Latin America risks reverting its achievements in poverty reduction. Over the past six years, the combination of economic growth and improvements in the labour market lifted nearly 40 million people above the poverty line. Additionally, wage earnings of urban workers increased, as did social expenditures, contributing to diminish inequality among rich and poor. However, the current global financial crisis and higher food prices imperil this progress.

In 2008 an estimated 33.2% of the population (182 million people) in Latin America and the Caribbean currently live in poverty; this is almost one percentage point lower than the poverty rate in 2007 (34.1%, 184 million people). However, extreme poverty or indigence has risen slightly, from 12.6% in 2007 (68 million people) to a projected 12.9% (71 million) this year. These are some of the conclusions of the ECLAC report Social Panorama of Latin America 2008. The report notes that efforts to reduce poverty and indigence in 2008 were less effective than in the 2002-2007 period, when the number of people living in poverty or indigence dropped by 9.9% (37 million people) and 6.8% (29 million), respectively.

ECLAC expects the global economic deceleration to impact the region through a weaker demand for commodity exports, declining investment in productive sectors, lower migrant remittances, and international financial market constraints for emerging countries.

The situation will differ among countries, asserts the ECLAC report. The most seriously affected will probably be those countries that are most dependent on remittances, or that have ceased climbing in recent months.

The repercussions of the global financial crisis are taking its toll throughout the world, and Latin America and the Caribbean are no exception. However, in spite of the unfavourable prospects, exports from the region will continue to increase during 2008 at an estimated 23%, according to ECLAC.

This is one of the conclusions of the report Latin America and the Caribbean in the World Economy, 2007: Trends 2008. The report estimates export volumes to rise 2% this year, while the volume of imports will increase 9%. The value of imports will go up 22%.

The high growth of the value of exports—which rose 25.5% between January and August 2008, much higher than the 10% increase during the same period last year—will lead to a trade surplus of approximately US$51 billion, thanks to higher commodity prices, especially of metals and fuel during the first semester of this year. However, the global slowdown will have negative effects on the region. Several events have already impacted the region’s economies as of the second semester this year, and will lead to lower...
ERA OF CHANGES, OR CHANGE OF ERA?

ALICIA BÁRCENA

Let us not be mistaken: this is not an era of changes, but a change of era. Two global public goods vital for the survival of the world as we know it are in peril: financial stability and climate security.

Today’s international financial crisis is the most severe since the Great Depression in the 1930s. The combination of over indebtedness and excessive exposure to risk in the real estate market in the United States, together with a lack of transparency, regulation and supervision in financial markets, turned into a “perfect storm” that first hit the United States, and later Europe and Japan, striking emerging and developing countries at full force. Its repercussions point to a recession with a strong impact on the real economy. The global economy will grow 3% during 2009 at best, making the recession also global.

In spite of all the multi-million bailout announcements, uncertainty, fear and distrust prevail. A complex and –for many-inexplicable financial structure has collapsed, and many citizens of the world have still to assimilate the true dimensions of the crisis and above all, the distribution of its costs.

The impact on Latin America and the Caribbean will be heterogeneous, and will vary according to the soundness of each economy, fiscal prudence, and discipline in the past few years, the accumulation of international reserves, and lower and better foreign debt. However, no country will be immune to the crisis.

The crisis has four transmission channels: financial contagion, the price of basic commodities, migrant remittances and falling external demand.

Contagion implies more expensive external financing, and thus scarce credit and lack of liquidity. Commodity prices, which rose sharply until the third quarter of the year, began dropping due to the abandonment of speculative positions in instruments based on these prices, expectations of lower global growth, and the appreciation of the dollar. While high prices benefited food and energy exporting countries, in this new scenario, they will be the ones most negatively affected.

Remittances, which to a great extent come from developed countries, will drop due to the slower growth of these economies.

Mexico and Central America will be the most affected because they depend more on the United States’ economy, being more “tied” to its economic cycles.

The effects of these transmission mechanisms will have consequences for the common citizen, in that they threaten their jobs, pensions and access to loans, and especially, for the youngest generations, the poorest and the most vulnerable. In this context, it is important to rethink development, with an open mind and step by step as the international economic order is reconstructed, with a deep Latin American and Caribbean identity that should induce us to approach the development agenda from the perspective of the countries in our region.

“IT IS IMPORTANT TO RETHINK DEVELOPMENT, AS THE INTERNATIONAL ECONOMIC ORDER IS RECONSTRUCTED, WITH A DEEP LATIN AMERICAN AND CARIBBEAN IDENTITY”

Initiatives to face the crisis

Along with the adoption of financial bailout plans in the United States and Europe came the call for a profound reengineering of the international financial architecture. The World Bank called attention on the need to involve the main emerging economies belonging to the Group of 5 - Brazil, China, India, Mexico and South Africa- , besides the traditional G-8. Later, eight other countries were added, constituting the Group of 20, which represents 60% of the world population and 85% of the global economy. The economy’s future depends on these 20 countries, which have the responsibility of reforming or reinventing a new financial and economic order, with a new balance among developed economies, the group of emerging economies and developing countries.

It is important to avoid certain behaviour in the resolution of the present situation: the over-regulation of financial markets, which would also hold back business opportunities and economic growth, protectionist positions in trade and the non-compliance of commitments of Official Development Assistance.

In this context, the United Nations is the most democratic and representative multilateral forum, a universal guarantor of fair and sustainable development, and off maintaining donor commitments in terms of the financing required for development and achieving the Millennium Goals, to renew the commitment of eliminating poverty and inequality from the face of the earth. The convening power of the United Nations and its universal nature grant this institution a central role in the resolution of systemic problems of the dimensions of the ones we are experiencing today.

It is the duty of the most developed nations to adopt measures to diminish the impact of this crisis on the most vulnerable populations.

The redefinition of the international financial system under these ethical parameters represents today the beginning of the change of era.

The author is the Executive Secretary of ECLAC
more direct links with the United States market, as well as those with scantly diversified export structures that rely on the commodity markets that have suffered most of the impact of the global crisis, as well as countries with weak financial systems.

Unemployment could rise

Employment is expected to stagnate during 2009 and real wages will remain unchanged or may decline slightly. Unemployment could rise, especially affecting the poorest population. The current trend already shows a greater concentration of unemployment among low-income workers. Economic forecasts suggest that average household incomes will deteriorate, particularly among independent and informal workers whose jobs are most sensitive to movements in economic cycles. In this context, poverty and indigence will most likely rise marginally, continuing the negative trend begun in 2008.

The unemployment rate has dropped progressively since 2002 in most urban areas of Latin America, although it continues high, and as of 2006, has remained 2.4% higher than in 1990.

From a gender perspective, the differences in employment rates between women of low and high income groups (higher than among men) reflect certain obstacles that may worsen in a situation of crisis. The limited availability of fiscal resources may negatively affect social spending, and this may apply additional pressure on households.

The report also examines the opportunities provided by the “demographic dividend”, which accrue to all Latin American countries. This dividend, which reflects the favourable ratio of the working-age population to the population in conditions of dependency (children and the elderly), has had a positive impact on the education sector. Demand for primary education will continue to decline over the coming decades (due to a relative and absolute reduction in the child population), while demand for secondary education will begin to decrease (as a result of the relative and subsequently absolute decline in the adolescent population). This is providing governments with the opportunity to tackle the goal of increasing coverage and improving the quality of secondary education cycles.

The Social Panorama report also analyzes the issue of youth and domestic violence in Latin America. Such violence feeds on various forms of social and symbolic exclusion among youth, such as the lack of equal opportunities, insufficient access to employment, alienation, discrepancies between symbolic and material consumption, territorial segregation, and the absence of public facilities for social and political participation. In addition, there is the issue of street gangs and the involvement of youths in organized crime and armed conflict.

Recommendations

In light of these negative effects of the crisis, and similar to the reasoning behind the new Millennium Goal target, ECLAC stresses that achieving full and productive employment and decent work in Latin America is key to reducing poverty and income inequality, given that the labour market is the main link between economic growth and lowering poverty. In this context, ECLAC suggests augmenting efforts to improve the functioning of the labour market.

Social assistance to groups vulnerable to the crisis should be reinforced through food baskets, emergency pensions, employment programmes and other similar initiatives.

To address the problems of unemployment and diminishing income, ECLAC reiterates the need to create special public investment programmes in infrastructure, extend unemployment insurance and strengthen financing, coverage and the institutional framework of conditional transfer programmes.
In the Ibero-American scenario, youths live, figuratively, a glass half full and the other half empty. Compared with adults, today’s youths have had access to more formal education and are more at ease with new information and communications technologies. Autonomy is regarded almost as a natural value of youths; however, it is not so easy to develop effectively as a life project, given the barriers to employment and housing.

Poverty and social exclusion feed on each other in a vicious cycle that reproduces itself from generation to generation. Youths are the crucial link in this intergenerational transition, because they are at a phase in life in which the dialectics between developing acquired skills and capitalizing them in effective opportunities is most intense. For this reason, insufficient access to education condemns youths to a life of precarious participation in the labour market, with income levels that do not allow them to overcome poverty or gain access to adequate social protection networks.

The report *Youth and social cohesion in Ibero-America: A model in the making*, published in October by ECLAC and the Organization of Ibero-American Youth (OLJ), analyses the links between youths and social cohesion, understood both as the structures and institutions that provide social inclusion (education, employment, social protection), as well as the sense of belonging to a community.

**The means for social mobilization are lacking**

The study indicates that in 2006, more than 35% of youths from 15-29 lived in poverty (47.5 million), and another 11.4% were indigent, equivalent to more than 11 million youths. There is great disparity among countries, from 13.1% of poor and 2.4% of indigent in Chile, to 66.3% and 40.3%, respectively, in Honduras. Nevertheless, poverty decreased (44% at the beginning of the last decade) as well as youth delinquency (18%), to the point that the total number of indigent youths diminished by almost 4 million.

Nevertheless, this occurs in a context of enormous inequality when comparing rural and urban youths, men and women, and indigenous and Afro-descendants with the rest, and youths of different age groups.

In spite of significant progress in education in recent years, inequality is still present. Educational systems have not provided the means for the social and economic mobility of youths, while at the same time advancing in the multiple dimensions of social cohesion: more equal opportunities, human capital for future social mobility, development of active citizens, respectful of their rights, familiarity with diverse cultural codes and access to the labour market with greater options.

In a decade and a half (1990-2006), the percentage of youths who completed secondary education increased from 27% to 51%. However, half of the youths in the region did not complete their education and remained in a situation of social vulnerability, with limited possibilities of obtaining decent employment. Moreover, inequality continues to be a predominant characteristic: 20.4% of the poorest completed their secondary education, versus 78.6% of those in the fifth quintile; 35.1% of indigenous and Afro-descendants completed their education, versus 50.4% of the rest; 23% in rural areas versus 56.4% in urban areas.

Regarding access to post-secondary and tertiary education (technical, non-university professional and university professional), only 19% of youths in age of post-secondary education had access to it.

**Innovative, suspicious, sensitive to environmental issues**

Notwithstanding all of this, youths are decisive protagonists in progressing towards the information society. Ibero-American youths are having greater access to connectivity. Frequent use of communications technologies in 2007 was more than double among youths than among adults, while half of the youths aged 18-29 used them occasionally or on a daily basis, and only a fifth of adults did so. It is mainly youths who, through connectivity, are revolutionizing access to information and knowledge, participation in groups, management of resources and projects, and new ways of recreation and symbolic consumption.

Ibero-American youths are innovative in their modes of participation. They grew up with the ideals of democracy and human rights, and they are the generation that is most sensitive to environmental issues and the historical demands of different minorities. However, they do not trust political institutions and they have difficulties regarding democracy as the order by which collective projects are negotiated in a representative way.

*(continued on page 5)*
Furthermore, an average 69% of Latin-American youths say they feel discriminated and almost 11% say that it is because they do not receive enough education.

Nevertheless, there has been notorious progress in the public and political acknowledgement of youths. Over the last two decades, government institutions in charge of designing plans and youth programmes (institutes, national directorates or ministries) have been created throughout the region. Instruments to increase knowledge and perception of youths and improve the effectiveness and orientation of public policies for youths have also been set in place.

The approval of youth-related legislation, the design and monitoring of plans and programmes, the conduction of national surveys, the installment of observatories and the creation of youth information centers and Internet portals are frequently used instruments to support and deploy efforts in this area.

**Risks, capabilities, opportunities**

Moreover, public policies for youths have evolved favourably in recent years. What is missing is to move towards a comprehensive approach that goes beyond sectoral policies, more in line with the nature of youths, who encompass dimensions of risks, capabilities, opportunities, ways of pertaining to groups and modes of participation. The main challenge for States, then, is to create youth policies and appropriate institutional and operational frameworks to respond to this need for a comprehensive approach.

In this context, the decision of the Summit of Ibero American Presidents and Chiefs of Government to implement an Ibero American Plan of Cooperation and Integration for Youths is notable progress. This way, the main needs of youths in the region may be detected and there may be better dialogue with youth policy-makers in order to recommend strategies to strengthen the public agenda in this area. This agenda should count with the support of the international community through bilateral and multilateral cooperation and initiatives to raise awareness regarding the central role of youth policies in social cohesion.

It is clear that the challenges are not few. Young people must be effective subjects and beneficiaries of development; that is, build life projects and collective dreams in the context of a society that may include them in their opportunities and protect them in the risks. The new generations are the foundations to recreate a common us.

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The author is the Director of the Social Development Division at ECLAC.
growth rates and less favourable trade balances in 2009. These include:
- The drop in commodity prices during the third quarter this year;
- Falling demand for Latin American products, primarily from the United States, and to a lesser extent, from Japan and the European Union.

According to ECLAC, the world scenario is forcing Latin America and the Caribbean to face short and long-term challenges. In the short run, and as a result of international turbulence, governments will have restricted access to external financing, higher interest rates, hard-hit stock exchanges and a shift of capital to safer destinations and into less risky assets, as well as lower remittances and foreign direct investment. As a result, credit lines for exports and investment plans will be restricted, limiting growth.

**Safeguards**

To avoid contagion from industrialized economies, governments must ensure liquidity in the financial system and reinforce prudent supervision of the soundness of the banks and financial institutions with the most links to international financing and risky operations.

In order to deal with external shocks, says ECLAC, governments should strengthen their countercyclical macroeconomic policies, maintain sound fiscal accounts and monitor external account trends. Countries that continue to enjoy favourable terms of trade should improve the management and use of additional income from higher commodity prices by promoting activities that boost competitiveness, human resource development and export diversification.

Economic reforms implemented in recent decades must be maintained, such as those related to fiscal responsibility and inflation control, trade liberalization –especially intraregional trade-, and market diversification, debt reduction and accumulation of international reserves. These assets will allow Latin America and the Caribbean to deal with a scenario of recession on more solid ground.

**Perils of reverting to protectionism**

Additionally, new forms of protectionism affecting emerging countries could arise as a result of the imminent world economic slowdown in 2009-2010. Moreover, increasing uncertainty is hampering progress in multilateral trade negotiations, such as the Doha Round.

It is then imperative to pay attention to new predominant trends in world trade that could exert additional pressure on competitiveness in the region and become unnecessary barriers to trade:
- Advances in Information and Communications Technologies (ICTs), telecommunications and transportation that have altered the border between tradable and non-tradable goods and between manufacturing and services.
- Environmental problems –particularly climate change- and the policies required to address them, may have a negative impact on intraregional trade and conflict with regulations if they are not dealt with cooperatively at a multilateral level.
- After the attacks on September 11, 2001, the issue of trade security emerged forcefully, increasing requirements on agents intervening in the supply chain, with significantly higher transaction costs.
- The development and legal nature of private-sector quality standards, which, although voluntary, may affect a country’s competitiveness.
- The discussion about trade and labour standards and their relationship with trade agreements.

To face these trends, ECLAC recommends that developing countries build technical capabilities in order to distinguish between the changes they must adapt to, and those that are nothing more than new private business practices that may hamper competition or foment protectionism.

In the midst of this uncertain international context, countries in the region are striving to advance towards trade agreements that reduce associated transaction costs. There is also a trend towards productive integration through private-sector investment and trade decisions. Additionally, efforts are being made to boost the South America Community of Nations (UNASUR) and the “Mesoamerica Project”, formerly the Puebla-Panama Plan (PPP).

Europe has been losing ground as a trading partner to Latin America and the Caribbean, partially due to the increasing relevance of Asia-Pacific as a market for regional exports, as well as source of imports in the region, notes the report.

The region lacks a more coordinated strategy among groups of countries to strengthen ties with Asia-Pacific, states the report. Greater Latin American integration would contribute in this aim, if the region were to advance towards legal certainty and macroeconomic stability, and achieve unified markets with simple and/or harmonized trade rules. Worth noting in this regard is the initiative of the Latin American Pacific Basin, composed of the eleven countries sharing the Pacific coast that have joined trade efforts to insert in the Asia-Pacific area.

ECLAC believes the time is ripe to support the concept of “open regionalism”, which strengthens the compatibility of regional and subregional integration schemes and the global trading system.
Taxation tends to be low in Latin America and the Caribbean, and the collection of progressive taxes such as on personal income and property, is poor.

Studies carried out as part of the project on Taxation and Equity, coordinated by ECLAC's Economic Development Division, confirm that average tax collection in the region is low, but vary greatly from country to country. In Brazil and Argentina, for example, tax collection is equivalent to 30% of GDP, while in Haiti, Guatemala and Paraguay, it barely surpasses 10%.

In 2007, income taxes were only 4.8% of GDP and 26.2% of total tax revenues. The share of property taxes in total tax revenues was marginal, reaching an average of only 0.8% of GDP, equivalent to 4.1% of total tax revenues.

This means that while almost 53% of tax revenues in Latin America derives from taxes on goods and services, only about 30% is exacted from income and property taxes.

Given that inequality in Latin America is high due to an acute concentration of income and wealth among upper classes, raising personal income and property taxes is fundamental, in that they are proportional to taxpayers’ ability to pay.

Project results conclude that the distributive impact of tax structures in the region is regressive, with income distribution worsening after tax collection, in contrast with what occurs in other parts of the world, where tax systems are neutral or slightly progressive. This situation reveals the need for redistributive policies in the region and for greater fiscal funds to finance them.

In the study “Direct taxation in Latin America and the challenges of income taxes”, authors Oscar Cetrángolo and Juan Carlos Gómez-Sabaini state that one of the most commonly mentioned reasons why it is difficult to collect taxes, particularly direct taxes, is the concentration of wealth.

The economic and social circumstances in the region over the past two decades (trade and financial liberalization, abandonment of the corporate role of the State, increasing informal labour and growing concentration of wealth), have imposed changes on tax systems in Latin America. However, these reforms have not been harmonic nor stable.

Countries in the region have been unable to balance the tax burden among the different socioeconomic strata, nor have they established definitive standards for the share of tax revenues among the different levels of government. Moreover, governments are not collecting enough tax revenue to satisfy the demand for public expenditure and attain fiscal sustainability.

With regard to tax structures, it is striking the limited role that policies in the past have assigned to personal income taxes, compared to the efforts made to raise value added taxes.

The Cetrángolo and Gómez-Sabaini report analyzes the impact of direct taxation, in general, and on income, in particular, and provides a number of considerations that may be used for case studies.

In the document “Property taxes in Latin America”, economists Claudia M. De Cesare and José Francisco Lazo Marín assert that in spite of the many property taxes in the region, their share as a source of revenue has been very limited, suggesting that there is resistance and/or difficulties in their enforcement.

The text identifies the obstacles against strengthening property taxes, the effects of fiscal policy decisions, and examines tax administration practices.

In addition to the usual difficulties of property tax collection, Latin America has certain characteristics that makes it even more challenging. Among them, highly informal land use, the heterogeneousness of property, and the lack of transparency in markets.

Given this diagnosis, the authors recommend guidelines and initiatives that could lead to greater efficiency, equality and fiscal effectiveness in tax systems.

In this regard, they suggest that the upper levels of government should guarantee support to mid-level and local governments, which are primarily responsible for collecting property taxes, so they may count with sufficient technical capabilities to carry out their fiscal activities.

Uniformity and appraisal levels are essential for equal and efficient property taxes. The following measures, among others, should be taken in this direction: including in legislation the criteria used for calculating appraisal; employing less arbitrary and subjective appraisal methods, and establishing periodic appraisals.
**Economic and Trade Relations Between Latin America and Asia-Pacific. The Link with China.*  
October 2008 (LC/L.2959). Contribution of ECLAC to the Second China-Latin American Business Summit held in October in China. The report provides updated information on the internationalization process in both regions in order to promote initiatives for public-private alliances in areas that may stimulate biregional trade and investment, as well as facilitate mutual cooperation. [www](#)

**Environmental considerations on liquid biofuels.* Environment and Development Series Nº 137. July 2008 (LC/L.2915-P), by José Javier Gómez, Joseluis Samaniego and Mariana Antonissen. Presents the environmental benefits of the use of biofuels, such as the reduction of local contaminants and greenhouse gas emissions, as well as the environmental risks of using natural areas for biofuel crops. [www](#)


**Economic Survey of Latin America and the Caribbean, 2007-2008**
August 2008 (LC/G.2386-P/E). Presents determinants of economic evolution in the region during 2007 and the first semester of 2008, and the impact of events in world markets. Analyzes the volatility of GDP growth and anticyclical policy options adopted by Latin American governments. It also includes a chapter on the 60 years since the Survey was first published. [www](#)

**Study on energy-intensive companies and their potential contribution to energy efficiency programmes*.  
Natural Resources and Infrastructure Series Nº 135, by Pedro Maldonado. June 2008 (LC/L.2909-P/E). Presents regulatory aspects, norms and incentives to improve energy efficiency in energy-intensive companies and proposals for such companies in Chile. The study also refers to the responsibilities of the public and private sectors in institutionalizing these productive enterprises and ensuring their sustainability. [www](#)

**Progress in reducing extreme poverty in Latin America: Dimensions and policies for analyzing the first Millennium Goal*, by Arturo León. August 2008 (LCR.2147). This publication hopes to contribute to harmonizing procedures to characterize poverty in Latin America in order to better evaluate progress in reducing it, by examining advances in reducing extreme poverty in different subgroups of the population, particularly among the most vulnerable. [www](#)

**The volatility of international prices and economic policy challenges in Latin America and the Caribbean*.  
September 2008 (LC/L.2958). Contains the conclusions of the seminar “Food and energy crisis: Opportunities and Challenges for Latin America and the Caribbean” held in ECLAC headquarters in the aim of redesigning policies to better address price fluctuations. [www](#)

**CEPAL Review N° 95*. August 2008 (LC/G.2382-P/E). This number includes articles on the surge of multilatin corporations; the lack of public policies to prevent the middle class in Latin America from falling into “new poverty”; and the need for Chile to improve national social policies in light of the unequal development of its regions, among others. [www](#)

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