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Foreword

The twenty-eighth session of ECLAC took place in Mexico City in April 2000 and thus was held at the start of both a new decade and a new century. This occasion prompted the secretariat to prepare *Equity, Development and Citizenship*, which provides a comprehensive view of the institution's thinking concerning the development challenges facing the region in the world of today. The present publication is an abridged version of that report.*

This abridged volume is composed of three chapters. The first presents an overview of global trends together with the associated challenges in the areas of human rights and equity and a discussion of the integral nature of development. The second provides an overview of economic, social and environmental conditions in the region during the 1990s. The third sets forth an agenda for the region at the outset of the twenty-first century. It discusses, first, the principles of social policy and policies in the areas of poverty reduction, education, employment, social security and social spending. The accompanying economic development agenda encompasses macroeconomic growth and stability, dynamic

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productive development, the regulation of public utilities and the consolidation of sustainable development. The chapter concludes with some reflections on social cohesion and citizenship.

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Chapter I

The context for development policies today

As the Latin American and Caribbean region enters the twenty-first century, it has a number of significant accomplishments on various economic, social and political fronts to its credit, but it is also faced with a number of unresolved issues relating to the impacts of economic liberalization, remaining after-effects of the debt crisis and structural problems that are deeply rooted in its history. Given this legacy, the main challenge to be met by the region is to incorporate equity as a fundamental development objective, consolidate the advances it has made towards achieving macroeconomic stability, step up its pace of economic growth, make strides in incorporating a sustainable development agenda and confront its mounting problems in relation to social cohesion. The framework for this agenda is formed, on the one hand, by today's intense globalization process and, on the other, by the need for further progress in strengthening human rights in their dual dimensions of civil and political rights and of economic, social and cultural rights. Globalization and human rights thus represent the external and ethical frame of reference for any development agenda. In order to provide the necessary context for a detailed examination of the legacy of the 1990s and the region's development agenda for the twenty-first century, this chapter provides an overview of the current controversy regarding economic reform, globalization and human rights. This analysis serves as a basis for the formulation of the concept of integral development.

A. Challenges

Controversies regarding the outcomes of economic reforms have been increasingly heated in recent years (see chapter 2). Throughout Latin America and the Caribbean, objections to their effects and a feeling of insecurity about the future are being voiced. This obviously has ramifications in the political arena, where a growing disenchantment is beginning to be perceived with regard to the political system itself, which is having great difficulties in articulating and meeting the demands of the citizenry.

Strictly speaking, however, neither the positive nor negative results can be wholly attributed to the impacts of these reforms, since events have also been influenced by the international context, other processes under way in the region, some after-effects of the debt crisis and deeply rooted structural factors that date back far into the history of the region, such as its high concentration of wealth and income and the acute social segmentation that goes along with it.

As the controversy surrounding these developments has proceeded, the terminology used in the debate has become somewhat obscure. There is a great deal of talk about the need to supplement the first generation of reforms with a second and now, according to some, even a third. The boundary lines separating one generation of reforms from the next have become increasingly blurred. Even the first-generation reforms associated with the so-called Washington consensus have been the subject of differing interpretations (Williamson, 1990 and 1998), differences of emphasis with regard to their substantive aspects and wide-ranging controversies about their effects.[1] The "second generation" of reforms has already come to have as many meanings as there are possible interpretations of what constitutes a proper form of “institution-building”, which is the main focus of attention according to their proponents.[2] The need to improve the prevailing development styles’ results in terms of social equity can be seen as the basis for a call for a third generation of reforms that will place equity at the very core of the policy agenda. But this is not the best approach to this reorientation of development strategies. In fact, the idea that these processes are linear and universal in nature is implicit in the very concept of different “generations” of reforms. According to such a view, the steps that have been taken during earlier stages of the process constitute immutable accomplishments that serve as the foundation upon which additional parts of the building can be erected. This conceptual framework is surely an inappropriate one, however, when —as in this case— the

[1] See, for example, Stiglitz (1998), Ffrench-Davis (1999) and Ocampo (1998b).
[2] See, for example, Burki and Perry (1998).

precariousness of parts of those foundations leads to problems that have to be resolved during subsequent stages.

The same sort of terminological confusion is evidenced in the idea that it is necessary to "consolidate the reforms". There is some degree of consensus on a basic substratum of accomplishments that should be maintained (although here, too, there is dissension): the consolidation of what has been achieved at the macroeconomic level, especially the reduction of the fiscal deficit and inflation, a greater openness to the opportunities offered by the international economy, increased participation by the private sector in the development process and the need for a more efficient State. Beyond this basic substratum, however, profound differences of opinion exist as to the actual meanings of all these terms. There is, in fact, no single model of economic management that would guarantee macroeconomic stability, nor is there one and only one way of integrating into the international economy or of combining the efforts of the public and private sectors. These differences are also reflected in the region's development process itself, in which the diversity of solutions to the issues raised by this basic consensus is beginning to be far more significant than the supposed homogeneity of the "new development model".[3]

ECLAC certainly agrees with the general formulation of this consensus —i.e., the need to build on past achievements in reducing the fiscal deficit and inflation, strengthening linkages with the global economy, increasing the private sector's role and making the State more efficient— but it does not agree with the idea that there is a single or universal solution for the problems existing in these areas. Moreover, the Commission believes that in some cases the first-generation and perhaps even second-generation reforms have been the cause of some of the problems that have now arisen and that, in these instances, it will be necessary to "reform the reforms". This is the case, for example, in situations where social policy schemes have neglected to uphold the principles of universality and solidarity, where macroeconomic management systems have led to pro-cyclical management practices that increase the risk faced by investors, national financial systems and the most vulnerable sectors of society, or where the absence of appropriate institutions or mechanisms to support production sectors has not had a neutral effect but has instead discriminated against firms that, for lack of

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[3] The idea that, above and beyond a basic homogeneity, a range of different "forms of capitalism" exists is also implicit in the criticism leveled at the Washington consensus. This tenet arose out of the debate initiated some years ago by Albert (1992) and underlies Rodrik's recent call (1999) for the international system to permit the development of different varieties of capitalism.

access to capital or technology, are not well prepared to cope with change, against the firms and sectors that are most dependent on the complementarities offered by other sectors and firms, and against those activities that are subject to the greatest degree of uncertainty.

In these cases, the adjustment of such reforms may be absolutely necessary in order for their objectives to be achieved. In fact, far from working against the market, public and private action aimed at creating or completing markets through the introduction of institutional schemes designed specifically for that purpose can act as market enhancements. This can be the case when such measures make it possible to provide information that permits the market to function, help to develop segments of the production chain that supply goods or services which the market has not generated on its own, create specialized institutions and firms that can provide the goods and services that the market has "left out", or generate incentives so that sufficient amounts of social or environmental merit goods will be produced or so that goods and services with negative externalities will not be. The same is true of measures designed to simulate markets through the use of regulatory mechanisms which, in the absence of competition, will reproduce the results that competition ought to generate. If correctly applied and combined with private-sector participation at every step in the process, this type of active public policy approach can be more "market friendly" than the passive approaches that tended to predominate during the first wave of reform.

Within this context, the term "public policy" should be understood as referring to an organized form of action aimed at achieving objectives of collective interest, rather than as a synonym for government policy. Hence, this study uses the term "public" in a broad sense that encompasses many different spheres of action corresponding to civil society. This definition of "public" is also in keeping with an awareness of the need to open up opportunities for participation by civil society, to work to overcome a crisis of the State that has not been fully resolved, to correct both "market failures" and "government failures" and, more generally, to build and rebuild institutions, which is unquestionably one of the more complex challenges now facing the region.[4] It is clear that in many countries, the combination of the debt crisis and the first wave of economic reforms seriously undermined or destroyed various private and especially public institutions, without any parallel effort being made to create new ones, even those that are functional or are necessary in order for market

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4 In this study the term "institutions" is used in a more traditional and broader sense than it has had in the more recent literature. It includes not only organizations (e.g., business firms, producer associations and government agencies) but also policies, constitutional, legal and regulatory provisions, and intangible factors such as traditions and conventions.

mechanisms to operate properly. One notable exception appears to have been the development of strong macroeconomic institutions, which may have heightened the asymmetries in relation to institutional developments in the social sector, infrastructure services, productive development institutions or the incipient process of building institutions for the promotion of sustainable development.

This approach consequently emphasizes the importance of building a strong institutional structure (of attaining a high "institutional density") in which a wide range of social actors participate actively and which is accountable to the citizenry (i.e., a high "democratic density"). It also opens up spheres of action for State institutions or institutions of civil society at the national level and for local and subregional or regional institutions. All of this is a reflection of the major restructuring of spheres of public action that has occurred over the past few decades, which has entailed a weakening of the nation-State and a parallel strengthening of action at both the local and supranational levels.

ECLAC also believes that the region's development patterns need to be reoriented in order to focus on equity, i.e., the reduction of social inequality in all its manifestations. In a region that is generally described as having the highest degree of inequality in the world (although this actually pertains more to Latin America than to the English-speaking Caribbean), the objective neither can nor should be any other. Since this effort is not unrelated to patterns of economic development, at the same time that the region pursues more stable and dynamic —and hence competitive— forms of economic growth, it should also seek a more socially integrative and environmentally sustainable form of development. Last but not least, this endeavour should be coupled with a determined effort to weave a social fabric that will permit the development of more integrated societies. These objectives are broader and, more importantly, reflect different priorities than those that served as the frame of reference for the macroeconomic stabilization and liberalization of the region's economies, although they also seek to maintain the positive results of those processes. These challenges are not easily met, nor are they free of various sorts of constraints and contradictions. Because of this and because we firmly believe that this kind of edifice can only be constructed within the framework of more democratic societies and a strengthened citizenry, the problems to be addressed will necessarily have different solutions in different national contexts. Under these circumstances, diversity should be seen as a virtue, and any attempt to impose uniform, universally valid models would be inappropriate. This diversity is all the more important because our region is also heterogeneous in terms of size, stage of development and the strength or weakness of economic, political and social institutions.

Equity, economic development and citizenship are thus the three elements around which the complex challenges facing the region revolve. They are the focus of this book. The next two sections outline the context for the ensuing discussion: the external environment created by the globalization process, and the ethical frame of reference for this analysis, which is derived from the concept of human rights. This discussion inevitably leads to a consideration of the integral nature of development.

B. The world environment: globalization

The concept of globalization can be defined in various ways, but they all have to do with the growing influence that economic, social and cultural processes at the international level have on those same processes at the national or regional level. This is not, of course, a new process, but rather one that dates far back into history. The dramatic changes in terms of both space and time that have been brought about by the revolution in communications and information do, however, tend to imbue it with new dimensions that represent qualitative departures from the past.[5] The changes in the balance of power brought about by the end of the cold war have also given rise to a number of new elements.

One of the most important dimensions of this process, which is often overlooked, is the gradual spread of global values and ideas, such as human rights, social development, gender equity, respect for ethnic and cultural diversity, environmental protection and other principles to which a commitment has been made at United Nations world conferences. The development of this broad social and environmental agenda has not, however, been accompanied by a matching flow of the international resources needed to support its implementation, by the establishment of the necessary international institutional structure or even by a commitment on the part of signatory countries to apply national policies in keeping with that agenda.

At the economic level, the most important dimension is the incomplete globalization of markets (ECLAC, 1996a). This process is the result of the technological changes mentioned earlier, of the increasingly global scope of large transnational corporations' production and marketing strategies, of the restructuring of production processes (the break-up of value chains which now makes it possible to conduct different phases of production at locations far removed from one another) and of the interaction of all these elements with the institutional changes that have

5 Castells (1996) offers one of the most complete descriptions of these global trends.

accompanied them. These changes include the trade and financial liberalization processes in which, to varying degrees, all the countries have been involved and the reinforcement of multilateral trade mechanisms through the creation of the World Trade Organization (WTO), which has extended the principles of the liberalization of merchandise trade to that of trade in services and has laid down international norms with respect to intellectual property rights. Similar multilateral rules and disciplines have not yet been developed for the liberalization of capital markets, which has also been carried out on a broad scale. Some degree of globalization has also been evident in the market for skilled labour, but the most glaring exception to this overall trend towards the globalization of markets has been the maintenance of tight national restrictions that limit the mobility of the labour force.

In the field of technology, as is also the case of trade in goods and services, market globalization clearly opens up opportunities for developing countries to embark on development strategies designed to take advantage of the possibilities offered by a greater involvement in the world economy. When viewed from this standpoint, the continuing growth of international trade and the reinforcement of multilateral rules and dispute settlement mechanisms under the aegis of WTO are positive steps. This can also be said of regionalism, if this term is understood in the positive sense described by ECLAC as “open regionalism” (ECLAC, 1994a). These positive processes are hampered, however, by the incomplete liberalization of industrialized economies owing to the considerable range of protectionist measures that continue to be applied around the world and by the excess supply of some types of goods, especially raw materials, in the international marketplace. The developing countries are also faced with the challenge of modifying their development policies and establishing the institutional mechanisms demanded by WTO; these tasks have proved difficult to perform and may entail even greater restrictions than would seem advisable.

The explosive development of world financial markets has opened up financing and hedging opportunities, but at the same time it has shed light on the huge problems caused by the asymmetry existing between dynamic market forces and the weak institutional frameworks in place for regulating them.[6] The coexistence of a financial globalization process with national macroeconomic policies that continue to be designed on the basis of domestic interests and conditions generates considerable tensions for developing countries; these countries are, moreover, subject to the uncertainty associated with the macroeconomic policies adopted by industrialized countries, which do not fully internalize their effects on the

[6] See United Nations (1999a), ECLAC (1998a), UNCTAD (1998) and Ocampo (1999a).

rest of the world and lack the necessary coordination mechanisms to ensure their overall coherence. This situation is compounded by the problems existing in the financial market as such, particularly its volatility and the contagion that had such a strong impact on the Latin American and Caribbean countries during the 1990s. These phenomena are associated with the market's inability to accurately differentiate among various types of borrowers, which gives rise to the "bandwagon effect" that is seen so often in the financial market both during booms and, especially, in times of economic crisis.

Financial instability is only one of the manifestations of the growing asymmetry between the dynamism of the various markets and the lack of a sufficient degree of economic governance in the world today. The extreme economic concentration that prevails all over the world is another, as are the many distributive tensions between countries and within them that are being generated by the globalization process.[7] This situation reflects, among other phenomena, the high levels of education and knowledge required by global markets and technologies; this state of affairs also poses the threat that those who are not so well prepared may be bypassed and that, as a result, the use of such technologies and the creation of new knowledge may become even more heavily concentrated in just a few countries, social groups and firms. This process entails both long-standing and new threats to the security of the world's peoples as a consequence of the deterioration of the entire range of systems that exist for their protection —from those that operate within the family to those administered by the State.

The course taken by the globalization of markets also brings to light the incompleteness and asymmetry of its accompanying policy agenda. The latter is no doubt a reflection of the asymmetry existing in the organizational structures of the various international actors involved in the debates now under way. Vigorous steps are being taken in certain directions: free trade (albeit with shortcomings in many areas), capital mobility and legal protection for intellectual property rights and investment. But other equally important issues are not being addressed: the development of mechanisms to ensure the global coherence of the central economies' macroeconomic policies; the international mobility of labour; international agreements to ensure the appropriate taxation of income from capital or to forestall tax evasion; the mobilization of resources to compensate countries and social sectors that tend to lag behind in the globalization process; and the establishment of international anti-trust regulations and codes of conduct for transnational corporations. To use the language employed in the financial debates of recent years, all this underscores the need to create a new international economic "architecture"

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7 See, for example, UNCTAD (1997), UNDP, (1999), *Cornia* (1999) and Rodrik (1997).

that will be suited to the new era of globalization and will be based on a broad agenda and a representative negotiation process.

Existing problems of international governance obviously relate not only to economic issues but to social and environmental questions as well, and they point to a deeply rooted problem: the contrast between global issues and local political processes. This contrast implies, in particular, that none of the decision-making mechanisms at the global level provide a means of ensuring that the interests of the less powerful countries and social sectors are adequately represented in the decisions that are taken. This is generating tensions which have become quite apparent. It also means that the spheres of endeavour that are open to democratic citizen action continue to be confined to the national and (perhaps increasingly) local levels.[8] In fact, this is the most important remaining facet of the concept of nationhood in the world of today. At the same time, however, in terms of the difficulties faced by the world's nations, globalization heightens the tensions existing between the demands of the citizenry, which have increased with the advent of democracy, and the constraints on freedom of action generated by globalization. This tension works in concert with others that are prevalent in the world today and that have reached a high degree of intensity in our region, particularly the tension existing between the vistas opened up by modern communications, which promise a "symbolic" integration with the rest of the world, and the constraints on more "material" form of integration, i.e., a lack of access to the opportunities opened up by national and international development patterns.

This study does not analyse global processes as such, but it does take into consideration their influence in generating opportunities as well as constraints and potential sources of risk. It therefore explores the ways in which national and local —and, in some cases, regional or subregional— public policy can turn those opportunities to better advantage while at the same time addressing the risks posed by the globalization process.[9] It also takes into account the constraints placed on the effectiveness of certain policies by the external environment and by the provisions of recent multilateral agreements. These constraints should not, however, be seen simply as an established fact, but should instead be viewed as a call for

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8 Spheres of global citizen action are certainly emerging, as evidenced by the participation of representatives of civil society in United Nations world conferences, in global environmental debates and in trade talks (e.g., the hearing for members of civil society within the framework of the ministerial meeting on the Free Trade Area of the Americas held in Toronto, Canada, in 1999 and the confrontations surrounding the WTO conference held that same year in Seattle).

9 To use the term employed in an analysis published a decade ago, it looks at development "from within" (Sunkel, 1991).

concerted action on the part of the governments and social sectors of the countries of the region to influence the direction in which these measures are leading us and to take any steps at the regional or subregional level that may be deemed appropriate.

C. The ethical frame of reference: human rights and equity

Despite the efforts made by the countries of the region, the results of the new development patterns have been unsatisfactory in economic and especially in social and environmental terms. For a large part of the population, this situation is compounded by the fact that people are often unable to exercise their rights as citizens. At the legal and political level, this is manifested in a fundamental inequality in terms of access to the justice system and in the population's lack of involvement in political decision-making. In the economic and social spheres, it takes the form of inequality of opportunity, job instability, low incomes, barriers to social mobility (particularly for women), a disregard for ethnic and cultural diversity and a lack of protection in the face of misfortune. Hence, the most crucial challenge confronting the region at the beginning of this new century is the creation of more equitable societies. This is the basic yardstick against which the quality of development must be measured.

Inequity is by no means only a trait of the current stage of development, however. On the contrary, it has been a characteristic of most of the various development models that have predominated over time in Latin America and, to a lesser extent, the English-speaking Caribbean. This situation is a reflection of highly segmented economic, social, gender and ethnic structures that are reproduced from one generation to the next by different mechanisms. The effects of the region's traditional, highly unequal distribution patterns have been heightened by a number of factors during the past few decades: the effects of macroeconomic adjustment programmes, especially during the debt crisis, which caused income distribution to worsen in some countries; the increasing structural heterogeneity of production sectors as a consequence of the reforms that have been implemented; and the growing educational demands of this era of globalization and knowledge —a sphere in which our region has clearly lagged behind.

If these serious inequity concerns are to be overcome, the countries will have to concentrate their efforts on breaking down the mechanisms through which poverty and inequality are reproduced from one generation to the next. Such efforts should focus on the four main channels of transmission —education, employment, wealth distribution and demographic patterns— and on the barriers created by gender and ethnic discrimination, which compound the effects of those factors. Within the context of this effort, education and employment are the two “master keys”. Providing access to education and to knowledge and information in general is the best way to construct more equitable frameworks that can serve as a basis for combating inequality in more stratified subsystems, such as the labour market and power sharing. Employment, for its part, is the main income-generation mechanism for the vast majority of households, as well as a mechanism for social integration and personal development.

It is also important to take steps to improve the distribution of assets, in particular by giving the poorest households greater access to housing (since this and human capital constitute the main assets for most households), and by providing rural and urban small businesses and microenterprises with greater access to factors of production (credit, technology, vocational training, management skills and land). In the case of rural enterprises, an infrastructure comparable to that enjoyed by urban firms is also required. Steps must also be taken to reduce the high demographic dependency ratio that is still characteristic of the poorer households in those countries in which the demographic transition is just starting.

In societies marked by severe inequalities, such as ours, the first step is to take action to ensure a greater equality of opportunity, a task which in itself is quite complex. This is due to the fact that underprivileged people are not in that position because of any single factor but because of a combination of factors. Consequently, a programme that addresses any one of these factors (e.g., free public education) may fail to achieve even its sectoral objective because the other factors may prevent the individuals in question from taking full advantage of the opportunity being provided to them. This is why the achievement of equality of opportunity requires an integral approach together with different measures for persons who are different or are in different situations. Furthermore, once equality of opportunity is achieved, care must be taken to ensure it is maintained. In fact, even when merit is the determinant of mobility, social ascents and descents can lead to inequality of opportunity in the long run. In addition, if society has not provided adequate opportunities to a large share of the population early on in those individuals’ lives, the ground they have lost is in large part irrecoverable, even if from that point on society manages to block the intergenerational transmission of inequalities that would have limited the opportunities open to their children. Hence the need for policies to offset inequalities that appear through life experiences as much as inequalities of opportunity. Moreover, equity —and consequently the reduction in social segmentation by income level, gender, ethnic group or some other factor— should be seen as an objective in its own right, as a genuine expression of a basic collective principle, while systems of economic organization (both private activity and the market as well as government intervention) are tools for attaining broader social objectives rather than being objectives in and of themselves.

If the construction of more equitable societies is defined as the essential aim of development, then the primary focus becomes the populace's civil and political rights, which include the individual's rights to exercise autonomy in relation to the power of the State and to participate in public decision-making, as well as economic, social and cultural rights, which are based on the values of equality, solidarity and non-discrimination. These sets of rights are universal, indivisible and interdependent. Although the legal statutes governing such aspects as the nature, protection and possibility of exercising civil and political rights and economic, social and cultural rights may differ, they all nonetheless form part of a comprehensive concept of the fundamental rights of the individual. Consequently, unless progress is made in the furtherance of economic, social and cultural rights, the very civil and political rights that took so much effort to win may be rendered meaningless for lower-income and less educated or less informed sectors of the population. Poverty and a failure or inability to engage in citizen action often go hand in hand. Indeed, these two sets of rights are what provide a genuine ethical frame of reference for economic and social policy and for the management of political affairs.

Given the significant progress made during the past decade in the furtherance of civil and political rights and their close relationship with equity, this is an opportune point in time for the region to prioritize the social aspects of citizenship. The Latin American and Caribbean region of today is one in which countries are in the process of consolidating their political democracies and in which a democratic culture that upholds civil and political rights is growing and spreading. Thus, it is not surprising that the focus of attention tends to shift towards guarantees for the rights to equity. These rights are oriented towards the establishment of an expanded form of citizenship in which, in addition to being assured of respect for their civil and political rights, citizens are able to enjoy their economic, social and cultural rights (ECLAC / IIDH, 1997).

Although there is a broad-ranging consensus within the international community as to the fact that these rights all form an indivisible whole, their indivisibility becomes a much more complex matter when it comes to the actual application of this concept. Guaranteeing economic, social and cultural rights has proved to be every bit as difficult as preventing the violation of individuals' and communities' civil and political rights. Ensuring the fulfilment of "the right of everyone to an adequate standard of living for himself and his family, including adequate food, clothing and housing, and to the continuous improvement of living conditions" (article 11, International Covenant on Economic, Social and Cultural Rights) transcends the ethical, cultural, political and institutional realm of society and has a direct economic impact in terms of the generation and allocation of a sufficient stock of resources. It should be borne in mind that the political recognition of the existence of economic, social and cultural rights does not in itself create wealth or distribute non-existent resources. The implementation of these rights must be compatible, in particular, with the level of development that has been reached and with the fiscal covenant that has been established in each society; otherwise, they could create unrealistic expectations or macroeconomic disequilibria that would ultimately, via other routes, hurt the very social sectors that they aim to protect. Equity, in this sense of the term, should be understood as the establishment of goals in these areas which society is actually capable of achieving, given its existing level of development. In other words, the point of reference is what is actually attainable.

The value of economic, social and cultural rights lies in the fact that they establish a legal and institutional regime that helps to inculcate ethical perspectives which then are mainstreamed into collective objectives and, hence, into economic and political decision-making processes that will make it possible to meet the citizenry's needs and diminish inequalities. The recognition of economic, social and cultural rights will ultimately make it possible to endow the citizens of each and every country in the region with a specific set of capabilities that will provide them with access, at a given level of competitiveness, to the networks through which other assets are exchanged. These capabilities will also promote a modern form of citizenship that will enable all people to become true social actors with powers of self-determination, the capacity to advocate given interests and make demands, and the ability to fully exercise their legally recognized individual and collective rights.

In recent decades environmental protection has also come to be regarded as a right and has been incorporated as such into the constitutions of a number of the countries in the region. Substantial progress was made during the 1990s in terms of the development of the concept of environmental justice based on the tenet that environmental policies and programmes need to balance out substantially different impacts on different social groups and should provide compensation on a retroactive basis for damage sustained as a result of pollution caused in the past. By the same token, some countries now adhere to the principle that communities should be consulted about economic activities that may affect the environment in which they live.

D. The integral character of development

The primary objective of achieving greater levels of well-being for the population as a whole cannot be attained unless the countries take major strides forward in the consolidation of dynamic, competitive economies capable of meeting the challenges posed by a globalized world. In this sense, equity and economic development (including its dimension of sustainable development) are part of a single, integral strategy and are linked by a complex set of interrelationships. Social development cannot be achieved through social policy alone, just as economic policy and growth cannot ensure the achievement of social objectives without reference to social policy. The elements that link economic and social policy include income and job creation; the stability of economic growth; the need to overcome both inherited and newly created productive heterogeneities through policies for enhancing small enterprises' contribution to development; and the possibility of channelling more resources into the development of human capital, social safety nets or comprehensive programmes for combating poverty in a manner consistent with the maintenance of a sound fiscal policy. In all these aspects, economic development patterns are not socially neutral, and it is therefore possible to seek out and promote more effective social linkages that will also heighten the impact of social policy. At the same time, social development, a reduction in inequality and the elimination of discrimination create favourable conditions for economic development through investment in human capital and the construction of a variety of forms of social capital that will enhance the systemic competitiveness of the region's economies.

Issues relating to economic and social development are also intertwined with those associated with sustainable development. This form of development poses, first of all, problems with regard to equity, especially inter-generational equity, within a context in which the interests of future generations are not taken into due account in public decision-making. There are also aspects of intra-generational equity that should not be overlooked: lower-income sectors are often the ones that are affected the most by pollution since they lack the economic means to protect themselves from it; poor *campesinos* have to work in the most severely degraded rural ecosystems; and poverty itself is, in many countries, one of the factors underlying the expansion of the agricultural frontier, which causes serious environmental damage. Sustainable development also poses problems with regard to economic efficiency, especially because in the long run, prevention is by far the most economically efficient form of environmental conservation. Moreover, many types of environmental damage are permanent and therefore constitute losses of irreplaceable natural capital.

Furthermore, citizenship is not only a right in and of itself that contributes to people's well-being; it is also the most effective means of ensuring that the social objectives of development will be taken into due account in public decision-making. It therefore contributes to the creation of a socially and politically stable framework for the promotion of economic development. In fact, social cohesion and political stability are increasingly perceived as a source of international competitiveness in today's globalized world.

This integral concept of development entails more than simply the complementarity of social, economic, environmental and democratic governance policies, on the one hand, and of human capital, social well-being, sustainable development and citizenship, on the other. In fact, it should be viewed as embodying the core meaning of development. In other words, in an integrated development process, people or their natural habitat cannot be sacrificed on the altar of economic growth. On the contrary, progress and growth should translate increasingly into fuller satisfaction of existing needs. This means that development should not only be aimed at fulfilling people's growing aspirations in terms of consumption —which, however legitimate they may be, are not enough in themselves to fulfil people's aspirations for a better quality of life. It should also seek to create a social and human climate of greater security and mutual trust, to consolidate a democratic political system that provides for greater participation by the public in government and decision-making, to enhance the well-being of those who have the least access to the benefits of modern society, to give rise to collective undertakings in which the citizenry has a greater commitment and sense of belonging to the society in which its members live, and to protect and improve the natural habitat for those who dwell in it today and for those who will do so tomorrow. These processes are what make development an integral phenomenon.

The concept of integral development has been at the heart of ECLAC proposals throughout its history and was also the point of departure for those it formulated in the early 1990s (ECLAC, 1990, 1992a, 1992b, 1994b). As time passes, our understanding of the importance of this concept has grown, and it has long been reflected in many development perspectives that have a great deal in common with the vision of development put forward by ECLAC,[10] such as the concept of human development (UNDP, 1994) and, more recently, that of "development as freedom" (Sen, 1999).

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[10] One of the earliest of these expressions was the distinction drawn between growth and development, which pervaded regional debates for some time.

Chapter II

The legacy of the 1990s

The implementation of structural reforms aimed at opening up economies to foreign competition and allowing for greater private-sector participation in development began in a few Latin American countries in the 1970s. The process slowed down during the early 1980s, but in the mid-1980s, it regained momentum and was extended to the entire region. It was consolidated during the 1990s, although efforts in the areas of trade, finance, labour and social security, and reform of the State proceeded at different paces in the various countries of the region.[1] Starting in the mid-1980s, efforts were also made to restore domestic macroeconomic equilibria. Structural reform and macroeconomic stabilization programmes, however, are not the only legacy that the region carries into the twenty-first century. There are also structural factors deeply rooted in its history, some effects of the debt crisis that have not been fully overcome, and other social and political processes. Moreover, the region is by nature very diverse in terms of the size, structure and degree of development of individual countries, as well as of the strength or weakness of their economic, political and social institutions.[2]

1 See a quantitative comparison of the status of reforms in Lora (1998) and Morley, Machado and Pettinato (1999).

2 ECLAC (2001) provides a more extensive assessment of the decade. For findings of a long-term ECLAC project on the impact of structural reform in Latin America and the Caribbean, see (Stallings and Peres, 2000; Moguillansky and Bielschowsky, 2000; Katz, 2000a; Morley, 2000; Weller, 2000).

A. Macroeconomic performance, integration into the world economy and changing production patterns

1. Macroeconomic performance

The most salient economic development of the 1990s has been the renewal of growth in a context of greater concern about domestic macroeconomic imbalances. Renewed growth has been especially evident in Latin America, where gross domestic product (GDP) has grown at a higher average rate than during the previous decade (3.2% per year between 1990 and 2000 as against 1.0% in the 1980s, or, in per capita terms, 1.6% versus -0.9%), a pattern that characterizes most countries in the region. This has also been true of the Caribbean, although growth has been slower (2.0% in the 1990s as compared to 0.1% during the 1980s), and there has been a slowdown in a larger group of countries. The increased concern with domestic macroeconomic imbalances among national authorities is reflected not only in the fact that fiscal deficits have been reduced to an average range between 1% and 2% of GDP (albeit with some exceptions, and an increase during the recent crisis), but also in the fact that inflation in Latin America has been stabilized at its lowest levels in half a century; it has stood at an annual rate of 10% or less since 1997 and has been brought down to single digits in most countries. In light of the major fiscal imbalances that had characterized the Latin American economies since the late 1970s, and given the long inflationary history of a number of them, especially in South America, these achievements are quite significant. They have translated into greater confidence in the region's macroeconomic authorities, though they have not brought stability of capital flows.

Nevertheless, the region's average growth rate is still too low to close the gap that separates it from the more developed countries; it is also below the rate considered by ECLAC to be desirable and necessary in order to overcome the serious problems of poverty afflicting the region. This growth has also been significantly slower than that experienced by Latin America between 1945 and 1980, namely, 5.5% per year or 2.7% per capita. This is the case even when the comparison is based on simple averages (4.9% and 2.1% respectively) so as to isolate the effect of the region's largest countries, Brazil and Mexico, whose economic growth in the 1990s was far below historical rates.[3] The pattern of a slowdown in comparison with the three and a half decades preceding the debt crisis has been evident in most Latin American countries; indeed, the only exceptions are those countries whose performance was relatively poor during that period (see figure 1).

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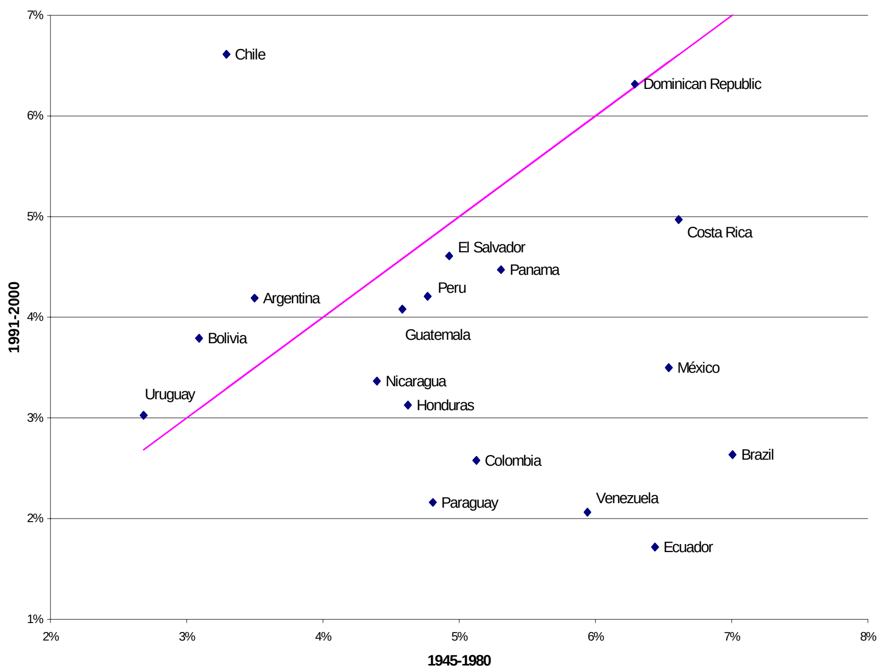
[3] The simple average growth rates in Latin America in the 1990s were 3.4% for GDP and 1.3% for per capita GDP.

Figure 1
AVERAGE GROWTH OF GROSS DOMESTIC PRODUCT



Source: ECLAC.

In itself, the fact that growth slowed down in comparison to pre-debt-crisis patterns raises questions as to whether reforms have had the strong positive effect on economic growth that some analysts believe they have. According to a recent ECLAC study (Stallings and Peres, 2000), the effects have been positive, but only moderately so.[4] In any case, given the variety of experiences in different countries in terms of the intensity of reforms, the different macroeconomic policies accompanying them and the overall outcome of such policies, it is difficult to make simple inferences about the impact of reform.

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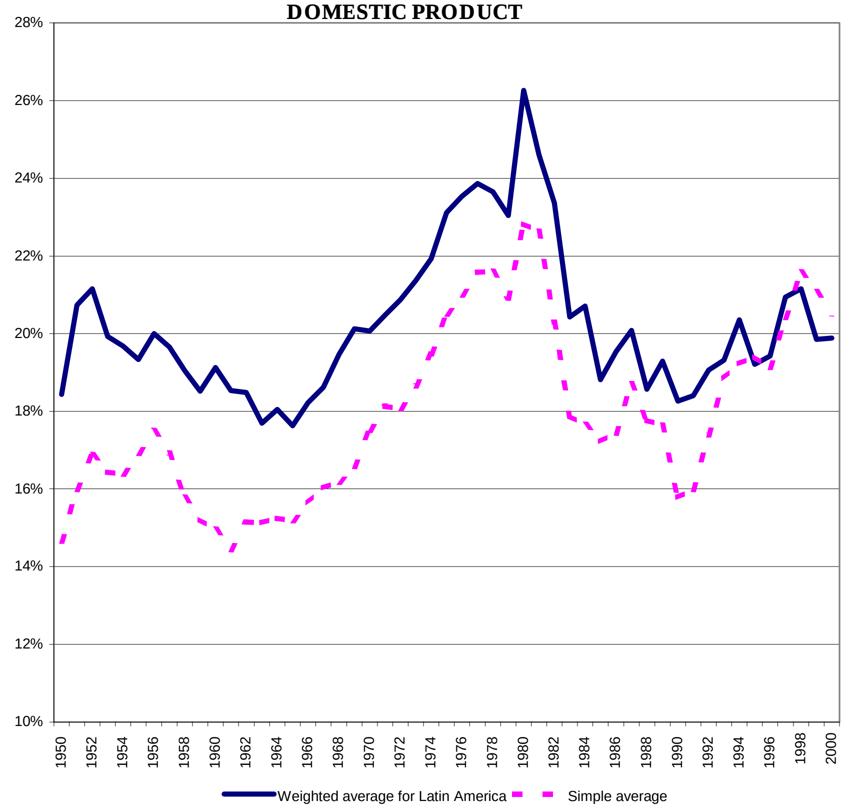
[4] According to this study, it is impossible to distinguish the impact of reforms from the impact of macroeconomic stabilization and changes in the external environment. Regarding the effects of reform on investment, see Moguillansky and Bielschowsky (2000), and regarding productivity, see Katz (2000a). These conclusions differ from those of previous studies (including, in connection with Latin America, IDB, 1997). UNCTAD (1999a) and Rodrik (1999) also raise questions about the effects of reform.

The trend in investment rates corroborates these observations. Although the investment ratio has generally recovered, it was not until 1997 and 1998 that the simple average ratio (which better reflects improvements in the relative strength of capital accumulation in smaller countries) reached levels comparable to those of the 1970s (see figure 2). The weighted investment ratio, however, remained below the levels of the 1970s. Furthermore, the incremental capital-output ratio has been much higher in the 1990s than in the 1970s (6.6 versus 4.8), which shows that the pace of investment has been less effective in promoting economic growth (see figure 3A).[5]

Figure 2
FIXED CAPITAL INVESTMENT AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT

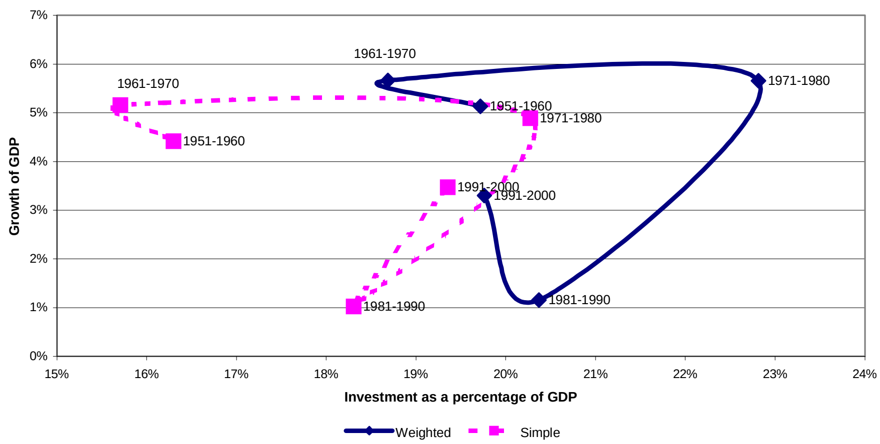


Source: ECLAC.

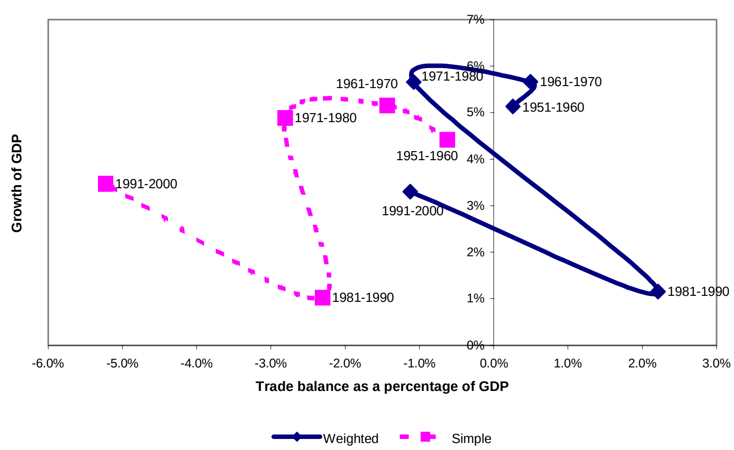
[5] Note that, according to figure 2.3A, the investment rate in the 1990s was similar to or higher than the rates prevailing in the 1950s and 1960s, as regards both the simple average and the weighted average. The comparison in terms of marginal capital-output ratios is much less favourable, however, because in the earlier decades, lower levels of investment were accompanied by higher economic growth rates.

Figure 3
FIXED CAPITAL INVESTMENT RATE, TRADE BALANCE AND ECONOMIC GROWTH
(Decade averages)

A. Fixed capital investment rate and economic growth



B. Trade balance and economic growth



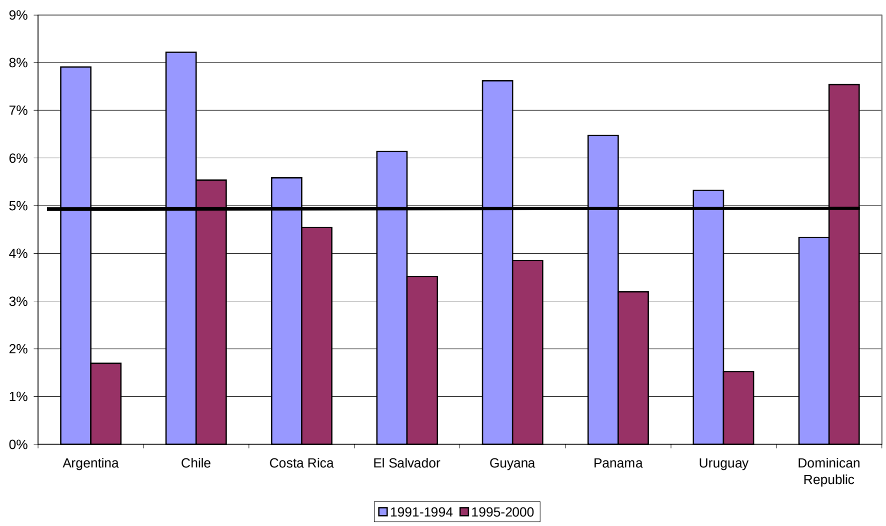
Source: ECLAC.

Macroeconomic cycles also reflect a marked dependency on the ups and downs of external financing. In the light of the changes in capital flows, two entirely different stages may be discerned in the last decade. The first was characterized by a notable increase of capital inflows to the region, which facilitated the application of successful anti-inflationary programmes in several countries and the implementation of structural reforms. The upturn in flows and the success of anti-inflationary programmes, alongside initially underutilized production capacity, were fundamental factors contributing to the rapid recovery of growth in the region in the first part of the decade (4.1% in 1990-1994). The great instability of capital flows that began with the so-called tequila effect led to a period of lower GDP growth (3.1% per year for 1994-2000) and marked instability in growth rates. Other signs of this dependence on foreign financing are the high sensitivity of the trade balance to levels of economic activity and the tendency to replace domestic saving by foreign saving that is common during times of renewed growth associated with capital inflows. It should be noted that national financial crises have been frequent during the 1990s; this was a worldwide phenomenon (IMF, 1998). These crises have absorbed considerable fiscal and quasi-fiscal resources in many countries and have affected the very functioning of financial systems, sometimes for extended periods of time.

The rapid growth experienced by some countries during the early 1990s has subsequently slowed down. This is the case with Argentina, Chile, Costa Rica, El Salvador, Guyana, Panama and Uruguay, the seven countries that had posted annual growth rates of over 5% between 1990 and 1994. Of those countries, only Chile, which achieved especially high levels of capital formation in the 1990s, maintained a slightly higher pace after the tequila crisis. Since that crisis, only one country, Dominican Republic, has increased its growth rate to over 5% per year (see figure 4).

It should be noted, moreover, that macroeconomic management has not been immune to the sensitivity shown by economic growth to capital flows, the propensity to domestic financial crises or the problems relating to productive restructuring mentioned below. This brings to light certain contradictions between different objectives and economic policy tools. In particular, the strong bias in favour of currency revaluation that has characterized the boom periods of the 1990s has been responsible for the serious adjustment problems faced in several countries by sectors that produce tradable goods and services, as well as for the speculative attacks that have accentuated instability and increased the risk of financial crises. Also, in many countries, the tendency to adopt pro-cyclical monetary and credit policies, which foster lending booms and sharp drops in interest rates during periods of expansion and marked monetary contraction and high interest rates during crises, has been the underlying cause of national financial crises and unstable economic growth.

Figure 4
GROWTH OF THE MOST DYNAMIC ECONOMIES



Source: ECLAC.

2. Integration into the world economy

During the 1990s, significant progress was made towards integrating the Latin American and Caribbean countries into the world economy. During the decade, the region posted the fastest growth of real export volumes in its history: 8.9% per year between 1990 and 1999. In fact, this figure is higher than the rate achieved by world trade as a whole. The strong growth of Mexican exports (13.7% per year) explains much of this strength. Indeed, in 1999, Mexico accounted for nearly half of Latin America's exports of goods. Brazil, on the other hand, stands out for the relatively slow growth of its exports (3.2% per year), which was not only lower than the regional average for the 1990s, but lower than its own performance since the 1960s, as well. The remaining countries, however, show strong growth, of close to 8% a year. Even so, the Latin American and Caribbean share of world exports remains very low, at only slightly above 5%.

Export diversification has progressed at very different speeds in different countries and subregions. The most salient development is the rapid change in the composition of Mexican exports, though great diversification also took place in Central America and the Dominican Republic (see table 1). In the case of Mexico, there has been a boom in industrial exports to the United States covering a wide range of products, including assembly (*maquila*) products. In the smaller countries, the diversification is more closely related to the development of an assembly industry geared towards the United States market; it includes traditional manufactures (particularly clothing) and, to an increasing extent, electronic products. Given the increased weight of assembly products in terms of value added, both the rate of growth and the degree of diversification of exports have been less pronounced. The change in the composition of exports has been slower in Brazil —which also has a highly diversified export structure— and especially in the rest of South America, where commodities, traditional manufactures and natural-resource-intensive manufactures still account for a large share of exports. The English-speaking Caribbean did not experience a significant change in the composition of exports during this decade either. Thus, in most countries of the region, the growth of exports has gone hand in hand with a still inadequate diversification of the export base, both in terms of products and of target markets (ECLAC, 1998d). These patterns of specialization have meant that while Mexico and some Central American and Caribbean countries have been increasing their exports in dynamic items among the Organisation for Economic Co-operation and Development (OECD) countries imports —although, once again, assembly operations account for a significant part of this process—[6] the South American countries have done so in goods that have been losing ground in terms of purchases by the developed countries.

[6] In order of importance in terms of absolute growth, the share in OECD imports has increased in the following sectors: clothing (Mexico, Dominican Republic, Honduras, Guatemala, Costa Rica and Jamaica), the automobile industry (Mexico), non-electrical machinery (Mexico and Brazil), electrical machinery and electronic equipment (Mexico, Dominican Republic and Costa Rica), computers (Mexico) and chemicals and pharmaceuticals (Mexico).

Table 1

COMPOSITION OF LATIN AMERICAN AND CARIBBEAN EXPORTS,[a] 1988 AND 1998

(Percentages)

Categories	Mexico [b]		Brazil		South America, except Brazil		Central America [c]		English-speaking Caribbean [d]		Latin America and Caribbean		Intraregional exports		South American extraregional exports	
	1988	1998	1988	1998	1988	1998	1988	1998	1988	1997	1988	1998 [e]	1988	1998	1988	1998
Commodities	**42.9**	**10.0**	**18.8**	**19.6**	**44.0**	**40.4**	**63.8**	**41.7**	**27.8**	**28.2**	**35.5**	**22.9**	**20.2**	**15.5**	**33.4**	**38.8**
Agriculture	10.7	4.1	12.2	12.4	20.9	20.3	63.2	41.0	10.4	7.7	17.2	12.3	8.0	8.6	17.5	19.9
Mining	2.8	0.4	6.5	7.2	5.2	4.2	0.1	0.2	3.6	9.8	4.9	3.0	3.9	1.5	6.0	7.0
Energy	29.4	5.5	0.0	0.0	17.9	15.8	0.4	0.5	13.8	10.6	13.4	7.6	8.4	5.3	9.9	11.9
Industrial goods	**56.7**	**89.9**	**80.1**	**79.2**	**55.6**	**57.8**	**35.7**	**58.2**	**72.0**	**70.2**	**63.9**	**76.2**	**79.4**	**84.3**	**65.9**	**60.1**
Traditional	10.8	20.0	29.2	28.9	20.0	21.3	23.6	31.1	19.1	21.0	21.3	22.6	17.4	26.4	25.5	23.7
Food, beverages and tobacco	3.9	2.3	16.6	16.3	11.8	12.3	12.3	13.0	10.7	11.8	11.8	8.7	6.5	12.1	15.1	14.4
Other traditional exports	6.8	17.7	12.6	12.6	8.1	9.0	11.3	18.1	8.3	9.3	9.5	13.9	11.0	14.4	10.4	9.3
Natural-resource-intensive with substantial economies of scale[f]	20.6	8.3	31.5	24.1	33.1	27.6	6.9	8.9	50.4	47.3	29.5	18.1	40.7	28.2	31.3	26.7
Final-use durables [g]	10.2	24.0	8.7	10.7	0.8	5.1	0.2	1.1	0.3	0.1	5.4	14.2	8.7	15.4	3.9	3.2
Diffusers of technical progress [h]	15.1	37.6	10.8	15.5	1.8	3.8	5.2	17.0	2.2	1.7	7.7	21.4	12.5	14.3	5.2	6.4
Other goods	**0.3**	**0.1**	**0.8**	**1.2**	**0.4**	**1.8**	**0.5**	**0.1**	**0.2**	**1.7**	**0.5**	**0.9**	**0.3**	**0.2**	**0.7**	**1.2**

Source: ECLAC, based on official figures. For a detailed description of the classification used, see ECLAC *Panorama de la inserción internacional de América Latina y el Caribe, 1996* (LC/G.1941), Santiago, Chile, December 1996, pp. 217-225; and *Latin America and the Caribbean in the World Economy. 1998 Edition* (LC/G.2038-P), Santiago, Chile, March 1999, p. 172. United Nations publication, Sales No. E.99.II.G.3.

[a] Includes the following 25 countries: Argentina, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominica, Ecuador, El Salvador, Grenada, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Saint Lucia, Suriname, Trinidad and Tobago, Uruguay and Venezuela.

[b] Since 1992, Mexico has been listing *maquila* products as "Goods". Before that date, they were classified under "Trade in services". Therefore, the data for 1988 and for 1998 are not comparable.

[c] Includes the following five countries: Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.

[d]. Includes the following eight countries: Barbados, Belize, Dominica, Grenada, Jamaica, Saint Lucia, Suriname, and Trinidad and Tobago.

[e] In the case of Barbados, Belize, Dominica, Grenada, Paraguay and Suriname, where data for 1998 were lacking, 1997 figures were used.

[f] Includes, among other industrial commodities, petrochemicals, paper, cement and basic metals.

[g] Includes household electric appliances and vehicles (and parts), as well as assembly operations.

[h] Includes machinery, instruments and fine chemicals, as well as assembly of those products.

One important element of the expansion and diversification of exports is the significant progress of intraregional trade associated with the strengthening of long-standing economic integration and free trade agreements or the creation of new ones. Growth in trade was especially strong within the two main subregional agreements, the Southern Common Market (Mercosur) and the Andean Community, between 1990 and 1998 (22% and 19% per year, respectively). Growth has been much slower in the Central American Common Market and the Caribbean Community (Caricom); in the case of Central America, it occurred mostly during the first part of the decade. One salient feature of intraregional trade has been its emphasis on non-traditional manufactures, which have also been increasingly diversified. In fact, if such trade is excluded, the heavy concentration of South American exports on commodities becomes even more apparent (see table 1). Thus, one of the most unfortunate costs of the recent crisis has been the marked reduction of trade flows within the South American integration groups, a trend that was particularly acute in 1999 (close to 25%).

In terms of productive restructuring in the context of international markets, the region has been generating two basic patterns of specialization. The first is distinguished by the strong growth of manufacturing exports with high contents of imported inputs, which are geared mainly towards the United States market. This pattern, which is prevalent in Mexico and some Central American and Caribbean countries, goes hand in hand with strong national linkages in the non-*maquila* sectors in Mexico, traditional agricultural exports or a process of agricultural export diversification in Central America, and the growth of service exports (especially tourism) in the Caribbean. Under the second pattern, the predominance of extraregional exports of commodities or natural-resource-intensive industrial products is combined with much more diversified intraregional trade. This is the prevailing model in the South American countries. In the case of Brazil, it is combined with some technology-intensive manufactures, and in Brazil and a number of other countries, with labour-intensive manufacturing exports and a substantial amount of manufactures for domestic markets. There is also a third pattern of specialization, which is found especially in Panama and some small economies in the Caribbean Basin, in which service exports (financial, tourism and transport services) predominate.

The opening up of economies and renewed access to financing from abroad has led to an even more rapid growth of imports. For this reason, the trade deficit has tended to widen, reaching levels comparable to those of the 1970s (or higher, if estimated as simple averages). This is serious cause for concern, since these deficits coincide with economic growth rates that are two or more percentage points below those registered in the 1970s (see figure 3B). There has thus been a deterioration of the relationship between economic growth and external accounts, which results both from the structural changes brought about by economic liberalization and the trend towards real revaluation that prevailed during the 1990s.[7]

The boom in foreign direct investment is a second sign of the region's progress toward integration into the world economy. The boom has been created by a number of forces, namely, the deregulation of natural-resource-intensive sectors, the privatization of sectors traditionally controlled by the State, the application of free trade agreements or preferential arrangements granted by more industrialized countries or regions (particularly the North American Free Trade Agreement and the Caribbean Basin Initiative) and the restructuring of productive sectors in the framework of the regional integration process.[8] Given the instability of financial flows, foreign direct investment also became the basic engine for the return to a situation of net positive resource transfers from abroad, thus reversing the negative transfer characteristic of the "lost decade". Since 1999, however, the region has posted slightly negative net resource transfers, for the first time in nearly 10 years (ECLAC, 1999b).

The foreign direct investment boom has not always led to an increase in production capacity, since it has included a large share of mergers and acquisitions of existing assets, first public (privatizations) and more recently private. In recent years (1997-1999) in particular, flows associated with mergers and acquisitions have represented around 40% of foreign direct investment. The rapid growth of this type of investment has led to a rapid increase in the participation of foreign firms in production and sales, especially since the middle of the decade.[9] A new development, although involving smaller quantities, has been the appearance of considerable intraregional direct investment activity, including mergers and acquisitions and a wave of strategic alliances between large domestic firms, perhaps as part of a transition towards subregional or regional multinational corporations.

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7 This deterioration also becomes evident when external accounts are measured in terms of the current account or the net transfer of resources from abroad. Moreover, it is even more marked when compared with the 1950s and 1960s, when the region's economies actually grew more rapidly than in the 1990s and generated trade surpluses. See a similar analysis in UNCTAD (1999a), which shows that this deterioration has occurred throughout the developing world, except in the case of China and, to some extent, of certain other strong Asian economies.

8 See an analysis of these trends in ECLAC (1998b).

9 According to ECLAC (2001b) estimates in regard to sales made by the 500 largest businesses, those of foreign companies increased from 27.4% in 1990-1992 to 32.1% in 1995 and 43% in 1998.

3. Changing production patterns

The sluggishness of the region's average economic growth is a sign of macroeconomic, sectoral and microeconomic problems. At the aggregate level, as noted earlier, it reflects a worsening of the relationship between economic growth and external accounts, inadequate recovery of investment ratios and unfavourable marginal capital-output ratios. At the sectoral level, it reflects the inability of different sectors to face foreign competition and the breakdown of production chains, especially in manufacturing. At the microeconomic level, it reflects the tendency of businesses to adopt "defensive" strategies as they try to adjust to the new context (low-investment organizational, productive restructuring, and marketing strategies) rather than "offensive" strategies (combining earlier restructuring efforts with substantial increases in investment in new equipment and technology, as well as with different types of strategic alliances). In terms of Schumpeter's metaphor of the "creative destruction" that is typical of productive restructuring processes, it might be said that the reform process has involved more "destructive" than "creative" elements.

At the sectoral level, different developments have taken place (ECLAC, 2001; Stallings and Peres, 2000; Katz, 2000a; Moguillansky and Bielschowsky, 2000; David, 2000; Ocampo, 2000). One of the great paradoxes of the opening up of economies to the outside world is that the most dynamic sectors have been those which produce non-tradable goods and services, while the share of tradable goods in overall economic activity has fallen. In relative terms, transport, communications, energy and financial services, as well as construction, have been dynamic during boom periods. Among the tradables sectors, manufacturing has, in general, suffered the most in comparison with its own historical record. This has been especially true in the more traditional, labour-intensive industries (clothing, footwear and leather manufactures, furniture, etc.), with the exception, in the latter case, of those industries associated with in-bond processing (*maquila*) activities. The manufacturing sectors that have performed well include *maquila* activities, the automobile industry (which is favoured, in Mexico, by access to the United States market and, in South America, by special protection mechanisms provided for under integration arrangements), some natural-resource-processing industries, and certain activities geared towards the domestic market during periods of booming demand (such as construction materials, beverages and food processing).

Agriculture has also grown more slowly than it did before the debt crisis, although in this case, there is no uniform pattern throughout the region. Moreover, the patterns of structural transformation in this sector follow long-standing trends that sometimes are unrelated to the reform process. In the English-speaking Caribbean countries, the erosion of traditional trade preferences has been reflected in a severe crisis in the farming sector. Mining has tended to grow rapidly, and extraction activities have grown more than those involving a greater value added (refining).

This sector, like those of communications and, to a lesser extent, energy, has benefited from institutional changes designed to open up opportunities for greater private-sector participation and foreign investment. In the case of mining and foreign investment, there is more protection of property rights. Increased protection of intellectual property rights also works to the benefit of a number of activities and foreign investors.

The more competitive climate and the opening up of opportunities for the private sector have also led to progress in terms of market efficiency and contestability, and this has benefited users and improved the allocation of resources. However, a growing economic concentration has created pressure in the other direction, even in sectors that produce tradable goods, in cases in which increased protection of intellectual property has raised prices (of some pharmaceuticals, for instance). The problem is even more complex when it comes to infrastructure service sectors, particularly when policies of openness to private investment have not been explicitly aimed at increasing competition or have even led to the replacement of public monopolies with private ones (at least temporarily), and, more generally, when the development of regulatory regimes has tended to lag behind, as has often been the case. Furthermore, where privatizations have been badly designed and there has been no prior regulation, the process has given rise to massive transfers of wealth. In social services, there have been other types of problems, as noted below. These results thus reflect the problems that have been created by the region's lag in adopting regimes to promote competition and developing regulatory mechanisms that are appropriate for the new development framework.

The relatively slow growth of the region is evident in the poor productivity performance of the Latin American and Caribbean economies. In most countries, even in sectors where productivity has risen, there has been a widening of the gap with respect to the industrialized economies (especially the United States) in the 1990s. This is especially true for manufacturing. Indeed, in many countries and manufacturing subsectors, the productivity gap in relation to the United States economy narrowed more quickly during the 1970s and the 1980s than during the 1990s. During the 1990s, in fact, the gap has tended to widen as a result of the rapid technological changes that have occurred in the United States. At the subsectoral level, the closing of the technology gap has much more to do with the pace of economic growth at that level than with adjustments resulting from the reform process.[10] The farm sector has experienced a sustained increase in productivity; this is part of a long-term trend which does not seem to have accelerated to any significant extent during the 1990s (Dirven, 1997; Ocampo, 2000). Telecommunications, mining and, in some cases, energy are perhaps the sectors that most clearly demonstrate increases in productivity in the 1990s, as a result of privatization and the growing role of multinational enterprises in their development (ECLAC, 2001; Stallings and Peres, 2000).

In more general terms, productivity trends reflect a tremendous discrepancy between the positive evolution of this variable in a group of successful firms and sectors and its poor performance at the aggregate level. This contrast shows that the labour, capital, technological capacity and, sometimes, land that have been displaced from sectors and firms undergoing productive restructuring have not been adequately reallocated to sectors that are growing. Indeed, except in the case of the three Southern Cone countries (Argentina, Chile and Uruguay), average labour productivity rose less in the region during the 1990s than between 1950 and 1980 (see figure 5). Total factor productivity rose at an annual rate of 1.3% during the 1990s, a figure that does not compare favourably with the 2.1% of the three decades preceding the debt crisis (Hofman, 1999).

This varied pattern of productivity performance brings to light one of the main features of the productive restructuring processes that have been carried out in the region, i.e., the increased internal diversity of productive sectors, or "structural heterogeneity", the term traditionally used at ECLAC. This is an indication of the fact that restructuring has not been "neutral" in terms of its impact on different economic agents. The big winners have been the multinational corporations and certain large national firms; this has led to a process of economic concentration that fits into the international pattern and is evident in almost all the countries. The history of the small and medium-sized enterprises, both urban and rural, is much more diverse and has been characterized, in a number of countries, by high mortality rates.[11]

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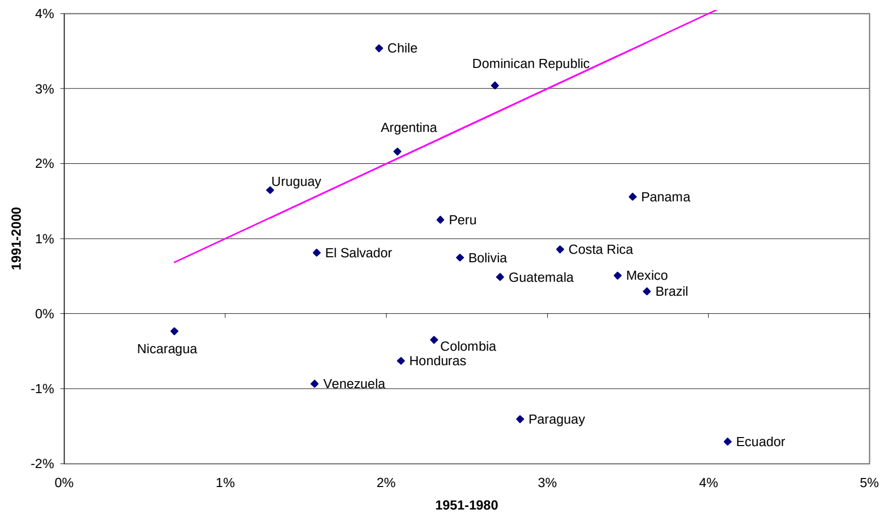
[10] See an extensive analysis of trends in manufacturing productivity in Katz (2000a).

[11] See an extensive analysis of this in ECLAC (2001), Stallings and Peres (2000), Peres (1998) and Peres and Stumpo (1999).

Figure 5
LABOUR PRODUCTIVITY
(Average growth of GDP per worker)



Source: ECLAC.

4. The changing institutional framework

Many of the changes in public policy that occurred throughout the 1990s were the result of a redrawing of the boundaries between public and private activity. Thus, the opening up of markets redefined the scope of public activity. The countries of the region had to address the challenge of modernizing their public institutions, in terms both of their size and of the rules of the game (policies, legal norms and patterns of behaviour). Indeed, both aspects proved to be crucial once the reforms began to mature. As evidenced by the experience of several countries, some of the institutional changes that were put in place (including the development of an adequate supervisory and regulatory framework in the financial sector) played a fundamental role in determining the costs involved in the move towards economic liberalization.

Although this is a field in which most countries of the region still have a long way to go, significant progress was made in some areas. At the macroeconomic level, a wide variety of discretionary oversight powers were replaced by a few general rules that are more "market-friendly" but more stringent as far as compliance is concerned. By the same token, the distribution of functions (e.g., between fiscal and monetary authorities) was more clearly defined, thus making it possible to establish mutual accountability. In general, the changes introduced strengthened the confidence of economic agents in macroeconomic management, especially during the crises of 1994-1995 and 1997-1999.

Other institutional and organizational changes originated in sectors in which new modalities of public and private operation played a key role. One of these was that of infrastructure services in which public action was primarily geared towards promoting private investment and competition and, as a complement to this, controlling the distorting effect of monopolies. As a result of the serious effort made in this area, new institutional capacities were developed for promoting competition, regulating specific markets and, to a lesser extent, protecting consumers. Parallel to this, the tasks that had formerly been melded in the operation in integrated State-owned monopolies were split, as policy design, service and regulatory functions were separated. In some cases, innovative schemes were developed for financing the services in question. Similar changes took place in the social field (see section 2(b)).

Although the institutions involved in all these areas have learned a great deal from the process, the results achieved have been modest compared with the magnitude of the challenge involved.

B. Fragility of social trends

1. Weakness of labour markets

This growing internal diversity and the weakness of social linkages that prevailed during the economic recovery and productive restructuring of the 1990s have been reflected, in particular, in the performance of labour markets (ILO, 1999a; ECLAC, 1999b; Weller, 2000). Despite the economic recovery, open unemployment rose by almost three percentage points during the 1990s and shot up quite suddenly in some countries, particularly during the tequila and Asian crises. Indicators of a deterioration in job quality are even more widespread, as shown by the relative increase in employment in low-productivity sectors, primarily in the informal sector, which accounted for seven out of 10 jobs in urban areas in the 1990s. This deterioration is also evident in the relative increase in temporary employment and in the number of individuals working without a contract in various countries (Tokman and Martínez, 1999). There are, of course, important exceptions to these negative trends, both in countries where several labour indicators have improved (Chile, Dominican Republic, Panama and Uruguay) and in sectors that have actively promoted job creation throughout the decade in several countries. It is clear, in this regard, that the type of international specialization that has been emerging in Mexico and some Central American and Caribbean countries is more labour-intensive (although often involving unskilled labour), while in South America, activities tend to be more capital- and natural-resource-intensive.

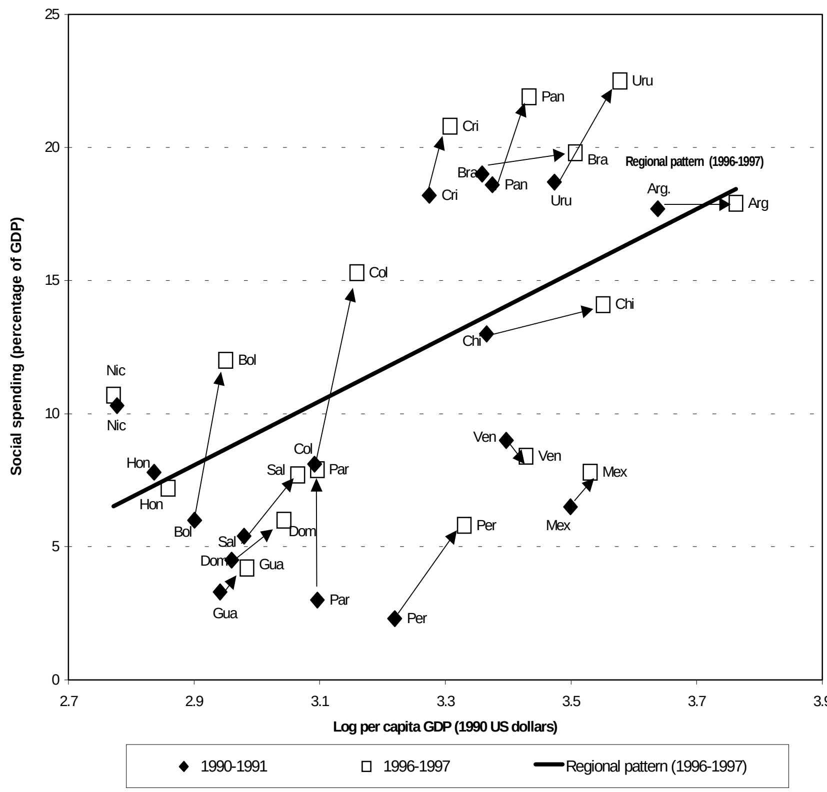
Weak job creation and concentration in low-productivity areas, which are considered to be responsible for the unsatisfactory performance of labour productivity in the 1990s, indicate that Latin America is not taking advantage of the opportunities that have opened up during the current stage of demographic transition, when the working-age population is growing quite rapidly, and family dependency rates are dropping, thus facilitating the entry of more women into the labour market. This is reflected in the fact that while demographic growth has fallen from an annual rate of 2.7% in 1950-1980 to 1.7% in the 1990s, the economically active population has grown at a fairly steady rate (2.7% in the earlier period and 2.6% in the 1990s). This should make it possible to achieve much higher growth in per capita output, just the opposite of the pattern prevailing to date. Thus, it is clear that this "demographic bonus" is not captured automatically.

The considerable increase in the income gap between skilled and unskilled workers —which has grown by 18%-24% on average in the region— has been an even more widespread phenomenon than the slow growth of employment, basically as a result of the widening of the income gap between college-educated workers and others (ECLAC, 1997b; Morley, 2000). This trend goes hand in hand with a growing structural heterogeneity and the high premiums paid for job skills in the present context of liberalization and globalization. Hence, the greater participation of women in the labour market is the most common favourable pattern to be found in the current trends in labour markets. In a number of countries, women's participation has been accompanied by a reduction in the income gap between men and women, which still remains high.

2. Social spending and restructuring of social services

On the social front, the most important development has been the channelling of greater amounts of public resources into social spending, which rose from 10.1% of GDP in 1990-1991 to 12.5% in 1996-1997 in Latin America, thus reaching the highest levels in the region's history (see figure 6) (ECLAC, 1999d; Ganuza, León and Sauma, 1999). This is more apparent in Latin America than in the Caribbean, which has had and continues to have higher levels of social spending, but no clear upward trend over the past decade (ECLAC, 1998d). Also, the increase has tended to occur more rapidly in countries with lower per capita income, where social spending is usually lower, basically as a consequence of their less developed social security systems. Costa Rica, Panama and Uruguay have strengthened their leadership in these areas even more, and Bolivia and Colombia have moved from relatively low social spending to above-average levels, bearing in mind their income levels. In some countries, however, social spending is still inadequate by comparison with the pattern in the region as a whole.

Figure 6
PER CAPITA GDP COMPARED WITH SOCIAL SPENDING



Source: ECLAC.

The increased spending has been accompanied by more selective allocation criteria which at least partially take into account the significant differences in the distributive impact of different types of spending (ECLAC, 1998d). Changes have also been made in the way public resources are allocated; systems are more decentralized, and use is beginning to be made of management contracts with public entities that provide services directly, along with criteria for evaluating their performance. Nevertheless, the efficiency and quality of social services continue to be low. Furthermore, while access to some social services has become more equitable, problems relating to the differences in the quality of services received by different social sectors are on the increase.

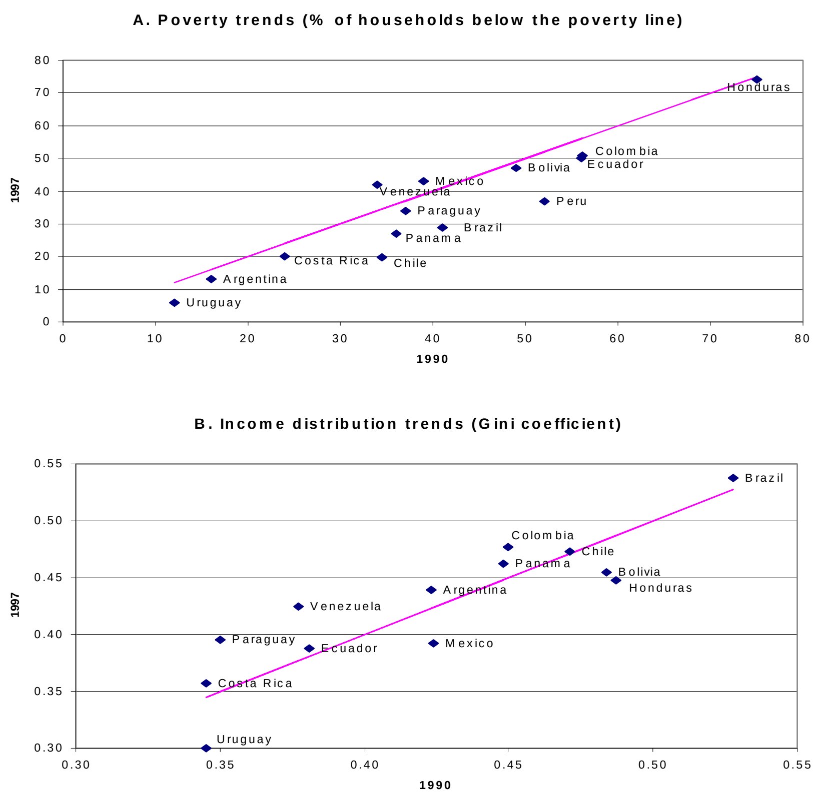
In a number of countries, the increased spending has led to the development of arrangements for private-sector participation in the provision of certain social services. This has brought progress in terms of efficiency, including the use of equivalence criteria between contributions paid into the system and benefits received. In some cases, however, this has gone hand in hand with a concentration of private service providers in the higher-income, lower-risk sectors and a weakening of the principles of universality and solidarity that are normally honoured in traditional social security systems. It should be noted, however, that for the most part these principles have not been properly applied in the region, as reflected even today in the incomplete and segmented coverage provided, as well as the proliferation of special arrangements that benefit certain groups in the population. Some of these preferential arrangements, especially early retirement plans financed with general public funds, entail high fiscal and social costs, insofar as they hinder the expansion of services for the poorer sectors.

3. Poverty and income distribution

Another important advance on the social front has been the gradual reduction of the high levels of poverty that were inherited from the “lost decade”; these figures fell from 41% of households in 1990 to 36% in 1997 (ECLAC, 1999b). Nevertheless, the size of the poor population remained slightly above 200 million until 1997 and rose by some 20 million during the recent crisis. This increase was concentrated in the South American countries, which were hard hit by the Asian crisis. On the other hand, the countries that were relatively unscathed by the crisis, including Costa Rica, Dominican Republic and Mexico, made some progress in the struggle against poverty. In any event, the decade ended with higher levels of poverty than those of 1980. In addition, the phenomena connected with hard-core poverty have been reflected in the serious problems being faced by the countries (even those that have been most successful in reducing poverty) in their efforts to combat extreme poverty, especially in rural areas.

Trends in regard to poverty have varied around the region. In any case, there are some countries where poverty is greater than it was in 1990 (see figure 7), and others where it is greater than it was before the debt crisis. The factor that has most significantly affected the aggregate result is economic growth. Hence, Chile, the strongest economy in the region during this decade, has made the greatest progress on this front (15 percentage points between 1990 and 1998). There has not, however, been an automatic relationship between high growth and reduced poverty. The relationship has been strong only when growth has been accompanied by strong creation of good jobs —a pattern which, as we have seen, has been absent in most countries of the region. This is why economic growth in a number of countries has not translated into a proportional reduction of poverty.

Figure 7
TRENDS IN POVERTY AND INCOME DISTRIBUTION



Source: ECLAC.

Some countries have succeeded in reducing poverty by efficiently channelling monetary transfers from the public sector towards poor households and checking hyperinflation, which was hitting the low-income population of some countries hard at the beginning of the decade. The most notable case is that of Brazil, where a combination of these two strategies led to a 12-percentage-point decline in poverty between 1990 and 1996. In Peru, and to a lesser extent Argentina, the curbing of hyperinflation was a positive factor. Analyses to date indicate that the end of hyperinflation had a positive effect in terms not only of poverty, but also of income distribution.[12]

Unlike poverty, changes in income distribution have been very uneven throughout the region and show no sustained tendency to improve (see figure 7). In fact, although comparing data on income distribution over long periods of time is a complex matter, there may be no country in the region where inequalities are lower than they were three decades ago (when measuring instruments were already in place in a number of countries), and in many countries, the inequality is greater today. In general terms, however, the English-speaking Caribbean has lower levels of inequality than Latin America. Among the Latin American countries, Uruguay is perhaps the only one where falling levels of poverty are accompanied by a relatively equitable distribution of income in comparison with international patterns, but even there, distribution has not yet regained the favourable levels that it enjoyed up until thirty years ago. Cuba has maintained the most equitable income distribution in the region, despite the tensions created by the serious economic crisis it experienced in the early 1990s and the subsequent restructuring process, although it was not able to avoid significant drops in per capita consumption.

There is considerable disagreement as to why distribution indicators have worsened and why this happened when it did in individual countries. Different studies focus on aspects such as structural reform, the debt crisis or more universal trends having to do with the globalization process itself.[13] This unfavourable trend has aggravated the pattern of poor income distribution that had already existed in the Latin American and Caribbean countries during earlier stages in the development process. Hence, the lack of equity is not just a characteristic of the current development model (or models), but a pre-existing condition that reflects serious problems of social stratification that have been handed down from generation to generation (ECLAC, 1998b).

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12 On this subject, see Morley (2000).

13 See, for example, Altimir (1997), Berry (1998), Morley (1995 and 2000), IDB (1997 and 1999), ECLAC (1997b).

ECLAC studies show that the inequalities are due to a combination of factors relating to education, demographics, employment and the distribution of wealth. As regards the first two, some progress was made during the 1990s, although not enough, to be sure, given the increasing demand for skills on the new regional and international scenes. One sign of this situation, as noted above, is the growing income gap between college-educated workers and others; from the standpoint of distribution, this gap has offset the favourable effect of improvements in the average educational levels of the population. In some countries, there has also been some narrowing of disparities between the incomes of workers who have received only primary education and those who have some secondary education. This has had a positive effect in terms of traditional measurements of income distribution; at the same time, however, there has been a greater dispersion of incomes among college-educated workers, the negative effect of which may be more significant (Morley, 2000).

In view of the increasing educational requirements for all occupations, even the significant progress that has been made in educational levels —on average, 20- to 24-year-olds have received three and a half years more schooling than their parents— has been inadequate in terms of improving employment opportunities and earning power. From the standpoint of the labour market, this "devaluation" (diminishing yield) of education has meant that only 47% of young people in urban areas and 28% in rural areas have improved their occupational outlook by increasing their educational level (in comparison with their parents') above the levels required by the job market. This is consistent with survey results, which show that only half of Latin America's youth believe that they have better opportunities than their parents did (ECLAC, 1998b).

In terms of population, poor households no longer have as many children as they used to, although this is still an important factor, especially in countries where there is a significant lag in the demographic transition. On the job front, however, there has been a deterioration, as indicated above. The ongoing integration of women into the labour market is one of the factors that has had a positive effect on income distribution in several countries in the region, as well as in other areas of development. Not much is known about what has happened in terms of wealth, but it is quite possible that there has been a worsening on this front as well.

The uneven distribution of economic growth in the society and the consequent effect on well-being in different sectors has become an increasingly complex issue in a world where communications have expanded at a fast pace as a result of technological progress around the world, the explosive globalization of the culture industry, the growth generated by economic liberalization and the creation of new opportunities for the exercise of citizenship. Thus, while the flourishing culture industry seems to promote new moves towards “symbolic integration”, this trend runs up against sharp differences in income between developed and developing economies and inequities in the distribution of goods, services, assets and know-how in the region. As new goods and services produced by the culture industry are becoming cheaper and are easily introduced into new sociocultural environments, they are met by a new form of functional illiteracy, i.e, computer illiteracy. This has become a serious handicap for large contingents of children and youth in Latin America and the Caribbean who have no access to the world of digital information, as well as for adults for whom this deficiency is added to the disadvantages that have always been a part of their life. Indeed, the tension between income concentration and openness in trade and communications in Latin America and the Caribbean is among the most acute in the world.

C. Incomplete progress and new challenges in the areas of gender equity, sustainable development, democracy and citizenship

Some of the main advances in Latin America and the Caribbean have been made outside the economic sphere. Two of these have to do with issues that occupy a prominent place on the public agenda, but on which only partial progress has been made in practical terms, i.e., gender equity and sustainable development. One of the most decisive developments of the 1990s has been the advance and extension of democratic systems —a process that also has weaknesses and difficulties— and the emergence of new opportunities for the exercise of citizenship.

1. Incomplete progress in the area of gender equity

Substantial progress has been made in advancing the gender equity agenda, although not without some setbacks and resistance. After the first World Conference of the International Women's Year, held in Mexico in 1976, governments began to create mechanisms specifically designed to improve the status of women. All the countries of the region now have in place agencies that are specifically concerned with the implementation of women's policies and programmes. Thus, progress has been made in designing and developing policies and programmes based on an integral approach to development and a cross-cutting gender perspective which have led to the formulation of equal-opportunity plans, plans of action and national plans for women. All the countries of the region have now ratified the Convention on the Elimination of All Forms of Discrimination against Women, and other significant legal reforms have been implemented to eliminate discrimination. Even within public institutions, however, these advances have fallen short because of the institutional weaknesses of the mechanisms set up for the advancement of women and the high turnover rate of technical teams; there has also been ideological resistance to change and the usual conflicts inherent to the public management process. In addition, although more and more women are participating in politics, and they have gained increased access to public agencies, these advances are still very limited, and there are still marked differences between the status of men and women in this respect.

Along with these incomplete advances in public policy, steady progress has been achieved over the last few decades in the area of women's education; in fact, women have made more progress than men in terms of enrolment rates and educational achievement. This is especially important because of the positive impact it has had on the educational environment and family health. The participation of women —especially in the 25-45 age bracket— has increased at all income levels in both urban and rural areas. As mentioned earlier, this has had a positive effect on income distribution in some countries. Progress has also been made in recognizing the importance of an integral approach to women's health, although mortality associated with pregnancy and childbirth is still one of the primary causes of death among women of child-bearing age in the region, and there are still issues that need to be dealt with in the area of occupational health.

There are still a number of ways in which exclusion and discrimination pose obstacles to the struggle for rights, visibility and recognition for women. The considerable progress that has been made in providing education for women has not been matched by a corresponding level of integration into the labour market or in decision-making and power structures. Although the income gap between men and women has narrowed in most countries, it is still very wide, especially in the case of young women between 20 and 24 years of age who enter the labour market, even when differences in educational levels stand in their favour. This reflects an under-appreciation of women's work which is aggravated by a job structure that is heavily segmented horizontally, with men and women holding different types of jobs. On the vertical dimension, women are paid less and have less prestige and fewer opportunities for promotion and power; hence, the same situation applies to jobs that are typically held by women. Most new jobs are either in the informal sector or are poor-quality jobs in the formal sector and have little to offer in terms of stability, working conditions or benefits. The process of making gender roles more flexible in the home is much less advanced than in the workplace. The fact that household tasks are assigned almost exclusively to women, and the almost total absence of a network of support services for the performance of such tasks —including childcare and care of the sick— continue to stand in the way of women's development. Added to this is the persistent lack of appreciation for this type of work on the part of society.

2. The partial opening up of opportunities for sustainable development

The 1990s began with major changes in the international environmental agenda, starting with the United Nations Conference on Environment and Development in Rio de Janeiro in 1992, which laid the foundations for a new worldwide approach to sustainable development. Global environmental conventions were drafted to deal with issues such as biological diversity and climate change. The Global Conference on the Sustainable Development of Small Island Developing States, held in Barbados in 1994, which was actively promoted by the Caribbean countries, dealt with issues relating to the environmental sustainability of those States in the context of their overall development strategies. Thus, awareness of the environmental implications of development, which for years had been scarce or non-existent in the region's development efforts, has gradually been brought to bear in public policy and economic and social actions in Latin America and the Caribbean.

This has been reflected in the creation of institutions, strategies and governmental policies aimed at promoting sustainable development, although there is still a considerable scattering of government institutions dealing with environmental, trade, production and technology issues. The concept of sustainable development has been gradually adopted in education, culture and the media, and in business, especially by large national and transnational firms. This is particularly evident in the progress of voluntary ISO 14000 certification; the number of certified firms rose from only 15 in 1996 to some 250 in 1999. This is a highly significant development, bearing in mind that in the near future, such certification may become a prerequisite for trade with the industrialized nations. Progress in this area has also led to increasing participation by non-governmental players in the discussion, negotiation and formulation of policies on sustainability. Environmental issues have become a citizens' cause that has brought together many groups of volunteers at the local, national, regional and global levels. Despite these advances, many sectors in the region continue to believe that environmental protection and sustainable development are significant constraints on economic development. Consequently, environmental sustainability still plays a secondary role in the political economy of most countries in the region.

Thus, despite the progress that has made on an institutional level, the ability of governments to check the growing environmental deterioration of critical ecosystems and to control pollution has been limited. Most explicit environmental policies, as well as the direct and indirect regulatory tools applied in the region, are reactive in nature, i.e., they are designed to mitigate the negative effects of the pollution produced by urban and industrial expansion, deforestation, erosion, damage to marine resources and mining activities (Gligo, 1997). Far less attention has been paid to environmental policies that involve preventive action and promote development, with a view to enhancing environmental quality along with competitiveness in production. Furthermore, as far as new issues, such as biosafety and trade in genetically engineered organisms, is concerned, institutional dispersion is especially serious and is compounded by the existence of well-organized groups of transnational corporations working to protect their interests.

Environmental institutions are just beginning to develop the ability to make their goals operationally effective across sectors. According to existing data, in fact, there is still no clear sign that environmental deterioration in the region is being checked. In approximately half the countries, the annual rates of loss of natural forest were higher in 1990-1995 than in 1980-1990; in the other half, the process has continued at similar or slightly lower rates. Indicators on soil degradation and over-exploitation of marine resources are also negative (UNEP, 1999a). More than 300 million hectares have undergone degradation consisting, in most cases, of soil erosion caused by deforestation and overgrazing and, to a lesser extent, of chemical degradation. Over 80% of marketable stocks of fish in the south-west Atlantic and 40% in the south-east Pacific are commercially exploited, over-fished or exhausted. When environmental impact is linked to export structures and economic strategies in the Latin American and Caribbean countries, it becomes clear that manufactures based on natural resources and production of highly standardized intermediate industrial goods (industrial commodities) have performed well on the export front in recent decades. The industries in question are among those classified as "environmentally sensitive" ones.[14]

3. Partial progress in democracy

A widespread process of democratization took place in the region during the 1990s which was characterized by the acceptance of pluralism, progress towards the protection of civil and political rights and the election of public officials as the basis for the political system. As a result, a

[14] This term refers to industries such as iron and steel, petrochemicals, non-ferrous metals, paper and pulp, copper and aluminium. In this connection, see Schaper (1999). See the classification of industries according to their environmental sustainability in Low and Yeats (1992).

considerable number of reforms were implemented with a view to improving or developing institutions; these included constitutional reforms, decentralization measures to strengthen local processes, changes in the administration of justice and modernization of the State to make it more transparent and improve services to citizens. As mentioned earlier, the allocation of greater resources to social spending has certainly been a sign of this trend. These achievements, however, do not mean that there are no more obstacles and weaknesses, as these are common to all democratic systems, as well as to the history of the region itself.

As is well known, contemporary democracy is bound to suffer from the tensions that are inherent to the globalization process and the information revolution. The loss of State power that comes with globalization has weakened political systems and diminished the ability of elected officials to respond to the demands of voters. Although the mass media play a key role in making public officials more accountable, they can also become a less well-founded source for the questioning of institutions that have traditionally been at the core of democratic life, i.e., political parties, parliaments and the interaction between voters and elected officials.

In many Latin American and Caribbean countries, these problems are aggravated by social inequities, high levels of poverty and a lack of democratic density and of mechanisms for regulating dissent. To these problems are added the phenomena of corruption and violence, and the spread of an illicit economy linked to drug trafficking. In some cases where progress has been made, as in the strengthening of local processes, financial problems have arisen that reflect the inadequacy of the fiscal covenants that are needed to ensure the stability of decentralized governmental systems (ECLAC, 1998d). In addition, some regions and areas have had trouble adjusting to the new development context.

Chapter III

A development agenda for the twenty-first century

"Equity", "development" and "citizenship" sum up the three key challenges facing the region in the sphere of development policy on the threshold of the twenty-first century. As such, these concepts entail a recognition of the fact that the economic system should be subordinate to broader social objectives. The attainment of equity begins with an equitable, inclusive social policy that is founded upon the principles of universality, solidarity and efficiency. Seen in this light, education and employment are the two master keys that the region can use to block the intergenerational reproduction of poverty and inequality. The reinforcement of comprehensive social security systems and the prioritization of redistributive social expenditure are equally essential components of this strategy. At the same time, macroeconomic policy should go beyond the consolidation of low inflation rates and smaller fiscal deficits to achieve greater stability in real growth rates as well. This calls for the design of active countercyclical policies based on viable fiscal covenants (ECLAC, 1998d), moderate real interest rates and competitive exchange rates. A macroeconomic policy of this sort should be coupled with active production policies that foster competition, innovation and complementarities (synergies) between business enterprises and production sectors and that correct market failures, especially those affecting small businesses in rural and urban areas. A vigorous small business sector and rising employment are essential in order to link dynamic productive development with social equity. The full incorporation of a sustainable development agenda —an agenda that should be seen as a source of opportunities rather than simply of constraints— should also figure as a key component of productive development strategies. Finally, in order to build citizenship and social cohesion, the people of the region will have to recapture a sense of belonging to society and of identifying with collective goals and will have to rediscover their bonds of solidarity within the frameworks of both the State and civil society.

A. A universal, solidary and efficient social policy

Universal recognition[1] of economic, social and cultural rights should be manifested in the provision of "merit goods" —which may also be called "goods of social value". The utility of these goods is both individual and collective in that they enable all citizens to share in the benefits of development. For this same reason, public regulation is needed when they are exposed to market mechanisms.

Development and social policies in Latin America and the Caribbean have not attained the characteristics of a "welfare State", in that the expected levels of universality, solidarity, efficiency and integrality of social policy have not been achieved. The challenges of the future thus require a more integrated social policy that is capable of combining the principles of universality, solidarity and efficiency, is consistent with the requirements of and prospects for economic development, and overcomes the problems associated with Statism. Efforts to create a comprehensive social policy come up against conflicts between the desirable and the possible, between social and economic objectives, between short-term and longer-term priorities and between what is socially optimal and what is microeconomically efficient. This means that the essence of social policy is simultaneously political and economic. While being particularly concerned with the most disadvantaged sections of society, social policy has the broader objective of constructing societies with greater social cohesion, equity and collective confidence in the future.

1. Principles of social policy

The principle of universality implies that all citizens must be guaranteed the fundamental forms of protection, in terms of both quantity and quality, that are deemed necessary for full participation in society, insofar as each country's level of development allows and within the framework of the fiscal covenants that each society establishes. Universality

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[1] In welfare economies, this term is used to refer to goods and services that have social value.

is not incompatible with the possibility of adopting selectivity criteria to establish the priority status of the poor in relation to access to the public-sector resources that are needed if social services or guarantees are to be available to them. Selectivity is not a social policy but a precondition for making universalization more effective, given the scarcity of public resources. It is most important when poverty is highly concentrated in particular population groups or geographical areas; by contrast, when poverty is more evenly spread out, general policies are more appropriate.

Solidarity entails differentiated participation in the funding of and access to social protection in accordance with the economic capacity or risk level of the individuals concerned. Thus, access by the poor is made possible through a progressive structure of public spending and taxation and, when compulsory contributions are involved, cross-subsidies between different income strata and risk groups. For this reason, preference should be given to applying a criterion of collective equivalence between contributions and benefits or to systems combining the application of this criterion at the individual level with cross-subsidies. The more universal access to benefits is, the more effective and legitimate will solidarity be.

The overall organization and management of social services and benefits need to be guided by the principle of efficiency in order to guarantee universality and solidarity, quality standards and the minimization of costs and maximization of benefits. Efficiency is determined by decisions made in the macroeconomic, social and political spheres about structures and mechanisms for financing and distributing resources, and about incentives, access and transparency. The principle of efficiency requires that there be specialized authorities and that responsibility for planning, regulation, financing and services be independent of one another, whatever role may be played by different public or private actors, and regardless of whether they are profit-making or non-profit entities. This creates competition between interests and allows for the results of the activities of different actors to be evaluated. For public service provision to be more efficient, it is necessary for public providers to have greater independence in terms of administration and the use of resources and for allocation to be changed to reflect performance. Efficiency requires transparency and continuous evaluation of results.

While it is essential that for these principles be applied to the design, financing, provision and regulation of social services, this will pose major dilemmas to which there is no single solution, particularly when private agents are involved. Therefore, efforts to apply the three principles simultaneously must include an assessment of their importance in the light of social aspirations, the level of development achieved and the goals of the reforms proposed. Thus, universality does not do away with the need to apply particular degrees of selectivity, and it cannot provide a basis for levels of protection for which financing is not available; the degree of solidarity must be compatible with social integration requirements and with the structure of income distribution; and efficiency cannot be viewed solely in microeconomic terms, but must ultimately entail the maximization of social objectives within a context marked by scarcity of resources.

Social policy can be constructed with a variety of public-private combinations. Regardless of the degree and type of private-sector participation, there are certain responsibilities that the State cannot delegate, such as that of supervision to guarantee rights, improve information and competition in regulated markets, forestall problems of risk selection by suppliers and users, and provide protection for users and arbitration in the event that conflicts of responsibility arise. In mixed systems, the regulatory system should not differentiate between public and private firms.

Changes in the systems that guarantee and provide social services, and the freedom of users to choose among different providers, have given rise to changes in the way subsidies are allocated. If a system of pure demand subsidies is to operate, there needs to be an adequate supply of quality services for all social groups, the services on offer need to be homogeneous, and beneficiaries need to have access to adequate levels of information on, among other things, the quality of the services offered. Where social services are concerned, these conditions prevail in only a very few cases. This means that the State also has to take some responsibility for the supply of these services, either by providing them directly when the private sector does not do so (e.g., to certain social groups or in certain geographical areas) or by granting subsidies for public or private provision, using demand criteria (i.e., depending on which social groups are to be covered). Direct provision of services by the State may also be desirable inasmuch as it provides a necessary reference point for private provision, prevents monopolistic positions from arising, restrains cost increases and promotes greater symmetry of information.

The main responsibility of social policy makers is to the poorer sections of the population. Policies and programmes to overcome poverty need to be guided by the criteria of comprehensiveness, suitability, efficiency, density and operational viability. Experience shows that the most appropriate programmes are long-term initiatives of a comprehensive / multidimensional nature that are aimed at groups living in structural conditions of poverty, without neglecting those that aim to address temporary problems resulting from transitory economic situations or natural conditions.

Programmes of a structural nature need to concentrate on breaking down the mechanisms whereby poverty is transmitted from one generation to the next, especially by improving the educational environment of households and providing training for those who have left the school system. Achieving these goals, furthermore, provides the basis for improving working conditions, in conjunction with programmes to provide access to other factors of production (capital, technology, managerial expertise) and to promote different forms of association among microbusinesses. Although priority must be given to preventing the intergenerational transmission of poverty, it is important not to lose sight of society's responsibility towards elderly people, whose unmet needs are structurally determined, or people facing critical transitory situations caused by economic crisis or natural disaster.

2. The two master keys: education and employment

Without losing sight of the integral nature of social policy itself or of the property-related, demographic, ethnic and gender dimensions of inequality, the challenges posed by integral development should, under the present conditions in the region, be addressed from two basic platforms, which are the two "master keys" to development: education and employment.

Education is one of the master keys to producing simultaneous progress in equity, development and citizenship. First of all, it is vital if inequality is to be overcome and the inter-generational perpetuation of poverty is to be halted. Its effects in this respect are wide-ranging: it improves the educational environment of future households and thereby the educational performance of future generations; it improves health conditions in the household; and it provides the means for greater upward social and occupational mobility among those who have gone through the educational system, providing them, furthermore, with skills essential to modern life that prevent sociocultural marginalization.

Levels of primary educational coverage are now high (with shortcomings in some countries); by contrast, there is a large and even growing shortfall in secondary and higher education in comparison with the industrialized countries or the rapidly industrializing Asian economies. The extremely high proportion of students from lower-income households who have to repeat grades, beginning at the very earliest stages of the educational process, prevents them from moving up through the system. Furthermore, access to quality education is still highly segmented by socioeconomic strata. In many countries, there are also considerable differences between regions in terms of both coverage and quality, with rural education in particular lagging far behind.

The twofold challenge that lies ahead, then, is to move towards greater continuity within the educational system and to raise the quality of education substantially. Education policies need to incorporate different schemes for combining a range of measures aimed at influencing the family and community environments in which children are brought up before reaching school age (including better coverage for pre-school education), those designed to improve content and learning models within the system, and those aimed at providing better employment opportunities once the educational cycle has been completed.

The higher the average educational level is in society as a whole, the higher the academic and training standards that people have to meet to obtain work and achieve similar levels of income. This "educational devaluation" has tended to become more acute owing to the demands for competitiveness that characterize today's world. ECLAC studies indicate that 11 or 12 years of schooling —in other words a complete secondary education— are required if people are to have a high probability of escaping poverty. This, then, must be the universal coverage objective for the different countries of the region, and they must move towards it gradually but as rapidly as their current stage of development allows. In an era characterized by constant change, the essential objective of this education must be to develop skills for "learning how to learn", rather than being confined to traditional academic content. It is also important for people to learn to manage the new tools provided by the communications, information and culture industries.

In a world characterized by growing challenges in terms of competitiveness, it is particularly important to improve the quality and relevance of both secondary and higher education. Given that most of the young people entering the labour market are employed by small and medium-sized enterprises, it is also necessary to transmit the skills needed to raise the productivity of such firms, either through the formal educational system or through training programmes. In the case of higher education, it is also necessary to ensure that the university system participates dynamically in national innovation systems, while at the same time creating closer links with the business sector. Another important step is to do away with the dualism that is entrenched in educational systems, to create interconnections to facilitate change and to open up opportunities for moving back and forth between the educational and production systems.

The consolidation of democracy as a political system, meanwhile, poses the challenge of constructing a citizenship-oriented culture with deep-seated democratic values. Education therefore needs to reinforce values such as human rights, democracy, social cohesion and solidarity, gender equity, respect for ethnic and cultural diversity, environmental sustainability and the affirmation of historical projects and memories. It is important, then, to adopt a style of education that encourages people to use knowledge more independently, to participate more willingly in group work and discussions and to become more aware of their rights and responsibilities.

The potential impact of education on equity will only be seen over the long run and, most importantly, will not come about at all unless a dynamic process of high-quality job creation is in place. This, without a doubt, is the Achilles' heel of the reforms. The creation of permanent jobs that provide adequate benefits, then, must become a primary focus of the social dialogue at the highest level and of macroeconomic policy. This must be done very pragmatically by exploring options for dealing with the problems of labour demand, matching the supply of labour to demand, creating a framework for labour relations that will further common interests, setting up mechanisms to deal with the risks entailed by the economic cycle and overcoming inequities in access to the labour market.

In the first of these areas, there is no easy solution. Sustained economic growth is unquestionably the greatest stimulus to demand for labour; hence the vital need, first and foremost, to create a macroeconomic environment that promotes adequate levels of investment and growth and to prevent distortions in relative prices that would affect the demand for labour, particularly those generated by an overvalued exchange rate. Nonetheless, as is illustrated by the experience of many countries both in and outside the region, growth does not always translate into favourable trends in the demand for labour. For this reason, preference must be given to policies that can help achieve a better match between the structures of labour supply and demand and that will backstop job-creating activities and firms. Ambitious occupational training efforts, including apprenticeship programmes, warrant much more attention from the governments of the region. In this area, close collaboration is needed between training centres and the production sector and between both of these and the educational system. A better organization of information in the labour market will perform the same function.

Adopting more flexible hiring practices is certainly not a panacea for the problems associated with labour demand, and it would be unrealistic to think that they could reverse the effects on job creation of macroeconomic policies that result in unstable or inadequate economic growth. Studies conducted by the International Labour Organization (ILO) indicate that when this option is applied in isolation, it can result in a rapid deterioration in job quality (Tokman and Martínez, 1999). Because of the existence of marked rigidities in some sub-segments of the labour market, however, it does make sense to negotiate greater flexibility in hiring practices to facilitate adjustments to a situation characterized by constant technological change and restructuring needs in production sectors and the State. In these cases, though, more flexible hiring practices need to be accompanied by the development of appropriate social protection systems.[2] At the microeconomic level, there is also a need to promote agreements between employers and workers to provide alternative kinds of flexibility and encourage greater adaptability to technological change and the economic cycle among firms and their employees Meanwhile, greater uniformity in employment benefits facilitates manpower mobility, as do types of education and manpower training that enable people to become more versatile.

Social dialogue must promote, on the other hand, an equitable and efficient framework for labour relations that focuses on common interests and on fair and transparent dispute settlement, so as to create a favourable environment for job creation. In this respect, it is vital to adopt measures to encourage unionization and establish appropriate mechanisms for collective bargaining in an environment that will enhance competitiveness in a context of continuous changes in technological and production conditions. Minimum wage policies need to offset asymmetries in wage-bargaining powers, particularly for less organized groups, but their potentially negative effects on labour demand and the incentive they create to increase informal employment need to be reduced.

The State also needs to develop mechanisms to counter the vulnerability that results from periods of unemployment by combining obligatory and solidary unemployment insurance systems for different groups of workers, special emergency job creation programmes, special training programmes, and systems to provide basic social protection (namely, continued access to health services and continued school attendance for children, payment of social security contributions for the unemployed and mortgage insurance). An effort should also be made to aid the long-term unemployed (structural unemployment) by providing special training programmes or, alternatively, temporary subsidies to firms that employ them while these workers gain experience and thus build up a basic stock of human capital.

Lastly, the State needs to provide everyone with equitable access to the labour market by attacking the segmentation and inequity that prevent certain groups from participating in economic activity. In the case of low-income women, there is a need to develop policies to harmonize family duties with employment by encouraging men to assume a greater share of

[2] The corresponding levels of social protection should include worker's entitlements (such as pensions and health insurance), an unemployment insurance system and training programmes for people re-entering the labour market.

the responsibility for reproductive tasks and offering more and better institutional alternatives for housework and childcare. It is also essential to introduce programmes aimed at raising young people's qualifications and preventing them from entering the labour market prematurely. In groups where exclusion is severe, such as indigenous peoples, bilingual intercultural education programmes appropriate to their culture should be implemented, as well as specific job training programmes.

3. Equity in respect of the risks of illness and old age: reforming social security systems

Social security reforms have had the objective of providing greater transparency and financial balance, improving the efficiency of resource use, incorporating new mechanisms to improve the coverage of these systems and adapting them to the challenges of the demographic and epidemiological transition. To these ends, rules governing contributions and benefits and the participation of public and private firms have been changed. As part of this process, the functions of regulation, financing and service provision have been clearly separated from one another. A review of the region's experience shows that there is no common model: different variants of the public-private combination have been adopted, and there are major differences in the methods used to reconcile efficiency with solidarity.

Health-care reforms have introduced various forms of competition and private-sector administration, and there are fundamental differences in the ways they combine solidary public insurance with private risk insurance based on individual contributions and in the structure of financing, access and benefits. The three basic models that have emerged may be summed up as follows: (i) private systems that incorporate individual equivalence criteria and do not apply principles of solidarity; (ii) private systems that apply equivalence criteria at the collective level, enabling full solidarity to be introduced; and (iii) reorganization of the universal public system with the introduction of "quasi-markets" to improve efficiency (separation of functions, service provision contracts, competition between public providers, evaluation and forward budgeting based on performance). A common feature of these reforms is the introduction of competition in service provision (between public and private agencies in the first two models, and between public ones in the third), this being independent of competition in actual insurance provision, which is present only in the private models.

Experience has shown that the first of these systems encourages private firms to "skim" the market, which means that risk insurance and health services provision for lower-income, higher-risk groups (mainly the elderly) are still concentrated in the public sector, increasing the pressure on government spending. These problems are partially solved by the second system. The public sector retains a large role in all the systems, hence the vital importance of improving the management of public provision of services, which is the central objective of the third model. Overall, the reforms have brought about progress in boosting the efficiency of service provision and improving the management of public funds, although the first system has serious shortcomings in terms of solidarity. Regulation in this field is still in its infancy.

In pension systems, the main development has been the introduction of funded systems —which establish principles of full equivalence between individual contributions and benefits— and of changes in contribution and replacement rates and in the retirement age, including the abolition of early retirement pensions, in an effort to improve the financial balance sheet of the system and hence its fiscal sustainability. The models that have been used may be grouped into three types, which differ in the way they reconcile equivalence and solidarity, the way functions are divided between public and private organizations, and the degree of freedom that people have to choose between systems. The pure funded system, a model designed to take the place of the pay-as-you-go system, gives priority to the criterion of individual equivalence. The State retains its obligation to pay existing pensioners and provides a minimum pension guarantee, to be met from general tax revenues; this is the only element of solidarity. In the parallel or dual model, the new funded model coexists with the old model in a reformed version, and the insured are free to choose between the two systems. In the mixed model, the two systems complement each other; the public system provides a basic pension, and it is topped up by the funded system.

Funded systems that are administered by private companies and that allow freedom of choice avoid the risk of savings being used for political ends, but they transfer the entire financial risk to the insured. In parallel models, the difference in incentives affects the benefits that freedom of choice might bring, skewing decisions in favour of one or another of the alternatives, which maximizes the fiscal risk when there is no limit to mobility. In mixed models, there is an explicit decision to combine the two risks. Meanwhile, the two last-named models limit the scope for capitalization, but do ease fiscal pressure. In fact, the pension debt, or more specifically the intergenerational contract established by the previous pension system, is made explicit by the transition to funded models. The creation of reserves for workers thus means that the State has to pay off this debt directly, which can be very costly both fiscally and in terms of equity (if other social spending has to be reduced as a result) during the first three decades of the transition.

These reforms are too recent —none of these systems has yet paid out pensions to a full generation— for firm conclusions to be reached. The main causes for concern are inadequate breadth of coverage, especially for lower-income workers; the high fiscal costs of the transition; the weakness of the impact on national saving, in contrast to the high hopes held out in this respect; the high administrative costs of the system; and the widening of the gap between pension expectations and actual pay-outs, which has triggered a continuing political debate about the structure of benefits.

In general, social security reforms have given the private sector a greater role in managing the programmes, provided the insured with freedom of choice and, consequently, introduced competition among service providers. Reform of the public systems concerned is essential, since the State continues to play an important role in all systems. Taken together, all these factors may result in greater efficiency. There have also been improvements in the institutional structure and greater transparency in public spending, and pension systems have become more fiscally viable. Nonetheless, improvements in the coverage and quality of protection mechanisms are only just beginning to come about, and the scope for better management has been limited by the characteristics of the markets concerned. More importantly still, the great emphasis laid on the criterion of individual equivalence involves serious conflicts with the principle of solidarity, and this has caused the distributive function of social security systems to be shifted onto the public budget, so the reforms have not reduced public spending pressures. For this reason, in the opinion of ECLAC, there is more to be said for those systems that retain a large element of solidarity within the contributions system for both pensions and, particularly, health care, which needs to be structured in such a way that more tax resources can go into extending the reach of these systems until universal coverage is achieved.

4. Equity and public spending

Public social spending is the main instrument that the State uses to influence the distribution of income. There is clear evidence that spending has a significant impact on secondary income distribution. In the long term, investing more in human capital makes it possible to influence certain structural factors that affect primary income distribution. Its distributive effects will depend on the scale of social spending, its distribution and financing, and the efficiency with which the resources concerned are used.

As regards the scale of spending, there are great disparities in the priority given by different countries to spending on human capital (education and health), and those that have fallen behind in this area need to redouble their efforts. In the first instance, these efforts must involve reallocating public resources to social spending and prioritizing the numerous demands existing in this respect. This might be insufficient, however, given the low level of public revenue, as taxation levels in a number of the region's countries, particularly in Latin America, are below international standards. In these countries, therefore, there is scope for increasing public spending in the long term by broadening the tax base. In any event, the priority given to social spending must be consistent with sound fiscal policy.

In sectoral terms, the most progressive uses for funds —in other words, those whose benefits are concentrated mainly in the lowest-income households— are in primary and secondary education, health care and nutrition; the least progressive are expenditure on social security and higher education; social housing programmes fall somewhere in-between. As was pointed out in a previous ECLAC document (ECLAC, 1998b), the net distributive impact will also depend on how public spending is financed. In this regard, the excessive concentration of the tax base in Latin America, with its reliance on indirect taxes whose distributive impact tends to be regressive, is a cause for concern; in the English-speaking Caribbean, this is not the case.

It is also important to stress the pro-cyclical nature of social spending, which is a clearly contradictory trait in view of the greater social needs that arise during periods of crisis. Meanwhile, there is still considerable scope for increasing the efficiency of social spending in the region. The two instruments that have been used most frequently have been decentralization and the introduction of quasi-markets for social services. Quasi-markets hold out very interesting possibilities, which have begun to be realized in a number of countries. Decentralization also offers possibilities, but has run up against various problems associated with a lack of clarity in distributing functions among the different levels of government, excessive dependence on central government financing, lack of flexibility in staff assignments, insufficient delegation of authority to the organizations providing the services and, in some cases, a tendency for regional differences to increase.

The combination of the demands being generated by the demographic transition and the levels of service coverage achieved, both of which are closely correlated with the countries' per capita income levels, suggests that in the coming years divergent trends will be seen between two groups of countries in the region. The lower-income countries will be faced with the traditional problems involved in extending the coverage of basic services. Those with higher incomes can aspire to universal coverage in a number of services, although with increasing problems at the margin in some of them (extending social security coverage), and will be able to concentrate more on the quality of services. At the same time, they will be faced with much greater challenges associated with the ageing of the population, in terms both of the demand for income for the elderly population and the associated changes in the pattern of demand for health care services. Medium-income countries will be in an intermediate situation. Similarly, pressure on the labour market will be greater in medium- and low-income countries.

B. More stable, dynamic, integrative and sustainable development strategies

The view that has predominated during the reform process has been that reinstating and then maintaining domestic macroeconomic balances, while at the same time opening up to the external economy and restructuring the public sector, would be enough to ensure stable and dynamic economic growth. This has not happened in most of the countries in the region. The significant progress made in stabilizing prices and reducing budget deficits has not been accompanied by stability in the economic growth rate, and new sources of instability have emerged, including, in particular, the increased frequency of domestic financial crises. Even when the recovery expected to occur in 2000 is taken into account, the regional economic growth rate of 3.3% a year is low, not only in terms of what is desirable if the gap between the region and the more developed countries is to be narrowed, but also in relation to the region's own historical record before the debt crisis. In terms of the production structure, the result has been greater heterogeneity among production agents and greater economic concentration. These processes, furthermore, have not been neutral in social terms, since different agents were not and are not equally prepared for change.

1. A more stable macroeconomy

One of the most important achievements of the last decade has undoubtedly been the success achieved by the macroeconomic authorities in increasing their credibility. The confidence they have earned is an asset, a far-from-negligible form of "public capital". The substantial progress made in reducing inflation and holding down budget deficits must be maintained. This highlights the importance of implementing and consolidating viable “fiscal covenants”.[3] However, the macroeconomic style that has come to predominate has also tended to maintain macroeconomic instability, if this is defined in terms of real economic variables, namely, instability in the rate of economic growth and employment. This fact has become particularly important because of the volatility of capital flows. This contrast attests to the dangers of using the very narrow definition of macroeconomic stability that has gradually prevailed in economic debate and to the advantages of broadening the scope of this concept to encompass the numerous meanings of the term, thus incorporating real economic variables as objectives of macroeconomic management.

Viewed in these terms, some of the patterns of macroeconomic management that have gained currency in the region are clearly pro-cyclical. In fact, the tendency to adopt fiscal targets that do not vary with the economic cycle transmits the instability of tax revenues to public spending. Monetary and exchange-rate policies have tended to transmit external financing cycles to domestic credit and the exchange rate. This type of macroeconomic management translates not only into strong business cycles but also into greater risks for domestic financial systems. The cost of this instability in terms of real economic variables is high, as it increases the level of uncertainty for economic agents, with the result that they are forced to adopt defensive microeconomic strategies that tend to reduce investment in fixed capital, with adverse effects on job creation and economic growth. This shortening of the time horizon is also reflected in financial systems, which are reluctant to provide long-term funding under these conditions; it increases financial risks which, if they result in crises, have high fiscal and quasi-fiscal costs, and when crises do arise, the losses that are generated —in terms of employment, poverty and income distribution— often occur very suddenly, while recovery is slow or incomplete.[4]

Given the high costs of volatility in economic growth, steps should be taken to restrain it and to choose macroeconomic policy mixes that will have less effect on real economic variables, particularly those that have a strong social impact. This means that it is necessary to extend the time horizon of macroeconomic policy, in two different senses. First, the

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3 According to a previous ECLAC document (1998d), the five key elements of such a covenant are: the consolidation of progress in fiscal adjustment, transparency in public spending, the need to increase the productivity of public spending, recognition of the importance of equity in allocating public resources, and the contribution of fiscal arrangements to strengthening democratic institutions.

4 There are irreparable losses of human capital: children who leave school never to return, people who lose working experience and relationships as a result of prolonged periods of unemployment or underemployment. There are also losses of assets of great social importance: small producers losing their assets and never getting them back, families losing their homes.

time horizon of short-term macroeconomic management needs to be extended to the entire business cycle, thus actively applying countercyclical policies. Second, long-term growth needs to be made a specific policy objective.

The use of active countercyclical measures in managing macroeconomic policy is not easy, since globalization places objective limits on national autonomy in this area and raises the costs of any loss of credibility when macroeconomic policy is poorly managed. It may therefore be necessary for macroeconomic policy to be supported by new institutions and policy instruments that help to provide credibility, including fiscal stabilization funds and a better balance of power in macroeconomic policy management, which can be provided by politically accountable independent central banks. At times of great structural change, however, with periodic upheavals originating outside the country, policy instruments cannot act as “automatic pilots”, and the authorities need to apply good judgement based on their own experience. Furthermore, the authorities must pay special attention to the management of economic booms, taking steps in particular to avoid unsustainable upswings that pave the way for economic crises and costly upheavals in national financial systems. Proper management of economic booms is therefore the best crisis-prevention policy. The scope for action is obviously more restricted in smaller economies, and multilateral assistance may therefore be required if this type of management is to be possible.

The experience of developing countries shows that managing capital-account volatility requires a combination of three types of policy. The relative weight of the different instruments will vary depending on the structural characteristics and macroeconomic tradition of each country. Firstly, there must be consistent and flexible macroeconomic management oriented towards preventing public or private agents from accumulating excessive levels of debt and forestalling imbalances in the most influential prices, particularly the exchange rate and the prices of national assets (financial assets and real estate). In the fiscal sphere, attention must be focused on the sustainability of public debt coefficients over the business cycle. This means that fiscal discipline is required during upturns, to provide the room for manoeuvre needed to offset fiscal restrictions in the subsequent downturns.[5] In monetary and exchange rate terms, policy needs to be designed to prevent short-lived booms from triggering excessively rapid increases in credit and an unsustainable appreciation of the exchange

[5] The best countercyclical instruments are stabilization funds for public revenue —both tax revenue and income from raw materials, where relevant— and social safety nets on which spending can be temporarily increased at times of crisis using revenue saved during upturns, which may come from the stabilization funds referred to earlier.

rate. These measures will be more effective if they are accompanied by regulations governing capital inflows. Meanwhile, the experience of the Asian and Latin American economies in recent years shows that at times of crisis it is counterproductive to lay excessive emphasis on interest rates as a stabilization mechanism, thereby slowing exchange rate adjustment.[6]

The second element for an adequate management of capital-account volatility is the adoption of strict prudential regulation and supervision of financial systems. These rules play an essential role in preventing financial systems from taking on excessive risks, and they need to consider not just microeconomic risks, but also the macroeconomic risks characteristic of developing countries, particularly those associated with changes in interest and exchange rates. For this reason, prudential regulation needs to be strengthened during periods of financial euphoria to take account of the increased exposure of financial intermediaries.

The third element is a liability policy designed to induce an appropriate maturity profile of both domestic and external public and private debt. Regulations applying to capital inflows play a vital role in achieving this. They also give the macroeconomic authorities more scope to adopt restrictive monetary policies during upturns and avoid an unsustainable appreciation of the exchange rate. Minimum reserve requirements or taxes on capital inflows are the most promising instruments in this regard, but countries that do not have a strong regulatory tradition may prefer simpler instruments (such as prohibition of certain types of foreign borrowing during booms). Permanent regulatory instruments whose stringency increases or diminishes over the course of the cycle are preferable to an alternation of unrestricted capital inflows and quantitative controls in times of crisis. In fact, this last system can be completely ineffective if it is applied in an improvised form during crises, when it can lead to mass evasion or avoidance of controls. One alternative to regulating capital inflows is to combine prudential regulation of financial intermediaries aimed at discouraging excessive borrowing during upturns, particularly of a short-term character, with tax mechanisms to discourage external borrowing by non-financial agents. Exchange-rate flexibility also deters short-term flows and performs part of the functions of a liability policy, but its effects are limited in this area as it is unlikely to greatly restrain medium-term financing cycles.

As has been noted, one of the explicit objectives that needs to be included in macroeconomic policies is long-term growth, which, from the aggregate point of view, depends primarily on a three-sided combination of solid fiscal systems, moderate real interest rates and competitive exchange

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6 For an analysis of the situation in Latin America and the Caribbean, see ECLAC (1999a).

rates. This is the best combination for preventing imbalances from arising between the tradables and non-tradables sectors and for minimizing sudden shocks that increase the uncertainty affecting investment decisions.

These considerations suggest, furthermore, that under current circumstances, exchange-rate regimes are being subjected to two contradictory demands which are very difficult to reconcile: on the one hand, the long-term objectives require competitiveness and stable incentives for international specialization; on the other, short-term objectives require flexibility so that exchange-rate policy can help to accommodate strong external shocks. Extreme systems of convertibility (and dollarization) or total flexibility solve this dilemma by giving up on one or the other objective. Consequently, these extremes are not the most appropriate answer; because of their shortcomings, intermediate systems of "managed flexibility", which seek to reconcile the two objectives, are the best option. These include dirty floats, exchange rate bands and crawling pegs.

2. Macroeconomic and productive development policies to encourage growth

Economic growth is the outcome of the combined operation of a variety of dynamics: capital accumulation, the accumulation of know-how applied to production, structural change and institution-building. It is also the outcome of interaction between macro- and microeconomic dynamics, as well as the dynamics influencing production sectors, factor markets and the institutions providing the framework for their operation, referred to here as "mesoeconomic". An adequate mix of macroeconomic and production-sector dynamics is essential to guarantee sustainable growth stimuli —i.e., new patterns of capital accumulation rather than merely cyclical recoveries.

At the aggregate level, an annual per capita income growth of 4-5% would make it possible for the income gap with the developed countries to be reduced at a reasonable rate. Depending on the specific demographic characteristics of the different countries, this would entail GDP growth of around 5.5-6.5%, average investment rates of 26-28% of GDP and, to avoid the vulnerabilities associated with high external savings rates, domestic savings rates of 23-25%, that is, between four and six percentage points higher than the average levels achieved in the region over the last decade.[7]

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[7] As regards saving, what is particularly important is for government and corporate saving to increase. The latter has proved vital in all instances of rapid economic growth. Household saving, for its part, is much more sensitive to forced saving mechanisms, particularly social security-related ones, but also previous savings associated with housing loans, unemployment funds, etc.

Similarly, high rates of real export growth —between 10% and 12%, which is even higher than the dynamic growth rates seen in the 1990s— are needed to avoid levels of external debt that would make the countries vulnerable to busts in the international capital market.

Long-term financial intermediation is a key element of this effort to increase productive investment. In the first instance, this means establishing a reasonable degree of stability in the main macroeconomic prices (interest rates, exchange rates and inflation) and developing appropriate regulations and institutions and profitable, liquid instruments, bearing an acceptable level of risk, that are adequately protected against inflation. The creation of this market segment, then, is a key responsibility of public policy, and it requires developments in different areas: attractive institutional savings mechanisms; venture capital and guarantee funds; instruments that allow resources from these and other institutions to be channelled into long-term financing; secondary markets for long-term debt, to provide liquidity and, consequently, agents to act as market makers (investment banks or other financial intermediaries that operate systematically in this market). None of these developments will arise spontaneously from market action; rather, deliberate public policies have to be applied to create them, in close collaboration with the private sector.

As we have pointed out, the performance of economies in terms of economic growth is linked both to macroeconomic factors and the growth of long-term financial markets and to developments in production structures and the institutions that provide the framework for them. Consequently, even a sound macroeconomy that manages to reduce the volatility of real variables has to be supplemented by a complete range of active policies designed to strengthen production structures. Given the tendencies to which the productive apparatus has been subject in Latin America, these policies need to be of three types.

In the first place, policies are needed to safeguard competition and provide for public regulation of non-competitive market structures and those sectors with significant externalities. This entails, first and foremost, the development of an active antitrust policy to prevent non-competitive practices by agents that have market power, to lower entry barriers in important markets and, in general, to actively promote competition and protect consumers. It also entails developing a wide range of regulatory measures for social sectors, the financial sector, public utilities and activities that have significant environmental externalities.

Secondly, policies need to be devised to correct failures in factor markets, namely, access to long-term capital, technology, qualified human resources and land. Apart from matters relating to the development of a long-term financial market, the key issue raised in this report relates to access to these markets for both urban and rural small and medium-sized enterprises, so that they will be able to play a dynamic part in the development of competitive production systems. This requires access to technology and credit, occupational and managerial training and appropriate information channels. In rural areas, small producers also need access to land and a wider range of rural development initiatives to enable those on lower incomes to gain access to basic social services and minimum levels of infrastructure, i.e., a level of opportunities closer to that enjoyed by urban producers. Best-practice standards for policies aimed at supporting small firms indicate that such policies need to have four components: the creation of companies or organizations to provide such firms with specialized services, taking their diversity into account; encouragement for all forms of association among small businesses; a local basis for the infrastructure and institutional fabric developed to support them; and active participation by businesses in all these efforts. These policies are particularly important in smaller economies, where such firms make up the bulk of the production system.

Thirdly, there is a need for policies aimed at developing more dynamic production structures. The workings of such structures may be viewed in terms of the interaction between two basic forces: (i) innovation, understood in a broad sense as a range of new activities that generate changes in production sectors (the introduction of new goods and services, new production or marketing methods, new raw-material sources or market structures); and (ii) complementarities between firms and production sectors arising from the existence of networks of goods and services suppliers, having different degrees of specialization, established marketing channels and institutions that act as clearing houses for information and inter-agent coordination. As these complementarities are what enable different firms to generate externalities among themselves, the system-wide competitiveness of production sectors is determined by whether or not they exist.

Given the weakness of current economic growth, productive development strategies need to be reinstated as an essential component of economic development policy. In this report, these tools are referred to as “strategies for structural change”, in order to emphasize that their primary objective is to make it easier for production activities to make a dynamic transition from one stage to the next. In accordance with its fundamental determinants, this strategy includes the promotion of innovative activities, particularly in relation to technology and exports, and the development of strategic synergies and complementarities that create a denser production fabric, encourage more associative ties among companies and strengthen the institutions providing the framework for them. As a counterpart to this, there is a need to facilitate an orderly restructuring of businesses that are being displaced in order to promote the transfer of resources to new sectors.

Implementing this policy strategy involves three basic elements. The first consists of policies to promote technology transfer, development and research, including the allocation of more public and private resources to these activities and encouragement for interaction among actors in national innovation systems.[8] The instruments of this policy are well known —public subsidies, tax incentives, seed capital for the creation of new technology-based firms, technology parks, company incubators and others. They are already part of the regional scene, but their scope is still limited. The second element includes policies to promote penetration of new foreign markets, diversification of exports and the development of domestic linkages for export activities. Such linkages have become increasingly important, owing to the widespread destruction of production chains that has taken place in recent years. These policies need to include support for regional integration, whose beneficial effects on the production structure have been analysed on many occasions. The third component is encouragement for the formation of associative ties among businesses and the institutions that serve as their framework, particularly through support for the formation of clusters. Some of the specific activities that should be pursued in this area are initiatives to foster clusters of technology firms or production activities with a technological component, production clusters built around natural resource sectors where there are major comparative advantages and, in smaller economies, clusters that make it possible to take fuller advantage of the opportunities provided by their natural comparative advantages (including tourism), dynamic assembly activities and higher value-added activities that offset the disadvantages resulting from smaller scale.[9]

These strategies, and the policies that are adopted for their implementation must meet four basic conditions if they are to be in step with the new external and internal environment. Firstly, the main emphasis needs to be on linking the economies of the region to the world economy. This entails promoting exports, but it also involves developing subregional and regional production chains and clusters within the framework of the integration process and generating activities that complement export

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8 These actors are national, provincial (state) and local governments, public and private laboratories or institutes of science and technology, universities, firms producing goods and services, and producer organizations.

9 High quality human capital can, in the final analysis, be the most important factor in overcoming the disadvantages that beset smaller economies. Some technological developments may also be helping to counteract them.

businesses in order to increase the value added to their exports of goods and services and their ability to draw other production activities in their wake. Secondly, there must be an appropriate balance between private enterprise, which is essential for generating dynamic innovation processes, and the development of public performance-based coordination and incentive systems. Thirdly, public policies are not necessarily State policies; on the contrary, a wide range of public-private combinations is desirable, and each country needs to develop these in accordance with its own development path. Lastly, these policies need to operate within a macroeconomic and financial environment that is favourable to productive investment.

Neglect, and even open rejection, of much of this policy agenda is responsible for a great deal of the fragility which has increasingly characterized the region's production structures. The destruction of institutions designed to deal with many of these problems in the past has not been accompanied by equally energetic efforts to create institutions that are suited to the new context. Not only are such institutions not incompatible with the successful development of markets, but they are actually necessary for this to occur, as is demonstrated by the fact that in the industrialized world, strong institutions exist in all these areas. The institutions to be created may be national or local or be based on integration schemes, which are part of a "deepening" integration process.[10]

The question of whether or not the economic development pattern will contribute to social integration will depend on its ability to create productive jobs, to overcome the problems faced by microenterprises and by small and medium-sized businesses in obtaining access to factors of production and appropriate marketing channels, and to level the playing field for small-scale rural producers. A productive development pattern that brings about social integration exerts beneficial effects on income distribution in two different ways: through job opportunities and through a better distribution of assets, which occurs as small producers gain access to capital, land and know-how. In addition, full advantage can be taken of the benefits of a more active social policy, and particularly of efforts to increase human capital.

[10] As demonstrated by this analysis, the new activities that can embrace these *integration processes* include the following: coordination of macroeconomic policies, particularly in small economies; common systems to regulate competition, public utilities and, perhaps, the financial sector; support for border-area sectoral clusters; and common technological networks. Additional activities might include the development of minimum or common social safety nets, the incorporation of the sustainable development agenda into the integration process, and the development of common infrastructure networks.

3. Consolidation of spheres of action for the promotion of sustainable development

The region needs to effectively incorporate the sustainable development agenda into its overall development strategy. Although this agenda is now reflected in public policies and citizen concerns, it has not yet produced results in terms of reversing processes that damage the environment or in fostering a new attitude whereby sustainability would be regarded as an opportunity rather than a cost. This is reflected in the fragility and instability of the institutions that deal with sustainable development and the meagreness of the resources they have at their disposal to cope with their hefty responsibilities. The equity, development and citizenship triangle must therefore include the dimension of sustainability, which is inseparable from integral development.

Four of the principles set forth in the Rio Declaration on Environment and Development adopted at the Earth Summit held in Rio de Janeiro in 1992 are particularly important. The first, "common but differentiated responsibilities", implicitly acknowledges the environmental debt of the developed countries, and hence their greater responsibility for progress in implementing the international agenda in this area. The second, the "precautionary principle", states that a lack of absolute scientific certainty about phenomena that are likely to have negative and/or irreversible effects on the environment is no excuse for postponing measures to forestall or minimize the threat. The third, the "polluter pays" principle, clearly establishes how the costs of environmental protection are to be distributed. The fourth, the "right to know" principle, establishes the right of communities to accurate information about the environmental risks they face.

Full application of the sustainable development agenda is closely related to each society's investment patterns and, consequently, to the development of its capital stock in the broad sense of human, natural and physical capital. This means much more than just conserving the natural capital base. In essence, it is linked to success in mobilizing investments in dynamic production sectors that use clean production methods. It is associated, therefore, with technological innovation, training and management systems that clearly incorporate the dimension of sustainability.

The fact that in many countries, trade liberalization has deepened patterns of specialization based on natural resources and environmentally sensitive industries poses a major challenge. There is no doubt whatsoever that in these and other sectors, the countries of the region will have to adjust to the growing tendency to apply environmental standards to international trade. The region needs to adopt a proactive policy in this field and devise ways of contributing to the attainment of global sustainable development objectives.

The countries of the region, meanwhile, have an unprecedented opportunity to diversify their comparative advantages in accordance with the international environmental agenda. Three areas are particularly important. The first is recognition of the role the region can play in mitigating and reducing carbon dioxide emissions under the international arrangements for evaluating and establishing concrete mechanisms for marketing global environmental services (particularly those deriving from the Kyoto Protocol to the United Nations Framework Convention on Climate Change). The second is recognition of the region as one that is rich in biodiversity, which raises the challenge of how to capture the economic benefits deriving from this resource, in terms of scientific knowledge and technological development and of commercial uses. The third is the opportunity to channel the new preferences of consumers, particularly the demand for tourism, towards sustainable forms of this service, including some that have a rich environmental component (ecotourism).

Setting off along the path of sustainable development will involve carrying out a thorough economic and social assessment of natural resources, ecological processes and environmental services, while the market will need to assign prices that correctly reflect positive or negative environmental externalities, and the costs and benefits that arise will have to be distributed equitably. In this respect, it is essential to consider the issues of environmental vulnerability that have been brought to light by the series of severe natural disasters that have hit the region, revealing the need to adopt better preventive measures in this area.

In the first instance, this will involve strengthening environmental institutions, be they national, local or subregional. In the case of subregional institutions, this will have to be done as part of an active process of mainstreaming environmental considerations into the different subregional integration agendas, a process which has already begun. Experience has shown that direct regulatory instruments (both reactive ones, such as the reduction of pollution, and preventive ones, such as land use planning and environmental impact assessments) are complementary to the new economic instruments (“green” taxes and subsidies established on the basis of negative or positive externalities). One subject that merits special attention is the active promotion of a clean-technology research, development and transfer agenda, involving small and medium-sized enterprises in particular. Given the shortage of funds characteristic of the sector in almost all the countries of the region, the option of earmarking revenues from green taxes or a small property tax should be considered.

Implementation of all these instruments will require considerable participation by the private sector via business councils with expertise in the subject, clean production centres, and greater use of voluntary environmental certification mechanisms (especially ISO 14000, for which more than 300 firms in the region have now qualified).

Lastly, it is vital for a more environmentally responsible, thoughtful and active form of citizenship to be achieved in the region, moving on from simply voicing complaints to assuming shared responsibility. This new kind of civic participation —complemented by a State which concerns itself with the aspects of environmental evaluation that cannot be dealt with by the market, and by a modern market that has the capability for technological innovation and is oriented towards clean production— needs to form the basis of a new social covenant for sustainable development.

C. Citizenship and society

When citizenship is understood as the entitlement to rights, it is conceived of in terms of demands rather than participation. The thinking is that the State provides the necessary support for citizens to exercise their civil, political, economic, social and cultural rights, and the citizens complain against the State if their rights are not granted or if they are coerced into foregoing the full enjoyment of their liberty. Without diminishing the relevance of this concept of citizenship, it is important to recognize the republican tradition as well, so that the exercise of citizenship is founded on active individual commitment to the future of society. Building more participative, solidary societies requires more than a State that guarantees rights; it is equally necessary to have social actors that are concerned with the different aspects of development and the broadening of opportunities for deliberation, so that agreements can be reached and decisions taken that affect the life of the community. More citizenship thus means more society: a community of individuals who do not limit themselves to private activities, but contribute to the circulation of ideas and opinions in the public arena in order to participate in projects and shared decisions.

According to this definition, citizens are not just recipients of services to which they are entitled; they also concern themselves with public affairs and participate in many aspects of the community and society. In the quest for well-being, they take part in collective projects and initiatives in which other citizens are also involved and participate in the management of mechanisms to satisfy their needs and of mutual support networks. Individuals are citizens when they exercise the legitimate right to make their demands heard and when they benefit from the public action of the State, but also when they concern themselves with local, regional and national (and now global) problems and strengthen the social networks to which they belong.

Regarded thus in its entirety, citizenship implies mutual commitment between the public authorities and individuals. The former must respect individual autonomy, accept and promote citizen participation in politics and provide opportunities for social well-being and productive work consistent with the level of economic development. The latter must exert pressure to ensure that the State complies with the above obligations, but they must also do their part by participating in the public arena, thereby contributing to its enrichment.

In this context, the furtherance of citizenship means, in the first place, developing its civil dimension, which is understood essentially as respect for individual autonomy. Second, it means developing political citizenship, in other words, expanding the range of societal agents that participate in deliberative and decision-making processes. Third, it means ensuring that economic, social and cultural rights can be exercised, within the limits of each society's possibilities. In today's information societies, it also means the ability of citizens to gain access to the knowledge and goods they need to participate as actors in information flows, in the circulation of knowledge and in the media debate, and to adapt to new management and organizational processes. Lastly, and in the best republican tradition, it means promoting the ability of States and political systems to absorb and reflect the new practices of social movements and to combine public policy with the social capital that is forged by society itself, through its organizations.[11] In this respect, it means broadening the public arena, in the face of the centrifugal force now operating in private affairs, so as to create more of a society, a more widespread awareness of the responsibilities of individuals and groups towards society as a whole, citizen forums for deliberation and the forging of agreements, and direct citizen participation in the creation and enjoyment of public goods and merit goods.

A key element of this process is the development of procedures for forging agreements and resolving conflicts, that is, political processes that guarantee adequate governance of society. This, in turn, should be understood as the process through which conflicting or divergent interests are reconciled, which leads to cooperative actions. The development of adequate governance depends not only on the existence of broad political and social agreements, centred on a set of objectives and pre-established

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[11] Social capital is here understood as the overall social and cultural resources of a given group of people, which are indispensable for consolidating certain benefits that the group would not otherwise attain. Social capital grows out of cultural values of reciprocity and respect for the rules, as well as from social relationships based on kinship, and it is visible in social institutions set up to provide for cooperation and to manage shared resources.

conflict-resolution procedures, but also on institutional arrangements for the exercise of power in managing social and economic resources for development. In positive terms, it is more a prerequisite to the full exercise of democracy and hence, a contribution to it, than a limitation on democracy.

Social and economic governance in democracy is associated, in the first place, with the capacity for achieving long-term agreements between the State and the main social and political actors, with regard to the development strategy and the sequence of institutional innovations and policies that are necessary according to the different national realities.12 Reaching this type of agreement is possible, as shown by the many national experiences in different periods of development, but it requires a social learning period and a mature democracy for overcoming situations of domestic confrontation, when these are severe. By giving voice to the actors involved, the participation mechanisms that are necessary for reaching these agreements stimulate interest in the system, increase the degree to which the benefits generated are actually exploited and promote the development of social capital, understood as a society's capacity for cooperation. In order for these mechanisms to function correctly, however, it is necessary to learn how to reconcile the growing demand for rapid action on the part of the State, as required in the world today, with the slower processes of democratic participation.

Agreements on the public agenda must go hand-in-hand with the development of clear, transparent and balanced rules of the game. Establishing rules and institutions that create a transparent, predictable framework is a necessary step towards promoting responsible public action and fighting corruption. As a counter-weight, this calls for the development of channels of information on government rules, practices and decisions, as well as an efficient and effective justice system. To have legitimacy in addition to clarity and transparency, the rules must be balanced from the perspective of all social sectors. If any of these sectors —especially the weakest— perceive persistent imbalances, one of the foundations of governance will be eroded.

At the same time, an adequate socio-economic governance calls for high-quality government actions, together with appropriate mechanisms to ensure accountability and evaluate public administration. The quality of public administration is essential for maintaining legitimacy in the eyes of a citizenry that is increasingly demanding and less tolerant of administrative procedures that are not transparent and that open the door for corruption

[12] For a detailed discussion of these issues, see Lahera and Cabezas (2000) and, on the fiscal dimensions, ECLAC (1998d).

and wastefulness. Good public administration and acceptable levels of accountability are associated with the establishment of institutional mechanisms for setting specific objectives for each area of public administration, standards to be met and indicators for evaluating performance.

The strengthening of citizenship, understood as effective participation by social actors in public affairs, is essential if the deterioration of social cohesion is to be remedied. In all the societies of the region, to a greater or lesser degree, people are losing their sense of belonging to society, of identification with collective goals and of the need to develop ties of solidarity. Outbreaks of violence in many countries are perhaps the most visible manifestation of this. The feeling that traditional social safety nets —the family, the community, the church— have been weakened has been combined with the impression that the State's own social projection systems are growing more frail as well. This loss of social capital, as well as the problems of corruption and inefficiency in guaranteeing public safety and justice, are undoubtedly factors in the questioning of political legitimacy that is increasingly affecting the democratic systems of the region.

This fact drives home the importance of fostering bonds of solidarity, whether the initiative is taken by the State or by civil society itself. It means that "public affairs" need to be viewed as the sphere where collective interests converge rather than as synonymous with the State. It means, in other words, that all sectors of society need to participate more actively in democratic political institutions and that a wide range of mechanisms need to be developed within civil society itself, so as to strengthen relationships of social solidarity and responsibility, both within groups and between them, and, above all, to consolidate a culture of harmonious coexistence and collective development founded on tolerance of differences and a willingness to compromise.

One of the basic questions that arises in relation to this issue is this: How does the new "development style" further or hinder this process? To what extent, in other words, might the widespread acceptance of market rules and the increasing currency of the concept of individual effort as a mainstay of the social order end up eroding the social capital that the economic model itself (and, obviously, any social order) requires?[13] This is unquestionably the greatest paradox now facing our societies, one of the

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[13] The classic work of Polanyi (1957) is still the indispensable starting point for this type of analysis. One of the most interesting recent contributions to this debate is that of Soros (1998).

"paradoxes of modernization", as a recent report puts it.[14] Underlying it is a great controversy, possibly the most important one to be pursued in the early years of this new century: the controversy between those who view elements of human development —education, health, work— as rights, enshrined as such, furthermore, in the International Covenant on Economic, Social and Cultural Rights, and those who regard them as goods or commodities that individuals have to acquire for themselves by their own efforts. Where does the world of commodities end and the world of rights begin? Where, in other words, does the world of consumers end and that of citizens begin? This is surely one of the most crucial dilemmas being faced by the societies of our region —and the whole world— today.

[14] See, in this respect, the recent report of UNDP (1998). This report asserts that besides the problems of inequality in the distribution of the indicators of development or human security, there is "a large gap or inconsistency between objective achievements and people's subjective perceptions of security", and "possible shortcomings in the specific mechanisms through which Chilean society has attempted to bring about social integration" (p. 21). These reflections, relating to the country that has been most successful with economic reform, are of continuing relevance.

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