The new demographic profile of Latin America and the Caribbean

The population of Latin America and the Caribbean is growing older. Advances in living standards, especially in health and, most of all, a sustained fall in birth rates, have meant not only longer individual life expectancy, but a rapid increase in the proportion of older adults in the population as a whole. Coping with the impact of this new demographic era will be one of the greatest challenges facing the region at the dawn of the new millennium.

According to the Latin American and Caribbean Demographic Centre (CELADE), ECLAC’s Population Division, by the year 2000 the percentage of people in the population aged 60 or over will have increased 1.9 points since 1950, from 6% to 7.9%. But during the 1990s the process has been speeding up, so that over the next 25 years this proportion is expected to grow to over 14%. The total number of people over 60 will grow to almost 56 million over the same period, 38 times more than the figure projected for those under 15. At the same time, it is estimated that by 2025 one in four members of this group will be 75 or more.

This means that by the end of the first quarter of the next century, the region will be in a situation similar to that in the more developed world in the mid-1970s. But the speed of demographic ageing in Latin America and the Caribbean is unprecedented anywhere. The challenge will be considerable, not only for health and welfare services, which already face serious problems in a number of countries, but for the whole development model.

It should not be forgotten that many aspects of social equity affecting older people are also relevant to the rest of society. They involve values essential to economic and social development, such as the ability to provide decent living conditions for all, a family life free of unnecessary tensions and which guarantees the development of each of its members, and valid life and work options for all, without reference to age.

Small and medium-sized industrial enterprises (SME) have a special place in discourse on economic policy in Latin America. All the countries of the region have policies to support them. But in practice the situation is somewhat different, a recent ECLAC study shows. Rhetoric is not generally translated into sufficient resources to have any real effect on the development of such companies, making aid more nominal than real. Other factors, such as macroeconomic variables, trade liberalization and the density of a country’s pattern of industrialization, are more significant for them.

SME play an important role in the region’s industrial structure as a source of employment. They have also performed quite well in terms of production and productivity, following the economic reforms carried out in the region.

In the recent study, Las pequeñas y medianas empresas industriales en América Latina después de las reformas económicas (Small and Medium Industrial Enterprises in Latin America After Economic Reforms), economists Wilson Peres and Giovanni Stumpo analyze the evolution of this category of enterprises in fourteen countries (Argentina, Barbados, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico,
THE CHALLENGES OF AN AGEING SOCIETY

José Antonio Ocampo

The ageing of the population of Latin America and the Caribbean is the result of rapid demographic transition. Over the past fifty or sixty years, economic, social and cultural changes, as well as improving health standards, have reduced mortality and fertility rates and brought about enormous alterations in age structure. At first, there was a “demographic explosion” and a vigorous process of rejuvenation of the population as a whole. Since then, the decline in the average number of children born to each woman has brought about a gradual fall in the overall proportion of children, while longer life expectation has begun to be reflected in a growing number of people aged over sixty.

These modifications of the region’s age structure create a double challenge: to meet the needs created by past expansion while also satisfying those of an ever older population. Many of the region’s social and economic institutions were conceived in response to social and demographic circumstances in which children and young people had great numerical importance. While this remains the case in 1999 - those under 15 still make up a third of the population and only one in twelve people is 60 or more - the situation is changing radically. In 2025, one of every six Latin Americans and Caribbeans will be an older adult. By 2050, this age group will make up almost a quarter of the region’s population and those under 15 will be reduced to a fifth. The scale of this transformation means that answers will be needed very shortly - and the task is made even more difficult by the lack of examples to follow. In the developed countries, the ageing process was more drawn out, allowing gradual adaption.

When a population ages as fast as this, demand for goods and services changes radically. Production must steadily be converted, replacing part of the goods intended for children and young people with those required by adults and the elderly. Priorities in service provision must be reassessed; for example, emphasis on the first stages of education will have to give way to welfare programmes for older people. A mere reallocation of resources will not be enough; instead, institutional arrangements must be redefined, implying the need to work out new operational procedures, as well as high costs. Health is a particular case in point.

As the ageing process advances, the make-up of the economically active population changes. Proportions alter between the number of those in retirement and those who are still working, creating pressure on the social security system. One of the greatest challenges is the need to expand pension systems, while striking a necessary and delicate balance between the twin imperatives of guaranteeing the systems’ financial equilibrium and achieving equity between generations and among older adults themselves.

Many of the problems associated with ageing are exacerbated by the shortcomings and inequality characteristic of our societies’ pattern of development. But, despite this, most countries are in a position to take advantage of current rapid growth of the region’s working-age population. If human resources are strengthened and brought effectively into the production process, this considerable growth of the labour force can be translated into increased productivity. And if such measures also include genuine equality of opportunity for the whole population, as well as appropriate redistributive mechanisms, the resulting benefits will allow both improved living conditions for today’s older adults and less social vulnerability for present day generations of young people and adults as they too grow older.

The author is ECLAC’s Executive Secretary.
A society for all ages

When the United Nations designated 1999 as the International Year of Older Persons, it adopted the slogan, “towards a society for all ages.” Four dimensions were defined on which to focus its work: the situation of older persons, life-long individual development, multigenerational relationships, and the interrelationship of population ageing and development.

CELADE has organized various technical cooperation and training activities, as well as interdisciplinary specialist meetings, to monitor trends related to the demographic transition, older people’s living conditions and the repercussions of demographic ageing for pension systems.

Special attention was given to the world of work. Due to the poverty predominant in the region, the possibility of opting either to continue in work or to retire is far from a matter of rights or free choice. More than a third of Latin American men aged 65 or more continue to carry out economic activities (the figure for women is 10%), while for others the lack of job opportunities or the low level of pensions is in effect a penalty. “Although the desire to live a long life has become a reality,” say CELADE experts in a recent study, “it is not clear that this progress has been accompanied by an improvement in the quality of life.”

Health is one of the areas in which the lag in society’s response to the needs of an ageing population is most evident. Demographic changes and the reduction of contagious and parasitic diseases have meant in increased incidence of chronic and degenerative illness, characteristic of old age. But the capacity of health systems to respond to these problems is limited. Among other changes, a greater emphasis on primary and community attention is required, as well as prevention through education. There is also a pressing need to overcome the widespread idea that the problems of old age are simply inevitable.

The consequences of ageing for intergenerational relationships, especially in the family, are another topic of great importance. Several of the most evident manifestations of social change, such as migration by young adults and greater participation by women in the world of work, have undermined traditional ways of caring for elderly people and brought the risk that old age may become a cause of tension in the family. At the same time, there is a clear tendency to place great value on youth and young adulthood and underestimate the contribution and potential of older people.

All this creates fertile ground for the exacerbation of the limitations suffered by the elderly and the pathologies and psychological problems which often affect them, such as loneliness, anxiety, depression, denial, lowered self-esteem and self-aggression - all of which are worsened by the poverty typical of the great majority of multigenerational homes.

Pension systems in danger

CELADE also warns of the problems which an accelerating rate of ageing of the population will bring for pension systems. Between 1995 and 2025, the ratio of the number of people aged 60 or over to those between 15 and 59 will increase from 13% to more than 20% in the region as a whole. In countries such as Argentina, Chile, Cuba and Uruguay, where demographic transition is faster, it will reach some 30%.

Given the difficulties facing traditional pension systems, due to inadequate management and a weak financial base, the region is now debating the relative merits of the “pay-as-you-go” regime (which incorporates the principle of solidarity between generations) and that of individual funding. Both have advantages and failings. While the “pay-as-you-go” system is vulnerable to the negative financial effects of an ageing population, the funding method severely damages intergenerational equity, reproduces socioeconomic inequality between individuals, and requires huge transfers from the public sector during the transition period from one system to another.

However, the greatest shortcoming of social security systems in general in the region is that they cover too few people, leaving large segments of the population unprotected, even in countries with the longest experience in the matter.
The countries of Latin America and the Caribbean devote a significant proportion of their GDP to funding health needs - 6.2% on average, which compares favourably with 5.1% in the world as a whole and 7.8% in the industrialized countries. But, despite this effort, the region’s health services still suffer from important deficiencies in coverage and quality.

These insufficiencies are in part historical and in part due to the problems of adjusting to new demands. Traditional difficulties persist in allocating and managing resources and in articulating the subsidiary systems within overall health provision. Coverage remains inadequate and epidemiological shortcomings persist. Among the new challenges still to be met are the effects of demographic transition, the growth of non-infectious disease, the incorporation of new technology and the effect of this on the cost of patient care.

Most countries in the region urgently need to carry out a profound revision of the financial and organizational structures of their health sectors. Necessary reforms include the separation of finance from service provision, in order to specialize functions, and the modification of the current mix of public and private provision to allow a greater role by the latter. The introduction of competition, the inclusion of performance criteria into systems of payment and contracting, and the gradual introduction of demand subsidies are also important.

Reform strategies vary according to the modalities with which competition is promoted in each of these two spheres, finance and provision, and the extent to which this is done. The use of competition to order the functioning of the health sector and improve the allocation of resources depends on being able to overcome the failings of the market. Achieving this, in turn, is closely linked to the development of regulatory and supervisory institutions.

In the financial arena, the incentives governing risk selection by private insurance companies need to be addressed, as at the moment those members of the population at greater medical risk or with lower incomes tend to be left aside. This is a difficult problem which can create serious costs in terms of efficiency and fairness.

As far as provision is concerned, the supply of services itself has the capacity to induce demand and define cost levels. Given the difference in knowledge and information between service providers and patients, it is the former which define the structure of costs to the latter. This harms cost containment and the possibility of regulating the sector, and places severe pressure on financial requirements.

The levels of competition achieved will vary between the two areas, given the differences between them. Scope for increased coverage will depend on the creation of solidarity-based financing schemes, a factor which often limits the extent to which competition can be introduced in this sphere; but this does not prevent competition being promoted between providers.
The graphic illustrates three of the most common models for separating finance and provision. From the micro- and macroeconomic points of view, the contract alternative tends to be more effective. The integrated model is that of the HMOs in the United States, while reimbursement is one of the methods used in the Chilean health insurance market.

**Universal compulsory insurance**

There is no single model for reform, but consensus does exist on the need to move towards a universal and compulsory form of insurance which would allow the proportion of the population covered to be expanded, while creating greater choice and competition at service-provider level. To bring such a system about, health-sector organization needs to be rethought to get over the existing segmentation of the population into social groups and the consequent conditioning of access to health services according to income levels. The current situation also creates problems of articulation between the different subsystems making up the health sector, at high cost to the efficient and effective use of resources.

To improve coverage and efficiency, a universal and compulsory insurance system is necessary. This in turn requires the definition of a comprehensive package of health services to which all citizens have access. As far as provision of the services making up this plan is concerned, this can be carried out by public or private providers operating in a framework of competition and institutional pluralism.

To sum up, reforms in Latin America, in contrast with those in the industrialized countries, must not only improve the efficiency and effectiveness of the resources allocated to the sector, but also be capable of including and perfecting mechanisms of solidarity, in order to overcome the lack of access to good-quality health services suffered by a considerable part of the population.

The main challenge for health reform is to reconcile the requirements of efficiency with those of solidarity. The introduction of competition to increase efficiency is no easy task where markets are imperfect and little developed. Reforms should aim at introducing market instruments to allocate resources, while developing an institutional framework which allows these same instruments to be used to promote efficiency and solidarity simultaneously. Experience shows that, where adequate institutions are missing, the failings of competition will tend to have negative effects on both efficiency and social equity.

---

The author is an expert on monetary and financial policy at ECLAC.
Nicaragua, Peru, Saint Lucia, Trinidad and Tobago, Uruguay and Venezuela). The study compares the situations before, and a decade after, the economic reforms which became widespread in the region during the first half of the 1980s. Micro-businesses are not included.

Contrary to what might be expected, small and medium companies play a greater role in the industrial structure of larger countries than in their smaller neighbours, especially where added value and sales are concerned. But their share of employment is greater than that of added value, indicating productivity levels which are distinctly lower than average.

Some novel common factors emerged at sectorial level. In all countries, SME are most concentrated in the chemical and food industries, although in the largest countries they also have a significant presence in activities linked to metal products and machinery. On the other hand, branches of industry such as apparel or shoes, most associated by many analysts with this size of company, are less important. The SME are also strongly oriented towards the internal market.

**Productivity gap**

SME increased their share in total industrial production in Argentina, Chile (between 1990 and 1996), Mexico, Uruguay and Venezuela. In Ecuador, Peru, Costa Rica and Colombia this share fell, but overall production by SME increased.

Growth rates for production and employment in small and medium companies vary considerably from country to country. They were especially dynamic in Argentina, Mexico and Chile (again, between 1990 and 1996), but elsewhere were low and sometimes strongly negative. However, if these rates are combined with the average evolution of labour productivity, such companies can be seen to have performed well. Only in Venezuela and Chile (1981-90) did their productivity fall. Where it grew, employment fell in some instances (Argentina, Costa Rica, Uruguay) and rose in another (Mexico).

However, an important gap is apparent when productivity is compared between SME and their larger counterparts. Only in one case, Costa Rica, is this difference less than 50% and in some it is more than 75%. Nevertheless, it narrowed in Argentina, Chile (1981-90), Costa Rica, Mexico and Venezuela - though only in Mexico and Argentina was this achieved to any significant extent.

**Winners and losers**

As is to be expected in a sector which exports very little, the dynamics of the SME depend on the evolution of the macroeconomy - of demand and stability, above all. The cases of Argentina and Mexico show that a greater degree of complexity and development in the overall industrial structure also plays a positive role in their progress.

The impact of increasing trade liberalization varied from country to country and no generalized effects emerged which would allow the conclusion that the SME were “the sector which most lost out in the process,” as some analysts argue. Liberalization seems to have had more effect in polarizing sectors of production than on performance as a whole. There is evidence of sectorial specialization, and the researchers consider it more correct to argue that “there are both winning and losing sectors among the SME” rather than that their performance as a whole is bad. The incipient trend towards exporting by SME in some countries points in the same direction.

Peres and Stumpo conclude that support policies have had “little impact” and have not been a determining factor in the results contained in their report, despite the development of new mechanisms in all the countries discussed. This meagre effect of the policies is due to “the lack of financial and human resources to put them into practice and fragmentation in decision-making between government organizations,” they say.

---

**Share of SME in manufacturing sector**

<table>
<thead>
<tr>
<th>Country, year and size of company*</th>
<th>Employment</th>
<th>Value added</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina 1993 1, 2 4-100</td>
<td>44.6</td>
<td>35.9</td>
</tr>
<tr>
<td>Brazil 1997 1, 3 20-99 100-499</td>
<td>66.8</td>
<td>60.8</td>
</tr>
<tr>
<td>Chile 1996 1, 2 10-49</td>
<td>22.2</td>
<td>9.7</td>
</tr>
<tr>
<td>Colombia 1996 1-49 50-199</td>
<td>52.5</td>
<td>33.3</td>
</tr>
<tr>
<td>Costa Rica 1997 1, 2 31-100</td>
<td>13.2</td>
<td>12.6</td>
</tr>
<tr>
<td>Ecuador 1996 3 10-49 50-99</td>
<td>37.7</td>
<td>19.4</td>
</tr>
<tr>
<td>Mexico 1993 3 16-100 101-250</td>
<td>44.6</td>
<td>31.1</td>
</tr>
<tr>
<td>Nicaragua 1994 2 4-30</td>
<td>11.7</td>
<td>11.2</td>
</tr>
<tr>
<td>Peru 1994 2 11-20 21-200</td>
<td>52.5</td>
<td>36.1</td>
</tr>
<tr>
<td>Trinidad 1996 2 6-100</td>
<td>57.0</td>
<td>22.6</td>
</tr>
<tr>
<td>Uruguay 1995 3 5-99</td>
<td>57.9</td>
<td>39.7</td>
</tr>
<tr>
<td>Venezuela 1995 3 5-20 21-100</td>
<td>39.5</td>
<td>13.8</td>
</tr>
</tbody>
</table>

Source: Database on industrial SME, Division of Production, Productivity and Management, ECLAC

* Sizes of companies are by number of employees. When two pairs of figures are shown, the first refers to small companies and the second to medium.

1. Data in “value added” column refers to total.
2. Figures include micro-businesses.
3. Figures do not include micro-businesses.
ECONOMIC REFORMS, INVESTMENT AND LABOUR MARKET IN PERU

The profound structural reforms carried out in the Peruvian economy since the beginning of the 1990s have resulted in a significant increase of investment in key activities. But they have not succeeded in reducing the large proportion of the labour force working in the informal sector, says a new group of studies published by ECLAC.

The most important results are in mining, which has received “an extraordinary growth of investment,” writes ECLAC consultant Humberto Campodónico. Between 1992 and 1998, annual investment in the industry multiplied by a factor of fifty, from US$ 20 million to US$ 1,100 million. Investment actually realized over this period amounted to US$ 2,924 million.

These results ended more than a decade of crisis in Peruvian mining, in which private investment dried up completely and that by the state fell steadily. Between 1999 and 2007, committed and likely investment are expected to reach US$ 6,561 million, a 125% increase compared with 1992-98 - although, if only the amount committed is taken into account, the total falls to US$ 3,549 million, a rise of 20% from the previous period.

As in oil, electricity and telecommunications, the other sectors discussed in the studies, these positive results often occurred after a radical process of privatization, easing of investment conditions and investment promotion begun in 1991. It has usually been foreign companies which have taken advantage of the new circumstances. In the case of mining, all public companies were sold to foreign enterprises, with no involvement at all by national capital.

Following the promulgation of the Hydrocarbons Law in 1993, exploration contracts have increased significantly, reaching US$ 1,300 million so far. As yet it is too early to know what the impact of this will be, nor should the effects of current low prices be underestimated. But it is already expected that, once production of gas from the Camisea field begins, production of condensates and liquefied petroleum gas (LPG) will return the country to the self-sufficiency in hydrocarbons which it lost in 1985, leaving a significant surplus for export. The Camisea project is currently under negotiation with several companies after a contract with SHELL/MOBIL collapsed in July 1998.

Since mid-1994, 51% of electricity generation and 55% of distribution have been privatized, above all in Lima, and installed capacity has increased 43% compared with 1996. The purchase of the country’s two main telecommunications companies by Telefónica de España has resulted in significant investment, turning the new enterprise, Telefónica de Perú, into the highest billing company in the country.

Informality continues

The effects of the reforms on the labour market - including labour reforms themselves, which aimed at making dismissal easier and eliminating job stability - were investigated by ECLAC consultant Jaime Saavedra. He concludes that economic growth achieved from 1993 onwards, as a result of the structural reforms, has created employment in all activities and sectors, but most of all in commerce and services. The quality of jobs, however, has not improved. The high incidence of informality has not been cut back and temporary employment has gone up. Unionization has been reduced to a minimum.
1. La reforma del sistema financiero internacional: un debate en marcha, by José Antonio Ocampo. Published jointly by the Fondo de Cultura Económica (FCE) and ECLAC. Distributed by FCE. (Spanish).

ECLAC’s Executive Secretary evaluates, and contributes to, the debate on the need to restructure the international architecture of financial institutions. Related issues are also discussed, particularly those concerned with national policies to deal with financial volatility.


Includes articles on ECLAC and the new theories of economic growth, the industrial policy debate, Mercosur and small and medium-sized industry, trade and growth in Chile, the Industrial Specialization Regime in Argentina, and comparative advantages and the environment.


This issue of the Demographic Bulletin, published by the Latin American and Caribbean Demographic Centre (CELADE), ECLAC’s Population Division, contains estimates and projections of the economically active population in the 20 countries of Latin America, broken down by urban and rural residence, gender and five-year age groups.


Underlines the importance of population and housing censuses for the formulation, implementation and assessment of development policies and programmes, and analyses basic conceptual aspects.


Includes articles on ECLAC and the new theories of economic growth, the industrial policy debate, Mercosur and small and medium-sized industry, trade and growth in Chile, the Industrial Specialization Regime in Argentina, and comparative advantages and the environment.

To order: Distribution Unit, ECLAC, Casilla 179-D, Santiago, Chile. Fax: (56-2) 210 - 2069. publications@eclac.cl : available at websites www.eclac.cl or www.eclac.org

**CALENDAR**

<table>
<thead>
<tr>
<th>MONTH</th>
<th>EVENT</th>
<th>VENUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - 3</td>
<td>Seminar on fiscal responsibilities in social insurance systems. Ministry of Finance of Chile, Budget Directorate/ECLAC</td>
<td>EC LAC</td>
</tr>
<tr>
<td>6 - 8</td>
<td>International seminar on development of non-agricultural rural development in Latin America. International Network for Farming Systems Research Methodology (RIMISP)/Inter-American Development Bank (IDB)/Food and Agriculture Organization of the United Nations (FAO)/ECLAC</td>
<td>EC LAC</td>
</tr>
<tr>
<td>8 - 10</td>
<td>Latin American and Caribbean Symposium on Older Persons, commemorating the International Year of Older Persons - 1999. Population Division - Latin American and Caribbean Demographic Centre (CELADE)/ECLAC</td>
<td>EC LAC</td>
</tr>
<tr>
<td>20 September - 1 October</td>
<td>Second course-seminar on public policies and transparency in their management, ILPES/ECLAC/Argentine Public Budget and Financial Administration Association (ASAP)</td>
<td>Buenos Aires, Argentina</td>
</tr>
<tr>
<td>23 - 24</td>
<td>Meeting “Towards Development with Citizenship”. EC LAC (Association of Non-Governmental Organizations (ASO N G)/Universidad Bolivariana de Chile/International Society for Third Sector Research (ISTR)</td>
<td>ECLAC</td>
</tr>
<tr>
<td>27</td>
<td>International Day of Peace, Peace Committee of the Staff Council of the ECLAC System</td>
<td>ECLAC</td>
</tr>
<tr>
<td>OCTOBER</td>
<td>18 - 20</td>
<td>Taller sobre el desarrollo institucional en la gestión del medio ambiente en América Latina y el Caribe, CEPAL/CONAMA/AMCO MUNDIAL/BID/CEPAL</td>
</tr>
<tr>
<td>25 - 29</td>
<td>Taller “Incentivos tributarios a nivel nacional, regional y local”, CEPAL/Organización para la Cooperación y el Desarrollo Económicos (OCDE)/Fundación Alemana de Desarrollo Internacional (DSE)/CEPAL</td>
<td>ECLAC</td>
</tr>
</tbody>
</table>