

C E P A L

REVIEW

NUMBER 59
AUGUST 1996
SANTIAGO, CHILE

OSCAR ALTIMIR
Director of the Review

EUGENIO LAHERA
Technical Secretary



UNITED NATIONS

CONTENTS

The interplay of macro- and microeconomics	7
<i>Gert Rosenthal</i>	
<hr/>	
Economic policy, institutions and productive development in Latin America	11
<i>Oswaldo Rosales</i>	
<hr/>	
Systemic competitiveness: a new challenge for firms and for government	39
<i>Klaus Esser, Wolfgang Hillebrand, Dirk Messner and Jörg Meyer-Stamer</i>	
<hr/>	
Education in basic skills and training for productive work	55
<i>Guillermo Labarca</i>	
<hr/>	
Social investment funds in Latin America	73
<i>Gabriel Siri</i>	
<hr/>	
Water rights markets: institutional elements	83
<i>Miguel Solanes</i>	
<hr/>	
The Caribbean countries and the Free Trade Area of the Americas	97
<i>Trevor Harker, Sitya Ould El-Hadj and Lucio Vinhas De Souza</i>	
<hr/>	
The Argentine experience: development or a succession of bubbles	111
<i>Hugo Nochteff</i>	
<hr/>	
Potential and limits of health management reform in Chile	127
<i>Ana Sojo</i>	
<hr/>	
Guidelines for contributors to <i>CEPAL Review</i>	147
<hr/>	
Recent ECLAC publications	149

The interplay of macro- *and microeconomics*

Gert Rosenthal

Executive Secretary of ECLAC.

I

First of all, I would like to express my satisfaction at being here in Central America, and to thank our hosts warmly and sincerely for their support. The United Nations in general and the Economic Commission for Latin America and the Caribbean in particular owe a great deal to Costa Rica for its unwavering support over the years, especially since President José Figueres Olsen assumed office. Our gratitude is also due to this country for its important contributions to intraregional cooperation and especially to Central American integration. This occasion demonstrates again the unfailingly constructive contribution which President Figueres and his Administration have made to strengthening our relationship of interdependence.

For this reason, and because ECLAC is both part

of the United Nations and part of Latin America and the Caribbean, we feel very much at home here. If I may make a personal comment, for me, being in Costa Rica is like being in my own country, surrounded as I am by many friends, including President Figueres himself and Mr. Fernando Naranjo, Minister of Foreign and Religious Affairs.

For the welcome we have received, the personal interest of Government officials in this meeting and the splendid facilities placed at our disposal, many thanks. I am also grateful to my distinguished predecessor, Mr. Enrique Iglesias, now President of the Inter-American Development Bank, for joining us today, and to all the delegates gathered here, at such a critical time for our region and for ECLAC.

II

As the Chinese curse would have it, it has fallen to the lot of those of us gathered here to "live in interesting times". Time appears to have contracted in recent years. We have witnessed so many changes, in the world at large and in our region, that our capacity to absorb them is sometimes overloaded. Nevertheless, in meeting the enormous challenges of Latin

American and Caribbean development, we have learned a great deal, both from our successes and from our mistakes. What is more, we have benefited from the huge variety of situations occurring simultaneously in the region, which have given us a wide range of lessons and helped us to learn not only from our own experiences, but also from those of others.

On this occasion, the Secretariat wishes to present assessment of those experiences, both in order to confirm the Commission's views on what stage the

□ Statement delivered at the twenty-sixth session of the Commission (San José de Costa Rica, 19 April 1996).

countries of the region have reached in their development process, and to design approaches for eliminating the obstacles to accelerated growth within a framework of stability, social equity and democracy. The need for such an assessment became even clearer in the light of the dismay aroused in the region by the 1995 Mexican financial crisis and its impact on other countries.

Our assessment of 15 years of reforms

It is not easy to summarize in a short statement the many and often contradictory conclusions that can be drawn from the variety of situations seen in the region over a prolonged period. Be that as it may, I would like to emphasize four points.

First, the achievements and limitations of varying scope observed in the great majority of the region's countries have led us to conclude that economic performance has improved significantly in recent years in comparison with the previous decade. This recovery—moderate, but a recovery none the less—which has taken place in a context of financial stability, accompanied by major changes in productive structures, unquestionably places us in a better position to cope with future challenges. At the same time, we are concerned at the relative fragility and vulnerability of this growth and its varying effects on different segments of the productive system and on different social groups, since this may lead to problems that undermine the continuity of the development process. It can be said, therefore, that clear progress has been made, but that the region has not yet achieved sufficiently robust growth to ensure a higher level of well-being for all, especially the most disadvantaged groups.

Secondly, debate continues to rage in the region over the alleged virtues and shortcomings of a stereotyped "model" of development, as if the implementation of a given set of policies invariably produced certain results. In practice, however, it is difficult to establish a cause-and-effect relationship between a set of policies and their results. While nearly all the countries display certain common characteristics that are all but inevitable in the light of the demands of globalization, such as trade liberalization, financial deregulation and greater confidence in the operation of market mechanisms, there are also some important features in which they differ, namely, the pace, sequence, depth and scope of certain economic re-

forms, the speed with which they are implemented and their specific content. The various foreign exchange regimes applied in recent years that have similar general goals are among many examples of such diversity.

Thirdly, the redressment of macroeconomic imbalances and the maintenance of stability through the design and consistent and disciplined implementation of policies are not a product of conceptual or ideological preferences; they are basic requirements for an increasingly transnationalized economy. Frankly, there is no substitute for stable and coherent macroeconomic management, and we should not fall into the temptation of partially sacrificing stability in order to achieve higher growth. The region offers much evidence that an appropriate combination of policies makes it possible to advance simultaneously in the areas of growth and stability.

Fourthly, past experience demonstrates amply that structural and institutional problems prevent the achievement of rapid and sustained growth solely on the basis of market signals and sound macroeconomic management. Probably the most crucial aspect of the proposal which we are submitting at this session is recognition of the need to enhance and strengthen macroeconomic policy through the implementation of public policy measures at the microeconomic, mesoeconomic and institutional levels in order to support productive modernization, the development of financial and labour markets and the establishment and bolstering of institutions which can help to create an environment conducive to development.

Continuity and change in the debate over the approach to development

Nevertheless, this proposal has sparked controversy, since it raises very old dilemmas. Recognizing that not all problems can be solved by the market alone reopens the debate over selective public policy intervention, with everything that implies. How much intervention is called for? What types of measures are appropriate? What does the search for a creative interplay between State and market mean in practice?

Doctrinaire opposition to selective intervention in the 1980s reached the point where the application of what used to be called sectoral policies all but disappeared from the agenda. The pendulum apparently swung so far that gaps in public policy began to

appear which hindered a wider dissemination of technological progress to productive activities –especially to small- and medium-scale enterprises– a deepening of financial markets and a more equitable distribution of the benefits of the emerging recovery.

It is important, therefore, to pay renewed attention to the interplay of macro- and microeconomics in the Latin American and Caribbean development agenda. For the same reason, it is necessary to clarify what we mean when we speak of explicit microeconomic and mesoeconomic policies in the new context of globalization, policies which are designed to strengthen, not supplant, market forces. In the proposal which we have submitted at this session, we try to illustrate this interplay by linking it to two central themes –productive and technological development, and financial development.

The crux of our proposal

This is neither the place nor the time to summarize the content of our proposal, which, moreover, has already been circulated to delegations during the technical stage of this meeting. I would, however, like to outline its main points.

First, we posit the need to nearly double the average growth rate of recent years and to expand gross domestic product by around 6% per annum. We feel that this is necessary in order to eliminate some of the obstacles to increasing productivity and providing more and better jobs. A large part of our proposal revolves around the question of how to achieve this goal.

Secondly, we stress the need continually to adapt the main economic policies –in the monetary, credit, fiscal, foreign exchange, trade and wage spheres– so as to ensure the long-term sustainability of macro-

economic equilibria and prevent distortions in the efficient allocation of resources needed in order to expand the production frontier, promote saving and investment and step up innovation.

Thirdly, achieving growth rates of around 6% per annum means that certain requirements must be met in terms of national saving, channelling total saving into productive investment and making better use of the existing capital stock. We contend that “correct prices” –including interest rates, naturally– do not in and of themselves guarantee the fulfilment of this goal. In addition to ensuring a stable macroeconomic environment, public sector intervention must include both financial development policies and policies to stimulate capital formation, including, of course, human capital formation.

Fourthly, the aforementioned growth target requires an accelerated and systematic incorporation of production and management techniques designed to raise productivity in a growing number of firms. To achieve this, it will be essential to increase linkages within productive systems and to enhance the tendency for demand and technical progress to radiate outward from the modern, leading sectors to the rest of the economy. This will, in particular, influence the capacity of exports to generate momentum. Thus, in addition to macroeconomic policies which contribute to stability and promote an efficient allocation of resources, we propose two sets of measures: actions at the microeconomic level to assist certain firms in making use of the best international practices and technologies most suited to the conditions in each country; and mesoeconomic or horizontal actions to promote the dissemination and large-scale assimilation of the best practices, especially actions which facilitate access by all firms to a capital market and a well-organized training system.

III

It is no accident that the topics dealt with expressly or tacitly in our proposal coincide with the priorities established in our medium-term plan. Achieving higher growth in a context of economic stability, while securing greater social equity and democracy, are goals deriving from the interplay of macro- and microeconomics. They all have aspects which link national efforts to intraregional and international cooperation, and they all require consideration of how

best to facilitate the adaptation of the region’s countries to the changing context of an increasingly transnationalized global economy. In its medium-term plan ECLAC proposes to give due consideration to all these questions.

This leads me to make a few brief comments on the role of ECLAC within a reformed United Nations system. As you know, tremendous efforts are now being made to transform the Organization into an in-

stitution capable of meeting the needs of the twenty-first century. Within each Government, in numerous intergovernmental forums and within the Secretariat itself, the debate centres on how to enhance the Organization's efficiency, effectiveness, coherence and relevance. The discussion also involves ECLAC, the current session of the Commission, and its Secretariat. It is logical, therefore, that the Commission should also express its views on the measures which Governments should take in this regard.

Some of these decisions will be taken by the United Nations at the highest, system-wide level, such as those concerning the optimum degree of decentralization for the implementation of the medium-term plan, the relative importance of the economic and social spheres within the Organization's overall activities and the budgetary resources to be allocated to them. Other decisions can be adopted at the level of the Organization's various organs and forums, in our case, ECLAC. Nevertheless, while it is possible to distinguish between these two levels of decision-making, it should be recalled that the agreements to be reached are interrelated and that the Commission's member Governments participate in the discussion at both levels.

It is appropriate, therefore, to take this opportunity to advance further in the ongoing process of consultations concerning the future of ECLAC—its mission, the content and scope of its programme of work, its ways of interacting with the Governments

and civil societies of member countries, the quality of its management and the relevance of its outputs. If, after discussing these issues, our member Governments agree on a common position, the chances are greater that that position will be recognized and adopted in the debate at Headquarters, and also that the Commission will be able to meet its members' expectations effectively. This will not only have a positive impact on the region, but will also contribute to revitalizing the United Nations as a whole.

I think that ECLAC has a great deal to contribute to this discussion: the contributions which it has made to development in Latin America and the Caribbean throughout its institutional life; the importance of its analysis of the major development issues from a Latin American and Caribbean standpoint; its capacity for constant renewal of both its substantive activities and its management; and lastly, —what is perhaps our greatest merit— the way in which the secretariat and its member Governments interact, as two parts of a single intergovernmental organization.

This does not, of course, mean that there is no room for defining our institutional identity more precisely, enhancing our efficiency and effectiveness and heightening the impact and relevance of our activities, specifically in the framework of a revitalized United Nations. The Secretariat undertakes to collaborate closely with its member Governments in fleshing out these goals on the basis of guidelines which will no doubt emanate from the current session.

IV

I conclude this statement with a final thought. This week marks the tenth anniversary of the death of Raúl Prebisch, whose life and name were so closely bound up with ECLAC. One of his chief virtues was that he was able to reconcile continuity with change in the Commission's ideas. We remember him with affection and admiration today, when both ECLAC and our region are experiencing deep transformations. In a similar spirit, we reaffirm that while change, with its resulting risks and op-

portunities, causes uncertainty, it also gives rise to creative and dynamic solutions. This, in my view, accounts for the great vitality which the Latin American and Caribbean societies are now displaying, as they strive to overcome adversities and consolidate their achievements. Such vitality is contagious and has spread to ECLAC. This is why we take a hopeful view of the future of Latin America and the Caribbean. It is also why we take a hopeful view of the future of ECLAC.