

Regional Seminar on Growth, Employment
and Equity: The Impact of Economic Reforms
in Latin America and the Caribbean
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**REPORT OF THE
REGIONAL SEMINAR ON GROWTH, EMPLOYMENT AND EQUITY:
THE IMPACT OF ECONOMIC REFORMS IN LATIN AMERICA
AND THE CARIBBEAN**

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REGIONAL SEMINAR ON GROWTH, EMPLOYMENT AND EQUITY:
THE IMPACT OF ECONOMIC REFORMS IN LATIN AMERICA
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The seminar was held on 27 October 2000 at the Crowne Plaza Hotel in Port of Spain, Trinidad and Tobago. It was convened by the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) and represented a joint effort by its Headquarters in Santiago, Chile, and its Subregional Headquarters in Port of Spain, Trinidad and Tobago.

Attendance

The seminar was attended by representatives of the following member countries of the Caribbean Development and Cooperation Committee (CDCC): Bahamas, Barbados, British Virgin Islands, Grenada, Guyana, Jamaica, Montserrat, Netherlands Antilles, Puerto Rico, St. Kitts/Nevis and Trinidad and Tobago. The following persons were invited to participate as discussants at the seminar: Prof. C.Y. Thomas, Dr. Penelope Forde, Mr. Harold Codrington and Dr. Ralph Henry. A list of the participants is annexed to this report.

Welcome and opening

Mr. Lancelot Busby, Economic Affairs Officer at the ECLAC Subregional Headquarters for the Caribbean, welcomed participants to the seminar on behalf of the Director, Dr. Len Ishmael. He stated that the objective of the seminar was to examine the findings of a project carried out by ECLAC on the impact of the economic reforms undertaken by the Caribbean and Latin American countries over the last 10 to 15 years. The impact would be discussed in terms of its effect on economic growth, productivity, employment and equity.

In attempting to set the stage for discussions, Mr. Busby recalled a seminar convened by the ECLAC Subregional Headquarters for the Caribbean in November 1997, at which a number of issues regarding reform in the Caribbean were addressed, namely, the context of reform, the challenge posed by changes in the global and regional trading framework, the role of the State and elements in the policy framework for advancing the reform process. He made the important point that development was a function not only of economic policy but also of historical, cultural, environmental and other variables. The first generation of reforms attempted to “get the prices right” without factoring in the economic and social displacement that resulted. Nevertheless, fundamental economic reforms were a necessary condition of development. These must however, be accompanied by reforms in other critical areas such as education and governance. A significant lesson from the 1997 seminar was that the reform process was a complex one.

And hence a “broad brush” approach would not solve the problems of all Caribbean countries. Instead, each national situation would have to be assessed separately and separate and relevant solutions should be designed. Mr. Busby hoped that the seminar would present a more in-depth analysis of the reforms and their effect on the countries included in the ECLAC research and wished the participants success in their deliberations.

**SESSION I:
THE ECONOMIC REFORM PROCESS IN
LATIN AMERICA AND THE CARIBBEAN**

Ms. Barbara Stallings, Director of the Economic Development Division at ECLAC, Santiago, presented an overview of the project on which the seminar was based. She referred to the book entitled “Growth, employment and equity: The impact of economic reforms in Latin America and the Caribbean” as the synthesis of a multi-year project to investigate the impact of the economic reforms in Latin America and the Caribbean. The project was undertaken by ECLAC in collaboration with local researchers in the following nine countries covered by the study: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Jamaica, Mexico and Peru.

She prefaced her discussion of the findings of the project with the caveat that countries were chosen not necessarily as representative of the region but rather as representative of the reform process. Despite the fact that the Caribbean was included in the title of the book, only one Caribbean country was studied and that was Jamaica. However, because of severe difficulties with data that country was not included in all areas of analysis. In addition, the authors in no way thought that Jamaica was representative of Caribbean countries, generally, only of a country undergoing the process of reform.

After briefly indicating the methodology adopted by the project, Ms. Stallings informed participants that the primary goal of the seminar was to ascertain the extent to which the process was relevant to Caribbean countries and how the results presented in the publication might or might not be relevant to the Caribbean experience. This would determine whether there was any basis for formulating a joint-venture project aimed specifically at assessing the impact of economic reforms on Caribbean countries.

Ms. Stallings stated that ECLAC’s approach to the project was based on the fact that in the past 10 to 15 years, the Latin American and Caribbean region had undergone the most significant transformation of economic policy since World War II. Through a series of structural reforms, an increasing number of countries had moved from the closed, State-dominated economies that characterized the import-substitution industrialization model of development to economies that were more market oriented and more open to the rest of the world. Complementary aspects of the process had accorded a new priority to macroeconomic stability, especially lower rates of inflation, and to increasing expenditure in the social area. Policy makers expected that those changes

would speed up economic growth and increase productivity gains and, at the same time, lead to the creation of more jobs and greater equity.

Econometric evidence from the study indicated that the reforms have had a small positive effect on investment and growth and a small negative effect on employment and income distribution. However, evidence of strong effects from the reforms was found by analysis at the country, sectoral, and microeconomic levels. The reforms fostered investment and modernization, but at the same time they led to significant differences in performance: high- and low-growth countries, dynamic and lagging sectors, a gap between large and small firms and a shift in favour of transnational corporations over domestic firms. The result was specialization and polarization, with the implied opportunities and challenges.

The research team found four significant problems with previous studies: the failure to disaggregate variables to facilitate an evaluation of whether economic actors had responded in the expected way; the failure to give sufficient weight to the links between the national and international economies; the failure to consider that the package of reforms and policies might be internally inconsistent; and the scant attention paid to the articulation of the dynamics of employment and income distribution with the rest of the model. The main characteristic that distinguished the ECLAC study from other comparative studies of economic reforms was the focus on the interaction between the macroeconomic and microeconomic processes. To make significant advances at this time, the researchers believed that it was crucial to focus less exclusively on the aggregate, macroeconomic level and more on individual countries and the microeconomic behaviour of firms, grouped by sector, size and ownership.

In a nutshell, the team's understanding of these reforms was that they were a positive set of interconnected experiences, and that there was a need for Latin American and Caribbean countries to move from import-substitution towards areas of comparative advantage. As a result of the latter, productivity and efficiency would increase, thus leading to higher productivity, growth and employment; and, in particular, more employment for non-skilled workers, thus improving income distribution.

The study was based on the need to look at the comparative advantage of the countries. It was assumed that this was in unskilled labour with the expectation that employment would be created if centred on jobs in unskilled areas. This would then have a positive impact on income distribution. The project essentially looked at the extent to which these expectations had been fulfilled.

The consensus on the impact of the reforms lay in the following:

- Modest GDP growth in the 1990s (this was thought to be the best proxy for the reform period). Across the Latin America and Caribbean region growth rate was approximately 3.5 per cent. This was seen to be less than in other regions.

- The employment situation – slow employment creation and problems of job quality. Jobs were low paid with low productivity and were concentrated in the informal sector due partly to out-sourcing by modern firms.
- The inequality in the countries has not improved and, in fact, may have worsened.

Six propositions were offered to explain why performance has not been better:

(a) The initial conditions in the various countries were quite diverse and affected the extent to which reforms were adopted.

(b) Governments frequently introduced reforms that were inconsistent with their macroeconomic and social policies.

(c) The reforms were slow to produce an impact at the microeconomic level because of the great uncertainty they generated, especially if they were combined with macroeconomic instability.

(d) The heterogeneous response of actors was a significant factor in the less-than-hoped-for performance, to date, in most countries in the region, as well as in the differential performance across countries.

(e) The positive effects of reforms were frequently undermined by contradictory trends in the international economy.

(f) The reforms were incomplete in that they lacked the proper institutional support necessary to make them work adequately.

SESSION II: IMPACT OF THE REFORMS ON INVESTMENT AND TECHNICAL CHANGE

This session focused on the impact of the reforms on investment and technical change. Mr. Dennis Pantin, Coordinator of the University of the West Indies – Sustainable Economic Development Unit (UWI-SEDU) chaired the session, while Mr. Wilson Peres, ECLAC, Santiago, made the presentation on the topic. Prof. C.Y. Thomas, University of Guyana and Dr. Penelope Forde, Central Bank of Trinidad and Tobago were the discussants.

Presentation by Mr. Wilson Peres

Mr. Peres commenced his presentation by informing that within the overall reform process, it was possible to identify a set of countries that were “aggressive” reformers versus others who were more “cautious”, on the basis of the speed and scope of the reforms. The aggressive reformers undertook many reforms in a relatively short period of time, while the latter group (cautious reformers) implemented reforms more gradually. Of the nine countries that were studied Argentina, Bolivia, Chile and Peru were identified as aggressive reformers whereas Brazil Colombia, Costa Rica and Mexico were labeled cautious reformers.

The meeting was informed that the differences were closely correlated with initial conditions in the period preceding the reforms. Four elements, in particular, influenced policy choice: prior growth performance, inflation, degree of economic distortion (which was measured by the reform index), and the level of governability. In the case of the aggressive reformers, the initial conditions before the reforms were unstable macroeconomic situation, poor governability, low growth and distorted economies. The cautious reformers were less unstable, had much better growth rates, less distorted economies and medium to high reform index. The cautious reformers thought that their economies were basically sound and had much worth preserving, whereas the traumatic experiences of the aggressive reformers created an environment in which governments and other important actors were willing to experiment with drastic changes in economic policy.

In assessing the impact of the reforms on investment, Mr. Peres stated that according to both econometric and qualitative evidence, the two reforms that were most important for determining investment patterns were import liberalization and privatization. Both appeared to have had a positive impact following the initial transitory phase. Import liberalization lowered costs for imported inputs and capital goods and increased competitive pressures, whereas privatization brought new actors, especially transnational corporations to the region.

The seminar was informed that econometric evidence indicated that, as was the case with investment, the reforms had a positive impact on growth. In particular, import liberalization, privatization, and capital account opening were positively and significantly correlated with higher growth rates. With respect to individual country performance, the four countries that were identified as aggressive reformers grew most rapidly in the 1990s; the cautious reformers grew more slowly. On the surface, Mr. Peres stated that this relation appeared to provide evidence that more reforms led to higher growth, but the situation was far more complicated. The reforms worked together with macroeconomic and international trends. The elimination of hyperinflation, in particular, had a very positive impact on growth. In addition, the aggressive reformers chose to undertake many reforms in a short period because they were in such dire straits with respect to hyperinflation and negative growth for years. Their economies were also much more distorted than others, and this was often accompanied by problems of governability. It was therefore not surprising that the change in policy orientation led to new investment

and an acceleration of growth rates, after a period in which economic actors waited to see if the new policies would be continued.

Initially, this expansion was only recovery from the previous recession, but it eventually became growth *per se*. One of the mechanisms bringing about the increase in growth had to do with potential investments (and therefore productivity increases) that were not undertaken in countries with poor initial conditions. Once the changes were carried out, and assuming the other factors were also favourable, the potential for high growth rates was present for some period of time.

The group of countries that had been doing reasonably well in the pre-reform period had less reason to undertake major structural change in their economies. Although they did implement gradual and selective reforms, they got a smaller boost from them because of the lack of a reservoir of unexploited opportunities. These countries also encountered serious macroeconomic problems that had a negative effect on growth rates. Mexico and Brazil already had high inflation rates at the beginning of the reform period. The type of stabilization policies they followed, which relied on an overvalued exchange rate, eventually resulted in foreign exchange crises. Colombia, Costa Rica, and Jamaica also began to suffer macroeconomic disequilibria in the 1990s.

At the microeconomic and sectoral levels, the reforms were aimed at changing the microeconomic behaviour and performance of firms and sectors. Resource allocation was expected to shift in favour of exportables, labour-intensive sectors and small firms. Tradables lost output in all countries. There were two patterns of export growth: (1) labour-intensive maquilas (North of Panama) and natural-resource intensive commodities produced by large, capital-intensive firms. The main feature resulting from manufacturing investment in capital-intensive sectors was a transfer of ownership from domestic firms to subsidiaries of Transnational Corporations. Although the large firms achieved technical progress, productivity did not increase enough to close the gap with the United States.

Mr. Peres concluded that the remaining problems were the inability to link fast-growing sectors to the rest of the economy and the destruction of production chains that led to polarization and heterogeneity at the sectoral level.

Discussants

Prof. C. Y. Thomas

Prof. Thomas commented that the study was an innovative one as it attempted to look at macro and micro issues simultaneously in assessing economic reforms. He examined the project in the context of linking the study with the Caribbean experience and pointed to the importance of examining macro, micro and meso effects of the reforms. He warned from the outset, that it would be difficult to conduct a similar study in the rest of the Caribbean because of the lack of data.

He stated that with respect to determining whether the study was relevant to the Caribbean subregion, as outlined as a goal of this seminar, the subregion also shared the heterogeneity of the countries identified in the study and therefore there were similarities in the subregion ranging from the following:

- Tendency for informal and jobless growth;
- Decline in the agricultural and manufacturing sectors;
- Investment and technical progress concentrated on few firms;
- Slow development of backward and forward linkages;
- Continuing decimation of domestic supply through imports;
- Overvalued exchange rate; incipient growth of transnational corporations;
- Lost decade in some countries, such as Jamaica and Guyana;
- Similar evidence of *maquila* industry; and
- The role of privatization.

However, differences were also identified between the subregions. Whereas the emphasis in Latin America could be placed on the macro and micro effects, Prof. Thomas suggested that a study in the Caribbean would have to look at the meso effects since small firms dominated in this subregion. With respect to macroeconomic issues the following were identified as important for the Caribbean subregion: overvalued exchange rate; interest rates; wage rates; financial liberalization; overseas development assistance; privatization; inflation; and governance issues. These issues would rival those identified in the project as important. He also added that the subregion had a comparative advantage in services.

Prof. Thomas identified the following shortcomings of the study:

- Weak examination of the role of regional integration; the region is treated as an exogenous factor
- Cooperation at the regional level not treated as a variable;
- Public management should be treated as an independent factor;
- Political, social and cultural factors are missing;
- Intraregional capital flows are not mentioned in the study; this is significant in the Caribbean subregion; and
- Capital account opening should be further examined especially in terms of reverse flow.

Dr. Penelope Forde

Dr. Forde commenced by stating that the study was timely because the Caribbean subregion needed to look at the second and third generation of reforms. She focused on three broad areas:

- (a) Methodological and data issues;
- (b) The findings on Jamaica; and
- (c) Choice of country for the study.

Commenting on the categorization of Jamaica as a cautious reformer, she felt that Jamaica should have been categorized as an aggressive reformer since at the time of inception of the reform the changes made were aggressive. Between 1973 and 1974 to the mid-1980s Jamaica was marked by macroeconomic instability. The reason that Jamaica emerged as a low-growth country was due to the fact that the economy was never stabilized.

The reform index was then addressed. The index used in the study was adjusted to the Inter-American Development Bank (IDB) index. However, the problem was with how the index was weighted - equally for the various reforms. Perhaps different results would have been observed if the reforms had been weighted differently according to their importance for the countries.

Dr. Forde said that while Trinidad and Tobago was not an early reformer in comparison with the Latin American countries - it started its reform process in 1989 - the growth rates of Trinidad and Tobago should have been higher in the post-reform period.

She emphasized the importance of the pace, timing and sequencing of reforms. Trinidad and Tobago followed the classical path of sequencing whereas Jamaica did not. Dr. Forde felt that the results of the reform were interesting for comparison, capital formation data, and Foreign Direct Investment (FDI) flows.

Discussion

In the ensuing discussion, participants raised a number of salient issues. The first issue addressed the micro-sectoral level of analysis. The seminar was informed that information on the size of firms was extremely poor although the main determinant of performance of firms was based on the size and sector in which they were located. Also it was found that most of the policies aimed at promoting small firms were either not implemented or weak where implemented as well as biased towards international firms.

Participants questioned the omission of the issue of economic integration from the publication stating that this was a key phenomenon in the region especially with the resurgence of regionalism. In response, they were informed that the study did not aim at

looking at the impact on integration. However, the issue was noted as one that could be considered if a secondary study were to be carried out. The seminar also identified other missing issues, such as: political, social and cultural topics. The authors specifically excluded those topics since the focus was on economic reforms and if too many goals were adopted then they would not achieve any to the fullest potential.

The authors noted the points raised by the discussants in relation to the issue of weighted versus unweighted performance index and the sequencing of reforms. They promised to investigate how these might enhance the analysis of the reforms.

The seminar considered the reasons for the loss of shares in output of tradables. They were informed that this had a lot to do with the main specialization of the countries. It is interesting to note there was no decrease in tradables in countries where there was integration in the world market through assembly of products. Also where there was a fall in tradables analysts suggest that there was a complementary increase in services.

The issue of the productivity gap between the United States and Latin America was addressed where participants queried the use of the United States as a comparator of productivity for Latin America, rather than other developing countries which might have provided better indicators of productivity growth. The authors informed participants that the United States was used since it was seen as a benchmark of competitiveness - one's ability to penetrate the United States market.

Participants suggested that the analysis would have been strengthened with the inclusion of non-reforming countries. The author's response was that in the planning process alternative methods were considered. The first was the method adopted to look at reforming countries and the second to include non-reforming countries. However, problems of including non-reforming countries were encountered and it was felt that the results would vary depending on which countries were included. The main goal was to measure the impact of reforms, not the impact based on various variables.

SESSION III: IMPACT OF THE REFORMS ON EMPLOYMENT AND INCOME DISTRIBUTION

Mr. Ainsley Charles, Department of Economics, UWI, chaired the session, while Ms. Barbara Stallings, ECLAC, Santiago, made the presentation on behalf of two colleagues who had actually conducted the research. The discussants for this session were Mr. Harold Codrington of the Central Bank in Barbados and Dr. Ralph Henry of KAIRI Consultants, Trinidad and Tobago.

Presentation by Ms. Barbara Stallings

The study attempted to comprehend why, during the period of reforms within Latin America, there were detectable trends of increasing unemployment and social inequality, in spite of positive economic growth. Household survey data provided one of the primary sources of information. The following paradoxical features were observed from the data:

- Employment growth in the 1990s was less than that in the 1970s but about equal to that between 1950 – 1960.
- Income elasticity was about the same as that between 1950 and 1970.
- GDP growth was lower in the 1990s and this, according to Ms. Stallings, stood out as the real problem in the analysis.
- There was a significant increase in the labour force participation rate, primarily due to increased labour force activity among women but also due to the re-emergence of 'the discouraged' from the period of the 1980s.
- Unemployment and informality rose.
- Average real wages remained constant or increased in the 1990s.
- There was a widening of the wage differential measured as the gap between white-collar and blue-collar workers or as measured by gap between tertiary-educated and primary-educated workers.

In considering the general trends of reform and employment, it was noted that aggressive reformers did not perform better than cautious reformers in generating employment. Good performers consisted of a mix of aggressive and cautious reformers. The best performers were Chile, Costa Rica, Mexico and Peru. It was clear, according to Ms. Stallings, that in addition to overall growth rates, other factors had to be taken into account in understanding trends related to reform and employment.

In looking at sectoral employment, it was noted that micro and small firms accounted for most of the employment creation within countries. Employment in large firms did not grow much, with the exception of the “maquilas” or assembly plants. The services sector was responsible for creating the majority of jobs. Some 70 per cent of new jobs in this sector were to be found in the areas of commerce, restaurants, personal services and social and communal services. Employment growth in this sector also included jobs as teachers as well as jobs in the health services. These jobs were, however, considered to be jobs of low productivity.

With regard to income distribution patterns, Latin America showed the highest inequality of income distribution in the world. The reasons suggested for this inequality were:

- **Asset inequality.** Land has historically not been available or owned by large sections of the population. In addition, although resources were put into the education system at the primary and tertiary levels, only those in the higher income brackets could afford to avail themselves of the opportunities offered by tertiary institutions.
- **Large skill differential.** Because of this, few were afforded the opportunity for high skilled, high paying jobs.
- **The gap between the top decile and the others.** This difference was very large and hence drove this inequality.

An examination of distribution trends in the 1990s showed that there had not been any significant changes in income distributions during the decade. One of the reasons for this might have been that “progressive” factors (e.g. economic stabilization, more education) and “regressive” factors (e.g. increase in wage differential, high demand for university graduates) combined to offset each other thus creating no significant impact on distribution trends. It was noted, however, that attempts to produce accurate measurements might have been influenced by the quality of data since it was difficult to access the top decile for purposes of data collection.

In reviewing social expenditure and equity, it was observed that government expenditure on social services increased in the 1990s. Expenditure on the basic social services significantly increased the income of the lowest quintile and reduced the gap between the highest and lowest quintiles. In this regard, when the monetary value of social expenditures was added, the gap between the highest and lowest quintiles was reduced from 15:1 to 9:1.

In spite of the jobs that were created over the restructuring period, most were created in micro-firms and were of low productivity. The challenge therefore was to design machinery to give support to these firms to increase their level of productivity. In this context, some thought has been given to targeting the “maquilas” as a starting point. It was recognized that income distribution was unlikely to change much over the short term, so the suggestion was that emphasis be placed on poverty alleviation, labour-intensive sectors, education and skills training.

Discussants

Mr. Harold Codrington

Mr Codrington stated that the Caribbean had become wary of Washington-based strategies which, in many instances, were a significant deviation from the norm as far as

Caribbean societies went. He explained that very often, the reform strategies that were suggested for the Caribbean were not very successful because the economies were heavily controlled by government and the private and public sectors were almost diametrically opposed in terms of objectives. This meant that when emphasis was placed on the private sector as the engine of economic growth, job creation and income distribution suffered because the State was the main employer.

Nonetheless, he expressed the opinion that it would have been interesting to see how Barbados would have fared in the analysis of reforms in small open economies. In this regard he pointed to the fact that Barbados had undertaken three of the five reforms outlined in the study. Since then, data in the early 1990s saw unemployment rates drop from 24 per cent to 9 per cent, with no accompanying change in GDP growth. He therefore posited that increased GDP growth did not necessarily accompany lower unemployment. Mr. Codrington also stressed that for a proper analysis of performance to be undertaken, one must first know what prompted the reforms within the respective economies and whether different results would have been obtained if a different set of reforms were used. He cited the case of the Asian economies, which started opening their capital markets and made remarkable strides in economic progress, but which later went into a tailspin from which they were still recovering. In this case, he pointed out that the sequencing of reforms was a very important issue to take into account in the analysis of the impact of reforms undertaken.

Mr. Codrington noted that the strategy of trade liberalization had had deleterious effects on the manufacturing and agriculture sectors of the Caribbean States. He also explained that small businesses generally tended to be grouped in the informal sector, but in Barbados these small ventures were very much a part of the formal sector. This misclassification could lead to economic statistics that were incorrect and gave a wrong idea of the state of the economy. He said that there should have been more on labour market reforms and trade unions in the study. He cited the case of the use of the social contract in Barbados, between the government, private sector representatives and labour unions, which contributed to low inflation by moderating wage increases.

Mr. Codrington also suggested that reforms could be modified according to the situation of a country and cited the example of the Value Added Tax (VAT) which was an economic instrument of the reform. In 1997, he explained, it was determined that the VAT was regressive, since everybody, regardless of income, paid the same amount on the goods. This led to the design of a “basic food basket”, which became exempt from VAT. He also showed that reforms in Barbados did not always lead to improved income distribution. In this context he explained that analysis of the reform period showed that in spite of increasing the tax ceiling, more money was still available to the higher income groups. The study should examine the impact of the reforms on females in the population, whether they contributed to higher female employment.

Dr. Ralph Henry

In his presentation, Dr. Henry, found that in attempting to explain the effects of reform on the economies, the paper attempted to grapple with many issues and that this resulted in a number of paradoxes. He further questioned the extent to which the structures of the economies were examined and understood, before the implementation of reforms. Countries more dependent on foreign trade should be differentiated from those less dependent on such trade. This kind of examination, he noted, would help researchers to make better sense of their findings on the impact of the reforms that were implemented. He explained, for example, that Caribbean economies were always export oriented and usually had to be protected. As a result, the implementation of reforms in these economies usually meant that they encountered severe difficulties. He also alluded to the need to examine how technological factors - the technological change the world was going through - impacted on competitiveness after the implementation of reforms. Dr. Henry also suggested that more research needed to be done on how institutions managed the reform process and hence the final outcome and impact of that process.

He suggested that the reforms might have made Latin American countries more Caribbean in their economic structures. He explained that since the reform process seemed to have affected the export sector primarily, then the domestic and informal sectors, although low-paying, become more directly responsible for job creation.

Dr. Henry also suggested that when speaking of sectors that were responsible for job creation, this would have to be disaggregated. In speaking of the services sector, for example, he pointed to the tourism industry which, although part of the service industry, is also part of the external sector and therefore tended to have better paying jobs. He said that the biggest problem in Latin America would probably remain "asset inequality". According to Dr. Henry, even if new assets were provided for the dispossessed, those who had control of assets in the initial distribution of assets in the pre-reform period would exercise their power and use this to their advantage in the post-reform period. Not surprisingly, such a situation would serve to increase the gap in the income distribution even further.

Discussion

There was a questioning of the link between employment and income distribution, and the way in which the returns from investment capital were distributed. It was also suggested that factors, such as accumulation of resources or access to resources, needed to be examined also, rather than just income distribution. In this context, it was felt that microanalysis at the household level would shed some light on the issue. In reply to the query, it was indicated that no attempt was made to study the connection between income distribution and investment since it was determined that the data sets were not as reliable as required.

There was also a query as to whether the improvements in social expenditure were a direct and intended result of the reforms or whether they represented attempts at

damage control in order to prevent further fallout from the reform process itself. The response was that there seemed to be a greater recognition of the value of social expenditure in the development process. However, it was also pointed out that such spending was also more possible because of the reform process, since the budget deficit had decreased considerably.

Ms. Stallings also made note of the number of issues raised by the panelists and from the floor, which indicated the usefulness of including the Caribbean countries as case studies in any analysis of the impact of the reform process. She identified both Trinidad and Tobago and Barbados as interesting cases, in this regard. She also said that since the questions of sequencing, as well as style of the reform process were brought up on numerous occasions, the authors would try to incorporate them in further work in this area.

Ms. Stallings did not quite agree with the description, by some participants, of the findings on equity as inconclusive. Some of the effects of the reform process cancelled out others, leading to different results in different countries. This, she felt, was supported by her observation that Barbados, for example, had unemployment welfare while Latin America did not. On the other hand, although Barbados had relatively recently introduced the Value Added Tax, this had been introduced in Latin America a very long time ago. She admitted that these differences validated the point made by Dr. Henry about the need to study institutions and institutional factors to truly understand the impact of the reform process.

Dr. Henry's suggestion of including in the research, an examination of socio-political and institutional factors, she said, was well taken since it led to a re-examination of factors that were hitherto unexamined. In this context, she made the point that in the case of aggressive reformers, the political situation was one of dictatorial regime types, while with the cautious reformers there existed a more democratic political regime.

SESSION IV: PANEL ON POLICY AGENDA FOR THE NEXT DECADE

Ms. Helen McBain, Economic Affairs Officer at the ECLAC/CDCC secretariat, chaired the Panel Discussion focusing on the policy agenda for the next decade. The panelists included: Ms. Barbara Stallings and Mr. Wilson Peres, ECLAC Santiago, Professor C.Y. Thomas, University of Guyana and Dr. Ralph Henry, KAIRI Consultants. Ms. McBain introduced the panelists stating that each participant would present their policy guidelines for the next decade, after which the floor would be opened for questions.

Mr. Peres

Mr. Peres presented guidelines on behalf of himself and Ms. Stallings. Essentially, he summarized the conclusions of their findings on economic reforms. Whereas the reforms solved many important problems, they did not solve all of the problems and in fact created new ones such as worsening income distribution that they could not solve. More of the same reforms were therefore not advocated but instead a shift in focus to second generation reforms, that is reform of government, policies etc. But even second generation reforms would not be enough. There were three main issues that had to be addressed:

- (a) The need for competitiveness (competition and regulation policies) and investment promotion to increase growth;
- (b) The need to undertake a major offensive in the social area; and
- (c) The need to maintain and improve macroeconomic stability.

There was also need for closer relations between the public and private sectors and for policies to deal with external vulnerability.

A comprehensive reform package was proposed to increase growth based on policies that addressed the following:

- Investment – target rate and type of investment (greenfield);
- Foreign Direct Investment and Transnational Corporations – strategic joint-ventures between local firms and transnational corporations;
- Technology – diffusion and adaptation instead of innovation because of limited resources;
- Small-scale firms – need for special support to access factor markets (credit, technology etc.) through, among other things, clustering of firms and subcontracting with large firms.

A “social offensive” to deal with the problems relating to employment and income distribution would:

- (a) Increase support to micro and small firms;
- (b) Improve the functioning of the labour market;
- (c) Increase employment through the promotion of labour-intensive rather than energy and capital-intensive sectors;

- (d) Maintain (increase) social expenditure, e.g. spend more and improve the quality of education;
- (e) Increase benefits, such as unemployment insurance; and
- (f) Increase public and private savings.

He cautioned that while there was need for more policies to be put in place, there was also a need for a similar consensus on implementation of policies with respect to reforms. There would have to be cooperation between the public and private sectors in order to effectively pursue policies.

Prof. C.Y. Thomas

Prof. Thomas began by highlighting the fact that the Washington consensus was the authorship of the reforms pursued in the Caribbean. However, he warned that the Caribbean subregion has not undertaken pre-reform reforms, such as land reform, labour market reforms and financial reforms. These countries do not have a basic social policy paradigm, and they lack fundamental understanding of issues such as citizenship rights that should be in place before undertaking a second generation of reforms.

He recommended that the following measures should be undertaken:

- (a) Embark upon a comprehensive integration of policy - social, economic and environment;
- (b) Take a more proactive role in global regulatory reform;
- (c) Adopt policies to deal with competition through the Free Trade Area of the Americas (FTAA) etc.
- (d) Seek special treatment for small economies that have to deal with shocks, such as natural disasters.

Dr. Ralph Henry

Dr. Henry identified three areas of focus for the Caribbean in formulating a policy agenda for the next decade. He said that while the subregion has had a long history of primary and secondary education, a substantial proportion of the workforce had not received training to compete in the twenty-first century. As such, there was need for a radical education-training programme that was geared towards ensuring a workforce that was competitive in knowledge-based areas of economic activity. The second area referred to measures that focused on social protection and the third referred to the need for a mechanism for consensus, such as the Barbadian model, in order to deal with the adjustment process in an equitable manner.

Discussion

The first issue raised was whether a comparable study should be undertaken focusing on the Caribbean subregion since it had a more varied experience with respect to the reforms. It was proposed by the presenters from the ECLAC Regional Headquarters that a similar study could be carried out in the subregion with the ECLAC Subregional Headquarters in Port of Spain functioning as the implementing body for the project.

The participants discussed the issue of vulnerability of Caribbean countries; what was mistaken for growth was in effect depletion of natural resources, which had implications for the environment. The point was made that the question of land reform should be addressed in the subregion. In the liberal model, land was accessible to those who could pay the most for it. In small Caribbean islands, such as St. Kitts and Nevis and Tobago, this would be cause for serious concern.

The question of citizenship rights was also addressed with the example given of the treatment of CARICOM nationals at some airports in the region. This lack of a fundamental sense of citizenship rights adversely affected participation in the development process as well as accountability. This issue would need to be resolved if there was to be greater productivity.

It was considered difficult for countries in the Caribbean to resist further marketisation. What these countries needed to do was to adopt a more integrated approach to export-oriented growth. Creative-intensive industries were recommended using the growth of the music industry in the region as an example. Markets for sustaining the growth of these need to be developed; the “diaspora” market was one such market that was important for the region.

Closing

The meeting ended with Ms. Helen McBain and Ms. Barbara Stallings thanking the participants, discussants and chairpersons, as well as the ECLAC staff, for helping to make the seminar the success that it was.

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