

Preface

A discussion about stability, growth and the search for a new development agenda is very timely and opportune. Latin America and the Caribbean have lived through a period of deep economic reforms since the 1980s. Dramatic changes affected the action of the state and gave more room for private agents to work.

The Washington Consensus provided one of the best summations of this reform agenda, although it certainly did not reflect its most radical version, which called for a minimalist state. During the last few years, the wisdom behind this vision has been called into question.

Nearly one and a half decades of intensive and profound reforms in Latin America and the Caribbean has left a mix of successes and failures with a disappointing net outcome. The net balance, in terms of growth and equity, has been notoriously poor. Of course, there are clearly positive results in several areas: the eradication of hyperinflation, more balanced public budgets, a rise in the share of exports, less bureaucracy, and fewer centrally taken microeconomic decisions. But there is still much work to do in order to create a friendly environment for growth and equity.

Performance has been the poorest in precisely the most significant areas: economic growth and equity. In the past six years, which ECLAC has called the “lost half-decade”, GDP growth was only 1.3 percent annually while population rose 1.6 percent per year, so per capita growth has been negative.

While annual GDP scarcely rose 2.4 percent between 1990 and 2003, the active population increased 2.6 percent annually; consequently, output per worker decreased in the period 1990-2003. This contributes to explaining why wages have stagnated since 1990. In terms of poverty, there are now 27 million more poor people than there were in 1990.

Distributive tensions in Latin America and the Caribbean are running high and are probably intensifying. Income disparities within

countries and among countries of the region, and between developed and the least-developed countries continue to increase.

In recent studies, we identified at least four reasons why poverty has been increasing: first, low GDP growth; second, higher open unemployment; third, a low physical investment ratio (that is, productive investment) while population and the labour force keep increasing; and fourth, the underrated role of reducing the equity gaps in education, labour training and access to capital markets. The distribution of opportunities and of productivity has become even more skewed than before the reforms.

Comparative research on the effects of structural reforms have tended to confirm that economic liberalisation in the developing world has failed to generate dynamic economic growth, whereas its distributive effects have generally been adverse. Latin America, the region where reforms have gone the furthest, provides the most interesting testing ground on both counts.

We need to reform the economic reforms to preserve achievements, while at the same time systematically correct the most severe failures. I will mention five of the changes required.

The first is macroeconomic policy for growth. Macroeconomic reforms are needed to achieve a more sustainable equilibrium, functional for productive development. We need to have a broad view of macroeconomic stability and the role of counter-cyclical policies. Some crucial, strategic, ingredients for a macroeconomic policy for growth are: (i) improving counter-cyclical regulation and supervision of the financial system; (ii) establishing counter-cyclical fiscal policy; and (iii) avoiding exchange rate appreciation during the next capital surges, with an efficient prudential regulation of capital flows.

The second is completing factor markets. We must improve systematic efforts to complete factor markets (labour training, technology, long-term financing, and infrastructure); all are policy variables related to systemic competitiveness. One strategic ingredient is making effective efforts to develop long-term segments of the capital markets, improving the access of small and medium-sized firms. Macroeconomic policies are not enough, so there is an urgent need to strengthen productive development strategies through active public policies.

Third is upgrading the quality of exports and their linkages with the domestic economy. Crucial ingredients include sustaining real macroeconomic balances (including, notably, a stable real exchange rate) and completing factor markets. There are severe flaws in the actual design and implementation of the Washington Consensus.

Making sustainable development an integral part of production strategies is the fourth change. The effective incorporation of the sustainable development agenda is an additional demand being placed on production strategies today. Indeed, the degree of environmental degradation generated by developing countries at intermediate or even low stages of development indicates that sustainability is hardly a luxury that can be postponed. This objective requires much more than conserving the natural resource base. In essence, it calls for the mobilisation of investment in dynamic production sectors that use clean production methods and technologies, and in which competitiveness is achieved through the accumulation of capital in the broad sense of the term (i.e. human, social, physical and natural).

Fifth, we need to improve social linkages. Social policy should be guided by three basic principles: universality, solidarity and efficiency.

To achieve these objectives, Mr. Ocampo, United Nations Under-Secretary-General for Economic and Social Affairs, reviewed some of the basic concepts underlying the call for a new development agenda in a recent paper on “Rethinking the Development Agenda”. He stated that there are two intersecting themes that should be analysed. The first is the call for a new balance between the market and the public interest. Greater attention must be paid to equity, social cohesion and sustainable development as the main areas where a new balance of this sort should be struck. The second theme is that, rather than being restricted to state actions, the concept of public policy should be understood as any organised form of action that pursues objectives of collective interest. This definition of public policy is in keeping with an awareness of the need to build strong civil societies and to work to overcome a crisis of the state that affects the developing world and, indeed, the world at large. It thus aims at correcting both “market failures” and “government failures” and, more generally, at building and rebuilding institutions and organisations.

I believe that this book brings forward important insights about where to go and how to design a new development agenda.

Alicia Bárcena
Deputy Executive Secretary
ECLAC