

# CEPAL

## REVIEW

NUMBER 57  
DECEMBER 1995  
SANTIAGO, CHILE

**ANIBAL PINTO**  
*Director of the Review*

**EUGENIO LAHERA**  
*Technical Secretary*



UNITED NATIONS

## CONTENTS

<b>The United Nations and ECLAC at the half-century mark of the Organization</b> <i>Gert Rosenthal</i>	<b>7</b>
<b>The creation of the United Nations and ECLAC</b> <i>Hernán Santa Cruz</i>	<b>17</b>
<b>Human rights and the child</b> <i>Teresa Albáñez</i>	<b>35</b>
<b>Governance, competitiveness and social integration</b> <i>Fernando Calderón G.</i>	<b>45</b>
<b>Port privatization, labour reform and social equity</b> <i>Larry A. Burkhalter</i>	<b>57</b>
<b>New trends in wage policies</b> <i>Andrés Marinakis</i>	<b>75</b>
<b>Central America: macroeconomic performance and social financing</b> <i>Francisco Esquivel</i>	<b>85</b>
<b>Panama and Central American economic integration</b> <i>Luis René Cáceres</i>	<b>95</b>
<b>The dual currency bifurcation of Cuba's economy in the 1990s: causes, consequences and cures</b> <i>Archibald R. M. Ritter</i>	<b>113</b>
<b>Transnationalization and integration of production in Latin America</b> <i>Armando Di Filippo</i>	<b>133</b>
<b>Index of CEPAL Review, Numbers 1 - 57</b>	<b>151</b>
<b>Guidelines for contributors to CEPAL Review</b>	<b>193</b>

# Central America:

## *macroeconomic performance*

# and social financing

---

**Francisco Esquivel Villegas**

*PAHO/WHO Consultant  
(Costa Rica).  
Economic Adviser,  
Technical Secretariat  
of the Central American  
Regional Commission  
on Social Affairs.  
Professor and Researcher,  
School of Economics and  
Master's Course in Economic  
Policy for Central America,  
National University,  
Heredia, Costa Rica.*

The analysis of social area financing in small economies has taken on great importance in recent years with the growing recognition of the mutual links between economic and social processes. Investment in human capital is seen as fundamental for attaining the competitiveness demanded by participation in world trade. In Central America, the socio-political situation has given rise to growing interest in studying social area financing and in gaining a knowledge of the economic possibilities there will be in coming years for assigning resources to social activities. This article presents a methodological proposal for the analysis of social financing, whereby it is sought to identify the degree of feasibility of social programmes in the light of the macroeconomic environment, the fiscal context, and the domestic policies which determine the priorities that each country gives to action in the social field. It is concluded that significant advances will be needed in these fields in order to increase social financing in the subregion, so that the process will be a long one: there will be no appreciable results in the short term, because changing the conditioning factors will be an undertaking with a long lead time.

# I

## Introduction

The analysis of social area financing in small economies has taken on great importance in recent years with the growing awareness of the mutual linkages between economic and social processes. It is no longer considered conceivable that social development could take place in isolation from the process of structural adjustment and economic stabilization. On the contrary, the mutual relations between these two aspects of development have become increasingly clear.

An example of this is provided by the proposals on human development made by the United Nations Development Programme (UNDP). These proposals hold that the attainment of integral development demands a close relation between the expansion of production and the generation of opportunities for all sectors of the population to participate in that growth. It is likewise held that social expenditure is a powerful tool for endowing the under-privileged social sectors with their own capacity to succeed in a suitable growth context. The assignment of resources to the social area should not be interpreted as a mere redistributive process but as the basis for creating the human resources needed to sustain the material development of society (UNDP, 1991).

Likewise, in recent years international financial organizations such as the World Bank and the Inter-American Development Bank (IDB) have tried to launch a new concept of the development process, stressing that investment in people is fundamental for successful economic performance. It has been noted, in this respect, that the competitive advantages attained by the East Asian economies have been based, among other aspects, on the fact that suitable priority was given to public expenditure in the social sectors, especially investment in basic education and in the technical training of the population. These economies thus built up a store of human capital which enabled them to reach higher levels of productivity than other countries of a similar type, thus rapidly increasing their production while at the same time raising their levels of equity (Page, 1994; Leipziger and Thomas, 1994). It is therefore recognized now that financing the social area makes a substantial contribution to

economic growth itself, since it makes possible the investment in human capital which is essential for expanding the production of small economies in the globalized context of today's world.

This is now also recognized in Central America, in view of the socio-political situation of the subregion. The process of peace-building and democratization in Central America has led to the reorganization of societies which previously suffered from serious conflicts, and the reconstruction of political systems has made possible processes of dialogue which look beyond the mere solution of short-term problems. There is thus growing interest in questions of development and subregional integration, within quite a broad context of ideas and proposals for economic and social improvement.

The meetings of Central American Presidents in recent years have highlighted the concern to build up an economic growth model which fits in smoothly with social development needs, in order to provide a solid foundation for the new societies arising out of this process. Since the Esquipulas Declaration and the subsequent meetings of Presidents, the Central American agenda has been dominated by proposals for achieving sustainable economic and social development, in which integration plays an important role as a shared means of solving the problems standing in the way of that objective.

The political bodies responsible for coordinating the social area in each of the countries of the subregion have shown a growing desire to find out what the economic possibilities for assigning resources to social activities in the next few years are likely to be. This suggests that the study of social financing is of fundamental importance for guiding decisions on the process of allocating society's resources. This question must be placed in its proper perspective, however. Idealistic positions urging the adoption of social programmes without taking account of the constraints of the economic and fiscal environment usually lead to the formulation of plans which have no material base, thereby giving rise to frustration among the institutions and sectors of the population which it was desired to benefit when it becomes clear

that there are not enough resources to make those plans a reality. At the other extreme, there are pessimistic positions which give rise to a state of inertia: if the macroeconomic and fiscal situations are unfavourable, the factors in the economic environment are seen as utterly decisive and a mechanical attitude is adopted which rules out action in the social area.

These risks with regard to resource allocation must be avoided through a proper assessment of each

of the factors influencing the process of financing the social area. The method of analysing social financing proposed here seeks to help to identify the degree of feasibility of social programmes in the light of the real possibilities of the macroeconomic environment and the fiscal context and on the basis of the definition of domestic policies in each country which lay down the priority to be given to social activities within the overall actions of society.

## II

### A proposed method for studying social financing

Social financing forms part of the process of allocating the scarce resources of the economy to cover the various needs of society. Consequently, it cannot be considered in isolation from the aspects conditioning that process. Bearing this in mind, a more exhaustive analysis can be made of the real possibilities of attaining given levels of social financing in the particular conditions of each society. This approach makes it possible to improve on previous schemes which viewed social financing as the provision of resources for social activities as a function of an absolute priority, in view of their importance in the development process; such schemes do not permit of effective financing, however, when social resources have to be found in a situation of macroeconomic constraints which makes it necessary to know exactly what part of the overall economic space can be occupied by the social area.

This section presents a proposed method for studying social financing as part of a process of assignment of resources to specific sectors of State action, within the framework of the overall macroeconomic behaviour. This proposal concerns the following aspects that explain per capita social expenditure:

Per capita GDP	→	Public expenditure/ GDP	→	Per capita public expenditure	→	Social expenditure/ public expenditure	→	Per capita social expenditure
----------------------	---	-------------------------------	---	-------------------------------------	---	---	---	-------------------------------------

In the proposed method, the starting point for the allocation of resources is the size of the economy, as measured by its annual gross domestic product, and

the size of the population, which, taken together, indicate the capacity of the society in question to satisfy the needs of each of its members. In our proposed method, therefore, the process of analysis will start with the per capita gross domestic product, in order to establish the average income that can be assigned to the members of the society. This is a crucial point in studying the social financing possibilities of small economies, since the structural differences observed in this type of economy give rise to very marked differences in the per capita GDP. It is also necessary to assess the possibilities of increasing this GDP, in the face of the challenge of globalization, to levels which, though desirable, are not always within the reach of such economies. The combination of structural shortcomings and difficulties in participating successfully in international trade can stand in the way of expanding production to solve the existing income limitations. We can thus see that inequalities in production capacity and population represent material factors which affect social financing, even without taking account of the more specific factors governing the allocation of resources to this sector of State action.

Once the size of the economy has been defined, we must study the public sector's capacity to absorb resources. Growth of per capita GDP does not of itself guarantee greater assignment of resources to the public budget. In order to guarantee a certain level of financing of public activities, State mechanisms for the procurement of resources are needed. The first of these mechanisms is the tax system, which is defined

by the national political will to finance the public sector through various kinds of taxes. Another mechanism is the charges made by the State for various products or services, which can be a means of obtaining substantial resources where the public sector has significantly diversified its activities. Furthermore, small economies often have various forms of transfers of internally or externally generated resources from the non-governmental sector to the State. Finally, indebtedness with domestic or external sources of credit may be resorted to in order to expand the capacity for public spending.

The application of these mechanisms results in a certain level of total public expenditure, which defines the amount of resources available to the State for exercising its various functions. These mechanisms reflect a set of allocation decisions which reject alternative uses in favour of allocations for public functions. In this respect, an indicator can be defined which expresses the degree to which a society decides to give priority to its public sector by assigning it a given proportion of its annual product. This indicator is the ratio of total public expenditure to GDP (PE/GDP). This percentage defines the effort that a society makes to endow its public sector with a material base, with respect to each unit of product generated in the economy. Thus, in the methodology presented here, if the ratio PE/GDP is applied to the per capita GDP, this gives the total per capita public expenditure. This latter variable is the result of the growth capacity of the per capita GDP and the decisions regarding the allocation of resources to the public sector, as expressed by the ratio PE/GDP.

The allocation of resources to the public sector does not automatically guarantee social financing, however. In order for the sectors making up the social area to receive part of the total government resources, an explicit decision to give them part of those resources is needed. In other words, the resources obtained by the State must be allocated with a certain degree of preference for social activities. The priority given to social spending can be measured by the ratio of social spending to total public expenditure (SS/PE). The resulting percentage expresses the internal will of the public sector to favour social activities with a certain amount of resources per unit of total expenditure. This confirms that there is no reason to assume a direct response by social spending to changes in total expenditure. Indeed, there are situations where although there is an increase in public

resources, at the same time there is a deterioration in social spending, because it has been given less priority within overall public expenditure. Likewise, sometimes social spending remains unaffected or even increases, in spite of a decline in public expenditure, because of an improvement in the ratio SS/PE.

Thus, in the methodology set forth here, if the ratio SS/PE is applied to per capita expenditure, this gives the per capita social spending. This indicator is the most appropriate measure, at the aggregate level, of the social financing of an economy, as it describes the amount of social resources that it is possible to allocate to each inhabitant on average. This indicator can of course be broken down by social sectors, geographic regions or beneficiary groups. In order to facilitate the explanation, this type of disaggregation will not be dealt with here, but it may be noted that the conclusions obtained at the aggregate level are also applicable at more specific levels of State action.

Consequently, the per capita social spending is the product of various factors of different types. On the one hand, the growth of production and its relation to population dynamics establish the global capacity to generate resources. On the other hand, the mechanisms for procuring public resources define the possibilities of State financing on the basis of the global resources of the economy, for which purpose it is important to know the ratio PE/GDP, which expresses the State's capacity to procure resources. Finally, the priority given to social activities within the public sector, as measured by the ratio SS/PE, permits a given allocation of resources to the social sectors.

It is therefore not possible to define in advance automatic relations between the macroeconomic environment and the fiscal context on the one hand, and the behaviour of per capita social spending on the other. A strict study must be made of each particular situation in order to determine the behaviour of each of these factors and find out the correct order of causality in each case. In the following section, these assertions will be illustrated by application to the case of Central America.

It should be particularly noted that our proposed methodology does away with the dispersed use of indicators of the behaviour of social spending which is usually observed in diagnostic studies. Thus, for example, the ratio SS/PE and the indicator of per capita social spending are generally used in a given analysis separately and without defining the relation which exists between them. The ratio SS/GDP is used

in a similar manner, but as we have seen, this ratio is already contained in the analytical sequence extending from the per capita GDP to the per capita social spending, via the intermediate stages mentioned earlier. In short, rather than operating with a series of

dispersed indicators, this proposed method seeks to integrate them into a single analytical process in which each one contributes to the determination of the per capita social spending. Observing one of them in isolation limits the depth of the analysis.

### III

## Social financing in Central America

The method proposed here can be applied to the study of social financing in Central America. It is worth examining in detail the behaviour of the various aspects analysed, in order to gain a better understanding of the differences observed in the resources assigned to the social area in each of the countries of the subregion. The sequence followed in the analysis deals with the following aspects:

#### *Economic growth context*

Level of GDP

→ Per capita GDP

Size of population

#### *Fiscal context*

Tax income/GDP

Other income/GDP

→ Total expenditure/GDP

Indebtedness/GDP

#### *Social spending*

Social spending/total expenditure

→ Per capita social spending

(social priority)

The combination of these elements, in the above sequence, allows us to explain the behaviour of per capita social spending as a function of various types of factors.

#### 1. The economic growth context

The per capita gross domestic product of the Central American economies displays substantial disparities (table 1). In the Guatemalan economy, which is the largest in absolute size and also has the largest population in Central America, the per capita GDP occupies a middle level among the values observed. The Nicaraguan economy, which is the smallest in absolute size but has quite a large population com-

TABLE 1

**Central America: Per capita gross domestic product (1993 dollars)**

	GDP (millions of dollars)	Population (thousand)	Per capita GDP (dollars)
Costa Rica	7 349	3 269	2 248
El Salvador	7 614	5 517	1 380
Guatemala	11 330	10 030	1 130
Honduras	3 375	5 336	633
Nicaragua	1 866	4 117	453
Panama	6 381	2 538	2 514

Source: CMCA, 1994; IDB, 1994. Data prepared by the author.

pared with the product generated, has the lowest per capita in the subregion. Panama and Costa Rica, for their part, which are of fairly substantial absolute size in subregional terms but have relatively smaller populations, have a higher per capita GDP than the other economies, thanks to these two aspects.

We can thus see that there are many possible combinations of GDP and population size. There are three groups as regards per capita GDP. Panama and Costa Rica are at the highest level, with over US\$2 200 per inhabitant (at 1993 prices), thanks to the fact that they are the countries with the smallest populations but a substantial GDP in absolute terms. El Salvador and Guatemala occupy an intermediate position, with a per capita GDP of between US\$1 100 and US\$1 400, which is strongly influenced by the size of their population. Finally, Honduras and Nicaragua have the lowest per capita GDP in the subregion, because of the combination of quite low levels of production and populations which are quite large compared with the possibilities offered by the production environment.

Consequently, the material base for the procurement of public resources differs in the groups of

countries in question, and this naturally affects their possibilities of assigning resources to the social area. In other words, as there are different levels of per capita GDP, differences are also to be expected in the levels of public expenditure and social spending. Nevertheless, there could be counter-tendencies which could vary this general assertion in some way, depending on the interventions in the fiscal context and the priority given to the social area.

## 2. The fiscal context

The second aspect of our analysis concerns the situation of the public finances. Information on public expenditure as a proportion of GDP (table 2) reveals substantial differences in the relative levels of public expenditure among the countries of the subregion. Panama and Costa Rica are the countries where public expenditure has the greatest relative weight in the economy, attaining levels close to 50% of GDP. In the rest of the Central American countries, the figure is between 10% and 30% of GDP. El Salvador and Guatemala have the lowest relative levels of public expenditure: a little over 15% in the first-named and nearly 10% in the latter. Consequently, these two groups of countries are very different as regards the relative size of their public sectors. If, moreover, we recall that the per capita GDP of Panama and Costa Rica is twice that of El Salvador and Guatemala, this is a further reason why there are substantial differences in the relative size of the public sector. In other words, the amount of public resources per inhabitant is much smaller in El Salvador and Guatemala because not only is the weight of the public sector in the GDP relatively smaller, but also the per capita GDP is much lower.

TABLE 2  
**Central America: Public expenditure  
as a percentage of GDP, 1989-1993**  
(Percentages)

Costa Rica <sup>a</sup>	51.47
El Salvador <sup>a</sup>	15.96
Guatemala <sup>b</sup>	10.76
Honduras <sup>b</sup>	23.19
Nicaragua <sup>b</sup>	28.91
Panama <sup>a</sup>	50.18 <sup>c</sup>

Source: CMCA, 1994. Data prepared by the author.

<sup>a</sup> Non-financial public sector.

<sup>b</sup> Central Government.

<sup>c</sup> Estimate for 1989.

In Nicaragua and Honduras, the relative weight of the public sector is greater than in El Salvador and Guatemala. This means that they are able to make up to some extent for the fact that their per capita GDP is lower than in the latter two countries: because of the greater capacity to procure public resources, the size of their public sector is relatively closer to that of Guatemala and El Salvador.

If we look at the subregion as a whole, however, we see that all four of these countries are behind Panama and Costa Rica in terms of per capita public expenditure. As already noted, this is due to differences in both GDP and in the relative size of the public sector.

At this level in the analysis, it is important to determine the causes of the differences in public expenditure as a proportion of GDP among the countries of the subregion. These causes lie in the mechanisms used by each country's public sector to obtain resources. If we look at the sources of public income, in terms of GDP (table 3), we see that these countries display different capacities to procure tax revenue. Costa Rica registers the highest tax revenue as a proportion of GDP. No information was available for Panama, but it may be assumed that the tax situation there is similar to that of Costa Rica. The other economies display lower levels of procurement of tax revenue, although the figures for Nicaragua and Honduras are higher than for the remaining two countries, which partly explains the differences in public expenditure mentioned earlier. It is interesting to note, however, that regardless of these inequalities, in all the countries of the subregion the tax structure is based mainly on indirect taxes, which suggests generalized shortcomings in their tax systems.

In Costa Rica, there are additional sources of income which supplement the financing of public expenditure (it may be assumed that the same is true of Panama). This indicates that the diversification of public activities through the quasi-autonomous sector allows extra income to be obtained in respect of the provision of services. The comparison with El Salvador is of significant interest, as information is available on the latter country's non-financial public sector. In this case, there is a marked difference with Costa Rica in the item "Other income as a proportion of GDP", which reflects relative differences in the level of State development. Nicaragua has managed to obtain appreciable amounts of transfers from abroad in order to maintain a certain level of expen-



TABLE 3

**Central America: Public revenue, by source,  
as a proportion of GDP, 1989-1993**  
(Percentages)

	Tax revenue			Other income	Indebtedness		
	Direct	Indirect	Total		Domestic	External	Total
Costa Rica <sup>a</sup>	9.00	12.83	21.82	30.43	-1.45 <sup>b</sup>	0.67	-0.78 <sup>b</sup>
El Salvador <sup>a</sup>	2.44	6.04	8.48	4.95	0.52	2.02	2.53
Guatemala <sup>c</sup>	1.93	5.66	7.59	1.86	0.99	0.31	1.31
Honduras <sup>c</sup>	3.98	10.73	14.71	2.26	1.36	4.87	6.22
Nicaragua <sup>c</sup>	3.23	13.81	17.04	7.56	-0.18 <sup>b</sup>	4.50	4.32
Panama	...	...	...	...	...	...	...

Source: CMCA, 1994. Data prepared by the author.

<sup>a</sup> Non-financial public sector.

<sup>b</sup> Minus sign indicates a surplus.

<sup>c</sup> Central Government.

diture, which explains why the item "Other income" is of substantial importance and also explains part of the difference in the relative size of its public sector compared with El Salvador and Guatemala.

Finally, as may be seen from table 3, fiscal control policies have done away with indebtedness as a means of expanding the public sector in most of the economies of the subregion. The period covered by the table (1989-1993) reflects the effects of the fiscal policies applied: in Costa Rica, El Salvador, Guatemala and Panama the levels of indebtedness are low in terms of the GDP, and in Costa Rica and Nicaragua there is even a domestic surplus. In Honduras and Nicaragua, however, there is appreciable external indebtedness which helps to keep up a relatively higher level of expenditure and explains part of the relative differences in expenditure with El Salvador and Guatemala.

### 3. Social priority and the relative level of social expenditure

The last step in the proposed analysis consists of studying the level of priority given to the social area in the allocation of public resources. In order to carry out this final step, we need to analyse social spending as a proportion of total public expenditure (table 4). The differences observed among the countries in this respect are not very large, with the values ranging from 34% to 39%. The values for Costa Rica and Panama might seem rather low, but their difficulties in formulating clear social policies in the 1980s may have affected the behaviour of this indicator. In Nica-

ragua, an effort has been made to give priority to the social area for the last decade and a half, and this is reflected in the bigger share of the social sectors in the allocation of public resources. In the remaining countries, the degree of priority given to social matters has fluctuated without any clear pattern, revealing the lack of a consistent social policy.

All this suggests that greater priority could be given to the social area in the countries of the subregion provided there was the capacity to apply social policies in keeping with the needs of each society.

TABLE 4

**Central America: Social spending as a  
proportion of public expenditure in 1989-1993  
and per capita social spending in 1992-1993**  
(Percentages and U.S. dollars)

	Social spending/ public expenditure (percentages)	Social spending per capita (dollars)
Costa Rica <sup>a</sup>	39.07	420 <sup>b</sup>
El Salvador <sup>a</sup>	32.23	79 <sup>c</sup>
Guatemala <sup>d</sup>	39.40	48 <sup>c</sup>
Honduras <sup>d</sup>	34.01	56 <sup>b</sup>
Nicaragua <sup>d</sup>	36.21	44 <sup>c</sup>
Panama <sup>a</sup>	36.85 <sup>c</sup>	502 <sup>c</sup>

Source: CMCA, 1994; CRAS/UNICEF, 1994. Data prepared by the author.

<sup>a</sup> Non-financial public sector.

<sup>b</sup> 1992.

<sup>c</sup> 1993.

<sup>d</sup> Central Government.

<sup>e</sup> Estimate for 1989.

When there are no marked differences in the priority given to social matters, the per capita social expenditure is determined mainly by the other aspects analysed: the evolution of the GDP and the fiscal situation.

If we look at per capita social spending in Central America in 1992-1993 (table 4), we see that in Panama and Costa Rica, because of the level of the per capita GDP and the relative size of the public sector, the level of this spending is over US\$400, which is quite high for the conditions of the subregion, but in the other economies of the subregion it is less than US\$80, as a result of the combined effect of the per capita GDP and the relative size of the public sector in each country, along with minor differences in the priority given to the social area. El Salvador

has a better level of per capita social spending because of its per capita GDP, but the effect of the latter is limited by the relative size of its public sector. Guatemala, which has a similar level of per capita GDP, does not register a similar level of social spending because its public sector is even smaller and it also has difficulties in giving greater priority to social matters on a sustained basis. Honduras and Nicaragua suffer from the effects of having very low levels of GDP, and although their public sectors are a little larger in relative terms it is not clear that they can keep up their level of public spending, because as already noted, part of that level has been achieved thanks to transfers from abroad or external indebtedness.

## IV

### Conclusions

There has been an intensive debate on improving social financing in Central America in recent years, because of the changes in the political agenda. The real possibilities of achieving such an objective have not always been studied in depth, however. In the preceding pages we have described the aspects of a global nature that condition the process of allocation of resources to the social area in Central America, with the aim of providing some background material that will help to identify the basic features of the process and to set a realistic course for the years to come. From the information presented, it may be seen that it is not possible to make generalizations, and much less to pretend that the levels of social financing of the different countries can be brought in line with each other in the short term. Consequently, the process of integration on the social level must take account of these differences from the start and design programmes of action which fit in with that situation.

According to the methodology set forth in this article, the possibilities of improving the allocation of resources for social activities in each country depend on three basic factors: i) the future outlook as regards growth of GDP and of the population; ii) the expansion of the relative size of the State, within a context of fiscal stability (proportional growth of public expenditure on a sound financial basis); and iii) higher priority for social matters when allocating public resources.

The prospects for growth of the product in the subregion in the next few years are not very clear. There is significant potential for economic expansion on the basis of export promotion, but in order to bring this about it will be necessary to make suitable definitions of, among other aspects, the form that increased trade openness will take (in view of the imbalances among the parties), the process of retooling a production apparatus which is rather obsolescent, the modernization of the production support infrastructure (transport, energy, communications, etc.), and the technical training of the labour force.

Most of the Central American economies have entered in the 1990s into an economic reactivation process which has been reflected in positive per capita GDP growth rates (table 5). This is not enough, however, to prove that they have successfully completed the economic changes needed to guarantee sustained growth. A suitable response is also needed at the demographic level. In several of these countries –mainly those that most need to raise their per capita GDP– population growth absorbs much of the growth in the product, thus limiting any increase in that indicator. Consequently, if it is desired to expand the material base for social financing it will be necessary to attain both a substantial growth rate of the product and a rate of population increase which permits a steady rise in the per capita GDP.

TABLE 5

**Central America: Per capita GDP, 1989-1993**  
(Annual growth rates)

	1989	1990	1991	1992	1993
<b>Costa Rica</b>					
GDP	5.67	3.56	2.26	7.29	5.49
Population	2.78	2.67	2.57	2.51	2.44
Per capita GDP	2.81	0.86	-0.30	4.67	2.98
<b>El Salvador</b>					
GDP	1.06	3.40	3.53	5.14	4.98
Population	1.91	1.99	2.07	2.22	2.24
Per capita GDP	-0.84	1.38	1.43	2.86	2.68
<b>Guatemala</b>					
GDP	3.94	3.10	3.66	4.78	4.00
Population	2.93	2.93	2.94	2.83	2.94
Per capita GDP	0.98	0.16	0.71	1.80	1.04
<b>Honduras</b>					
GDP	4.33	0.10	3.25	5.62	3.66
Population	3.09	3.06	3.05	3.02	3.01
Per capita GDP	1.20	-2.88	0.19	2.52	0.63
<b>Nicaragua</b>					
GDP	-1.70	-0.13	-0.16	0.36	-0.88
Population	2.68	3.06	3.59	3.91	4.04
Per capita GDP	-4.26	-3.09	-3.62	-3.42	-4.73
<b>Panama</b>					
GDP	-0.26	4.88	8.89	8.45	6.28
Population	2.00	2.00	1.92	1.92	1.89
Per capita GDP	-2.21	2.82	6.84	6.40	4.31

Source: CMCA, 1994; IDB, 1994.

If it is desired to increase social financing, expansion of the relative size of public expenditure appears to be an unavoidable condition for most of the countries of the subregion. This conclusion is not at variance with the policies currently being applied all over Latin America and the Caribbean with regard to modernization of the State and fiscal discipline. What is needed is to accept that in many of the Central American economies the proportion accounted for by public expenditure is very low, because of a long-standing history of economic and social backwardness. Consequently, it is necessary to increase this proportion, but without losing fiscal stability, which means that considerable improvements must be made in the mechanisms for procuring public resources.

In order to do this, it is necessary to broaden the radius of action of tax systems, especially through progressive mechanisms, and to diversify the sources of income by greater decentralization of State acti-

vities. Foreign cooperation will have a very important role to play as a factor supplementing domestic financing efforts and as a support for achieving results in the short and medium term.

A significant role will also need to be played by the assignment of higher priority to the social area in the next few years, if it is desired to expand social financing. The average growth rate of the economy and the raising of the relative rate of public expenditure will not be enough on their own to ensure an increase in the allocation of resources to the social area. It will also be necessary to adopt an explicit policy of giving priority support to this area so that it can share in the fruits of those processes in order to finance the social sectors.

It will probably be necessary to make progress in all these fields, and not just in some of them, in order to increase social financing in the subregion, in view of the size of the shortcomings in this field. This

shows that the expansion of the resources destined for the social area will be a long process, since these factors will only bear fruit when they reach maturity. It is therefore essential that there should be the necessary national will to take the corresponding decisions and ensure the continuity of the policies adopted.

At the same time, in the economies of the subregion which have attained the highest levels of social financing, it is particularly important to carefully evaluate the efficiency and efficacy of public expenditure. Those countries where per capita social spending has reached higher levels must make every effort to see whether they could obtain better results with the existing resources. The growth in expendi-

ture has very likely been accompanied by declines in its productivity, so that in order to improve the allocation of resources to social matters it is necessary not only to increase the amount of those resources but also to raise their yield. To this end, measures should be considered such as the redistribution of resources within institutions, among institutions, and among geographical regions, so as to gain the maximum benefit from human and material resources. This also applies to the other Central American economies, although to a lesser degree, since in their case the problem is rather the insufficiency of the absolute level of financing.

(Original: Spanish)

### Bibliography

- CMCA (Central American Monetary Council, Executive Secretariat) (1994): *Boletín Estadístico 1993*, San José, Costa Rica.
- CRAS/UNICEF (Comisión Regional de Asuntos Sociales/United Nations Children's Fund) (1994): *Financiamiento del área social en Centroamérica. Informe 1994*, San José, Costa Rica.
- IDB (Inter-American Development Bank) (1994): *Economic and Social Progress in Latin America. 1994 Report*, Washington, D. C.

- Leipziger, Danny and Vined Thomas (1994): Roots of East Asia's success, *Finance and Development*, vol. 31, No. 1, Washington, D. C., International Monetary Fund (IMF)/World Bank, March.
- Page, J. (1994): The East Asian miracle: Building a basis for growth, *Finance and Development*, vol. 31, No. 1, Washington, D. C., IMF/World Bank, March.
- UNDP (United Nations Development Programme) (1991): *Human Development Report 1991*, New York.