

“Reassessing Social Policies in Latin America: From the Washington Consensus to Rights-Based Development”

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1. Introduction

Economic growth in Latin America in the last two decades has been modest and volatile, with a high frequency of growth crises around a modest mean value. In fact, average per capita income growth was close to half percent per year in 1980-2003 with 44% of the population of the region estimated to live below the poverty line (in 2002), say around 220 million people (see ECLAC 2003.) This weak economic performance of the region and insufficient social progress is raising questions about the adequacy of economic and social policies applied in the region during the last decade-and-a-half or so, which have been largely inspired by the blue print of the “Washington Consensus.”

The combination of slow growth and persistent inequality is yielding chronic poverty and social disarray in spite of the fact that the dominant concern (voiced by international financial institutions) in the recent decade was poverty reduction, with real income becoming the key metric for defining the welfare levels of low-income groups. Other social objectives such as lower inequality of income and wealth, empowerment, popular participation in decision-making and public policy have not been, on the whole, important policy priorities. The bet on growth-driven poverty reduction has been in most Latin American countries a disappointment, perhaps with the exception of Chile, until the mid to late 1990s. Only countries with steady and very rapid growth—China is today’s favorite example besides India in the 1990s – can show real gains in getting people out of poverty, something that has remained elusive in most of Latin America in the last quarter century. Still even if rapid growth is possible — not an easy task-- growth is “filtered” by its employment intensity and by inequality levels in its final effects on poverty. In turn, the ability of the state in reducing poverty and inequality depends on its capacity to raise revenues that can finance social spending, on its administrative capacity to conduct social policy and, ultimately, on the political will of national

authorities to improve the situation of the poor and the less affluent groups in society.

With the pervasiveness of poverty, new social exclusion and inequality approaches are being developed with the aim of posing the problem of economic development and social policy in Latin America and the Caribbean in terms of *rights*. This is a methodological and potential policy shift that needs to be assessed. Economists are trained to think in terms of incentives, constraints, scarcity and the ability of economic systems to create (or destroy) wealth. In contrast, philosophers focus more on rights, values and the ethical underpinnings of alternative social arrangements. Political scientists and sociologists, in turn, highlight the importance of social contracts and social cooperation for attaining certain social goals. Marrying these different perspectives is not easy, although needed for broadening our perspectives on social and economic policies. A new view in this direction is the *rights-based development* (RBD) approach that draws from different strands of social thinking. This view assumes that individuals –both as citizens, consumers and producers -- have a set of economic, social and political rights that cannot be separated from each other; their fulfillment, in turn, requires policies in several fronts. Economic policy must create an environment that generates wealth as the required material base for those rights to be satisfied. However, development is not only an economic problem but also has a political dimension. The satisfaction of individual wants and rights depends on resource availability and on how resources are distributed in society. Individual efforts and talents along with existing power structures (conditioning voice, organization and political participation) affect the actual resource distributions and the enforcement of economic and civic rights.

This paper focuses on the main guiding principles of social policy and their links with economic policies in the region. It highlights the analytical underpinnings, based in the literature on rights and development that can shed light on the design

of renewed social policies that overcome deficiencies and shortcomings of current policies. The paper is organized in five sections including this introduction. Section two overviews the evolution of social and economic policies in Latin America in past and recent decades. Focusing on current policies, the paper discusses the role of growth-led poverty reduction. The role of targeting and participation of the private sector in the management and delivery of social services as centerpieces of this prevalent approach are also analyzed. Section three looks, briefly, at the theoretical literature on rights and development including (conservative) libertarianism (Nozick), liberals (Rawls) and more eclectic authors such as Amartya Sen and others. The relationships between rights, resources and economic growth on one hand, and rights, institutions and political regimes on the other are also examined. Section four identifies some alternatives to current social policies in Latin America. Targeting of social benefits on the “really poor” as a principle for social policies is evaluated in terms of two criteria: (i) its (demanding) informational requirements for successful implementation; and, (ii) the political problems posed by separating the groups that are benefited by targeted policies from those who pay for it. The paper discussed possibilities of moving to broader policies in which the benefits of social policies are more “universal”—say at least reaching to the middle class that is a stabilizing segment in any society. Also considered are several effects of privatized health, education and social security systems in terms of replicating current inequality and increasing social segmentation in access to social benefits and services. In the search for alternatives, the paper examines the potential of asset accumulation by the poor and the middle class in housing, education, capital and land as a mechanism to equalize opportunities, promote mobility in stratified, class-bound societies and to realize the hidden saving and productive potential of economically excluded groups that can lead to higher growth. The paper closes in Section five with some remarks about social contracts in Latin America.

2. Past and Present Social Policy in Latin America: A Brief Overview

Social policies in Latin America have evolved according to the broader development strategies adopted by the region and the demands from different social groups for redistribution and social protection. Under the development strategy of import substitution, in place from the 1930s to the 1980s, the main objectives were social modernization and the formation of human resources needed by the industrialization process and a growing state. The instruments for this were the expansion of education at various levels (including higher education), housing policies to cope with a growing urban population, national public health systems and pay-as-you-go social security. Labor market policies principally involved legislation on minimum wages, severance payments and restrictions to firing and hiring by firms to ensure job stability of (incumbent) workers. Land reform was also implemented to correct a highly concentrated pattern of land tenure that characterized most Latin American countries. The social constituencies behind these policies were labor unions, various organizations in the public and private sectors and rural workers.

This development strategy-cum-social policy delivered substantial growth (by today's standards) until the late 1970s and social modernization. However, the economic model also involved micro-inefficiencies associated with import protection and the growth of the public sector. The debt crisis of the early 1980s and its legacy of inflation, fiscal deficits, exchange rate instability and debt servicing problems led to a change in the development model in Latin America. The criticism of the economic model was also extended to the existing social model. Main critical elements of the latter were: (i) social spending was not necessarily reaching the most needy in urban and rural areas; (ii) the subsidies of certain basic goods like foodstuffs and other goods was fiscally expensive; (iii) public universities, often tuition free, implicitly subsidized the children of rich households and the upper

middle class; and, (iv) the social security system based on pay-as –you go delivered low pensions and did not contribute to the development of domestic capital markets.

Economic reforms included policies of macroeconomic stabilization, external opening, financial liberalization, privatization and market-deregulation. These policies started to be implemented in the mid to late 1980s in most Latin American countries (Chile did so in the mid 1970s under the Pinochet regime.) The accompanying social policies in the 1990s had the following main features:

- (i) The reduction of wealth and *income inequality was not an explicit policy priority*. The main social objective was poverty reduction led by faster economic growth following the adoption of market-based reforms (see Solimano, 1998.) This is in contrast with several experiments of income and wealth redistribution in the 1960s, 1970s and 1980s in the region¹.
- (ii) *Social policies will focus on assisting the most vulnerable segments of the population (the poor, the elderly, children, the handicapped)*. This was the principle of “targeting”, linked also to fiscal retrenchment and macro stabilization. Targeting was also complemented by social emergency funds oriented to provide income support and public works programs to low-income groups in the wake of severe macro-economic crisis or natural disasters.
- (iii) *Relative prices and the market mechanisms must guide resource allocation, savings and investment*. Social policies have to avoid distorting relative prices through the use of price subsidies for basic consumption goods.
- (iv) There was an *important role for private sector* participation in the delivery of education, health and pensions as a natural corollary of private sector-led development.

¹ The cases of Cuba in the early 1960s, Chile under Allende in the early 1970s, Nicaragua in the 1980s under the Sandinistas were the most radicalized experiments of redistribution. More gradual policies with a redistributive bend were implemented in Costa Rica and Uruguay among others.

(v) *Labor markets policies also changed in the direction of seeking more labor “flexibility”.*

Firing rules were relaxed, severance payments reduced and minimum wages de-emphasized as an income support policy.

A full evaluation of the results of these economic and social policies is beyond the scope of this paper². However, the results of social and development policies, for the region as a whole, are not encouraging in terms of rapid and sustained growth, poverty reduction and lower inequality. Tables 1-6 in the annex show various indicators of poverty, inequality, social spending and GDP growth for Latin America. This evidence shows broadly a strong deterioration of social indicators (poverty and others) in the 1980s and a certain recovery in the 1990s and early 2000s although the social situation remains fragile and critical as measured by current levels of poverty (table 1A-B) and other indicators. In addition, there is persistent inequality (see table 2), and modest increases in real incomes and sluggish growth in the 1980s and 1990s in the region (see tables 3, 6). In addition, growth was unstable and volatile and several growth crises took place during the last two decades that destroyed jobs and increased poverty (see Solimano and Soto, 2004.)

The quality of education is segmented geographically and by income levels. Casual evidence seems to suggest unequal access to education and health services by low-income groups and the middle class compared to the upper middle class and the wealthy. The reality in Latin America today is that of a private system that offers better quality education and health services (although below the standards of advanced countries) to the upper middle class and the affluent co-existing with a poorly funded public education and health system. Better education is often found in urban than rural areas and in more affluent neighborhoods than in poor ones.

² See ECLAC (2003) and Birdsall and Szekely (2003) for an analysis of social situation and social policies in Latin America.

Moreover, international tests of educational performance in Latin American countries often show significant differences between private and public schools.

In the health sector, public hospitals are often under-funded and queuing time for patients is routine. In Chile, in recent years, thousands of families have left the private health insurance system of ISAPRES and switched to the state-run FONASA system [Fondo Nacional de Salud] because of the escalation of costs in the private system and the limited coverage of the services offered.

3. The Literature on Rights and Development

The previous discussion on the social situation in Latin America could be framed also in terms of rights. A region with near 45 percent of the population living below the poverty line (around 220 million people) clearly does not fare well in terms of meeting the economic and social rights of a significant part of its population that fails to earn a basic level of income to meet certain basic needs (food, clothing, transportation, housing, etc). Moreover, failures in access to good health services, and good quality education, decent pensions by the poor and segments of the middle class are another reality ³.

Let us examine, briefly, the main elements of the literature on rights that has led by philosophers basically of the libertarian and liberal traditions. This literature is important as it provides, at least implicitly, the foundations for future elaborations, at a more applied level, of rights-based development approaches. The literature on rights decomposes them in political and civic rights (i.e. right to speech, to free press, to be elected to office, right to due process, right of free movement) and economic and social rights (i.e rights to a job, rights to education, to receive health

³ It is apparent that the progress in assuring political rights in Latin America following the transition from military governments in the 1970s and 1980s to civilian elected government has not been matched by an equal fulfillment of social and economic rights.

services, decent pension and economic security). In judging social orders, liberal authors such as John Rawls in his *Theory of Justice* envisage institutions that are not only efficient, but also morally justifiable by defining them as the set of social arrangements (institutions) that give the better outcome to the worse-off in society compared to any other alternative arrangement (see Solimano 1998). Rawls points out the primacy of certain political rights, such as liberty or freedom to the attainment of economic and social rights, should both sets of rights enter in conflict.

Robert Nozick in *Anarchy, State and Utopia* adopts a more radical view on the primacy of liberty. For Nozick personal liberty and property rights take absolute priority over “economic rights” irrespective of the consequences of exercising these rights. In fact, in the (conservative) libertarian tradition, social and economic rights are reduced to a minimum. The “minimal state”, in Nozick must protect property rights and personal security but it must abstain from any income redistribution, as it would constitute a threat to property rights and the freedom of individuals to dispose the fruits of its effort and the return of property in any wish he wants without interference of the state (the self-ownership thesis)⁴.

Returning to Rawls, his position on the preeminence of political rights (personal freedom) over economic or social rights has been questioned in cases of intense economic needs such as hunger (famines) and deprivation which can be a matter of life or death (see Hart, 1973). More recently, Amartya Sen, in *Development as Freedom* mentions that “the priority of liberty” has to be qualified in the sense that the demand for personal liberty “should not have the effect of making economic needs be easily overlooked”⁵. In the turn, regarding the issue of “just institutions” neo-Marxian approaches (or Analytic Marxism)⁶, question the feasibility of devising just

⁴ For an alternative analysis of the self – ownership thesis, from a neo-Marxian perspective see Cohen (1995).

⁵ Sen, A. (1990) *Development as Freedom*. Knopf, New York.

⁶ Exponents of “analytical Marxism” are G. A. Cohen (1995), Roemer (1985, 1996), Olin Wright (1998) and others, see Gargarello (1999).

institutions under conditions of concentrated ownership of private property that characterizes capitalism. These neo-Marxian authors question the (Rawlsian) device of the veil of ignorance and the initial position in which enlightened legislators and politicians devise such institutions.

A new more policy-oriented perspective to social policy is the rights-based development, (RBD) approach⁷ that sees individuals more as citizens with rights and duties rather than as consumers facing purely economic choices, although both concepts need not to be antagonistic. In the RBD approach, citizenship is envisaged as people with empowerment and active participation in the design, control and oversight of the development projects and social programs affecting them. Government and development agencies are seen as responsive to the claims of citizens for the delivery of social services. Accountability is critical in this approach. In addition, this views human rights as indivisible: economic, social, civic, political and cultural rights are seen as all inherent to the dignity of every person and therefore can not be separated (see Ackerman, 2004). This approach also put emphasis in the importance of power structures in society in explaining patterns of poverty and exclusion. Certain power structures (more democratic, participatory and accountable) foster the protection of rights while other structures tend to dampen or deny their realization.

Resources and democracy: two 'musts' for RBA. An important issue in the discussion about rights from a policy perspective is that their fulfillment implies two important considerations: (i) resources; and, (ii) institutional facilities, more broadly an effective democratic regime, that can deliver the goods or services implied by certain rights. These rights in their application have an economic dimension as well as institutional and political breadth.

⁷ See Hauserman (1998), Ferguson (1999), Cornwall, (2000 and 2002), Ackerman (2004), Nankani, (2004), Alsop and Norton (2004).

The financing of social services if relying too heavily on capital income can lower the return on productive assets potentially hampering the process of economic growth and wealth creation. Economists when dealing with issues of rights, instinctively, focus on the resources needed to deliver the service or good entitled in a certain right. Trained to see the economic problem as “the allocation of scarce resources to multiple needs” (Lionel Robbins definition), the economist will point out the trade-offs implicit in meeting various economic and social rights. Resources compete to meet alternative ends. More resources devoted to health care will compete with the resources allocated to education or pensions.

Libertarian theory with its emphasis on property rights can be viewed as an approach that gives absolute priority to wealth creation, although it is unclear that it takes only the protection of property rights for wealth creation to automatically flourish. A certain level of social equity and social cohesion that gives stability and credibility to the rules of the game needs to be in place. In contrast, liberal political theory seeks to balance economic and social rights with private property and political freedom. In practice this view provides the theoretical underpinnings for social-democratic capitalism. The economic correlate of Rawls is a “welfare state” that taxes property and incomes to finance social expenditure and guarantee social benefits and social protection. The welfare state in Europe and the development state in Latin America and East Asia used, historically, the instruments of taxes, transfers, regulation and public provision of education, health and pensions to correct the unpleasant realities of inequality, income deprivation and economic insecurity that capitalism can bring about. In addition, from the viewpoint of conditions for wealth creation, recent literature on the subject underscores that inequality can harm capital accumulation and productivity growth through various

channels such as social polarization, higher taxation and a deteriorated capital-labor relations (see Solimano, 1998)⁸.

*Rights are closely linked to political regimes, institutions and social movements*⁹. Historically, the movements towards political rights, supported by labor unions, social organizations of different kinds and left-wing political parties can be seen as a consequence of the expansion of democracy. Political rights such freedom of speech, the right to form political parties, participation in elections and civil rights such as freedom of association, assembly, demonstration, independent media and courts, and religious freedom are all part of the definition of a democracy (see Yi Feng, 2003). So when we talk about political rights we implicitly refer to a specific type of political regime: democracy. In the case of economic and social rights the relationship with political regime is less direct in principle. A right-wing authoritarian regime may defend property rights –an economic right--but at the same time deny civil rights and political freedoms. In turn, a classic socialist regime may enshrine in the constitution various social rights to education, employment, health and others but at same time, restrict property rights and political freedoms. Thus, although the concept of “indivisibility of rights” sounds appealing as a general principle, in practice the fulfillment of certain rights is conditional on the prevailing political regime.

⁸ Centrally- planned socialism is discredited now as its historical record shows that the attainment of economic and social rights around the project of an egalitarian society required the virtual elimination of private property rights and the severe restriction of political rights and freedom. The economic result of the experiment was after an initial period of resource extensive growth, stagnation. Social policy, under socialism, provided a high level of social protection around a modest standard of life.

⁹ The origin of human rights is an evolutionary process. Voting rights changed over time. In the 19th century only people with a certain level of wealth could vote. Women right to vote came after men's. Now voting is a universal right. Economic and social rights also evolved over time. Social security in the United States and the United Kingdom were instituted in response to the economic hardship people had to endure in the great depression and in Second World War. Implicit in the creation of these institutions was the belief that people had the right to at least a basic income level regardless they were employed or not; also the elderly could not leave to their own fate after a life of work. The point we want to emphasize here is that rights are a “social construction” that combines values, beliefs and social institutions.

There are various connections between democracy and the fulfillment of economic and social rights. Sen (1999) calls attention to the fact that famines tend to be avoided in democracies but occur more often in non-democratic systems. In the African context, this author mentions that in the late 1970s and early 1980s famine took place in Ethiopia and Sudan although they were avoided in Botswana and Zimbabwe. In the four countries at that time, there was a decline in food production; the difference was, according to the author, that in Botswana and Zimbabwe there were mechanisms of political accountability and independent press that forced authorities to prevent famines that had the event occurred could have been very damaging to the authorities at the time of elections.

Rights involve an “agency problem”. Entitlements of individual need require a principal (institution) to deliver the good or service to the agent (the beneficiary). The right to health care, for example, needs an institution that provides health services otherwise that right can be a moral category devoid of operational content. The new literature on rights stresses the need to empower beneficiaries of social services to demand better services and participate in the design, provision and evaluation of social services to the poor. The notion is to abandon paternalistic practices in the provision of social services empowering beneficiaries to exert social accountability over authorities¹⁰.

¹⁰ Ackerman (2004) reviews four case studies of social accountability initiatives to social projects in Bangalore, India, Malawi, Indonesia and Peru. Some of these projects are funded and managed by NGOs or receive support from the World Bank. These initiatives of social accountability are structured around “Citizens Scorecards”, “Community Scorecards” and “Social Accountability Systems”. Essentially the scorecard methodology seeks to evaluate the degree of satisfaction of receivers on the quality of social services such as public transportation, telephone systems, electricity, water, waste disposal and others provided by the state at national, regional and local levels. The analysis evaluates the scorecards methodologies from a “human rights perspective”. This perspective is certainly more demanding than “simply” consumer satisfaction. In fact, the consumer focus of standard focus groups exercises must be replaced by the concept of *citizen* endowed of rights and duties. Moreover, “consumer feedback” is to be extended to accountability of public agencies whose mission is to deliver social services in an effective and transparent way. In addition, social participation is to be fostered and power structures to be identified. The approach also calls attention on the need for citizen to organize to increase the impact of their voice in a forceful way and to influence the delivery of social services in a way consistent with citizen rights.

4. Alternatives for Latin America

New and more balanced social policies for Latin America should recognize *broader goals and more instruments*. Bringing the concept of social rights (and rights-based development) in the picture can help to reform current policies provided, of course, that due attention is given to issues of resource-generation (essentially through economic growth), the devising of adequate social institutions and the nurturing of public accountability. We can identify at least four areas in which social policies can be broadened:

- (i) *Define the right of a universal “minimum welfare level”*. In practice, this would ensure a level of income (or its equivalent in kind such as food and other basic necessities and social services) that meets the basic needs of all the population. The minimum income must be defined in per capita terms and institutional measures will need to be in place to reach everybody in particular children and other vulnerable individuals through a combination of transfers, emergency employment programs and the minimum wage. The evidence indicates that the mother and schools are often reliable recipients of aid to insure minimum incomes to children. Other options can be also explored.
 - (ii) *Bring the middle class in as a subject of broader social policy*. Construct education, health, housing and social security policies that consider the demands and specificities of the middle class such as its quest for upward mobility and its role as a stabilizing segment in society.
 - (iii) *Focus on the potential (and constraints) for the poor, workers and the middle class to accumulate and own assets* (housing, access to good quality education, capital and property rights). These assets are central in shaping the economic fortunes
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of people in their lifetime. Also a broader access to asset accumulation by excluded sectors can contribute to mobilize hidden productive potential with positive effects on economic efficiency and growth¹¹.

- (iv) Create and nurture mechanisms of social *participation* and *democratic accountability* in the design and execution of social policy.

A. Fiscal and Administrative Considerations

The administrative and other costs of managing a targeted system are not low. New principles of social policy towards universalizing of benefits can increase the fiscal cost of social policy but also bring various benefits also worth considering. A rationale for targeting was that the fiscal cost of universal programs was difficult to afford by fiscally constrained governments. Another rationale was to use the scarce resources to help the “really poor”, implicitly assuming that the rest of the population would worry of their social situation by themselves. Clearly an increase in the number of beneficiaries would increase the total fiscal costs of various social programs. In addition, Moene and Wallerstein (1998), when discussing the Scandinavian case of universal coverage for social policies, note that managing a universal system may be less costly than managing the targeted system. *Targeting poses informational and administrative demands on social policy that are not trivial.* The identification of the “really poor” is not easy. In addition, once the real poor are identified reaching them is complex because of lack of administrative capacities to locate the marginalized (often in remote rural areas, slumps in cities, etc). Moreover, the poor is often weakly organized and are outside the institutional system of the state. They have a weak capacity to participate and exert accountability on the policies affecting them. “Border cases” are not easy to manage either. For

¹¹ See the various essays in Olin Wright (1998) on “asset-based distributions” and its economic and social effects.

example providing no benefits to individuals whose incomes are only marginally above the cut-off criteria used to define the “really poor” can create (understandable) frustration and even resentment in the excluded populations. Also targeting implicitly identifies the poor as a passive beneficiary, a “victim of the system” rather than an agent or citizen with policy responses, choices and rights (see Solimano, 1998). In principle, more universal social policies – at least those that reach the middle class - could avoid several of these problems associated with targeting. Still, given fiscal constraints, social benefits can be set as a decreasing function of the income level of the recipient, although the total elimination of the benefit at certain income level carries its problems as we have seen.

An important issue is the level of taxation compatible with universal benefits. In the Scandinavian system where social policies are largely universalistic (see Moene and Wallerstein, 1998) the level of direct and indirect taxation is high. In Latin America, taxation is certainly lower than in the Scandinavian countries and tax evasion is greater. In general, targeting and limited social benefits imply a lower tax burden than if social policy were more universal in terms of benefits. A lower level of taxation will enable the individual or household to be free to choose the providers of education, health, pensions systems that they like and pay accordingly. Although individual choice is certainly a good thing, we should not discard the informational problems (let alone the income problem assuming that the beneficiary has the income to pay the service) of choosing among private providers of complex social services in societies, like the Latin American ones, with a modest tradition of consumer information and client protection. *Also concentration of providers and limited competition has led to high costs of delivering the service.* For example the fees of private administrators of pension funds in Chile are well recognized as high

due to limited competition and a reduced number of administrators in that market (see Valdes, 2000).

B. Political Feasibility

The current targeted policies create a political economy problem of incentives. Incorporating the middle class as a beneficiary of social policy and advancing towards universalism can broaden the political support for these policies. Under targeted policies, the current system creates a problem of incentives: the group that receives the benefits is not the same who pays for them. Policies become more redistributive and therefore are more conflictive. In turn, if those who pay the cost (i.e. taxes) also receive the benefits of social policy their support of the policies can be expected to increase. Also, the current experience with expensive social services provided by the private sector (typically health and pensions) whose benefits are limited is leading people to seek alternative systems of delivery that could offer a more favorable cost-service combination.

Stable, higher-income democracies often have a strong middle class and relatively low levels of inequality. In contrast, polarized, lower income countries often have weak middle class and concentrated income distributions. The current pattern of expensive and better quality social services for the upper middle class and the rich provided by the private sector along with under-funded and modest quality social service provided by the state for the poor and lower-middle class is socially divisive. The political correlate of this system is popular dissatisfaction with current policies breeding volatile and populist politics. More universal social policies can strengthen social cohesion and stabilize politics, thereby favoring social peace and economic growth.

Giving a greater emphasis to asset accumulation and ownership by the poor and the middle class. Sometimes this is called “asset based redistribution” although the name is slightly inaccurate. The political consequences of asset-based redistributions can go in various ways. If the policy is framed in terms of redistribution of *existing assets* this policy can be politically conflictive as the owners of capital, land and other assets will not want to give away easily the degree of social control and income that this ownership entails. Also, asset redistribution creates uncertainty over property rights that can be damaging for investment and innovation in a market economy. Broader access to accumulating wealth by the poor and popular classes is a more promising way in this regard as it can be redistributive (in the flows and not in the stocks so avoiding the zero-sum element of redistributing, existing assets) and also boost economic growth by unleashing more savings and investment by excluded segments. Equalizing the access to good quality education to everyone in society (ensuring access to knowledge and social norms) can be a powerful policy for it empowers the recipient to successfully incorporate the poor to enter the job market, accumulate capital and enable effective participation in policy-making. More democratic asset accumulation could be expected to have an economic pay-off and a political dividend for democratizing the traditionally elitist Latin American societies. Access to capital by small scale entrepreneurs and the poor is a redistributive policy in a dynamic sense as it opens the access of capital accumulation by many individuals with entrepreneurial talent and a favorable attitude to risk taking that are currently stiffened by restricted access to capital markets. This is particularly relevant for the large segment of small and medium scale enterprises and the poor without assets and collaterals. All these policies, should generate greater political support, and if properly implemented, can match equity and growth.

5. Social Contracts in Latin America: Final Remarks

Towards a more socially centered social contract in Latin America. Slow and volatile growth along with persistent social inequality has led to high poverty and social fragmentation in Latin America. A redress of these social trends require more growth and lower inequality among other things. At the same time, the current approach of social policy based on targeting, privatized social services, and the ability to pay seems to exacerbate social stratification in Latin American societies. Information problems are pervasive both in the practice of targeting of social benefits and in citizen choice of privately provided social services. Moreover, excessive segmentation in the quality and access of social services generates social dissatisfaction, chiefly among the middle class that pay taxes but receives reduced and lower quality social benefits. The implicit social contract in Latin America is one in which market-oriented economic policies take priority over social policy objectives in the understanding that economic prosperity would improve social conditions sooner or later. However, contrary to initial expectations, growth remains elusive in Latin America thereby delaying poverty reduction and the improvement of living standards. The primacy of capital does not necessarily imply faster growth. More is needed. A new social contract with a greater awareness of social and economic rights of the poor and the middle class can be a more promising avenue to explore. The new social contract must device ways to accelerate growth on a sustained basis, mobilizing savings, investment and innovation potential from new sources traditionally excluded of the economic process. In addition, it is important to bring the middle class (a stabilizing social force) as a legitimate subject of social policies and broadening the access to asset and capital accumulation to the poor and the middle class. A reservoir of productive talent, entrepreneurship and innovation exists in these groups. Better and more inclusive economic and social policies will also strengthen the endemically weak Latin American democracies.

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ANNEX

TABLE 1.A
LATIN AMERICA: INCIDENCE OF POVERTY AND CRITICAL POVERTY a/
1980-2002

Year	Percentage of Population in:				
	Poverty b/			Critical Poverty c/	
	Total d/	Urban	Rural	Total d/	Urban
1980	40.5	29.8	59.9	18.6	10.6
1990	48.3	41.4	65.4	22.5	15.3
1997	43.5	36.5	63.0	19.0	12.3
1999	43.8	37.1	63.7	18.5	11.9
2000	42.5	35.9	62.5	18.1	11.7
2001	43.2	37.0	62.3	18.5	12.2
2002	44.0	38.4	61.8	19.4	13.5

Source: *Panorama Social de América Latina 2002-2003*, United Nations, CEPAL-ECLAC, pp: 50.

Notes:

a/ Estimations corresponding to 18 countries of the region including Haití.

b/ Percentage of population with income below the poverty line.

c/ Percentage of population with income below the critical poverty line.

d/ Total averages are weighted by the shares of urban and rural populations in total population.

TABLE 1.B
LATIN AMERICA: POPULATION IN POVERTY AND CRITICAL POVERTY a/
1980-2002

Year	Millions of Persons					
	Poverty b/			Critical Poverty c/		
	Total	Urban	Rural	Total	Urban	I
1980	135.9	62.9	73.0	62.4	22.5	
1990	200.2	121.7	78.5	93.4	45.0	
1997	203.8	125.7	78.2	88.8	42.2	
1999	211.4	134.2	77.2	89.4	43.0	
2000	207.1	131.8	75.3	88.4	42.8	
2001	213.9	138.7	75.2	91.7	45.8	
2002	221.4	146.7	74.8	97.4	51.6	

Source: *Panorama Social de América Latina 2002-2003*, United Nations, CEPAL-ECLAC, pp: 50.

Notes:

a/ Estimations corresponding to 18 countries of the region including Haití.

b/ Population with income below the poverty line.

c/ Population with income below the critical poverty line.

TABLE 2
LATIN AMERICA: INCOME DISTRIBUTION BY HOUSEHOLDS
1990 - 2002 a/
(selected countries)

Country	Year	Participation in the total income of:			Concentration Index			
		40% most poverty	10% more rich	ratio 10%/40%	Gini	Logaritmik Variance	Theil	Atkinson
Argentina b/	1990	14.9	34.8	2.3	0.501	0.982	0.555	0.570
	1997	14.9	35.8	2.4	0.530	1.143	0.601	0.607
	1999	15.4	37.0	2.4	0.542	1.183	0.681	0.623
	2002	13.4	42.1	3.1	0.590	1.603	0.742	0.702
Bolivia	1989 c/	12.1	27.9	2.3	0.538	1.528	0.574	0.771
	1997	9.4	27.9	3.0	0.595	2.024	0.728	0.795
	1999	9.2	29.6	3.2	0.586	2.548	0.658	0.867
	2002	9.5	28.3	3.0	0.614	2.510	0.776	0.865
Brasil	1990	9.5	43.9	4.6	0.627	1.938	0.816	0.790
	1996	9.9	46.0	4.6	0.638	1.962	0.871	0.762
	1999	10.1	47.1	4.7	0.640	1.913	0.914	0.754
	2001	10.2	46.8	4.6	0.639	1.925	0.914	0.760
Chile	1990	13.2	40.7	3.1	0.554	1.258	0.644	0.671
	1996	13.1	40.2	3.1	0.553	1.261	0.630	0.667
	2000	13.8	40.3	2.9	0.559	1.278	0.666	0.658
Colombia	1994	10.0	41.8	4.2	0.601	2.042	0.794	0.817
	1997	12.5	40.1	3.2	0.569	1.399	0.857	0.822
	1999	12.3	40.1	3.3	0.572	1.456	0.734	0.945
	2002 d/	11.9	39.1	3.3	0.575	1.413	0.714	0.701
Costa Rica	1990	16.7	25.6	1.5	0.438	0.833	0.328	0.539
	1997	16.5	27.3	1.7	0.450	0.860	0.356	0.535
	1999	15.3	29.4	1.9	0.473	0.974	0.395	0.573
	2002	14.5	30.2	2.1	0.488	1.080	0.440	0.646

Ecuador d/	1990	16.7	25.6	1.5	0.461	0.823	0.403	0.591
	1997	16.5	27.3	1.7	0.469	0.832	0.409	0.510
	1999	15.3	29.4	1.9	0.521	1.075	0.567	0.597
	2002	14.5	30.2	2.1	0.513	1.031	0.563	0.593
Mexico	1989	15.8	36.6	2.3	0.536	1.096	0.680	0.598
	1998	15.1	36.7	2.4	0.539	1.142	0.634	0.599
	2000	14.6	36.4	2.5	0.542	1.221	0.603	0.621
	2002	15.7	33.2	2.1	0.514	1.045	0.521	0.571
Peru	1997	13.4	33.3	2.5	0.532	1.348	0.567	0.663
	1999	13.4	36.5	2.7	0.545	1.358	0.599	0.673
	2001	13.4	33.5	2.5	0.525	1.219	0.556	0.636
Dominican Republic	2000	11.4	38.8	3.4	0.554	1.250	0.583	0.635
	2002	12.0	38.3	3.2	0.544	1.216	0.570	0.637
Uruguay d/	1990	20.1	31.2	1.6	0.492	0.812	0.699	0.519
	1997	22.0	25.8	1.2	0.430	0.730	0.336	0.475
	1999	21.6	27.0	1.3	0.440	0.764	0.354	0.483
	2002	21.6	27.3	1.3	0.455	0.802	0.385	0.661
Venezuela	1990	16.7	28.7	1.7	0.471	0.930	0.416	0.545
	1997	14.7	32.8	2.2	0.507	1.223	0.508	0.985
	1999	14.6	31.4	2.2	0.498	1.134	0.464	0.664
	2002	14.3	31.3	2.2	0.500	1.122	0.456	0.866

Source: *Panorama Social de América Latina 2002-2003*, United Nations, CEPAL-ECLAC, pp: 73-74.

Notes:

a/ Countries' household sorted by per capita income.

b/ Gran Buenos Aires.

c/ Principals eight cities and El Alto.

d/ Urban total.

TABLE 3
LATIN AMERICA: EVOLUTION OF GDP AND INCOME PER CAPITA AND URBAN UNE
(selected countries)

Country	Year	GDP per capita (in 1995 US dollars) a/	Income per capita (in 1995 US dollars)	Urban U (pe
Argentina	1990	5,545	5,291	
	1999	7,435	7,183	
	2000	7,283	7,095	
	2001	6,875	6,645	
	2002	6,055	5,824	
Bolivia	1989	804	821	
	1999	941	961	
	2000	941	959	
	2001	934	950	
	2002	938	930	
Brazil	1990	3,859	3,733	
	1999	4,217	4,057	
	2000	4,328	4,180	
	2001	4,335	4,155	
	2002	4,340	4,163	
Chile	1990	3,779	5,311	
	1999	5,631	5,299	
	2000	5,792	5,459	
	2001	5,902	5,475	
	2002	5,952	5,560	
Colombia	1991	2,158	2,142	
	1999	2,272	2,232	
	2000	2,288	2,222	
	2001	2,282	2,205	
	2002	2,277	2,216	
Costa Rica	1990	2,960	2,870	
	1999	3,793	3,379	
	2000	3,775	3,359	

	2001	3,741	3,506
	2002	3,762	3,558
Ecuador	1990	1,670	1,588
	1999	1,699	1,627
	2000	1,682	1,677
	2001	1,742	1,689
	2002	1,776	1,740
Mexico	1989	3,925	3,853
	1998	4,484	4,430
	2000	4,813	4,878
	2001	4,720	4,810
	2002	4,690	4,813
Peru	1990	1,879	1,795
	1999	2,310	2,236
	2000	2,330	2,227
	2001	2,290	2,179
	2002	2,376	2,258
Dominican Republic	1990	1,378	1,380
	1998	1,831	2,009
	2000	2,052	2,207
	2001	2,079	2,274
	2002	2,133	2,334
Uruguay	1990	4,707	4,577
	1999	5,984	5,917
	2000	5,826	5,668
	2001	5,580	5,413
	2002	4,946	4,778
Venezuela	1990	3,045	3,310
	1999	3,028	3,003
	2000	3,082	3,519
	2001	3,130	3,292
	2002	2,796	2,929

Source: *Panorama Social de América Latina 2002-2003*, United Nations, CEPAL-ECLAC, pp: 239-241
Notes:

- a/ It refers to the real gross national income per habitant.
- b/ National total.

TABLE 4
LATIN AMERICA AND THE CARIBBEAN
MINIMAL WAGES AND GDP PER CAPITA 2002
(selected countries)

Country	Monthly minimal wage (in 2002 US dollars) a/	Urban Poverty Line in US dollars b/
Bolivia	60.0	49.8
Brazil	68.5	53.5
Chile	161.4	62.5
Colombia	123.4	70.0
Cuba	-	-
Ecuador	128.0	73.3
El Salvador	109.1	72.4
Guatemala	115.1	85.9
Honduras	127.7	89.6
Mexico	123.4	153.9
Peru	116.6	64.2
Uruguay	52.2	75.0

Source: *Panorama Social de América Latina 2002-2003*, United Nations, CEPAL-ECLAC, pp: 200.

Notes:

a/ Calculated with the "rf" serie of IMF, with the exception of Guatemala, country by which was used the "wf" serie.

b/ The values of poverty lines around 1999 was carried to 2002 prices over the base of annual averaged General Price Index availables in the data base online of IMF (<http://imfstatistics.org>), because it does not count with the CPI of Foods category more idoneo for this type of actualization.

TABLE 5
LATIN AMERICA: SOCIAL PUBLIC SPENDING
(as percentage of GDP, selected countries, region)

Country	1990-1991	1992-1993	1994-1995	1996-1997	1998-1999	2000-2001
Argentina	19.3	20.1	21.1	20.0	20.8	21.6
Bolivia a/	12.4	14.6	16.3	17.9
Brazil	18.1	17.7	19.3	17.3	19.3	18.8
Chile	11.7	12.4	12.3	13.0	14.7	16.0
Colombia	6.8	8.1	11.5	15.3	14.0	13.6
Costa Rica	15.6	15.2	15.8	16.8	16.4	18.2
Ecuador b/	5.5	5.8	7.4	8.2	8.1	8.8
Mexico	6.5	8.1	8.8	8.5	9.2	9.8
Peru	4.0	5.3	6.7	7.1	7.7	8.0
Dominican Republic	4.3	5.9	6.1	6.0	6.6	7.6
Uruguay	16.9	18.9	20.3	21.3	22.8	23.5
Venezuela	8.5	8.9	7.6	8.3	8.4	11.3
Latin America c/	10.1	10.9	11.7	12.1	12.8	13.8

Source: *Panorama Social de América Latina 2002-2003*, United Nations, CEPAL-ECLAC, pp: 176.

Notes:

a/ The number in the column 1994-1995 correspond to 1995.

b/ The number in the column 1990-1991 correspond to 1991, and the 2000-2001 to 2000.

c/ Simple average of countries, excluded Bolivia y El Salvador. The average for Latin America if this countries were included will be, for the columns 1994-1995, 1996-1997, 1998-1999, and 2000-2001, 11.3%, 11.7%, 12.5% and 13.5%, respectively.

TABLE 6
LATIN AMERICA: RATE OF GROWTH OF GDP AND GDP PER CAPITA
1980-2003
(rate of change %, selected countries)

Country	1980-1989	1990-1999	2000	2001	2002	2003
GDP a/						
Argentina	-0.49	4.10	-0.83	-4.44	-10.81	5.45
Bolivia	-0.42	4.00	2.27	1.65	2.74	2.00
Brazil	3.02	1.77	3.97	1.46	1.39	1.50
Chile	3.42	5.88	4.18	3.17	2.07	3.50
Colombia	3.73	2.61	-0.51	1.92	1.75	4.96
Costa Rica	2.08	5.25	1.79	1.21	2.85	4.21
Ecuador	2.15	2.43	0.88	5.46	3.80	1.50
Mexico	2.11	3.41	6.73	-0.29	0.83	1.50
Peru	0.09	3.26	2.72	0.22	4.87	3.45
Dominican Republic	3.62	4.62	7.32	2.99	4.33	-1.00
Uruguay	1.07	3.20	-1.93	-3.54	-10.74	-2.50
Venezuela	-0.70	2.62	3.77	3.48	-8.99	-13.00
<i>Average</i>	<i>1.64</i>	<i>3.59</i>	<i>2.53</i>	<i>1.11</i>	<i>-0.49</i>	<i>0.96</i>
GDP per capita b/						
Argentina	-1.33	2.74	-2.04	-5.60	-11.88	4.19
Bolivia	-3.00	1.60	-0.10	-0.67	0.41	-0.27
Brazil	0.92	0.29	2.63	0.17	0.12	0.25
Chile	2.33	4.26	2.86	1.89	0.85	2.29
Colombia	1.69	0.65	-2.29	0.15	0.01	3.20
Costa Rica	-1.36	2.68	-0.46	-0.89	0.81	2.26
Ecuador	1.04	0.27	-1.00	3.55	1.95	-0.26
Mexico	-0.22	1.61	5.10	-1.77	-0.63	0.07
Peru	-0.97	1.42	1.08	-1.33	3.29	1.93
Dominican Republic	1.17	2.82	5.53	1.30	2.63	-2.59
Uruguay	0.41	2.47	-2.63	-4.23	-11.38	-3.16
Venezuela	-2.50	0.38	1.78	1.54	-10.67	-14.57
<i>Average</i>	<i>-0.15</i>	<i>1.77</i>	<i>0.87</i>	<i>-0.49</i>	<i>-2.04</i>	<i>-0.55</i>

Source: United Nations, CEPAL-ECLAC. Own elaboration.

Notes:

a/ In millions o 1995 US dollars.

b/ Millions of people at midyear.