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DEVELOPMENT, CHANGE AND EQUITY:  
VANQUISHING POVERTY \*/

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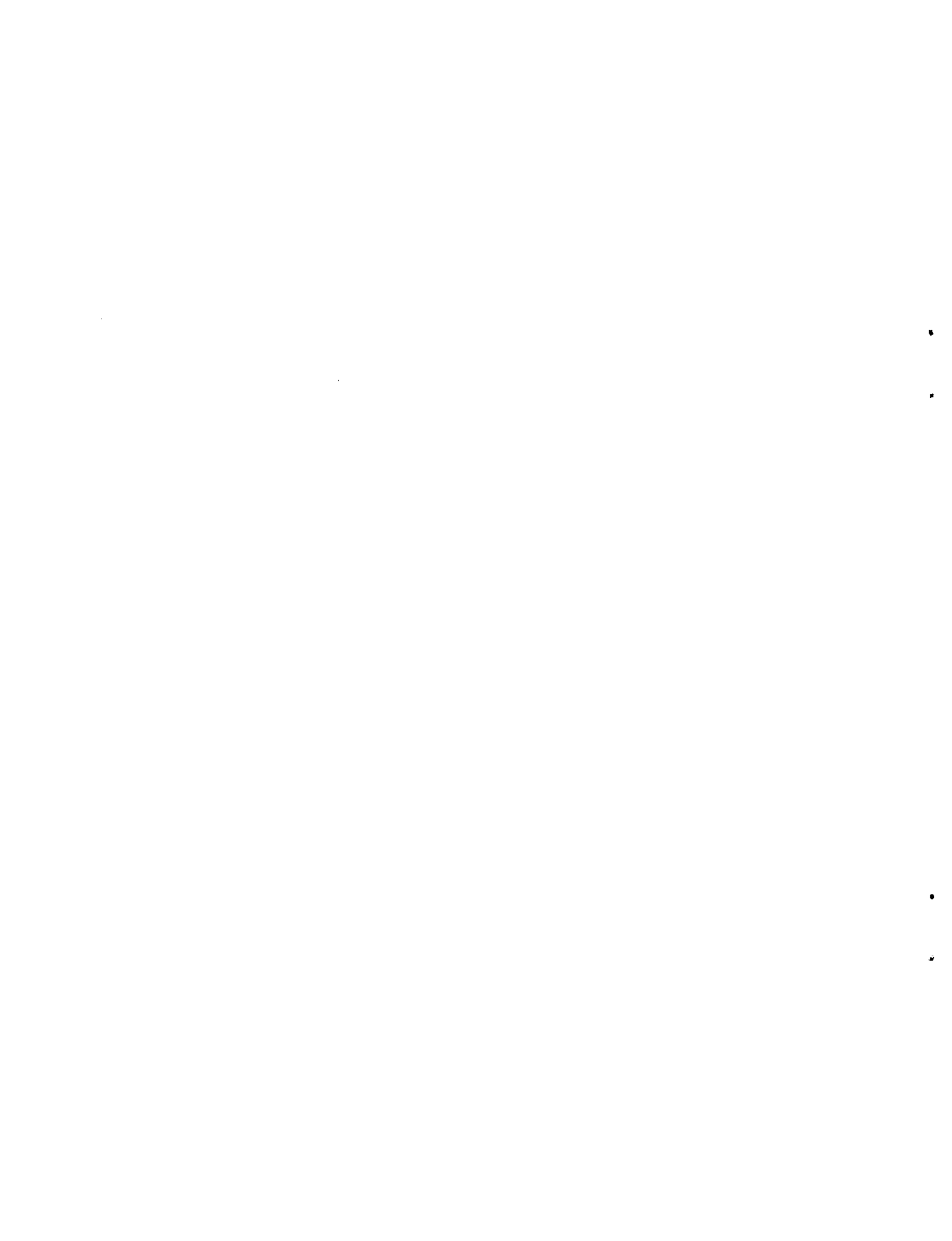


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## Introduction

Eliminating poverty and creating equitable societies within the framework of development have been the central themes of disputes and ideological struggles in the XX century.

Throughout the process of social mobilization around development guidelines, the right of individuals and families to live free from poverty and social segregation has been recognized. The consensus that such a right exists is not only a very important change in contemporary values, in so far as it has become a normal expectation of societies, and has redefined their needs and in so far as it is now included as a principle which gives legitimacy to power systems, but it is also the foundation of political systems.

Side by side with this, a change occurred in the perception of economic objectives. Economic growth was measured against and legitimized according to the yardstick of community welfare and output indicators were considered together with calculations of per capita income, income distribution by population sectors and the impact on society, manifested, *inter alia*, in indicators such as life-expectancy, education and cultural consumption.

The agreement in principle that every person has the right to minimum conditions of well-being does not mean that these conditions are obtained everywhere. Even the transformation of the countries which today have developed into equitable societies, was a process which began after the crisis of the thirties and in most cases, became widespread in the fifties.

The connection between equity and economic growth has also been recognized. There is agreement that in the advanced stages of development, the social disparities that this development engenders and the increasing role that this development plays in providing people with skills establish a gradual distribution of economic and cultural income although this distribution may not necessarily include all the members of the population. Where there is disagreement, however, is with respect to the priority that should be established between accumulation and distribution. For some, the first is a pre-condition of the second, whereas for others the policies for distributing assets or incomes are absolutely essential conditions for obtaining the dynamic conditions for growth. Neither economic theory nor empirical correlations have provided irrefutable evidence to support one assumption or the other, perhaps because the discussion, in leaving out some explanations also fails to take into account the political arena in which the choices are being made between accumulation and distribution.

If this political arena is included and taken into account, then the link between growth, equity and democracy can be

proclaimed as the voluntary goal to which the historic process of development should be directed and also as a link from which the dynamic force for economic, social and political transformation radiates. The first view is incorporated not only into the values underlying contemporary societies, but is also specifically included in the constitutional principles of the nations of the region. The second view opts for a review of the factors that explain development and outlines a series of intervention measures to obtain it.

The history of the developed countries shows the connection between the processes of transformation of the agrarian structures, economic growth and the emergence of an equitable social organization; the link between the processes of growth and the first stirrings of democracy in a tense situation, which when diffused expands the markets and terminates the tug-of-war between accumulation and distribution, by increasing productivity and creating new social and political conditions. The history also reveals how universal political participation combined with the rise of social rights provided the rationale for according people greater worth. As the contributors of knowledge and skills they came to be regarded as vital to productivity. Finally, the history shows how democracy --including its forms at the community level-- interacted with social integration to produce more markets and more dynamic development.

Regarding the region's future development, this paper outlines a number of strategies whereby economic growth, equity and democracy can all be achieved and consolidated at the same time. There is, therefore, no point in repeating the content of the document here. Instead, it would be more useful to emphasize some of the points to be borne in mind when defining a strategy to vanquish poverty and achieve equity.

The first point is that any effort great enough to overcome the structural and economic factors which create poverty must be perceived by the development of the principles of national solidarity, based on acceptance of the fact that "the other person" is entitled to an opportunity to develop as a human being; this means that discrimination on the basis of sex, race, culture and social class must be eliminated.

The second point is that policies to eradicate poverty, far from establishing a relationship of dependence between the needy and the State must decide on a set of measures to be taken to develop the basic capacity for autonomous socio-economic participation.

The third and last point is an acceptance of the fact that equitable development policies are the guiding and dominant forces in the process of nascent democracy, which is growing ever stronger and that this means absorbing the tensions and conflicts



among the social groups and between some of them and the State. These tensions can only be released and these conflicts settled through interaction between the political sphere and a State which is geared primarily to development.

The process of development, equity and democracy is necessarily one where there is constant compromise between immediate action and long-term guidelines; where there is control, so that some expectations are immediately fulfilled and others postponed; where there is accumulation and distribution and finally, where there is orientation and participation. Such a process, therefore, must rest upon a political base and have the necessary management capability to implement the changes successfully.

## I. BASES OF THE STRATEGY

### A. GENERAL CONSIDERATIONS

1. In outlining any regional strategy to vanquish poverty and attain social equity, consideration must be given at the same time, to the actual structure of development in the region and to those economic factors which because of the external crisis, have rendered the previously existing social problems more acute, given poverty a new dimension and placed more obstacles in the path of social mobility.

2. This paper is therefore proposing a two-pronged strategy. On the one hand, the strategy provides a frame of reference for long-term social development and offers a prospect for change in the societies, which would come to full flower after the year 2000. This date will not only usher in a new century and a new millennium but also a new stage of production and social organization, which is already emerging in the developed societies. On the other hand, the strategy takes into account the fact that social policies and intervention are urgently required to meet the pressing human needs, which have become critical in the external crisis of the 1980s, particularly in respect of basic human survival, food and health.

3. The vast disparities which formerly existed among the Latin American countries (the nature and size of the territory, resource endowment, population size, cultural bases) have been increased, due to the different pace and divergent methods of economic development, the greater or lesser concentration of incomes, the various groups which have benefited from the government income redistribution policies and the determining factors of the power system. Consequently, there is not just one social situation common to all the countries of the region. There are many social situations and the strategies therefore have to be just as many. The basic strategies being proposed in this paper must therefore be regarded only as a reference for national measures which are qualitatively different, with the only common feature being the attainment of similar social objectives.

4. Even the phenomenon of poverty, whose manifestations (morbidity-mortality, malnutrition and cultural and social privation) present common features throughout the region, must be approached, making allowance for the differences among the countries. The nature of poverty and its root causes are vastly different, depending on whether it is rural poverty in predominantly agricultural societies or urban poverty combined with open unemployment and underemployment in economies, which have failed to create jobs to keep pace with population growth, or the poverty of a labour force working in a dynamic economy,

which is bound to a highly concentrated wages and income structure.

5. The region --with vast differences from one country to another-- saw a radical transformation of its economic and social structures in the period 1950-1980. Its population doubled and became more urbanized; jobs increased in industry and in the modern tertiary sectors (social, financial and production support) and far-reaching changes occurred in the levels of education. This structural transition has led to the emergence of divergent and complex societies, where social groups have different degrees of access to modern amenities and links to different levels of the hierarchical structure of know-how and technology and with different types of social needs.

6. These changes occurred with the formation of large institutional networks. The institutions responsible for health, education and job training, family welfare and social security, today, make up a vast system and a knowledge of this system's successes and failures are a necessary reference in formulating the strategy.

7. In particular, this reference can help to avoid errors such as assuming that a society can be refashioned simply through a political decision, as if it were some sort of inert matter, or believing that the mere adoption of certain technocratic recommendations will solve all the problems. Every strategy has an impact on the social structures that have been built up throughout the history of the countries of the region. These structures have been fashioned according to national identities and around common causes of diverse kinds, and according to economic structures with vastly different potential and power structures which to a greater or lesser degree promote social change.

#### B. TERMS OF THE STRATEGY

8. The social strategy cannot be conceived without again reaching or surpassing the annual growth rates of the per capita gross domestic product recorded in the region in the 1960s and 1970s. Growth is not only an absolute necessity for producing the goods required to meet the demands of the society and to create employment for those currently unemployed and jobs for the hordes of young people who will be entering the job market by the year 2000; it is also a prerequisite for creating jobs requiring skills and technical know-how, which will foster social mobility, as the best trained and most skilled persons are selected and promoted.

9. The economic conditions now prevailing in the region as a result of the transfer abroad of capital equivalent to several points of the gross domestic product to meet its external debt payments, have created a dual crisis in the economy and the financial capacity of the State. This crisis has made it extremely difficult in some cases and virtually impossible in others, to obtain the resources needed to deal satisfactorily with the situations of poverty and extreme poverty, and to promote social development. The countries have recorded unprecedented increases in unemployment and underemployment, the phenomena of the food crisis --even in those countries where the population has historically been well feed--, the reduction of available income at the national level and even more so, among those sectors of the population in the lower half of the scale, a deterioration in social services and social security and manifestations of social disintegration. The governments' hands have been tied in their ability to react, in some cases because of the increasing cutbacks in global expenditure and in every case, because of the cutbacks in the expenditure earmarked for investment and the implementation of social policies. The strategy presented here has another prerequisite: a radical change in the domestic impact of the kind of economic adjustment imposed by the terms of external refinancing.

10. Economic and social policies are part and parcel of development. Their mutual integration, which is also a condition of the strategy assumes: a) that there is a large accumulation of capital which will be converted into investment, as a necessary condition of employment generation, and b) that there is a progressive distribution which implies expanding the consumption market, creating jobs and improving the training of human resources so that they can be fully utilized in the economy. Integration of both these policies is the foundation stone of democracy and democracy is incompatible with a process in which capital, incomes and access to jobs are concentrated in one sector and where these are combined according to the economic rationale of a small market, whilst the rest of the population is excluded from that market and is offered social policies giving aid as the panacea for its poverty.

11. These social development policies and strategies of a region which has societies with greater or lesser differences, and a growing need for human skills at different levels must perforce combine the elimination of poverty, the attainment of minimum equity for all the members of the society and the reasonable satisfaction of the demands of the groups occupying different positions in the social order. The Latin American and Caribbean societies are not reduced to a simple dichotomy between the poor and non-poor. Within the group of the non-poor there is a vast array of different situations in respect of income, social needs and culture. The social policy should prevent the concentration of public resources in specific groups, as this would be

detrimental to the poorest rural and urban groups. Furthermore, it should try to assign the scarce resources available with care so as to ensure that income is gradually redistributed. Care should also be taken to prevent any changes implemented from reducing to poverty, groups which at the present time are not poor, because, inter alia, of these very social policies.

12. The transfers of food and primary health care, which are required immediately, should be linked to policies which cover not only the short term but the medium and long term, which have people-related objectives and involve the economic institutions described in detail throughout this paper. The policies of granting subsidies to goods for the high-risk sectors of the population are given the highest priority both for humanitarian reasons and reasons of solidarity and because of their value as investment in human resources. These policies should perform the dual role of meeting the immediate social emergencies and creating the conditions for applying a broader strategy.

13. Having regard to the size of the population now living in conditions of poverty and the inequality which existed, even before the crisis, in terms of access to social services, modern jobs and adequate levels of income, the strategy should establish priorities and refrain from being over ambitious and should take into account the size of the problems and the limited resources. The priorities of the strategy may be summarized as follows:

- a) policies to prevent poverty, exclusion and social fragmentation from being repeated from one generation to the other;
- b) policies for incorporating the young into jobs in the more dynamic sectors of the economy;
- c) policies to create jobs and set up installations for social use and support systems, in order to increase the productivity of the existing human resources;
- d) policies to generate productive employment;
- e) policies for the distribution of incomes and assets.

14. All of these priorities will help to create the kind of development in which all the members of the society are entitled to have access to and enjoy the three basic benefits of the society; the biological heritage, represented by proper development of the physical and intellectual talents; the cultural heritage which is having access to and receiving education and training, and the economic heritage with its twin facets of tax collection and participation in the economic assets.

15. The emergency policies, policies subsidizing the poor sectors of the population and those aimed at reorienting social policies should be designed with the aim of bringing about social integration, which is the basis of productive development. This

assumes that the purpose of social development is to establish a social citizenship, in other words, to obtain a certain basic level of biological development, intellectual and job training and access to income for all. This social citizenship is the bedrock of political citizenship which is, in turn, the foundation of the democratic systems of the countries of the region.

16. The national strategies --depending on the conditions of development and the impact of the external crisis-- should, from the very start, emphasize policies of a general nature, to which the entire population has full access, or policies aimed at extremely vulnerable groups. These policies, however, should try to ensure that the social sectors, which are excluded, gain more and more access to those goods and services which enable them to achieve the basic benefits, which the social groups included do enjoy, especially those which ensure that poverty and neglect do not recur from one generation to the next.

17. If social integration is to be achieved, it is assumed that people, as citizens, are entitled to participate in the political system and to organize themselves to protect their rights as workers, consumers or participants in social organizations, as they seek to achieve greater democratization of political and social power.

## II. ARTICULATION OF THE STRATEGY

### A. DESIGN

18. The strategy comprises two major sets of actions which States can undertake with the support and mobilization of their societies.

19. The first set of actions concerns individuals, and involves creating the necessary conditions for them to take a full and active part in society and for providing them with basic social security. It includes policies to provide the following: health and social security during childbirth, pregnancy and early childhood; full-time education, integrated with health and food services; training for youth and adults; the provision of goods for productive and social use and support systems for community and social projects, and finally, basic allowances in the case of disability. All of these policies are designed to avoid the reproduction, from one generation to the next, of poverty and exclusion affecting certain sectors of society, so as to ensure such integration into society and into citizenship as mentioned in the previous chapter.

20. The second set of actions concerns economic institutions, and involves creating the necessary conditions to fully develop human resources, expand markets and bring about productive and social efficiency in the region. It includes policies for structural adjustment with equity, for investment and consolidation of growth, for productive employment, income distribution, and finally guidelines for State participation in the economic sphere. These policies as a whole involve changes in the style of development with major repercussions for the employment situation in the region.

21. At an abstract level, it is understandable for a given State to concentrate most of its efforts and resources on purely social policies, on the assumption that these develop individuals in full possession of their biological and cultural heritage, who may thus inherit the basic conditions for participating in society and behave as political citizens in the full sense of the word, taking part in the orientation of development and in the distribution of its benefits. It is also possible to imagine a State pursuing the opposite course and concentrating its resources and efforts on modifying economic institutions, particularly employment and remunerations, on the assumption that if satisfactory levels are achieved in both of these, families will be able to acquire protective insurance, as well as the goods and services necessary for their biological reproduction, and also acquire educational and job training for their children. Comparison of these two attitudes --of which history provides no

pure examples-- makes it possible to distinguish two types of action which, while they are indeed complementary, correspond to qualitatively different ways of handling social policies and vanquishing poverty.

22. Bearing in mind the social segmentation which the region has inherited from the past and the need for systematic action designed to lay down the biological and cultural bases for vanquishing poverty, policies designed to avoid the reproduction of poverty constitute the cornerstone of a strategy whose aim for the year 2000 is to have provided each child with the appropriate bases for his biological and mental development, so as to ensure that he is fully incorporated into economic and social life. In this respect, poverty constitutes a complex phenomenon reflecting the shortcomings of the biological and cultural development of individuals, in addition to their economic deprivation. While it is possible to vanquish the latter, it is not sufficient to merely satisfy food requirements, in order to integrate the poor into society. This can only be achieved by a systematic effort to foster the reproduction as well as the cultural education and work training of the new generations.

23. In order to break out of the vicious circle represented by the reproduction of poverty --which implies giving preferential attention to children and youth-- the strategy considers giving priority to the most vulnerable social groups. It is towards these groups that action must be first of all directed, after which it may be subsequently extended to regular social services to the population as a whole. The social groups deserving priority are:

a) The indigenous population --in those countries in which it exists-- or that section of the population which is separated by linguistic and cultural barriers. It is generally within these groups that the most negative indicators are recorded, from infant mortality to monetary income, and that the task of incorporating new generations is most arduous, in view of the limited and inadequate nature of the social services provided to them.

b) The rural population, the largest numbers of whom live in the least-developed regions and countries. Despite the pronounced process of urbanization, it is estimated that towards 1985 40% of the population below the age of 5 lived in rural areas. It is within this sector of the population that the most acute shortages in terms of food, health and education exist, and so far it has been the victim of de facto discrimination in the implementation of social policies.

c) The urban population of non-metropolitan areas, whose average income, with some exceptions, is lower than that of families living in similar circumstances in capitals and cities which are poles of development. In addition the quantity and quality of the social service infrastructure is inferior to that



found in metropolitan areas, although in smaller cities the quality of services may improve as a result of community participation and the greater devotion of human resources. Vigorous policies to generate employment and improve the quality of social services are an essential requirement for ensuring the social mobility of this population.

d) The poor urban population living in metropolitan areas of long-standing marginality. In all major cities, including those in countries in which the rate of growth of employment in past decades was rapid, certain social sectors were unable to benefit from social mobility. Either for reasons of limited linguistic ability, illiteracy and cultural marginality, or as a result of their lack of minimum job training, sectors of adults who are unable to take on regular employment have come into being, who reproduce, through their families, a permanent state of marginalization in the following generations. The incorporation of these groups' new generations into society requires sets of specific policies to deal with the stages of reproduction and cultural education of children and youth, in addition to care directed at the household.

e) Families with a female head of household. In each of the previous categories, those families whose head was a woman were the poorest and most likely to reproduce poverty and exclusion from one generation to the next. This category of families is growing rapidly both in rural and urban societies, and despite the fact that they have been identified as being at high risk, public policies to ensure their protection are either inexistent or extremely limited.

24. The policies incorporated into the strategy are designed on the basis of a concept of functional equity as part of the development process. As far as the human element is concerned, they aim to:

a) Educate, train and incorporate human resources which are at present excluded or which only provide a minimum contribution to the national product.

b) Increase the capacity of national markets by providing a supply of qualified labour and an improved infrastructure for productive and social uses.

c) Update the knowledge and capacity of the human resources in order to achieve a rational and more efficient organization of the production of goods and services and prepare society for the new forms of technological challenge.

d) Foment social integration so as to prepare a greater number of capable individuals for the tasks of innovation, and forms of efficient co-operation galvanizing development, as the basis for consolidating democracy and social agreement.

25. As part of the concept of functional equity for development, action relating to economic institutions proposes to:

a) Generate productive employment so as to incorporate into the modern sector, in accordance with their qualifications, the

labour force at present unemployed and underemployed, and also to improve the production capacity of the informal, urban and traditional agricultural sectors, again with the aim of making use of unutilized human capital.

b) To promote a dynamic investment policy to significantly increase the present level of investment, increase its efficiency and change its makeup, so as to intensify the development of those sectors most closely linked to employment and production.

c) Apply policies on remunerations and on the distribution of income and assets to assist in increasing production, expanding markets and increasing the population's capacity to consume basic goods.

d) Develop greater economic efficiency on the part of the State, increase its capacity to harness resources and redirect expenditure towards supporting productive activities and towards those items of social expenditure which provide backing for policies to develop human resources.

#### B. MODES OF IMPLEMENTATION

26. In implementing the strategy it is necessary to distinguish between the short-term aspect on the one hand and medium- and long-term aspects on the other. Under present circumstances, in order to distinguish between these it is necessary to consider whether the economy is at a stage of adjustment or whether it has managed to achieve such adjustment and to lay down the bases for positive economic growth. Recent studies carried out by ECLAC indicate that following three to five years of regression, some countries have completed their economic adjustments and returned to the path of economic growth, while others are still carrying out the monetary and productive adjustments which will allow them to restore growth. As far as the latter are concerned, the only option is to carry out here and now an expansionary and socially equitable adjustment; as far as the former are concerned, it is necessary for them to consolidate the achievements of an expansionary adjustment, or alternatively, in the case of recessionary adjustments, eliminate the imbalances and injustices created by the latter. Within the short term, in those economies at the stage of adjustment, emergency policies will prevail, particularly with regard to food, health and employment. In those economies which have left this stage behind, while a selected number of emergency policies will remain in force, attention will begin to be directed towards the most vulnerable groups with the aim of definitively vanquishing poverty and planning social policies so as to ensure social integration.

27. Not only do countries possess different social and economic structures and different levels of development, but in addition the forms of social policies practiced therein are diverse. The

types of social services and allowances provided in the region may be outlined as follows:

a) Countries whose development and modernization took place at an early date, and whose social services are universal, with coverage for the whole of the population, although the access of marginal sectors is lower and of inferior quality.

b) Countries which experienced a high rate of economic growth and which, despite having endeavoured to set up universal systems, in fact achieved the provision of sophisticated services for the better-off sectors of the population and others, of inferior quality for the remainder of the population.

c) Less-developed countries, whose supply of services remained limited to the most integrated part of the urban population.

It is apparent from this brief classification that in implementing the strategy, countries will face different tasks; some of them will need to improve their institutions and complete range of services; others will need to eliminate the dual nature of the supply; as far as the last group of countries is concerned, their task will be to set about extending services to the whole of the population.

28. Such as it is defined, the strategy lends itself to many modes of implementation, while always observing the conditions set out in the previous chapter. The form it will adopt will in each case depend upon the conditions and possibilities of the country in question. Thus, one country may initiate its action by measures concerning economic institutions; another may tackle the conditions affecting the reproduction of poverty. In the economic sphere, a change in the pattern of income distribution, for example, may, in one country, generate greater employment, through demand for wage goods; in another country, under different circumstances, it may have a negative impact upon the balance of payments or generate inflation. Within the sphere of social policies, a change may be initiated by schooling and training youth, in order to withdraw labour from the market, or by means of a range of actions in the health, food and education spheres in relation to pregnancy, childbirth and early childhood, provided the country possesses sufficient and unused human resources in these areas. The strategy is also sufficiently flexible to allow certain actions to deal with the structural elimination of poverty and the systematic training of human resources.

## C. THE STATE AND IMPLEMENTATION OF THE STRATEGY

29. All of the governments in the region possess a form of unified economic management, in the leadership exercised by a ministry or by the existence, either institutionalized or not, of an economic team. The same is not true in the social sphere. Regardless of the institutional form considered most suitable for each country, there is a generalized need throughout the region for social policies to be integrated with one another --the most striking example of this is the need for integral family care, covering a variety of sectoral policies-- and also integrated with macroeconomic policies. In these circumstances, implementation of a strategy requires, at the institutional level, that a suitable legal framework be set up to allow the action of a "social executive" --empowered to define social policies as a whole-- to ensure that they are integrated with one another, to establish priorities and provide support for policies through the appropriate technical and control instruments, while ensuring tight links with macroeconomic policies.

30. As far as the States of the region are concerned, within which, in terms of organization, there are considerable differences as regards their possible scope of action, their degree of administrative organization and the resources available, the problem of finding the skilled human resources to carry out their policies not only concerns the availability of such resources within the country, but also the power of the State to persuade them to work for it, which implies, among other things, suitable levels of remuneration.

31. In order to implement the strategy it is vital to make a systematic effort to school and train public-sector personnel, from the level of policy planning and design to that of implementation at the municipal or community level. Success in the implementation of social policies to a large extent depends upon the officials responsible for applying them being suitably trained, in particular when the policies are directed at sectors of poverty, whose limited or inexistent social organization means that they are more dependent than other sectors upon the efficiency of the public administrative apparatus.

32. Implementation of the strategy also reveals the need to correct the serious shortcomings which exist with regard to systematic information concerning social circumstances within countries, and above all information which is broken down on the basis of income groups or degrees of vulnerability. A far-reaching review of the social information and assessment systems, including the introduction of suitable programming technologies, will provide the State with a system of standard social indicators allowing it to formulate and design policies, implement programmes and act to face social emergencies, both

with regard to conjunctural circumstances and to tackle medium- and long-term concerns.

33. The extent to which decision-making and the implementation of policies is centralized varies considerably within the region, and is not always related to the greater or lesser degree of technical efficiency of the policies applied. In principle, the nearer the worst-off social groups and in particular the poor, are to the centre of decisions, the greater the likelihood of their potential and real demand for social services being met. However, decentralization does not in itself ensure greater efficiency or equity. In order for it to do so, it is first of all necessary for each administrative unit to receive not only delegated authority, but also resources corresponding to the population in its care, in order for services to be homogeneous throughout the different strata of society and over the whole of the national territory. There are long-standing precedents in the region exemplifying flagrant inequality (for example, with regard to primary education services) which are the result of the service depending on the local administrative unit for its financing. Secondly, in their technical aspects, services must be given homogeneous support, guidance and national personnel. The central State has in the past played a rationalizing role at the technical level which it has only proved possible to replace in the case of local units situated in or near development poles, whose large size and abundant resources have allowed them to achieve levels of technical competence equal or superior to those of the central administration. Finally, if the social demands of the least-privileged sectors are to be taken into account in defining the orientation of services, it is necessary for the local administrative organizations to be founded on democratic participation.

34. Implementation of the strategy assumes that there is a major collective effort in addition to stabilization at its present level of the social benefits which some sectors enjoy, in order that the share of others which have fallen behind may be increased. This implies that there be national consensus in support of the policies, to channel solidarity, ensure acceptance and provide a thrust for a model of development with equity. The political system represents the space within which this national consensus can and must be developed, using the various institutional means existing in countries. Whatever form it takes, it assumes that the sensitivity of the various groups towards countries' social problems be developed, that the chosen strategy and expected long-term results be explained and that the benefits which derive from development with equity for economic growth and the creation of a national society in the full sense of the word, be fully demonstrated.

35. Poverty and social deprivation are structurally connected with the way in which income is distributed, which is in turn

linked to the distribution of social power. Economic poverty is in part the consequence of political poverty, which reveals itself in the following: the lack of the necessary material means and knowledge about society to organize; the difficulty a group experiences in mobilizing itself autonomously and being able to provide its own leaders; the inability to establish conceptual links between its own circumstances of material poverty and the social and power structure; the lack of means voicing their demands, as they possess neither capital nor trade unions. In this respect, the rights of citizens --universal suffrage and the right to organize unions-- have been the main means of reducing extreme conditions of poverty, since the change in social power relations is an essential prerequisite for the State to adopt macroeconomic and social strategies to vanquish poverty. In addition, it should be mentioned that in the case of those persons at present marginalized, social relationships are established directly with the State, and not, as is the case of workers, through their firms. Similarly, a change in the pattern of remunerations of less qualified wage earners has always been linked to trade union and political organization. This is not only apparent from historical experience in the region, but also from the history of today's developed countries. Consequently, the right of workers to organize free trade unions, and that of urban and rural inhabitants to establish autonomous associations, represent the bases of a political system capable of vanquishing poverty.

36. The strategy assumes that the State, private enterprise and social and community organizations recognize the need to co-ordinate their action for development, on the basis of the conviction that vanquishing poverty and inequality constitutes an essential objective in achieving development whose benefits will be reaped by society as a whole and by each of the economic and social agents individually. In this respect, the State has a crucial role to play, since among its responsibilities are the following: orientating and planning development policies and concentrating and channelling the necessary economic resources for transformation. As regards the private sector, its role is to participate in investment, growth and employment generation strategies, and it is to be hoped that it will also participate in implementing, financing or supporting social services designed to avoid the reproduction of poverty and to provide basic social protection. In turn, social and community organizations are essentially responsible for reinforcing the role played by citizens in development, by participating in the design, organization and implementation of social policies, thereby allowing them to obtain services which correspond more closely to their needs and reducing the cost of these by community participation. The implementation of social policies by co-operative and associative organizations also provides an opportunity for developing democracy.

37. By designating areas of action for the State, the private sector and for local or community action, the strategy postulates that linking and harmonizing these areas makes it possible to overcome the drawbacks or inadequacies of each of them individually, which are usually reflected in the limited management capacity of the State, the lack of motivation on the part of the private sector and the risks of technical inadequacy or the arbitrary nature of community action.

38. All of the above assumes that the capacity of the State is systematically reinforced and that its organization and aims are rationalized. To this end, and in order that the State may adequately fulfil its role in implementing the strategy, it would be necessary to:

a) Increase the State's financial capacity by raising taxes on superfluous consumption and on the highest incomes, laying particular stress on direct taxation on income and assets, so as to correct distribution over time;

b) Adopt a similarly gradual approach to public service tariffs as a whole, in order to avoid their cost falling disproportionately upon low-income sectors;

c) Redirect public expenditure at present devoted to non-productive functions (such as, for example, military expenditure) towards productive investment and social policies;

d) Redirect social expenditure towards those groups which lack protection and to setting up public services which are of homogeneous quality;

e) Establish the necessary institutional organization to integrate and make social policies coherent in respect of one another and with regard to economic policies (the "social executive", already mentioned);

f) Achieve greater efficiency than in the past, through the use of the instruments for programming, systematic information and training already mentioned.

### III. ACTION DIRECTED AT THE POPULATION AND SOCIAL INSTITUTIONS

#### A. STRATEGIES TO AVOID THE REPRODUCTION OF POVERTY AND INEQUALITY IN FUTURE GENERATIONS

39. Experience of development within the region in past decades reveals that, despite the progress in terms of economic growth, in changes to the structure of production and employment and in the significant increases in the levels of education, the conditions necessary for vanquishing poverty and ensuring social equality have not been achieved. Moreover, a variety of indicators reveal that certain social sectors were left behind, in comparison with those which were fully incorporated into the modern circuit of production, consumption and culture --and that their poverty is inherited by their children. Consequently, it will not be possible to vanquish this relative exclusion simply by means of a higher rate of per capita growth, but it will in addition be necessary to adopt a policy to attack the root causes of the reproduction of poverty in the new generations. As has already been stated, this implies endeavouring to establish suitable conditions for the biological, social and cultural formation of the new members of society, in order that they may reach active adult life with a basic homogeneous background.

40. As societies become more complex, not only does the initial training received by individuals have to be longer and more complete, but it also determines to a greater extent their future possibility of playing a part in society. In other words, poverty and exclusion start to take form during pregnancy, and depend upon the care received at childbirth, on the food, health care and early stimulation received at the pre-school stage, as well as on the education, health and food received during the years of basic education. The phenomenon of the perpetuation of poverty from one generation to the next illustrates the complex relationship between biological, social and cultural reproduction within the long cycle by which human beings are formed.

41. Both as a result of the rapid transformation in the region's social structures, which left certain social groups marginalized, and of the unequal way in which the benefits of development have been distributed in so far as such basic items as food, health and cultural development are concerned, which constitute the bases for intellectual development, gaps have emerged between families which it is only possible to narrow by means of long-term action, designed to establish the conditions for ensuring the homogeneous development of future generations in all strata of society.

42. With regard to this topic, the action defined here will decide the future availability of human resources and the



possibility of ensuring the region does not enter the twenty-first century in a state of backwardness in terms of its human resources, reflected in physical shortcomings, lower intellectual development, high levels of absolute and functional illiteracy, and a low level of basic educational training, out of touch with modern scientific and technological standards. In this respect, it is worth remembering that the target of the developed countries for the year 2000 is to have provided 80% of their youth with post-secondary education. Long-term policies, which are essential in this field, since it concerns the formation of individuals and the whole of their life span, emphasize that initial biological, social and cultural formation is essential not only in moulding citizens, but also in providing solid foundations for future programmes of work training and recycling, which will be increasingly necessary in view of the series of technological changes which development requires.

1. Health and social security policies during pregnancy, childbirth and early childhood

43. One of the most serious manifestations of poverty and inequality is infant mortality. On average, levels of infant mortality are still extremely high in the region, particularly within the 0-1 year age group, although there are considerable variations from one country to the next. The highest levels are recorded in those countries with the highest percentage of rural population, in which the educational level of mothers is lower and in which there are considerable shortcomings in terms of drinking water and sewerage evacuation. In extreme cases there is doubtless an association between infant mortality and per capita gross domestic product, but this indicator does not determine the former, as is revealed by the differences in mortality rates between countries with similar gross domestic products. On the other hand, the association between infant mortality, income distribution and the educational level of mothers in each country is extremely significant, since mortality essentially affects those households with low incomes and uneducated mothers. Even in cities where almost all births take place in clinics and hospitals, the rates of infant mortality vary enormously depending on the social stratification of the districts and even more depending on the profile of the families in terms of income, education and integration into the social organization.

44. The governmental and societal decision to apply policies designed to reduce infant mortality has achieved extremely favourable results. In order to put such policies into practice, there exist actions whose effectiveness and low cost has been confirmed, such as those promoted by UNICEF as part of the Strategy for Infant Survival and Development: universal vaccination between birth and the age of 4 against the five most common infectious diseases, salts for oral rehydration to control diarrhea, large-scale use of graphs to keep check of infant

growth and development, encouragement to prolong maternal breast-feeding, education for women, spacing out births, and food supplements. Such action takes for granted that a structure of health services exists, whose action extends to the rural population and to the urban poor, as well as policies to educate mothers in their role.

45. In addition to implementing the most urgently required policies it is necessary to lay down the bases of a broader family policy, designed to eliminate that set of factors which influence infant mortality and to overcome those which, during pregnancy and infancy, cause a reduction in the potential of human beings. The strategy proposes to establish national systems to foster biological reproduction, including medical examination for pregnant women, provision of the necessary medicines, the supply of food supplements (should they be necessary), attention during childbirth by competent health personnel and post-natal medical examinations and food supplements for children during early childhood. Despite the progress made, these targets have, in general, yet to be achieved in countries.

46. In many countries in the region there are medical services and infrastructure which, with a small additional effort, would be capable of providing care for those women who are at present uncared for. In other countries it has already been verified that this is a viable alternative and that the costs of extending mother and child care to the whole of the population are relatively low. In countries with limited infrastructure and a large rural population, it would be possible to offset the shortcomings by systems of social mobilization and an imaginative use of media-based education techniques.

47. Nevertheless, in many countries in the region there are abundant medical and paramedical human resources experiencing difficulty in exercising their profession. In others, it is possible to orientate the large numbers of students in long-term secondary education and higher education towards paramedical training to provide care during childbirth. In countries with limited resources, such personnel could provide care at home or in outlying health centres in rural areas, in marginal urban ones, or in small towns, in accordance with the methodology for Primary Health Care (PHC) suggested by the World Health Organization and UNICEF.

48. Conditions in the region are today far more favourable than in the past for establishing integral systems of mother and child care:

a) The population is more concentrated, both in urban and rural areas, and there is a network of communications facilitating the movement of personnel and mobile health-care units.

b) The educational levels of young mothers have considerably improved, both as a result of formal education, and of informal, thereby facilitating maternity and health education.

c) The increases in food production, in particular of milk, and the preparation of low cost foods, make complementary feeding programmes cheaper even for those countries with lower GDP.

d) The region at present possesses far larger numbers of personnel with post-secondary education and a level of remuneration allowing large numbers to be taken on by these programmes, which would simultaneously make use of already trained human resources and avoid large-scale expenditure during a first stage.

49. The regional strategy considers that it is at present perfectly viable to establish a national health service, with a network of institutions and mother-child services, and that this almost exclusively depends upon political decision. While the system will be organized differently depending upon circumstances in each country, it is anticipated that some functions relating to education, orientation, recording and food distribution could be carried out by the vast network of educational institutions existing in countries as well as by mutual aid services, volunteers or compulsory social service, which would in turn possess the advantage of incorporating the better-off social groups into the national social effort in favour of mother and child health.

50. The strategy also attributes great importance to a policy of family health education during pregnancy, to information and preparation for childbirth and health and food care for the child, in order to avoid the impact of errors which are generally transmitted through the family or by neighbours. The formal education system must play an active role in this policy, together with the mass media and community health and education centres. The effort must also cover early educational development, the formation of language and pre-school education of children, whose positive impact has been verified by pilot projects carried out in many countries in the region.

51. Education programmes to help people assume their family responsibilities must also provide families with information on sexuality and reproduction. In most cases there exists de facto inequality in the access to this information, comparable to that existing in relation to education and culture: rural and poor urban families are those which lack knowledge and are unable to obtain information, in addition to being the sectors wherein the greatest numbers of undesired pregnancies occur. In view of the precarious nature of the resources they possess to care for their children, it is highly likely that such ignorance will lead to the regular reproduction of the poverty cycle.

2. Policies on full-time education integrated with health and food services for children in the 4 to 14 year age bracket

52. The unequal access to and participation of social groups in a society's cultural capital --together with inequality in biological development, in income distribution and in power sharing-- is one of the fundamental causes of the perpetuation of poverty and the maintenance of social inequality. Education is a means by which human beings come into possession of the codes --in particular mathematical and linguistic ones-- on which intellectual capacity is based. Exclusion from education or access to institutions in which the educational process is a mere formality condemns individuals to live the whole of their lives in a marginal relationship with society. In its extreme form, being illiterate is equivalent to spending the whole of one's life as a minor in societies as complex as today's. Today's developed countries have gradually set higher and higher compulsory educational targets, in keeping with the requirements of a mode of development which demands that human resources be increasingly well-prepared. In keeping with its means and with the considerable progress already achieved, it is possible for the region to set the target of providing education for the whole of the population between the ages of 4 and 14.

53. While at the present time a number of countries have made considerable progress in providing education, they are all marked by

a) The limited development of initial or pre-school education, in spite of its importance in the development of skills and of its irreplaceable role in creating the conditions for equal opportunities.

b) The disparate duration of compulsory education, which fluctuates between 4 and 9 years, and the enormous difference in the quality of primary education and in the new cycles of basic education designed for the rural population and marginal urban populations, and that received by medium and high-income groups.

54. The strategy proposes to provide full-time education for all children and adolescents between the ages of 4 and 14. This proposal is based on the fact that acquisition of knowledge and cultural socialization are to a large extent dependent upon "exposure" of children to the educational process. Spending the whole of the day in an educational establishment does not merely mean receiving knowledge, but also acquiring a language, levels of organized conviviality and the values and behaviour patterns which society most prizes. All of this is essential for children from marginal or poor families; such families are not only poor in terms of money, but also in terms of language and the socially useful and dominant knowledge. The existing educational systems in the region implicitly assume that the home environment is capable of supporting and completing the educational process. In

low-income homes, however, there is a shortage of the physical space and appropriate opportunities for children to do their homework or to study, and the environment in which they spend most of their time finally dilutes and cancels out the influence of school.

55. Full-time education for children would allow mothers to take on paid employment or to participate in other social activities. Considerable potential would thereby be released for generating income, in addition to the innovative capacity which women --particularly of popular origin-- have demonstrated.

56. In order for pre-school and basic full-time education to fulfil the objectives of teaching and training, it is necessary for them to be integrated with health and food services. Education poses almost insurmountable problems for children who are hungry, ill or who suffer from sight and hearing defects. Consequently top priority must be given to transforming the school into an integrated unit for educational, health and food services. A historical precedent exists for the proposal in the similar services set up in the immediate postwar period in European countries, whose levels of per capita product were similar to those of the countries in the region at present, and which gave priority to full-time basic education, and to providing food for all school children, as a means of achieving social homogeneity and preparing the new generations for the development effort. Worthwhile experiments are also taking place in the region, on a rather more reduced scale.

57. A large number of the proposals relating to full-time basic education are applicable to "children living in difficult circumstances" (children who have been abandoned, who are orphans, refugees from war and others). Such children moreover require specific and innovative methodologies and social programmes to avoid minors being institutionalized within repressive environments, to rely more on families and communities, and to harmonize education with the earning of income, which is so vital for their survival. In several countries in the region, UNICEF, in conjunction with the community and with government support has developed highly effective preventive methodologies which may exemplify the type of action proposed here.

58. The full-time educational unit together with food and health services requires considerable personnel --although this may not be costly in monetary terms-- as well as books, libraries, school material, scientific equipment, calculators, computers and other elements, in order to be able to provide up-to-date quality education. Similarly, if all children are to have access to these educational units it is necessary for an active policy of school building to be pursued, as part of the public investment effort

in respect of collective equipment, and this would begin with construction in areas where the lowest-income families live.

59. As far as the human resources needed to carry out the proposed policy are concerned, it is possible to distinguish between three types of contribution: those deriving from greater use of educators, among whom the level of under-employment is at present high; those resulting from the creation of compulsory social service for individuals who have received or are receiving university education, which would be the best means of returning part of the subsidies provided for their training to society, and finally those resulting from families collaborating in the auxiliary tasks of the educational process.

60. The capacity of the countries of the region to implement the proposed education policy varies considerably. It is in the least developed countries that the growth rate of the school-age population is highest and in which the coverage provided by the educational service is at present most limited. On the other hand, the more developed countries include those which provided basic education for the whole of the population at an early date, and have already completed their demographic transformation, with the highest percentages of population in cities, thereby facilitating extension of the supply of integral services. This once again illustrates that the strategy cannot hope to achieve similar levels of implementation in all countries. While some countries are capable of envisaging an institutionalized system providing growing coverage in order to attain global coverage by the year 2000, others will need to define priorities as to which groups to deal with, and adopt alternative informal systems in order to provide for the poorest family groups. In these cases, alternative solutions to the problem of human resources are to be found in the mobilization of young students at the secondary and university levels, together with training for individuals from the communities themselves (in particular rural and indigenous communities) with suitable guidance from professional personnel. Moreover, there is no need for services to be completely administered by the State; this may motivate social organizations and enterprises to assume educational responsibilities. Finally, food programmes may be based upon foods which make up the staple diet and which may be produced by a part of the peasant economy and processed with support from the very same families who benefit from the programmes.

61. It is impossible to conceive the effort at education as merely being an action by a single specialized institution, ignoring the linkage with the major mass media providing information, entertainment and informal education and which penetrate almost all households, forming behaviour patterns, expectations and cultural attitudes. Moreover, radio and television represent the most significant means of cultural transmission for rural and poor urban families. It is equally

impossible for educational systems to ignore the mass media, as it is for the latter to shirk an active commitment to the objectives of educating not only by means of a mass of knowledge, but also of values and behaviour. The State may demand that its own broadcasting systems as well as the firms to which it grants concessions provide programmes of a cultural and educational nature, designed for children, youth and families, to complement the education provided by school or to provide models for educational activities. The encouraging experience which already exists --rather more frequently outside the region than within it-- makes it unnecessary to go into greater detail. Parallel to this, it is necessary to promote a turnaround in the situation regarding books in the region. Progress in the educational sphere has not led to comparable increase in reading; consequently, there are cultural possibilities not only for incentives to produce books, but also for transforming popular reading material into support for educational action.

62. The change in education also to a large extent depends upon far-reaching changes in the educational institution itself and in its teaching techniques, in order for its cultural action to be more effective as regards marginal and poor sectors. The following possible changes provide an indication:

a) The recognition of the existence of indigenous population sectors or sectors in which indigenous languages are spoken, which must be provided with initial bilingual education before being incorporated into the system of education.

b) Pedagogic innovation in teaching students from low-income districts who lack the socialization appropriate to the school environment, and the training of teachers to carry out this task.

c) Return, in the primary levels, to the practice of attaching importance to reading and writing as a means of language and thought development and the incorporation of scientific methods and mathematics as a basis for teaching modern calculating and computer technologies.

d) The establishment of links between school and the communities, including, as a pedagogical formulation, the analysis of immediate realities as a step towards skill in building abstract knowledge.

63. In order to overcome cultural poverty, there is need for a spirit of democracy and solidarity based on the responsible efforts of those who teach and those who learn. To inculcate such a spirit, it is essential to construct (or reconstruct, as the case may be) collective respect for education and appreciation of the teaching profession.

64. In this aspect of the strategy, the basic requirement is to initiate its application through integrated units of education, health and nutrition in social environments affected by poverty and in groups suffering from de facto cultural discrimination.

The experience of some Latin American and Caribbean cities where the model has been applied and in European societies in the period immediately following the War (to which reference has already been made) lead to the belief that the application of the strategy will result in a collective demand for the model to be extended and that from the onset sectors will begin to emerge from the new generations which will be better geared to full social integration and might perhaps be described as the root of a new social élite.

## B. TRAINING POLICIES

65. The decisive elements of the phenomenon of open unemployment and underemployment are the self-perpetuating insufficiency of the economy and the concentration of assets and income. By keeping the domestic markets of production and consumption from expanding, this has resulted in a low growth rate of new jobs. In addition, the high demographic growth rates, the sharp increase in the rate of participation by women and the intensive rural-urban migrations caused the growth rate of the urban labour force to rise by close to 4% a year. At the same time, the accelerated change in the structure of employment, in which there was a rise in skilled manual jobs and an even greater one in unskilled production and service jobs, has given rise to demand for educational or on-the-job training qualifications which cannot be met by some of the population, especially people of rural origin and older people.

66. Since education has become a required passport to incorporation in modern jobs, the educational background of the poor and to a lesser extent of the working class and lower-middle class sectors, which is unequal in quantity and quality, has begun to act as a barrier to incorporation in employment. Although the job markets are normally stratified, inequality in development and the existence of socio-cultural barriers have segmented them. In order to enter the higher segments including the organized industrial segments in the modern sector, candidates for jobs must meet certain requirements (mastery of the language, reading and writing, years of study, vocational skills) and in some cases additional requirements relating to race or color, sex, membership of certain social classes and other requisites which have the effect of excluding persons from poor and low-income sectors.

67. The majority of these groups are incorporated in the informal sector, the characteristics of which have been analysed by PREALC in a number of studies and include absence of capital for employing personnel, predominance of own-account activities, low productivity of labour, low technological level of activities and lack of skills in those performing them. In addition, the



informal sector is characterized by a high percentage of women and a disproportionate number of employees in certain age groups: the preponderance of young people and adults of advanced age indicates that this sector is a source of "first jobs" and other jobs which provide a refuge for personnel ejected from organized sectors.

68. With regard to the labour force which is or may be incorporated in production sectors or organized service sectors, their train needs of its workers are the result of the following factors:

a) Loss of skill experienced by manpower subject to prolonged periods of unemployment.

b) Lack of preparation for the manual labour and other jobs being generated as a result of the incentives for the production of exportable goods and services and of the emergence of new technologies which has begun to be noted in some subsectors.

c) Changes which are occurring in the fields of administration, finance and services as data processing is introduced.

d) The technical and technological alteration of agriculture.

e) The complexity of organizations engaged in production, administration and social services.

f) The need to process data and decode complex messages in order to ensure full participation by the citizenry.

#### 1. Policies relating to training for young people

69. The large number of young people in the labour force (30% of the force is under 25) means that the effort to train this age group can be the instrument of tremendous change in the profile of skills of the average member of the labour force in the region. Thought must also be given to the fact that this age group has been affected in particular by the unemployment resulting from the external crisis (in some countries young people constitute close to half those affected by open unemployment). Programmes operated by bodies specializing in vocational training have concentrated first and foremost on training those who already have jobs. All of this points to a deficit in training for young people.

70. The strategy calls for a great effort to train young people through multifaceted and flexible systems which make it possible to meet very dissimilar needs and are actively participated in by non-governmental social organizations and important systems of agreements with enterprises.

71. Based on the experience of organizations engaged in vocational training, the multifaceted system proposed might have the following objectives:

a) An all-out effort to promote the education and training of unemployed young people. In several countries of the region, young people remain without work for long periods, which results in deviate, antisocial behaviour. In other countries, they have been incorporated in emergency employment programmes. Such programmes could at one and the same time provide young people with: i) the basic knowledge they need to serve as labour apprentices (those who have not finished primary school); ii) vocational training in a number of simple activities such as maintenance and repair work, the performance of which is now characterized by gross technical incompetence in the region.

b) The establishment of a number of agreements with enterprises so that young people can receive apprentice training in them, either by alternating their studies with work or in training sessions. The expectations for success in the region are considerable since agreements of this kind are virtually non-existent and the enterprises may increase productivity by training and selecting young people with a better educational background than previous generations had.

c) As for unemployed people with middle-level education, their skills may be tapped in programmes which while similar to the present emergency employment programmes, concentrate on jobs which are of use to the society at large. The programmes to avoid the duplication of poverty referred to above provide a broad scope for educated young people without jobs, who may be employed more productively in this type of programme than if they dedicated themselves to manual labour under existing programmes.

72. From the organizational point of view, policies aimed at training for young people may be implemented differently than they now are, for example:

a) By taking advantage of the great potential provided by the armed forces (which have broad experience with programmes for the training of their own personnel and recruits) in the provision of massive vocational training for young people, using some of the resources which are now employed in mandatory military service.

b) By entering into contracts with private institutions with broad experience in the field of vocational training with a view to the implementation of massive programmes.

c) Having recourse to the network of religious, social, solidarity and sports institutions which have facilities and voluntary, highly motivated personnel; these additional resources could be used to develop massive training programmes at low cost.

d) Reorienting vocational training bodies towards massive worker training programmes, especially in connection with certain activities in the informal sector in which productivity could be increased without need for additional capital.

## 2. Adult training policies

73. Some adult training could be integrated into the training for young people; however, the strategy would also make such activities as the following mandatory:

a) Training for State personnel, which would involve specific programmes directed to executive personnel at the technical and administrative level. As already stated in this document, increased efficiency of the State is vital for the success of the strategy.

b) Encouraging enterprises to act on their own behalf or through sectoral chambers or associations, to undertake regular staff training programmes. The experience of the region shows that medium- and small-scale enterprises and, in particular, enterprises in the traditional sectors of production do not have recourse to vocational training bodies. An all-inclusive policy would result not only in greater efficiency in production but also in occupational mobility, since it would enable people with less formal education to compensate through professional training and thereby attain more highly skilled and better paid jobs.

74. Adult training policies should also take into consideration (which they infrequently do) vocational training for people now in the informal sector. Programmes in support of this sector have shown positive results in terms of training people engaged in microbusinesses. These programmes consist in the granting of loans and technical assistance, following an economic evaluation of the projects with the beneficiaries themselves and in follow-up action on the project over a given period. The support provided has taken the form of training in minimum evaluation techniques, accounting, marketing and production.

### C. STRATEGY FOR THE PROVISION OF GOODS NEEDED FOR PRODUCTION AND FACILITIES FOR USE IN CREDIT SYSTEMS AND TECHNICAL ASSISTANCE IN THE SERVICING OF COMMUNITY AND LOCAL PROJECTS

75. Biological, mental and educational development and the development of labour skills which are proposed as objectives in the preceding paragraphs of the strategy also demand an effort in respect of the provision of goods used in production, marketing facilities, technical and loan assistance and the organization of co-operatives and other associations which allow the poor sectors to obtain economies of scale in order to increase their competitiveness in the market and raise the income of every worker participating in them. So far, government action in this connection has been scanty. State credit bodies require the poor to offer guarantees similar to those required for loans for large businesses; technical assistance is uncommon and sometimes

produces more red tape than constructive results; few efforts are made to provide communities with centres outfitted for handicrafts, etc.

76. UNICEF, through its Basic Services Strategy is sponsoring, with community support, social interventions in various countries of the region. The evaluations carried out so far point to significant rises in the standard of living of the sectors benefiting from this action, and a high cost-efficiency ratio. The components of these programmes include support to production projects at local level (particularly those with a nutritional impact) and to investment in community infrastructure, water supply and basic sanitation.

77. During the last few decades in the region, co-operatives, rural credit organizations, organizations for the production and export of handicrafts and for training and the organization of sales of services, organizations promoting community marketing systems in cities, organizations for the large-scale marketing of goods produced by co-operatives and systems for the purchase of inputs and machinery for community use have proliferated in the region. In addition, religious institutions have organized financing mechanisms and mechanisms for the provision of equipment as a contribution to the organization and social and cultural expression of the poor. Finally, in many countries the municipalities have acquired greater capacity and autonomy for organizing associations of producers of goods which are subsequently taken over by the public services. All of this reflects a recognition of the existence of an economic and social space apart from the traditional State-private enterprise dichotomy and also means that this space has expanded and can continue to expand.

#### 1. Productive projects at the community level

78. The conditions are right for an active policy of productive projects to be pursued actively at the community level; their potential simply needs to be recognized and their establishment encouraged. Each policy should, as a rule, avoid purely bureaucratic State intervention and have instead more decentralized and participative systems, such as agreements with non-governmental entities. One of the objectives should be to channel credit flows either directly to the poorest areas or to credit co-operatives whose management guidelines are simpler and qualitatively different from those of the State and private banks. This aspect of the strategy should be supplemented by an equitable distribution of public expenditure between the different nuclei of human settlements and the financing of experts hired by co-operatives, associations and churches, to provide support for preparing and running specific projects.

79. The policies to be pursued in the rural sector may include a number of measures to benefit the historically poor and neglected groups. The ones outlined below are given merely by way of example: machinery for collective use, silos and warehouses for storing crops; support for the promotion, design and execution of local projects, including non-agricultural ones (craft making, tourism, services, etc.) and financial support to forestall plundering by middlemen in crop marketing.

80. The policies for the urban poor may include, inter alia, setting up workshops equipped with machinery and tools for collective use by the craftsmen of the community, where training is given, centres to supply production inputs and staple foods and co-operative or community markets to sell the crafts produced, in the residential areas of highest consumption. The policies may also provide credit support and non-reinversible capital for technical assistance centres for microenterprise or co-operative management projects. All of these measures entail transferring assets, making available money plant and equipment and tools, opening-up markets, reducing the transfer of incomes to middlemen and buttressing the community's capacity to run co-operatives on its own.

## 2. Environmental infrastructure and low-cost housing

81. In the strategy, the collective investments for improving the population's social and health conditions are given high priority, which it has not often received because of the prevailing view that favours housing construction. The strategy assumes that considerable effort will be made to provide urban infrastructure, drinking water and waste disposal. Indeed, the last two items greatly affect the mortality and mobility of the population.

82. In order to give the population a minimum acceptable standard of living, it is also necessary to set up peripheral health services, day-care centres and comprehensive school units, services for personal hygiene, space for physical and cultural recreation and the means of transportation. But beyond all of this, there still remains the serious problem of planning the cities of the region, which exceeds the scope of this paper. The problem includes the progressive physical separation of the different social groups, which produces a juxtaposition and a separation of the spaces occupied by the various groups accepted within the society and the spaces occupied by those shunted off to the fringes of it.

83. The problem of the public housing policy --which is bound up with the proposals for community infrastructure-- constitutes one of the most serious challenges. The magnitude of the problem stems from the high rate of population growth in the cities and the size of the economic resources required to cover the housing

shortage. On the one hand, housing construction is an acknowledged means of reviving the economy, it usually requires little foreign exchange expenditure and generates a great deal of employment for unskilled workers. Furthermore, it links the economic market with meeting a basic need. In addition, the region's experience in housing construction policies on the basis of loan systems has shown that in view of the low incomes of the population below the poverty line, this sector of the population has no capacity to pay and cannot benefit from the policies, which in fact have favoured the middle and upper-income groups. Finally, the low-cost housing policies which, given the drawbacks mentioned above, have opted for minimum programmes (for example, lots with services), and assisted the very poor by improving health conditions and providing the land on which to build; however, the programmes lacked the economy-of-scale needed to solve the problem of local housing and aggravated the problem of the physical separation between the groups and deterioration of the environment, increasing the social costs of providing urban infrastructure and the individual expenditure of families on infrastructure and transport.

84. There is no single solution to the housing problem. Judging from the different experiences, it should be noted that a distinction should be made between a saving and credit policy for housing construction by the middle-income sectors and another for low-cost housing. The latter necessarily involves net transfers to the poor sectors of the population; it calls for considerable resources and should be implemented in accordance with the priority policy of providing infrastructure for the community and cleaning up the environment. Since these measures will be implemented gradually and according to the resources available, the beneficiaries will have to be selected carefully, according to the requirements of the family group.

#### D. BASIC SOCIAL SECURITY POLICIES \*/

85. Social security in the region has evolved according to stratified forms which are relatively unified. One ECLAC study distinguishes between:

a) The pioneer countries which developed early and have systems providing maximum coverage. These systems began by giving benefits to a number of social groups and later tended to provide universal coverage. They still, however, maintain a very stratified structure.

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\*/ This section of the document is based partly on the account given in El desarrollo de la seguridad social en América Latina, Estudios e Informes de la CEPAL No. 43, LC/G.1334, Santiago, Chile, January 1985.

b) The countries, which have relatively unified systems, where the process began later but offered limited coverage.

c) The countries where social security was introduced late and have systems that are more unified and the little coverage they provide is limited to the main cities.

86. Only a few countries have been able to extend coverage beyond the formal urban sector, because of a number of factors which are combined differently in the various countries:

a) The systems were organized according to the social security model which assumes that virtually all of the population is contributing to it and is employed, instead of being organized according to the social security model with minimum standard benefits, which are adequate but bear no relation to the contributions made, offer universal coverage (to both the wage-earning and non-wage-earning population), give comprehensive occupational risk coverage and are financed by taxes.

b) The systems gave preference to a stratified system of pensions. In some cases beneficiaries on average only contribute one-third of the cost of the benefits and the upper stratum enjoys privileges; in other cases, allowances are more uniform but inequality exists between beneficiaries and that section of the population not covered by the system.

c) The health programmes included in social security represent an extremely high percentage of GDP, as they attribute priority to curative medicine rather than preventive and require higher capital investments and operating costs; the benefits they provide are also concentrated on some sectors of society.

d) Fiscal expenditure on social security is preferably directed towards financing a system of pensions which is not universal, and which is graduated in accordance with the income which the pensioners received when they were working; consequently the manner in which this expenditure is distributed is regressive.

87. Consequently, generally speaking, in the region the following groups are not covered by social security protection: economically inactive individuals and families, the unemployed, rural workers --particularly peasants, unpaid family workers, own-account workers and salaried employees in the informal sector. In the more developed countries or in those which have been more innovative in the social sphere programmes were created to provide protection for the destitute or for groups possessing meagre resources, and in some countries health coverage was provided for the rural population, by means of transfers of resources from the formal urban sector. In spite of these efforts, that part of the population which is poor and whose resources are meagre lacks protection. Experience in those countries which endeavoured to extend coverage to this sector by broadening the existing social security model reveals that from a financial point of view it is impossible to provide universal

coverage if a heavily stratified system is maintained. Moreover, this alternative is not viable for less-developed countries, most of whose population is neither covered nor integrated into a more formal wage-earning structure.

88. A strategy which endeavours to provide social security for the poor and low-income population must necessarily take into account existing systems, as the options available for achieving universal coverage are:

a) to establish a dual system, maintaining stratified and favourable allowances for those already covered, and to establish limited (for example, only preventive health care) or low-level risk coverage for the sector to which it is desired to extend coverage (for example, as part of programmes to cater for the destitute);

b) lower the most generous allowances, establish stricter conditions for acquiring protective rights, eliminate non-essential programmes and extend the system to the whole of the population;

c) grant basic and equal allowances to the whole of the population, adequate to cover minimum needs, on the basis of taxes, and simultaneously develop a complementary system (public, associative, mutual or co-operative insurance, or even private insurance) to provide additional protection financed exclusively by the insured themselves.

89. The first of these systems could be considered an emergency and temporary solution prior to universal coverage. Nevertheless, should it be perpetuated it would accentuate social differences and consolidate a distribution of income and opportunities which is heavily polarized, and which hampers incorporation of the population into development. As far as the second system is concerned, it would be difficult to introduce, even in countries with the highest per capita GDP in the region. The third system is the most socially equitable. Its introduction should be planned as part of long-term development, and the transition problems for those covered by present systems as well as the extension of basic coverage to the poor should be considered.

90. On the basis of the resources at present available as well as those which should be generated by economic reactivation and the application of the tax and expenditure measures set out in chapter IV, the risks over which the universal system should extend coverage as a priority include the following:

a) Social protection for adults in case of illness, on the basis of a similar system to that providing mother-child care in terms of universal coverage, prevention and basic attention. In those countries wherein this system is relatively developed there is still considerable inequality in benefits, between the different regions, between the countryside and the city, and



between income strata. In addition, the lack of protection in areas inhabited by the indigenous population should be mentioned.

b) Social security for families, regardless of whether they are economically active and of their occupational category --in case of partial or total, congenital or acquired disability, affecting any of their members. In this manner, insurance against work accidents and professional risks, which at present only provides coverage for salaried workers in the formal sector would be extended.

c) Coverage for families whose head is a mother without resources, with specific care for minors and for those families in which the worker who provided income is deceased.

d) Coverage to provide food for the families of the unemployed, which has already been established by some countries in the region in view of the crisis and which should be extended to the whole of the needy population and linked to food production policies.

e) Social security for the elderly, on the basis of a future programme of minimum, equal and adequate pensions. Depending on the economic circumstances prevailing in countries, this could be gradually introduced --in accordance with criteria of need and age-- on the basis of a guaranteed minimum food supply. Such policies require complementary measures to allow the elderly themselves to co-operate with the programmes, and to take part in the joint effort at mobilization proposed by autonomous local organizations.

91. Countries whose social security system is more complete and in which a greater proportion of the labour force are wage earners possess unemployment insurance (as well as insurance against dismissal) which has provided protection for certain categories of the formal sector over a limited period of time. In fact, such insurance protects approximately 10% of the unemployed. On the one hand, they do not provide protection for those seeking employment for the first time, and in addition, they do not protect workers with the lowest levels of income during the long periods of unemployment in those sectors affected by the deep recession (such as, for example, construction). It seems perfectly viable to introduce these benefits as part of the social security system of other countries in the region, in view of the structural nature of unemployment and of its increase as a result of the adjustment policies deriving from the external crisis. Consequently, the strategies adopted have either involved the establishment of emergency employment programmes, providing a

minimum income which make ensure families against a total lack of food, or else direct assistance by free transfers of food to families at risk. However, in spite of the success of this type of programme, the problems of unemployment and underemployment in the region generally go beyond the framework of the social security policies and it is only possible to provide a global solution within the context of the policies to ensure economic development and structural transformation presented in the following chapter.

## IV. ACTION WITH REGARD TO ECONOMIC INSTITUTIONS

92. This chapter and those which follow contain a description of a co-ordinated set of activities to which impetus should be given with regard to economic institutions to achieve the objectives of development, change and social equity. The separate treatment of action relating to man and to economic institutions is necessary for purposes of analysis and because of the qualitatively different nature of the instruments of intervention. This does not, however, mean that it is felt that development (which is an integrated process) can be achieved with intervention in only one dimension or with forms of intervention which do not interact consistently because they are not taken in response to a consistent strategy.

93. Thus, for example, a form of development whose priority objective is not the generation of productive employment is not regarded as viable, but this presupposes that at the same time consideration is given to physical and mental development and to the vocational training of those who will constitute the human resources of the new job markets. If both aims are to be met effectively, there is need for change in the economic structure and in the distribution of income and assets, these changes being both cause and effect of the consolidation of democracy.

94. In spite of the fact that in many of the countries of the region, social policies of the kinds described above can be initiated and in some cases enlarged upon with the economic resources now available, for all the countries, in particular those which are relatively less developed, economic growth is not only necessary but gives meaning to the objective of equity pursued in the strategy.

95. In practice it has frequently been felt that the surmounting of poverty and the achievement of equity constitute one dimension of justice or of human rights which is disassociated from the logic of the structure and operation of the economy. In this document it is postulated that the exclusion which lies at the root of poverty and inequity is one of the main obstacles to the region's economic growth as such. The surmounting of poverty is not only a matter of distribution but is also a requirement if the human resources potential is to be realized, markets are to be expanded and the productive and social efficiency achieved is to be in line with the change taking place in science and technology, culture and production within the international system of which the region is a part.

## A. THE CHARACTERISTICS OF THE STRUCTURAL IMBALANCE

96. A number of studies have suggested that the present economic crisis has its internal origin in the structural imbalances in the development style adhered to by the region. The intention is not to repeat these analyses but rather to borrow from them the idea that the problems experienced by the region are rooted in the past and that its origins and effects are external and internal. The external imbalance is the result of the many years of trade deficit in the region. As for the deficit, it originates in the region's economic specialization approach, in which it exports primary products which have lost markets because of the self-sufficiency policy of the developed countries or whose terms of trade have deteriorated. At the same time, the deficit in trade in manufactures has not been overcome. All of these factors combined to produce the trade deficit, whose counterpart has been the external debt, which the region has been amassing since the mid-1960s. In the 1980s, as a result of the increase in interest rates and the impossibility of continuing to accumulate debts, the majority of the countries were forced to make recessive adjustments to decrease the demand for imports. The task therefore remains of structurally redressing the economies of the region in such a way that their growth will be self-sustained.

97. The internal imbalance is reflected in the persistently high rates of unemployment and underemployment which are in turn responsible for the inability of much of the population to meet its basic needs. This internal imbalance is caused by the slow process of accumulation (by comparison with the growth rate of the labour force) and the concentration of technical progress and the distribution of capital and income. The political corollary of this is the instability resulting from the marginalization of a large share of the population. Consequently, the achievement of balance in the economic structure cannot be viewed separately from the successful solving of the social problem, and both are needed for a permanent and stable democracy.

98. The economic crisis has affected the countries in different ways and with different degrees of intensity, in addition to which the countries differ considerably in respect of the structural problems they had had since before the crisis. The countries of the region will have to make such an effort to overcome the structural problems that it is clear to see in the present crisis that it will be necessary to make changes which will affect existing economic and power relations. To that end, there would seem to be need for a broad social commitment which provides the political capacity to put these changes into practice. In a document like this all that can be done is to suggest general considerations which should be taken into account in a social concertation process which makes the development strategy which must be applied legitimate and sanctions it.

Concertation would commit the population to the strategy, making it a true dynamic force which would make it possible to obtain the goals set and to exert a kind of social control over the expectations of the various groups so that they could be defined along the lines of the goals envisaged in the strategy.

## B. THE CHALLENGE OF STRUCTURAL ADJUSTMENT ACHIEVED WITH EQUITY

99. The achievement of development with equity necessarily implies a process of change in which consideration is given simultaneously to the three problems now facing the countries of the region --the external deficit, the problem of investment or growth and the social problem. It is necessary to take a global view of these problems in considering their structural nature and the way in which the debt is limiting the region's development.

100. To put these challenges in the order of their importance and to compatibilize the economic resources needed to confront these problems, estimates of each of these deficits for some countries of the region have been annexed. In preparing these estimates, the following definitions were adopted: a) The external deficit represents the volume of resources needed each year to absorb the commercial deficit and continue paying off the external debt in the conditions which now hold. b) The growth or investment deficit refers to the volume of resources required to finance an accumulation which makes it possible to achieve the average growth rate projected and which should be at least the equivalent of the average growth rate of Latin America and the Caribbean in the period 1970-1985 (5.3% a year). c) By social deficit is meant: i) the accumulated deficit of social needs and ii) the deterioration in the earnings of the wage-earners as a result of the economic adjustments. i) The accumulated deficit of social needs is the volume of resources required if poor households are to achieve, as a minimum, a level of income which allows their members to meet their basic needs; and ii) the deterioration in earnings as a result of the economic adjustment relates to the loss in the relative share of wages in the product during the current crisis by comparison with the most equitable level achieved in the past. It stands to reason that the social deficit is greater when an attempt is made to solve the problem of poverty than it is when all that is desired is to recover the share of wages in the product.

### 1. The magnitude of the external deficit, the investment deficit and the social deficit

101. Estimates of the magnitude of these deficits as a percentage of the gross domestic product are summarized in table 1 which contains information concerning 10 countries of the region. It may be seen that the magnitude of the various deficits and their

relative impact differ significantly from country to country. It should be borne in mind that these deficits cannot be totalled directly since some of them must be paid in foreign currency and others in national currency. In addition, in the medium- and long-term, some of them are absorbed simultaneously. For example, if an increase in investment is correctly allocated, the external restriction on the earning or saving of foreign currency may be removed; in addition when new job markets are created in production, poverty is reduced. The reduction of poverty also calls for an investment in human resources which, as numerous studies have demonstrated, has a direct impact on the productivity of labour, so that the product can be increased with a relatively low rate of investment. Therefore, in dynamic terms, the total deficit is less than the short-term deficit, especially if a set of policies aimed at supplementing the measures taken to solve the various different problems is formulated. To do so, it is essential for the entire structural adjustment process to be integrated in that account is taken of the inter-dependence of economic policies and of those policies and social policies.

## 2. Need for an expansive adjustment to absorb the deficits

102. Given the heterogeneity of situations in the various countries and the enormous differences from country to country in respect of their possibilities for implementing structural adjustment policies of the magnitude suggested by the figures presented, it is impossible to imagine that a single structural adjustment model might be conceived. On the contrary, stress must be laid on the need to reach an agreement concerning the ways and means and rates of application of the necessary measures, which will probably lead to the formulation of many approaches to adjustment, consistent with the possibilities and needs of the different countries.

103. However, in spite of the differences between countries, there are some common elements which may well make it possible to identify areas of priority concern in connection with the formulation of policies and adherence to social agreements. The former is, as a matter of fact, linked to the need to take account of the conflicts which the adjustment process will generate and therefore of the need for an international social concertation mechanism able to solve those conflicts. In all the countries considered, the resources needed to cope with the problems created by the three types of deficits amount to a high percentage of the product, and it is therefore futile to try to imagine a domestic savings effort sufficient to overcome all those problems simultaneously. This means that the relative rate of achieving the various domestic goals and of paying off the external debt must be negotiated, which, in turn, calls for recognition of the fact that the cost of the adjustment must be borne by all the parties involved. These costs will be reflected in the time it takes for social problems to be solved, for

productive employment to be created and for wages to rise to their previous level and increase, and in the slower growth rate of the consumption of the higher income groups and the rescheduling of the payment of the external debt. These costs are necessary to the achievement of the medium-term objectives --structural absorption of the external deficit, revitalizing the creation of productive employment, increasing the quantity and quality of the assets of the poorer groups-- in a framework of price stability. Negotiation is therefore indispensable to the achievement of a social commitment which ensures the stability and continuity of the policies needed to bring about structural changes.

104. A second feature which the majority of countries of the region have in common is that the growth or investment deficit is the deficit which calls for a larger volume of resources. In this respect, it should be borne in mind that in estimating this deficit, it was assumed that the aim was to return to the average growth rate realized by the region in the period 1970-1985, while, where investment was concerned, the present rate would be retained (see table 1). This explains why the investment deficit shows such large discrepancies; both the yield from investment and the difference between the present growth rate and the desired growth rate vary from country to country. This means that there is need to increase the volume invested and to rechannel investment towards the achievement of strategic objectives.

105. A third common denominator, which depends on the other two, is the need to produce an expansive adjustment. The adjustment must be expansive in order to generate the resources needed to cope with the structural imbalance and to readapt the structure of production so that growth is more self-sustained and equitable. In designing an expansive and equitable adjustment model, emphasis must be placed on the quest for policies which bring the structural elimination of the external restriction into line with the overcoming of poverty. This is the definition of functioning social policies for growth and economic policies which ensure deeper penetration into society of the benefits of growth. It should be of help in deciding upon the criteria of investment and the financing of the development strategy to be applied.

### C. INVESTMENT POLICIES AND THE COMPOSITION OF GROWTH

106. Investment policies represent the central element of the proposal since it is these policies which make it possible to increase the rate of growth while simultaneously altering its makeup. Consequently, they lower the likelihood of conflict between growth and equity. It has already been mentioned that in order to achieve these objectives, the rate of investment must increase and its allocation must be in keeping with the attainment of the aims of external and internal adjustment. These two objectives indicate two major orientations for investment: the first of these is to save or earn currency; the second involves creating maximum productive employment and ensuring supplies of basic consumer goods and services, demand for which will be stimulated by more equitable growth.

#### 1. The need to increase the efficiency of investment

107. Prior to indicating the repercussions of these two orientations on investment, it is necessary to stress the need to increase its efficiency. Table 2 provides a summary of some estimates of the marginal capital/product relationship. It is clear that in many countries in the region this is excessively high, a fact which is to a large extent due to the slow growth of economies on average over the period under consideration, which has in turn accentuated the traditional trend towards a high level of idle capacity. Use of this capacity will, in the short term, allow economies to grow at a faster rate than might be expected from the rates of investment provided by the estimates which have been made. It must be borne in mind that the increased growth foreseeable is subject to a number of limitations since the idle capacity is not evenly distributed and the productive structure which it is desired to set up does not coincide with that inherited from the past. Nevertheless, there is every possibility of using part of this capacity, and the allocation of investment funds should take this into account, and stimulate the growth of those sectors whose shortcomings represent an obstacle to the productive systems wherein there is idle capacity. In addition, use of those technologies whose scale of production is far too large for the size of the market to be supplied should be avoided. In order to do so, it is necessary for the research and technological development effort to be coherent in order to reduce the capital/product ratio and increase capital efficiency.

#### 2. A new pattern of international economic insertion

108. The present form of insertion of the majority of the region's economies into the international economy --which for the most part consists in the export of commodities-- has contributed to a continuing deterioration in the terms of trade and has led to enormous annual variations in the prices of their exports.



109. In order to overcome this external restriction it is necessary to alter the pattern of insertion into the international economy, and replace it with another based on greater international competitiveness, allowing the volume of exportable goods to be increased and diversified, while incorporating greater manufacturing value added therein. Moreover, the process of import substitution should be selectively intensified, in order to increase the domestic supply of intermediate and capital goods, as well as of certain modern services. At present the region records trade deficits in these items.

110. As far as import substitution is concerned, it is necessary to distinguish between those industries which are able to achieve "satisfactory" efficiency from the point of view of domestic supply, but which would not prove competitive on international markets, and those which, with suitable incentives and planning, may be capable of penetrating external markets. Since world trade has proved less dynamic, in order to create exports with greater value added it will be necessary to apply policies which go beyond management of the exchange rate; it will be necessary to foment a range of support services, which, in turn, will facilitate the production and commercialization of products which are attractive for external markets, which are more discriminating than the domestic market.

### 3. Specialization in the economy by means of integrated production systems

111. In order to achieve these objectives it is desirable for the economy to specialize in a limited number of integrated production systems which tend towards vertical integration of the productive apparatus. In selecting systems to be given priority it is necessary to bear in mind the size of the market for the final good which they produce in order to ensure that maximum use is made of economies of scale in producing intermediate and capital goods as well as modern services. Naturally, it would be desirable to tie-in these systems with the export sectors and those producing mass-consumption goods. With regard to the latter, in addition to benefiting from the broad national market, it would be possible to achieve economies of scale by means of regional or subregional integration agreements.

112. Achieving the objective in terms of employment is perfectly consistent with the expansion of the sectors producing basic consumer goods, since it is in these latter sectors that the closest linkages between employment and production exist. Consequently, the demand structure which would result from the process of redistribution would stimulate the growth of those sectors which create maximum employment. Further advantage is taken of this "virtuous circle" when maximum vertical integration of the system producing these goods is achieved.

#### 4. The necessary incentives to orientate investment

113. In order to ensure that the economy specializes as desired it is necessary to establish suitable incentives to direct the action of the private sector, and also to possess criteria for assessing public investment projects and for granting credit. The criteria for assessing projects must take into account the saving or generation of currency and productive employment, both direct and indirect, as well as the short-term response capacity of the sector concerned to the demand pressures which may arise. Moreover, orientating private investment in the desired direction entails modifying relative prices so as to generate a structure of relative profitability in accordance with the desired productive structure. In this respect, it is likely that achieving this objective will require the maintenance of an effective protective structure (tariffs and exchange rate) to stimulate import substitution, which may however restrict the expansion of exports. It is well known that in most countries the export sector, as a result of its small size, will be incapable of heading growth, and consequently the overall structure of incentives should be designed to promote a selective effort at import substitution in those sectors which possess sound comparative advantages. Parallel to this, compensation should be provided for export activities by means of policies designed to directly promote exports --repayment of tariffs paid on the imported element, credit for the cost of entering external markets, information, etc.

114. Setting up a suitable system of relative prices is a prerequisite for ensuring that investment takes place in priority sectors, but it is not in itself sufficient. Two further essential elements are: the existence of economic agents prepared to invest in long-term projects as well as a climate providing the stability which such agents normally require. Experience suggests that the State has a key role to play in respect of these, be it as investor or as partner in order to reduce the risk taken by private agents, and also through the role it may play in reducing uncertainty by ensuring the necessary confidence with regard to the stability of policies and the system of incentives applied.

115. Finally, what is required is a set of economic policies to encourage investment in projects which make it possible to achieve vertical integration in the production of tradeable goods, particularly those for export and basic consumer goods. This would help to ensure that growth was of an equitable and self-sustaining nature.

D. POLICIES TO GENERATE PRODUCTIVE EMPLOYMENT  
AND VANQUISH POVERTY

116. Since most of the poor --particularly the extremely poor-- are characterized by the precarious nature of their insertion within the productive apparatus, the generation of productive employment constitutes a fundamental means of structurally vanquishing poverty. The rate of job creation depends upon the rate and sectoral and technological makeup of growth. Vanquishing unemployment will also depend upon the present level of equivalent unemployment (open unemployment plus underemployment) and on the rate of growth of the labour force. In turn, the expansion of the labour force depends upon the rate of growth of the population and the rate of participation. In addition, it is necessary to consider the relationship between the level and type of qualification of the labour force seeking employment and the respective requirements of the jobs created by the economy. Consequently, any employment policy designed to solve the problem of poverty must take into account the factors of supply and demand on the labour market.

1. Need to increase the employment effect of growth

117. Should the structure of growth and technological relations remain unchanged throughout the period 1986-1990, the projected growth rate of the product would not be enough to absorb the number of people now unemployed, much less the ranks of underemployed (see table 3). Towards the end of this five-year period, close to one-fourth of the labour force would be in a position of equivalent unemployment. To resolve the problem, it would be necessary to study at least three types of measures: i) measures to increase the employment effect of growth; ii) measures to raise the productivity of the informal sector and traditional agriculture in order to absorb underemployment, and iii) training programmes for young people in order to delay their entry into the labour force and, where unemployment is highest, the establishment of emergency employment programmes.

118. To increase the employment effect of growth, it is necessary to increase the yield from investment and allocate it to those sectors with the strongest links between employment and production. Here the suggestions made above regarding the criteria which should govern the allocation of resources can be applied. It is precisely in this connection that policies tending to reduce the external restriction and overcome poverty by generating employment in production strengthen each other most.

## 2. Policies for the urban informal sector and traditional agriculture

119. At the same time, an effort should be made to support the growth of small enterprises and selected areas of the urban informal sector and traditional agriculture which now employ a high share of the labour force with low levels of productivity. This is particularly important in countries where these sectors are so large that it is impossible to imagine their being automatically absorbed by the process of modernization and growth. It is therefore of key importance to take action in connection with the urban informal and traditional agricultural sectors, which will continue to employ a large proportion of the labour force for whom there is no room in the modern sector.

120. Policies relating to these sectors must be aimed primarily at increasing the productivity of those working in them and not at expanding their demand for labour. The criteria used in setting the priorities for technical and financial support to these sectors should be that they have a potential capacity for generating sufficient income to sustain the family unit and also that they show dynamic possibilities for articulation with the formal sector of the economy. In this respect, it should be pointed out that systems for the production of basic commodities are characteristically made up of a large number of small enterprises and have close links with the informal sector and traditional agriculture. For this reason, economic growth, especially if it is equitable growth, will have an impact on the demand for the goods and services produced by this sector. These links provide a good starting point for implementing policies in support of these backward sectors.

121. An increase in the demand for the goods and services supplied by the urban informal sector and by traditional agriculture and an improvement in the quality of those goods and services and in the productivity of those sectors might be promoted by a package of economic measures providing for technical and financial support; selective purchases by the State; support for the organization of production and marketing co-operatives and, in the case of the agricultural sector, the provision of an economic infrastructure in the form of capital goods and land.

## 3. The role of the public sector in the generation of employment

122. The strategy is based on the assumption that the State intervenes directly in the generation of employment. The financial capacity of the State, as a policy manager and an employer, is very uneven in the region. However, the specifications require the State to play a dynamic role which will be reflected in a significant increase in public employment,

to be concentrated in three areas: i) construction, especially construction of infrastructure and equipment for community use; ii) social services and iii) economic services. Both construction and the provision of social services are powerful instruments for creating employment. The former is characterized by strong intersectoral links and, ultimately, by indirect effects. Moreover, in most of the countries, the construction sector is not very dependent on imported inputs, which puts it in a strong position as a promoter of growth.

123. Social services, on the other hand, have a big direct impact on employment and constitute the ideal mechanism for the rapid absorption, at a relatively low cost, of those sectors where unemployment is high. Social programmes of the kind analysed in chapter III (basic health services, child protection, education, training, cultural activities and community organization) have the advantage that they call for people with a variety of skills who are now unemployed or underemployed. In the first place, they call for a labour force which is educated to the third level and is unemployed or (more frequently) underemployed (i.e., people who are not working on a regular basis or are employed in posts where no use is made of their skills). Secondly, programmes of this type would make it possible to recruit a large number of young people with a post-primary education, who, in many countries of the region, add a number of points to the rate of open unemployment. Thirdly, there is need for an unskilled labour force to perform the support jobs, which could be made up in part by young people and women who can easily be fitted into occupations which because their workday is of varying length, can be performed simultaneously with the housework performed by the women and the job training engaged in by the young people from the poorer sectors.

124. Such programmes would also make it possible to provide specialized training for some of the employed labour force, which at its lowest level might consist in on-the-job training and at its highest level in semi-technical training.

125. The economic services sector, particularly in so far as technical support for production is concerned, has no direct impact in volume terms on the level of employment but plays a basic role in increasing the productivity of backward sectors and therefore in absorbing underemployment.

#### 4. Emergency employment programmes

126. There are countries where the level of unemployment is so high that it is essential to set up or strengthen emergency employment programmes. Such programmes may become one of the chief instruments for the transfer of income, not only through the employment they generate, but also because of the basic goods and services they produce. Mention may be made of at least two

types of employment programmes, which are compatible with the quest for equity.

127. Those of the first type (which were discussed in chapter III above) are training programmes for unemployed young people. The training or retraining of these young people to perform jobs for which demand may be expected to increase given the style of development which is being proposed, is an excellent way of raising social mobility and the productivity of labour. These programmes should not only provide a free education but should also supplement household incomes since earning money is one of the main reasons why young people leave school early.

128. The second type of programme which could be implemented consists in programmes aimed at the production of a basic social and economic infrastructure, such as that for community use mentioned in chapter III. Although such programmes cost more in terms of inputs, they also have a greater impact in terms of short-term growth. One way of maximizing their social impact is to orient them towards the satisfaction of the needs of the lowest income groups.

129. These programmes would be designed to produce an impact on economic growth; their financing would not reduce the possibility for growth in that they would not compete with other alternatives for the productive use of the same funds; most of them would have an effect on the labour available by increasing the possibilities for training and thereby delaying the entry of manpower into the labour market and would enable secondary labour with the fewest resources to participate more extensively. This would have a direct impact on the level of income of the groups the programmes were designed to benefit and on their opportunities for social mobility.

##### 5. Policy links between employment, nutrition and improved living conditions in rural areas

130. One particularly important area in which policy action is called for is that relating to the links between employment, nutrition and the rural sector. Stress should be laid on the ways in which these areas interrelate. Improvements in the diet of the poorest members of the labour force (particularly where the intake of calories and proteins is concerned) would have a direct effect on their productivity. In order to meet the dietary needs of these sectors of the population, food must be made more readily available. In order not to affect the external balance to effect a change in agricultural production conditions, policies must be oriented towards stimulating the domestic production of food. In most countries of the region, close to 60% of basic foodstuffs are produced by small farmers who constitute the poorest sectors of the population. Therefore, action taken to raise their production and productivity would expand a country's

food supply and bring prices down by increasing the consumption capacity (especially in respect of the traditional components of the national diet) of the poorest sectors of the population. This, in turn, would have a positive effect on the productivity of labour.

131. The effects mentioned above could be achieved by establishing a system whereby basic foodstuffs were purchased from small farmers and sold to the low-income groups of the urban population at subsidized prices. In this way the food policy would benefit the sectors affected by poverty and would have positive effects on farm production and on the productivity of labour in general. This is one type of action in which policies are guided by the criterion of equity for development in that the poorest and most vulnerable sectors of the population are those which benefit most.

#### E. INCOME DISTRIBUTION POLICIES

132. The inequitable distribution of income in the region, particularly since the onset of the current crisis, is the main structural cause for poverty. This situation must be altered if internal adjustment is to be achieved. In order to make progress in this direction, two basic and complementary steps can be taken: the structural factors which determine distribution could be changed and transfers could be made in which income is redistributed among the social groups.

##### 1. Policies for the dynamic transfer of assets

133. In the region, the concentrated structure of income distribution is basically associated with the way in which economic assets and political power are distributed, which determines the bargaining power of each group in a given society. Contrary to the theory held, the historical concentration of assets has not been accompanied by high rates of saving and investment on the part of the private sectors nor has the State levied taxes to the extent necessary to allow it to take in sufficient resources to invest the necessary amounts. It would, in all probability, be difficult to effect the necessary increases in investment and initiate favourable patterns of development without changing the structure of ownership of the assets. This change can be brought about in two ways: dynamically, by directing action towards any new assets which may be created, or by acting on existent assets. Given the need for a social alliance to minimize social conflict, the general approach should be that of distributing the formation of new capital equitably. Land might be one exception to this, especially in countries where there is no room to expand the agricultural frontiers. In some Central American countries, for example, the

unequal distribution of land means that much of the rural population cannot meet its basic needs. Unless this situation is corrected, there seems to be little likelihood that the conditions of poverty in which most of the rural population of these countries lives can be surmounted.

134. To achieve a dynamic distribution of capital, consideration must be given simultaneously to three types of wealth which constitute the heritage of a society. The first is the biological and social capital, which lies at the root of human development and forms the individual for participation in the other types of wealth. The second type has to do with the availability and quality of community assets, both economic and social, to which the various social groups should have equal access. The third type of capital --whose distribution is dealt with below-- is economic capital as such, on which the present and future physical production capacity of the society is based.

135. The high concentration of income in the region is basically due to the concentration of property, the income from which is much higher by comparison with that earned from labour than it is in the developed countries. This high concentration of income has not given rise to its equivalent in terms of investment because of factors such as the flight of capital, disproportionate consumption, speculation and failure to establish dynamic patterns of entrepreneurial behaviour. Finally concentration of ownership has an effect on the choice of production style, and this, together with the political power which such ownership bestows, constitutes an obstacle to dynamic, equitable development which solves the problem of poverty.

136. At the same time, because the distribution of income from labour is polarized in the region, the higher strata receive a tremendous share of the income not derived from ownership of capital. These strata, together with the large property owners, have shown a propensity for consumption, which upholds the pattern of production and is incompatible with the need for investment and equitable development.

137. To reorient the development style, it is necessary to capture surpluses for investment in strategic sectors compatible with the development style, a process which was one of the forces behind the transformation of today's industrialized countries.

138. One way of achieving that objective is to wait for the private sector to act. In the paragraphs above it has been shown that the private sector, governed by the profit motive, invests on the basis of the size of the profits realized under a given income distribution pattern.

139. A second approach would be for the State to take on the role of principal direct agent of the investment process. Its role is



basic for reorienting the development style, but considerations relating to initiative and economic efficiency on the one hand and to the preservation of a society's freedom in the face of the concentration of political and economic power in the State, on the other, make it necessary to establish mechanisms whereby all the social and economic agents can participate in the ownership of the capital and in the orientation of the long-term investment process.

140. One alternative, for which there are precedents in some developed countries, is to create a fund which workers, entrepreneurs and representatives of the public, elected through the political system in force, help to manage. This fund could be financed with capital earnings, taxes levied on high incomes not derived from property and the contribution of employees, who because they work in strategic enterprises, earn incomes much higher than the average amount earned in firms in the same sector. Resources from this fund could be used to cover the three deficits mentioned above. Where the growth deficit is concerned, the areas in which to invest the funds (private or State-owned enterprises or co-operatives) should be chosen on the basis of the production specialization pattern aimed at, and technological progress and the creation of productive employment should be introduced as criteria.

141. With regard to the social deficit, a leading objective of the fund should be to finance action aimed at satisfying the basic needs of those groups which are the poorest in terms of their biological and cultural heritage and training and endowment with goods for community use, under policies which complement former policies in that they tend to alter those other sources of wealth which, together with economic wealth, determine the definition of the distribution of benefits of development and help to make development more effective.

## 2. Wage policies

142. There is a need for wage regulations which ensure that with a certain period of time which would depend on the economic conditions in each country, the share of wages in income would return to its old level and in particular that there would be no recurrence of this unequal transfer of the cost of the crisis to wage-earners. Ensuring that the share of wage-earners in the product remains relatively stable will also have the effect of correcting the structure of distribution once and for all.

143. In general, three objectives should be pursued in the wage policy: i) to ensure that wages recover their original value by returning to the highest levels achieved prior to the crisis and that they rise at least as fast as the productivity of labour; ii) to reduce the wage gap, and iii) to make the investment effort possible. This last objective might well be accomplished

by making it a rule that increases in the real monetary income obtained by wage-earners keep pace with the increase in average productivity. Beyond that level, increases in income could take the form of shares or securities in the aforementioned fund, which would permit a rise in investment. The monetary wage spread could be reduced by setting larger contributions to the fund for sectors whose productivity showed more than the average increase. In this way, the contribution of wage-earners to the investment effort would be concentrated in sectors with a greater capacity for accumulation, thereby enabling the other sectors to increase their monetary wages.

### 3. Need to minimize conflicts between growth and policies relating to distribution

144. Since social policies have already been discussed, this part of the document will contain only two general considerations or suggestions relating to the minimization of conflicts between growth and policies concerning distribution. The first of these refers to making the best use of resources employed for social ends; i.e., to the achievement of the best cost-efficiency ratio in the programmes to be put into practice. In this connection, a fair amount of experience has been accumulated in the countries in the region, which points to, among other things, the need to clearly identify the group towards which the policies are aimed and to use instruments which keep the dissolution of the benefits obtained down to a minimum. The programmes should take into consideration not only the level of poverty of the groups they are intended to benefit but also the potential impact of the policies in terms of the achievement of equity and the minimization of conflicts among the groups participating in the social contract and, finally, the role to be played by the universalization of services in setting up a democratic and integrated society.

145. The second consideration refers to the existence of types of social spending which do not come into conflict with the stimulation of growth since they have a direct, short-term impact on the productivity of the poor. In this connection, mention may be made of spending aimed at improving the diet of the employed population and spending which reduces the time spent travelling from between home and work. There is also spending which through social organization reduces the cost or increases the efficiency of consumption and production of low-income groups.

146. The first of these considerations is more valid in the case of the application of assistance-oriented policies, which, while having a less permanent effect on the structure of distribution, are effective in the short term. In some countries the seriousness of the poverty problem may require such policies to be the first to be applied. Thus, the magnitude of the social deficit may be a criterion for selecting the type of policy on

which stress should be laid initially. Moreover, the extent to which the fund is used to bring about the change in distribution will depend on the absolute and relative magnitude of the investment and social deficits.

#### 4. Factors determining income-distribution policies

147. The suggestions made above may be implemented if there is a social contract --and if the State is able to put into practice-- regarding the application of income policies or the variables which determine the income levels of the main socioeconomic agents. Agreement with regard to income policies could moreover mean that the changes suggested would not give rise to destabilizing inflationary pressures which could reverse some of the achievements made in terms of distribution by reshaping the relative price structure.

148. These policies can be applied only in the presence of institutions which make social concertation possible. In connection with such institutions, mention should be made of the possibility of setting up a mechanism which would function as an economic and social council empowered to adopt technical decisions or of using an existing mechanism for this purpose. Participants in such a council would include, in addition to the political representatives of the society as expressed in its government, appropriate socioeconomic agents. This council would act, for example, in the scheduling of the fund referred to above, deciding upon the way in which the resources to cover the various deficits would be acquired and used, etc. It would constitute a special forum for bringing about social concertation since the interests of the economic agents participating in the determination of income policies would be represented in it.

149. The system proposed would make it possible to confront the region's problems provided that the expectations of internal and external agents in respect of the intervals in which their demands could be met were moderated. In some countries the magnitude of the deficits makes it all the more important to be able to rely on a firm and stable social alliance for settling conflicts and ensuring stability in the application of a development strategy calling for structural adjustment.

#### F. EQUITABLE GROWTH IN CONDITIONS OF EXTERNAL DEBT

150. It has already been pointed out that in spite of the considerable savings effort which the countries are called upon to make, some of them would not be able to promote an equitable and self-sustained style of development if at the same time they had to service their external debt in the manner agreed upon at present.

## 1. The external debt as an obstacle to development

151. Unless the world economy and the region's terms of trade recover, the external debt will be an absolute obstacle to reactivation and transformation on a foundation of equity for the following reasons: i) an export structure which is largely dependent on primary products means that an increase in external sales of one commodity traded by a number of countries will take place at the expense of its unit value, which will seriously weaken the effort to generate more foreign currency; ii) any new foreign currency obtained must be used to pay off the debt rather than to import more inputs or capital goods; iii) the external restriction has an adverse effect on investment and on spending on services essential for bringing about the transformation and modernization of the structure of production needed to increase international competitiveness; iv) the recession gives rise to idle capacity in terms of existing fixed capital and skilled labour, so that the available production factors deteriorate; v) the necessary adjustments put into practice have increased unemployment, reduced salaries and wages and caused cuts in social spending with adverse effects on income distribution and on the standard of living of the poorest strata of society, and vi) the use of a disproportionate share of the countries external comparative advantages to cover the adjustment results in a reduced standard of living for much of the population rather than in higher productivity and income.

## 2. Alternatives for coping with the external debt

152. A necessary measure, although one which is insufficient for breaking out of this vicious circle, is to reduce the debt burden. The best way of doing this would be through a negotiated agreement between debtor countries and creditor countries (the banks and their governments) in order to limit the payments. With regard to countries showing clear signs of insolvency with no realistic expectation of being able to resume their payments in commercial conditions, there is need to reduce the interest rate to levels lower than the commercial rates and to grant a very extensive period of amortization which would include a generous period of grace. Countries whose liquidity situation is unfavourable (or which deserve to be given the benefit of the doubt) should negotiate a rescheduling of their amortization payments and new loans at very moderate commercial interest rates, such as the LIBOR rate without a margin or with just a nominal margin. The new credit should be enough to ensure an expansive type of adjustment which would safeguard investment and promote equity. One alternative to the granting of new loans is the automatic capitalization of a large share of interest payments.

153. If the creditor countries did not have suitable plans for financing the adjustment and transformation process, they would

be forced to seek a unilateral decision, as an alternative to the conditions described above. In order to avoid this kind of situation, it would be a good idea to establish an agreement under which payments would be kept to a certain percentage of the value of exports or of the product, the latter being more appropriate from the technical point of view. In addition, in view of the protectionist limitations applied in the central countries, it might be agreed that the capacity to pay off the debt would be associated with conditions of free trade which would make it possible to generate foreign currency for making the interest and amortization payments on the debt, through the export of goods and services.

154. It is also important to ensure that the participants in the renegotiation process include the same socioeconomic agents who are part of the social concertation process so that they can assume the consequences which a given approach to paying off the debt would have on the definition of the economic variables which determine their levels of income.

#### G. GUIDELINES FOR STATE PARTICIPATION AT ECONOMIC LEVEL

155. It takes a State with great technical and financial capacity to execute a structural adjustment programme of the kind described above. The State must not only continue to play its orienting role in the macroeconomic field, which in itself becomes more difficult at a time of structural change, but must also provide strategical guidelines for all economic tasks and be the main guarantor of the stability needed to achieve the objectives sought. Moreover, if the proposed scheme were put into practice, there would be an increase in some of the traditional tasks of the public sector. This is particularly true in connection with: i) the generation of social concertation and concerted planning; ii) an increase in the level and efficiency of public spending and iii) an increase and a refocusing of taxation.

156. With regard to the State's role in making social concertation viable, mention has already been made of the need to establish or strengthen a mechanism such as an economic and social council. It is even more important to have a system for democratic participation which enables the broad majority to express its demands and for those demands to be taken up by a democratic political system. This planning process should be used to generate the spaces and mechanisms needed for administrative decentralization, the delegation of decisions and agreements with groups in the civil society and with business in such a way that the planning process contributes to the democratic process and becomes more efficient. This presupposes that planning includes

both economic and social policies so that social policies do not merely compensate for gaps in economic policies.

### 1. Tax policies

157. To finance the increase in spending and to do so in an equitable manner, it may well be necessary to raise the level of taxation and change its orientation, which calls for two types of parallel action. The first consists in increasing the relative share of direct taxes in tax returns, and this can be done if the required increase in tax returns comes from this type of tax and primarily from those applied to incomes which are not reinvested in production and to property. In this respect, it is necessary to remember that it is perhaps more important to improve the collection of taxes in such a way as to prevent evasion than it is to increase the rate of the taxes concerned. The second action called for is to reduce indirect taxes on certain basic consumer goods with low income elasticity of demand while at the same time raising taxes on certain luxury items. In this way, the level of indirect taxation is not reduced; such taxation is merely made more progressive.

158. Finally, thought may be given to the creation of some temporary taxes to correct some cases of inequality generated by the present crisis or to finance the necessary increase in investment. The schemes mentioned for financing the fund referred to above are of particular importance in this connection.

### 2. Reorientation of public spending

159. With regard to increased efficiency in public spending, the first thing which must be noted is the need to reorient spending in such a way as to ensure the realization of the objectives of adjustment and long-term development, and this means effecting reductions in those areas which make no contribution in this connection.

160. Mention might be made, in this connection, of military spending, which in many countries of the region constitutes a high proportion of their national budget and which saw its share in the product rise during the past decade. This type of spending should be reduced, or at least frozen, which would have favourable repercussions on the balance of payments. Naturally, reduced military spending calls for a policy whereby conflicts among Latin American countries are solved by arbitration and for peace on a global scale, which are the prerequisites for reducing expenditure of this type.

161. The armed forces are an organization whose infrastructure and staff may be organized for development areas and may be used in connection with the tremendous efforts which are part and parcel of this strategy. In this connection, stress should be

laid on the role they might play in vocational training, creation of a community infrastructure, especially rural infrastructure, in support of production and social services, etc.

162. Care should also be taken to avoid the use of instruments with a low cost-efficiency ratio. A good example of what is meant is provided by general subsidies which, although they affect certain variables or goods are extremely costly for the individual beneficiaries in the group at which the policies are aimed. Finally, it will be necessary to increase social spending and also the State's technical capacity for executing the necessary policies and providing support to the private sector in its tasks. In order to meet its obligations in these two areas, the State will have to increase its managerial capacity.

163. Throughout this document, stress has been laid on the need for links between the civil society, the private sector and the State in order to implement the strategy efficiently and enjoy the participation of all concerned. These links are no substitute for superlative managerial capacity on the part of the State; on the contrary, they make planning and the enhancement of the State's human resources more necessary than ever.

164. The concept of State efficiency also means that its investment priorities must be reviewed. In the past, many States in the region performed functions which were justified at the time but may now be performed by private or co-operative sectors with no loss of efficiency or sacrifice in terms of national integration. On the other hand, the States themselves have failed to develop their potential for action in fields which are very crucial for future development, such as the field of science and technology and the policies aimed at development, transformation and equity as proposed in the strategy.

Table 1

LATIN AMERICA: EXTERNAL, INVESTMENT AND SOCIAL GAPS IN SELECTED COUNTRIES

(As a percentage of GDP)

Country	External gap	Growth gap	Social gap a/	Social gap b/
Bolivia (1980)	3.1 (1984)	20.0	2.3	-
Colombia (1983)	5.1 (1984)	3.2	0	5.3 (1981)
Costa Rica (1983)	9.0 (1984)	13.2	4.4	11.3 (1982)
Chile (1982)	10.8 (1984)	10.3	9.0	7.4 (1984)
Ecuador (1984)	1.2	2.2 c/	11.3	22.9 d/
Honduras (1983)	8.0	9.6	3.6	21.8
Mexico (1984)	-2.2	4.7	10.4	2.6
Paraguay (1984)	3.8	-3.7	3.7	-
Peru (1983)	1.3 (1984)	10.0 e/	5.4	12.8
Venezuela (1984)	-9.2	6.3	6.3	3.2 (1982)

Source: Estimates prepared by the Regional Employment Programme for Latin America and the Caribbean (PREALC).

a/ On basis of differential as regards share of wages in the GDP.

b/ Income deficit with respect to the poverty line.

c/ As there is no differentiation between the operating surplus and depreciation, the necessary gross investment rate has been used.

d/ This figure is an overestimate, since the low-income districts of Quito and Guayaquil were used as a reference.

e/ In the case of Peru, due to the crisis in that country's economy, which has caused low levels of GDP growth, an amount equivalent to two-thirds of the resultant of the estimates appearing in Table 2 has been considered as the desired level of investment.



Table 2

LATIN AMERICA: MARGINAL CAPITAL-OUTPUT RATIO (K/Y) AND GROSS DOMESTIC PRODUCT GROWTH RATES ( $\hat{Y}$ ) IN SELECTED COUNTRIES

	K/Y a/	$\hat{Y}$ b/ (1970-1984) %
Bolivia	5.33	2.3
Colombia	3.80 c/	4.4
Costa Rica	5.17	3.9
Chile	2.68	1.5
Ecuador	3.87 c/	7.4
Honduras	4.38	3.5
Mexico	3.15	5.2
Paraguay	2.04	6.7
Peru	6.03	2.1
Venezuela	2.33 d/	2.5 e/

Source: Estimate calculated by the Regional Employment Programme for Latin America and the Caribbean (PREALC).

a/ The marginal capital-output ratio was estimated according to the formula:  $Y(t) = a + b \sum I (t - 1)$

where:  $b = \frac{Y}{K}$  and

I = net investment

b/ Estimated according to the series at constant 1980 prices provided by the ECLAC data bank.

c/ Estimated, in the absence of net investment data, on the basis of the accumulated investment in gross capital formation.

d/ Non-oil marginal capital-output ratio.

e/ Estimated on the basis of the series at constant 1968 prices given in the 1985 ECLAC Statistical Yearbook for Latin America and the Caribbean.

Table 3

## LATIN AMERICA: EMPLOYMENT AND UNEMPLOYMENT PROJECTIONS FOR SELECTED COUNTRIES

	Projection of EAP (1985-1990) <u>a/</u>	Elasticity GDP/ employment <u>b/</u>	Underemployment/ equivalent unemployment <u>c/</u>	Open unemployment <u>d/</u>	Unemployment without absorption of underemployment <u>e/</u>	Unemployment with absorption of underemployment <u>f/</u>
Bolivia	2.71	0.632				
Colombia	2.62	0.490	10.2	14.1	27.2	1.55
Costa Rica	2.79	0.550	9.6	6.3	10.4	5.80
Chile	2.12	0.530	11.8	21.5	33.9	20.30
Ecuador	3.35	0.600				
Honduras	3.79					
Mexico	3.63	0.700	10.2	4.8	17.0	4.90
Paraguay	3.22					
Peru	3.06	0.500	9.3	11.8	25.1	14.30
Venezuela	3.32	0.840	9.5	12.1	19.9	8.10

Source: CELADE (1986); PREALC (1986b); PREALC (1986c); PREALC (1986c).

a/ Projections made by CELADE.

b/ Bolivia (1960-1973), Chile (1974-1985) and Ecuador (1974-1985) correspond to the formal employment-total GDP elasticities; Venezuela (1974-1985) corresponds to the formal employment-non-agricultural GDP elasticity; Colombia (1971-1984), Mexico (1976-1985) and Peru (1975-1984) correspond to the employment-industrial GDP elasticity.

c/ Estimate based on data provided by the Regional Employment Programme for Latin America and the Caribbean (PREALC), assuming that 50% of informal employment represents equivalent unemployment.

d/ Data provided by PREALC.

e/ and f/ Estimates by PREALC.

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