

The social dimension of globalization in Latin America: Lessons from Bolivia and Chile

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World Commission on the Social Dimension of Globalization
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Foreword

In February 2002, the ILO established an independent World Commission on the Social Dimension of Globalization, co-chaired by President Tarja Halonen of Finland and President Benjamin Mkapa of Tanzania and comprising 26 eminent commissioners from a wide range of walks of life and different parts of the world, each serving in their individual capacity. Its broad goals were: to identify policies for globalization that reduce poverty, foster growth and development in open economies, and widen opportunities for decent work; to explore ways to make globalization inclusive, so that the process can be seen to be fair for all, both between and within countries; to promote a more focused international dialogue on the social dimension of globalization; to build consensus among key actors and stakeholders on appropriate policy responses; and to assist the international community forge greater policy coherence in order to advance both economic and social goals in the global economy.

The report of the World Commission, *A fair globalization: Creating opportunities for all*, was released on 24 February 2004. It is available on the Commission's website www.ilo.org/public/english/wcsdg/index.htm.

A secretariat was established by the ILO to support the Commission. Among other tasks, it compiled information and commissioned papers on different aspects of the social dimension of globalization. The aim was to provide the Commission with documentation and data on a wide range of options and opinions concerning subjects within its mandate, without committing the Commission or individual Commissioners to any particular position on the issues or policies concerned.

Material from this background work is being made available as working papers, as national and regional reports on meetings and dialogues, and in other forms. Responsibility for the content of these papers and publications rests fully with their authors and their publication does not constitute an endorsement by the World Commission or the ILO of the opinions expressed in them.

Gerry Rodgers
Director
Policy Integration Department

Preface

The Technical Secretariat to support the World Commission on the Social Dimension of Globalization first prepared a synthesis of ILO activities on the Social Dimension of Globalization (published as Working Paper No. 1 in this series). Documentation on the work and outcomes of other major commissions, an ideas bank, a database and knowledge networks of experts and social actors were subsequently developed. These networks have dealt with several topics, including: inclusion at the national level for the benefits of globalization to reach more people; local markets and policies; cross-border networks of production to promote decent work, growth and development; international migration as part of the Global Policy Agenda; international governance (including trade and finance); the relationship between culture and globalization; and values and goals in globalization. Gender and employment aspects were addressed throughout this work. The Reports on the Secretariat's Knowledge Network Meetings are available on the Commission's web site or as a special publication from the ILO (ISBN92-2-115711-1).

During the course of these activities, a number of substantive background papers were prepared, which are now made available for wider circulation in the Policy Integration Department's Working Paper series (Nos. 16 to 38), as well as on the Commission's website.

This paper was prepared by Dr. Garcia, Executive Director of Consultoria Estrategica and previously Minister for the Presidency and Economic Affairs Minister in Chile. An earlier version of this paper was submitted to a Knowledge Network Meeting on Exclusion and Inclusion, organized by Kappadath Kannan.

Dr. Garcia reviews the liberalization experience of Bolivia and Chile during the 1990s and argues that the so-called Washington Consensus type of structural reform policies had serious shortcomings. Both countries experienced an increase in their rates of growth, mostly by a rapid expansion of exports (as expected by the proponents of these policies). This had a positive effect on the incidence of poverty, but was not appreciated by the population; mostly because the great majority felt themselves "losers" in the new economic model. Although the real losers, in terms of decreases in real income, were between 10 and 20 per cent of the population, the great majority saw their share in total income declining. As a consequence the Washington Consensus type policies were less popular than at the beginning of the decade, while the fiscal imbalances were larger. Governments and democratic institutions were therefore weakened by this process, even though the policies, especially in Chile, could exhibit impressive economic and social results. Dr. Garcia argues that a broader view is required, since equitable growth is not an explicit target of the policy package. He demonstrates that the effect on growth, social integration and income distribution will mostly depend on the speed and form in which the policy package is implemented and on the complementary policies that are carried out. At the end of the paper Dr. Garcia provides a checklist of fiscal, expenditure and (de-) regulatory policies to arrive at more equitable growth policies.

Rolph van der Hoeven
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May 2004

The social dimension of globalization in Latin America: Lessons from Bolivia and Chile

1. The political economy of globalization in Latin America

Globalization brought important changes in Latin America. Although it is difficult to define a specific moment in which this process started, I am going to consider the decade of the 1990s as the starting point, mostly because this is the moment in which the Washington Consensus type policies were implemented in the region.

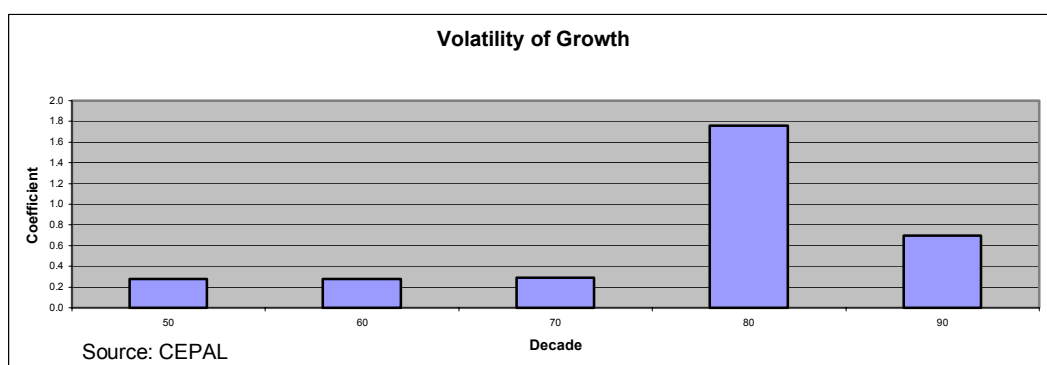
The process of integration of Latin American economies into the world market has a much longer history. If we just look at the second half of the twentieth century, three periods can be identified. The import-substitution era (1950-1973), the period of most rapid expansion of the region in which it doubled its participation in the world economy (from 4 to 8 per cent and income per capita grew at 2.75 per cent annually). The lost decade of the 1980s, where per capita income decreased at an annual rate of 0.1 per cent. The globalization period, which started in 1990, where the region recuperated growth (3.3 per cent for GNP, and 1.4 per cent per capita annual rate), increasing its GNP at a faster pace than the rest of the world (2.4 per cent annually). This behaviour is again changing: during 2001-2002 Latin American GNP did not grow at all.

Although the process of globalization brought a recuperation of the rate of growth for Latin America, it also increased its instability, experiencing two important crises in one decade: the s-called “Tequila effect” in 1994-95 and the “Asian crisis” in 1997-99. The volatility of growth almost tripled between the import-substitution period and the globalization era (figure 1).

Unstable growth brings to attention one of the most basic characteristics of Latin American economies and societies – its very unequal distribution of income.

Unequal income distribution seems to be both a cause and an effect of unstable growth. On the one hand, Rodrik’s (1999) cross-section analysis of the determinants of growth instability in the world clearly shows that Latin America’s poor response (in terms of growth) to external shocks is due to its unequal distribution of income and the vulnerability of its institutions. The reason is that external shocks create distributional disputes that domestic institutions are unable to cope with, magnifying the macroeconomic disequilibria created by the external shock (most regularly through an increase in the fiscal deficit). On the other, it is clear that external shocks, such as the one experienced in the 1980s (oil crisis), or the most recent one (Asian crisis) have worsened income distribution in Latin America (see Garcia, 2002).

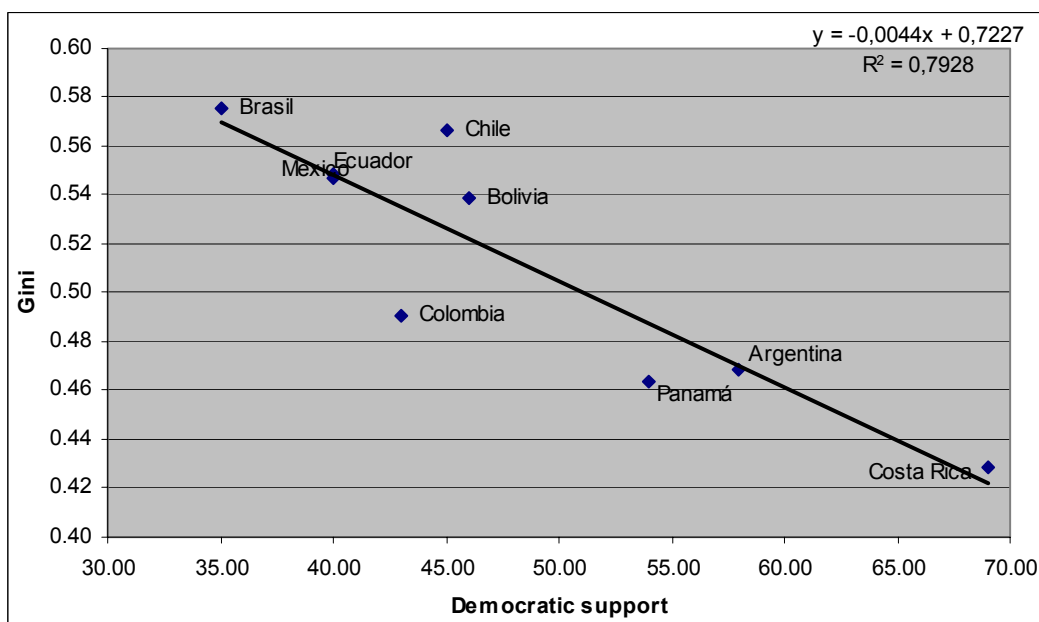
Figure 1. Volatility of growth¹



The region has shown the most regressive distribution of income of the world throughout the twentieth century. Again, if we consider the second half of the last century, income distribution (measured by the Gini coefficient) experienced a slight improvement between 1960 and 1980 (from 0.53 to 0.49 in 1970, and 0.50 in 1980), to deteriorate in the 1980s (to 0.53 in 1990), and continue its decline in the 199's (to 0.54 in 2000).

To complete this vicious circle, in Latin America there is a strong correlation between income distribution and support of democratic institutions. Greater inequality in income distribution is related to weaker support of democratic institutions. Thus as the region moves towards a more regressive income distribution structure, the institutions required to deal with the problems created are weakened, increasing the negative effect on development.

Figure 2. Correlation between the Gini coefficient and support to democratic institutions



Source: Prepared on the basis of data from Latinbarómetro (2002), CEPAL (2002).

¹ The volatility index is the standard deviation of the growth rate by decades divided by the average of the corresponding decade growth rate.

In view of this analysis, it is not surprising that most democratic governments elected in Latin America during the 1990s had a very similar programme based on three objectives seen as interdependent: growth; social justice; and democratization. The globalization process that took place in the same decade, created two problems for the fulfilment of these promises. First, as already mentioned, globalization increased instability and through that the vicious circle described above. Second international institutions, mostly the IMF, conditioned their support to the implementation of Washington Consensus type policies that made no reference to distributional or institutional problems that needed to be dealt with, magnifying these problems and weakening the support for governments that carried out this kind of policies. The end result is that the support for these kind of economic policies is weaker than when the process started at the beginning of the 1990s (*LatinoBarómetro*, 2002). This took place, although there was a successful, but incomplete, implementation of the policy package and a positive outcome in terms the inflation target, as well as, in the expansion of foreign trade.

A clear conclusion of this analysis is that successful integration of Latin America into the globalization process requires that due account be taken of the structural problems and characteristics of the region; particularly its unequal income distribution and weak institutions, which as seen, are strongly related. This conclusion does not imply that the Washington Consensus type policies should not be implemented, but that their scope should be enlarged to include the distributional and institutional dimensions.

2. Bolivia and Chile's experience during the 1990s

The aim of this paper is to draw lessons from the experience of two countries that adopted Washington Consensus type policies very early to participate in the globalization process: Bolivia and Chile. As can be seen in figure 2, they are also countries with very unequal income distribution structures, and a relatively weak support for democratic institutions. Thus their positive and negative experiences should help define the ways and means by which a country can participate in the globalization process and simultaneously move towards a more socially integrated society, that is, one in which income and opportunities are distributed in a more equitable way, and where income grows as fast as possible.

Both countries, correctly assumed that the globalization process was a reality that they could not avoid dealing with; thus, that their domestic agendas could only try to improve the economic and social conditions in which they participate in this process. By now it is clear that globalization brought a concentration of income worldwide. During the last two decades world, income has concentrated in favour of the more developed countries, and within countries (especially in the less developed ones) in favour of the higher income groups.

Both Bolivia and Chile reached the 1990s with most of the structural changes under way, but with an economy that had grown slowly (on the average) during the 1980s, income distribution had concentrated, and consequently poverty had increased. For Latin America as a whole, poverty increased from 34.7 per cent in 1980 to 41 per cent in 1990. In 1989, the incidence of urban poverty was 53.1 per cent in Bolivia and in 1990 was 38.6 per cent of the total population in Chile (CEPAL, 2001).

Table 1. Growth average in real GDP

	1981-1990	1991-2000	1970-2002	GNP per capita 2002
Chile	3,1	6,5	2,7	US\$ 4170
Bolivia	0,1	3,7	0,6	US\$ 960
Latin America and the Caribbean	1,6			
Developing Countries	4,2	5,4		

Source: World Economic Outlook, May 1999

As mentioned, globalization brought with it an economic agenda that can be summarized by the so-called Washington Consensus or the IMF's structural adjustment policies geared to "getting prices right" so that they reflect opportunity costs.

The basic features of this policy package include:

- fiscal balance;
- privatization and deregulation;
- an autonomous central bank with an inflation target;
- lower and flatter foreign duties;
- a flexible (freely floating) exchange rate;
- integration to the world financial and capital market.

These policies, in general, can be considered "pro-growth", particularly those related to developing strong macro fundamentals and attracting foreign investment. But, at the same time, it makes domestic growth more dependent on the international market and, very significantly, on capital flows that have shown to be very volatile. Although these policies can be "pro-growth", they are certainly not the only "pro-growth" ones.

If we analyse the impact of the reforms on the rate of growth, we find that in both countries this rate increased between 1990-1998 (4.3 per cent annually in Bolivia, and 8 per cent in Chile), to be reduced again at the end of the decade (between 1998 and 2001, the rate was 1.3 per cent in Bolivia and 2, 5 per cent in Chile). Table 1 clearly shows that the 1990s were exceptionally good for both Bolivia and Chile. In the case of Bolivia, the annual rate of growth during the 1990s was six times higher than in 1970-2002, in the case of Chile this figure was two and a half times larger.

2.1 Fiscal reform and equitable growth

Fiscal reform was a crucial aspect of the Washington Consensus policy package. At the same time, many of the other policies it suggested had an effect on fiscal balance. This is the case of reducing foreign duties, privatization and an autonomous central bank with an inflation target and flexible exchange rates. The latter, because any imbalance on the fiscal account would affect the autonomous monetary policy, which in turn would have an effect on economic growth and thus on government revenues. For this reason we will concentrate our analysis on the fiscal reform in Bolivia and Chile and its impact on equitable growth.

The fiscal reform had one main objective: to balance the budget and reduce inflationary pressures. This was a crucial element of the Washington Consensus structural reform policy package. It was, at the same time, the one in which Latin America advanced the least. As a matter of fact at the end of the 1990s, the fiscal deficit was larger than at the beginning of the decade, even though inflation was drastically reduced.

Given this outcome, it is natural to conclude that a fiscal reform is probably the best example of the importance of analysing the relationships between growth, distribution and institutions, before defining a traditional policy package with a “one instrument-one objective” approach. If not, the final result will suffer, as certainly happened in Latin America, and particularly in Bolivia and Chile. In other words, Rodrik’s findings are clearly corroborated in Latin America in the 1990s, because the Asian crisis external shock created a distributional dispute (that was resolved in favour of the rich), that weakened institutions (less support to governments and democratic institutions), enlarged the fiscal deficit, and prolonged the crisis even later than in Asian countries.

This is certainly the case of Chile, the most successful country in terms of growth and reduction of poverty where, although it had strong macroeconomic fundamentals, growth was reduced to an average of 2 per cent annually and over 50 per cent of the population feels it is worse off than at the beginning of the decade (Census, 2002).

In principle, reducing inflation should have a positive effect on all dimensions – growth, distribution, and strengthening institutions. But the way in which it is implemented might produce very different outcomes.

It will depend on the effect the policy package has on:

- the level at which the balanced budget is attained;
- the effect of the changes on growth (which is related to the cycle of the economy);
- the tax structure;
- the composition of public expenditure.

In Latin America, these considerations were not adequately made in order to fulfil the promise of equitable growth, which ended up weakening the support of governments and the outcome of the policy package that was implemented.

First, the level of government revenues did not change, thus reaching the budget required reducing and/or switching government expenditure, which in most cases had a negative effect on distribution.

Second, these changes were implemented during a period that faced two recessions (1994-95 and 1997-99), covering more than half of the period in which the reforms were implemented. Balancing the budget was procyclical, and thus not adequate for that particular circumstance.

Third, the tax reform aimed at simplifying and making more neutral the tax structure which is clearly pro-growth, but by reducing foreign duties and the tax rates for enterprises and high-income brackets while increasing consumption taxes (VAT) it had a regressive effect on income distribution.

Fourth, the composition of public expenditure, particularly social expenditure, partially compensated the regressive effects. But Latin America remained with a large deficit in its level of social expenditure (considering the relative deficit of social expenditure that the region had, there would still be a capacity for growth of 4-5 percentage points of GNP). Thus, the decision of not increasing expenditure kept big deficits in the social area.

Both Bolivia and Chile were good examples of the situation described above.

Both countries modified their tax structures, making it more intensive on the value-added tax (VAT) while reducing foreign duties. Simultaneously they froze government employment, and aimed at focusing government expenditure by reducing subsidies (for example, the price of gas, publicly owned in Bolivia, was increased by 833 per cent).

Both countries experienced a tax reform that reduced very significantly the number of taxes from over 200 to about eight, concentrating them on the VAT that in both countries generated over 50 per cent of government revenue. In Bolivia, the VAT increased from 10 to 13 per cent; and in Chile from 15 to 18 per cent. Both countries maintained the participation of government revenue in GNP, in Bolivia at around 31 per cent and in Chile at around 24 per cent.

Simultaneously both countries tried to improve the social efficiency of government expenditure. Social expenditure and direct public investment increased more rapidly than current expenditures in Bolivia and Chile.

But these efforts did not change the fiscal balance in a significant way.

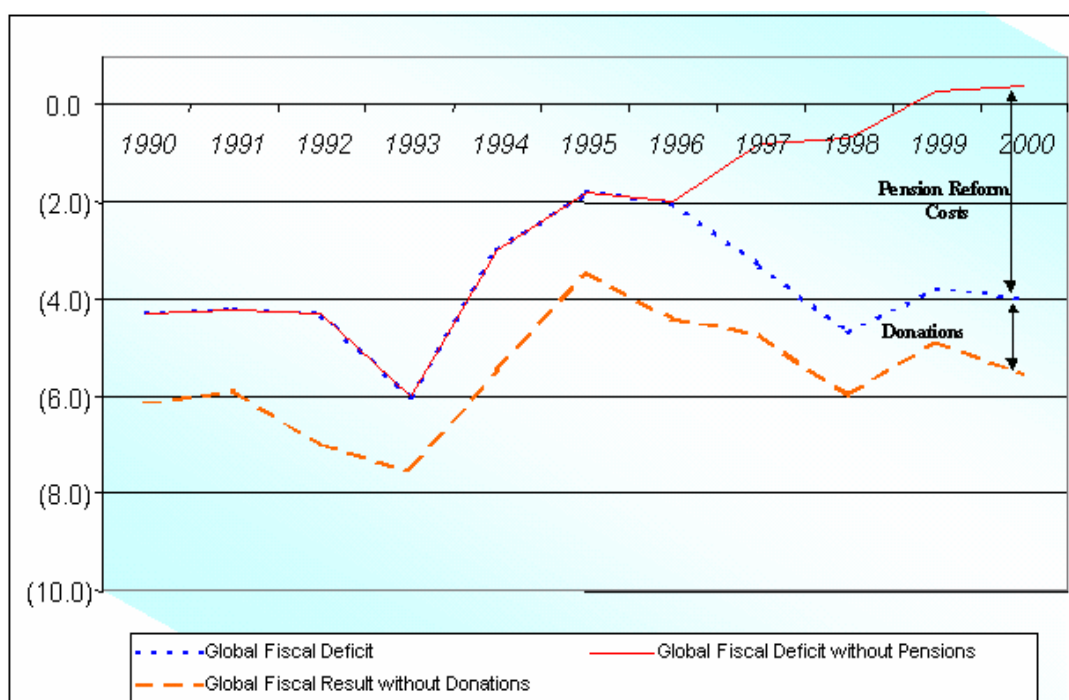
As a matter of fact, the tax load in Chile remained stable around 17.5 per cent of GNP, and in Bolivia it increased from 7.2 in 1991 to 13.1 per cent of GNP in 2001. In both countries, the fiscal accounts did not improve. In the case of Chile it moved from a surplus of about 2.0 per cent of GNP at the beginning of the 1990s to a deficit of 1 per cent at the end of the decade. While in Bolivia the deficit remained relatively stable around 5 per cent of GNP (it only decreased to 2-3 per cent at the middle of the decade).

Table 2. Incomes and expenditures of the non-financial public sector (% GDP)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Total Revenue	30.8	31.7	29.8	32.0	31.4	29.7	29.7	30.3	31.6	32.6	31.1
Current Incomes	29.1	29.0	28.1	29.4	28.9	27.0	27.3	28.4	30.5	31.1	28.7
Tax revenue	7.2	8.9	9.3	10.4	11.1	11.5	12.8	14.5	13.1	13.4	13.1
Public sales	19.4	17.7	16.2	15.8	14.5	11.8	9.5	8.9	6.7	8.2	6.1
Others	2.5	2.4	2.6	3.2	3.3	3.7	5.0	5.0	10.7	9.5	9.5
Capital Incomes	1.7	2.7	1.7	2.6	2.5	2.7	2.4	1.9	1.1	1.5	2.4
Total Expenditures	35.0	36.1	35.9	35.0	33.2	31.7	33.0	34.3	35.4	36.6	37.6
Current Expenditures	26.2	26.1	26.7	26.0	25.0	23.6	25.8	28.0	28.3	29.6	29.6
Personal Services	10.2	11.3	12.0	12.1	11.1	10.7	10.7	10.6	9.9	9.3	9.8
Interests and commissions	3.7	3.2	2.8	2.4	2.6	2.2	1.6	1.4	1.2	1.5	2.1
Others	12.3	11.6	11.9	11.5	11.3	10.7	13.5	16.0	17.2	18.8	17.7
Capital Expenditures	8.8	10.0	9.2	9.0	8.2	8.1	7.2	6.3	7.1	7.0	8.0
Deficit	-4.2	-4.4	-6.1	-3.0	-1.8	-2.0	-3.3	-4.0	-3.8	-4.0	-6.5
Financing	4.2	4.4	6.1	3.0	1.8	2.0	3.3	4.0	3.8	4.0	6.5
External	3.1	3.7	5.0	3.7	3.6	2.6	2.7	2.8	2.3	2.3	3.0
Domestic	1.1	0.7	1.1	-0.7	-1.8	-0.6	0.6	1.2	1.5	1.7	3.5

Source: based on UDAPE (1998) and UDAPE (2001)

Figure 3. Bolivia: Fiscal performance, global fiscal deficit, without pension costs and donations



Source: Camacho, based on Unidad de Programación Fiscal (UPF) data

While this fiscal effort had a positive effect on inflation (it was reduced to less than 4 per cent in both countries), it had a negative impact on distribution. The tax reform shifted the tax burden from the high-income groups to the middle- and low-income groups, mainly because it implied an increase in VAT, while reducing the direct taxes and foreign duties that are more progressive.

Only in Chile after the year 2000 there has been a systematic effort to reduce tax evasion that could have been a progressive way of financing the deficit and or increasing government expenditure. In Chile, tax evasion amounts to 12 per cent of GNP, and in Bolivia it's as large as the present tax burden (13 per cent of GNP).

On the expenditure side, as mentioned, both countries made a very significant effort to increase the relative importance of social expenditure. In Bolivia during the 1990s, social expenditure almost tripled its participation in GDP, from 6.2 to 17.3 per cent, while in Chile it increased from 13 to 16 per cent of GDP.

Table 4. Bolivia: Social expenditure (%GDP)

1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
7.2	4.5	3.9	4.2	5.3	3.2	2.5	3.9	4.0	4.6	6.2
1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
5.7	7.9	8.8	9.3	12.4	13.9	15.3	15.7	16.6	17.3	18.7

Source: UDAPE (1998)

Table 5. Bolivia: Social expenditure structure (% GDP)

	1990	1991	1992	1993	1994	1995
Education	2.8	3.3	3.8	4.3	4.6	5.3
Social Security	1.2	0.8	0.8	1.0	1.4	1.5
Housing and Communitarian Services	1.0	0.5	1.1	1.2	1.6	2.5
Health	1.2	1.1	2.2	2.3	1.7	3.1
Total	6.2	5.7	7.9	8.8	9.3	12.4
	1996	1997	1998	1999	2000	2001
Education	5.7	6.0	5.7	6.2	6.3	6.7
Social Security	2.2	3.4	3.8	4.0	4.3	4.9
Housing and Communitarian Services	2.6	2.5	2.9	3.0	3.0	3.4
Health	3.3	3.4	3.4	3.4	3.6	3.8
Total	13.9	15.3	15.7	16.6	17.3	18.7

Source: UDAPE (2001)

Table 6. Chile: Social public expenditure (%GDP)

	1990-1991	1992-1993	1994-1995	1996-1997	1998-1999
Chile	13	13,6	13,6	14,4	16

Source: Panorama Social para Latino América, CEPAL 2000-2001.

Table 7. Social expenditure distribution

Quintile	I	II	III	IV	V	Progressive Index of Social Expenditure
Chile 1996						
Education	34	26	19	14	6,5	5,05
Primary	38	26	18	13	5,3	5,42
Secondary	27	25	22	18	9,1	4,3
University	6,3	16	38	21	19	1,9
Health and Nutrition	31	23	22	17	7,2	4,55
Housing and others	37	28	20	11	3,8	5,45
Social Security	4	9	15	25	47	1,09
Social Expenditure with Social Security	33	25	21	14	6,8	4,9
Social Expenditure without Social Security	16	16	17	21	30	2,69

Source: Panorama Social de América Latina, CEPAL 2000-2001.

This is consistent with what happened in Latin America as a whole, where per capita social expenditure increased from US\$360 in 1990-91 to US\$540 in 1999-2000.

If we analyse the composition of social expenditure we find that in Bolivia education grew less, in relative terms, than any other sector; being the most progressive area of social expenditure. As a matter of fact, education decreased its participation in total social expenditure in Bolivia from 45 per cent in 1990 to 35.8 per cent in 2001, mostly in favour of social security that in the same time period increased its participation from 19.3 to 26.2 per cent. It must be remembered that social security is the most regressive area of social expenditure.

In Chile, the opposite situation took place – the most progressive areas of social expenditure (education, particularly primary, health and housing) increased the most. This, in turn, must have contributed to the larger reduction of poverty that this country experienced.

2.2 Incidence of poverty

The increase in the pace of growth and in the relative weight of social expenditure had a positive effect on the reduction of poverty. In the case of Bolivia, the impact was not as big, especially in the rural areas, where 91 per cent of the population still lived below the poverty line in 2001.

In the case of Chile the impact was larger, bringing down the incidence of poverty from 38.6 per cent of the population in 1990 to 20.6 per cent in 2000. Several studies of MIDEPLAN showed that about 90 per cent of the reduction of poverty can be explained by the increase in employment and wages that took place, as it will be seen, in the formal sector of the economy. This constitutes a large difference with almost all the rest of Latin American countries, but, again, draws attention to the importance of the labour market.

Table 8. Bolivia. Social indicators

	1976	1992	2001
Incidence of Poverty	85.5	70.5	58.6
Urban	66.3	53.1	39.0
Rural	98.6	95.3	90.8
Illiteracy	36.8	20.0	12.9
Men	24.2	11.8	6.7
Women	48.6	27.7	18.9
Urban	15.6	8.9	6.2
Rural	53.2	36.5	25.2

Source: UDAPE et INE, National Census of Population and Housing 2001.

Table 9. Chile: Population below the poverty line

	1990	1994	1998	2000
Population	38,6	28,6	21,7	20,6

Source: Panorama Social de Latino América, CEPAL 2000-2001.

3. Labour markets and income distribution: the forgotten face of the Washington Consensus

Although both Chile and Bolivia had good economic results in the 1990s, income distribution became more regressive. In the case of Bolivia, the Gini coefficient increased from 0.53 in 1989 to 0.56 in 1997 and 0.54 in 1999. The increase in inequality is more clearly represented by the inequality ratio (ratio between the wealthiest 10 per cent and the poorer 20 per cent of the population) that grew from 29 in 1989 to 41 in 1999.

Chile's case is not that different: the Gini coefficient increased from 0.53 in 1990 to 0.55 in 1996 and to 0.57 in 2000. The inequality ratio also increased from 20 in 1990 to 28.5 in 2000.

Table 10.1 Chile: Income distribution (%), 1990-2000 a/

10% of population	Total	I	II	III	IV	V	VI	VII	VIII	IX	X	Gini coefficient	Inequality rate b/
1990	100	1.4	3.1	3.6	4.2	5.1	6.2	7.6	10.0	14.7	44.3	0.53	31.4
1996	100	1.3	2.6	3.3	4.0	5.0	6.1	7.6	9.9	14.8	45.5	0.55	35.5
2000	100	0.8	2.6	3.3	3.9	4.8	5.9	7.3	9.8	14.5	47.1	0.57	62.0
Var. c/ (1990-2000)	4.2	-2.1	2.3	3.1	3.5	3.7	3.7	3.8	4.0	4.0	4.8		
Var. c/ (1990-1996)	6.1	4.5	3.3	4.3	5.5	5.8	5.9	6.2	6.1	6.3	6.6		
Var. c/ (1996-2000)	1.3	-11.3	0.8	1.4	0.6	0.6	0.6	0.3	1.0	0.7	2.2		

Table 10.2 Bolivia: Income distribution (%), 1990-2000 a/

10% of population	Total	I	II	III	IV	V	VI	VII	VIII	IX	X	Gini coefficient	Inequality rate b/
1989	100	0.5	2.4	3.4	4.6	5.6	6.8	8.4	10.8	16.0	41.6	0.53	81.6
1997	100	0.3	2.0	3.1	4.1	5.2	6.5	8.1	10.7	16.1	43.9	0.56	137.0
1999	100	0.2	1.7	3.1	4.5	5.5	7.0	8.9	11.8	17.1	40.1	0.54	182.2
Var. c/ (1989-1999)	1.7	-6.5	-1.3	0.7	1.6	1.6	2.1	2.3	2.7	2.4	1.3		
Var. c/ (1989-1997)	2.6	-3.2	0.7	1.5	1.3	1.5	2.1	2.1	2.5	2.7	3.3		
Var. c/ (1997-1999)	-1.7	-18.6	-9.0	-2.4	2.8	2.0	2.0	3.0	3.6	1.5	-6.1		

a/ Constant Prices (2000 Chile, 1999 Bolivia)

b/ inequality rate measures the relation between the nominal average income of the tenth decile and the one corresponding to the first decile

c/ Annual average variation

Source: Data from household surveys.

The most striking feature of the income distribution data is that in Bolivia the poorest 20 per cent and in Chile the poorest 10 per cent experienced a decrease in average income of the employed during a decade of fast economic growth and employment generation. The main reason behind this situation is the functioning of the labour market, an old and persistent problem in Latin America that was not considered by the Washington Consensus policy-makers.

If we consider Latin America as a whole, the 1990s were a decade of constant growth of unemployment. During the first five years of the decade, the average unemployment rate was of 6.6 per cent, in the second half it averaged 8.2 per cent and presently it has reached 10 per cent, the highest in recorded history.

The future in this respect is bleak, because the present rate of growth is close to 0, and in order to reduce the level of unemployment Latin America requires a minimum growth of 4 per cent per annum.

The growth in unemployment affects poor families more than proportionally. As a matter of fact, for Latin America as a whole the unemployment rate for the poorest 10 per cent is five times higher than the average. In Chile, this rate remained constant at around four times, while in Bolivia it experienced an important decline from 5 to 1.5. But, as will be seen later, it is exclusively explained by the large increase in informal employment.

Table 11.1 Chile: Unemployment rate

Period	Total	I	II	III	IV	V	VI	VII	VIII	IX	X
	1990	8.9	33.8	15.9	12.4	12.6	9.9	5.6	5.3	4.3	2.8
1996	6.0	24.7	12.0	7.8	8.3	5.9	4.7	3.2	2.9	2.2	1.0
2000	10.7	37.5	20.1	15.7	13.6	9.9	8.3	6.6	5.4	3.8	2.2
Difference 1990-1996	-2.8	-9.1	-3.8	-4.6	-4.3	-4.0	-0.9	-2.1	-1.4	-0.6	-1.1
Difference 1996-2000	4.7	12.8	8.1	7.9	5.2	3.9	3.6	3.4	2.6	1.6	1.2
Difference 1990-2000	1.9	3.7	4.2	3.3	0.9	0.0	2.6	1.3	1.1	1.0	0.0

Table 11.1. Bolivia: Unemployment rate

Period											
	Total	I	II	III	IV	V	VI	VII	VIII	IX	X
1989	9.6	48.4	16.5	10.7	10.0	8.3	8.5	6.4	4.9	4.5	2.7
1997	4.5	18.1	5.4	3.9	5.1	5.1	3.6	3.7	3.4	2.2	1.1
1999	8.0	13.5	10.0	12.8	7.3	8.7	10.2	3.7	3.8	9.5	3.7
Difference 1989-1997	-5.1	-30.3	-11.1	-6.8	-4.9	-3.2	-4.9	-2.7	-1.5	-2.4	-1.6
Difference 1997-1999	3.4	-4.5	4.6	8.9	2.2	3.6	6.6	0.1	0.4	7.3	2.6
Difference 1989-1999	-1.7	-34.8	-6.5	2.0	-2.6	0.4	1.7	-2.7	-1.1	4.9	1.0

Source: Data from Household Surveys

The strongest relationship between income distribution and the labour market in Latin America is the existence of a large informal sector that pays much less than the formal sector, because of the large productivity gap that exists among them. "Structural heterogeneity" (coexistence of the informal and formal sectors) is the explanation most often given for inequality in this region.

If we consider Chile, we find that the labour force, between 1990-2000, grew 3 per cent per annum, and total employment grew by 2.8 per cent. Although informal employment accounts for 11 per cent, and employment in small enterprises (less than five employees) for 14 per cent of this growth, recent information has shown that unemployment during the slowdown of the economy was 4.7 percentage points higher than estimated (Population Census 2002). It is highly probable that before this period, these people were employed in the informal sector or in small enterprises, because these have been the two sectors that experienced the greatest reduction in their levels of employment.

Table 12. Chile: Employment indicators

Period											
	Total	I	II	III	IV	V	VI	VII	VIII	IX	X
	Labour force a										
(1990-2000)	3.0	3.8	3.7	3.4	3.5	2.5	2.8	2.5	2.9	3.0	2.7
(1990-1996)	3.3	2.6	3.9	3.3	3.7	2.9	2.9	2.6	3.7	3.8	3.2
(1996-2000)	2.6	5.6	3.4	3.5	3.3	1.8	2.6	2.2	1.8	1.8	2.0
	Employment b/										
(1990-2000)	2.8	3.2	3.2	3	3.4	2.5	2.5	2.3	2.8	2.9	2.7
(1990-1996)	3.8	4.8	4.7	4.2	4.5	3.7	3.1	3	3.9	3.9	3.4
(1996-2000)	1.3	0.8	1	1.3	1.7	0.8	1.7	1.3	1.2	1.3	1.7
	Informality c/										
(1990-2000)	11	14	27	16	28	17	13	3	10	-1	-6.3
(1990-1996)	16	3.2	19	11	13	27	17	10	25	20	11
(1996-2000)	-11	92	76	39	77	-45	1.4	-21	-55	-79	-51
	Small Enterprise d/										
(1990-2000)	14	11	17	8.7	19	16	11	3	16	15	21
(1990-1996)	19	25	22	2.7	20	17	15	12	17	23	30
(1996-2000)	-2.4	-99	-12	34	15	9.5	0.7	-26	9.1	-14	-0.8

a/ Annual growth rate (average of the period)

b/ Annual employment growth rate (average of the period)

c/ Percentage of new employments in informal activities during the period with respect to total employment

d/ Percentage of new employments in small enterprises (1-5 employees) during the period with respect to total employment

Source: Data from household surveys.

Table 13. Chile: Income growth Indicators

Period	Total	I	II	III	IV	V	VI	VII	VIII	IX	X
Number of employed per household a/											
(1990-2000)	0.3	1.1	1.1	1.0	1.1	0.3	0.1	-0.7	0.3	0.0	-0.5
(1990-1996)	1.2	1.8	1.9	1.8	1.6	1.2	0.2	0.0	1.7	1.4	0.6
(1996-2000)	-1.0	0.0	-0.2	-0.4	0.3	-1.1	-0.2	-1.7	-1.9	-2.1	-2.2
Average income of the employed b/											
(1990-2000)	4.2	1.8	2.9	3.1	2.8	3.8	3.9	3.8	3.7	3.8	4.9
(1990-1996)	6.1	5.0	4.4	5.0	4.3	5.2	6.2	6.2	6.4	6.2	6.9
(1996-2000)	1.3	-2.9	0.8	0.4	0.5	1.7	0.4	0.3	-0.1	0.2	2.0
Average of members per household c/											
(1990-2000)	-0.5	0.0	-0.1	0.0	-0.3	-0.1	-0.3	-0.9	-0.5	-0.8	-1.2
(1990-1996)	-0.5	-0.7	-0.6	-0.2	-0.8	-0.2	-0.6	-0.9	-0.1	-0.4	-0.6
(1996-2000)	-0.4	1.0	0.8	0.2	0.5	0.0	0.1	-1.0	-1.1	-1.4	-2.0
Per capita income d/											
(1990-2000)	4.7	4.0	4.2	4.2	4.2	4.2	4.1	4.1	4.1	4.0	4.6
(1990-1996)	6.5	6.9	6.3	6.4	6.4	6.2	6.3	6.4	6.7	6.4	6.6
(1996-2000)	2.1	-0.3	1.2	1	1.1	1.2	0.8	0.7	0.4	0.6	1.6

a/ Occupied per home growth rate

b/ Average income growth rate of the employed

c/ Growth rate of number of members per household

d/ Annual income per capita growth rate

Source: Data from household surveys.

Additionally, in Chile, the rates of growth of informal employment are much higher for the poor. For instance, informal employment for the poorest 50 per cent of the labour force, grew 20 per cent, while for the wealthiest 20 per cent it decreased by 4 per cent. Furthermore, the employment rate (ratio between the employed and the labour force) is twice as large for the wealthiest 10 per cent (59.9), than for the poorest 10 per cent (28.5).

Table 14. Income indicators

Period	Total	I	II	III	IV	V	VI	VII	VIII	IX	X
Informally Employed Average Income a/											
1990	73.6	80.1	79.5	76.2	79.9	81.3	89.6	83.5	86.4	87.2	101.9
1996	79.3	82.2	84.9	83.4	78.1	78.1	81.7	91.9	91.4	94.8	104.4
2000	67.2	78.8	79.7	83.1	83.0	72.0	80.5	82.7	78.9	80.1	100.0
Difference 1990-1996	5.7	2.0	5.4	7.2	-1.7	-3.3	-7.9	8.4	4.9	7.6	2.5
Difference 1996-2000	-12.1	-3.4	-5.2	-0.3	4.8	-6.1	-1.1	-9.2	-12.4	-14.7	-4.4
Difference 1990-2000	-6.4	-1.3	0.2	6.9	3.1	-9.3	-9.1	-0.8	-7.5	-7.1	-1.9
Average income of workers of small enterprises a/											
1990	55.2	81.7	74.6	66.7	68.2	66.7	71.1	63.3	62.7	65.4	97.1
1996	74.3	80.7	77.5	71.9	66.8	65.0	64.0	67.2	67.6	82.9	123.5
2000	74.8	80.0	74.9	75.8	73.9	62.0	69.4	69.5	73.6	77.4	127.3
Difference 1990-1996	19.1	-1.0	3.0	5.2	-1.4	-1.7	-7.1	3.9	4.9	17.5	26.3
Difference 1996-2000	0.6	-0.7	-2.7	3.9	7.0	-3.0	5.4	2.3	5.9	-5.5	3.9
Difference 1990-2000	19.7	-1.8	0.3	9.1	5.6	-4.7	-1.7	6.1	10.8	12.0	30.2
Average income of workers of medium enterprises (6-9 workers) a/											
1990	91.5	99.2	96.3	78.2	77.7	79.2	90.2	75.3	80.3	83.2	142.7
1996	109.1	94.7	90.5	85.2	84.5	79.4	79.8	91.6	74.9	98.2	169.8
2000	93.5	99.1	97.3	81.5	89.2	75.9	78.9	83.7	84.9	90.8	129.1
Difference 1990-1996	17.7	-4.5	-5.8	7.0	6.8	0.2	-10.4	16.3	-5.3	15.0	27.1
Difference 1996-2000	-15.7	4.4	6.8	-3.7	4.7	-3.5	-0.8	-7.9	10.0	-7.4	-40.7
Difference 1990-2000	1.985	-0.1	1.1	3.3	11.5	-3.3	-11.3	8.4	4.7	7.5	-13.6

Period	Total	I	II	III	IV	V	VI	VII	VIII	IX	X
	Average income of workers of Enterprises of 10-49 workers a/										
1990	82.8	103.2	99.0	86.7	88.7	83.9	95.5	85.6	78.5	81.5	93.8
1996	95.0	102.0	98.3	90.9	87.2	87.9	86.0	93.6	86.8	92.1	124.6
2000	109.0	90.3	99.1	97.1	92.5	77.0	88.5	82.1	82.0	88.4	153.6
Difference 1990-1996	12.1	-1.2	-0.8	4.2	-1.5	4.0	-9.5	8.0	8.4	10.6	30.9
Difference 1996-2000	14.0	-11.6	0.8	6.2	5.2	-10.9	2.5	-11.5	-4.8	-3.8	28.9
Difference 1990-2000	26.15	-12.9	0.0	10.5	3.8	-6.9	-6.9	-3.5	3.5	6.9	59.8

a/ As proportion of the income of employed in enterprises with 50 or more employees.

Source: Data from household surveys.

These differences in the level and quality of employment are reinforced by a growing income gap between the formal and the informal sectors. Between 1990 and 2000, average income for the formally employed grew by 4.5 per cent a year, while for the informal sector it grew by 2.5 per cent a year. The growing gap exists even within the informal sector, the richest 10 per cent of the informal sector experienced a 3.9 per cent increase in yearly income during the 1990s, while the income of the poorest 10 per cent grew only by 1.7 per cent a year.

In Bolivia we find a more dramatic situation, the labour force grew 6.7 per cent and employment 6.9 per cent a year between 1989 and 1999, but 64 per cent of this employment was created by the informal sector and 19 per cent by small firms (less than five employees). Again, the occupation rate for the more affluent 10 per cent is much higher (64.5) than for the poorest 10 per cent (16.7). Also the income gap widened between the formal sector (that grew 3.3 per cent per year in the 1990s) and the informal one (0.3 per cent per year).

Table 15. Bolivia: Employment indicators

Period	Total	I	II	III	IV	V	VI	VII	VIII	IX	X
	Labour force a/										
(1989-1999)	6.7	10.4	7.0	7.3	6.7	7.4	6.3	6.0	6.3	5.6	5.8
(1989-1997)	5.2	8.4	4.4	5.4	5.1	5.5	5.1	4.9	4.3	4.8	5.3
(1997-1999)	12.8	18.5	17.8	15.2	13.3	15.5	11.3	10.4	14.9	8.6	8.1
Employment b/											
(1989-1999)	6.9	16.2	7.8	7.0	7.0	7.3	6.1	6.3	6.4	5.0	5.7
(1989-1997)	5.9	14.9	6.0	6.4	5.8	5.9	5.8	5.3	4.5	5.2	5.5
(1997-1999)	10.8	21.7	14.9	9.8	11.9	13.3	7.4	10.4	14.6	4.5	6.7
Informality c/											
(1989-1999)	64	96	82	83	86.5	61.5	60	51	65	28	28
(1989-1997)	63	95	103	96	77.3	59	72	61	59	31	11
(1997-1999)	64	97	57	58	99.8	64.9	30	35	70	17	72
Small Enterprise d/											
(1989-1999)	19	19	12	19	18	27	34	18	26	7	10
(1989-1997)	44	36	55	57	45.1	36.8	46	44	54	47	30
(1997-1999)	-21	-3.9	-39	-52	-22	14.3	6.1	-21	-0.9	-139	-40

a/ Annual growth rate (average of the period)

b/ Annual employment growth rate (average of the period)

c/ Percentage of new employments in informal activities during the period with respect to total employment

d/ Percentage of new employments in small enterprises (1-5 employees) during the period with respect to total employment

Source: Data from household surveys.

Table 16. Bolivia: Income growth indicators

Period	Total	I	II	III	IV	V	VI	VII	VIII	IX	X
	Number of employed per household a										
(1989-1999)	0.8	13	2.2	0.3	1.2	1.9	0.4	0.2	-0.7	-1.4	-1.4
(1989-1997)	0.9	13	1.1	0.2	0.9	0.7	0.9	-0.1	-0.8	-0.7	-0.3
(1997-1999)	0.6	9.6	6.7	0.7	2.4	6.6	-1.4	1.4	-0.3	-4.0	-5.8
Average income of the employed b/											
(1989-1999)	1.7	2.9	2.3	2.5	2.8	2.9	3.1	2.9	3.1	3.8	1.3
(1989-1997)	2.6	4.9	3.1	1.7	2.7	2.3	1.8	2.6	3	3.2	3.4
(1997-1999)	-1.7	-4.6	-0.8	5.5	2.8	5.2	8.3	4.4	3.4	6.4	-6.8
Average of members per household c/											
(1989-1999)	-1.1	1.3	-0.7	-1.7	-1.1	-0.5	-0.7	-1.2	-2.0	-1.4	-2.2
(1989-1997)	-1.0	2.5	-1.3	-2.2	-1.0	-1.1	-0.8	-1.4	-1.1	-1.7	-1.7
(1997-1999)	-1.4	-3.1	1.7	0.0	-1.4	1.9	-0.5	-0.2	-5.7	-0.4	-4.3
Income per capita d/											
(1989-1999)	1.4	5.6	1.7	1.6	1.7	1.5	1	0.8	0.6	0.6	0.5
(1989-1997)	2	7	2	1.4	1.4	1	0.8	0.8	0.7	0.7	2.1
(1997-1999)	-0.9	0	0.6	2.4	2.8	3.2	2	0.6	0.5	0.2	-5.6

a/ Occupied per home growth rate

b/ Average income growth rate of the employed

c/ Growth rate of number of members per household

d/ Annual income per capita growth rate

Source: Data from household surveys.

We can see that the differences in income distribution that derive from the labour market are even larger than the ones we find in income distribution data. This is why it is fair to say that the source of inequality in the region is the functioning of the labour market, particularly the coexistence of a large informal sector and a modern and formal one.

Although government policies, with the restrictions that the globalization process has placed, can affect both the pace of growth and its redistributive impact, the Washington Consensus policy package did not consider the labour market. The possibility of acting on this front has been recognized by the World Trade Organization, when it considers as non-distortionary policies such as supporting the growth of SMEs, investing in research and development and promoting the growth of the backward sectors (both by economic sectors or geographical areas).

Additionally, issues such as improving basic infrastructure, incorporating value added into exports of raw materials or natural resources, improving the quality of the labour force or the efficiency of governments are crucial for development, especially in less developed countries. All these policies can make a big difference in the effect that the traditional IMF package will have on the rate of growth and distribution.

Table 17. Bolivia: Income indicators

Period	Total	I	II	III	IV	V	VI	VII	VIII	IX	X
	Average income of the informally employed a/										
1989	77.1	61.2	73.7	68.2	70.6	80.6	76.5	80.6	73.0	81.3	97.0
1997	47.8	58.7	63.1	72.1	70.1	70.9	75.5	78.9	71.1	86.3	66.6
1999	47.9	54.9	48.7	55.2	59.2	65.3	64.7	67.3	68.5	68.7	73.0
Difference 1990-1999	-29.3	-2.5	-10.6	4.0	-0.5	-9.7	-1.1	-1.7	-1.9	5.0	-30.4
Difference 1997-1999	0.1	-3.9	-14.4	-17.0	-10.9	-5.6	-10.8	-11.6	-2.6	-17.6	6.4
Difference 1990-1999	-29.1	-6.4	-25.0	-13.0	-11.4	-15.3	-11.8	-13.3	-4.5	-12.6	-24.0
Average income of workers of small enterprises a/											
1989	74.6	71.1	85.9	81.0	85.5	99.8	78.4	81.9	75.3	80.2	84.2
1997	46.6	40.2	50.3	59.7	61.6	59.7	68.8	61.2	60.1	82.6	67.1
1999	59.4	88.9	73.0	75.2	76.9	77.3	81.1	64.7	82.9	77.9	89.8
Difference 1990-1999	-28.0	-30.9	-35.6	-21.4	-23.9	-40.2	-9.6	-20.7	-15.1	2.5	-17.1
Difference 1997-1999	12.9	48.8	22.7	15.5	15.3	17.7	12.3	3.5	22.8	-4.7	22.7
Difference 1990-1999	-15.1	17.8	-12.8	-5.9	-8.6	-22.5	2.7	-17.2	7.6	-2.3	5.6
Average income of workers of medium enterprises (6-9 workers) a/											
1989	169.0	63.1	85.6	111.6	104.9	94.5	82.7	98.4	90.1	69.2	198.3
1997	62.8	68.9	90.1	84.0	95.7	63.1	76.2	83.0	62.9	75.3	74.8
1999	75.0	81.3	45.5	77.8	67.7	94.2	84.9	68.1	104.2	105.6	73.8
Difference 1990-1999	-106.2	5.8	4.4	-27.6	-9.2	-31.4	-6.5	-15.4	-27.1	6.1	-123.6
Difference 1997-1999	12.1	12.4	-44.5	-6.3	-28.0	31.1	8.7	-14.9	41.2	30.2	-0.9
Difference 1990-1999	-94.02	18.1	-40.1	-33.9	-37.2	-0.2	2.2	-30.3	14.1	36.4	-124.5
Average income of workers of enterprises of 10 – 49 workers a/											
1989	136.6	100.0	102.9	104.8	97.6	129.2	102.5	92.0	91.9	87.5	142.1
1997	96.8	94.9	94.8	95.1	82.5	82.2	86.4	79.1	94.8	99.2	99.2
1999	100.7	136.6	85.5	93.1	97.4	83.1	85.9	82.8	121.9	79.0	129.7
Difference 1990-1999	-39.9	-5.1	-8.1	-9.7	-15.1	-47.0	-16.1	-12.9	2.9	11.7	-42.9
Difference 1997-1999	3.9	41.6	-9.3	-2.0	14.9	0.9	-0.5	3.7	27.1	-20.2	30.5
Difference 1990-1999	-36	36.6	-17.4	-11.7	-0.2	-46.1	-16.6	-9.2	30.0	-8.5	-12.4

a/ As proportion of the income of employed in enterprises with 50 or more employees.

Source: Data from household surveys.

Although growth is the most effective tool to generate employment and reduce poverty, it does not strengthen social integration nor does it generate a more equitable distribution of income. This problem becomes very acute at times, such as the one we are living today, in which there is a slow down of world economic growth that affects all countries that depend on the global economy (particularly the smaller and more open countries) and that have not implemented domestic policies to attain social integration.

4. Conclusion

Bolivia and Chile's experience during the 1990s shows quite clearly the shortcomings of the IMF structural reform policy package. On the one hand, both countries after implementing these policies experienced an increase in their rates of growth, mostly propelled by a rapid expansion of exports (as expected by the proponents of these policies). The faster rate of growth had a positive effect on the incidence of poverty, but it was not appreciated by the population; mostly because the great majority felt themselves "losers" in the new economic model. Although the losers were really between 10 and 20 per cent of the population (that throughout the decade saw their income level decreased), the great

majority (80-90 per cent of the population) decreased their relative participation in total income. The final outcome of this is that at the end of the decade, in both countries, the Washington Consensus type policies were less popular than at the beginning and the macroeconomic imbalance (measured by the fiscal deficit) was larger. Even more, governments and democratic institutions were weakened by this process, even though, especially in Chile, they could exhibit impressive economic and social results.

The main flaw of the IMF policy package is that it does not consider the structural characteristics of the countries in which it was implemented. Most significantly it does not consider the heterogeneous character of the economic structure and the effect that opening the economy without supporting policies for the backward sectors will have on employment and income distribution. This is why, in a country like Chile, with a growth rate of 8 per cent the majority feels like losers, they find no economic space for the kind of enterprise they work in, and thus they see no future for them and their families.

Unfortunately this situation has created political problems for governments that have made a very significant and serious effort to overcome many of the traditional problems in Latin American countries. The lesson is clear a broader view is required. The basic point of this paper is that the Washington Consensus or IMF policies in themselves do not produce inequity, although equitable growth is not an explicit target of this policy package (which is certainly a problem). The effect of these policies on growth, social integration and income distribution will mostly depend on the speed and form in which they are implemented and the complementary policies that are carried out (both of which are domestic choices).

For example, fiscal balance can be reached (if, as in most countries, there is a fiscal deficit) by increasing taxes, making more effective the taxing system and/or reducing tax evasion and elusion. Or it can be reached by reducing government expenditure. Clearly the effect on growth and social integration will depend on the means and pace in which fiscal balance is reached. Social integration requires that governments simultaneously pursue equilibrium in fiscal accounts and an increase in the level of expenditure on the poor and more backwards sectors of the economy and society (which can also be reached by changing the composition of government expenditure). Growth can also be promoted by a simple and effective tax structure or by an increase in investment in human capital.

A similar analysis can be made for privatization processes. Their effects on social integration will depend on how profitable public enterprises are (if they contribute new resources to the public budget); the prices at which they are sold; the use that is made of the resources that are obtained, and very significantly, the regulatory framework in which operates the privatised firm (given that most of the time they are natural monopolies). Privatisation can be very regressive if the firm can use its monopolical or oligopolical power because of weak or inexistent regulatory institutions or framework (as it is the case in most less developed countries).

The basic message is that the IMF policy package, although it lacks a social dimension, can be implemented in a way that considers this crucial policy objective. And also that although “getting prices right” is good for growth, it is an incomplete recipe, especially in the context of globalization, that remunerates knowledge and value added more than capital and labour.

It is impossible to analyse all of these issues in this article, but if they are not considered as part of the globalization agenda it is clear that this process will strengthen exclusion, preserving existing inequalities and creating new ones.

In order to incorporate these dimensions the checklist of the policy should consider issues such as the following:

- reaching fiscal balance;
- trend and composition of fiscal expenditure.
- tax levels and structure.
- Direct taxes.
- Indirect taxes.
- Privatisation policy.
- Revenues from privatisation depend on the moment and way in which it takes place.
- Regulatory institutions and policies for natural monopolies.
- Financial reform policies.
- Openness of the financial sector.
- Regulatory institutions and policies.
- Relative cost of capital.
- Competition policies.
- Promotion of competition and regulation of anticompetitive practices.
- Regulation of foreign trade distortions.
- Promotion of backward sectors
- Less developed geographical areas.
- Small and medium enterprises.
- Social Dialogue
- Institution building.
- Support for the weaker actors.
- Training of the labour force.
- Coverage and frequency.
- Public subsidies.
- Labour legislation
- Compliance with ILO standards.
- Relationship between evolution of productivity and wages.
- Infrastructure
- Coverage of public utilities: costs and subsidies.
- Transportation: costs and subsidies.
- Promotion of the use of information technology.

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- Research and development for technological innovation.
 - Level of investment and public subsidies.
 - Trade promotion.
 - Opening of new markets, and defending the existing ones.
 - Organization of small exporters.

Additionally the definition of all social policies (health, education, social security, housing, etc.) should consider similar challenges in order to contribute to a more integrated society:

- Level and social composition of expenditure: coverage.
- Quality of the services provided, differentiated by social groups.
- Level of solidarity in the financing of social policies and thus market incentives to discriminate in favour of the poor or the most costly population groups (women, elderly).
- Effectiveness and social focus of public expenditure and institutions (targeting and positive discrimination of the population in greater need).
- Demand or supply subsidies and controlling institutions.
- Decentralization and territorial differentiation of social policy.
- Transparency, participation and social evaluation of policies and institutions.

A crucial antidote to avoid not considering this issues is to strengthen democratic institutions and promote social dialogue, only this will help giving due account of the different interests that coexist in a society. This is particularly true for Latin America that, as seen at the beginning of this article, is less able to deal with external shocks because of its weak institutions.

The reform of the State (executive, judicial and Parliament) should be an integral part of the effort of modernizing or globalizing the economy. Also the experience of the more developed countries that have been able to cope with the problems that arise from income distribution show that an institution that promotes social dialogue (between business, workers and organizations that represent civil society) is of crucial importance. These institutions facilitate the building of agreements that represent and commit all involved parties. This is a crucial investment in social capital that strengthens both economic growth and democratic institutions.

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