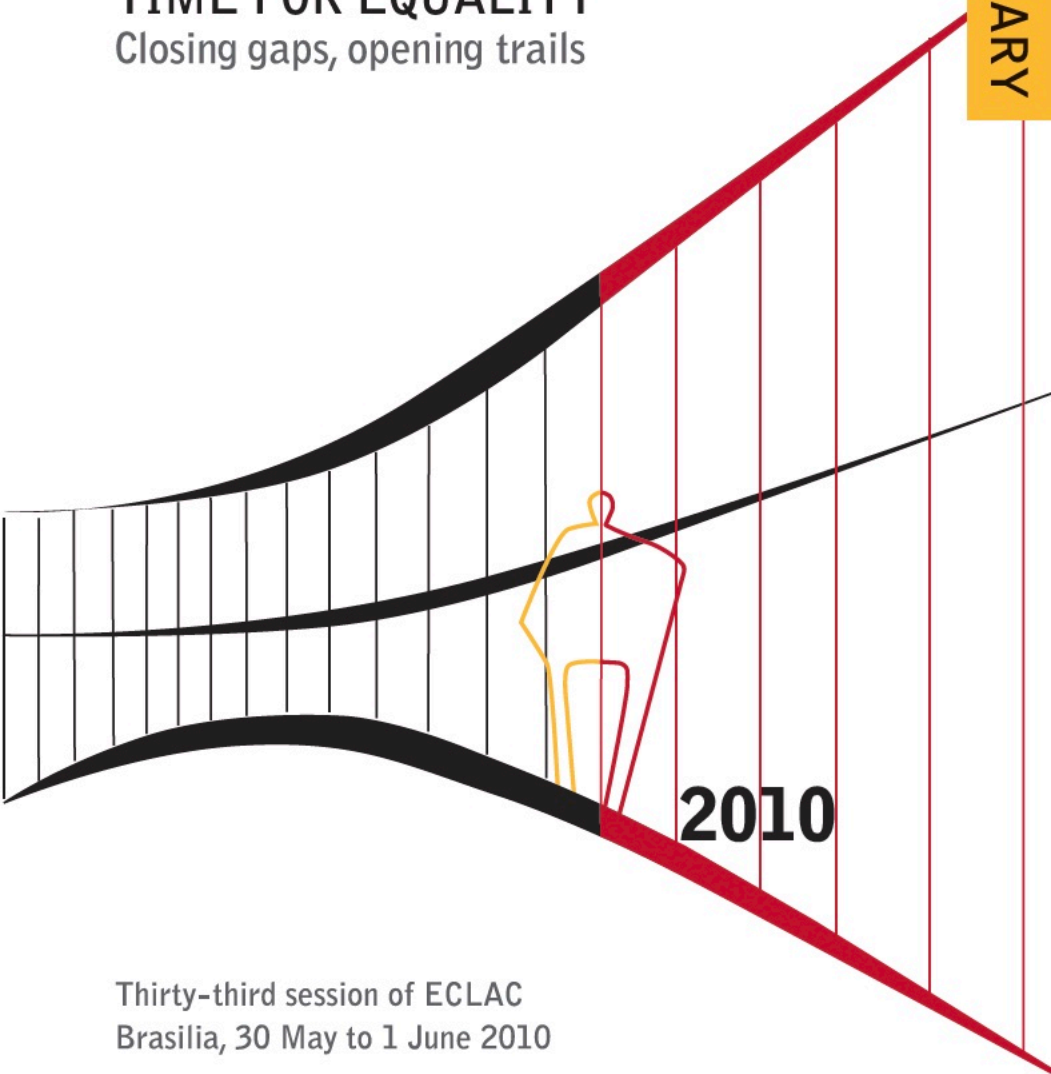


TIME FOR EQUALITY

Closing gaps, opening trails



Thirty-third session of ECLAC
Brasilia, 30 May to 1 June 2010



UNITED NATIONS

ECLAC

Thank you for your interest in this ECLAC publication



Please register if you would like to receive information on our editorial products and activities. When you register, you may specify your particular areas of interest and you will gain access to our products in other formats.



www.cepal.org/en/publications



www.cepal.org/apps

This summary of the document *Time for equality: closing gaps, opening trails*, presented by ECLAC at the thirty-third session of the Commission (Brasilia, 30 May to 1 June 2010) was prepared by Alicia Bárcena, Executive Secretary of ECLAC, in collaboration with Antonio Prado, Deputy Executive Secretary, and Martín Hopenhayn, Chief of the Social Development Division, with contributions from ECLAC staff members Mario Cimoli, Filipa Correia, Luis Mauricio Cuervo, Fernando Filgueira, Osvaldo Kacef, Sandra Manuelito, Iván Silva, Giovanni Stumpo, Daniel Titelman and Jürgen Weller, and Ricardo Ffrench Davis, consultant.

Contents

| | | |
|-------------|---|-----------|
| I. | Charting a new course for development | 5 |
| | A. The historical turning point | 5 |
| | B. Time for equality..... | 6 |
| | C. State and political action | 8 |
| II. | An agenda for development with equality: six strategic areas | 11 |
| | A. Macroeconomic policy for inclusive development..... | 11 |
| | B. Production convergence | 16 |
| | C. Territorial convergence | 23 |
| | D. More and better employment..... | 26 |
| | E. Closing social gaps..... | 31 |
| | F. The fiscal covenant as a key to linking State and equality..... | 40 |
| III. | The ECLAC vision and long-term challenges | 49 |
| | Bibliography | 55 |

I. CHARTING A NEW COURSE FOR DEVELOPMENT

A. The historical turning point

It has been said, not without some justification, that the twentieth century did not end in 2000 but in 1989 with the fall of the Berlin wall. This is at least partly true, inasmuch as it was a historic event that crystallized a profound change and redrew the planet's political and economic architecture. That change took place amid the consolidation of a new production paradigm, underlain by the acceleration of scientific and technological knowledge, the progressive globalization of markets and communications and the tougher competition that resulted from the combination of these factors.

In Latin America and the Caribbean, the early 1980s were marked by the debt crisis, which coincided with this economic and political shift, the new globalization pattern and an ideal of society based on the predominance of self-regulated market mechanisms and the action of private agents. It also coincided with increasing deregulation and global financial and trade interchange and the offshoring of production driven by factor costs. Against this backdrop, two types of measures, among others, were promoted in the region: those aimed at promoting stability through adjustment policies and those aimed at reducing the size of the State and minimizing its intervention in the economy.

The legacy of this today is that the Governments in the region are facing a huge policy shortfall in the areas of development promotion, economic regulation, well-being entitlements and the provision of public goods. But this shortfall also reflects long-standing structural

heterogeneity, modernization forged out of inequality and inequity, the trails yet to be opened in democratic life and endemic production lags. States have run up unpaid debts as providers of public goods, guarantors of social protection and promoters of productivity and employment. At the same time, however, there is a growing consensus regarding the essential role that corresponds to the State in performing those tasks and the limitations of the markets in this regard.

The current financial crisis —considered the deepest since the Great Depression— marks the end of a cycle of growth and economic boom and the need for a new way of looking at development. Apart from its powerful short-term economic impact, the crisis that broke out in 2008 has generated a far-reaching debate about the future of the economic stockpiling rationale, the operating standards of the global economic system and the role played by public policy and the State in economic and social development. In terms of the economic cycle, the crisis put an abrupt end to a global economic boom sustained by the largest financial bubble ever seen. The crisis arose from a combination of factors, including profound global imbalances and very high levels of international liquidity combined with procyclical monetary policies and an under-regulated financial innovation and globalization process, which all help to explain the dynamics of the crisis and the huge difficulty in overcoming it.

In sum, the State-market equation that has prevailed for three decades now has proven unable to rise to the global challenges of today and tomorrow. The challenge is, then, to place the State in its rightful place with a view to the future.

B. Time for equality

Why is equality the value we must embrace as history begins to chart a new course? Because we believe this value interprets an aspiration that has been long-cherished and much-deferred in Latin American and Caribbean societies. The region has a record of inequality five centuries long, with a roll-call of racial, ethnic and gender discrimination, a division of citizens into first- and second-class categories and the worst income distribution in the world. In the past few decades inequality has exacerbated the unevenness of productive opportunities in society, worsened employment conditions and segmented access to social protection. Inequality is rampant in the asymmetries of globalization.

Yet the more widespread the inequalities, the more profound is the desire for equality, especially when there is a sudden rupture in the continuity of history and the world finds itself in crisis and a new course is needed for the future. The worldwide crisis that broke out in 2008 represents a point at which equality appears once again as an intrinsic value of the development that we are pursuing. In addressing these gaps, society moves from an individual to a collective approach and seeks to suture the wounds of inequality with the thread of social cohesion. The concept of equal rights provides the framework and basis for social covenants that generate more opportunities for the have-nots. A fiscal covenant that enhances the redistributive effects of tax structures and tax burdens and strengthens the role of Government and public policy in ensuring respect for the welfare threshold as part of the equality agenda and creation of labour institutions that protect worker safety.

A democratic order in which the course of development reflects the will of the majority, engages all stakeholders and reflects the value of equality. Another pillar of the equality agenda is a set of economic policies implemented with a long-term vision in production, labour, and social and territorial development and which seek not only equal opportunities, but also the reduction of gaps in outcomes.

Social equality and economic growth are not at odds with each other and the great challenge is to find synergies between the two. The proposal made here points in this direction: growth needs equality and equality needs growth. In a long-term strategic approach, equality, economic growth and environmental sustainability must go hand in hand.

We therefore propose growth with less structural heterogeneity and more productive development, and the pursuit of equality through the enhancement of human capacities and the mobilization of State energies. We propose to reverse the huge gaps in the region by building more integrated societies around productive dynamics, constructing positive social and territorial synergies, and strengthening the protection of individuals through improvements in labour markets, transfers and public-sector administration. Lastly, in considering the value of equality and how it combines with growth, we cannot ignore climate change, a phenomenon which will have an enormous impact on the future of humanity. Here, equality means solidarity with future generations, whose living conditions will be marked by greater uncertainty and by the scarcity of natural resources. It also means calling for international agreements

to mitigate the impact of climate change so as to respect the principle of common but differentiated responsibilities and to ensure that the cost of climate change is not borne disproportionately by the poor or by poor countries. It means rethinking the development paradigm on the basis of a more humane relationship with each other and a more environmentally friendly relationship with nature.

C. State and political action

As with the life of people, the future of societies is something that is built over time. A society that does not educate itself, that does not invest in social cohesion, that does not innovate, that does not build consensus and that does not have solid and stable institutions has little chance of thriving. In view of these challenges, the State must be capable of providing strategic management with a long-term vision and engaging with the design of policies geared to national development. Here it is important to remember that State action is taken in a context of shared power, so that the negotiation and creation of strategic long-term national consensus are both the means and the end. For this reason, the State must be able to promote a dialogue that will give it the legitimacy to arbitrate among the various interests with clear socio-economic goals through regulation, which implies a need to improve its regulatory capabilities.

In the political sphere the State plays a leading role which it cannot abdicate. The goal here is to ensure more democracy and more equality, which are two sides of the same coin. As regards democracy, the State must strive to improve the quality of political action in its procedures, through a strategic agenda reflecting the deliberations of a broad spectrum of stakeholders and through a popular will expressed in covenants that provide political legitimacy and ensure the application of medium- and long-term policies. As regards equality, the State must focus on increasing the participation of the excluded and vulnerable sectors in the benefits of growth. The full exercise of rights and the hearing of a collective voice form the link between political action and social equality.

State policies must converge in boosting growth, promoting productivity, encouraging greater national coordination, achieving better employment conditions and better labour institutionality and providing public goods and social protection, all with a clear universalist and

redistributive focus. It is these complex and time-consuming challenges that the proposals made here aim to address. They require arduous technical work, the creation of social covenants and development financing. They respond to a threefold challenge: to boost the economies of the region in order to achieve development, to deal with the crisis and chart a new course using new policy instruments, and to eliminate the region's age-old legacy of inequality and social exclusion. This in turn means that it is now urgently necessary to reform the tax and transfer system in order to generate more revenue-raising power and make social solidarity the focus of collective life. In the framework of these challenges, we propose to address six strategic areas.

Although not discussed in depth in this document, the topic of climate change will undoubtedly occupy an increasingly prominent place on the international agenda and among countries' responsibilities. As part of this agenda, we will have to change our production and consumption patterns, as well as our ways of generating and using energy, and make the carbon footprint one of the main variables of countries' competitiveness. There is also an ethical dimension of intergenerational solidarity, in view of the looming threats to the planet unless appropriate action is taken today. Adaptation and mitigation policies involve long-term planning, particularly as regards infrastructure, transport, land use and energy production. These areas call for strong and decisive action by the State, long-term investments and incentives to change cultural habits and lifestyles.

II. AN AGENDA FOR DEVELOPMENT WITH EQUALITY: SIX STRATEGIC AREAS

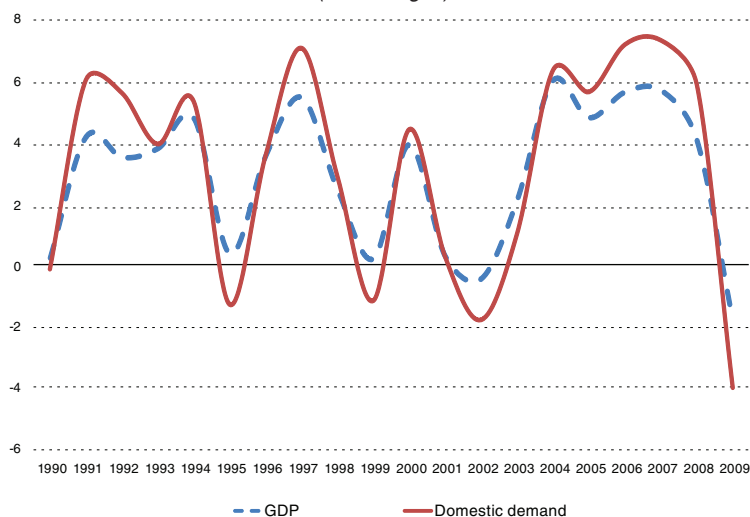
A. Macroeconomic policy for inclusive development

The Latin American and Caribbean region has the capacity to achieve greater and better quality growth. The region's economic performance needs be more robust, but steps must also be taken to ensure greater levels of inclusion and social equality, boost productive investment, create quality jobs and reduce exposure to the impact of external volatility. Macroeconomic policy plays a vital role in this regard.

The macroeconomic environment has various repercussions on development, since it affects the investment rate, price stability, the value added content of exports and how they tie in with the rest of domestic production (GDP), innovation and its diffusion to the different sectors of the economy, the development of small and medium-sized enterprises (SMEs) and the formality or precariousness of the labour market. The content of macroeconomic policy has clear implications for all of these variables.

Experience suggests that monetary liquidity, credit and exchange rates, which are often driven by the cyclical movements of financial flows, have followed roller-coaster patterns in Latin America and the Caribbean. Aggregate demand in national economies has moved cyclically in association with capital flows, which have caused severe fluctuations in economic activity and employment (see figure 1). Given that fluctuations do not occur symmetrically around full employment, the economies of the region have often posted activity levels well below full employment, in other words, with large gaps opening up in times of recession.

Figure 1
LATIN AMERICA (19 COUNTRIES): YEAR-ON-YEAR VARIATION IN GDP
AND AGGREGATE DEMAND, 1990-2009
 (Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and R. French-Davis, *Reforming Latin America's Economies: After Market Fundamentalism*, New York, Palgrave Macmillan, 2006.

The size of the gap between actual demand and the production frontier has significant static and dynamic effects. First, it affects productivity and project viability. Second, lower capital utilization is often associated with lower average employment and with the combination of lower use of workforce and physical capital stock. Third, the degree of stability, which is dynamic, has a number of effects on efforts to build the future.

In Latin America and the Caribbean, the recessionary gap is closely associated with the rate of investment in fixed capital, reflecting underutilization of the factors of production. The persistence of recessionary gaps represents a disincentive for productive investment and introduces a regressive or inequity bias because of its negative effect on employment and on smaller firms.

These negative impacts account in large part for the modest growth of the economies of the region in the two decades of reforms arising out of the Washington Consensus. Although considerable gains have

been made in controlling inflation and in achieving fiscal discipline and export growth, this has not been accompanied by strong GDP growth. Per capita GDP expanded by 1.7% per year on average in Latin America (19 countries) between 1990 and 2009. It expanded at the same rate in the United States, so the great distance between the two persists today (gap from 1 to 4), whereas the world average hovered around 2.0% per year and in East Asia (six countries) per capita GDP growth was 4.1% per year during that period. It is symptomatic that in East Asia the macroeconomic focus has been close to the proposals set forth here in terms of a macroeconomy for development.

Experience shows, then, that with globalization evolving in the direction of volatility, the State has the undeniable duty to provide a macroeconomic environment that is conducive to productive investment, innovation and the generation of decent work. In order to perform this duty, the State needs to rigorously coordinate its monetary, exchange-rate, fiscal and capital-account policies. A coherent array of macroeconomic policies are needed in all these areas.

Macroeconomic strategies must be designed to bring economies closer to their potential frontier, to protect them from external volatility and to make them stronger by making proactive use of the available instruments (in the areas of finance, taxation and foreign exchange). First, in order to achieve less volatile economies, closer to their growth potential, oversight of the capital account must be improved. This is not the same as adopting generic protectionist measures or interrupting transnational financial flows. Instruments may range from quantitative controls to combinations of incentives and disincentives for the localization and mobility of foreign capital depending on type, cycle and magnitude of flows.

Second, the solidity and technical autonomy of central banks must be circumscribed by clear forms of macroeconomic coordination on the part of Governments and an institutional structure that is responsive to indicators from the non-financial economy. In recent history, among the mechanisms and goals of central banks, inflation is usually considered as the most important parameter compared with others such as growth, employment and productive investment.

The type of investment is important, since the central bank and economic entities must contribute to the creation of a production structure that gradually creates a more equitable market and reduces

productivity and income gaps between firms of different sizes and workers of different social origins. More significant and ongoing coordination between central banks and ministries of planning, finance, industry and agriculture, forestry and livestock farming is not only desirable but essential for productive development.

Third, fiscal equilibrium and countercyclicality require a strong determination to expand countries' fiscal capacity, which in most cases means increasing the tax burden. There is a strong link between inequality measured by income and educational capital and three macroeconomic variables: fiscal volatility, fiscal procyclicality and low economic growth. To unravel this nexus requires clear and countercyclical fiscal rules aimed at reducing aggregate volatility and expanding the fiscal base in order to increase spending and slant social investment towards equality. There will be no significant and sustained improvement in poverty and income distribution in Latin America and the Caribbean unless active fiscal policies are adopted to influence the efficiency and distributive potential of markets.

In fourth place, monetary and exchange-rate policies must be aligned with these overarching objectives. Macroeconomic prices must promote investments that reduce structural heterogeneity, in other words, those that mobilize labour capacities through the entire production system.

Fifth, the design and construction of an inclusive financial system that underpins productive development requires the expansion and development of a range of instruments for managing risk, diversifying access and lengthening payback periods. A particular effort must be made to support SMEs in this regard and to enhance the role of microfinance, at different scales and through a variety of institutions. The incomplete state of existing capital markets has been an insurmountable barrier preventing many SMEs from making development strides. This is a key ingredient in growth with equity. To reform the capital market in this direction, public banking and especially development banking must be strengthened, as instruments for facilitating and access to credit along inclusionary lines, especially long-term credit for investment financing.

In short, a reform of the Washington Consensus reforms should promote linkage of the financial system to the process of domestic investment and thus to the domestic economy rather than to external financial markets. It must also contribute to greater economic stability,

avoiding misalignments between exchange rates and real interest rates in order to reduce the frequency and severity of cyclical fluctuations and to prevent real interest rates from being consistently negative or too high. Lastly, the aim should be to deconcentrate economic power through inclusive financing mechanisms facilitating SME access. Avoidance of an accumulation of imbalances in aggregate demand, the current account or the exchange rate by timely application of countercyclical policies requires continuous mini-adjustments of macroeconomic variables. This averts the need for traumatic maxi-adjustments, which often entail overadjustments of macroeconomic prices and recessions, which have a regressive impact on equality.

In turn, foreign capital can play a useful role as a complement to national saving. The composition and stability of flows are important, and it is essential to distinguish between foreign investment, which creates new productive capacity, and financial flows, which are purely speculative and highly procyclical. Indiscriminate financial liberalization has proved ineffective in achieving productive development and real macroeconomic stability, and prejudicial to the goal of reducing inequality. The global crisis, an example of the risks of unregulated financierism, has created an opportunity for the application of more pragmatic policies for countercyclical regulation of the capital account in countries of the region.

Development sustainability requires public policies compatible with social inclusion, with countries participating in the international economy in a manner that reduces inward and outward gaps simultaneously. How to tackle the reform of national capital markets and their link with international financial markets is a crucial challenge in building a macroeconomy that can underpin sustained economic and social development.

Undoubtedly, Governments must consider and try to strike a balance between the effects and counter-effects over time of the macroeconomic decisions they make. For example, an exchange rate that implies strong national currency appreciation can increase the purchasing power of real wages in the short term, but can also discourage productive investment in the medium and long terms. Accordingly, the link between macroeconomy and production development produces trade-offs and outcomes that vary over time, throwing up a broad range of options. In this light, decisions are ultimately political ones.

B. Production convergence

In terms of productivity, two traits clearly set the economies of Latin America and the Caribbean apart from developed economies. The first trait is the technology gap, that is, the relative lag of the region's technological capacities with regard to those found on the international frontier. Developed economies innovate in technology and disseminate it throughout their productive fabric more quickly than the countries of Latin America and the Caribbean are able to absorb, imitate, adapt and innovate in technology following international best practices. The second distinctive trait is the internal gap, that is, the large productivity differences—much larger than those found in developed countries—among sectors, within sectors and among companies within a given country. This is known as structural heterogeneity, which refers to marked asymmetries among segments of enterprises and workers and the concentration of employment in strata characterized by very low relative productivity.

Structural heterogeneity largely explains acute social inequality in Latin America. Gaps in productivity reflect, as well as reinforce, gaps in capacities, in the incorporation of technical progress, in bargaining power, in access to social safety nets and in options for upward occupational mobility throughout working life. At the same time, the wider internal gap reinforces, and, to a certain extent, depends on, the external gap. When low-productivity sectors find it extremely difficult to innovate, adopt technology and promote learning processes, internal disparities aggravate systemic-competitiveness problems. This creates vicious cycles not only of poverty and low growth but also of slow learning and weak structural change. As a result, the two gaps must be narrowed simultaneously in order to support stronger and more inclusive growth.

That the region has larger internal productivity gaps than developed countries means that its wage gaps are also larger and its income distribution is worse. Therefore, a convergence of sectoral productivity (internal convergence) should lead to better income distribution and less social exclusion. In addition, by narrowing its productivity gap with the United States (external convergence), the region would raise its competitiveness level and be better positioned to reduce per capita income differences with the developed countries. This would also create synergies in knowledge dissemination (complementary improvements

in productive capacities and the social distribution of capacities) and, by raising competitiveness, prolong economic growth, boost fiscal revenue and enhance the State's ability to transfer resources and services to the most vulnerable sectors.

Regarding the internal gap, there are notable differences among sectors in Latin America: The region's high-productivity sectors (mining, electricity and finance) continue to account for a very small share of formal employment, and this portion remained nearly unchanged from 1990 to 2008 (rising from 7.9% to 8.1%). By contrast, the share of formal employment in medium-productivity sectors (industry and transport) declined, from 23.1% in 1990 to 20.0% in 2008, while that in low-productivity sectors (agriculture, construction, commerce and community and personal services) rose, from 69.0% in 1990 to 71.9% in 2008.

A rise in the proportion of workers in low-productivity sectors has an impact on social equity, by leading to more unequal distribution of wages in favour of a small group of workers with more advanced skills. By contrast, an examination of sectoral productivity in the United States reveals smaller differences among sectors in that country. Productivity in high-productivity sectors (electricity and finance) is twice the average of that of the economy overall—a much smaller difference than that found in Latin America and the Caribbean. In addition, in the United States, these inequalities narrowed from 1990 to 2008, while they increased in Latin America. Meanwhile, in high-productivity sectors the gap between Latin America and the United States narrowed from 1990 to 2008. In other words, a small percentage of enterprises and workers in Latin America are approaching the international frontier while the rest are moving away from it, which reinforces structural disparities and profound inequalities.

The internal gap can also be seen in the differences between the various types of economic agents (microenterprises, SMEs and large enterprises). In Latin America, smaller agents constitute a very heterogeneous group, ranging from subsistence microenterprises to quite fast-growing medium-sized exporters. A comparison of the performance of these enterprises with that of similar-sized companies in developed countries sheds light on two important points (see table 1). First, differences in relative productivity within each country (between large enterprises and others) are much greater in Latin America than in developed countries. Whereas in Chile, the productivity of a microenterprise is just 3% that of a large

company, the equivalent figure in France is 71%. Second, the differences between microenterprises and SMEs are greater in the region than they are among those two types of companies in the developed countries under consideration. In Brazil, the productivity of a microenterprise is 25% that of a medium-sized firm and 37% that of a small enterprise, while in Spain the respective ratios are 60% and 73%.

Table I
RELATIVE PRODUCTIVITY OF VARIOUS AGENTS COMPARED
WITH THAT OF LARGE ENTERPRISES ^a
(Percentages)

| | Microenterprises | Small enterprises | Medium-sized enterprises | Large enterprises |
|-----------|------------------|-------------------|--------------------------|-------------------|
| Argentina | 24 | 36 | 47 | 100 |
| Brazil | 10 | 27 | 40 | 100 |
| Chile | 3 | 26 | 46 | 100 |
| Mexico | 16 | 35 | 60 | 100 |
| Peru | 6 | 16 | 50 | 100 |
| Germany | 67 | 70 | 83 | 100 |
| Spain | 46 | 63 | 77 | 100 |
| France | 71 | 75 | 80 | 100 |
| Italy | 42 | 64 | 82 | 100 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC).

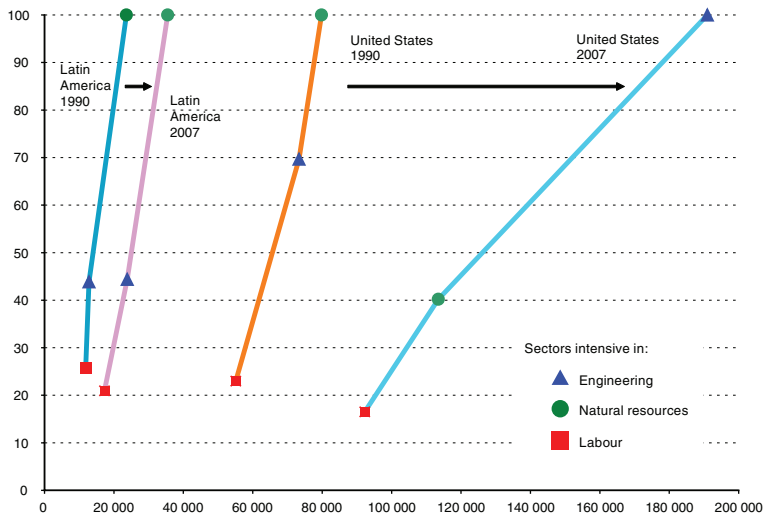
^a The figures in the table correspond to the productivity for each type of enterprise as a percentage of that of their larger counterparts. The productivity data and the classification of enterprises by size comprise only the formal sector of the economy and are based on information released by the development institutions in each country (see Ferraro and Stumpo, 2009).

Moreover, natural-resource-intensive segments in the region have become increasingly important since the 1980s, and they have led the growth in manufacturing by dint of their share of GDP and productivity. This has meant that the increase in total output and productivity has been only modest, perpetuating the gap with more developed countries, in which, in the meantime, the production structure and modes of production have shifted towards technology-intensive sectors as a result of the greater incorporation of information and communication technologies.

Hence, for example, in recent years the productivity gap between Latin America and the United States has broadened, as productivity barely rose in Latin America between 2003 and 2007, despite the overall economic growth in the region. There are two reasons for the minor productivity gains: the heterogeneity among sectors and enterprises in

the region, which means that productivity increases are concentrated in a few sectors and companies, and the specialization in natural-resource-intensive branches of production with little capacity to spread technical progress to the rest of the production structure (see figure 2).

Figure 2
LATIN AMERICA AND THE UNITED STATES: PRODUCTIVITY AND
BREAKDOWN OF INDUSTRIAL VALUE ADDED
(Percentages of industrial GDP and constant 1985 dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the Industrial Performance Analysis Program (PADI).

The productivity gap between Latin America and the United States broadened considerably from 1990 to 2007, as shown in figure 2 by the very slight shift in the productivity lines (horizontal axis of the figure) for Latin America and a much larger shift in the case of those for the United States. (The horizontal arrow for Latin America, compared with that corresponding to the United States, illustrates the productivity gap.) As can also be seen in figure 2, in Latin America natural-resource-intensive sectors continued to account for a major component of value added in total output during this period (vertical axis), and it was in this sector that productivity rose the most (horizontal axis). By contrast, in the United States the value added of engineering-intensive sectors (vertical axis)

increased sharply, and this sector accounted for the largest portion in the increase in productivity.

This specialization in natural resources led to a rising demand for energy, given the high energy consumption of natural-resource-intensive sectors. The adverse effect of this has been twofold: energy consumption per unit product has risen in comparison with that of the United States and other industrialized countries and, simultaneously, the region has failed to narrow the productivity gap. Moreover, higher energy consumption per unit product has led to rising greenhouse gas emissions. For economic and social reasons, the production and consumption models in the region are highly dependent on fossil fuels, which has spurred higher energy consumption while at the same time generating an unsustainable pattern that the international community will begin to sanction through economic and trade measures.

The State should assume a particularly active role in driving productivity to bring countries closer to the international productivity frontier and develop a more dynamic structure that will serve as an engine of growth and learning. This would also narrow the internal productivity gaps that reproduce inequalities through structural heterogeneity. In addition, public industrial development policies are needed, to encourage technological innovation and financing that will reach the least productive sectors and to promote SMEs. The State should step up coordination efforts with producers to narrow the energy gap and encourage more sustainable production and consumption with lower carbon emissions.

The proposal, then, is to transform the production structure through three interlinked policies: (i) industrial policy, with a focus on the most innovative sectors (to narrow internal gaps among sectors); (ii) technology policy, so as to increase the availability of technological know-how and meet the need for the creation and dissemination of know-how (and thereby narrow the external gap with the international frontier); and (iii) a policy to support SMEs, so as to acknowledge asymmetries in enterprises' ability to respond to price signals (and narrow gaps among producers).

Actions in these three policy areas cannot be coordinated and integrated within a context of antagonistic macroeconomic policies. A macroeconomic approach strictly geared to meeting inflation targets, for example, would turn microeconomic-policy efforts into mere offsets, greatly undermining their effectiveness. The incomplete state of existing capital markets has been an insurmountable barrier preventing many

SMEs from making development strides. The design and construction of an inclusive financial system geared to financing production requires the expansion and development of a range of instruments for managing risk, diversifying access and lengthening financial terms. This is an essential ingredient for achieving growth with equality—as noted in the previous section on the focus of the capital market and on the need to strengthen public (or development) banks in order to democratize access to credit.

A crucial item on the agenda is the identification of key sectors (on the basis of the specific features of each country's production structure) in accordance with their capacity to generate and disseminate knowledge and innovation as well as to encourage linkages with other manufacturing and services activities. It will be the task of industrial policy to focus on these sectors.

SME-promotion policies will have to provide the basic “inputs”, such as credit and human resources, to the majority of enterprises through interventions in these two areas. As more firms succeed in upping their growth rate and narrowing their productivity gaps, they will also find it easier to join the supply chains of large companies and form enterprise networks, which will create synergies with industrial policy.

Ensuring the development, stability, productivity and profitability of SMEs requires a transformation of institutions along with a greater priority in fiscal allocations. SMEs are not a footnote to the strategy of development with equality, but rather a central element thereof. The transformation of institutions should equip the State with the tools to address asymmetries in agents' ability to obtain information, credit and technology.

Technology policy will play a key role in this strategy, in two ways: first, by promoting innovation, essentially in large and medium-sized enterprises in selected strategic sectors; and second, by encouraging the dissemination of knowledge and technology in the companies with the greatest lags, through SME-specific interventions. Establishing linkages among the different spheres of action is a complex process, as it involves various types of institutions (sectoral, technological, financial and those for SME development) that tend to follow their own lines of action and specific objectives. There is thus a need for a strategic agenda to set the priority objectives. This will be possible only through consensus (among public and private actors and, more generally, society overall) on those objectives and clear leadership by the State.

To make a priority of developing knowledge-intensive sectors and breaking the vicious circle of natural-resource-centred factor endowment, the State will have to promote a new institutional framework, system of taxation and strategy with regard to the production fabric and the agents involved in it. A strong development-banking sector, with a capacity for long-term financing and planning, will make it possible to steadily increase investment in sectors with a high knowledge content and to channel resources to promoting innovation. It will also enable a substantial increase in investment in SMEs to boost their productivity and strengthen their linkages with larger enterprises and with other markets. Lastly, a stronger development-banking sector should focus on financing projects that promote innovation and bring together initiatives undertaken by universities and the private sector as part of long-term strategies.

In addition, a set of tools is available to promote the advancement of the production frontier of our societies: sector-based technology funds, revenue-collection or public-ownership systems that tax extractive activities associated with strategic resources and a combination of trade and fiscal tools (tariffs, taxes and selective tax waivers) intended to support key export sectors or sectors that are integrated with transnational chains.

Lastly, the need for a medium- and long-term commitment to substantially increase public investment in research and development and infrastructure must not be overlooked. Unless production capacity is aligned with actual production, and without the logistics to transform possibilities into real platforms for communication and for wealth creation, the bottlenecks preventing growth will not be eliminated. If those conditions are *not* met, it will not be possible to leverage the growth cycles stemming from changes in the structure of relative international prices into qualitative leaps in output and productivity.

Be that as it may, the proposals set forth here would create and grant rents on the basis of State decisions and would require a fiscal and institutional commitment that would be difficult to maintain over the long run. The State should grant rents to the private sector only when it is assured that the return in public value that the use of the rents will generate is higher than the initial cost of granting them. It is never easy to discipline recipients of State rents, but the twentieth century provides no examples of robust leaps in development that have been made without policies of this type.

C. Territorial convergence

Achieving productive convergence requires closing productivity gaps with more competitive countries, while also reducing internal structural heterogeneity. These social and productivity gaps can literally be “mapped out”, as they are reflected in —and partially caused by— territorial segmentation. Spatial asymmetry expresses and reinforces the internal and external productivity gaps discussed in the previous section, and the infrastructure problems caused by territorial segmentation prevents the formation of linkages within countries. The contrasts between different territories within a country in terms of income, poverty, productivity and access to well-being contribute to the overall contrasts in those indicators at the national level.

One telling indicator is the gap between a country’s richest and poorest regions in terms of per capita GDP. A comparison between certain countries in Latin America and the Organisation for Economic Co-operation and Development (OECD),¹ shows that, in OECD countries, per capita GDP in the richest region is no more than twice the figure in the poorest region (the average is a difference of just under 1.76 times), while in Latin American countries the difference can be more than eight times (as in Argentina and Brazil, parts of whose north-eastern region show very high levels of vulnerability and large lags in comparison with other parts of the country). Reducing gaps between territories is therefore an indispensable part of an equality agenda. Hence the importance of policies that envisage not only production convergence, but also spatial convergence.

In terms of macroregions, in South America, the map shows that in the Andean and Amazon regions over 88.8% of the population under the age of 18 suffer serious deprivation, an exceedingly high percentage. In Mexico and Central America, the territorial distribution of population suffering serious deprivation shows that, while the more disadvantaged territories are more spread out, as in the case of the Andean and Amazon regions, the most seriously affected areas tend to be located where there is a large indigenous population (for example in southern Mexico and

¹ The exercise conducted in this case by ECLAC includes the following Latin American countries: Argentina, Brazil, Chile, Colombia, Mexico, Peru and the Plurinational State of Bolivia; and the following OECD countries: France, Italy, Japan, the Netherlands, the Republic of Korea, Spain and Sweden.

Guatemala). The most nutritionally vulnerable child population tends to be concentrated in the high regions of Central America and the mountainous areas and high plains of the Andes, and usually affects mainly indigenous children whose mothers are completely illiterate or did not complete primary education, live in extreme poverty and have limited access to drinking water and health services.

In the cities, especially in large conurbations, territorial heterogeneity takes the form of intra-urban residential segregation, with a clear link between structural heterogeneity and labour market segmentation, given the costs of transport and the difficulties in accessing locations and networks. Residential segregation denotes a situation in which different socio-economic groups in a city or metropolis live separately, with little or no shared existence. The distinctive feature of urban segregation in Latin America is the precarious nature of areas on the outskirts, where most of the poor live and deprivation is rife. The general trend is that hardship and poverty reproduction are mutually reinforcing in territories with low levels of schooling and high levels of overcrowding, unemployment and teenage pregnancy. This is the territorial basis for the vicious cycle that reproduces poverty and marginalization in the cities that are home to much of the population in Latin America and the Caribbean.

Since a broad range of institutions and actors are involved in territorial development, covenants of territorial cohesion must be reached in order to bring together efforts to promote top-down and bottom-up regional and local development. Finding a remedy for territorial inequality also means attacking overall inequality, starting with steps to link deprived areas with more dynamic sectors.

The State must play a central role, if the strategic focus of improved territorial equality is to be the creation of territorial cohesion funds, which here serve at least a threefold purpose. First, to transfer funds, from the central level to the subnational levels, but with a commitment to use them to generate synergies between the spheres of production, capacity-building and attention to basic hardships. The second purpose is redistributive, taking the form of transfers or cross-subsidies, in the same way as income tax is used to transfer resources or provide services to those who are unable to pay for them. Third, a territorial cohesion fund serves

as an instrument for coordinating sectoral and spatial policies, in order to avoid duplication and promote more integrated forms of intervention. It is thus an instrument of intersectoral planning applicable to areas where sectoral decentralization tends to leave many gaps.

Intergovernmental transfers can play an important role in the correction of territorial disparities, in conjunction with regional development policies established at the national level in top-down and bottom-up coordination with local or provincial authorities. The financing of territorial development and the resulting elimination of disparities must be based on the fiscal efforts of the subnational levels themselves —such as better tax collection— and on transfer systems applied in the context of widely consulted development programmes.

Sustainable management in a context of urban segregation should actively engage all the stakeholders (public and private actors, including civil society organizations). New methods of government should be introduced, such as: (i) intersectoral integration of planning instruments, (ii) vertical integration of levels of government, (iii) public-private partnerships, and (iv) civil society participation.

One very important area of action in cities is the provision of basic services by municipalities. In segregated cities where financing mechanisms are based on local taxes, this provision is highly uneven and worsens the situation of the poor. This is important, because the State has the possibility of halting the inequality-multiplying effect of residential segregation through direct policy action, such as territorial tax redistribution funds, compensatory resources, zone allocations and special programmes in vulnerable districts.

Urban and housing policy in the region must aim at more than the coverage and provision of basic services. It must enhance the purchasing power of lower-income sectors so that they can access better locations and encourage the application of subsidies to solutions that do not require more land (such as land densification and the purchase of existing housing units). Other options would be to require construction companies bidding for social housing contracts to present projects in different areas and to give the institution responsible for selecting projects the prerogative to choose schemes that carry the lowest social cost, rather than the lowest financial cost.

D. More and better employment

Much of the inequality in the Latin American and Caribbean region can be traced back to the labour market. The material well-being of most households in the region is largely determined by employment quantity and quality, specifically by labour income. Inequalities in the capabilities that the working-age population are in a position to develop—and accordingly the unequal opportunities for productive employment sectors—heavily influence well-being, and thus social cohesion. Well-being and social cohesion also reflect gaps in labour income and in access to social protection among the different groups in the workforce, differentiated by education, experience, sex, area of residence and other factors.

The region has very large wage gaps by skills level, and these have grown wider in the past decade. The factors credited with this are technological change, international trade, macroeconomic policies and institutional aspects of the labour market, such as falls or freezes in minimum wages and the weakening of trade unions. The wage gap appears to have narrowed again slightly in the past six years and the relative income of the most highly educated dropped in comparison with the least skilled, although the gap did not return to the proportions of the early 1990s. The increase in the supply of labour with intermediate and, in this decade, higher educational credentials has contributed to a reduction in this group's relative income (see table 2).

Against the backdrop of a production apparatus that is structurally very uneven, the nature of employment varies sharply by sector of the work force, with broad gaps in income, access to social security and job stability. As has been noted, this is partly the result of large productivity differences between the different production sectors, but it also reflects the fact that labour and social institutions cover only part of the labour force. The rest forms the vast informal sector, which spans a very large proportion of the region's economically active population. This sector lacks access to labour institutions and suffers from precarious employment conditions, low income and scant social protection. Even within formal enterprise there is a large segment of informal employment, as a result of subcontracting strategies adopted to cut costs, which free employers of the obligation to observe full rights for subcontracted workers.

Table 2
LATIN AMERICA: RELATIVE LABOUR INCOME OF THE URBAN EMPLOYED
WORKING BETWEEN 35 AND 45 HOURS PER WEEK, BY LEVEL OF
EDUCATION AND SEX^a

(Simple average for 15 countries, 9-12 years of schooling = 100)

| | Years of schooling | Employed | | | Wage earners | | |
|-------------|--------------------|----------|-------|-------|--------------|-------|-------|
| | | Total | Men | Women | Total | Men | Women |
| Around 1990 | Up to 8 | 70.1 | 71.5 | 62.4 | 68.1 | 69.4 | 60.7 |
| | 9-12 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| | Over 12 | 182.2 | 193.0 | 165.6 | 177.5 | 190.6 | 162.6 |
| Around 2000 | Up to 8 | 68.4 | 68.7 | 63.0 | 69.0 | 69.5 | 63.2 |
| | 9-12 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| | Over 12 | 215.5 | 229.0 | 206.3 | 205.7 | 219.0 | 196.8 |
| 2006-2008 | Up to 8 | 70.0 | 70.9 | 63.8 | 72.6 | 72.6 | 68.6 |
| | 9-12 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| | Over 12 | 197.7 | 206.2 | 195.9 | 193.3 | 205.0 | 189.2 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of data from household surveys conducted in the respective countries.

^a In order to control for the double effect of the fact that women work fewer hours, on average (higher hourly income and lower total income under part-time contracts), the calculations were limited to a range of "intermediate" working days excluding outlier values.

In the 1990s, the share of low productivity sectors in urban employment rose from 47.2% around 1990 to 50.8% around 2002, before dropping back to 47.4% around 2007.² Preliminary data indicate that the economic downturn in 2009 has halted this process of moderate improvement.

The relatively weak creation of productive employment in the 1990s was also manifested in a widening of the income gap between the segments of production. Between the start of the 1990s and around 2002, average wages in micro-enterprises receded with respect to those in small, medium-sized and large firms: from 73% to 62%. The income of own-account workers (not including professionals or technical workers) fell even more steeply, from 99% to 73%, in relation to average wages in small, medium-sized and large firms. In the years that followed, wage job creation picked up in formal firms and these gaps stopped widening and narrowed slightly, to 66% in the case of micro-enterprises and 75% in the case of own-account workers.³

² Simple average for 15 countries calculated on the basis of ECLAC, 2009c table 18 of the statistical annex.

³ Based on data from household surveys conducted in the respective countries.

Employment conditions are more disadvantageous and less regulated for women, ethnic minorities and young people. Longstanding forms of discrimination converge in occupational segmentation —horizontal and vertical— in which workers with similar abilities or responsibilities enjoy very different employment conditions and pay. In the case of women, these inequalities are partly a reflection of social relations that attribute to them a specific role revolving around reproduction, and of asset gaps, labour market institutions designed to fit the model of the male breadwinner and mechanisms of discrimination.

It is a major challenge to adapt labour institutions to a changing economic and social context so that they can fulfil their objectives in a sustainable manner. Making labour markets more flexible enhances their ability to adjust in the short term, but tends to encourage the use of short-term contract modalities and detract from job instability. A degree of employment stability is necessary for developing new knowledge and skills and steering productivity growth. The specific know-how and skills a worker gains on the job are very important and reflect the positive correlation between employment stability and firms' investment in their workers' overall knowledge and skills base. To be efficient, the labour market needs to be endowed with both short-term adaptability and long-term productivity.

Policies on labour institutions should consider the historical evidence, including the following: (i) history can produce no examples of sustained growth with equality achieved through pro-flexibility labour reforms, (ii) the process of capital accumulation may require institutional changes in the labour market after the return of sustained investment and this causal sequence leads to reforms being negotiated in an environment that is more worker-friendly, (iii) investment buoyancy determines labour market buoyancy, not the other way round, and (iv) excessive “reformism” can delay investment, with damaging effects on the economy, because business owners may postpone projects if they think they will cost less down the road. For all these reasons, it is best to encourage investment through macroeconomic measures (interest or exchange rates) and specific tariffs and production policies, and tackle labour reform later should it still be necessary.

There is no single way of increasing inclusiveness and combating inequality in the labour market. The following areas represent a road map of the areas in which the Latin American and Caribbean countries should focus their efforts.

- (i) Instruments for professional training and coaching need to be improved and adapted to the needs of different groups of workers. The coverage of training systems must be expanded, both work training for first-time entrants to the labour market and ongoing training or retraining for those who are already working. Larger incentives are needed for training in small firms, greater benefits should be offered to workers in production enterprises and access to training programmes should be broadened for vulnerable groups. Lastly, training systems must be seen as part of a long-term development strategy aimed at continuous improvements in systemic competitiveness.
- (ii) Collective bargaining needs to be bolstered not only to achieve better income distribution but also as a mechanism for building sustainable labour and social agreements with broad benefits. Forums for trade union organization and collective bargaining must be broadened in order to adapt labour regulations to the new economic conditions. This adaptation should be approached in consultation with all the stakeholders and on a firm legal basis, in order to ensure that there is proper scope for negotiation and a minimum threshold of benefits and rights is established. This is essential, given the high levels of informality and areas of production in which trade union organization is extremely difficult, as occurs in many countries of the region.

The purpose of a labour covenant is to improve labour institutions so that they can better fulfil their dual function of generating economic growth and protecting employment. The coverage of labour institutions needs to be extended to an increasingly large proportion of the working-age population, in the interests of greater equality. The contents of such a covenant must be defined by means of a social dialogue analysing the specific bottlenecks that prevent institutions from functioning better. In order to devise solutions that improve both economic growth and worker protection, it is essential to identify openings for valid mutual concessions among Governments, employers' organizations and trade unions.

- (iii) The great distributive potential of the minimum wage should be used in the light of the specific features of each country's wage structure.

- (iv) Formal sector labour relations which, for no legitimate reason, lack access to general labour rights must be properly institutionalized. Several countries of the region have made progress in this regard, by regulating conditions for subcontracting and home-based work.
- (v) Steps must be taken to lessen the vulnerability of workers in the informal sector, by means of productive development instruments and non-contributory social protection mechanisms. The experience of several of the region's countries shows that the cost-benefit ratio of formalization will not favour a significant number of informal enterprises unless benefits are well defined (for example, access to business development programmes) and the costs of formalization kept as low as possible. Programmes to promote formalization must be prevented from further deepening segmentation by, for example, allowing the legal existence of labour rights differentiated by type of firm. They could, however, create temporary mechanisms to encourage formalization and, thus, the standardization of basic working conditions (Tokman, 2008). Although labour formalization has the potential to broaden the contributory base of social protection, given the huge coverage gap that exists in most of the countries of the region, it is still essential to strengthen non-contributory systems based on solidary transfers.
- (vi) Efforts must be made to strengthen instruments designed to help groups that face obstacles in securing good-quality jobs. With regard to women, policies to reconcile working and family life are essential to reduce the gaps in labour market access and in employment conditions. There is a need for care services (community- or market-based or State-provided), which serve the dual purpose of broadening children's socialization and providing mothers with more time to devote to work. Other measures include specific agreements on working hours, flexitime and distance working, emergency leave, the encouragement and facilitation of a larger role for men in caregiving and the inclusion of the issue in collective bargaining processes with a view to finding suitable solutions for particular sectors or firms. To improve young people's access to good quality employment, it is necessary to improve rates of progression through the education system and strengthen training and labour intermediation.

(vii) Mechanisms to protect against unemployment in highly volatile labour markets should be created and enhanced. These can also contribute to greater efficiency in job-seeking, especially if public employment services combine these passive policies with active labour market policies. Only a few of the region's countries have systems of unemployment insurance. Although lack of resources is cited as an obstacle, many countries that have broad unemployment insurance today began to introduce those schemes when their per capita income was similar to or even lower than the current levels of many Latin American and Caribbean countries (Berg and Salerno, 2008). In any case, such systems have to be carefully designed if they are to function as attractive protection instruments without generating excessive costs. Layoff compensation and unemployment insurance are not substitutes for one another. The two should be integrated in a coherent manner in order to meet their respective objectives efficiently.

Here, then, the basic challenge is to calibrate the different components of economic security for workers (security as it relates to income, the labour market, employment, skills reproduction, work, and representation, as well as job security (ILO, 2004a)), and to do so in a manner that is coherent and consistent with the political, social and cultural features of each country in the context of its long-term development strategy. Among other factors, priorities must be defined between income security, labour market security and employment security.

E. Closing social gaps

1. Inequality and the welfare State

A pro-equality public agenda should not be limited to levelling out opportunities. Rather the role of the State should be broadened to obtain more equal results and levels of well-being. The State and public policies should, therefore, play a decisive role in neutralizing the inertial power of inequality within markets and families. In Latin America and the Caribbean the State can do much to decrease gaps in well-being, including by increasing social spending and building the capacities of social institutions to improve governance and income transfer systems, which have a clear redistributive effect.

Between 1990 and 2002, income distribution remained very rigid in the region after reaching the worst levels ever recorded in the 1980s. The direction taken by social policies between 1980 and 1990 did little to help tackle this challenge, as social protection provisions were dismantled and replaced with a residualist model with very limited allocations of fiscal resources. From the 1990s onward, social spending clearly became a higher macroeconomic and fiscal priority, but it was not until the end of that decade that public policy started to be redrawn to reflect a greater public commitment to protection against loss of family income, income poverty and exclusion. In that regard it is worth highlighting five policy areas that have emerged since the mid-1990s.

- (i) Direct income transfers to the poorest sectors, with enhanced coverage and quality, financed from national revenues and based on the principle of citizens' rights.
- (ii) Social safety nets and social capital and capacity-building networks coordinated by the State.
- (iii) Non-contributory State mechanisms or subsidization of contributions to social insurance systems (social security and health care).
- (iv) A more proactive State role in addressing the asymmetries and inequalities exacerbated by processes of decentralization and the delegation of responsibilities to quasi-markets or private providers.
- (v) The inclusion in the public agenda of new areas for action or the refocusing of existing areas relating to care work and to the coordination and redistribution of paid and unpaid work from a gender perspective.

These “reforms of the reforms” should not be curtailed by the limitations imposed by the crisis and the new global scene. On the contrary, the reaction of Governments to the potential social costs of the crisis has been to provide stronger backing for the reforms with a more proactive role for the State. The crisis therefore represents not only a threat, but also a catalyst, as it broadens the consensus in favour of these social policy reforms. To tackle this challenge it is important to understand the parameters that define the well-being gaps and the possibilities for State action. The following table illustrates the disparities between these parameters in different countries of the region.

Table 3
LATIN AMERICA (GROUPS OF COUNTRIES):
SELECTED WELL-BEING INDICATORS ^a

| | Group I | Group II | Group III | |
|--|---|--|---|------------------|
| | Argentina, Brazil, Chile, Costa Rica, Panama, Uruguay | Bolivarian Republic of Venezuela, Colombia, Mexico | Dominican Rep., Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Paraguay, Peru, Plurinational State of Bolivia | Latin America |
| Per capita income 2008 (dollars at 2000 prices) | 6 601 | 5 320 | 1 975 | 4 074 |
| Demographic dependency ratio 2005-2010 ^b | 52.9 | 54.8 | 68.3 | 60.9 |
| Poor population around 2008 (percentages) | 19.7 | 35.1 | 52.1 | 38.4 |
| Indigent population around 2008 | 6.7 | 14.7 | 26.8 | 18.1 |
| Informal sector employed in 2008 (percentages of all employed) | 41.6 | 55.3 | 65.3 | 55.7 |
| Tax burden including social contributions, 2007/2008 (percentages of GDP) ^c | 24.8 | 13.7 | 16.4 | 18.7 |
| Social public spending per capita 2007-2008 (dollars at 2000 prices) | 1 209 | 619 | 181 | 597 |
| Social public spending 2007-2008 (percentages of GDP) | 18.6 | 11.8 | 10.2 | 13.3 |
| Coverage of retirement pensions in urban areas (percentages) | 64.4 | 26.6 | 14.1 | 33.0 |
| Percentage declaring out-of-pocket spending on health care | 23.3 | 35.1 | 72.1 | 49.7 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of data from household surveys conducted in the relevant countries.

^a Simple averages for the countries.

^b Dependency ratio = ((population aged 0-14 years + population aged 65 years and over)/population aged 15-64 years)*100.

^c In Argentina, Brazil, Chile, Costa Rica and the Plurinational State of Bolivia, aggregate figures refer to general government. In all other cases they refer to central government.

The countries with smaller well-being gaps have a higher GDP, lower demographic dependency rates, less informal labour markets, greater public health coverage (lower proportion of out-of-pocket expenses), lower poverty levels and higher public social spending not only in terms of the total amount per capita, but also as a percentage of GDP. In the relatively less developed countries all these parameters indicate a shift towards a more critical situation. Well-being gaps therefore vary substantially in terms of social needs and fiscal capacity. The less developed countries are characterized by more precarious labour markets, a greater burden on families to provide services for themselves, higher child demographic dependency, more poverty and public institutions with fewer monetary resources and less capacity to manage and implement measures.

2. Income transfers: direct redistribution and basic insurance

The structure of profound inequality and low average productivity explains, to a large extent, the fact that a high proportion of the population in most of the countries does not generate an adequate minimum income. There are three fundamental reasons for the shortfall in personal and household income: unemployment, low wages and inactivity (the last due to a variety of obstacles rather than to a sufficiency of well-being). This situation needs to be tackled through, among other measures, the direct redistribution of income based on non-contributory mechanisms.

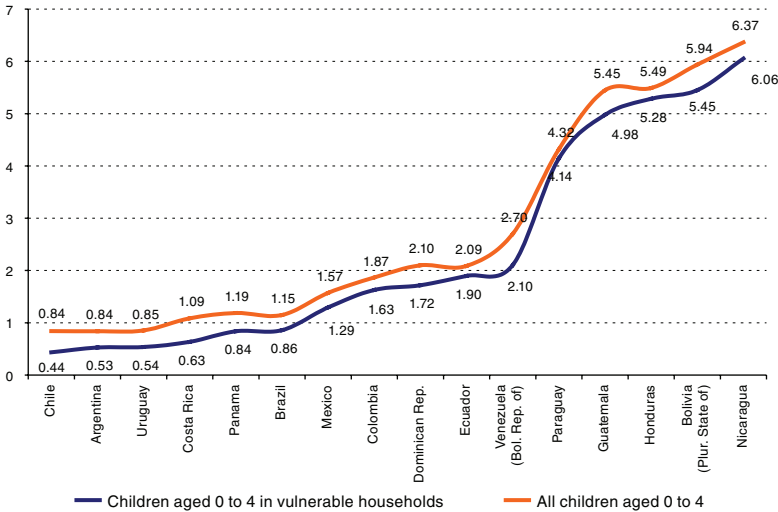
There are good reasons for defending a basic system of guaranteed partial income, promoting fiscal responsibility and avoiding perverse incentives. Poor or vulnerable households that face emergencies as a result of exogenous shocks or personal factors (such as catastrophic illness) tend to find their capital eroded disproportionately to the shock effect, precisely because they lack minimum guarantees or, at least, instruments to smooth out income stream troughs in situations of adversity. It is just as necessary in practical terms, and even more imperative from an ethical point of view, to avoid the collapse of the domestic economies that represent a large proportion of the Latin American population and production base as it is to avoid the collapse of the financial systems (by subsidizing their inefficiencies). What is more, the region lacks automatic stabilizers for the effects of crises and shocks and therefore basic income guarantee systems represent a way to sustain domestic demand in difficult situations. Lastly, the proposals made here and their choice of target population are designed to shorten the time households with young children spend in poverty, thereby promoting the development of human capacities in a region in full demographic transition, in which the outlook for future growth depends on strong boosts to labour productivity.

The simulation exercises presented here assign an amount equivalent to one poverty line (or half in some cases) to each person who is eligible according to the selected criteria and calculate the new

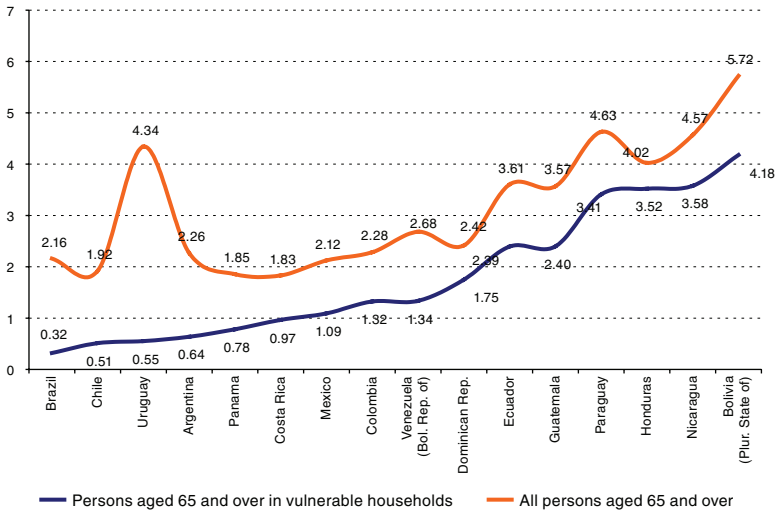
household income as well as the aggregate cost in relation to GDP. Estimates are made for four categories of benefits: (i) allocation of one poverty line to children under five years, (ii) allocation of half a poverty line to children aged between 5 and 14 years, (iii) allocation of one poverty line to persons aged 65 years or over, and (iv) allocation of one poverty line to unemployed persons. These benefits were simulated for two groups: all those who possessed the qualifying characteristics (universal) and those who, in addition to those characteristics, were living in households with an income below 1.8 poverty lines (targeted). It cannot be expected that the fiscal resources to set up this array of transfers will become available overnight, or at the same rate in different countries, or that public institutions will have the capacity to use the resources in the most efficient and effective way from the beginning. But it is clear that the fiscal effort to work towards meeting the challenges of providing well-being and social advancement requires economic growth, reallocation of spending and an increase in States' fiscal capacity.

In the countries with smaller well-being gaps the amounts required for the different targeted transfers and even for all the transfers simulated will require a great effort, but one whose targets are not unattainable if projected over time. For example, aiming for the lower levels of coverage or benefits (for example, half of the benefits originally defined in the simulation, the bottom line in the figure), the effort will represent no more than 1.5% of GDP. For countries with an intermediate gap, the amount for the most economical scenario ranges between 2% and 5% of GDP. In countries with a wide well-being gap, the challenges are more complex and the fiscal effort would reach 6% to 9% cent of GDP for the basic scenario. Given the fiscal reality and social needs of these countries it is necessary to prioritize among the options available. Nevertheless, it appears vital to progress towards providing basic income coverage for households with young children since this would carry the lowest cost, especially if the targeting is adjusted, and would have the greatest impact on the capacities of individuals.

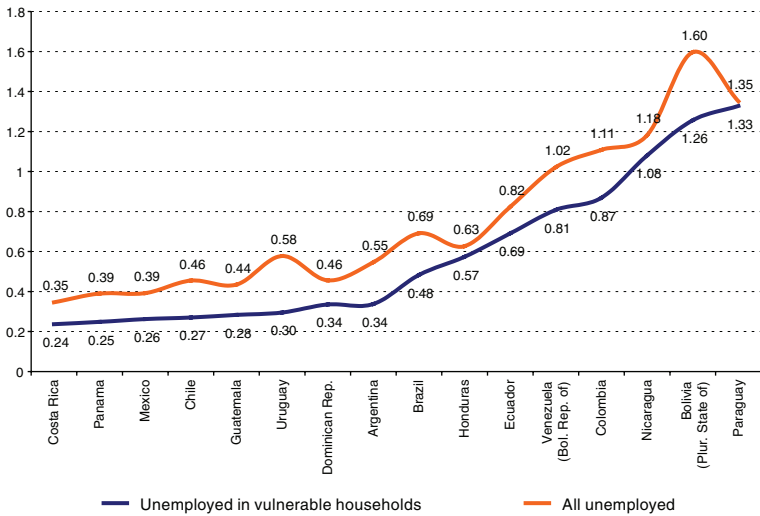
Figure 3
COST OF BASIC TRANSFERS AS PERCENTAGES OF GDP
LATIN AMERICA (16 COUNTRIES): COST OF TRANSFERRING ONE POVERTY
LINE TO CHILDREN AGED UNDER 5 YEARS, AROUND 2008
(Percentages of GDP)



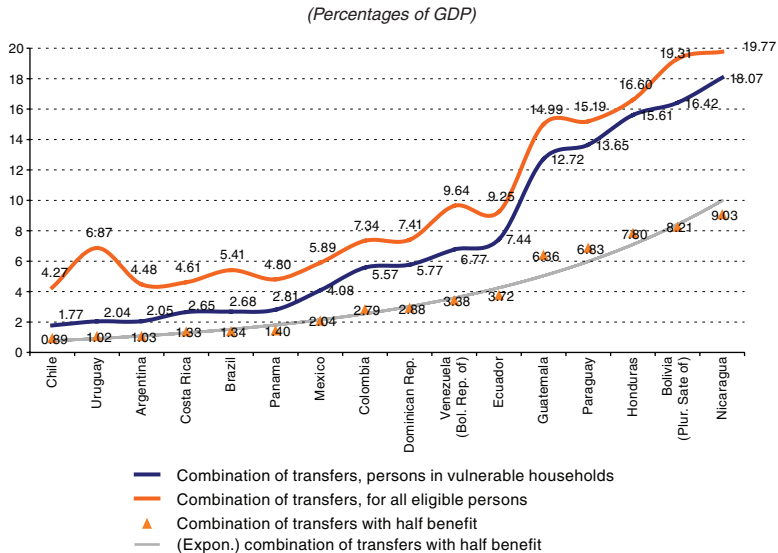
LATIN AMERICA (16 COUNTRIES): COST OF TRANSFERRING ONE POVERTY
LINE TO PERSONS AGED 65 YEARS AND OVER, AROUND 2008
(Percentages of GDP)



LATIN AMERICA (16 COUNTRIES): COST OF TRANSFERRING ONE POVERTY LINE TO THE UNEMPLOYED, AROUND 2008
(Percentages of GDP)



LATIN AMERICA (16 COUNTRIES): COST OF ALL INCOME TRANSFERS, VULNERABLE HOUSEHOLDS AND TOTAL HOUSEHOLDS
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of data from household surveys conducted in the relevant countries. Data for Nicaragua refer to 2005, for Argentina, Guatemala and Chile to 2006, and for Honduras and the Plurinational State of Bolivia, to 2007.

Lastly, as shown in the simulation in table 4, the array of transfers have a powerful impact on poverty reduction and income distribution, especially in third world countries and countries that are relatively less developed or have higher poverty rates, weaker social protection systems or more precarious labour markets.

Table 4
IMPACT OF BASIC TRANSFERS ON POVERTY AND EQUITY^a

| | Coverage (percentage of total households) | Poverty before transfer | Poverty after transfer | Poverty reduction | Gini without transfer | Gini after transfer |
|--|--|-------------------------------|---------------------------|----------------------|--------------------------|------------------------|
| Argentina | 30.2 | 14.737 | 6.692 | -8.0 | 0.52 | 0.48 |
| Bolivia (Plurinational State of) | 59.26 | 47.224 | 29.2 | -18.0 | 0.58 | 0.48 |
| Brazil | 32.4 | 19.872 | 11.167 | -8.7 | 0.61 | 0.58 |
| Chile | 28.66 | 11.258 | 4.479 | -6.8 | 0.54 | 0.51 |
| Costa Rica | 33.48 | 14.836 | 5.877 | -9.0 | 0.49 | 0.45 |
| Ecuador | 56.94 | 36.529 | 18.079 | -18.5 | 0.52 | 0.44 |
| Guatemala | 65.58 | 46.69 | 26.721 | -20.0 | 0.59 | 0.50 |
| Honduras | 72.94 | 63.102 | 44.119 | -19.0 | 0.58 | 0.46 |
| Mexico | 49.12 | 27.918 | 13.029 | -14.9 | 0.54 | 0.49 |
| Nicaragua | 70.34 | 54.418 | 34.621 | -19.8 | 0.55 | 0.45 |
| Panama | 73.26 | 21.457 | 9.894 | -11.6 | 0.52 | 0.47 |
| Paraguay | 64.59 | 50.182 | 29.203 | -21.0 | 0.54 | 0.45 |
| Dominican Republic | 50.12 | 40.122 | 23.64 | -16.5 | 0.58 | 0.50 |
| Uruguay | 23.04 | 8.496 | 2.639 | -5.9 | 0.44 | 0.41 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of data from household surveys conducted in the relevant countries.

Social investment must be directed towards lower income groups by means of long-term countercyclical policies that are capable of offsetting contingent fluctuations and providing explicit guarantees and reliable levels of quality. Systems of social protection and leverage thus represent a valuable all-round alternative, but they cannot be put in place unless significant progress is made in financial security and institutional stability. And this must be underpinned by a social covenant.

3. The lever of education

Education plays a crucial role in equality. If learning and achievement were less segmented, inequality could be reduced in a single generation.

New generations would be better prepared to join the labour market, social capital would be easier to access and the risks of child malnutrition and teenage pregnancy—great vehicles for intergenerational exclusion—would be diminished.

The priorities in a pro-equality agenda in education should be to broaden the coverage of preschool education and lengthen the school day in public schools, improve secondary completion rates in socio-economic sectors with lower achievement levels (considering that coverage and completion are now almost universal for primary education), and reduce the learning and knowledge gaps built up over the education cycle from pre-primary to the end of secondary.

Preschool attendance has a dual purpose. First, it levels out learning capabilities at the start of the education career, which has a strong bearing on outcomes at later levels of education. Guaranteeing preschool education in the public system offsets differences in family background and promotes greater equality of learning opportunities. Second, increased preschool coverage, like the lengthening of the school day, reduces the hours that adults, especially women, have to devote to child care. This gives women greater possibilities of entering the labour market and helps to increase households' monetary income, as well as promoting gender equality.

Although policies to broaden education programmes have found their way onto the agenda in many countries of the region, much remains to be done to establish early years and preschool education as essential parts of the equation in redistributing care responsibilities between the genders and opportunities for children. Preschool coverage for children between the ages of 3 and 6 is highly stratified and access is proportional to household income. Where coverage is lower, children from poor households, or those vulnerable to poverty, are the ones who lose out.

Secondary school completion is a key to social inclusion. The very low completion rate in Latin America (51%) helps to reproduce low productivity levels in the economies. The gap in secondary school completion by income quintile is extreme: in the fifth quintile, four in five young people complete secondary education, but in the first quintile only one in five does.

Lastly, educational disparities are also reflected in learning outcomes, with private-school pupils faring better than those in public schools. This means that supply quality is stratified by families' ability

to pay for education. Children's educational achievements are also strongly associated with the educational level of their parents, which is correlated with family income. So it is that forces on both supply and demand sides conspire to maintain the status quo and reproduce knowledge and skills gaps.

F. The fiscal covenant as a key to linking State and equality

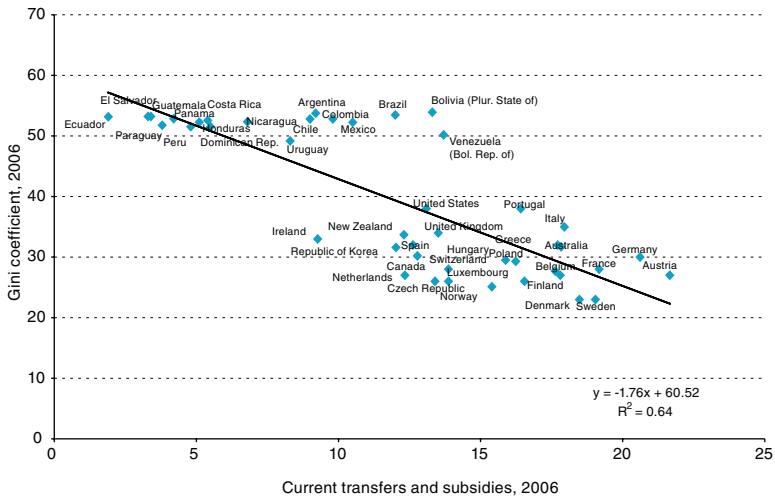
1. Equality, transfers and taxes: contrasts between the region and Europe

In view of the foregoing considerations, the focus should be on the resources available to government authorities in the region. Taxation emerges as a crucial mechanism for increasing the financial capacity of the State and enabling it to play a proactive role in promoting development and social equality.

In Latin America and the Caribbean, taxation does not have the same progressive impact on equality as it has in the OECD countries. This is partly due to the highly inequitable income distribution and the quality of public goods in the region. The State needs to reassert its role in redistributing both income and public expenditure and this task remains pending. Direct State intervention in the form of monetary transfers and in determining the tax level and structure has a significant impact on poverty and income distribution. In OECD, the estimated Gini coefficient after taxes and transfers declines by approximately 0.15% (compared with the pre-tax, pre-transfer level), while in Latin America it declines by as little as 0.02%.

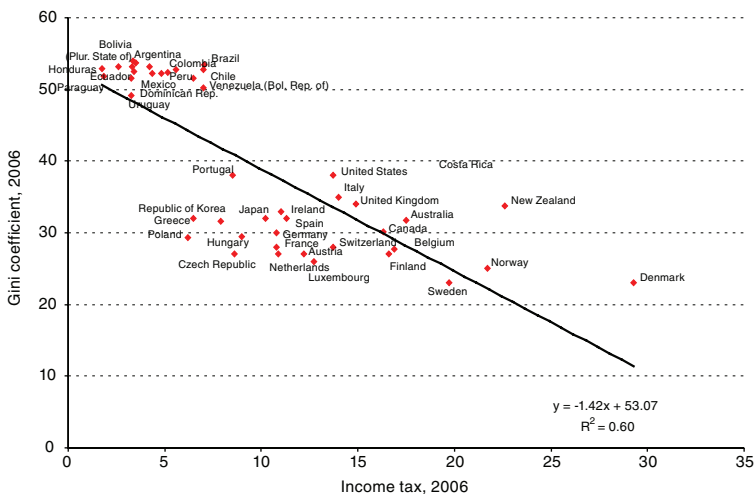
Another way of illustrating this distributional effect is by estimating directly the impact of the variables that have a significant bearing on the Gini coefficient, notably social spending and the tax structure (see Afonso, Schuknecht and Tanzi (2008) for the OECD countries). The application of this methodology to the countries of Latin America yields very similar results (González and Martner, 2009) (see figures 4 and 5).

Figure 4
GOVERNMENT TRANSFERS AND THE GINI COEFFICIENT



Source: Ivonne González y Ricardo Martner, "Del síndrome del casillero vacío al desarrollo inclusivo: buscando los determinantes de la distribución del ingreso en América Latina", document presented at the twenty-second Regional Seminar on Fiscal Policy, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 26-29 January 2010.

Figure 5
INCOME TAX AND THE GINI COEFFICIENT



Source: Ivonne González y Ricardo Martner, "Del síndrome del casillero vacío al desarrollo inclusivo: buscando los determinantes de la distribución del ingreso en América Latina", document presented at the twenty-second Regional Seminar on Fiscal Policy, Economic Commission for Latin America and the Caribbean (ECLAC), 26-29 January 2010.

The above figures speak for themselves. On the one hand, the more egalitarian countries and those where the transfer and subsidy component is much higher as a percentage of GDP are highly synchronized. On the other, there is a clear relationship between equality and a higher income tax rate.

2. Towards a progressive and efficient tax structure

Three factors influence tax collection capacity and the way in which tax revenues are distributed within society: the tax burden, tax structure and control of tax evasion. Certain countries in the region have serious problems with one of these factors and some face serious shortfalls in two or three.

In Latin America, the tax burden averages approximately 18% of GDP. This is very low both in relation to the degree of relative development in the region and in terms of the funding needed by Latin American Governments to meet their public-policy requirements, as discussed in the preceding sections. The tax burden (including social security) in the region expanded sharply between 1990 and 2008, moving from 12.8% at the beginning of the period to 18.4% at the end. Tax receipts from the development of natural resources increased rapidly in countries such as the Bolivarian Republic of Venezuela, Chile, Ecuador, Mexico and the Plurinational State of Bolivia. Although the revenues from this source are much more volatile than the rest, they were sufficient to raise the region's average tax revenue to approximately 23.5% of GDP in 2008. Average tax receipts for the Caribbean subregion stand at 26.3% of GDP.

Not only does the region collect little, it also collects poorly: in Latin America and the Caribbean less than one third of collections are direct taxes, while the bulk of the burden falls on excise taxes and other indirect forms of taxation.⁴ Therefore, it is hardly surprising that income distribution following payment of taxes is even more inequitable than primary income distribution. Thus, the difference in tax burdens between the OECD countries and Latin America is due mainly to the low income and property tax rates in the latter, since excise taxes are fairly similar. While the corporate tax yield is comparable (at just over

⁴ In the Caribbean, indirect taxes also account for a higher share of total receipts, but revenues from taxes on foreign trade are even higher.

3% of GDP in OECD), the differences in income tax revenues are significant (0.9% of GDP in Latin America, compared with almost 9% in OECD). As personal income tax is the most progressive form of taxation, it may be inferred that the tax structure of the Latin American countries is more regressive than that of the developed economies, since it has an adverse effect on income distribution and is one of the reasons why Latin America and the Caribbean is one of the most inequitable regions in the world.

Direct taxation in the region is weak because of two basic factors: narrow tax bases and high levels of non-compliance, both of which are due to the preferential treatment and tax loop-holes typical of the tax systems in the region and which result in very high tax expenditure. In the case of income tax, most countries give preferential treatment to capital income through a series of exemptions or special treatments for financial investments, interest on public bonds, profits from investment funds, capital gains from real estate and shares, and, in many cases, a more favourable treatment for reinvested profits. Tax expenditure of this kind narrows the tax base and adds to the complexity of tax systems. Such systems not only ride roughshod over the basic requirements of equity, which dictate that persons with the same capacity to pay should pay the same amount of taxes (horizontal equity) and that persons with greater ability to pay should pay a proportionally higher amount (vertical equity), but also generate economic distortions in resource allocation, which undermine the overall efficiency of the economy and make it less competitive in the global market.

In addition to the regressive structure of the tax burden, tax evasion is a serious problem in Latin America and the Caribbean. A number of ECLAC studies have found a very high incidence of tax evasion in the region, ranging from 40% to 65% approximately and accounting for a loss of potential revenue equivalent to 4.6% of GDP on average. These high evasion levels undermine the redistributive impact of income tax. As indicated by Jorratt (2009), tax evasion has a negative impact on horizontal equity, since the evaders ultimately pay lower taxes than taxpayers who, with the same capacity to pay, choose to comply with their tax obligations.

3. The fiscal covenant and the social covenant for distributional equity

A fiscal covenant is required to afford the State greater capacity to redistribute resources and play a more active role in promoting equality. As regards social expenditure and collection of revenue to fund it, there is significant room for moving forward and strengthening the redistributive role of the State, especially in terms of the tax structure.

A fiscal covenant has political implications which go far beyond conventional tax or budgetary reform. It requires rethinking the role of the State and the strategies that authorities seek to promote. The idea of a fiscal covenant is closely linked to the resurgence of the notion of development planning, which expresses, in turn, the desire for a comprehensive public-policy design. Thus, public policymakers, not content with isolated “pockets of equity”, must design instruments that seek to create equitable conditions for all. The overall objective with respect to equality implies substantial improvements in many sectors. The quality and universal coverage of education, the amount and coverage of social benefits, and the capacity for fiscal action for the poorest sectors of society will be crucial areas where permanent advances in income distribution must be achieved.

Conditions are ripe for a fiscal covenant in the region, since the concept has been gaining support in international organizations and in national political debate both at the sectoral level and across the board. At least two reasons account for this greater readiness to move forward with fiscal covenants: first, the evidence that public spending is a powerful tool for countering the more corrosive effects of external volatility (fall in employment, income and consumption); and second, the recognition that a strong taxation system, supported by robust institutions and sound public administration, also contributes to social equity and social cohesion as well as to production development.

To the extent that a fiscal covenant requires agreements between different public and private stakeholders, it should include at least the following elements:

- (i) A gradual commitment to increasing the tax burden in order to balance a stronger tax system with suitable incentives for productive investment.

- (ii) A clear path for the State to improve collections by reducing tax evasion and gradually bringing it under control, and by gradually eliminating exemptions from direct taxation with a view to achieving greater equity and efficiency.
- (iii) Reform of the tax structure by previously agreed stages, the chief aim being to raise income tax rates.
- (iv) A shared platform which correlates changes in the tax burden and structure with the way the higher taxes will be allocated to fund public policies.
- (v) A clear and agreed public agenda in order to improve the transparency of public spending, strengthen the competent public institutions and enhance the efficiency and effectiveness of such spending.
- (vi) A gradual programme of redistribution of social spending in which the reallocation within and between sectors will, according to available evidence, show a greater redistributive impact and greater externalities in terms of equity and productivity.
- (vii) A tax structure and an institutional framework for expenditure which takes into account territorial inequalities and actively seeks convergence. For example, territorial cohesion funds or mechanisms that seek to ensure that the tax burden has a progressive impact throughout the territory.

The regional agenda must be open to the scrutiny of most of its citizens. Decision-making processes must be underpinned by an agenda based on integrity, in which the different interests are displayed transparently and in which dialogue, negotiation and consensus are essential tools. The aim is to develop a public agenda which can accommodate a dynamic private sector and a strong citizenry with guaranteed rights and the power to exercise them.

ECLAC has drawn attention to the importance of social cohesion covenants (ECLAC, 2008) that seek to consolidate social protection systems, based on the principles of universality, solidarity and efficiency. Covenants must have clear, sustainable rules, effective management and the capacity to coordinate institutions. They must allow citizens to participate and demand their rights, decentralize power and combine the public and private spheres. Substantively, the scope of such covenants is very wide and encompasses the generation of public revenues, higher fiscal productivity, transparent public spending, the safeguarding of

equity, democracy-building, employment creation, social protection, and education and training.

A covenant for equality is, fundamentally, a pact for redistribution of income and other assets, as well as for redressing the wide structural heterogeneity that is part of the regional landscape. While greater productive convergence is the basis for achieving greater, sustainable equality in society, the State's most readily available redistributive instruments are still tax reform, the tax system and the targeting of social spending. The State has a key role to play not only because it must even out opportunities but also because it needs to reduce inequality of outcomes over the life cycle of individuals as well as within and across generations. In other words, State participation marks a difference between the "equity effect" and the "equality effect".

In order to advance towards the establishment of social covenants, it is essential to rally support among political and social stakeholders. This means creating a cultural climate conducive to a redistributive coalition, so as to appease the stakeholders that are opposed to any redistributive covenant that may have an adverse effect on their interests. In this regard, not only is the legitimacy of the State important; so is the presence, in this redistributive coalition, of stakeholders who enjoy a highly symbolic prestige in society and who uphold the principle of equality, namely: grass-roots organizations linked to a particular religion, philanthropic organizations, trade unions, representatives of civil society and solidarity-based foundations. Moreover, since social covenants define relationships between public-policy contributors and beneficiaries (through taxation, on the one hand, and benefits and transfers, on the other), the middle classes, a key sector for inter-class alliances, have a vital role to play.

The combination of a strategic approach and building alliances among stakeholders is key for understanding the success of countries that have achieved development in recent decades (Devlin and Moguillansky, 2010). This success is observed in terms of productive restructuring, boosting and diversifying exports, incorporating value added and knowledge in exports, reducing the income gap in comparison with the rich countries and advancing towards equality. The covenants forged in countries that have been successful in their pursuit of development match the proposal put forward in the present document,

insofar as advances in the area of social equality are linked with those relating to productive capacities, employment and economic growth in a strategic approach to development.

The aim is to propose and redefine a State that engages in shaping development and has a real capacity to allocate resources and fulfil regulatory functions. This role is to be pursued, within the framework of new relationships with society, with the system of representation and the basis for incorporating social actors, in other words, civil society. A social covenant demands and promotes change in the sphere of political action. This calls for a more proactive State, reinforced mechanisms for legitimacy and representativeness, stronger participation by economic agents and a wide range of social stakeholders, together with the creation of forums to facilitate this participation.

Rather than an outcome, the covenant is a process. This process needs discussions and agreements on projects for long-term coexistence, the sacrifice of short-term interests for the common good and the development dynamic and the commitment by all to build a better society and better quality politics. In this framework, the legitimacy of politics must be restored since what is at stake is at once inward democracy and outward integration into an increasingly globalized order.

III. THE ECLAC VISION AND LONG-TERM CHALLENGES

Development today is facing challenges and opportunities for new directions amid the aftermath of the economic crisis. This status of integration processes in the region also throws new elements into the equation. We are mature enough today to have learned that there are no one-size-fits-all models and solutions that can be applied to all countries indiscriminately. Diversity has gained currency in the manner of tackling problems and what binds us now is, above all, the value of democracy and the aspiration to reinvent regional forums for political convergence —such as the Rio Group and the Latin American and Caribbean Summit on Integration and Development— with increasingly convergent national objectives. In the area of trade, for example, Latin America and the Caribbean has forged new visions and more pragmatic modalities for strengthening intraregional trade, building links in the value chain based on intermediate goods rather than simply competing in the market for final goods. We also respond as national entities to the global markets. Hence the importance of multilateral forums and cooperation in armouring ourselves better against the threats of volatility, instability and climate insecurity.

At the beginning of this document we referred to the structural changes that are being proposed following the collapse of the market self-regulation model. But part of development has to do with the depth of structures. The crisis has implications in the long term that require decisions to be made and measures to be taken in the present. The structural trends that are in evidence today are so deep as to signal a genuine change of era. Four of them are commented on below.

First is climate change, which is closely bound up with a long history of industrialization and production patterns that are highly intensive in carbon dioxide emissions and fossil fuel consumption and, moreover, with a specific type of relationship in which humankind depends on nature for its collective reproduction. The effects of climate change are deep, systemic and, in the absence of decisive changes and global accords, catastrophic. Multilateralism is a basic principle for framing those agreements: as well as the will of States, a new “global justice” is necessary if the efforts made and agreements reached are not to condemn the developing world to permanent underdevelopment.

Climate change imposes limits and forces a shift in production paradigms and consumption patterns. It places intergenerational solidarity firmly at the heart of the equality agenda and even calls into question our way of relating to the world. Under the threat of climate change, the future of every individual is inextricably linked with the future of all. Now, facing global warming, the destruction of the environment and the crisis in energy sources, the world is more interdependent than it has ever been before. Against this backdrop, alternatives and limitations need to be marked out for moving towards lower-emissions less fossil-fuel-intensive economies.

For Latin America and the Caribbean, climate change could become either a new constraint on economic growth or, if approached in a well-judged and integrated fashion, an opportunity to renew and improve infrastructure, upgrade production processes, create more efficient transport methods with lower emissions and gradually move towards a lower-carbon development pattern. This shift could have major impacts from the point of view of equality and production convergence, inasmuch as it would imply providing better-quality public services, which are essential well-being tools for the most disadvantaged strata.

The second trend is technological change and what is known as the network, information or knowledge society. This is not about technical progress simply as a requirement for global competitiveness. Innovations in information and communications technologies (ICT) have been creating a very different society that is bringing about changes in economic and production patterns, modes of work and organization, communications systems, learning and information processes, social linkages, forms of government and ways of exercising democracy and controlling society.

The network system leans towards deregulation and self-regulation, but this creates a problem when projected onto areas of global life in which deregulation, as the world has seen, can be harmful and dangerous, such as finance, arms trafficking, labour organization and environmental management. For that reason, the network itself should provide the means to strengthen regulation in areas of global life which, precisely because of their lack of oversight, are liable to unleash global crises, be they economic, production-related, environmental or world security crises. The importance of regulating the financial system and labour institutions, for example, has been discussed here.

A third trend is the demographic transition, as a result of which the relative weight of the different age groups in the population will change in the coming decades. Albeit with differences from one country to another, Latin America and the Caribbean is now in the midst of a demographic dividend in which the smaller child population and still incipient population ageing process mean that the region today has a larger proportion of working-age people in relation to the dependent population. This dividend must be reaped in the next few decades, in order to prepare for the time when the greater weight of the older population will change the equation of the productive and dependent populations, when society will need to be highly productive if it is to generate the resources needed to cover health and social security needs.

Lastly, the demographic transition shifts the equation of State, market and family as regards meeting well-being and capacity-building needs. The way these three agents interact to provide services, monetary outlays and support networks must be reassessed as the proportional structure of the different age groups in society changes. Transfers and care services are a strategic part of this interaction.⁵ Supporting the care economy today means promoting greater participation by women in the labour market, thereby broadening the productive population base in preparation for the future challenges of the demographic transition. This support also means ensuring that children progress through the education system from early childhood to at least the end of the secondary cycle and investing in the production capacities of the next working generation, who need to start preparing now to be more productive, given that their burden will grow heavier as the dependent older population increases. Hence

⁵ Another trend that must be considered in this regard are changes in family arrangements and the challenges of the family-State equation.

the call for progress in developing a solidarity-based pillar within social security: public transfers in the form of non-contributory pensions will become increasingly important in sustaining an older population much of which has not been able to participate continuously in contributory or individual capitalization systems.

A fourth structural trend is cultural change. Greater global interconnections create greater awareness of the diversity of tastes, values and beliefs, but they also generate instances of deep cultural and religious intolerance, some of which crystallize into virulent forms that threaten global security. After the fall of the Berlin wall, the collective notion of democracy as part of global cultural heritage spread, but ethnic conflicts revived the ghosts of collective violence. The worldwide growth of consumption and financing give the market a pivotal role in defining meanings, identities and symbols. For many, the globalization of communications and information, together with the mass use of ICT, has shifted references in space and time as well as portrayals and visions of the world, at the same time as it raises questions about the pace and depth of changes in preferences, life plans and norms of coexistence. The consolidation of religious identities is progressing side by side with the secularization typical of modernity. The foundations of ethnocentrism and patriarchy are increasingly being shaken by indigenous and women's movements. The threat of climate change is forcing humanity to rethink the way it relates to nature and to the planet on which we all live.

Cultural change calls into question forms of societal organization. Policies cannot be made for young people, for example, without taking into account the radical cultural changes that they are experiencing. Gender and cultural components are increasingly part of the mainstream of pro-equality policies and call for a difficult balance to be struck between equality of opportunities and respect for differences. Equality of rights—the central value proposed in this document—is the cornerstone of political action because it enshrines a universalist vocation capable of absorbing and reconciling these rapid cultural changes.

The new development paradigm must be made to do everything possible to build a model of globalization that breeds greater collective awareness of global public goods; awakens democracy across the planet by affording a voice to the most diverse range of actors in the open concert of global governance; and provides excluded sectors with the tools needed

to close gaps in capacity, citizens' rights and access to well-being. The new model of globalization must develop policies with a long-term vision—but start work on them as a matter of urgency—in order to remain one step ahead of the climate, technological, demographic and cultural scenarios that current trends are now projecting.

It is as a contribution to this more global and strategic approach that the proposal set out here is offered.

Bibliography

- Afonso, Antonio, Ludger Schuknecht and Vito Tanzi (2008), “Income distribution determinants and public spending efficiency”, *Working Paper*, No. 861, European Central Bank.
- Bárcena, Alicia (2009), Address by the Executive Secretary of the Economic Commission for Latin America and the Caribbean (ECLAC) at the thirty-eighth Lecture of the Americas “In search of solutions to the financial crisis: measures adopted and future challenges”, Washington, D.C., Organization of American States (OAS), 5 October [online] http://www.eclac.org/prensa/noticias/discursossecretaria/6/37526/2009-709CatedradelasAmericas_tradvf.pdf .
- Berg, Janine and Matthew Salerno (2008), “The origins of unemployment insurance: lessons for developing countries”, *In Defence of Labour Market Institutions. Cultivating Justice in the Developing World*, Janine Berg and David Kucera (eds.), Palgrave- MacMillan/International Labour Organization (ILO).
- Devlin, Robert and Graciela Mogueillansky (2010), “Alianzas público-privadas para una nueva visión estratégica del desarrollo”, *Libros de la CEPAL*, No. 108 (LC/G.2426-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC). United Nations publication, Sales No. S.09.II.G.152.
- ECLAC (Economic Commission for Latin America and the Caribbean) (2009), *Social Panorama of Latin America, 2009* (LC/G.2423-P), Santiago, Chile. United Nations publication, Sales No. E.09.II.G.135.

- _____ (2008), *Social Panorama of Latin America, 2008* (LC/G.2402-P), Santiago, Chile. United Nations publication, Sales No. E.08.II.G.89.
- _____ (2007), *Social Cohesion: Inclusion and a Sense of Belonging in Latin America and the Caribbean* (LC/G.2335/Rev.1), Santiago, Chile, January.
- Ferraro, C. and G. Stumpo (2009), “Le PMI nel labirinto delle politiche”, *América Latina e Caraibi: una opportunità per le PMI*, Collana di Studi Latinoamericani. Economia e Società, Rome, Economic Commission for Latin America and the Caribbean (ECLAC)/ Italian-Latin American Institute (IILA).
- Ffrench-Davis, R. (2005), *Reformas para América Latina: después del fundamentalismo neoliberal*, Buenos Aires, Economic Commission for Latin America and the Caribbean (ECLAC)/Siglo XXI Editores.
- González, Ivonne and Ricardo Martner (2010), “Del síndrome del casillero vacío al desarrollo inclusivo: buscando los determinantes de la distribución del ingreso en América Latina”, document presented at the twenty-second Regional seminar on fiscal policy, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 26-29 January.
- ILO (International Labour Organization) (2004), *Economic Security for a Better World*, Geneva.
- Jorratt De Luis, M. (2009), “La tributación directa en Chile: equidad y desafíos”, *Macroeconomía del desarrollo series*, No. 92 (LC/L.3094-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC). United Nations publication, Sales No. S.09.II.G.78.
- Tokman, Víctor (2008), “Flexiguridad con informalidad: opciones y restricciones”, *Macroeconomía del desarrollo series*, No. 70 (LC/L.2973-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC). United Nations publication, Sales No. S.08.II.G.83.