



# The AMERICAS at a CROSSROADS

Putting Decent Work Back on the Development Agenda



Globalization and Development Forum

White Paper 1

**CARNEGIE COUNCIL**

*The Voice  
for Ethics in  
International  
Policy*

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on the Development Agenda

## Globalization and Development Forum White Paper 1

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## TABLE OF CONTENTS

### FOREWORD

#### **Back to the Basics:**

Advancing Human Dignity through Decent Work 5

### EXECUTIVE SUMMARY

**Charting a New Path for Development in the Americas** 8

## **1 Latin America and the Caribbean in the 21st Century**

The New Context 11

Challenges to Prosperity in the Americas 12

**2 Charting a New Path:** Promoting Decent Work in the Americas 13

**3 Redefining Stability:** Employment-Friendly Macroeconomics 15

#### POLICY INSTRUMENTS FOR EMPLOYMENT GENERATION

Monetary Policy 16

Fiscal Policy 17

Exchange Rate Policy 18

Capital Management Techniques 19

Policy Coordination 20

**4 Mobilizing Trade and Production Policies for Employment**

Fostering the Transformation of the Productive Sector 21

Trade Policy 23

Mobilizing Financial Resources 24

Policy Coordination 26

**5 Investing in People:**

Promoting Growth through Human Resource Development

Ensuring Access to Productive Social Assets 27

Social Protection 28

### CONCLUSION

**The Road Forward: Not One Single Dream Deferred** 31

## FOREWORD

### ***Back to the Basics: Advancing Human Dignity through Decent Work***

The basic things expected by our people of their political and economic systems are simple. They are: equality of opportunity; jobs for those who can work; security for those who need it; the ending of special privilege for the few; the preservation of civil liberties for all ... these are the simple, the basic things that must never be lost sight of in the turmoil and unbelievable complexity of our modern world.

*–Franklin Delano Roosevelt, 1941*

Pronounced more than half a century ago during a period of rapid global political and economic change, FDR’s historic “Four Freedoms” speech remains more applicable than ever. In a world ravaged by the horrors of genocide, colonialism, and extreme poverty, FDR’s Four Freedoms speech represented a bold vision for a new international order, inspired by the ideals of freedom, justice and equality upon which the American republic was founded. Its moral message was unequivocal: global peace and security depend on a renewed international commitment to eliminating injustice. Freedom means more than the right to cast a ballot; it means the advancement of human dignity through the elimination of those economic, political and social obstacles that prevent the human spirit from realizing its fullest potential.

Faced with growing insecurity and inequalities around the globe, a similarly bold and profoundly ethical vision is required from today’s global leadership. In an era dominated by sound bytes, wherein opposing pundits blindly deify or demonize globalization, political expediency often trumps more principled and nuanced policy debate. In this atmosphere, basic considerations for ethics, morality and justice have become almost completely divorced from our public discourse on economics and international affairs. Yet a

renewed focus on these basics may help provide a clearer roadmap for dealing with the poverty and despair that plague many communities throughout the world.

Getting back to the basics requires refocusing the international economic agenda in a way that puts people's needs, dreams and aspirations at the center of public policymaking—not at the margins. It requires an international economic system that supports national efforts to eliminate poverty through the creation of decent work opportunities that promote human dignity and development. Indeed, decent work ensures individuals a vehicle for social mobility, communities a tool for social cohesion, and nations an instrument for long-term development and economic transformation. As such, the creation of decent work opportunities represents a bridge between social justice and economic development, and thus forms an important cornerstone of a new, more ethical international development agenda.

While ethics cannot provide solutions for effective policymaking, it does provide, as argued by the Carnegie Council's president, Joel Rosenthal, a useful framework for more critically reflecting on the choices one makes and the values that affect those choices. Given the competing moral claims that underpin all aspects of international economic policymaking, such decisions must be subjected to continuous democratic deliberation, and not simply dismissed as "technical" decisions that are somehow exempt from broader moral or ethical considerations.

It is, therefore, in the spirit of creating opportunities for democratic deliberation that the Carnegie Council's Globalization and Development Forum (GDF) is pleased to release this white paper, "The Americas at a Crossroads: Putting Decent Work Back on the Development Agenda." The paper is the first in a series being developed by the Carnegie Council as part of its GDF activities. The forum is designed to facilitate international dialogue on the policy implications of a new vision for global economic integration and development that promotes human dignity, opportunity and freedoms.

Authored as the central discussion piece for a GDF-sponsored international conference on Decent Work and Development in the Americas, this white paper was drafted collaboratively by an international team of scholars and practitioners\*, including:

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The recommendations enumerated in this white paper represent an attempt to advance public debate on the range of positive alternatives that exist for advancing prosperity and human dignity in the spirit of renewed international cooperation.

—*Jerry Maldonado*

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\* The views expressed herein represent those of the authors acting in their individual capacities, and do not necessarily represent those of their institutions.

## EXECUTIVE SUMMARY

### *Charting a New Path for Development in the Americas*

Any intelligent fool can make things bigger, more complex, and more violent. It takes a touch of genius—and a lot of courage—to move in the opposite direction.

—*Albert Einstein*

Over the last two decades, employment has occupied a less than prominent role on the international development agenda. Yet, for most working men and women throughout the world, access to a good job represents the difference between a life of poverty and a life of hope and economic opportunity. It is the primary engine of wealth creation; the vehicle through which men and women sustain their families; and a basic tool for social advancement.

The creation of decent work opportunities must, therefore, rise once again as a central priority in development policymaking. Neither safety nets nor foreign aid alone can serve as an effective substitute for a dynamic national economy able to produce enough quality jobs to employ all those who seek employment.

Creating decent work opportunities in today's increasingly globalized world, however, requires a more dynamic mix of public and private sector policies that mobilize the region's untapped domestic human, financial and natural resources and that facilitate its strategic integration in the world economy. Such a strategy requires the systematic coordination between macroeconomic, production, trade, and human resource development policies to advance decent work opportunities. Failure of both national and international institutions to coordinate policymaking in these critical areas has undermined the region's development prospects and stymied economic growth, job creation and stability in the hemisphere.

Charting a new path for development in the Americas requires:

**An employment-friendly macroeconomic policy framework** Long-term economic stability requires macroeconomic policies that foster employment generation, and facilitate productive and social capital investments *while* controlling inflation and minimizing external vulnerabilities. A single-minded focus on price stability and fiscal austerity—to the exclusion of these other important economic and social policy objectives—undermines long-term growth and employment prospects for the region and poses a significant threat to its long-term economic and political stability. A more dynamic mix of monetary, fiscal, and exchange rate policies, combined with capital management techniques, is essential for promoting stable growth and employment generation in the region. Such a framework could also provide more effective incentives for stimulating private sector investment in employment-generating activities.

**Strategic trade, investment and production policies that expand regional markets and capabilities** Trade liberalization alone is not sufficient for overcoming the supply- and demand-side constraints facing many of the countries in the region. Long-run growth and quality employment generation in Latin America and the Caribbean depends on the structure of the productive sector and the dynamic evolution of this structure over time. More proactive production-oriented and employment-targeted policies are essential for promoting competitiveness and productivity and expanding the size of domestic and regional markets.

The expansion of domestic market opportunities must be coupled with a revitalized process of regional integration that promotes employment through investments in regional infrastructure, production, technology and human resource capabilities. A successful regional integration strategy should be measured by the extent to which it advances social mobility, prosperity and equality of opportunity for all people and nations—large and small—in the hemisphere.

**A renewed focus on human resource development** Highly active social policies that promote social protection, mobility and human capital development are essential for ensuring the region's competitiveness. Safety nets alone do not provide a sufficient vehicle for investing in and advancing a country's most important assets—its people.

**More efficient public and private sector institutions** Efficient public institutions and a professional civil service are essential for mobilizing domestic resources and implementing a coherent policy regime that promotes human and social development. A revitalized public sector is also essential for creating an enabling environment for private sector development and for stimulating the types of partnerships necessary for generating decent work and expanding economic opportunities throughout the hemisphere.

For the vast majority of poor people throughout the world, access to a good job remains the single most important variable for ensuring social stability and economic well-being. Progress on this front, however, will require *reprioritizing decent work for all* as a global economic policy objective, and coordinating national and international policies to achieve this basic end. After all, policy alternatives do exist. What is required is the global political will, leadership and ingenuity to nurture their implementation.

# 1 LATIN AMERICA AND THE CARIBBEAN IN THE 21ST CENTURY

## The New Context

**1.1** For the past quarter century, Latin America and the Caribbean have spearheaded a series of structural reforms including the reduction of trade barriers, the privatization of large domestic firms and the deregulation of its labor and financial markets. Latin American and Caribbean economies are now among the most open and liberalized in the world. During this time, the region has succeeded in significantly boosting its exports and in becoming a magnet for foreign direct investment.

**1.2** In most countries, inflationary pressures and unsustainable budget deficits have also been effectively brought under control. Hyperinflation no longer represents an immediate threat to the region. Social spending has also increased in a number of countries, although public investment has not always kept pace.

**1.3** Paradoxically, however, the region's success in curbing inflation, increasing trade, and attracting FDI has not been matched by sustained economic growth or the expansion of decent work opportunities—both of which are essential for long term poverty reduction. Indeed from 1990–2003, according to data from the United Nations' Economic Commission for Latin America and the Caribbean, the region grew at 2.6 percent a year, less than half the 5.5 percent record growth rates it experienced during the period between 1945–1980. Although the region has witnessed some modest recovery in growth rates over the past year, its sustainability remains questionable due to a number of external and domestic structural factors. Moreover, such anemic and unstable growth rates have proven insufficient for generating enough productive jobs to support a workforce that is expanding by 2.5 percent per year, or for making a substantial dent in poverty reduction in a region where an estimated 35 percent of all households continue to live in poverty.

## Challenges to Prosperity in the Americas

**1.4 Growing Inequality.** Latin America and the Caribbean have exhibited extreme inequalities in wealth, income, and opportunities. The policies of the past two decades have done little to change this and, in many countries, inequality has gotten worse. Moreover, entrenched poverty and inequality have, in and of themselves, become obstacles to economic growth and development, and pose a major social and political threat to the region's long-term economic stability.

**1.5 Productivity Differentials.** While productivity in leading firms and sectors (many of them subsidiaries of multinationals) has increased, overall productivity performance remains poor. Today, world-class firms and highly skilled workers exist alongside growing unemployment and a burgeoning informal economy.

**1.6 Poverty and Unemployment.** Low and volatile growth rates, persistent unemployment and growing informalization have undermined poverty eradication efforts in the region and countered the positive effects of rising social spending. In 2004, a total of 19.5 million urban workers found themselves without employment in Latin America and the Caribbean. According to a survey by Latinobarómetro in 2002, over 40 percent of people in Latin America rated unemployment, labor market instability, or low wages as their most important problem. Indeed, the region's transition from "global trader" to "global player" seems to be a distant dream.

## 2 CHARTING A NEW PATH: PROMOTING DECENT WORK IN THE AMERICAS

**2.1** Every developing country has the responsibility for its own development. National ownership of economic policymaking and reforms is essential for ensuring the design and implementation of economic policies that are context specific. It is also essential for ensuring that economic policymaking responds to the democratically expressed needs and aspirations of its own people.

**2.2** Realizing this national responsibility requires strong political will and the full mobilization of each country's own material, financial and human resources. Since the time of Adam Smith, economists have recognized that a nation's most important natural resource, and its most enduring source of true wealth, is its people. Yet working men and women remain among the most underutilized resource in the Americas today.

**2.3** Decent work is the foundation for sustainable poverty reduction and growth with equity. The creation of decent work opportunities is an important foundation for sustained economic growth, human development, equity and social stability. It is the primary engine of wealth creation; the vehicle through which men and women sustain their families; and a basic tool for social advancement. The creation of decent work opportunities must, therefore, be made a central priority in economic policymaking.

**2.4** Women and men occupy different positions in the region's economies. Most women are disadvantaged in the labor market, in households, and in the distribution of assets and income. Women's responsibility for unpaid care work is a major contributor to gender inequity. Because of the time spent in non-market work, women often earn less, have limited access to paid employment, and face higher risks of poverty than do men. Women's limited options in terms of access to an independent source of earnings can reinforce dependencies and inequalities within households and in society at large. These sources of inequality must be addressed as part of a new vision for hemispheric development.



**2.5** Meeting these challenges require a different and a more coherent and coordinated development policy framework for both mobilizing domestic resources and managing the process by which the region's economies are integrated in the world economy. Strategies that combine full domestic resource mobilization with strategic integration in the world economy are essential for promoting long term economic stability. They represent the two legs of a new development framework for the region. Without sustained attention to both, the path to sustained economic and human development becomes nearly impossible to traverse.

**2.6** Long-term economic stability requires greater coordination between macroeconomic, production and social policies. Coordination between these policy areas is essential for promoting the growth of the domestic market alongside a competitive export sector; transforming domestic production and consumption patterns; and promoting social mobility through human capital development.

## **3** REDEFINING STABILITY: EMPLOYMENT-FRIENDLY MACROECONOMICS

**3.1** In many Latin American and Caribbean countries, the current macroeconomic policy regime has succeeded in stabilizing prices and reducing inflation, but has not generated sufficient economic growth to sustain employment generation, facilitate industrial and rural development, or significantly reduce the region's poverty levels and human development deficits.

**3.2** In recent years, many countries in the region have liberalized capital flows and introduced floating exchange rate regimes. In this context, an exclusive focus on low inflation rates, the primary objective of inflation-targeting policies, has produced high real interest rates and appreciated real exchange rates that are detrimental to long-run growth, job creation and development.

**3.3** Strict inflation targets can introduce the same destabilizing, pro-cyclical elements into macroeconomic policies—for example, contracting an economy in the face of a negative external shock—as were present under fixed exchange rate regimes.

**3.4** A new macroeconomic policy framework for the region must accommodate multiple targets and ensure the corresponding instruments for central banks, treasuries, and finance ministries. These targets should seek to maximize employment, maintain stability, avoid external crises, and control inflation within rates that are compatible with long-run economic growth. A stable, growth oriented macroeconomic policy regime must also be flexible enough to respond to short-term economic fluctuations in order to prevent destabilizing boom and bust cycles.

**3.5** In order to guide on-going interventions to support these objectives, monetary authorities and macroeconomic policymakers need to adopt a series of intermediate targets and policy instruments that will be used to manage an employment-friendly macroeconomic regime. The intermediate targets and the mix of policy tools will vary from country to country and depend on the economic context, existing constraints, and industrial structure.

In addition, the institutional forms through which monetary, financial, and fiscal policies are carried out will also differ from one situation to the next.

**3.6** An employment-friendly macroeconomic strategy must incorporate a coherent framework for addressing monetary policy, the exchange rate regime, volatile capital flows, and fiscal policy. Such coordination is essential if decent employment, sustainable growth, and broad-based social protections are to be realized in the region.

**3.7** The management of monetary and fiscal policy should be sufficiently flexible to allow for short-run counter-cyclical policy interventions to respond to negative external shocks. Thus, in times of lagging growth, the aim of macroeconomic policy should be to stimulate the economy. However, counter-cyclical policies should not compromise the intermediate and long-run targets necessary for employment creation and sustainable development.

## POLICY INSTRUMENTS FOR EMPLOYMENT GENERATION

### Monetary Policy

**3.8** Monetary policy should not be focused exclusively on inflation. Monetary policy has to be simultaneously focused on maintaining a competitive real exchange rate, sustaining real interest rates that support strong growth, and controlling inflation. Monetary policy must also promote price and exchange rate expectations that support productive investments and discourage speculative activities. Monetary policy should be formulated jointly with other fiscal and sectoral policies and integrated into a coherent framework that supports the structural transformation of the economy and the development of human resources. This requires coordination among all the relevant players: the central bank, development finance institutions, and appropriate ministries, departments, and agencies.

**3.9** The need to coordinate central bank policy with a broader developmental agenda could require institutional changes in terms of the accountability of the central monetary authority to the process of policy formulation, monitoring, and implementation.

The ways in which targets are set and the institutional setting in which those targets are monitored and incorporated into policy-making must support a coordinated approach to macroeconomic policy. However, the precise form of this coordination will vary from country to country.

### Fiscal Policy

**3.10** Government taxation and expenditure policies are critical instruments for enhancing infrastructure, supporting development finance institutions, financing human resource development, and investing in research, technology and innovation policies. Carefully targeted expenditures designed to maximize productive investments in these areas is an essential component of a new employment friendly development strategy.

**3.11** Fiscal policy must be sustainable in the long run. Debt servicing obligations and weak tax collection systems have placed significant constraints on the developmental role of fiscal policy. Trade liberalization has also contributed to the erosion of the revenue base for many small developing countries in the region.

**3.12** To be sustainable in the long run, fiscal policy must promote income and productivity growth. This requires expenditures that mobilize domestic resources and reduce reliance on external borrowing and the associated debt service costs. Fiscal policies should be flexible enough to respond counter-cyclically to short-run economic downturns. However, to maintain long-run stability, fiscal policy targets should be calibrated to changes in the productive potential of the economy over time. The higher growth rates and lower interest rates that could be achieved as part of an employment-friendly macroeconomic policy regime would substantially contribute to the sustainability of a developmental fiscal policy.

**3.13** Progressive expenditures and tax policies can significantly boost job creation by increasing consumption, investment and human resource development. Large debt-servicing burdens that place pressure on government expenditure will likely worsen income inequality, limit capital spending on social and economic infrastructure, and impair the delivery of social services, all of which are essential for long-term growth and political stability.

Appropriate tax policy and efficient collection are essential for insuring adequate public revenues while maintaining a sustainable level of deficit financing. The impact of reforms (e.g. trade liberalization) on fiscal resources must be taken into account and appropriate adjustments made—either in terms of identifying alternative revenue sources or modifying the reform strategy.

## Exchange Rate Policy

**3.14** Throughout the region, the real exchange rate is important in determining: the level of economic activity and employment in the short run; investment incentives in tradable sectors; and, as a consequence of investment, long-run patterns of economic growth, job creation, and industrial development.

**3.15** Through its impact on the structure of production and patterns of consumption, the real exchange rate influences balance of payments sustainability and the reliance on foreign savings to supplement domestic resources. Real exchange rate appreciation can reduce exports, encourage import penetration, and increase the current account deficit.

**3.16** In many Latin American and Caribbean countries, foreign financial inflows have closed this gap. Often, these financial flows have been unproductive—that is, they have not expanded the real productive capacity of the economy. Instead, a high dependence on these financial inflows has been associated with slow growth and an expansion of external debts.

**3.17** One approach to a new macroeconomic policy framework for Latin America and the Caribbean would emphasize the importance of preserving a competitive real exchange rate as an intermediate target to promote the profitability of tradable activities, maintain a favorable external balance, and give incentives to invest and expand employment. Maintaining a competitive real exchange rate helps promote backward linkages that generate employment by limiting import penetration of capital and intermediate goods.

**3.18** A monetary policy regime with an intermediate real exchange rate target must achieve three goals simulta-

neously: (1) prevent the appreciation of the real exchange rate; (2) maintain influence over short-term interest rates and monetary aggregates; and (3) create disincentives for destabilizing short-term capital flows. Monetary authorities have three instruments for achieving these goals: (1) interventions in the foreign exchange market; (2) interventions in the money market; and (3) capital management techniques. The central bank must be free to use these three instruments effectively to manage the macroeconomic environment.

**3.19** The central banks also must take into account their role in shaping expectations around the real exchange rate. Stabilizing private sector expectations will reduce the costs of central bank interventions and lower the number of interventions required. For this reason, central bank interventions should be firm, in order to demonstrate clearly to the market the readiness and capacity of the monetary authority.

## Capital Management Techniques

**3.20** Dependency on external resources raises the risk of economic instability due to the possibility of sudden reversals of capital flows. Short-term flows, in particular, have been a source of macroeconomic, exchange rate, and financial instability for many countries in the region. Excessive short-term capital inflows and speculative positions taken on the domestic currency increase the risks of financial instability and undermine long-term growth and employment creation.

**3.21** Prudent capital management techniques should be adopted to limit a country's vulnerability to the negative consequences of short-term, speculative capital flows and investments. Capital management techniques include a broad set of policies that can be grouped in two categories: (1) strategic regulation of domestic financial markets and institutions that protects the domestic financial sector and (2) policies that govern cross-border private capital flows. Capital controls on short-term inflows are one example of a capital management technique that could be used to guard against financial fragility in the region. Policies that attract long-term, productive capital and discourage destabilizing short-term, "hot money" can play an important role as part of a new employment-focused development strategy.

**3.22** Macroeconomic stabilization programs, although “gender blind,” have often had disproportionately negative impacts on women, with important consequences for gender equity, poverty reduction, and human development. A new, coordinated macroeconomic policy framework should explicitly identify the social impact of its interventions and address these issues within a broader policy context that strives to reduce gender inequalities and secure the development of human resources.

**3.23** While a stable, growth-oriented macroeconomic policy regime is essential for generating employment, it is not sufficient for generating growth with equity. Rather, a new macroeconomic policy regime must be coupled with an appropriate mix of investment, trade, and production strategies that expand domestic markets and capabilities throughout the region.

## 4 MOBILIZING TRADE AND PRODUCTION POLICIES FOR EMPLOYMENT

### Fostering the Transformation of the Productive Sector

**4.1** The development of the productive sector is critical for maintaining macroeconomic stability and sustainable growth. For many economies, changes to the productive structure are essential for taking the pressure off the balance of payments constraint. Productivity improvements help control inflation. Industrial upgrading to higher value-added activities contributes to maintaining an adequate level of aggregate demand.

**4.2** In many Latin American and Caribbean economies, islands of modern production co-exist with a diverse set of informal, low-productivity activities that frequently account for the majority of employment. Informal employment as a share of total employment has been growing in many parts of the region, even during periods of economic growth. In addition, women are often concentrated in the more precarious forms of informal employment, increasing gender inequalities and women’s risk of poverty.

**4.3** Prevailing global incentives will maintain these trends towards informality, unless specific policy interventions shift economies onto more virtuous employment growth paths. This involves pursuing multiple strategies simultaneously: promoting structural changes in the production system that strengthen the relationship between economic growth and formal job creation; introducing targeted interventions for increasing the productivity (and returns to labor) in informal activities; and maintaining a strong set of social policies to protect vulnerable workers.

**4.4** To facilitate formal job creation, public policy tools are required that: (1) enhance labor productivity and ensure productivity gains translate into real income gains and higher purchasing power for households; (2) build dynamic upstream and downstream linkages between domestic activities, both agricultural and industrial; (3) encourage the more rapid diffusion of technology and knowledge; and (4) upgrade the skills profile of the workforce.

Such policies promote long term economic stability by expanding the size of the domestic market, creating new opportunities for private sector investment, and improving international competitiveness.

**4.5** A productive sector policy framework must be planned within a medium- to long-term time horizon. It should combine both vertical (selective) and horizontal (non-selective) strategies. Horizontal strategies support the general development of productive activities and foster the diffusion of knowledge across sectors. Vertical strategies should target activities that generate significant new employment opportunities, support network and scale economies, develop dynamic comparative advantages, and foster competitiveness in the sectors where the country has existing capabilities.

**4.6** Policymakers must utilize a range of techniques, including market and non-market instruments, to coordinate the development of the productive sector. Policy tools must be case-sensitive and context-specific.

**4.7** In Latin American and the Caribbean, structural change in the region's productive systems requires governments that are able and willing to discipline special interests and rent-seeking behavior in order to attain long-run development of the productive sector. Productive sector policies must be given as much priority as is currently given to macroeconomic management. This will require strengthening the public institutions charged with implementing industrial, agricultural, and trade policies.

**4.8** Technology and innovation incentives need to be proactively managed and should be tailored to the characteristics of the productive structure. One approach would be to establish a system of science and technology innovation funds, supported by public sector contributions and the mobilization of private resources, which support upgrading within strategic industries and across all industrial sectors.

**4.9** A revitalized rural development strategy is essential for promoting poverty reduction and rural employment creation. Carefully targeted strategies must be developed for the agricultural sector in order to address market access, finance, rural infrastructure, technology, and asset distribution constraints. In

recent years, technological changes—often involving intangibles, such as genetic resources and innovations in traditional inputs—have transformed many agricultural activities and have altered the environment in which agricultural enterprises operate. It is important for policy makers to recognize these developments and start planning comprehensive strategies that address these changes.

**4.10** Extension services targeted at the agricultural sector, small enterprises, and informal activities will aid the diffusion of technology and information resources to enterprises that are frequently marginalized in terms of their access to research, knowledge-creation, and technological innovations.

**4.11** Competitiveness is multi-dimensional, with labor costs being one contributing factor, and often not the most important determinant. Therefore, labor markets should not be seen as the only institutions determining employment and competitiveness. Failures to address other facets of competitiveness—quality infrastructure, competitively priced economic services, technological innovations, and industrial upgrading—place an inordinate burden on labor market adjustments, with negative consequences for employment, poverty reduction, and human development outcomes. Wage levels are not the only determinant of labor costs. Productivity improvements can lower labor costs without reducing living standards.

**4.12** Investments should be made to insure that labor markets and labor market regulations function efficiently, matching employers with appropriate employees, facilitating the mobility of human resources through skills upgrading, resolving workplace conflicts fairly and transparently, and minimizing administrative costs.

## Trade Policy

**4.13** Trade negotiations must support the goals of industrial and agricultural development and job creation. This applies to negotiations at all levels: in multilateral institutions, among regional trading blocs, and in bilateral agreements.

**4.14** Unmanaged trade and financial liberalization can only be expected to reinforce the production structure on the basis of existing comparative advantage. It cannot be expected to build dynamic comparative advantage—the basis for achieving growth, employment, and equity goals.

**4.15** Governments in the region should combine opportunities offered by world markets with a domestic investment and institution-building strategy in order to ensure that trade is built on dynamic—rather than static—comparative advantages.

**4.16** Industrial up-grading and development must be viewed as a key objective of strategic trade policymaking. Industrial upgrading promotes quality job creation by ensuring that countries in the region avoid the trap of specializing in low-value added exports based on production and assembly operations that depend on imported components and inputs and have little long-term growth potential. Industrial upgrading also facilitates the expansion of domestic markets by enabling domestic firms and workers to retain a larger share of the benefits from productivity improvements.

**4.17** Regional integration should be deepened to create new domestic and external market opportunities. Successful regional integration should promote employment by expanding investments in regional infrastructure, technology and human resource capabilities. Regional integration should thus be viewed as a means to an end—a vehicle for creating economies of scale within which industrial policy becomes more feasible, leveraging complementarities among the region’s diverse productive activities, expanding production, distribution and marketing networks, and raising living standards. An effective process of regional integration will also require that more developed countries exercise greater responsibility in promoting the development prospects of smaller and less developed countries in the region.

## Mobilizing Financial Resources

**4.18** The implementation of strategic trade and productive sector strategies will require the mobilization of financial resources through multiple channels: fiscal policy, rent manage-

ment, and development finance institutions. Adequate financial resources are required to implement policies that support investment, the introduction of new technologies, industrial upgrading, and the diversification of the production system.

**4.19** Numerous fiscal policy tools can be used to pursue the objectives of a strategic policy framework for the productive sector, including tax policy, subsidies, infrastructure investments, and public goods provision. However, these policies tools are only effective when backed by adequate financial resources. Fiscal policy must therefore support the productive sector strategy to insure the effectiveness of these instruments.

**4.20** For countries with sectors that generate sizeable rents—for example, from the extraction of natural resources, such as petroleum—an effective mechanism of rent management can support productive sector development throughout the economy. Effective rent management can also improve competitiveness by reducing implicit subsidies that may arise from the private exploitation of natural resources. Such subsidies can result in the over-exploitation of natural resources, with significant long-term environmental and economic costs. Efforts in the region to reposition royalty charges and other ground rent management instruments should be encouraged. A share of these rents can be mobilized to finance strategic policies and programs. One such model is the Brazilian system of sectoral funds that support research and technological innovation. Chile has recently experimented with similar efforts funded by surtaxes on mining resources.

**4.21** Development finance institutions have been used to insure access to low-cost financial resources, to support private risk management for strategic activities, and to pursue dynamic comparative advantage. Countries have used different forms of public institutions to provide support to private risk management. This has usually taken the form of the creation of national development banks or quasi-governmental financial institutions. Governments need to maintain and insure the adequate capitalization of such development finance institutions. They have a major role to play in the strategic allocation of low-cost credit with less stringent collateral requirements to priority sectors and investments.

**4.22** Development finance need not be limited to public or quasi-public institutions. Incentives can be introduced to encourage a shift in the balance sheets of the private financial sector to support a broad development agenda. Partial credit guarantees reduce the risk premiums on projects that have high social returns, helping to solve this type of market failure. Asset-based reserve requirements provide incentives to banks to hold a larger share of their assets as developmental loans. However, such efforts require well-developed financial systems if they are to be effective.

**4.23** Interventions in credit markets are subject to arbitrage and abuse. Therefore, effective safeguards and monitoring systems must be put in place if such policies are to succeed.

### Policy Coordination

**4.24** The effectiveness of strategic trade and production-oriented policies not only mandates an employment-friendly macroeconomic environment, but also requires a proactive human resource and skills development strategy. However, social policies, such as workers assistance schemes or human capital formation efforts, will only bring about positive impacts if they are matched with the reorientation of the industrial trajectory of the formal sector; that is, with a coordinated trade and industrial policy strategy.

## 5 INVESTING IN PEOPLE: PROMOTING GROWTH THROUGH HUMAN RESOURCE DEVELOPMENT

### Ensuring Access to Productive Social Assets

**5.1** The public sector, through its support of active social, health and education policies, has historically played a key role in supporting social and economic progress in the region. However, social policy in much of Latin America and the Caribbean suffered during the “lost decade” of the 1980s, as well as much of the 1990s. Slow economic growth, macroeconomic instability, and fiscal policy constraints imposed by economic stabilization programs eroded many of the human capital gains that had been made earlier in the twentieth century.

**5.2** Over the last three decades, emphasis has shifted to the development of market-based solutions for addressing the region’s social policy problems. This has fueled the development of a thriving, private social services industry which provides high quality services to upper income segments of the population. Simultaneously, public policymaking and spending during this period has focused largely on the creation of safety nets for the poorest segments of the population. Meanwhile, large segments of the working poor and middle class remain outside of both systems, unable to afford access to private social services, and underserved by weakened and often deteriorating public health and education institutions.

**5.3** Latin America and the Caribbean today have the most unequal income distribution in the world. Such stark inequalities in wealth distribution have historically posed a challenge to the region’s social cohesion and political stability, undermining long-term growth, investment and development prospects.

**5.4** Highly active social policies that promote social protection, mobility, and human capital development are essential for ensuring the region’s competitiveness and promoting social cohesion. In particular, public investments in educational services, skills building, training, research and technology are essential for boosting labor productivity and employment incomes. These serv-

ices require adequate public funding and must be considered part of a long-term investment strategy.

**5.5** Unpaid, caring labor performed within households accounts for a large fraction of the labor needed to maintain and develop a country's human resources. Women do the majority of this work. Without this investment in human resources, a country's growth and development potential would be severely compromised. The importance of unpaid care work must be explicitly considered when developing social policy interventions. Social policies should recognize the importance of and support the provision of caring labor, but do so in a way that does not reinforce existing gender inequities.

**5.6** Social policies that ensure equal access to basic services and social infrastructure including nutrition, sanitation, housing and healthcare have a positive impact on economic growth by creating a more productive workforce, reducing absenteeism, and sustaining individuals over their working lives. A new strategy to promote human resource development, as part of a broader development agenda, should rely on a dynamic mix of public and private social service providers, networks and institutions. Both systems may well complement each other in most cases if adequately regulated and defined. As such, public institutions should be strengthened to constitute the basis of a redesigned, mixed, public-private social protection system that ensures increasingly universal coverage to essential services.

**5.7** Recent empirical evidence demonstrates that countries with more equitable income distribution have higher rates of growth. Progressive fiscal, tax and credit policies that promote more equitable access to productive assets can significantly boost domestic consumption and investment and expand opportunities in domestic markets.

## Social Protection

**5.8** Social protection policies allow households and individuals to manage risks associated with shocks to incomes and employment. They also protect individuals from unfair or unsafe working conditions. Social protection policies are essential for guar-

anteeing decent employment opportunities. In particular, unemployment protection systems are required to protect families from adverse labor market shocks.

**5.9** Government transfer payments provide some degree of income protection for the unemployed, the poor and the elderly. Transfer payments can also support other social policy objectives, such as increasing school enrollments and improving access to healthcare. Transfers can improve the functioning of low-wage labor markets, since small amounts of income are often necessary for individuals to search effectively for employment opportunities. Such programs can also serve as "automatic stabilizers"—introducing a countercyclical element into fiscal policies.

**5.10** Social protections that regulate working conditions, ensure the observance of core labor standards and establish a basic threshold of decency for the employed are important for promoting decent work. However, such protections are often restricted to those employed in the formal economy. Informal workers frequently have little or no access to employment protections. This has been compounded by the rapid growth of the region's urban workforce, many of whom frequently move in and out of short-term salaried positions, working informally between periods of unemployment. Given this context, there is a need to extend the coverage of such policies to individuals employed outside of formal, wage employment.



## CONCLUSION

### ***The Road Forward: Not One Single Dream Deferred***

What happens to a dream deferred?

Does it dry up  
like a raisin in the sun?

Or fester like a sore—  
And then run?

...

Maybe it just sags  
like a heavy load.

Or does it explode?

*—Langston Hughes*

Today there are nearly 1.5 billion people who are unemployed, underemployed, or working in poverty, according to recent International Labour Organization (ILO) estimates. As emphasized in the Report of the World Commission on the Social Dimensions of Globalization, this pattern is neither morally acceptable nor politically sustainable. Addressing this challenge requires concerted political leadership at all levels to ensure that all citizens live in a world where not one single dream is deferred due to poverty, unemployment and social exclusion.

This challenge is especially acute in Latin America and the Caribbean, where extreme wealth exists alongside extreme poverty and human desperation. This white paper proposes a new roadmap for re-prioritizing decent work as an essential strategy for advancing development and promoting human dignity in the region and elsewhere.

Since no one policy prescription can possibly fit all situations, this document outlines a broad new policy framework that is sufficiently flexible to accommodate the unique needs, contexts, and structures of the region's diverse economies. The effectiveness of such a framework, however, depends upon a more holistic and coordinated approach to economic policymaking that promotes human develop-

ment and social equity through job creation and the expansion of economic opportunities. It requires the development of a new strategy for national and regional development, wherein macroeconomic management, productive sector policies, and the development of each country's human potential must be pursued simultaneously, as part of a coherent whole. Without such coordination, specific interventions will fall far short of what is possible and desirable.

This framework also stands in sharp contrast to the economic policies implemented throughout the region over the past several decades—strategies that have failed to improve employment, tackle poverty, or address pervasive inequalities. Only through a sustained commitment to implementing integrated solutions to the region's social and economic challenges can hemispheric stability, prosperity and freedom be secured.

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