

Compacts for Equality

Towards a Sustainable Future



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2014

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Lima, 5-9 May

What ECLAC proposes: the trilogy of equality

*Equality is the goal, structural change
is the path, and the art of politics
and policymaking is the instrument*



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Equality with a rights-based approach

- Time for Equality (Brasilia, 2010): *equality and economic growth are not at odds with each other, the key is to pursue equality for growth and growth for equality*
- Structural Change for Equality (San Salvador, 2012): *more productive employment with rights as the master key for equality*
- Compacts for Equality (Lima, 2014): *a new State-market-society equation with medium-term political agreements*

Components that are added to the trilogy in *Compacts for Equality*

- ***Equality gaps***: fiscality, world of work and production, educational and territorial segregation, living conditions (overcrowding, services, durable goods), capacities, reproductive rights, recognition, gender and ethnicity
- ***Private consumption*** and its relationship with access to public services, ***environmental sustainability***, structural change and sense of belonging in the world's most urbanized region
- ***Natural resource governance*** for genuine development with better redistribution and environmental sustainability
- The wide array of challenges identified in the trilogy highlights the ***importance of compacts*** for equality and for a sustainable future



Where is Latin America and the Caribbean today?



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The region is at a crossroads

- After a period of prosperity, the region is facing a more difficult external context and slower economic growth
- Efforts must be redoubled to achieve development with a strategic focus through structural change and investment in human capacities
- The State must continue along the path towards more progressive fiscal policy and public spending, with stronger institutions to promote equality in all its forms
- Environmental sustainability is an imperative, which requires broad agreements and challenges existing patterns of consumption and production



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The region has made great strides

- Stable democracies in the post-dictatorship era
- Agreements for macroeconomic stabilization following the debt crisis
- More progressive and universal social and poverty eradication policies
- Greater margin for investment in the social and production spheres and greater resilience to external shocks



... but faces serious constraints

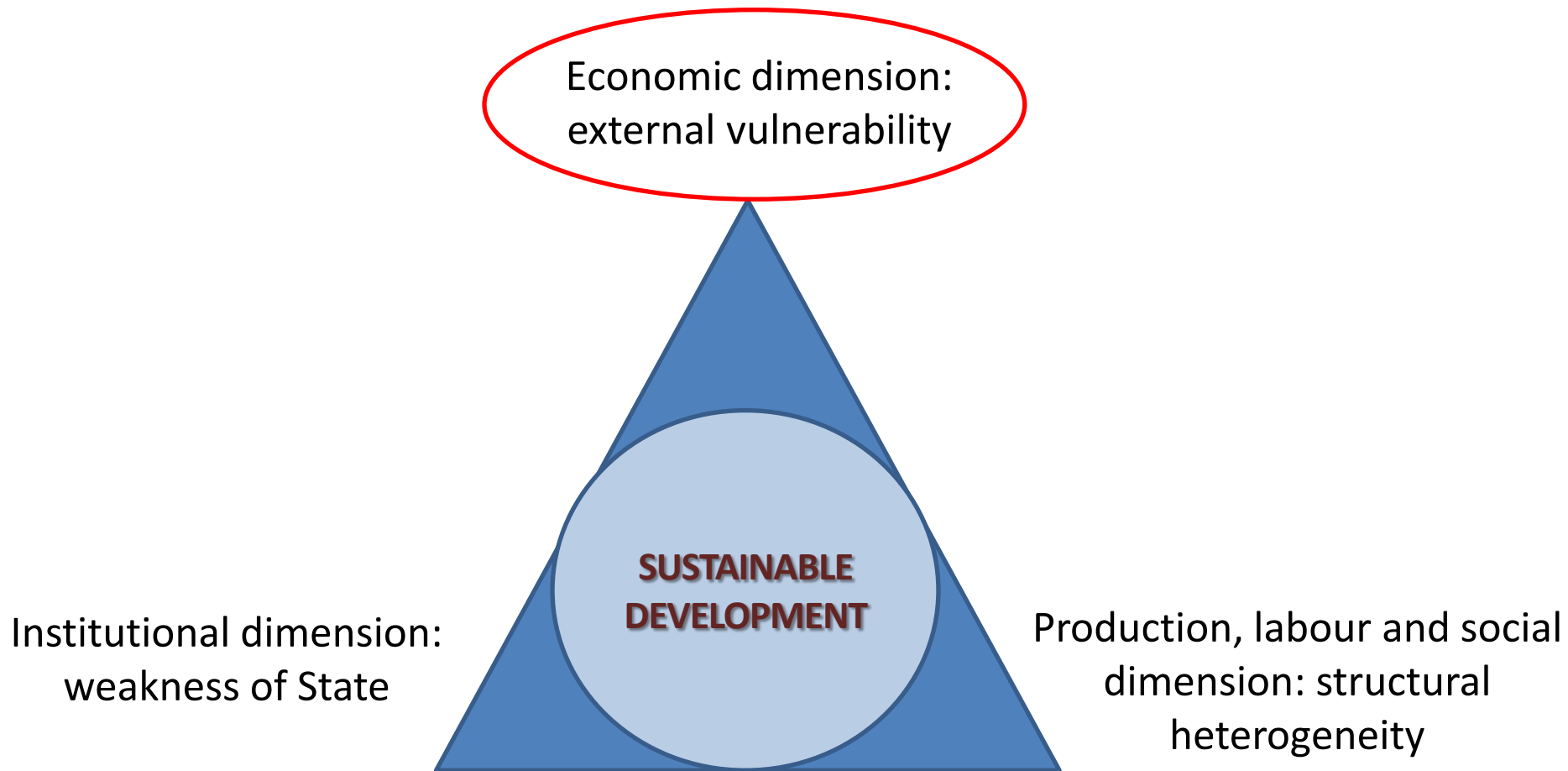
External

- Loss of dynamism in international trade
- End of the commodity price supercycle
- Financial volatility
- High vulnerability to weather events
- Middle-income trap

Endogenous

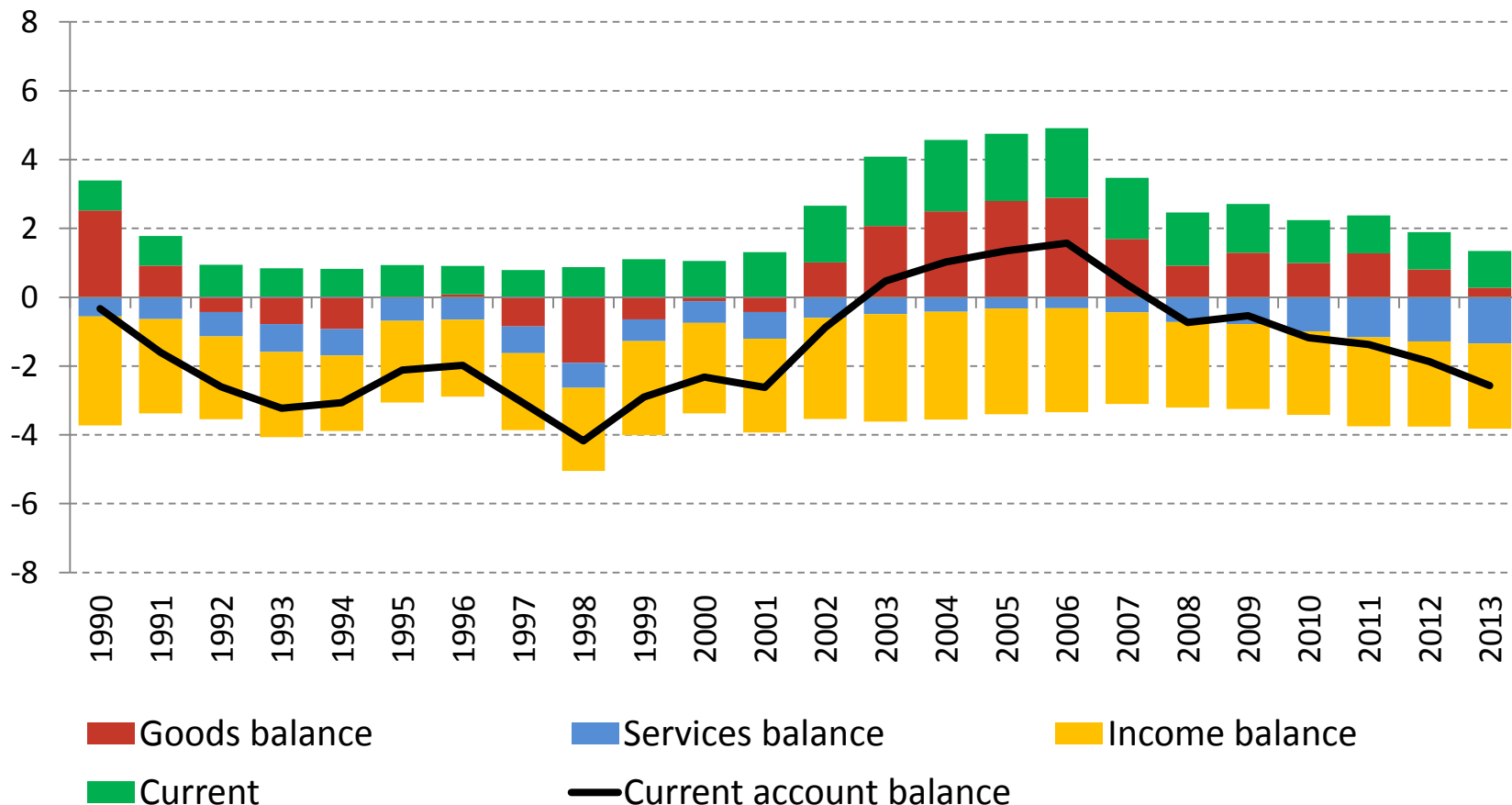
- Lack of linkages in the production structure
- Informal, low-productivity jobs
- Low dynamic efficiency
- Lower, consumption-dependent growth
- Insufficient investment
- Plateauing of poverty reduction
- Weak natural resource and environmental governance
- Scarcity of quality public goods
- Weak institutions

The challenge of sustaining development with equality: three structural problems



Latent external vulnerability

LATIN AMERICA AND THE CARIBBEAN: CURRENT ACCOUNT BALANCE AND COMPONENTS, 1990-2013
(Percentages of GDP)



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



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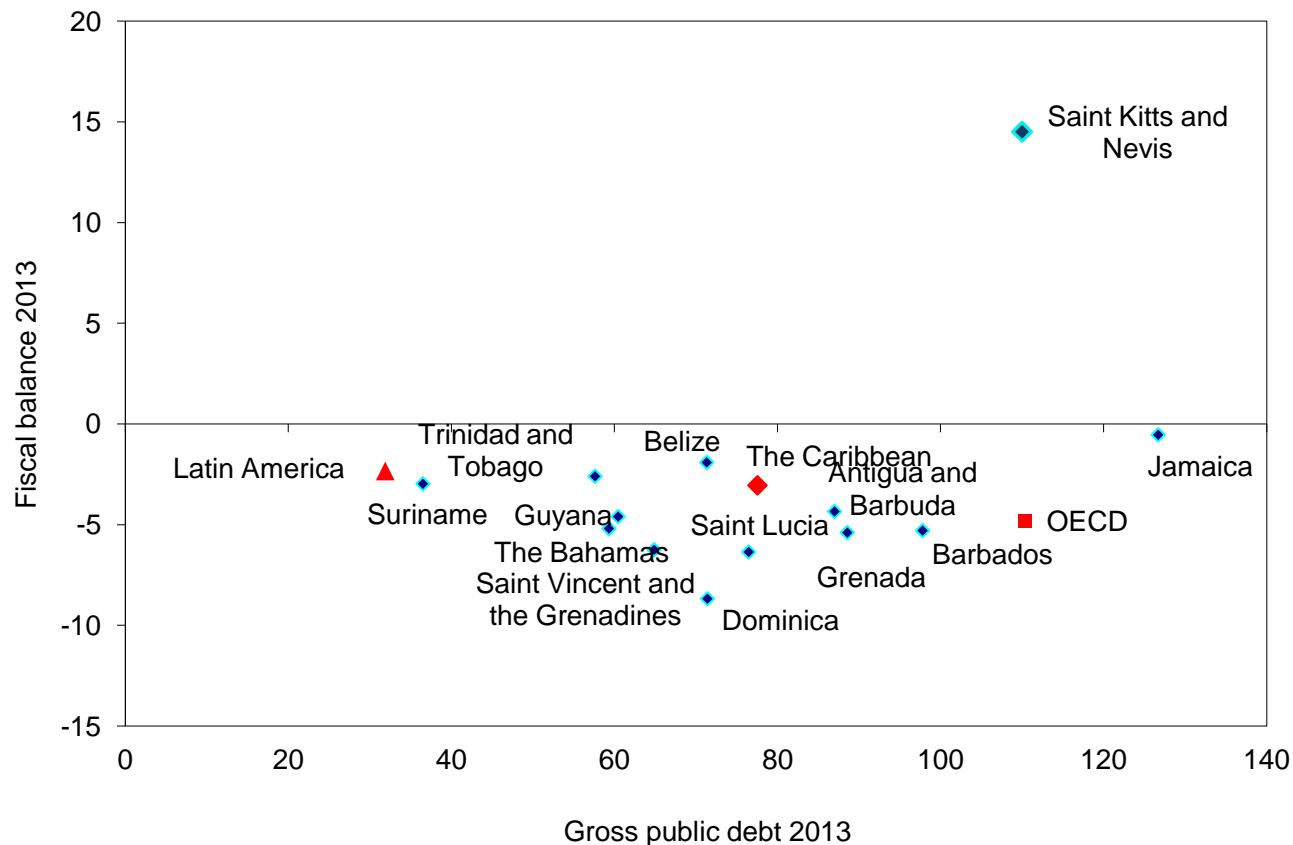
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Critical vulnerability in the Caribbean

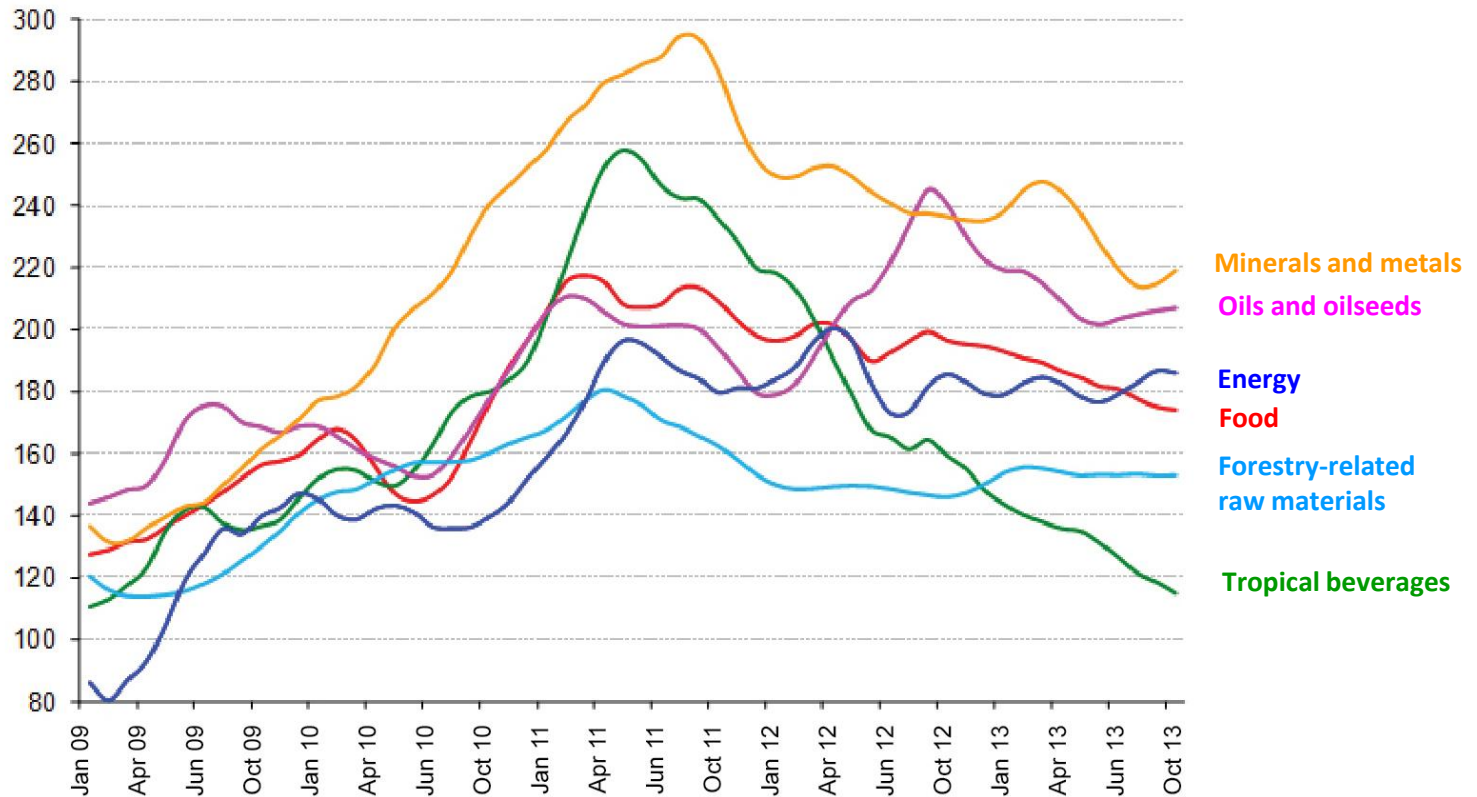
LATIN AMERICA AND THE CARIBBEAN: OVERALL FISCAL BALANCE AND GROSS PUBLIC DEBT, 2013
(Percentages of GDP)



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

Lower commodity prices and deterioration in the terms of trade

EXPORT COMMODITY PRICE INDEX, WEIGHTED BY THE VALUE OF EXPORTS
(Index 2005=100)

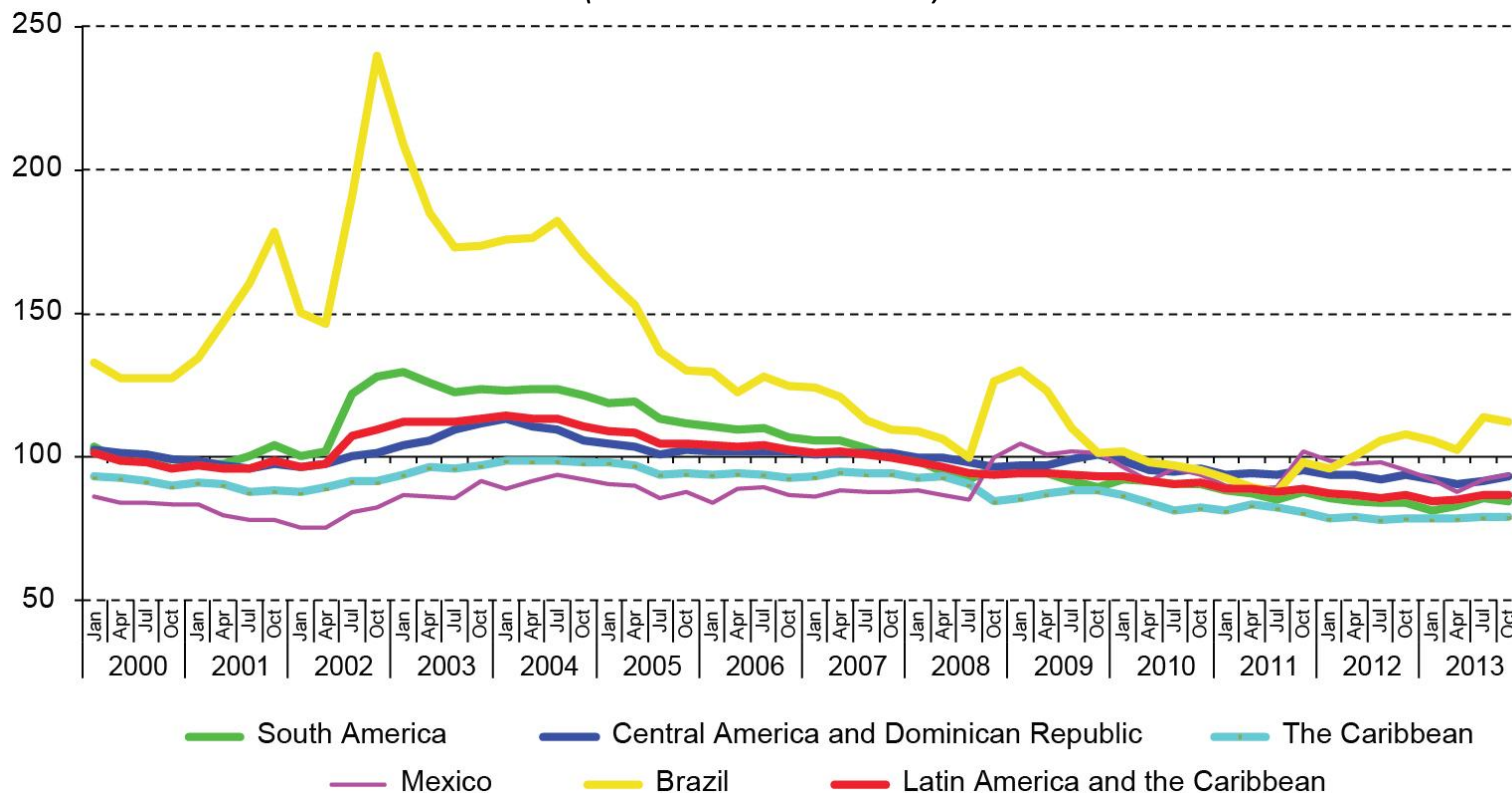


Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of figures provided by the United Nations Conference on Trade and Development (UNCTAD) and the Netherlands Bureau of Economic Policy Analysis (CBP).

The region presents a long-term trend towards real appreciation

LATIN AMERICA AND THE CARIBBEAN: REAL MULTILATERAL EXCHANGE RATE, 2000-2013

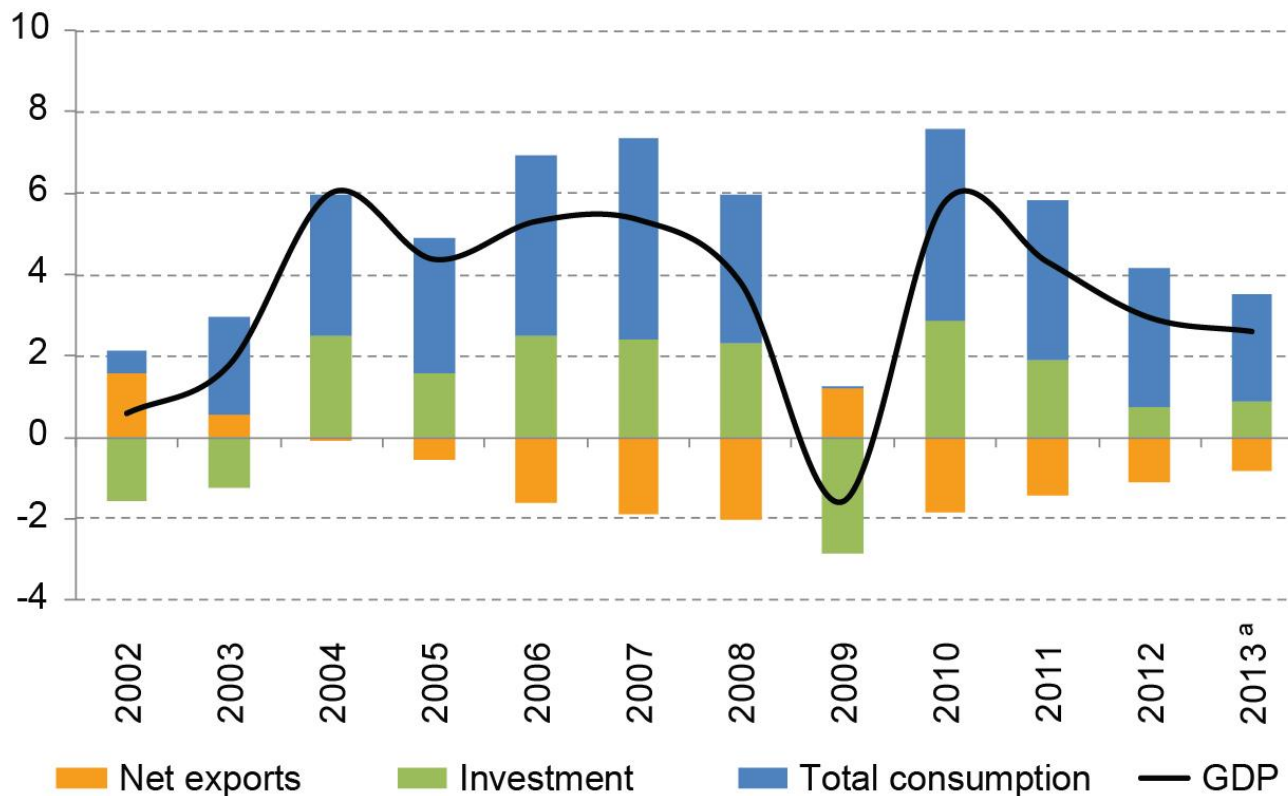
(Index: 1990-1998=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from International Monetary Fund (IMF).

Consumption continues to be the component sustaining this low growth

LATIN AMERICA: GDP VARIATION AND CONTRIBUTION TO GROWTH OF AGGREGATE DEMAND COMPONENTS
(Percentages, on the basis of dollars at constant 2005 prices)

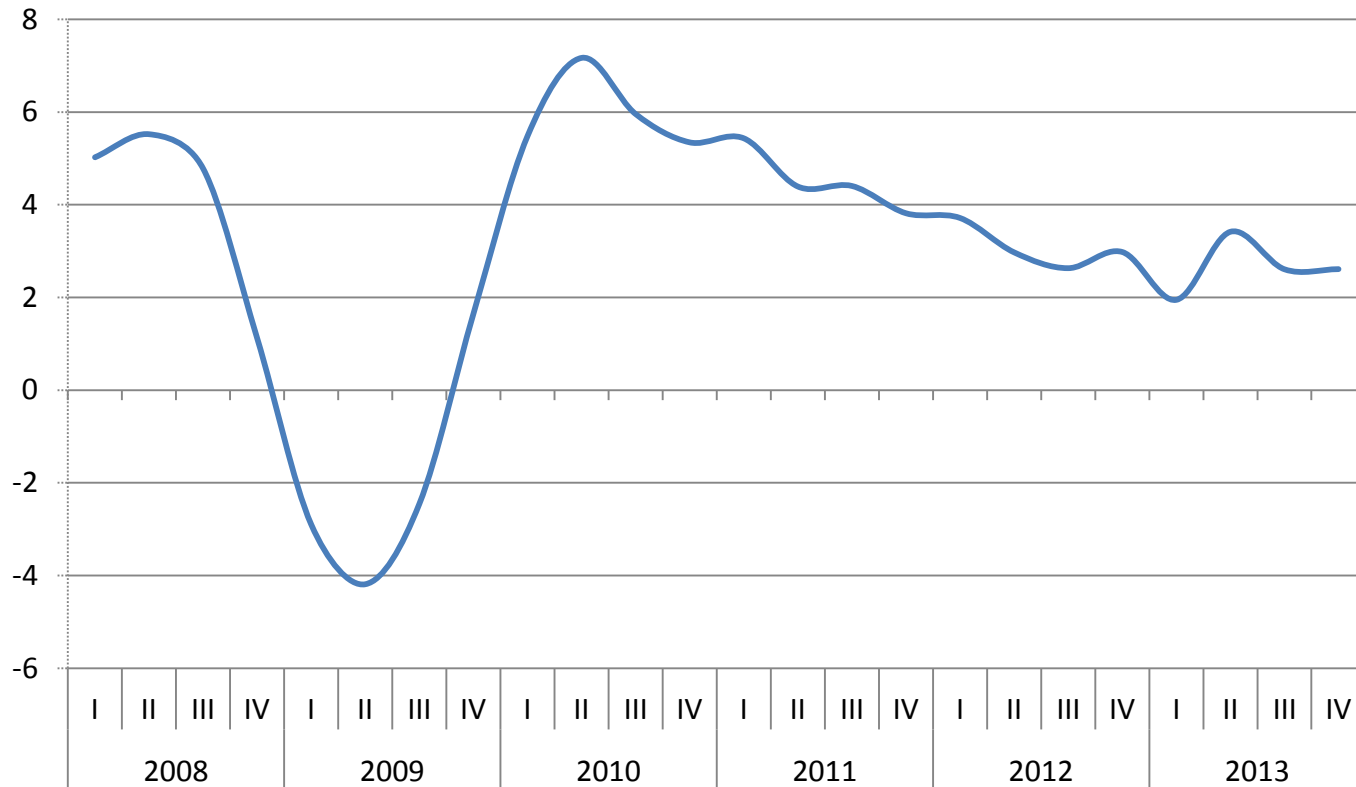


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Estimates

The recent slowdown suggests future scenarios of lower growth

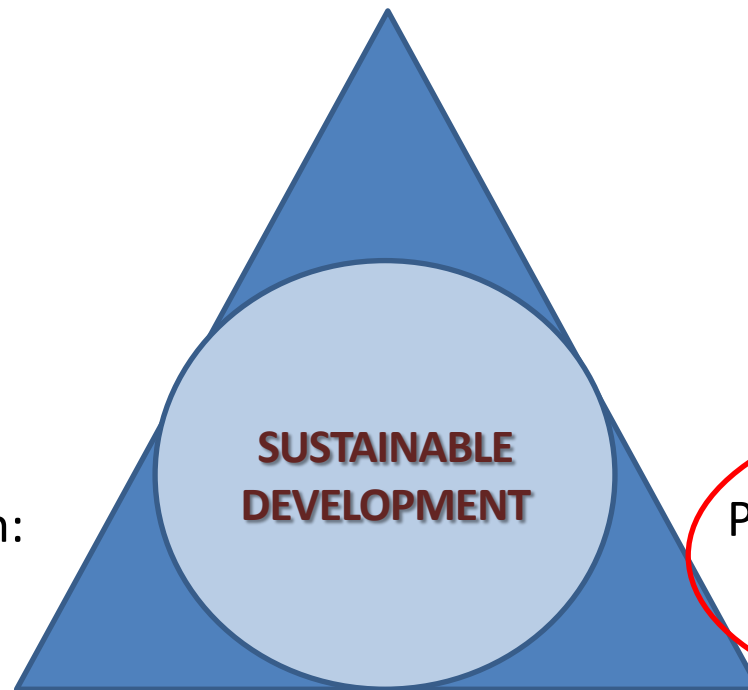
LATIN AMERICA AND THE CARIBBEAN: QUARTERLY GDP GROWTH, 2008-2013
(Year-on-year variation in percentages, on the basis of dollars at constant 2005 prices)



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

The challenge of sustaining development with equality: three structural problems

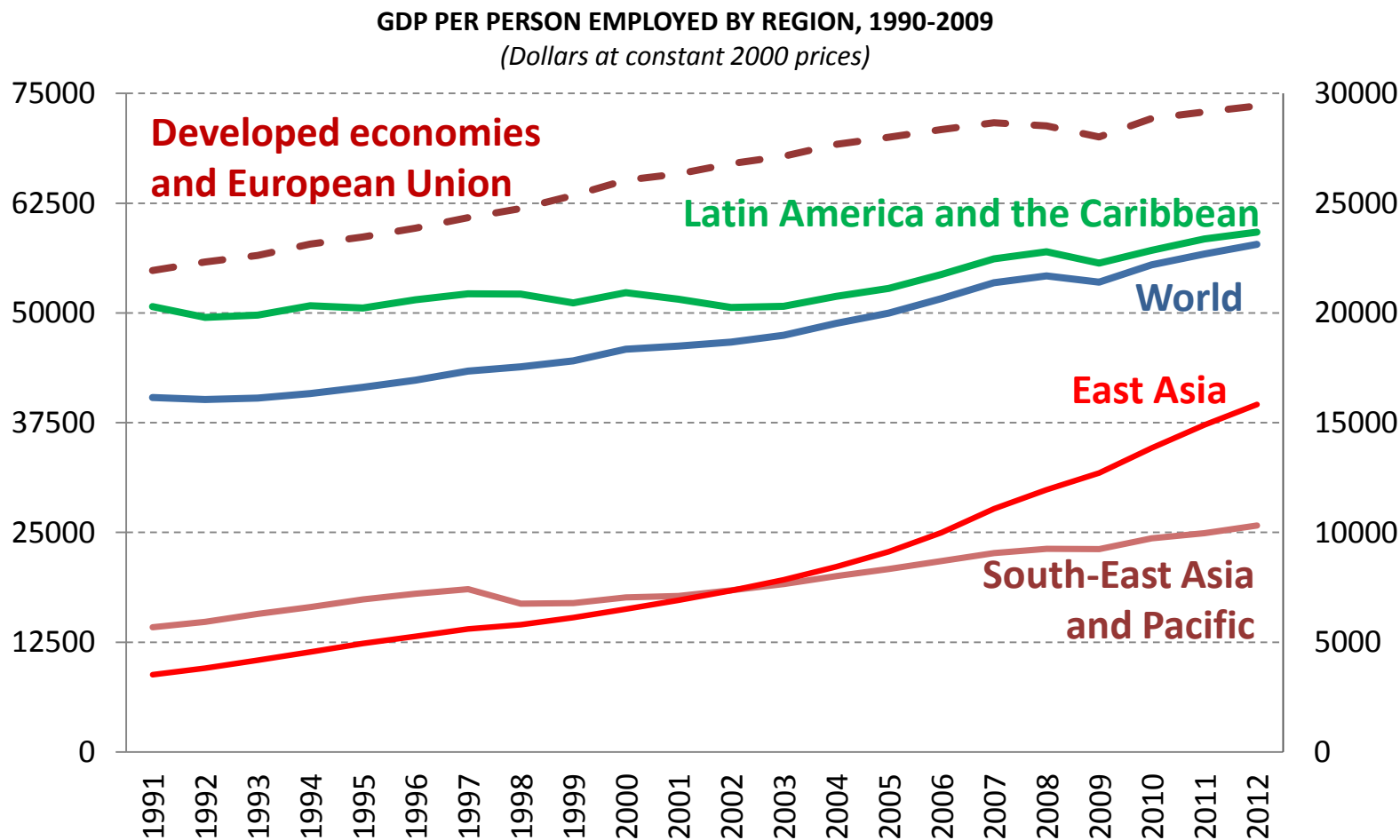
Economic dimension:
external vulnerability



Institutional dimension:
weakness of State

Production, labour and social
dimension: structural
heterogeneity

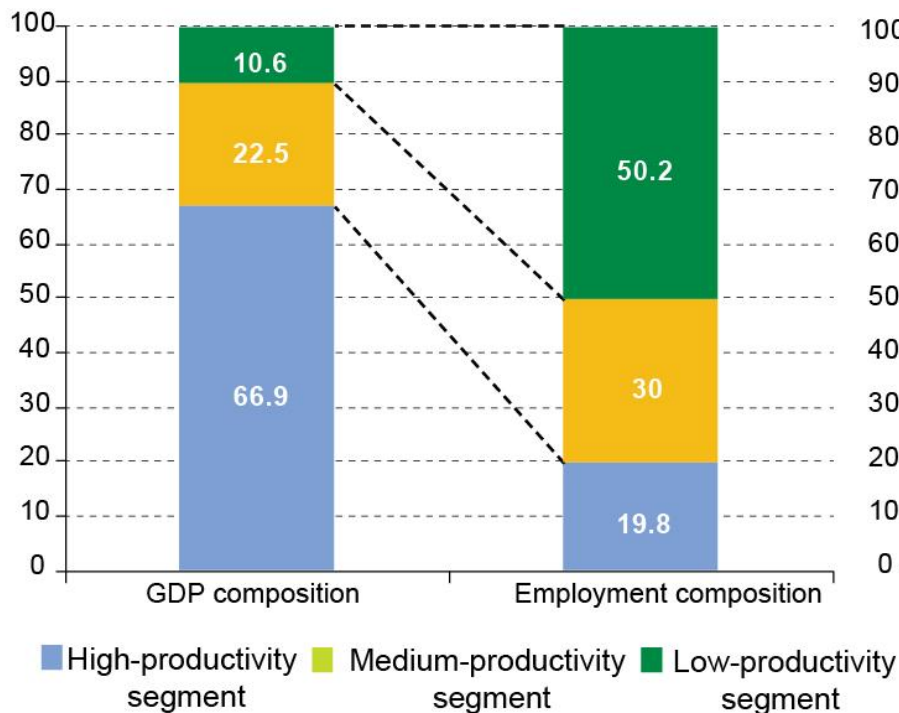
Productivity levels are very low in the region



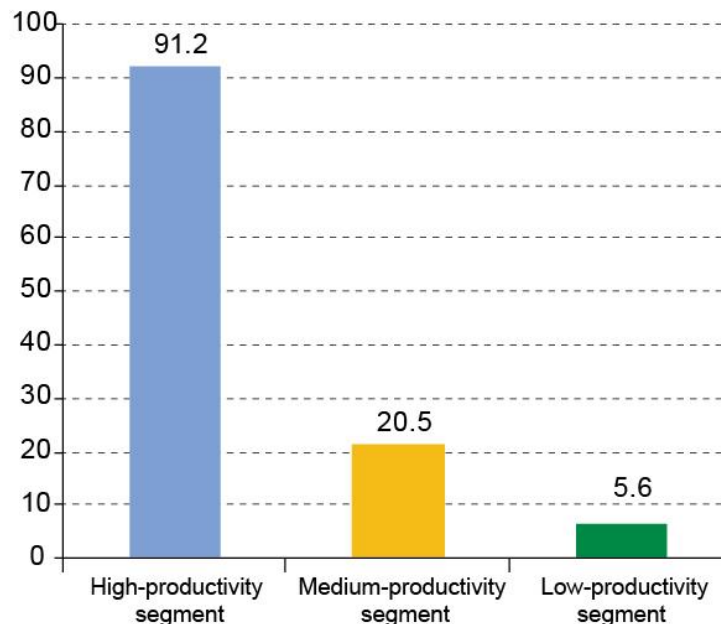
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from International Labour Organization (ILO).

The production structure has not changed: it is heterogeneous and a source of inequalities

LATIN AMERICA (18 COUNTRIES): STRUCTURAL
HETEROGENEITY INDICATORS, AROUND 2009
(Percentages)



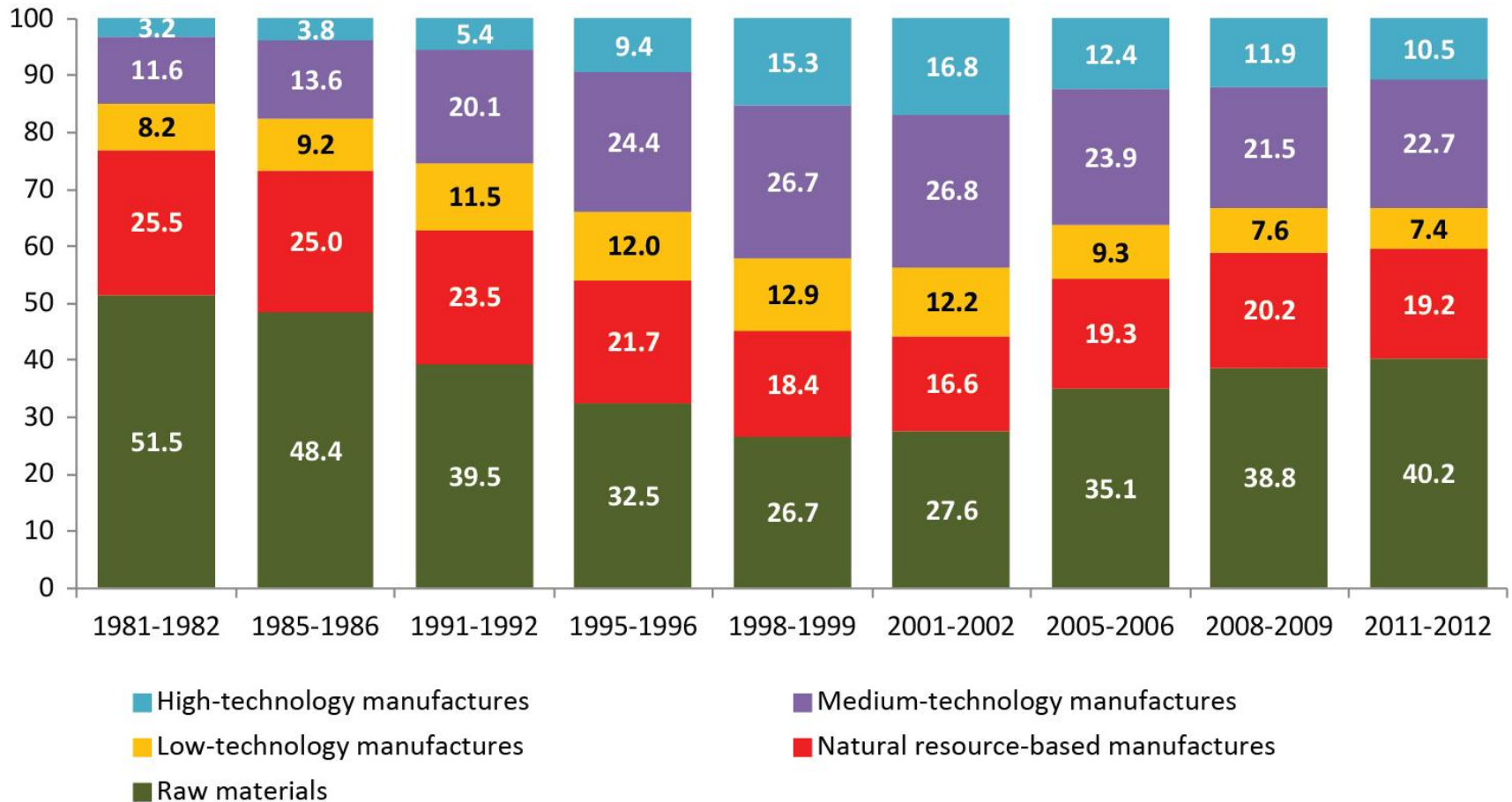
LATIN AMERICA (18 COUNTRIES): GDP PER WORKER, PPP
AROUND 2009
(Thousands of dollars)



Source: ECLAC, on the basis of R. Infante, "América Latina en el 'umbral del desarrollo'. Un ejercicio de convergencia productiva", *Working Paper*, No. 14, Santiago, Chile, June 2011, unpublished.

Specialization in static comparative advantages

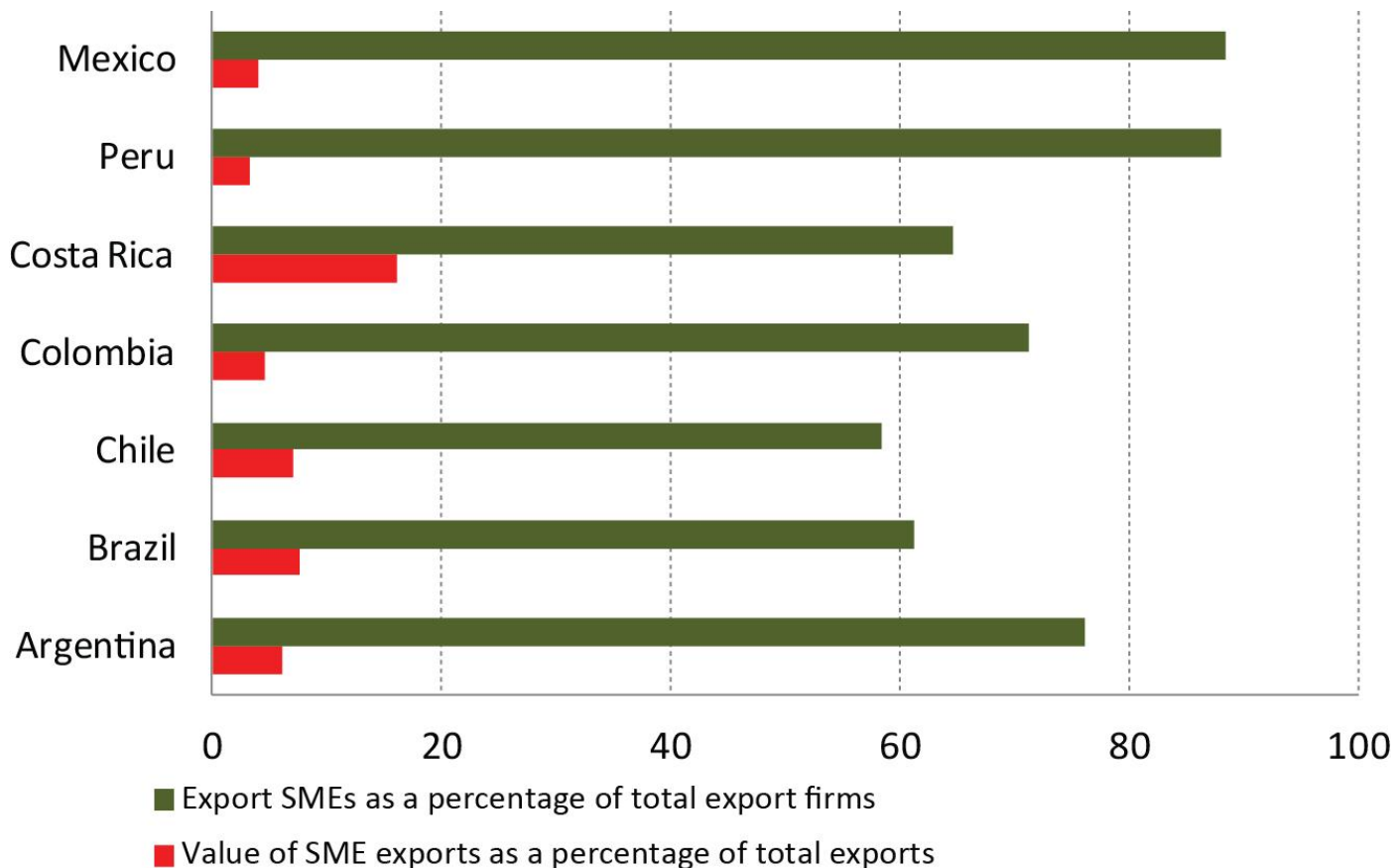
LATIN AMERICA AND THE CARIBBEAN: EXPORT STRUCTURE BY TECHNOLOGY INTENSITY, 1981-2012
(Percentages of the total)



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

Structural heterogeneity is particularly marked among SMEs in the region

EXPORT SMEs AND VALUE OF THEIR EXPORTS, AROUND 2010
(Percentages)



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

Labour and social gaps



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Progress has been made over the past decade

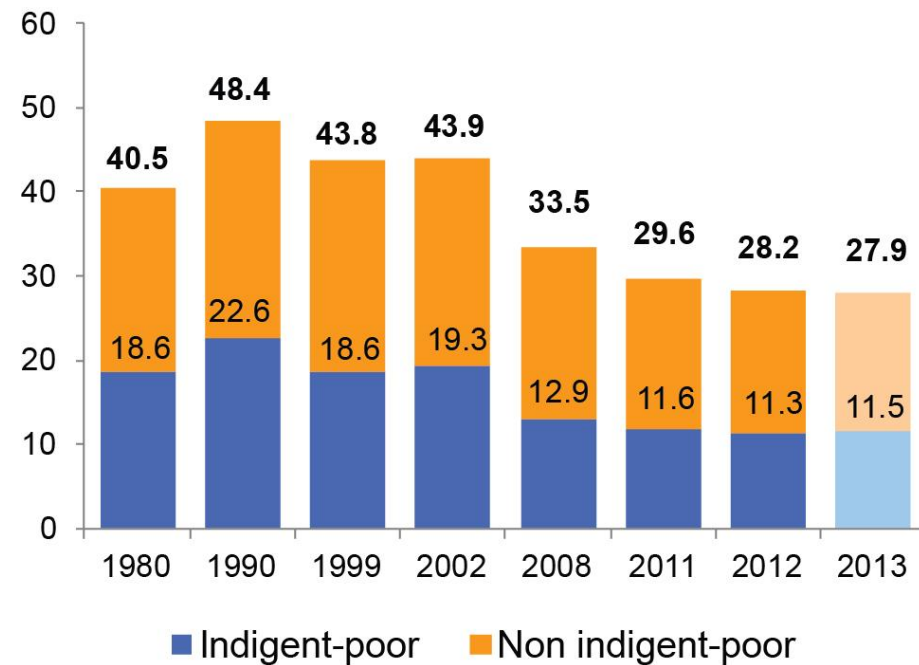
- Poverty diminished and so did inequality, albeit to a lesser extent, but without major changes in production structures.
- Participation improved, unemployment fell, informality declined (moderately), wages went up, pension and health-care coverage increased for wage-earners and minimum wage policies were strengthened.

... but there is cause for concern in the social sphere

- The world of work continues to be the root cause of many inequalities instead of constituting a sphere for mutual recognition through social relations and the realization of potential.
- Inequalities in income, participation, pension coverage, access to different occupations and job positions (gender and ethnicity), and the burden of unpaid work.

Substantial poverty reduction, although this has come to a standstill, and high levels of inequality

LATIN AMERICA: ^a POVERTY^b AND INDIGENCE, 1980-2013^c
(Percentages)



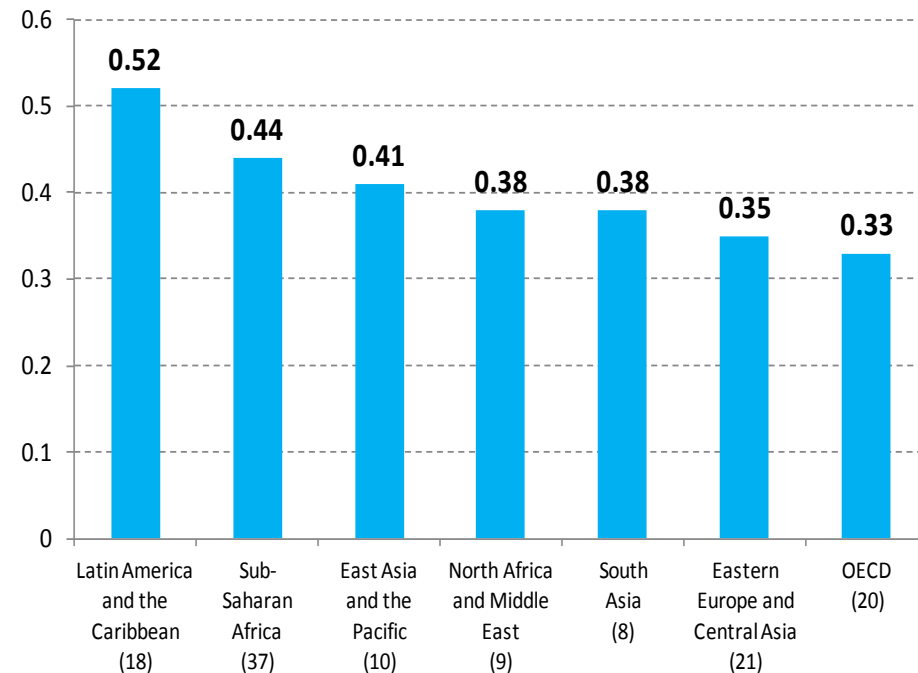
Source: ECLAC, on the basis of special tabulations of data from household surveys.

^a Estimate for 18 countries of the region plus Haiti.

^b Total for indigent plus non-indigent poor.

^c The 2013 figures are projections.

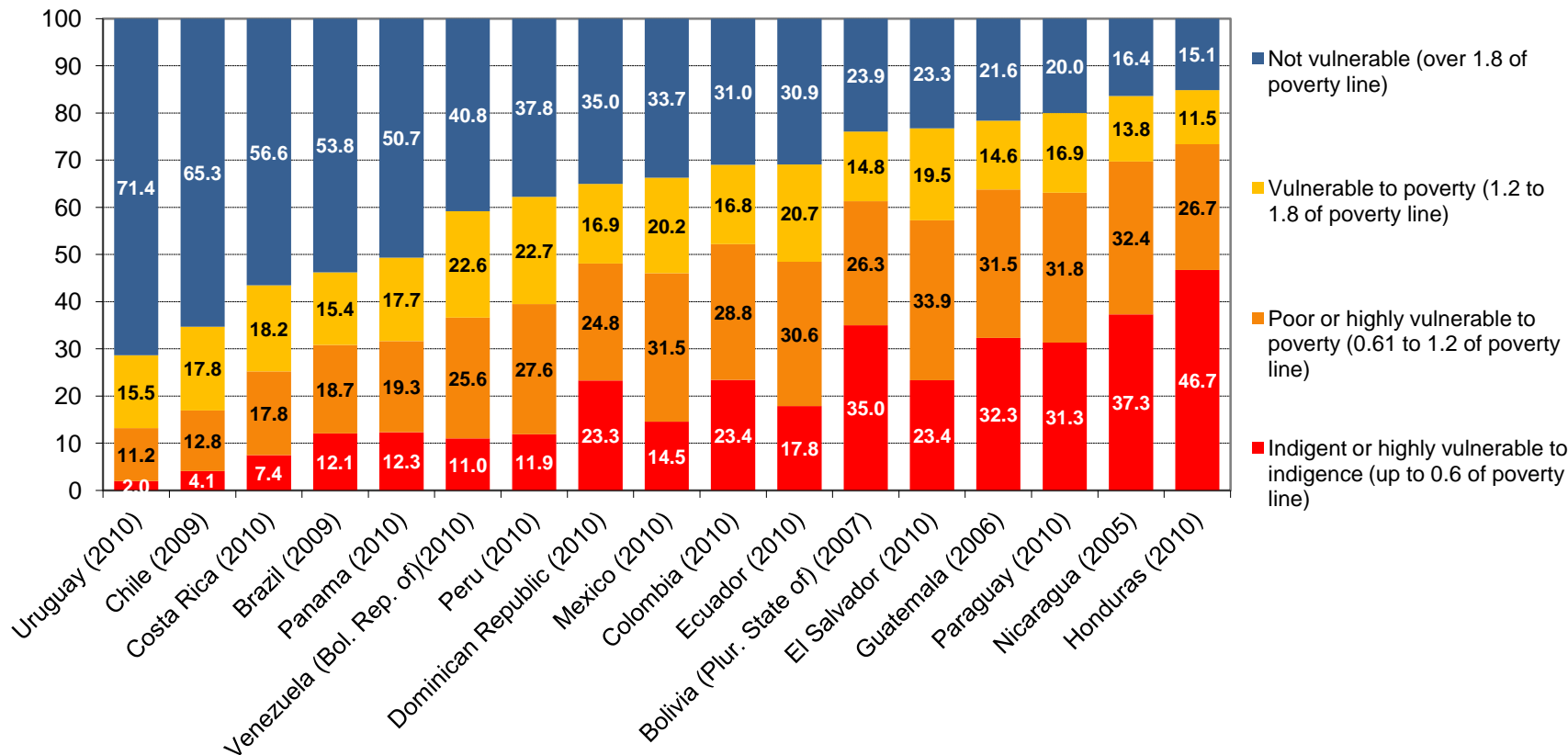
LATIN AMERICA AND OTHER WORLD REGIONS: GINI COEFFICIENT, AROUND 2009



Source: ECLAC, on the basis of special tabulations of data from household surveys in the respective countries.

A significant proportion of the population remains in a vulnerable position

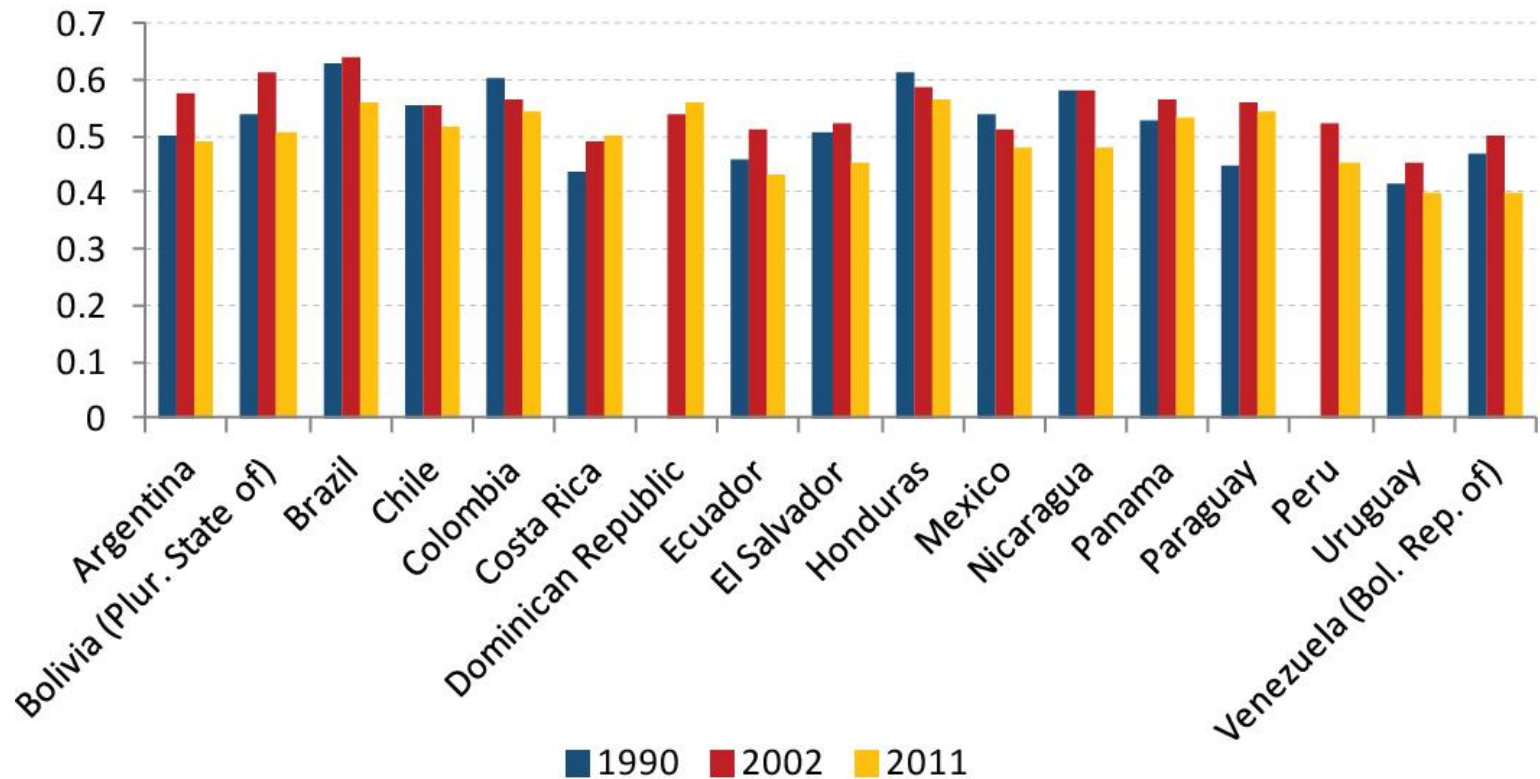
DISTRIBUTION OF THE POPULATION BY VULNERABILITY TO POVERTY, AROUND 2010
(Percentages)



Source: S. Cecchini and others, "Vulnerabilidad de la estructura social en América Latina: medición y políticas públicas", *Realidad, Datos y Espacio. Revista Internacional de Estadística y Geografía*, vol. 3, No. 2, May-August 2012.

2002-2003 saw a reversal in the rise in inequality

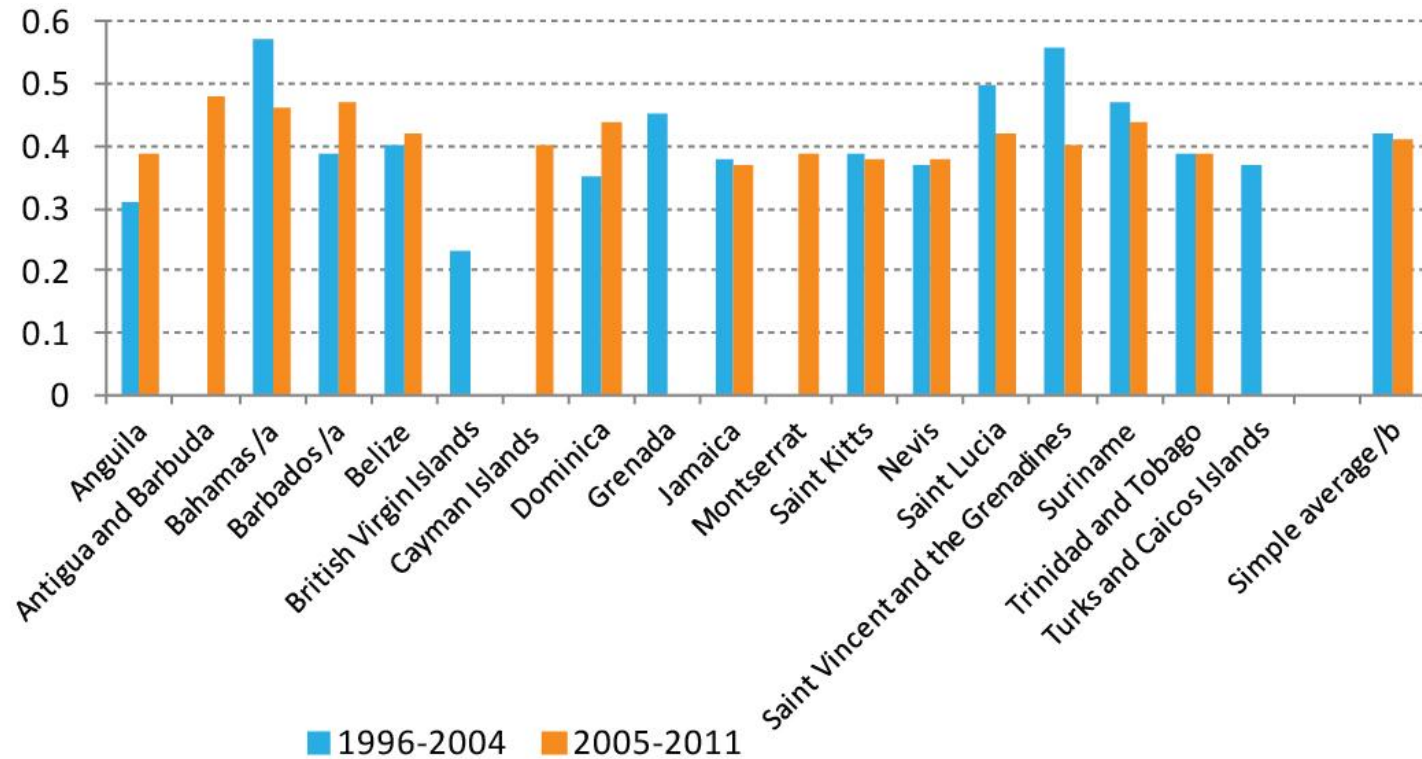
LATINA AMERICA (17 COUNTRIES): GINI INDEX, 1990, 2002 AND 2011



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

The trend towards a reduction in inequality has not been observed in the Caribbean

THE CARIBBEAN (17 COUNTRIES AND TERRITORIES): GINI COEFFICIENTS FOR HOUSEHOLD EXPENDITURE, 1996-2004 AND 2005-2011



Source: Caribbean Development Bank (CDB), Strategic Plan 2010–2014, May 2010; CDB Country Poverty Assessments, various issues; Survey of Living Conditions Reports of Bahamas, Barbados, Jamaica and Trinidad and Tobago, 2001; MDG Progress Reports (Guyana and Suriname); Labour Force and Household Income Survey, Bahamas, 2011.

^a Owing to methodological differences, the measurements at the two points in time are not strictly comparable.

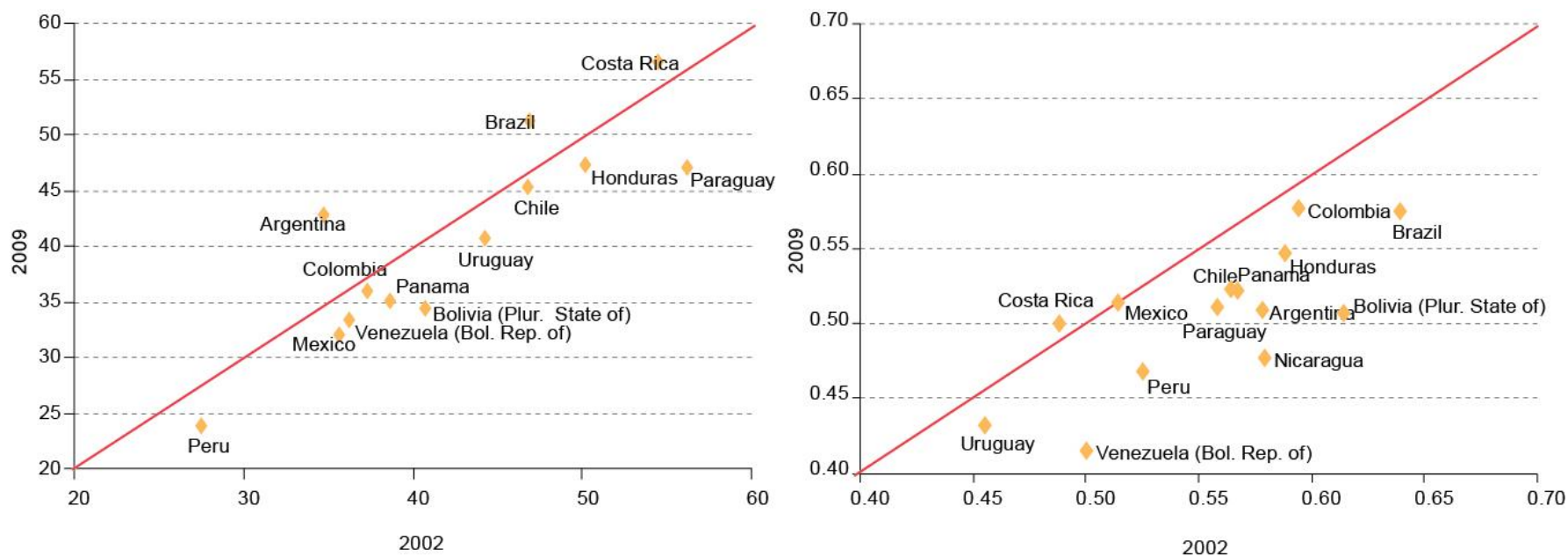
^b Average for the countries with estimates at two points in time.

To date the reduction in inequality has not been associated with a virtuous dynamic for structural change

- The main factor is the lesser inequality in labour income arising from a decline in the returns on education.
- The fall in inequality could be attributable to the higher relative demand for low-skilled workers, which has narrowed the gap in returns on education.
- If this were the case, it would be a sign that the combination of stagnating productivity and the pattern of specialization is sending signals that discourage educational progression and capacity-building.
- So, how sustainable is the reduction in inequality?

Distributive improvements at the household level have not been reflected in a more egalitarian distribution in the share-out of capital and labour

LATIN AMERICA (13 COUNTRIES): WAGES AS A SHARE OF GDP AND GINI INDEX, 2002 AND 2009



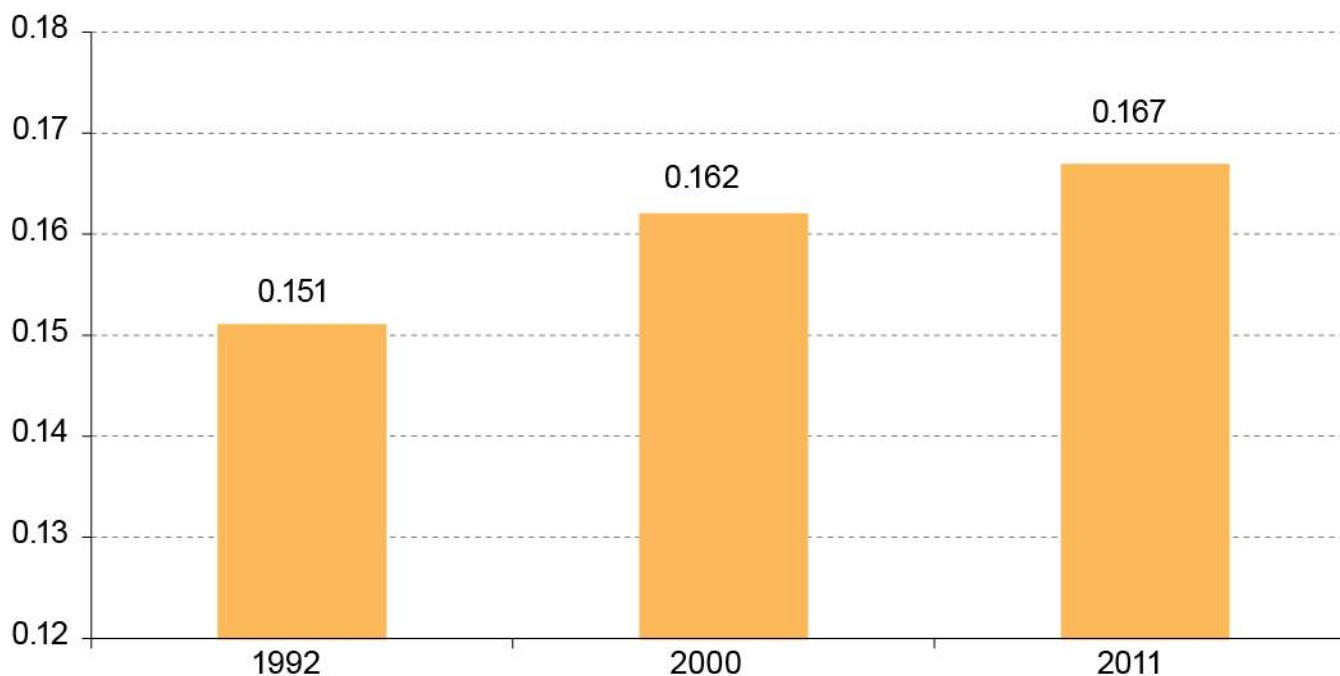
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from CEPALSTAT, the National Institute of Statistics and Censuses (INDEC) of Argentina, and the central banks of Costa Rica, Guatemala and Uruguay.

Other dimensions of inequality

- **Inequality in educational attainment.** Wide gaps are seen in the educational attainment of the poorest income quintile compared with the richest, particularly in the Plurinational State of Bolivia, Mexico and Peru, where in 2011 these differences were equivalent to over seven years of schooling.
- **Inequality in access to information and communication technology:** the rate of use among the highest income quintile is five times higher than among the lowest income quintile.
- Improvements as regards the prevalence of **chronic undernutrition**, with smaller differences between quintiles, except in the Plurinational State of Bolivia and Peru.
- Reproductive inequalities: the percentage of 15-19 year-old women who are mothers is three to four times higher among the lowest income quintile than the highest income quintile, with the largest gap recorded in Peru, where the difference is nine times.
- Improvements in achievements in terms of **overcrowding and access to durable goods**, with greater levels of equality.
- Marked **residential selectivity** among high-income groups. Fall in residential segregation in the 2000s, particularly in the cities in Brazil; the situation in other countries is more varied (although declines also predominate).

Public/private school segregation: the different indicators point to an increase in the region in the past two decades

LATIN AMERICA (14 COUNTRIES): SEGREGATION BETWEEN PUBLIC AND PRIVATE SCHOOL NETWORKS, AVERAGE VALUES FOR THE INDEX OF DISSIMILARITY, 1992, 2000 AND 2011

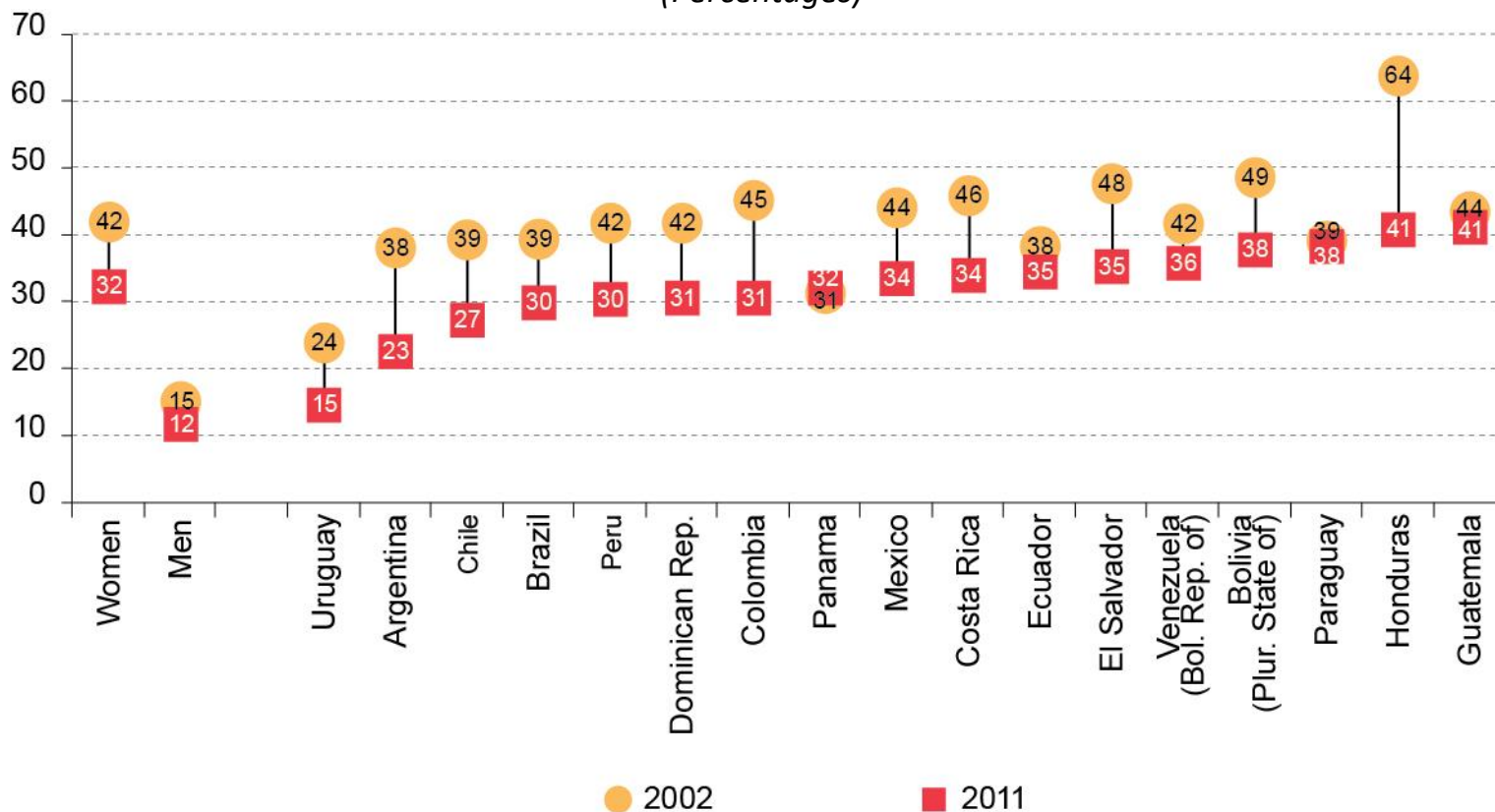


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of household survey microdata.

Autonomy: a third of all women are unable to generate income of their own and are economically dependent

LATIN AMERICA (16 COUNTRIES): WOMEN AGED 15 OR OVER NOT IN EDUCATION AND WITHOUT INCOMES OF THEIR OWN, BY AREA OF RESIDENCE, 2011

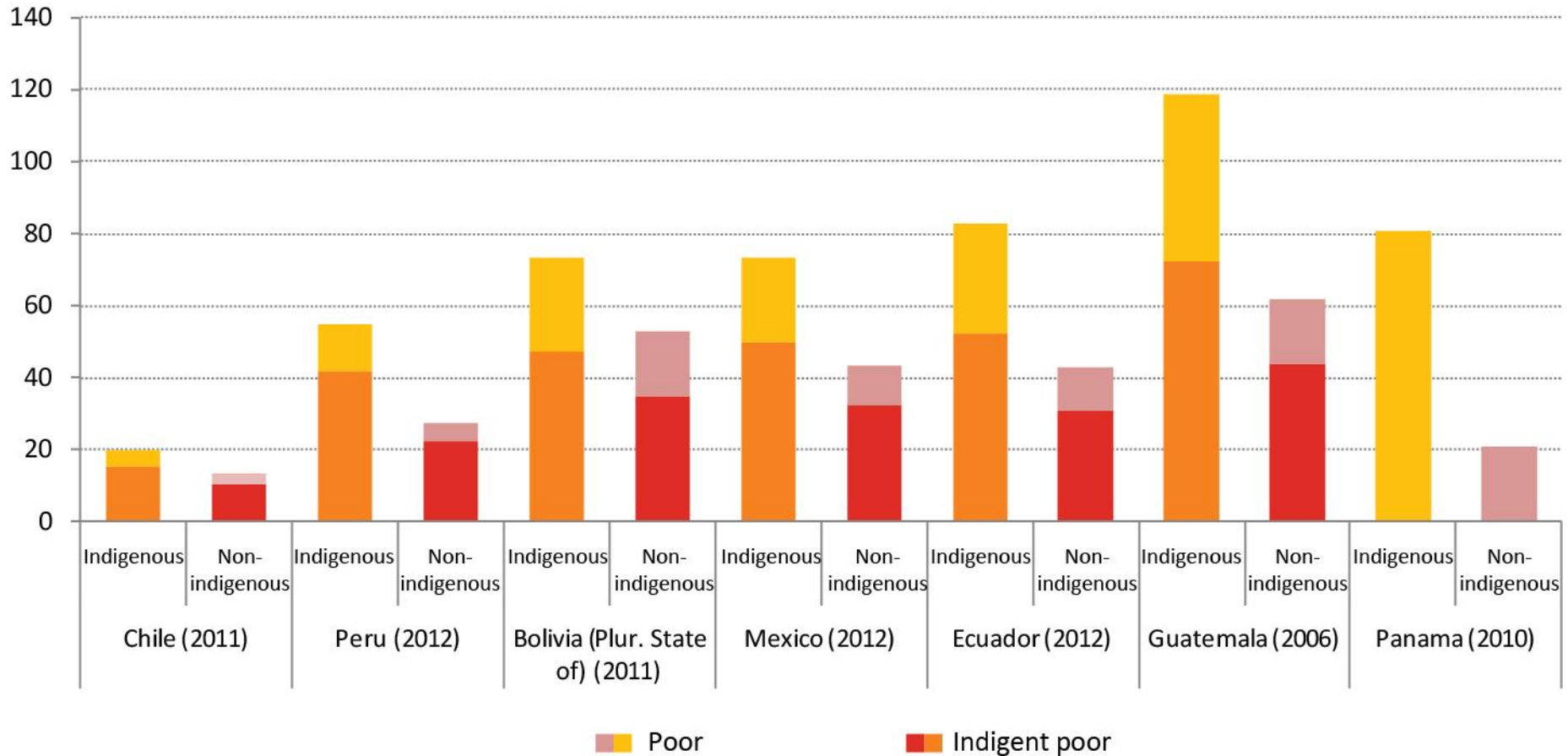
(Percentages)



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

Deep-seated inequalities: indigenous peoples

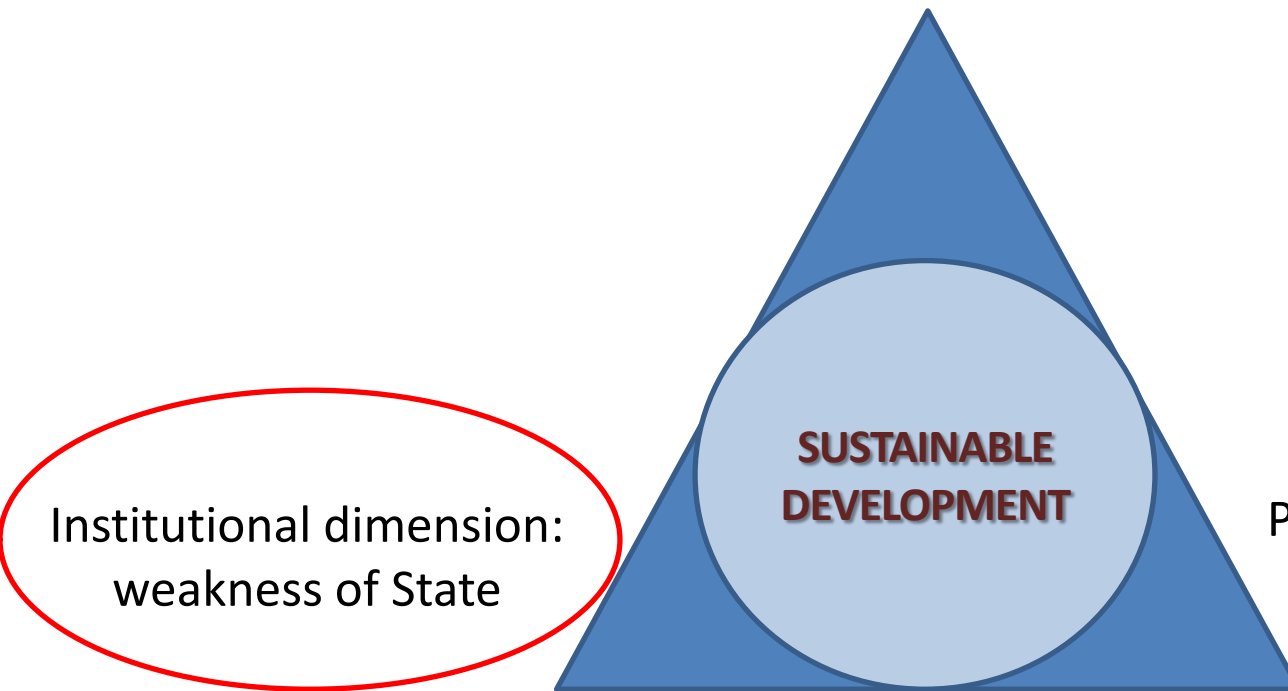
LATIN AMERICA (7 COUNTRIES): POVERTY RATES IN THE INDIGENOUS AND NON-INDIGENOUS POPULATIONS
(Percentages)



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

Structure and institutions: indispensable linkages for advancing in equality with sustainable development

Economic dimension:
external vulnerability



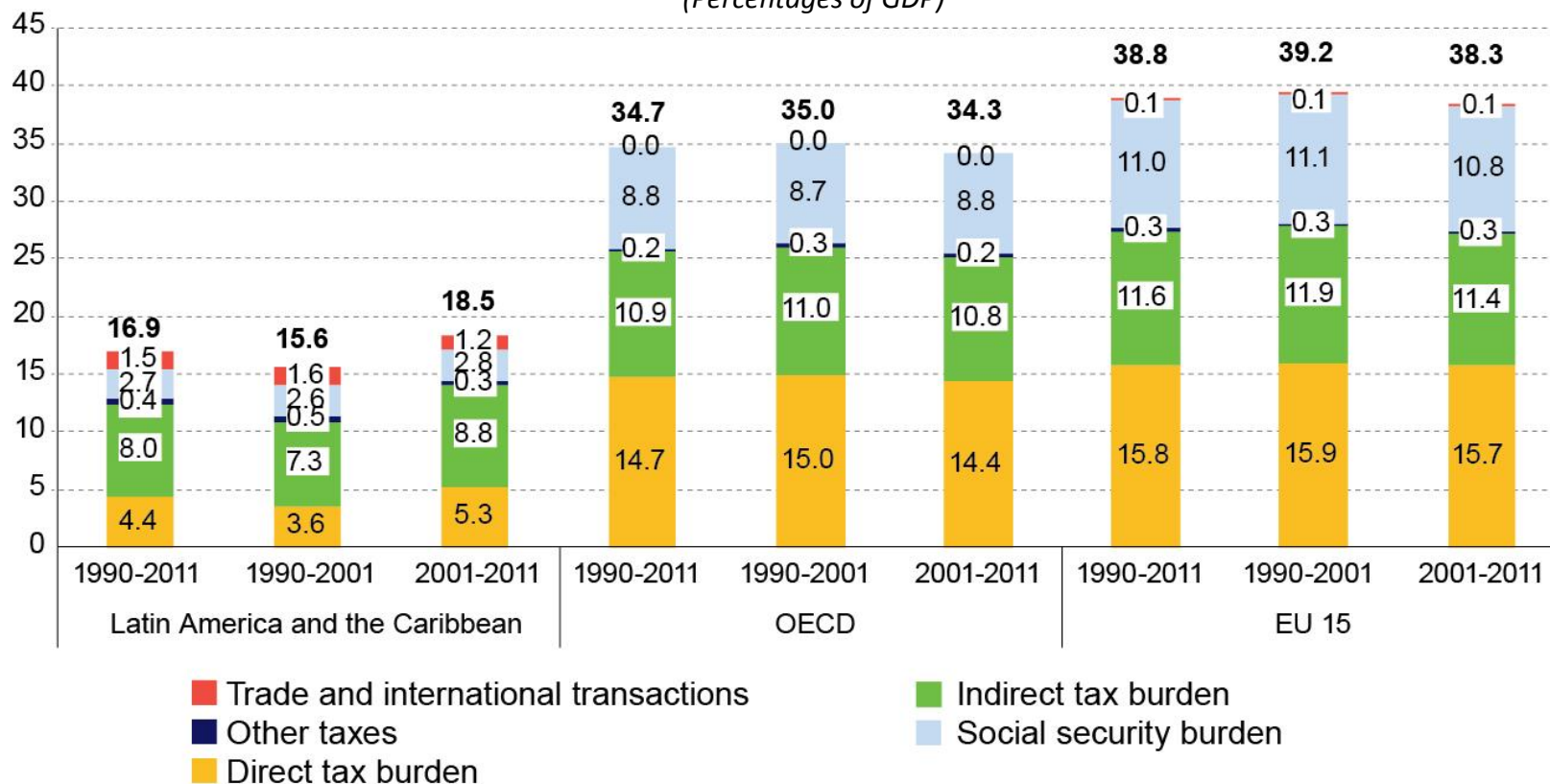
Production structure, inequality and institutions: endemic problems

- Structures that are undiversified and low in knowledge intensity, combined with inefficient institutions, dominated by elites, lead to a highly unequal primary distribution of resources, low investment in production and low levels of productivity.
- The region's institutions do not succeed in reining in (ex ante) the market dynamics that lead to the concentration of income, and their capacity to correct it (ex post) is limited.
- Four key dimensions of institutionality:
 - Fiscal policy
 - The labour market
 - Natural resource governance
 - Consumption and environmental sustainability

The region collects low taxes and does so inefficiently

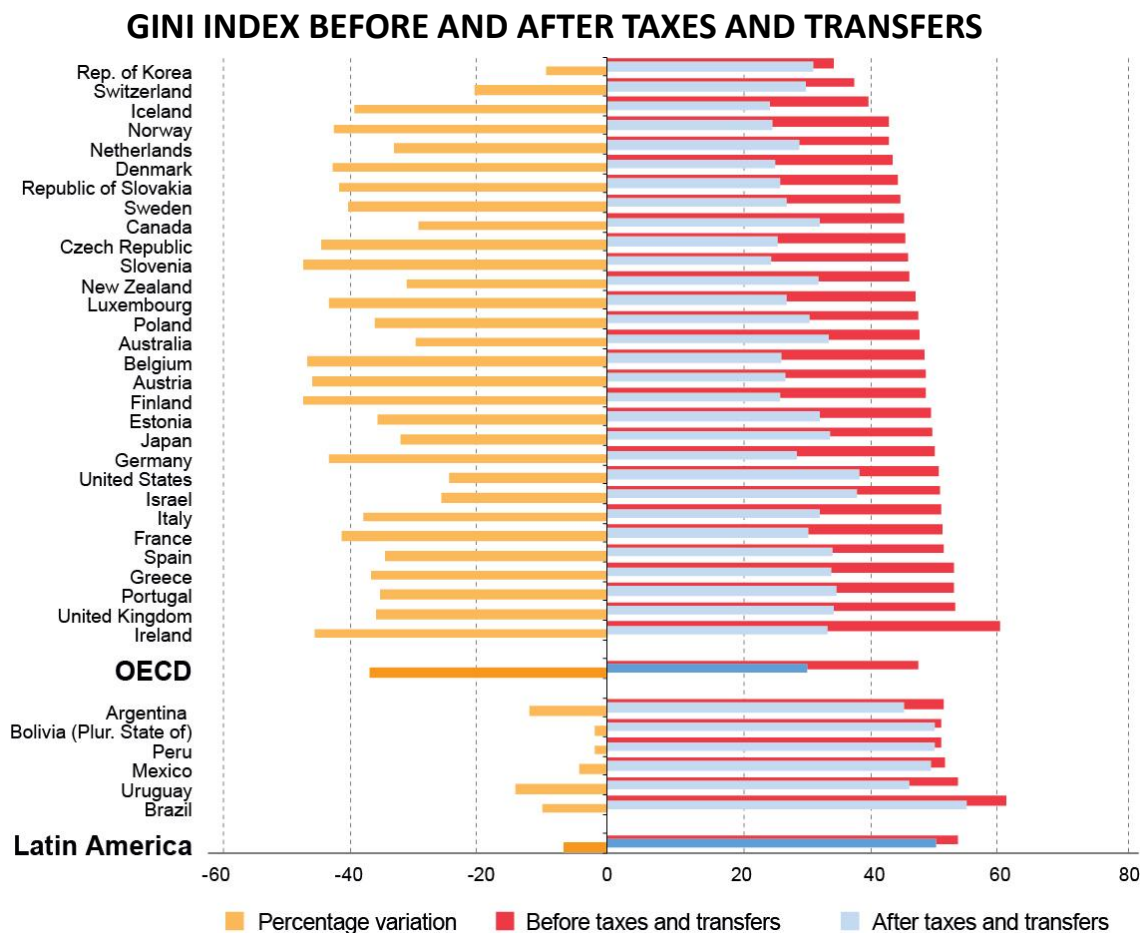
LATIN AMERICA, OECD COUNTRIES AND THE EUROPEAN UNION: EVOLUTION OF THE TAX RATIO, UNWEIGHTED AVERAGES, 1990-2011, 1990-2001 AND 2001-2011

(Percentages of GDP)



Source: J. C. Gómez Sabaini and D. Rossignolo "La tributación sobre las altas rentas en América Latina", Studies and Perspectives series, ECLAC office in Montevideo, 2013 [forthcoming].

Institutions have little capacity to correct ex post the tendency for the market to exacerbate inequality

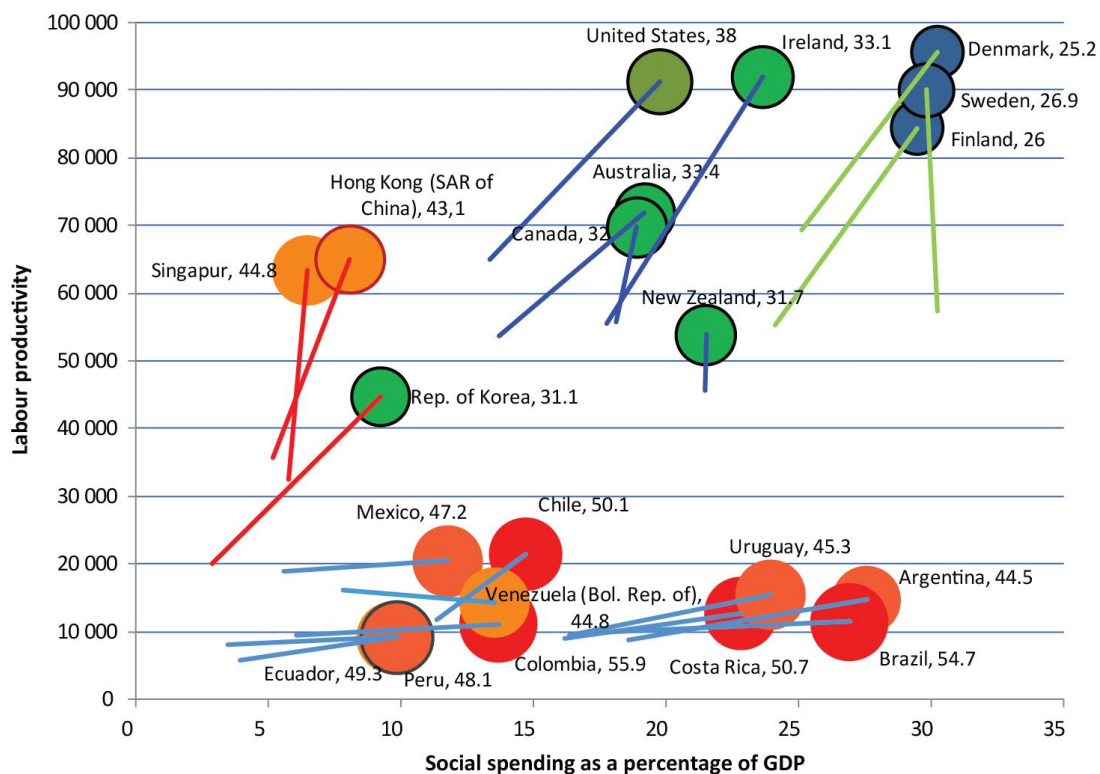


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organization for Economic Cooperation and Development (OECD), Social Expenditure Database; and N. Lustig and others, "The impact of taxes and social spending on inequality and poverty in Argentina, Bolivia, Brazil, Mexico, Peru and Uruguay: An overview", Tulane Economics Working Paper Series, No. 1313, 2013.

Close coordination between institutions and structures will help to combine higher social spending, increased productivity and greater equality

LABOUR PRODUCTIVITY AND SOCIAL SPENDING AS A PERCENTAGE OF GDP, AROUND 1990 AND 2010, AND INEQUALITY AROUND 2010

(Dollars at constant 2005 prices and percentages)



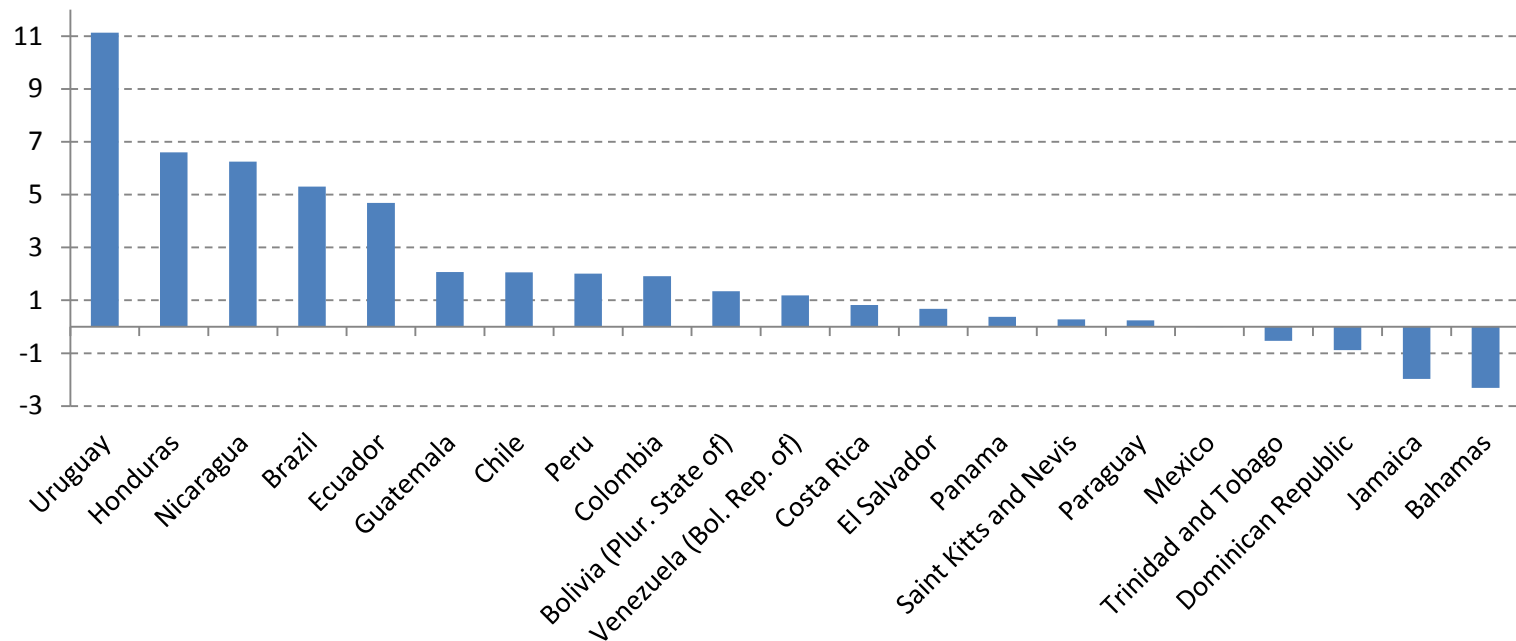
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Standardized World Income Inequality Database, version 4.0, September 2013; Organization for Economic Cooperation and Development (OECD), STAN Structural Analysis Database [online]; and World Bank, World Development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

The world of work: the master key for equality

- The labour market should be the place for absorbing productivity gains.
- Given the heterogeneity of the production structure, the State needs to intervene in order to redistribute gains.
- Five crucial dimensions:
 - Labour market security (low unemployment or full employment)
 - Job security (the quality of the employment relationship).
 - Income security (absorption of gains in wage productivity, minimum wage policy, unemployment insurance).
 - Security of hiring arrangements (formal contracts, collective, long-term employment contracts).
 - Freedom of association (free and functional trade unions)

Labour market institutions are fundamental to guaranteeing employment with rights and contributing to greater equality

ANNUAL AVERAGE VARIATION IN THE REAL MINIMUM WAGE, 2002-2010
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), CEPALSTAT database and International Labour Organization (ILO).

In some countries, the increase in the minimum wage has helped to reduce inequality

- A simulation exercise shows that the improvement in the minimum wage has helped to reduce income inequality in Argentina, Brazil and Uruguay.
- This has coincided with a rise in employment at a time when the formal labour market has been expanding.
- The fall in inequality has recently been attributed mainly to factors that boost the supply of and demand for workers of various skill levels; these new findings highlight the importance of the role of labour institutions in the distributive improvements observed in some countries of the region.

Natural resource governance from the perspective of sustainability, structural change and equality

- Exploitation of natural resources must be tied in with the advance towards a more diversified production structure with greater incorporation of technical change and the generation of good quality employment to foster societies with higher levels of equality.
- What is often referred to as the natural resource “curse” is the outcome of a certain type of political economy that hinders the exercise of effective governance conducive to structural change for equality (including intergenerational equality).
- This governance encompasses ownership, appropriation and use of the rents generated and the management of social and environmental conflicts.

State appropriation of rents

- A great heterogeneity among countries
- The State's share of mining rents varies significantly across the region: it stood at between 25% and 35% in 2003-2008 in traditional resource-exploiting countries, although elsewhere in the region, the share was much lower (between 10% and 15%).
- The State's share in the rents of the hydrocarbon sector ranged between 34% and 78% in exporting countries in 2010-2012 (in line with the international trend for hydrocarbon-exporting countries).

Distribution and use of fiscal resources deriving from extractive industry rents

- Prioritization of the producing regions or localities over non-producing areas
- Incipient development of savings/stabilization funds or funds for intergenerational equity
- Conditionality on the use of income distributed to subnational governments
- Growing interest in the direct allocation of part of the income from extractive industry rents to vulnerable populations
- None of the countries have legislation relating to assessment of the impacts generated by distribution of these resources

Increase in consumption but shortfall in the provision of public services

- Consumption expanded across the board in all the different social strata over the past decade but in a highly segmented and volatile manner.
- Strong market presence and individual consumption compared with public services of poor quality and inadequate coverage.
- An abundance of imported consumer goods, in particular motor vehicles, triggered by the natural resource boom.
- The foregoing has segmented access to good-quality services and has not helped to achieve major fiscal agreements for expanding the quality and coverage of public services in education, transport, security, the environment and health.
- The current pattern of consumption also generates negative energy and environmental externalities whose main impact will be on the consumption and quality of life of future generations.



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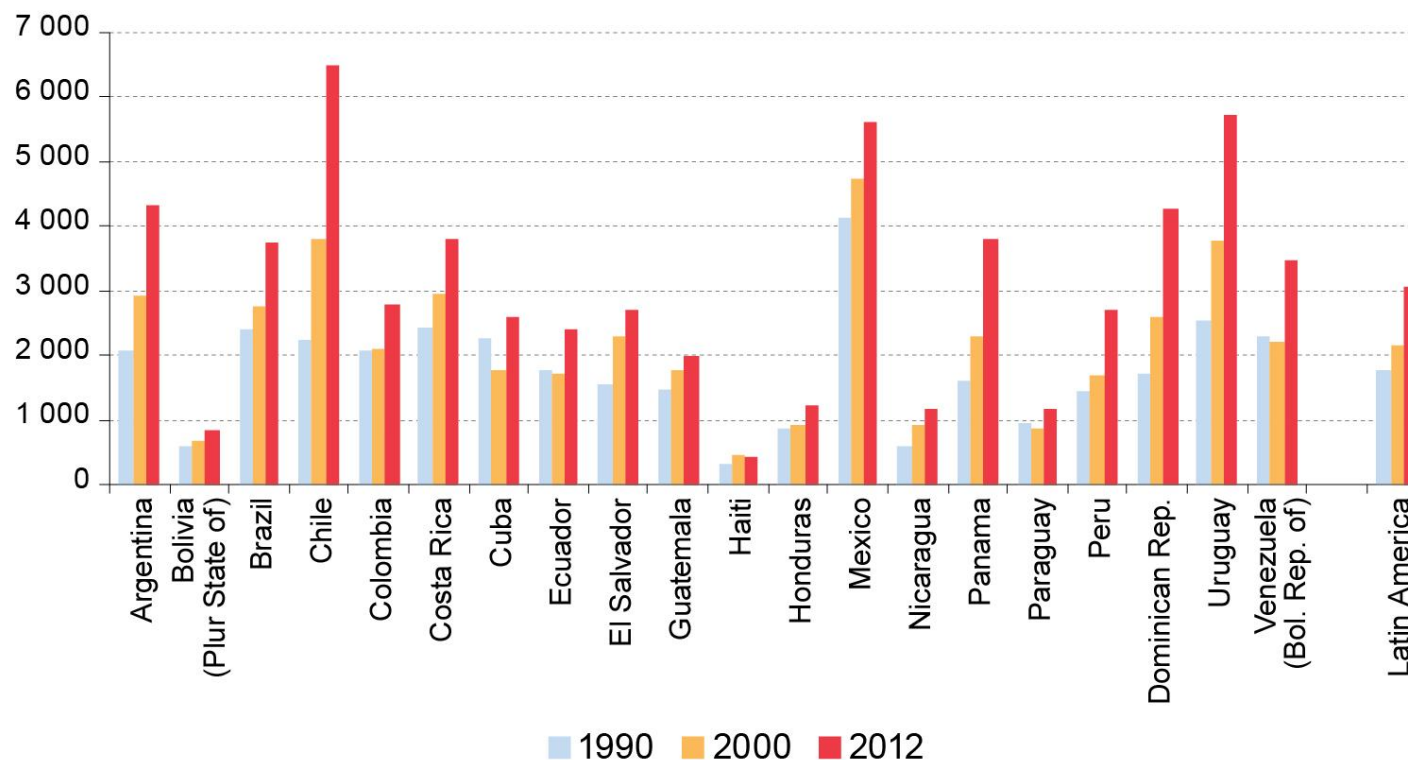


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While 2012 saw the highest levels of per capita consumption in the past 20 years...

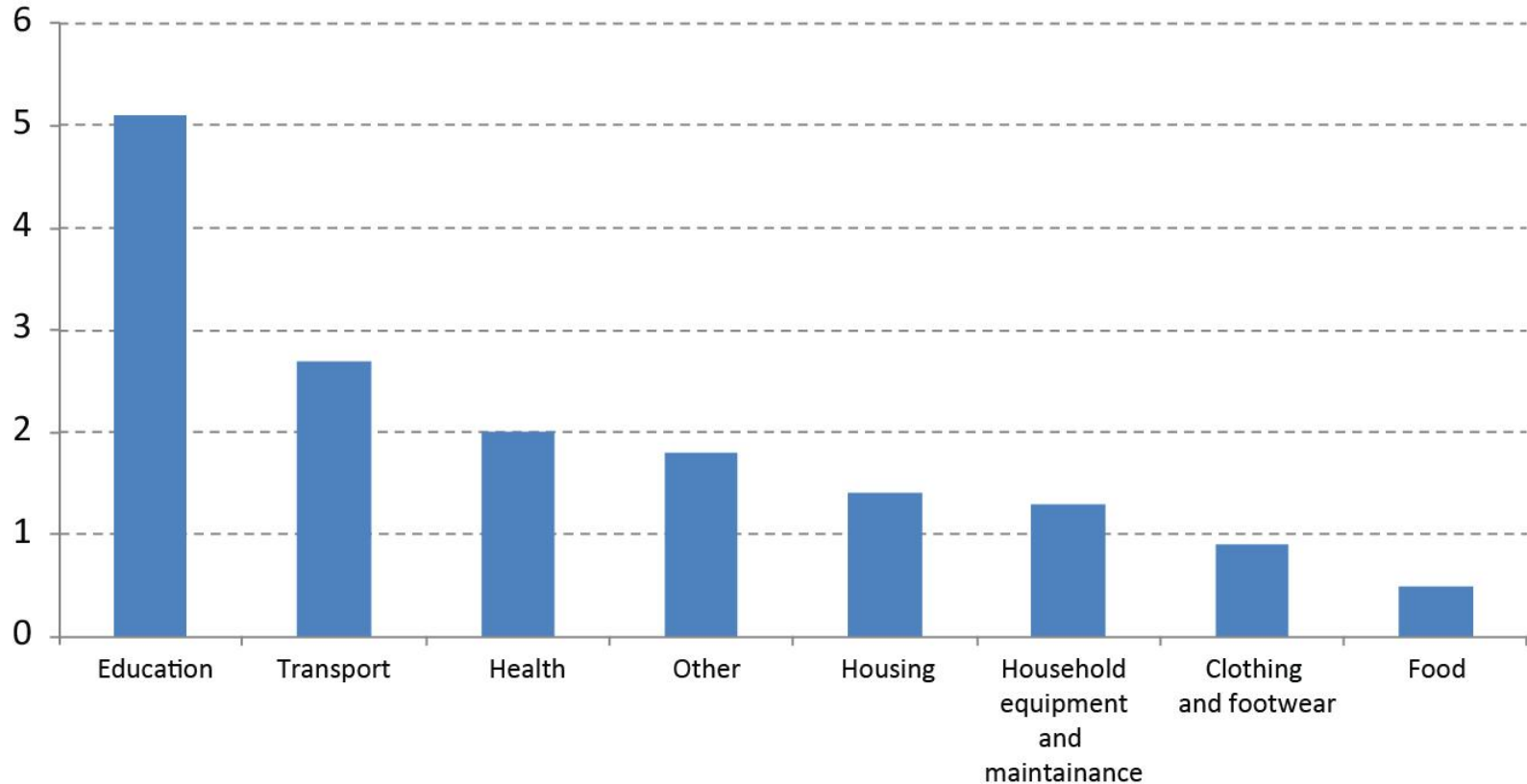
LATIN AMERICA (20 COUNTRIES): PER CAPITA PRIVATE CONSUMPTION, 1990, 2000 AND 2012
(Dollars at constant 2005 prices)



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

... major differences were seen in the structure of spending by income decile

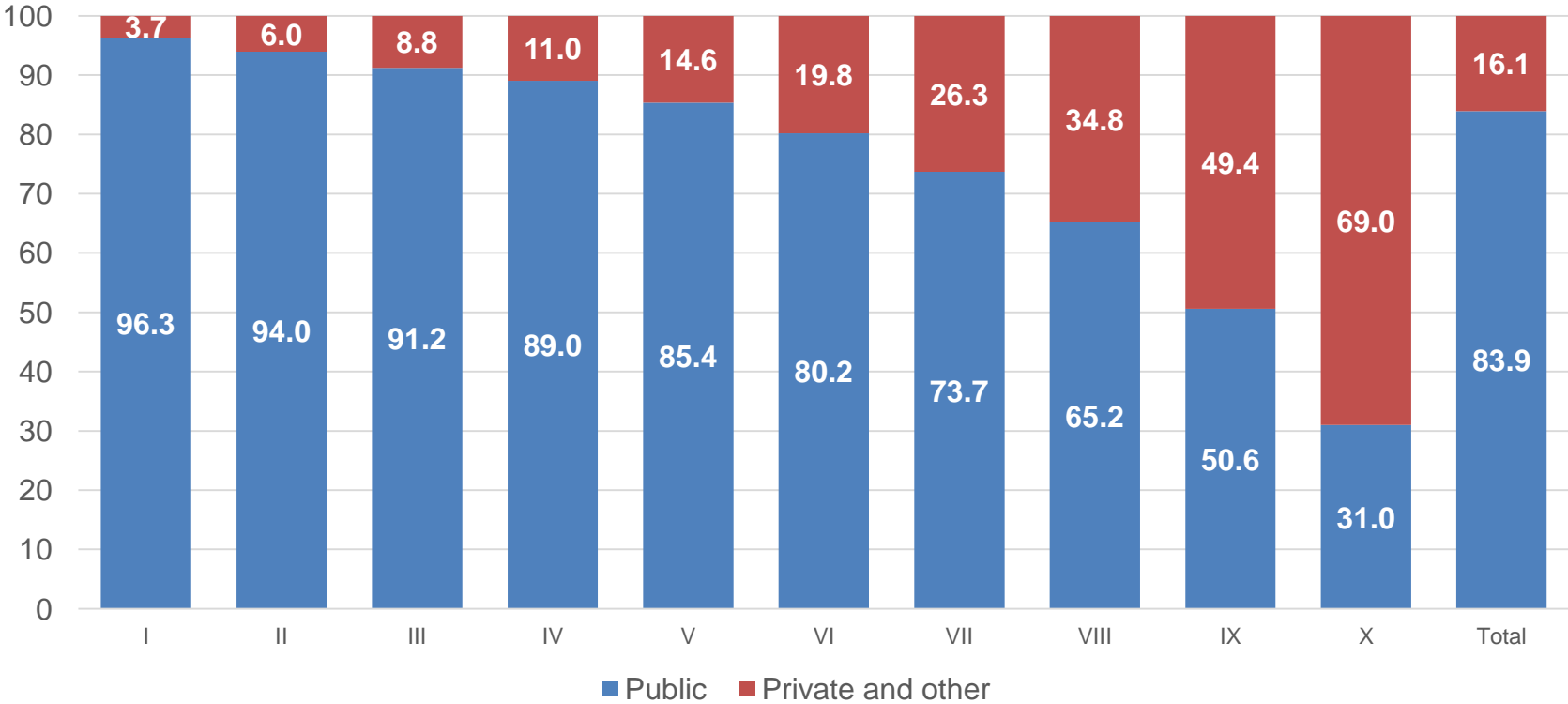
LATIN AMERICA (17 COUNTRIES): RATIO BETWEEN THE PROPORTION OF EXPENDITURE BY ITEM IN THE TENTH AND FIRST DECILES, AROUND 2006



Source: ECLAC, on the basis of income and expenditure surveys conducted in the respective countries.

Attendance in public and private education is clearly differentiated by socioeconomic level

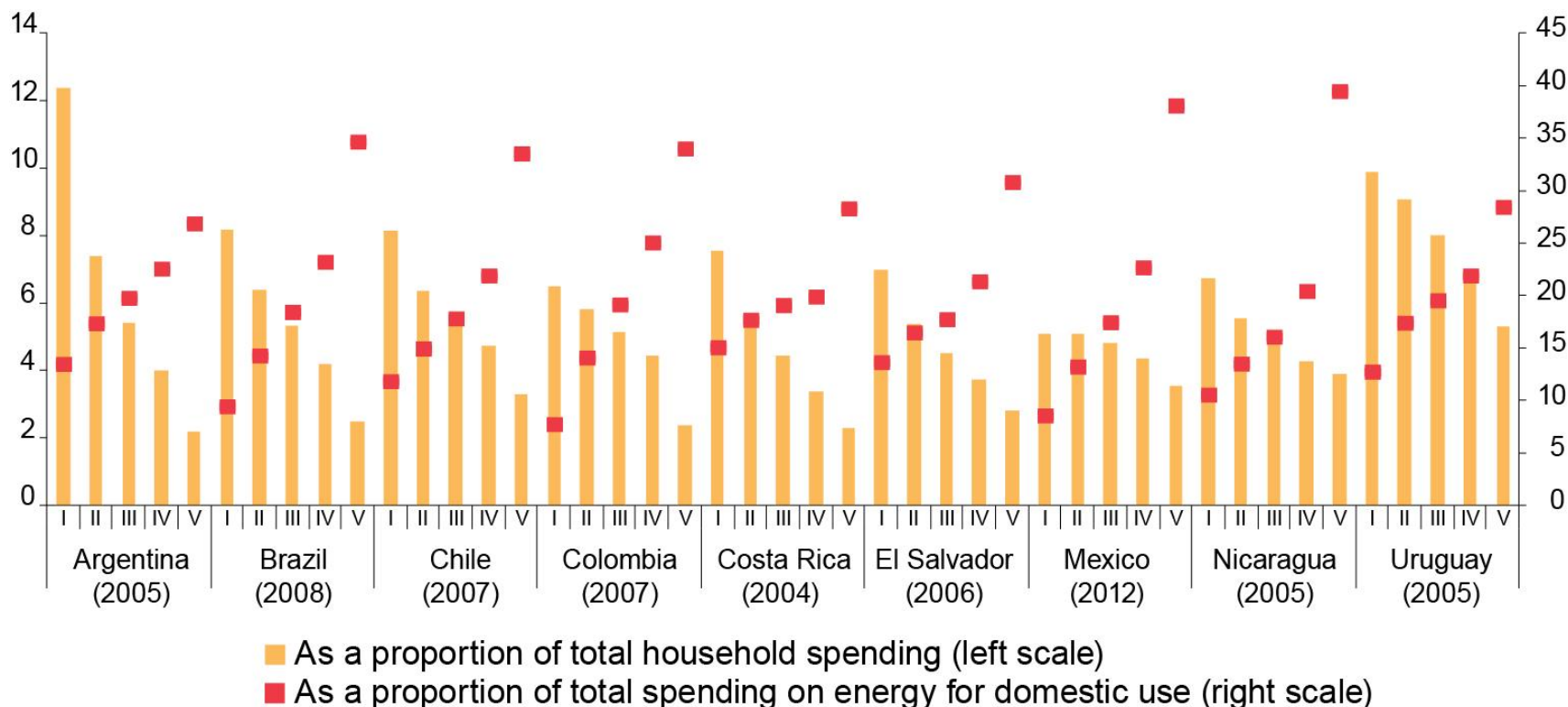
LATIN AMERICA: ATTENDANCE AT PUBLIC OR PRIVATE EDUCATION ESTABLISHMENTS BY INCOME DECILE, CHILDREN AGED 4 - 18, 2011



Source: ECLAC, on the basis of income and expenditure surveys conducted in the respective countries.

Higher consumption of durable goods is associated with higher demand for energy

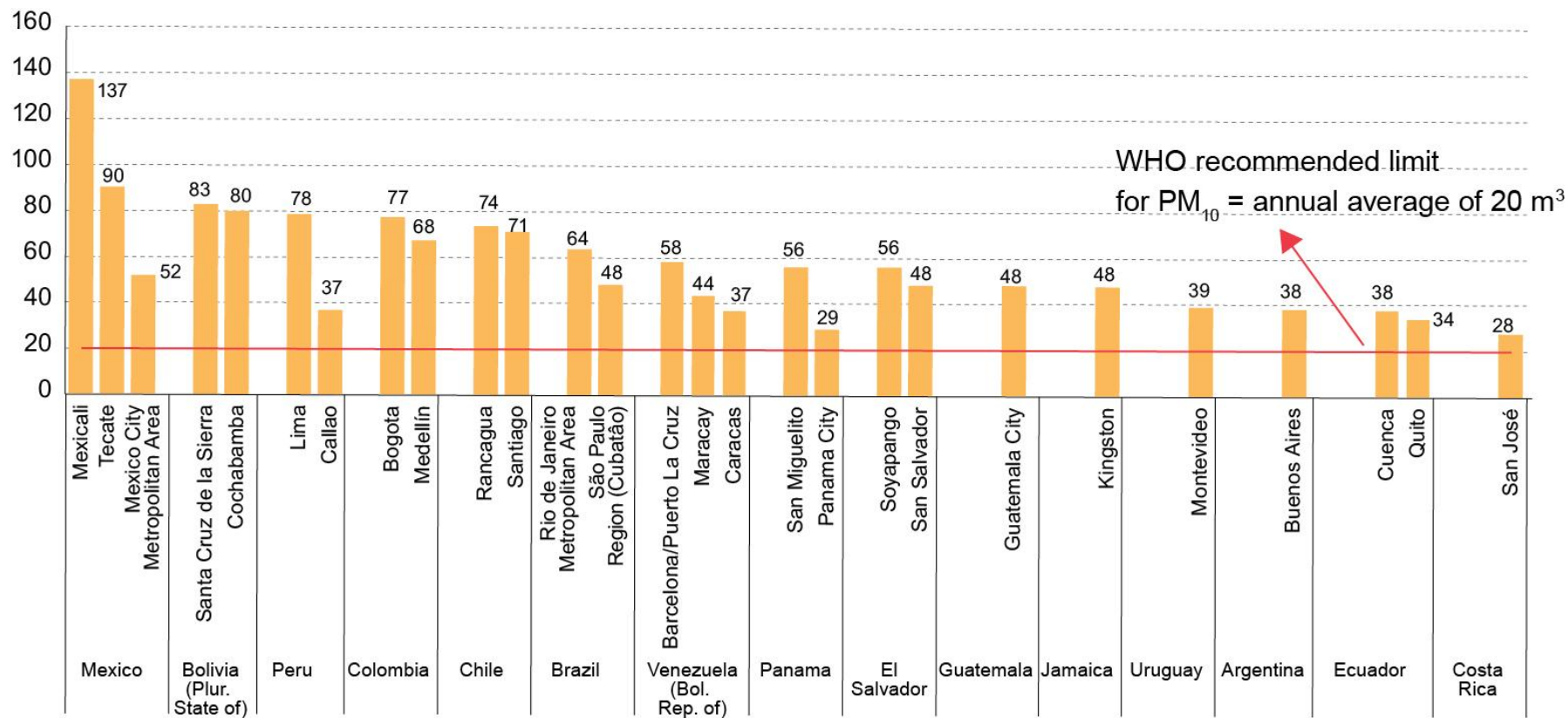
LATIN AMERICA (9 COUNTRIES): HOUSEHOLD SPENDING ON ENERGY (ELECTRICITY, GAS AND OTHER FUELS) AS A PROPORTION OF TOTAL HOUSEHOLD SPENDING BY INCOME QUINTILE
(Percentages)



Source: ECLAC, on the basis of official information.

Negative externalities of the expanding vehicle fleet: pressure on air pollution with attendant health risks

LATIN AMERICA AND THE CARIBBEAN (SELECTED CITIES): ANNUAL AVERAGE PARTICULATE MATTER (PM₁₀),
AROUND 2004 AND 2008



Source: World Health Organization (WHO), Global Health Observatory Data Repository”, <http://apps.who.int/gho/data/node.main.156?lang=en>

Environmental institutions urgently need to be strengthened

- Structural change requires synergies between productivity gains and the "green economy" at the local and global levels
- What is needed is a public policy that sends signals to the market about the social cost of environmental degradation
- Caring for the region's biodiversity is even more important in the face of changes in land use
- Appropriate mechanisms must be pursued to mediate socioenvironmental conflicts
- Setting in motion processes for land use planning and urban planning is an imperative

Politics and policymaking: the importance of compacts



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Politics and policymaking: the importance of compacts

- The development crossroads the region has reached calls for revisiting the way in which its institutions and structures are linked to one another, involving a wide range of agents in the process
- A compact is a political instrument 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 the interaction 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



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Compacts relating to the seven pillars for transforming the region's development process

- A **fiscal compact** to endow the State with the resources it needs to promote policies in the strategic direction of equality, sustainability and structural change
- A **compact for investment and industrial policy** to enable the State to guide structural change and coordinate public and private agents to raise investment and shift sector composition to boost productivity
- A **social and labour compact** to build the State's redistributive capacity in different areas of inequality and ensure that labour institutions keep pace with structural change in order to close gaps in relation to gender, output, quality employment and the division of benefits between capital and labour

Compacts relating to the seven pillars for transforming the region's development process

- A compact for social welfare and public services to provide public policy with the tools it needs to achieve a better balance between private consumption and broader access to better-quality public services such as transport, education, health care and environmental services, and which will result in a greater sense of belonging and smaller gaps in well-being.
- A compact for environmental sustainability is essential for intergenerational solidarity and for recognition of the wide range of groups adversely affected by environmental degradation and the exhaustion of non-renewable resources. The compact must boost coordination between actors in the transition to a green economy, reshape consumption patterns in ways that will result in less pollution and less waste, and reflect the importance of policies to prevent natural disasters, avoid the degradation of water and woodland, and mitigate the level and impact of climate change.

Compacts relating to the seven pillars for transforming the region's development process

- A compact for natural resource governance to build a new institutional framework for the regulation, ownership and appropriation of rents that can harness revenue generated during upswings in the natural resources markets to promote greater production diversification, additional investment in physical and social infrastructure and in innovation and development, more inclusion through employment and funds to build capacity and improve access to services.
- A compact among the international community for development and cooperation beyond 2015 that targets a global economic structure capable of attaining threshold levels of environmental sustainability and social well-being for the majority of the population. Its scope should go beyond the satisfaction of basic needs to encompass reduction of the deep-seated inequalities and asymmetries that divide one society from the next, and it should respect the principle of shared but differentiated responsibilities.

Compacts make it **politically feasible** to chart a **new path of growth and structural change** to ensure progressive and sustainable steps towards greater equality, based on proposals that have been developed and implemented by participatory and democratic methods, thus avoiding the danger that proposals will remain in the realm of volunteerism and the expression of good intentions.



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