INSTITUTE
FOR
POLICY
REFORM

The objective of the Institute for Policy Reform is to enhance the foundation for broad based economic growth in developing countries. Through its research, education and training activities the Institute encourages active participation in the dialogue on policy reform, focusing on changes that stimulate and sustain economic development. At the core of these activities is the search for creative ideas that can be used to design constitutional, institutional and policy reforms. Research fellows and policy practitioners are engaged by IPR to expand the analytical core of the reform process. This includes all elements of comprehensive and customized reform packages, recognizing cultural, political, economic and environmental elements as crucial dimensions of societies.

1400 16th Street, NW / Suite 350
Washington, DC 20036
(202) 939 - 3450

U.S. Agency for International Development

This publication was made possible through support provided by the Office of Education and Institutional Development, Bureau for Research and Development, U.S. Agency for International Development, under the terms of Grant No. PDC# 0095-A-00-1126-00. The opinions expressed herein are those of the author(s) and do not necessarily reflect the views of the U.S. Agency for International Development or the Institute for Policy Reform.

INSTITUTE
FOR
POLICY
REFORM

IPR80

Economic Reform, Labor Markets, and the Social Sectors: A Latin American Perspective

Sebastian Edwards

The World Bank
and
University of California, Los Angeles

and

Senior Research Fellow
Institute for Policy Reform

January, 1994

This paper analyzes the social consequences of structural reform programs, and the relationship between economic transition and the social sectors. In particular, the hypothesis of poverty reduction as the main challenge for Latin American governments in the future is discussed. An improved distribution of income appears to be one of the most important features of sustainable reforms.

As a direct consequence of the adjustment programs of the late 1980s, government spending devoted to social programs was severely reduced. In fact, poverty increased in the region during the 1980s. However, attending to the needs of the poor for education, health and nutrition will allow a faster accumulation of basic human capital, accelerating overall economic growth.

The paper highlights the relationship between macroeconomic stability and the social sectors. Macroeconomic stability, through low inflation and competitive real exchange rates, is a powerful weapon to improve income distribution.

The pattern of growth and development is another determinant of the speed with which poverty is reduced. Growth that emphasizes labor intensive, exportable activities will be more effective. Growth associated with productivity increases will push wages up, reducing inequality.

The paper also discusses the dynamics of adjustment and its relationship with labor market structures. Latin American labor markets are highly distorted, introducing serious efficiency costs and making adjustment more uneasy. These policy-induced distortions generated segmented labor markets and discouraged employment in the formal sector. The removal of the distortions will reduce the protected/unprotected wage differential (i.e. reduce formal/informal sector duality), increase international competitiveness of domestic firms and increase overall employment.

Author's Acknowledgements

This paper is part of the Institute for Policy Reform research program on the role of institutions during economic transition. I am indebted to Fernando Losada for efficient assistance. Parts of this paper draw on the work I have done on Latin American transitions during the last decade.

Disclaimer

This publication was made possible through support provided by the Office of Education and Institutional Development, Bureau for Research and Development, U.S. Agency for International Development, under the terms of Grant No. PDC# 0095-A-00-1126-00. The opinions expressed herein are those of the author(s) and do not necessarily reflect the views of the U.S. Agency for International Development or the Institute for Policy Reform.

Executive Summary

In recent years there has been a growing interest on the social consequences of structural reform programs. Critics of the market-oriented reforms have argued that the implementation of these policies have resulted in severe increases in poverty and income inequality. The World Bank and the IMF have been under growing scrutiny and are being pressured by the NGOs lobby to change their policies. The social effects of reform have become particularly important issues in the former socialist countries, where the reform process has dented the traditional social safety net, and where income inequality has moved to historical highs. In spite of its obvious importance, the debate on the relationship between economic transition and the social sectors has been characterized by a remarkable degree of fragmentation.

For many decades the Latin American countries used labor legislation as a fundamental tool for achieving social goals. Minimum wages, job protection and related measures were thought to be an efficient way of transferring income and protecting the poor. Although these policies were well intentioned, they ended up creating overly rigid labor markets that were unable to respond to the changing conditions of the world economy. Interestingly enough, the market-oriented reforms that have swept through Latin America during the last few years have barely touched labor market legislation. In many ways, labor markets have become the "forgotten" sector of the Latin American reforms.

Poverty and Income Distribution in Latin America

The inability to effectively deal with poverty and inequality in Latin America is, perhaps, the clearest and saddest illustration of traditional policies. Decades of government intervention and regulations did little to reduce income inequality in the region. Latin America is the only region in the world where the share of income going to the poorest 20% of the population consistently declined between 1950 and the late 1970s. Moreover, income inequality precedes the debt crisis and the adjustment programs of the 1980s. In the late 1970s the percentage of income received by the poorest 20% was lower in Latin America than in any other part of the developing world. The degree of historical income inequality in the region is particularly striking when compared with that of resource-poor Asia.

A decade after the debt crisis, one of the main—if not the main—challenges in Latin America is to reduce poverty and reverse decades of increasing inequalities. Addressing the needs of the poorest strata of society is not just a social issue, but also a political one. Only to the extent that poverty is reduced, the living conditions of the poor are improved, and income distribution becomes more equal will the structural reforms implemented during the last decade become sustained and not be reversed. Moreover, attending to the needs of the poor for education, nutrition, and health will have important direct effects on economic growth in the region: as a larger proportion of the population acquires basic human capital, growth will tend to accelerate significantly.

Although between 1960 and 1980 economic growth resulted in an improvement of living standards in Latin America—as measured by educational attainment, health conditions, nutrition, and other social indicators—by the early 1980s a large percentage of the region's population still lived in poverty. Even though many of the policies aimed at reducing poverty in the 1960-80 period—including agrarian reforms, minimum wage laws legislation, and labor market regulations—were well intentioned, they made limited progress in this area. In fact, the data in Table 3 indicate that in 1981, more than one third of Latin America's population had incomes below the poverty line. Today there are more than 10 million malnourished children under the age of five in Latin America, and a large proportion of the region's population does not receive appropriate health or educational services. Although many countries in the region reacted to the crisis by implementing emergency social programs, the overall level of poverty and inequality nevertheless increased in many of them.

From 1982 through approximately 1988, a number of countries tried to solve their problems by implementing traditional policies based on increased controls, heightened protectionism and a higher degree of government involvement in economic matters. As time passed, however, it became increasingly apparent that these programs—sometimes referred to as heterodox programs—had badly failed. They generated run-away inflation, further declines in real wages, and prolonged stagnation. This first subperiod can be characterized as one of crisis without adjustment.

The second subperiod begins towards the late 1980s, when as a result of these failures, a new consensus on economic policy began to emerge in Latin America. At that time, an increasing number of Latin American leaders began to agree that the region was facing a serious crisis and that the transition to the 21st century required major economic reforms. Politicians who for decades had advocated an increased involvement of the state in everyday economic life, began to argue in favor of macroeconomic stability, international openness, privatization and a greater role for market forces.

An important direct consequence of the adjustment programs of the late 1980s and early 1990s was the reduction, in most countries, of government spending devoted to social programs. Additionally, the restructuring of the economy generated, in many countries, a significant increase in the segmentation of labor markets with the informal sector growing drastically. Somewhat surprisingly, however, many social indicators—infant mortality, school enrollment, life expectancy, for example—have continued to improve despite these problems. Possible explanations for this "puzzle". are, first, that there may be a significant lag between changes in "inputs" that go into social programs (i.e., public social spending) and changes in "outcomes," summarized by social indicators. Second, aggregate data may be misleading, hiding what is really going on within each country. And third, in many countries the reduction in the level of social spending has been coupled with an increase in the efficiency with which funds are used, and with an increase in private non-government organizations' (NGOs) support to social programs.

Poverty and Income Distribution

Available data indicate that poverty is not only widespread in Latin America—the bottom 20% of population received less than 4% of total income—but that it has also increased during the last decade. For some time the public policy literature has moved away from relative measures of well-being, such as income distribution, and has emphasized absolute social indicators, including the percentage of the population living under poverty conditions. As a result of this, serious efforts have been made to construct poverty lines in Latin America. These are generally defined as the income required by a household of a predefined size to meet a "minimal" standard of living. This standard of living is, in turn, constructed around food consumption.

There is generalized recognition that the unequal distribution of income that has traditionally affected Latin America is at the heart of poverty in the region. A number of authors have attempted to explain the determinants of income inequality in different countries at a given moment in time. The level of education appears to be the single most important determinant of inequality at a given moment in time. Besides, a number of studies have found that, with other things given, the probability of being at the bottom of the distributional scale is higher for females.

In many countries, ethnicity is directly related to poverty and inequality. For example, in 1989, almost 60% of Guatemala's indigenous population had 0 to 5 years of education, compared to only 24% of the non-indigenous population. In Bolivia, 12% of the indigenous population had no education, while only 2% of the nonindigenous population fell in that category.

The Macroeconomy and the Social Sectors

The relationship between macroeconomic stability and the social sectors has become increasingly important in the policy debate. For decades the conventional wisdom in Latin America was that there was little, if any, connection between these two areas. Structuralist thinkers believed that there was a stable trade-off between inflation and growth, and that under most circumstances it was possible to increase income through permissive macroeconomic policies. The generalized experiences of the 1970s showed that this was a highly misleading view. More often than not macroeconomic disequilibria led to rapid inflation and the erosion of real wages, reduced returns in the rural area and major economic crises. New research based on time series data for some Latin American countries suggests that, as a result of inconsistent macroeconomic policies, income distribution can exhibit very large changes in relatively short periods of time.

There are two fundamental reasons why macro instability has negatively affected poverty. First, in many of these countries real exchange rate overvaluation hurt labor intensive exports, and thus employment and wages. Second, the poor are significantly more vulnerable to macroeconomic imbalances, as they do not have the ability to protect themselves from the direct and indirect consequences of the inflation tax. These findings provide support to the view that programs aimed at reducing macroeconomic imbalances — and in particular programs that reduce inflation — will tend to have a positive effect on income distribution.

Faster economic growth reduces poverty through two fundamental channels. First, it will tend to increase employment, improving the opportunities for productive activities among the poor. This suggests that the "type" of growth will be important in determining how fast poverty is reduced. Growth that emphasizes labor-intensive sectors will generally be more effective in reducing poverty than growth that is biased against exports and employment generating activities. The second channel through which growth reduces poverty is related to wages. To the extent that growth is associated with productivity increases, wages will also improve and, under most circumstances, the poorest segments of society will see an improvement in their life conditions. Investment in human capital accumulation—especially at the preschool or primary level—will greatly help increase productivity, real wages growth and reduced inequality.

Labor Markets Regulations in Latin America

Policy discussions on the mechanics of structural adjustment and market-oriented reforms have tended to ignore labor markets. And yet, in many countries labor markets are highly distorted, introducing efficiency costs and making adjustment more difficult. Most of these distortions were introduced in an attempt to protect labor from abuses and to protect the poor. Contrary to politicians original intent, however, these policies created highly segmented labor markets and discouraged employment. After the eruption of the debt crisis, the combination of labor market distortions and macroeconomic austerity contributed to create an increasingly large informal sector in many countries. Removing the most serious distortions will usually tend to increase the unprotected sector wage rate, reduce the protected sector wage rate, increase overall employment, and reduce the formal-informal sector duality.

The most serious labor market distortions in Latin America can be classified in three categories: (a) high costs of dismissal that reduce flexibility and make a firm's restructuring difficult and slow; (b) high payroll taxes that reduce the incentives to expand employment, and negatively affect the degree of international competitiveness of local firms; and (c) the nature of labor-management relations, which encourage confrontation and costly settlement procedures.

The State of Human Development in Latin America

A broad evaluation of life conditions requires understanding how a series of social variables, including nutrition, health, and education, behave through time. In this section the evolution of some of the most important indexes of human development during the last decade is discussed. The analysis concentrates on health and population, nutrition, education and human capital formation, social security and water and sanitation.

A traditional problem with health provision in Latin America, is that in many countries the emphasis has been on funding and subsidizing curative medicine, rather than concentrating on basic preventive care. This approach is not only inefficient, but also highly regressive, since its benefits tend to accrue to the middle and upper classes. Recent efforts to tackle this problem have been hampered by the lack of adequate medical support staff, including nurses, technicians, and nurses aides. Also, the World Bank has recently identified the lack of proper distribution of drugs as an element standing in the way of an effective expansion of curative care.

For decades, the lack of adequate sanitary conditions has been at the heart of Latin America's health problems. Diarrhea and other water-related diseases have been the cause of a high percentage of the region's infant mortality. During the 1980s more than 80 million urban dwellers and 18 million people in the rural sector obtained drinkable water services. However, in spite of these improvements, sanitary conditions in the region are still far from optimal. A particularly serious problem refers to the inadequate treatment and disposal of sewage. In many countries this problem has been related to the neglect of infrastructure maintenance during the 1980s. There is increasing evidence suggesting that most countries in the region lack the required institutional support for adequately maintaining infrastructure investment. Additionally, approximately $10 billion will be required during the next decade to provide water and sewage to those that currently lack these services.

For more than two decades, serious efforts have been made to control the rate of growth of population. An expansion in family planning, including an increase in the use of contraceptives, has resulted in a significant decline in total fertility rates in the region. However, in the poorer countries, the total rate of fertility still remains high, exceeding in some cases—Bolivia, Guatemala, Honduras, and Nicaragua—five children per mother.

A large number of studies have discovered a clear link between nutritional programs and the efficiency of the educational system. Well-fed children are more attentive in school, and are able to learn at a faster rate. More specifically, programs aimed at increasing the nutritional intake of children aged 0-3 are likely to have a significant effect on learning abilities and will have very large social returns, increasing productivity and, eventually, the ability to obtain high-paying jobs.

Education, Human Capital Formation and Social Conditions

For a long time economists have argued that the accumulation of human capital, through increases in the coverage and quality of education, constitutes one of the fundamental pillars of successful development strategies. In the last few years this idea has gained renewed popularity thanks to the development of a new family of growth models that incorporates the possibility of increasing returns to scale and positive externalities.

Education, then, plays a multiple role in the development process. It has important effects both at the macro aggregate level, where it is a key source of growth, and at the microeconomic level where it is a fundamental vehicle for moving out of poverty.

In most countries there is insufficient access to early and preschool education. Additionally, women lag in almost educational category, including "head start" type of programs. This, in spite of the fact that recent research has shown that social return on early training of women is exceedingly high. It not only increases productive employment opportunities, but it also has a number of positive indirect effects on fertility and nutritional attainment.

Policy Recommendations

The design of human resources policy, should recognize two basic dimensions on social problems. First, there are deep structural deficiencies in the delivery of social services. Second, the immediate need to provide relief to the poorest segments of society that traditionally have been neglected and have been hit particularly hard during the adjustment period. In the aftermath of the debt crisis a number of countries undertook programs aimed at strengthening the safety net. However, in spite of these efforts, poverty continued to be extremely serious.

In the years to come progress in poverty reduction is likely to come from two mutually reinforcing sources: First, stronger growth that will result in higher employment and faster growing salaries. Second, governments will have to increase the provision of basic social services targeted to the poorest segments of the population.

Politically, a fundamental challenge is to raise the availability of resources to fund social programs. In particular, there maybe a temptation to slide back into populism, using the inflation taxes as a way to fund these programs. History has shown, however, that the inflation tax is one of the most regressive instruments.

I. Introduction

In recent years there has been a growing interest on the social consequences of structural reform programs. Critics of the market-oriented reforms have argued that the implementation of these policies have resulted in severe increases in poverty and income inequality. The World Bank and the IMF have been under growing scrutiny and are being pressured by the NGOs lobby to change their policies. The social effects of reform have become particularly important issues in the former socialist countries, where the reform process has dented the traditional social safety net, and where income inequality has moved to historical highs. In spite of its obvious importance, the debate on the relationship between economic transition and the social sectors has been characterized by a remarkable degree of fragmentation.

For many decades the Latin American countries used labor legislation as a fundamental tool for achieving social goals. Minimum wages, job protection and related measures were thought to be an efficient way of transferring income and protecting the poor. Although these policies were well intentioned, they ended up creating overly rigid labor markets that were unable to respond to the changing conditions of the world economy. The lethargic Latin American labor markets contrasted sharply with the dynamic and modern labor markets of East Asia. Interestingly enough, the market-oriented reforms that have swept through Latin America during the last few years have barely touched labor market legislation. In many ways, labor markets have become the "forgotten" sector of the Latin American reforms.

The purpose of this paper is to analyze the way in which the structural reforms implemented in Latin America during the last decade or so have affected the social sectors, income distribution and poverty. Particular emphasis is placed on labor market behavior and reform. The analysis presented here provides some important information for policy design in other parts of the world.

II. Poverty and Income Distribution in Latin America: Some Background Information

Poverty and inequality have long been salient features of the Latin American economies. The inability to effectively deal with these issues is, perhaps, the clearest and saddest illustration of traditional policies. Decades of government intervention and regulations did little to reduce income inequality in the region. As Sheahan (1987) has pointed out, Latin America is the only region in the world where the share of income going to the poorest 20% of the population consistently declined between 1950 and the late 1970s. Moreover, as Table 1 shows, income inequality precedes the debt crisis and the adjustment programs of the 1980s. In the late 1970s the percentage of income received by the poorest 20% was lower in Latin America than in *any* other part of the developing world. The degree of historical income inequality in the region is particularly striking when compared with that of resource-poor Asia (Table 2).

A decade after the debt crisis, one of the main—if not *the* main—challenges in Latin America is to reduce poverty and reverse decades of increasing inequalities. Addressing the needs of the poorest strata of society is not just a social issue, but also a political one. Only to the extent that poverty is reduced, the living conditions of the poor are improved, and income distribution becomes more equal will the structural reforms implemented during the last decade become sustained and will not be reversed. Moreover, attending to the needs of the poor for education, nutrition, and health will have important direct effects on economic growth in the region: as a larger proportion of the population acquires basic human capital, growth will tend to accelerate significantly (Barro 1991).

Although between 1960 and 1980 economic growth resulted in an improvement of living standards in Latin America—as measured by educational attainment, health conditions, nutrition, and other social indicators—by the early 1980s a large percentage of the region's population still lived in poverty. Even though many of the policies aimed at reducing poverty in the 1960-80 period—including agrarian reforms, minimum wage laws legislation, and labor market regulations—were well intentioned, they made limited progress in this area. In fact, the data in Table 3 indicate that in

TABLE 1

PERCENTAGE OF INCOME RECEIVED BY LOWEST 20 PERCENT OF POPULATION

HISTORICAL DATA FOR SELECTED REGIONS
(Percent)

	1960	1970	Around 1978 (a)
Sub-Saharan Africa	5.2	4.1	6.2
Middle East and North Africa	4.9	5.0	5.3
East Asia and Pacific	5.3	6.0	6.2
South Asia	4.5	7.0	na
Southern Europe	5.5	4.3	5.0
Latin America and the Caribbean	3.7	3.4	2.9

(a) The 1980 edition of the World Tables refers to these figures as "most recent estimate."

Source: World Bank, World Tables (1980)

TABLE 2

INCOME DISTRIBUTION, HISTORICAL DATA LATIN AMERICA AND ASIA (*)

COUNTRY	YEAR	% INCOME FOR LOWEST 40 %	% INCOME FOR HIGHEST 10 %
LATIN AMERICA			
Argentina	1970	11.0	35.2
Brazil	1972	7.0	50.6
Costa Rica	1971	12.0	39.5
El Salvador	1976-77	15.0	29.5
Mexico	1977	9.9	40.6
Panama	1973	7.2	44.2
Peru	1972	7.0	42.9
Venezuela	1970	10.3	35.7
- Median		10.1	40.1
ASIA			
Hong Kong	1980	16.2	31.3
Indonesia	1976	14.4	34.0
Korea	1976	16.9	27.5
Malaysia	1973	11.2	39.8
Philippines	1970-71	14.2	38.5
Thailand	1975-76	15.2	34.1
- Median		14.8	34.1

(*) The sample is restricted to the group the World Bank classifies as "middle income economies."

Source: World Development Report, 1982 and 1986.

TABLE 3

POVERTY IN LATIN AMERICA IN 1970 AND 1981: PERCENTAGE OF POPULATION LIVING UNDER POVERTY LINE

	1970	1981
Argentina	8.0	8.0
Brazil	49.0	43.0
Chile	17.0	16.0
Colombia	45.0	43.0
Costa Rica	24.0	22.0
Honduras	65.0	64.0
Mexico	34.0	29.0
Panama	39.0	37.0
Peru	50.0	49.0
Venezuela	25.0	24.0
Ten Latin American Countries	39.0	35.0

Source: These data are reported in Cardoso and Helwege (1992). The data for 1970 are from Altimir (1982); those for 1981 are from Molina (1989).

1981, more than one third of Latin America's population had incomes below the poverty line.

The debt crisis that erupted in 1982 negatively affected an already battered social picture. The sudden halt in foreign financing, the deterioration in the terms of trade, and the surge of inflation severely affected real income throughout the region. In 1991, only ten out of thirty countries in the region had a GDP per capita above that of 1980: Antigua, Bahamas, Barbados, Belize, Chile, Colombia, Dominica, Jamaica, St. Kitts and Nevis, and St. Vincent. Naturally, this generalized decline in real per capita GDP affected overall well being and, in most countries, resulted in an increase in the incidence of poverty in the 1980s. This has been reflected, among other things, by the fact that today, there are more than 10 million malnourished children under the age of five in Latin America, and a large proportion of the region's population does not receive appropriate health or educational services. Although many countries in the region reacted to the crisis by implementing emergency social programs, the overall level of poverty and inequality nevertheless increased in many of them.

In analyzing the recent evolution of the social sectors in Latin America during the last decade, the period was divided into two sub-periods: The first one covers 1982 through approximately 1988, when a number of countries—most notably Argentina (Austral Plan), Brazil (Cruzado Plan) and Peru (APRA Plan)—tried to solve their problems by implementing traditional policies based on increased controls, heightened protectionism and a higher degree of government involvement in economic matters. As time passed, however, it became increasingly apparent that these programs—sometimes referred to as heterodox programs—had badly failed. They generated run-away inflation, further declines in real wages, and prolonged stagnation. This first subperiod can be characterized as one of *crisis without adjustment*.

The second subperiod begins towards the late 1980s, when as a result of these failures, a new consensus on economic policy began to emerge in Latin America. At that time, an increasing number of Latin American leaders began to agree that the region was facing a serious crisis and that the transition to the 21st century required major economic reforms. Politicians that for decades had advocated an increased involvement of the state in everyday economic life, began to argue in favor of macroeconomic stability, international openness, privatization and a greater role for market forces.

An important direct consequence of the adjustment programs of the late 1980s and early 1990s was the reduction, in most countries, of government spending devoted to social programs.[1] Additionally, the restructuring of the economy generated, in many countries, a significant increase in the segmentation of labor markets with the informal sector growing drastically. Somewhat surprisingly, however, many social indicators—infant mortality, school enrollment, life expectancy, for example—have continued to improve despite these problems (Table 4). In a recent report, the World Bank (1992) has attempted to provide a series of possible explanations for this "puzzle". First, there may be a significant lag between changes in "inputs" that go into social programs (i.e., public social spending) and changes in "outcomes," summarized by social indicators. Recent data showing that the rate of improvement in these indexes is leveling off provide some support for this view. Second, aggregate data may be misleading, hiding what is really going on within each country. In fact, the World Bank has persuasively argued that country-wide data tend to hide serious intra-country inequalities. When these more detailed data are analyzed it becomes clear that social indicators have not continued to improve in all segments of society. Third, in many countries the reduction in the level of social spending has been coupled with an increase in the efficiency with which funds are used, and with an increase in private non-government organizations' (NGOs) support to social programs. This means that while publicly provided "inputs" have declined substantially, the availability of "total effective" inputs has not been reduced by that much—and, maybe, not reduced at all (Grosh 1992a).

---

1. An exception to this has been social security spending. This is treated in greater detail below. For an analysis of the evolution of government spending in the early 1980s, see Hicks (1992).

TABLE 4

SOCIAL INDICATORS FOR SELECTED LATIN AMERICAN COUNTRIES (*)

INDICATOR	1970	1980	1990
Illiterate population as percentage of population aged 15 or older	29.0	23.0	15.3
Enrollment ratios ages 6-11	71.0	82.3	87.3
Gross enrollment ratios, secondary level	31.6	47.4	54.9
Population per physician	2053	1315	1083
Percentage of population with access to safe water	53.7	70.1	79.8
Infant mortality rate (per thousand live births)	84.9	63.0	48.2
Life expectancy at birth (years)	60.1	64.3	67.5

(*) Weighted averages for LAC countries with populations of more than one million

Source: World Bank (1993)

For many years, the acceleration in the rate of economic growth was considered as the main vehicle for reducing inequalities and poverty. In particular, it has been argued that the "right type" of growth, based on comparative advantages, employment creation and productivity growth, would generate higher wages and better economic conditions for the poor. Increasingly, however, empirical evidence has indicated that, although very important, higher growth is not enough. In general, it takes a long time for the fruits of faster growth to spread over the most vulnerable and poorest segments of society. As a result of this a number of authors and institutions, including the World Bank, have strongly argued that there is a need to implement a two-prong approach towards human resources where faster growth is supplemented with social programs targeted at providing social services to the neediest.[2]

III. Poverty and Income Distribution

The lack of adequate data makes the analysis of poverty and income distribution in Latin America a difficult and frustrating task. Little is known about living conditions in the rural area and the informal sector, or migration patterns. Moreover, much of the exiting data are at the aggregate level and tend to hide major differences across regions, racial groups, and gender. Despite these problems, a number of institutions—including CEPAL and the World Bank—have made serious efforts to obtain an approximate picture of human conditions in the region [3]

Available data indicate that poverty is not only widespread in Latin America—the bottom 20% of population received less than 4% of total income—but that it has also increased during the last decade. In a comprehensive recent report the World Bank (1993, p.16) has argued that "much of the poverty in the region relates to the exceptionally high degree of income inequality affecting Latin America".

Table 5 contains a summary of income distribution in Latin America during the 1980s. For as many countries as possible, data are provided for more than one year.

---

2. World Bank (1992).

3. See CEPAL (1986), World Bank (1992).

TABLE 5

MEASURES OF INEQUALITY IN WORKERS' INCOME

GINI INDICES

	Early 1980s	Late 1980s
Argentina (Bs. As.)	0.389	0.461
Bolivia (urban)	0.479	0.515
Brazil	0.574	0.625
Colombia (urban)	0.578	0.515
Costa Rica	0.451	0.410
Guatemala	0.532	0.528
Honduras (a)	0.528	0.533
Panama	0.376	0.446
Peru	0.427	0.438
Uruguay (urban)	0.452	0.420
Venezuela	0.512	0.498

(a) Early and late values are not strictly comparable due to differential s coverage.

Source: Psacharapoulos et al. (1992)

In eight out of the twelve countries with more than one observation, income distribution—as measured by the Gini coefficient—deteriorated in the 1980s. In the other four countries — Colombia, Costa Rica, Paraguay, and Uruguay — there was an improvement. It is important to stress, however, that these data are of poor quality and should be interpreted with caution. For example, for many of the countries, the available information is concentrated on the urban sector. Also, in some cases the "early 1980s" data refer to 1985 or 1986, a period when the region had already been affected by the debt crisis and was facing dramatic adjustments.

For some time the public policy literature has moved away from *relative* measures of well-being, such as income distribution, and has emphasized *absolute* social indicators, including the percentage of the population living under poverty conditions. As a result of this, serious efforts have been made to construct poverty lines in Latin America. These are generally defined as the income required by a household of a predefined size to meet a "minimal" standard of living. This standard of living is, in turn, constructed around food consumption; it is estimated that an adult should consume no less than 2,500 calories a day. A typical consumption basket that covers this required calorie intake is computed and priced for each country. The food basket is then increased by a certain factor in order to allow for the consumption of other items, and thus to calculate the poverty threshold. In Latin America, it has become a tradition to multiply the food basket by a factor of two to construct urban poverty baskets and by a factor of 1.5 to compute rural baskets. Households with a (monetary) income below this hypothetical basket are defined as being "below the poverty line."[4]

The data requirements for constructing poverty lines are significant. A detailed profile of income distribution is needed and consumption surveys are necessary. Obtaining this information is not only expensive but also time consuming. This has become particularly evident when analysts have tried to obtain poverty lines for more

4. Those households with a level of income below the cost of the food basket are defined as being below the "destitution line". This condition is also called "extreme poverty."

TABLE 6

PERCENTAGE OF INDIVIDUALS IN POVERTY AND EXTREME POVERTY

	Poverty Headcount Index (a) (% below $60 poverty line)			Extreme Poverty Headcount Index (b) (% below $30 poverty line)		
	~1980	~1989		~1980	~1989	
Argentina (Bs. As.)	3.0	6.4		0.2	1.6	
Bolivia (urban)	51.1	54.0		22.5	23.2	
Brazil	34.1	40.9		12.2	18.7	
Chile	na	10.0		na	1.5	
Colombia (urban)	13.0	8.0		6.0	2.9	
Costa Rica	13.4	3.4		5.4	1.1	
Dominican Republic	na	24.1		na	4.9	
Ecuador (urban)	na	24.2		na	4.0	
El Salvador (urban)	na	41.5		na	14.9	
Guatemala	66.4	67.0		36.6	39.5	
Honduras (urban)	48.7	54.4		21.6	22.7	
Jamica	na	12.1		na	1.1	
Mexico	16.6	22.6	(c)	2.5	7.3	(c)
Panama	27.9	31.8		8.4	13.2	
Paraguay (Asuncion)	13.1	7.6		3.2	0.6	
Peru (Lima)	31.1	40.5	(d)	3.3	10.1	
Uruguay (urban)	6.2	5.3		1.1	0.7	
Venezuela	4.0	12.9		0.7	3.1	

(a) Poverty is defined as having an income of $60 per person per month or less.
(b) Extreme Poverty is defined as having an income of $30 per person per month or less.
(c) Based on unweighted sample which may not accuratly reflect actual population composition.
(d) Estimate based on extrapolation from 1985-86 poverty figure.

Source: Psacharapoulos et al. (1993)

than a moment in time, implying that comparators through time of poverty lines should be interpreted with great care.

Table 6 contains data on poverty lines for a group of Latin American countries for the early- and late-1980s. This table uses a uniform poverty basket for all countries in the region, defined at 60, 1985 purchasing power parity dollars per month.[5] In four out of the twelve countries with comparable figures the percentage of the population below the poverty line has declined—Colombia, Costa Rica, Paraguay, and Uruguay.

There is generalized recognition that the unequal distribution of income that has traditionally affected Latin America is at the heart of poverty in the region. A number of authors have attempted to explain the determinants of income inequality in different countries at a given moment in time. Altimir and Piñera (1979) provided some preliminary work that emphasized the crucial role of education. More recently, Fiszbein and Psacharopoulos (1992) have used data on ten countries—Argentina, Bolivia, Brazil, Colombia, Costa Rica, Guatemala, Honduras, Panama, Uruguay, and Venezuela—to analyze the fundamental determinants of income inequality during the 1980s. The authors decomposed Theil's inequality indices, trying to isolate those structural variables that are better able to explain inequality. In performing the decomposition, variables in four categories were used—education, age, sector of employment (agriculture, mining, manufacturing, and so on) and employment type (employed, self-employed, employer). It was found that these four variables were able

5. Using a common poverty line across countries allows for meaningful cross-country comparisons. See World Bank (1993) for a methodological discussion on the merits of common-basket poverty line computations. The PPP dollars have been constructed by Summers and Heston as a way to avoid artificial data fluctuations due to exchange rate changes. Notice that if country-specific baskets are used to measure the evolution of poverty, five (rather than four) countries exhibit an improvement in the late 1980s. The additional country is Guatemala (World Bank 1992). However, this country-specific approach provides a very different picture of the <u>number</u> of poor people. For example, when the country-specific basket is used to measure poverty, the percentage of the population below the line in Venezuela in 1989 increases to 79%! In the case of Colombia, there is a decline in the poverty headcount from more than 60% when the Colombia basket is used, to less than 8% using the common benchmark. These large variations illustrate strongly the difficulties associated with the measurement and comparisons of poverty and social conditions across countries and time.

to explain approximately 50% of the variability of the Theil index in the countries under consideration.

The level of education appears to be the single most important determinant of inequality at a given moment in time. In order to investigate the determinants of income distribution, Fiszbein and Psacharopoulos estimated a statistical model to compute the probability of being poor.[6] In addition to the four structural variables discussed above, they added gender as a possible determinant of this probability. Along the lines of previous results, they found that education was overwhelmingly the main determinant of the probability of being in the bottom 20% of the income distribution. For example, in the case of Panama, people with zero to five years of education have an 83% estimated probability of being in the lowest 20% of the distribution. The corresponding figure for Argentina is 69%, and for Brazil, 42%. These figures contrast sharply with those for people with 13 or more years of education; in most countries, the likelihood that they will be in the bottom 20% of the distribution is less than 5%.

The importance of education in determining inequality has recently been confirmed in a series of detailed studies for Brazil during the 1960s and 1970s. Using disaggregated data for six metropolitan areas, Barro (1992) and Cardoso et al. (1992) have found that two-thirds of the increase in inequality in that country between 1960 and 1970 is rooted in education. However, these authors have also found that the importance of education as an explanation of inequality in Brazil has declined during the last decade. For this period their analysis strongly suggests that unemployment and macroeconomic instability provide most of the explanation for cyclical changes in inequality.

A number of studies have found that, with other things given, the probability of being at the bottom of the distributional scale is higher for females. For example, Marquez (1992) has found that in Venezuela households headed by single mothers are

6. The strict question being asked is the probability of having income in the bottom 20% of the distribution. Naturally as the data on poverty in Tables 5 and 6 have shown, in most countries in the region those in the bottom 20% will actually have income below the poverty line.

significantly more likely to be below the poverty line. Moreover, he found that poor women tend to be older, having reduced ability to improve their skills through training and increases in education. In a recent report the World Bank (1992, p. 15) states that "working women continue to be concentrated in low paying, low productivity jobs ... where there is little chance of advancement".

Countrywide aggregate data tend to hide significant variations in poverty and income distribution *within* countries. Possibly, Brazil provides the starkest example of intracountry differences in human development. For example, Calvacati de Albuquerque (1992) has found that while Rio Grande do Sul has social indicators comparable to those of Portugal and Korea, the region of Paraiba is not significantly different from Kenya. These regional differences are reflected in almost every social indicator: illiteracy ranges from 11% in the urban south to more than 55% in the rural northeast. Also, mean years of schooling is 5.2 in the southeast and 1.7 in the rural northeast.

Large regional differentials in human development and poverty are also present in other countries. For example, in Honduras maternal mortality is 5 times higher in rural areas (624 per 100,000) than the national average. In El Salvador, 80% of infant mortality takes place in rural areas. In Mexico, infant mortality is twice as high in the poorer states than in the wealthier ones.

In many countries, ethnicity is directly related to poverty and inequality. For example, in 1989, almost 60% of Guatemala's indigenous population had 0 to 5 years of education, compared to only 24% of the non-indigenous population. In Bolivia, 12% of the indigenous population had no education, while only 2% of the nonindigenous population fell in that category.

IV. The Macroeconomy and the Social Sectors

The relationship between macroeconomic stability and the social sectors has become increasingly important in the policy debate. For decades the conventional wisdom in Latin America was that there was little, if any, connection between these two areas. Structuralist thinkers believed that there was a stable trade-off between inflation and growth (i.e. that there existed Phillips Curves), and that under most circumstances it was possible to increase income through permissive macroeconomic policies. The generalized experiences of the 1970s showed that this was a highly misleading view. More often than not macroeconomic disequilibria led to rapid inflation and the erosion of real wages, reduced returns in the rural area and major economic crises.

New research based on time series data for some Latin American countries suggests that, as a result of inconsistent macroeconomic policies, income distribution can exhibit very large changes in relatively short periods of time. For example, Cardoso et al. (1992) have shown that the Gini coefficient in Brazil exhibited large cyclical variations between 1980 and 1991. These authors found that education played only a minor role in explaining *cyclical* changes in inequality. Using a disaggregated data base for six Brazilian metropolitan areas, Cardoso et al. have found that macroeconomic instability—measured by the inflation rate and by changes in the real exchange rate—have had significantly negative effects on Brazil's distribution of income. More specifically, they show that real exchange rate overvaluation has negatively affected the poor, as have increases in the level and variability of inflation.

The findings reported results by Cardoso, et al (1992) have recently been confirmed by a multicountry study by Cardenas and Urrutia (1992). These authors have used a large cross-section data set for 110 countries to investigate changes in the UNDP human development index (HDI)[7]. They found that higher inflation, as well as more variable inflation, have negatively affected the evolution of the HDI. Their regression results also suggest that, as pointed out above, faster growth improves social indicators, as does greater social government expenditure.

There are two fundamental reasons why macro instability has negatively affected poverty. First, in many of these countries real exchange rate overvaluation hurt labor intensive exports, and thus employment and wages. Second, the poor are significantly

7. This index is a weighted average of three social indicators: life expectancy, adult literacy, and income per capita; its usefulness for analyzing the evolution of human conditions has been subject to considerable controversy.

more vulnerable to macroeconomic imbalances, as they do not have the ability to protect themselves from the direct and indirect consequences of the inflation tax. These findings provide support to the view that programs aimed at reducing macroeconomic imbalances — and in particular programs that reduce inflation — will tend to have a positive effect on income distribution. In fact, the improvement on Bolivia poverty data reported in Table 6 is largely the result of the end of hyperinflation in that country in 1986. Likewise the increase in Argentina's poverty headcount reported in that Table was the direct consequence of the hyperinflation that affected the country during 1988-89.

Repeated experiences in Latin America with populist policies have dramatically shown the links between macroeconomic disequilibrium and income distribution. Dornbusch and Edwards (1991) have argued that although populist episodes have had specific and unique characteristics in different nations, they tend to have some fundamental common threads. In particular, populist regimes have historically tried to deal with income inequality problems through the use of overly expansive *macroeconomic* policies. These policies, which have relied on deficit financing, generalized controls, and a disregard for basic economic equilibria have almost unavoidably resulted in major macroeconomic crises that have ended up hurting the poorer segments of society. As the case studies collected in the Dornbusch and Edwards (1991) volume show, at the end of every populist experiment, inflation is out of hand, macroeconomic disequilibria are rampant, and real wages are lower than they were at the beginning of these experiences. The overriding historical lesson from these episodes is that macroeconomic policy should not be used to pursue social or redistributive goals. Every time this principle has been violated, the most vulnerable and poor segments of society end up being severely hurt.

There is ample evidence that over the medium and long run, faster growth is the main determinant of poverty reduction, improved social conditions and reduced inequality. For example, in their cross-country analysis Cardenas and Urrutia found that GNP growth was the main determinant of improvements in social conditions. Morley (1992, p. 4) also makes this point when he argues that "economic growth is a potent force for poverty reduction" This is clearly illustrated by the cases of Brazil, Colombia, Costa Rica, and Mexico in the decade that preceded the debt crisis, when accelerated growth substantially reduced poverty. For example, Morley (1992) points out that in Costa Rica a per capita growth of 41% between 1961 and 1971 was accompanied by a reduction in poverty of one half. Naturally, this evidence clearly suggests that a slowdown in growth—or worse yet, a period of GDP decline, as the 1980s throughout most of the region—will generally be associated with increases in the proportion of population that lives below the poverty line.

Faster economic growth reduces poverty through two fundamental channels. First, it will tend to increase employment, improving the opportunities for productive activities among the poor. This suggests that the "type" of growth will be important in determining how fast poverty is reduced. Growth that emphasizes labor-intensive sectors will generally be more effective in reducing poverty than growth that is biased against exports and employment generating activities. The second channel through which growth reduces poverty is related to wages. To the extent that growth is associated with productivity increases, wages will also improve and, under most circumstances, the poorest segments of society will see an improvement in their life conditions. Again, the model of growth will be important in determining the extent to which this channel will operate. A growth process based on comparative advantages and reduced trade distortions will be more conducive to faster wage increases among the poor, especially in the rural sector. Also, investment in human capital accumulation—especially at the preschool or primary level—will greatly help increase productivity, real wages growth and reduced inequality.

The debt crisis, and the adjustment period that followed, negatively affected both employment and real wages in Latin America. As Table 7 shows (urban) unemployment in the region has been extremely high in the post crisis years.[8] Although in many countries there is a declining tendency, by late 1992 the level of

---

8. Employment and unemployment statistics in the region are of doubtful quality. They have partial coverage and are not very reliable. Most counties lack data on rural unemployment, forcing analysts to rely on urban data. This means that these statistics should be interpreted with care.

TABLE 7

URBAN UNEMPLOYMENT IN SELECTED LATIN AMERICAN COUNTRIES

Average annual rates

	1984	1985	1986	1987	1988	1989	1990	1991	1992 (p)
Argentina	4.6	6.1	5.6	5.9	6.3	7.6	7.5	6.5	6.9
Bolivia	6.9	5.8	7.0	7.2	11.6	10.2	9.5	7.0	6.8
Brazil	7.1	5.3	3.6	3.7	3.8	3.3	4.3	4.8	5.9
Colombia	13.4	14.1	13.8	11.8	11.2	9.9	10.3	10.0	10.5
Costa Rica	6.6	6.7	6.7	5.9	6.3	3.7	5.4	6.0	4.3
Chile	18.5	17.0	13.1	11.9	10.2	7.2	6.5	7.3	5.0
Ecuador	10.5	10.4	10.7	7.2	7.4	7.9	6.1	8.5	na
Guatemala	9.1	12.0	14.0	11.4	8.8	6.2	6.4	6.5	na
Honduras	10.7	11.7	12.1	11.4	8.7	7.2	6.9	7.6	na
Mexico	5.7	4.4	4.3	3.9	3.5	2.9	2.9	2.7	3.2
Panama	12.4	15.7	12.7	14.1	21.1	20.4	20.0	19.8	18.0
Paraguay	7.3	5.1	6.1	5.5	4.7	6.1	6.6	5.1	6.0
Peru	8.9	10.1	5.4	4.8	7.9	7.9	8.3	5.9	na
Uruguay	14.0	13.1	10.7	9.3	9.1	8.6	9.3	8.9	9.3
Venezuela	14.3	14.3	12.1	9.9	7.9	9.7	10.5	10.1	8.0

(p) Preliminary

Source: CEPAL

TABLE 8

AVERAGE REAL WAGES IN SELECTED LATIN AMERICAN COUNTRIES

(1980=100)

	1984	1985	1986	1987	1988	1989	1990	1991	1992 (p)
Argentina	116.9	106.1	102.0	93.5	92.7	84.6	80.3	76.2	75.6
Brazil	105.1	111.8	121.5	105.4	103.2	102.3	87.6	87.8	105.5
Colombia	118.1	114.6	120.1	119.2	117.7	119.4	113.4	115.3	116.7
Costa Rica	84.7	92.2	97.8	89.2	85.2	85.7	87.2	83.1	na
Chile	97.2	93.5	95.1	94.7	101.0	102.9	104.8	109.9	114.9
Mexico	74.8	75.9	71.5	71.3	71.7	75.2	77.9	83.0	85.0
Peru	87.2	77.6	97.5	101.3	76.1	41.5	36.2	41.8	42.5
Uruguay	72.2	67.3	71.9	75.2	76.3	76.1	70.6	73.2	75.1

(p) Preliminary

Source: CEPAL

unemployment was still alarmingly high in most countries. Moreover, given the demographics of the region, the next few years will be characterized by significant increases in labor supply in many of the countries putting additional pressure over employment. Table 8, on the other hand shows the evolution of average real wages in selected countries. As can be seen, with three exceptions—Sao Paulo in Brazil, Chile, and Colombia—real wages in 1991 were below their 1980 level. These tables show, in an almost shocking way, the impact of the debt crisis and the subsequent adjustment on social conditions in the region.

The resumption of growth in Latin America has resulted in higher wages and employment. The pace, however, has been somewhat modest, suggesting that in the years to come growth alone will not be sufficient to reduce poverty at a fast enough pace. In a recent study the World Bank (1993) has estimated that in order to achieve a reduction in the number of poor, Latin America will have to grow at least at 3.2 percent per annum. Although this figure is (very) high in comparison to the 1980-90 decade, it is below World Bank growth projections for 1993-2000: 4.7 percent per annum.

The poverty and distributive impacts of structural adjustment policies will have an important effect on the political support—and thus durability—of the reform process. In the midst of a major crisis, it is possible for political leaders to initiate major reforms with limited political support from the public.[9] The deeper the crisis, the greater the incentives that politicians face to attempt new policies, and the greater the tolerance of the public toward novel economic approaches (Haggard and Webb 1993 and Haggard and Kaufman 1992). In that sense, the debt crisis provided a unique opportunity for leaders from traditional Latin American political parties—Peronistas in Argentina, PRI in Mexico, Acción Democrática in Venezuela—to implement pro-competition policies. In other countries, the crisis resulted in the election of candidates that favored reforms, as Fernando Collor in Brazil and Alberto Fujimori in Peru.

9. Initially, the reforms have been supported by a rather small constituency, mostly comprised of exporters.

However, the fact that reforms are initiated does not ensure that the reforms will be durable. As time goes by, memories of the crisis will begin to fade and, unless a broad political constituency emerges, the sustainability of the reforms will be in jeopardy. There are two general conditions for this wide political endorsement to take place: first, growth has to accelerate significantly, and second, and perhaps more importantly, the benefits of this faster growth should accrue to a large proportion of the population. On the contrary, if, the reforms tend to maintain (or increase) the degree of income inequality, political polarization will result, and the probability of policy reversal will increase. Alesina and Tabellini (1988) and Aizenman (1990), among others, have argued that unequal income distribution will tend to paralyze governments, not allowing them to move forward in the structural reform process. Along similar lines, Dornbusch and Edwards (1991) have pointed out that poor (and worsening) income distribution has often been at the heart of populist experiments. What is particularly important to note is that **income distribution**, rather than poverty, appears to be a key determinant of the political sustainability of the reform process. In many countries the middle classes are politically active and vocal, and unless they see direct benefits from the reforms they will not support them.

V. Labor Markets Regulations in Latin America

Policy discussions on the mechanics of structural adjustment and market-oriented reforms have tended to ignore labor markets. And yet, in many countries labor markets are highly distorted, introducing efficiency costs and making adjustment more difficult. Most of these distortions were introduced in an attempt to protect labor from abuses and to protect the poor. Contrary to politicians original intent, however, these policies created highly segmented labor markets and discouraged employment. After the eruption of the debt crisis, the combination of labor market distortions and macroeconomic austerity contributed to create an increasingly large informal sector in many countries. Removing the most serious distortions will usually tend to increase the unprotected sector wage rate, reduce the protected sector wage rate, increase overall employment, and reduce the formal-informal sector duality.

The extent of labor market regulation in Latin America contrasts sharply with the extreme flexibility in the highly successful East Asian countries—Korea, Taiwan, Singapore, Hong Kong, Malaysia, Indonesia and Thailand. In fact, a number of recent studies by the World Bank (1993), Krueger (1993) and Nam (1993) have persuasively argued that the flexibility in labor markets has been one of the most important determinants of these countries' economic "miracle". Labor market flexibility has allowed small and medium firms to adapt rapidly to new market conditions, to remain competitive internationally and to take advantage of technological advances. In a recent World Bank study on **The East Asia Miracle** (1993c) it is argued:

> "[F]or a growing supply of educated labor to be utilized in high-return activities...[t]he labor market must perform well. It must be efficient, flexible, and responsive to changing conditions as to ensure that workers are employed in jobs in which their skills are most productively utilized." (p. 262)

Recent discussions on European economic problems and sluggishness have increasingly focused on the costs associated with rigid and protected labor markets. A growing number of experts have pointed out that, unless labor distortions are reduced in Europe, recovery will be slow and painful (*Financial Times*, June 22, 1993). The purpose of this section is to analyze the most important distortions in labor markets in the region, and to discuss alternative ways of reforming this key sector.

Textbooks usually mention minimum wages as the predominant labor market distortion to be removed in market-oriented reforms. At the present time, however, this is not the most pressing issue in Latin America. In fact, with a few exceptions, minimum wages have declined throughout the region in the last few years—see Table 9—and have largely become a non-binding restriction. This, of course, does not mean that (potential) hikes in minimum wages will not have negative employment effects in the future.

TABLE 9

MINIMUM URBAN REAL WAGES IN SELECTED LATIN AMERICAN COUNTRIES

(1980=100)

	1984	1985	1986	1987	1988	1989	1990	1991	1992 (p)
Argentina	168	113	110	121	94	42	40	56	45
Brazil	87	89	89	73	69	72	53	60	55
Colombia	114	109	114	113	110	111	108	104	103
Costa Rica	104	112	119	118	115	119	121	112	na
Chile	81	76	74	69	74	80	88	96	100
Mexico	72	71	65	62	54	51	46	44	42
Paraguay	94	100	108	123	135	138	132	126	115
Peru	62	54	56	60	52	25	23	16	16
Uruguay	89	93	89	90	85	78	69	62	62
Venezuela	67	97	90	109	90	73	59	55	na

(p) Preliminary

Source: CEPAL

The most serious labor market distortions in Latin America can be classified in three categories:[10] (a) high costs of dismissal that reduce flexibility and make a firm's restructuring difficult and slow; (b) high payroll taxes that reduce the incentives to expand employment, and negatively affect the degree of international competitiveness of local firms; and (c) the nature of labor-management relations, which encourage confrontation and costly settlement procedures.

Costs of Dismissal. Latin American labor legislation has a long tradition of trying to protect employment stability. This has been done through a series of measures, including placing severe limitations on temporary hiring, and imposing substantial costs—in the form of severance payments—on "unjust" dismissals. These policies have had two consequences on labor markets. First, they have increased the cost of labor, discouraging employment creation. Second, because of the specific way in which the legislation has been put into effect, they strongly discourage training activities that result in the acquisition of new skills.

The impact of employment protection laws largely depends on how firms perceive them. If specific rules, such as severance payments, are seen as a "delayed payment scheme", their effects on hiring and other decisions will be minimal. On the other hand, if they are perceived as a tax on labor use, they will have serious effects on the way firms deal with labor. In a recent extensive study on labor regulations in Latin America, Cox-Edwards (1992) has concluded that, given the way in which severance payments have been legislated, these are not viewed by firms as a delayed payments, but as a tax.

Table 10 contains a summary of the main characteristics of employment protection legislation in 10 countries. A number of important features emerge from this table. First, in almost every case there are severe restrictions on temporary contracts. This contrasts sharply with labor legislation in the U.S., where the "employment at will" doctrine prevails.[11] In principle, there are two important

10. Much of the discussion in this section is based on Cox-Edwards (1992).

11. Notice, however, that in contrast with the U.S., most Latin American countries lack unemployment insurance.

TABLE 10

JOB PROTECTION LEGISLATION IN SELECTED LATIN AMERICAN COUNTRIES

W represents a monthly wage. T represents years of tenure on the job.

COUNTRY	Restrictions on Temporary Contracts	Probationary Period	Advance Notice before Dismissals	Severance with "just cause"	Severance without "just cause"	Severance Economic Cause
ARGENTINA	2 years, non renewable	3 months	1 - 2 months	no severance pay	W*T (1)	.5*[W*T] (1)
BOLIVIA	renewable once	3 months	3 months	no severance pay	W * T	
BRAZIL	2 years, non renewable	12 months	1 month	FUND	1.4 * [FUND]	
COLOMBIA	3 years, non renewable	2 months	45 days (2)	FUND	FUND + [15 - 40 days' wages] * T	
CHILE	1 year, non renewable	12 months	1 month	no severance pay	1.2[W*T] (3) (4)	W*T (3)
ECUADOR	2 years, non renewable	3 months	1 month	.25*[W*T] + FUND	.25 * [W*T] + FUND + 3*W if T < 3 T*W if 25 < T < 3 Pension if T > 25	
MEXICO	no restrictions	-	1 month	W*3	[20 days' wages] * T	
NICARAGUA	2 years, non renewable	12 months	1 - 2 months	W*T	2 * [W * T]	
PERU	2 years, non renewable	3 months		FUND	FUND + W*T (3)	
VENEZUELA	renewable once	3 months	1 - 3 months	[10 - 30 days' wages] * T	1.5*[10 - 30 days' wages] * T	

(1) In this case, the law establishes a maximum W. Thus, there is a cap on severance.
(2) A minimum severeance payment equivalent to 45 days wages is payable in case of dismissals.
(3) In this case, the law establishes a maximum T. Thus, there is also a cap on severance.
(4) The burden of proof is on the employer. Failure to prove allegations of "just" cause, may involve a penalty of up to 50% over the normal severance (W*T).

Source: Cox-Edwards (1992)

BEST AVAILABLE DOCUMENT

consequences of restricting temporary hires: it increases labor costs, discouraging employment; and introduces rigidities that tend to slow down responses to changes in the international competitive scene. A second salient feature of Table 10 is the steep difference in severance payments for "justified" and "unjustified" dismissal. What is particularly important is that in most countries "just" dismissal excludes economic reasons, such as financial distress and increased foreign competition. This means that, in most cases, firms undergoing restructuring through a reduction in the size of their labor force, will have to incur high costs to compensate those workers that have been "unjustly" laid off.

The amount of severance pay in case of "just" dismissal varies significantly across countries. Colombia, Uruguay, and Venezuela require one month's pay per year of service. But in Uruguay there are ceilings of 6 months pay. Mexican law establishes a payment of three months' wages in case of "just" dismissals. Bolivia does not require compensation for "just" dismissal, but workers are entitled to one month per year of service in case of voluntary retirement. Dismissed workers in Ecuador receive 25% of the final month's pay per year of service, plus up to three months' wages. Paraguayan law mandates that individuals be paid 15 days of pay for each three years of service. In her comparative study Cox-Edwards (1992) found out that, by and large, severance payments in Latin America are higher than in a number of other countries, including Spain, the U.K. and Germany.[12]

A third characteristic of labor protection legislation captured by Table 10 is that severance payments for "unjust cause" are directly related to the worker's tenure in the firm—they typically take the form of "x monthly salaries per year of service". This introduces some serious, and arbitrary, distortions. For example, firms will tend to retain older workers, even if they are less productive than younger ones. Relating severance payments to years of service also reduces the employers incentive to invest in human capital formation, especially if these are not firm specific. The reason is that

12. The *Financial Times* recently argued that in Belgium "severance pay is relatively high—usually about two-thirds of salary for four months." This, of course, is very low when compared with the Latin American data in Table 10.

the value of increased skills will be higher in other firms not affected by the burden of a tenured-related severance cost. This, in turn, will increase the compensation recently trained workers will be offered in other firms, encouraging them to leave their current employment.

An important question is whether firms can devise ways to reduce the costs associated to mandated severance payments. Cox-Edwards (1992) has argued that employers have two alternative ways for doing this. First, they can maintain a very young work force with a high degree of turnover. The second is to avoid, as much as possible, dismissing workers, and especially older workers. These policies, however, have efficiency consequences. Concentrating on a young labor force distorts the choice of activities on the base of age, and largely ignores efficiency considerations and market prices.[13] Second, avoiding labor dismissals altogether amounts to treating labor as a <u>fixed</u> factor. In this case, hiring decisions are subject to delays, and if market conditions turn unfavorable, severance payments become an actual, realized loss for the employer and a bonus for the employee.

Transforming (part of) of severance payments into a deferred compensation scheme would greatly increase the degree of efficiency of Latin American labor markets. This, in fact, has been partially done in some countries. In Bolivia, for example, workers have access to the same severance payment in all separation cases (quits and layoffs) after five years on the job. Other countries including Brazil and, more recently Peru and Colombia, have replaced the traditional mode of severance pay based on a month's pay times the number of years of service for a "Time of Service Fund". In Brazil it is referred to as FGTS (Fondo de Garantia do Tempo de Servicio) and in Peru as CTS (Compensacion por Tiempo de Servicio). In Brazil and in Peru, the CTS is accrued in case of separation ("justified" layoff and quits). A fraction of the salary (8% in Brazil, 8.33% in Peru) is to be accumulated in a fund, in the name

13. Assembly-type activities that require limited training and can operate in a satisfactory way with high turnover of personnel become relatively more attractive. Fine crafts and industrial activities that require a high degree of training and where personnel turnover imposes a high cost, become relatively less attractive, given all other things constant.

of the employee. Chilean law allows workers to choose this type of arrangement instead of the traditional severance payment, after 7 years on the job. In these cases, employers are required to deposit the equivalent to 1/12 of the annual salary in a savings account on the employee's name.

Severance payments based on an accumulation of funds, as long as benefits are determined by contributions, will not interfere with employers' decisions with respect to age-earnings profiles and do not discourage investments in training on the job. Unfortunately, in most cases, including Brazil and Chile, severance payments are not limited to the fund. Irrespective of the methods designed by law to determine payments in case of separation, employers are often required to pay an additional severance in case of "unjustified", including economic cause, dismissal.

Table 10 suggests that Nicaragua and Venezuela have imposed the most stringent constraints on dismissals. Mexico appears to be the most liberal case. Argentina, Bolivia, and Peru have chosen somewhat transparent systems. The Chilean law is the most clear and provides comprehensive legal protection to both employers and workers against breach of individual contracts.

Payroll Taxes. Payroll taxes increase the cost of labor, discouraging employment creation and reducing labor mobility. Whether particular levies, such as social security contributions, are perceived as pure taxes or as delayed compensations, it is important to determine the extent to which they distort the economy. In most Latin American countries social security benefits—pensions and health provision—are not related to contributions made to the system. Mesa-Lago (1991) and Cox-Edwards (1992) have argued that this lack of balance results in (a large percentage of) contributions being considered a pure tax, while benefits are considered an entitlement.

Table 11 contains detailed data on social security and other payroll taxes and social security contributions in 10 Latin American countries. As has been pointed out by Mesa-Lago (1991) in many of these countries the social security system is financially insolvent, imposing increasing costs to the economy as a whole. As it is argued in greater detail in World Bank (1993b), there are several possible directions for improving the degree of efficiency of social security systems. From an efficiency

TABLE 11

BASIC CHARACTERISTICS OF SOCIAL SECURITY SYSTEMS IN SELECTED LATIN AMERICAN COUNTRIES

COUNTRY	Number of Decades Prior to the 1980s since first pension law.	Population Covered		Statutory Contribution Rate (1)	Social Security Expenditure as a percentage of GDP	Pensioners/ contributors ratio (2)	Population aged 65 or older (3)
		Total	Economically Active				
ARGENTINA	6	79	69	46	10	0.32	8.2
BOLIVIA	3	25	18	25	3	0.33	3.2
BRAZIL	6	96	96	26	5	0.18	4.0
COLOMBIA	4	12	22	20	4	0.05	3.5
CHILE	6	67	62	21	11	0.46	5.5
ECUADOR	5	8	23	21	3	0.15	3.5
MEXICO	4	53	42	18	3	0.08	3.6
NICARAGUA	3	9	19	16	2	0.08	2.4
PERU	5	17	37	21	3	0.09	3.6
VENEZUELA	2	45	50	14	3	0.06	2.8

(1) Total statutory percentage of payroll to be contributed by the insured person, the employer and the state.
(2) Dependency ratio: number of pensioners divided by the number of contributors.
(3) As a percentage of total population.

Source: Cox-Edwards (1992)

BEST AVAILABLE DOCUMENT

point of view the most important feature of any future social security system is that participants perceive it as part (although a delayed part), of the worker's compensation, and not as a tax that really increases the costs of hiring. In particular, a system embodying the replacement of pay-as-you-go regimes where there is no link between contributions and benefits, by a combination of individual capitalization accounts and minimum services assured by the government. This type of system has been in operation in Chile since the early 1980s, and is currently in the process of implementation in Argentina, Peru and Mexico.

In most "mature" social security systems, including Argentina, Brazil, and Mexico, the ratio of pensioners to contributors is very high, imposing a heavy burden on the working population. In Argentina, for example, there is one retiree for every three contributors. To the extent that the social security systems is introducing an additional burden to the labor market, reducing employment creation. Cox-Edwards (1992) has argued that in all countries, with the exception of Chile and Peru, there is only a very weak actuarial connection between contributions and benefits.

Social security institutes are poorly managed throughout most of the region. Currently administrative costs exceed 15% of expenditures, as opposed to 3% in the industrial nations (World Bank 1993). In many countries, there is a clear duplication of effort by two or more institutes serving the same region or population.

In terms of economic efficiency and equity, social security systems have problems in most countries in the region. First, in most cases existing pension funds encourage early retirement, generating a serious burden to the country at a time when the retiree is in the prime of his/her productive years. Second, pensions are often unrelated to the individual contributions to the system. This is particularly true for higher income individuals, who often are able to obtain lavish pensions after having made small and limited contributions to the general pension funds. Third, as health providers, social security systems tend to encourage expensive and highly technological curative care. And fourth, the poorer groups of society are often excluded from social security. For example, In Brazil, only 18% of the poorest income groups—which account for more than 40% of the population—are covered by social security. They receive only 3% of total social security benefits (McGreevey 1990).

In most countries, the contributions to the health component of the social security system are independent of marital status, family size and age. Benefits, however, automatically extend to dependents. As the age structure of the population has changed, this has resulted in a reduction of the active population's willingness to support these systems (Cox-Edwards, 1992).

More than a decade ago Chile embarked on a major reform of its social security system, replacing a traditional (and financially troubled) pay-as-you-go pension system with one based on individual retirement accounts. In the new Chilean system, health provision is also based on choice. Workers have to contribute 7% of their taxable income to an insurance program. They can choose between a public system, managed by the national health fund (FONASA), or private health providers (ISAPRES). Currently, approximately 80% of the population is affiliated with the public system, and 20% have chosen the ISAPRES regime.

The Chilean social security reform has had important results. First, the traditional drag on public finances has been eliminated . Second, there has been substantial improvement in the degree of efficiency of the system.[14] And third, the capitalization system has provided a definite encouragement to the Chilean capital market by creating a number of large institutional investors.

Most traditional regulations in the labor market—including minimum wages, high costs of dismissal, and pay-as-you-go social security regimes—tend to increase the cost of hiring, negatively affecting employment, especially among those with low skills and low net wages. The role of labor legislation, including social security, should be to promote the efficient use of labor and to protect workers from abusive practices. Social programs should be handled through alternative channels, including direct and focused transfers.

---

14. A number of experts have argued that there is still room for additional efficiency improvements. Also, the minimal pension assured by the new system may too low to cover "requirements". On details of the Chilean system see, for example, Cheyre (1991).

TABLE 12

LABOR DISPUTE RESOLUTION IN SELECTED LATIN AMERICAN COUNTRIES

COUNTRY	Judicial Procedure rests on	Right of Employees			Right of Employers		Maximum duration of a strike
		to strike	to wage replacement while on strike	to renounce union membership and go back to work	to lock-out	to temporarily replace workers	
ARGENTINA	Civil Courts	Must be called by union. After conciliation channels are exahusted. Ministry of Labor pronounces legality.	NO, if workers fail to accept arbitration. YES, if the employer locks out workers.	NO	NO, unless the strike is illegal	NO	No maximum.
BOLIVIA	Labour Courts	24 days after presentation of petition to labor Inspector The majority of union or 2/3 of workers must agree	NO Strike suspends labor contracts	NO	YES	YES	No maximum. In spite of the law, many strikes start before the Tribunal decision
BRAZIL	Labour Courts	YES, in the context of collective contracts negoc. Quorum requirement to be decided by union. Decided by head count vote.	NO	YES Strike does not suspend contract.	Requires prior authorization.	NO, unless the strike is declared "abusive" by the Court.	No maximum.
COLOMBIA	Labour Court. Within 2 days of declared a strike, the Ministry of Labor may call for an Arbitration.	After direct negociations period. Must be agreed on a secret ballot by absolute majority of enterprise' workers	NO. Strike suspends labor contracts	NO		NO, unless there is a risk of serious damage to the facilities.	60 days.
CHILE	Labour Courts have jurisdiction over questions arising out of the application of the law.	YES, in the context of collective contracts negociations.	NO	YES	YES, if the strike affects more than 50% of workers. YES, if the strike leads to stoppage of essential work.	YES, from the first day of the strike if the last offer is equivalent to the previous contract adjusted by CPI. Only after 15 days otherwise.	If more than half of the workers has returned to work, the strike ends.
ECUADOR	Labour Inspectorate.	If direct negociations fail, as long as the absolute majority of workers agrees. "Solidarity" strikes permited.	YES	NO	NO	NO	Once the tribunal resolves, the strike ends.
MEXICO	Labour Courts.	Tripartite Board must declare it "existent" or legal.	NO, unless the Board decides the strike is "imputable" to the employer.	NO	NO		No maximum.
NICARAGUA	Civil Courts.	YES, if agreed by head count majority. Does not have to occur in the context of collective bargaining.	YES	Workers can go back to work. But wages are paid anyway	YES. After Conciliation. If authorized by Labor Insp.	Prohibited.	No maximum.
PERU	Ministry of Labour.	YES, if the majority approves. Very few limitations.	NO. Strike suspends labor contracts	Not regulated.	NO	Not regulated.	No maximum.
VENEZUELA	Labor Inspectorate.	If direct negociations fail, as long as the absolute majority of workers agrees. "Solidarity" strikes permited.	NO. Strike suspends labor contracts.	NO	Not regulated.	Not regulated.	No maximum.

Source: Cox-Edwards (1992)

BEST AVAILABLE DOCUMENT

Labor-Management Relations. The existing labor legislation in most of Latin America, pre-dates the region's recent market-oriented reforms, and encourages long and costly bargaining processes. Table 12 highlights the most important features of conflict dispute mechanisms in ten Latin American countries. With the exception of Chile, where a labor reform was implemented in the early 1980s, the process is very similar across countries. Unions with legal representation propose a collective contract and employers must respond. The state becomes part of the negotiations from the beginning, and the final agreement applies to all workers represented.

Traditionally, strikes have been one of the most important mechanisms used to resolve disputes between unions and management.[15] In general terms, strikes are mechanisms through which the seriousness of the workers proposal is ascertained against the seriousness of the employer's disagreement. In theory, each party should risk "something" during the bargaining process; in this way, delays in reaching agreements will be costly to both parties, encouraging a speedy and efficient resolution of the labor conflict. However, in most Latin American cases, the costs to employees of striking are relatively low compared to those incurred by employers. In fact, in most countries in Table 12 the costs of striking to union members are lower than in other parts of the globe, including the United States and most of Europe. In a few cases workers will be paid their wages even if they are on strike. The most important cost element to firms during a strike is that usually they are not able to hire temporary replacements and thus are forced into stoppage.

A particularly negative consequence of current labor legislation in some Latin America countries is that the length (and costs) of strikes will tend to be pro-cyclical, increasing during recessions. This is because during a recession—when sales are slow—the costs to the employer of stopping activities due to the strike are relatively lower than during a boom period, when the firm's goal is to increase production in order to take advantage of the expansion. Of course, to the extent that they lose their wages during strikes, workers may be less prone to do so during recessions. This

---

15. This, and the paragraphs that follow, are taken from Cox-Edwards (1992).

system then increases the social costs of negotiation, reducing output and social welfare.

VI. The State of Human Development in Latin America

A broad evaluation of life conditions requires understanding how a series of social variables, including nutrition, health, and education, behave through time. In this section the evolution of some of the most important indexes of human development during the last decade is discussed.[16] The analysis concentrates on health and population, nutrition, education and human capital formation, social security and water and sanitation.

Health and Population: In most countries in the region health indicators continued to improve during the 1980s—see Table 13. However, the available data, show that in many nations the rate of improvement has recently slowed down. This, for instance, has been the case in infant mortality rates in the Dominican Republic and Venezuela; and life expectancy in Ecuador, Guatemala and Honduras (Grosh 1990).

As with poverty and inequality, health indicators, exhibit significant variability within each country. For example, infant mortality rate vary substantially in different countries according to the level of schooling of the mother. In Peru the infant mortality rate is 5.6 times higher for mothers with almost no education than for mothers with 13 or more years of schooling. This ratio is 5.3 times in Colombia and 4.8 times in Bolivia. In Bolivia, infant mortality also exhibits large variability according to ethnicity, with the indigenous non-spanish-speaking population having a 35% higher rate than the spanish-speaking population. The main determinant of infant mortality in Latin America is low weight at birth. Most experts agree that the most effective way to reduce infant mortality is to *target* food supplements to undernourished, pregnant and lactating mothers. In most of Latin America, this is done through "maternal and child health care" programs. Although these have been historically effective in helping to lower mortality rates, recent studies suggest that a

16. The discussion presented in this section draws extensively from World Bank (1992).

42

TABLE 13

HEALTH INDICATORS FOR LATIN AMERICA AND THE CARIBBEAN REGION

	Life Expectancy at Birth (years)		Under-five mortality rate (per 1000 live births)		Babies with low birthweight, percent born under 2.5 kilograms (most recent estimate)	
	1980	1990	1980	1990		
Antigua & Barbuda	71	74	na	24	8.2	1982
Argentina	69	71	46	35	6.0	1985
Bahamas	67	69	na	na	4.8	1984
Barbados	72	75	na	12	19.0	1975
Belize	64	68	na	29	na	na
Bolivia	54	60	207	160	15.0	1985
Brazil	63	66	103	83	8.0	1985
Chile	69	72	43	27	7.0	1985
Colombia	66	69	78	50	15.0	1985
Costa Rica	72	75	31	22	9.0	1985
Dominica	na	75	na	20	10.5	1983
Dominican Republic	63	67	102	78	16.0	1985
Ecuador	63	66	107	83	10.0	1985
El Salvador	57	64	110	87	15.0	1985
Greneda	67	70	na	38	12.2	1975
Guatemala	58	63	130	94	10.0	1985
Guyana	61	73	na	71	11.0	1985
Haiti	52	70	197	130	17.0	1985
Honduras	60	65	140	84	20.0	1985
Jamaica	71	73	29	20	8.0	1985
Mexico	67	70	83	49	15.0	1985
Nicaragua	58	65	132	78	15.0	1985
Panama	70	73	43	31	8.0	1985
Paraguay	66	67	70	60	6.0	1985
Peru	58	63	144	116	9.0	1985
St. Kitts & Nevis	na	70	na	na	13.4	1975
St. Lucia	68	72	na	23	9.7	1985
St. Vincent	67	70	na	27	10.0	1982
Suriname	65	68	na	38	13.0	1985
Trinidad & Tobago	68	71	29	17	3.9	1984
Uruguay	70	73	43	25	8.0	1985
Venezuela	68	70	50	43	9.0	1985

Source: World Bank, Social Indicators of Development, several issues
UNICEF, The State of the World's Children
World Health Organization, Global Nutritional Status, several issues

large number of these programs are somewhat unsatisfactory, and that they should be redesigned to improve efficiency (World Bank 1993).

A traditional problem with health provision in Latin America, is that in many countries the emphasis has been on funding and subsidizing curative medicine, rather than concentrating on basic preventive care. This approach is not only inefficient, but also highly regressive, since its benefits tend to accrue to the middle and upper classes. Recent efforts to tackle this problem have been hampered by the lack of adequate medical support staff, including nurses, technicians, and nurses aides. Also, the World Bank has recently identified the lack of proper distribution of drugs as an element standing in the way of an effective expansion of curative care (Psacharopoulos 1992).

As in most parts of the globe, AIDS has become a major public health problem in Latin America. It is estimated that in 1993 more than 1 million people—including 200,000 women of childbearing age—are HIV positive. HIV prevention programs will have to acquire a priority in Latin health programs if an explosion of AIDS cases is to be avoided. A cost-effective way of dealing with the AIDS problem is to focus on preventing and treating sexually transmitted diseases, which usually facilitate transmission. Unfortunately, in many countries in the region cultural and religious views have prevented more aggressive HIV prevention campaigns.

For decades, the lack of adequate sanitary conditions has been at the heart of Latin America's health problems. Diarrhea and other water-related diseases have been the cause of a high percentage of the region's infant mortality. During the 1980s more than 80 million urban dwellers and 18 million people in the rural sector obtained drinkable water services. However, in spite of these improvements, sanitary conditions in the region are still far from optimal. This was clearly reflected in the outburst of cholera in the late 1980s. A particularly serious problem refers to the inadequate treatment and disposal of sewage. In many countries this problem has been related to the neglect of infrastructure maintenance during the 1980s. There is increasing evidence suggesting that most countries in the region lack the required institutional support for adequately maintaining infrastructure investment.[17] It is estimated that in order to upgrade existing water and sewage facilities, the region as a whole will need to invest $10 to $15 billion in the next few years. Additionally, approximately $10 billion will be required during the next decade to provide water and sewage to those that currently lack these services (Yepes 1992).

For more than two decades, serious efforts have been made to control the rate of growth of population. An expansion in family planning, including an increase in the use of contraceptives, has resulted in a significant decline in total fertility rates in the region. However, in the poorer countries, the total rate of fertility still remains high, exceeding in some cases—Bolivia, Guatemala, Honduras, and Nicaragua—five children per mother.

There is ample evidence suggesting that excess fertility in Latin America has serious social consequences.[18] There is a strong negative correlation between fertility and educational attainment: poor and uneducated women tend to give birth at a very early age and tend to have a larger number of children. As a result of the very high rate of unwanted pregnancies among poor women, the number of street children has increased very significantly in the recent past. For instance, it is estimated that in Sao Paulo, Brazil, there are more than 2.5 million street children! There is now increasing agreement among experts that addressing the fertility "problem" in Latin America constitutes a very efficient way of dealing with problems of poverty and health among

---

17. Recent evidence based on statistical analysis for a score of countries suggests that infrastructure investment is particularly "productive" spilling over to other sectors (De Long and Summers 1991). As it is argued in World Bank (1993b), one should be careful, however, in interpreting this evidence for the case of the Latin American countries. The history of the region is replete with large and highly unproductive investment projects. Having the adequate framework to determine the (social) return on public infrastructure projects is a necessary first step, before expanding investment in this area.

18. This and the paragraphs that follow draw from an unpublished memorandum from Sandra Newhouse.

women.[19] In particular, reproductive health services allow for early intervention in family planning, and prevention of other serious diseases, including AIDS.

Although during the 1970s and 1980s there were active family planning programs in most Latin American countries a number of problems developed. For instance, many women did not fully understand how contraceptives should be used, and treatment was often provided under unsanitary conditions. The weaknesses of these programs was clearly reflected by the fact that there was a very high rate of **discontinuity**: many poor women abandoned systematic family planning methods shortly after joining the programs. As a consequence, increasing efforts have been made to develop the institutional capacity that will assure the sustainability and continuity of family planning programs.

At this time, however, the most serious impediment for achieving sustained progress on family planning is religious. The catholic church has systematically opposed any attempt to control population growth in the area. Although the church's influence varies from country to country, it is particularly strong in the poorer nations, where population growth is particularly high and poverty is generalized.

Nutrition: In spite of the crisis, Latin America continued to experience improvements on the nutritional front during the 1980s. This progress in nutritional attainment has taken place in spite of the fact that historically a very small volume of resources has been devoted to tackling this problem. On average, in Latin America less than 1/4 of one percent of GDP is spent on nutritional programs—see Table 14.[20] The World Bank (1993) has recently estimated that, depending on the country, effective nutritional programs cost between \$30 and \$50 per beneficiary a year. Quadrupling, or even doubling, the amount of resources devoted to nutritional programs, would go a long way towards eliminating the problem. From a budgetary

---

19. Illegal abortions have reached a very large number in the region. For instance, it is estimated that in Brazil, there are approximately 4 million illegal abortions a year. This number exceeds the number of births by 33 percent!

20. See Selowsky (1992) for a discussion on how budgetary reallocations could impact on nutritional programs.

TABLE 14

MALNUTRITION IN SELECTED LATIN AMERICAN COUNTRIES

	Number of Malnourished Children	Number of Children Covered by Feeding Programs	Cost per Beneficiary (US$)	Percent of GNP Spent
Argentina	na	968228	35.0	0.02
Bolivia	760200	482227	21.1	0.49
Brazil	5024200	13957298	16.9	0.28
Chile	35000	1342208	47.8	0.34
Colombia	487900	1197966	13.9	0.11
Costa Rica	10800	64554	43.9	0.35
Dominican Republic	58000	107095	28.8	0.07
Ecuador	264000	172955	32.9	0.31
El Salvador	123200	110820	31.3	0.20
Guatemala	502500	254292	7.5	0.14
Honduras	164800	140000	30.7	0.53
Mexico	1584600	5037724	10.3	0.05
Paraguay	25200	21565	20.5	0.06
Peru	428800	2704801	57.5	0.96
Uruguay	20500	139564	28.7	0.31
Venezuela	275400	448185	12.2	0.09

Source: Musgrove (1991)

point of view, this would mean very modest changes in resource allocation. There is little doubt that if the political will develops, it would be possible to increase the funding to targeted nutritional programs. This could be achieved through a combination of measures, including greater public sector efficiency and reduced expenditures in other areas, including the military.

A large number of studies have discovered a clear link between nutritional programs and the efficiency of the educational system. Well-fed children are more attentive in school, and are able to learn at a faster rate. More specifically, programs aimed at increasing the nutritional intake of children aged 0-3 are likely to have a significant effect on learning abilities and will have very large social returns, increasing productivity and, eventually, the ability to obtain high-paying jobs (Psacharopoulos 1992).

The World Bank has argued for some time that general food subsidies for staples, such as rice or beans are an inefficient and *regressive* way of tackling nutritional problems. These programs end up benefiting the richer segment of the population at a very high budgetary and efficiency cost. Increasingly countries are moving away from these general subsidy schemes and have adopted targeted programs aimed at reaching those poor sectors of society that effectively need support. This has been the case, for example, in Chile, Mexico, and Venezuela.

For some years, one of the most popular ways of targeting nutritional subsidies has been based on school feeding programs (Grosh 1992b). New evidence, however, suggests that the level of efficiency of these programs may not be as high as it was once thought. First, if children are partially fed at school, they tend to receive less food at home. Second, there are significant leakages in the distribution channel, and, in most cases, only a fraction of the food tends to reach the targeted population. Finally, there is very little variety in the food offerings, greatly reducing the appeal of the program to the beneficiaries. Recent evidence suggests that linking nutritional programs to the primary health system may be a more effective way of providing support. In this case the most efficient modality is one where the food subsidies are distributed in the form of coupons or food stamps, and the beneficiary uses the existing

H8

market network to obtain the food (Grosh 1992b, Castañeda 1992 and World Bank 1993a).

VII. Education, Human Capital Formation and Social Conditions

For a long time economists have argued that the accumulation of human capital, through increases in the coverage and quality of education, constitutes one of the fundamental pillars of successful development strategies.[21] In the last few years this idea has gained renewed popularity thanks to the development of a new family of growth models that incorporates the possibility of increasing returns to scale and positive externalities (Romer 1989 and Lucas 1988). For example, Azariadis and Drazen (1990) have argued that once a certain threshold in education is achieved, there are economy-wide externalities that will increase the degree of productivity growth and thus overall economic performance.

In a recent article Lucas (1993) has suggested that the Korean "miracle" since the mid 1960s—where living standards have doubled every eleven years—has been propelled by increases in productivity fueled by the accumulation of human capital. A series of recent empirical studies have strongly supported this view, indicating that the existence of a highly educated labor force, whose skills improve rapidly year after year, has been partially behind the tremendous economic success in Korea and other East Asian countries. For example, in an econometric study on the growth experiences in that part of the world Fukuda (1993) has found that secondary school enrollments play a significant role in explaining cross country growth differentials. These results support those reported earlier by Barro (1991) for a group of developing nations. In an important paper Pyo (1993) has carefully constructed time series for the stock of human capital in Korea for the period 1955-1990, and has found that the increase in education coverage has greatly contributed to that country's fast rates of growth. In another study that tries to understand why the "Gang of Four"—Hong Kong, Korea, Singapore and Taiwan—have outperformed virtually every comparison group during

---

21. T.W. Schultz (1961, 1978) has been the undisputable modern pioneer of this view in economics. See also Harberger (1959) and Psacharopoulos (1992).

TABLE 15

EDUCATION INDICATORS FOR SELECTED LATIN AMERICAN AND EAST ASIAN COUNTRIES

COUNTRY	PRIMARY ENROLLMENT	SECONDARY ENROLLMENT (a)	TERTIARY ENROLLMENT (a)	PRIMARY PUPIL/ TEACHER RATIO
Argentina	na	74	41	19
Brazil	84	39	11	23
Chile	89	75	19	29
Colombia	69	52	14	30
Costa Rica	86	41	27	32
El Salvador	70	26	17	40
Guatemala	na	21	na	35
Jamaica	99	61	5	34
Mexico	100	53	15	31
Peru	95	67	32	29
Trinidad and Tobago	91	83	6	28
Average Latin America	87	50	18	27
Hong Kong	100	73	na	27
Korea	100	86	38	36
Singapore	100	69	na	26

(a) As a percentage of eligible population

Source: World Bank, World Development Report, 1992 the last 25 years, Easterly 1993 found that education showed a remarkably robust effect in explaining cross country growth: independently of the econometric technique applied and of the data used to define growth, primary and secondary education attainments had large and significantly positive coefficients in growth regressions.

Table 15 presents data on education attainment for a group of Latin American countries in 1989, information on three of the East Asian miracle countries—Hong Kong, Korea and Singapore—are also provided for comparative purposes. This table shows that there are significant differences in education coverage across Latin America, and that, in every category with available data, educational coverage in the East Asian "tigers" exceeds significantly the average for Latin America and the Caribbean.

Education not only contributes to aggregate (macroeconomic) growth, but also to an individuals' ability to generate high earnings. A large number of studies have shown that education (jointly with experience) is one of the most important statistical determinants of workers rewards in the labor market. For example, using panel data for the Great Santiago Area in Chile for 1974-1980, Cox-Edwards (1984) found a significantly positive coefficient of education in Mincer (1958) type earning equations. Moreover, she found that the higher the degree of education, the lower the vulnerability of earnings with respect to cyclical fluctuations in the economy.[22] Additionally, Psacharopoulos and Fiszbein (1992) have found that the degree of education is a major determinant of the probability of a given individual having earnings below the poverty line.

Education, then, plays a multiple role in the development process. It has important effects both at the macro aggregate level, where it is a key source of growth, and at the microeconomic level where it is a fundamental vehicle for moving out of poverty. A series of studies on Latin America, as well as other parts of the world, suggest that the rate of return (both private and social) is particularly high for primary education investment (Selowsky 1969 and Psacharopoulos 1992). Psacharopoulos and

22. A series of studies directed by George Psacharopoulos at the World Bank have reached similar conclusions. See for example the essay in Psacharopoulos (1992).

Ng (1992) have recently used household survey data to estimate private and social rates of return for primary, secondary (both general and vocational) and university education for 14 Latin American countries. They found that the primary social rate of return exceeded that of secondary education in 11 out of the 14 cases—the exceptions being Chile, Costa Rica and Honduras. Private rates of return were estimated for 18 countries. In 13 the rate of return on primary education was higher than in secondary education.

In many countries of Latin America, however, net primary school enrollment ratios are below 85 percent—this is the case, for example, in Bolivia, Brazil, Colombia, El Salvador, Guatemala, Haiti and Nicaragua. By comparison, the net primary education enrollment ratio in East Asia is 100 percent of primary school-age children (World Development Report 1992, Table 29).

In 1989 Latin America spent on average US$118 annually per primary education student, down from US$164 in 1980, and significantly lower than the East Asian nations (Wolff et. al. 1993). This budgetary reduction has affected some of the most important inputs into the educational process: teachers salaries have declined drastically, greatly affecting teachers morale; textbooks availability has been reduced; and preschool financing has been cut. This, not surprisingly, has had an important effect on the "quality" of education, including children's ability to learn and retain some basic concepts, as they move on the educational ladder.

In most countries there is insufficient access to early and preschool education. Additionally, women lag in almost educational category, including "head start" type of programs. This, in spite of the fact that recent research has shown that social return on early training of women is exceedingly high. It not only increases productive employment opportunities, but it also has a number of positive indirect effects on fertility and nutritional attainment (World Bank 1993).

A serious problems in Latin America's educational system is the extremely high repetition rates, which rank among the highest in the developing world. In Bolivia, for example, the repetition rate goes from 16% in Beni to more than 35% in Chuquisaca. It is estimated that in 1990 the cost of repetition exceeded US$4 billion for the region as a whole. Interestingly enough, the rate of repetition in the English-speaking Caribbean countries is significantly lower than in the rest of the region (World Bank 1993).[23]

In a study directed by Wolff (1993) it was found that the average quality of Latin America's primary education was dismal. For example, an international comparative study on reading abilities of nine year old found that Venezuelan students ranked last out of twenty-seven countries; Trinidad and Tobago students did better, but still significantly below the average. A 1992 study on science and mathematics achievement for thirteen years old found out that Brazilian students from Sao Paulo and Fortaleza were outscored by students from Korea, Taiwan, Israel, Jordan and China, as well as by students from every developed country in the sample. The only country Brazil outscored was Mozambique. Finally, a 1992 study on mathematics and science for thirteen year old in five Latin American countries—Argentina, Colombia, Costa Rica, the Dominican Republic and Venezuela—found that, with the exception of elite schools, in most cases test performance was significantly below that of "average" countries, such as Thailand and the United States.[24]

Higher education has traditionally been highly subsidized in Latin America. This has tended to have distributive effects, reducing the volume of resources available to the poorest sectors of society. There is little doubt that in order to continue the export-oriented drive of the last few years the quality of higher education (especially in the sciences) has to improve significantly. This, however, has to be done in an effective and fair way. In most cases university students acquire a very high earning capacity, and are able to pay (at least ex post) for their education. The establishment of efficient scholarship and loan systems can allow a broader access to university training, at the same time as permitting a recovery of costs.

---

23. It should be noted that high repetition rates reflect a myriad of factors. It is not necessarily true that a low level of repetition reflects high educational standards. In fact the ideal situation is one where rates of repetition are low, and standardized results are high.

24. Costa Rica was the exception, where second tier schools had very strong test scores.

Education quality can be upgraded through improvement in management and allocation of educational resources, and an increase in funding. In particular, rapid increases in the resources devoted to pre school and primary education are likely to produce very high social rates of return. Teachers should be trained using modern techniques, their skills should be periodically renewed and their salaries should be increased to levels similar to those of relevant comparison groups. Parents should get more directly involved in the educational system, by having an increasing role in the decision making process. If Latin America maintains its traditional neglect for education, and fails to take measures that will greatly improve the quality and coverage of the system, the likelihood of the structural reforms being sustained in the long run will be greatly reduced. As the experience of the East Asia miracle countries has shown, a solid educational base is required for increasing productivity and successfully competing internationally. Moreover, a broad and high-quality educational system usually provides a ticket for social peace, harmony and generalized prosperity.

VII. Concluding Remarks and Some Policy Recommendations

Social problems in Latin America have deep historical roots, and have become increasingly urgent after the debt crisis. As argued at the outset of this paper the success of the reforms initiated during the 1980s will ultimately depend on whether they generate, as a sideproduct, a significant reduction in the extent of poverty. This will allow moving towards a phase of inclusive development, where the fruits of the reforms are distributed widely and where the political support for the transformation process is broadened.

The design of human resources policy, should recognize two basic dimensions on social problems. First, there are deep structural deficiencies in the delivery of social services. They have traditionally been provided in a centralized manner, with little involvement of the communities affected by them. Solving these problems will require substantial long term policy initiatives, including major decentralization, an increase in the coverage and quality of education, and significant upgrading of nutritional and health programs. Tackling these structural problems will not only require abundant resources, but will also take significant time. The second key dimension of the region's social problems refers to the immediate need to provide, in the short run, relief to the poorest segments of society that traditionally have been neglected and have been hit particularly hard during the adjustment period. In the aftermath of the debt crisis a number of countries undertook programs aimed at strengthening the safety net. However, in spite of these efforts, poverty continued to be extremely serious.

A number of countries designed social emergency programs in an effort to ameliorate consequences of the debt crisis and of the subsequent adjustment efforts. Some of the programs were based on traditional public work efforts centralized by the government—while others opted for more decentralized models where the community itself took a very central role in the design, administration, and supervision of the programs—Mexico's Solidarity program and the Bolivia emergency program are good examples of this latter approach.

One of the most serious shortcoming of traditional social programs in Latin America has been that their beneficiaries are not always poor. In the last decade policy analysis and experts have increasingly argued that targeting social programs to the truly poor is an important feature of successful social policies. The fundamental step in designing targeted social programs is identifying the poor: Who are they? Where are they located? This is not an easy task in countries were information is limited. Experts have considered three alternative ways of facing this problem (Grosh 1992b). The first is based on "individual assessment", where the authorities use certain criteria to classify each member of the population as "poor" or "non poor". Naturally, this procedure requires significant amounts of detailed information, not always available in the poorer countries. A second criterion is based on "group targeting", where complete groups of the population—identified by geographical location, gender, ethnicity, age, or other broad characteristics—are classified as "poor" and are targeted to receive the benefits from the programs. Finally, "self targeting" mechanisms are designed to encourage a process of self selection, where the poor and non-poor are separated on their own, without an active participation by the authorities.

These types of mechanisms are based on high transaction costs, lower quality of the products distributed and even stigma.

The difficulties in administering targeted programs—including the problems in identifying the poor—have prompted some authors to argue that the Latin American countries are not ready for this type of policy. However, in a recent study of 30 targeted programs throughout the region, Grosh (1992b) found out that in most cases the actual cost of running these programs was extremely modest: in 29 out of the 30 cases the administrative cost was below US$25 per year per recipient, with a median administrative cost of about US$10 per year recipient. Along the same lines, Musgrove (1991) found that the cost of targeting food supply programs had a range between $30 and $50 per individual per year.

Since the late 1970s Chile has increasingly relied on targeted social programs. Although these programs ran into some difficulties during the early years, as time passed the authorities were able to significantly improve them. There is wide agreement among experts at this time that the Chilean approach to targeting has largely been a success. For example, in a recent comprehensive study Castañeda (1992) reports that 90% of the food distributed through the pre-school nutrition programs went to the poorest three deciles of the population, and 80% went to the rural sector. Also, after it was reformed in the early 1980s, the basic housing program became increasingly geared towards the poor. While in 1969 only 20% of housing subsidies were received by the poorest three deciles, in 1983 this percentage had increased to 50%.

In the years to come progress in poverty reduction is likely to come from two mutually reinforcing sources: first, stronger growth that will result in higher employment and faster growing salaries. This will be particularly the case if, as the existing evidence from the early reformers seems to suggest, growth comes from labor intensive sectors with a rapid growth in productivity. Second, governments will have to increase the provision of basic social services targeted to the poorest segments of the population.

Politically, a fundamental challenge is to raise the availability of resources to fund social programs. In particular, there maybe a temptation to slide back into populism, using the inflation taxes as a way to fund these programs. History has shown, however, that the inflation tax is one of the most regressive instruments.

REFERENCES

Aizenman, J.; "Trade Reforms, Credibility and Development", NBER Working Paper No. 3600, Cambridge, Mass., National Bureau of Economic Research, 1990.

Alesina, A. and Tabellini, G.; "Voting on the Budget Deficit", NBER Working Paper No. 2759, Cambridge, Mass., National Bureau of Economic Research, 1988.

Altimir, O.; "Cambios en las Desigualdades y en la Pobreza de América Latina", paper presented at the Fifth Annual Interamerican Seminar on Economics, Buenos Aires, May 1992.

---------- and Piñera, S.; "Análisis de Descomposiciones de las Desigualdades de Ingreso en América Latina", in O. Muñoz (ed.), La Desigualdad del Ingreso en América Latina, Buenos Aires, El Cid Editor, 1979.

Atkinson, A.; "Comparing Poverty Rates Internationally: Lessons From Recent Studies in Developed Countries", World Bank Economic Review, Vol. 5, No. 1, January 1991.

Azariadis, C. and Drazen, A.; "Threshold Externalities in Economic Development", Quarterly Journal of Economics, Vol. 105, May 1990.

Barro, R.; "Economic Growth in a Cross-Section of Countries", Quarterly Journal of Economics, Vol. 106, No. 2, May 1991.

Barros, R.; "Welfare, Inequality, Poverty, and Social Conditions in Brazil in the Last Three Decades",paper presented at the Conference on Poverty and Inequality in Latin America, Washington, D.C., Brookings Institution, July 1992.

Binswanger, H. et al.; "Environment and Development in Latin America and the Caribbean: The Role of the World Bank", World Bank Report, 1991.

Calvacanti de Albuquerque, R.; "A situacao Social: O Que Diz o Passado e o Que Promete o Futuro", Brasilia, Instituto de Pesquisa Economica Aplicada, 1992.

Cárdenas, M. and Urrutia, M.; "Macroeconomic Instability and Social Progress", mimeo, Fedesarrollo, December 1992

Cardoso, E. and Helwege, A.; "Below the Line: Poverty in Latin America", World Development, Vol. 20, No. 1, 1992.

58

---------, Barros, R. and Urani, A.; "Inflation and Unemployment as Determinants of Inequality in Brazil: The 1980s", paper presented at the conference on Stabilization, Economic Reform and Growth, Cambridge, Mass., NBER, 1992.

Castañeda, T.; Combating Poverty: Innovative Social Reforms in Chile During the 1980s, San Francisco, ICS Press, 1992.

CEPAL; Equidad y Transformación Productiva: Un Enfoque Integrado, Santiago, Chile, 1992.

Cheyre, H.; La Reforma Previsional en Chile, Santiago, Chile, CEPAL, 1991.

Cox-Edwards, A.; "Three Essays on Labor Markets in Developing Countries", Ph.D. Dissertation, Department of Economics, University of Chicago, 1984.

-------------; "Economic Reforms and Labor Market Legislation in Latin America", mimeo, California State University - Long Beach, November 1992.

De Long, B. and Summers, L.; "Equipment Investment and Economic Growth", Quarterly Journal of Economics, Vol. 106, August 1991.

Dornbusch, R. and Edwards, S. (eds.); The Macroeconomics of Populism in Latin America, Chicago, University of Chicago Press, 1991.

Edwards, S. and Cox-Edwards, A.; "The Chilean Economy", Washington, D.C., Library of Congress, 1993.

Elliott, J.; "Real Wages, Poverty and Economic Policy Changes in South America and Mexico in the 1980s: A Review of the Evidence", Staff Working Paper No. 10, Bureau for Latin America and the Caribbean, Agency for International Development, June 1993.

Fiszbein, A. and Psacharapoulos, G.; "Income Inequality Trends in Latin America in the Eighties: A Decomposition Analysis", paper presented at the Conference on Poverty and Inequality in Latin America, Washington, D.C., Brookings Institution, July 1992.

Fukuda, S.; "The Conditional Convergence Hypothesis in East Asian Economies", paper presented at the NBER East Asian Seminar on Economics, Pan Pacific Hotel, San Francisco, 1993.

Grosh, M.; "Social Spending in Latin America: The Story of the 1980s", World Bank Discussion Paper No. 106, Washington, D.C., 1990.

-------- ; "From Platitudes to Practice: Targeting Social Programs in Latin America", LAC Human Resource Division Report No. 10720, Washington, D.C., World Bank, 1992a.

-------- ; "Choosing a Poverty Alleviation Program", paper presented at the Conference on Poverty and Inequality in Latin America, Washington, D.C., Brookings Institution, July 1992b.

Haggard, S. and Kaufman, R. (eds.); The Politics of Economic Adjustment, Princeton, New Jersey, Princeton University Press, 1992.

----------- and Webb, S.; "What do we Know About the Political Economy of Economic Policy Reform?", The World Bank Research Observer, Vol. 8, No. 2, 1993.

Harberger, A.; "Using the Resources at Hand More Efficiently", American Economic Review, Vol. 49, June 1959.

Hicks, N.; "The Role of the World Bank in the Latin American Reform Process", Washington, D.C., World Bank Office Memorandum, 1992.

Krueger, A.; "East Asian Experience and Endogenous Growth Theory", paper presented at the NBER East Asian Seminar on Economics, Pan Pacific Hotel, San Francisco, 1993.

Lucas, R.; "On the Mechanics of Economic Development", Journal of Monetary Economics, Vol. 22, July 1988.

-------- ; "Making a Miracle", Econometrica, March 1993.

Lustig, N.; Mexico: The Remaking of an Economy, Washington, D.C., Brookings, 1992.

Marquez, G.; "Poverty and Social Policies in Venezuela", paper presented at the Conference on Poverty and Inequality in Latin America, Washington, D.C., Brookings Institution, July 1992.

McGreevey; "Social Security in Latin America: Issues and Options for the World Bank", World Bank Discussion Paper No. 110, Washington, D.C., 1990.

Mesa-Lago, C.; "Social Security and Prospects for Equity in Latin America", Washington, D.C., World Bank Discussion Paper No. 140, 1991.

Morley, S.; "Macroconditions and Poverty in Latin America", mimeo, Washington, D.C., Interamerican Development Bank, February 1992.

Musgrove, P; "Feeding Latin Americs's Children", LAC Human Resource Division Report, Washington, D.C., World Bank, 1991.

Nam, C.; "The Role of Trade and Exchange Rate Policy in Korea's Growth", paper presented at the NBER East Asian Seminar on Economics, Pan Pacific Hotel, San Francisco, 1993.

Psacharapoulos, G.; "Poverty and Income Distribution in Latin America and the Caribbean", LATDR Progress Report, World Bank, March 1992.

---------------- and Ng, Y.; "Earnings and Education in Latin America:Assessing Priorities for Schooling Investments", World Bank Working Paper No. 1056, Washington, D.C., 1992.

Pyo, H.; "A Time-Series Test on the Endogenous Growth Model with Human Capital", paper presented at the NBER East Asian Seminar on Economics, Pan Pacific Hotel, San Francisco, 1993.

Romer, P.; "Capital Accumulation in the Theory of Long-Run Growth", in R. Barro (ed.), *Modern Business Cycle Theory*, Cambridge, Harvard University Press, 1989.

Schultz, T. W.; "Investment in Human Capital", *American Economic Review*, Vol. 51, March 1961.

------------- ; "Nobel Prize Address", *Journal of Political Economy*, Vol. 86, December 1978.

Selowsky, M.; "On the Measurement of Education's Contribution to Growth", *Quarterly of Economics*, Vol. 83, August 1969.

---------- ; "Latin America: Protecting Children's Nutrition During the Adjustment", *The Bank's World*, February 1992.

Sheahan, J.; *Patterns of Development in Latin America: Poverty, Repression, and Economic Strategy*, New Jersey, Princeton University Press, 1987.

Wolff, L., Schiefelbein, E. and Valenzuela, J.; "Improving the Quality of Primary Education in Latin America: Towards the 21st Century", Regional Studies Program Report No. 28, Latin America and the Caribbean Region Division, World Bank, Washington, D.C., 1993.

World Bank, *World Development Report 1990: Poverty*, Washington, D.C., 1990.

--------- , *Poverty and Income Distribution in Latin America: The Story of the 1980s*, Washington, D.C., 1992.

61

--------, Human Resources in Latin America and the Caribbean: Priorities and Action, Washington, D.C., 1993a.

--------, Latin America: A Decade After the Crisis, Washington, D.C., 1993b.

--------, The East Asian Miracle, Washington, D.C., 1993c.

Yepes, G.; "Infrastructure Maintenance in Latin America", LAC Technical Reform No. 17, World Bank, Latin America and the Caribbean Region Division, Washington, D.C., 1992.

62