Economic and social indicators and social cohesion in Latin America and the Caribbean

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A long-term view: Per capita GDP increases after a period of stagnation

Growth 2003-2007: 16%

Projected growth rate for 2007
Average growth rate, 1980-2002
Per capita GDP (2000=100)

p/ Projections.
External conditions have boosted regional growth

- World growth
- Liquidity of financial markets
- Improvements in terms of trade
- High level of remittances
Outlook for 2007 and 2008

- The risks associated with the global economy have increased (disequilibria and the possibility of recession in the United States)
- But external conditions are expected to remain favourable, although financial markets will be more volatile
- The region is less vulnerable to external shocks than it was in the past (although there are differences among countries)
  - Current account surplus
  - Increased international reserves and a lower level of external debt
  - Sounder public finances (larger primary surpluses than in other periods)
  - Smaller public debt and improvements in its structure
  - More flexible exchange rates
However, in the Caribbean, some countries still show high levels of indebtedness.
Outlook for 2007 and 2008

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- The region should therefore continue to grow at relatively high rates
A growth rate of around 5% is expected for 2007 and 4%-5% for 2008.
CARIBBEAN: GDP GROWTH RATES, 2007
(Percentages)

OECS: 7.0
Trinidad and Tobago: 7.0
Caribbean: 5.4
Latin America: 5.0
Belize: 3.5
Barbados: 4.0
Suriname: 5.0
Guyana: 4.5
Suriname: 5.0
Bahamas: 5.0
Latin America: 5.0
Caribbean: 5.4
OECS: 7.0
Trinidad and Tobago: 7.0

Jamaica: 3.0

Latin America: 5.0
Caribbean: 5.4
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CARIBBEAN: GDP GROWTH RATES, 2007
(Percentages)
Unemployment is falling but is still higher than it was in the first half of the 1990s

The EAP is growing by 2.5% per year, while the total population is growing by 1.5% per year.
The percentage of poor and indigent has fallen since 2002 and this trend is expected to continue. But it took 25 years to reduce poverty below the 1980 level.
Between 2002 and 2005, the poor and indigent populations declined by 12 and 16 million, respectively. This represents a change in the trend, but the number of poor is still higher than it was in 1980.
Most of the countries of the region saw reductions in their poverty and indigence rates.


Source: ECLAC, on the basis of special tabulations of data from national household surveys.

a/ Guatemala and Nicaragua are not included because poverty estimates after 2002 are not available.
b/ Urban areas.
c/ World Bank estimates, on the basis of 1 and 2 PPP dollars a day.
Reasons for the decline in the poverty rate: higher growth, increasing employment and rising social expenditure.
Projections of the extreme poverty rate up to 2006 indicate that the region is back on track towards the first target of the Millennium Development Goals (progress is greater than the time elapsed).

LATIN AMERICA (17 COUNTRIES): LEVELS AND PERCENTAGES OF PROGRESS IN REDUCING EXTREME POVERTY BETWEEN 1990 AND 2006 a/

Source: ECLAC, on the basis of special tabulations of data from national household surveys and projections on the basis of official information from the countries.

a/ The percentage of progress is calculated by dividing the reduction (or increase) in the rate of extreme poverty in percentage points observed during the period by half of the 1990 extreme poverty rate. The red line represents the percentage of progress expected in 2006 (64%).

b/ Urban areas.
Summing up

- The region is growing faster and better than in the past
- Unemployment is falling
- Poverty has been reduced in recent years
- The region is less vulnerable to external shocks than it was before
- All this is in the context of favorable external conditions
Some caveats

- **External conditions**

- **Economic policy challenges for LAC**
  - Despite the reduction in vulnerability, some countries in the region are still highly indebted and some financial systems are highly dollarized
  - The rate of investment is still too low
  - Increases in public expenditures in some countries should be carefully monitored
  - Countries must place more emphasis on countercyclical policies and strengthen fiscal institutions
  - Appreciation of the real exchange rate
Some caveats

- External conditions
- Economic policy challenges for LAC
- From a long-term perspective:
  - Latin America and the Caribbean exhibits less-than-stellar growth rates
  - The recent upturn in LAC growth is smaller than in other developing countries
  - Growth is partially based on natural resources and this could work against badly needed diversification of the production structure
  - The region has been unable to improve its income distribution
Income distribution, by deciles

LATIN AMERICA AND THE CARIBBEAN (23 COUNTRIES a/): INCOME DISTRIBUTION INDICATORS, 2003/2005

a/ Caribbean countries (shown in the right-end chart) use different income categories (20% above the poorest 40% and 30% below the richest 10%). For these countries, it is not possible to calculate the average income ratio. Source: World Development Indicators, World Bank.
In the last few years a number of the region’s countries have been able to reduce inequity in income distribution...


*Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of household surveys conducted in the respective countries.*

*a/ Calculated on the basis of per capita income distribution. The figure for Latin America refers to a simple average of the Gini coefficients of 13 countries with comparable information for the period 1990 - 2005. Data on urban areas for Argentina, Ecuador, Panama and Uruguay.*
...but from a longer-term perspective this inequity has not changed

CHANGES IN THE GINI COEFFICIENT,\textsuperscript{a/} 1990-2003/2005 \textsuperscript{b/}

LA(s): Simple average, excluding Jamaica. LA(w): Weighted average, excluding Jamaica.

Other figures:

<table>
<thead>
<tr>
<th>Country a/</th>
<th>Year</th>
<th>Gini index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guyana</td>
<td>1999</td>
<td>0.432</td>
</tr>
<tr>
<td>Haiti</td>
<td>2001</td>
<td>0.592</td>
</tr>
<tr>
<td>Saint Lucia</td>
<td>1995</td>
<td>0.426</td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>1992</td>
<td>0.389</td>
</tr>
</tbody>
</table>

\textsuperscript{a/} Source: World Development Indicators (WDI), World Bank.

\textsuperscript{b/} Data on urban areas for Argentina, Ecuador, Panama and Uruguay.
Despite the positive short-run results, we must not lose sight of a number of facts:

- Inequality is typical of the region and the current global trend is towards greater inequality in income distribution.
- The poverty rate is still very high.
- Growth in the last years was based on natural resource exports and this could work against badly needed diversification of the production structure.
- In this context, there is a need for more active public policies, but also for a suitable institutional structure to prevent rent-seeking behaviour.

The challenge is how to ensure a sustainable growth rate while achieving greater social cohesion.
Greater social cohesion is needed within and among the countries of the region

- Social cohesion involves more than simply recognizing rights and narrowing socio-economic gaps.

- A **sense of belonging** is a pivotal component of social cohesion. The perceptions, value judgements and attitudes of the members of society are of key importance.

- Social cohesion is defined as the dialectic between instituted mechanisms of social inclusion/exclusion and citizens’ responses, perceptions and attitudes regarding the ways in which they operate.
Components and dimensions of the system of social cohesion indicators

- **Gap indicators**
  - Income
  - Employment
  - Education
  - Health
  - Housing
  - Pensions
  - Digital gap

- **Institutional indicators**
  - Democracy
  - Public policy
  - The market

- **Inclusiveness indicators**
  - Multiculturalism
  - Confidence
  - Participation
  - Expectations
  - Social solidarity

Indicators: Objective and subjective Quantitative and qualitative
Strategic lines of action for a pro-equity, anti-poverty agenda

- **Opportunities:**
  - Growth and macroeconomic stability
  - Productive development (inequalities across regions and between firms of different sizes)
  - Employment

- **Capacities and skills:**
  - Education
  - Job training

- **Solidarity:**
  - New social protection networks
  - Social programmes designed to put an end to the intergenerational reproduction of poverty within a new social and institutional framework
In addition, in order to strengthen people’s sense of belonging to society (social cohesion), we need to:

- Strengthen democratic institutions
- Increase transparency (public and private)
- Strengthen mechanisms for ensuring the recognition of minorities and for combining greater equality with greater respect for diversity
- Reinforce adherence to standards and institutions
- Strengthen the “voice” and the deliberative role of stakeholders who have long been deprived of power or of access to deliberative processes
- Make the transition to a meritocratic society that respects diversity and abandon long-standing discriminatory practices.

In short, a new social contract
Latin America and the Caribbean is a region:

- That is multicultural but that has suffered discrimination and is having increasing problems in terms of people’s sense of belonging to an indigenous community but not necessarily to a national one.

- Where only half the people are satisfied with democracy and where, in addition, they do not place a high value on it.

- Where there is little trust in the institutions of democracy (legislature, political parties, justice).

- Where people are very afraid of losing their jobs.

All of this has a negative impact on social cohesion.
Two major issues

- The financing dilemma:
  - The tax issue
The tax burden is too small and differs sharply across countries

TAX REVENUES
(Percentages of GDP, 2005)

Caribbean not incl. social security (5 countries): 25.5%
Total: 21.9%
Tax revenues + SS: 17.9%
In the Caribbean the tax burden is higher

THE CARIBBEAN: TAX REVENUE WITHOUT SOCIAL SECURITY CONTRIBUTIONS
(Percentages of GDP)

N.B.: Central government except Barbados, which includes the non-financial public sector.
There is room to increase the tax burden

PER CAPITA GDP AND TAX REVENUES
(Percentages of 2003 GDP and constant dollars at 2000 prices)
Two major issues

- The financing dilemma:
  - The tax issue
  - Solidarity in social security contributions
  - Public expenditure

- The political foundations for a new social covenant
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