

## ECONOMIC AND SOCIAL PROJECTS IN A SHORT-TERM PROGRAM

### 1. Commitments under the Charter of Punta del Este

Upon signing the Charter of Punta del Este, each country has made specific commitments to prepare both social and economic projects. The objectives of the Charter are not limited to a 2.5 per cent minimum rate of per capita growth. They also include specific goals in the fields of education, public health, potable water, and others.

### 2. Competition for scarce resources

Economic and social projects compete for scarce resources; however, their effects on the economy are somewhat distinct. Economic projects have generally higher benefit/cost ratios, partly because of generally shorter gestation periods. They also have a generally greater indirect impact on output through greater backward and forward linkages; in addition they usually make a greater contribution to the supply of entrepreneurship, of industrial skills, etc. On the other hand, social projects often have a greater employment multiplier effect, as their low foreign-currency content reduces import leakages. However, they have the disadvantage of creating structures which may require excessively large maintenance and operating expenditures for the future.

### 3. A definition of economic and social investment

Most definitions of economic investment revolve around the concept of a direct contribution to productivity, as opposed to a social investment whose effects on productivity are generally felt in the long run. Finer distinctions can undoubtedly be made.

It might be desirable to adopt an operational definition such as used by the institutions likely to provide the foreign financing; one might consider the definition of the Inter-American Bank for example, which considers eligible for social development loans in its Social Progress Trust Fund projects in the fields of land use, community water supply and  
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sanitation facilities, housing for low-income groups, and supplementary financing of facilities for advanced education and training.

4. Historical ratios of social and total investment

Historical ratios of social and total investment in Latin American countries have been 15-25 per cent, the highest ratios being found generally in the more developed countries.

Recent tendency for larger increases in foreign-financed social investments. These may be a temporary phenomenon, traced to the long enduring scarcity of foreign financing for these projects.

5. A first attempt at choice between social and economic investments in the short run

First priority: Mandatory investments, or "crisis" investments. These investments (economic or social), must be necessary to avoid a breakdown in the economic and/or the political structure of the country, (e.g. to avoid a violent social eruption in a given area; to avoid the immediate breakdown of the transportation system). This category of "mandatory" investments should be understood very narrowly.

Second priority: All the economic investments necessary to bring the country to its pre-chosen (say 5 per cent) yearly rate of growth.

Third priority: Non-mandatory social investments, which will then become a residual.

This suggested classification is meant only as a first approximation; it will be revised in the light of political and other considerations; it may also have to be revised somewhat to allow for the inter-industry impact of each category of investment.

6. Dual nature of economic and social investment

Virtually all economic investments have a (small or large) social impact; the reverse holds true for social investments.

There are, however, types of economic investment with high social impact. This applies, for example, to all investments which tend to reduce the cost of basic necessities, such as processed foods, clothing,

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furniture; it applies also to all investments which are highly labor-intensive. Inversely, on-the-job accelerated training is a social investment with high economic impact; the same can be said for most aspects of preventive medicine.

Social investment need not be very expensive to produce noticeable results (country schools with just a thatch roof, four poles, and no walls; water supply to poor urban areas by means of a single copper tube).

7. Constraints placed on a choice between social and economic investment in the two-year program

Physical restraints: All work in progress must have priority, whether it be of an economic or of a social nature.

Institutional constraints:

- such as imposed by budgets already voted, even for the next year;
- legislation providing for the earmarking of funds (gasoline tax receipts must be spent on highways);
- inhibiting local legislation;
- absence of the necessary executive or administrative mechanisms to carry out certain types of otherwise desirable economic or social projects within the two-year period;
- constraints placed by the fields of operation of the various financial agencies; each agency prefers to finance certain types of operation; the foreign financial component of a country's program will have to adjust to the composite preferences of the financial agencies.

8. Non-investment effects of a social policy

The "qualified residual" method of arriving at social investment may have a relatively small ratio of social investment in a given country. However, a strong social policy can be followed without vast expenditures on social projects, provided however, that vigorous policy measures are taken in the fields of wages, tariffs, taxes, credit and land reform.

