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SUMMARY: PUBLIC PLANNING AND POLICIES IN 1982-1984 AND
PROSPECTS FOR THE SECOND HALF OF THE DECADE

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CONTENTS

	<u>Page</u>
INTRODUCTION	1
PART ONE	
EXTERNAL CRISIS AND REACTIVATION PROGRAMMES	4
A. EXTERNAL RESTRICTION AND REACTIVATION	5
B. REACTIVATION STRATEGIES AND RESOURCE ALLOCATION ...	7
C. REACTIVATION AND EMPLOYMENT	11
D. MOBILIZATION OF RESOURCES AND STABLE DEVELOPMENT ..	13
PART TWO	
THE ROLE OF THE STATE AND THE CO-ORDINATION OF ECONOMIC AND SOCIAL POLICIES	21
E. MARKET RELATED PLANNING	22
F. PLANNING IN THE REGION IN MID-DECADE	24
G. SOME PROSPECTS FOR THE FUTURE	33
ANNEXES	
I. CENTRALIZATION AND DECENTRALIZATION IN GOVERNMENT	41
a) INTRODUCTION	42
b) THE CURRENT CRISIS AND DECENTRALIZATION	44
c) TERRITORIAL DECENTRALIZATION AND PLANNING	47
II. PUBLIC POLICIES AND SOCIAL DEVELOPMENT	53
a) INTRODUCTION	54
b) GLOBAL ASPECTS OF THE SOCIAL IMPACT OF THE CRISIS .	56
c) IMPACT OF THE CRISIS ON SOCIAL SECTORS	60
d) SOME SOCIAL POLICY PROSPECTS.....	68

INTRODUCTION

1. This paper is a support document for the discussions to be held at the Fifth Conference of Ministers and Heads of Planning of Latin America and the Caribbean (Mexico City, April 1985). As determined at Caracas in April 1977, this Conference has been consolidated as the Region's main forum for the exchange of experience in the field of economic and social policy planning and co-ordination. The technical documents used to support it contain subsidiary information for the dialogue among the Ministers and Heads of Planning; they are not in themselves, proposals for deliberation and formal approval.

2. On this occasion, it has been decided to provide the 37 member countries with a single summary of the various studies made by the Institute, organized on the basis of the pattern of debate: the external crisis and reactivation (Part One) and the role of the State in co-ordinating economic and social policies in the second half of the decade (Part Two). In a supplement, consideration is given to the topics of territorial decentralization in governmental decision-making and social development (Annexes I and II), and an overall review is provided of the most recent planning experiences (Annex III). The documents of which the summary was based may be obtained separately.

3. Much of the analysis made here is based on the results of the questionnaire which the member governments were asked to answer. At the same time, the technical team of the Institute expanded some studies itself, also working on the basis of parallel studies conducted by other institutions, as mentioned in the text. However, the considerations contained in this summary lack uniformity in terms of the progress made on them. Many are of a conclusive

nature, others refer to studies recently completed but still in a stage of final revision and some are pre-research considerations. This last category includes cases for which the baseline studies have still not been concluded or areas of ongoing study, which are constantly being brought up to date. As to the form of the summary, two things should be noted. One is that concern for the summary itself prevailed over concern for style. Another consideration, which has more relevance where the main chapters of the document (first and second parts) are concerned, is that the countries of real situations on which the arguments adduced are based have not been identified. This preference for considerations of a more generic nature, reflects an attempt to identify model or average situations on which a broader description of the Region may rest.

5. With respect to the Fifth Session of the Conference, ILPES is playing the role of Technical Secretariat and, although the support documents it is preparing will not be submitted to a final vote, experience shows that they can play an important dual role. In the first place, they can benefit the Institute itself to the extent to which the debate enables it to improve on studies already concluded or still in process and to continue to align its future programme of work with the concrete needs of national planning bodies. The other and more important benefit accrues to the governments themselves in that these periodic studies are constantly increasing the transparency and comunicability of the various approaches and practices applied to public policy planning and co-ordination in the Region. The Institute would be grateful for

any criticism and comments which this summary may evoke which will be taken into consideration when the final version of the document is issued.

Note: Parts one and two of this document, taken as a whole, are for consideration in Plenary Committees I and III; the first two Annexes refer to topics covered by the working groups and Plenary Committee II (see document LC/IP/L.13-CM 5/2). The documents for debate, which may be submitted to formal vote, relate to a parallel meeting -the Fifth Meeting of the Technical Committee- whose participants include all the Ministers and Heads of Planning (see documents LC/IP/R.48 and 49) (CT 6/1 and CT 6/2, respectively).

PART ONE 1/

EXTERNAL CRISIS AND REACTIVATION PROGRAMMES

6. In the 1980s, Latin America and the Caribbean are passing through their most profound economic crisis since the Great Depression; it has hit countries with the most diverse institutional frameworks and policy concepts. However, it does not affect them all in the same degree of intensity. Some of the most vulnerable countries are those which practised greater commercial and financial openness, those which went in the most heavily for the acquisition of external capital to finance development and those which already had some fairly severe structural weakness. To cope with the crisis, countries were forced to apply stringent adjustment policies, in most cases at the cost of a sharp recession, a drop in employment and a decline in the standard and quality of living of broad sectors of the population.

7. In actual fact, an analysis of short-term economic programmes and also of new plans, reveals that with rare exceptions, a preference has been shown for pursuing stabilization rather than for giving incentive to growth. Two elements stand out in the reactivation programmes formulated up to 1984. First, they provide for a partial renegotiation of the external debt and, in general, do not include solutions for the medium term. Second, economic growth was envisaged in terms of requirements for payments to

1/ This chapter is based primarily on a study entitled "Crisis externa y programas de reactivación" (Santiago), which is being prepared by the ILPES Research Department.

the exterior, and for that reason it was necessary to accomodate the surplus required in the commercial balance; in the short term, the adjustment variable was the internal level of economic activity required to reduce imports. After four years, the question which is being asked in Latin America and the Caribbean is how to re-channel the economies in a growth-oriented direction. The "recovery of development" is a concern which is of more importance in the third round of debt negotiations (1984-1985) than in the two preceding rounds (1981-1982 and 1982-1983).2/

A. EXTERNAL RESTRICTION AND REACTIVATION

8. On the assumption that amortization payments are postponed, it may be said that in the next five years, the Region will continue to be decisively restricted by the payment of interest on the external debt. The projections made by specialized bodies for the rest of the decade show clearly that the Region will be unable to grow at the historic rates of the 1960s and 1970s (close to 6% a year); that it is only in the most optimistic scenarios that the balance of trade will allow for minimum import needs and cover interest on the external debt and, finally, that financial resources will continue to be transferred to the rest of the world.3/

2/ On the recent negotiations dynamic, see R. Devlin, "Rescheduling the debt: Latin America up against the ropes" (mimeographed version), ECLAC, Santiago, 1984.

3/ In 1984, for the third consecutive year, voluminous payments were made to the exterior (close to US\$ 110 billion in the three-year period 1982-1984). After net inflows of capital were deducted, net transfers of resources to the exterior (slightly more than US\$ 75 billion in the same three-year period) represented in 1984 a reduction in the import capacity equivalent to 24% of the value of exports of goods and services. (See ECLAC, "Preliminary review of the Latin American economy in 1984", Santiago, Chile, January 1984).

9. The most likely eventuality is that fewer new credits will be available in the international financial system, with the danger that the recession will become a recurrent phenomenon. Adjustment policies may continue to seek a relative contraction in order to ensure the transfer of resources to the exterior in the future. Some specialized studies note that if the international interest rate were to remain at its present levels, at the end of this decade few countries would manage to keep their GDP growth rate at a higher level than population growth.

10. This scenario of external restrictions and possibilities for reactivation is impelling national planning bodies to lend a hand in the design and execution of adjustment policies expressly aimed at the recovery of development. In situations where this concern is felt, medium-term objectives include:^{4/}

- optimizing the use of foreign currency on the promotion of production activities, efficiently combining export expansion with import substitution;
- concentrating on the collective need -both social and economic- to expand the internal market;
- investing selectively in long-term technological development, in an attempt to improve the country's relative position in the international context with regard to trade, patterns of income and situation as regards dependence;
- strengthening regional co-operation and integration agreements and procedures;
- increasing domestic savings for self-support of the investment effort, by taking measures to increase productivity (public and private);
- increasing the efficiency of the public sector, as regards both the central government and the decentralized units.

^{4/} See also in this connection, ECLAC, "Desafios y opciones para el futuro" (mimeographed version). ECLAC, Santiago, Chile, January 1985.

However, in recent years it has been only exceptionally that adjustment programmes have envisaged these requirements. In the following section, a number of these requirements are reviewed in terms of their relationship with the external crisis.

B. REACTIVATION STRATEGIES AND RESOURCE ALLOCATION

11. At world level the prospects emerging are for greater growth of economic activity and participation of Latin America and the Caribbean in trade by comparison with past decades. In this context, the countries of the Region are confronted with a difficult combination of neoprotectionism and accelerated technological change. Simultaneously, international co-operation, especially multilateral international co-operation, is losing steam.^{5/} Similarly, greater interdependence on a world scale increases the speed of transmission of economic imbalances; in this framework, the reactivation of the North is transmitted to the countries of the Region but not at the same rate or in the same amount of time. At the same time, technological changes alter comparative advantages, and the Region is losing competitiveness, even in those sector over which it seemed to have gained some assurance of dominance.

12. It has now become more difficult to mobilize to external resources sustain reactivation strategies. It is estimated that loans by commercial banks to the Region will remain at their present level or may even decrease; official concessionary

^{5/} In 1983 70% of official development aid was distributed by bilateral mechanisms and 29% by multilateral bodies, with OPEC and CMEA excluded as sources. The Region has received slightly over 12% of the aid earmarked for developing countries. (Source of basic data: OECD/DAC, Paris, 1984.)

financing may not recover until the middle of the next decade,^{6/} and direct private investment is showing a growing preference for the developed economies, in particular the North American economy.

13. With respect to export opportunities, some selective and deliberate economic policy measures are assuming a strategical role in the medium-term prospective. These measures require tremendously important decisions such as those determining the degree of openness of an economy, the future pattern of investments and the desired profile of the production structure.^{7/} It is therefore important to integrate the export policy with the national development strategy appropriately. In particular, there is a notable need for the allocation of resources to promote exports to be integrated with the reindustrialization effort. There are some evidences that the abrupt introduction of a high degree of openness in external commerce and financing may cause the industrial sector to decline; on the other hand, some industrial development policies made express provision for progress in the diversification of exports and manifestly strengthened external trade.

14. The analysis of the recent economic situation also indicates that, in spite of four decades of industrialization, Latin America and the Caribbean has remained first and foremost an exporter of

^{6/} A.W. Clausen, statement to the Board of Governors, World Bank, Washington, September 1984.

^{7/} See in this respect, ITC, "Institutional systems for export promotion in Latin America" document N° 3, International Trade Centre, UNCTAD/GATT, Geneva, Switzerland, 1984.

of primary goods.^{8/} This characteristic of the export pattern helps to explain the Region's great vulnerability in another aspect of its external relations -the deterioration in its terms of trade.^{9/} The factors behind this deterioration are known to include protectionism and retraction in the North, resulting in a weakening of demand; the reduction of stocks owing to high interest rates; the substitution of synthetics for natural raw materials; technological changes and an increase in the share of resources allocated to the service sectors, which changes the global profile of the demand for primary goods.

15. Naturally, the combination of all these factors presents a challenge to national planning bodies where decisions relating to resource allocation are concerned. Protectionism in the developed countries,^{10/} the instability of the world recovery ^{11/} and wildly fluctuating international interest rates ^{12/} make it impossible to be sure that a reactivation of the world economy will

^{8/} Although the relative share of these commodities has dropped to 80% of the value of exports, or 40% if fuels are excluded.

^{9/} For those countries of the Region which are exporters of petroleum, the terms of trade dropped for the fourth consecutive year, while in non-oil-exporting economies they rose slightly in 1984. Since they had deteriorated greatly in 1979-1982, in 1984 they were still 26% lower than in 1978, standing at one of the lowest levels recorded since 1930. (See ECLAC, "Desafíos y opciones para el futuro", op. cit.)

^{10/} UNCTAD, "Protectionism, trade relations and structural adjustment", TD/274, Belgrade, June 1983.

^{11/} IMF, "World economic outlook", Washington, 1984.

^{12/} BIS, "54th annual report" Basel, June 1984.

result in an immediate increase in the demand for primary goods and in a recovery of their prices. In this kind of scenario, proposals to meet the external crisis by exporting more manufactures and therefore by deliberately promoting the industrial sector assume a vital role.

16. A consensus exists as to the need to increase the Region's competitiveness in the world market selectively and progressively. There is a wide variety of measures for this purpose, some of the most notable of which seek to raise the capacity of private enterprise and of government itself to manage production and trade in the export sector and to strengthen trade among developing countries, while at the same time, developing the potential of the regional market itself. On the other hand, there is a growing conviction that the dichotomy between "primary exports" and "exports of manufactures" does not fully reflect the options available. Little by little there is a growing concern to design export strategies in which activities are spread out between two or more production sectors (mining, agriculture, industry and even services).

17. It is obvious that the need to save foreign currency also provides incentives for import substitution strategies; but although the opposite is known to have been suggested on various occasions, there are growing reasons for not automatically pitting such strategies against "export promotion" strategies. New proposals are being made to set up a production reserve in each country, endowed with sufficient expertise and capable of guaranteeing greater presence and more stability on international markets it would make external bargaining power stronger and more dependable.^{13/}

^{13/} See for example, ECLAC, "Crisis sobre el núcleo endógeno".

18. Within any industrial strategy, harmonization in the energy sector seems indispensable; in many cases, this means adopting technological processes which make better use of energy inputs which are relatively abundant. There are countries in which these changes would require revitalization of national development bodies designed to channel financial resources specifically to the redevelopment of the production apparatus. As in the past, national planning bodies tend to play a strategic role, both in intersectoral articulation and in the provision of long-term guidance concerning the allocation of public resources, both real and financial.

C. REACTIVATION AND EMPLOYMENT

19. The external crisis and the adjustment policies for coping with it aggravated the problem of employment in Latin America and the Caribbean.^{14/} The data available show a reduction in the work-day and an increase in the incidence of low-productivity work or, in other words, an increase in the level of visible and invisible unemployment. There is a growing feeling that it is necessary to include the reduction of unemployment in development strategies as a specific, priority objective. In general, it is necessary to bring that goal into harmony with the sectoral allocation of public resources, with the income distribution policy and, in any event, with scientific and technological development, which calls for a medium- and long-term programming perspective. In actual fact, immediate reactivation does not, in itself, promise

^{14/} In four years the rate of open unemployment increased by over 55%, rising from 6.9% in 1980 to 10.8% in 1984. See PREALC, "Después de la crisis: lecciones y perspectivas" and "Estimaciones preliminares para 1984" (based on household surveys), ILO, Santiago, Chile, October 1984.

that all the jobs lost will be automatically refilled, first, because in some countries enterprises have failed, with the result that installations and machinery have ceased to exist so that the installed capacity has been reduced. Secondly, some enterprises which remained active changed their production processes in such a way that less labour is absorbed. Thus, in much of the Region, as mentioned above, there is a need to adopt policies expressly designed to accelerate the rate of labour absorption. The instruments for doing this, such as direct subsidies of employment, private and state capital associations, special projects and replanning of labour policies, involve options which are difficult in the absence of decisions on the sectoral profile of future production activity. In some countries this goal involves the development of the agricultural sector with a view to reducing migration to the cities.

20. At the same time, considering the problem of employment calls for some thought concerning income distribution policies; the historic tendency towards concentrated income distribution in the Region, has been heightened with the present crisis. A higher percentage of the rural and urban population have no access to services and to basic food, housing and clothing commodities (see Annex II). There is a widespread need for policies which deal simultaneously with employment, income distribution and the supply of mass consumer goods and services. In addition, because the high percentage of people now living marginally represents an important potential market, in the medium-term, a more equitable income distribution would certainly make it possible to accelerate the economy and generate more jobs. Owing to external restrictions and limited growth, demand-oriented policies have sometimes proved inadequate for pursuing the goal of more equitable income

distribution. In such cases it is justifiable to combine these policies with promotion of job opportunities and an increase in the supply of commodities for a broad sector of society. In this same perspective, the need is seen for immediate adjustment policies to act in conjunction with rational, medium-term reactivation measures.

21. There is no doubt that in the long-term labour absorption policies will be closely linked to the technological options which are being adopted and to the profile of future investments in production. Resources for scientific and technological development have been traditionally inadequate, a regional characteristic which has also become more marked with the crisis. In this connection, reactivation also calls for a comprehensive approach in order to reconcile the allocation of public resources, the restoration of productivity in the private sector, the more important decisions concerning technological development and, in harmony with all that, the employment policy.

D. MOBILIZATION OF RESOURCES AND STABLE DEVELOPMENT

22. The economic analysis of the Region in recent years clearly shows that the crisis is delaying reactivation, limiting the possibilities for it and creating uncertainty in that regard. It is delaying reactivation by creating a need for adjustment policies, which immediately give rise to recession. It is limiting the possibilities for recovery in that it is making it impossible to duplicate historical growth rates, which would make the external debt equation unmanageable. And it gives rise to instability because the crisis increases the uncertainty concerning the

external and internal components of savings and its orientation towards capital formation. In connection with this third point, the mobilization of resources to finance development in the second half of the decade is seen as a central challenge for the planning or co-ordination of economic and social policies. In those cases (the majority of cases in the Region) in which a large share of the investment effort depends on private initiative, such policies require selective investment incentives to steer free entrepreneurial initiative in the direction of a social approach to development.

23. Adjustment policies are known to have been accompanied by significant reductions in savings and in the Region's investment coefficient.^{15/} If this continues to happen, the possibilities for reactivating the economy in the next few years and for re-embarking on a course of long-term growth will be seriously jeopardized. Here we also see a short-term effect of the crisis which is aggravating a permanent problem -that of the too-slow rate of production capital formation.

24. Reference has already been made (see paragraph 12) to the reasons why it is hard to expect external savings to constitute a factor of any significance in development financing in the immediate future. There are a few lines of credit with very specific destinations which constitute an exception to this rule; these include, for example, arms purchases, credits tied to suppliers in industrialized countries or credits for external debt "roll over",

^{15/} In the 1970s, domestic savings rose to an annual average of 6.8% and between 1981 and 1983 fell at the rate of 9.6% a year. The investment coefficient over the gross geographical product fell from 23.5% in 1979 to 16.7% in 1983. (When this document was issued, there were still no data available for 1984).

which do not in fact constitute "new" resources for financial investment. Therefore, although this varies from country to country, it is becoming clear that there is a need to design policies aimed at increasing domestic savings and to channel it selectively towards investment in production. This is an area in which regional co-operation has made little progress in terms either of public savings or of private savings.

25. An analysis of fixed capital formation in recent years shows that the crisis, like the adjustment policies, has seriously affected the private production sector. In the Region's market economies this sector cannot be expected to be a leader in the reactivation process in the immediate future and acting on its own. In the developed countries the State has played a fundamental role in overcoming the effects of the crisis; a well-known example of this is the role played by the fiscal deficit in the recent recovery of the United States economy. To an even greater extent, a sufficient increase in public investment will be indispensable for reactivation in Latin America and the Caribbean. In nearly all the countries in the Region, there is also a need to restore the confidence of businessmen by taking specific measures to stimulate the private component of domestic savings and to promote priority investment. The improvement of the capital markets and the establishment of specific lines of credit for investments in production are among those measures which are considered to be of great urgency.

26. The private sector was directly or indirectly penalized by the reduction of fiscal expenditure.^{16/} The adjustment

^{16/} Actually in 1983 alone the real expenditure of the public sector showed a reduction of between 5% and 20%, and during 1984 this downward trend continued.

processes naturally included measures to control government expenditure and rationalize it in a climate of austerity. However, some drawbacks were also observed, including the setting of ceilings on expenditure (in an attempt to avoid inflationary pressure from the fiscal deficit and to achieve some not very realistic goals of expanding the means of payment, which could be complied with only at unsustainable social and political cost. In these circumstances, time and again the goals failed to be set. On the other hand, the indiscriminate adoption of fiscal austerity measures tended to make large segment of the decentralized government less efficient; sometimes controls on expenditure made a rational situation less so. Many public enterprises had achieved a high level of efficiency in their respective sectors, and the majority of them had been useful to the development of the Region's mixed economies. Because of the crisis, the decentralization of their management called for joint articulation and disciplinary machinery, from the point of view of society as a whole; but it was not rare for the rigours of adjustment to strangle them by imposing rigid fiscal measures, which favoured the attainment of financial targets rather than real economic results or social objectives.

27. The commitments made in support of adjustment policies in the majority of the countries will tend to exert pressure for a greater reduction in public expenditure. However, the present situation is nearing the limits of the possible; it would be difficult to make additional cuts without running the greater risk of depressing the internal demand, aggravating unemployment and postponing opportunities for reactivation. In a number of countries, administrative reforms were recently enacted in an attempt to rationalize and/or reduce expenditure on salaries and

wages and on the hiring of personnel and to improve the performance of the public sector. An analysis covering the last few years shows the need to combine more effectively disciplinary measures to and expenditure with deliberate attempts to rationalize income as well. The possibilities for fiscal reform vary from country to country since a common approach to the problem is impracticable.

28. On the other hand, it should be noted that it is gradually becoming obvious that any fiscal reforms introduced would be less productive if measures to reduce tax evasion and deterioration in income due to inflation are not rigorously applied. At the same time, there seems to be a reasonable possibility that price-setting in public enterprises and the fixing of public utility rates will be improved; in this respect, some adjustment policies have automatically applied the principle of self-financing, with adverse economic and social effects. It may also be noted that it is possible to use public utility rates and prices in such a way that they play a very strategic role in the formation of savings and thus in the financing of the investment effort (public or private) needed for reactivation. Such instruments are still infrequently used to supplement the financial policy as such, which, in every country, plays a very specific and usually very significant role in mobilizing resources for reactivation. In Latin America and the Caribbean, the programming of financial policy in the recent period was not always regarded as the proper course for an economy. The failure to monitor the situation has in some cases helped to aggravate the effects of the adjustment.

29. Recent economic history shows some instances of substantial acceleration in the rate of the inflation within the Region.^{17/}

^{17/} The simple average rate of increase of consumer prices rose from 66% in 1983 to a record 145% in 1984; the rate weighted by the population rose from 130% to 175% in the same period. (ECLAC, "Preliminary review of the Latin American economy in 1984, op.cit.")

Sharp devaluations in the exchange rate, prices and public utility rates and changes in relative prices to alleviate external imbalances are factors which have in general helped to revive the inflation, aided sometimes by a public deficit or by a certain permissiveness in monetary policy. The inflation affects different economies in varying degrees, but in nearly every case it is limiting reactivation and slowing the formation of production capital by encouraging speculation in the application of surpluses and increasing the risk inherent in investments which take relatively long to mature.

30. Some stabilization programmes which emphasize monetary control undoubtedly succeed in reducing the rate of inflation, but this is costly in terms of product and level of employment and real wages and consequently exacerbates political and social conflicts. The effects of other programmes which are aimed at halting monetary expansion and reducing the fiscal deficit, giving less consideration to cost pressures and inflationary expectations, have strayed far from the purpose for which they were originally designed. On the other hand, the practice of indexing, especially for reducing the risk of various economic and financial transactions in the future, began to be widespread. There are clear indications that in many cases this practice added fuel to the inflation process. Those indexing experiences have still not been evaluated conclusively and remain controversial.

31. One conclusion can be advanced as being relatively valid: inflation was not eliminated through the use of policies which sought only to have stabilizing effect, by means of monetary and fiscal instruments alone or without joint action by agents whose decisions affect price formation (such as entrepreneurs, workers and agencies or enterprises in the public sector itself). A

second conclusion is beginning to emerge: generally speaking, it was not enough to set rigid targets concerning the level of prices when those targets lacked credibility from the perspective of the leading economic agents. Instead, there would seem to be a need to bring about some stability in the rate of inflation, for a certain period of time, and to try to decelerate it later on. Within certain limits, which vary from country to country, the inflation has been instrumental in avoiding conjunctures which are even more recessive than those experienced. Even so, this has not kept the more intensive incidences of inflation from being accompanied by marked conflicts in distribution. In actual fact, the realization of stabilization goals to some extent depends on the interaction between the performance of each social actor involved, whether entrepreneurs, workers or government.

32. In short, examination of the most recent experiences of the Region with regard to the external crisis and reactivation shows that in virtually all of them, a middle course, running between two main streams of thought, was taken in which elements of each main stream frequently mingled. On the one hand, there was the view that adjustment was central, that it would be essential to strive expressly to reduce the level of activities in order to economize on imports or to increase exportable stocks; since reactivation had the opposite effect, there would be no room for it in the adjustment period. In the same line of thinking, it is acknowledged that export promotion takes time and comes up against many exogeneous factors so that there is a more immediate need for reducing imports, and hence the relative content of products for the domestic market, in an attempt to bring about a drop in demand. Those who take this position include some who even consider it wrong to allocate resources for the promotion of import substitution. On the other hand, there is that school of thought

which lays emphasis on reactivation as being the major concern and holds that even the adjustment should be geared to it, its proponents hold that if the crisis is to be overcome, the global dynamic of each society must be taken into account, which can in no case be reduced to the four main variables of physical equilibrium: production, consumption, imports and exports. From this perspective, the obtaining of more favourable terms in the renegotiation of the external debt becomes a critical variable, which paves the way to the recovery of levels of production and employment. Naturally, the two schools differ as to the correct social distribution of the cost of the austerity imposed by the crisis.

PART TWO

THE ROLE OF THE STATE AND THE CO-ORDINATION OF ECONOMIC AND SOCIAL POLICIES

33. Virtually all of the Region has been taking shape as a mixed market economy area;^{18/} and, the "role of the State" must be viewed in this context. Historically, as the State evolved in Latin America and the Caribbean, it diversified its traditional regulatory functions, embarking on new roles in external relations, and to domestic level, assuming complex responsibilities in the area of production, even in cases where private initiative was left with considerable freeway. This affected the "role of the State", in two of its guises -as a "political structure" which encompasses social agents, their power relationships and their formal and informal standards of interaction, and as a "public administrative apparatus", a designation which refers specifically to government and its decentralized entities.^{19/}

34. In some concrete national situations, the rate at which the State evolved in both of these guises has not always been harmonious -a fact which acquires greater importance in the present crisis situation. However, this subject lies outside the scope of this document. In the rest of this paper, the States is viewed solely from the perspective of the second guise indicated, i.e., as an administrative apparatus, and then only those of its functions which

^{18/} At least one member country pioneered by recognizing this concept in its constitution. (See, Nuevas disposiciones incorporadas en diciembre de 1982, en la Constitución Política de los Estados Unidos Mexicanos, Artículos 25 y 26).

^{19/} See A. Gurrieri, "El Estado en la crisis actual" (document in preparation for the CEPAL-Técnica", ECLAC, Santiago, Chile, December 1984).

relate more closely to the national planning bodies -economic and social policy design and co-ordination- are considered.

E. MARKET RELATED PLANNING

35. The conclusions drawn concerning the crisis and reactivation programmes (Part One) suggest the need for a basic rephrasing in many planning procedures. Different opportunities are open to different countries for bringing the various objectives of economic and social policies into harmony with the resources available and co-ordinating the various instruments used in policy execution. Of course the options available must depend on the prevailing institutional and political context. It is obvious that in the multitude of mixed economics in the Region, different doctrinal preferences coexist in respect of that harmonization of objectives or instruments. Each line of thinking envisages different roles for the State in its intervention in the development process in terms of market advantages. It is not the purpose of this paper to review the theoretical postulates of the various schools of thought.

36. The crisis has obviously thrown light both on some errors due to excessive State intervention and on exaggerated cases of lack of regulation. This experience has taught some lessons on how the market functions, which, in many countries need to be taken into consideration when new reactivation strategies and plans are designed. On the other hand, reactivation plans call explicitly for the incorporation of internal and external adjustment policies. Analysis of the experience of recent years shows that without some large contributions on the part of planning, even entrepreneurial development in the private sector comes up against unnecessary risks which are greater than those brought about by the crisis.

37. In brief, at the level of theory as well as of doctrine, it is virtually inevitable that certain barriers will continue to arise between planning and the market, the State and private enterprise or interventionism and liberalism, or even the "open society" and the "centralized economy". However, in the majority of countries, the not very discriminatory impact of the crisis, the widespread external restrictions and even the mixed character of development together indicate that, in governmental practice, it is possible to build bridges in places where one ideology or another is still trying to erect barriers.

38. However, it is above all the mixed-economy character of many of the economies of the Region which makes it advisable to proceed carefully in combining State intervention with freedom of entrepreneurial initiative. At this point in the decade, this is not achieved by automatically applying the golden mean but depends on the mixed character of an economy. In such an economy, averting the crisis, managing the external debt, initiating reactivation and restoring stable development are tasks to be shared between the public and the private sectors. In each country, the options available for sharing these tasks naturally depends on the doctrine which prevails in each concrete government situation, but they also depend on the real development and the efficiency attained by the entrepreneurial sector and by the State itself. The success of an approach to planning in which both sectors are articulated will also depend on the degree of freedom granted for determining national development strategies and bringing them into being.

39. In this connection mention can also be made of another factor on which the options available in each country for combining State intervention and market approaches depend: these options are fully automatic in respect of the external articulation of each economy. The commercial, monetary credit and technological machinery which of interdependence is so powerful that it seems recommendable for country to take a close look at the way in which it is tied in with the international economy and to ensure that its development strategy is equipped with planning instruments geared to the operation of the market.

F. PLANNING IN THE REGION IN MID-DECADE

40. The three-year period 1982-1984 has been a difficult time for the practice of planning. The external crisis had an impact on the substantive development of the countries and also seriously affected macro-economic management and the administration of the public sector. A preponderant proportion of the plans formulated at the beginning of the decade presented problems of execution, which were reflected in the failure to obtain economic growth, employment and social development objectives and targets.^{20/} The restriction of external and internal resources also resulted in the partial or total paralysation of important public projects, and this situation was aggravated by the slower growth or even decline of private investment.

41. An analysis of this period shows that the crisis resulted in a change in priorities in public management, in that efforts

^{20/} The degree plan of execution was not, however, the only measure of the action taken to planning bodies (see paragraph 46).

were clearly concentrated on the solving of short-term problems and nothing was viewed in the long-term. The importance attached to external negotiation frequently meant that financial variables were given more credence than real figures. Thus, it was customary to prepare series of programmes or "packages" of economic policies which in practice replaced old plans even though some of them remained official in force. However, there were cases in which the opposite occurred and planning was notably strengthened in response to the crisis (see Annex III); in general it is rare to find medium-term plans in implementation along with short-term action to overcome the crisis. In some countries, the response to the crisis took the form of the strengthening of specific areas in short-term programming, with the active participation of the national planning bodies (see functions listed in paragraphs 44 and 45).

42. In making a comprehensive review of recent planning trends, it may be a good idea to consider all the functions carried out by planning bodies and not just the period covered by formal plans.^{21/} In this connection an overview could be prepared on the activities they carry out (paragraphs 44 and 45), a short description made of the main approaches to planning at the present time (paragraph 46 to 48) and finally some indication could be given of the actual power available to these bodies to plan or formulate the functions assigned to them (paragraph 49). Lastly, a few examples, taken from a variety of sources, are used to demonstrate recent progress made by the national planning bodies in the Region, which may be of interest for the immediate exchange of experience (paragraphs 50 and 51).

^{21/} Questions relating specifically to planning theory or of a purely methodological character will be left aside as they transcend the limits proposed for this document.

43. With respect to the functions which were gradually assigned to these bodies, it may be noted that the regional picture has not changed much in the past two years.^{22/} Prior to identifying these functions, four stipulations should be made: first, this is a presentation of functions actually carried out and not a statement of theory; second, actual composition varies markedly from country to country so that it is impossible to prepare a table of functions performed by all the bodies; third, some of the functions indicated are sometimes shared with other public entities and, fourth, bodies which for some reason do not perform at least some of these main functions usually have a weak position within their government.

44. In the light of the latest studies and new data provided by the countries, a list may be prepared of what comprises the most essential functions. Unless a body performs these functions there is little likelihood that it is accomplishing its specific work in the most efficient manner possible, always taking into account the institutional structure which predominates in this Region. The main tasks are as follows:

- a) Defining the development strategy and proposing action for its execution.
- b) Producing, for official use, estimates of macroeconomic or macrofinancial parameters relating to the prospects for the national economy.
- c) Preparing the budget of public investments (working with other bodies in deciding the allocation of resources between sectors and regions) and monitoring its execution.
- d) Directly managing fiscal funds (operating or capital funds) for specific programmes or projects of regional

^{22/} See "El marco funcional de los ministerios y O.N.Ps.". A support document issued for the Fourth Conference of Ministers and Heads of Planning, Buenos Aires, May 1983 (E/CEPAL/ILPES/Conf.4/L.3, Part II, A, p. 10).

scope (international) and participating in the control of prices and rates or in decisions concerning rates of interest and wage levels.

- e) Managing long-term credit systems for pre-investment and development projects.
- f) Regulating the intake of external resources (financing, risk capital and international technical co-operation or official development aid) and deciding on the appropriate counterparts.
- g) In connection with the above, proposing the global science and technology policy and cooperating in its execution, with use of natural resources and training of human resources also taken into account;
- h) Co-operating in the formulation of the employment policy and harmonizing social policies (objectives and instruments).
- i) Preparing the articulation matrix and the corresponding follow-up of the main public accounts (fiscal, monetary and exchange budgets of the central government and aggregate accounts of the decentralized agencies and state enterprises);
- j) Directly advising the Office of the President concerning economic and social development and physical planning.

45. To these more essential functions it is necessary to add other responsibilities which are also important and are carried out on a fairly permanent basis by the various national planning bodies. The following ten functions should be mentioned in this connection:

- k) Co-ordinating the work or functioning as secretariat of inter-ministerial councils.
- l) Operating statistical and national accounts systems and producing and disseminating short-term analyses.
- m) Formulating and evaluating projects or setting standards for project evaluation.
- n) Formulating or supervising public administration reform or improvement programmes.

- o) Training technical staff and professional for the public sector, with emphasis on public policy co-ordination.
- p) Participating in directorships of bodies associated with government, in particular to give them a multisectoral view.
- q) Proposing and developing methodology in its areas of specialty and conducting research applied to planning or to economic and social policy and studies of government concern.
- r) Designing and administering special emergency programmes.
- s) Co-operating on energy programmes of multisectoral scope.
- t) Articulating the government's dialogue with other economic and social agents.

46. Both groups of functions reflect the variety and complexity of the tasks required (not uniformly) of national planning bodies. The degree to which they are actually carried out is measured largely by the results in each of these areas and not only by the degree or quality of execution of official plans.^{23/} Nevertheless, it is of interest to identify the main kinds of situation in which planning activities are conceived and consolidated; this is also done on the basis of observed government practice. Therefore, it does not necessarily reflect planning options open at the level of theory.

47. In this connection, Latin American planning experience makes it possible to draw a distinction between two broad categories of situation at the very least, within each of which some specific subtypes can already be distinguished. In the first place, reference can be made to a concept which has been widely accepted in the Region and is characterized by the preparation of a "book plan"

^{23/} This is also due to the fact that there are cases in which no plan has been adopted formally by the government. See summary of plans in Annex III.

structured on the basis of a normative proposal for the medium term.^{24/} Two types of situation can already be identified within this concept. One involves recourse to a centralized decision-making process characterized by significant social use of the means of production (situation characteristic of Cuba). The other is typical of the mixed economies, in which, on the basis of a normative view of the situation in the medium term and following the familiar diagnosis-strategy-programme-policies-projects pattern, a comprehensive, detailed plan is structured. This plan covers a span of a given number of years, for which a set of instruments of a compulsory nature (designed for the public sector) and other which serve as guidelines (those referring to the private sector) are identified and set forth. This is the approach which has predominated in both theory and practice in most of the Region.

48. A second type of situation corresponds to a more flexible procedure in which instead of formulating a detailed, comprehensive plan as the backbone of all planning activities, an attempt is made to work pragmatically on the basis of a situation-objective established by the government in conjunction with the other social agents in control of the actual decision-making process. On this basis, an attempt is made to establish a general action strategy made up of an ongoing analysis of the socio-political situation. This approach was especially widespread in the 1970s, when it influenced the execution of policies based on diverse doctrines. Another approach, the theory of which was known

^{24/} In Annex III there are some examples which relate to this situation; a number of English-speaking Caribbean countries may be taken to illustrate the following case (see first case in paragraph 48). If the level of planning is reduced (from national to sectoral, regional, planning, etc.), the task of fitting the countries into the situations presented becomes more complicated, if not impossible.

before its recent incorporation into government practice in the Region, is based on the concepts and postulates of "strategical planning",^{25/} which also seeks to omit the book plan as a nucleus of planning activity. In this concept, because of the peculiarities of a market economy, consideration is given primarity to certain political aspects of the decision-making process, through the use of simulation exercises in which the main actors of the real social process are represented; the purpose is to identify the "directionalities" of those phenomena where intervention is planned and to effect tactical changes on a short-term basis.

49. The analysis of the work of the national planning bodies also makes it possible to identify some factors which determine their efficiency. These factors act in respect both of any routine activities they may carry out (paragraphs 44 and 45) and of their final achievements in terms of planning (paragraphs 46 to 48). Twelve factors are identified, although their applicability varies from country to country.

- i) Real position in the administrative structure and in connection with it;
- ii) Degree of closeness to decision-making centre;^{26/}
- iii) Professional excellence, actual experience accumulated and size of technical team;

^{25/} For a short description of this approach entitled "La reforma del sistema venezolano de planificación y sus resultados a 10 meses", see Report of the Seventh Meeting of the ILPES Technical Sub-Committee (document ST-VII/11), distributed to the Fifth Conference together with document LC/IP/R.52 - CT 6/5).

^{26/} In 29 of the 37 members countries, the tasks of the national planning body are carried out in a special planning office (with or without ministerial status); in eight countries these bodies are part of the Ministries of Economy and/or Finance while in nine they are included in Ministries with multiple functions (in four of these cases they are located in the Office of the Prime Minister or Vice-president of the country).

- iv) Quality of internal organization and compatibilization with the table of functions;27/
- v) Capacity to convene meetings of professionals from other Ministries;
- vi) Availability and quality of facilities and material resources;
- vii) Acceptance and status at inter-ministerial level and with the decentralized and public enterprise sector;
- viii) Credibility and prestige with the private sector and key non-governmental organizations;
- ix) Regular access to relevant information, in particular that used for maintaining routine systems for project follow-up and control and for carrying out short-term analyses of multisectoral scope;
- x) Capacity for handling civil and inter-ministerial affairs and matters of strategic importance for national security;
- xi) Length of time served by directors as well as by professional and technical staff;28/
- xii) Adequate capacity for communication, both for articulating the participation of social agents and for positive action in meeting the desired goals of stability and development.

50. Finally, in these last few years, different activities have been carried out by national planning bodies. This reflects the Region's creativity in terms of design and implication of public policies and points to its rich potential for an adequate exchange

27/ This is not only a question of formal aspects of administrative organization but of such organization viewed in the light of the "complexity explosion" in the public sector. (See in this respect, Kliksberg, B., "Universidad Formación de Administradores y Sector Público en América Latina", CLAD/FCE, Mexico, 1983).

28/ In some cases there was a massive turnover in the top planning posts and also a high degree of rotation of professional staff.

of information on these experiences. Without claiming to be exhaustive, we might mention the following advances: integration of economic and political development and articulation of short- and medium-term action (Argentina), theoretical basis and stability of policies (Barbados), looking for principles at work in the planning function (Belice), harmonization of public accounts, including those of the decentralized and state enterprises sector (Brazil), excellence in measuring the impact of the crisis on aspects of economic and social development (Colombia), return to the development of natural resources as a strategic element for development (Costa Rica), approaching targets in the fields of health, education and housing (Cuba), regionalization and inventory of public projects (Chile), evaluation of social policies at public level and articulation with the private entrepreneurial sector (Ecuador, two stages), consideration of demographic and social aspects of internal migration (El Salvador and Guatemala), organization of new pre-investment systems (Haiti) and articulation of short-term policy with mobilization of resources for structural adjustment (Jamaica).

51. Significant progress may be noted in the democratic planning system of Mexico, including the legal reordering of the planning activity, harmonization of the economic rationalization policy with the reactivation policy and new ways of stressing social and political development. Other notable experiences include improved co-ordination of international technical co-operation (Nicaragua), return to a multisectoral approach in the reorientation of development (Paraguay), modernization in the management of public policies (Trinidad and Tobago) and conceptual and methodological rephrasing of the planning activity accompanied by

retraining of the technical team responsible for it (Venezuela). These experiences took place under different political doctrines and met with varying degrees of success; however, their assessment may enrich the design and implementation of activities carried out by national planning bodies in the Region.

G. SOME PROSPECTS FOR THE FUTURE

52. As already noted, the crisis marked the end of a long period of economic growth, Latin America having achieved an average annual increase in its GDP of nearly 6% in the period following the Second World War, during which its industrial potential increased five fold. With various inequalities, these economic advances were reflected in profound social change, including modernization and urban development. Now the outlook in this connection is not very promising, and the social progress achieved so far is in danger of reversing.

53. The impact of the crisis on social development has had many adverse aspects (see Annex II) and it is likely that the next five-year period will be similarly affected. Some estimates make it reasonable to think that only if a stable recovery took place in the second half of the decade, would it be possible for the per capita product in 1990 to equal that obtained in 1980. In general it will be essential, acting on the basis of socially equitable and efficient criteria, to mobilize all available resources towards the realization of carefully planned action in the social sector. This cannot be done without sufficient intersectoral co-ordination of programmes and activities, both in the public sector and in private institutions working in the social field, with the participation of the communities involved. This calls

for an appropriate insertion of social elements in planning activities, an exercise which should be seen first and foremost as a technical and political rationalization effect to enhance the procedures of the public sector and raise their efficiency from the point of view of the society as a whole.

54. This rationalization calls for consistency between the medium-and long-term. As everybody knows, in theory short-term disturbances can be handled with instruments in such a way as to correct imbalances without basically altering the direction of the development process, as laid down in standing policies or in the plan itself. In reality, short-term imbalances may cause development to veer from its course, as has frequently happened in recent years.^{29/} In the years to come it would be advisable for long-term targets (structural reforms, changes in distribution in favour of the neediest groups, independent technological development projects, etc.) to be accorded greater attention during the adjustment process so that they are not cancelled and the progress made on them does not reverse. The State, as a political expression of the nation, may not lose sight of this goals of harmony among important targets which can pull different programmes together, guaranteeing that they work unitedly to correct external and internal imbalances. In other words, it must guarantee consistency between short-term adjustment policies and policies of a more permanent nature. This presents a big

^{29/} What has been observed with regard to the Central American Isthmus is in fact more generally applicable: "the principal task of the planning systems in the Central American Isthmus (harmonizing positions within governments and between governments and other economic agents) has been made tremendously more difficult by the new tensions and hostility typical of a period of widespread recession. In this connection, the crisis has had a "dispersing" effect among one of the activities characteristic of planning systems". "Istmo Centroamericano: crisis económica y planificación del desarrollo", ECLAC/Mexico, Mexico City, January 1985.

challenge for the public sector in the next few years since this problem far out weighs the technical problems associated with the design of reactivation strategies and plans -and there are institutional, administrative and political obstacles standing in the way of its solution..

55. The review of the past few years in respect of planning approaches and public policy management suggest that in future it may be difficult for maximalist positions favouring the use of highly orthodox technical models to prevail, regardless of what their doctrinal base may be. Instead there will be a tendency to apply highly pragmatic schemes designed to solve the severe problems which still remain and drawing on the negative as well as the positive lessons of the past experience. These pragmatic approaches may, in the majority of cases, call upon the market for solutions to problems in areas where it is more efficient, primarily those in which resources are allocated on a short-term basis; and recourse will have to be had carefully planned state action to co-ordinate adjustment policies, create conditions in which economic development can be promoted and develop greater equity in the social distribution of income. However, in the majority of cases, too much intervention may waste the State's managerial capacity and in the long run create more imbalances than those whose solution is sought; in such circumstances, this kind of action can be confined to sectors of high priority.

56. It has been mentioned that the economic, social and political peculiarities of the countries make it difficult or impossible to propose paradigms for the entire Region in terms of future orientation of development. Nevertheless, some more or less

common approaches come to mind which can be followed mainly in dealing with similar vicissitudes which those countries encounter in the international economic context. One of them is that to achieve viable development at a sufficient rate and of adequate quality, it is necessary for the Region to strengthen its bargaining power at world level. In particular, it must increase its real power over the commercial, financial and technological regulatory mechanisms called into play at this level. Unregulated privatization of those mechanisms, as has occurred in recent years, causes difficulties for development (public and private) within each country. This is a problem which faces the modern state, and national planning bodies may well be replaceable in solving it.

57. Two additional lines of action are born of the requirements for resource mobilization for stable development (see Chapter D). This of course involves public policies deliberately designed to make external savings more attractive (export promotion, imports substitution and selective attraction of risk capital) and policies designed to raise domestic savings and improve the allocation of investment. Both these kinds of policy require the performance of certain planning tasks in the provision of efficient and co-ordinated management, especially among instruments operating in the monetary (interest rates), fiscal (taxes, subsidies, transfer and rates), financial (capital market, open market transactions) and prices and wages fields.

58. A fourth line of action concerns measures ensuring effective use of installed capacity (whether public or private) and reducing the under-utilization of production resources and of the labour force in particular. Although the situation in this connection

varies from country to country, there may be a need for instruments as diverse as those used to increase employment and production without increasing the relative use of foreign currency, those for promoting greater intra and intersectoral complementarity for the purpose of expanding the market and generating greater value added; those for moving in the direction of food self-sufficiency both for social reasons and for defence, as well as to reduce the social cost of labour, and those aimed at a more precise orientation of future technological change. In all this, there are areas where there is no substitute for efficient state action and which are therefore open to co-operation from national planning bodies, be it in the design and co-ordination of instruments or in the articulation of other social agents involved (private enterprises, class organizations, etc.).

59. A fifth area of action is related to future social development and is where the broad topics of social participation are projected. The first of these topics is concerted action in mixed economies to increase the acceptance by social actors of income policies, readjustments in wages and salaries, living conditions and company management. There is, however, another relevant and anonymous actor, which grows in a period of crisis -unemployment. This means that the State must protect its rights in the big economic and social negotiations; something similar happens in the case of the disorganized marginal sector or the informal sector of the economy, which are affected by macroeconomic decisions usually adopted without their participation. Secondly, there is the topic of decentralized participation: if social services are to be more equitable, there must, in general, be active participation from regions and communes. The third topic concerns participation in sectoral policy. This relates to the need to get the users to

co-operate actively in the various phases of social policy formulation and implementation. There are countries where concepts such as the school community concept, the health community concept, and self-help housing organization are already a reality. In some of them people are eager to find new ways in which the population can participate in different sectoral policies, within the various institutional frameworks. A large, heterogenous informal sector of the economy which operates parallel to the traditional activities of the public and private sectors is seen to be emerging, and shall not remain outside the purview of social development efforts in the future.

60. A sixth development prospect is envisaged for the years to come within the State itself: In many parts of the Region importance is attached to an intense programming effort from within, to increase the efficiency of the State itself and provide more light as to the priorities of government expenditure and the specific areas of public activity in respect of the rest of the economy. During the last two decades and also in the 1980s, the economic and social importance of decentralized entities and public enterprises increased. Integrated systems of accounts are beginning to operate, whose impact on public finances, from the point of view both of income and of expenditure, is clear to see; but very little progress has been made in appraising their economic and social productivity, and almost none in monitoring their combined impact on the real variables of each national economy. This lack of knowledge does not however keep many adjustment policies from penalizing certain entities indiscriminately; there are known cases where vital segments of the industrial or entrepreneurial wealth which the

Region has successfully accumulated at great social cost in the decentralized sector of the public economy have been mutilated or destroyed in the name of fiscal austerity. Greater internal rationalization of the State as an administrative apparatus and of its decentralized and independent agencies can certainly make an almost inalienable contribution which would be difficult to duplicate.

61. Decisions in this respect go to the very heart of the problem of the size and efficiency of the State (see paragraph 33 and 34). Its historic growth has given it a central role in every society and has given rise to studies, some of them written from an economist's point of view, some with a purely sociological outlook, and some out of a basically political approach, in which it is at times viewed from little more than an administrative perspective.^{30/} However, the role of the State in future development calls for an enlargement of this perspective: in order to formulate and implement development strategies, real social settings must be taken into consideration. These are marked by the presence of numerous actors of all types which vie for attention in the orientation of such strategies. One of the most important of these actors is the State apparatus. The State is in fact both object and subject of the development strategy and, as a consequence the "construction" of the State is one of the main objectives of the strategy itself; it is essential to define the kind of State which is deemed desirable and the extent and depth of its intervention in the economy and the society.

^{30/} The following conclusions are taken from a study being prepared for the CEPAL/Técnica. (ECLAC, A. Gurrieri, op. cit.)

62. In the Region, history shows a wide variety of "hybrid" political formulas (in which elements of State capitalism, democratic Stateism and other doctrines are mixed); thus, proposals relating to the role of the State in the current crisis should be based on a systematic consideration of these hybrid formulas, which are desirable and viable in each concrete national situation. Of course, whatever combination is proposed, there will inevitably always be tension between elements from different formula possibilities. The removal of this tension would constitute the fullest possible expression of the political art of development, which should always be accompanied by a good deal of originality and flexibility. In the last analysis the role assigned to the State and the nature and extent of its economic and social "intervention" will depend on the political formula chosen and on the way in which this is adapted in different national situations. Whatever political formula is regarded as desirable, the social actors should be prepared to perform flexibly and undogmatically in political conditions in which a permanent effort will be required to bring interests into accord and harmonize rational solutions. This is another area in which action by national planning bodies can play a crucial role.

A N N E X E S

ANNEX I

**CENTRALIZATION AND DECENTRALIZATION IN
GOVERNMENT DECISIONS**

a) INTRODUCTION

1. This section summarizes a study of matters associated with the territorial decentralization of the decision-making process in the public sector and its articulation with regional planning (either territorial or intra-national). It is of course difficult to suggest a single solution in regard to decentralization or deconcentration in view of the variety of political-administrative organizational systems in operation in the countries of the Region.

2. Centralist forms of administration in many of the States, whether federal or unitarian, appear to be exposed to a cross-fire of pressures: on the one hand from territorial communities and their demands for territorial political decentralization, and on the other from the State apparatus itself in the search for more efficient and concrete forms of action (administrative decentralization initiatives). These two impulses favouring decentralization are not necessarily inconsistent since they involve two different planes wherein the language used differs in real meaning. Under one and the same term -decentralization- "demand" tends to refer to the political plane while "supply" is more nearly related to the administrative sphere.

3. The solution of this equation, or establishment of a point of equilibrium between decentralization and deconcentration (see paragraph 11 hereunder) in territorial terms -regions, states, provinces, departments, municipal areas, etc.- poses a challenge for politicians and technical specialists. This dilemma must often be faced by National Planning Organisms. Before further examining these concepts two prior considerations should be

referred to. Firstly, that centralization and decentralization are processes involving a political content through their obvious inter-relationship with other basic social issues (economic, cultural, etc.). Secondly, that their causative factors are consequently rooted in the particular political, social and economic history of the Region to which they refer.

4. In spite, therefore, of the undoubted difficulties encountered in the decentralization process, there are clear indications of the importance ascribed to it by many governments, as may be corroborated by reference to ruling development plans or to certain answers to the planning survey prepared by ILPES (see Part One, paragraph 3). It must be acknowledged that decentralization is not demanded or felt to be of equal necessity throughout the Region, but is nevertheless recognized as an important objective in both the larger and smaller countries which in addition cover a wide range of political systems. Brazil, Colombia, Costa Rica, Cuba, Chile, Haiti, Mexico and Venezuela are some examples of countries where decentralization problems have received close consideration.

5. This Annex examines two main aspects: in the first place some considerations are summarized as to how the crisis affects decentralization, followed by an analysis of its linkage with territorial planning. Both chapters are in the nature of partial advance summaries of studies as yet to be completed. The valuable initial information provided in these respects (by the countries that have answered the above-mentioned survey) is not entirely uniform nor does it refer to similar time periods, these being features that make it somewhat difficult to derive from the more recent national experiences conclusions that may be of universal validity throughout the Region. The very reference to "Region"

-as used in other parts of this document- deserves explanation in that the underlying considerations here outlined do not apply to the English-speaking Caribbean countries. Their predominantly insular character and different governmental and administrative traditions are admittedly of interest in the topic of decentralization but an analysis in this connection will only be possible in future stages of this initial study.

6. In this respect the dissemination of this Annex is of a more preliminary nature than other parts of the present document. It is however thought that it will be of assistance in providing an opportunity for inter-governmental discussion on the subject which is in a continuous process of evolution.

b) THE CURRENT CRISIS AND DECENTRALIZATION

7. Information so far available is not conducive to positive conclusions, but there are indications that the process of decentralization is being adversely affected by the present economic crisis. While it is true that the real effects of the crisis occur with differing degrees of intensity in the various economic areas of the countries concerned (unemployment, the closing down of exporting activities, etc.) it is also true that its purely financial consequences -whether or not influenced by public expenditure considerations- are distributed in terms of space in a distinctly varied manner. These consequences are of course associated with the fact that policies designed to alleviate the crisis -drawn up in principle as policies for global application- differ in their effects in the various regions.

8. It appears evident that the lower the concentration of a given regional characteristic the lesser will be the effects of the crisis on such a circumstance. Furthermore, regions within the countries examined often provide little scope for manoeuvre in the sphere of economic policies when faced by an acute recessive situation. The necessary measures to counteract its effects depend on the national government and entail considerable informational and dilatory costs. Identification of the effects of the crisis should therefore help to improve an understanding of the process itself and facilitate the delineation of more effective and efficient policies.

9. The crisis and related adjustment policies have understandably had an adverse effect on the volume of financial resources available for transfer to the regions and have hindered the execution of significant national and/or regional projects. Strangely enough this has not impeded a significant increase in the variety of methods employed in the transfer of resources to the regions (in the case of only four countries, no less than fourteen different ways of carrying out these fiscal transfers -some of an undoubtedly novel character- have for example been identified). Generally speaking, many of these new methods have sought to counteract localized effects of the crisis by means of emergency programmes primarily aimed at alleviating unemployment.

10. Advances in the decentralization process tend in general to call for some degree of deconcentration in government services which, although justified by reasons of efficacy, may nevertheless be obstructed by the crisis. This aspect is also linked with that of participation (see Part Two and Annex II) since failure to deconcentrate tends to dissociate groups and community members

from public decisions and management precisely in these spheres of activity of most immediate interest to them. Seen from another angle associated with the functions of the State, both processes have the virtue of mutually correcting their eventual digressions: the logic of deconcentration implies global objectives in public policies promoted by the Central Government and operates downwards from the summit to the community base; whereas decentralization acts in a contrary direction, from base to summit, specifying public policy objectives and channeling global demands. It is therefore advisable to ensure the consistency of political and administrative decisions. There is however an understandable field of unspecified regulations suited to the introduction of political-administrative measures (for example the role of the representative of central authority, the field of competence of organs of direct election, their relationship with the central government representative, etc.).

11. As remarked at the outset, deconcentration, i.e., the transfer of attributes from central government to local public agents is what governments are frequently prepared to concede. This explains the search for prescriptions and mechanisms that enable the rendering of collective social services (mainly education and health) to be transferred to local government entities and in some instances (partly representing decentralization) to autonomous bodies such as municipal corporations. Deconcentration efforts -a necessary condition of decentralization- have however in some circumstances not been accompanied by effective political decentralization. As is generally known, deconcentration consists of granting powers of decision to a public service operating in a given territorial area. This procedure may prove functionally efficient in the administration of the

services involved and will normally lead to an improvement of relationships between the originating government agency and individual users. This, however, does not mean that those receiving the resulting benefit may learn from taking part in the adoption of decisions and, as such, consequently implies a certain real transfer of authority, whatever the method applied.

12. Among available decentralization measures a considerable number of fields of competence suited to action by local bodies may be identified. These will of course vary according to whether the Central Government exerts corrective or tutelary jurisdiction over officials of lesser political rank. Particularly decisive in this context are matters of financial competence (representing a sensitive aspect of public policy in times of crisis) and possibilities of decentralization in budgetary aspects and the handling of fiscal funds.

13. Decentralization intentions are not always proportionately reflected in practice. Indicative of this is a lack of evaluations enabling economic magnitudes to be assessed and periods of time to be established in which to consolidate the process. Neither is a detailed examination available concerning the true nature of centralist impulses. It is probable that a certain sluggishness in converting intentions into action may be due to the fact that effective territorial decentralization may over a period of time involve high global unemployment costs in the economic system, this being a situation that understandably becomes even more complex in periods of crisis. A more comprehensive view of the potential benefits of decentralization would assuredly contribute to overcoming this drawback -an aspect that presupposes specific tasks of participative planning requiring a certain "learning" process. All such processes may imply initial costs, and from

this point of view instances may be found in the Region where it is necessary to "learn to live under a decentralized regime". Periods of crisis are however admittedly not the most propitious for the acquirement of experience in social training processes of this nature.

c) TERRITORIAL DECENTRALIZATION AND PLANNING

14. Regional development planning is another responsibility shared by diverse social actors, prominent among the latter being the State and regional community agents. Where this shared concern is not accepted it is more difficult to understand or promote decentralization; there is a risk of it becoming more in the nature of an administrative deconcentration move and consequently more limited. It is advisable, therefore, to search for a regional planning model wherein the tasks corresponding to the State and those of a national character for which the Region itself is responsible may be identified in a co-ordinated regional development effort. This development process is affected in the long run by three conditioning factors: in the first place the proportion of national resources to which the Region itself has direct access; secondly, the regional effect of various national or sectoral economic policies -which may or may not favour the process in hand- and, thirdly, the possibility of encouraging a degree of autonomous deciding capacity, depending upon the extent of social organization in the Region concerned.

15. In this approach, regional planning may be seen to comprise three simultaneous functions. Firstly, a task of "allocation", having to do with the criteria and procedures involved in distributing national resources among the regions, including

the delineation of transfer mechanisms. Secondly, a "compensatory" function, associated with analyses and negotiation procedures required to compensate an adverse resulting effect of national or sectoral economic policies. Thirdly, a function of "stimulation" in the creation and encouragement of a complex group of political, bureaucratic and social institutions functionally concerned with the promotion of regional development.

16. The allocation function comes naturally into conflict with strong degrees of centralization. The countries that have made progress in territorial decentralization in the distribution of resources have tended to proceed with caution and have encountered considerable difficulties (as for example in India). In its full expression an entirely decentralized allocation assignment would involve authority to procure regional, national and even international resources for use in carrying out regionally-defined priorities. It would consequently not imply the distribution of a proportion of national resources to each Region but the right to draw freely on the volume of such resources as deemed advisable by each region. It would consequently also call for a complex process of negotiations and agreements between regions and between each region and the National Government.

17. From the point of view of the inter-regional allocation of public resources, the general procedure applied -with some differences between unitary and federally governed countries- is to supplement the granting of certain availabilities and resources by allocation from national regional development funds. This method -with differences of denomination- is applied in several countries and in some instances has progressively acquired constitutional status. This procedure is to some extent subject

to a system of regional priorities, although this may not always be explicit. For technical and operating reasons such regional priorities are established in a centralized manner, although in practice sundry feedback arrangements may be in operation between the regions and the central authority. The applicability of this procedure and its degree of centralization does not refer solely to the sphere of resource allocation. This is one of the reasons for the insufficiency of certain decentralization approaches that rely on a formal planning procedure (limited to its classical phases of diagnosis, selection of objectives and goals, strategies, policies and control).

18. The "compensation" function -see paragraph 15- as distinct from that of "allocation" (paragraphs 16 and 17) involves deconcentration. For technical management purposes it is necessary to identify and quantify the mechanisms of interaction between the nation and its regions from the view point of the differentiated effects of public policies. In principle, the greater the difference between both structures (of the nation and of each region) the greater is the likelihood that any national economic policy instrument may provoke an appreciable regional effect, either positive or negative. The assortment of instruments of public policy in Latin America and the Caribbean is so varied that it is difficult to reach a firm conclusion in this respect.

19. Management of the "compensation" function nevertheless also gives rise to concerns of a political nature. In this context each region should give thought to the negotiation procedures with the central organism (government and dependent agencies) suited to obtaining compensatory measures necessary to counteract the possible negative impact of general or sectoral

policies. Both tasks -the identification and assessment of the problem on the one hand and negotiation of compensatory measures on the other- fall in practice to the lot of regional institutions of the government system itself, namely to the public administration. When such negotiations involve the transfer of responsibilities from a national organism to a local government agency, it is evident that the question of decentralization becomes involved with that of deconcentration. Situations may undoubtedly occur in which the national centres of decision of economic policy themselves consider in advance the regional effects of their measures and also establish in advance the necessary corrections. This precautionary approach has not however yet become incorporated in the routine procedures of most of the governments.

20. The "stimulation" function (see paragraph 15) is a decentralized concern indissolubly associated in practice with community organizations and with the activities of their groups and institutions in the aim of exercising their roles of collective self-confidence and promotion of their own development. In these respects the function in question is concerned with some fundamental processes such as autonomy in the spheres of decision, reinvestment, distribution, participation and environmental conservation.

21. Various preliminary conclusions may be drawn from the considerations outlined above in connection with decentralized regional planning. Firstly, that this sphere of planning involves considerably more than the question of resource allocation and that decentralization has an important role to play in social affairs. Secondly, that sub-national decentralization may only be implemented gradually in Latin America and the Caribbean in both temporal and territorial terms. A veritable social learning process

is involved in bringing into operation a territorially decentralized society. Undue haste in this respect may interfere with the decentralization process itself. Furthermore the very creation of regions is by definition a political act and not only one of administration. Thirdly, that in this context the idea of regional decentralization goes hand in hand with that of social participation in public policy decisions, thereby implying the existence of political readiness to promote a degree of deconcentration on a territorial scale. Fourthly, that priority should be assigned to those regions which, in addition to representing territorial expressions of the community, are functionally consistent with the ruling development style, without however disregarding the promotion of development in other regions. A fifth conclusion is that decentralization policies as a whole cannot overlook the matter of continuity in terms of time, this being an intrinsic requisite of any policy aiming to resolve problems of a structural kind.

22. The most probable Latin American outlook in a post-recessive stage would appear to be characterized by some reformulation of the Government itself (see Part 2). The reinforcement of considerably more plural societies than in the past appears likely and such a situation may involve some higher levels of political and administrative decentralization in development styles. Positive collaboration in this direction may in a number of cases represent an important task in planning activities in an endeavour to attain territorial propagation of the fruits of economic and social development.

ANNEX II

PUBLIC POLICIES AND SOCIAL DEVELOPMENT

a) INTRODUCTION

1. The formulation and co-ordination of social policies -accompanied or not by formal plans- currently face far more acute problems than five years ago. To accumulated problem of a structural character have been added other provoked by the crisis and by associated adjustment policies. As already pointed out, the crisis brought to an end a protracted period of economic growth, Latin America having attained an average annual GDP growth rate of 6% in the Second Post-War period together with a five-fold increase in industrial potential. Allowing for some inequalities, those economic advances brought about profound social changes, including modernization and urbanization. These developments now face discouraging prospects and a risk of regression in social processes.

2. The impacts of the crisis are considered hereunder: firstly, in the form of a general summary (Part b), and secondly by giving particular attention to development in some sectors (Part c). The analysis concludes with reference to some future prospects relating to social policies and certain considerations concerning social enlistment and participation (Part d). Readers are reminded that some aspects of the employment problem have been dealt with in Part One of this document (see Part One, paragraphs 19 to 21) and that the topic of participation in connection with territorial considerations has also been examined (see Annex I).

3. In this, perhaps more than in other parts of the present document, the studies carried out have encountered serious informational difficulties which include: different base years in the time periods applied, incidental inconsistencies in

information emanating from the same source, dissimilar criteria hindering the comprehension of related data in different countries, and as yet reserved or very preliminary information on the most recent aspects of the crisis. Interpretations open to doubt have nevertheless been critically assessed. Despite possibly more precise future revisions, the conclusions here advanced may therefore be regarded as sufficiently factual for the current discussion of public social policies and of related responsibilities that may be incumbent on the National Planning Organisms.

4. It is judged relevant to complete this section by examining social problems from the standpoint of these organisms. They are directly responsible for the co-ordination of social policies and almost all intervene in the allocation of public resources that directly influence the quantity and quality of social services offered. Two other reasons of even more general significance also deserve comment in this context. Firstly, that the various economic policies co-ordinated by the national planning centres, whether drawn up in line with basic economic objectives (of internal stability, equilibrium in the balance-of-payments, income distribution, etc.), or of an instrumental character (fiscal, monetary, currency conversion, prices and wages, etc.) rebound directly or indirectly on the social sectors. Secondly, that global or sectoral social needs (health, education, etc.) are closely related to the overall process of development which, in the final count, is the most significant concern in the work of National Planning Organisms. When discussing or exchanging experiences in this connection having in mind the second half of the present decade it is even more relevant to consider -even if only summarily- the effects of the crisis on the social sectors and specific policies relating to them as well as their impact in the formulation of new social development policies and strategies.

b) GLOBAL ASPECTS OF THE SOCIAL IMPACT OF THE CRISIS 1/

5. The history of the Region over the most recent decade reveals a growing incorporation -although differentiated and irregular- of large sectors of the population in the national economies accompanied by significant changes in the composition of employment involving expansions in industrial and tertiary occupations. The changes observed have been the natural consequence of economic transformations, but have also been caused by the deliberate stimulation of specific social policies. The crisis has thus adversely affected the social spectrum through both currents, namely its effect on economic growth and obstruction of socially-inspired policies, public or otherwise.

6. Rising unemployment and under-employment, contraction in real wages and growing informality have been common expressions of the crisis. Reference has been made to the expansion of open unemployment (amounting to 10.4% in 1984: see PREALC, op.cit.). Due to the crisis a decrease has in some instances been noticed in the number of women and young people seeking work in the formal labour market from which, according to PREALC, it may be deduced that the open unemployment rate itself has been underestimated. In some instances the relative participation of these population strata in lesser paid occupations has been seen to rise. A change

1/ In drawing up the parts of this document dealing with social aspects, close collaboration was received from the Pan-American Health Organization (OPS) whose experts have worked together with those of the Latin American Institute for Economic and Social Planning (ILPES). This co-operation has been especially significant in the case of the public-health sector (see Chapter c, section i).

also appears to have taken place in the type of unemployed person: in the past unemployment mainly affected the secondary work force (women and young people) whereas it now also applies to the primary sector (heads of families). At the same time there is a growing number of jobless among those seeking work for the first time, and the period of unemployment is also longer. Finally, it cannot be overlooked that the social incidence of unemployment in the Region is greater than that arising from similar circumstances in the industrialized countries where unemployment insurance tends to alleviate the consequences of loss of employment.

7. The crisis has additionally brought about an increase in visible under-employment. Real wages have also deteriorated in most of the countries due either to the salary being considered the most accessible adjustment variable in the labour market or to attempts made through this route to recover external competitiveness or to control inflation by lowering wage levels.^{2/} To all this has been added in some cases loss of negotiating capacity on the part of trade unions, due either to the rising rate of unemployment or the application of direct restrictions to trade-union activity. Thus, as a more general consequence, there has been an undoubted expansion in the informal sector, with a greater proportion of low-productivity occupations and increases in invisible under-employment. Consequences of this kind cause an obvious economic effect since through a contraction of income they serve to depress even further the most dependent activities in the internal market.

^{2/} See PREALC, op. cit., note 14.

8. Through its impact in the fields of employment and wages, the crisis has affected social welfare in other ways. It is above all exerting a negative influence in the social, cultural and psychological environment of families and communities. It also raises poverty indicators in absolute as well as relative terms, with clear signs of diffusion throughout the countries, albeit in differentiated form. A significant increase is frequently observed in the number of families below the poverty line with a more severe impact on those homes having a larger number of children or whose chief member is of a lower educational level.

9. The crisis has also adversely encroached on public resources and expenditure devoted to social advancement, although it is difficult to reach conclusions as to which social sectors have been the most affected by this development. It is in any case evident that in national situations where the GDP has dropped, maintenance of the same proportion of social expenditure has involved its effective reduction. There are indications that the first cuts in social expenditure have affected rural areas (UNICEF, 1984) which would appear to be explained by the fact that the groups living in those areas are those possessing lower negotiating power. Tariffs have been introduced in some countries for services formerly rendered free of charge or due to their transfer to private interests, with detrimental effects in both cases on the lower income groups. In other cases there have been indications of a quantitative reduction in the supply of social services combined in many instances with deterioration in the quality of the attention provided.

10. Finally, other social effects of the crisis have been more difficult to perceive or control. One of these has adversely affected the price of the basic food basket and of other mass-consumed goods and services. This effect has been greater where relative prices have been deliberately adjusted in favour of exportable items as has generally been the case when economic adjustment policies have given strong support to exports. Another such effect has been caused by rising inflation which has tended to have a detrimental effect on those depending on fixed incomes deriving from wages, salaries, pensions, retirement payments or investments producing unindexed yields. Thirdly, contractions -sometimes considerable- have been observed in the level of economic activity in some regions, thereby aggravating pre-existing disparities. Fourthly, the crisis had led to a notable restriction in loans to individuals which in the past have fulfilled an important social role in the acquisition of dwellings and durable consumer goods. Lower credit values and higher interest rates have made such loans inaccessible to considerable social groups formerly able to obtain them.

11. A fifth aspect refers to the exchange adjustment policy which has led to restrictions in the allocation of foreign currency for the importation of goods and services. Acquisitions of equipment and inputs needed for various socially significant programmes have thus become more difficult and less viable. This drawback has been particularly apparent in the sphere of health in which imported supplies of medicines and items containing imported components have become scarce and necessary foreign currency has been lacking to replace equipment and import spare parts and consumption and maintenance materials. Other effects may be more precisely seen at the sectoral level, as described hereunder.

c) IMPACT OF THE CRISIS ON SOCIAL SECTORS

i) Health

12. At the beginning of the 1970s the Ministries of Health in the Region (at their Third Special Meeting) recorded that their main concern was the lack of equity in matters of health, as evidenced by the fact that 40% of the population had no access to the corresponding services. The same concern led to the adoption at the end of the decade of an international "Health for All" objective by the governments concerned. During that period the health situation among the people of Latin America and the Caribbean showed notable advances: the mortality rate among children under one year of age fell between 1970 and 1982 from 64 to 45 per mil, and that of children between one and four years of age dropped from 8.2 to 4.2 per mil in the same period while the proportion of the population covered by immunization services rose from 40 to 60 per cent. The regional epidemiological profile became increasingly "transitional", i.e. there was a decline in the relative incidence of various typical under-development pathologies.

13. The national health systems around 1980 were still however very different from those outlined as desirable in the policies and plans of the two preceding decades. With the exception of a few countries (Costa Rica, Cuba, Panama and Nicaragua) the health sector continued operating as an institutional segment displaying co-ordination deficiencies and in several cases the Ministry of Health had less effective power than that prescribed by law. At the same time a degree of institutional fragmentation was causing a duplication of responsibilities with a consequent

decline in the general efficiency of the system. High-cost physical resources (e.g. installed hospital capacity) had remained almost constant in relation to the population over the preceding 20 years. Infrastructural facilities devoted to environmental sanitation -also a high-cost component- exhibited slow and insufficient growth while environmental deterioration and contamination factors increased. Human resources employed rose in the same period (practically doubling the doctor/inhabitant ratio) while the size of nursing staff remained almost unchanged. The unbalanced expansion of resources brought about unplanned changes in the "productive functions", reflecting an unregulated incorporation of technological innovations.

14. In so far as more recent development are concerned, it is still not easy to evaluate properly the impact of the crisis on health services. This is in the first place due to the health situation showing a certain inertia which retards an appreciation of its related effects. Secondly, because what were formerly sensitive pointers (infant mortality, for example, and its relationship with living standards) have since become less reliable. And, finally, because the correlation between certain circumstances in the field of health and its most traditional indices has been altered.

15. It is possible (and in some cases probable) that if the crisis were to continue the improvement that has been taking place in the infant mortality records may be adversely affected. In those areas where recession has been most severe a rising trend in this respect may be noted, and in others the corresponding rates may be expected to decline more slowly. The impact of

the crisis on food consumption will also influence the situation while unemployment and income deterioration will make it difficult for the most affected families to maintain adequate nutritional levels. This aspect is aggravated by the relative rise in prices of products customarily forming part of the daily diet of the lower income groups. While probabilities of access to food supplies in the market diminish, food subsidies, which represented a significant compensatory measure, have in many instances been discontinued. (UNICEF, 1984). Under these conditions the number of pregnant women suffering from varying degrees of malnutrition may be expected to increase. In the most needy sectors of the population, pregnancy and childbirth will tend to take place under more precarious conditions with a consequent possible increase in infant mortality rates. Deficient nourishment of newborn children will also cause a higher mortality and morbidity risk.

16. Another impact of the crisis is to be seen in connection with resources devoted to health services. Available information 3/ shows that health expenditure fell in 1982 (the last year for which details are to hand) in the case of 18 countries while only four reported an inverse situation. While dissimilar circumstances may be found among the dominant group of countries reporting decreases (or some oscillations) in this respect, the declining trend is undeniable. These resource contractions tend to place at risk the expansion of infrastructure and employment in the sector and cause a relative increase in staff costs as a proportion of total expenditure. If this decline in resources continues there can be little doubt that the various imbalances in the health sector will be accentuated.

3/ IMF data on health expenditure as a percentage of total central government disbursements in the ten-year period 1973-1982 for a group of countries of the Region.

17. Austerity encourages the search for more rationalization and greater equity in the co-ordination of resources. The call for co-ordination and efficiency thus assumes the nature of a sectoral urgency but clearly indicates the insufficiency of isolated sectoral activity. As a result of the crisis many medium and long-term objectives have become urgent: community participation and control, with their deconcentration and decentralization requirements; selectivity, understood as a means of encouraging equity by identifying the social groups exposed to greatest risk; and the inclusion of measures tending to amplify social solidarity.

18. With regard to the incorporation of advanced technologies, there is a general feeling in the Region that though this development cannot be interrupted it should not be maintained as an indiscriminate practice, above all because critical inputs for the sector often call for allocations of acutely scarce foreign currency. It is also felt that the crisis makes it even more essential to rationalize the allocation of resources in the health sector and avoid the decentralization of responsibilities without the corresponding necessary resources or co-financing arrangements unless the related decisions are also shared. There is moreover growing awareness that all practices should be abolished which tend to modify the indices without an equivalent alteration in the health service.

ii) Education

19. The crisis has affected education and educational services in various ways, its main impact being a reduction of budget resources formerly allocated to the sector. A deduction based

on the source already mentioned (see IMF, paragraph 16) is that educational budgets have been reduced in fifteen countries, with sizeable cuts in some cases and less extreme in others. Fund allocations have been raised in only five instances.

20. Education levels in the Region rose in the 1970s in spite of notable imbalances and the persistence of acute difficulties, mainly in the field of illiteracy. Twentyfive countries reported illiteracy rates of between 20 and 55% (and in one case close on 80%). Although a general intention to achieve some progress in this respect was apparent, the necessary mechanisms were not always put into practice. It is possible that as a result of the crisis many activities aimed at erradicating illiteracy have been discontinued or slowed down. As detected by UNICEF in some of the countries, the first programmes to be suspended have been those being carried out in rural areas, i.e., the main centres of persistent illiteracy.

21. Student retention rates had risen in recent decades, as had the percentages of population enrolled. Although information is not available that might enable positive conclusions to be reached as to the effects of the crisis, they appear to have coincided with the beginning of a period of stabilization or even of decline in both rates. Faced by diminishing incomes a greater number of families has tended to direct their children to the secondary labour market or -in more severe situations- to systematic mendicancy. There are signs that these problems have become more acute, especially in large urban and city areas. Information available with regard to primary and secondary education points to the need for special efforts to be made to recover past rising coverage trends.

22. Budget reductions at the secondary and higher education levels have also brought about social tensions and pressures in the labour market. These effects are noticeable at the present time when unemployment has risen and is likely to continue at a high level for the next few years. University education poses special problems: the volume of the student body continues to grow and it is not possible to visualize the occupational future of graduates. Resources for this sector have also been declining as a consequence of short-term considerations at a time when the development of the Region makes it necessary to devise strategic solutions in the field of higher education. There is a general consensus that it is necessary to begin to develop the talents that will be required by the Region in the near future so that ready advantage may be taken of the introduction of important technological innovations that will enable the progressive recovery of a better position in terms of world-wide development.

23. Deserving special mention in so far as government management of the education sector is concerned is the fact that several countries have in recent years encouraged private sector participation in these services. Although a more conclusive evaluation of these experiences is lacking, the crisis has also been instrumental in this connection. Many families that in the past have been able to finance their children's education in private establishments have found themselves compelled, due to diminishing earnings, to enrol them in the public educational services. These transfers exert even greater pressure on those services by increasing the student body at a time when budget restrictions make it impossible to expand teaching staff and infrastructural facilities. The greater demand and unchanging or lower supply thus cause increases in the number of students in each class with

deterioration in the quality of education imparted. There are signs that the quality of instruction given is also hampered by budgetary restrictions affecting the replacement of equipment and teaching aids. Finally, a problem of teacher retention has also arisen in public educational institutions due to wage deterioration.

iii) Other sectors

24. Progress in the sphere of housing has been somewhat slow even in the more active periods of development in the Region. Many of the governments concerned nevertheless carried out low-income housing programmes in the 1970s by contracting foreign loans and subsidizing from public resources the instalments payable by beneficiaries. The crisis has led to a situation where these solutions are now considerably less feasible because of difficulty in obtaining international credits and of increases in the interest rates applied. Various subsidies formerly granted in connection with mortgage loans have also been suppressed in a generalized manner as an additional result of higher administration and financing costs. Increasing mortgage loans indexed in accordance with rates of inflation under conditions of lower nominal wage adjustments have made it far more difficult for housing-loan users to meet their commitments, especially those in the lower income brackets.

25. Some countries have endeavoured to deal with the housing problem by other means such as, for instance, the provision of building plots equipped with essential services or the establishment of low-cost housing arrangements not requiring an initial minimum savings accumulation, apart from other instrumental methods applied for the purpose. As a general comment, despite notable successes in some countries, the Region as a whole has made little progress in the present decade in regard to the supply of low-cost housing.

26. In the field of social security several very different systems are in force in the Region, the heterogeneity of which refers to such varied features as: time elapsed since introduction, percentage of population covered, regular contribution in relation to amount of wage, evasion of payment of dues, associated fiscal contributions, relative weight of pension costs and differentiated enrolment/disbursement conditions. Owing to their complexity it is difficult to forecast the impact of the crisis in each of these respects. The more developed systems had already been experiencing considerable financing difficulties in the 1970s together with declining coverage trends.

27. Generally speaking, the crisis has considerably affected social security due to the deteriorating employment situation in the formal sector of the economy, and above all to the contraction of contributions (from employers and workers) as a result of growing unemployment. In many instances the systems have become primarily dependent on government contributions, thereby causing additional pressure on fiscal resources. Should this situation continue the systems may find themselves in an increasingly critical situation in the near future. A further aspect is that the expansion of the informal sector has increased the number of workers and families with no social security protection who are therefore, in many countries, also devoid of health entitlements. It has been noted in some cases that, under the pressure of austerity, use has incidentally been made of social security funds to cover expenses or applications extraneous to the sector, thereby aggravating the situation in the respective services.

28. Considerable economic growth in the Region has been evident in the most recent decades combined with significant and positive social changes. In so far as the social sectors are concerned, many deficiencies have nevertheless remained unsolved. The crisis has accentuated former problems but may yet be converted into an opportunity to introduce positive modifications in the development process.

d) SOME SOCIAL POLICY PROSPECTS

29. The fact that aims prevailing in the past have not succeeded in extending the benefits of development to a larger proportion of the population -with a consequent survival of pockets of poverty and inequity in income distribution- has led some countries to concentrate their social development efforts on attending to the poorer sectors. Two approaches are observed in this respect (namely those of "critical poverty" and "basic needs") which incorporate some common characteristics. Although these are well known it is thought advisable to recall them: both endeavour in the first place to identify a target population or focal group composed of person who -based on an earnings criterion- are regarded as needy and therefore deserving of preferential attention on the part of the State; secondly, the basic needs of the selected group are assessed, especially in respect of food and nutrition, health, education, housing and related services, and; thirdly, means are selected to promote the satisfaction of those needs.

30. It is possible to distinguish in the Region three channels through which endeavours have been made to provide this assistance -sometimes combining one with another; firstly, by supplying goods and services; secondly, by placing emphasis on income improvement;

and lastly, by reliance on the development of new and better-paid employment opportunities. Each of these options has undeniably been subject to some limitations and at the same time to varying degrees of success.

31. An examination of the extent of the transformations attained throws light on programmes with effects of a redistributive nature based on a considerable variety of instrumental experiences, prominent among these being: land reform, redistribution of increments in social assets (via a greater number of joint owners), assurance of a minimum family income, special employment programmes, selective grants, and marginal corrections in poverty-inducing factors. "Positive discrimination" rather than a "universalist" criterion has in some cases been incorporated as an essential principle of compensatory social policy. It is contended that the latter system has led on occasions to regressive social expenditure since, in a situation where the resources for social advancement are more difficult to come by, "positive discrimination" may prove to be a more appropriate way of employing available resources. It has, however, also been argued with good reason that "spurious" positive discrimination might lead to programmes of a paternalistic nature.

32. An examination of the social situation in the present decade points to the likelihood in the near future of a considerable expansion in the co-ordinating functions of the State. A fundamental circumstance throughout almost the entire Region is the search for appropriate mechanisms to overcome situations of confrontation between different groups aspiring to obtain social assets that are already scarce and are likely to continue so throughout the present decade. A proliferation of confrontations

and tensions will very probably occur if such channels of support for the settling of controversies and the attainment of social concord remain unavailable.

33. The setting in motion of social accord is nevertheless frequently hampered by its strong political content. Matters subject to negotiation admittedly include almost the same problems as those on the current political agenda: constitutional understandings, property rights, remuneration systems, redistribution of individual and regional income and unemployment-relief policies. In broad terms it depends on decisions as to who is to bear the social costs of the crisis as well as of adjustment policies and recovery itself.

34. An important role awaits a new planning system aimed at attaining this consensual public function. It will probably be necessary to establish technical bases and procedures to facilitate dialogue between different social actors. This is not easy to achieve. Theoretically, because the disciplines that should contribute to its attainment lack comprehensive appreciation of interactions between those actors, and in technical terms because effective consensual experiences have not been submitted to systematic analysis or evaluation. It therefore often occurs that a real intention to carry forward such advances is unaccompanied by a clear ideas as to "how" to do so. Lastly, in the political and administrative sphere, because the planning organisms themselves may lack means of intervention (see paragraphs 44 and 45) or sufficient instruments of effective authority (see paragraph 49).

35. Decisions in regard to the relative urgency of social needs (education, health, housing, nutrition, etc.) and the assignment of priorities at a time when resources are insufficient to satisfy them are now even more significant than in the past. Lack of knowledge concerning inter-sectoral relationships appears to have been one of the causes of the segmented and insufficiently co-ordinated growth of social programmes. The synthetic conception of social interests has developed at the theoretical level within the free-market communities but has not always in practice been reflected in public policies in the Region, this being another generalized reason for insufficient co-ordination in social matters.

36. This need for co-ordination in social policies inevitably leads to problems requiring solution by the competent authorities and articulation by institutions involved in the social sphere. These bodies are generally the least visible but those of greatest influence in the operating capacity of such policies and which at the same time condition the adoption of appropriate priorities for implementation by the different functions concerned. Sectoral fragmentation accentuates horizontal-priority trends in which, "all being important", priorities that are no longer applicable are nevertheless maintained as valid. Problems of this kind are more prevalent in times of crisis when each and every priority should be individually re-examined.

37. The crisis also contributes to highlight the need for a more appropriate and efficacious use of up-to-date means of communication to facilitate the dissemination of educational and health techniques compatible in cost with the current period of austerity. In this respect there is no need to limit the use of mass communication to elementary education or primary health matters; it may also be employed for professional re-cycling

purposes, cultural advancement, the education of dispersed rural communities and in general to promote expectations of a functional nature both for the period of adjustment and for that of recovery. Furthermore, in order to promote the concept of inter-dependence among social actors operating within each country, the better this concept is understood, the easier will it be to reach consensus. The latter should not only be a means of clearing up disagreements but should also in itself constitute an objective for the promotion of social harmony.

38. The bases on which the predominant concept of the Welfare State in Latin America and the Caribbean are founded have probably been disturbed. It is a concept that has hitherto been inspired by the idea of progress and belief in a continuing and inevitable process of modernization. In cases where real progress has not yet been significant no doubt has nevertheless been felt that the aim would come about sooner or later and that the role of social policy was simply that of endeavouring to accelerate the process. The crisis has now cast doubt on this widespread optimism concerning future social development.

39. Financial resources -always a fundamental limitation in social policies- have become further reduced at a time when expectations have grown. The feeling of association aroused by the social communication media in connection with the welfare situation in the more developed countries is acknowledged as having encouraged those expectations. The Region as a whole thus remains in a state of intermediate or "transitional" development, making it necessary to face not only the problems deriving from its relative backwardness but also some deriving from more recent circumstances. What is needed is an efficient state organization capable of coping with the new situations caused by the crisis due either to lack of resources or to prevailing social demands.

40. One of these demands refers to the role attributed to the informal sector of the economy. It has hitherto been expected that this would little by little be absorbed by the formal sector. The crisis has however made it clear that it will remain largely unaffected over the next five years. The Latin American governments have consequently become increasingly inclined to devote closer attention to the informal urban sector. This in some cases implies the adoption of minimum employment programmes which draw their participants from the latter sector. Another possibility may be to assist with minimal but sufficient resource to enable the informal sector itself to construct basic social facilities for its own use (irrigation canals, drainage facilities, low-cost housing, environmental improvement, etc.). It is therefore necessary, in this aspect as well, to carry out a considerable effort of adaptation of social programmes to realities which, although already extant are now accepted as being of more protracted duration.

41. The new concept of social policies should be sufficiently flexible to encourage community participation in satisfying its own needs while relying on a legitimate authority to channel scarce resources to the benefit of the more under-privileged strata. All this without restricting the development of initiatives which in most of the Region are carried out by private interests. One of the most important current tasks of the National Planning Organisms in the social sphere is to assist in the delineation of the options in question as well as in their articulation in a search for improved development and a greater degree of consensus.

