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Paying off the social debt in Latin America

Álvaro GARCÍA,* Ricardo INFANTE * and Víctor E. TOKMAN **

Introduction

The economic sacrifices entailed by national policies to adjust to the foreign debt crisis have not been shared equally by the different segments of Latin American society. Research has shown that the bulk of the cost has been borne by those whose income derives from the labour market. Consequently, the standard of living of these groups has deteriorated at a faster pace than that of the rest of society and has increased the "social debt" owed to them.

The social debt corresponds to the amount of resources required to overcome poverty and achieve a socially acceptable degree of distributive equity. Families are considered to be in a situation of poverty if their income is below a specified "poverty line". The aggregate amount of resources – normally expressed as a percentage of GDP – that need to be transferred in order to ensure that all families are placed above the poverty line is referred to as the "poverty gap" or the "intensity" of poverty. In order to facilitate the formulation of short-term policies, a distinction is made between the short-term and the long-term social debt. This article is mainly concerned with the short-term social debt resulting from the current foreign debt crisis and with the possibilities of counteracting its effects in the short or medium term (e.g. a government's term of office or its remaining years in office).

Since 1981 the countries of Latin America have been adjusting to the foreign debt crisis at the cost of economic stagnation. Between 1980 and 1985 the average annual growth rate for the region was 0.4 per cent, which meant an annual 1.8 per cent reduction in per capita income. The existence of social debtors and creditors stems from the fact that this deterioration in the standard of living was not the same for all groups of society.

Hence the foreign debt and the social debt are closely linked and the repayment of each has similar implications for the development of the Latin American countries. To pay off the foreign debt, structural adjustment is

* Regional Employment Programme for Latin America and the Caribbean (PREALC). ** Director, Employment and Development Department, International Labour Office. The authors have published a fuller analysis of the subject dealt with here in the book entitled *Meeting the social debt* (PREALC, 1988a).

Table 1. Evolution of poverty in Latin America, 1960-85

Indicator	1960	1970	1977	1980	1985
Incidence of poverty (%)	51	40	33	33	39
Poverty gap (% of GDP)	9.1 [1]	4.5	2.7	2.7	4.3
Number of poor (millions)	110	113	112	119	158
Total population (millions)	216	283	339	361	405

[1] Estimated.
Sources: PREALC, 1988a, and CELADE, 1985 and 1987.

necessary in order to increase the region's trade surplus and hence its capacity to transfer net resources abroad. To pay off the social debt, it is necessary to increase the share of GDP that goes to the lower-income groups while restructuring and expanding the production system so that it can provide the goods and services they need. In short, the payment of these two major debts necessitates an equitable structural adjustment process.

The cost of eliminating poverty is equal to the poverty gap multiplied by a coefficient that corresponds to the cost of producing or supplying basic goods or services needed by the poor, or the cost of creating jobs whose productivity generates sufficient income to purchase them. This coefficient is variable and depends on the combination and effectiveness of the policies applied.

An analysis of the evolution of poverty in Latin America shows that between 1960 and 1980 the absolute number of the poor remained almost stationary but the relative incidence of poverty steadily declined, from 51 to 33 per cent of the population (table 1). As the proportion of the poor diminished during the 20 years preceding the crisis, so did the poverty gap, which in 1960 constituted approximately 9 per cent of the region's GDP as against 2.7 per cent in 1980. However, these figures give no indication of the collective effort that had to be made in Latin America to allow poor families to rise above the poverty line.

In the 1960s the income of poor families had to be increased by nearly 1 per cent of GDP going to the poor (0.95) to reduce the incidence of poverty by one percentage point. In the 1970s the cost of reducing poverty decreased. Between 1970 and 1977 the incidence of poverty declined from 40 to 33 per cent and the cost of reducing each percentage point fell to 0.69 per cent (table 2). Over the whole period from 1960 to 1980 the cost of reducing the incidence of poverty by one percentage point averaged 0.88 per cent. To achieve this result GDP had to grow at an average annual rate of 5.9 per cent; if the average cost of reducing poverty had remained unchanged in the 1960s and 1970s, the social debt would have amounted to approximately 29 per cent of the Latin American GDP.

Table 2. Structural cost of reducing poverty, 1960-77 (%)

Years	GDP per capita [1]	GDP [1]	Income of the poor [1]	Average incidence of poverty	Reduction in the incidence of poverty	Share of GDP going to the poor	Increase required in per capita income of the poor	Cost of reducing the incidence of poverty by one percentage point [2]
1960-70	31.9	72.5	10.1	45.0	11	14.5	10.5	0.95
1970-77	25.9	51.4	7.2	36.5	7	9.8	4.8	0.69
1960-77	60.1	161.0	18.0	42.0	18	12.6	15.8	0.88

[1] Percentage increase. [2] Elasticity between the increase in the income of the poor in terms of total GDP and the decrease in poverty.
Source: Prepared by PREALC on the basis of statistics published by the United Nations Economic Commission for Latin America and the Caribbean (ECLAC).

The effects of adjustment and the short-term social debt

Two factors have to be taken into account when considering the short-term social debt: (1) the cost of reducing the incidence and intensity of poverty to a specific level (in this case that prevailing in the year when the foreign debt crisis began); and (2) the extent of regressive distribution (in particular, reductions in real wages) within the non-poor group that occurred in the same period. The short-term social debt incurred during the crisis is estimated by reference to a situation in which overall poverty is not increasing and in which the non-poor bear an equitable share of the cost of adjustment.

To quantify the short-term social debt it is necessary to determine the magnitude and the causes of the changes produced in the above two factors. It should be borne in mind in this connection that the developments we describe below are all interrelated.

Between 1980 and 1985 Latin American GDP registered a slight growth (2.6 per cent) but gross national income at market prices fell by 2.7 per cent (table 3). This difference is accounted for by the marked increase in transfers to other countries as a result of both a rise in international interest rates and a deterioration in the terms of trade. This means that in 1985 a significantly higher share of the regional income went to residents in other countries than in 1980 (an additional 5.3 per cent of Latin American GDP).

This loss, which affected the region as a whole, was unequally distributed among the various economic agents. While the respective shares of entrepreneurs and government in national income increased slightly, the major cost of the adjustment was borne by labour. Consequently, the net transfer of resources Latin America has been making to other countries has been almost entirely at the expense of the workers, whose disposable income fell by 4.8 per cent of GDP.

Table 3. Gross domestic product and functional distribution of income, 1980-85 [1] (%)

Indicator	1980	1983	1985	Variation, 1980-85
GDP (1980 = 100)	**100.0**	**96.7**	**102.6**	**2.6**
External transfers [2]	2.2	6.9	7.5	5.3
Gross national income at market prices	97.8	89.8	95.1	–2.7
Depreciation	6.1	6.5	6.7	0.6
Indirect taxes after subsidies	7.3	7.2	8.9	1.6
Net national income at factor cost	84.4	76.1	79.5	–4.9
Labour income	34.9	30.0	30.1	–4.8
Capital income	49.5	46.1	49.4	–0.1
Functional distribution of income [3]				
Labour	41.4	39.4	37.9	–3.5
Capital	58.6	60.6	62.1	3.5

[1] Weighted average of Brazil, Colombia, Costa Rica, Ecuador, Jamaica, Mexico, Panama, Paraguay, Uruguay and Venezuela. Each entry, except for the last two rows, is expressed as a percentage of GDP. The 1980-85 figures are percentage point variations in GDP for that period. [2] Net transfer of capital abroad plus variation in the terms of trade. [3] Expressed as percentages of the net national income at factor cost.

Source: Prepared by PREALC, based on unpublished ECLAC national accounts data, and IDB, 1987.

Table 4. Destination of the gross domestic product, 1980-85 [1] (%)

Destination	1980	1985	Variation, 1980-85	
			Actual [2]	Equitable [3]
GDP	**100.0**	**102.6**		
Net transfer abroad [4]	2.2	7.5		
Gross national income	97.8	95.1	–2.7	–2.7
Total consumption	74.7	78.7	4.0	–2.0
Public	10.7	11.4	0.7	–0.3
Private	64.0	67.3	3.3	–1.7
Labour	34.9	30.1	–4.8	–0.9
Capital	29.1	37.2	8.1	–0.8
Total gross investment	23.1	16.4	–6.7	–0.6
Stock variation	1.6	0.3	–1.3	0.0
Depreciation	6.1	6.7	0.6	–0.2
Fixed net investment	15.4	9.4	–6.0	–0.4
Public	6.2	3.8	–2.4	–0.2
Private	9.2	5.6	–3.6	–0.2

[1] Weighted average of Brazil, Colombia, Costa Rica, Ecuador, Jamaica, Mexico, Panama, Paraguay, Uruguay and Venezuela. [2] Percentage points of GDP between 1980 and 1985. [3] Percentage points of GDP if the decrease in the gross national income had been distributed according to the 1980 share. [4] Net transfer of capital to other countries plus variation in the terms of trade.

Source: PREALC, 1988a.

Table 5. Change in the distribution of poverty between the urban and rural areas of Latin America, 1980 and 1985

Indicator	1980			1985		
	Urban	Rural	Total	Urban	Rural	Total
Population (millions)	228.9	132.4	361.3	267.3	137.4	404.7
Poor	47.3	71.9	119.2	77.3	80.5	157.8
Non-poor	181.6	60.5	242.1	190.0	56.9	246.9
Incidence of poverty (%) [1]	20.7	54.3	33.0	28.9	54.6	39.0
Location of poverty (%) [2]	39.7	60.3	100.0	49.0	51.0	100.0

[1] Percentage of the total population below the poverty line. [2] Distribution of the poor between urban and rural areas.
Source: PREALC, 1988a.

On the other hand, an analysis of the destination of GDP shows that, despite the decrease in national income, private consumption by owners of capital increased by 8.1 per cent (table 4). This was possible because of the considerable contraction of net investment (–6 per cent), which affected the economy's capacity to offer productive work to the growing numbers of the unemployed and underemployed.

The regressive distribution characterising the adjustment was further reinforced by budgetary policy. While the majority of Latin American countries increased public spending, the proportion allocated to social expenditure was reduced. Between 1980 and 1985 total government expenditure rose from 24 to 27 per cent of GDP whereas spending on education and health dropped from 26 to 23 per cent of the total, corresponding to a reduction of 9 per cent in per capita social spending. Other social policies did nothing to offset these losses and hence aggravated the regressive effects of the adjustment, which were compounded by the way in which increased public expenditure was financed: the growth in the budget deficit was accompanied by an inflation tax which hit the poorest groups hardest, and the increased share of indirect taxation in total fiscal income meant a more regressive tax burden.

The recessionary nature of the macro-economic adjustment brought about an increase in poverty and a deterioration of the labour market. Between 1980 and 1985 a 12 per cent drop in per capita income, compounded by the concentration of income in fewer hands, increased the incidence of poverty in Latin America from 33 to 39 per cent of the population (table 5). In other words, there was a return to the situation of poverty prevailing at the beginning of the 1970s and the number of the poor grew from 120 to nearly 160 million. Apparently, this deterioration was more serious in the urban areas: it is estimated that in 1985 almost half the poor were to be found in the cities, even though the intensity of poverty continued to be greater in the rural areas.

Table 6. Change in the distribution of the non-agricultural labour force by employment and income status, 1980-85 (%)

Labour force	Total	Poor	Non-poor
Employed	–4.0	3.0	–7.0
Formal employment	–7.8	0.3	–8.1
Private sector	–8.1	0.0	–8.1
Public sector	0.3	0.3	0.0
Informal employment	3.8	2.7	1.1
Semi-structured	2.7	1.6	1.1
Residual	1.1	1.1	0.0
Unemployed	4.0	4.0	0.0
Total	**0.0**	**7.0**	**–7.0**

Source: PREALC, 1987 and 1988a.

During the same period the labour market also deteriorated: the annual rate of job creation in the formal sector was 2 per cent, not enough to absorb the growth of the urban labour force, which rose by 3.7 per cent annually. As a result, the formal sector's share of urban employment dropped by eight percentage points, which was partly offset by an increase of 3.8 per cent in informal sector employment and resulted in a higher rate of open unemployment (4 per cent) (table 6).

In the urban areas approximately 60 per cent of the increase in the incidence of poverty was concentrated among the unemployed. The families of informal sector workers were also seriously affected since they accounted for 39 per cent of the increase in the number of poor families. The growth of the urban informal sector resulted in a substantial reduction (put at 30 per cent) in the average income of informal sector workers.

Finally, the drop in real wages in the public and private formal sectors meant a slight increase in the proportion of workers in these sectors receiving incomes below the poverty line. Workers receiving incomes above that line also suffered a drop in real pay.

The macro-economic cost of the short-term social debt

In order to calculate the macro-economic cost of the short-term social debt, it is necessary to determine the amount of resources required to offset the increase in poverty and to enable non-poor workers to recover their share of the national income in an equitable and socially acceptable way.

Between 1980 and 1985 the intensity of poverty increased from 34 to 44 per cent. During this period the average income of the poor dropped by 15 per cent in real terms. The increase in the poverty gap was 1.6 per cent

Table 7. Estimated macro-economic cost of the increase in the social debt, 1980-85 and 1980-87 (%)

Indicator	1980	1985	Variation	
			1980-85	1980-87
Poverty gap (% of GDP)	2.7	4.3	1.6	
Incidence of poverty	33.0	39.0	6.0	
Intensity of poverty	34.0	44.0	10.0	
Poverty line/average income	24.0	25.0	..	
Increase in the social debt (% of GDP)			5.0	4.7
Poor sector			4.5	4.2
Incidence of poverty			3.0	2.7
Unemployed			2.0	1.6
Informal sector			1.0	1.1
Intensity of poverty			1.5	1.5
Non-poor sector			0.5	0.5

Source: PREALC estimates.

since it had widened from 2.7 per cent of the region's GDP in 1980 to 4.3 per cent in 1985. Hence, in order to return to the situation prevailing before the foreign debt crisis, 1.6 per cent of GDP would have to be transferred to the poor. However, in order to meet the increase in the social debt to the poor incurred between 1980 and 1985 it would be necessary to allocate resources equivalent to 4.5 per cent of GDP (table 7), since the cost of the short-term social debt is equivalent to the resources required both to achieve a structural reduction in the increase in poverty and to compensate for the regressive distribution that took place during the period. This means that 3 per cent of GDP would have to be spent on creating stable and well-paid jobs in order to reduce the incidence of poverty; to reduce its intensity, social spending would also have to be increased by an amount equivalent to 1.5 per cent of GDP.

If the distributive equity criterion had been applied, the 4.5 per cent of GDP needed to pay off the short-term social debt would have been financed by the non-poor (whether wage earners or not), according to their income shares prior to the foreign debt crisis, i.e. all the non-poor social groups would have made a proportional contribution to the costs of economic adjustment. What actually happened during the period 1980-85, however, was that the non-poor wage earners became social creditors to an amount equivalent to 0.5 per cent of GDP (table 8).

In other words, the short-term social debt to workers incurred between 1980 and 1985 reached 5 per cent of GDP; applying the above criterion, 4.5 per cent of this should have been allocated to reducing poverty and the

Table 8. Estimated distributive cost of the social debt, 1980-85 (%)

Net national income	1980	1985		Net increase [1]
		Non-adjusted	Adjusted	
Total	**84.4**	**79.5**	**79.5**	
Income of poor sector	10.0	8.4 [2]	12.9 [3]	4.5
Income of non-poor sector	74.4	71.1	66.6 [3]	–4.5
Labour	24.9	21.7	22.2	0.5
Capital	49.5	49.4	44.4	–5.0

[1] The increase in the social debt corresponds to the amount of resources that should be allocated to the poor (4.5 per cent) plus the excess cost borne by the non-poor (0.5 per cent) during the adjustment process. The capital sector would owe 5 per cent of the GDP, i.e. the social debt to poor and non-poor workers. [2] Estimated by subtracting the increase in the poverty gap (1.6 per cent, see table 7) from the poor sector's 1980 share of GDP (10 per cent). [3] The new distribution was obtained by adding to the poor sector the amount of resources required to pay the social debt (4.5 per cent). The remaining income for the non-poor sector (66.6 per cent) is distributed according to the 1980 shares between labour and capital.

Source: As for table 3.

remaining 0.5 per cent should have gone to non-poor workers to compensate for their excess share of the adjustment.

From 1985 on, the region's GDP continued to expand, growing by 6.4 per cent between 1985 and 1987. The amount of the social debt dropped, but only slightly since the economic upswing did not significantly affect the factors that cause poverty. Unemployment fell only from 11.4 to 10.3 per cent between 1985 and 1987; part of the fall was due to the faster increase in informal sector jobs. Furthermore, it is estimated that labour's share in national income remained constant since real wages grew at rates similar to those of productivity. As a result, the short-term social debt is estimated to have stood at 4.7 per cent of GDP in 1987 (see table 7).

The economic growth observed in Latin America has failed to produce socially equitable effects since the absolute number of the poor has increased over the past 30 years. As we have seen, this failure was compounded during the process of adjusting to the foreign debt crisis by the accumulation of an additional social debt whose payment requires resources amounting to 5 per cent of GDP.

The notion of a social debt should not be viewed solely as a device by which the poor can claim their due but as an essential element in future growth strategy since it points to distributive imbalances that have to be corrected if all groups of society are to benefit from economic recovery and expansion. It also permits a precise quantification of the necessary resources and their correlation to commitments entered into abroad. To sum up, we see it as a first step towards understanding the political economy of adjustment on which future results largely depend.

Proposals for paying off the social debt

Liquidation of the short-term social debt calls for a package of mutually reinforcing structural and welfare policies. Despite the differences in national situations, there are nevertheless certain common factors that can serve as guideposts for the formulation and implementation of such policies. First of all, there is a common need for social consultation machinery to help overcome the conflicts created by the adjustment process. Its task would be to set a negotiated pace for meeting the various domestic targets (creation of productive jobs, restoring and increasing real wages, price stability, etc.) and payment of the foreign debt, based on the recognition that the cost of adjustment should be borne equitably by all the parties concerned.

There is also a common need for expansionary adjustment that can generate the necessary resources for correcting structural imbalances and can reorganise the production system to make growth self-sustaining and more equitable.

Lastly, all the countries in the region need to identify the various factors that have caused an increase in poverty so as to determine the cost of reducing it, the appropriate methods of doing so and the social groups that national policies should benefit in the first place. These policies can be divided into two main categories: macro-economic and direct. The aim of macro-economic structural policies is to combat the extension of poverty and promote equitable growth. Direct or welfare policies are designed to lessen the intensity of poverty. The first should solve problems permanently in the medium term, thus reducing the long-term cost of overcoming poverty. The second, if they are efficient, should produce a greater and more immediate impact at a lower cost. Hence the two types of policy are complementary.

Macro-economic policies

The main problem in designing a macro-economic policy is to make the structural response to external constraints compatible with the payment of the social debt. This means that, in the short and medium term, the increase and reallocation of investment have to be compatible with an increase in labour's share of national income.

As things stand now, there is little likelihood that external sources can be counted on to any great degree to finance new investments. Consequently, domestic sources will have to be tapped, which will mean increasing the productivity of local resources and simultaneously reducing the proportion of income directed to consumption. The deceleration of consumption will bring a change in its composition since it will not affect all groups of society in the same way: an increase in employment and real wages should allow the poorer sectors to recover their former consumption levels but should be accompanied by restraints on those of the higher-income groups. Wage earners should also thus be able to contribute to a growth in

Table 9. Marginal capital/output ratios and GDP growth rates in selected Latin American countries

Country	Capital/output ratio [1]	GDP growth, 1970-84 (%) [2]
Bolivia	5.33	2.3
Chile	2.68	1.5
Colombia	3.80 [3]	4.4
Costa Rica	5.17	3.9
Ecuador	3.87 [3]	7.4
Honduras	4.38	3.5
Mexico	3.15	5.2
Paraguay	2.04	6.7
Peru	6.03	2.1
Venezuela	2.33 [4]	2.5 [5]

[1] The marginal capital/output ratio is estimated thus:

$$Y_t = a + b \Sigma I_{(t-1)}$$

where: $b = \frac{Y}{k}$

I = net investment.

[2] Estimated on the basis of the constant price series for 1980 supplied by ECLAC's data bank. [3] Estimated on the basis of gross capital formation owing to the lack of data on net investment. [4] Non-oil marginal capital/output ratio. [5] Estimated on the basis of the constant price series for 1968 (Statistical Yearbook for Latin America and the Caribbean, ECLAC, 1985).

savings and – for example by means of the "investment wage" scheme proposed below – to efforts to increase the rate of investment.

At the same time it will be necessary to increase the efficiency of investment since the capital/output ratio for the region is currently too high (table 9). To a large extent this is due to the slow average growth registered by the Latin American economies since 1970, which has resulted in a rise in idle capacity. The use of this currently idle capacity would quickly enable the economies to grow at a faster pace than that predicted on the basis of investment rates alone.

The basic criterion for the redirection of investment and the allocation of resources should be whether they maximise the generation of employment and foreign exchange. To achieve these objectives the economy ought to specialise in a limited number of production systems (concentrated in the sectors producing for export and those manufacturing mass consumer goods) aimed at a vertical integration of the production apparatus.

PREALC studies have shown that the targets of increasing employment and expanding sectors producing basic consumer goods are highly congruous since these sectors have the strongest employment/production linkages. Consequently, the altered pattern of demand produced by a redistributive process would stimulate the growth of the sectors that maximise employment creation. The benefits obtained from this "virtuous circle" are increased when a maximum vertical integration of the sectors producing basic consumer goods is achieved. As a result of the expansion and integration of the sectors producing for export, foreign exchange earnings would be stabilised and increased. To this end it is necessary to raise the value added content of exports and reduce their dependence on natural resources.

As far as wage policy is concerned, there are two priority tasks: to recover the ground lost by real wages during the crisis and to allow wages to resume their growth in line with the increase in productivity. Since the short-term objective is to pay off the social debt to wage earners, it may not be enough to realign the purchasing power of average wages with the increase in productivity; experience has shown that this does not necessarily ensure greater participation of the poorer segments of the labour force in GDP. For this reason, an active minimum wage policy is needed to raise the pay of these workers. Hence the necessity to evaluate the probable impact of the wage policy on the behaviour of certain variables linked to the payment of the social debt, i.e. employment, prices, external constraints and entrepreneurial expectations regarding investment, which will depend on the situation prevailing in each country.

A long-term wage policy should adopt the criterion that rises in pay should be linked to productivity gains. At first wages will have to increase more than productivity in order to make good the losses suffered during the crisis. This could lead to a conflict between the rise in wages and the capacity of the production apparatus to respond. One way of avoiding such a conflict would be to pay part of the rise in real wages above productivity gains in the form of "investment wages" (i.e. deferred wages reinvested in the enterprise) rather than in cash. Such a mechanism would give the labour market a greater degree of flexibility since investment wages could serve to cushion the effects of a recession without reducing real wages or the volume of employment.

In short, the goal is to increase both the volume of employment and the incomes of workers by augmenting their share of GDP while stepping up the investment rate. This will mean channelling investments into integrated production systems for exportables and essential goods and services in order to reinforce the positive effects of growth on employment. It will also require an expansionary wage policy to strengthen the role of the domestic market as a source of growth. Finally, part of the increase in wages should be directed to investment to ensure compatibility between growth and equity.

Direct policies for paying off the social debt

Macro-economic adjustment will have to be accompanied by direct policies relating, in particular, to the informal sector, emergency employment programmes and social spending.

The informal sector

The informal sector is so complex and multifaceted that no policies can be expected to produce overnight the sort of changes that are needed to improve the standard of living of workers employed in it. It should also be borne in mind that only the better organised informal sector units are in a position to benefit from production support measures (assistance with resources and access to markets). However, production support combined with social assistance for the target groups could strengthen the impact of informal sector policies on the many micro production units that are homes as well as workplaces. To make these policies more appropriate and effective, the prospective beneficiaries need of course to be consulted beforehand. Finally, the institutional infrastructure should be kept to a strict minimum in order to prevent an increase in bureaucracy and political manipulation; to ensure the continuity of policy measures it will be necessary rather to make better use of the existing institutions in the public and private sectors.

The policies should aim at improving the production capacity of the informal sector and overcoming the legal and institutional obstacles to its development. One of the main constraints on this sector is its very limited access to production resources (capital and skilled labour) and the more dynamic markets. Overcoming this constraint implies reinforcing the dynamic links between the informal sector and the rest of the economy. Another way of helping to overcome the restriction on demand would be to explore the possibilities of a closer tie-in with demand originating in the public sector. The lack of access to capital could be mitigated by creating collateral mechanisms that are not geared, as at present, to individual assets but take the form of insurance or special guarantee funds, for example. Training of informal sector producers in accounting and management techniques, combined with technical instruction of informal workers, would not only reinforce their production capacity but also prepare the ground for the adoption of new technologies.

As far as policies designed to overcome the legal and institutional restrictions are concerned, three aspects need to be considered. The State lays down standards and regulations for protecting the general interests of the community, but it is frequently observed that the legal requirements to be complied with and the red tape involved are so complex and time-consuming that many informal producers balk at the prospect. Consequently, the legal norms and bureaucratic procedures ought to be simplified in order to make it easier, whenever economically viable, for informal activities to enjoy the advantages of operating legally.

Similarly, informal producers might be exempted from payment of the value-added tax for small business transactions; discrimination against them should be avoided by increasing tax inspection at all levels, including intermediate producers, and not only at the bottom rung of the tax ladder. Tax counselling would also help informal sector producers to claim the tax rebates to which they are entitled.

Finally, as regards informal producers' compliance with labour regulations, the objective of protecting workers and their families has to be reconciled with the need to preserve this source of employment which, precarious though it may be, is preferable to open unemployment. Accidents at work and medical benefits could be covered by the health scheme; but this leaves the questions of job security, retirement schemes and pensions. The way these problems are tackled will vary from country to country and will depend primarily on the existing regulations and the population coverage of the social security system, its financial position and the benefits granted (Tokman, 1989).

Emergency employment programmes

Direct job creation programmes are particularly useful during an economic crisis since they can be launched at short notice and at low cost and can be targeted at the poorer groups. They are often more effective in transferring income to poor families than in reducing unemployment, since many of their beneficiaries are economically inactive persons who are drawn into the labour market by these programmes (in Latin America between 70 and 90 per cent of the beneficiaries are women) (PREALC, 1988b).

For these programmes to create more jobs, they should pay higher wages and be directed to specific groups (such as heads of households) or be concentrated in regions where unemployment is high. They also stand a better chance of doing so when the projects are concerned with land improvement and services in outlying areas, are designed to produce lasting effects, as in the case of irrigation works or the creation of new enterprises, and are backed up by sufficient financial and logistic resources.

If the specific characteristics of the beneficiaries are taken into account, the result will be a better choice of the type of jobs to be created, their location and the work schedules. Similarly, the target groups show a keener interest when the projects are of direct benefit to them. Like informal sector policies, emergency employment programmes should be carried out without creating large, centralised institutions.

Finally, these programmes demonstrate the political will of the authorities to come to grips with social problems and, from the macro-economic standpoint, can trigger a selective expansion of demand to reactivate the economy without exerting too much pressure on the balance of payments or on prices.

Social spending

Policies on social spending can help to reduce the short-term social debt incurred as a result of an increase in the intensity of poverty. Experience shows that, when implementing such policies, the following criteria should be borne in mind: (i) solidarity, i.e. the will to help those in greatest need; (ii) the focusing of social spending as sharply as possible on the selected target groups or sectors, and the avoidance of "leakages"; (iii) participation by the target groups in the preparation of the social programmes; (iv) long-term programming; and (v) the promotion of social mobility, which means linking the social expenditure programmes to a restructuring of the production system that permits such mobility.

The purpose of increasing social expenditure is not only to ensure a minimum standard of living for all workers but also to guarantee access of the whole population to health, education, housing and social security.

The reduction in public spending on health services has adversely affected their coverage, particularly among the lower-income groups. Consequently, comprehensive health programmes need to be created, or reinforced where they already exist, and food programmes expanded to cover the 40 per cent of the population who are below the poverty line. The priority tasks of a comprehensive health programme should be to curb, through preventive measures, the increase in morbidity associated with growing poverty, carry out vaccination campaigns, promote health education and mother and infant care, and supply medicines to those in need of them.

During the crisis per capita public spending on education also decreased. Besides restoring the levels of the past it will be necessary to spend more on free pre-school and primary education for the lower-income groups. The school system might also be used to cater for the nutritional needs of poor children attending school, who require preferential attention. In addition, the standard of education needs to be improved with a view to developing creative and innovative capacities.

Special efforts to make good the current housing deficit could help also to reduce unemployment. With this in mind, it will be necessary to set up programmes to enable people to build their own homes, establish housing savings plans and apply a policy guaranteeing people land ownership or tenure, aimed simultaneously at preventing speculation and at setting aside certain tracts for community services and green areas.

It will also be necessary to raise pensions, particularly the smallest ones that contribute to the family income of the underprivileged 40 per cent of the population, to increase the coverage of employers' contributions and to establish unemployment insurance schemes.

Some priority tasks for governments and the social partners

Reducing the scale and intensity of poverty is an urgent task that can no longer be put off. It will require joint efforts by the social partners and the public authorities, who will have to draw upon all the technical and administrative capacities at their disposal. It will be up to the State to establish the macro-economic guidelines and act as the principal guarantor of the stability required to achieve the objectives of structural change.

It will also be up to the State to define rules of conduct for the social partners and to establish consultation machinery for ensuring an equitable distribution of the costs and benefits of growth. In this connection the reinforcement of collective bargaining as the basic mechanism for reconciling the interests of workers and employers would permit agreements to be reached on key questions such as what rates of productivity growth and wage recovery are compatible with the increase in investment.

The public authorities will have to define, within a framework of basic macro-economic equilibria, the policies that will enable structural adjustment and the reorganisation of production to be reconciled with the objective of self-sustaining and equitable growth. One of their principal tasks will be to ensure that the growth and redirection of investment are consistent with wages recovering their proper share of national income without endangering price stability.

The adoption of new technologies and a more efficient use of resources necessitate higher levels of investment. Accordingly, increasing productivity will be a fundamental task for both employers and workers since the latter's contribution is indispensable for increasing the efficiency of production.

As mentioned above, these efforts will have to be accompanied by direct government action to improve the lot of the most needy. This will require a reform of the public sector aimed at improving its efficiency through a more precise targeting of expenditure and an equitable restructuring of the taxation system to procure the necessary resources.

Finally, in order to implement direct informal sector, employment and social spending policies, the authorities will have to work out a schedule of social priorities and incorporate it in the government budget.

Conclusions

For reasons of political and economic realism, we consider that in the medium term it will be possible to pay off only that part of the social debt which was caused by an unequal distribution of the cost of adjusting to the crisis and resulted in an increase in both the incidence and the intensity of poverty. The important thing is to recognise that the debt exists and to make a start towards its liquidation, for otherwise it will be impossible to enlist the co-operation of all sectors of society in the difficult task of future development.

The social debt can and must be tackled without holding up the process of external adjustment under way in the region. The suggestions made here have implications for both production and distribution. As regards production, the aim is to regain the levels of investment prevailing before 1980. Without an increase in investment it will be impossible to restore growth and hence the capacity to generate productive jobs, which is essential for reducing the current levels of unemployment and underemployment. Policies for promoting production should also be designed to benefit the informal sector where a high proportion of the social creditors are concentrated owing to their precarious position in the labour market. This is why we have suggested measures for facilitating their access to markets, credit and training as well as institutional and legal measures aimed at removing obstacles and promoting the productive capacity of the informal sector.

As far as distribution is concerned, we have made two main recommendations: to increase social protection for the poorer groups in order to meet the basic needs of the population as a whole, including the right to decent employment, and to implement a wage policy that will permit workers to regain the purchasing power they have been losing since 1980 and to reap their rightful share of the fruits of future growth.

It is usually considered that advances in production are incompatible with advances in distribution, and vice versa; however, the proposals we have made in this article seek to render them complementary by strengthening (or in some cases creating) "virtuous circles" of redistribution and economic growth. The redistribution of income in favour of the poor and wage earners should modify the pattern of demand, and this can be met by increasing domestic production which uses more labour and requires less foreign exchange. The wage policy can be made compatible with the need to reinvest if arrangements like the investment wage are introduced, while the reduction in wage dispersal combined with the linking of wages to productivity should make it possible to re-establish the functional distribution of income without affecting the long-term incentives that the private sector needs in order to invest and produce.

So that the financing of the measures proposed here for paying off the social debt does not produce the macro-economic imbalances that have proved a stumbling block so often in the past, what we suggest is not increased but more progressive taxation. The restructuring of public spending in favour of the poor should result in part from better targeting, and the additional funds needed should come from reductions in inessential social expenditures.

Not all the countries of Latin America will be able to apply all the proposals suggested here for meeting the social debt. The order of priority they attach to them will depend on their particular needs and available resources. Nevertheless, it is clear that preferential attention should be given to the destitute because their mere existence, to say nothing of their growing number, is incompatible with the level of development reached by the region. Similarly, priority should be given to restoring production capacity and regaining the ability to generate employment, and this may in some cases slow down progress in respect of distribution. At all events, the active participation of the social partners is essential if structural adjustment is to be carried out successfully in conditions of equity.

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