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Models of Development, Social Policy and Reform in Latin America

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Introduction

Latin America is one of the regions in the world that has experimented with more development models, in addition, it has been at the forefront in social policies and a pioneer in market-oriented reforms in both areas. From the 1950s to the end of the 1970s most countries in the region followed a mixed model of development characterized by the predominance of the market but with significant state control and intervention. At the start of the 1960s Cuba took a dramatic leap to the state, introducing a fully socialized economy with central planning. Conversely, in the mid 1970s Chile took the opposite direction with a drastic economic reform that followed neoliberal ideas and moved that country to the market. The latter approach influenced policies of the major international financial organizations and has been eventually applied in most of the region.

Some Latin American countries also introduced the welfare state in the continent--the first two being Uruguay and Chile in the 1920s-- and gradually developed to a zenith in the early 1970s. Cuba began this process in the 1930s and consolidated and significantly expanded it in the 1960s and 1970s. Costa Rica's foundations of the welfare state were laid down in the 1940s, consolidated in the 1950s, and expanded in the 1960s and 1970s. Chile was not only a pioneer in both the reduction of the state and market-oriented reform, but also in the process of "privatization" of social services at the start of the 1980s. The severe economic crisis suffered by the region in that decade weakened the welfare state and the Chilean path was partially or fully followed in the 1990s.

This chapter analyzes two important topics on development and social policy in Latin America: (I) the relationship between goals and means in three different models of development in the region: Chile (market), Cuba (statist-socialist) and Costa Rica (mixed), and the socioeconomic performance of these three models; and (II) the reform of the welfare state in Latin America, particularly of its major component social security, and its effects on the people and development.

The following important questions will be addressed in this chapter: (1) are developmental goals (growth versus equity) and means (market versus state) conflicting or compatible and, if the latter is true, what is the optimal combination between them?; (2) which of three models of development have had the best socioeconomic performance and why?; (3) what is the nature of the reform of social welfare (security) and which have been the roles of the state and the private sector?; and (4) which have been the effects of the reform of social welfare (security) on crucial issues such as population coverage, income distribution, fiscal and administrative costs, capital accumulation and markets, and national savings?.

Three Models of Development in Latin America and Their Results

Goals (Growth versus Equity) and Means (Market versus State) Dichotomies

Mkandawire's chapter "Social Policy in a Development Context" accomplishes three significant tasks: (1) comprehensively reviews the literature on the relationship between social welfare and economic development; (2) demonstrates that the negative view of conflicting developmental goals and means (equity versus economic growth/efficiency and state versus market) is returning to the initial positive view that the two may work to reinforce each other; and (3) properly concludes that social policy is a key instrument that works in tandem with economic policy to ensure equitable and socially sustainable economic development.

In addition, Mkandawire sets a research agenda that includes the following needs: (1) explore the empirical linkages that tie together distinct goals and means; (2) bridge the hiatus between theoretical and empirical findings and social policy making; (3) work on more time series analysis using institutional and historical information to heighten research now largely dominated by cross-section and panel data regression analysis; and (4) study the policy implications of different economic, social and political settings.

Dreze and Sen have convincingly argued that the traditional *total* dichotomies of goals and means are false because there are major complementarities between the two pairs of goals/means, and it is important to strive for a balance and avoid extremes. The dilemma in the use of available resources is not between all and nothing but to give *preference* to one goal *complemented* by the other, and properly combine state and private action with other mechanisms (Dreze and Sen 1989).

Three Different Models of Development in Latin America

My latest book applies Dreze-Sen's view and addresses several of Mkandawire's research concerns (use of historical and institutional information, exploration of the linkages between goals and means, evaluation of policy implication of diverse socioeconomic-political settings) to compare three different models of development in Latin America (Mesa-Lago 2000d):

1. <u>Chile</u>. The best and most radical example of the neoliberal market model, particularly under the Pinochet regime (1973-1990), which drastically reduced the role of the state and gave too much a preponderance to growth, stability and efficiency (largely based on privatization), but restricted social policy to a residue or trickled down effect. Such imbalance has been gradually corrected by three successive democratic administrations (1990 on) which, although maintaining the essence of the previous economic model, have

placed higher accent on social policy under the more balanced approach of a "social market economy" (see also Ruiz-Tagle 2000).

2. Cuba. The only example in the region (and one of the few remaining in the world) of the statist, centrally- planned socialist model, which virtually eliminated private ownership of the means of production and placed excessive emphasis on social goals and equity--even egalitarianism in certain stages-- but at the cost of efficiency, productivity and growth (1959-1990). The collapse of the USSR/socialist camp and the severe economic crisis that ensued in the 1990s, has forced a timid market oriented reform which, despite significant government efforts, is threatening some of the previous social achievements (see also Barraclough 2000).

3. Costa Rica. One of the best representatives of the mixed model, which combined a market economy with a considerable state role, and achieved a fair balance between social and economic goals with good results in both (1953-1981). But the debt crisis of the 1980s and the exhaustion of that model (excessive state intervention and fiscal imbalances) led to structural adjustment reforms in that decade and in the 1990s, albeit so far successful in maintaining the most important social gains (see also Mesa-Lago 2000a).

The first two models were extremes: Chile overemphasized the market and economic goals while drastically reducing state functions and social goals, while Cuba did exactly the opposite; Costa Rica managed to fairly balance goals and means. But adjustments have been occurring in the three countries: toward social goals and more state regulatory powers in Chile since the 1990s; toward economic goals and a timid move to the market in Cuba since the 1990s (still with overwhelming state ownership and control); and toward economic goals and the market in Costa Rica since the 1980s. Finally the three diverse economic models have been implemented by different political systems: a military dictatorship in Chile (followed by multiparty democracy), one-party authoritarian socialism in Cuba, and a multiparty democracy in Costa Rica (Mesa-Lago 2000d).

The three countries selected are also important examples in Latin America of a relatively early emphasis on social policies, thus ratifying Pierson's observation that "late starters (in industrialization) tended to develop welfare institutions earlier in their own individual development and under more comprehensive terms of coverage" (cited in Mkandawire 2000: 11). Chile and Cuba were two of five regional "pioneers" in the development of social insurance (respectively in the 1920s and 1930s), while Costa Rica's program started later (in 1943 but this country was less developed that the other two) and yet it was expanded in 1960-1970s and reached the level of the other two counterparts. By the 1980s, the three countries had basically accomplished universal coverage of their populations although with diverse schemes (Mesa-Lago 1998). The three countries were selected for a UNRISD comparative study that analyzed the unique experience of seven countries that achieved levels of social performance considerably higher than their per capita income (Ghai 2000). The socioeconomic performance of the three models is summarized in the next section.

Socioeconomic Performance of the Three Models

Twenty indicators of development were selected to measure the socioeconomic performance of the three countries and historical statistical series elaborated for 1960-1993 (in Chile the relevant period started in 1973). About half of the indicators dealt with *economic* variables, both internal and external: GDP growth, GDP per capita, investment, inflation, fiscal balance, composition of GDP by economic sector, export concentration/ diversification, import composition, trade partner concentration/diversification, trade balance per capita, and foreign debt per capita. The other half of the indicators dealt with *social* variables: real wages, composition of the labour force by sector, open unemployment, illiteracy, educational enrolment at three levels, infant mortality, rates of contagious diseases, life expectancy, and housing. Five important social indicators had to be discarded in the final evaluation because of two reasons: lack of data from Cuba (income distribution, poverty incidence) or significant differences in the way those indicators were calculated (women's participation in the labour force, access to water and sewerage/sanitation, social security coverage).

Two types of ranking were used in each of the indicators: (1) *absolute*, measuring the starting and ending years in the period, for instance, the infant mortality rate in 1960 (or 1973 for Chile) and 1993; and (2) *relative improvement*, the change in one indicator through time, for instance, the reduction in infant mortality between 1960/73 and 1993. The indicators were merged in each of the two clusters (economic and social), and the two clusters then combined into an index of economic and social development (using various weights).

The results of these comparisons in the absolute rankings among the three countries were as follows: Chile ranked best (first) in economic indicators but worse (third) on social indicators; Costa Rica ranked best in social indicators and second in the economic indicators. Cuba ranked second in social indicators (in the 1990s, but first in the 1980s) and worst in economic indicators.[1] In the relative improvement indicators, Costa Rica managed

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[1] The book is 707 pages long and faced numerous methodological problems that cannot even be summarized herein. The results discussed in the text, therefore, considerably simplify the book measurements and conclusions. In

to close the gap with Cuba, despite a worse stand at the starting point, for instance, in 1960 life expectancy was 61.6 years in Costa Rica and 64.0 in Cuba but in 1995-2000 they were 76.5 and 76.0 respectively.

Finally, a comparison was done with international rankings that include the three countries, with similar results. For instance, the Human Development Index (H.I.) ranked the three countries in 1993 (among 174 countries in the world and 20 in Latin America) as follows: Costa Rica 31 and 1, Chile 33 and 3, and Cuba 79 and 10 (UNDP 1996). The balanced approach to development in Costa Rica, therefore, led to a fair performance in economic indicators and to the best results in social indicators. Conversely, the extreme approaches of the other two countries resulted in good performance in one set but sacrificing the other. In Chile there were strong economic growth, lower inflation and a reduction in the fiscal deficit, but social consequences were adverse: poverty incidence worsened, real wages shrank, educational enrolment at secondary and tertiary levels declined, social security coverage decreased, unemployment jumped to a historical record, and morbidity rates rose. [2] At the end of the 1980s Cuba was leading the region in most social indicators (housing was a notorious exception), but the cost of social programs was very high and adverse economic distortions occurred, for instance, open unemployment was kept low but at the cost of significant overstaffing and very low labour productivity, and egalitarianism probably led to the least income inequality in the region but generated perverse incentives for labour absenteeism.

The corrections implemented in the 1990s in Chile and Cuba changed to some degree the previous performance. Chile's social indicators improved considerably (decline in open unemployment and poverty incidence, increase in real wages and secondary and higher-education enrolment) but, at the same time, economic indicators became even better (higher average growth rates, lower inflation, and budget surpluses). After a severe deterioration in the first half of the 1990s, Cuba's economic indicators had a mixed performance in the second half (higher growth albeit still well below the 1989 level,