Economic reforms carried out in Latin America and the Caribbean have enjoyed some significant successes and solved some long-standing problems; overall, however, they were neither as positive as their supporters predicted nor as negative as their opponents feared. There is still a lot to be done in terms of dynamic, stable growth, competitiveness, employment and social equity.

In fact, the reforms themselves “seem to have had a surprisingly weak impact at the aggregate level”. It is at the country, sector and microeconomic level that the magnitude of changes makes itself felt, according to the study Growth, Employment and Equality: the Impact of Economic Reforms in Latin America and the Caribbean (Crecimiento, empleo y equidad: el impacto de las reformas económicas en América Latina y el Caribe), by Barbara Stallings and Wilson Peres, based on a three-year project developed by ECLAC and local researchers in Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Jamaica, Mexico and Peru.

Stallings and Peres show that although reforms had little effect on growth, employment and equity at the aggregate level, trade liberalization and privatization played a decisive role in restructuring markets, which led to the entry of new companies and investment. Stronger competition from imports and new players on the domestic market led to powerful forces for modernization, particularly in areas of rapid technological change, like telecommunications, for example.

In other sectors, like agriculture or manufacturing, reforms stimulated specialization and efficiency, but they also increased the differences, in some cases to the point of polarization between modern...
n recent years, there has been a true revolution in the economic and social organization of nations, in employment trends, in the use people make of their free time and in the content of the expressions of different cultures, all promoted by information and communications technologies (ICT).

For many, these ICT are associated with optimistic scenarios where greater access to information is expected to lead to societies of open relationships and greater democracy. The application of ICT to telemedicine, long-distance learning, digital libraries, among others, can improve the levels of health, education and training in developing countries. Network services can contribute to the transparency of decision making and actions by State institutions and markets. For others, however, these new trends tend to reaffirm the dynamics of inequality and social exclusion.

The “digital gap” between industrialized and developing countries is even wider than the gap between them in terms of productivity and socio-economic well-being. The same occurs within each country, between high and low income groups. Latin America and the Caribbean have 8% of the world’s population, but only 3.5% of Internet users, and less than 1% of world electronic commerce. However, in 1999, the number of computers in the region connected to Internet rose faster than in any other region in the world, with 14 times as many users in 1999 as in 1995.

As occurs with other aspects of the transition to modernity, the depth of the region’s transformation in terms of ICT has been marked by dramatically unequal distribution both among countries and within them. In Latin America and the Caribbean there is an enormous range in terms of the cost and coverage of telecommunications, human resource training, and business readiness for the digital economy.

Nonetheless, many of the region’s governments have promoted Internet access, setting up public terminals and community centers. The Peruvian Scientific Network (Red Científica Peruana, RCP) installed almost one thousand public centers serving almost 40% of the network; the program “argentina@internet.todos” consists of about one thousand telecenters for remote, low income communities; in Barbados and Belize, there are free projects for schools; in Chile, the Fund for the Development of Telecommunications (Fondo para el Desarrollo de las Telecomunicaciones) is developing centers that will benefit every municipal area in 2006; in Colombia, all the poor municipal areas have free access to Internet; in Uruguay, the Third Millennium Project (proyecto Tercer Milenio) belonging to the State telecommunications company ANTEL is installing Community Digital Centers (Centros Comunitarios Digitales); Brazilian banks are starting to offer free access to Internet. Costa Rica is one of the first countries in the world to provide free e-mail to all its citizens, through State companies.

For Latin America and the Caribbean to make the transition to knowledge-based societies with efficiency and equity, new forms of State intervention and public/private actions explicitly aiming to ensure an optimum assignment of resources are justified, because market rules alone will not achieve the most desirable goals.

Among other challenges, the region must find funding to reduce the technological lag; determine the legal, regulatory and institutional framework that will lower the barriers to access, and ensure competition between providers offering connections to transmission networks; reduce the heterogeneous distribution of ICT; achieve greater participation in the contents of information and knowledge transmitted over digital networks; counteract the strong concentration of power that rapid integration into information networks places in the hands of industrialized countries and transnational companies; and obtain greater international cooperation.

All these issues are dealt with within the framework of ECLAC’s proposals in favor of improving consumer protection, strengthening competition and developing synergies and externalities within the productive apparatus, approved by member States in Mexico City, during its most recent session, held in April 2000.
and traditional producers. Large companies, especially the subsidiaries of transnational corporations, headed up investment and incorporated new technologies. Small companies have turned in very mixed performances. Although they continued to produce mainly for domestic markets, they had a powerful impact on employment generation.

The Agenda for the Coming Decade

The book concludes with a “policy agenda for the coming decade”, based on the reforms’ “significant achievements” to date and the problems pending that remain unsolved, along with others that have worsened. The agenda recognizes the broad consensus that the region’s economies must grow more quickly and increase productivity to improve their integration into world markets, by exports with higher added value.

The authors believe that “most of the benefits to be obtained from first generation reforms (which focused on increasing the role of market forces) have already materialized. To deepen them will add very little to results”. Given that markets don’t always operate efficiently, their free functioning will not resolve outstanding problems. Because of this, a new policy agenda is required, which focuses on actions to stimulate investment and competitiveness to increase growth, along with a large-scale offensive in the social area that still maintains macroeconomic stability.

A first principle for policy design is to avoid sweeping recommendations, given that what works in one country doesn’t necessarily work for another. The second is to forecast possible consequences before making irreversible decisions. Finally, those responsible for policy formulation must be specific about what they expect to achieve. These simple criteria were seldom respected during the implementation of the region’s reforms.

More investment is necessary, believe Stallings and Peres, who found that reforms corrected important distortions that undermined the reforms’ efficiency in the past, but failed to generate the incentives necessary to achieve rapid capital accumulation. To increase competitiveness, faults in market operations must be corrected. Thus, privatization of public services makes it essential to introduce or modernize sector regulatory regimes, which must be combined with policies to avoid unethical practices.

Stallings and Peres recommend that governments give priority to job creation and reducing inequality, since growth alone has proven insufficient. Special attention should go to small and very small companies, which generated most of the jobs created in recent years. They need support to gain access to factor markets (technology, skilled workforce and capital). In this sense, efforts should focus primarily on spreading and adapting technology, rather than innovation in itself. Similarly, the efficiency of public services must be boosted, since these have a particularly strong impact on the operations of smaller units.

Labor markets “are much more flexible than usually assumed”, according to the authors, and rather than focusing on making them more flexible, it would be better to concentrate on improving their functioning. If countries decide to move toward further flexibilization they should include unemployment insurance.

Social spending must increase and become more efficient, with the main task being overcoming the educational gap that exists throughout the region. Spending on education has the double advantage of contributing simultaneously to competitiveness and greater equity. A large share of the region’s problems with distribution, along with productivity problems, derive from its huge reserve of unskilled labor, the result of many years of inadequate education. The authors demonstrate that competitiveness and social progress should not be achieved at the expense of macroeconomic stability, as happened at a high cost during the last decade.

Stallings and Peres conclude by emphasizing that today it is crucial for the region’s countries to improve their ability to implement those policies supported by broad consensuses, overcoming the limits imposed by a shortage of human and financial resources. Strengthening governments’ ability to act requires increasing public-private cooperation and stimulating more efficient management of international economic relations.

The study, published by the Brookings Institution (Washington, D.C.) and ECLAC in English, and forthcoming in Spanish from the Fondo de Cultura Económica and ECLAC, also examines: a methodological framework based on the interaction of macroeconomic and microeconomic factors; the international context (trade and capital flows); structural reforms and public policies accompanying them; reforms’ impact on investment, productivity, growth, employment and equity; and the range of response among sectors and firms. The base papers prepared by country researchers, along with a summary of the book in English, can be found on our web site (www.eclac.cl).
Several of Latin America’s most pressing problems are rooted in its history. Elements such as macroeconomic instability, institutional deficiencies and unequal distribution of income and wealth have been identified as factors in Latin America’s relatively poor performance. These have offset the region’s enormous comparative advantage in natural resources. Latin America has the world’s most unequal income distribution, and there is evidence that this situation has not improved during the last half century. The region’s leading economic performer in recent years, Chile, has an impressive record in reducing poverty, for example, but income distribution has not improved.

The theory and empirics of economic growth have come to be the focus of attention once again. Surveying the literature, one sees many new interesting ideas and the rediscovery of older, somewhat forgotten ones. On the one hand, emphasis is placed on measurable supply-side evidence through the comparative use of growth accounts. This involves examination of the systematic quantification of output, human and physical capital, the role of diffusion and adaptation of technical progress and its potential in economic growth and catch-up.

On the other hand, there is considerable emphasis on the historical and institutional context in which economic development took place, as well as the role of policy. After the lost decade of the 1980s, the region is reaching a consensus on new types of domestic policy weapons needed to achieve macroeconomic stability. There is also consensus on the need for a more outward-looking strategy. The need for structural and institutional reform is recognised, although there is a wide spectrum of opinion with respect to its implementation.

From a historical perspective the figure below gives an indication of the relative growth performance of Latin America in the twentieth century as it shows the shifting weights, in terms of total GDP, of the sample countries from 1900-1994. The most important country of the sample in 1900, in terms of GDP, was Mexico. In the mid-1920s, Argentina had the biggest weight. During the 1940s, Argentina, Brazil and Mexico had very similar shares. Lastly, from the end of the 1940s until 1994, Brazil was the most important economy in the region.

Latin America’s GDP per capita level relative to the United States remained almost stable during the first 80 years of the twentieth century, but deteriorated steadily during the ‘lost decade’ of the 1980s. The relative position of the Asian countries in our sample worsened during the first half of the twentieth century, but improved dramatically from 1950 onwards. The relative position of

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**Highlights**

- Several of Latin America’s most pressing problems are rooted in its history. Elements such as macroeconomic instability, institutional deficiencies and unequal distribution of income and wealth have been identified as factors in Latin America’s relatively poor performance.

- The region’s leading economic performer in recent years, Chile, has an impressive record in reducing poverty, for example, but income distribution has not improved.

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the European countries and Japan deteriorated between 1900 and 1950, but improved gradually during the second half of the twentieth century, as these countries reduced the gap with the United States.

Judging from the performance of several countries in the early 1990s, it would seem that Latin America is now climbing out of the depths of one of the most profound crises of the twentieth century. The ‘lost decade’ of the 1980s was characterised by low or negative real economic growth, huge external indebtedness, great macroeconomic instability represented by two to three digit inflation, fiscal crisis, and great distortions in resource allocation. Some lessons can be learned from studying Latin America in a comparative perspective, looking at: (a) two rapidly growing Asian countries (Korea and Taiwan) whose economic growth in the past couple of decades has been remarkably fast; (b) Portugal and Spain, whose institutional heritage had a good deal in common with Latin America; and (c) six advanced capitalist countries (France, Germany, Japan, the Netherlands, UK and USA), whose levels of income and productivity are among the highest in the world.

There are lessons from the lost decade, which was a period of stagnation rather than growth. The situation in Latin America in the 1980s was highly unusual, with slow or negative growth. Although other regions also experienced lower growth, this did not lead to negative total factor productivity. The implication is that policy at that time was less efficient in Latin America than in many other areas.

In the period 1950-1980, Latin America was not an outlier. Total factor productivity was then positive as it was in other regions. Total factor productivity growth was fastest in Asia and Europe, followed by the Iberian countries, Latin America and the USA. Growth accounting, of course, accounts only for the so-called proximate causes. An evaluation of policy, institutions and shocks of an internal or external character is important, in order to be able to get a fully rounded view of growth performance and of the efficacy of countries.

However, Latin America’s performance in total factor productivity, a measure of the overall efficiency of a country, over the whole 1950-1994 period, has been worse than all the other countries of the sample. Within the continent, Venezuela, Mexico and Argentina had the lowest total factor productivity performance and Chile, Brazil and Colombia the best. The results in the second part of the 1990s show an improvement of Mexico’s position, while Colombia had to give up its leading position to Chile. It is also interesting that Latin America’s performance was closest to that of the United States.

The author is a researcher at ECLAC, and draws these conclusions from his recently published book, *The Economic Development of Latin America in the Twentieth Century*, (Edward Elgar, Cheltenham, UK; Northampton, MA., USA).
Settlements, Habitat II, in light of city trends during the 1990s.

The document recognizes improvements to cities, although the authors note that figures are missing that could help to “clearly visualize achievements and the obstacles that must be removed to reach development”.

Three of every four inhabitants of Latin America and the Caribbean live in cities. But large cities no longer grow at the dizzying rate of previous decades. Urban population growth has slowed and is expected to fall to 1% by 2030. “This slowdown could make it easier to absorb accumulated shortfalls of services and housing in medium-sized and smaller centers”, the report states.

Social and spatial segregation show no sign of abating. “A real estate market that in many countries operates under no constraints has tended to expel the poor from the best neighborhoods, concentrating higher income families in these areas, which in terms of equipment, housing and services are moving further and further away from those available to the rest of the population”, note MacDonald and Simioni.

Studies in Bolivia, Chile, Colombia and Uruguay reveal that a large share of households still suffer from housing deficit problems (78% in Bolivia, 35.5% in Colombia, 31.4% in Chile and 27% in Uruguay). Formal production of housing manages to meet only a small part of needs every year.

In recent years, productive activities and urban populations have tended to concentrate, forming economic regions covering considerably more than the main metropolitan areas, as has occurred for example with the metropolitan area of Sao Paulo, which stretches as far north as Belo Horizonte and southward to Rio de Janeiro, Curitiba and Porto Alegre.

Although there is still no universal coverage of basic social services in any country, the availability of infrastructure for drinking water, sewage treatment, drainage, waste collection and disposal has all improved.

Many countries have sophisticated environmental policies: environmental framework laws, executing agencies, specific sections within founding charters, international agreements. However, in practice, they do little and problems build up. Congestion and contamination due to use of the car make up the fastest growing component of urban pollution problems. Mexico City, Sao Paulo and Santiago de Chile show alarming levels of air pollution. Buenos Aires, Rio de Janeiro and Bogotá will suffer from similar problems in the future.

The environmental vulnerability of settlements has grown significantly: experience in recent years has demonstrated how rapid urbanization increases the risk of natural disaster. The climatic event, El Niño, had a powerful effect on Ecuador, Peru and Costa Rica, and hurricanes George and Mitch caused serious damage in Central America and the Caribbean.

Some characteristics of modern urbanization, among them demand for land due to urban sprawl that leads to the use of inappropriate locations exposed to natural hazards, constitute an extra threat in the event of a disaster occurring. “If these phenomena aren’t dealt with, starting with clear local and national political commitments and policies for making cities safer, catastrophes will take even more lives and cause even more serious damage”, the report states.

**Household Changes**

Significant changes in households are also expected: smaller family sizes, lower and later marriage rates, and more diverse structures. If two of every three urban dwellers were children and young people during the fifties, only one in three will be by 2050. Today nuclear families predominate, but single person and single parent homes are on the rise. Female household heads are increasingly common as well.

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Disarmament has not paid out the expected “peace dividend” in Latin America, in spite of peace accords in Central America, the virtual absence of armed conflicts and the prevalence of democratic governments, according to a study by ECLAC.

Between 1990 and 1998, defense spending grew at an average annual rate of 4.7%, while GDP rose 3.6%. In the last two years of this period, military spending expanded faster than regional GDP. In 1999, at the end of the decade, annual military spending by the countries of Latin America and the Caribbean represented 1.3% of GDP and totaled US$ 26.5 billion, or 9.5% of total spending by central governments.

The paper Aspectos económicos del gasto militar en América Latina y el Caribe (Economic Aspects of Military Spending in Latin America and the Caribbean), by ECLAC researchers Eugenio Lahera and Marcelo Ortúzar, proposes to open debate on the efficiency and effectiveness of military spending, as is done often today with all public spending issues.

The authors state that for political reasons, “until now, there have been few attempts” to review military spending. They add that the analysis of this important spending area suffers from “little transparency, both regarding how it’s calculated and its budgetary treatment, in terms of the efficient distribution of resources and the development process in general”.

Difficulties are numerous. In the region, there are no civilian experts in military spending and, in general, these expenditures are not presented to independent professionals for evaluation. Furthermore, some sectors believe this information and its analysis should remain within military circles.

In fact, in Latin American countries the analysis of the military budget by the legislature is very limited, given that its approval depends on an agreement between the executive branch of government and the military.

In terms of the structure of military spending, payments of salaries and retirement benefits take a large share of the pie. In 1995, the armed forces of Latin America and the Caribbean had approximately 1.5 million troops, including permanent personnel and conscripts, up 6.5% from 1985.

In spite of its importance, the management of human resources within the military remains *terra incognita* for those unversed in this subject. Members of the armed forces are public employees, but their careers are governed by internal norms and there are no publications on the subject by civilians in the region. Lahera and Ortúzar suggest the need to reconsider personnel management within the armed forces in terms of social security, postponement of retirement age and personnel reductions.

The structure of the region’s military spending limits its efficiency. Personnel spending is hard to reduce. In fact, there is endogenous pressure to increase it, while in the case of operating expenditure and investment the opposite occurs. As a result, fiscal adjustment programs tend to reduce the operating capacity of the armed forces, given that discretionary spending cuts tend to affect operations and investment.

Any process of reducing military spending raises specific problems. Introducing changes is not only a slow process, it is also very costly in terms of human resources and installations. The economic transition towards a lower level of spending tends to be hampered by long-term spending commitments spread over several years.

Modernizing the structure, management and evaluation of defense spending is part of the global process of government reform. A good starting point would be classifying defense-related spending using the same categories employed for other public expenditures: remunerations, use of goods and services, consumption of fixed capital, property amortization, subsidies, donations, social benefits.

“Military spending should become an integral element of public spending, subject to public surveillance and governed by formal methods that increase its economic value, efficiency and effectiveness”, Lahera and Ortúzar conclude.
an information project, starting from basic concepts and moving through techniques for envisioning the future, measuring change, defining goals, to how to sell the idea to potential funders. www

in the Caribbean, including an exploration of the potential impact of information technology on this region.

The Caribbean in the Decade of the 90s, (LC/CAR/G.600, English). This summary provides an overview of development, trade, governance, economic reforms and performance, social structures, environmental management and sustainable development

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