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CLOSING THE LOOP: LATIN AMERICA - GLOBALIZATION AND HUMAN DEVELOPMENT

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**PARTNERSHIP ON
GLOBALIZATION,
LIBERALIZATION AND
SUSTAINABLE HUMAN DEVELOPMENT**



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Ultimately, people and nations will reject global integration and global interdependence if they do not gain from it.

United Nations Development Programme

Globalization is largely exogenous and inexorable.

United Nations Conference on Trade and Development

Latin America has a very sad tale to tell.

Inter-American Development Bank

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I. VISION OF DEVELOPMENT

1. As world markets expand and integrate, the stakes rise for developing countries. Will increased investment, market liberalization and access to the knowledge economy help kick-start development? Or do countries face a future of increasing instability, inequality and marginalization?
2. In order to benefit from the many opportunities globalization offers, developing countries need to do more than follow what Manuel Agosin¹ calls “the *passive* policy” of liberalization. They need *active* policies too, he argues. They must improve domestic capital markets, acquire and develop technology, build new infrastructure and access information on foreign markets. They also need policies that ensure stability and minimize economic shocks. As the East Asian crisis has highlighted, there is considerable potential volatility in the globalized system. There is a growing consensus that stronger global governance is needed, with the World Economic Forum identifying “a short-run *global* financial cycle that can gravely disrupt national and regional economies, even economies that are relatively well run and highly competitive.”²
3. The challenges of globalization call for more than economic policies, however. Wealth is only one indicator of well being. As well as rising incomes, people care about health, education, equality, security, and the environment. Policy-makers in democracies (the vast majority of Latin American countries) need to address these concerns.
4. This paper argues that human development is not just an *end* of economic development, it is a *means* as well. Health, education and institutional strength positively influence income, while inequality and insecurity have negative effects. Social and economic factors reinforce each other and generate positive (or negative) feedback. On their own, trade and finance will not make the most of what globalization offers. Active policies for human development must join them in any forward-looking policy portfolio.³

¹ *Trade and Finance: A SHD Centred Conceptual and Operational Framework*, Manuel R. Agosin, March 1999, unpublished.

² World economic Forum (1999): *The Global Competitiveness Report 1999*. OUP.

³ For a full discussion of how liberalization and globalisation can contribute to economic growth when combined with sustainable human development, see Manuel Agosin and David Bloom (2000), “Globalisation, Liberalization, and Sustainable Human Development: Analytical Perspectives”, Draft. Geneva: UNCTAD; Manuel Agosin, David E. Bloom, and Eduardo Gitli. 2000. “Globalisation, Liberalization and Sustainable Human Development in Central America.” Draft. Geneva: UNCTAD; and David E Bloom, Ajay S Mahal, Damien King, Fiorina Mugione, Aldrie Henry-Lee, Dillon Alleyne, Philip Castillo and River Path Associates (2001): ‘Jamaica: Globalisation, Liberalization and Sustainable Human Development’ UNCTAD/UNDP Programme on Globalisation, Liberalization and Sustainable Human Development. February 2001;

Why rich? Why poor?

5. Since Adam Smith, many economists have asked what makes one country rich and another poor. The wealth of a nation comes from three sources:

- *what a country has* – the resources it can exploit and the capital it has accumulated
- *what a country does with what it has* – the value it adds to these resources through the efforts and skills of its labor force
- *how it sells what it has*– the success it has in marketing its value-added products and its ability to position itself for maximum competitive advantage

6. Successful countries, it is argued, need to exploit their natural resources, accumulate physical capital and build infrastructure. They need to develop a more sophisticated division of labor, to allow workers to become more productive and to hone their skills at specialized tasks, while also exploiting labor saving technologies. They must trade vigorously, exporting products and services, while importing more productive technologies. Policymakers can help their countries become more successful by encouraging savings that can be recycled for domestic investment. They need to set tax policies that encourage investment and ensure wages are kept at competitive levels. Markets should be as open as possible, with tariffs set low and state interference minimized.

7. There is much to be said for this liberal worldview. Over the period 1965–1990, for example, analysis suggests that if Latin America had been completely open to the world economy, as East Asia was throughout most of the period, Latin America’s annual growth rate would have been on average 0.9 percent higher. This would have seen a doubling of growth from 0.9 to 1.8 percent for each year from 1965 to 1990. Per capita GDP in 1990 would have been almost 25 percent higher at just under US\$4000 instead of the actual US\$2950, with poverty levels substantially lower.⁴

8. However, two issues remain to be addressed. First, for many countries, the adjustments needed to achieve this kind of economic openness are extremely painful in the short-term, while there is a delay before benefits come on stream. In Latin American economies, market liberalization has been accompanied by increases in inequality, with some sections of the population dramatically affected by re-structuring. Alongside the moral need to provide a safety net for the poor, there is also the probability that short-term disturbance can limit, or even reverse, the impact of long-term benefits.

9. The World Bank, for instance, contrasts “China’s cautious and measured road to market reform, starting with agriculture and small and medium enterprises, versus Russia’s rush into liberalization.” China, it notes, has achieved “perhaps the most spectacular poverty reduction in the history of the world”, while Russia faces falling incomes and health outcomes accompanied by rising poverty and crime levels. Mansoob Murshed⁵ argues that there is now direct evidence that the deleterious side effects of globalization undermine its overall prospects. “Unlike in the past,” he writes, “it is now widely believed that income inequality actually hampers growth prospects.” The costs of internal conflict can be extremely high. Instability discourages investment, while there are

⁴ Bloom, D., Canning, D., Evans, D., Graham, B., Lynch, P., and Murphy, E. Population Change and Human Development in Latin America. In Inter-American Development Bank. 1999-2000 Report on Economic and Social Progress in Latin America

⁵ S. Mansoob Murshed, Research Fellow, UNU/WIDER, *Globalization and small vulnerable economies: a survey of the issues* (31 August 1999)

suggestions in the literature that countries with a highly asymmetrical income distribution report lower levels of contentment and happiness – factors that affect productivity.

10. The second problem with the traditional liberal worldview is that empirical evidence shows that it explains only some of the gaps between rich and poor nations. With labor and capital considered as basic inputs, a rich country can either have more of these resources per capita; be better at exploiting resources through technology, institutional strength and a refined division of labor; or be more effective at transforming outputs into income, through advantageous location, openness to markets or more skilful marketing.

11. Empirical analysis, however, shows that these possible sources of advantage account for, at best, only half of the income differences we see in the world. There are four possible explanations for this disparity. First, we may have the right framework, but be underestimating in our measurement of inputs. Second, we may have underestimated the differences in technology available to different countries. Third, we have failed to take into account significant positive feedback between the different types of input. Or finally, there may be other factors of production that we have failed to take into account.

12. We believe, along with most economists, that while the first two explanations may explain some of the disparity, they are not sufficient on their own. Instead, we argue that there are significant other inputs and that these multiple factors, in turn, interact to generate a powerful stimulus for growth.

Knowledge revolution

13. Recent work has changed our understanding of the nature of capital. Our perspective on natural resources, for example, has shifted in parallel with a changing appreciation of the environment. Many are nonrenewable, while a healthy environment has indirect and direct value. To maximize national prospects, therefore, it can be sensible to reduce the use of material inputs. Environmental legislation has encouraged several industries to reduce the material intensity of their goods and services, limit their toxic dispersion, enhance material recyclability and extend their product durability. Many companies have used such approaches to gain material advantage, generating new resources from existing waste for example. Multinational corporation 3 M uses the following formula in its groundbreaking (and much imitated) “pollution prevention pays” program:

$$\text{Pollution (waste materials) + Knowledge (technology) = Potential resources}$$

14. A complementary trend has been the growing dematerialization of the world economy. Knowledge is now increasingly valuable in the world economy, as economies become increasingly based on intangible rather than tangible assets.⁶ Spectacular advances in computerization, communications and information technology have greatly enhanced the ability of researchers and entrepreneurs to create new knowledge, products, and services. New services have also proliferated, while brand and reputation are now key assets on company balance sheets. A thriving knowledge economy places increased emphasis on innovation, not only in producing new products and services but also in their marketing and delivery.

⁶ Task Force on Higher Education and Society: Higher Education in Developing Countries: Peril and Promise. World Bank February 2000; World Bank: World Development Report 1997: The State in a Changing World. Oxford University Press, 1997

15. The importance of knowledge has placed a renewed emphasis on people. Labor must be more highly skilled, as scientists, technologists and inventors drive technological progress.⁷ And *developing* new technology is only one element of success: turning it into useful (and economically productive) services requires further expertise. Disciplines like management and marketing have become increasingly influential and are at the root of much business success. These changes have swept through companies and are by no means confined to elites. Take car manufacturing, for example. Adam Smith's conception of the division of labor was most fully-developed by Alfred P. Sloan at General Motors in the 20s and 30s, with an emphasis on centralized policy-making to control workers who were directed to clearly-defined tasks. Over the last twenty years, however, and in response to Japanese pressure, the US motor industry has increasingly adopted a decentralized, team-based manufacturing model. Decision-making (and the expertise it requires) is distributed throughout the organization, with what Adam Smith describes as the "dexterity in every particular workman" a critical business asset. Simultaneously, marketing departments have grown up to dictate what kind of cars are made, based on information about consumers and their preferences, while each model produced is expected to contribute to the value of the company's brand. Again, elusive but vital creative and imaginative skills come to the fore.

Human Capital

16. The study of human capital has developed to focus on the impact of people on the economy. The importance of education as a determinant of growth has been recognized since at least the late 1950s. There is strong evidence to show that a large part of the East Asian "miracle" is attributable to education (World Bank 1993).⁸ Clearly, there are significant private benefits to the consumption of education. In Latin America as a whole, according to the Inter-American Development Bank, a worker with six years of education earns 50 percent more than someone who has not attended school. This gap increases to 120 percent for those with 12 years of education (i.e. completing secondary school), and exceeds 200 percent for those with 17 years of education (i.e. completing a university diploma).⁹

17. Society clearly benefits as well. More educated people are more productive (and may be becoming more so as the knowledge economy develops). Just as individuals with better education tend to succeed more in the labor market, so economies with higher enrolment rates and years of schooling appear to be more dynamic, more competitive in global markets and more successful in terms of higher income per capita.¹⁰ Once again, East Asia dramatically illustrates the point. From 1991-1995, East Asia's economy grew 4.6 points faster per year than Latin America. Economists calculate that the higher education levels of the East Asian workforce account for a full half point of that difference.

⁷ 6 of 17 countries that spend less than 0.5% of GNP on research and development spending are found in Latin America – with only El Salvador (2.2%) of the 10 Latin American countries in the 59-country study spending more than 1% of GNP in this crucial area. (1999 UNESCO Statistical Yearbook)

⁸ D. E. Bloom and J. G. Williamson, *World Bank Econ. Rev.* **12** (3), 419 (1998). D. E. Bloom, D. Canning, P. N. Malaney, *Popul. Dev. Rev.* 2000, Supplement to Vol. 26, pp. 257-290.

⁹ Inter-American Development Bank, *Facing up to Inequality in Latin America*, Washington DC, IDB, 1999

¹⁰ Bloom, David E., Patricia Craig and Pia Malaney, 2001, *The Quality of Life in Rural Asia*. Oxford University Press, forthcoming.

18. A much newer perspective on human capital suggests it does not simply consist of education. Health is normally viewed as an end product of the growth process. People with higher incomes have a greater command over the goods and services that promote health, such as better nutrition, access to safe water, sanitation and good quality health services. Wealth undoubtedly leads to health, but there is also a clear link in the other direction – *from health to wealth*. Healthy workers are physically more energetic, mentally more robust and miss less work through illness. Their productivity makes companies more profitable, while a healthy workforce is important when attracting foreign direct investment.

19. At the macroeconomic level, the effects of health on growth are significant and surprisingly strong. If two countries are compared that are identical in all respects, except one has a 5-year advantage in life expectancy, real income per capita in the healthier country will grow 0.3-0.5 percent faster than in its less healthy counterpart.¹¹ This added spurt of growth is not trivial, especially given that the rate of income growth in Latin America averaged less than 1 percent each year from 1990 to 1995. In addition, rapid increases in the relative size of the working-age population increases the economy's productive capacity. It also serves to encourage women to participate in the labor force, and raises the potential for saving and for the accumulation of capital in different forms, such as plant and equipment, infrastructure, and skills.

20. A third and equally important factor is demographic change. Population debate has traditionally pitted population pessimists against the population optimists. The pessimist argument originated with the Reverend Thomas Malthus who, in 1798, predicted that populations would be under continual pressure to grow as a result of "the passion between the sexes". However, land, physical capital, and knowledge would not increase at the same pace and famine would force population levels back down. Escape from subsistence would be possible only for a tiny fraction of a country's population. Population optimists, meanwhile, have argued that rapid population growth stimulates innovation, with larger populations developing new technologies that lead to increased wealth-creation.¹²

21. Economists traditionally tend towards a middle position of 'population neutralism', their research showing no link between the size of a population and growth. Again, however, they stand guilty of treating people as a homogenous entity. A demographic perspective combines a qualitative and quantitative approach to the question of population. To the demographer, it is not just the absolute numbers of people that matter, but the profile of the population and how that changes over time. For developing countries, the most important concept is the *demographic dividend*, which is available as a "baby boom" generation moves through the population. Basic health improvements, which have occurred throughout the world since 1945, tend to be concentrated initially amongst the very young, as infant and child mortality falls dramatically. They also have a secondary, behavioral effect (and one which, Malthus did not expect). As parents realize their children have a dramatically improved chance of survival, they act to have fewer children. This effect is then magnified as parents realize that investment in their children is more

¹¹ See David Bloom and David Canning "The Health and Wealth of Nations," *Science*, February 18, 2000. See also World Health Organisation, *World Health Report, 1999*, Geneva, 1999. Bloom, David, and David Canning. 2000b. "The Health and Poverty of Nations: From Theory to Practice." Paper presented to the WHO Commission on Macroeconomics and Health, November.

¹² Friedrich Engels noted how science solves the population/food conflict: "Malthus puts forward a calculation upon which his whole system is based. Population increases in geometrical progression ... [and] The productive power of the land increases in arithmetical progression ... The difference is obvious and horrifying – but is it correct? Where has it been proved that the productivity of land increases in arithmetical progression? The area of land is limited – that is perfectly true. But ... there still remains ... science, the progress of which is just as limitless and at least as rapid as that of population."

certain to be realized over long and productive adult lives. Most therefore reduce their expectations of what is an ideal family size, in order to invest more in fewer children.¹³

22. These falls in fertility only follow the health gains after a lag, however. The result is that a bulge in the population distribution occurs. This “baby boom” generation must first be educated, but there then follows a period where there is a vastly increased proportion of workers to dependents. If these workers find productive employment, the impact on the economy is substantial. Perhaps a third or more of the phenomenal burst of growth we know as the East Asian “miracle” can be attributed to this demographic dividend, a boost to the growth of income per capita of at least 2 percentage points a year.¹⁴

23. In the 20 years to 2020, Latin America’s total population is projected to grow at a rate of 1 percent per annum, with a rate of growth for those of working-age projected at 1.4 percent per annum. If the policy regime stays broadly unchanged from that seen between 1965–1990, Latin America’s demographic dividend will translate into a 1 percent boost to the growth rate. Under the ideal policy environment, however, this same pattern of demographic change could be expected to boost growth by 2.1 percent per annum. In short, good policy has the power to more than double the demographic dividend.

Social Capital

24. Social capital broadens the focus from the individual to the society, exploring the relationships between people. A market does not exist in a vacuum. It relies on mutually understood rules, which can be effectively enforced. Strong and fair government, freedom from corruption, and powerful institutions are all-important for a market to function. Campos and Nugent (1999) identify the following five aspects of good governance: an accountable executive; an efficient civil service; the rule of the law; the participation of “civil society” in law making; and an open and transparent policy-making process.

25. The World Bank also emphasizes the importance of institutional reform for growth and development, pointing out that successful corporations regularly reinvent themselves “continuously adapting their internal rules, centralizing some functions, decentralizing others, adding discretion where advantageous, and modifying the criteria for rewards when doing so is likely to improve performance.”

26. Yet most countries, developing and developed, continue to use dated and poorly functioning institutional models. In Latin America, the effects of limited social capital can be seen in the rampant nature of tax evasion. (According to the World Economic Forum, Venezuela, Bolivia, Brazil, Argentina and Ecuador rank 43, 52, 56 and 59 respectively out of 59 countries.), corruption (Bolivia 55, Ecuador 59 out of 59), and compromised judiciaries (Ecuador, Bolivia, Venezuela, Peru, 56 through 59 respectively)¹⁵.

¹³ Nobel Prize-winning economist Gary Becker has suggested that the fall in fertility in the West can be attributed to parents behaving towards children in a similar way to consumers’ behaviour towards durable goods. He notes an increasing tendency, driven by increased knowledge of contraception and the higher costs of having children, towards “consuming” fewer children of higher quality (healthier and better educated).

¹⁴ D. E. Bloom and J. G. Williamson, *World Bank Econ. Rev.* **12** (3), 419 (1998). D. E. Bloom, D. Canning, P. N. Malaney, *Popul. Dev. Rev.* 2000, Supplement to Vol. 26, pp. 257-290.

¹⁵ World Economic Forum (2000): *The Global Competitiveness Report 2000*. Oxford University Press, 2000.

27. Social capital is about more than the formal relationships within a society, it also refers to the ability of people to work together for a common purpose. Francis Fukuyama argues¹⁶ that competitiveness relies on “groups of individuals who, because of a preexisting moral community, are able to work together effectively.” The importance of social cohesion to economic success demands action to combat inequality as well as to increase the stake people of all types feel in national progress. A positive engagement with the forces of civil society (especially NGOs) is increasingly important, as are measures to simultaneously widen and deepen participation in the political and economic process.

28. The most basic unit of social capital is the family, which is experiencing change throughout the world. The developed world has so far failed to provide very good models for these changes. Family welfare policies have tended to promote dependency, children in single parent families have often been disadvantaged and family breakdown has been associated with rising crime levels. The decline of the family has become a focal point for those nostalgic for the “old certainties” and is linked to a lack of engagement with society prevalent in many Western countries.

29. Latin America is far behind US rates for those living alone. 28 percent of wealthy Americans – and 6 percent of poor – live alone, whereas 70 to 90 percent of children in Latin America live in nuclear or extended families. This ranges from 66.3 percent in El Salvador to 81.8 percent in Paraguay and 83.4 percent in Mexico. There is a desperate need for fresh thinking in this area. The role of women is, of course, critical. Women contribute more of their income than men to the family purse. Their influence is also essential to the education of children who, across the developing world, are making considerable progress in health, education and other key dimensions of gender equity. Strong families contribute to strong economies, but need considerable support to balance the demand for work and for care for children and the elderly.

30. The importance of social capital can be seen in two contrasting (though occasionally related) phenomena: entrepreneurship and crime. Crime is a major deterrent to business, a problem that is especially pronounced in countries such as Russia. Entrepreneurship, meanwhile, is essential to economic success, especially during periods of rapid change. John Kay¹⁷ points out how culturally mediated this individualistic pursuit is. It is, he says, a disciplined form of pluralism, whereby people are given the freedom to act to make ideas concrete, but are reined in by social structures when the results are unsuccessful. It may also be infectious. Many governments certainly hope so and are setting policy to try and encourage more people to catch the disease.

Capital interactions

31. Human and social capital not only interact with income, they affect each other, setting up strong multiplier effects that can transform an economy’s prospects. The effects of health are wide ranging, for example. People are likely to invest more in educating their children in a healthy society, as they pursue a policy of investing more in smaller families, confident that children have a high chance of reaching maturity. They also have stronger incentives to develop their own skills in a process of lifelong learning, as they can expect returns over a longer period. In addition, healthy people learn more easily and are less likely to miss vital stages in their education through illness.

¹⁶ Francis Fukuyama (1995): Trust. Penguin.

¹⁷ *The Glittering Upstarts*, John Kay, Management Today, October 1999.

Healthier people have more incentives to save for their retirement, increasing the availability of capital in the economy. Poor health, meanwhile, leads to significant strains on the public purse. In Sub-Saharan Africa, for example, AIDS is impeding economic growth by killing adult workers in large numbers, depleting the wherewithal for dealing with other diseases such as diarrhea, hepatitis, malaria and tuberculosis.

32. Education has significant impact on income (as discussed above), but it also effects health, with the education of women one of the best ways of improving their children's health (women are also consistently better at sharing medical- and health-related information than men, in both developing and developed countries). Education is also currently the most effective weapon in the battle against AIDS. Investments in women's education also increase their economic productivity. In Venezuela, for instance, 85 percent of female university graduates work, compared to 30 percent of women who only received primary education. There is another and very compelling reason for countries to invest in higher education: as the world becomes more complex, with rafts of international legislation and multilateral agreements in play, each country needs its own cadre of intelligent, educated and well-trained people to maximize their nation's interests.¹⁸

33. Insights about the demographic transition offer a powerful planning and management tool to help deliver the region's demographic dividend. The dividend itself, of course, emerges from the sustained inputs of an earlier generation of policymakers and planners, working in particular on health and education. However, it is crucial for policymakers to understand the substantial ways in which the demographic transition operates across multiple sectors. There are complex effects on almost every main area of consideration to policymakers and planners: education and health, micro-finance and support for small businesses, savings and capital availability, pensions and even political stability – high numbers of unemployed, for example, are destabilizing.

34. Yet it is a one-off gift – and will only be a gift if there are appropriate policies in place to use it. The idea of a 'spiral', which can be virtuous or vicious, captures much of the reality policymaker's face. Increasing education promotes health *and* wealth in a positive ascending loop. Conversely, decreasing the quantity and quality of education available to this generation will reduce health and wealth. This spiral is phenomenally complex, with multiple input from multiple sectors. Yet as a system, it can operate in only three ways: it can remain in a stable state of equilibrium, (although the sheer energy of liberalization, globalization and a large generation of young people would suggest this is highly unlikely); it can lead to self-reinforcing improvements (where, for example, improving the base of healthy and educated workers increases the range and depth of entrepreneurial activity, in turn increasing the amount and quality of employment, which then delivers increasing savings and available capital to entrepreneurs); finally, it can deteriorate. Here the demographic transition meets failures in the education and health systems, for example, delivering a worsening spiral of decline, rising unemployment and so forth.¹⁹ It's a nightmare scenario – as Russia, for example, is only too painfully aware.

¹⁸ See the Task Force on Higher Education's report: Higher Education in Developing Countries: Peril and Promise available at www.tfhe.net

¹⁹ Bloom, D. and Williamson, J. 1998. 'Demographic transitions and economic miracles in emerging Asia', *World Bank Economic Review* 12, 419–56.

Development action

35. Developmentalists are currently struggling with the sheer complexity of the problems faced by poorer countries. Several frameworks are being developed to grapple with the holistic nature of the problem. One example is the World Bank's Comprehensive Development Framework (CDF), currently at a pilot stage²⁰. In the CDF, each country is called on to "own its development strategy" and to determine goals, timing and sequencing of programs. Simultaneously, they are exhorted "to build partnerships" with a vast number of actors, while also developing "a long term vision" with national support. Further, "structural and social concerns should be treated equally and contemporaneously with macroeconomic and financial concerns".

36. Although there is much value in this approach, we would point out that it may take a great deal of time to develop and implement an all-encompassing strategy and sets of tactics that are "all things to all men and women". Neither is there sufficient institutional capacity to go round. Governments and development agencies are increasingly honest about their past failures. It is unlikely these failures were due solely too poor policy. Implementation is clearly a problem and one which, will grow as increasingly complex approaches are prescribed.

37. An understanding of the virtuous spiral offers the opportunity to proceed in a way that takes complexity into account, but offers the possibility of directed action. Instead of advancing on all fronts, governments need to take sufficient action to push a spiral into action and then ensure that beneficial effects are quickly fed into other areas. A strong, effective and positive push in one or more areas – education, health or micro-finance, for example – should be used to start the process of social and economic renewal. If the initial concentration is economic, it is essential to ensure that benefits are quickly fed into human development (the converse also applies).

38. The single model for development (which changes over time, like fashion) thus gives way to multiple-possible models, which can be adopted according to national strengths and preferences. Not all models are viable, of course, and some will work better than others. But policy-makers need the vision to adopt one model, explain their vision with clarity and fulfill it in the medium to long term.

²⁰ Entering the 21st Century: World Development Report 1999/2000, World Bank 2000.

II. THE LATIN AMERICAN STORY

39. A focus on the links between the quality of life and growth has major implications for the policymaker. Public policy needs to focus on three areas. First, it is important to balance the rights and responsibilities of individuals within society, in order to develop a sense of a social contract. Policy-makers need to carry their populations with them as they institute market sharing, which means encouraging risk sharing between business, government and the labor force. Social exclusion is an insidious threat and creative policies are needed to develop a stake for marginalized groups in social development. Second, governments need to act to develop public goods, where benefits above and beyond private benefits accrue as a whole to society. Spending on these goods is an investment in the future and one for which the market inadequately provides. Finally, the importance of stability should not be underestimated. The changes associated with globalization can have dramatic affects on some groups, with consequent impacts on the nation's supply of human and social capital.

Education

40. Latin America needs to modernize its education system, and to concentrate on offering as many young people, as quickly as possible, a better quality education. It also needs to deal with major shifts in the pattern of demand. The region has made great strides towards providing universal access at primary level, with universal access in many countries. But as the demographic wave works through, it will see demand for primary education fall, while pressure builds at secondary and tertiary levels.²¹ It must therefore develop radical new initiatives to meet the more complex, diverse and costly demands of more advanced education.

41. Higher education should be an increasing priority. Narrow – and misleading – economic analysis has traditionally shown that investment in higher education attracts much lower social and private returns than investment in primary education. This analysis is based solely on increases in earnings, rather than the contribution a highly-educated people make as economic and social entrepreneurs, leaders and representatives of their countries on the world stage. The need for increases in the quantity and quality of higher education will become even more pressing as globalization and liberalization continue. Within the knowledge economy, higher education institutions play a critical role in generating new knowledge, making the global stock of knowledge accessible at national level and educating young people to take advantage of new economic opportunities. Already Latin American higher education institutions are stretched by increased demand. Argentina, Brazil and Mexico, for example, currently enroll between 1 and 2 million students in tertiary education, while ‘mega-universities’, such as the National University of Mexico and the University of Buenos Aires, each have over 200,000 students.

42. The private sector is playing an increasingly important role. Over 65 percent of tertiary students in El Salvador and Colombia now attend private institutions, as do 60 percent in Brazil and 50 per cent in Chile. Some countries have actively set about encouraging the private sector. Mexico and Brazil offer tax exemptions while Chile provides direct grants to help bolster enrolment in

²¹ Only a third of Latin Americans attend secondary education, compared with around four fifths in South East Asia (Peter Hakim (2000): *Is Latin America Doomed to Failure?* Foreign Policy, Winter 1999-2000.) Enrolment in tertiary education varies widely across the region, from 30% in Chile to 8% in Paraguay, but even Chile is some way behind the likes of Canada (88%), the US (81%), Australia (80%) and Finland (74%)., and Ecuador, Colombia, Mexico and Brazil all fall in the bottom 14 of the 58 countries measured (UNESCO 1999 Statistical Yearbook).

private institutions (World Bank 1994). However, policymakers will wish to make sure that quality control is built into the system as it diversifies to meet demand.

43. Latin American societies need to engage in a debate about the aims and objectives of higher education, in order to design a system that will meet their future needs. The resulting systems will differ widely, therefore, but common features are likely to be:

- relatively *autonomous*, with governments providing clear supervision, but not day-to-day management
- explicitly *stratified*, allowing institutions to play to their strengths and serve different needs; compete for funding, faculty, and students; and innovate to take advantage of the opportunities offered by communication technology
- *cooperative* as well as competitive, as human, physical and knowledge capital are shared within the system creating, for example, a 'learning commons' where facilities – computers, libraries, laboratories – are open to any and all students

- *open*, encouraging higher education institutions to develop knowledge- (and revenue-) sharing links with business and to deepen the dialogue with society leads to stronger democracy and more resilient nation states

44. Policy-makers must explore new funding options, adopting models that maximize the input of the private sector (both profit and non-profit making) and students, while using public funds to secure public goods, such as increased access and courses in the national interest. Resources must also be more effectively used and a renewed focus on governance should be a priority in all countries. New curricula are also needed, especially in two contrasting areas: science & technology and general education. The knowledge economy demands a mix of highly trained generalists and specialists – Latin American countries need a sufficient supply of both.

45. Some innovation is already underway. In response to growing demand for private higher education in Bolivia, the Foundation for the Integral Development of Bolivia (FDIB) created the first private university in the country. Nur University (Universidad Nur) began its first academic year in 1985 with only 85 students. It has since grown to enroll some 5,000 students per year. Nur became a government-recognized and affordable alternative to the traditional national public university system.

46. In Chile, meanwhile, a reform program implemented during the early 1980s led to 82 professional institutes and 186 two-year technical centers being established. Chilean reform included introducing tuition fees and diversifying funding sources. New evaluation systems were created with a focus on fostering accountability and improving quality – and incentives are increasingly based on performance rather than seniority. Mexico has focused on curriculum reform, improved evaluation, and increased student enrolment in graduate programs, many of which will be future university professors. This is an essential investment in the future – for without suitable faculty, the system will be unable to grow, except at the expense of quality.

Health and Demography

47. Policy-makers can develop health policy with the knowledge that health and demography are among the most potent influences on economic growth. Latin America is now well into its demographic transition, but it needs to ensure that its policies take advantage of this opportunity and that the demographic dividend is collected in full.

48. Policy-makers should concentrate on ensuring that health gains are maintained and felt consistently across the population. The size of the demographic dividend depends on falling fertility and this will happen faster in a healthy population. Some groups are currently marginalized, while HIV/AIDS is a particular, but poorly combated, threat to the working-age population. Health education is especially important here, with HIV/AIDS infection rates best reduced through imaginative information campaigns, using the best in modern marketing to effect behavioral change, and through sustained health improvements elsewhere.

49. Health education is also needed to help complete the demographic transition, by ensuring fertility continues to fall. Many Latin American families report problems achieving their desired family size, with a survey of married women in El Salvador, Guatemala and Mexico showing more than a quarter do not want to have another birth within the next two years (Inter-American Development Bank 1999). Helping meet *existing* unmet demand for birth control would itself be enough to drive fertility levels down to replacement level of 2.1 live births per woman.

50. Reproductive health services also reduce death, morbidity and illness rates among women. Latin America currently has a patchy record in their provision. In Bolivia, Peru and Honduras, maternal mortality rates are very high – at 390, 265 and 221 maternal deaths per 100,000 live births respectively, with the burden disproportionately carried by poorer households.

Savings & pensions

51. Knowledge of demographic change provides policy-makers with a powerful tool to predict demand for a range of other services, such as education (discussed above), savings and pensions. Saving rates are heavily dependant on age, with 40 to 65 the peak savings years, after children have left home and as people prepare for their coming retirement. Up to now, increases in the working-age population in Latin America has been concentrated in the under-40 age group; this group typically saves relatively little. However, Latin America is set to experience a dramatic growth in the 40–65 age group in coming years, and savings can be expected to increase.

52. How much they increase relies on policy decisions. Currently savings rates are much lower than might be expected and about half the level found in East Asia. Latin Americans are not saving as much as they might because of historic financial instability. The region's governments need to do more than passively accept the increased savings generated by changed demography. They must explore ways of encouraging savings in order to magnify the effects generated by the demographic portal of opportunity. Latin American countries currently score particularly poorly in both financial sector risk ratings and country credit ratings – factors which, act as a huge deterrent to both saving and investment. (Brazil, Argentina and Ecuador come 54th, 55th and 58th in a recent 58-country

study²²), and (Peru, Brazil, El Salvador, Venezuela, Bolivia and Ecuador coming 48th, 49th, 50th, 51st, 53rd and 57th respectively in another study²³).

53. The demographic transition will eventually lead to increasing numbers of old people, by which time it is vital that countries have become rich enough to support decreasing worker/dependant ratios. Currently only Argentina, Uruguay and Barbados have six or less people of working age for each person older than 60. As time goes by, this ratio will drop to four and then, in the most demographically mature countries, to three. By 2050, elderly people will make up 15% of the population, compared to 5% today.

54. It is important to start saving a proportion of the demographic dividend now in order to pay these bills tomorrow. Pension schemes need to be funded through direct contributions, so that this generation is responsible for its retirement, thus improving income distribution among present generations, but also between this one and future ones. Increased health bills, which will have to be paid for by a dwindling working-age population, will place great pressure on both the tax burden and public debt as governments are forced to borrow to keep up.²⁴ Public/private partnerships in health care provision will be essential for easing the pain.²⁵

²² International Country Risk Guide, Political Risk Service January 2000 (cited in WEF 2000 *ibid*)

²³ Institutional Investor March 2000 (cited in WEF *ibid*).

²⁴ For a fuller discussion of the impact of aging, see Bloom, Nandakumar, and Bhawalkar, 2001, "The Demography of Aging in Japan and the United States", paper presented at the American Academy of Arts and Sciences, March 2001.

²⁵ David E Bloom, Patricia Craig, Marc Mitchell (2000): *Public and Private Roles in Providing and Financing Social Services: Health and Education*. ADBI Publishing. October 2000.

Family/Gender

55. Developmental changes mean that Latin America is becoming predominantly urbanized, with family structure changing as family units shrink and the number of both single parent and dual-income families rises. This could have potentially huge social impacts and policymakers need to develop bold initiatives to enable new types of family to develop and thrive. A successful family policy will be based in a clear understanding of the changing roles of men and women. It will seek to help families maximize their investment in the smaller number of children they bring up. And it will look at the problems faced by elderly relatives – who may no longer be able to rely on their children to provide for them in their old age.

56. Reforms will be greatly facilitated by a change in attitudes towards and among older people. If the elderly can come to be seen as a valuable resource rather than a burden, a process which will be helped by all the new industries likely to flourish in the wake of the demographic shift, they will be able to enrich society, rather than be seen to impoverish it.

57. Four elderly, illiterate Bolivian women in La Paz have shown that the elderly are willing to respond to the challenge and use their skills to benefit society. The traditional respect in which the elderly are held in Bolivian communities such as the Aymara is dying out as many rural families move to the city, where they often live in extreme poverty with little time to care for older relatives. Realising that they now have to *earn* respect by becoming less of a burden to their children, these women set up a group spinning Alpaca wool. They made contact with a group of elderly people in Sweden who helped to sell the wool there. From the proceeds, the women have now built a house, which provides lunch every day to twenty local older people and rooms for nine others, who have joined the weaving workshops.²⁶

58. Currently, a relatively small percentage of women participate in the Latin American labor market compared to other regions, even though education levels are close to parity in many countries. Increasing this will have a major impact on the economy as well as on poverty. A Latin American woman is currently 50% less likely to work if she is married, while family size further decreases the chances of her working by 3-5 per cent for each child. Advanced education also encourages labor participation, as women seek to maximize their own investment in education. In Venezuela, for instance, 85 per cent of female university graduates are working, compared to 30 percent of women who only received primary education. Women are also 25 percent more likely to work when they head a single-parent family. Given that the proportion of female-headed households is increasing throughout the region, this will continue to have a significant impact. Action from policy-makers is also needed on equal wages (women earn just 60-80% of the male wage for similar jobs in Latin American countries). Increased child-care is also badly needed.

59. Child labor and exploitation is another area demanding much more serious attention. An estimated 10 per cent of children aged 10 to 14, work in Latin America (down by 5 per cent since 1960). Although this may serve a family's short-term interest, it is not in the long-term national interest for these children to be kept away from school. There is also increasing resistance to child labor from the global consumer, a pressure being passed down the supply-chain by multinational corporations.

²⁶ HelpAge International (1999): *The Ageing & Development Report*. Earthscan.

Employment and security

60. Latin America currently suffers high rates of youth unemployment. An understanding of the demographic transition should highlight the importance of tackling this problem. This requires a significant philosophical shift in thinking. No longer should Latin America be seen as having an unemployment problem, but instead a labor force advantage. A large and youthful (and flexible and hopefully well-educated) labor force must be put to good use, contributing to growth – as it did in East Asia - and enabling countries to exploit the demographic dividend.

61. Increased labor market flexibility is needed, as restrictive labor legislation clearly hinders job creation.²⁷ However, policy-makers need to balance costs and benefits, to ensure that workers feel they have a stake in the globalized economy (with all the benefits for social cohesion discussed above). Young workers are more likely to have internalized flexible attitudes and to accept the pressure for greater productivity. They expect to benefit from inter-sectoral and inter-occupational mobility, however – and are less likely to feel loyal to an individual employer.

62. Management of globalization requires concerted action to help groups excluded from its benefits. An economic safety net can be used to increase the willingness of people to take risks, while loans for re-training are important in creating a mobile workforce. The state needs to design programs that foster independence, however. A dependency culture is clearly unhelpful for growth.

63. The knowledge economy is also likely to see growth in the importance of small businesses, with micro-enterprises already thought to account for up to 20 per cent of Latin American GDP (Westley, 1997). Small businesses find it especially hard to attract the credit that they need to grow, with less than 5 per cent of micro- or small enterprises receiving credit from the banking system (IDB 1998). The past two decades have seen the development of successful new models of micro-finance by the private sector, NGOs, and the state. By targeting low-income households, and giving credit that is often collateral-free and at significantly lower interest rates than those in the informal credit market, these institutions help micro-enterprises develop and provide income generation opportunities to poorer segments of the rural population.

64. Models of commercially sustainable micro-finance are now emerging such as Banco Sol in Bolivia and Kalpia in El Salvador. The operation of these banks (and reportedly dozens of others worldwide) demonstrates that, among the poor, the demand for loans is strong enough to elicit a commensurate supply of savings at a rate of interest that is adequate to cover the cost of transactions.

²⁷ Peru, Brazil, Bolivia, Venezuela and Ecuador are all in the bottom quarter of the 59 countries assessed by the World Economic Forum in terms of how burdensome administrative regulation is. Only Colombia and Chile fall in the top half. (WEF 2000 *ibid*).

III. FUTURE AGENDA

65. Progress in the modern world comes through a process that the Xhosa people of South Africa call *ubuntu*, which translates roughly as “people help people through people”. As Desmond Tutu explains it: “None of us comes into the world fully formed. We could not speak, think, eat or walk; we could not behave like a human being unless we learned it from other human beings. I need other persons to become fully a person.”

66. Globalization is more than an economic phenomenon. It is pulling people and encouraging them to interact in different ways. As the world of work changes, so do national and international economies. This paper calls for quality of life to be seen as an integral part of the economic development agenda. Human and social capital, are key determinants of income growth. Healthy, educated, confident, entrepreneurial people make successful societies. A policy agenda that reflects this will be successful and gain popular support.

67. This new agenda suits Latin America in many ways. It is educating large numbers of its people and is not suffering the health reverses seen in sub-Saharan Africa or Eastern Europe. It is also in the middle of a demographic transition which, with the right policies, will lead to a substantial demographic dividend. It is also – at last – adopting sound economic policies, which are opening its markets, while building financial systems that encourage people to save and invest. Problems and obstacles remain, however, as the deep recession in Argentina and the recent political upheavals in Peru and Ecuador have shown.

68. Latin America has not seized its opportunities in the past, due to poor policy. This presents a major challenge for the future. It is time for the region to fulfill its potential.