we shall attempt to set forth a few general criteria on which these actions may be based, bearing in mind that they will be applied in specific situations which are very diverse.

The amount of assets possessed by poor groups may be increased by redistributing the existing assets in such a way as to favour those groups or by redistributing future increases in assets by redirecting new investment to favour

⁸Some of the goods and services which can be provided by the State, such as food, education and health, contain a distributive component, but as they also contain a consumption component they have been included in the redistributive category.

these groups. This kind of action is justified because, among other reasons, it has a permanent effect on the income-generating capacity of the groups benefited.

Those who are opposed to this kind of intervention argue that in general it is contrary to the objective of growth and in the last analysis is harmful rather than beneficial to the groups which are supposed to be favoured. In order to prevent this happening (from a purely economic point of view) it is necessary on the one hand to select or identify the sectors whose productivity is least likely to be negatively affected by the transfer of ownership and, on the other hand, to ensure that the rate of return on the investment projects chosen to benefit the poor groups is not lower than the opportunity cost of the capital.

It is likely that in decisions taken in this connection, the economic criterion will be only one of the elements taken into consideration, and that sometimes it will not be the most important element, but at all events it is advisable to know the economic cost of any political decision.

It is also possible that consideration will be given to the time factor, since a measure involving changes in the structure of ownership may not immediately meet the economic needs, although the situation may in time change for the good.

(i) *Redistribution of existing assets*

The redistribution of existing assets is the most direct way of increasing the assets of the poor, but it is also the most conflictive. This type of redistribution may be carried out in two ways —by transferring assets directly to poor families, or by socializing them by transferring them to the State or to a workers' collective.

In general, in the industrial sector the redistribution of assets through direct transfers to poor families presents serious difficulties owing to the indivisible nature of the capital in this sector. Thus, one of the mechanisms most frequently employed for the redistribution of ownership in the urban sector is the nationalization of industrial enterprises by transferring them to the public sector or the creation or

workers' enterprises with collection ownership of capital.

The nationalization of enterprises in the industrial sector or the creation of workers' enterprises does not necessarily result in redistribution which favours the poor groups, since this depends on the amount of the indemnization paid to the former owners, on the efficiency of the way in which the nationalized or workers' enterprises are managed, which will naturally affect the size of the surplus they generate, and on the use made by the State or the workers of the surplus generated.

In the case of nationalized enterprises, the magnitude of the net transfer at the time of nationalization depends on the valuation of the assets transferred (commercial value, book value, etc.), on the amount of indemnization in respect of that value, and the conditions on which that indemnization is paid (including payment dates, interest, rates, etc.). Of course, the decision to pay indemnization as well as the amount and terms on which it is paid depend on considerations which are basically political.

The determination of the levels of efficiency of the management of nationalized enterprises and of the real magnitude of the surplus they generate is a matter of heated debate owing both to the value content of these determinations and to the lack of sufficient empirical data. For a number of reasons, the efficiency of public enterprises, measured in traditional financial terms, may not reflect their true level of efficiency. The reason for this is closely related to the redistributive effect of the nationalized enterprises. In other words, the fact that according to empirical studies many State enterprises in developing countries tend to operate at a deficit⁹ or to produce an insufficient surplus does not mean that they are inefficient. The deficit or low surplus may be partially or totally due to the fact that public enterprises carry out activities which are not performed by the private sector because they are not very profitable but which, in any case, fulfil an important social function which is not reflected in the monetary

⁹ See for example A. Gantt and G. Dutto, "Financial Performance of Government Owned Corporations in Less Developed Countries", in *IMF Staff Papers*, Vol. XV, 1968.

income of the enterprise.¹⁰ The deficit or low surplus may also be partially or totally due to the fact that public enterprises subsidize the purchasers of their goods or the users of their services, by selling them at prices which are lower than the cost of producing them or by paying those who sell them their inputs more than the going rate. In such cases, the nationalization of enterprises involves income redistribution benefiting the buyers or users of the goods and services which those enterprises produce or those providing them with inputs.

Finally, the deficit or reduced surplus may also be totally or partially due to the fact that nationalized enterprises pay their workers higher wages than the going rate or hire more workers than the number considered optimum from the point of view of maximizing the surplus. In such cases, the nationalization of enterprises involves redistribution benefiting the unemployed, own-account workers, or workers in less privileged sectors who join the nationalized enterprises, because the latter make more use of the labour factor.

None of the aforementioned redistributive mechanisms employed by nationalized enterprises necessarily involve redistribution benefiting the poorest groups, however. In view of the nature of the goods and services such enterprises produce, and taking their job structure into account, it is likely that it is the middle-income groups which benefit most from these redistributive mechanisms.

Finally, the redistributive effect of the nationalization of enterprises also depends on the use made of the surpluses and on the way in which the deficits they generate are financed.

If there are surpluses, these do not all constitute additional resources. In the first place, the enterprises in question paid taxes before they were nationalized, so that the increase in resources available to the State actually equals the profits made by the enterprises, less the compensation or indemnization paid and the taxes previously collected. In addition, the policy of nationalizing enterprises may have re-

percussions on the behaviour of the private sector as regards levels of production, investment, etc., thereby also affecting the tax receipts of the fiscal authorities. If there is a deficit, the redistributive effect of nationalization will also depend on the size of the taxes (including inflation viewed as a tax) needed to finance that deficit.¹¹

In short, if nationalization is to be used as a means of improving the lot of the poor groups, it is necessary on the one hand that nationalized enterprises should generate surpluses and, on the other, that the State should appropriate these surpluses and allocate them directly to the benefit of the poorest groups.

In the rural sector, agrarian reform is the main mechanism by which assets are redistributed. Indeed, in view of the high concentration of the structure of land ownership in Latin America¹² and the emphasis which any strategy for overcoming poverty must place on rural development, in many countries changes in the structure of land ownership are indispensable if the benefits of rural development policies are to reach the mass of poor rural dwellers and not just the present owners of land.

There are various options as regards agrarian reform, depending on the approach adopted for allotting the land transferred.¹³

Thus, the land transferred may be allocated to the favoured families as private property; it may be transferred to the State or to a workers' collective or both these approaches may be combined by allocating it as collective property during a transitional period and later on allocating it as private property;¹⁴ or, finally,

¹¹For details of the effects of nationalization processes in Chile and Peru, see the empirical studies by A. Foxley, E. Aninat and J. Arellano, "Redistribución del patrimonio y erradicación de la pobreza", in *Estudios CIEPLAN*, No. 3, Santiago, Chile, 1976, and A. Figueroa, "El impacto de las reformas actuales sobre la distribución de los ingresos en el Perú", in A. Foxley (ed.), *Distribución del ingreso*, *op. cit.*

¹²See in this respect S. Eckstein, G. Donald, D. Horton and T. Carrol, "Land Reform in Latin America: Bolivia, Chile, Mexico, Peru and Venezuela", World Bank Staff Working Paper No. 275, 1978, and S. Huntington, *Political Order in Changing Societies*, Yale University Press, 1968.

¹³See M. Lipton, "Towards a Theory of Land Reform", in D. Lehman (ed.), *Agrarian Reform and Agrarian Reformism*, London, Faber and Faber, 1974.

¹⁴The 'settlements' created under the Chilean agrarian reform process are an example of this mixed approach. See in this respect A. Foxley, E. Aninat and J. Arellano, *op. cit.*

¹⁰See in this respect L. Whitehead, "Public Sector Activities", in K. Griffin (ed.), *Financing Development in Latin America*, Macmillan, 1971, and A. Nove, *Efficiency Criteria for Nationalized Industries*, Allen and Unwin, 1973.

family farms and collective farms may exist side by side.

There are many different factors to be taken into consideration in deciding on the best approach to agrarian reform. In this connection mention should be made of the ideological and political factors related to the structure which already exists or is proposed by the government for the other sectors of the economy. Moreover, this decision will also depend on the characteristics of the sector earmarked for reform, the kind of landholding system under which the peasants who are to be benefited have been working, and the levels of skill they have reached.

The experience of countries like Mexico and Bolivia indicates that when the reformed sector is made up initially of large estates using traditional technology requiring a great deal of labour, involving sharecroppers, tenant farmers and smallholders familiar with the various aspects of farm work, the subdivision of the land into small lots and its subsequent assignment as individual holdings has made it possible not only to increase the income of the families thus favoured but also to raise agricultural production. However, this kind of reform means that a large sector of the rural population is excluded from enjoying the direct benefits of the process, so that the way in which this kind of reform affects the peasants who are still left without land is uncertain, depending primarily on the effect produced on the demand for labour. If this effect is negative, it is possible that this kind of reform will make the income distribution of the agricultural sector worse instead of better.¹⁵

In general, experience shows that small farms absorb more labour and have a higher yield per unit of land than large holdings.¹⁶ Consequently, the subdivision of the land increases the demand for labour, although the first to benefit from the generation of more jobs

are the families which receive the land, with the landless peasants coming in second place.

The situation is different when the sector in which the reform is being attempted is made up of large agricultural, forest or fishery enterprises with modern technology, high capital density and big economies of scale. The subdivision of this kind of enterprise into small units may have a significant negative impact on the sector's production and on the distribution of income. In such cases, agrarian reform should be aimed at the formation of production co-operatives or workers' enterprises in which the land is held collectively, rather than at the subdivision of the large agricultural enterprises and their subsequent allocation to favoured individual families, and in the workers' enterprises each worker should receive wages and participate in the surplus. In this way, it would be possible to continue taking advantage of the economies of scale, qualified high level personnel would be retained, and better marketing and credit access conditions would be obtained.¹⁷

In order to prevent agrarian reform—particularly the subdivision of the land and its allocation on an individual basis—from affecting agricultural production, it is important that the State should, at least as a temporary measure, either directly or indirectly promote training and technical advisory services, improve the marketing of inputs and products, and facilitate the access of the new landowners to credit.¹⁸

(ii) *Reorientation of investment*

Another way of achieving the dynamic distribution of assets is to reorient public investment, using it as a means of increasing the amount and productivity of the assets held by poor groups. As in the case of the redistribution of existing assets, and with the same advantages and limitations, public investment may be used as an instrument of gradual socialization, increasing the amount of property held by

¹⁵See in this respect A. Berry, "Land Reform and Agricultural Income Distribution", in *Pakistan Development Review* 11, No. 1, 1971.

¹⁶See in this respect P. Dorner, *Land Reform and Economic Development*, Penguin Books, 1972, and W. Cline, *Economic Consequences of a Land Reform in Brazil*, North Holland Publishing Company, 1970.

¹⁷In this respect, see S. Barraclough, "Alternative Land Tenure System Resulting from Agrarian Reform in Latin America", in *Land Economics*, Vol. XLVI, 1970.

¹⁸See C. Bell and J. Duloy, "Rural Target Groups", in *Redistribution with Growth*, Oxford University Press, 1974.

the State or by a workers' collective, or it can also serve as an instrument for directly increasing the amount and productivity of the assets of the poor. In the latter case, it will be necessary to identify investment projects which are profitable and at the same time concentrate their benefits on the poor groups, keeping the amount which filters down to the rest of the community to a minimum.

In urban areas, public investment may be used to provide own-account workers and small entrepreneurs either free or subsidized working tools, technical and commercial advisory services, credit, etc. This may be done on an individual or collective basis through existing producers' co-operatives or workers' enterprises, or through the creation by the State of what are known as industrial workshops.

In rural areas, investment may be devoted to the construction or improvement of infrastructure works, such as roads and irrigation facilities, the provision of free or subsidized farm tools, machinery and inputs, and the improvement of marketing channels and the access to credit, etc. The effect of this kind of investment on poverty will depend on the returns it is able to yield and on the percentage of the rural poor who have land. Both the widely scattered geographical distribution of poor rural families and the fact that landless families represent over two-thirds of the total number of rural poor families in Latin America severely limit the effectiveness of this instrument. These two factors also make it clear that, in order to reorient investment so as to help a broad sector of the rural poor, in many of these countries this measure must be complemented with land redistribution.

(b) Policies for increasing the amount and productivity of employment

The income of poor groups is derived primarily and nearly exclusively from their own labour. Even in the case of those with some productive assets, incorporated labour is the main generator of income. Thus, the demand for labour has a decisive impact on the well-being of the groups with the fewest resources. In addition, the well-being which comes from having a job is not only economic but also psy-

chological, and is reflected in greater family stability.

It is not only the number of jobs generated by the economy which influences the well-being of the poorest people but also the type of jobs available. Experience shows that the modern sector has not grown enough to create sufficient jobs to make it possible to provide employment for the population contingent joining the labour force each year, while at the same time transferring those now in very low-productivity employment to more productive jobs.

Some of the reasons why economic growth has not had the hoped-for impact in terms of alleviating the under-utilization of manpower have already been explained above. There are, however, also other reasons which are connected with the ways in which the Latin American economies operate and result both from structural causes and from distortions created by the application of erroneous policies or the use of inadequate instruments either to maximize economic growth or to generate more jobs.

The challenge consists in identifying policies and instruments which can achieve the results sought in the field of employment and redistribution without affecting growth or with only minimal negative consequences for it.

The growth experience of the Latin American countries has given rise to doubts as to whether the best possible advantage has been taken of the countries' production potential and whether the combination of factors (capital-labour ratio) has been the most appropriate in view of their relative degrees of scarcity. These doubts arise because it is noted that in some countries the sectors which make intensive use of capital and foreign modern technology are of disproportionate size and hence have only a limited capacity for absorbing manpower, especially less skilled manpower. Such sectors use up a high proportion of the capital, yet provide employment for only a small proportion of the labour force.¹⁹ The other sectors, for their part, have seen their growth possibilities adversely affected, have received a scanty part

¹⁹ See Aníbal Pinto, "Styles of development in Latin America", in *CEPAL Review* No. 1, Santiago, first half of 1976.

of the investment resources, yet have had to absorb a large part of the increase in the labour force at low levels of productivity. This heterogeneity in respect of technology, employment and production has tended to increase with time, placing increasingly severe limits on the region's capacity to generate sufficient employment.²⁰

(i) *The productive structure and the use of labour*

It is a well-known fact that the economic growth of the majority of the countries of the region, especially in the case of the industrial manufacturing sector, has been decisively influenced by import substitution, which has been deliberately fostered by policies protecting some sectors from external competition. In many cases this development strategy had its roots in the depression of the 1930s and was further accentuated after the Second World War. As time went on, some of the original characteristics changed, but the import substitution process continued unabated to such a point that it probably prejudiced the growth possibilities of those countries which did not adapt their development strategies to the new conditions.

The policy instrument most frequently used to stimulate the substitution process has been tariffs, which have protected in particular the production of national manufacturing industries.

The question of whether Latin America should or should not become industrialized or whether the allocation of resources should be left solely to the market is not of course under discussion here.

In a mixed economy, the selective incitement of certain sectors of production by the State, either directly or indirectly, is not only one of the main tasks of economic planning but also its main justification.

²⁰See Raúl Prebisch, *Change and Development*, CEPAL document E/CN.12/891; OAS, "Guidelines for Achieving Maximum Employment and Growth in Latin America", 1973; and CEPAL, *Long-term trends and prospects of the development of Latin America*, CEPAL document E/CEPAL/1076.

The observations on the process of import substitution are directed on the one hand at the effects of the decision to protect certain sectors and to take away protection from others, especially when the latter have technological characteristics which make them appropriate to the existing resource endowment, and, on the other, towards the effectiveness of the instrument used, namely, tariff protection.

State intervention should tend to stimulate those sectors where the social benefits exceed the private benefits, regardless of whether they belong to the industrial, agricultural, mining or services area or of the internal or external destination of the product. More specifically, with regard to the utilization of factors in the light of their relative scarcity, the action of the State should aim to eliminate the differences favouring the sectors or subsectors which make the most intensive use of capital, thus putting an end to the discrimination usually suffered by the agricultural sector and other sectors which make intensive use of the labour factor.

These critical reflections on protectionist policies, which have normally been accompanied by exchange policies which have kept national currencies overvalued, would tend to orient countries' trade policy towards greater openness to the exterior. Although we believe that this is a correct decision as regards the achievement of better allocation of resources, increased growth rates, and the creation of more jobs, this in no way means any renunciation of the active promotion and conduct of the development process by the State.

The existence of goods, sectors or regions of a strategic nature; the detection of rigidities, distortions and 'externalities' which involve divergences between private and social values, and the recognition of dynamic components as regards the achievement of competitive advantages are among the reasons which justify intervention at the discretion of the State in order to stimulate or discourage certain activities.

As it is not only trade policies which have affected the production structure of the countries of the region, it is worth drawing attention also to price and investment policies.

With regard to the first of these, it is necessary to make a review in order to identify and eliminate the frequent cases of discrimination

against the agricultural sector and in favour of the industrial sector contained in the price policies applied by many countries of the region. These cases of discrimination have assumed many forms, among which mention may be made of the fixing of prices for agricultural products, prohibitions, quotas or taxes on their export, subsidies and preferential treatment for imports of agricultural commodities, etc. The ultimate objective of all these measures has been to keep down the price of food both for reasons of income distribution (in view of the high percentage of the total consumption) by poor people represented by this item) and because of its importance in determining the cost of living of urban sectors. The review of these policies should take into account not only their direct repercussions, but also their effect on the productive structure, the generation of employment, and the agricultural/non-agricultural distribution of income. To the extent that controls on agricultural prices are justified for redistributive and nutritional reasons, it appears desirable to replace generalized price controls, which affect not only demand but also supply, by selective measures to subsidize certain types of foods for certain groups of persons.

With regard to public investment policy, in this field the lines of action should be directed towards a rigorous appraisal of public projects on the basis of social criteria, so as to reverse the tendency or bias of governments towards the concentration of public investment resources on urban and industrial infrastructure and in sectors of great capital density. This has meant neglecting the rest of the sectors of the economy, especially those of traditional agriculture and small-scale enterprises, which are the sectors making the most intensive use of labour.

(ii) *Relative cost of capital and labour*

In addition to the above-mentioned distortions generated by trade, price and investment policies, there are others due to the increase in the relative cost of labour above the level corresponding to it as a function of its relative abundance in the economy. In this respect, it has frequently happened, especially in countries with persistent inflation, that real interest

rates have been negative, thus provoking a strong demand for credit. It is well known that most bank credit goes to big firms, either because they form part of a conglomerate controlled by the banks, or because they provide better guarantees and hence represent less risk for the lender.

The existence of undervalued exchange rates, the frequent exemptions from import duties on machinery and equipment, and negative interest rates encourage the use of capital, which is the scarcest factor.

In addition, the cost of hiring labour is increased in many cases by factors such as the fact that the burden of financing the social security system falls on the payroll; in some countries, this additional cost comes to over 20% of direct wage costs. Of course it is not suggested that the social security benefits should be reduced, but rather that the system of financing should be changed, in order to make it more progressive and avoid increasing the cost of hiring labour, so as to improve the price relationship between the labour and capital factors.

If the distortions which stimulate the use of capital were corrected and the utilization of labour were encouraged, it would be reasonable to expect an increase in the demand for labour. Furthermore, a higher growth rate could be achieved if measures were taken to permit a change in the structure of production aimed at securing greater development of the sectors where advantage can be taken of natural and acquired comparative advantages and where the level of intensity of capital use is lower. This type of economic growth would have a greater effect on the demand for labour than in the past, provided that the distortions caused by the application of certain policies which have previously limited such a positive effect on the demand for labour were eliminated.

2. *Measures of a redistributive nature*

The nature of the problem of poverty calls for fundamental solutions which change the functioning of the economic system so as to bring about a permanent alteration in the primary distribution of income, increasing the

income of the poor groups to levels compatible with the satisfaction of their basic needs.

Some of these fundamental solutions are those which we classified as distributive in the foregoing section, and consist essentially of the generation of more and better employment and more and better productive assets for the poor groups.

These types of changes would not bring about their effects in the short term, however, so that the lamentable situations of poverty now existing would continue.

Consequently, while recognizing that the permanent solution of the problem of poverty will come from the application of distributive measures, it is necessary to relieve the precarious situation of many families without delay. For this purpose, it will be necessary to make use of what we have called redistributive measures, that is to say, those aimed at correcting the primary distribution of income in order to relieve the situation of the poorest groups through monetary or non-monetary transfers between the different social groups.

Redistributive measures are therefore generally aimed at benefiting a particular target group by providing it with certain goods and services free of charge or at prices below those of the market, or by transferring to it monetary resources which do not correspond to payment for the work of its members or the capital they possess.

As already noted, the market does not offer the necessary solutions for overcoming poverty. Resources can only be reoriented in favour of the poor by an external agent acting through the market but modifying the latter's results, or else operating completely outside it, and in view of the complexity and magnitude of this task, it can only be carried out by the State.

Some of the factors determining or conditioning the magnitude and nature of the redistributive action of the State are analysed below.

(a) *Factors conditioning the redistributive action of the State*

First of all, reference must be made to the need for governments to have the political will and capacity for tackling the task of overcoming or relieving poverty. Lack of real will to achieve

this has been and may continue to be one of the main obstacles standing in the way of the achievement of this objective.

There are many causes which can explain this situation. Chief among them is the fact that as the redistributive action of the State affects the present of future income of the groups which are not poor, these will have to give up part of their income for the benefit of the poorer sectors. The institutional organization and functioning of the power system, however, are strongly oriented in favour of the group of owners, professionals, bureaucrats and organized workers, and are oriented against the groups of low productivity and low level of organization, which include a very substantial proportion of agricultural workers, own-account workers and employees of the 'underprivileged' sectors.²¹ To sum up, the groups which would have to give up part of their share are precisely those with the highest levels of organization and capacity for exerting pressure and influence on governments to check the redistributive action, whereas the groups which should benefit from such action lack effective organization and capacity for exerting pressure to promote it.²²

Another factor which has influenced the lack of political will or capacity has been the belief that economic growth and the elimination of poverty are two mutually incompatible objectives. The result of this has been a tendency to give the problem of poverty lower priority and to emphasize instead the objective of growth.

A second class of factors conditioning the magnitude and nature of the redistributive action of the State is connected with the size of the public sector; its bureaucratic and administrative structure; the lack of sufficient knowledge of the main characteristics of poor households and their members; and the determina-

²¹ See A. Pinto and A. Di Filippo, "Notas sobre la tegia de la distribución y redistribución del ingreso en América Latina"; R. French-Davis, "Mecanismos y objetivos de la distribución del ingreso", and J. Graciarena, "Estructura de poder y distribución del ingreso en América Latina", all in A. Foxley (ed.), *Distribución del ingreso*, op. cit.

²² This highlights the importance of the organization of poor groups as part of a strategy for combating poverty.

tion both of the areas where it is necessary to intervene and of the policies and instruments needed in order to carry out redistribution effectively.

The size of the public sector—not necessarily as regards ownership of factors or levels of intervention, but rather as regards its capacity for mobilizing resources—is a fundamental conditioning factor.

As regards taxation, which is the main source of financing for expenditure, it may be noted that the empirical studies made on the incidence of the taxation system in Latin America indicate that, except in a few cases,²³ indirect taxes predominate over direct taxes; there is little or no taxation on property and capital gains; there is ample scope for tax evasion, and there are many cases of preferential tax regulations and exemptions.²⁴

Studies on the incidence of public expenditure, for their part, reveal an even more confused picture.²⁵ Some studies suggest that public expenditure has some incidence in redistribution, whereas others suggest that such redistribution really only transfers income from the top groups to the upper middle groups, without effectively reaching the poor groups. This situation would appear to be due to the fact the latter groups are not incorporated in the mechanisms and channels through which the benefits of public expenditure are distributed.

The administrative structure of the State is another conditioning factor of vital importance. As far as the redistribution of income is con-

cerned, the administrative machinery of most of the countries of the region is more suited to benefiting the middle and upper income groups, particularly in the urban sector, than the lower income groups of society. This administrative structure is to some extent the result of deliberate action, for the reasons already referred to. This is also due, however, partly to a certain degree of ignorance not only of the main characteristics of poor households and their members but also, as already noted, to the fact that the areas of action and the most effective policies and instruments for overcoming or relieving poverty have not been properly identified.

(b) *Redistributive policies: their economic and administrative feasibility*

From the economic point of view, the redistributive action carried out by the State through public expenditure encounters two main obstacles: its negative effect on the growth rate, and the difficulties of financing it. From the administrative point of view, for its part, the main difficulties lie in the identification of the target group and in avoiding the unwanted spread of benefits to other social groups.

Arguments such as those which hold that it is necessary to grow first and redistribute afterwards, that it is not possible to redistribute poverty, etc., have been used to justify the feebleness of redistributive policies. There are few economists now, however, who persist in believing that redistributive action would seriously prejudice growth. In reality, it may be said that the choice between redistribution and growth does not involve a very serious dilemma, except in the case of those countries suffering from generalized structural poverty, where the task of overcoming poverty is beyond the present and potential economic capacity of the country, at least within a reasonable time horizon.²⁶

Some studies carried out for countries of medium development (semi-industrialized countries) in Latin America show that it is feasi-

²³See R. Bird and L. De Wulf, "Taxation and Income Distribution in Latin America: A Critical Review of Empirical Studies", in *IMF Staff Papers*, Washington, D.C., Vol. XX, No. 3, 1973.

²⁴See R.J. Chelliah and others, "Tax Ratios and Tax Effort in Developing Countries, 1969-1971", in *IMF Staff Papers*, Vol. XXII, No. 1, 1975.

²⁵See, for example, R. Bird and L. De Wulf, *op. cit.*, L. De Wulf, "Fiscal Incidence Studies in Developing Countries: Survey and Critique", Washington, D.C., International Monetary Fund, 1974; J. Meerman, "Fiscal Incidence in Empirical Studies of Income Distribution in Poor Countries", Washington, D.C., AID Discussion Papers, 1972; A. Foxley, E. Aninat and J. Arellano, *Las desigualdades económicas y la acción del Estado*, Mexico City, Fondo de Cultura Económica, 1980; and M. Urrutía and C. de Sandoval, "Política fiscal y distribución del ingreso en Colombia", in A. Foxley (ed.), *Distribución del ingreso*, *op. cit.*

²⁶See H. Chenery, M. Ahluwalia, C.L. Bell, J. Deoloy and R. Jolly, *Redistribution with Growth*, London, Oxford University Press, 1974.

ble to increase transfers of a redistributive nature without this having an excessively adverse effect on economic growth.

Even on the basis of pessimistic economic assumptions, that is to say, assuming that the financing of the transfers would reduce the amount of saving destined for investment and that the expenditure which those benefiting from such transfers would make would have zero productivity, it has been concluded that the trade-off between redistribution and growth would have a ratio of ten to one. In other words, transfers amounting to the equivalent of 5% of the product destined for consumption would reduce the growth rate by only half a percentage point.²⁷

We agree with the author of the above-mentioned study that negative effects on the growth rate may be aggravated if the transfer policies or the set of distributive and redistributive measures cause uncertainty among investors. If tax reform is carried out which mainly or exclusively affects the persons with the highest incomes (the richest 10% of the population, for example), but at the same time changes are also made in the previously established regulations affecting such important variables as ownership, freedom of operation of some markets, free disposability of savings or profits, or others which investors may consider fundamental for taking their decisions in investment matters, it could no longer be said that it is the tax reform which is responsible for the drop in investments, but rather that it is the whole set of measures which provokes direct or indirect effects deriving from the reigning uncertainty.

While it is already difficult in normal conditions to make predictions regarding the behaviour of economic agents, in a process of profound and rapid change such predictions become completely impossible. At all events it is very likely that insofar as large or small investors see radical changes in the rules of the game as being permanent, this will have a negative effect on their decisions regarding whether to invest or not.

²⁷See Marcelo Selowsky, "Income Distribution, Basic Needs, and Trade Offs with Growth: The Case of Semi-industrialized Latin American Countries", in *World Bank Reprint Series*, No. 176.

The second point which must be mentioned, as already noted, is that regarding the feasibility of governments applying redistributive measures on the necessary scale in view of the available resources.

As may be seen from table 2, the poverty gap, as a percentage of the gross domestic product in Latin America (sample of 10 countries), is rather more than 4%. Only in the case of Honduras does there seem to be no possibility whatever of achieving the necessary effort by means of transfers, since the gap amounts to 22% of the gross domestic product.

It is well known that the ratio between the poverty gap and the gross domestic product may give a misleading picture of the feasibility of this objective, from the point of view of the capacity of governments. It therefore seems to be better to compare the poverty gap with the tax revenue in order to gain a more accurate idea of the effort required if a government is to cover this gap.

Table 4 therefore shows the poverty gap as a percentage of tax revenue.

In the light of the average rate of taxation in the region and the imperfections in the tax systems (evasion and legal exemption), it does not

Table 4

LATIN AMERICA: THE POVERTY GAP AS A PERCENTAGE OF TAX REVENUE

Countries	1970	1981	2000 ^a	
			High growth	Low growth
Argentina	5	4	3	3
Brazil	34	19	6	8
Chile	7	6	3	4
Colombia	78	46	23	29
Costa Rica	24	17	8	10
Honduras	216	155	127	151
Mexico	29	17	7	9
Panama	38	27	12	16
Peru	87	68	49	57
Venezuela	20	13	11	12
Total	31	19	8	11

Source: Prepared on the basis of table 2 and projections of tax revenue.

^aSee note in table 1.

seem an impossible task to achieve an increase of between 15 and 20% in taxation, which would permit a substantial increase in social expenditure. If this greater expenditure could be channeled exclusively to the poorest groups, it would be possible to satisfy some of their essential needs.

Consequently, in order for social expenditure to be efficient from the point of view of relieving poverty, it is necessary to make an accurate identification of the target groups, but this is no easy task either, in view of the variety of situations through which poverty manifests itself and the geographical dispersion of the poor. Moreover, it is also a complex matter to administer these policies in such a way that the benefits reach only those whom it is desired to benefit and avoid incurring excessive expenditure through 'leaks' to other sectors. The policies must comply with the criteria of exhaustivity and exclusivity, that is to say, they must manage to completely cover the universe identified as the target group and only that universe.

As may be gathered, it is first of all essential to get over the difficulty of identifying the members of the target group or groups, after which it is necessary to select the most effective instrument for ensuring that the transfers reach only them and the largest possible number of them.

Considerable efforts have been made in some countries of the region in recent years in this respect, through the preparation of maps of poverty. Unfortunately, these efforts are still insufficient, thus making the application of redistributive policies difficult. At all events, there can be no question of waiting until optimum information is available before starting the urgently needed attack on absolute poverty. It is therefore necessary to use the best means available, within the present limitations, in order to set in motion policies aimed at improving the degree of satisfaction of the basic needs of the population.

To sum up, an effort must be made to select redistributive policies which have the least possible negative effect on economic growth and most efficiently reach the target group. All this, of course, is on the assumption that there are the political will and capacity needed to overcome the obstacles which will arise among

the groups which feel that their well-being is affected, either by the higher taxes they will have to pay or through the reduction of the benefits they were obtaining from public expenditure.

(c) Some forms of redistributive policies

In general, redistributive policies can be classified in two groups. The first of these consists of policies designed to achieve the direct provision of goods and services to satisfy basic needs, while the second group consists of policies designed to transfer income to the poor. Each of these two groups tackles a particular aspect of poverty, and they form the two sides of a single problem. Thus, both aspects must be tackled simultaneously, since concentrating on only one of them while neglecting or completely abandoning the other would make it impossible to carry out successfully the task of eradicating the manifestations of poverty.

The policies in the second group, that is to say, those aimed at guaranteeing a certain minimum level of income for the poor, take the form of monetary transfers. In general, experiences with this type of policy in Latin America have been limited, and in some cases they have been very costly because of the difficulty of reaching only the target groups. This is so, for example, in the case of transfers made to manual and non-manual workers on the basis of the number of dependents of the head of household. Because of the difficulty of discriminating between households, this allowance is paid regardless of their income, since all wage earners with dependents who satisfy the conditions laid down in the law granting the benefit are given the right to receive it. It must also be borne in mind that a considerable proportion of the poor are not wage-earners. As will be noted, this is a case where neither the criterion of exclusivity nor that of exhaustivity is fulfilled.

Another form of monetary transfer which satisfies the basic objective only in a very partial manner is that of granting unemployment allowances. While this measure may represent important, albeit transitory, relief for painful situations due to unemployment, the available information indicates that open unemployment has been relatively low in the region, and it is

much more frequent for the heads of poor households to be under-employed. Consequently, the unemployment allowance would reach only a very small proportion of the target group and would thus not fulfil the criterion of exhaustivity either.²⁸

Whatever the form of monetary transfer adopted, it will have some similar economic effects. It may be assumed, for example, that it will have similar negative effects on growth, due to the reduction of saving and investment by the groups which will have to finance the cost of the transfers. Likewise, it will have a similar effect on the increase in the consumption of certain goods on the part of those receiving the transfers. Finally, it will be noted that both types of transfers respect the so-called 'freedom to choose' of the consumer in seeking a solution to the problem of poverty.

Policies designed to increase the level of monetary income of the poor are complementary to those aimed at increasing the availability of essential goods and services and the access of poor groups to these.

Since the market will not automatically supply the goods and services needed to satisfy basic needs, the mere fact of increasing the income of the poor will not be sufficient to bring about the shifting of national production resources to produce them. This makes necessary direct public intervention, which should consist of deliberate action aimed at correcting deficiencies in the consumption of given basic goods or services. Such action is designed to offer poor families these goods or services either free of charge or at a lower price than that prevailing on the market.

This State action is mainly carried out through public social expenditure on education, health, housing, etc., but as already noted this action has been insufficient and inefficient. The inefficiency has been due, among other reasons, to the lack of co-ordination in the formulation and execution of social programmes; that is to say, the policies in the different social areas tend to be isolated or, to put it

another way, it may be said that they are formulated separately as a function of sectoral objectives, with the result that the resources are allocated in accordance with the traditional division of the administrative machinery and the relative weight these divisions have in the government.

The formulation of policies in an isolated manner leads to significant waste of resources, since it does not take account of the important positive 'externalities' in the satisfaction of basic needs, both at the level of inputs and of results.

The types of deprivation suffered by poor families are numerous, and the resources of the State are not sufficient to satisfy all of them at the same time; a way must therefore be found to obtain the maximum yield from the State resources assigned for this purpose.

The State redistributive action must be aimed at simultaneously satisfying more than one type of deprivation. As we have already noted, however, these cannot all be attacked at the same time, so that the problem consists of finding an essential nucleus of basic needs which can be solved simultaneously. In order to do this, it is necessary to select those needs which are of most significance in satisfying the total set of basic needs. For this purpose it will be essential to formulate a guiding criterion which will permit this basic nucleus to be identified through the determination of the needs whose solution would have the greatest positive effect on the satisfaction of other basic needs.

(d) *A criterion for setting priorities*

One possible criterion for identifying the essential nucleus of basic needs which are to be satisfied through redistributive policies would be to determine what problems a poor person encounters in the course of his life. In order to facilitate the identification of these problems the population may be divided up by age groups such as 0-6 years (infancy); 7-20 years (childhood and youth); 21-65 years (adults), and over 65 years (old age).

In the first age group (infancy, 0-6 years) the problems take three main forms: the high degree of morbidity and mortality, malnutrition, and 'socio-cultural' mental backwardness.

²⁸ It may be added that in addition these benefits have undoubted overtones of paternalistic gratuity which would appear to justify them only at times of emergency and for a limited period.

In spite of the progress made, infantile mortality in the countries of the region continues to be high. To take an extreme case, for example, the rate of infantile mortality in El Salvador in 1975 was nearly seven times greater than that of Sweden. The main illnesses affecting children in this age group are epidemic diseases, respiratory problems and diarrhea. Their exposure to these begins while they are still in their mother's wombs and subsequently continues as a consequence of malnutrition and poor health conditions. Finally, mental backwardness among poor children, which is quite widespread in its slight and moderate forms, is due to malnutrition and lack of stimulation, and is manifested later on in learning difficulties, deficient school performance, and low levels of attention to lessons in school.

It will be seen from the foregoing that priority must be given firstly to policies aimed at promoting the education and nutrition of mothers before, during and after pregnancy and delivery; secondly, to a policy to improve the nutrition of young children, and finally, to centres providing integral attention to children, with stress on health care and early stimulation.²⁹

It should be stressed that, because of its high incidence on the future development of human beings, the priority State action should be concentrated on this age group.

²⁹With regard to the situation of children under six years of age in the region and policies and programmes aimed at benefiting them, see UNICEF, *Dimensiones de la pobreza en América Latina y el Caribe*, Santiago, Chile, 1982; F. Calofré (compiler), *Pobreza crítica en la niñez*, CEPAL-UNICEF, Santiago, Chile, 1981; E. Pollitt, *Poverty and Malnutrition in Latin America. Early Childhood Intervention Programs*, New York, Praeger Press, 1980; UNICEF-CEPAL, *Indicadores sobre la situación de la infancia en América Latina y el Caribe*, Santiago, Chile, 1979; J. P. Terra (co-ordinator), *Situación de la infancia en América Latina y el Caribe*, UNICEF, 1979; M. Maurás, J. Filp. C.L. Latorre, *La atención al preescolar en América Latina y el Caribe*, UNICEF, 1979; S. Brálic and others, *Estimulación temprana. Importancia del ambiente para el desarrollo del niño*, Santiago, Chile, UNICEF-CEDEP, 1978; L. Mata, *The Children of Santa María Cuaqué: A Prospective Field Study of Health and Growth*, MIT Press, Cambridge, Mass., 1978; L. Bravo and H. Montenegro, *Dos estrategias para el desarrollo de niños de extrema pobreza*, Santiago, Chile, UNICEF, Ediciones Nueva Universidad, 1977, and F. Calofré, "Formulación de políticas de infancia y juventud en familias pobres", E/CEPAL/PROY.1/R.46, Santiago, Chile, 1981.

The second stage in question is that of childhood and youth (7-20 years of age). As the rate of physical growth of the children slows down, the problems which previously affected them so seriously declined in importance; the degree of malnutrition goes down, and this reduces the levels of morbidity and mortality. The most significant problem during this stage is that of education, since it is at this time that individuals must prepare themselves for appropriately assuming the responsibilities they will have when they are adults.

Education is the way in which the human potential of each individual is developed; consequently, the policy to be followed in this case consists of ensuring the participation and continued presence of children in the educational process, and it will be necessary to identify the most effective instruments for this purpose. Furthermore, it has been shown that education brings clear social and economic benefits. Thus, according to World Bank studies,³⁰ the social yield of investments in primary education in developing countries is 24%, i.e., higher than the yield of many alternative projects. For secondary and higher education, the social yields are 15% and 12%, respectively.

Finally, towards the end of the age period in questions the problems which affect young people begin to appear, especially those due to the idleness resulting from failure at school and the lack of work opportunities. Since this subject could easily provide material for several articles the size of the present one,³¹ we shall merely limit ourselves to drawing attention to its existence here.

In the adult period (21-65 years of age), the main problem encountered is lack of a stable job with a sufficiently high level of wages to satisfy the person's basic needs. Distributive policies aimed at generating employment through changes in the structure and operation

³⁰See *World Development Report 1980*, Washington, D.C. World Bank, 1980.

³¹See H. Kirsch, "The participation of youth in the development process of Latin America: Problems and policies regarding labour force insertion, education and employment opportunities" in this number of *CEPAL Review*; OECD, *Entry of Young People into Working Life*, Paris, 1977; OECD, *Youth Unemployment*, Paris, 1978; Adolfo Gurrieri et al., *Estudios sobre la juventud marginal latinoamericana*, Mexico City, Siglo XXI Editores, 1971.

of the economy should be complemented with others aimed at generating additional jobs. To this end, a programme could be worked out which on the one hand creates jobs in the public sector and, on the other, grants subsidies for the hiring of labour in the private sector.³² This type of programme could be of a similar nature to monetary transfer programmes, and could probably advantageously take the place of some of them, since this type of monetary transfer would be carried out through the provision of employment, which is an objective in itself and may be considered as a basic need of the family. In this respect, there is experience available in a number of countries; the target groups are self-determining, and this experience could be put into practice quickly.

In the case of poor persons over 65 years of age, they should be covered by some system of old age pensions and disablement and sickness insurance.

A target group which may exist in any of the age groups is that of the handicapped. Both persons who have had to stop working and those whose working life has been limited by sickness or accidents should be the concern of society as a whole and should not be a burden only on their immediate family.

To sum up, the State should tackle the problem of poverty through the redistributive measures outlined in this section, that is to say, by generating additional jobs and reformulating social policy in order to expand its results and make it more efficient. It may be objected, among other things, that a programme of this nature is too costly to be tackled by fiscal means; that it is difficult to administer; that in the case of the generation of employment there is a lack of projects which are sufficiently productive or of social interest; and moreover that this type of palliative action tends to divert attention from fundamental changes and helps to put off the political decisions which would provide a permanent solution to the problem of poverty.

The question which arises in the light of

this latter objection is whether it is admissible from an ethical point of view to wait for structural changes to take place without previously taking appropriate measures to at least relieve the situations of absolute poverty, especially as it is well known that the structural changes must be accompanied by high growth rates for a long period if the most dramatic expressions of poverty are to be overcome, and that it is highly improbable that both circumstances will exist at the same time. In our view it is therefore a moral obligation to make use of all possible means to overcome or relieve poverty as soon as possible.

Accepting this assumption, the question arises of whether a massive programme of development of employment and reorganization of social policy is viable from the point of view of its financing. The situation varies from one country to another, but it may be held that, except in the least developed countries of the region, the programme is economically viable. The reorganization of social policy, for its part, will call basically for the redeployment of available resources rather than an increase in them. As regards the cost of a programme for the massive creation of additional jobs, an illustrative calculation using data representative of the Latin America countries of medium development comes to the conclusion that if a country assigns 3% of its gross domestic product to a job creation programme, about 15% of the labour force would be benefited by that programme.

According to these representative data, the taxation in the country should not increase by more than 15%. This percentage will be lower if it is possible to transfer to this programme resources currently being used in a less efficient manner (such as certain subsidies) or other current and capital expenditure (defence, luxury investments, university education, etc.) which is of lower priority from a social point of view and whose reduction would not have negative effects on economic growth or distributive equity.

As regards administrative aspects, the establishment of a fund to combat poverty could help to give greater prestige to the programme for generating additional jobs in the eyes of the public; to give a better political image; to ensure efficient investment of resources; and to

³²See Enrique de la Piedra, "Generación de ingresos para grupos pobres: Análisis de dos instrumentos de creación de empleos adicionales", *Boletín de Planificación del ILPES*, No. 15, 1982.

identify economically or socially profitable projects. Such a fund could have a 'representative' governing council at the national level and subsidiary bodies at the regional level; its technical and administrative staff could be small in number and its main function could be to promote the formulation of projects in close collaboration with the authorities responsible for social policy and subsequently evaluate them in order to set priorities. The financing for this fund would come mainly from the reallocation of budgetary expenditure, from economies achieved through the reduction of inefficient subsidies, from increased taxation, and from external credits obtained for the purpose of improving the income of the poorest sectors. It would obviously be highly desirable to provide extensive information on the use made of the fund at the national and regional level in order to endow its administration with the greatest respect and credibility in the eyes of the public.

None of the above observations seek to minimize the effort needed in order to put a redistributive programme such as that described in this section into practice, or to belit-

tle the importance of the political, economic and administrative obstacles which will have to be faced. We wish to stress, however, that countries which have achieved, among other conditions, a certain level of development, which have relatively plentiful technical teams, which have a relatively long-standing public administration tradition and have achieved some degree of decentralization would be well fitted to carry out the necessary changes in public expenditure and allocate additional resources to satisfy the basic needs of a large part of their population without significantly affecting economic growth or political stability.

It will be understood that this is only a broad and incomplete outline of a subject which is both very complex and of enormous importance. Although each topic can only be dealt with specifically in the light of actual national situations and by persons who are familiar with these in detail, however, we are sure that the general guidelines given in this section could be of use to these persons in orienting their work.

III

Priority areas of action

The material set forth in this study, together with the many existing studies of a general or methodological nature (many of them referred to specifically above), as well as the various case studies, allows certain conclusions to be reached on the policies to be followed. This task is made more difficult, however, by the wide range of different situations presented by the individual countries, beginning with the demographic characteristics and the proportion of the population living in urban and rural areas, the differing economic conditions, and different forms of social organization and of the structure of political power.

Although we are well aware of the difficulties raised by the heterogeneity of Latin America when putting forward a policy proposal, we feel that it is possible to set forth some priority

guidelines for the context of a mixed economy where public and private ownership of the means of production exist side by side.

1. Absolute poverty will not be eradicated until the structural factors which cause underdevelopment are changed. These factors are related, *inter alia*, with: the way in which the Latin American economies are fitted into the international context, which has negative effects in the form of inequitable trade relationships, the adoption of types of technology which are not appropriate to the relative availability of factors of production, the copying of patterns of consumption which do not fit in with our capacity for saving, etc.; inequitable distribution of wealth and income, which leads to the concentrated accumulation of surpluses that are not always converted into savings and

investment; the level and sectoral and regional composition of investment; intense urbanization, with the existence of numerous low-productivity production units which have no access to credit, technical assistance or marketing channels; differences in level of organization between the different social groups, which makes possible the predominance of the interests of organized groups over those which have not yet satisfied their basic needs; and the structure of political power, which is reflected in the allocation of private and public resources and tends to perpetuate existing inequalities.

We are aware that removing these structural obstacles is a long-term task and involves the execution of profound changes. At the same time, however, we are convinced that it is absolutely essential to face up to this challenge if it is really aimed to reach a situation where the whole population can satisfy its basic needs.

2. In addition to the structural factors referred to above, which are the determinants of the prevailing development style, policies have been applied which have limited the positive effects that economic growth could have had for the poorest groups of the population. These policies can be corrected, however, with favourable effects in the short term. Among these policies are, in particular, those designed to correct distortions in the prices of goods and factors of production; those which influence the allocation of resources and the production structure; those concerning public investment; those modifying the structure of ownership; those promoting social organization, etc.

While it is not possible to make specific recommendations regarding these policies, some general guidelines can be given.

In the first place incentives should be given to the sectors or subsectors which make intensive use of the labour factor. For this purpose, it is necessary to start by eliminating the differences which currently favour certain activities making more intensive use of capital, such as tariff and tax exemptions, preferential interest rates, negative interest rates caused by inflation, excessive and persistent tariff protection, undervalued exchange rates, etc. In addition, measures should be taken to eliminate distortions in relative prices which act to the detriment of labour and principally arise when

the cost of hiring labour is increased for reasons other than its direct wage cost (for example, charges made for the purpose of financing social security).

Secondly, in the rural area —where the greatest proportion of absolute poverty exists— measures should be taken to increase the relative share of this sector in income, although at the same time it will be necessary to change the factors currently responsible for its faulty distribution. In order to achieve this double objective it will be necessary, on the one hand, to expand the ownership of land, which is at present excessively concentrated; to provide technical assistance, credit and marketing channels for small agricultural proprietors in order to increase their productivity and income; and to promote the development of peasant trade unions in order to improve their negotiating capacity and, as a result, increase the income of landless workers. On the other hand, it will be necessary to eliminate the discriminatory fixing of prices and modify both the subsidies and preferential treatment given to imports of agricultural products and such measures as export prohibitions, quotas or taxes, which negatively affect the development of the agricultural sector.

Policies designed to stimulate the development of the agricultural sector are justified from the distributive point of view only if they simultaneously fulfill the conditions already referred to as regards the deconcentration of land ownership, improvement of the conditions of small agricultural proprietors, and development of peasant unions. If this is not done, the larger income of the rural sector will benefit only or mainly those at present owing land.

Thirdly, as regards the non-wage-earning marginal urban sectors, it is necessary to identify the activities which are really viable and whose present low productivity is due mainly to their low capital endowment and their lack of access to credit and technical assistance. In this way it will be possible to concentrate on them the efforts to promote their organization into co-operatives or other forms of associations and to provide them with the technical and administrative facilities and conditions which they need in order to increase their productivity and

future development. Those members of this group who cannot become own-account workers could become beneficiaries of the programme of additional jobs referred to earlier.

3. The slowness of the structural changes and the inadequacy of the changes in policies designed to divert more of the benefits of economic growth to poor groups make it essential for the State to take urgent action to provide direct relief for the most dramatic poverty situations.

This action consists of transferring monetary resources and free or subsidized goods and services to those it is desired to benefit. The application of this type of policy, however, runs into practical obstacles which are difficult to overcome, among which special mention may be made of the difficulty both of identifying the groups which it is desired to benefit and of establishing effective mechanisms for reaching them.

In our opinion, the resources obtained from the expansion and reformulation of the existing transfer programmes should go to two priority destinations: the execution of a programme of additional jobs designed to give a minimum monetary income to workless heads of households and young persons, and the application of a plan aimed at overcoming the problems of infants and children, since these problems form the first link in the vicious circle of poverty.

The programme of additional jobs would be the means of guaranteeing a minimum monetary income, while at the same time it would make it possible to identify the target groups, since those applying for such benefits would by definition be poor, in view of the type of jobs and the level of remunerations that such a programme could offer. This would make it possible to concentrate the provision of direct services on poor families; it would permit the correction of the inefficient features of the labour market as regards matching those seeking and offering work; it would facilitate the placing of workers from the special programme in regular jobs by subsidizing private hiring, and it would make it possible to select from the

young persons accepted for the employment programme those suitable for training and for subsequently seeking jobs in regular production activities. Moreover, the registration of poor families and of their needs and characteristics would make it possible to direct more effectively the programmes aimed at favouring the children of poor families. Outstanding among these programmes, on account of their importance, are those for providing attention to pregnant women, nutrition programmes, and pre-school education programmes. Their application, as well as being essential for overcoming the vital problems affecting children of early age, would enable such children to embark on their basic education without suffering the serious disadvantages affecting them at present. Thus, the continued attendance of children at school would depend mainly on their capacity or on economic factors. In the latter case, it is the obligation of society, through the State, to solve these problems in order partly to make good the injustice deriving from the unequal opportunities due exclusively to the different economic situations of families.

4. We wish to repeat that the eradication of absolute poverty calls for profound changes in the present economic, political and social structure of the countries which have not yet succeeded in overcoming it, but at the same time we are convinced that while waiting for such changes to take place it is both urgent and possible to undertake significant action to benefit Latin American families which are at present not in a position to satisfy their basic needs and whose personal, family and social development are thus severely limited.

Today it is more urgent than ever to tackle the serious problem of absolute poverty, since the economic situation through which the Latin American countries are passing is very unfavourable compared with that of past decades. Unless there is a change of attitude to combatting poverty, this will increase in the region, and this is morally unacceptable, highly dangerous from the point of view of social peace, and economically avoidable.