

A new State-market-society equation for development in Latin America and the Caribbean

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“A new State architecture must be created that will allow the State to play its rightful role as leader of our countries' development strategies. By casting a critical eye on its historical performance, we should be able to define that role, give the State the proper tools and determine its precise place in conjunction with the market and the citizens, achieving an optimum balance of this trilogy in the development dynamic.”

ECLAC (2010) *Time for Equality*



Contents

- A crossroads and the complex international context
- The features of the current State – market –society (citizenry) equation
- Compacts for equality as a tool for building a new equation
- The new State – market –society (citizenry) equation



The region is at a crossroads

- The region is facing an economic slowdown after several boom years
- Not enough was done to increase productivity and reduce equality
- Progress was achieved on the social front, but has come to a standstill and the region still has the world's worst income distribution and other inequalities
- There are environmental sustainability challenges as regards moving towards low-carbon development paths
- Stable democracies, but new challenges
- Facing variable geometry routes towards integration



The region is facing critical restraints

External

- Slowing international trade
- End of commodity price supercycle
- Financial volatility
- Great vulnerability to climatic phenomena
- Middle-income trap

Endogenous

- Disjointed production structure
- Informal, low-productivity employment
- Little dynamic efficiency
- Economic growth slowing and reliant on consumption
- Investment rates are too low
- Stalled poverty reduction
- Weak natural resources and environmental governance
- Shortage of good-quality public goods
- Weak institutions



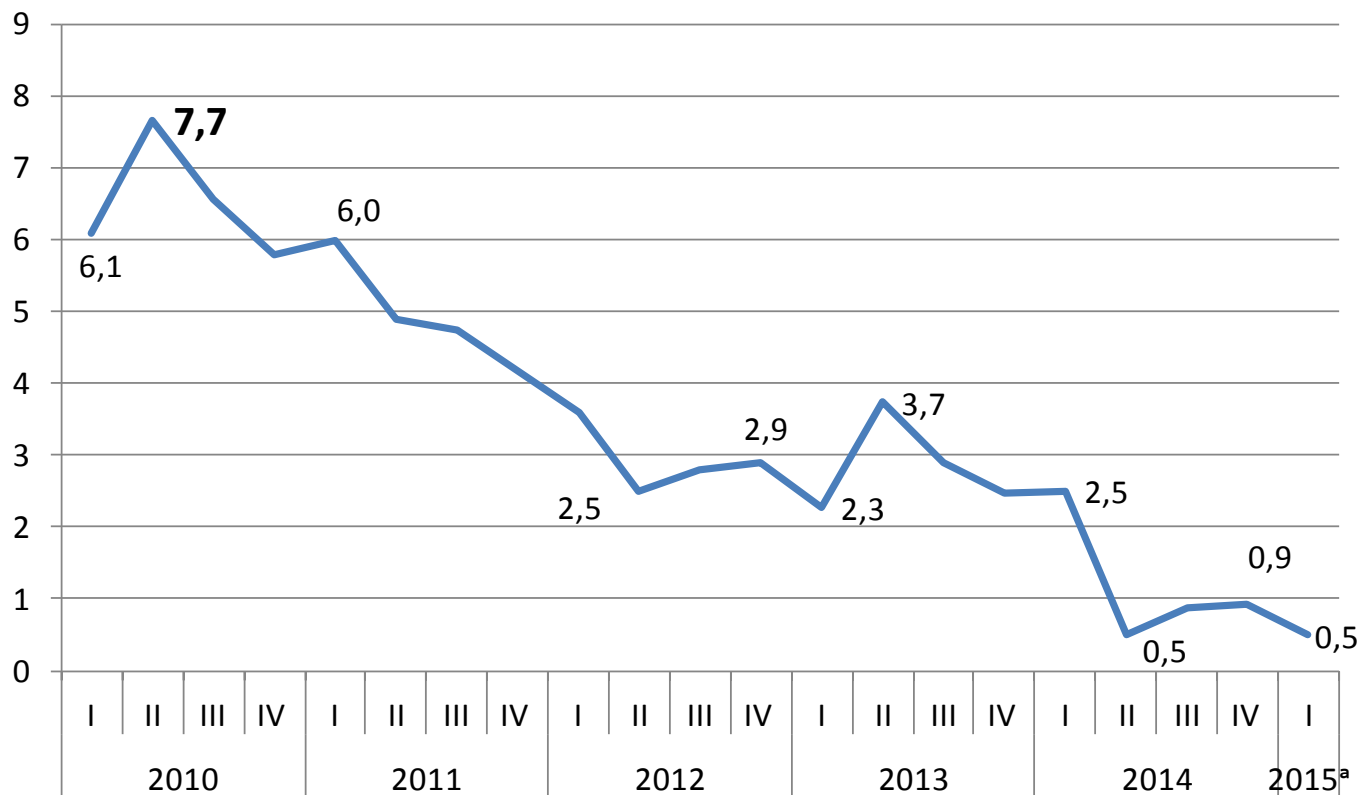
A more complex context

- The **global economy** has grown less than expected. Within a year, growth projections for 2015 have been lowered from 3.2% to 2.8%.
- Upturn in growth in the **United States** (above the initial estimate of 2.8% in 2015) *with a positive impact in Mexico, Central America and the Caribbean through remittances, tourism and trade.*
- Fiscal disequilibria and lack of competitiveness in the **eurozone**, with high levels of unemployment and growth of just 1.6% in 2015, *are undermining global trade.*
- Slowdown in **China** from 9.2% in 2011, to 7.0% in 2015 *with an impact on natural-resources-exporting countries.*
- **Uncertainty** over the timing of interest rate rise in the United States and QE in Europe, which could generate *more volatile financial conditions.*



Latin America and the Caribbean have seen growth slow since 2010

Latin America and the Caribbean: year-on-year GDP growth, 2010-2015^a
(Percentages, on the basis of constant dollars at 2010 prices)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures.



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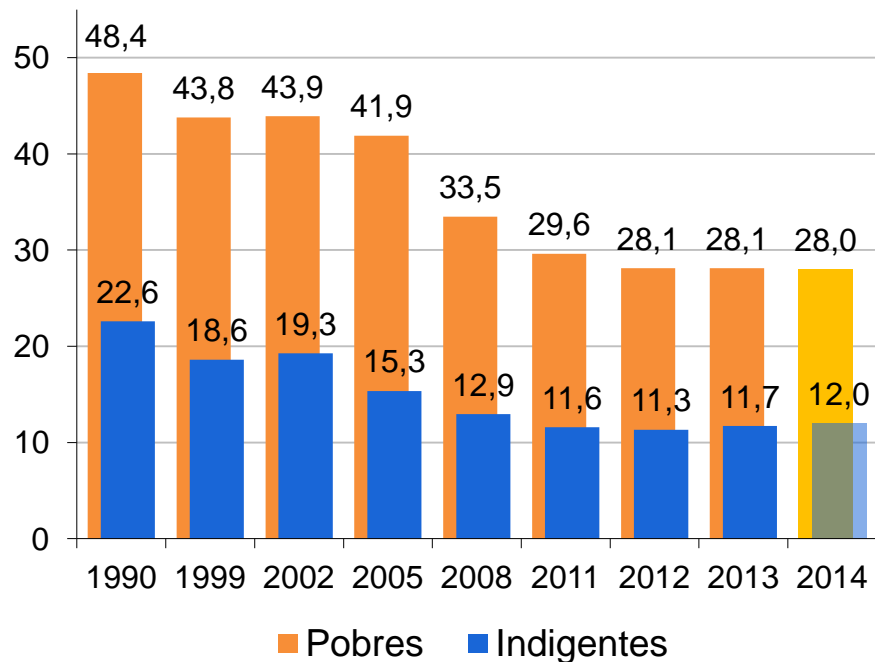
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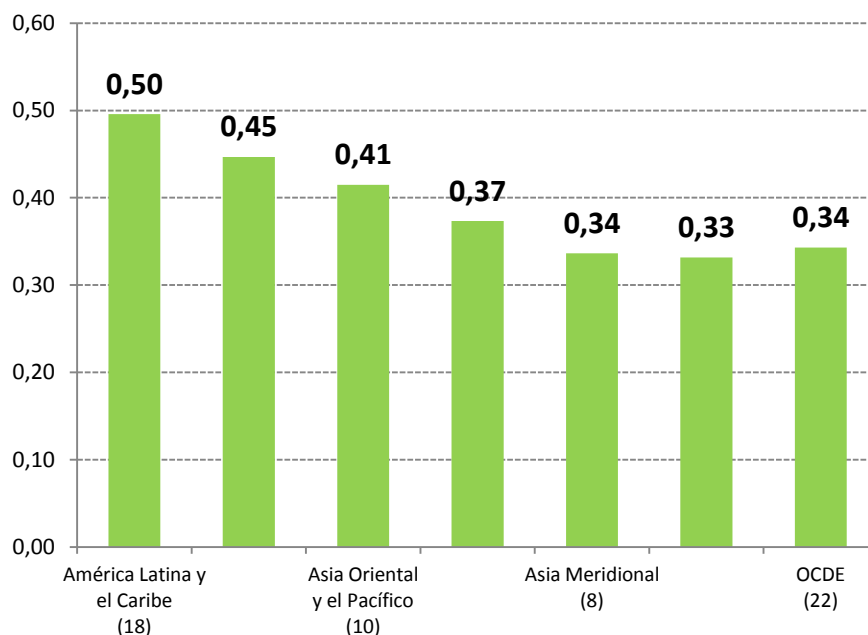
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Poverty rates have fallen thanks to policies implemented over the past 10 years, but have stood still since 2012

Latin America a/: poverty and indigence, 1990 – 2014 b/
(Percentages of the population)



Latin America and other world regions:
Gini coefficient, around 2010



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

a/ Estimate for 19 countries (including Haiti).

b/ Figures for 2014 are projections.



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The crossroads calls for the redefinition of the State-market-society (citizens) equation

The past two decades have left lessons for the region in relation to the equation between State, market and society:

- The **market** is good at production, but bad at distribution. Unregulated, it reproduces structures revolving around activities that are knowledge-unintensive and environmentally inefficient.
- The **State** can do much, but not everything.
- **Society (citizens)** demands transparency, voice, participation and democracy.



The market in the current State-market-society (citizens) equation



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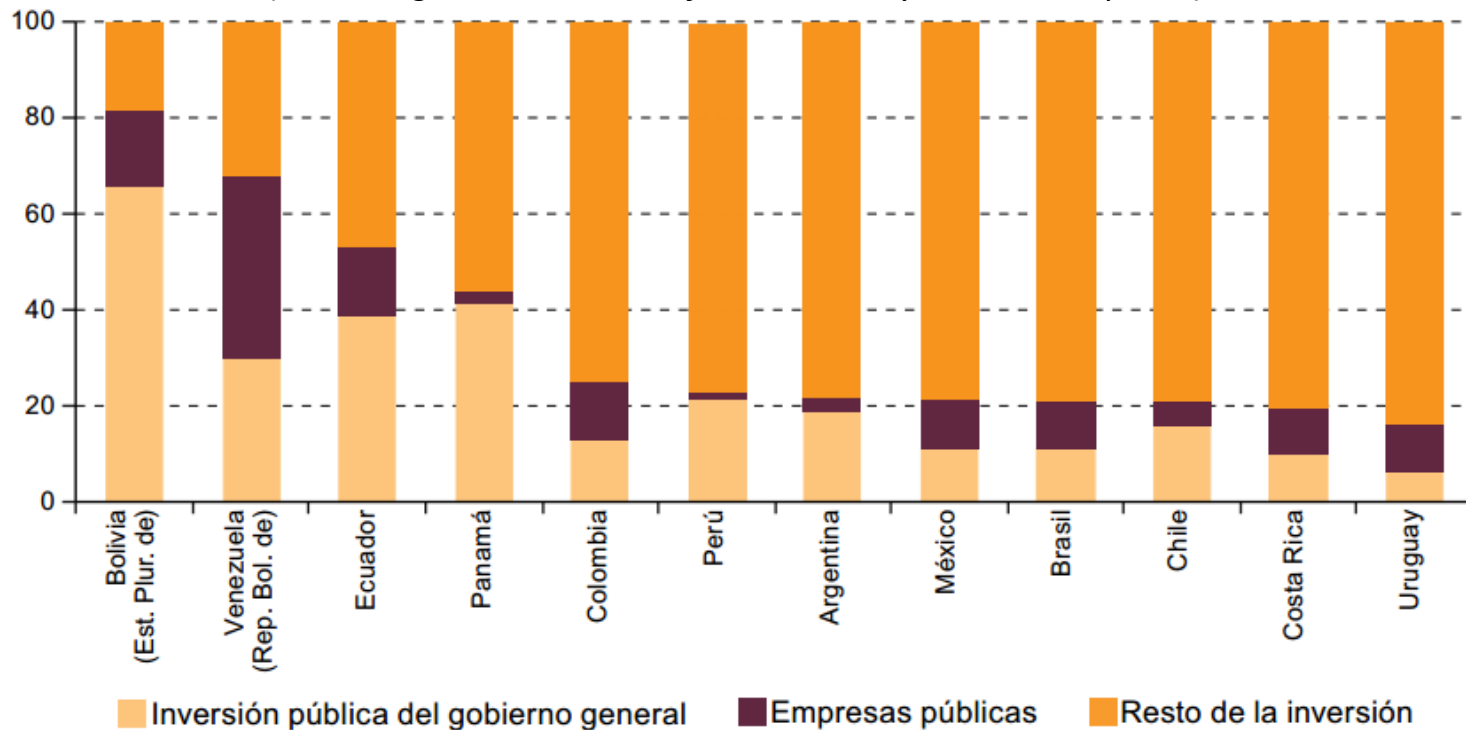


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The undeniable role of the private sector as the central agent in the market

Latin America (12 countries): proportion of gross fixed capital formation corresponding to public ^a and private investment, 2013

(Percentages, on the basis of local currency at constant prices)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Economic Survey 2015*.

^a Public investment includes State enterprises. For Colombia, State enterprises form part of the decentralized sector, which includes public establishments, industrial and commercial enterprises, mixed public-private firms, and autonomous universities.



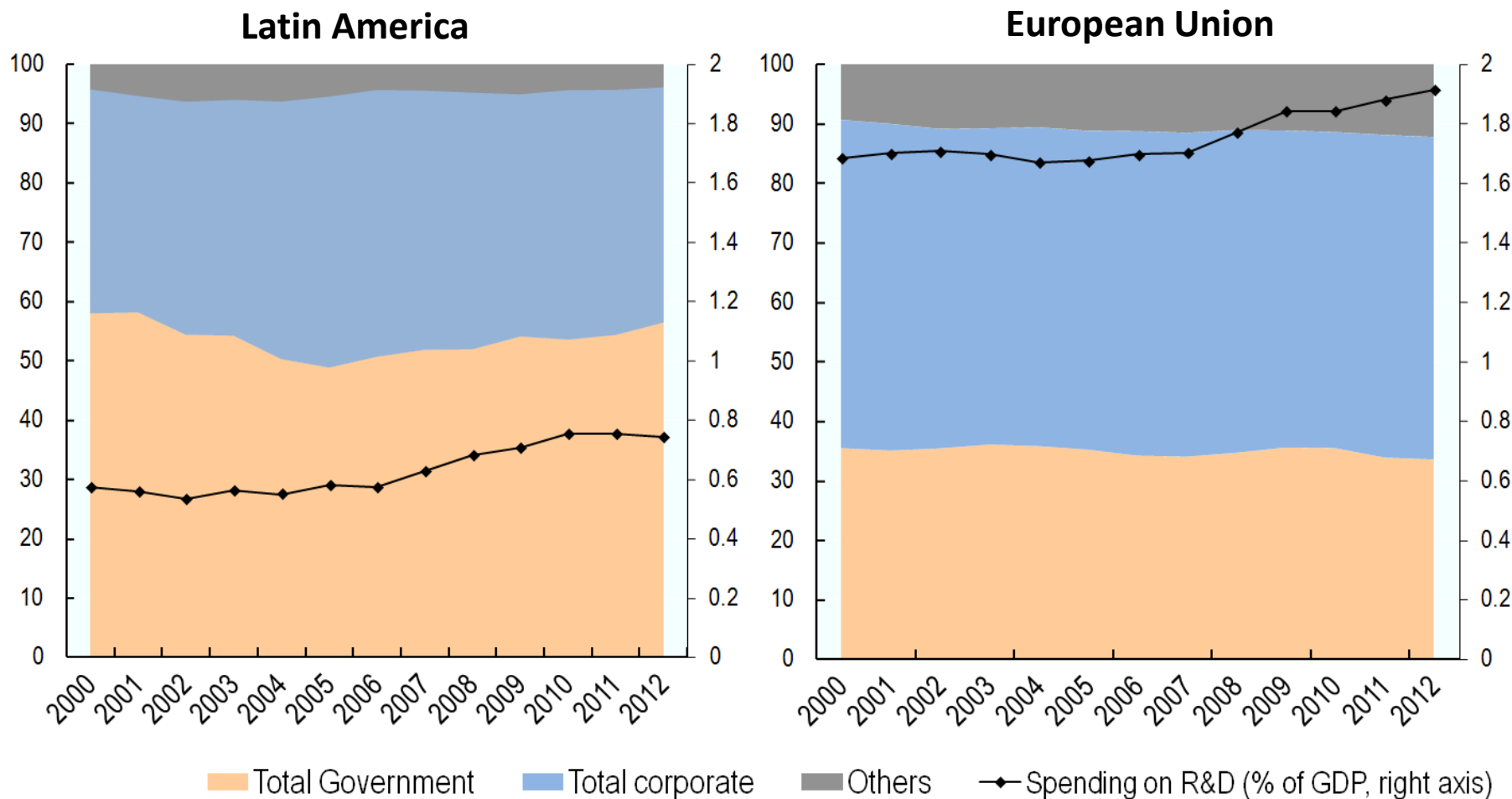
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Investment in R&D in the region is lower than in Europe



Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Espacios de diálogo y cooperación productiva: el rol de las pymes*, 2015.



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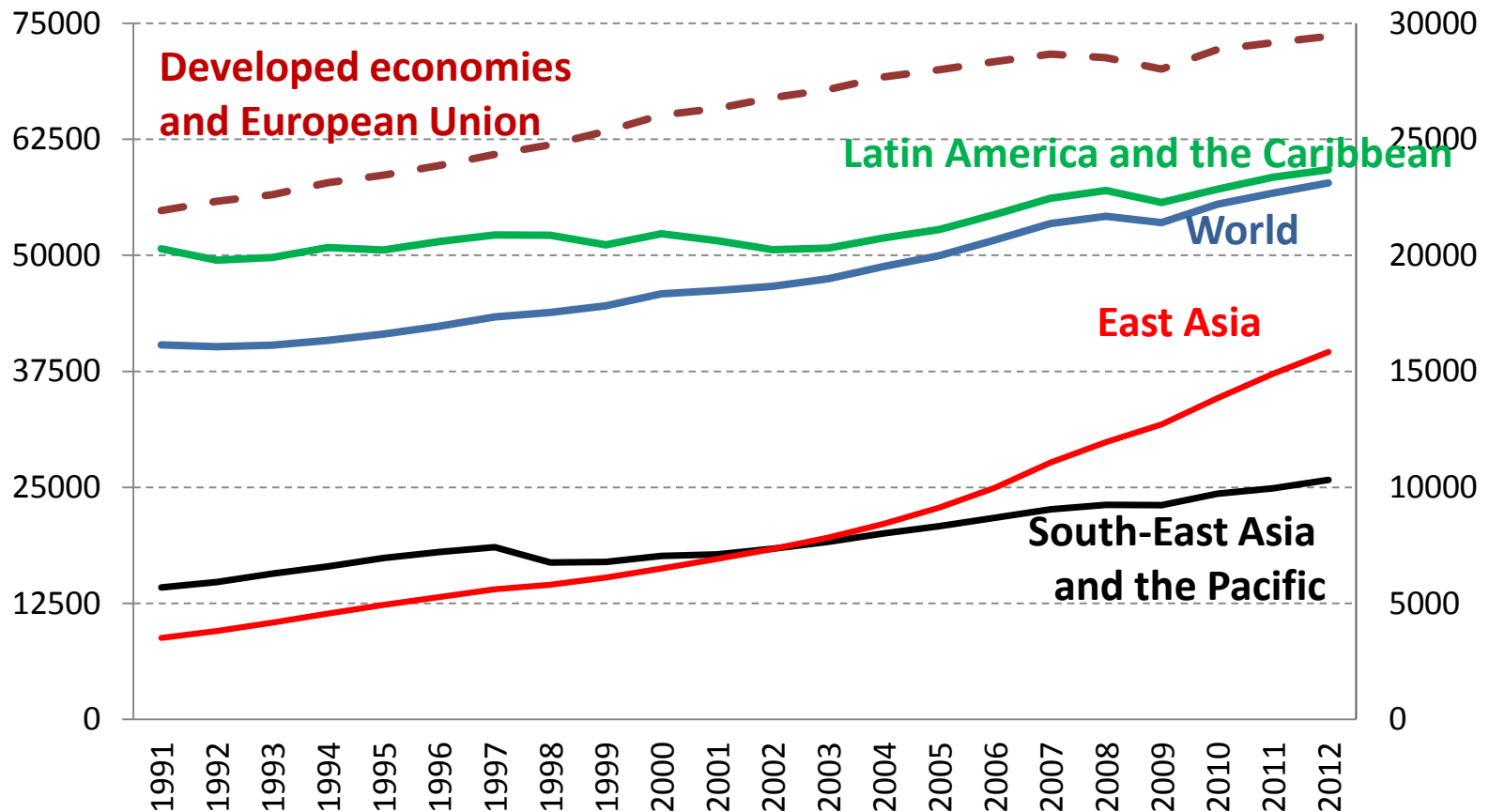
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The region's productivity levels are very low

Latin America and the Caribbean and other regions: GDP per employed person, by region, 1991-2012
(Dollars at constant 2005 prices)



Source: ECLAC, on the basis of data from the International Labour Organization (ILO).



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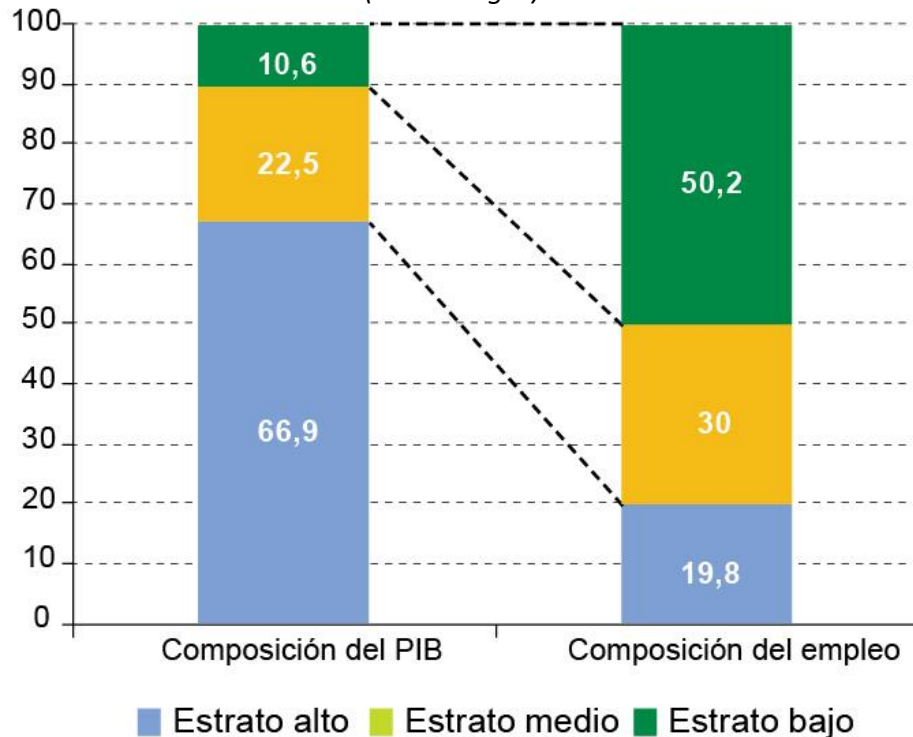
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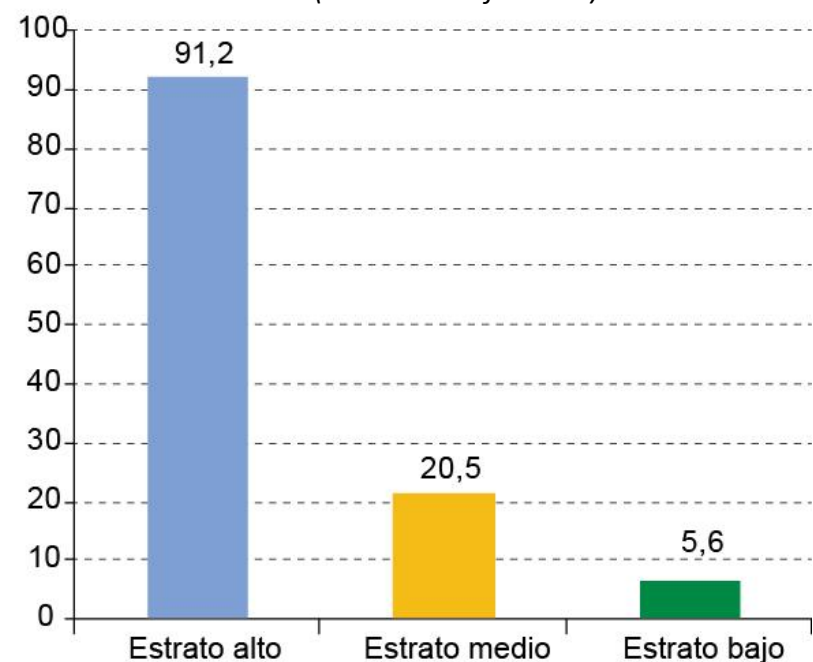
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Structural heterogeneity: the factory of inequality

Latin America (18 countries): indicators of structural heterogeneity,
around 2009
(Percentages)



Latin America (18 countries):
GDP per employed person, around 2009
(Thousands of dollars)



Source: ECLAC, *Structural Change for Equality: An Integrated Approach to Development*, 2012.

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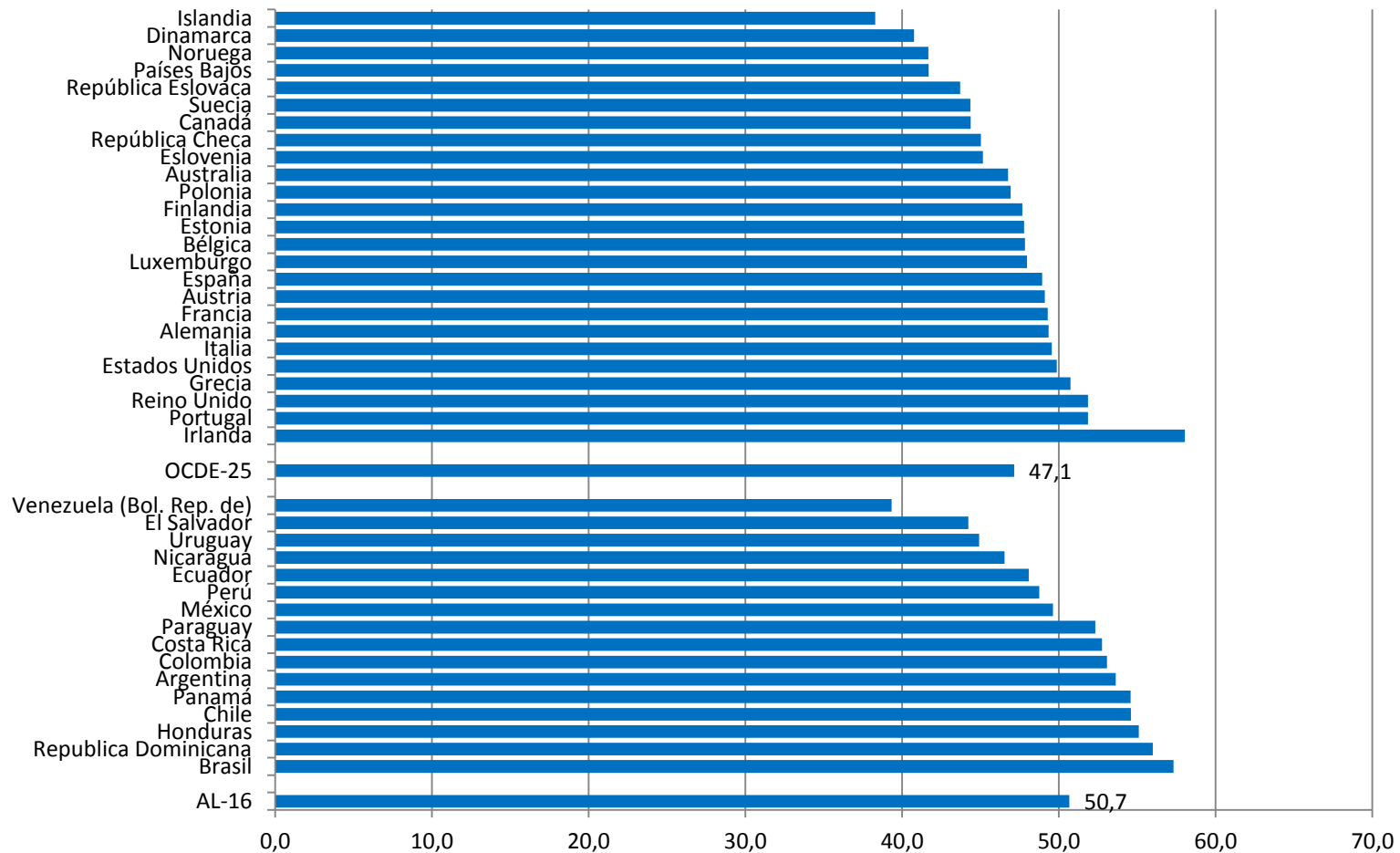
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Income distribution before taxes and transfers

Latin America and OECD countries: Gini index



Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Panorama Fiscal de América Latina y el Caribe*, 2015.

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The State in the current State-market-society (citizens) equation



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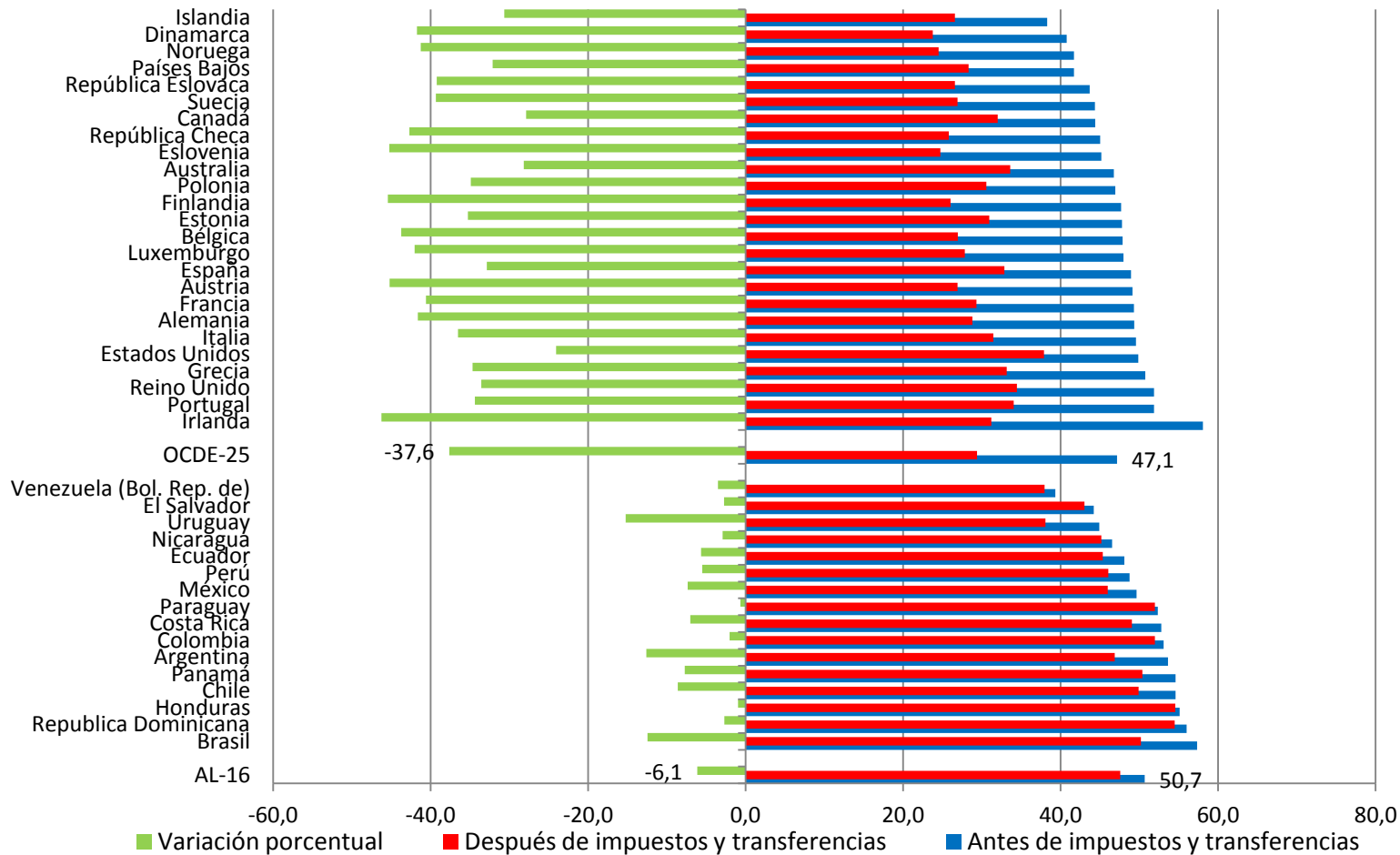
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The State has a key role in correcting the market's unequal outcomes *ex post*

Latin America and OECD countries: Gini index before and after taxes and transfers



Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Fiscal Panorama of Latin America and the Caribbean 2015. Policy space and dilemmas*.



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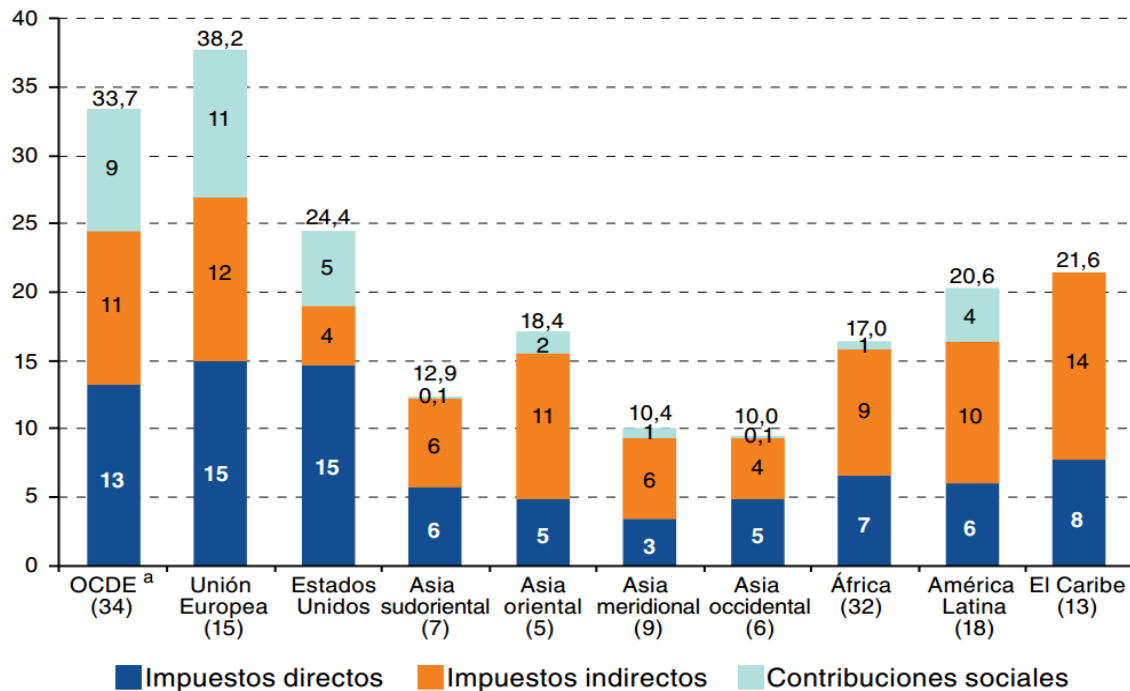
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Tax collection is low and poorly implemented in the region

- Low tax burden in most countries
- Regressive tax structure
- High rates of evasion
- Widespread exemptions
- Special treatment for capital

Selected regions and countries: structure of the tax burden, 2012-2013

(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Fiscal Panorama of Latin America and the Caribbean 2015. Policy space and dilemmas*.

^a Organization for Economic Cooperation and Development.



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Several countries have made changes to income tax, mainly to tax capital income

- Argentina (2013)
- Chile (2014)
- Colombia (2012, 2014)
- Ecuador (2007, 2014)
- El Salvador (2009, 2011)
- Guatemala (2012)
- Honduras (2010, 2014)
- Mexico (2013)
- Nicaragua (2012)
- Panama (2009-2012)
- Paraguay (2012)
- Peru (2007, 2012, 2014)
- Dominican Republic (2012)
- Uruguay (2007, 2012-2013)
- Venezuela (Bolivarian Republic of) (2014)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Fiscal Panorama of Latin America and the Caribbean 2015. Policy space and dilemmas*.

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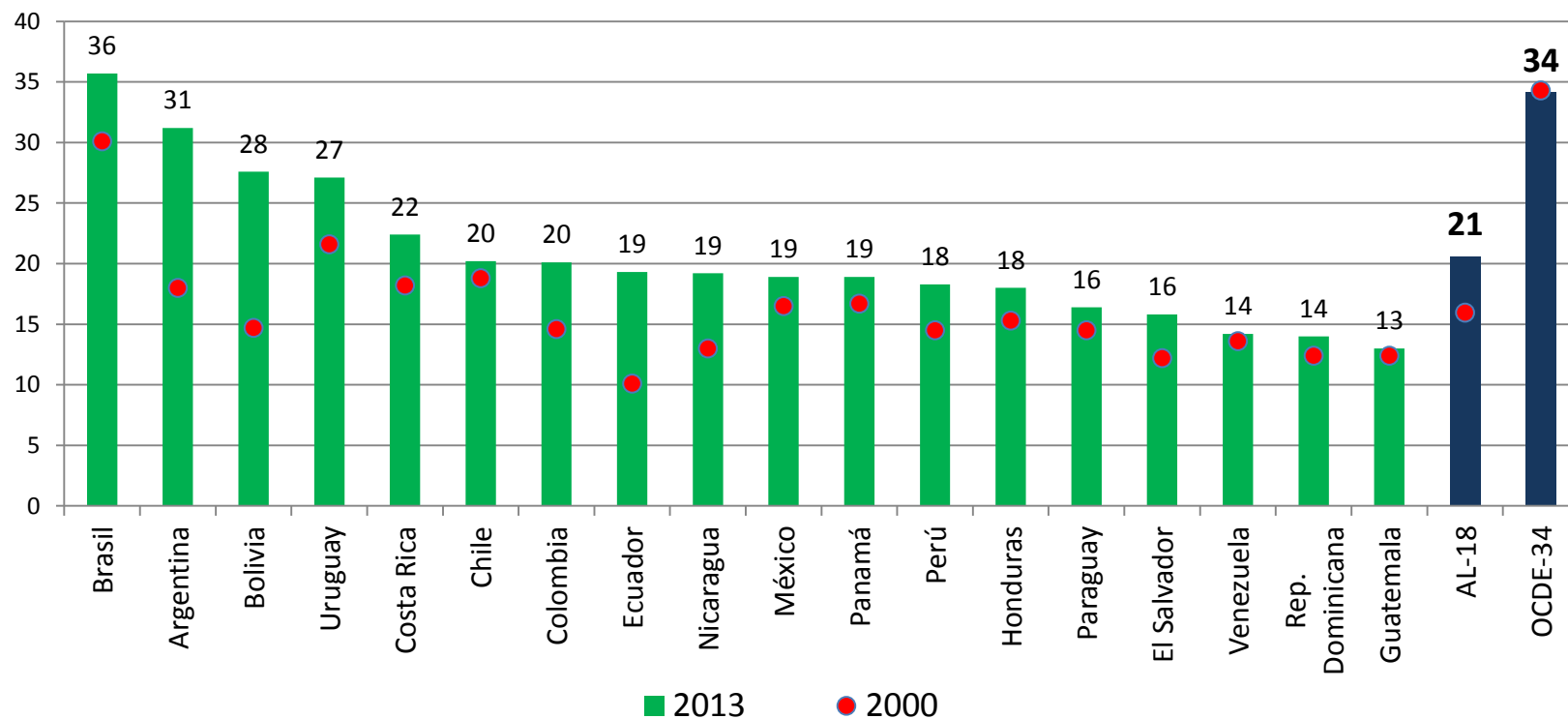
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Tax revenues have risen from 16 to 21 GDP points, on average, since 2000, but they are still highly uneven

Tax revenues in Latin America, 2000 and 2013
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

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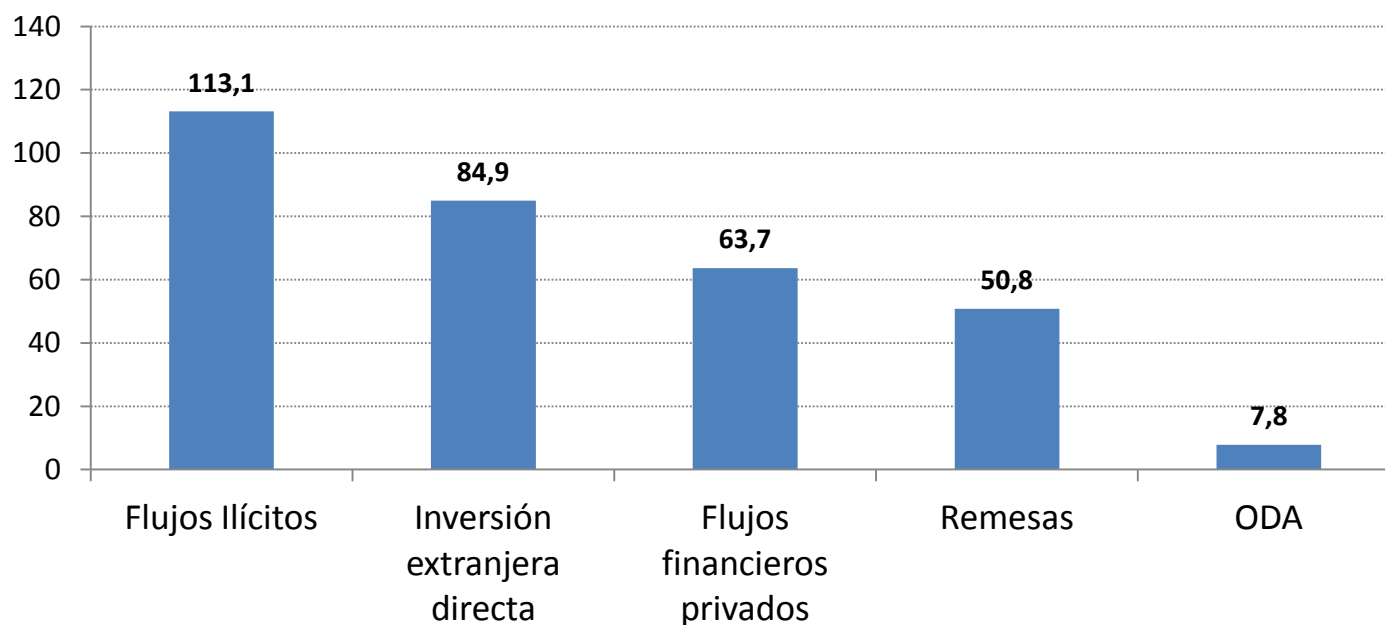


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Prevent tax evasion and avoidance and control illicit flows

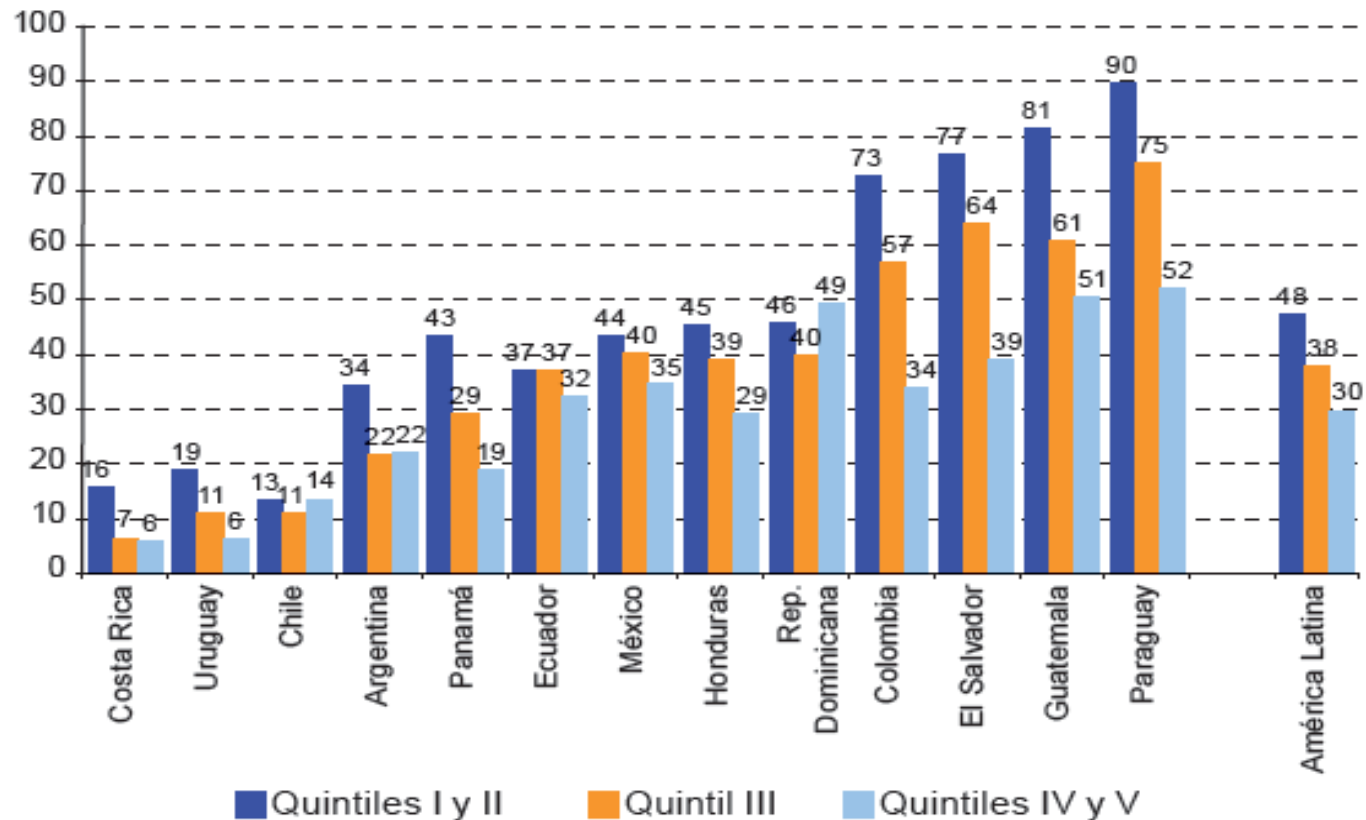
- Illicit financial flows represent a massive outflow of financial resources from developing economies
- On average, in 2002-2011 illicit financial flows represented twice as much as remittances and 14 times ODA in Latin America and the Caribbean

Illicit flows from Latin America and the Caribbean, average for 2002-2011 period
(Billions of dollars)



There are serious cracks and gaps in the region's social protection systems

Latin America (14 countries): population living in households with no social security and receiving no pensions or welfare public transfers, by income quintile, 2009
(Percentages)



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



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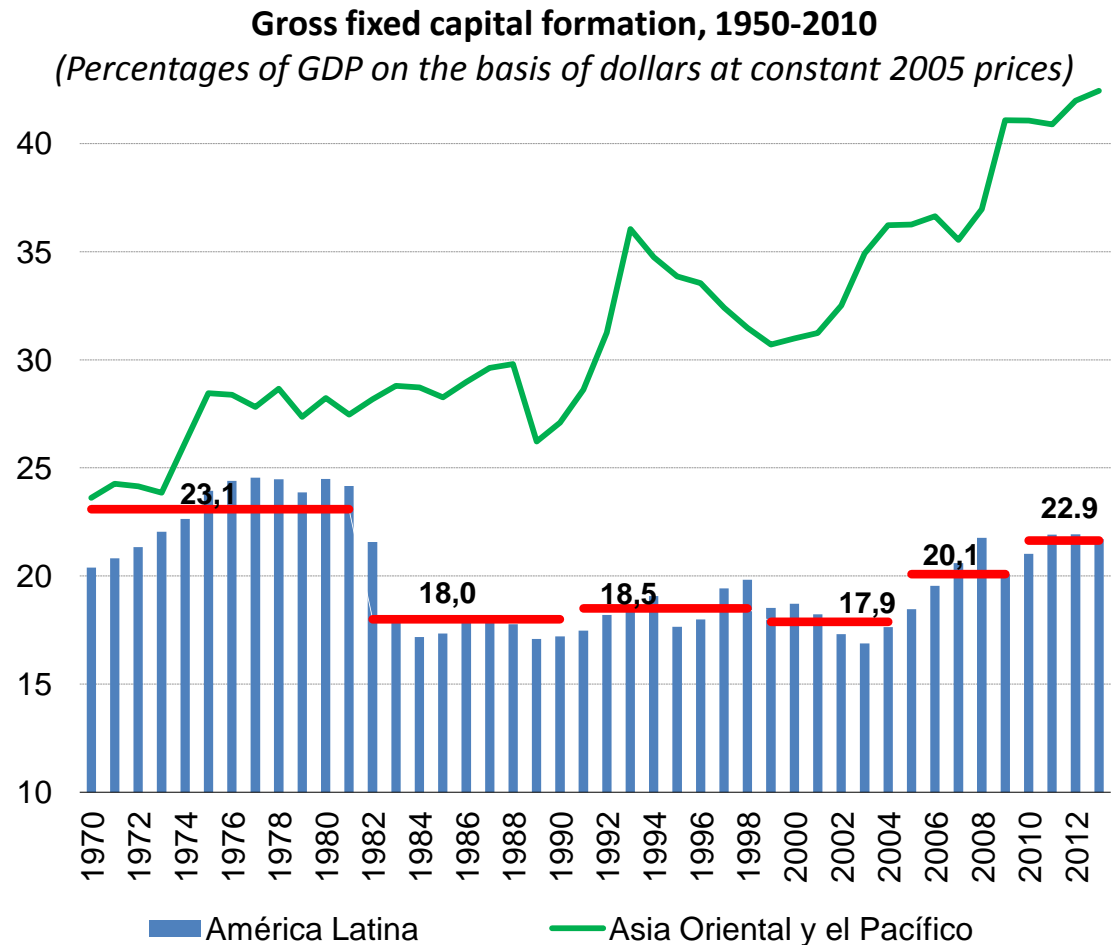
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Investment is too weak to drive development

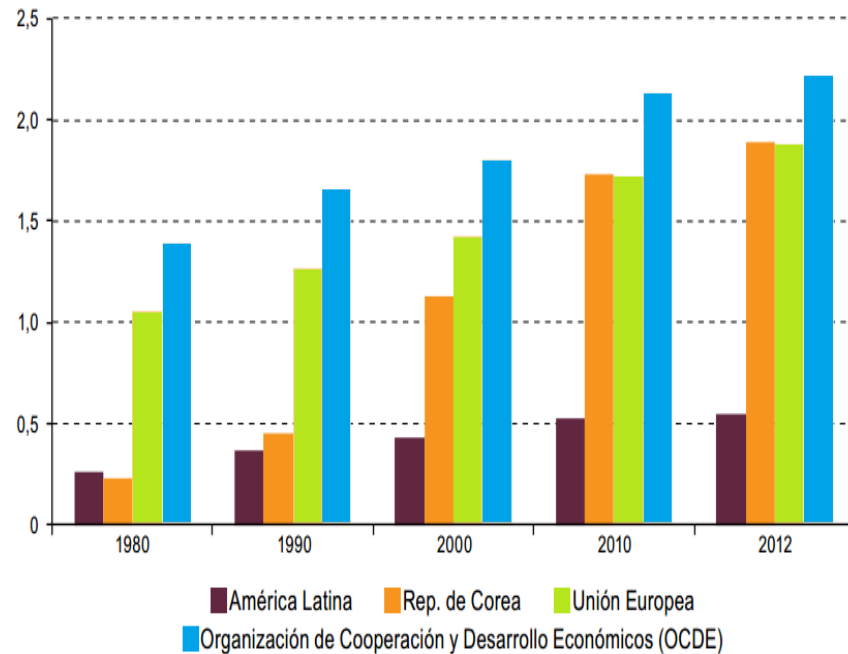
- In infrastructure
- In research, science and innovation
- In development banking: inclusive financing
- In environmentally cleaner production matrices



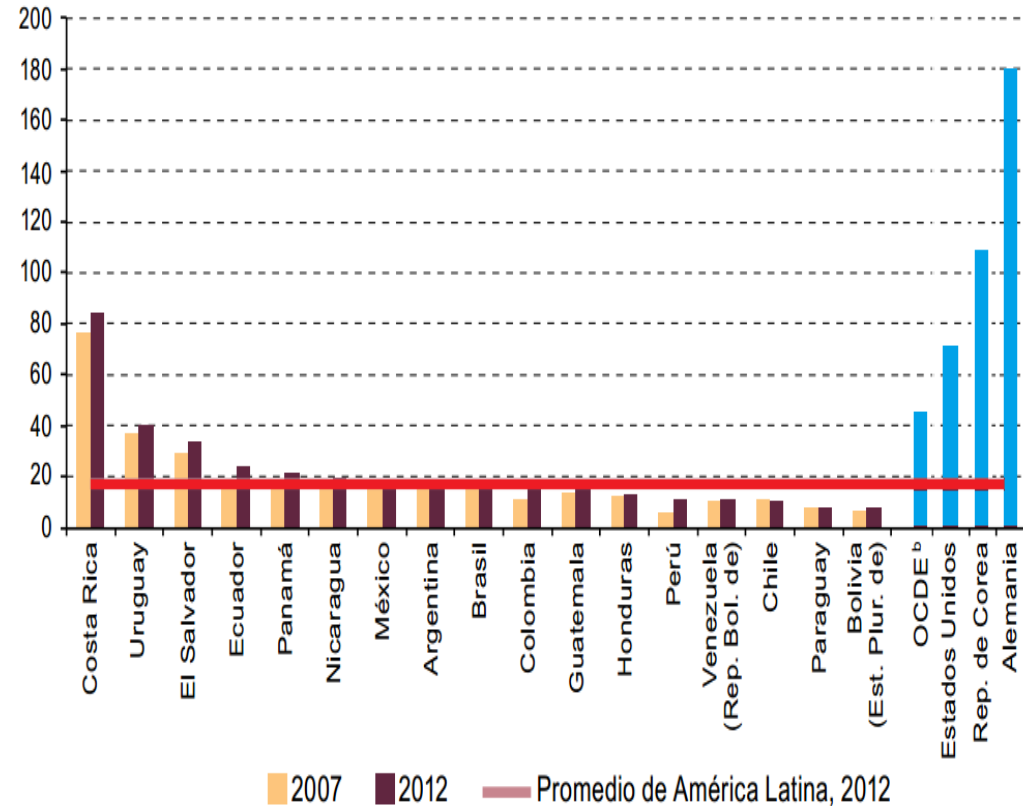
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures, and World Development Indicators.

Persistent shortage of economic infrastructure

Electric power generation capacity, 1980-2012
(Megawatts per 1,000 inhabitants)



Density of total road network, 2007 and 2012
(Kilometres per 100 km²)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Economic Survey 2015*.



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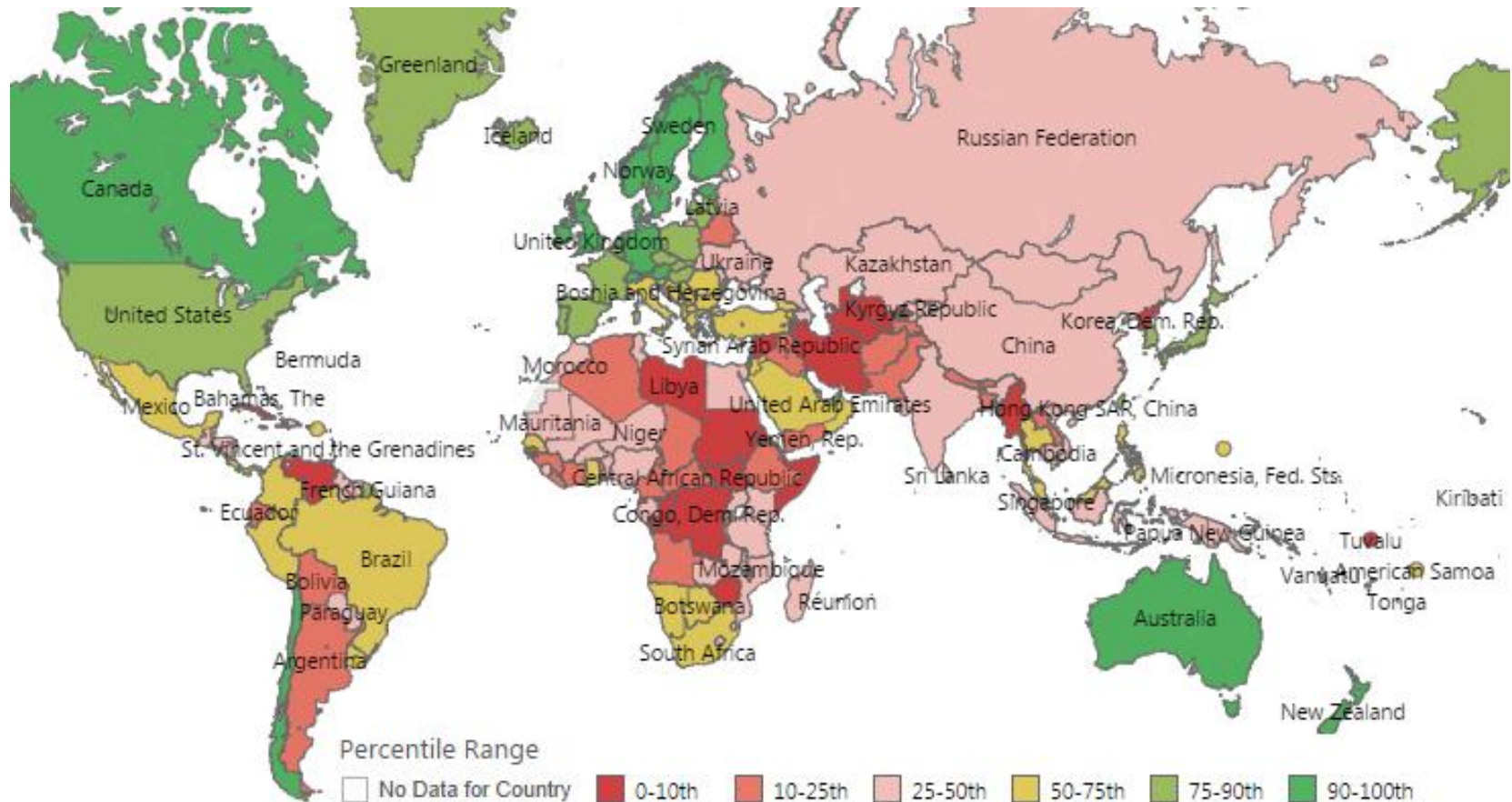
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The region has a moderate quality of regulation

World: regulatory quality index, 2013



Source: World Bank, <http://info.worldbank.org/governance/wgi/index.aspx#reports>



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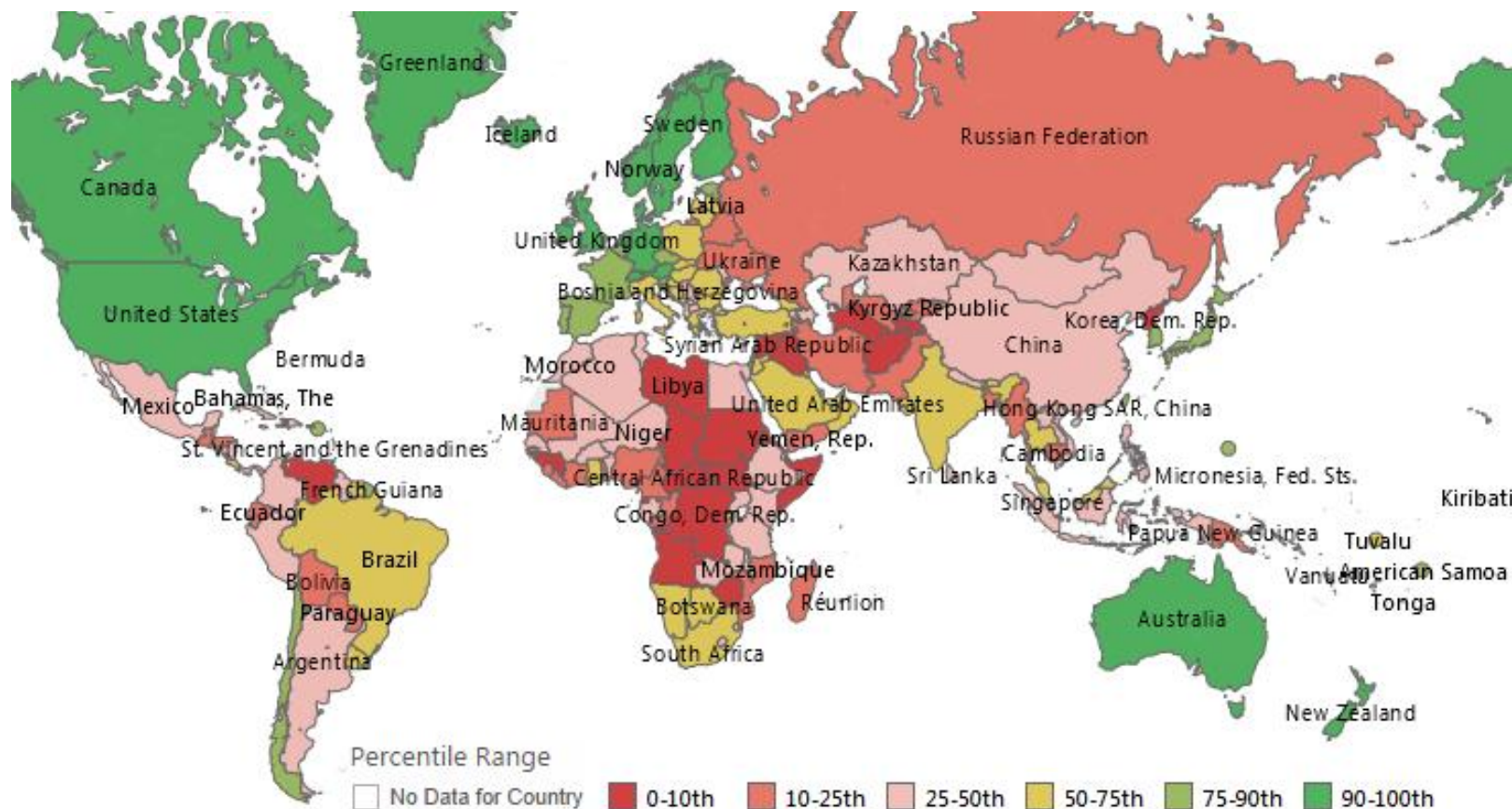
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The region has little confidence in justice and compliance with laws and regulations

World: rule of law index, 2013



Source: World Bank. <http://info.worldbank.org/governance/wgi/index.aspx#reports>



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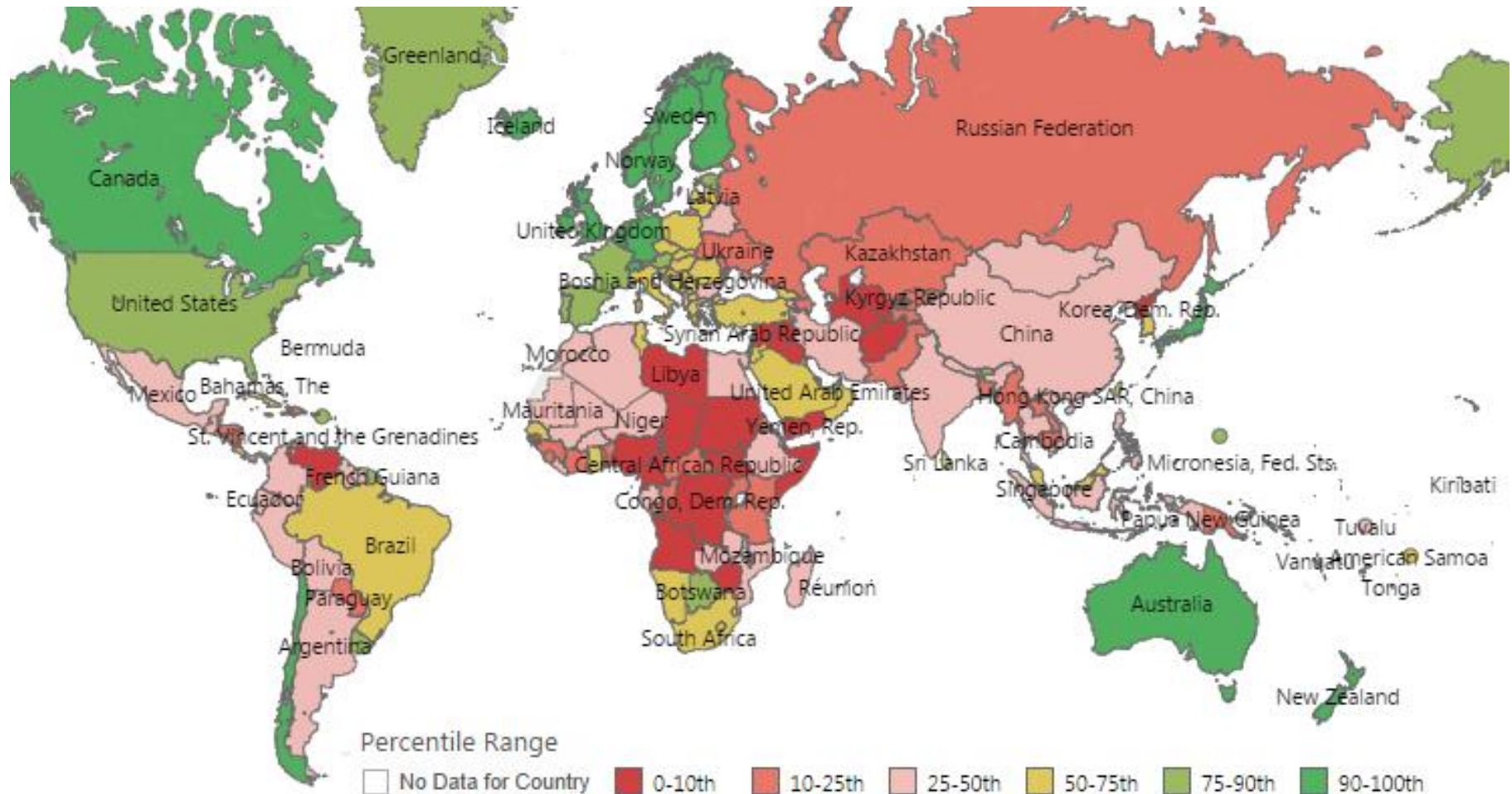
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The region has little control of corruption

World: control of corruption index, 2013



Source: World Bank, <http://info.worldbank.org/governance/wgi/index.aspx#reports>

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Citizens in the current State-market-society (citizens) equation



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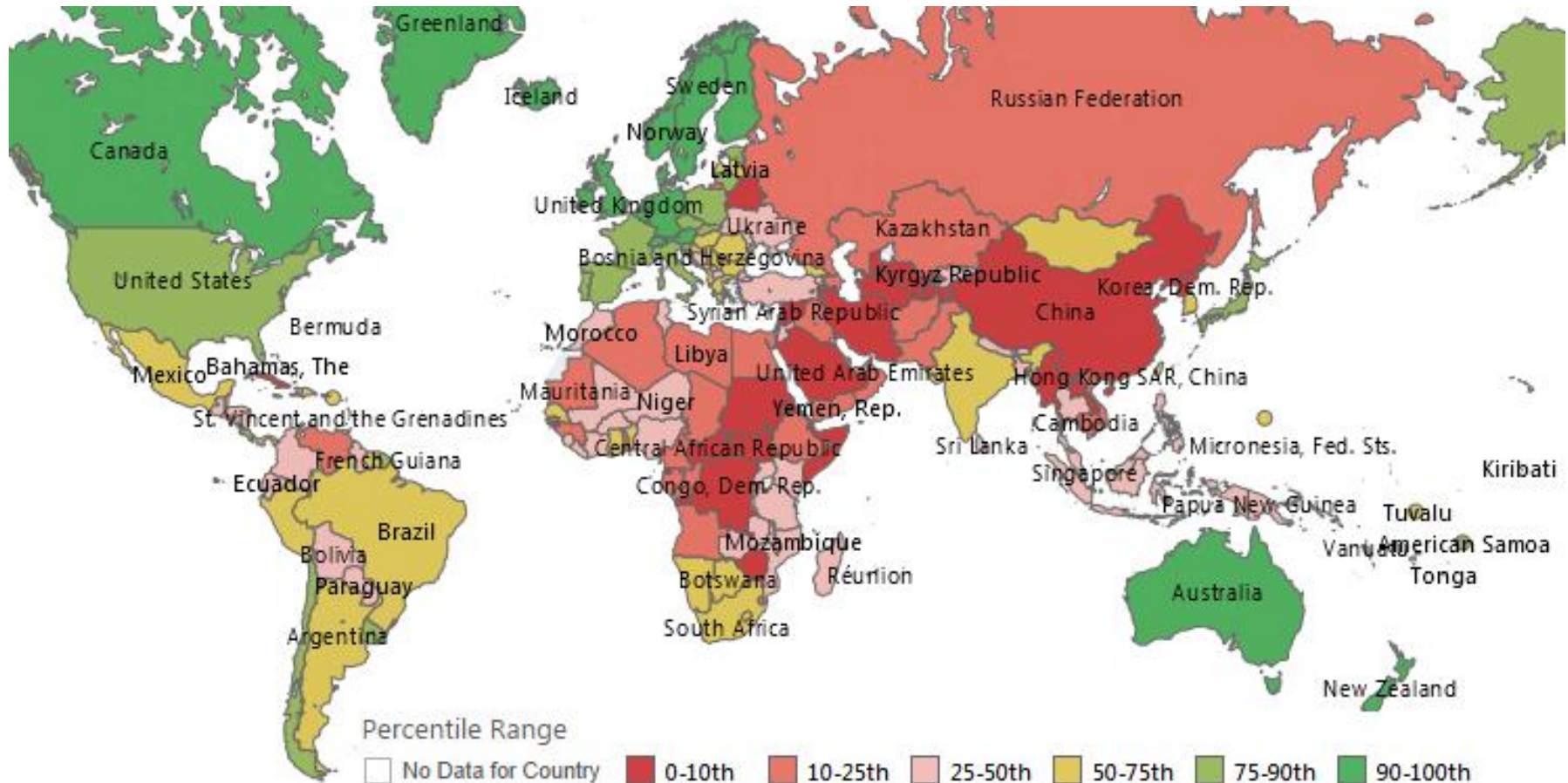
Society (citizens) in the current equation

- Demand for transparency, accountability and participation
- Democracy in its three dimensions: social, economic and political
- Society not only as an object of public policies, but demanding participation in policy definition and execution
- Citizens are engaged as bearers of rights of whose fulfilment the State is guarantor
- This is expressed in: open government initiatives, open data, Principle 10, participatory budgeting, the World Charter for the Right to the City, the Montréal Charter of Rights and Responsibilities, and the European Charter for the Safeguarding of Human Rights in the City, among many other participation instruments originating in civil society.



The region has lacklustre levels of participation and accountability

World: voice and accountability index, 2013



Source: World Bank. <http://info.worldbank.org/governance/wgi/index.aspx#reports>

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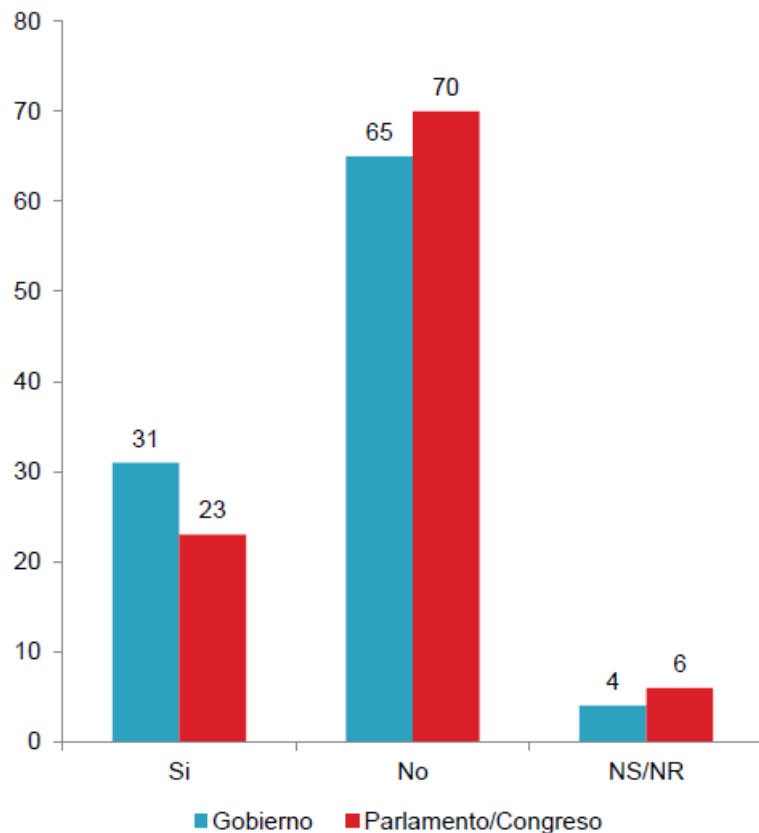
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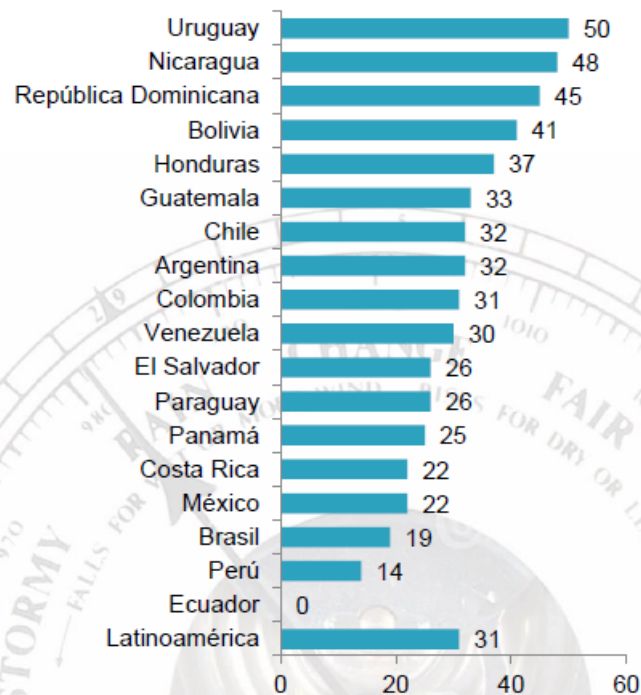
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Society (citizens) feeling unrepresented

Latin America: sense of being represented by the government or parliament/congress, 2015
(Percentages)



Aquí solo 'Sí'



Source: Latinobarómetro 2015.

Q. Do you feel that the government represents you politically? Or the parliament/congress?



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Compacts for equality as a tool for building a new equation



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Politics and policymaking: the importance of compacts

- The development crossroads the region has reached calls for revisiting relations between institutions and structures, involving a wide range of agents in the process
- A compact is a political tool for putting into place, within a democratic framework, medium-term institutional policies and reforms with a strategic vision, with less risk that they will be reversed later
- A social compact is necessary at a time of changes in relations between the State, the market and society, with social effervescence and the emergence of new forms of participation
- The citizenry is a party to the compact, as a full bearer of rights, with the State acting as guarantor of those rights



Compacts for equality

- **New fiscal compacts are badly needed**
 - Trust and reciprocity between the State and citizens
 - Consolidate public spending with a redistributive impact
 - Agreements on origin and destination of resources for the State
 - Transparency and accountability
- **Agreements for better governance of natural resources:** taking advantage of windfall gains
- **Investment in productivity: tradables (manufacturing with innovation) and non-tradables (infrastructure)**
- Coordination of macro, industrial, social and environmental policies
- Social consultation and consensus-building with accountability



Reciprocity as a basis for a fiscal compact: a rights-based approach to improving spending quality



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Source: CAF, 2011.



Fiscal compact, stakeholders and reciprocity: tightening the link with the citizenry

- The CAF survey found that families in Latin America “would pay more tax” if the Government did its job better (www.caf.com/investigacion)
 - For eliminating corruption: 11.5% would pay more
 - For better health and education: 11.5%
 - For better public safety: 11.4%
 - For more protection for the poor: 9.2%
- Citizens do not like to pay tax, but when they do pay they feel they have more right to demand responses from the authorities
 - This is the opinion of 72.6% of households in Latin America
- The evidence shows a vicious circle between tax (especially direct tax), accountability, reciprocity and the quality of public spending



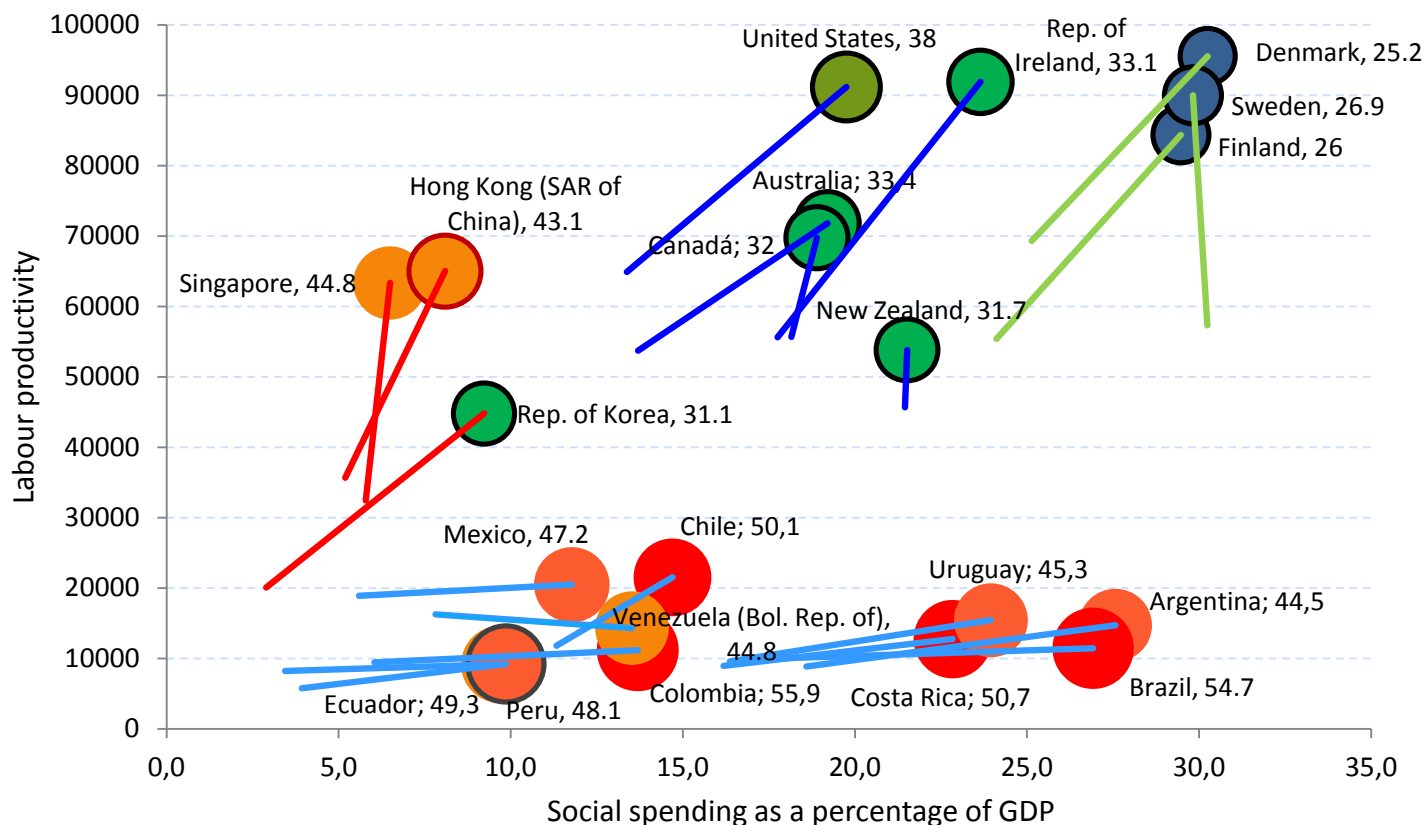
Recasting the industrial architecture

- Promote structural change mainstreaming environmental sustainability
- Build new institutions to boost productivity on the basis of explicit industrial policy
- Link low-productivity sectors with those already on the technology frontier
- A comprehensive SME support strategy with inclusive financing that links SMEs with more dynamic sectors
- A more prominent role for science and technology
- Mechanisms for mediation in socio-environmental conflicts
- Land use management and urban planning



Good links between social spending and structure help to boost social spending, productivity and equality

Labour productivity and social spending as a percentage of GDP, around 1990 and 2010, and inequality around 2010
(Constant dollars at 2005 prices and percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Standardized World Income Inequality Database, version 4.0, September 2013; Organization for Economic Cooperation and Development (OECD), STAN Structural Analysis Database; and World Bank, World Development Indicators.

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A new State-market-society (citizens) equation

- The **public arena** as representing collective interests, not merely public sector or national level concerns
- **Political accords** for a new social and intergenerational contract, defining responsibilities, ensuring protection of rights and providing accountability systems
- Establishing a **culture of collective development** based on tolerance for difference and diversity
- **Strategic long-term vision built from within**, promoting compacts between industrial stakeholders
 - Forums for **dialogue between the public and private sectors and public institutions** to dovetail business strategies with development objectives
 - **Institutions and policies are needed to coordinate investment** with the local production fabric in sectors that are priorities for industrial modernization plans

A new equation needs long-term compacts



Strong role for the State

- Development strategy
- Fiscal capacity
- Professional management
- Transparency and social participation



Market

- Regulated
- With proper financing
- Coordination for development strategy



Society (citizens)

- Stimulus for stronger institutions
- Participation and access to public policies
- Democracy and social and economic policy

“The new development paradigm must be made to do everything possible to build a model of globalization that breeds greater collective awareness of global public goods, awakens democracy across the planet by affording a voice to the most diverse range of actors in the open concert of global governance, and provides excluded sectors with the tools needed to close gaps in capacity, citizens' rights and access to well-being. The new model of globalization must develop policies with a long-term vision --but start work on them as a matter of urgency-- in order to remain one step ahead of the climate, technological, demographic and cultural scenarios that current trends are now projecting.”

ECLAC (2010) *Time for Equality*.





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