



**POVERTY IN LATIN AMERICA:
ISSUES AND NEW RESPONSES**

A Rapporteurs' Report

Gabriela Ippolito-O'Donnell and Brenda Markovitz

Working Paper #219 - March 1996

Gabriela Ippolito-O'Donnell is currently writing her doctoral dissertation in the Department of Government and International Studies at the University of Notre Dame, and **Brenda Markovitz** will receive her PhD from the same department in May 1996.

INTRODUCTION

The Kellogg Institute hosted an academic workshop on “Poverty in Latin America: Issues and New Responses,” from 30 September to 1 October 1995. This was the third annual workshop in the series “Project Latin America 2000,” supported by The Coca-Cola Company. The workshop gathered scholars, policymakers, business and labor leaders, grassroots practitioners, and journalists from throughout the Americas to examine current trends in poverty, inequality, and employment emerging in the aftermath of structural adjustment, and to share policy experiences aimed at improving employment opportunities, organizational capabilities, and living conditions of the urban and rural poor. Vilmar Faria (Special Advisor to the President, Brazil) and Víctor Tokman (Assistant Director General and Regional Director for the Americas, International Labor Organization, Peru) organized these events. This report summarizes the academic workshop, including abstracts of each of the papers presented, the discussants’ remarks, the issues debated, and the organizers’ conclusions.

I. GENERAL TRENDS IN POVERTY, EQUITY, AND EMPLOYMENT IN LATIN AMERICA

I.1 Inequality, Employment, and Poverty in Latin America: An Overview

Oscar Altimir opened the workshop by reviewing the general trends in poverty, income distribution, and employment in the region since the 1950s.

The Postwar Style of Development: 1950–80

Altimir noted that under the postwar style of development—based upon import substitution and a very active role of the state—Latin America had significant socioeconomic achievements: per capita income growth at an average of 2.7 percent per year; relatively high capital accumulation (over 6 percent per year); rapid urbanization and increase in the urban labor force; expansion of formal employment (at 4 percent per year) that kept underutilization of the labor force at 30 percent of its total; expansion of basic and higher education; and high social mobility. Despite these achievements, inequality—which has always been high in Latin America with the exception of the southern cone countries—was not reduced, and in many countries it increased. Gini coefficients for the period show that inequality tended to increase in countries with slow (southern cone) and moderate (Costa Rica and Uruguay) growth, and decreased only in

the fast-growing ones (Colombia, Mexico, and Venezuela). Brazil is the exception; despite very rapid growth, inequality increased in the 1960s and remained at the same level during the 1970s. Although absolute poverty tended to decrease in the region in the 1970s, urban poverty decreased only in the fast-growing countries (Brazil, Colombia, Mexico, and Venezuela).

A Balance of the Lost Decade: The 1980s

Altimir noted that in the 1980s in most countries of the region recessionary adjustments to the external financial crisis led to regressive income redistribution and acute decline in real wages, further increasing inequality and, even more, poverty. Even when inequality and poverty followed a pro-cyclical pattern (this is, both increased with recessionary economic adjustments and decreased somewhat with economic recovery), a balance of the decade shows that most countries emerged from the adjustment with higher inequality and poverty rates. Colombia, Costa Rica, and Uruguay are the exceptions regarding inequality: in these countries, income distribution improved in comparison to preadjustment crisis levels. By 1992 urban poverty was greater in most countries of the region with the exceptions of Chile (mainly due to economic growth) and Uruguay (due to economic growth and improvements in income distribution). Altimir compared the combined effect of changes in inequality and in real wages on the earnings of different income groups. During the 'lost decade' all income groups in Chile, Colombia, and Uruguay improved their incomes with the caveat that improvements above the average benefited the poor in Chile and Colombia and the middle sectors in Uruguay. In Mexico only the high income groups bettered their incomes. In countries not fully recovered from the crisis, like Venezuela, all income groups suffered income deterioration, but the high income quartile suffered less. In Argentina and Brazil the middle classes and the poor suffered significant losses in real wages, whereas the upper quintile increased its income, even during economic recession. Altimir noted that during this period the precarious employment balance achieved under the postwar style of development broke down. During the 1980s underutilization of the urban labor force increased at 5 percent per year, while employment in formal activities increased only at half that rate—mostly in small private enterprises and the public sector.

After Economic Restructuring: Poverty, Inequality, and Employment under Full-Capacity Growth

Altimir argued that the structural reforms implemented in the 1970s and throughout the 1980s entail the emergence of a new style of economic development based upon the leading role of private investment and exports, the expansion of private consumption, and a limited role of the state. To assess the emerging patterns of poverty, income distribution, and employment under this new style of development, he focused on countries that seem to have returned to a

full-capacity growth path: Chile, Colombia, Costa Rica, and Uruguay. Despite high growth rates, income concentration in Chile and Colombia has remained unchanged, increased in Costa Rica, and decreased only in Uruguay. Urban poverty has decreased only in Chile and Uruguay. Underutilization of the labor force has remained at the same levels in Colombia, Costa Rica, and Uruguay, and improved in Chile. Altimir complemented these data with an analysis of the distribution of income by educational level, a more precise indicator of the balance between demand and supply of skills. He concluded that in the 1980s the combined effect of recession, adjustment, and economic restructuring affected more the demand for higher-skilled than for lower-skilled labor. In a context of rapid expansion of highly educated (secondary and college education) labor supply, real income for this group fell. However, under sustained growth (close to full capacity) in Colombia, Costa Rica, and Uruguay this trend has been reversed. Recent studies focusing on Chile and Argentina show similar results.

Distributional Patterns under the New Style of Development: Some Provisional Conclusions

Altimir contended that an overall evaluation of the distributional patterns emerging in the aftermath of economic restructuring should incorporate the differences in the pace, timing, and depth of the reforms implemented as well as their degree of consolidation. Chile was the first reformer in the region. Colombia, Costa Rica, and Uruguay are gradual reformers and Argentina and Mexico are new reformers—as drastic or even more so than Chile was. In this context, Chile provides a paradigmatic case, since it started the reforms early in the 1970s and sustained them throughout the 1980s. Altimir noted that in Chile, after the consolidation of the structural reforms and under sustained economic growth, inequality is higher compared to the preadjustment period levels, and there are no signs, so far, that it is being reduced by steady economic growth.

From the evidence presented Altimir drew three provisional conclusions. First, the consolidation of the new style of development (as in the case of Chile) results in a more unequal distribution of income than the one predominant under the postwar model of development. Second, reforms to implement this new style of development, even when radically pursued (as in Argentina and Mexico), require more time to consolidate than expected and are significantly vulnerable to external shocks. Third, gradual reformers (like Colombia, Costa Rica, and Uruguay) would suffer inequality increases if they were to pursue drastic reforms similar to the ones implemented by the aforementioned countries, for deepening and accelerating structural economic change.

Challenges for Growth with Equity

Altimir concluded his presentation by focusing on some of the challenges Latin America faces to sustain economic growth while reducing poverty and inequality under the new style of development. The Mexican crisis and its repercussions in Argentina showed quite dramatically the external vulnerability of the transformation processes now underway in most countries of the region. In this context, Altimir pointed to the dangers of an eventual stop-and-go pattern of growth with recurrent episodes of recessionary adjustment; economic stagnation is the factor that most negatively affects poverty and inequality. Altimir also stressed the relevance of the pace of growth for poverty reduction. Recent examples of poverty reduction in the region have been basically due to economic growth, not to income distribution improvements or well-targeted social policies. Altimir estimated that to reduce to half the number of people living in poverty today in Latin America (40 percent of the urban population) will take 46 years at the present growth rate of 1.5 per capita, or 28 years at the historical rate of 2.5 percent.

Future Agenda for Discussion

Altimir suggested several issues to be included in a future regional agenda. He underscored the need to create higher than average productivity growth; improve investments and national savings (with the exception of Colombia, Costa Rica, Chile, and Panama, investment coefficients are lower than before the unleashing of the 1980s crisis); expand public and private sector investments in skilled labor; and design and implement more efficient and equitable social policies (a few countries still have room for increasing social expenditures—Venezuela, Colombia, and Mexico spend less than a third of their public budgets on social programs). Altimir closed his presentation by pointing to the most important challenge for the future of Latin America: how to design and implement, in the complex context he depicted, a second round of policy reforms aimed at building less unequal societies in the region.

I.2 The Demographics of Poverty and Welfare in Latin America: Challenges and Opportunities

José Alberto Magno de Carvalho mapped Latin America's current demographic trends—declining population growth and an increase in the elderly population—and the prospective impact of these trends on poverty reduction and the social welfare system.

Breaking the Myth of Overpopulation

Carvalho noted that in the late 1960s and early 1970s academics, policymakers, and international agencies were convinced that the high rates of population growth predominant in

the region (due, primarily, to mortality decline) would preempt economic and social development unless massive birth control and family planning methods were implemented. However, this belief proved to be wrong. Fertility rates have been declining rapidly since the mid-1970s, lowering population growth rates in all countries of the region (including poorer ones like Haiti and Bolivia), even without the implementation of massive policies of birth control or family planning methods. Carvalho referred to this first phase of the fertility transition process as a 'golden age,' since it creates favorable demographic conditions for reducing poverty by investing resources in the young poor.

Latin America Demographics in Comparative Perspective

Using estimations from CELADE and the UN, Carvalho compared total fertility rates in sixteen countries of Central and South America from the 1960s to the 1990s. Fertility rates declined significantly in all countries of the region between 1970s and 1990s. The pattern of fertility decline started in the most affluent social groups and then spread to the urban and rural poor sectors. Judging by contraception methods largely utilized in the region, Carvalho concluded that this trend of fertility decline is irreversible. He also compared the demographic trends of Brazil, Colombia, Mexico, and Peru to that of the more developed societies of Sweden and England. This comparison reveals that, somewhat surprisingly, Latin America has reached in only 20 years a fertility decline rate comparable to one that in Sweden and England took almost half a century to achieve.

Population Aging and the Social Security System

An important consequence of the decline in fertility rates is the transformation of the age structure. Carvalho emphasized that the process of population aging is a function of fertility decline and not of lower mortality rates. Just as fertility rates dropped more rapidly in Latin America than in Europe and the United States, the proportion of elderly will also increase more rapidly. These trends are resulting in the rapid decline of the children dependency ratio¹ and the slow but steady increase of the elderly dependency ratio. Thus Latin America faces the challenge of investing health care and quality education for the young, both as a mechanism to eradicate poverty and to protect the elderly of tomorrow and avoid the collapse of the social security system. So far, however, the opportunities afforded by the current demographic trends are being wasted.

¹ The proportion of the population under age 15 in relation to the proportion between ages 15 to 64.

I.3 Poverty and Inequality in Latin America: Some Political Reflections

Guillermo O'Donnell analyzed the challenges posed by increasing social inequality and poverty to the processes of political democratization started in Latin America in the early 1980s.

Democracy, Citizenship, and Inequality in the 1990s

O'Donnell agreed with Altimir that although inequality and poverty have been long-term features of the region, the social profile of the 1990s looks discouraging when compared to the 1960s and 1970s. This situation is aggravated by the tendency to 'naturalize' the existence of overwhelming poverty and inequality by those who defend the status quo. For O'Donnell, inequality is a greater impediment to the expansion of democracy than is poverty. Inequality generates severe social polarizations and promotes authoritarian and repressive patterns of social relations which preclude the effectiveness of citizenship on which democracy is built. It denies to some the exercise of primary universal rights to which all citizens are entitled in a democracy. The disadvantaged are perceived and defined by the privileged as the dangerous or the criminals. O'Donnell noted that the 'ghettos of the rich' (neighborhoods to which access is limited by private guards to avoid any contact with the perceived danger and ugliness of the poor) are one of the many micro consequences of increasing inequality.

Getting out of Poverty

Although O'Donnell praised the topical efforts and sound advice generated by international agencies and nongovernmental organizations, he reminded the audience that these endeavors are necessary but not sufficient to eradicate poverty and deep social inequality. He also noticed that little of this advice has been implemented by democratic governments throughout the region. Under democratic rule, the poor can support parties committed to improving their situation, but economic constraints, the fears of the upper classes, and the resistance of impoverished middle sectors hinder the mobilization of resources to improve the living conditions of the poor.

O'Donnell described three strategies that would-be reformers might adopt to motivate the privileged to make poverty and inequality reduction a priority. The first strategy is to appeal to the fears of the privileged: if poverty and inequality are not reduced, at least somewhat, other rebellions similar to the one in Chiapas might occur in the near future. The second strategy is to appeal to the enlightened self-interest of the privileged: a country is jeopardized if its labor force lacks the necessary skills to compete in the world economy. These strategies appeal to the private interests of the privileged. A third strategy links the need to reduce poverty and inequality

to a public and general interest: the survival of democracy. The underlying assumption of this tactic is that a general interest might attract more support than the issue of poverty reduction alone. Would-be reformers might convince the privileged that increasing poverty and inequality will probably affect the very existence of democracy, thus jeopardizing their own interests (although O'Donnell admitted that counterexamples exist, such as India). Democracy has proved to be more predictable than military dictatorships and more willing to implement and deepen market-oriented reforms, a cherished demand of business leaders.

Democracy with Equity as a Collective Good

The aforementioned tactics, O'Donnell concluded, may or may not be successful, but they cannot replace the emergence of a public interest linking democracy to poverty and inequality. This public interest cannot but be based on the conviction that all human beings share the same dignity and are entitled to the freedoms that are *de facto* denied by extreme inequality and poverty. O'Donnell noted that it is only through politics and the state—a quite devalued currency nowadays—that a public interest can be built, mobilized, and made effective. This would require a kind of state (strong but lean) that, after the economic adjustment crisis in Latin America, is almost everywhere lacking.

The Role of Social Policies

O'Donnell emphasized that inequality and poverty reduction is a very difficult task, even in the more developed countries. Inequality has also increased in some of the OECD countries—the United States, Britain, and New Zealand—that have recently followed the type of policies implemented in Latin America in the last two decades. The situation in Latin America is even more dramatic due to the scarcity of appropriate agencies for implementing social policies to ameliorate the hardships of poverty. Although it should be already clear that the market will not solve all the problems of poverty—particularly of deep poverty—no country in the region, with the exception of Chile, has made sustained efforts to enhance the agencies in charge of social policy. Social policy should gain not only efficacy but also autonomy from economic policy. This, O'Donnell stressed, does not mean to neglect the remedial, local implementation of social policies. Yet, the overall picture of the social situation in Latin America should underlie attempts at making these societies less unequal.

The Antipoverty Coalition: Building Solidarity among Citizens

O'Donnell agreed with Víctor Tokman that poverty and inequality can only be tackled if an effective sense of solidarity, based upon the recognition of human decency, is collectively created. This led him to argue that broad political alliances are necessary if poverty and inequality

are to be eradicated. Sociologically, this coalition should find its axis in some segments of the middle classes. Without their participation, the empowerment of the truly disadvantaged may be unfeasible. O'Donnell pointed to one of the most difficult obstacles for the formation of such a coalition: the increasing polarization within the middle sectors—a characteristic observed in most countries of the region. O'Donnell concluded by underscoring that the quality of democracy and not only its mere survival are at stake today in Latin America.

Discussion

The Role of Economic and Social Policies

Jorge Chávez (Universidad Nacional, Costa Rica) disagreed with O'Donnell on the need to design and implement more autonomous social policies to improve the social situation of Latin America. Focusing on Altimir's presentation, Chávez argued that poverty and inequality reduction depend more on economic policies (such as employment policies, tax reform, or credit) than on social policies. O'Donnell clarified that he was criticizing the almost total subordination of social policies to the dictates of economic policy since the 1980s. The economic policies of Chile and Argentina are currently very similar, but Chile's social policies are more developed and effective in reducing poverty. Social policies do make a difference. O'Donnell stressed that a whole package of economic and social policies should be carefully designed. Altimir added that present economic policies are more sophisticated than in the past but have fewer policy instruments at hand; areas such as education should be included in the framework.

On Labor Productivity

Regarding the issue of how to define and address labor productivity, Ernest Bartell, CSC, was skeptical about the reliability of labor productivity measures. He asked Altimir whether the current measures simply reflect the shrinking of the labor force while output remains constant, a characteristic presently noted in the highly developed economies from which Latin America draws its economic strategies. Altimir answered that, in some sectors, productivity has notably increased after economic restructuring. However, within the whole labor force, labor productivity and total factor productivity have remained more or less stagnant.

Democracy and Inequality: Is There Any Room for Optimism?

René Cortázar disagreed with what he called Altimir's and O'Donnell's pessimistic description of the distributive situation in the region. Contrary to some of the evidence presented, he contended that Latin American citizens remain hopeful regarding their economic future. This can be illustrated by the fact that elections are being won by leaders who implement

the toughest economic restructuring policies. He cautioned that data for evaluating the impact of structural adjustment are not yet fully available and he noted that several countries are reducing poverty significantly. Nevertheless, he conceded that inequality is the most difficult type of deprivation to improve and asked how centripetal forces in society can be promoted to overcome poverty and inequality.

O'Donnell replied that democracy can indeed coexist with very unequal societies. For this reason, the question to ask is to what type of democracy are we committed, not only politically but also morally? Regarding Cortázar's reference to people's voting, O'Donnell suggested that voters vote for many reasons and not just for narrowly defined economic policies. He also remarked that in societies tempted to create systems of internal exile or ghettos of the rich, the possibilities of creating an antipoverty coalition are weak.

Responding to Cortázar, Altimir recalled that his argument pointed to the emergence of a new style of development entailing several strategies, although with some elements in common with the present economic policies. But the mix, the pace, and the depth of the strategies are different. Most countries are at different stages of this new style of development. Chile has consolidated its own version, Mexico and Argentina have not, and Brazil is still designing a strategy. Except for Chile, the rest of the countries are in a state of 'wait and see.' This is because there is no perceived alternative to this new economic style. People's expectations today are focusing on downward or upward social mobility as a personal condition. If the new development style gains momentum, poverty indicators will have to be revised to reflect both the subjective meaning people attribute to poverty and the objective criterion that to be poor is to be excluded from participation in the dominant style of living.

I.4 Issues and Policy Experiences in Various Countries: Discussants' Remarks

Brazil

José Márcio Camargo emphasized that most of the data available show that, with a few exceptions such as Uruguay, poverty and inequality have continued to increase in Latin America. In Brazil, 40 percent of the population lives in poverty. However, Brazil is not a poor country: per capita income is about three times above the poverty line. In this sense, Brazil could eradicate poverty by implementing income distribution measures. For example, if Brazil were to have the same income distribution as Costa Rica, only 20 percent of the population would live under the poverty line. Nevertheless, it would take the country 20 years, growing at the current rate, to achieve the same result. If Brazil had the same income distribution as Uruguay, the population living in poverty would be only 15 percent of the total; again, relying on current growth, it would

require more than 30 years to reach that same level of poverty. Camargo added that by transferring only 6 percent of national income to the 40 percent of the Brazilian poor, poverty would be eradicated. This, he noted, shows that, at least in Brazil, growth is not the only nor most efficient way to reduce poverty. Finally, Camargo addressed the question of why the poor are poor in Latin America. He concluded that the quality of jobs and the overall quality of the labor force are the key explanatory factors. Progressive income distribution and transfers and long-term labor policies should be pursued to overcome poverty in the region.

Colombia

Ulpiano Ayala analyzed what he called Colombia's experience of 'growth with equity' from the 1950s to the present. Since the 1970s inequality has been lowered in Colombia, mainly by the extension of education to the labor force and by diminishing wage differentials between skilled and nonskilled workers. This has resulted from a conscious effort to increase public expenditures on education since the early 1950s. The Colombian experience illustrates that through sustained growth and the structural transformation of the labor market, social equity can be improved. Labor income reflects the increasing participation of human capital. However, public social expenditures did not maintain their growth during the 1980s and have not been efficiently reallocated. This explains the stagnation in equity improvements in the early 1990s in Colombia. Ayala argued that from the Colombian experience springs the lesson that sustained growth and human capital development, especially basic education, should be pursued to reduce poverty and inequality. Although Colombia's macroeconomic management has been commended as prudent (fiscally and monetarily balanced, wise exchange rate management, etc.), this model no longer produces growth with equity in a highly competitive and globalized context. Until recently, prudent macroeconomic management was compatible with protectionism, centralism, and violence, and the deterioration of the political and legal system. But this is no longer the case. In latter years Colombia has attempted to simultaneously implement political, economic, and social reforms to sustain growth and improve equity. This holistic reform experience is based upon the recognition that past economic crises in the country were political in nature; for any economic transformation to be successful it needs to be reinforced by political and social policies. Ayala noted that the reform process remains incomplete and has provoked many oppositional reactions. He also called attention to several mistakes: excessive decentralization, struggles among agencies of the state, and weakening of the political parties. Ayala believes the present economic reforms may be more sustainable because they are accompanied by political reforms. He concluded that the choice between growth and distribution is false; equity improvements are a necessary condition for sustained growth. The future agenda for Colombia

and for all of Latin America should include political stability, better credit for the poor, land reform, subsidized education, improved savings, and progressive taxation.

The Comparative Perspective

William Goldsmith pointed to some methodological issues for analyzing poverty and inequality in comparative perspective. First, Goldsmith noted the relevance of the type of cases and periods included in or excluded from comparative analysis. He agreed with Altimir's emphasis on the pace and timing of the economic reforms but added that under the current wave of globalization, cases from other regions should also be considered. He also argued in favor of a more comprehensive categorization of poverty and inequality. Crucial dimensions that define the quality of life of the population at large (the impact of health and housing policies, street crime, time spent in transportation, etc.) are often excluded by narrowly focused economic approaches. Goldsmith referred to dimensions such as region, gender, age, and urban vs. rural origins within urban populations that should be included in the analysis of poverty and inequality. When referring to general trends in a case like Brazil, for example, a distinction between the northeast and the southeast must be taken into account to avoid misinterpretation or gross errors. Another important dimension is ethnicity. Ethnic or racial differences have political significance that can affect the formation of the political coalitions referred to by O'Donnell. In the United States the distribution of income has worsened drastically in the last 20 years, polarizing the middle sectors into a relatively small number of people who are getting richer versus a significant proportion of industrial workers who are getting poorer. The class and race composition of this process is very important and often ignored. Goldsmith concluded by focusing on the relevance of international factors. He recalled that South Korea had the possibility of borrowing money at negative interest rates from the United States during a period of extremely high growth of the international economy. Nowadays Latin America faces the opposite environment. He concurred with Camargo and Ayala that growth alone cannot be the key to poverty reduction.

Discussion

Searching for a Theory of Inequality

Altimir replied to Camargo's presentation by noting that there is no solid theory of inequality, neoclassical or other. A theory cannot be constructed statistically by disaggregation. There are many hypotheses regarding what contributes to inequality: human capital, segmentation of labor markets, institutional constraints, etc. If we cannot wait for growth to solve the problem of poverty, as Camargo suggested, Altimir wondered how transfers to the poor could be made? The experience of Latin America shows that progressive transfers are very difficult to

consolidate into a new income distribution. Historically Latin America has many examples of regressive changes in income distribution, but only two cases—Colombia and Uruguay—with sustained progressive changes. These two cases are insufficient to build an adequate theory.

Empowering the Poor

Camargo agreed that there is no solid theory of distribution available. For this reason, he welcomed O'Donnell's comments on the need to increase the bargaining power of the poor. Inequality levels improve very slowly but deteriorate very rapidly, and this clearly has to do with the lack of power of the poor and the effective resistance of the rich. For Camargo, to reduce poverty and inequality and to build a more decent society we have to think how to redistribute social and economic capital.

What and How to Compare: The Problem of Data Generation

Altimir agreed with Goldsmith's comments about the exclusion of some cases in his paper. For example, Peru is a very important case that he could not include because of lack of data. Also, it would be helpful to have data on variables such as gender, age, and region. However, the information available through the household surveys limits the analysis. The data he presented exclude the income received or imputed as a result of social policies (education and health) because it is not being measured, although transfers from the social security system are included. Ayala emphasized the need to use other surveys besides the household surveys and to include political and social variables in economic analyses.

Goldsmith noted the existence of unrecognized social policies. Middle and upper classes benefit from infrastructure that improves the living standards of only 30 percent of the population. In the United States \$80 billion are spent annually in urban policies that subsidize the upper 20 percent of the population. This same amount would be enough to resolve the problems of central cities in the country. This is mainly a matter of tax policy. There are other hidden subsidies to the rich, like free public universities in Brazil and other Latin American countries.

II. GLOBALIZATION, ECONOMIC RESTRUCTURING, AND JOB CREATION

II.1 Globalization and Job Creation

René Cortázar began his analysis by discussing how the globalization process has impacted the workings of the economy, the state, and social organizations in Latin America. He continued by identifying areas of scholarly agreement and disagreement regarding the determinants of employment creation following globalization. Finally, Cortázar offered his

assessment of how the process of globalization has created a need for new formal and informal rules in the labor market and new investments in 'social capital.'

Impact of Globalization

The Economy

According to Cortázar, the integration of Latin American countries into the world economy has caused three important changes in the local economies of these nations. First, the demand for labor in the open economy that accompanies globalization depends directly upon the cost of labor and its relation to productivity. More specifically, in a globalized economy firms in the modern sector respond to a decrease in the cost of labor by hiring workers whose productivity is lower. This close connection between wages and productivity constitutes a significant departure from the rules that governed the relatively closed economies that characterized most of the countries of Latin America from the 1930s to the early 1970s. In a more closed economy wages can differ from productivity, at least in the short run.

Globalization has also brought a significant change in the variance of the demand for labor in those countries that are opening their economies to international trade. Local firms have to adapt to the continually changing world economy in order to remain competitive, which creates an increased level of variability in their demand for labor. In this context flexibility in the formal and informal rules of the game is required to adequately respond to frequent global economic fluctuations. The sharp increase in the variance of the demand for labor poses a particular challenge to the nations of Latin America because it contrasts poignantly with the much more stable and predictable demand for labor experienced during the import substitution period.

Finally, the difficult process of integrating into the world economy also impacts the supply of labor in the countries that are pursuing globalization. Education and training of workers acquires additional value as the process of globalization changes both jobs and job requirements. In addition, the fast rate of change that characterizes an open economy means that education and training must be an ongoing process.

The State

Regarding the role of the state, globalization has forced governments of Latin American countries to maintain considerable fiscal discipline. In part, this has occurred due to a widely accepted belief in the need to reduce inflation. However, leaders in these nations have also embraced fiscal responsibility due to their recognition that capital flows among open economies with relative ease. They are obtaining balanced budgets and even, in a few cases, fiscal surpluses

in an effort to construct a stable macroeconomic environment and attract foreign and domestic capital.

Furthermore, countries that are attempting to compete in the world economy need not only smaller but also more effective states. In particular, Cortázar argued that the tax systems, infrastructures, and judiciaries of nations are critical to economic competitiveness.

Social Organizations

Globalization has affected the 'preferences,' 'constraints,' and 'incentives' that influence the behavior of social organizations. In a global society the 'preferences' of individuals in a nation are strongly influenced by the information that they receive through the mass media. The notion that common views tend to simultaneously affect several countries in a region was not introduced with globalization. However, the globalization of the mass media has dramatically increased the intensity and velocity of this process.

In addition, the 'constraints' and 'incentives' faced by different social organizations have changed as most of the countries of Latin America open their economies to world trade. With the close link between wages and productivity in an open economy, government intervention in wage determination is no longer effective. With privatization of social security systems and training institutions, the relationship between the state and social organizations has undergone a fundamental change. Hence, the 'incentives' and 'constraints' they face in defining their strategies have also changed.

Employment Policies

Agreements

Currently there is widespread recognition that the determinants of job creation do not, for the most part, occur in the labor market. Rather, macroeconomic events such as the debt crisis, devaluations, and rising interest rates tend to be more important than labor institutions and labor policies in determining job creation. In addition, there is general agreement that investment continues to be the primary determinant of employment. Investment, in turn, is a function of the rate of return and the perceived 'country risk,' which result from not only the labor market but also from the workings of the economy and society. A final point of agreement pertains to the need to pursue wage determination at a decentralized level, with only a minimal role for government intervention in this area.

Disagreements

In identifying the primary disagreements on the topic of globalization and job creation, Cortázar classified the different positions on this subject into three views. The 'old consensus'

refers to the approach, dominant in Latin America from the 1930s to the early 1970s, that emphasized the goal of equity and assigned a leading role to the state to intervene in labor issues. In particular, the 'old consensus' view allows the state a major role in protecting job security and preventing a reduction in the dispersion of real wages.

The 'neoconservative' view, by way of contrast, advocates a small and passive state to provide maximum space for the workings of the market. Social organizations are perceived as potential threats to economic development, suggesting that a weakened society can foster a strengthened economy. Consistent with their belief in the primacy of the market, neoconservatives generally see no need for state protection of workers.

The third view, 'growth with equity,' occupies the middle ground between the first two positions. While the 'growth with equity' view allows a greater role for government intervention than the 'neoconservative' view, it does not endorse the large and active state that characterizes the 'old consensus.' In 'growth with equity,' the state defines the basic rules of the game, but labor and business determine most of the conditions that will define their relationship through individual and collective bargaining. Furthermore, advocates of this view differentiate themselves from the first two groups with their belief that social organizations and a strong society are key components of development. Social agreements contribute to consensus-building, which reduces variability of policy shifts, decreases country risk, and thereby increases investment. Social organizations also play the crucial role of providing protection to workers, according to the 'growth with equity' perspective.

Labor Market Changes

The globalization process has significantly changed the rules of the game in the labor market. There is a recognition of the need to move from job security in the modern sector to protection of job mobility, achieved through a system of unemployment insurance. In addition, with the current trend to decentralize collective bargaining, there is movement away from the belief in the value of homogeneous and general rules of the game. Rather, there is a new recognition that the rules must be adaptable to the reality of different industries and firms.

With globalization, social security reforms have been enacted in Chile, Argentina, Peru, and Colombia. The old pay-as-you-go system has been replaced with new systems that are based on capitalization and managed by the private sector. These social security system reforms should promote job creation through a reduction in social security taxes, an increase in savings and investment, and an increase in the efficiency of capital. Globalization has also changed training policies in Latin America, with a greater emphasis now being placed on decentralization and privatization of training procedures, and the tightening of the link between training programs and productive structures.

Finally, Cortázar reemphasized the argument that wage changes in the labor market must accurately reflect changes in labor productivity. Furthermore, in addition to the decentralization of collective bargaining that globalization requires, bipartisan labor relations, whereby both labor and business assume responsibility for resolving internal disputes, is an important feature of the globalized economy. In order to achieve an effective bipartite system, there must be a firm policy precluding all government intervention in collective bargaining.

Investment in Social Capital

Cortázar concluded his analysis of globalization and job creation by arguing that job creation is positively affected by investment in 'social capital.' This term refers to the degree of trust in society, the prevailing social norms, and the relations and networks that exist among different social and political actors. Investments in social capital promote social and political consensus, which reduces 'country risk' and attracts additional investment and continued growth. Furthermore, investments in social capital are likely to improve the quality of labor relations, which will in turn have a positive effect on productivity growth and on the rate of investment. Finally, strong 'social capital' leads nations toward greater social peace and higher levels of productivity and development.

Discussants' Remarks

Azizur Rahman Khan

While endorsing Cortázar's conclusions regarding globalization and job creation in Latin America, Khan identified three issues not specifically addressed by Cortázar which warrant consideration. First, Khan reminded the audience that the current move toward globalization was initiated not by industrialized countries but by less developed countries (LDCs) as they abandoned import substitution strategies and socialism. In fact, the contribution of industrialized countries to the increased flow of goods and factors of production during the 1980s and early 1990s has been negligible. Therefore, globalization has not meant increased access to the markets of industrialized countries but rather a greater opening of the markets of the LDCs to both the industrialized countries and other LDCs.

Second, Khan analyzed the performance of Latin American countries during the period of globalization and reached rather pessimistic conclusions. Latin America has not increased its share of world trade as a result of globalization. Specifically, Latin America's share of world exports has decreased and its dependence on the OECD as a source of imports has increased, while trade among Latin American countries as a percentage of their global trade has declined.

Therefore, the liberalization of Latin American economies has not improved the region's international competitiveness.

Khan concluded his remarks by suggesting an additional crucial determinant of international competitiveness of the labor force. He argued that the change in the real cost of employment in foreign exchange is also vital. This cost results from three factors: first, the change in real wages minus the change in real labor productivity; second, the change in domestic cost of living minus the change in the price of tradable goods; third, the change in the exchange rate. According to Khan, exchange rate adjustments must be pursued in order to enhance the domestic economy. In many Latin American countries adjustments in the exchange rate were not used vigorously enough to maintain international competitiveness.

Albert Berry

Although Berry agreed with most of the points contained in Cortázar's paper, he identified several areas that require clarification or elaboration. Berry's remarks focused on Cortázar's use of the concept of competitiveness, expressing concern that the relationship between productivity and competitiveness is not as direct as portrayed by Cortázar. In particular, Berry challenged the notion that labor productivity constitutes the sole determinant of international competitiveness. He shares Khan's belief that exchange rates play a key role in determining amount of exports and suggested that Cortázar incorporate this factor into his argument. Furthermore, Berry questioned Cortázar's interchangeable use of the concepts of the 'firm' and the 'economy,' arguing that the determinants of firm competitiveness do not necessarily match the determinants of economic competitiveness. He also suggested that Cortázar make more explicit references to the dichotomy of labor markets, showing how the dynamics of the formal and informal sectors differ.

In addition to these conceptual points, Berry made other more general remarks on Cortázar's paper. Noting that globalization has occurred in conjunction with increasing income inequality in Latin America, he argued that this problem must be addressed in the social policies of the region. In addition, he believes that the issue of labor mobility raised by Cortázar merits additional consideration. Berry concluded his remarks by asserting that labor market policies should be framed with an understanding of the importance of small and medium firms.

Rolando Cordera Campos

Cordera focused his remarks on the need for caution regarding the dynamics of globalization, which were, in his view, accurately depicted by Cortázar. In broad terms, Cordera expressed concern that the process of globalization has led many nations of Latin America to a point where there is little space for state initiative. Because state competitiveness, in addition to firm and industry efficiency, constitutes a critical component of a country's ability to compete in

world trade, Cordera argued that the state must play a central role in the process of world integration. More attention must be directed to the issue of how the state can best be structured in order to enhance the nation's productive capacities.

Cordera also shares Berry's concern about the increase in poverty and inequity that has occurred with globalization. In particular, Cordera pointed to the case of Mexico, which is currently experiencing an unprecedented level of open unemployment, as evidence that the move toward globalization can be extremely problematic. Even when unemployment is reduced, jobs are often filled by low-skilled workers who receive relatively low wages. Therefore, he suggested that economic liberalization should be tailored to suit the domestic context where it is being pursued. What worked for Chile may not produce the same result in Mexico.

Cordera concluded by applauding Cortázar's view that social organizations play a crucial role in the 'new mix' of reform and structural change being pursued in Latin America today. However, he suggested that Cortázar also consider the roles of culture and community in the transition.

Discussion

Víctor Tokman opened the discussion by expressing agreement with Cortázar's argument that wages and productivity tend to be closely linked in globalized economies. However, he shares the view of Berry and Khan that wage policies alone cannot ensure maximum productivity and competitiveness. Infrastructure improvements and foreign exchange policies are also crucial to the vitality of Latin American economies. Tokman also does not view state efficiency as a panacea to the problems of the region. In addition to enacting reforms to make states more effective, he argued that the bargaining power of workers must be strengthened. As a final observation, he suggested that Cortázar include in his analysis an assessment of how the process of globalization has impacted labor standards in Latin America.

In expressing his view of globalization in Costa Rica, Jorge Chávez noted several problems with the process that seem to contradict Cortázar's thesis. First, as Costa Rica has undergone structural adjustment, wages have lagged behind productivity. Second, the economic changes have occurred in conjunction with an increase in discrimination against women. Third, in Costa Rica's most dynamic sectors wages are below the national average. Finally, with globalization, the informal economy of the country has expanded, and an increasing number of children are entering the labor market.

Guillermo O'Donnell continued the discussion by challenging Cortázar's argument that globalization requires a significant degree of decentralization within Latin America. Although O'Donnell agreed with Cortázar's assertion that decentralization at the firm level will tighten the

connection between wages and productivity, he questioned Cortázar's endorsement of decentralization at the national level. Noting that a social consensus on issues of labor legislation, social reform, and enforcement mechanisms is highly beneficial to the health of Latin American economies, O'Donnell cautioned that some centralization might be useful.

Rev. Ernest Bartell, CSC, concluded audience remarks by expressing concern that the 'new consensus' espoused by Cortázar could degenerate into a layered, corporatist structure similar to the scholastic social teaching model popular in the past. Bartell argued that this scenario would reduce firm competitiveness and hurt national economies in the process.

Cortázar responded to Chávez's remarks by suggesting that although wages and productivity are not completely in synch, a new connection has occurred due to globalization. In the long run, if wage increases exceed gains in productivity, an external crisis will force economic ministers to institute a devaluation. Cortázar expressed agreement with Cordera's observation that growth and investment continue to be important catalysts for increased economic competitiveness, but he argued that the determinants of growth and investment have changed. Tolerance for economic mismanagement in an open economy is extremely low. On the issue of decentralization, Cortázar noted that states in the region should pursue bipartism, with governments enhancing the workings of the market by enforcing the accepted rules of the game and protecting union leaders but allowing bargaining to occur on a decentralized level. Finally, Cortázar responded to Bartell's concern about the 'new consensus' by expressing confidence that the new model is not corporatist in structure. Because Cortázar views the dynamics of the firm and national politics as distinct processes, he argued that Latin American firms will not be negatively affected by the national discourse.

II.2 Restructuring, Education, and Training

Although the process of adjustment and the restructuring of local economies that generally accompanies globalization have impacted virtually every aspect of Latin American societies during the last decade, no segment of these societies has been more affected by the changes than education and training. The need for more competitive workers and increasingly efficient modes of production have prompted most nations of the region to reevaluate traditional methods, with many adopting internal reforms in an effort to achieve a more responsive and more competitive work force.

María Antonia Gallart addressed this issue in her remarks, offering her views on how the governments of Latin America can devise educational reforms that will enhance both equity and productivity in the region. She began by discussing how the restructuring process has caused changes in the labor market, giving particular attention to the changing demand for labor

that has occurred with globalization. She continued with an assessment of the current state of education in Latin America, expressing deep concern about the viability of traditional educational methods in a globalized economy. Finally, Gallart proposed a new model for regional education and training, outlining its basic tenets, identifying potential target groups for the model, and acknowledging potential shortcomings of her proposed reforms. With significant initiatives in educational reform, Gallart argued, the difficult task of obtaining both equity and productivity can be achieved.

Changes in the Labor Market

The difficult process of restructuring has three major components that have impacted the labor market. First, public sector reforms, including primarily a reduction in public services and the privatization of public enterprises, constitute a critical element of the process by changing the demand for labor. Second, the globalization that has occurred in conjunction with restructuring has dramatically changed the rules of competition, sharply increasing pressure on local firms as they struggle to survive against international competition. Third, technological and organizational changes, dramatized most vividly by a move from the relatively static Fordist organizational model to the much more dynamic Japanese model, entail a need for greater flexibility on the part of the labor market, with a higher degree of worker responsibility for productive output.

These changes suggest several important consequences for the labor market and dictate the need for fundamental reforms in local educational systems. As firms adopt increasingly capital-intensive technologies, the volume and structure of the labor force will change, with businesses becoming more adept at diversifying their production while employing fewer workers. In addition, the frequent contracting and dismissal of workers that tends to occur in a globalized economy suggests a need for flexible employees. This flexibility can only be achieved by giving workers a broad education, which constitutes a significant departure from the more hierarchical, structured, and specialized education that was more appropriate for labor prior to globalization. In this context, efficient management of human resources is crucial, because the tremendous need to maximize firm competitiveness suggests the importance of selecting able workers, encouraging updated training and participatory management, and enhancing worker motivation. In this type of labor market, unskilled individuals with low educational levels are perennial losers. As such, the process of restructuring has particularly troubling effects on the poor, who have the least access to training and education.

The Current State of Education

Despite the steady growth of student enrollment in education in Latin America, significant problems in many educational systems of the region remain. Repetition in course work is common, and many students are older than the standard age for the particular grade that they are studying. Furthermore, the practice of child labor continues to erode enrollment levels, particularly in secondary education. Differences in performance between urban and rural schools persist and are compounded by differences between elite and marginal schools and the varying performance of students which is closely linked with their family backgrounds. A trend toward decentralization of education in Latin America has not resolved these problems. Educational quality tests, used to measure the aptitude of students upon completion of primary and secondary schools, point to deficiencies in the basic skills of comprehensive reading and applied math.

On a more macro level, most schools in Latin America are not adequately providing individuals with skills necessary for employment. The youth in the most impoverished areas are most victimized by the failure of educational systems in this regard. Because government agencies charged with overseeing innovations in the field of education tend to be large and bureaucratic, they have failed to maintain parity between technological and occupational change in the work place and educational reforms. With educational costs covered by taxes, little incentive exists to respond to the constantly changing demand for labor by changing the way the youth are schooled. Furthermore, the beneficiaries of vocational and technical programs tend to hail from relatively privileged backgrounds. The potential benefits of these programs continue to be inaccessible to the most impoverished of Latin America. Finally, educational systems of Latin America entail early specialization in vocational and training programs rather than promoting the general education that would place its recipients in an optimal position in the globalized labor market.

A New Model

The new model for education articulated by Gallart contains three major components. First, the model promotes a transformation from supply-driven vocational education and training to demand-driven training programs. By creating a dynamic linkage between the supply and demand for labor, the work force can be tailored to the needs of employers, improving the overall efficiency of the system.

The implementation of the second tenet of the model, the creation of a foundation stage of education, which is more narrow than a general education but less specialized than vocational training, would help to address the bottlenecks in the labor markets of Latin America. With an excess supply of unskilled workers and an unsatisfied demand for workers with adequate skills for

modern production, the nations of the region must develop a long-term educational agenda that can respond to variable short-term trends. The objective of this new model is to have as many individuals as possible with basic competencies and flexible skills, who can be trained in specific abilities in a relatively short period of time.

The final component of Gallart's model entails the transfer of public funds from general programs to programs that are targeted for specific users. These special programs should be designed to provide training to groups that are identified as being especially needy. These would include youth from underprivileged backgrounds and those who have been unemployed for an extended period, workers displaced by technological change, and unskilled women. In addition, these programs should be designed to facilitate efforts by firms to expand into new markets. With partial funding for the training provided by these firms, costs can be minimized.

Concluding her remarks, Gallart identified several potential problems in training that defy easy resolution. Clearly, the role of the state in the new educational model requires further elaboration. A comparative analysis of how the state has performed across several Latin American nations might shed some insight on the question of how to optimize state efficiency vis-à-vis education. In addition, creativity must be employed in devising means to identify and motivate the target population to participate in training programs. Likewise, there continues to be a need to increase the demand for skilled workers by small businesses. Furthermore, a balance among state, firm, and student responsibility for the cost of training programs must be constructed. Finally, effective methods for evaluating the success of training programs are crucial to the continued success of the more dynamic educational model. A more qualitative assessment of the utility of these programs should complement the traditional quantitative approach.

With Gallart's proposed reforms, all segments of the populations of Latin America can achieve a more equitable access to the labor market. Equally important, through educational reform Latin American competitiveness in a global environment would be greatly enhanced.

Discussants' Remarks

Juan Antonio Aguirre Roca

From the perspective of a Peruvian entrepreneur, Aguirre offered an assessment of Gallart's comments while articulating his own views on the dual challenges of generating productive work and eradicating poverty in Latin America. Aguirre argued that three basic factors can contribute towards a significant reduction in poverty: investment, political stability, and a sound base of human capital. Unfortunately, Peru has suffered from a shortage of all three in recent decades.

Aguirre outlined specific reforms that can play a crucial role in enhancing investment opportunities, stability, and human capital. First, he called for business leaders to assume greater responsibility in addressing social problems in Latin America. In the case of Peru he assigned business leaders the lion's share of the blame for the political and economic crises that have paralyzed the country until very recently. In an effort to redress this problem in his country, Aguirre has helped to create "Peru 2021," a program dedicated promoting a more nationally based social conscience amongst the presidents of Peruvian firms.

Aguirre made his second point by agreeing with Gallart about the need for more linkages between those who are demanding labor (businesses), and the institutions that provide the supply of labor (schools and training facilities). Educational reforms to make schools more responsive to the needs of business would greatly improve the human capital base of the nations of Latin America. This is especially important for countries like Peru that are attempting to recover from severe economic crises. Aguirre asked Gallart to consider whether the assignment of specific roles to specific actors in this process might not facilitate educational reform.

Third, Aguirre argued that in the process of reform, there must be a widespread recognition that politics remain subservient and responsive to economic realities. His own experience as a Peruvian entrepreneur during the tenure of President Alan García convinced him of the importance of this recognition. According to Aguirre, one of the state's primary responsibilities to its citizenry is to engage in long-term educational planning to ensure an adequate base of human capital for continued economic growth.

Concluding with his most important point, Aguirre expressed deep frustration about the tendency of business and political leaders to ignore policy advice from academics and social scientists. He suggested that improved channels of communication be established between the two groups since the problem lies not with the scholarly understanding of poverty but with scholars' ability to disseminate practical advice about its eradication.

Norma González Esteva

González began her remarks by endorsing the alternative educational model outlined by Gallart. Her own experience in Mexico has given González a clear view of the need to restructure the processes of production, education, and training in order to make the economies of Latin America more competitive and more equitable. However, González warned that in order to achieve tighter connections among production, education, and training, firms must be viewed comprehensively, with increased attention given to the issues of qualifications, productivity, and competitiveness within firms.

According to González, small and medium businesses must receive special attention in the process of reform, because these organizations can play a key role in generating productive

employment and reducing poverty. Small businesses are likely to promote more equitable development because they have varied productive capacities, contacts with both formal and informal sectors, sectorial and geographical diversity, and decentralized operations. The Mexican government is currently attempting to strengthen small and medium businesses through its CIMO program. Partially funded by the World Bank, this program's primary objectives are to upgrade the training and skills of small and medium business employees and thereby improve the quality, productivity, and competitiveness of these firms. Thus far, the results of this program are encouraging, with significant improvements in worker productivity having been obtained.

Finally, González identified the particular challenges that the process of reform poses for three key groups in Latin America: the state, labor organizations, and business leaders. The state must actively participate in reform by providing financial and logistical support for training programs. These programs should be targeted toward key groups that suffer the greatest risk of political and economic exclusion. Labor organizations must construct new relationships with business and the state in order to attain a higher degree of equity for their members. Finally, business leaders must continue to strive for optimal productivity and competitiveness while also becoming more responsive to ecological concerns.

Anthony D. Tillett

While acknowledging the importance of the work-education nexus, Tillett suggested that this issue constitutes only one aspect of system-wide educational reform that the nations of Latin America require. In addition to preparing youth for specific jobs, Latin American countries must devise an effective system of secondary education. The extension and improvement of secondary education can provide a basis for greater equity, indirect productivity gains, and a possible increase in labor market opportunities.

Due to the heterogeneity of countries in the region, Tillett argued that the tasks of general education and retraining will vary across nations and between urban and rural sectors. Thus, educational policies must be tailored to particular areas and remain responsive to changing demographics. In addition, because the industrial labor force in most Latin American countries is relatively small when compared to the total number of nonwage employees, an increase in industrial training is unlikely to lead to a general improvement in the educational level. This further highlights the importance of strong secondary education. In addition, retraining programs are less expensive and more likely to succeed when their recipients have adequate competencies at the primary and secondary levels. However, secondary education in the region has not grown at a rate consistent with population growth and continues to suffer due to fiscal constraints of local governments.

Interestingly, Tillett suggested that Latin American managers are less committed to human resource training than one might initially expect. A recent survey showed that the two major production objectives of plant managers in the region are cost cutting and operational efficiency, with human resource development receiving a relatively low priority. The survey results seem to show that training and human resource development is supported only when it has a direct impact on productivity. Tillett cautioned that while industrial training per se may not find an immediate market, this does not reduce the need for it.

A comparative examination of the role of education in other regions of the world provided some support for Tillett's thesis and concluded his remarks. Countries that have strong and broad coverage in secondary education tend to have the most impressive rates of productivity. In particular, the growth of East Asia has been attributed in part to the efforts of governments in that region to promote human capital formation. The case of Korea suggests that the continued training of managers is at least as important as the training of the general labor force, because without a receptive management able to assist and deploy industrial trainees, an industrial training program will fail.

Discussion

Initiating the discussion of education and training, Tokman asked Gallart if she is suggesting that formal education in Latin America be abolished. He also asked how traditional educational institutions can be utilized once a reformed model of training and education is instituted in the region. Goldsmith noted that although US students are reputed to be less productive than their counterparts in other regions of the world, the US educational system appears to be better than others at fostering productive workers. He asked Gallart to comment on this apparent paradox. Noting that Latin American educational systems tend to be highly centralized and bureaucratic, Douglas Keare (Harvard Institute for International Development) suggested that educational reforms should be designed to move these systems toward greater pluralism. Finally, Camargo pointed to labor mobility as a major factor that decreases corporate willingness to invest in long-term training programs for workers.

In response to these questions and comments, Gallart stated that the solution to most of the problems with education and training in the region is not the elimination of traditional educational systems but rather significant reform. In this effort, specialized technical institutes do not need to be abolished, but they do need to be supplemented with stronger programs of general education. She agreed with Tillett that improvements in secondary education in the region should constitute an important component of the reform package. She also acknowledged the validity of Keare's point about the negative ramifications of bureaucratization in

regional education systems. However, she cautioned that some organizational structure is vital to the maintenance of educational programs. Gallart agreed with Camargo that labor mobility in Latin America has discouraged the proliferation of firm-sponsored training programs for workers, but she expressed optimism that this problem might be resolved with time as the work force becomes more stable.

III. ALTERNATIVES FOR FACING POVERTY AND VULNERABILITY

III.1 Welfare and Citizenship: Old and New Vulnerabilities

What are the new social vulnerabilities emerging in the region under the current wave of economic restructuring and globalization, and how are the existing social welfare systems of Latin America coping with them? To answer these questions, **Carlos Filgueira** focused on the transformations in the 'structure of social vulnerability' taking place in the region. Filgueira defined this structure as a relational concept linking the particular characteristics of individuals (like age or gender) to the structure of opportunities they face. Filgueira stressed that each great historical transformation has entailed dramatic changes in this structure. He paralleled the development of market economies and the concomitant destruction of the security networks predominant in precapitalist societies to the current processes of economic globalization and the progressive destruction of the national welfare state. In this context, Filgueira analyzed the main factors shaping social vulnerabilities in the region. Along with individual attributes, three dimensions pertaining to the structure of opportunity help to distinguish different types of social vulnerability. These dimensions are the market (with its impact on labor and wages), civil society (including family, community, and organizational networks), and the state (including the mechanisms or policies available to guarantee the effectiveness of social rights). To have access or not to a good job and salary, to community organizations, or to social service agencies affects the life chances of every individual. With these background dimensions in mind, it is clear, Filgueira argued, that globalization has deepened old and created new social vulnerabilities in relation to the labor market. A characteristic of the new global model of economic development is the generation of low employment jointly with selective demand for highly skilled workers. This has led to the collapse of the matrix of the social welfare systems of the region, which was based on high employment in the formal sector. But Filgueira cautioned against jumping to the conclusion that all new social vulnerabilities are truly new or the result of economic globalization alone. For example, recent demographic changes, such as the fertility transition noted by Carvalho, or the new patterns of family organization (high rates of divorce, increasing single motherhood, and single headed families, etc.), imply new social vulnerabilities. But it is not clear whether

globalization has had any impact on them. Filgueira concluded by stressing that the creation of an accountable political system is a necessary condition for finding ways for Latin American countries to guarantee a minimum of social protection for their citizens.

III.2 The Crisis of Old Models of Social Protection and New Alternatives for Dealing with Poverty and Vulnerability

Dagmar Raczynski overviewed the achievements and problems of the old system of social protection in Latin America and some of the factors that led to its collapse. She also highlighted the main features of the emerging system.

Weaknesses and Achievements of the Old Model

Under the state-led model of industrialization a system of social welfare evolved in several areas of the region—the Southern Cone, Brazil, Colombia, and Costa Rica. This system combined education, healthcare, social security, and housing, as well as labor and price policies. In the 1960s some countries also reformed the structure of property assets, implementing land reforms and nationalizing mining and industrial enterprises. The old system was state-dominated, highly fragmented and stratified, and excluded important segments of the population. It suffered from acute centralization, periodic financial imbalances, administrative rigidities, inefficiency, standardized provisions of services, clientelistic use of resources, corruption, lack of flexibility to adapt to specific social, cultural, and geographical circumstances. Occasionally, the system included poverty alleviation programs. Raczynski noted that despite its weaknesses the old system had noteworthy achievements that should be considered in the design of future welfare systems. Various indicators of social development improved significantly. Many countries became equipped with infrastructure for social services. Demand for such services came from urban middle and working classes which expanded and benefited, although partially and unequally, from social development. Under the incentives provided by the old model, the poor invested in the education of their children. The old system changed the needs of the population and the profile of the poor.

Raczynski pointed to several factors that contributed to the failure of the old system. Economic stagnation, pressure from agencies to implement structural adjustment programs, changes in technology and in the organization of production and labor, the crisis of the European welfare state, the diffusion of neoliberal ideas, and the fall of socialism.

Emerging Trends and Challenges

Raczynski argued that current debates on social welfare are deeply influenced by international economic and ideological forces. Many proposals for the reform of the welfare system include changes in the social and economic role of the state, the introduction of market relations in most areas, decentralization, privatization, and targeting of social policies. However, in the emerging model of social protection, the state has an important role in monitoring and evaluating policies. It also regulates the financial function. But program design and implementation must be transferred to agents different from the central state. Today, Raczynski noted, the decentralization of the state apparatus is moving forward: services are closer to the people and policies try to respond better to the heterogeneous needs of the population. Programs have become much less homogeneous than under the old model. However, local institutions, including popular organizations, are still weak. Regarding privatization, incentives have been designed to encourage private enterprises to attend the needs of the middle and upper classes. However, in the case of Chile, privatization of health services and pensions has had negative consequences for the poor. Finally, targeting is a legitimate but complex option, whose outcome depends on overall public policy orientations. Various methods for targeting must be considered and at times universal and targeted program are complementary.

Raczynski concluded that reducing poverty cannot be the only goal of social policy. Social policies for improving social security, education, and job security should also be implemented. Furthermore, macroeconomic, labor, education, and infrastructure policies are equally important for fighting poverty in its manifold dimensions (economic, cultural, and political).

Discussion

The Complexity of Poverty and Inequality: Searching for Better Indicators

Chávez commented that the presentations had elucidated the urgency to develop a better system of indicators to understand poverty and inequality in their full complexity. Figueira responded that ECLAC has recently made advances in this direction. Regarding vulnerabilities, he stressed the need to find indicators able to capture vulnerabilities due to labor market transformations, which are splitting society vertically. Employment is no longer a concern only among the poor.

Altimir commented on the relational character of vulnerability and on the participants' concern with the definition of poverty. The definition of absolute poverty in terms of income has been an imposition of necessity. Altimir recognized that ideally, in order to obtain a richer background for policy design, the definition of poverty should be multidimensional. In recent analyses, deprivation has been defined as the incapacity to participate in, or exclusion from, the

predominant style of living—and style of living is a multidimensional concept. The problem of how to generate data on these dimensions remains, however.

On Employment

González commented on Filgueira's analysis of the employment issue. She suggested that changes in the labor market have been so drastic that unemployment insurance benefits are no longer a viable solution. She agreed with Raczynski's assessment of the need to effectively combine economic and social policies.

On Privatization

Referring to Raczynski's presentation, Jorge Garfunkel (Banco del Buen Ayre, Argentina) pointed to the dangers of the privatization of pensions in Argentina and Uruguay. Although Chile has already implemented this system, the long-term consequences are not yet clear.

Empowering the Poor

O'Donnell raised the question of how to empower those who are the objects of social policy. Filgueira responded that so far there is no process of empowerment of the poor and that the impact of social policy is ambiguous: it may reinforce or ameliorate the social exclusion of the poor. How to empower them in Latin America remains a pending issue.

On Clientelism, Social Policies, and International Agencies

Keare asked Raczynski how social policies can be protected, at least partially, from clientelism, and whether financing and advice from international agencies might help solve the social situation of Latin America. Raczynski agreed that clientelism is one of the most important factors constraining the improvement and efficient implementation of social policies. She cautioned against international organizations working independently. Argentina, for example, received international grants for some social programs during five years, but after the support ended the programs collapsed.

III.3 Balancing State, Market, and Civil Society: NGOs for a New Development Consensus

In an effort to articulate a new development consensus, **Charles Reilly** directed much of his attention toward a discussion of the role of the state, the market, and civil society in a globalized economy. In particular, Reilly suggested specific reforms in each of these sectors while arguing that states, markets, and civil societies must become more interconnected and better

balanced in order to achieve a more sustainable development model. In the second half of his presentation Reilly focused on the relationship between civil society organizations (CSOs) and states and markets. Because CSOs exist on the borders between states and markets, Reilly believes that they can potentially play a crucial role in consolidating gains in both development and democratization.

State, Market, and Civil Society

Using a metaphor of a floating raft to represent development, Reilly warned that individuals involved in this business must maintain balance in assigning responsibility to the state, the market, and society for leading Latin American nations on the difficult path of development. No single sector, nor any two, can effectively grapple with the persistent problem of poverty that has accompanied development in most countries of the region. Thus, the claims, competencies, and capacities of each must be balanced while discovering new ways to make them complementary. In this way, the inevitable tension among sectors can be channeled into paths that are beneficial to the poor, who constitute the majority in Latin America.

The impact of globalization and democratization has facilitated the move towards greater balance among the state, the market, and society by redefining these sectors and shifting the boundaries among them. Reilly views the transition zones among the sectors, where innovative initiatives are further blurring the traditional boundaries, to be the key to a more sustainable development model. Through negotiations, encounters, disputes, and pacts between actors and managers working these borders, the seemingly intractable problem of poverty can be addressed, leading to an increase in opportunities for the poor and, in the final analysis, greater social justice.

The State

The current move toward globalization and democratization has led to a widespread re-evaluation of the role of the state in the region. According to Reilly, the state “refers to the members of governing classes assembled in a governing body, ‘a politically organized body of people claiming sovereignty and occupying a defined territory’.” Believing that the state has become too large and inefficient, most countries in Latin America are currently engaged in downsizing and privatization of state enterprises in an effort to achieve greater transparency, accountability, and responsibility of the state. An organized and involved citizenry can play an important role in this process.

While Reilly lauded the sale of state enterprises and shrinking of public employment rolls that is currently occurring in Latin America, he expressed concern about the accompanying tendency to abandon state-run social welfare programs for the poor. Market forces, NGO

initiatives, and fees for services cannot adequately fill the gap left by the shrinking state, suggesting a need for caution in the move toward privatization. Furthermore, the shrinking of the public sector must be complemented by meaningful state reforms to both increase the efficacy of the state and empower citizens to become more participatory in governance. These reforms should include legislative and judicial reform, administrative decentralization, geographical deconcentration, and democratization of the local state. Finally, the state must continue to devise education and health policies that can ensure human and social capital adequate for the changing demands of productivity and competition in world markets.

Markets

Current development models tend to exaggerate the ability of markets to drive the development process. While open trade regimes like the North American Free Trade Agreement (NAFTA), the South American Common Market (Mercosur), and the General Agreement on Tariffs and Trade (GATT) will attract higher levels of investment, thereby creating more jobs and increasing productivity at the macro level, strategies must be devised that can translate this success into substantive improvements in the micro-level subsistence of the majority of the poor. In this regard, the informal economy will need to be revisited and revitalized, with a new recognition that it is not a panacea for the problems of the poor. Furthermore, the vexing problems of growing unemployment, rapid urbanization, population growth, and distorted distribution of wealth suggest that markets must be balanced by healthy states and civil societies in order for sustainable development to be achieved. Reilly concluded his discussion of markets by calling for a greater role of philanthropy in developing Latin American societies.

Civil Society

Contemporary Latin American usage of the term 'civil society' refers to "multiple, self-limiting organizations of citizens publicly exercising their rights and responsibilities before the state." Civil society is comprised of NGOs, professional associations, producers' associations, social movements, unions, churches, entrepreneurs, base communities, and mass media. Ideally, the civil societies of Latin America, which emerged in response to authoritarian regimes, should be the source of values and norms undergirding the market and the state. Their many strengths include low overhead, high levels of motivation and commitment, and close identification with the interests of the very poor whom they usually represent.

However, civil society is also 'self-limiting'; it can only make partial claims on citizens and is therefore incapable of becoming a surrogate for either the state or markets. This results in part from the tendency of civil society toward dispersion, diversity, and pluralism. Furthermore, just as there are inefficient, opportunistic, and bankrupt states and markets, there are also inefficient,

opportunistic, and bankrupt CSOs. The social movements that catalyze and strengthen new CSOs are often ephemeral, undercutting the base of these organizations. CSOs also have only limited access to the levers of power in Latin America, leaving civil society with little ability to counter decisions made within the formal state apparatus. Access to resources also continues to be problematic for many CSOs, a problem made more acute by the dwindling supply of donations from international sources. Finally, in many areas of Latin America, antagonism between the state and civil society organizations continues, with political elites treating CSOs with considerable disdain. These organizations are often blamed for undermining party systems, for their lack of transparency and accountability to the nation, and for their incapacity to translate protest into concrete policy proposals.

This further highlights Reilly's central contention that markets, the state, and civil society must remain balanced on the raft of the new development model. The state must regulate imperfect markets. Imperfect states need the accountability mechanisms of civil society. And imperfect and incomplete civil society needs the state and the market to play roles in ensuring rights, channeling interests, and generating employment.

Reilly argued that this process has been facilitated in recent years by a trend toward increasing linkages between municipal governments and CSOs. The traditional Latin American reliance on centralized models, inherited from the colonial period, is changing dramatically. As state, provincial, and local governments of the region are being asked to shoulder more of the social and economic development burden, while suffering from a chronically low level of resources, they are responding to the challenge by contracting services through NGOs and unloading social services onto the nonprofit and for-profit sectors. In addition, leaders of Latin American cities are finding that civil society organizations are playing a crucial role in mediating the demands of the popular sector. According to Reilly, this merging of the frontiers between public and private sectors may contribute to a strengthening of participatory local government and lead to a more inclusive, diversified social policy.

Social Emergency Funds (SEFs) and Social Investment Funds (SIFs) are representative of this new space between public and private spheres. Created to soften the social costs of the structural adjustment that is being pursued in most countries of the region, these funds can help to deepen democratic institutions by bridging the fault lines between public and private domains. However, Reilly cautioned that social emergency and social investment funds should not be viewed as panaceas. Safety nets cannot substitute for coherent macroeconomic management or the effective provision of social services. Furthermore, SEFs and SIFs are subject to partisan political manipulation, reducing their effectiveness and credibility.

Reilly concluded his discussion by reiterating the need for balance among the state, the market, and civil society. Each sphere contains both destructive and constructive impulses; with

increasing linkages among the three, a more effective social policy can be designed that can be sustained over the long term.

Discussants' Remarks

Luis Fernando Cruz

Cruz shared the experience of a prominent nongovernmental organization of Colombia, the Carvajal Foundation. Created in 1961 by the Carvajal family, the foundation is devoted to disbursing some of the family's profits to needy Colombians, thereby promoting social change and development in Cali, where the foundation is located. Since the early 1980s the Carvajal Foundation has directed the majority of its resources to the urban settlement of Aguablanca, located within the city of Cali.

The efforts of the Carvajal Foundation to improve the lives of the inhabitants of Aguablanca while encouraging the overall development of the township have been multifaceted. The foundation has been actively engaged in building houses for the poor, training and supplying small store owners and small entrepreneurs, and creating Community Basic Service Centers to help meet the basic needs of area residents. To improve health conditions in the area, the foundation offers basic health services, including vaccination programs for children. Educational efforts by Carvajal have been directed toward the creation of a central learning center where over 100,000 children have received basic training for different service jobs. In addition to providing assistance to local educational programs, the foundation also runs 74 schools that specialize in environmental education, a particular concern of the Carvajal family. And in an effort to promote environmental awareness among all residents of Aguablanca, the foundation oversees a recycling program that is currently observed by 15 percent of the local population.

The experience of the Carvajal Foundation in Aguablanca suggests a number of lessons for other NGOs operating in Latin America. Cruz shares Reilly's belief that a concerted effort by the state, private enterprise, and community members is crucial in redressing the persistent problem of poverty. Furthermore, the agenda for resolving problems of underdevelopment and poverty must be designed from within the affected areas, with hands-on experience with poverty. Effective solutions to the salient problems will focus on education and individual initiative and will be long-term in perspective. The Carvajal Foundation has also found that the strengthening of personal and familial ties within target groups can be beneficial to development. In many cases the standardization and legalization of activities already being undertaken by individuals constitute a significant catalyst for growth.

Renato Poblete, SJ

Poblete detailed the experience of a Chilean NGO, Hogar de Cristo, in his remarks. Founded in 1945, Hogar de Cristo currently maintains 400 centers in the most impoverished regions of the country to provide basic services to the poor. Revenue for the organization is derived primarily from private donations; only 10–15 percent of the annual budget is obtained from government sources.

According to Poblete, Hogar de Cristo pursues two primary objectives. The first and most obvious function of the organization is to alleviate suffering by providing shelter, food, and comfort for the destitute of Chile. However, Poblete considers a second purpose to be more important. From its inception, Hogar de Cristo has played a crucial role as the social conscience of the country. By inviting more affluent members of Chilean society to visit the impoverished neighborhoods where it operates, Hogar de Cristo increases awareness of the many problems that are associated with poverty. A visit to these areas motivates many of these individuals to become more actively involved in social work and provides a steady stream of volunteers to perform the day-to-day tasks of the organization.

James Joseph

Although Joseph applauded Reilly's integral approach to development and democratization issues, he offered some criticisms of Reilly's thesis, stemming from his own experience with the NGO Centro Alternativa in Lima, Peru. Joseph directed his remarks toward a discussion of the relationship among the state, the market, and society and the adequacy of Reilly's metaphor of a raft. He also critiqued social emergency funds, expressing deep concern about the potential of these funds to enhance development over the long term. Joseph concluded by providing his own assessment of the performance of NGOs.

While Joseph conceded that the state, markets, and civil society currently coexist in Latin America, he questioned the accuracy of Reilly's depiction of a triangular relationship between the three. The notion of 'the state' discussed by Reilly, one that is capable of articulating and regulating the market and society toward the common good, remains more ideal than real. Furthermore, the globalized but still fragmented markets that exist in Latin America neither integrate societies and actors nor redistribute in favor of the poor and marginal. Rather, current research suggests that markets in the region continue to help concentrate wealth and power into the hands of a privileged minority. On the issue of civil society, Joseph doubts that societies and social organizations of Latin America meet Reilly's definition of 'civil society' because they cannot sustain consistent levels of bargaining capabilities vis-à-vis the state.

Despite Joseph's concern that Reilly's depiction of the balanced life-raft of state, market, and society is overly optimistic, he shares Reilly's position that the construction of such a vessel is

essential for the future of Latin America. However, Joseph stressed that the process of strengthening the three poles of development will be complex and difficult. The task will be particularly challenging in countries like Peru, where the metaphorical raft has little or no water upon which to float. When the realm of politics, which ideally includes respect for the common good and the principles of justice and prudence, is in a state of crisis, the challenge of achieving sustainable development becomes even more daunting.

Joseph continued his remarks with a sharp critique of social emergency funds, voicing significant doubt about the value of these funds in the process of development. Without questioning the inherent right of the poor to benefit from redistributive policies, he expressed reservations about the ability of social emergency funds to meet these needs. He argued that the funds do not enhance either embryonic forms of democracy-building or the transformation of the state, the market, society, and politics in a positive direction. Because social emergency funds are designed as stop-gap measures, they tend to encourage the growth of ad hoc ephemeral groups that replace more solid popular organizations. The process usually discourages initiative by local governments and seldom offers the opportunity to strengthen actors and institutions.

In assessing the performance of NGOs, Joseph suggested three primary advantages of these organizations. They tend to demonstrate a high degree of flexibility which enables them to respond quickly to changing problems. Direct and permanent contact with the people whom they represent gives NGOs great responsiveness to popular concerns and allows them to maintain an integral approach to human development and democracy-building. Finally, NGOs have recently achieved success in linking diverse actors in Latin America.

On a more negative note, NGOs clearly cannot carry the extreme burdens of increasing poverty, political system breakdowns, and gaps in educational systems. New channels for cooperation among other actors in Latin America are needed to better meet the needs of the poor. In addition, NGOs would benefit from improved means of communication and better access to information. Some NGOs are making progress in this area, but most could use significant advances. Third, most NGOs continue to suffer from an inadequate resource base. This problem entails not only a dwindling amount of resources but also a shrinking scope of sources.

Discussion

Goldsmith began the discussion of states, markets, and civil society by suggesting that Reilly's model does not fully reflect the highly contentious relationships among these three sectors of Latin American society. He also argued that although the borders among states, markets, and civil society may be blurring, business people continue to enjoy the greatest access to resources. Government officials, workers, and average citizens have not seen a dramatic

change in their ability to influence other groups in society. Addressing the role of the judiciary in Latin America, Paulo Sérgio Pinheiro stated that individuals continue to be inhibited by fear because states in the region do not enforce basic rights. Pinheiro suggested that judicial reform is therefore crucial to the empowerment of civil society in Latin America. Robert Pelton, CSC, (University of Notre Dame) mentioned that improved channels of communication between groups in Latin America and the United States could play a role in strengthening civil society. Hugo Guerra (*El Comercio*, Peru) agreed with Joseph about the importance of improving the availability of information for the poor.

Responding to remarks from the audience, Joseph reiterated the need to demystify information technology and make it more readily accessible to the poor. Poblete emphasized the importance of instilling a sense of hope amongst the destitute of Latin America, an objective that requires the participation of entire communities. As a prerequisite for the continued strengthening of civil society, Cruz stressed the need to train business leaders in nonprofit work, so private enterprises can achieve greater efficiency in administering social welfare programs. Reilly endorsed this view and also agreed with Pinheiro's contention that judicial reform would strengthen Latin American states which would, in turn, provide more protection for civil society. He acknowledged that business leaders continue to maintain a distinct advantage over labor, arguing that this problem can be rectified with more horizontal connections among labor groups and increased linkages between labor leaders and other social actors.

IV. WRAP UP: CONCLUSIONS AND ON-GOING QUESTIONS

An Emerging System? New Roles for Social Actors; New Boundaries and Mixes for Governmental, Public, and Private Actions

Víctor Tokman

Tokman offered some concluding remarks, attempting to identify areas of consensus and noting issues that need further discussion for going beyond a simple diagnosis of the social situation of Latin America. First, more attention should be paid to how globalization and market-oriented reforms are affecting employment creation and labor policy in general. Although participants agreed that many factors influencing employment creation lie outside of the labor market, further discussion is needed to specify and understand these factors. Another related issue deserving more attention is the impact of labor flexibilization on the productivity of individual firms. How can enterprises in the region pass from predominantly cost-reduction strategies to productivity-increasing ones? Some experiences from around the world show that both strategies can come together. Along with market-oriented reforms there has been a huge transfer

of state functions to organizations of civil society. Although this is a welcome change, Tokman underscored that societies in the region are still too weak to undertake so many and complex functions. The distribution of power is unbalanced, and the danger of empowering the already powerful is high. Tokman also noted that the role of trade unions was not sufficiently discussed. (Two labor leaders were invited to the academic workshop but could not attend.) Union development should be promoted. The pending question is how unions can be relevant actors in national systems geared towards decentralization, flexibilization, temporary contracts, and narrowly defined social policies.

From the workshop deliberations on education and training, Tokman concluded that Latin American countries are moving toward a new model of education and training in response to the challenges of globalization. This new model will be demand rather than supply oriented; the secondary level will have increased importance; and new emphasis will be given to risk groups such as youth from poor families, displaced workers needing retraining, and women. While the demand orientation of this new model allows for an increasing role for enterprises, education and training policies will continue to require a guiding mechanism in the public administration that will be in charge of the overall issues and policies of training.

Finally, Tokman addressed the need for evaluating economic performance from a broader international perspective. Although from a regional perspective Colombia has been doing well in terms of economic growth and poverty and inequality reduction, when compared to Asian countries it has performed poorly. Similarly, while Chile has reduced unemployment and poverty and has increased real wages while sustaining economic growth, income differentials have not improved. By contrast, the so-called new Asian tigers—Malaysia and Indonesia—have reduced both poverty *and* inequality while sustaining high rates of economic growth. International comparisons may provide insight for managing policies for the poor and also for the rich (i.e., tax policy).

Tokman concluded by asking what policy changes could promote more solidaristic socioeconomic relations in countries increasingly polarized between the haves and the have-nots.

Vilmar Faria

In offering concluding remarks for the conference, Faria focused on the social policy implications of the problem of poverty in Latin America. He began by suggesting that the region would benefit from a systematic analysis of how democracies can best address poverty, either by directly designing government programs to eradicate the problem or by reconstructing welfare systems to better alleviate the hardships that poverty entails. Faria stated that, in his view, the

latter option, the construction of new welfare systems, is the key to the long-term resolution of the problem, with poverty eradication occurring as a function of revitalized welfare systems.

After noting that conference participants had offered significant insight into the common challenges that Latin American nations face as they attempt to enact constructive social programs for the poor, Faria argued that an understanding of the differences among countries is also crucial. In designing new welfare systems, analysts must consider the size, heterogeneity, and available resources of the countries that will be affected. Furthermore, the history of the redistributive impact of social policies in the various nations must be carefully analyzed in order to ensure that new policies will positively impact income distribution in the region. Faria also called for differentiation within the design of new welfare systems, with careful attention directed toward the reconstruction of specific sectors within the systems. Social security, health care, education, and judicial reform should differ across different countries, and welfare reforms must reflect these nuances. In addition, the reconstruction of welfare sectors should be designed to better target the most needy individuals of Latin American countries.

In order to achieve meaningful social protection, advocates of welfare reform must acquire a more in-depth understanding of the complexity of state apparatuses in Latin America. The complicated set of interrelationships among layers of government must be demystified, with welfare systems designed to accommodate the federal structures of many Latin American states. In addition, the challenge of managing and implementing poverty alleviation programs efficiently will continue to be a priority for policymakers. Faria reemphasized the importance of streamlined, competent states to effectively manage those programs. He also warned that state-run welfare programs will have only a limited impact if redistributive mechanisms in the region remain weak.

Faria concluded his comments by stating that the eradication of poverty in Latin America has both moral and political dimensions. Specifically, he believes that the local media can play a role in expanding the space for dialogue among social actors, allowing them to take actions that can supplement state initiatives on welfare policies. Finally, he called upon Latin American politicians to transform the traditional mode of conducting politics in order to empower those who are attempting to enact substantive reforms in regional welfare systems.

Final Comments

On Welfare Reform

Cordera commented on the obstacles to building a new system of social welfare. In Mexico the direct actors of the social services—teachers, doctors, nurses—are unionized and highly corporative. These ‘feudal niches’ generate strong resistance against the reforms

intended to improve social services. Cordera also mentioned the deficient role played by the media in this process of welfare reform.

A New Role for Unions

Cortázar asked who should be protected under a new system of social welfare, considering that the partners in the system have very unequal power. He stressed that decentralization of collective bargaining should not be equated with decentralization of collective action by the labor movement. For example, union federations have an important role in education and training, something that cannot be done by unions at the firm level. The administration of social security in Chile in the hands of labor unions also shows that new trends are closing traditional areas of action and opening others that require changes in unions' activities.

On Ownership, Fiscal Deficit, and Credit

Chávez mentioned that the issue of property rights had been left out of the discussion. He also commented on the relationship between fiscal policy and inequality. Fiscal deficits have been used to justify anything that is done in terms of economic policy and the restructuring of the state. He also noted that nobody any more dares to talk about subsidized credits to the poor.

On the Middle Class

Keare agreed with Tokman on the difficulties of taxing the rich. In the United States the middle three quintiles receive 55 percent of the national income while in Chile they receive only 39 percent. The question of the middle class is very important in Latin America and deserves further discussion. Certainly, the answer rests on the reform of the educational system: charging the rich for the education they receive and subsidizing the poor.

Decentralization

Dale Hathaway (Butler University) expressed concern that decentralization is supposed to be a panacea for rebuilding social services. The attraction of the idea of decentralization has two sources. One is that decentralization might lead to the empowerment of the people. The second, which in the United States is promoted by the Republican party and supported primarily by the business community, refers to federalism. The promotion of federalism by these sectors is due to their greater bargaining power at the state level. They have been successful in getting states fighting with each other to reduce their tax burdens. This is happening all over the world with decentralization, in Costa Rica as well as in Indiana. Although we would like to believe that it promotes democracy, decentralization is still a very ambiguous issue.