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Equity in Latin America Since the 1990s*Pedro Sáinz*

Abstract

This paper deals with the social welfare consequences of the stagnation of Latin American growth per capita during the far-reaching economic and social changes that took place during the period 1980-2003. This period of transformation saw large-scale foreign actors gradually increase their economic and political power in Latin America, with negative consequences for domestic economies, especially in terms of increasing income inequality and rising poverty. The only major tendency mitigating these adverse trends was an increase in public expenditure in the social sector during the 1990s, which offset, but did not eliminate, the increased inequality associated with the economic transformation.

JEL Classification: O11 (Macroeconomic Analyses of Economic Development); O17 (Formal and Informal Sectors; Shadow Economy; Institutional Arrangements: Legal, Social, Economic and Political); O40 (General); O54 (Latin America; Caribbean); I28 (Government Policy); I32 (Measurement and Analysis of Poverty).

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Pedro Sáinz is a consultant for the Inter-American Development Bank, United Nations Development Programme (UNDP), Instituto Nacional de Estadísticas (INE) Chile and Instituto Brasileiro de Geografia e Estatística (IBGE) on public information systems as well as on poverty analysis and policies. He was Director of the Economic Projections Centre and of the Statistical Division of the Economic Commission for Latin America and the Caribbean, Santiago (ECLAC). Since his retirement in 2000, he has written articles on Latin American social development and given advice to Latin American institutions on public information systems.

Comments should be addressed by email to the author at psainz@eclac.cl.

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United Nations
Department of Economic and Social Affairs
2 United Nations Plaza, Room DC2-1428
New York, N.Y. 10017, USA
Tel: (1-212) 963-4761 • Fax: (1-212) 963-4444
e-mail: esa@un.org
<http://www.un.org/esa/desa/papers>

Equity in Latin America Since the 1990s

*Pedro Sáinz*¹

This paper analyses the evolution of equity and inequality in Latin America from the 1990s until 2003 in the context of growing liberalization and globalization. The first section reviews recent economic changes and their social repercussions, and includes a description of macroeconomic policies and reforms. The second section examines social policy objectives since the 1990s, with close attention to changes in orientation resulting from the reforms. The third section evaluates the status of poverty and equity during recent political changes.

Openness, economic change and equity

During the 1980s and 1990s, Latin America underwent profound economic changes, caused mainly by external influences. Multinational banks had played a major role in the indebtedness of the 1970s, while the Bretton Woods institutions and some developed countries, especially the United States of America, led the process of renegotiation of countries' external debt during the 1980s. These same actors strongly promoted institutional and macroeconomic reform during the 1990s, which lay at the core of the major economic transformation that replaced the previous government-led industrialization with a new system based on the dominant role of transnational corporations (TNCs).² This economic transformation cannot be explained without reference to recent policies associated with the present international economic order.³

Macroeconomic features

During the 1990s, external capital movements, growth instability and the stagnation of per capita income since over two decades converged to decrease equity and increase poverty in Latin American economies.

Since the oil crisis in 1973, the region has experienced massive changes in its balance of payments. From the middle of the 1930s up to that time, the current account approach had been dominant, but after the crisis, capital account transactions became more frequent. This had significant macroeconomic consequences. Foreign trade was, on many occasions, responsive to situations associated with capital movements, e.g., increased imports with strong capital inflows, fixed exchange rates and easy access to credit for consumers.

From 1975 to 1981, the Latin American region became heavily indebted and funds were often misused, leading to the crisis of 1981-1982. The 1980s saw huge negative transfers effected to pay off national debts, with consequent negative growth rates in per capita income. From 1990 to 2001, there were again net capital inflows, with larger shares of foreign direct investment (FDI). In many cases, such investments were used to buy existing assets, not to increase fixed capital. Investment made recovery possible,

1 The author has heavily used ECLAC documents, especially ECLAC (2004b), of which he was coauthor. The author wishes to express his gratitude to Adolfo Gurrieri for his comments and suggestions.

2 The disarticulation process is described in Sáinz and Calcagno (1992).

3 For the influence of policies on globalization, see Ocampo (2001).

albeit at slow growth rates, and was a significant factor in bringing about economic change. From 1998 to 2003, the region suffered from stagnation, as net capital inflows became negative again; the cumulative net transfer out of the region between 1975 and 2003 was \$62 billion.

Macroeconomic policies were constrained by the restrictive conditions associated with freer capital movements. On many occasions, governments and other actors became highly indebted, which in turn limited their options for action. For example, in 2003, the high level of government indebtedness in Argentina and Brazil created economic and social complications, and limited government freedom to expand social policies, although these were urgently needed.

The long-term outcome of the reforms was disappointing. From 1980 to 2003, per capita GDP in the region (in 1995 US dollars) increased by only 3.4 per cent. Also, vulnerability, instability, limited economic policy instruments, and long-term economic stagnation had an adverse affect on equity and deepened poverty, especially during periods of crisis.

New actors and asset distribution

The debt crisis of the 1980s and the reforms of the 1990s led to economic changes and redistribution of assets. Since the beginning of the 1980s, external capital movements have had a significant effect on the economic health of enterprises. The devaluations that followed the debt crisis forced heavily indebted enterprises into bankruptcy, particularly those that had been borrowing during the 1970s, when access to foreign financial resources had been easy (see ECLAC, 1984). The weakness of domestic demand following the 1981-1982 crisis compounded these difficulties, and prevented the creation of a trade surplus. These circumstances allowed foreign TNCs to displace domestic firms, especially in the second half of the 1990s. Economic openness, especially in countries that used the exchange rate to control inflation, created even more severe problems for national enterprises producing tradable goods.

Transnational enterprises thus gained greater production and market share. In 1996, as public enterprises were declining in number, TNCs represented half of the 100 major enterprises. Although in 1990, TNCs had accounted for only 25 per cent of total sales of the 500 major enterprises, by 1999 when FDI reached its highest level, their share peaked at 43 per cent. In 1996, sales of the major 100 enterprises represented around 10 per cent of GDP, and those of the top 500 around one third of GDP.

TNCs have long had a strong presence in the manufacturing and services sectors. Many medium and high-technology industries (automotive, auto parts, electronics) are largely dominated by TNCs, which have concentrated their operations in assembly plants located in Mexico and, to a lesser extent, in Argentina and Brazil. Along with medium and high-technology industries, a wide range of low-technology manufacturing industries also operate assembly plants located in Mexico and the Caribbean.

The services sector also has a broad-based TNC presence, which has been growing steadily since economic reforms were implemented to privatize, deregulate and liberalize public utilities in most countries in the region. In the second half of the 1990s, this sector received the largest FDI inflows. The new regulatory context for the provision of public utilities allowed TNCs to gain ground by purchasing state-owned assets, mainly in energy, telecommunications, finance and infrastructure. This process explains the declining role of the largest firms in the primary and manufacturing sectors, although the latter still has the largest overall TNC presence (see ECLAC, 2004a). During the latter part of the 1990s (1996-2000),

TNC sales in Brazil increased from 26.6 to 41.8 per cent of total sales, while employment in TNCs decreased from 17.0 to 10.9 per cent (Barros de Castro, 2003).

Transnational and large-scale national enterprises imposed new models of production with a high degree of standardization and interchange of inputs produced in different countries. Administrative reforms were also introduced. Employment and supply aspects of the rise of transnational enterprises caused net unemployment after introducing technical innovations with little more fixed capital. Types of products from the region also changed with the international pattern of consumption. Surviving large and medium-sized national enterprises adopted, to different degrees, new administrative patterns, conducive to higher productivity and net unemployment. This new pattern also contributed to inequality. In terms of inputs, products from other transnational factories replaced domestic suppliers, leading to pressure on the trade balance and slower technical progress, thus increasing inequality.

The social strata associated with the top national and international enterprises benefited from the system, but many who lost their jobs had to find employment in low productivity enterprises. More importantly, perhaps, the youth and women trying to enter the labour market for the first time had increasing difficulty in finding jobs that could guarantee minimal welfare. After ten years, workers performing the same job functions received the same real income, despite having on average two more years of education (see ECLAC, 2004b).

In short, in the period under review, Latin America experienced significant economic change, with reduced fixed capital investment and stronger external deflationary macroeconomic pressures than earlier. A majority of people failed to adjust to the new circumstances and became net losers in terms of both income and equity. While growth may be good for the poor, these reforms in Latin America resulted in slower growth and even stagnation, as well as greater inequality.

Labour market

The uneven evolution of employment, productivity and income in the labour market played a central role in economic and social changes in Latin America. Large disparities in performance between large and small enterprises were a feature of the 1980s and 1990s. Large-scale enterprises recorded high rates of productivity growth with a shrinking labour force, while small enterprises and self-employment continued to grow and be associated with low productivity. In the 1990s, growth in production in the tradable sector was practically equal to that of the non-tradable sector, at an annual average growth rate of nearly 3 per cent. Non-tradables grew faster in most countries except Brazil, Costa Rica, Ecuador, Mexico, Nicaragua, Peru and Venezuela.

The low rate of job creation in the tradable sector was evident even in those countries where the sector's output increased relatively quickly. In Argentina, for example, the GDP of the tradable sector expanded at an annual rate of 3.6 per cent, while the change in total employment was -1.3 per cent. In Brazil, these figures were 2.4 per cent and 0.2 per cent respectively; in Chile, 5.6 per cent and -0.4 per cent; in Colombia, 1.7 per cent and -0.1 per cent; in Costa Rica, 5.5 per cent and 1.3 per cent; in Mexico, 3.4 per cent and 1.7 per cent; in Panama, 3.0 per cent and -0.6 per cent; in Uruguay, 1.1 per cent and -1.1 per cent; and in Venezuela, 2.7 per cent and 0.7 per cent. In some smaller and less developed countries, however, the tradable sector diverged from this trend. In El Salvador, for example, employment in the tradable sector grew by 3.6 per cent, while total employment expanded by 3.5 per cent. In Honduras, employment

in the tradable sector expanded by 3.2 per cent, and total employment by 2.9 per cent; in Nicaragua, these figures were 4.3 per cent and 3.9 per cent respectively.

In urban areas, creation of jobs differed between the tradable and non-tradable sectors, as it did between the formal and informal sectors. In most Latin American countries, employment expanded faster in sectors that produce non-tradable goods and services (see Table 1).⁴ The two sectors' respective capacities to increase productivity and generate employment have evolved separately. In general, the tradable sector absorbed little labour, but achieved productivity gains. By contrast, the non-tradable sector showed a greater capacity to generate employment, but at the cost of low or negative rates of productivity growth.

The low rate of job creation in the tradable sector is evident even in countries where the sector's output has increased relatively quickly. This atypical trend can be observed in the development of the maquila industry. Although rising production of tradable goods helped to increase productivity, its effects on employment were weak except in countries with a growing maquila sector (Mexico and some of the Central American and Caribbean countries).

Although the maquila industry has generated employment, it has shown little capacity to increase productivity, and therefore cannot be expected to become the basis for a regional strategy for economic growth and employment in the medium or long term. Furthermore, in most recent years, this industry has lost ground to Chinese exports. In general, the responsibility for generating employment has fallen on the non-tradable sector, but this sector has not generated enough jobs.

The general asymmetry between the tradable and non-tradable sectors not only accentuated the heterogeneity of Latin American economies, but also had an impact on labour markets. The gap between the incomes of wage earners with different levels of schooling has widened, as the modernization of certain occupations has paralleled an increasing casualization of the workforce. Since there is little unemployment protection in Latin America, most workers prefer to avoid unemployment by turning to low-productivity, low-income jobs, as had been the trend in the 1980s and 1990s, although open unemployment also rose in the latter decade.

Much debate has surrounded the question of whether or not the tertiarization of employment is conducive to modernization. The answer depends on whether tertiarization is due to economic growth or the lack of momentum in the economy, which drives workers to seek employment in commerce and services. The two processes coexist in Latin America, although casualization prevails over modernization.

In effect, the 1990s saw intensive tertiarization, with 66 per cent of all new urban jobs generated in the informal sector⁵ (see Table 2). Unskilled self-employed workers in commerce and services registered the largest increase (24.2 per cent), followed by workers (both employers and employees) in micro enterprises (18.2 per cent), domestic workers (9.4 per cent), unskilled self-employed workers in industry and construction (8.1 per cent), and in primary occupations (6 per cent). Most of these jobs were of low quality, reflecting the urban economy's poor capacity to raise labour productivity. This conclusion holds true for most of the 17 countries considered, particularly the most heavily populated ones, such as Bra-

4 In a number of countries, some non-tradable services, such as segments of the tourism sector, may be significant. However, since the national accounts estimates of most of the countries do not identify the amounts corresponding to these segments, growth rates in the tradable sector may, to some extent, be underestimated in cases where they are representative and have expanded rapidly.

5 For detailed information, see ECLAC (2004b).

Table 1:
Total and wage employment in 16 Latin American countries, 1990-1999

	Total employment			Waged employment		
	Total	Tradable sector ^b	Non-tradable sector ^c	Total	Tradable sector ^b	Non-tradable sector ^c
Costa Rica	3.7	1.3	5.2	4.5	3.2	5.2
		[2.1]	[3.7]		[2.9]	[3.5]
El Salvador ^d	4.3	3.5	4.6	4.8	4.0	5.1
		[4.1]	[2.2]		[5.2]	[3.7]
Guatemala	3.6	2.2	5.6	2.7	2.9	2.6
		[6.0]	[2.3]		[4.4]	-[0.3]
Honduras	3.9	2.9	5.2	3.0	2.3	3.4
		[6.6]	[4.4]		[7.3]	[3.8]
Mexico	3.0	1.7	3.9	2.6	1.7	2.1
		[4.0]	[4.6]		[3.4]	[3.9]
Nicaragua	3.5	3.9	3.3	3.6	5.8	2.5
		[1.2]	[1.6]		[4.0]	[3.2]
Panama	3.5	-0.6	5.6	4.1	1.7	4.8
		[3.5]	[2.7]		[3.5]	[2.4]
Subtotal (weighted average)	3.2	1.8	4.1	2.8	2.0	2.7
		[4.1]	[4.3]		[3.6]	[3.6]
Argentina ^d	1.2	-1.3	1.7	1.6	-1.4	2.5
		-[1.5]	[2.2]		-[1.6]	[2.4]
Bolivia ^d	5.0	7.6	4.4	3.8	3.6	3.9
		[8.1]	-[0.9]		[4.9]	[1.5]
Brazil	1.6	0.2	2.4	1.7	0.2	2.5
		[0.3]	[2.4]		[0.2]	[2.8]
Chile	2.3	-0.4	3.6	2.8	-0.1	4.3
		-[0.2]	[4.6]		[0.0]	[6.0]
Colombia	1.7	-0.1	2.8	1.2	0.2	1.9
		-[0.4]	[3.1]		-[0.4]	[2.1]
Ecuador ^d	3.6	2.2	4.1	3.5	1.6	4.1
		[1.4]	[4.2]		[0.6]	[3.1]
Paraguay ^e	4.1	3.9	4.1	4.7	4.7	4.7
		[4.5]	[3.3]		[5.6]	[3.5]
Uruguay ^d	1.2	-1.1	1.8	1.5	-0.3	2.0
		-[1.8]	[1.0]		-[2.0]	[1.1]
Venezuela	2.7	0.7	3.4	1.5	0.1	2.0
		[1.6]	[2.5]		-[0.3]	[1.3]
Subtotal (weighted average)	1.8	0.2	2.6	1.8	0.1	2.5
		[0.2]	[2.5]		-[0.1]	[2.6]
Total (weighted average)	2.2	0.8	3.0	2.1	0.7	2.6
		[1.5]	[2.9]		[0.9]	[2.9]

Source: ECLAC; estimates based on data tabulations from household surveys conducted in the respective countries.

a Figures are for wage earners between the ages of 25 and 59, working 20 hours or more per week.

b The figures in brackets refer to manufacturing.

c The figures in brackets refer to government, social, community and personal services.

d Total for urban areas.

e Asunción and the Central Department.

Table 2:
**Distribution of urban employed in Latin America by
labour market segment and labour status, 1990-1999**

Labour status	Share of urban employment		Share of each category during 1990-1999	
	1990	1999	%	Employed persons (000)
Total employed persons	100.0	100.0	100.0	26 216
Total formal sector	58.9	53.6	34.1	8 933
Public sector	16.0	12.9	2.1	551
Private sector	44.4	41.3	32.0	8 382
Employers, independent professionals and technicians	3.8	4.3	6.5	1 703
Employees	40.6	36.9	25.5	6 679
Professionals and technicians	4.7	7.8	20.1	5 260
Non-professional, non-technical workers	35.9	29.1	5.4	1 419
Total informal sector	41.0	46.3	65.9	17 284
Employment in microenterprises ^a	14.7	15.5	18.2	4 784
Domestic employment	5.4	6.3	9.4	2 466
Unskilled self-employed workers:	22.3	25.8	38.3	10 034
In agriculture, forestry, hunting and fishing	2.2	3.0	5.9	1 559
In industry and construction	4.3	5.2	8.1	2 131
In commerce and services	15.8	17.7	24.2	6 344

Source: ECLAC; from data tabulations of household surveys conducted in the various countries.

a Includes employers and employees in firms with up to five workers.

zil, Colombia and Mexico. In Argentina and Chile, by contrast, most new jobs were in the formal sector, although Argentina also recorded a substantial increase in open unemployment.

As a result of these patterns, informal employment expanded from 41.0 per cent of total employment in 1990 to 46.3 per cent in 1999. The contraction of the formal sector reflected a decline in the proportion of private sector employees other than professionals and technicians, from 35.9 to 29.1 per cent, and in the proportion of public sector employees, from 16.0 to 12.9 per cent. These relative decreases were not fully offset by increases in the share of professionals and technicians working in the private sector (from 4.7 to 7.8 per cent) and that of employers and independent professionals and technicians (from 3.8 to 4.3 per cent). Consequently, in 1990, value-added per employee was only 84 per cent of what it had been in 1980; in 2000, it was 93 per cent of the 1980 value, and in 2003, 90 per cent.

The wage gap between different segments of the workforce also widened. In general, occupational earnings were slow to increase, and grew at a lower rate than per capita income. Moreover, in most countries, these increases were too small to bring earnings back up to the levels recorded before the crisis of the 1980s. In almost every case, income increases reflected a combination of a large increase in the earnings of workers employed in the fastest-growing productivity activities of the modern sector and a slower (or even negative) growth of the earnings of all other urban workers. As a result, income gaps between the formal and informal sectors and between skilled and less skilled workers grew even wider (ECLAC, 2002).

Wage disparities between the formal and informal sectors increased in all countries for which data are available. The same was true for the average income of workers in these sectors in all countries in the study except Costa Rica, Honduras and Panama. Within each sector, income disparities between workers in higher and lower-skilled jobs also increased in every country except Argentina.⁶ By contrast, and with few exceptions, income disparities between men and women tended to narrow. The main exception was Panama, where these disparities were smaller than in any other country in the region.

Poor and households with low per capita income generally experienced higher unemployment. During the 1990s, open unemployment in Latin America rose from 4.6 to 8.6 per cent, climbing steadily in Argentina, Brazil and Colombia, although only at half the rate in Brazil compared to the other two countries. Unemployment also increased in Bolivia, Chile, Ecuador, Paraguay, Uruguay and Venezuela. In Chile, it did not begin to rise until 1998, after having gone down since the beginning of the decade. By contrast, unemployment declined in Mexico and most Central American and Caribbean countries. After it recovered from the effects of the 1995 crisis, urban unemployment in Mexico declined to about 2.5 per cent. The figure also dropped in some Central American countries, such as El Salvador, Honduras and Nicaragua, while it stayed relatively moderate in Costa Rica.

Unemployment continued to affect the lower income groups the most. In 17 Latin American countries, and in the group of 8 countries that experienced a rapid increase in unemployment between the mid- and late 1990s,⁷ the share of unemployed among the poorest 40 per cent of the population (quintiles I and II) continued to be considerably higher than the overall rate of unemployment, and, between 1994 and 1999, it increased significantly. Unemployment also rose in another 40 per cent of households (quintiles III and IV), particularly in the 8 countries worst affected by the crisis. Urban unemployment even increased among the highest-earning quintile. At the end of the decade, the three quintiles with the highest incomes recorded rates of unemployment twice as high—and in some countries, three times as high—as the rates that had prevailed in the middle of the decade.

From these changes in the labour market, primary income distribution became more unequal, as will be discussed in more detail below. Differences in unemployment and wages rose—both between professionals and non-professionals as well as between the formal and informal sectors. Public employment, which historically had provided comparatively higher incomes, lost importance vis-à-vis private employment. This also contributed to increasing inequality of income distribution.

Social policies

Objectives

In the 1980s and 1990s, social policy proposals changed significantly. There was great confidence that countries would achieve higher rates of economic growth, with social policies playing a complementary role by ensuring more equity of opportunity.

In terms of equity objectives, governments generally preferred poverty alleviation measures to policies that sought to redress income inequality. This was in accordance with the dominant neoliberal

6 Argentina's situation is not fully comparable to that of other Latin American countries, owing to the great increase in its open unemployment rate.

7 Argentina, Brazil, Chile, Colombia, Ecuador, Paraguay, Uruguay and Venezuela.

argument, that capital would promote economic growth, which in turn was generally considered the best way to alleviate poverty. It was thought that emphasis on income redistribution, e.g., through higher taxes, would slow investment and growth, and therefore negatively affect the poor. Furthermore, if the public sector refrained from participating in the production of goods and commercial services, resources would be freed for public (social) expenditure, which would allow for increased education and health spending as well as direct transfers to the poor. It was also argued that there was a broad need for greater efficiency in public expenditure, both through the use of better technical solutions and by concentrating on the poor and reducing expenditure for strata which could manage without public assistance.

According to this view, the market would ensure economic growth, which in turn would reduce poverty, while the public sector could concentrate on social policy and equity through investment in human capital. In the 1990s, other objectives, such as safety nets, were added, in view of the repeated crises that rendered the labour market vulnerable, especially for the poor. Proposals relating to social capital and empowerment of the poor were also added to the policy agenda, with little success.

The influence of the United Nations was important in issues of equity. The UN's international conferences forced countries to incorporate human rights considerations, as well as democratic rights into their national constitution and legislation. The Copenhagen Summit set various social policy objectives, e.g., on equity, poverty and employment, and critics of neoliberal policies pointed out that reality was far from satisfactory in many respects.⁸ The 2000 Millennium Declaration also raised issues relating to poverty, equity and international cooperation. Furthermore, a critical evaluation of social policies was gaining momentum.

The ageing of the population and the consequent reduction in the proportionate share of children and young people in the nation are new phenomena in Latin America. As the family is the main target and channel for social policy interventions, these will also have to change in recognition of the implications of recent population life-cycle changes. Gender also played an increasingly significant role in poverty alleviation policies in the 1990s, with some progress in women's education. Financial assistance is increasingly given directly to mothers in recognition of their role in nutrition, health, education, savings and consumption.

Outcomes

Social expenditure

Social expenditure in the form of transfers and human capital formation has been important for poverty alleviation both in the short and long term. Social spending rose considerably during the 1990s. In most countries, resources allocated to the social sector increased as a result of economic growth, increased budgetary pressure and the higher fiscal priority assigned to social expenditure.⁹ In 17 countries in the region, per capita public spending rose by about 58 per cent on average between 1990-1991 and 2000-2001. From an average of \$360 per capita at the start of the decade, social expenditure climbed to \$540 per capita by the end of the decade.¹⁰ The only countries that failed to significantly expand social expenditure were El

8 See, for example, the two ECLAC appraisals of the Copenhagen Summit Programme of Action (1997; 2000a).

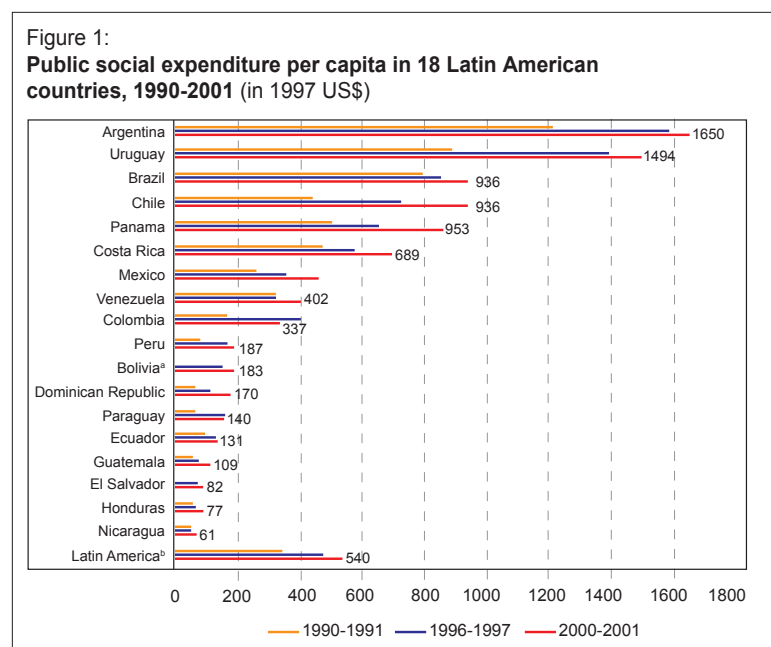
9 In the analysis of public expenditure, 'social sector' does not refer to social classes or groups, but rather to health, welfare, social security, housing, etc.

10 These figures are simple averages for all countries in the study; per capita social expenditure is expressed in 1997 US dollars.

Salvador, Honduras and Nicaragua (among the countries with low spending levels, or less than or close to \$100 per capita) and Venezuela (among the countries with intermediate spending levels, or around \$400). The increases were not uniform throughout the region, and tended to be greater in countries with moderate or low levels of per capita social expenditure. Social expenditure rose by over 100 per cent in Colombia, the Dominican Republic, Guatemala, Paraguay and Peru, whereas in countries with relatively high levels of spending (Argentina, Brazil, Costa Rica and Panama), the increases were somewhat smaller, amounting to between 20 and 40 per cent compared to the beginning of the decade.

Since the beginning of the 1990s, countries also made significant efforts to increase the share of GDP allocated to the social sector in order to compensate for the reduction in fiscal revenue due to a lower rate of economic growth. Accordingly, the ratio of social spending to GDP in the region increased from 12.1 per cent in 1996-1997 to 13.8 per cent in 2000-2001. This increase was only slightly smaller than the rise from 10.1 to 12.1 per cent between 1990/1991 and 1996/1997 (see Table 3). The increase was achieved despite a sharp downturn in growth of GDP per capita, which slowed from 2.1 to 0.2 per cent over the period. However, from 1998 onward, the economic slowdown and the contraction of GDP in a number of countries curbed the expansion of social spending. Although public spending in the social sector in the region as a whole continued to increase in per capita terms between 1998 and 2001 (from \$501 to \$552), its growth was slower than before. Per capita social spending expanded by 6.3 per cent a year between 1991 and 1997, but by only 4.2 per cent a year between 1998 and 2001 (see Figure 1 and Table 3).

The increase in social spending in the 1990s was partly associated with an effort on the part of these countries to raise spending levels by boosting government revenues and allocating a larger portion to the social sector. Social spending in the region thus climbed from nearly 42 to almost 48 per cent of total public expenditure. This trend was common throughout the region, except in Honduras and, to some extent, Panama.



Sources: ECLAC, Social Development Division, social expenditure database.

- a The first figure corresponds to the average for the two-year period, 1994-1995.
- b The simple average of the countries, excluding Bolivia and El Salvador.

Table 3:
Public social expenditure in Latin America as a share of GDP, 1990-2001
 (percentage)

Country	Period					
	1990-1991	1992-1993	1994-1995	1996-1997	1998-1999	2000-2001
Argentina	19.3	20.1	21.1	20.0	20.8	21.6
Bolivia ^a	12.4	14.6	16.3	17.9
Brazil	18.1	17.7	19.3	17.3	19.3	18.8
Chile	11.7	12.4	12.3	13.0	14.7	16.0
Colombia	6.8	8.1	11.5	15.3	14.0	13.6
Costa Rica	15.6	15.2	15.8	16.8	16.4	18.2
Ecuador ^b	5.5	5.8	7.4	8.2	8.1	8.8
El Salvador ^c	..	3.1	3.4	3.8	4.1	4.2
Guatemala	3.4	4.1	4.1	4.3	6.0	6.2
Honduras	7.9	8.1	7.8	7.2	7.5	10.0
Mexico	6.5	8.1	8.8	8.5	9.2	9.8
Nicaragua	11.1	10.9	12.2	11.3	13.0	13.2
Panama ^d	18.6	19.5	19.8	20.9	21.6	25.5
Paraguay	3.1	6.2	7.0	8.0	8.5	8.5
Peru	4.0	5.3	6.7	7.1	7.7	8.0
Dominican Republic	4.3	5.9	6.1	6.0	6.6	7.6
Uruguay	16.9	18.9	20.3	21.3	22.8	23.5
Venezuela	8.5	8.9	7.6	8.3	8.4	11.3
Latin America ^e	10.1	10.9	11.7	12.1	12.8	13.8

Source: ECLAC, social expenditure database.

a The figure in the 1994-1995 column refers to 1995.

b The figures in the 1990-1991 and 2000-2001 columns refer to 1991 and 1992 respectively.

c The figure in the 1992-1993 column refers to 1993.

d The figure in the 2000-2001 column refers to 2000.

e Simple average for the countries shown, except Bolivia and El Salvador. If these countries are included, then the average for Latin America are 11.3% for 1994-1995, 11.7% for 1996-1997, 12.5% for 1998-1999 and 13.5% for 2000-2001.

The combined effect of increased budgetary pressure (public spending share of GDP) and greater fiscal priority for social expenditure (social sector share of total public expenditure) is reflected in a substantial increase in the share of GDP allocated to public social spending. In the region as a whole, this share rose from 10.4 to 13.1 per cent between 1990-1991 and 1998-1999. In any case, it is important to keep in mind that, as reflected in Figure 1, per capita social expenditure was near or below \$100 in the poorest countries, which gives an idea of its potential effects and its limitations.

The increase in public social expenditure is especially important because its distribution is more equitable than the primary income distribution, mainly due to variations in employment and asset ownership. Not counting social security payments, the poorer quintile received 28 per cent of expenditure (compared to only 4.8 per cent of the primary income distribution), while the richest quintile received 12 per cent (compared to 50.7 per cent of the primary income distribution).

In considering the redistribution effects of increased public social expenditure in these countries, it is important to ascertain whether the substantial increase in per capita social expenditure during the 1990s went to its more progressive components. For the region as a whole, approximately 44 per cent of the growth in spending went to education and health (28 and 16 per cent respectively); 51 per cent to social security, mainly to retirement and other pensions; and the remaining 5 per cent to other expenditures, such as housing, drinking water and sanitation. This breakdown seems to indicate that in the region as a whole, the increase in spending went to both the most progressive and the least progressive social sectors. Furthermore, the equity effects were not uniform throughout the region. In countries with lower per capita income levels, spending increases were relatively greater in the more progressive components (education and health), accounting for 56 per cent of the total, while social security represented only 20 per cent. In contrast, social security accounted for around half the total increase in countries where expenditure was the highest.

The substantial increase in spending on education was for the implementation of reform programmes to improve the quality of and equity in education, especially at the primary and secondary levels. These reforms included teacher training and salary increases, the cost of which had a significant impact on the sector's budget. The rise in current and capital expenditure also contributed to this increase, especially in countries that sought to improve their physical and technological infrastructure, update teaching methods and materials, and establish systems for measuring educational output.

As for trends in health expenditure, the greatest progress was registered in Argentina, Chile and Colombia, where the increase was between \$76 and \$109 per capita, i.e., much higher than the regional average of \$28. The biggest increases in spending on social security occurred in countries where that component already received a greater share of public resources (in Argentina, Brazil, Chile and Uruguay). In Argentina, Brazil and Chile, the increase ranged between \$150 and \$200 per capita, and in Uruguay, it was just over \$500. These increases stemmed from adjustments in retirement benefits and other pensions, especially in Uruguay, where four-monthly adjustments were introduced in line with a constitutional amendment in 1989. Amortization of liabilities accumulated by the system and increases in coverage and benefits also contributed to the increases.

These trends indicate that the increased efforts of those governments that allocated lower shares of GDP to their social sectors had a more progressive effect on welfare distribution than did the efforts of countries with the highest per capita social expenditure levels where social security—which mostly benefits the middle and high-income strata—accounted for a much larger share of public spending.

Bearing in mind the distributive effects of social expenditure, there is a need to:

- Intensify efforts to increase social expenditure, as its level is quite low in most countries in the region;
- Stabilize the financing of social expenditure, to forestall the serious adverse effects of spending cuts during economic downturns; and
- Target public social expenditure more accurately, especially in programmes aimed at vulnerable or poor groups, by reallocating available funds so as to have the most impact.

In short, efforts should be made to maintain or increase resources, manage them more efficiently, and ensure that the programmes that are financed have the desired effect on the population segments they are intended to benefit.

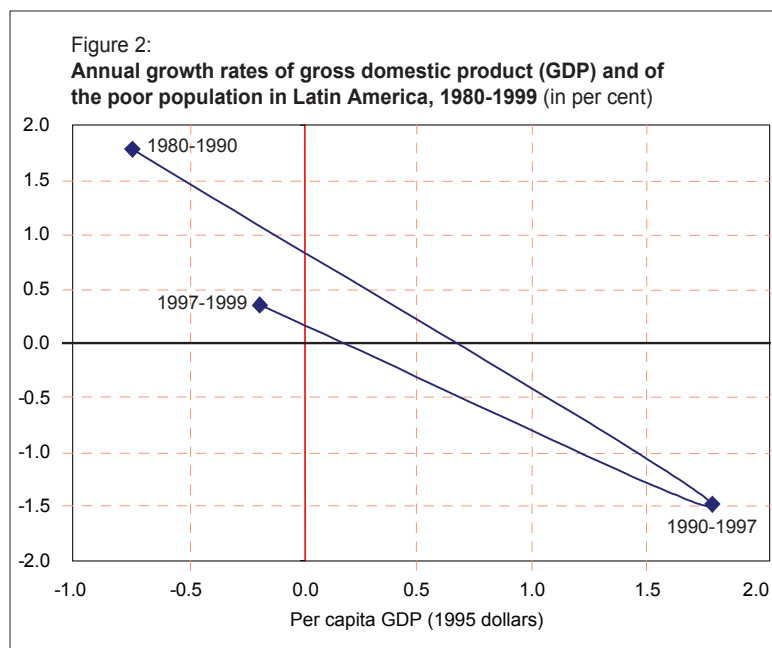
Broad social outcomes

Although most governments in the region made poverty reduction an explicit priority, they were more cautious about taking steps to boost equity in income distribution. In most countries, progress was made with respect to legal equality, protection against discrimination, women's rights, labour rights and children's rights. Although there has been some delay in ratifying the UN Convention on Indigenous People, many constitutions have recognized these rights. However, there has been little progress in other areas, such as the right to life, physical integrity and security.¹¹

Poverty alleviation

Global economic stagnation, volatility of growth and economic change not only limited efforts to fight poverty, but also had other negative effects due to the asymmetry between growth and poverty. Statistics show that increased poverty levels during the economic crisis only partially declined when the economies returned to pre-crisis per capita income levels. The percentage of the population in poverty in Latin America was higher in 2003 (44.0 per cent) than in 1980 (40.5 per cent).

The economic recession, expansion and stagnation that Latin American countries experienced in the 1980s and 1990s had a significant impact on poverty and indigence. Although economic performance is not the only factor affecting poverty, there is a clear link between general economic trends and signs of poverty. Figure 2 shows how poverty levels changed in the 1980s and 1990s in relation to variations in economic growth. In particular, the period between 1990 and 1997, when there was growth and a corresponding reduction in poverty, contrasts with the 1998-1999 biennium, when economic growth virtually stood still and poverty increased slightly.



Source: ECLAC, on the basis of special data tabulations from household surveys conducted in the respective countries.

11 For a complete and detailed description and analysis of national legislation improvement and shortcomings, see UNDP (2004).

The link between economic growth and changes in poverty rates was asymmetrical from one decade to the next. In the 1980s, per capita output declined by an annual average rate of just under 1 per cent, while poverty moved upward. This increase in poverty was not completely offset in the 1990s, even though output expanded at nearly 1.4 per cent. In fact, the poor comprised 40.5 per cent of the total population in 1980, 48.3 per cent in 1990, 43.5 per cent in 1997 and 43.8 per cent in 1999. Bearing in mind that per capita output in 1995 values dropped from \$3,654 in 1980 to \$3,342 in 1990, and then rose to \$3,807 in 1999, the ground lost in the 1980s was only partially recovered in the 1990s (see Figure 2 and Table 4). The trend during 2000-2003 continued that of 1997-1999.

Changes in the spatial distribution of the population have resulted in poverty today being a largely urban phenomenon. In 1999, 134 of the region's 211 million poor people lived in urban areas and 77 million in rural areas. However, the incidence of poverty is still much higher in rural areas (64 per cent) than in cities (37 per cent). In addition, as shown in Table 4, poverty is more extreme in rural areas, with most of the rural poor being indigent (46 million), while most of the urban poor are non-indigent (91 million).

Migration of poor people from the countryside to cities increased the proportion of urban poor in the region's total poor population. As a result, the urban economy faced the challenge of absorbing a larger proportion of the nation's working-age population and of meeting an increased demand for social services. In spite of these challenges, the urban economy was able to absorb rural migrants into jobs at a higher level of productivity than what was available at their places of origin.

Of the 211 million Latin Americans living in poverty in 1999, about 22 million lived in households with a per capita income not less than 90 per cent of the minimum needed to meet basic needs. In

Table 4:
Poor and indigent households and individuals in Latin America,^a 1980-1999

	Poor ^b						Indigent ^c					
	Total		Urban		Rural		Total		Urban		Rural	
	Mil.	%	Mil.	%	Mil.	%	Mil.	%	Mil.	%	Mil.	%
Households												
1980	24.2	34.7	11.8	25.3	12.4	53.9	10.4	15.0	4.1	8.8	6.3	27.5
1990	39.1	41.0	24.7	35.0	14.4	58.2	16.9	17.7	8.5	12.0	8.4	34.1
1994	38.5	37.5	25.0	31.8	13.5	56.1	16.4	15.9	8.3	10.5	8.1	33.5
1997	39.4	35.5	25.1	29.7	14.3	54.0	16.0	14.4	8.0	9.5	8.0	30.3
1999	41.3	35.3	27.1	29.8	14.2	54.3	16.3	13.9	8.3	9.1	8.0	30.7
Individuals												
1980	135.9	40.5	62.9	29.8	73.0	59.9	62.4	18.6	22.5	10.6	39.9	32.7
1990	200.2	48.3	121.7	41.4	78.5	65.4	93.4	22.5	45.0	15.3	48.4	40.4
1994	201.5	45.7	125.9	38.7	75.6	65.1	91.6	20.8	44.3	13.6	47.4	40.8
1997	203.8	43.5	125.7	36.5	78.2	63.0	88.8	19.0	42.2	12.3	46.6	37.6
1999	211.4	43.8	134.2	37.1	77.2	63.7	89.4	18.5	43.0	11.9	46.4	38.3

Source: ECLAC, on the basis of special data tabulations from household surveys conducted in the respective countries.

a Estimates for 19 countries in the region.

b Households and population living in poverty. Includes indigent households (population).

c Indigent households and population.

other words, close to 10 per cent of the poor were relatively well placed to rise above the poverty line. On the other hand, 45 million of the non-poor population were categorized as most at risk of falling into poverty, as their income was not more than 25 per cent above the poverty-line. This population group is highly vulnerable to economic fluctuations, as the slightest negative impact on their income can lead to a significant decline in living standards.

Certain features that go hand in hand with poverty—such as an overcrowded dwelling, an unemployed head of household and a poor educational environment—exacerbate the vulnerability of poor households. These tend to occur in the context of a low-income environment and offer a more complete picture of the living standards of the region's poor.

Income distribution

Historically, Latin America has shown the worst income distribution of the world's regions. This situation deteriorated further in the 1980s and the 1990s, even in countries that previously had relatively better distributions, such as Argentina, Chile and Venezuela. The fact that, in the late 1990s, the major portion of total income in Latin America was earned by the richest 10 per cent of households, who received more than 30 per cent, can serve as an illustration of the region's income distribution. In most countries (except El Salvador and Venezuela), that figure was over 35 per cent (45 per cent in Brazil). The average income of this decile was 19 times higher than the average for the 40 per cent of households with the lowest incomes, who received between 9 and 15 per cent (Uruguay was an exception, with around 22 per cent). In the 1990s, the share of total national income accruing to the top 10 per cent of households continued to increase in most countries, raising inequality of income distribution in Latin America. During that decade, the share of income received by households in the top decile increased in eight countries, declined in five (significantly so in Honduras¹² and Uruguay) and remained steady in Mexico.

A comparison of the average income of various household groups also reflects a high degree of inequality in Latin America. In Bolivia, Brazil and Nicaragua, the average per capita income of the richest quintile (20 per cent of households) were more than 30 times greater than those of the poorest quintile. In the other countries, the average was also high, at around 23 times. The ratio of the average income of the wealthiest decile to that of the poorest four deciles also underscores the degree of concentration. The largest ratio was for Brazil, where the income of the most affluent was 32 times greater than the combined incomes of the bottom four deciles. The average difference region-wide was 19.3, which is extremely high compared to the ratios for Uruguay (8.8) and Costa Rica (12.6), the countries with the lowest income inequality in the region.¹³

The share of income received by the poorest 40 per cent of households differed in the region over the decade. The figure fell in five countries, rose in eight and held steady in Nicaragua. The steepest decreases were in Ecuador and Venezuela, countries that experienced major crises, and also in Costa

12 It should be noted, however, that the data for Honduras for the 1990s may not be fully comparable, owing to changes in the income-measurement methodology introduced with the 1994 household survey. These changes—which had to do with the breadth of the income definition used in the study—may have influenced the data on distribution of household income in 1990, compared to such data for subsequent years, and thus may have influenced analysis of the trend through the decade.

13 Although no figures comparable with those for the rest of the region are available, Cuba has probably maintained a less regressive income distribution than the other countries, despite that country's economic deterioration in the 1990s.

Rica, El Salvador and Mexico. Where there were improvements, they were relatively minor, and surpassed two percentage points in only one case—Colombia from 1994 to 1997, but with a slight deterioration from 1997 to 1999. The improvements amounted to more than one percentage point in three others—Honduras, Guatemala and Uruguay—and were around 0.5 per cent in Argentina, Brazil, Chile and Panama.

Another indicator of income concentration is the percentage of people with a per capita income falling below the overall average. Between 67 to 77 per cent of the population in Latin America get less than the average per capita income. In most countries, this proportion was smaller at the beginning of the 1980s. At present, around 75 per cent of households have below-average incomes. Hence, a much larger share of the increased per capita GDP has gone to the top 25 per cent of households. Costa Rica and Uruguay have the lowest shares of persons receiving less than the average per capita income, while Brazil and Guatemala have the highest.

In summary, even though many countries did show a certain economic growth and considerably increased social expenditure in the 1990s, Latin America as a whole did not succeed in substantially improving primary income distribution. Although economic growth has made it possible to reduce absolute poverty, increased output has not altered the way in which the benefits of growth are distributed, nor are there any signs that this situation is likely to change significantly in the short or medium term.¹⁴ Out of 17 countries analysed, only Honduras and Uruguay had reduced their rates of inequality by the end of the decade. Even in countries that achieved high and sustained growth rates, such as Chile, income distribution has not changed, and disparities persist. While social expenditure is presumably progressive, it is insufficient by itself to compensate for existing economic inequalities.

Sectoral outcomes

Although the preceding review of broad social outcomes provides a useful framework to evaluate changes in equity, it is nonetheless necessary to complement the analysis by further examining certain areas which specifically influence equity. Increased social expenditure and progress on certain indicators do not, by themselves, ensure improved equity. Actual trends in key strategic areas of social policy—such as education, health, housing and social protection—must also be considered in this regard.

Education

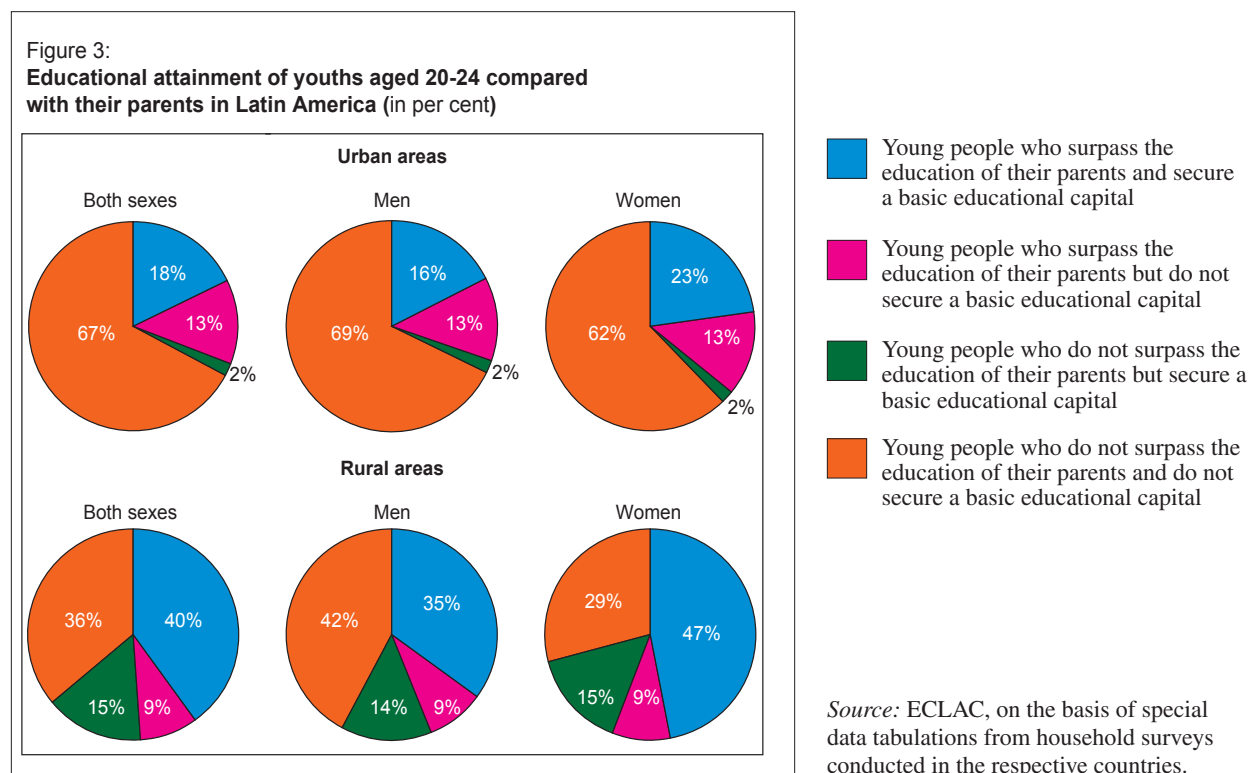
As mentioned above, the region has increased its public expenditure on education. Policies in this area have taken into consideration international recommendations, such as the importance of educating women. Much emphasis has also been placed on the need to universalize education. Governments have made huge investments to try to ensure universal primary education and to significantly expand enrolment in preschool and secondary education. The gross enrolment rate for primary education is 100 per cent in most countries today, while enrolment rates for secondary and tertiary education have also increased, although progress remains uneven across countries. Despite these efforts, only around half of those who start primary education actually complete it.

Although the region made significant progress in the 1990s, national and international tests suggest that there is considerable room for improvement in quality, which is also important for equity. In-depth analysis shows the magnitude of related problems in the region, such as the extremely low level of educa-

¹⁴ For details of structural factors underlying income distribution, see ECLAC (1998).

tion of most parents, the need for children in poorer families to work, and the limited access to educational services in poor rural areas. The level of education received by children from poor households is generally too low to enable them to break out of the cycle of poverty.

The distribution of educational achievement remains extremely uneven, as inequalities persist and are carried over to the next generation, mostly through unequal opportunity and achievement in education. ECLAC studies show that, despite efforts to extend the coverage of formal education, socio-economic status and family origin continue to determine opportunities for education as well as for social and economic mobility. Educational opportunities—and consequently, access to more stable and better-paid employment—are inherited to a great degree, thus perpetuating socio-economic inequalities. Around 75 per cent of young people in urban areas are from households in which the parents have less than 10 years of schooling. On average, more than 45 per cent of them do not reach the educational threshold required for gaining a decent livelihood, which is currently around 12 years of schooling given some variation between countries (see Figure 3). In rural areas, opportunities for young people are even more limited: around 80 per cent do not attain the threshold level, even though this level is lower.¹⁵



Despite the significant extension of educational coverage that had taken place throughout the Latin American region over the previous 15 years, the proportion of young people who significantly exceed the educational level of their parents is low. This shows that inter-generational carry-over of educational achievement is still a dominant factor.¹⁶ The average number of years of schooling of young people has risen from 7.1 to 10.4 years in urban areas and from 3.0 to 6.8 years in rural areas. Nevertheless, young

¹⁵ For rural areas, the threshold for children is 9 years, while for their parents, less than 6 years of schooling was considered inadequate.

¹⁶ Although there are other important factors, such as household demography, property and employment, for most people, education is the main factor determining their opportunities for future well-being.

people from the lower social strata have had few opportunities to achieve a level of education that would assure them a minimum livelihood level. At present, just over 30 per cent of young people, whose parents did not complete primary education, finish secondary school. In contrast, secondary schooling is completed by 75 per cent of the children of parents who had at least 10 years of schooling.

The link between access to education and social origin suggests that opportunities for young people today have already been shaped, to a large extent, by the inequalities of the previous generation. This implies a rigid social structure with little real social mobility, which again limits opportunities to improve income distribution in the medium term, since the number of years of schooling and quality of education are the main means for obtaining well-paid employment. For the majority of young people in the region, educational achievement and upward mobility continue to depend on parents' education and household means.

Unfortunately, the inequality of educational opportunities already manifests itself at the primary school level. Differences in years of schooling are not the only inequality in educational achievement. The quality of education that young people receive also varies with their social origin. Learning levels significantly differ between students in public schools and those in private schools. Delich (2002) notes that the average student in public schools barely learns 50 per cent of the official curriculum, but the average graduate of a private school has learned close to 100 per cent. Reading and writing tests show that two out of five pupils in the fourth or fifth grade, typically from families at a low socio-economic level, do not understand what they read. Those who complete more years of education have generally received better quality education.

Many governments in the region have carried out educational reforms focused on curricula, institutional change and allocation of financial resources. Such reforms may reduce disparities between private and public establishments in terms of student results and educational achievement, and thus reduce educational inequalities between different socio-economic strata. A substantial proportion of the educational inequalities transmitted from one generation to the next is related to the number of years of schooling completed, independent of the quality of education received. Attempts to improve education may have little effect if not accompanied by policies that lengthen the period that young people remain in the school system, since a high proportion do not stay in school for 12 years.

To ensure that young students from poor families remain in school, some countries have established programmes that motivate families to ensure their children's attendance. The Brazilian Bolsa Escola and the Mexican Progresá (now called Oportunidades) are examples of such programmes. The Bolsa Escola gives a monetary bonus to low-income families with children between 6 and 15 years who attend school. The Mexican system is more comprehensive in making transfers to poor rural families for children between the third year of primary and the third year of secondary school, with the transfers increasing with the number of years. To receive money for nutrition and educational materials, families must: enrol their children below 18 in school; guarantee their regular attendance; enrol in and regularly use the corresponding local health service; attend regular lectures on education and health; and use the monetary assistance for their children's nutrition. Specially trained state employees supervise compliance with these conditions. Since 2002, the programme has increased the coverage of benefits at the secondary and university levels and in poor urban areas.

Real income associated with years of schooling is lower now than in the 1980s. In fact, the increase in average years of study that occurred during the 1980s and 1990s did not increase per capita income per se. Most young people with between 9 and 11 years of schooling still only have access to occupations that provide insufficient well-being. This suggests that, as the coverage of secondary education has increased, the value of education in securing a livelihood has declined. The significant concentration of individuals with 13 or more years of schooling in occupations that provide adequate well-being underscores that this is an important educational threshold. Clearly, it is important to orient educational reforms to improving educational equity for children and adolescents from the lower-income social strata. However, reforms of the school system will not benefit those already aged 20 or more, who will constitute more than two-thirds of the labour force in the region within the next two decades.

Health and housing

As discussed above, the poor in Latin America have not only the lowest income, and the worst opportunities for education, but the health sector also reveals a similar intergenerational persistence of poverty and inequality. The poor are especially susceptible to health problems, due to low incomes, poor sanitation, and low-quality housing and working conditions. Limited access to public health services exacerbates their health problems.

In the 1990s, governments in the region increased their expenditure on health, as did the private sector, and the financing increased for non-governmental organization activity. Increased public health expenditure is still insufficient to enable the public sector to cope with the increasing demand for health services. As in the case of education, some progress has been made, although these indicators do not reflect the variation in progress between social groups. The rate of infant mortality has fallen from 42 to 32 per thousand live births, while life expectancy has risen from 67 to 70 years, and sanitation facilities have improved.

In the 1990s, governments in the Latin American region made efforts to improve public services. Access to electricity, water and sanitation improved significantly in most countries. Although figures vary according to the standards used, access to safe water increased from 79 to 85 per cent, while access to sanitation increased from 74 to 82 per cent. In most of these cases, wider coverage benefited poor households and therefore contributed to increased equity.

The issues of overcrowding and poor quality in housing are more difficult to deal with. Poor neighbourhoods, due especially to their lack of schools and health services, tend to create conditions that entrench poverty from generation to generation. Furthermore, social discrimination makes it difficult for job-seekers from poor neighbourhoods to find good jobs.

Unregulated urbanization in many Latin American cities has created serious problems and left many neighbourhoods without basic infrastructure. Meanwhile, rising land prices have forced the poor to move further away from town centres. In the 1980s and 1990s, the shift from rural to urban poverty continued as the absolute number of the poor increased. The quality of life of the poor deteriorated, attended by problems such as growing insecurity, rising crime, drug trafficking and overcrowding. The cost of dealing with these problems has been high, undermining the commitment to poverty alleviation.

Increased social protection and reduction of risk

The debt crises of the 1980s, greater macroeconomic vulnerability in the 1990s as well as adjustment policies and reforms have all increased the vulnerability of the poor, often increasing drop-out rates and problems of nutrition and health. When critical situations arise, social protection may be pursued through public assistance to individuals, households and communities to ensure access to basic social services.

For the non-poor, insurance is a classic instrument against risk. For families and communities, social solidarity can be an effective tool against risk. However, for the poor, the possibilities for such solidarity are often limited. Although the public sector has supported the poor with emergency jobs, monetary subsidies, school assistance, food assistance, as well as childcare and health services, these traditional instruments were insufficient to deal with the crises in Latin America of the 1980s and 1990s.

Governments have introduced new programmes to reinforce these instruments. Unemployment insurance operates in few countries and offers very limited benefits. Presently, proposals to enhance this type of insurance include the need for employee savings, retrenchment of benefits, and free access to certain social services for the unemployed. Other alternatives—such as credit for the unemployed and funds financed by both employees and employers—are easier to finance.

Official figures show that, in 1999, 217 million persons in the region were not covered by social security. The nature of the labour market and the effects of unemployment due to crises are quite different across countries. Therefore, possible policies for social protection vary significantly. Recently, increased attention has been given to providing health services and covering social security contributions for the poor. Other policies include training and retraining for people who have lost their job.

Special funds to alleviate poverty, first introduced in reaction to the effects of the adjustment policies of the late 1980s, were reintroduced in the 1990s. Their focus on serving families in extreme situations and their relative autonomy distinguish these funds from other instruments. These funds operate through projects and require the beneficiaries to cooperate by contributing work or their own land as inputs. The main challenges are to identify those living in extreme poverty, to engage consultants to scrutinize and supervise projects, and to establish bureaucratic links with different public and non-public organizations.

Many of these funds have become permanent. The role of the funds is related to particular situations that require quick intervention and new institutional mechanisms that are more flexible and efficient. It has become clear that mechanisms for social protection must complement positive effects of economic and social policies, but cannot by themselves solve the perplexing problems of equity. Social protection should not be financed from a reduction in other social expenditure, which is, in essence, anti-cyclical in nature.

The public debate on equity

The Latin American region experienced important political changes during the 1980s and 1990s. In the 1960s, 1970s and 1980s, many countries in the region were governed by authoritarian regimes. The 1990s was an unprecedented decade in which almost the entire region had democratic regimes. Equity is a basic component of democracy, and progress in political and citizenship participation constitutes an important aspect of equity. UNDP's 2004 report on democracy in Latin America in the previous twenty years points to the relative strength of democracy in Latin America.

The functioning of democracy has changed significantly since the first three post-war decades in terms of the relative power of economic and social actors. Economic change has been accompanied by a decline in the power of unions and those political parties associated with labour, a weakening of labour and a reduction of the public sector, while the power of large-scale private enterprises has been reinforced. There has been a significant loss of government autonomy. As mentioned above, government freedom to implement economic and social policy has been limited by explicit or implicit conditionalities imposed by creditors—such as international financial institutions, other foreign economic actors, as well as foreign governments—or by supposedly voluntary government commitments.

Control of communications has become more important for the consolidation of power, involving modern technology and closer association of powerful economic interests, as evidenced by the high cost of political campaigns and lobbying. The media have also contributed to the establishment of new consumption patterns favouring transnational enterprises and increasing their control of markets.

Public debate on equity has evolved in this context of concentrated power. In the past, political parties in many countries used to design programmes that proposed major social changes. In recent years, however, transnational media have promoted liberal values associated with individualism, to the detriment of the collective interest. Polls have gradually become more important in gauging and shaping public opinion. Governments have become increasingly involved in appearing to be responsive to the population, instead of debating alternative social, economic and political programmes with other political parties. There is a need to promote more substantive citizen participation in public affairs (ECLAC, 2000b). Until recently, confidence prevailed that economic growth and public expenditure would solve the problems of poverty and inequality, but now, doubts have become widespread.

Neoliberals have pointed to certain positive outcomes of the recent economic changes and social policies as proof that their policies have benefited the majority of the population, especially the poor. The 2000 round of population and housing censuses have shown that the structure of consumption has changed considerably, especially in terms of access to durable goods, while public sector infrastructure expenditure has significantly increased access to safe water, sanitation and electricity. Progress has been made on these issues in all countries, despite variations in per capita income and growth.

However, critics claim that the poor quality of education, health, infrastructure and security as well as drug abuse and criminality in poor neighbourhoods are the results of those same neoliberal policies. Other problems that critics ascribe to neoliberal ideology include increased unemployment, lower wages and the vulnerability of small enterprises. The devaluation of education as a guarantee of income and security has also created dissatisfaction among young people and their families. The stagnation of per capita income during between 1999 and 2003 has strengthened critics of the prevailing system. In this context, the principle of equity has gained political momentum.

The *Latinobarómetro* is an annual survey that gathers opinions on topics associated with values, actors and equity covering 17 Latin American countries. The *Latinobarómetro* surveys of 2002 and 2003 showed the following results regarding values and the functioning of institutions.¹⁷ Although democracy was preferred to authoritarian regimes (7 to 2), only 32 per cent in 2002 and 29 per cent in 2003 were satisfied with government performance. Confidence in government was below 50 per cent with very few exceptions, while confidence in legislatures and political parties was even weaker.

17 See press releases, *Latinobarómetro* 2002 and 2003. <http://www.latinobarometro.org>.

In relation to the respective roles of the State and the market, half the respondents believed that development was more important than democracy; 66 per cent believed that the market economy was a better option than State intervention; however, only 24 per cent in 2002 and 16 per cent in 2003 were satisfied with the actual performance of the market economy. In 2003, only 22 per cent believed that privatization had been good for the country, down from 46 per cent in 1998, and 28 per cent in 2002. In 2002, 70 per cent believed that the State should be in charge of providing electricity, water, health and other social services, while 21 per cent preferred these services to be in the hands of the private sector; 53 per cent believed that they would attain the level of welfare they desired in less than 10 years, while 67 per cent believed that their countries would need more than 10 years or would never develop; 56 per cent considered the economic situation of the country bad or very bad, and 48 per cent believed it was worse or much worse than in previous years; 57 per cent believed that their parents had been better off than they were themselves. Among problems felt to be the worst, unemployment, low wages and poverty accounted for more than 50 per cent, while 80 per cent of respondents judged the current income distribution to be unfair or very unfair. These opinions have been reflected in election results since 2000. Although democracy and a mixed market economy are desired as institutions, there is discontent with the way they have been functioning so far.

The economic stagnation during the five-year period, 1999-2003, is reflected in opinions that are increasingly critical of the system. Social unrest has increased and many political candidates strongly critical of prevalent economic and social policies have been elected. However, due to existing power structures, many newly elected officials have been unable to implement desired changes.

Most social and political actors strongly defend democracy. The significant change today as compared to earlier attitudes is a desire for stronger public policies for poverty alleviation and equality, at least in terms of opportunity. For the first time in many years, prevailing policies have been challenged in Argentina and Venezuela, and the principle of a new distribution of the costs of the economic crisis has been introduced.

The need for economic growth and economic transformation conducive to growth was also clearly stated during the Copenhagen Summit:

“To create a favourable economic environment that would help to bring about more equitable access to all income levels, resources and social services”, to promote “dynamic, open and free markets, while recognizing at the same time the need to intervene in the market, as and when necessary, to prevent or stop markets from falling, to promote stability and long-term investments, to ensure fair competition and ethical conduct, and to harmonize economic and social development” (UN, 1996).

Patricio Aylwin, then President of Chile, stated in an address on 28 June 2000 on the occasion of the Copenhagen Plus 5 Conference in Geneva, “Moreover, civil society in most developing countries lacks the necessary organization and power to have effective influence on such matters, while the sorely needed and long hoped-for resources of the wealthy nations to be given in assistance to the poor countries are far from reaching the needed levels”.

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