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ANIBAL PINTO
Director of the Review

EUGENIO LAHERA
Technical Secretary



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A summary of the ECLAC proposal

Eugenio Lahera
Ernesto Ottone
Osvaldo Rosales

*Technical Secretary,
CEPAL Review.*

*Secretary of the
Commission (ECLAC).*

*Economic Affairs
Officer, ECLAC.*

There is growing consensus that although a solid, balanced macroeconomic base is a necessary condition for development, it is not of itself enough to ensure that development is actually achieved or that its fruits will be enjoyed by the population as a whole. In a series of documents, ECLAC has been defining a coherent agenda of public policy reforms designed to ensure a change in production patterns accompanied by greater social equity. This article seeks to present a summary of this proposal, leaving aside for this reason the underlying diagnosis of the regional situation and the general frame of the strategy. The broad lines of the proposal are set forth in section I, and the remaining five sections deal with specific aspects. Thus, section II analyses issues connected with the microeconomic setting, including production development policies, technical change and the sustainability of development. Section III deals with the macroeconomics of changing production patterns, with special attention to stability and growth, saving and investment, and public sector finance. Section IV covers social development, as part of an integrated approach, and analyses the generation of productive employment, the reform of education, social integration and ways of overcoming poverty. Section V considers various matters connected with the form of relations with the international economy, such as foreign trade, macroeconomic policy and capital movements, and open regionalism. Finally, section VI deals with political aspects and State intervention, including participative political regimes, the interaction of the various agents, and reform of the State.

I

The broad lines of the ECLAC proposal ¹

Linking up with the international economy involves far-reaching changes in institutions at many levels: within the enterprise; in the relations between employers and workers, between government and business, and between government and workers; at the regional level of government; in the political system itself, and in overall human relations. Therefore, opening up an economy to the exterior is much more than merely lowering tariffs. It means embarking on a whole new way of functioning: economically, socially and politically.

Fernando Fajnzylber

The main concepts with regard to changing production patterns with social equity proposed by ECLAC may be summarized in the five aspects set forth below. ²

Firstly, the central idea around which all the others revolve is that changing production patterns must be based on the systematic and deliberate incorporation of technical progress: in the current context of globalization the basis for the international competitiveness of the countries of the region can only be that of achieving ever-higher levels of productivity. Technical progress is not restricted to the development and adaptation of technology: it also includes business management capacity and improvements both in general organization and in the quality of the labour force.

Changing production patterns must include the entire system within which the enterprises operate: the technological, energy and transport infrastructure; the educational system; relations between workers and employers; the whole apparatus of public and private institutions, and the financial system. This is why the proposal stresses the systemic nature of competitiveness. It also calls for the modernization of systems of production as a whole, with emphasis on

intersectoral linkages and the raising of productivity throughout the entire system. Thus, industrialization must go beyond the narrow sectoral framework in which it has traditionally been approached and must be linked up with primary-sector and services activities, so as to integrate the whole system of production and promote the progressive homogenization of levels of productivity. Still within the area of the microeconomic setting, it is held that changing production patterns must be compatible with conservation of the physical environment, and the environmental and geographico-spatial dimension must therefore be fully incorporated into the development process.

Secondly, it is emphasized that coherent and stable macroeconomic management, while not a sufficient condition on its own, is of fundamental importance for changing production patterns with social equity, since this demands consistent management of a whole set of monetary, financial and exchange-rate instruments, as well as appropriate measures in terms of taxation and government spending. The exact content, order of application and graduality of adjustment programmes and the links between short- and medium-term policies must be determined with particular care.

The challenge raised by the proposal calls for a substantial rise in the investment rate above current levels, which in turn means that per capita consumption must grow more slowly than the per capita product, thus permitting an increase in saving. In view of the structure of income distribution in the region, this reduction in the growth rate of consumption should be the responsibility of the high-income strata and the government.

□ The authors wish to express their gratitude for the valuable comments offered by Renato Baumann, Mikio Kuwayama, Wilson Peres and Aníbal Pinto.

¹ This section is based on Rosenthal, 1993/1994.

² The main documents on this subject are: ECLAC, 1990, 1991, 1992a, 1992b, 1993, and 1994a, 1994b and 1994c. For a general overview of the ECLAC strategy, see Ottone, 1992/1993; Baumann, 1994; Lahera, 1994, and Rosales, 1994.

Thirdly, it is maintained that changes in production patterns cannot be sustainable over time unless there is social cohesiveness, which demands greater equity: but greater equity cannot be expected unless there is economic growth, which in turn demands changes in production patterns. This symbiotic relation between growth and equity is feasible through the mutual complementation between policies aimed at greater efficiency and higher growth, on the one hand, and those aimed at securing greater well-being and more equitable income distribution, on the other.

Fourthly, the proposal assigns due importance to Latin American and Caribbean integration and intra-regional cooperation, since these factors have a vital contribution to make to the consolidation of changes in production patterns. It is considered that the interaction between greater trade openness and deregulation, on the one hand, and integration promoted through explicit agreements and policies, on the other, is of

decisive importance and that the links between these elements should be strengthened within the context of what has been called "open regionalism".

Fifthly and lastly, all the foregoing is based on the recognition of the need for a democratic, pluralistic and participative setting. It is also assumed that the minimum platform of agreements in support of any national effort should be reached through consensus-building and that social conflicts must be kept within limits that the democratic system can handle. It is proposed that there should be a new style of State intervention, since it is important to redefine the role of public action and ensure that it is carried out in an efficient and effective manner. For this reason, it is held that while its actions should be concentrated on current priorities, at the same time the institutions should be strengthened in order to provide a stable and predictable framework for the operation of private enterprise.

II

The microeconomic setting

1. Production development policies

One of the current challenges is that of strengthening the form of participation in the international economy by guiding the structure of production in the same direction as the most dynamic trends in world trade. In order to do this, it is necessary to increase the proportion of knowledge and technological value incorporated in each product by fostering the production and services linkages in exports.

Increasing productivity and international competitiveness does not only require suitable macroeconomic and trade policies, but also appropriate microeconomic and mesoeconomic policies: that is to say, modernization not only of the enterprise itself (in technology, equipment, organization and labour relations), but also of its setting (factor markets and inter-firm coordination).

The systemic nature of competitiveness means that prime attention must be given to integration of the system of production and attainment of increasingly uniform levels of productivity. The development of sectors in watertight compartments must be eschewed, seeking instead to establish closer links

between exports of primary commodities, manufactures and services; the establishment of chains of production based on existing comparative advantages must be promoted, and closer production linkages must be fostered with a view to the building of dynamic comparative advantages in line with the resource endowment.

Thus, for example, in the natural resources sector measures should be taken to stimulate the establishment of production networks which are linked with industry and services, so as to heighten the value of the resources and assist in a process of change which will increase their competitiveness. With regard to agriculture, it would be desirable to overcome the urban/industrial bias in the orientation of investment and social expenditure, to modify the present bias in favour of big agricultural firms, and to favour the modernization of small-scale agriculture. To this end it would be useful, for example, to explore the possibilities for complementation between agro-export firms and small and medium-sized farms. Developing such links is not a task that can be left to the workings of the market: it is a further example of the need to develop markets and institutions and, in this

case, to focus the whole range of public and private instruments in the areas of coordination, training, technical assistance, information and incentives on the task of exploiting and stimulating the links between exporters and smaller-scale producers.

The sought-for competitiveness has a systemic component in that it cannot be efficient as long as policies to promote competitiveness are designed and applied in watertight compartments and thus fail to take advantage of the obvious sectoral, regional and institutional relations which exist in public action. The coordination of policies on public investment, infrastructure, human resources training, export incentives, support in the areas of technology and finance, and technical cooperation must be a top priority. Such coordination could be expressed in some institutional referent through which the unified management of these policies could be evaluated.

Industrial policy requires a gradual and selective opening-up process, integral promotion of industrial exports, the incorporation and dissemination of technical progress, and support for small and medium-sized firms. In addition to macroeconomic stability and a system of relative prices which is not biased against employment, the latter also require policies on technical support and infrastructural and financial services. A component in the generation of productive employment which is often given insufficient attention is that of labour relations. Within individual firms, vertical and hierarchical structures should gradually be replaced with more horizontal and flexible systems which permit the intensive exchange of information and stimulate cooperation.

Production development policies are aimed at reducing or eliminating the differences between the average productivity levels of the region and those corresponding to the best international practice. They seek to strengthen rather than take the place of the market forces. Such incentives as are provided should be of a temporary nature, for it is important to seek near-optimal functioning of the key markets—for technology, physical capital, human capital and foreign exchange. In order to achieve this, it would be desirable to use policies of a horizontal nature, namely, those aimed at filling the gaps in those markets and overcoming the most serious bottlenecks that occur in them.

In order for markets to operate to the full, it is important that there should be adequate competition, information and transparency, and it is the State's

responsibility to ensure that these qualities exist. Effective functioning of the markets involves free prices and deregulation and, often, intervention to create or simulate markets which are absent, insufficient or segmented.

2. Technical change, training and support services

There are three sets of related measures which are important for the development of production. The first of these covers technological development policies, the second, labour training and a programme designed to put businessmen in the region in contact with the best international production practices, and the third refers to support services.

a) *Technological development*

Technology policy must be designed to supplement and adapt the technological infrastructure in the priority activities which display the most serious lags; it must promote a greater propensity on the part of firms to incorporate technical progress and to make innovations, by giving government incentives to embark on innovative activities and providing support for the establishment of new enterprises of high technological level.

It is also suggested that a network of linkages should be developed between the research system and the rest of the technological infrastructure, on the one hand, and the production sector on the other, together with the promotion within the latter of close contacts between the users and producers of goods and services. This latter aim could be achieved following the example of various integrated systems of production where experience has already been built up and there is basic capability at the local level. Selective criteria must be used, as only in this way will it be possible to generate endogenous technological innovation nuclei.

Mechanisms for developing the supply of technology must cover two areas: public and private supply. In promoting private supply it is advisable to emphasize development at the enterprise level and to promote closer links between firms and technology centres. To this end, it may be appropriate to promote research contracts for the development and adaptation of technologies, thereby increasing the private funds available for research and development activities, and to favour this by making outlays for

private projects or private contributions to technology centres tax-deductible.

With regard to the public supply of technology, the main corrections called for are those aimed at establishing a closer relationship between the resources used and the achievement of appraisable results, by using performance indicators. In order to strengthen this approach, it would be desirable to increase private participation in the management and financing of technology institutes and to introduce greater flexibility in the budgetary management of such institutes, as well as in the rules on their operation and on the amounts and types of projects eligible for receiving benefits under programmes to support technological innovation.

The incentives for the promotion of technology should seek to give rise to initial demand by businesses and subsequently go along with the increasing sophistication of such demand. International experience shows that industrial extension activities play a central role in inducing demand and that this task is unavoidable for the public sector, especially as regards the incorporation of small and medium-sized firms into the technological development effort. Demand should also be strengthened through the establishment of technological management centres which, *inter alia*, should promote subcontracting arrangements. The vital function of ensuring proper links between the supply and demand for technology can be carried out by a variety of agents, and the extent of this variety should be fostered.

It is important to improve the systems for the dissemination of information, by strengthening the systematic follow-up of internationally available technologies and management methods; integrating firms into the appropriate information networks; promoting strategic alliances between national firms and international corporations which are leaders in terms of technology, management, quality and access to the most important markets; simplifying administrative formalities; improving the information available, and providing fiscal incentives.

b) *Training and extension activities*

The public sector has an irreplaceable coordinating role to play in the task of improving identification of the training needs of the various sectors, regions and scales of firms, processing and disseminating that information, stimulating and subsidizing the formation of training firms, and progressing in

the preparation of indicators which will allow training quality and results to be evaluated. As well as harmonizing training supply and demand, it should also regulate the content, quality and appropriateness of such activities and improve the incentives for the training of employers and workers. These tasks can be carried out at lower cost and with better results by operating on a tripartite basis, in conjunction with employers and workers.

In short, in view of the magnitude of the tasks involved in improving labour quality in the region, it would appear to be urgent to organize national-level debate on the following actions:

i) Giving incentives to firms which train their staff, in order to offset the negative externalities that such training usually involves for the firms.

ii) Adopting measures to promote, publicize and heighten awareness of the need to incentivate training and introduce more efficient human resource management practices and more cooperative industrial relations.

iii) Reorganizing the supply of training by promoting greater private supply and concentrating public efforts on ensuring that training and those who offer it are more closely linked with the system of production and its future needs, as well as guaranteeing both the quality and the appropriateness of the courses offered by establishing arrangements for certifying the training given and promoting and financing the provision of training for such groups as marginal workers, the unemployed and small-scale businesses, which are usually not covered by training programmes.

iv) Promoting special basic training programmes for the large segment of labour force members (40% in the region) who have not completed their primary education and subsidizing regular training programmes to help improve the production potential of this great mass of workers who will not be able to benefit from the educational reforms put into effect.

One concrete proposal for narrowing the big gap between the productivity of many firms in the region and that of the developed countries is to implement large-scale extension programmes providing financial assistance for visits to foreign firms using the best international practices. Thus, it is suggested that arrangements should be made and partial financing provided to allow managers, engineers, technicians, supervisors, operatives and trade union officials from various production subsectors to visit plants abroad

which use the most advanced practices. Each of these visitors would subsequently pass on what he had learned to other firms, as well as to the respective business and trade union organizations. The programme would be open to any sector willing to pay its share, regardless of whether it was engaged in export or import-substitution activities.

c) *Support services*

As regards basic production support and liaison services, policies are required for the modernization of the electricity, water, communications, banking, insurance and transport sectors.

In the area of infrastructure, in general it would be desirable to draw a distinction between basic infrastructure –which meets the primary needs of the population, such as drinking water, local and rural roads, and health and sanitation services– and production infrastructure, such as highways, ports and telecommunications. In the first case, social considerations should prevail, dealt with according to their level of priority in the light of given criteria. In the second case, it is both possible and necessary to incorporate criteria based on economic return, rate fixing and financial considerations, encouraging the formation of infrastructure markets.

The absence of direct links between the demand for road facilities and their financing is a constant incentive for excessive demand and an obstacle to their efficient management. The existing road network, and especially its maintenance, can be financed directly by vehicle users. There are no economic reasons why electricity and drinking water supply should be financed with the charges paid by users while the road transport system is subsidized by taxpayers at large. This subsidy is inequitable, because the lower-income sectors, and especially those located in isolated regions, contribute proportionately more to the financing of road facilities than the use they make of them.

Strict application of optimum scales of charges for use of the infrastructure is not possible, but departing too far from such charges is not efficient. Greater use of such charges, as an index of the willingness of users to pay, would not only make possible better estimation of the effective demand for infrastructural services but would also introduce healthy efficiency-based restrictions on resource use by highlighting their implicit opportunity cost.

In the field of information and telecommunications, the infrastructure needs to be developed until it

reaches the minimum level compatible with the strategy in force. In addition, it is necessary to achieve a generalized adequate level of equipment in the field of data processing, to promote the spread of information technologies, and to define a regulatory framework for the sector.

With regard to port modernization, it is essential to ensure free access by workers to jobs in the sector, to permit working in three shifts during the whole year, to allow free entry by private stevedoring firms into the sector, to authorize marine terminals which currently have only a single user to handle cargo belonging to third parties, and to sell off ports directly.

3. Sustainability of development

Changing production patterns must be compatible with conservation of the physical environment, to which end it is necessary to bring about the full incorporation of the environmental and geographico-spatial dimension into the development process. A priority activity in this field is the formulation of a national policy of education and social communication which will heighten public awareness of the problems of the sustainability of development.

A prior requisite for the various environmental policies is greater knowledge of the existing resources: their potential, rates of use and levels of investment. This will make it possible to improve the effectiveness of environmental and territorial planning policies. Public policies must include environmental standards and regulations in such areas as health, marine pollution, river basin management and the transport and disposal of dangerous wastes.

It is essential to establish closer links between the environment and economic policy, especially by ensuring that the prices of goods and services reflect the effective social cost incurred by society in their production. The resulting economic efficiency can also, for example, promote greater energy efficiency and the use of clean technologies. The fact is that energy prices which reflect their effective social cost and take account of the externalities of pollution; road charges which make users pay for the effective use they make of the roads; tolls for travelling through urban areas of serious congestion; special taxes on industries and activities which cause particularly severe pollution, etc., are all examples of environmental policies which use prices effectively to further both economic and environmental efficiency.

Stronger efforts should be made to take account of the replacement costs of natural resources and the cost of damage to the environment in the evaluation of major investment projects. In fact, as this practice will become more general in international trade, it would be desirable to anticipate these trends. This also opens up a promising range of business opportunities, as the gradual installation of clean technologies, proper disposal of liquid and solid wastes, treatment of waste water and the recycling of materi-

als begin to be transformed into viable projects which, when properly evaluated, link economic and social profitability with preservation of the environment. Likewise, explicitly incorporating territorial planning criteria into processes of decentralization and regional development would foster a more accurate approach to environmental problems in every community, thus helping to assign infrastructural projects the right priority in the light of criteria of sustainability and social well-being.

III

Macroeconomic aspects of changing production patterns

1. Stability and growth

Achieving sustained growth of the product, subject to the constraints of the production capacity and the sustainable availability of foreign exchange, calls for a form of management in keeping with the prevailing set of monetary, financial and exchange-rate instruments, as well as the tax aggregates and government spending, and involves the pragmatic combination of the objectives of stabilization and adjustment with the aim of changing production patterns, with macroeconomic policy aimed at the objective of growth.

In this way, economic policy is put on the right track, since the condition is imposed that the preservation of the macroeconomic balances should not be achieved at the cost of adversely affecting investment decisions connected with changes in production patterns. Experience shows that some adjustment or stabilization policies which appear to be successful in the short run may harm the export effort or investments in infrastructure.

Within the current reorientation of the region's development strategies in the direction of exporting more and on better terms, economic policy must contribute to the stability of the ground rules by placing emphasis on incentives for productive investments and exports. This is where the medium-term signals should point: towards investment in order to expand export capacity and restructure and rationalize the sectors producing importable goods, and no less important, towards investment in human resources.

In order for the behaviour of the economic agents to be guided by these signals, it is necessary to make sure that the fundamental economic variables are due only to permanent changes in the factors that determine them, filtering out those changes that are due to speculative movements, temporary external shocks or very short-term situations. It would help if the public sector were given the capacity for fine-tuning aggregate spending by endowing it with institutions and flexible instruments to facilitate consistency between the evolution of public and private aggregate spending and that of the potential product.

Maintaining the macroeconomic balances is a necessary but not of itself sufficient condition for growth, and still less for changing production patterns. This is really just an acknowledgement of the fact that the existing production capacity and the ongoing availability of foreign exchange are elements which impose real limits on economic management. The most favourable macroeconomic setting for the attainment of high rates of investment and sustained increases in factor productivity is one in which there is fiscal balance; low rates of inflation which are stable or on the decline; a moderate and sustainable current account deficit, and an effective product which does not exceed its potential level too much. As a corollary to this, the links in terms of instrumentation and evaluation between macroeconomic policy and production development policies must be strengthened.

In view of the need to raise investment in the region to an average level equivalent to not less than 22% of the product, per capita consumption must grow more slowly than the per capita product: a macroeconomic constraint which cannot be avoided if it is desired to achieve the necessary increases in saving and investment. At the same time, it is necessary to expand the field of action of tax and financial instruments that promote saving and investment. Likewise, until such time as growth and inflation remain steady around the sought-for medium-term levels, real wage increases must be limited to levels in keeping with the rise in productivity.

Since the concentration of income became more marked in the region towards the end of the 1980s, it is essential to promote a recovery in the levels of consumption of those sectors of the population which are below the poverty line. The process of changing production patterns thus faces a further macroeconomic restriction: the need to limit the growth of the consumption levels of the upper-income strata. The growth in government consumption, too, should be subject to severe limitations, in view of the vital need to maintain fiscal balance and improve the low levels of public investment in infrastructure and social expenditure.

The task of economic stabilization must be carried out with a minimum of recessive effects and further setbacks in income distribution, which calls for policies to control aggregate demand and expectations and correct relative prices, compensatory income distribution policies, and various reforms in public and private institutions.

Among the institutional reforms pursued by economic policy, special emphasis should be placed on those designed to increase the flexibility and competitiveness of the economy: a challenge which affects the public sector just as much as private enterprise. Thus, for example, in countries where inflation is going down, wage adjustments should be in line with the estimates of future inflation and productivity, thus helping to reconcile wage increases with stability and to further the incorporation in wages of a variable "profit sharing" component linked with the trading results of the firm; in order to achieve this, it will be necessary to modernize labour relations in the direction of a form of cooperation that would favour productive employment, competitiveness and equity. Measures along the same lines are those involving schemes for stabilizing the international prices of ex-

portable commodities so as to free macroeconomic and fiscal policy from the vagaries of fluctuations in the international prices of important export products.

The present situation of abundant capital inflows is a challenge to the continuation of greater export-oriented trade openness, so that it is essential to defend a competitive level of the real exchange rate by regulating the inflow of capital and fostering public and private domestic saving. In this respect, fiscal policy would be more effective if the government could apply flexible taxes which could be varied in line with the level of aggregate spending, increasing the tax burden when there are excessive spending pressures and channelling such resources to saving, so as to be able to use the previously saved resources, when the effective product falls markedly below its potential level, in order to make up for the difference through compensatory public expenditure.

2. Saving and investment

Changing production patterns requires a substantial increase in the rate of investment and, hence, in the sources of finance for it. In order to strengthen capital formation in the region it is necessary to increase domestic saving and limit transfers of resources abroad; to apply economic policies which are in keeping with the goals of stability and growth, and to favour the development of sound and competitive financial systems and capital markets which will extend their coverage to broad sectors which are currently on the sidelines of formal credit.

In addition to increasing saving, it is necessary to heighten the effectiveness of the intermediation and allocation of investment resources. For this purpose, it is important to follow a financial development policy which will make it possible to include the largest possible proportion of the population in the saving effort and open up access to the capital market by broad sectors of micro-entrepreneurs and small and medium-sized businesses, which account for the bulk of employment in the region.

The available evidence indicates that even the lower-income sectors are ready to save if, in addition to receiving attractive rates of interest, such saving improves their possibilities of gaining access to goods and services which they prize. Examples of this are the possibilities of institutional saving by workers for social security purposes or for obtaining a dwelling through prior saving which makes them

eligible for housing subsidies. Other policies in this same area are those aimed at creating a capital market for investments in education and training by establishing effective systems of charges and guarantees which make these investments attractive to the financial system. It is possible to take advantage of the existing collection arrangements of the social security system by adding to their social security role that of compulsory saving and the deduction and automatic repayment of loans for education and training; similarly, in order to reduce the risks of these operations still further, secondary markets could be generated for such instruments, thereby diversifying the investments and giving them greater liquidity.

Even if the social security system is not reorganized on the basis of individual accounts (which tends to increase private saving), public saving can nevertheless be raised by reducing the deficits of many social security systems through the elimination of privileges, the calculation of benefits on the basis of a longer working life than in the past, and the adjustment of such benefits to the actuarial value of the fund in question rather than its cash flows.

In order to increase private saving and the productivity of capital, it is necessary to pay greater attention to policies aimed at promoting saving by companies and individuals. In the case of companies, tax policy should favour the reinvestment of profits rather than their distribution, while in the case of individual persons, progressive income taxes should give preferential treatment to direct or financial investment. Likewise, tax and financial measures should be used to discourage excessive increases in consumption.

In the area of agriculture, the large-scale regularization of title deeds would help to give rise to a land market, on the basis of which an institutional and financial system could be designed to facilitate the purchase of land in the market, with forms of prior saving and credit for its acquisition and specific subsidies for small farmers, accompanied by the provision of technical assistance. Agricultural activities could then be taxed on market bases, thus stimulating the productive use of land.

Prudential regulation of the financial sector, for its part, could be designed primarily to safeguard the solvency of banks, financial funds, insurance companies and other agents who manage resources or take risks for third parties on a major scale. The

execution of such functions affects public confidence, which is why the solvency or stability of financial institutions involves considerable macro-economic externalities.

In the area of the relation between financial markets and capital formation for development, institutions are required which supplement or improve the operations of the market in the light of the need to:

i) Ensure the existence of a long-term segment of dynamic financial markets for the financing of production projects. This means discouraging the speculative segments and concentrating on long-term international capital, accompanied by access to modern technology and export markets.

ii) Complement the capital market with a segment for serving the investment projects of small and medium-sized enterprises at market rates: a crucial factor for promoting an increase in the productivity and spread of capital and, ultimately, stimulating the linkages of the production system. Special mention may be made in this connection of institutional innovations such as the use of leasing to finance capital goods and new or used equipment, guarantee funds and collective guarantees for credits, and the granting of credit accompanied by technical assistance, all within the framework of suitable production development policies, which will be discussed below.

iii) Recognize that, in countries with "emerging" securities markets, financial liberalization of the capital account, involving opening-up to international portfolio investments, raises the risk of external over-indebtedness and excessive stock market and exchange rate fluctuations. It is therefore necessary to apply various forms of regulation and supervision of financial institutions operating in the capital market, in order to ensure their stability.

3. Public sector finances

The stringent fiscal adjustment of the mid-1980s has made a decisive contribution to the reduction of inflation in a number of countries of the region. However, this has largely been achieved at the cost of cuts in public investment in the social areas and the infrastructure, and it has also affected the overall efficiency of public sector performance, through the marked deterioration in salaries in this sector. It would appear to be necessary to persevere with the consolidation of fiscal sector balance, but on more permanent bases which do not run counter to the

objectives of equity and competitiveness: that is to say, by basing it on more reasonable levels of collection of fiscal resources rather than on cuts in expenditure. In order to do this, it will be necessary to strengthen the public sector finances through fiscal reforms which, as well as recognizing the need to reorient and modernize public management, will also ensure the structural soundness of the public sector's sources of revenue, the flexibility of budgetary procedures, the political and institutional viability of the reforms, and the administrative feasibility of the instruments adopted.

Fiscal reform covers the areas of taxation, budgeting and the management of public enterprises. Tax reform is a central element in the efforts to finance the functioning of the public sector against a background of changing production patterns. This involves, firstly, the reduction of tax evasion and the installation of modern and effective systems of tax administration, and secondly, an increase in the tax burden and greater vertical equity. The overall tax burden in Latin America is low compared with that of the OECD and Asian countries. The direct tax burden is

still lower: it is only half that applied in Southeast Asia and only a quarter of that prevailing in the OECD countries. The conclusion is very clear: there is ample room for increasing taxation –especially direct taxes– without affecting competitiveness.

The dynamic restructuring of public expenditure can be tackled by reducing the growth of some budget items in order to divert the resources thus saved to social expenditure and the furtherance of productive activities. A first area where additional resources may be found is that of interest payments. There are also extensive possibilities of cutting spending on armaments and defence, both in the region and in the world at large. Other potential savings can be made through the gradual suppression of public functions which no longer have any reason to exist and the elimination of projects of low priority or low social profitability in public investment programmes.

Finally, there are also other forms of raising income through the restructuring of public enterprises, either through modernization of their management practices or, at the other extreme, through their privatization.

IV

Social development as part of an integrated approach

1. The generation of productive employment

The backbone of an approach combining growth with equity is the generation of jobs of increasing productivity. It will be necessary to promote a sustained increase in investment in order to keep up high levels of capital formation; to develop policies for the promotion of production and technology in a context of open economies; to boost greater investment in human resources in order to endow them with the new skills required; to develop a new relation between wages and productivity which takes account not only of the results obtained but also of the stability and participation of the workers; and to foster the changes needed in the cultural patterns of employers and workers in order to allow them to adapt to the new ways in which firms will have to operate.

In view of the changes in production patterns now under way, it is necessary to generate ways of

protecting occupational mobility by adopting measures which permit the readaptation of labour and reduce the costs of instability (through unemployment insurance, for example). It is also necessary to promote the retraining of members of the labour force working in branches which are no longer capable of competing, as well as the upgrading of workers in sectors which are lagging behind but could potentially become competitive.

Raising the productivity of the informal sector must be an integral part of the global development strategy. It is essential to take account of their needs, particularly in rural areas, when formulating plans for developing the infrastructure, reforming education, and implementing an improved system of labour relations. It is also necessary to raise the quality of informal jobs by improving health and safety conditions and strengthening the informal sector's capacity for independent representation of its needs, in order to further its incorporation in the overall development process.

2. Reforms in the field of education³

We will attain neither competitiveness nor equity if we fail to take care of human resources and their education, training and incorporation into scientific and technical knowledge. Talking about equity, or about competitiveness, or even more so, talking about both aims at once without making a substantial and consistent effort in this direction is nothing more than fine words. No country can be competitive nor equitable unless human resources are given their due importance.

Fernando Fajnzylber

There are two guiding objectives in the proposal for the reform of education: enhanced citizenship and international competitiveness. To imagine that we can build societies in which modern citizenship fully prevails without making a parallel effort to achieve international competitiveness is nothing but an illusion, because the aspirations of the Latin American peoples are comparable to those of the developed world. Consequently, societies which appear to be well advanced in the practical manifestations of modern citizenship soon lose their strength and legitimacy unless they are capable of evolving in line with their peoples' aspirations. There are undoubtedly some points of conflict between the concepts of modern citizenship and competitiveness, but attempting to raise competitiveness at the expense of modern citizenship is manifestly outmoded, just as the idea of giving priority to the latter at the expense of competitiveness is somewhat ingenuous.

In order to progress towards the above objectives, two types of policy instruments are needed: on the one hand, instruments to deal with lack of equity in the coverage, quality and relevance of knowledge, and on the other, instruments to appraise the performance of the educational system. Seeking to solve the problem of equity without ascertaining to what extent the aims of education, training or scientific and technological research are actually being fulfilled would be just as illusory as trying to appraise the system's performance without taking account of whether or not it complies with the aims of equity. There is a conflict here, but it cannot be avoided.

In order to apply such policies with the proposed objectives, the existing institutions need to be subjected to profound changes in two directions. On the one hand, changes are needed in order to strengthen national integration, which is still only in its infancy in many countries of the region, or else has not yet been fully achieved. On the other hand, it is necessary to further decentralization, with emphasis on the independence of educational establishments. In order for there to be modern citizenship and competitiveness, it is necessary in education, training and science and technology to develop spaces of identity, projects, initiative and the boldness needed to meet the challenges of the real world in which those establishments are located. Independence can spark off creative capacity, but imagining that it can solve the problem of national integration on its own is not borne out by experience. There must therefore be a parallel integration effort to ensure the national integration of autonomous establishments with their own projects and identity.

What are the necessary conditions for the application of the proposed strategy? To begin with, the starting point will vary in each country. Consequently, there can be no question of a single uniform prescription for the whole region. As the initial situations are very different, the general proposals made above need to be decoded, interpreted and enhanced in each individual situation.

Secondly, the application of the proposed strategy must necessarily involve consensus-building, because in the present situation there are various subsystems, each of which has its own institutions, leaders, referents and forums, but very little internal coherence and very few relations with the other subsystems. In theory, the formal educational system is supposed to prepare all its students for the university, but in practice many of them fall by the wayside and remain without any clear destination. What is proposed is that there should be a move towards another scheme in which the subsystems establish and develop mutual links. This scheme is not just a theoretical goal, but a situation towards which progress is being made, especially in the developed countries, but also in Latin America, despite the crisis of the 1980s. This is reflected, for example, in the many concrete links established by enterprises with basic, secondary and higher education and with technological research centres, as well as the links being developed between training institutes and secondary education.

³ This section, including the quotation below, is based on Fajnzylber, 1992.

The policies for putting the proposed educational strategy into effect may be grouped according to the following objectives:

i) Making educational institutions more conscious of the needs of society; that is to say, establishing suitable institutional conditions to ensure that every educational, training or scientific and technological system develops, or can develop, horizontal and vertical links with the others.

ii) Ensuring universal access to the codes of modern life: this has to do with the coverage and quality both of basic and secondary education and of training, because to imagine that training can be given without having made a corresponding effort in basic education is mere wishful thinking.

iii) Promoting both access to information and its dissemination and generation.

iv) Fostering responsible management, because it is no longer a question of the traditional educational system, nor traditional training, nor traditional science and technology, but a complex structure with a host of actors, perceptions, forms of conduct and aspirations which will demand a system of evaluation and information which does not exist at present.

v) Raising the professional level and status of teaching, without which the proposal will remain no more than a set of good intentions.

vi) Ensuring that support really is provided and that it comes from all the various participants. The educational system should not be financed solely by the Ministry of Finance, through a budgetary allocation to the Ministry of Education. Such an allocation should be increasingly large, but there should also be many contributions from other sources if the question of education and human resources is viewed from an integrated standpoint.

In short, it is necessary to rethink the role of the State in connection with this task. Firstly, the State must be capable of guiding educational, training and scientific and technological research activities in a systematic and integrative manner, as well as their links with the system of production. Secondly, it must take a strategic view which allows it to give guidance, regulate from a distance, generate policies, promote independence, and evaluate results without stifling innovation through excessive centralized direction. Thirdly, it must play its indispensable role of correcting inequalities which the process of greater autonomy may possibly accentuate and mobilizing finance, including a growing proportion of private resources.

3. Social Integration

There are various elements that must be present in the design of public policies aimed at heightening social integration. They include the organized participation of the various actors; opportunities for social mobility; family cohesion; educational reform aimed at raising productivity and citizen participation, and reform of the health system with a view to securing universal coverage and giving priority to preventive action, primary attention and control of epidemics.

Each of the groups which are margined or victims of discrimination – on account of their ethnic, age-related, social, territorial or sex-related characteristics – must be the subject of specific initiatives. Particular attention should be given to the members of these groups who are most vulnerable, such as children under five, women of reproductive age, pregnant women, and mothers and children in particularly difficult circumstances.

Another crucial aspect is that of policies designed to strengthen social actors. Policies for the effective integration of women, who form half the population, require particular attention because of the decisive contribution they can make to the democratization and economic development of the countries. It is necessary to go beyond mere legal equality, seeking to correct inequalities from the root, and this raises the global challenge of eliminating all the examples of sex discrimination present in public policies. In this case, as well as in that of young people, policies are required which improve the position of these members of the community in the educational system, the labour force and the various channels of social and political participation.

With regard to indigenous groups, it is necessary to build an effective form of cultural pluralism which recognizes and respects the existence of ethnic and cultural differences and opens up channels to facilitate their participation in society on an equal footing.

Important elements for the promotion of social integration are social policies based on transfers through the social security system, which should expand its coverage to under-privileged groups which are currently excluded from its benefits. The starting point for this could be a “basket” of basic benefits designed to favour these sectors selectively. In this respect, it would seem desirable to give priority to transfers which help to increase family income, rather than that of individuals, with these benefits

centered on allowances for the lowest-income heads of household.

It is important to redefine the criteria on the way transfers through social security institutions should be organized, in the light of the risks covered. On the one hand, the systems could offer a form of insurance shared between the beneficiary and the system against the risk of fluctuations in the former's income during his lifetime, on the basis of actuarially calculated payments and benefits. Examples of such benefits are old-age, disability and widows' pensions; medical and hospital attention and monetary benefits for maternity or sickness, and monetary unemployment benefits.

On the other hand, the systems should offer a guaranteed minimum income to all persons, but especially the poor, through such means as family allowances, social welfare payments (pensions) and national health systems or public health attention programmes.

Reform of the social security system should be based on a mixed system combining a universal system of basic benefits, financed from general State resources and based on the principle of social solidarity, and a system of public or private benefits, along the lines of private provident schemes, in which there is full equivalence of what the insured person pays in and what he receives.

In order to reduce the cost of the benefits provided, it would appear to be advisable to unify the various public pension systems; to eliminate pensions based on length of service but to keep those based on age, subject to some exceptions; to increase and adjust retirement age to take account of the greater life expectancy after the age of 65; to link pensions to the contributions paid throughout the beneficiary's working life, and not just the last few years; to unify the conditions for the receipt and calculation of benefits (especially pensions), and to give priority to primary health attention rather than curative attention.

Extension of benefits to groups not covered by the system should take place in a selective manner, both as regards the groups covered and the type of services provided. In order to minimize effects which discourage the hiring of labour, that part of the contribution which is paid by the employer should be calculated according to the added value of the firm rather than the total payroll.

Another important aspect in shaping integrated societies is that of population dynamics. The various

population dimensions—size, growth rates, age structure, mortality/morbidity, fertility, international migration, spatial distribution, and the status of women—are enormously important when designing public policies aimed at securing the objectives of changing production patterns with social equity.

The features of the situation in the region clearly show the need for a pragmatic approach to this issue which eschews artificial contradictions between development and birth control as alternative options for avoiding poverty and securing greater equity. The debate along these lines has been overtaken by the facts. Just as the objectives of growth and equity are not mutually exclusive but instead complementary aspects of the same process, likewise the relation between fertility and development must be analysed in the context of a global, systematic effort to attain growth with equity, increasingly dependent on a major improvement in the quality of human resources.

Placing the means of reducing fertility rates within the reach of the most under-privileged sectors is one way of strengthening the exercise of the rights of citizenship and extending them to the whole of the population. This is favoured by the generation of better conditions for the exercise of the reproductive rights of the couple, so as to bring their effective fertility in line with the level of fertility they really want, on the basis of informed and responsible choice.

4. Overcoming poverty

Although overcoming poverty depends basically on sustained economic growth which increases employment opportunities and raises wages, it is also necessary to develop compensatory policies for the most under-privileged sectors and those not benefitted by the increases in employment and wages.

Such policies should tend to focus social expenditure so as to give priority attention to the most under-privileged sectors and thus make more effective use of the available resources. Social investment programmes designed to stop the inter-generational transmission of poverty are particularly important, in such fields as education, the establishment of conditions which favour responsible parenthood, mother and child care programmes focussed on the lowest-income sectors, and expansion of pre-school education, especially in those same sectors, including food supplementation programmes, etc.

Increasing the productivity of the poor is essential in order to overcome poverty. There is therefore a need to develop policies aimed at expanding the financial and capital markets in order to take care of the needs of viable small-scale and microenterprises by generating systems of credit and technical assistance adapted to their needs; to establish mass programmes for the training and upgrading of labour; to reform the regulatory arrangements which hinder the formation of microenterprises; to adapt the social services to the needs of the poorest sectors; to foster the organization of mutual aid schemes and arrangements

for the representation of the needs of the most underprivileged sectors; to take advantage of the redistributive potential of fiscal policy, and to consolidate and perfect social investment funds for the neediest.

It is also important to generate social "safety nets" capable of safeguarding social needs during stabilization processes, dealing with emergencies or adverse international economic conditions, and preventing transitory poverty situations from becoming chronic for want of timely aid. Such "safety nets" should ensure certain minimum levels of consumption and well-being for the most vulnerable groups.

V

Positioning in the international economy

In order for the process of changing production patterns with equity to be sustainable, it is necessary to improve the position of the countries of the region in the international economy: that is to say, their share in dynamic international trade flows, foreign direct investment, technology and finance. This improved position should be reflected in greater capacity to take advantage of upswings in international and regional trade and to withstand adverse cycles and financial instability, by diversifying products and markets, promoting investment and strategic alliances abroad, applying domestic stabilization mechanisms and improving the links between exports and other production activities.

1. External trade policy

The strategy for improving the countries' place in the world economy calls for greater openness of the economy and special attention to exports as a means of inducing increases in productivity and stimulating the incorporation of technical progress. Such greater openness should be gradual, in line with the availability of foreign exchange; it is necessary to harmonize tariff and para-tariff protection policies, exchange-rate policy and export promotion policies in order to ensure that the effective protection given to export activities is no less than that afforded to import-substitution sectors.

Positioning in the international economy is seen as a wide-ranging management task covering not

only the areas of trade, exchange rates and finance, but also policies for the development of production, the promotion and dissemination of technology, and the training of human resources, with special attention to the interaction of these measures. In particular, if the international position is to be reflected in faster export growth it is necessary that there should be suitable management of the exchange rate, a gradual approach to the reduction of protection, effective export promotion mechanisms and an appropriate production development policy.

Exchange-rate policy has an irreplaceable role to play in reorienting incentives towards external markets. Avoiding exchange-rate lags is of crucial importance for ensuring that greater openness is reflected in more investment in the tradeables sectors and a higher level of economic activity and employment. In this respect, it is the responsibility of the authorities to defend the stability of the macroeconomic balances and the incentives provided, in order to ensure clear signals that favour investment in the production of tradeables, especially export products.

With regard to anti-export bias, it is proposed that this should be eliminated and replaced by a temporary bias in favour of non-traditional exports. Pioneering exports require great efforts, incur high costs and risks, but generate externalities which favour subsequent exports that follow their example. There is therefore ample justification for giving them incentives and thus stimulating pioneering efforts to win markets.

Such incentives must be selective, of restricted scope, limited and decreasing in duration, and must involve only slight deviations from a neutral approach. The mechanisms for establishing and modifying them must be non-discretionary and they must be designed in consultation with exporters' associations.

A basic condition for promoting the competitiveness of export firms is to ensure that they have access to the necessary inputs on competitive terms. It is advisable that these firms should have access to flexible facilities for the temporary importation of inputs for the production of export goods. Other possibilities are tariff exemptions or subsequent drawback arrangements, subject to the simplest possible administrative formalities. Such mechanisms could also be extended to indirect exporters: that is to say, domestic producers of inputs for exporters.

The liberalization of trade policy has increased the vulnerability of the Latin American economies to unfair trade practices and to the instability of their trading partners. It is essential, then, that the countries of the region should adopt or improve their anti-dumping regulations, countervailing measures and safeguard clauses. At the same time, however, care must be taken to ensure that new provisions in these fields are not used by private interests to secure the unjustified activation of regional protectionism.

The public sector can contribute to good performance in external markets by giving institutional support to export activities, especially in terms of information, financing and export insurance; management training to promote greater interest in exports among businessmen, and promotion of exportable supply. Furthermore, pioneering investment initiatives have been taken abroad in support of the export effort: marketing chains, joint activities with firms in the importing markets, and other forms of action which are beginning to be taken into account in export promotion policies.

2. Macroeconomic policy and capital movements

The current economic reactivation is limited by the available production capacity. As countries near their production limits, the need arises to regulate the growth of aggregate demand in order to avoid the resurgence of inflation or excessive external sector deficits. There is also still a need to increase investment in order to keep up the growth of the product.

The instruments available for trying to manage the level and composition of aggregate demand are

fiscal, monetary and exchange-rate policies. If there are restrictions on the application of an active fiscal policy, what can be done is to simultaneously control real interest rates (as a monetary policy instrument for stabilizing and controlling domestic aggregate spending) and the real exchange rate (as a trade policy instrument for promoting increased production of tradeables and influencing the composition of aggregate spending).

A conflict arises when the interest rate compatible with the aim of limiting inflation and imparting stability to economic activity (by sterilizing the monetary effects of the buildup of reserves) is higher than the international rate adjusted for the expectations of devaluation; this encourages the inflow of capital and heightens appreciation of the exchange rate, thus going against the objective of protecting the tradeables sector of the economy. If, however, the real domestic interest rate is allowed to go down in these circumstances, this runs counter to both objectives, since the greater spending induced by the lower interest rates exerts pressure on prices and there will be a rapid rise in the current account deficit, causing the risk of an unsustainable macroeconomic imbalance.

The way to solve this conflict is to act directly or indirectly on capital flows. Most of the countries of the region have decided at some time or another to engage in sterilizing operations when facing severe conflicts in the handling of their exchange-rate and monetary policies. In order to reduce such conflicts, complementary measures such as the following have been used: some degree of flexibility of fiscal policy in order to regulate aggregate demand; stabilization funds for the main export commodities in order to soften the shocks caused by the respective price cycles; income policies in order to adapt relative factor prices to changes in productivity; measures to try to change the volume and composition of capital flows by providing incentives for long-term flows in the form of compulsory reserve requirements, taxes or exchange-rate measures which subject short-term capital flows to greater uncertainty, or even quantitative controls.

In order to keep the macroeconomic balances and the real exchange rate stable, the rate of opening-up of the capital account must be in keeping with the capacity of the economy in question to absorb external resources and allocate them efficiently. Initially, it might be advisable to liberalize only the entry of long-term capital, before giving facilities for

short-term financial capital transactions. With regard to the outflow of capital, priority should be given to export promotion credits and direct foreign investments by national firms, also as a way of improving their export position.

In the reorganization of financial systems, including the liberalization of capital movements, priority should be given to channelling resources to saving and investment, in a manner closely linked with the development of production capacity. Greater attention should be given to the links between the national financial system and saving and investment processes, as well as between that system and external financial markets.

At the very least, the encouragement of Latin American investment abroad calls for a policy which does not discriminate against investment of regional origin. The internationalization of production also calls for advances in the fields of international trade and finance, as regards investment abroad and technology flows. It would be desirable to make progress in negotiating agreements to avoid double taxation and eliminate unnecessary obstacles to such investment.

3. Open regionalism

The proposed form of open regionalism reconciles the interdependence stemming from special preference agreements with that which is basically due to the market signals resulting from general trade liberalization. In this way, integration policies can be compatible with and complementary to policies aimed at enhancing international competitiveness.

Regional integration can be perfectly in keeping with a more open and transparent world economic order. In the absence of the latter, integration is a means of diversifying the risks in an international economy fraught with uncertainty.

Unlike indiscriminate export promotion, open regionalism has a preferential element which is reflected in integration agreements and is further strengthened by the geographical proximity and cultural affinity of the countries of the region.

Open regionalism involves undertakings which contribute to the gradual reduction of intra-regional discrimination. This is achieved through the broad liberalization of markets in terms of sectors and countries; the macroeconomic stabilization of each of the countries; the establishment of suitable payments and trade facilitation arrangements; the building-up of infrastructure, and the harmonization or

non-discriminatory application of trade rules, domestic regulations and standards.

Common external tariffs and a moderate level of protection against third countries are efficient means of reducing the incentives for smuggling and avoiding accusations of unfair trade practices connected with the use of inputs with different degrees of protection.

In the event of temporary intra-regional imbalances, it would be desirable to decide on the action to deal with them through negotiations or prior consultations, in order to avert the possibility of a spiral of reprisals.

Regional balance-of-payments support bodies should be strengthened in their legal and financial aspects. Payments systems could also be a fundamental instrument for facilitating the expansion of mutual trade and investment flows.

The current limitations on the coordination of macroeconomic policies warrant the definition of a planned path towards their solution which could begin with an exchange of information and an examination of the repercussions that some economies could have on the others.

The increasing degree of interdependence means a greater need for cooperation and harmonization in new areas such as those of labour standards and regulations and migration. Policies on competition could complement policies aimed at greater openness and take the place of the instruments of protection used so far to deal with unfair competition in the field of imports.

The current trend in favour of open regionalism has repercussions on the expansion and adaptation of the infrastructure. If this process is accompanied by increasing convergence in respect of economic policies, regulations and standards and a greater effort to provide an infrastructure which is functional to the process, there will be greater possibilities of heightening regional and even hemispheric integration.

The institutions responsible for furthering the integration process must be in keeping with the degree of progress attained by integration. At all events, it is necessary to avoid the adoption of rigid commitments, favouring instead flexible schemes which allow the dynamics of the process to define the rate of development of the relevant institutions. The various integration agreements and forms of integration already reached raise the need to determine the best way to support the commitments already entered into and to identify the stumbling blocks and conflicts that may arise as a result of the large number of agreements.

VI

Political aspects and State intervention

1. The need for a participative political system

There is a selective affinity between the formulation and application of the proposal for changing production patterns with equity and a democratic and participative environment in which the basic human rights are fully guaranteed, decisions are taken in a decentralized manner, participation is actively promoted, and the main operating principle is consensus-building. Another functional proposal is that social conflicts should be kept within limits that the democratic system can handle, with priority being given to decentralized decision-making mechanisms which bring decisions closer to the grass-roots level and avoid the buildup of discrepancies in the macro-social systems.

A culture based on consensus involves a significant change from the traditional political culture of the region, since it includes at least three aspects which have raised problems in the past: recognition of the diversity of the actors making up civil society and strengthening of their role; generation of negotiations leading to firm commitments, and the transformation of agreements and commitments into shared cultural referents.

Strengthening participation through solid social organizations capable of representing interests and acting as valid interlocutors is of fundamental importance for strengthening the functioning of democracy. Priority must be given to actions which help individuals, groups and communities to attain social progress through their own efforts and to participate jointly in the search for solutions. A special effort should be made to generate spaces for real participation by persons and groups who, because of their ethnic, age-related, social, territorial or sex-related characteristics, are currently cut off from the benefits of development. This should be an all-pervasive element in specific policies aimed at promoting and organizing the participation of the individuals and groups to be favoured by social policy at the local, regional and national territorial levels and in such areas as information, training and technical assistance.

2. Interaction of the various agents

Macroeconomic and sectoral policies call for a new form of interaction between the public and private agents in various fields, such as information on markets and technology, reduction of trade risks, consumer protection, protection of industrial property and promotion of technology transfer, and an active strategy to improve the position in the world economy.

The systematic effort to achieve changing production patterns with equity will require new levels of concertation and consensus-building in the societies, so as to generate, along with the promotion of agreements, suitable conditions for channelling and negotiating disputes and conflicting interests and avoiding a return to populism, ungovernability or military coups.

It would seem desirable, then, to foster direct consensus-building between employers and workers, limiting the State's role to that of a mediator of last resort. Such consensus-building would be favoured by strengthening the collective negotiation capacity of the workers and ensuring respect for basic social and trade union rights.

The need to ensure real participation by the groups involved once again highlights the need to decentralize and deconcentrate public action and powers in order to bring them effectively closer to the people. The new levels of concerted action and consensus-building involve a whole range of far-reaching explicit and implicit agreements between the State and the main political and social actors regarding the development strategy and the sequence of policies and institutional innovations which are needed. This will also involve the narrowing of economic policy options, thus giving rise to a strong tendency towards the technification of politics. In this context, it is vital to avoid a split between the authorities and society and, in addition to promoting agreements, to generate suitable settings for the channelling and negotiation of disputes and conflicting interests.

3. Reform of the State

The respective roles of the State and of the private actors cannot be approached in an abstract manner: public actions take place in a given institutional, social and political context in which the State and the rest of the social actors interact and influence each other.

In general terms, the public sector has a decisive role to play in eliminating various limitations on growth and creating and enhancing economic opportunities, within a context of proper resource assignment. There are areas which are natural candidates for public action: those which are designed to make up for market flaws, such as the creation of externalities and the supply of public goods; science and technology policy; measures to overcome poverty; action to ensure the rights of the individual, such as the right to basic education and to health; and intervention in social security matters and protection of the environment.

At the same time, progress towards changing production patterns with equity calls for substantial restructuring of the State and of public management. Rather than increasing or reducing the role of public action, what is needed is to increase its positive impact on the efficiency and efficacy of the economic system as a whole. To this end, it must create better links between the short-, medium- and long-term decision-making processes, promote intersectoral coordination, and provide technical backing for the necessary efforts to foster social dialogue and consensus-building, which must, of course, take account of the need for participation, decentralization and administrative deconcentration.

The State must renovate its style of intervention by developing greater strategic capacity both in the area of competitiveness and innovation and that of equity. It must not seek to take the place of the economic and social agents, but instead ensure that the proper rules and spaces exist for promoting stability and growth. It must also be capable of offsetting the socially negative effects of economic dynamics in such areas as education, health and housing, by using means of regulation, protection and compensation to improve the possibilities of those who are not in a position to make use of the market.

Flaws in State intervention may be just as serious, or even more so, than market flaws, and this highlights the importance of the competence, social

legitimacy and operational capacity of the institutions responsible for policy design and implementation. In contrast, the greatest successes would appear to be associated with a style of intervention which is in keeping with the way the markets operate and evolve and avoids causing major distortions in relative prices. Where markets are weak or incomplete, public policy should be designed to simulate their operation in the short term and foster their creation or supplementation in the medium term.

In the case of public enterprises, in view of the need for governments to concentrate their organizational and administrative capacity on areas considered to be of priority importance, the following lines of action are suggested:

i) Measures to reduce or eliminate deficits should be taken only after accurately identifying them, thus making it possible to use the most efficient means. The social and development objectives of such enterprises should be clearly identified in order to assess their importance and evaluate their effect on the enterprise as a whole.

ii) The personnel policy of public enterprises should be based on reasonable levels of stability and independence, as well as on competitive wages.

iii) The relationship between such enterprises and their suppliers should be perfectly transparent and should encourage the latter to raise their level of technical development and increase their productivity. The establishment of relationships based on favouritism should be avoided at all costs.

iv) The situation of public enterprises which were set up to make good shortcomings or absence of markets must be assessed in a realistic manner; if suitable conditions exist for the development of markets, then their activities could be transferred to the private sector.

The relative importance of the private sector in the supply of goods and services can be increased by deregulating activities, granting concessions, or privatizing State enterprises. With regard to the latter approach, the results obtained are decisively influenced by the way it is carried out; in the sequence of operations, the change of agents must not precede stabilization efforts but must come after them, and the same is true of the regulation of the sector.

In some cases, excessive haste in privatization and deregulation processes can give rise to monopolies which have no justification from the technological point of view or to information monopolies which

reduce the transparency of the market and make it more difficult to achieve efficient resource allocation. Here, the public sector is faced with a new task: that of adapting the regulatory frameworks to the new institutional and technological conditions, improving the technical capacity of the regulatory bodies, and strengthening their autonomy in order to ensure that these markets are transparent and competitive.

From another standpoint, the reassignment of resources to the social sector and to the development of production should be accompanied by an additional effort to improve the efficacy and equity of the policies applied. This involves ensuring suitable complementation of resources in the provision of services, eliminating or reducing subsidies which are not destined for the poorest groups or are not consistent with the development of production, and seeing that subsidies reach the desired groups as efficiently as possible.

As already noted, the ECLAC proposal is a coherent agenda for public policy reform which needs to be complemented with a review of the institutional bases of the State. To this end, it is necessary to take into account such issues as the organizational scheme of the public sector, the clarity of the procedures used, the level of training of the officials involved, the quality of the organizational leadership, the decentralization of activities, the establishment of clear standards of conduct, and the organization of public action to ensure that it meets the aims of development in a coherent manner. It is also necessary to review public management in order to ensure that the planned results of public policies are achieved, to define missions and results so that they can be objectively evaluated, to assign responsibilities and degrees of autonomy, and to establish a system of incentives to encourage officials to achieve or surpass the goals set for them.⁴

(Original: Spanish)

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⁴ Address delivered by Gert Rosenthal, Executive Secretary of ECLAC, at the Ninth Conference of Ministers and Heads of Planning of Latin America and the Caribbean, Mexico City, 20 July 1994.