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CONTENTS

Can growth *and equity* go hand in hand?

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This article presents the issue in the context of the theoretical and empirical debate, started by Kuznets, on the possibility of achieving growth with equity. The conclusion is that there is no inevitable conflict between these two goals, provided that economic policy promotes the areas of complementarity between growth and equity. It therefore rejects the approaches which assume that there is an insoluble conflict between these objectives, such as the "trickle-down" theory (which stoically accepts that such a conflict exists and proposes that those affected should wait as long as is necessary for their situation to improve) and the contrasting "parallel" approach (which suggests that growth should be sacrificed in favour of equity, with social policy being entrusted with the correction of the worst distributive effects of economic policy). Instead, it advocates an "integrated" approach in which economic policy incorporates considerations of income distribution and social policy pays due attention to efficiency, while both attach great importance to the areas of complementarity between growth and equity. In this respect, it mentions four major areas of complementarity between these two goals, three of which are the subject of fairly general agreement (keeping the macroeconomic balances within acceptable margins; investment in human resources, and a policy of full employment in productive activities), while the fourth is less generally agreed but is strongly supported by ECLAC: the need for the rapid, large-scale spread of technology. Finally, the article notes the instrumental differences between the ECLAC and neo-liberal approaches in seven specific areas of economic policy. For example, the neo-liberal approach gives priority to the deregulation and liberalization of markets, the neutrality of the instruments used, and some degree of passivity on the part of the State. The ECLAC approach, in contrast, calls for selective action by the State to make up for the most serious flaws and shortcomings in the factor markets, without which it is considered unlikely that the region can attain the high economic growth rates which past history has shown to be within the reach of late-industrializing countries, while it is even more unlikely that such growth can be attained with equity.

I
Introduction

After nearly a decade of economic stagnation and social backwardness, the countries of Latin America and the Caribbean have made a resolute effort to stabilize and restructure their economies and have been successful in checking runaway inflation, liberalizing markets, reducing excessive levels of protection, and redefining the roles of the public and private sectors, while giving the latter the key role in production.

These reforms have had their cost, however, and the most serious aspect is that in most cases this cost has not been shared out equitably. The success of the reforms is still a long way from being certain (as is shown, for example, by the Mexican crisis in 1994-1995), and democracy itself may be at risk in some cases because many of the advances made have been gained at the expense of the poorest sectors of the population. We can therefore see that growth with equity is not only essential from the ethical point of view, but also for political reasons. This raises a big question, however: is growth with equity technically possible?

Indeed, at least since the time of Kuznets, it is usually considered in the economic literature that these two objectives are contradictory, so that some writers have proposed a sequential approach: first growth and then (perhaps) redistribution. As it has been noted that this effect takes a very long time to make itself felt, however, others have suggested that some growth should be sacrificed in favour of better distribution of the fruits of economic progress, with social policy being made responsible for compensating or correcting the regressive effects of some economic policies. The problem with this second approach, however, is that these regressive effects are so great that no realistic social policy is capable of making up for them.

Fortunately, if we look at the performances registered since the Second World War by many developing countries –especially, but not exclusively, some recently-industrialized Asian countries– [1] we see that the presumed conflict between growth and equity is by no means inevitable. There are substantial areas of complementarity, and not merely of conflict, between the objectives of growth and equity, and whether or not these areas are given priority depends on the policies applied. Thus, it is perfectly possible to achieve growth and improve equity at the same time rather than in sequence, provided that an integrated approach is adopted in which economic policy pursues the objective of equity as well as that of growth, while social policy gives high priority not only to equity but also to efficiency. In such a case, economic and social policies must focus on heightening the complementary aspects of growth and equity while minimizing possible areas of conflict.

It goes without saying, of course, that although growth with equity is perfectly possible, it is neither easy nor automatic. No matter how much consensus there may be on the importance of the market economy and a strong private sector for promoting development –a consensus which is shared by ECLAC– it must nevertheless be acknowledged that although these are necessary conditions for growth they are not of themselves sufficient for attaining this goal, and still less that of growth with equity. If those two factors were indeed sufficient of themselves, then the per capita income of the region would not be one-fifth or one-tenth that of the developed countries and 40% of its population would not be living in a state of poverty, as is the case today, for during at least 120 of the 180 years of independence of the region (and during nearly 450 of the 500 years since its colonization) its economy has been organized on the basis of private ownership of the means of production, the leading role of the market, and a small, passive State. This proves that growth with equity requires not only a market economy but also vigorous public action to make the best possible use of the potential areas of complementation in favour of both objectives.

☐ This article is based on the document *Equity and changing production patterns: an integrated approach* (ECLAC, 1992), whose preparation was coordinated by the author of the present article.

[1] See, for example, Fields (1991), who analysed the growth processes of 70 developing countries since the war and found that although in half of them growth was accompanied by a deterioration in income distribution, which is in line with Kuznets's hypothesis, in the other half income distribution improved or at least did not deteriorate. This therefore shows that these two objectives are not mutually exclusive, as traditional theories claim.

II

Areas of complementarity

A general consensus is beginning to emerge that the main areas of complementarity between growth and equity are maintenance of the basic macroeconomic balances, investment in human resources, the generation of productive employment, and technological modernization.

1. Maintenance of the basic macroeconomic balances

Experience shows that the worst slumps in income in absolute terms, as well as the biggest setbacks in this respect, have been due to recessions caused by adjustments in order to cope with unsustainable current account deficits (accompanied by heavy devaluations and slumps in the product and real wages, as in the 1982-1983 debt crisis and the 1994-1995 crisis in Mexico), to recessions caused by runaway inflation in which real wages have dropped by as much as 50% (as in Argentina in 1988-1990, Brazil in 1990-1991, Bolivia in 1982-1984, Nicaragua in 1987-1990, and Peru in 1988-1989), or to subsequent badly designed or implemented stabilization attempts, as in Chile (1974-1975), Peru (1990-1992) and Venezuela (1989). In cases of runaway inflation, wages usually lag far behind prices, because the lower classes have fewer defence mechanisms to cope with spiralling inflation, while if subsequent stabilization programmes lead to a decline in production, either because they are poorly designed or because they do not enjoy credibility, this leads to lower levels of employment which result in declines both in wages and in the share of workers in national income. Consequently, measures aimed at avoiding such imbalances favour not only growth but also equity.

2. Investment in human resources

Investment in human resources is necessary in order to break the vicious circle of poverty. Among other things, it favours a reduction in the fertility rates of poor women, whose children run a greater risk of suffering from malnutrition, have fewer chances of taking advantage of the education they receive and, as their education tends to be of low quality, often end up working at very low-productivity jobs, thus perpetuating the vicious circle of poverty. In order to prevent this from happening, measures must be taken to help bring effective fertility rates down to the levels desired by couples in the light of the number of children they can responsibly bring up; to eliminate malnutrition through mother and child health programmes; to continue to broaden the coverage of the educational system (a goal which has indeed been reached in much of the region), and above all, to raise the quality of education and adapt it more closely to human resource needs.

3. Generation of productive employment

Unemployment or employment in only marginally productive activities (underemployment) is not only a social problem but also a sign of great economic inefficiency, since it means wasting the productive potential of a considerable part of a country's human resources. As well as affecting those who have no jobs, unemployment has an adverse effect on wages, so that it also affects those who do have jobs. The high levels of unemployment and underemployment explain the marked deterioration in real wages in the region during the 1980s, when wages generally went down more markedly than the per capita product and productivity. It is therefore not surprising that the fruits of economic progress do not spread to the broad masses but are concentrated in the hands of a few.

For this reason, ECLAC considers that the achievement of full employment is a good indication of the possibility of growth with equity. It is not a question of just any type of full employment, however, but of truly productive employment. For example: if any kind of job were enough to ensure the achievement of full employment by the year 2000, we could simply prohibit the transportation of freight in wheeled vehicles, but obviously the resulting employment would hardly be very productive. It is therefore not enough to apply emergency policies which generate temporary or low-productivity employment: instead it is necessary to formulate economic policy in general with a view to the generation of productive employment, through specific measures such as those mentioned below (especially in Part III, sections 2 a), b) and c).

4. Technological modernization

ECLAC holds that the improvement of international competitiveness must be based on a constant increase in productivity through technological modernization. It therefore rejects competitiveness based on low wages or abuse of the environment, which gives transitory, non-renewable advantages, because it considers this to be superficial or spurious competitiveness. A classic example of this is the Spanish Empire, which, in spite of its access to the natural riches of the New World, fell far behind the British Empire, whose progress was based on systematic technological progress.

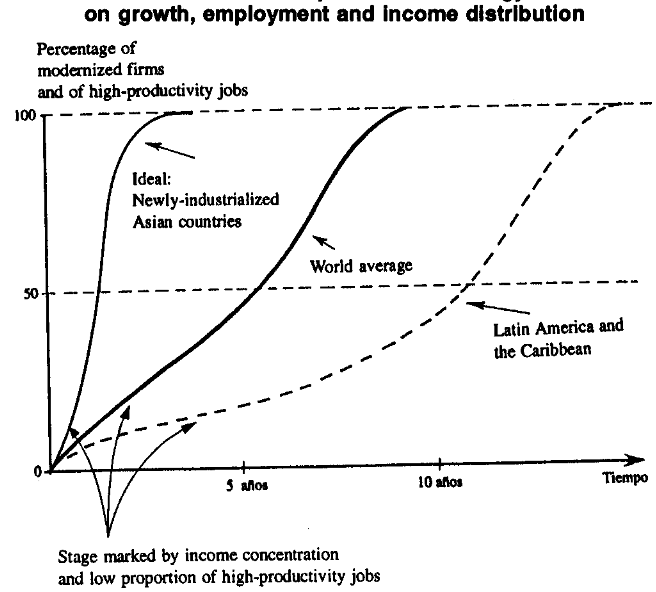
In our opinion, the existence of such a high proportion of poor people in the region (40%) is due largely to the fact that many workers are employed in firms with insufficient, outdated equipment, so that their productivity is very limited and their wages very low. This situation will persist as long as the productivity of an average firm in the region is only one-third or half that of a typical enterprise in a developed country, even taking into account the differences in the relative scarcity of factors. The generation of truly productive jobs therefore involves speeding up the spread of technology.

At first sight, it might be feared that there is a conflict between technological progress and the number of jobs, but this is only apparent. There are many technical advances which allow labour to be saved but which, while reducing the number of low-productivity jobs, increase those of high productivity. Furthermore, the most important technological advances not only reduce the demand for unskilled labour but also make possible savings of capital, which is the scarcest factor. For example, the pocket calculators of today, which cost ten dollars or less, carry out the same operations as the electro-mechanical calculators of twenty years ago, which cost over 200 dollars, and they do so much more quickly. The savings of capital thus made possible allow productive employment to be generated in this and other fields. There are any number of similar examples not only in informatics but also in communications, air and sea transport, electronics, biotechnology, development of new materials, and other activities.

Since technological progress can have a variety of effects, priority must be given to the rapid spread of technology, especially in backward, labour-intensive sectors, for the slower the spread of technology, the slower will be the growth of the product and the generation of high-productivity jobs, since without such advances the majority of firms will continue to operate with obsolete technology. In contrast, when the spread of technology is speeded up, this will increase both the product and the number of high-productivity jobs (see figure 1).

FIGURE 1

Effects of the rate of spread of technology on growth, employment and income distribution



Source: Prepared by the author.

III

Areas of discrepancy

Although there is increasing consensus that growth with equity calls for the maintenance of the basic macroeconomic balances and a strategy designed to raise international competitiveness through technological modernization, the generation of full, productive employment, and investment in human resources, there are still substantial areas of disagreement over the approaches and instruments to be used.

1. Differences with regard to approaches

As we already noted, ECLAC rejects the "trickle-down" theory because past experience shows that economic growth by itself does not automatically lead to equity, or at least not within a reasonable length of time, but only after many decades. Nor does ECLAC agree with the approach that saddles social policy with the practically unattainable objective of making up for the regressive effects of many economic policies. Instead, ECLAC advocates an integrated approach under which considerations of equity are incorporated into economic policy, while social policy takes due account of the need for efficiency. Under this approach, it is considered preferable, for example, to avoid the evils of unemployment through a macroeconomic and growth policy aimed at the stabilization of prices and the achievement of full employment, rather than through arrangements for the payment of unemployment benefits.

2. Differences with regard to instruments

Some authors (mostly of the neo-liberal school) advocate measures to deregulate markets and make them more flexible, with the State playing rather a passive role. In contrast, ECLAC holds that there is also a need for vigorous, albeit selective, public action to overcome the most critical bottlenecks and thus prevent growth from being slow and concentrative (see figure 1).

In almost all orthodox theories, a leading role is given to price liberalization and measures to deregulate markets and make them more flexible. According to these theories, under-development is due essentially to government interference in markets, and their implicit tenet is that the prices obtaining in deregulated markets must necessarily be the "correct" or equilibrium prices. According to the neo-structuralist approach taken by ECLAC, however, various key markets suffer from critical flaws which mean that at any given moment the equilibrium price between supply and demand may not be the same as the long-term equilibrium price: i.e., the price that reflects the real scarcity of goods, and above all of factors. In the following paragraphs we will show the differences between the neo-liberal approach and the ECLAC neo-structuralist approach as regards the instruments that can be used to strengthen the areas of complementarity (see table 1).

a) *Increasing public saving or reducing the deficit*

All the experts agree that increasing public saving, or reducing the deficit, is a necessary condition for keeping the macroeconomic balances within acceptable limits. In order to reduce the deficit it is necessary either to reduce public expenditure or increase revenue. Although from the macroeconomic standpoint it does not matter which of these means is used to eliminate the deficit,[2] this is not so from the standpoint of growth with equity, for cuts in expenditure –which were the typical orthodox solution in the region in the 1980s– make it even more difficult to fulfil the basic functions of the public sector in terms of investment in the infrastructure and human resources, both of which are essential for growth with equity.

[2] Strictly speaking, even from the macroeconomic point of view it is not true that it does not matter how the deficit is eliminated. On the one hand, it is not only necessary to balance the fiscal accounts (or generate a surplus): it is also necessary that the balance attained should be credible, in order to consolidate the goal of stability. Consequently, the balance must be obtained through a level of expenditure which can be maintained in the long term, and not through an unsustainably compressed level of spending. On the other hand, the level of saving must also be seen to be stable, which means that it must be based on a high level of national, rather than external, saving, in order to avoid excessive domestic vulnerability (take, for example, the 1994-1995 Mexican crisis and the current high level of vulnerability of Argentina).

TABLE 1

Equity and growth: the orthodox proposal versus the ECLAC proposal

Objectives	Orthodox proposal		ECLAC proposal	
	Policies	*Associated problems*	*Policies*	*Instruments*
1. Public saving	Reduce spending. "Focus" spending (make spending more "progressive").	Level of revenue insufficient to cover investment in infra-structure and human capital. Uneven adjustment of expenditure and income.	Use of leeway to raise tax burden (direct income). Make tax collection more progressive.	Expansion of tax base. Reduction of tax evasion. Selected exemptions from VAT. Taxes on automobiles, property and fuels.
2. Private saving	Raise interest rates. Compress wages.	Insufficient impact. Redistribution of income to traditional savers (i.e., the rich).	Increase saving by wage-earners through institutional changes.	Saving for housing. Forced saving, elimination of actuarial and cash deficits of social security system.
3. Private investment in human resources	None.	No loans available for education or training.	Create a capital market for investments in human capital in order to overcome the problem of lack of guarantees.	Use of social security funds to guarantee educational loans and use of the social security system for repayment of these loans by payroll deduction.
4. Better use of investments	Free interest rates.	Segmentation: access to long-term capital limited to large firms.	Create financial instruments suitable for small and medium-sized firms.	Promote the use of leasing, guarantee funds, venture capital funds, secondary securities markets, and "credit cards" for businesses.
5. Better use of labour	Deregulate the labour market.	Conflictive labour relations; low productivity; job instability.	Modernize labour relations, encourage payment of wages by results rather than hours worked (profit sharing).	Authorization to convert part of severance benefits into profit-sharing wages. Lower social security taxes on profit-sharing wages. Profit-sharing wages for young people starting work for the first time. Obligation that *x%* of wage increases must be in the form of profit sharing.
6. Expansion of markets	Lower tariffs. Maintain a high, stable exchange rate.	Neutral incentives; insufficient use of industrial base created by import substitution.	Apply a temporary pro-export policy bias.	Credits, drawback arrangements, special tax provisions for non-traditional and pioneering exports. Encouragement of internationa-lization of local firms.
7. Technological development	No action taken: "black box" attitude.	Low competitiveness due to technological lag.	Incorporation and spread of technical progress. Achievement of systemic competitiveness.	Organization of visits to most advanced foreign firms. Strengthening of technological infrastructure (especially in informatics and telecommunications). Strengthening of linkages between the production and technology systems.
8. Role of the State	Passive (deregulation).		Active (promotion of role of State).	

Consequently, ECLAC proposes that priority should no longer be given to cuts in expenditure, but instead efforts should be made to increase tax revenue.

Indeed, in so far as inflation is a kind of tax (implicit, but none the less real), increasing tax revenue in order to reduce the fiscal deficit, and hence inflation, simply means replacing an implicit tax with an explicit one, without however increasing the net effective tax burden. Furthermore, the tax burden of the private sector in the region is not very high: if we exclude the taxes paid by State enterprises, especially those engaged in the extraction of natural resources, this burden amounts to 16% of the regional GDP (the highest national levels being 20% and 22% in Mexico and Chile, respectively), whereas in the OECD countries it amounts to 25% of the product. Consequently, there would appear to be ample room to raise the tax burden in the region, especially as regards direct taxes, which stand at only 3% of GDP, whereas in the OECD countries they amount to 13% and in the recently industrialized Asian countries to 7%.

Opinions differ on the best ways to increase tax revenue. ECLAC's view is that instead of raising the marginal tax rates, which are usually quite high, it would be more useful to apply measures such as the following: diminish the wide range of tax exemptions, which not only reduce revenue but also facilitate tax evasion; broaden the tax base (for example, by establishing taxes on capital gains, dividends, interest on time deposits, income from rents, etc.), and reduce the enormous tax evasion currently practiced.

The last-named measure is by no means an illusory aim, since there are countries in the region which have managed to increase their tax revenue in four years by as much as 4% of GDP through well-designed campaigns against tax evasion. Such campaigns include the following: i) tax simplification measures in order to reduce the number of tax rates, special taxes and exemptions, which in many cases turn tax legislation into an incomprehensible jumble of red tape (before the 1975 tax reform in Chile, for example, the list of exemptions occupied 164 pages); ii) drastic penalties for tax evasion; iii) computerized, cross-referenced processing of tax information; iv) testing of tax inspectors and dismissal of the least-qualified so that the remainder can be given higher salaries; and v) dismissal and exemplary punishment of the highest-level corrupt officials in the internal revenue service, especially if they are members of the governing party, in order to give greater credibility to the campaign against civil service corruption.

b) *Increasing private saving and investments*

All the experts also agree that increasing private saving, and hence investments, is vitally important in order to increase the number of well-paid jobs. There are differences of opinion, however, regarding the most suitable ways of promoting such saving. Orthodox analysts usually advocate an increase in real interest rates in order to promote private saving. ECLAC agrees, of course, that negative real interest rates considerably reduce the saving potential. Both practical experience and theory, however,[3] indicate that in less-developed countries, once real interest rates reach a level slightly higher than that of international rates,[4] further increases in those real domestic rates have little impact on saving.

Likewise, for obvious reasons of equity, ECLAC does not agree either with classic orthodox policies designed to increase saving by reducing wages and thus transferring resources from wage-earners, whose propensity to save is low, to capitalists, who are supposed to have a high propensity to save. Instead, in order to increase private saving ECLAC advocates the adoption of forced saving measures in the form of either higher taxation or greater institutional saving. In both of these cases, State intervention is necessary. By way of example, an increase in social security contributions and postponement of pensionable age to a level more in keeping with current longer life expectancy would both increase private saving and make it possible to cover the deficits equivalent to between 2% and 6% of GDP which currently effect the social security systems of the region.

[3] Raising interest rates has a positive substitution effect because it encourages the postponement of consumption instead of present consumption. It also has a negative income effect, however: when interest rates rise, the income from savings increases too, thus reducing the need to make an effort to save. This negative effect reduces or even cancels out the substitution effect, thereby limiting the increase in saving brought about by interest rate rises.

[4] Real interest rates in less-developed countries tend to be higher than international rates because their economies usually suffer from greater macroeconomic and political instability and saving therefore entails greater risks.

c) *Proper allocation of investments*

For reasons of both growth and equity, it is important not only to increase investment but also to ensure that it goes to the most promising sectors. According to conventional wisdom, in order to take the fullest advantage of the scarce available capital it is necessary to allow interest rates to fluctuate freely. Regardless of the possible vices or virtues of this approach, however, ECLAC considers that interest rates cannot be the only instrument for resource allocation, since the serious gaps, flaws and cases of segmentation in capital markets in the region make it essential that the State should take measures to correct the serious and costly distortions in resource allocation caused by these shortcomings.

The fact is that capital markets in the region are very poorly developed, especially as regards the supply of long-term funds, and access to capital is highly segmented, to the detriment of medium-sized and small enterprises, while access to international capital is even more limited. Consequently, the mobility of capital among the various economic agents, companies, sectors and regions is severely restricted, and this is compounded by the high transaction costs (or the impression that they are very high), the negative practice of demanding guarantees rather than evaluating the projects in question when deciding whether to grant loans or not, and the preference of firms for investments in other companies in which they have a majority share, in similar or related sectors or in the same region. These limitations oblige most firms to finance their own investments to a much larger extent than would be necessary in a market with good capital mobility. This artificial shortage of capital has particularly serious repercussions in the region in terms of underemployment and unemployment, since it keeps labour productivity down to a much lower level than if capital were fully mobile or less concentrated.[5]

In order to overcome the problem of the artificial shortage of capital, ECLAC proposes, among others, the following measures to strengthen and consolidate capital markets: establishment of investment funds to provide venture capital or capital for the launching of new enterprises; establishment of a secondary securities market for family or closed companies, with requirements as regards bookkeeping and auditing which are greater than those currently demanded but less than those demanded from firms quoted on the stock exchange; generalized conversion of financial assets into securities ("securitization"); leasing and leaseback facilities for both new and used equipment; factoring; requirement that 100% of profits (and possibly even of amortization funds) should be distributed to shareholders as dividends; encouragement of reinvestment of profits by shareholders or financial intermediaries in the same or other firms; and taxation of land and property on the basis of its market value.

d) *Increasing private-sector investment in human capital*

There is no doubt that investment in human capital significantly increases the productivity of all factors, but especially of labour, thereby also increasing demand. A substantial effort to increase such investments is called for from both the public and private sectors. Because of the lack of "real" guarantees for loans made for this purpose, however, there is no private market where loans for investment in human capital can be obtained. It is strange that such an obvious and important fact should have been ignored in the specialized literature (with the notable exception of Becker),[6] and in economic policy.

Thus, despite the high rates of private and social return afforded by general education, vocational training and post-secondary studies (rates which are usually over 20% per year), hardly any private loans are made for investments in this field. Unless his family, or he himself, possesses savings to finance

[5] Strictly speaking, the concentration of wealth and the insufficient mobility of capital are not the only factors governing the adoption of capital-intensive technology. It should also be remembered that the capacity in terms of business decisions of those responsible for managing a large amount of capital is not completely elastic, so that they prefer to use capital-intensive technology which allows them to save labour. The use of labour-intensive technologies which absorb the whole of a firm's capital also demands a complex and extensive administrative structure which is usually beyond the firm's management capacity and, moreover, may dilute the owner's power and control.

[6] As far back as the early 1960s, in his classic work *Human Capital*, Becker (1964) referred to the negative consequences of the virtual absence of a loan market for investments in human capital. The vast majority of analysts, however, have devoted no attention to the study of this market, perhaps precisely because it does not exist.

his studies, a worker can only obtain training thanks to his employers, who will naturally tend to invest only in training which raises labour productivity within their own firm, i.e., specialized training. This is why investment in training is so much less than is needed, to such a point that a worker in the region receives, on average, only one or two months' training during his entire working life, which may last 40 or 50 years.

The lack of private institutions which provide loans for investments in human capital results in unsuitable allocation of capital in the economy: there is over-investment in physical capital goods, but there is too little investment in human capital, thereby reducing the national product and total factor productivity and adversely affecting labour productivity and the demand for labour. This is one of the main causes of underemployment and unemployment in the region and is a clear example of a market flaw which militates against both efficiency and equity.

In order to overcome the problems of the lack of guarantees and the difficulty of securing reimbursement, which make it virtually impossible to obtain private loans for investments in training and post-secondary education, ECLAC has suggested that advantage should be taken of the fact that most workers will be net creditors to the government at the end of their working life, because of the forced savings represented by their contributions to social security. Specifically, ECLAC proposes that their pension rights should be used as guarantees for such loans: both those expected to be taken out by the debtor in the future and those effectively accumulated by his guarantor. Once the debtor's studies are over, higher than usual contributions would be levied through automatic payroll deduction from the wages of the debtor –or, in case of default, those of his guarantor– until the loan and interest commitments were paid off. This combination of adequate guarantees and security of reimbursement would stimulate the private sector to grant loans for investments in human capital,[7] while at the same time it would encourage more saving by the beneficiaries and their guarantors.

e) Rigidities in the labour market

Orthodox analysts attribute unemployment basically to rigidities in the labour market. They therefore stress the need for measures to facilitate dismissals, limit unionization and strikes, deregulate the entry of workers into certain activities and eliminate or reduce the minimum wage. There is no doubt that trade union monopolies and entry barriers may be dangerous: in economies like those of the region, which are trying to gain a foothold in the international market, for example, control of port activities by a union which limits the number of workers could involve high costs. Normally, however, this kind of problem only affects a very small segment of the labour force.

For most workers, the great problem is the low productivity of their jobs, and this is due in large part to rigidities deriving from the traditional practice of paying fixed wages which do not link the workers' income to the performance of the firm. This seriously limits the potential for raising productivity and makes it necessary to resort to dismissals as the only practical way of coping with recessions.

ECLAC therefore advocates a system of flexible (participative) wages like that used in Japan, South Korea and Taiwan, where a substantial part of a worker's total income is linked to the performance of the firm he works for, thus helping to raise productivity, promote cooperation, and reduce conflicts within the firm. A point which is just as important, or even more so, is that such participative wages favour increased employment, for whereas firms that pay fixed wages usually respond to a fall in demand for their products by lowering their levels of production and employment, companies which pay profit-sharing wages will tend to reduce their prices in order to keep up their sales and production, since they know that the lower prices and revenue will automatically be reflected in a smaller payroll. This helps to explain the good labour relations, high productivity and low unemployment registered in Japan.

Among the measures which could be taken to facilitate the use of participative or profit-sharing wage systems are the following:

i) since there would be less unemployment, authorization could be given for the voluntary conversion

[7] In these circumstances, it would mean that the worker's forced savings would not only bring him benefits in the future, when he retires, but also at present. This would only be possible if the worker's own contributions or those of his guarantor could be used as a guarantee, and if the law authorized operations of this type, which are currently prohibited.

of part of the severance entitlements provided for in the labour laws of most of the countries of the region into a specific percentage of workers' income, varying in line with the firm's performance;

ii) since young workers are those who suffer most from the current "last in, first out" practice, a fixed minimum wage lower than that currently in force could be established, so that, for example, 20% or 25% of a worker's income in a normal year would depend on the firm's performance;

iii) since the generalized use of participative wages gives rise to positive externalities for the economy, by bringing the product and employment close to their full potential, a smaller percentage of that part of the worker's wages corresponding to such variable income could be deducted for social security purposes, and

iv) even more importantly, and likewise because of the positive externalities involved, it could be stipulated that real wage increases (i.e., greater than the expected inflation) could correspond solely to a certain percentage of that part of the worker's income linked to the firm's performance, until the percentage of variable wages reached the desired level (for example, 20% or 25% of a worker's pay in a normal year).

f) Gaining entry to fast-growing markets of high purchasing power

It is no use producing more goods if they cannot be sold. In order to generate productive employment, the products of the region must gain access to fast-growing markets of high purchasing power, for small markets like those existing in the region (with the exception of Mexico and Brazil) limit both efficiency and equity: the former because they do not allow advantage to be taken of economies of scale or the benefits of specialization, and the latter because they hinder the expansion of employment. It is therefore indispensable to make progress in terms of the international linkages of the region.

Some authors consider that this is the approach that should have been taken from the start. ECLAC, however, feels that import substitution-based industrialization made sense as a first stage in which firms had to learn to produce. Moreover, export-oriented industrialization was not feasible in the 1930s because of the Great Depression, in the 1940s because of the Second World War, and in the 1950s because of the European reconstruction process. However, the time has long been ripe for the transition to the second stage –that of the export of non-traditional products, especially manufactures– in order to make better use of the industrial facilities created through the import substitution-based industrialization strategy.

Be that as it may, no-one questions the importance of improving the international linkages of Latin America and the Caribbean any more, although there may be differences of opinion on how to achieve that objective. According to the orthodox school of thought, for example, in order to stimulate exports it is necessary to lower tariffs and maintain a high exchange rate.

Both these measures are undoubtedly necessary. Nevertheless, ECLAC considers that the use of neutral instruments is not enough to achieve fast-improving and effective linkages with international markets in order to make better use of the production structure established in the import substitution stage. Instead, it holds that the real challenge facing incipient industry in the region is not in the field of production but in that of the penetration of international markets. It therefore proposes that economic policy should be given a temporary bias favouring both the opening of new markets and the promotion of non-traditional exports (figure 2), and in contrast to the orthodox approach it advocates active (though selective and temporary) promotion of non-traditional exports and of the penetration of new markets. The first firms to sell new exports on foreign markets or to open up new markets for traditional exports should be considered as Schumpeterian innovators, and their initiatives and innovations should therefore be given

FIGURE 2
Alternative development strategies

Role of the State	Orientation: Outward	Orientation: Inward
Passive	Orthodox proposal	
Active	Present ECLAC proposal Example: the "Asian tigers"	Past ECLAC proposal

special temporary incentives similar to the patents granted to the inventors of new technologies. This would allow better use to be made of the existing industrial structure and would ensure the broader, growing markets which are essential for generating solid, sustainable growth of the product, employment and real wages. Thus, just as in the past the most suitable instrument for fostering incipient industry was import substitution furthered by protective tariffs, today the most suitable instruments for furthering truly innovative activities are those which promote non-traditional exports and new markets through temporary subsidies, special drawback arrangements, and loans at international interest rates.

g) Technological modernization

There is a big difference in productivity between the typical enterprises of the region and those of the developed countries, and it is up to firms in the region to narrow this gap by selecting, adapting and adopting the "best international practices" which are most suitable for local business. Such an effort has a certain cost, however, and the firm which is first to modernize its practices in this way will reap only part of the benefits. There will therefore be a tendency not to invest as much as is necessary in this effort, since each firm will prefer to let its competitors absorb the cost of identifying, adopting and developing the most suitable technology for the country, with the idea of subsequently imitating those pioneers at much lower cost.

Since it is considered that what happens within a business company is the exclusive responsibility of the businessman and not of the State, this microeconomic problem is normally completely ignored in the neo-liberal approach. This is not so, however, in the case of the neo-structuralist approach, which views the solution of this problem as possibly the greatest challenge to be faced in the modernization of business and the elimination of differences of productivity. It therefore proposes a massive programme to speed up the spread of the best technologies through the shared financing of visits to firms employing the best practices abroad: i.e., a kind of "learning by visiting".

As was done so successfully in the technical assistance programme for European reconstruction after the Second World War, it is proposed that inspection visits to six or eight plants representing the best practices abroad should be organized and co-financed,[8, 9] for some 15 to 20 staff (employers, engineers, technicians, supervisors, operatives and trade union officials) from each one of 50 subsectors (for a typical country of the region).[10] The visits would last around six weeks, and on their return each group would draft a report on the best practices observed, not only in terms of the equipment and technology used, but also as regards production methods, organization of work, industrial relations, quality control, marketing, etc. Subsequently, the members of the subsectoral groups would spread the results of the visits among five or ten other firms in their country.

When this was done in Europe, at very low cost (approximately US$20 million per country for visits by 20 persons from each of 50 subsectors), it was possible to achieve increases in productivity of the order of 25% to 50% in each of the participating firms, without any significant increases in net investment (Silberman and Weiss, 1992). The execution of such a programme in the region could be expected to bring similar or even greater increases, since the disparity between the total factor productivity of the developed countries and that of Latin America (a ratio of approximately 2.5 to 1) is much higher than that which existed between the United States and Europe in the late 1940s. The programme not only has an extremely high cost/benefit ratio but

[8] This co-financing could mean, for example, that firms would continue to pay their workers' wages while they took part in the visits and prepared the relevant reports, and the government contribution would cover the travel, subsistence and administrative costs of the programme (estimated at around US$20 000 per participant, or US$20 million for the whole programme involving 20 persons from each of 50 branches of production).

[9] In the time of the Marshall Plan, all the plants using the "best practices" were in the United States. Now, of course, depending on the branches in question, they might be in Europe, Japan or the United States. It would therefore be necessary to enjoy the collaboration not only of the United States government and producers, but of those of all the OECD countries.

[10] Obviously, the number of the most relevant sectors and plants using the "best practices" would vary according to the size of the country and its current level of technological sophistication. Thus, for example, although they might be using the best practices, the plants visited would not be the same for visitors from Brazilian producers (which are of large scale and have a higher level of sophistication) as for representatives of Central American firms (which are smaller and produce for specialized, integrated market niches), to say nothing of the very different scales of production and marketing involved.

is also of massive scope, since with the same multiplier as in the case of the Marshall Plan it would be possible to spread the experience to between 5 000 and 10 000 firms. This would enable the region to finally take advantage of its belated development and cut corners so as to race towards the world technological frontier.[11]

Naturally, a prior requisite for the rapid and effective adoption of technology and its adaptation to local conditions is that there should be a certain minimum scientific, and especially technological, infrastructure which has some research and development capacity of its own and is closely linked with the production sectors.

IV
Conclusions

In short, growth with equity is not only desirable from the ethical point of view but is also perfectly possible from the technical standpoint. In order to overcome poverty it is necessary to generate good stable jobs of high and growing productivity: in other words, there must be a policy aimed at modernizing firms and increasing their own productivity and that of their environment. ECLAC feels that in order to achieve these objectives it is not enough merely to take the liberalization and deregulation measures that form the essence of the traditional proposals, as though the markets were perfect. Instead, in line with the neo-structuralist tradition, ECLAC advocates more active instruments which will make it possible to overcome the critical obstacles in key markets (for physical and human capital, labour, technology and foreign exchange), the degree of activism being subject to the State's real capacity to take action and to do so efficiently.[12]

(Original: Spanish)

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[11] Furthermore, this proposal means that productivity becomes a central, uniting issue and assumes its proper status as the main source of solid and lasting improvements in the standard of living of the whole population, for which purpose the effort made must be a national one, and not just the responsibility of the business sector or a few groups. It also does away with the need to try to pick "winners", since the programme is open to all the sectors that wish to participate, or at least to the first 50 which organize themselves and present a programme for their sector each year and are willing to take part in the co-financing of the programme.

[12] The measures referred to are not a minimum or maximum set of needed actions. They are merely an example of the measures that could be taken to overcome the obstacles existing in the markets, provided that these obstacles represent a critical problem and that the State has the necessary institutional capacity to tackle them without neglecting its fundamental functions, including the maintenance of the necessary macroeconomic balances, the execution of the necessary social and infrastructural investments, and the provision of a reasonable level of social security.