

ECLAC 2000



# The equity gap

## A second assessment



## Summary

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**The equity gap: A second assessment** has been prepared by the ECLAC secretariat for the Second Regional Conference in Follow-up to the World Summit for Social Development, to be held in Santiago in May 2000. This publication contains the introduction, summary and conclusions of that document.

## INTRODUCTION

The World Summit for Social Development was held from 6 to 12 March 1995 in Copenhagen, Denmark. The participants in that meeting, who included numerous Heads of State and Government and representatives of all the States Members of the United Nations, issued the Copenhagen Declaration on Social Development and adopted a programme of action. These two documents –the first being political in nature, while the second is designed to serve as a practical tool—reflect commitments made at the national, regional and international levels.

Two years later, in 1997, representatives of the member States of ECLAC gathered at the First Regional Conference in Follow-up to the World Summit for Social Development, held in Sao Paulo, Brazil, in order to assess the steps being taken to achieve the objectives of the Copenhagen Summit.<sup>1</sup> At the second meeting (Santiago, Chile, May 2000) held to evaluate the progress made in implementing the recommendations formulated at the Summit, the States members of ECLAC are also preparing themselves to play

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<sup>1</sup> Paragraph No. 95, subparagraph (h) of the Programme of Action of the World Summit for Social Development..

an active part in the special session to be held by the General Assembly to review the progress made towards implementing the outcome of the World Summit for Social Development (Geneva, 26-30 June 2000).

The secretariat of the Commission has prepared a document for the Second Regional Conference which focuses on three areas: first, an examination, from a Latin American and Caribbean perspective, of the current situation with regard to poverty, employment and social integration, which were the main themes of the Summit; second, a review of major policy trends relating to the fulfilment of the above-mentioned commitments; and, third, the formulation of a series of guidelines regarding the content and scope of policies for facilitating efforts to honour those commitments. Its aim is to help focus the debate among the Governments and civil society of Latin America and the Caribbean concerning the themes of the Copenhagen Summit and the commitments assumed there.

### **THE 16 COMMITMENTS CONTAINED IN THE CONSENSUS OF SÃO PAULO**

1. Prioritize the issues on the social agenda;
2. Ensure the full operation of democratic institutions;
3. Guarantee that social development is a State priority;
4. Ensure integrated approaches to the economic, social and environmental dimensions of development;
5. Enhance the complementarity of growth and human development and further the quest for higher levels of social equity and integration;

6. Explore the potential synergies between programmes for environmental protection and improvement and social development programmes;
7. Utilize, *inter alia*, regional mechanisms for cooperation and consensus-building to exchange experiences and evaluate the progress made in implementing the agreements reached at the World Summit for Social Development;
8. Move forward with the establishment of a regional database on successful experiences in the field of social policy;
9. Ensure the incorporation of a greater social equity component into social security systems, and extend social security coverage to include the informal sector;
10. Create a regional intergovernmental information network on successful experiences with productive job creation and job training programmes and with policies designed to combat poverty and social exclusion;
11. Examine institutional structures for planning, implementing and monitoring social development policies and programmes with a view to strengthening them and ensuring the use of a participatory approach;
12. Continue to pay attention to the status of vulnerable groups;
13. Continue the search for and development of lasting solutions to the problem of refugees, repatriates and internally displaced persons;
14. Encourage civil society and international aid organizations to take steps to help apply a gender perspective as an integral part of the design, implementation, management and evaluation of social policies and programmes;
15. Continue to make efforts to find external resources for development and channel them appropriately;
16. Ensure that, in the implementation of social development policies, consideration is given to the agreements reached at United Nations world conferences.



## **SUMMARY AND CONCLUSIONS**

The courses of action recommended at the World Summit for Social Development coincide with the general thrust of the action taken by the Governments of the region in the economic and social spheres during the 1990s. The objective of this document is to weigh the positive and negative aspects of the situation in Latin America and the Caribbean with regard to poverty reduction, productive job creation and social integration within the wider context of the economic changes and reforms being made in social policy and to develop action-oriented proposals for the fulfilment of the commitments assumed by the Governments of the region in Copenhagen.

### **The context for economic reform**

**1.** The Latin American and Caribbean region is undergoing a period of rapid change involving notable advances in terms of democratic pluralism and governance and a thorough-going economic reform process.

**2.** At the same time, however, recent economic trends have revealed some major shortcomings. First of all, with few exceptions GDP growth has been somewhat subdued (3.2% per year between 1990 and 1999) and well below both the levels traditionally seen in the region (5.5% annually for the period 1945-1980) and those that ECLAC has estimated to be necessary in order to make any meaningful progress in closing its technological and social gaps (6% per year). Second, most of the region's economies remain vulnerable, since in many cases their macroeconomic stability has been overly reliant on high current account deficits; furthermore, on a number of occasions, these deficits have been financed with volatile capital, and the relevant economies have consequently tended to undergo stop-go growth cycles as a result of the behaviour of these capital flows. In various instances, this situation has been compounded by the fragility of these economies' financial systems and the international crises that have taken a heavy toll in terms of the high cost of public finance. Third, the region's savings rates and, in particular, investment rates plunged as a result of the crisis of the 1980s and were slow to recover during the 1990s; in fact, in most of the countries these indicators have yet to regain their pre-crisis levels.

**3.** In addition, the intense economic restructuring process that has taken place in the region has created new winners and new losers. The structural heterogeneity typical of the region's production structures has been heightened by the differences between the productivity levels attained by the large firms at the forefront of the modernization process and those of the wide,

varied spectrum of less modern production units that provide most of the available jobs. This not only provides a material basis for sharper social inequality by widening internal productivity and income gaps, but also impairs growth capacity, since it constrains the formation of linkages among different production sectors, retards the diffusion of technical progress and dampens the momentum that can be generated by export activity.

4. The most glaring of the shortcomings associated with the above-mentioned factors are found precisely in those areas focused upon at the World Summit for Social Development. It has taken a long time to whittle away at the backlog of unmet social needs that built up over time (and which was increased further by the crisis of the 1980s), especially in three interrelated areas: employment, poverty and social exclusion.

### **Poverty and social integration**

5. Poverty trends in the region have varied greatly from one country to the next, both in terms of levels and recent patterns. On average, the incidence of poverty declined from 41% to 36% of all households between 1990 and 1997, which was enough to counteract the increase seen in the 1980s (from 35% to 41%). The worsening situation in some countries in 1998-1999 offset the downward trend in poverty rates recorded during the 1990s, however, and in some cases the rates actually rose. As a result, the actual number of persons in Latin America

and the Caribbean who are living in poverty—224 million—is now higher than ever.

**6.** Nevertheless, some definite advances have also been made recently, thanks to the sustainable economic recoveries taking place in a number of cases. In fact, between 1990 and 1997 poverty was reduced in 11 out of 14 countries. This gradual improvement was interrupted in some cases in 1995, however, and again—in an even larger number of countries—in 1997 by the crisis that erupted in Asia, which hurt various Latin American and Caribbean economies as well.

**7.** The pace of economic growth and the elimination of hyperinflation are the most important factors in reducing poverty; the next is a sustained effort to boost social spending and an increasing concern on the part of Governments with the need to allocate those funds efficiently. Indeed, the countries that have made the greatest progress in reducing poverty are those that have managed to combine fairly high rates of growth over a number of years with declining unemployment levels and an increase in the number of employed persons within the poorest households. Declining inflation rates have also translated into a real increase in labour income (and, in some instances, in pensions) and have facilitated the continuity of the investment process, which has had a positive impact on the labour market.

**8.** Macroeconomic equilibria and the mechanisms used to achieve them are both critical factors in attaining a rapid and more equitable form of growth. In addition to reducing inflation and

reinforcing a balanced fiscal position, it is also necessary to ensure that current account deficits are held to sustainable levels and to achieve a sufficient domestic savings rate to bolster the investment process, an appropriate real exchange rate and domestic spending levels that are in keeping with sustainable uses of production capacity. Growth does not, in and of itself, guarantee a better distribution of income, however. The *quality* of growth—i.e., its staying power and its effectiveness in creating productive jobs and raising wages—is a key factor, along with the efficiency and impact of social policy.

### **Employment, wages and productivity**

**9.** As noted earlier, the region's failure to make more rapid progress in reducing poverty continues to be associated with insufficient growth, the weak impact that economic growth has had on the labour market and the virtual stagnation of average labour productivity. This last factor will have to be addressed if the region hopes to become more competitive in the international economy and to attain higher growth rates on a sustained basis.

**10.** During the 1990s, a majority of the new jobs that were created were in the informal sector (according to ECLAC estimates, 69 out of every 100 new jobs created between 1990 and 1997), and this sector now employs 47% of the working population in the region's urban areas. This is the main reason why average labour productivity is at a standstill, although the mean figure does mask major differences across countries.

**11.** This is also why wages are below their 1980 levels in a number of countries and why occupational wage differentials are increasing in most of them. In almost all instances average real wages did rise during the 1990s (although sharp differences were observed across countries), but for the most part they still remained below the 1980 figures.

**12.** The recovery of wage levels stalled in many cases in 1996, even though wages continued to rise in some countries. This was due to the fact that the income effect on real wages of the reduction in inflation diminishes as inflation rates reach increasingly lower levels and that the lower growth rates were associated with longer periods between wage adjustments. Moreover, on a more general level, the competitive retooling being undertaken by modern firms is setting the stage for increases in labour productivity and flexibility, together with a sharp decrease in the rate of job creation per unit of output.

**13.** The slow growth of average real wages is the net effect of rapid rates of increase in pay levels for skilled jobs in the more dynamic, modern sectors of the economy and much smaller increases or actual decreases in wages levels for the rest of the economy. In 1998, the real minimum wage was lower than it had been in 1980 in 13 out of 18 countries. The mean wage received by workers in the informal sector is, on average, just half as much as what manual and non-manual workers earn in modern business enterprises and, generally speaking, informal-sector workers' wages have risen more slowly, which has contributed to the growing inequality of labour income.

**14.** The differential between the incomes of professional and technicians and those of wage earners in low-productivity sectors swelled by 28%, on average, between 1990 and 1997. The continuation or further increase in the labour income gap as a result of sharp productivity differentials across sectors and firms is an important factor in understanding the rigidity of income distribution associated with recent economic growth, even in those countries whose economies are growing the fastest.

**15.** In order to boost the productivity of the sectors that are lagging behind in this respect and enhance the effects of macroeconomic policy, a number of specific steps need to be taken; these steps include the creation of lending, marketing and technical assistance programmes in conjunction with large-scale investments in training and skills development. Technological modernization is a crucial element, not only because of the demands of international competitiveness but also because of the need to improve job quality and wages, but it has not been placed high up enough on most of the countries' national agendas, and the resources and institutional networks needed to meet this challenge have not been made available.

**16.** Economic reforms have had differing impacts on the individual countries' labour markets, mainly because of major differences in the intensiveness and timing of their reform programmes. The countries' diversity in terms of their production and technological bases, the institutional structures of the labour market and their demographic and social conditions are other factors that help to account for these dissimilar outcomes.

**17.** At this stage in its development, the region's economic growth is closely linked to the buoyancy of natural resource-related activities. Thus, in order to augment the impact that growth has on employment levels, steps should be taken to strengthen the linkages between these production activities and other sectors. In addition to creating demand for intermediate goods, services and labour, these linkages also foster improvements in quality and the diffusion of technical progress, business practices and management techniques. These effects are generated through the promotion of quality standards, the creation of technical training institutes and modern business services organizations, instructional activities and the provision of technical, credit and organizational support for micro-, small and medium-sized enterprises.

**18.** In the 1990s a number of countries amended their labour laws, and particularly statutes relating to employment contracts, dismissals and collective bargaining. These reforms have moved in various directions, and no uniform trend can therefore be discerned, although most recent amendments have tended to introduce a greater degree of flexibility into contractual arrangements and dismissals. In other cases, the laws that have been passed are aimed at improving working conditions and raising minimum wages, protecting certain sectors of the workforce (temporary workers, wage earners employed by small or medium-sized enterprises, people who work out of their homes), prevent discrimination against women, put an end to child labour and regulate the employment of minors.

**19.** Another innovative area of reform has been the work being done to ensure that labour laws address the issues of unemployment insurance and income-protection schemes for unemployed workers. A variety of options have been examined in an effort to find the most appropriate way of meeting the needs of such workers for a specified period of time while averting major administrative problems and avoiding the microeconomic and budgetary inefficiencies that have arisen in other countries.

**20.** The aim in this regard is to reconcile increased flexibility with a basic minimum of social protection for workers based on the idea that the main emphasis should be on safeguarding their incomes rather than their jobs. In order for this approach (which clearly promotes labour mobility) to be successful, these measures must be accompanied by the reinforcement of training and retraining programmes.

### **Social integration**

**21.** The slow pace of progress in reducing poverty during the 1990s, the increase in poverty registered during the last two years of the decade, and the deterioration or lack of improvement in income distribution have coincided with a striking increase in access to communications media in the region which has led to an upward leveling of consumer aspirations. More than any other group, urban youth are exposed to stimuli and information about a wide variety of new products and services that come to be seen as symbols

of social mobility and that are beyond the reach of the majority of those young people.

**22.** The consolidation of hard-core poverty, ethnic discrimination, segregated housing and increasing violence in the cities all undermine social integration. In order to strengthen democratic systems of governance, steps also need to be taken, where appropriate, to reform the courts by making judicial procedures more transparent, fairer and more effective in order to restore the people's trust in the systems designed to ensure justice and their protection and safety. The countries will also have to work to establish more pluralistic, participatory political systems that will be capable of sorting out differences and helping the various parties to reach agreement at the national level as to the course which the development process should take.

**23.** The possibilities of arriving at such agreements would be enhanced if greater provision were made for the establishment of a social safety net, since this would lower the costs of the current economic transition and make it possible to plan ahead for the retooling and retraining needs of large sectors of the population. One of the mechanisms needed to create such a safety net would be vocational training programmes for urban youths who have little formal education and who do not belong to social networks that could help them find productive employment. Other initiatives that foster greater social integration include aid programmes for low-income households headed by women, programmes aimed at sheltering children, adolescents and women at risk of domestic violence, and anti-drug programmes. Personal and community

development programmes contribute to the same ends, as do low-cost housing projects designed to alter the existing habitat by providing communities with the necessary infrastructure and opportunities to undertake cultural and recreational activities.

### **Social reforms**

**24.** In contrast to the situation in the 1980s, when social spending was cut considerably as governments found themselves faced with substantial financial constraints, in the 1990s government allocations for social items of expenditure rose in most of the countries of the region. This attests to the political will of the region's Governments to address these unmet social needs and points to the existence of a more favourable environment for social policy reforms. In 12 out of 17 countries for which the relevant data are available, per capita social expenditure for 1996-1997 exceeded the figures registered for the early 1980s. Moreover, between 1990-1991 and 1996-1997 public social expenditure climbed by an average of 2.3 points of GDP and increased even in countries that registered a decrease in public spending coefficients.

**25.** Education and social security are the two sectors in which social expenditure rose the most during this period. Real per capita spending on education increased in 13 out of 15 countries, expenditure on health care and nutrition rose in 11 out of 14, and spending on social security was higher in 13 countries for which information is available. Spending on education was up not only

because coverage was expanded but also because of a series of reforms that have figured as central issues in nationwide debates. The increase in expenditure on social security is mainly accounted for by readjustments in retirement and other pensions, the amortization of retirement obligations or wider coverage.

**26.** The educational reforms now being implemented differ slightly from country to country, but their main objectives are to overcome the shortcomings of the region's educational systems in terms of quality, equity and curricular relevance. Some of these reforms involve measures aimed at modernizing outdated curricula and teaching methods, eliminating social segmentation in access to education and reversing the decline observed in the teaching profession. Others are designed to alter educational funding and resource allocation systems by making greater provision for private resource inputs, decentralize administration, train teachers and raise the quality of education while gradually bringing it more closely into line with the requirements of the labour market.

**27.** It has become clear that new types of relationships need to be established among education, society and production. In order to accomplish this, qualitative changes will have to be made on the basis of ongoing performance evaluations and closer links with businesses and the labour market. A suitable system of incentives would contribute to this effort. Such a system might include national scholastic achievement examinations, support for innovative initiatives in the schools, contests in which the entries would deal with ways to improve the quality of education and financial incentives for teachers and schools that succeed in raising

their students' academic performance.

**28.** For the region as a whole, ECLAC has estimated the additional cost of implementing a strategy for improving the quality of education in the schools (including preschools) to be 3.9% of GDP. Since this figure is more than the countries' budgets will bear, government spending on education needs to be concentrated in those areas that will have the greatest social and economic impact, and incentives need to be found to encourage inputs of private funds while, at the same time, taking care to safeguard educational equity.

**29.** Technological change in the field of education entails modifications in both behaviour and infrastructure. In the first case, this involves the adjustment of teaching methods to incorporate new learning technologies. In the second, it calls for the creation of large-scale networks for the manufacture of educational materials and equipment using the most advanced technologies and the establishment of institutions that will promote their use and adapt them to local conditions. All of this will require changes in school infrastructure, individual and institutional investments in equipment and instruments, and advanced training and retraining for teachers. Private inputs can play an important role in these areas.

**30.** The extent of health care coverage varies widely in the region, but the figures on coverage provide no more than a very basic yardstick, since they may mask significant differences in terms of the quality, efficiency and cost of health care services. The

region's agenda for health care reform —bearing in mind the relevant differences across countries— includes attaining greater equity in relation to access, improving the efficiency and quality of care, and raising the sector's productivity through management reforms, the promotion of potential synergies between public and private health care systems, efforts to bring escalating costs under control and the regulation of private medicine. Some reforms have been designed on a more integral basis and seek to encompass funding, cross-sectoral competition, regulation and management. Despite the diversity of reform initiatives, there are certain areas of convergence; these include the promotion of health campaigns, the reinforcement of primary health care services, the decentralization of local health care systems and services, and initiatives for eliminating inequalities in access either through systems providing basic care for all or by means of targeted measures.

**31.** It is important for reforms of the health care system to provide for modifications in the system's institutional framework in order to permit improvements in the efficiency, coverage and quality of health care, more accurate targeting of subsidies and a strengthening of the system's regulatory and supervisory capacity. In the public health care system, various functions need to be more clearly differentiated (e.g., regulatory functions, financial services and purchasing, the provision and production of services). In view of the coordination effort that this will require, it may be necessary to employ a system of commitments whereby the resources, quality and type of service to be provided will be

specified and to establish indicators for use in assessing performance. In this last case, experience has demonstrated the importance of ensuring that all parties involved in the public health system reach agreement at the outset regarding which performance indicators are to be used and how they will be interpreted and of promoting new wage arrangements that include a measure of flexibility and provide for incentives linked to performance and the quality of care provided.

**32.** Private health care inputs can increase the efficiency of the sector, provided that regulatory systems are in place that will augment the transparency of hiring practices, increase the subsystem's access to subsidies, ensure cost control (through the integration of service providers and insurance companies), improve the way in which catastrophic illnesses and conditions associated with old age are dealt with, and ensure the inclusion of solidarity or redistributive mechanisms in health insurance schemes.

**33.** The demand for housing construction has diminished marginally because of the tendency for population pressures to ease up somewhat in recent years. However, residential construction has also had to adapt to a more varied range of household structures which have generated new requirements and standards.

**34.** Policies have gradually been adapted to these new conditions, and public expenditure on housing has rebounded during

the 1990s. In order to deal with the housing shortage, the countries of the region have sought both to bring in funds from the private sector and to modify their programmes in order to boost their efficiency and target the available resources more accurately. A number of countries are making a transition from the traditional system of specialized mortgage banking, which operates as a separate segment removed from the rest of the financial system, towards more open-ended financing systems. Supply-side subsidies provided through tax exemptions or preferential housing construction loans are being replaced by demand-side subsidies that take the form of direct transfers to households; so long as the application and assignment systems are suitable, this approach will make more accurate targeting possible. Since social housing policies necessarily concentrate construction activities on low-cost land, however, care must also be taken to ensure that they do not lead to greater urban segmentation.

**35.** Pension systems in the region typically have low coverage rates and include a large number of pension funds that pay out different benefits. This system militates against equity, both among the members of these funds and between them and non-members. In many cases, costs are excessive and funds are poorly managed, all of which leads to large actuarial or cash deficits. In these cases, the reform process is faced with the challenge of expanding coverage, managing the funds more efficiently so that benefits can be improved and creating a solidarity mechanism (along with the means of financing it) to aid those who are unable to save up for their retirement. The reforms now being introduced in this area

are aimed at managing pensions funds efficiently without undermining a country's macroeconomic stability, differentiating among risks, adjusting the system of financial management in order to prepare for likely contingencies and expanding the private sector's role in fund management and service provision.

**36.** In view of the current trend towards the use of privately managed, fully funded pension systems, the fiscal cost of such changes should be examined, as should the way they are to be financed and how the funds that have built up through financial intermediation should be used. By way of example, two types of policies capable of promoting equity may be mentioned: those designed to make fiscal and pension resource transfers more progressive and those aimed at using pension funds to stimulate productive investment and help eliminate obstacles to the achievement of high, stable growth rates. An analysis of the pension system reforms being implemented in the region shows that they differ in two ways: (i) the design of the solidarity component; and (ii) the institutional structure developed to ensure that workers' financial savings contribute to the economy's efficiency and dynamism.

**37.** Recent social policy reforms have placed special importance on making resource management more efficient. They therefore need to be coupled with changes in the institutional structure aimed at promoting better service for users, proper targeting and greater decentralization and to ensure that funding is linked to performance and quality of service. The current fragmentation of State social services is conducive to a scattering

of resources and duplication of work, and steps must therefore be taken to overcome it. The supervision of social programmes could be upgraded and uniform standards for their evaluation could be adopted; in addition, redundant programmes could be eliminated and other initiatives aimed at dealing with hard-core poverty, especially in remote areas, could be undertaken. Links between social programmes and production promotion activities (e.g., training, technology diffusion and support activities for micro-, small and medium-sized enterprises) should also be created or reinforced.

### **An overall view**

**38.** In order to make more rapid progress towards fulfilling the commitments assumed at the World Summit for Social Development, an integrated economic and social policy approach is needed that will ensure the complementarity of measures for promoting competitiveness and measures designed to foster social cohesion. Although in the short run conflicts may arise between the two, an effort should be made to take advantage of the many complementarities that do exist between these types of measures. Investment in human resources and the promotion of production are highly effective ways of making progress in these areas. By the same token, the modernization of the agricultural sector can help to combat rural poverty, provided that public policies on access to land and the regularization of land titles are in place and steps are taken to upgrade production infrastructure and forge a closer link between agroindustry and small-scale producers.