Chapter I

Crisis, post-crisis, new era: between the limits of development and the development we intended

A. The crisis: outbreak and outlook

The concept of "crisis" is one whose meanings have been accumulating, like semantic layers, over the past three decades. First, there is the crisis of the fossil-energy-intensive industrial model which has been jeopardizing future environmental sustainability on many fronts and is causing particular alarm now because of the prospect of global warming. Second, there is the crisis of a globalization pattern in which a financial economy that has become increasingly overweening, independent and deregulated compared to the real economy has created both a high level of volatility and a tendency towards greater global concentration of wealth and income.

The crisis that broke out in 2008 is the ultimate expression of this. Furthermore, the financial crisis has been interpreted, not without justification, as the consequence of an unbridled pursuit of individual gain, the naked logic of money and speculation and the de facto power of "invisible" agents overriding individual rights and public goods. The recent crisis also has an epochal feel to it. The two perspectives come together in the analysis carried out in the present document.

The global economic crisis cut short the longest and most vigorous phase of economic growth seen in Latin America and the Caribbean since the 1970s. The background to this growth was an international economic expansion that ran from 2003 to mid-2007 (continuing in the region right into 2008), when the problems that began in the United States subprime mortgage market started to spread around the world. The consequences were felt in financial systems worldwide and significantly affected goods and labour markets, especially after September 2008. The world thus experienced an unusually severe economic shock that many have compared to the Great Depression of the 1930s.

There are indeed a number of points of similarity: both began in the United States financial system before spreading to other parts of the world and other sectors, and both were the consequence of the bursting of an asset price bubble that led to a problem of financial system solvency. On this occasion, however, the financial system was much larger and its international interconnections far more extensive and rapid. It was also unprecedentedly opaque.

The financial crisis quickly spread to real variables and internationalized, chiefly because of four factors: the credit crunch, wealth destruction, the decline in world trade and worsening expectations for the evolution of economic activity. The economic policy response was faster and better judged this time, however. The 1930s crisis had taught that it was necessary to limit the impact of crises as quickly as possible and implement expansionary monetary and fiscal policies to avert the risk of an economic depression. Another important difference with respect to what happened then is that there are now a number of international coordinating bodies, both regional and multilateral, many of them created after the great crisis and the Second World War and others of more recent vintage, such as the Group of Twenty (G20). With all their limitations, these institutions do have some ability to enhance the effects of policies applied by countries in isolation and to prevent or at least limit predatory trading and exchange-rate policy practices that can damage international trade, which has already suffered enough in the crisis.

Given the recent volatility of the global economy, the problems facing the international financial system and the systemic character of the crisis, it is hard to predict how rapidly the global economy will recover or what the economic growth rate will be in the years following recovery. Furthermore, the crisis has led to far-reaching questions about the behaviour of financial markets, the role of public policies and global institutions and the balance between State and market in economic activity.

At the same time, the financial crisis revealed that institutional mechanisms for controlling systemic risk had not developed to match the pace of globalization and financial liberalization. Thus, there will be a need to change the focus and scope of regulation and oversight in national financial systems and make a greater effort to coordinate regulation globally. These changes will probably translate into lower levels of leverage, which will entail a reduction in international financial flows (particularly speculative ones) and, in consequence, a partial reversal of the increasing financial sophistication seen up until the crisis.

1. Gauging the impact of the crisis

The current financial crisis had its origins in a combination of factors that led to a financial bubble of unprecedented proportions. These factors included profound global imbalances and very high levels of international liquidity combined with loose monetary policies and an under-regulated financial innovation and globalization process, owing to the dismantling of the rules created for the financial system after the 1929 crisis (Glass-Steagall Act). These factors explain the dynamic of the crisis and the enormous difficulty in overcoming it (Almunia and others, 2009; Titelman, Peréz-Caldentey and Pineda, 2009). In 2009 the global economy is reported to have contracted for the first time since the Second World War, with some sources putting the decline in global output at almost 3% (see table I.1).

Table I.1
REAL GDP GROWTH
(Percentages)

	ECLAC / DESA		IMF	World Bank
	2008	2009 [a]	2009 [a]	2009 [a]
World	1.9	-2.2	-0.8	-2.9
Developed economies	0.5	-3.5	-3.2	-4.2
Emerging economies	5.4	1.9	2.1	1.2
United States	0.4	-2.5	-2.5	-3.0
Japan	0.7	-5.6	-5.3	-6.8
Euro area	0.7	-4.1	-3.9	-4.5
China	9.0	8.1	8.7	6.5
Latin America and the Caribbean	4.1	-1.8	-2.3	-2.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from JP Morgan, Global Data Watch, 30 December 2009; International Monetary Fund (IMF), World Economic Outlook (WEO) Database, October 2009; World Bank, *Global Development Finance*, Washington, D.C., 2009.

[a] Estimates of the Economic Commission for Latin America and the Caribbean (ECLAC), the Department of Economic and Social Affairs (DESA) of the United Nations, the International Monetary Fund (IMF) and the World Bank.

The contraction of global economic activity is accounted for by the decline in GDP in the developed countries, which different sources put at between 3.2% and 4.2%.[1] Growth in the emerging economies dropped from 5.4% in 2008 to between 1.2% and 2.1% in 2009. Most of the dynamism of the emerging and developing world was provided by China, which grew by between 6.5% and 8.7% in 2009.

This lower rate of global output growth has been accompanied by an increase in the global unemployment rate from 5.7% in 2007 to 6.6% in 2009, equivalent to a rise of 34 million unemployed in the period (ILO, 2010). Unemployment in the developed countries increased even more, from 5.7% to 8.4%, in the period. In the United States it more than doubled to 10% between September 2007 and December 2009, while in the countries of the euro area it rose by 2.5 percentage points from 7.4% to 9.9% (in November). In Latin America and the Caribbean, the urban unemployment rate will reach 8.3% or so in 2009, compared to a figure of 7.5% in 2008 (ECLAC, 2009a).

In the financial sphere, one of the main consequences of the present crisis has been the massive destruction of global financial wealth, most of it concentrated in the developed countries. This was estimated at US$ 50 trillion in 2008, roughly equivalent to the world's GDP for that year (ADB, 2009). The figure is also equivalent to more than three times the GDP of the United States for that same year and more than 30 times the combined fiscal packages of the G20 countries.

The interruption to the normal functioning of the global financial system brought with it a severe credit crunch in the developed economies and a sharp reduction in the external financing available for developing economies. This decline in lending reflected, first, a greater unwillingness on the part of financial institutions to grant new loans owing to the increased level of average risk

[1] The different institutions agree in revising down their growth estimates despite the differences in the methodologies they employ, which are not discussed in this document.

in countries' economies and, second, a greater unwillingness on the part of the private sector in these economies to incur new borrowings to finance consumption or capital goods accumulation.

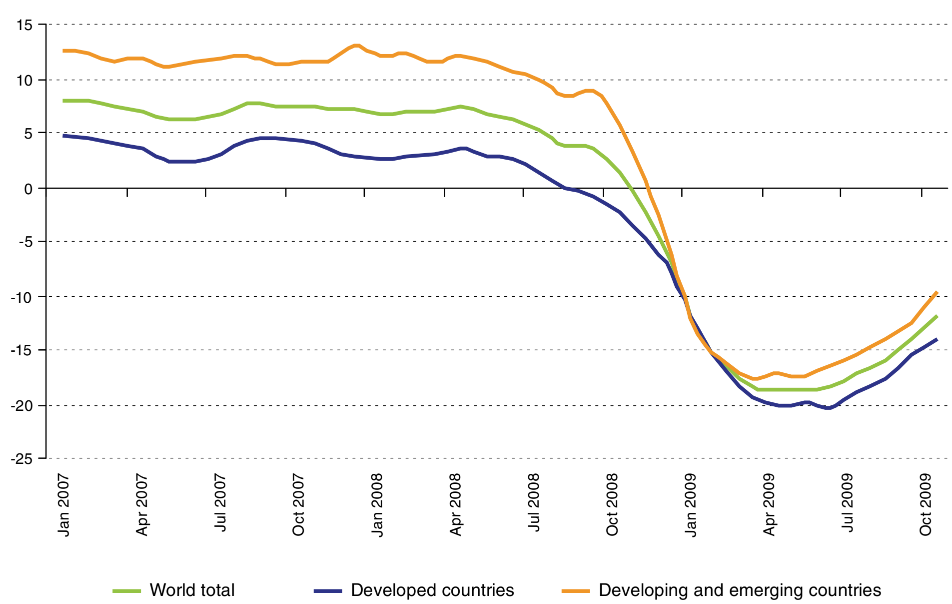
Consistently with the credit crunch, global capital flows diminished greatly. After rising from US$ 1 trillion to US$ 10 trillion between 1990 and 2007 (equivalent to 5% and 21% of world GDP, respectively), net global capital inflows fell back to US$ 1.9 trillion in 2008 (3% of world GDP) (McKinsey Global Institute, 2009). Meanwhile, the net private-sector financial flows available to emerging economies fell by almost 50% in 2008 from their 2007 level, and declined again in 2009 (IIF, 2009). For Latin America and the Caribbean, according to ECLAC estimates, net capital inflows in 2008 were some US$ 52.6 billion down on their 2007 level. In 2009 there is reported to have been an additional net capital outflow of some US$ 11 billion. In particular, foreign direct investment (FDI) shrank by about 37%, far and away the steepest decline in at least the past 30 years.

Alongside the sharp contraction in global economic activity, the volume of world trade declined by some 20% year-on-year in the early months of 2009. Although this decline was seen first in the developed countries (July 2008), since late 2008 the trade of emerging economies has declined at rates similar to those seen in the advanced economies, although there have been recent signs of recovery (see figure I.1).

Figure I.1

GROWTH IN WORLD TRADE BY VOLUME

(Year-on-year change, moving quarters, percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from Centraal Planbureau (CPB), Netherlands Bureau for Economic Policy Analysis, 2009.

2. How the crisis caught up with Latin America and the Caribbean

The crisis was transmitted to Latin America and the Caribbean through the traditional channel of exports and credit, with a heavy crunch in foreign trade financing. This was manifested in export volumes and prices, remittances and other items directly associated with economic activity (ECLAC, 2009a and 2009b). There was also a credit crunch in foreign trade financing. Along with the worsening expectations of consumers and producers, these factors account for the sudden halt to six consecutive years of growth and improving social indicators, with a decline of 1.8% in 2009 representing a contraction in per capita GDP of some 2.9% (see figure I.2).[2] It is important to realize that in Latin America and the Caribbean the impact of the crisis was felt more in trade than in finance, and the paradox is that the countries worst affected were those with more open economies (such as Mexico, some Central American countries and the Caribbean). To find comparable shocks in the recent history of the region, it is necessary to go back 70 years in the case of exports and 29 in the case of imports.

The 2009 decline in regional GDP was accompanied by a rise in unemployment from 7.5% in 2008 to 8.3% in late 2009, reversing the steady improvements seen in this indicator over a period of five years. All this contributed to higher poverty in 2009, following six years in which it declined by 11 percentage points (from 44% to 33%) while extreme poverty diminished from 19.4% to 12.9%, in both cases from 2002 to 2008. Because of the crisis, ECLAC projected a rise in the proportion of people living in poverty from 33% to 34.1% between 2008 and 2009, with indigence increasing from 12.9% to 13.7%. This translates into 9 million more people living in poverty in 2009, including a rise of five million in the number of indigent.

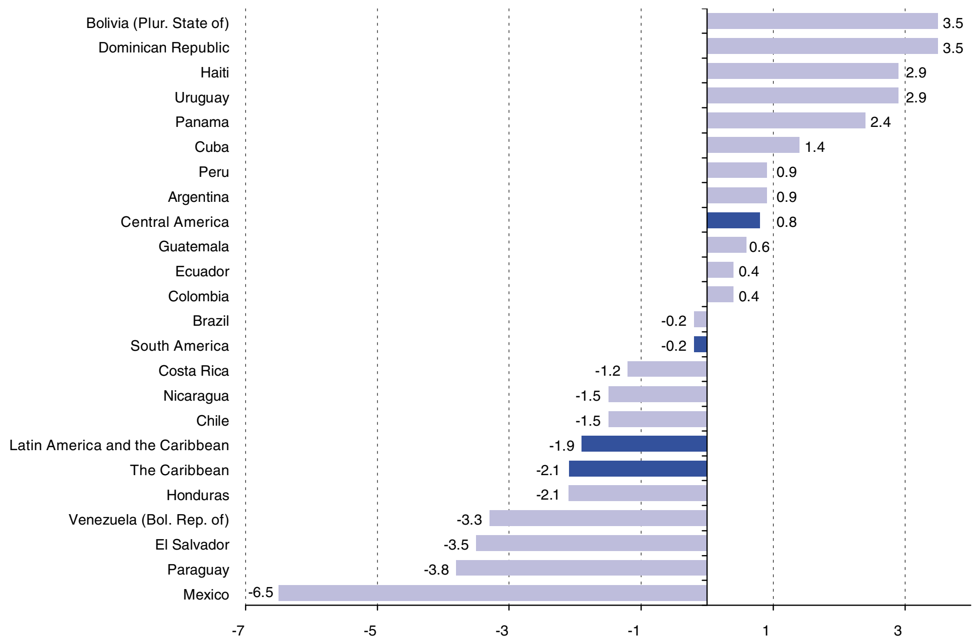
Nonetheless, as the figures show, the effects of the crisis have not been as dramatic as on earlier occasions, something that is due among other things to the combination of a very favourable external environment beforehand and better macroeconomic policy management, which allowed the region to reduce its borrowings, renegotiate debt payments on better terms and at the same time build up its international reserves. A crucial factor has been the countries' success in the recent period in simultaneously growing their economies, building up reserves, controlling inflation, reducing public debt and achieving fiscal and current-account surpluses, as shown in figure I.3 (ECLAC, 2009a; Ocampo, 2009). Thus, albeit with variations among countries, the Latin American economies have enjoyed unprecedented levels of liquidity and solvency.

Greater macroeconomic leeway in many of the region's countries created considerable scope for implementing policies to combat the crisis. This came on top of higher social spending in recent years, with programmes in this area having made a significant contribution to containing the social costs of the crisis.

Positive signs could be seen in the region's economies in the second half of 2009. Industrial output and exports began to recover, even as rising overall activity levels and increased international trade volumes pushed up demand for commodities, the result being higher prices and better terms of trade.

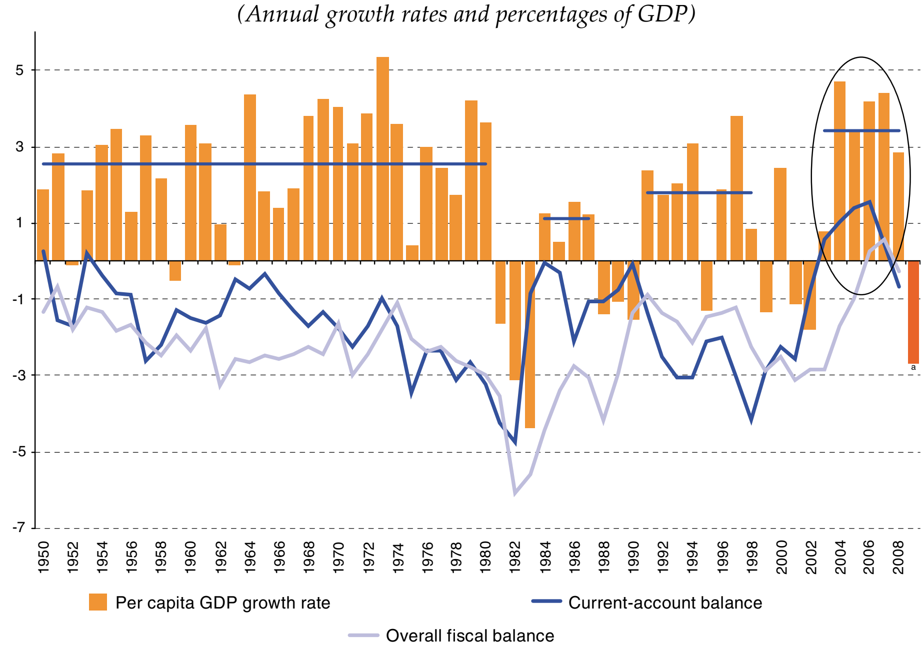
[2] From the standpoint of economic growth, there had been half a decade in which per capita GDP growth rose from 2.2% in 2003 to 5.8% in 2007. This momentum allowed the region to grow at a rate of 4.2% in 2008, giving annual per capita GDP growth of over 3% for five years running.

Figure I.2
LATIN AMERICA AND THE CARIBBEAN: GDP GROWTH, 2009
(Percentages)



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

Figure I.3
LATIN AMERICA AND THE CARIBBEAN: PER CAPITA GDP GROWTH, CURRENT-ACCOUNT BALANCE AND OVERALL FISCAL BALANCE
(Annual growth rates and percentages of GDP)



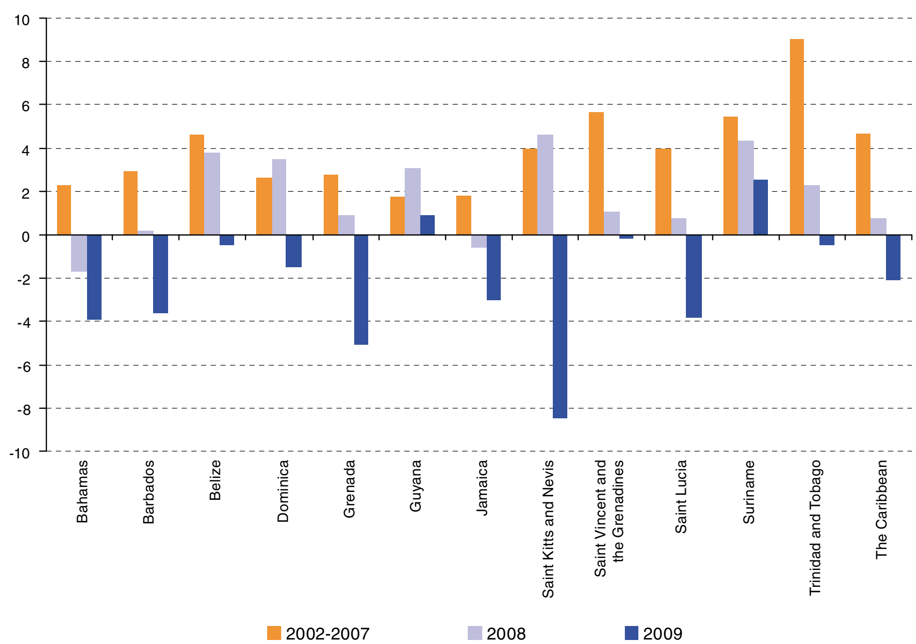
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Estimate.

Projected growth for 2010 is 4.1%, but the figure is expected to be somewhat higher in South America than in the rest of the region, given the greater relative size of some countries' domestic markets and the greater diversification of their export markets, the orientation of their trade towards raw materials whose prices are rising and the greater share of trade accounted for by China in a number of cases. Conversely, slower growth is expected in more open economies with a less diversified portfolio of trading partners and a greater emphasis on manufacturing trade, this being the case with Mexico and Central America.

The crisis caught the Caribbean in a far more unfavourable position in terms of public debt, fiscal and trade deficits and reserves. Thus, a number of that subregion's economies are facing more difficult situations in terms of finances and exchange rates and are heavily dependent on tourism, which shrank considerably in 2009. The effects of the global economic bust began to be felt in the Caribbean in 2008. As figure I.4 shows, the subregion's output fell by 2.1% in 2009 following the small increase of 0.8% recorded in 2008, already sharply down on the 4.7% annual average of the 2002-2007 period. GDP contracted in almost all the Caribbean countries in 2009, the worst affected being Saint Kitts and Nevis (-8.5%), Antigua and Barbuda (-6.6%), Grenada (-5%), the Bahamas (-3.9%) and Barbados (-3.6%).

Figure I.4
THE CARIBBEAN: GDP GROWTH, 2002-2009
(Percentages, in dollars at constant 2000 prices)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Preliminary Overview of the Economies of Latin America and the Caribbean* (LC/G.2424-P), Santiago, Chile, 2009. United Nations publication, Sales No. E.09.II.G.149.

The only countries to record positive output growth in 2009 were Guyana and Suriname (0.9% and 2.5%, respectively). In the former, this was due to an upturn in the sugar industry associated with the start of operations at the new Skeldon sugar factory; in the latter, to a rise in gold output between April and August as the subsidiary of a Canadian firm, IAMGOLD, increased production and the State firm Staatsolie financed its ambitious investment plans out of its 2008 profits.

In the Caribbean, the application of countercyclical fiscal policies to cope with the crisis was very constrained by public-sector over-indebtedness. In the 2008-2009 fiscal year, for example, interest payments on central government debt accounted for 14% of GDP in Jamaica, 8.8% in Saint Kitts and Nevis, 4.2% in Saint Lucia, 3.7% in Saint Vincent and the Grenadines and 3.3% in Barbados. In general, given the chronic shortfall in fiscal revenues in all the subregion's countries other than Suriname and Trinidad and Tobago, policy responses to cope with the global economic crisis would not have been possible without financing from external sources. This financing provided some fiscal space for introducing countercyclical economic and social policy measures at a time of falling tax revenues and onerous public debt servicing requirements. Jamaica, for example, secured about US$ 900 million in standby credits from the World Bank, the Caribbean Development Bank and other international financial institutions to support its fiscal and debt sustainability programme and expand its main social programme, the Programme of Advancement through Health and Education (PATH).

Nonetheless, growth in 2010 is projected to be lower than the rates seen during the six-year-long boom cut short by the crisis, and may be insufficient to meet the demand for employment, which would hinder a rapid recovery in the quantity and quality of jobs and thus in social indicators. Investment will also contract, and this will not only have an immediate negative impact on demand for goods and activity levels, but will also affect the region's growth potential in the future.[3]

Furthermore, it remains to be seen whether the developed economies will be able to maintain their momentum when large stimulus packages in the United States and Europe are withdrawn. Combined with higher unemployment and the still volatile international financial market, this raises questions about the robustness of the recovery that began in 2009.

Looking ahead, the region will face a twofold challenge. First, it needs to recover economic activity levels and minimize the social after-effects of the crisis. Second, for future development it will be crucial to reduce structural heterogeneity —that is, to pursue greater convergence in productivity levels— thus providing a structural solution to chronic problems of social inequality (see chapters III, V and VI). The third need is to return to the path of growth through higher competitiveness underpinned by knowledge and innovation, stronger institutions and mechanisms that allow the benefits of growth to spread to all parts of the population (especially the most disadvantaged), sustainable use of natural resources and protection of the environment.

Although the region has learnt to cope with external volatility, the development of capabilities for confronting long-term challenges has generally been inadequate. A great deal of progress is still needed on matters such as the development of a climate of innovation, systems for creating, adapting and disseminating know-how and applying it to every sphere of production, the strengthening of social protection and inclusion mechanisms and the creation of the infrastructure needed to ensure the sustainability, in a broad sense, of the growth process.

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3 It is often pointed out that the region took 14 years to regain the level of per capita GDP it enjoyed before the 1980s debt crisis and 25 years to return to the pre-crisis poverty level. However, the rates of investment relative to GDP seen in the region in the 1970s were not repeated. The countries of Latin America and the Caribbean have been trying to increase their investment rates in recent years, but the process was cut short before they could restore them to the level needed for sustained higher growth.

3. Constraints and opportunities on the new international scene [4]

There is a growing perception that the effects and lessons of this economic crisis, in combination with measures for moving towards low-carbon economies, will determine the dynamic of growth and the coordination of economic, financial and trade relationships in the shift towards a new global economic scene. This would comprise at least the following: lower global growth rates, a new role for emerging economies, a slowdown in the growth of trade flows, less financial transnationalization originating in the countries of the North, a new global financial architecture and a move towards lower-carbon economies.

Major changes are anticipated in international conditions in terms of alliances between blocs, countries and groups of countries. A reordered global economic equilibrium, the increasing presence of emerging countries, particularly the so-called BRICs (Brazil, the Russian Federation, India and China) and their ability to act as a focus for regional energies, the new multilateral institutions needed to deal both with the international economy and with the threat of global warming, the more active role being taken on again by States: all this represents a new direction. A new political and economic geometry is leading to the emergence of a new international geopolitics.

(a) The new growth pattern: lower economic growth rates

The post-crisis world will be characterized by a more subdued pattern of growth owing to a decline in aggregate demand in the developed countries, which could be partially offset by increases in aggregate demand in developing countries. Between 2010 and 2014, the global economy is expected to grow at about 3% (The Economist Intelligence Unit, 2009). This implies a drop of some two percentage points in the global growth rate from the 2003-2007 average (4.9%) to something quite similar to what was seen in 1980-2002 (3.1%).[5]

Where the supply side is concerned, output growth in the developed economies is expected to trend downwards, as revealed in a study presented by the Organisation for Economic Co-operation and Development (OECD, 2009a and 2009c) (see figure I.5). In particular, the OECD estimates show scenarios in which, as a result of the crisis, developed-country output could potentially grow by between 1% and 1.5% a year in 2010-2014, as compared to the 2.4% a year in 2000-2008 (OECD, 2009b).[6]

The factors accounting for this slowdown in the potential GDP growth rate of the OECD economies include: (i) the severe contraction in investment and the resulting lower growth in capital stock, which has accounted for almost two thirds of the projected decline in potential output; (ii) the increase in the average unemployment rate and a fall in the labour force participation rate, and (iii) the possible reduction in total factor productivity owing to a considerable decline in research and development investment, which could slow the incorporation of new technologies into the production process.

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4 We have chosen to speak here of the new international scene rather than the "new normal", the term now used in many international forums, because the concept of normality creates a semantic ambiguity, suggesting as it may the idea of new "norms" (what ought to be done) as well as a new reality (in a purely descriptive sense). The word "scene" is used to avoid this dual reference.

5 Other estimates from the International Monetary Fund (IMF) point to global growth scenarios with rates of around 4.4% which, while lower than those seen in 2003-2007, would be higher than those of 1980-2002.

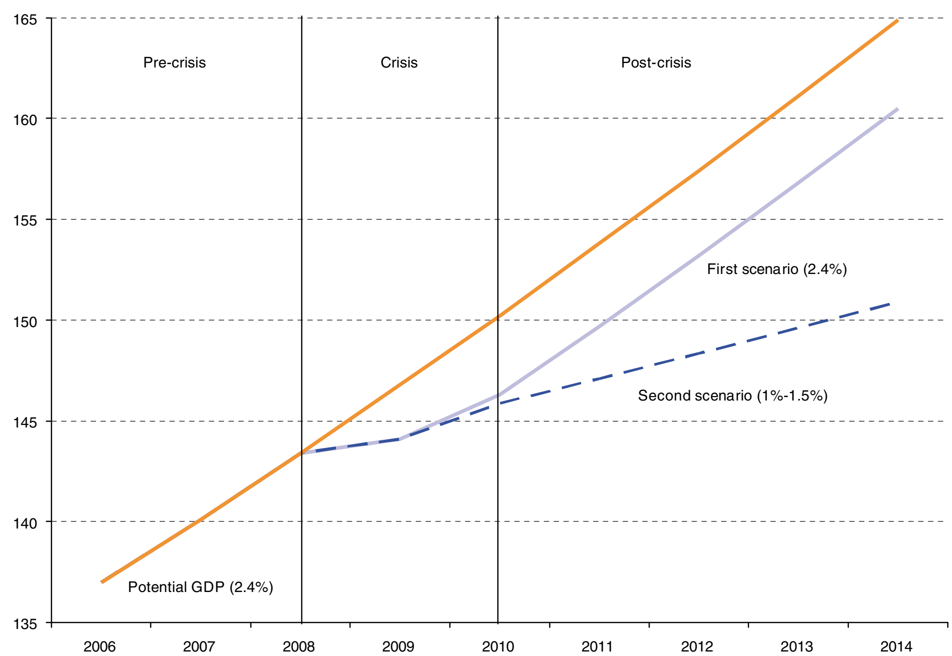
6 Another of the scenarios suggested by OECD, which looks less likely given the analysis referred to, is that potential GDP will be affected by the current crisis but will return to its trend annual growth rate of 2.4% from 2010.

Table I.2
GLOBAL AND REGIONAL PER CAPITA GDP GROWTH, 1970-2007
(Percentages)

	1970-1980	1981-1991	1992-2002	2003-2007
United States	1.9	2.0	0.2	1.9
South Asia and the Pacific	5.1	5.9	8.1	8.8
Europe and Central Asia	…	…	-7.1	6.9
Euro area	3.1	2.1	1.5	1.4
Latin America and the Caribbean	3.2	-0.6	0.9	3.5
Middle East and North Africa	2.8	0.5	2.6	3.0
South Asia	0.9	2.9	1.7	6.7
Sub-Saharan Africa	1.2	-1.1	-2.9	3.1
World	1.9	1.3	0.3	2.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, *World Development Indicators, 2009*.

Figure I.5
COUNTRIES OF THE ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT: REAL-TERM GROWTH IN ACTUAL AND POTENTIAL GDP, 2010-2014
(Index 1994=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of European Commission, "Impact of the current economic and financial crisis on potential output", *Occasional Papers*, No. 49, June 2009; Organisation for Economic Co-operation and Development (OECD), *Economic Outlook*, No. 86, November 2009 [online] www.oecd.org/oecdEconomicOutlook and "The effect of financial crises on potential output: new empirical evidence from OECD countries", *OECD Economics Department Working Papers*, No. 699, 2009; and International Monetary Fund (IMF) projections for some OECD countries.

(b) The new role of emerging economies as drivers of global growth

The anticipated loss of momentum in the developed economies could be partially offset by a more prominent role for emerging economies, which are well placed to expand their aggregate domestic demand. These economies have fiscal scope to increase public spending, financial systems unhampered by poor-quality assets and levels of international reserves that should allow them to maintain comfortable levels of liquidity.

To take on this new role, emerging economies would need to re-evaluate their export-based growth strategy and consider other sectors as alternative sources of growth. Thus, some economies such as China and India, faced with large declines in their exports, have implemented fiscal policies to orient aggregate demand towards domestic sources of growth.

Similarly, some countries in the region have also taken steps to enhance the role of domestic aggregate demand as a source of growth. In the particular case of Brazil, the government has increased the capital of the public banking system (3.5% of GDP in the case of the National Bank for Economic and Social Development (BNDES)) to boost its lending power and partially offset the reduction in private credit. This has been supplemented by support for domestic producers in the form of production development policies.

(c) The slowing and recomposition of trade flows

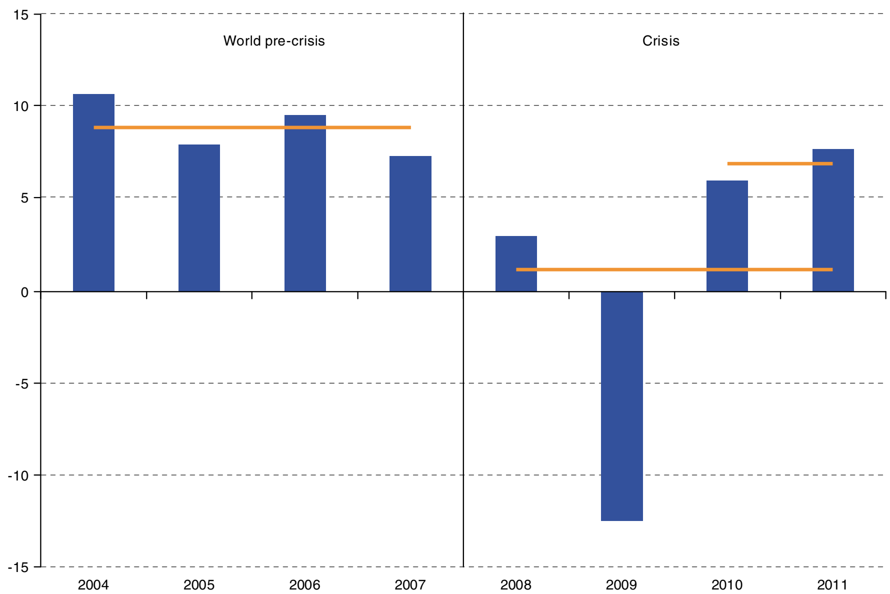
The loss of momentum in aggregate global demand and external trade credit will result in a major slowdown in the growth rate of trade flows owing to the tendency for countries to protect their own markets and the unwinding of global imbalances. A number of estimates suggest that, following the slackening of global trade volumes in 2008 and the contraction expected for 2009 (13%), volume growth rates for international trade will remain well below the 8.8% recorded in 2004-2007. In particular, estimates from different specialist sources put the volume growth of world trade at somewhere in the region of 6% in 2010 (IMF, 2009a) (see figure I.6).

The different factors making this lower world trade growth likely include the prolonged fall-off in demand for imports from the developed economies, which has reduced the scope for emerging economies to sell their products into these markets. This is because of lower household consumption in the developed economies as a result of the financial wealth adjustment process that began with the crisis and lower demand for investment goods from firms that have had to scale down their production plans.

Another factor is that some of the policies adopted by governments in both developed and developing countries to stimulate aggregate domestic demand could include protectionist practices. Buy-local policies could introduce a clear anti-trade bias into national recovery policies. These practices, far from creating the conditions under which aggregate global demand might recover, could make this process more difficult, particularly if they trigger reprisals, as they may well do.

Nonetheless, looking further ahead, international trade will continue to be a source of growth opportunities to the extent that special niches or the advantage of being junior partners in world trade will allow the countries to explore openings and develop strategies that should yield considerable export growth. This should happen even if projections for world trade growth are modest overall, at least for the next five years. Even in 2008 and 2009, data from some service industries, electronic commerce and specialized goods show double-digit export growth. The challenge is not only to identify these sectors but to build up the human, technological and production capabilities for competitive positioning in them.

Figure I.6
INTERNATIONAL TRADE VOLUME GROWTH
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organisation for Economic Co-operation and Development (OECD), *Economic Outlook*, No. 86, November 2009 [online] www.oecd.org/oecdEconomicOutlook and *Economic Outlook*, No. 85, June 2009 [online] www.oecd.org/oecdEconomicOutlook.

South-South trade will take on a vital role as emerging economies increase their share of world GDP and global demand. Furthermore, the fact that per capita income growth will be from a low base means that the income-elasticity of consumption for the goods and services these economies require will be high. A greater role for emerging countries in international trade will increase global demand for energy, food, metals and minerals, which will boost the figures for the volume and value of the region's exports. This means that, without ceasing to be volatile as always, commodity prices will be higher than in earlier decades. This will tend to mean better terms of trade for net exporters of these products, but at the same time will discourage export diversification efforts by affecting the profitability of non-traditional exports. This scenario is also negative for net importers and may represent an opportunity to seek alternative sources of food and energy.

The workforces of the BRIC countries will increase and diversify their consumption as incomes rise. This will open up a variety of opportunities in these countries' markets: massive demand for high-volume, low-value products, consumption niches for high-priced special goods and services, and a whole range of intermediate situations. The challenge is to approach BRIC markets with a strategic focus rather than just as an opportunity to increase traditional exports. The existence of more sophisticated goods and growing demand for modern services will be what characterizes import demand in these countries, and the same characteristics will gain ground in South-South trade, opening up renewed opportunities for progress with production and export diversification. This trend could be strengthened if a firmer contribution were made by public policies at the country level and appropriate measures were taken in the context of regional integration and cooperation systems.

Some of the largest emerging economies, such as China and India and a number of Asian countries, have an abundance of cheap labour in the lower-skilled categories, but also large numbers of highly trained scientists and engineers with a growing ability to absorb and progressively develop new technologies. This will eventually turn them into leading actors in global production and the nurturing of new technologies. These new global competitors are making increasing inroads into the competitive advantages of industries in the OECD countries, but also into those of the natural-resource-intensive manufactures of Latin America and the Caribbean.

(d) The future financial landscape

The financial crisis revealed that institutional mechanisms for controlling systemic risk had not kept pace with financial globalization and liberalization. National regulatory authorities were not ready to regulate globalized financial institutions, and this has laid bare the need for deep reforms to the international financial architecture, and regulatory and supervisory systems in particular, to ensure greater global financial stability.

Consequently, the need to pursue a new regulatory process for financial systems is now on the table. First, there is likely to be a change of approach and scope in the regulation and oversight of national financial systems. Second, it has become clear that, alongside national regulation systems, there needs to be a global regulatory framework to establish minimum national standards and govern the global operations of systemically important financial institutions (Stiglitz Commission, 2009). A stronger international regulatory system with consistent standards in all countries is vitally important, not just as a way of preventing regulatory arbitrage but also to cope with systemic risks and provide financial stability at the global level.[7] This will require efforts to coordinate the regulation of financial systems between countries and stronger multilateral oversight arrangements for financial institutions deemed systemically important. There is a degree of consensus regarding the need to implement effective global early warning mechanisms, and this will require the combined experience and knowledge of a wide range of institutions and actors (IMF, 2009b; G20, 2009; European Union, 2009).[8]

The trend at both the national and global levels is towards far more comprehensive oversight and regulation in an effort to close the gaps which existed before the crisis. The coverage of regulation and oversight will be expanded as regards both the different financial instruments and the different market participants.[9] It has become clear that financial institutions often worked with excessive risk and with levels of leverage that were far higher than they should have been

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[7] A number of documents putting forward reform proposals for the international financial system agree on the need to increase coordinated efforts to incentivize economies that have inappropriate regulations or are unwilling to reform their practices and adhere to higher international regulatory standards. National and regional authorities should implement measures to protect the international financial system from untransparent or uncooperative jurisdictions (see, for example, G20, 2009; European Union, 2009; Stiglitz, 2009).

[8] In September 2009 the European Union approved the creation of a European Systemic Risk Council (ESRC) whose mission is precisely to oversee the solvency of the financial system as a whole by identifying potential risks and issuing early warnings.

[9] With regard to the former, there are proposals on the table for monitoring and supervising both the creation and the propagation of complex financial instruments, requiring the greatest transparency in the markets where they are traded. As for the latter, the idea will be to cover all market participants, be they banks, hedge funds or credit rating institutions. Similarly, a way will be found to bring the “shadow” banking system into the orbit of regulatory principles and oversight in the new regulatory landscape.

(Stiglitz Commission, 2009). Regulation should therefore have mechanisms to rein in both practices and to ensure that financial institutions have adequate capitalization and liquidity at all times.[10]

This process of new regulation will have important effects in shaping the type of financial system that will prevail in the post-crisis world. The expectation is that banking will move towards a model that is more transparent and has lower levels of risk and leverage.

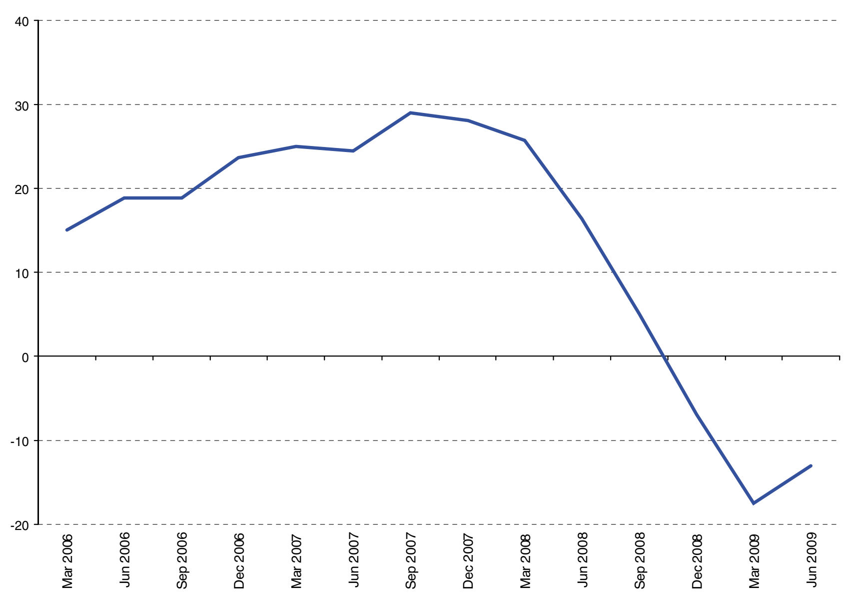
Meanwhile, the systemic impact of the crisis, combined with new regulations and the restructuring of the financial system, will have major implications for financial flows between regions. For example, there has been a renewed debate in a number of circles about the application of a tax on international financial transactions (a global Tobin tax) with a view to reducing speculative international transactions.[11]

More and wider-ranging regulation, fewer incentives for risk-taking and lower levels of leverage will bring with them a reduction in international financial flows and thus a partial reversal of the extraordinarily swift process of financial integration seen up until the crisis. The decline in private-sector financial flows to developing regions is due not only to higher uncertainty and a reduced appetite for risk (higher demand for safe assets on the part of international investors); it also reflects a reduction in the transnationalization of bank lending since early 2008. Financial systems began a process of deleveraging by reducing lending and, in particular, by shrinking their cross-border assets (see figure I.7).

Figure I.7

ANNUAL GROWTH IN EXTERNAL ASSETS REPORTED TO THE BANK FOR INTERNATIONAL SETTLEMENTS, MARCH 2006 TO JUNE 2009

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Bank for International Settlements (BIS), "BIS Quarterly Review" [online] http://www.bis.org/statistics/bankstats.htm, October 2009.

10 Countercyclical prudential regulation has been considered as an option. However, it has also been emphasized that regulation should not rely solely on capitalization standards (even if adjusted for risk and the cycle) but should take account of a range of broader aspects such as management incentives (Stiglitz Commission, 2009).

11 Another reason for establishing a tax of this nature is that it would provide more resources to finance economic and social development policies.

This bias towards investment in local financial assets by the private sector could mean less integrated and dynamic financial markets at the international level. The same effect is produced by the demands of developed-country governments that their local banking systems channel the aid they have provided through lending to local agents and by a possible bias towards using the funds available to rescue local banks.

4. The need for a new multilateral global architecture

One of the main challenges for the coming years is to improve the ability of global institutions to respond to the economic, environmental and social challenges that will be thrown up by the new post-crisis context. This will require the new global architecture to return to the path of multilateralism and re-establish the right balance between global macrofinancial stability and the provision of resources and means to foster economic development.

Reform of the global architecture will have to arise from the virtuous combination of three elements. First, it must flow from and at the same time be a source of representative and politically legitimate leadership based on multilateralism so that the global development agenda can be defined and oriented. Second, it will need to consider a set of reforms to the system of reserves and to the global and regional specialized agencies that support implementation of the global agenda with technical and specialist input on rules, policies or programmes. Lastly, it will have to establish an accountability mechanism.

(a) Inclusive global governance based on multilateralism

Traditionally, the global development agenda has been controlled by the wishes of a small group of developed countries that possess the greatest powers of participation, voting and decision-making in international organizations.[12] Efforts have been made in recent years to integrate developing countries into these bodies through the creation of the G20.[13] However, this grouping needs to do more to fully incorporate the needs of developing economies into the global agenda.

In this context, one future requirement for global governance is the creation of broader and more inclusive platforms to coordinate the global development agenda (Stiglitz Commission, 2009). One option is to enhance the role now played by the Economic and Social Council of the United Nations, giving that body an institutional status analogous to that now possessed by the General Assembly or Security Council.[14] Its functions could include analysing and evaluating the latest economic, social and environmental events, promoting economic development, ensuring consistency in the policy objectives of the main international organizations and supporting efforts to reach consensus among the different governments of the world (Bárcena, 2009a). This would make it possible to arrive at better global governance solutions through greater dialogue between policymakers, the academic world and international organizations. The make-up of this global

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[12] The Group of Seven (G7) is formed of Canada, France, Germany, Italy, Japan, the United Kingdom and the United States, and has been enlarged by the addition of the Russian Federation to create the Group of Eight (G8). This group of countries wields a great deal of power in the decision-making processes of international bodies such as the United Nations Security Council, the World Bank, the International Monetary Fund and the World Trade Organization.

[13] The G20 is a group of countries formed in 1999 by the eight most industrialized countries (G8), 11 recently industrialized countries from every region of the world and the European Union as a bloc. It is a forum for cooperation and consultation between the countries on issues related to the international financial system.

[14] This forum would have similar characteristics to the global economic council proposed by the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System.

council could be based on a broadly representative system that included all continents and the world's leading economies. The forum should encourage participation by other major multilateral bodies such as the World Bank, the International Monetary Fund and the World Trade Organization.

(b) Reforms to the system of reserves and specialized institutions

In addition to reforming global governance, there is also a need for reform of the international financial architecture to increase its capacity to manage the business cycle. This reform should focus, first, on the reserves system and, second, on enhancing and strengthening international financial institutions.

In a context of growing financial integration, the international reserves system has shown itself to have major weaknesses when it comes to promoting financial stability and averting global imbalances. The current dollar-based reserves system places constraints on the ability of the global economy to adjust global imbalances, since correcting these imbalances entails major changes in the conditions of global dollar demand and supply. This can lead to large asset losses in countries which stock their international reserves in that currency. This loss of wealth could prove to be a deflationary (contractive) way of correcting global imbalances.

In view of this, it has been suggested that special drawing rights (SDRs) and the International Monetary Fund could play a stronger role in the new international reserves system. This would reduce the dependence of the reserve unit on political and economic conditions and decisions in any particular country, which in principle should increase stability and confidence in the international financial system. Some essential matters would have to be decided first, however, such as the criteria for issuing the new reserve currency and the mechanisms for determining the parity, convertibility and allocation of this new reserve unit.

Reform of the specialized institutions also needs to be part of the new global architecture. Prudent and appropriate management of economic crises requires countercyclical liquidity to be provided inclusively and on a global scale. This will mean increasing the resources of the financial institutions and easing the constraints on financing mechanisms and terms. This has been partially achieved in recent reforms to institutions such as the International Monetary Fund and the World Bank, which have increased their capitalization and changed the terms on which financing is provided. Progress is also needed at the regional level to recapitalize institutions such as the Inter-American Development Bank (IDB), the Central American Bank for Economic Integration (CABEI), the Caribbean Development Bank (CDB), the Bank of the South and the Andean Development Corporation (ADC).

A complementary requirement is for an increase in the financing base of loan agreements, as these still depend on countries' quota amounts. To supplement this, a multilateral framework should be established to deal with problems of over-borrowing by restructuring the amounts and repayment schedules of external obligations.

The developed economies should fulfil their commitment to devote 0.7% of gross national income to official development assistance, while in return developing economies should improve the efficiency with which they manage these resources. Equally, as foreshadowed in the reforms recently introduced in the case of the International Monetary Fund, the criteria for allocating and managing financial assistance resources need to be revised.

Crisis prevention requires a suitable system of regulation and supervision to oversee, monitor and distribute risk in the financial system. This means strengthening microprudential supervision and regulation and supplementing it with a macroprudential approach. Supervision and regulation need to help the financial system absorb shocks rather than amplifying them by countercyclical regulation. There is also a need to strengthen oversight mechanisms by activating an early warning system and promoting improvements in transparency and accountability practices.

Lastly, designing a more efficacious system of prevention requires effective coordination between multilateral institutions and between global and regional bodies. Regional institutions are a source of regional information and knowledge. Indeed, they can act as a link between national and global authorities and thereby enhance coordinated efforts to compile and synthesize macrofinancial information, develop early warning systems, adopt common regulatory mechanisms and support coordination efforts between countries in different subregions.

The governance of these institutions also requires major reform. In the case of the International Monetary Fund, decision-making power is largely monopolized by the industrialized countries, which hold 60% of the quotas. The result of this is a hegemonic role for the developed countries when it comes to setting Fund objectives and the criteria for allocating and distributing its financial resources. This imbalance should be corrected by a governance reform that goes further than that agreed at the G20 meeting of April 2009. This reform needs to be more inclusive and representative, with significant changes in the Fund voting structure to give developing countries a greater say and more decision-making power in international economic policymaking, in accordance with their economic size and development level.

The existing quota allocation system also limits developing countries' participation and decision-making power at the World Bank. The suggested governance reform centres on the allocation of quotas by countries' economic size, contribution levels and development needs. Likewise, developing countries have only recently secured a small degree of representation on the Basel Committee on Banking Supervision and until recently were unrepresented in the Financial Stability Forum too. The lack of representation for developing countries in these forums means that the latter's regulatory policy analyses and recommendations are incomplete and may lead to major errors and failures of regulation and oversight. Consequently, these institutions need the participation of all countries to draw up globally acceptable regulatory codes and standards.

The recent reform of the Financial Stability Forum (renamed the Financial Stability Board in 2009), increasing the number of members and including developing G20 countries such as China, India, Indonesia and the Republic of Korea, is a step in the right direction. Nonetheless, there is a need for mechanisms to ensure proper representation of different experiences and viewpoints with a view to establishing effective, consistent and appropriate regulatory legislation that applies at both the national and the international levels.

Inclusive governance needs to be supplemented by an accountability mechanism that is likewise inclusive. Accordingly, the accountability mechanism representing the international community needs to ensure that country preferences as articulated in the global agenda are respected and that the bodies responsible for implementing the global agenda have the necessary resources and capabilities. An appropriate accountability system can also improve transparency in the management of resources, thereby conferring legitimacy on the actions of international organizations.

5. The challenges of planetary climate security

There is no clarity about the duration in time of the consequences of the global economic crisis that broke out in 2008 and produced its severest effects in 2009. The analysis in the previous section allows a clearer estimate to be formed of the impact of the crisis and shows that the global dynamics of growth, trade and financing will not be the same over the decade now beginning as they were in the decade just ended. As it also notes, there is some consensus that the world will see a new economic and geopolitical configuration.

The previous section showed the need to reassess cooperation and negotiation criteria and procedures for market regulation and to have more effective international oversight and monitoring mechanisms in place to avert future financial crises. It highlighted the need for more and better multilateralism to build a global order with deliberative powers that offers greater representation for developing countries and a system of international cooperation characterized by greater solidarity and fairer financing. Multilateral institutions will need to develop the capacity to respond to the economic, environmental and social challenges of the new post-crisis context. This will require the new global architecture to re-establish a proper balance between the quest for global macrofinancial stability and the provision of means and resources to promote economic and social development.

There has been a financial crisis whose consequences transcend the present and suggest the need for new rules for the future; at the same time, great epochal changes are producing far-reaching alterations in the pattern of globalization, and their consequences cannot go unaddressed in the current agenda. Primarily, this means global warming and its main consequence: the demand —one the whole of humanity could justifiably make— for guarantees of planetary climate security. All this adds up to an epochal change that obliges us to act now in the face of a proliferation of alternatives. It is not the current financial crisis that is determining the future; rather, it is the inexorable working out of the future that is challenging the present. Furthermore, if global warming reaches critical levels, there will be no leeway for rescue measures. This is why it is urgent to act now to avert it or limit its impact.

The global climate has evolved since the very origin of the earth, driven essentially by natural causes. Since the nineteenth century, however, the generation of greenhouse gases as a result of human activities has increased so much that the average temperature of the planet is now the highest in 1,000 years.[15] Changes in precipitation, a higher sea level, the loss of ice sheets and alterations in patterns of extreme weather events are already discernible.

Climate change is most easily understood as a global public bad or loss of welfare due to atmospheric warming caused by a concentration of greenhouse gases unprecedented in human history. The scientific evidence available has shown that the main causes are anthropic and that their effects are globally distributed, irrespective of where these gases may have been generated.[16]

15 Greenhouse gases are so called because they retain heat and increase the temperature of the earth's surface, as happens in a greenhouse that heats the air near the ground. The most important gases are carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O) and sulphur hexafluoride (SF_6). Another very important group of gases are hydrofluorocarbons (HFC) and perfluorocarbons (PFC).

16 The IPCC highlighted this anthropic character in its Fourth Assessment Report, published by the United Nations in May 2007.

The 2007 report of the Intergovernmental Panel on Climate Change (IPCC) reveals that 11 of the past 12 years have recorded the highest temperatures since 1850. Indeed, the Panel has revised upward its calculations for the rising trend of the global temperature over the past 100 years (1906-2005). The report concludes that the planet has warmed by an average of about 0.74°C (between 0.56°C and 0.92°C) in this period alone, although the problem has been building up since the beginning of the industrial era (1750), mainly because of high fossil fuel consumption.[17]

IPCC has also documented the correlation between rising temperature and intensification of the water cycle. First, the sea level rise caused by warming has averaged 1.8 mm/year (between 1.3 mm and 2.3 mm) since 1961. Since 1993, however, the increase has averaged 3.1 mm/year (between 2.4 mm and 3.8 mm). This is due to the thawing of glaciers and polar ice caps caused by the temperature rise. Satellite data obtained since 1978 indicate that the annual extent of Arctic sea ice has diminished by 2.7% on average (between 2.1% and 3.3%) per decade. Mountain glaciers and snow cover are estimated to have diminished in both hemispheres, although the figures are not so precise as for the Arctic. Meanwhile, climate change has influenced precipitation patterns, resulting in water shortages and droughts in certain areas and flooding in others. Between 1900 and 2005, precipitation increased greatly in eastern areas of northern South America and North America, northern Europe and northern and central Asia, although it diminished in the Sahel, the Mediterranean, southern Africa and some parts of southern Asia. Worldwide, the area affected by droughts has increased since 1970.

Observations also reveal a rise in intense tropical cyclone activity in the North Atlantic since about 1970, with little evidence of increases in other regions. Longer-term trends in cyclone activity, particularly before 1970, are difficult to identify because of a lack of suitable records.

The key messages from the four IPCC reports are:[18]

- The average temperature of the planet has been rising beyond what would be expected from normal trends over the past century owing to greenhouse gas emissions and the loss of natural sinks, chiefly as a result of anthropogenic activities.
- If this behaviour continues, the average global temperature will increase over the course of this century to levels unprecedented in the planet's geological history of the past million years, and this will have severe global consequences for ecosystems, the economy and human welfare.
- The longer effective measures to correct the situation are put off, the higher the costs will be.
- There is still a window of opportunity to implement mitigation measures which, while they will affect the global economy, can be applied using technology available today.
- Immediate adaptation measures will be required in the most vulnerable areas that have already been subjected to the effects of rising temperature and ocean levels.

The impact of climate change on ecosystems and economies has already been significant and will increase during this century, and it will be particularly severe in developing countries, small island States and communities with less social protection.

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[17] According to the 2007 IPCC report, global greenhouse gas emissions from human activity have increased by 70% since the pre-industrial era (1750), with most of the rise coming between 1970 and 2004. The main greenhouse gas-emitting activities are those related to energy, industrial processes, solvent use, agriculture, land use changes, deforestation and waste products.

[18] On the basis of information from the four IPCC assessment reports (1990, 1995, 2001 and 2007).

This explains the political haste to reach a binding multilateral agreement of global scope, especially since 2007 in view of both the Kyoto Protocol renegotiation process and the IPCC report. Global mitigation targets seek to stabilize total emissions at levels compatible with a rise of no more than 2°C, entailing a reduction of about 50% in total annual emissions up to 2050 (they currently stand at between 40 gigatons of carbon dioxide equivalent ($GtCO_2e$) and 45 $GtCO_2e$). With a global population of 6 billion, this translates into an average of about 7 tons of CO_2 per capita (Hepburn and Stern, 2008). A 50% reduction would mean cutting emissions to about 20 $GtCO_2e$ a year by 2050, giving a global average of just over 2 tons of emissions per capita for an estimated world population of 9 billion.

These long-term goals represent a huge challenge for developing countries, including those in Latin America and the Caribbean. Without international measures to mitigate the effects and support adaptation, the region could sustain major losses over the course of the twenty-first century in agriculture, water availability and biodiversity. It would experience intense pressure on infrastructure and an increase in the severity of disasters, adding up to large percentages of current GDP, with particularly severe effects on more deprived urban areas and the poorest sections of the region's population.[19]

From a global perspective, the greenhouse gas emissions of Latin America and the Caribbean currently account for a small proportion of world emissions, and they grew more slowly than global emissions between 1990 and 2000, but the consumption of fossil energy continues to increase in the region.[20] This path could be hard to sustain in a global setting where carbon emissions will be increasingly constrained in future.

Figure I.9 shows the positive relationship between per capita energy consumption and per capita income, and while there is a gradual decoupling of energy consumption as per capita GDP increases (see figure I.10), it is not enough to restrain the current vigour of energy consumption growth, which actually exceeds the world average (see figure I.11). This comes on top of other greenhouse gas emissions increasingly being generated by changes in land use (ECLAC, 2009d). From the standpoint of opportunities, the region has the potential to contribute to greenhouse gas emissions reductions by means of energy efficiency projects and measures, replacement mechanisms involving the generation of energy with renewable technologies, and the conservation and production of forests with a high carbon absorption capacity.

Unless prompt action is taken to alter the path the region is currently on, its economic underpinnings will alter in historically unprecedented ways over the coming decades, owing both to climate change and to pressure from developed countries to mitigate its effects at any cost if a worldwide multilateral agreement is not reached. One way or another, this will eventually mean a profound shift in modes of production and consumption, especially of energy (see chapter III).

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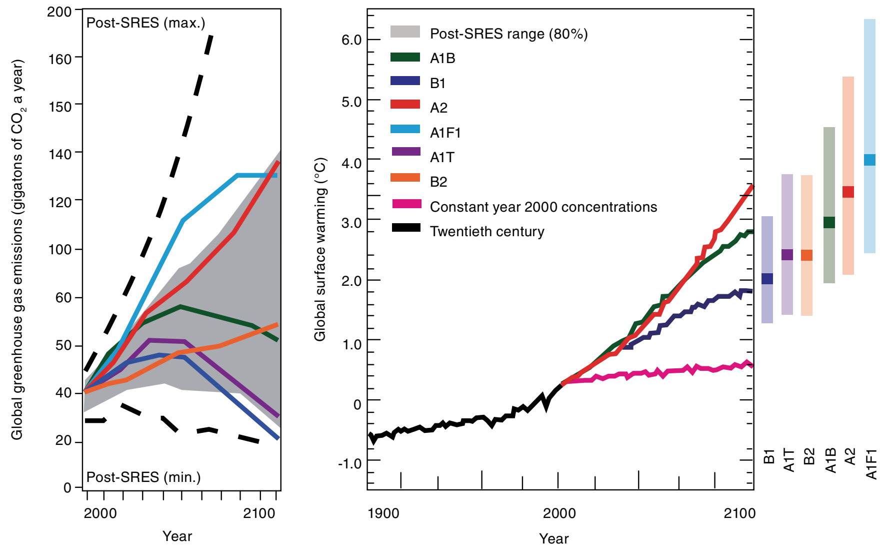
19 In the twenty-first century, the average impact on Central American agriculture is estimated at between 14% and 19%, depending on the scenario chosen, with a discount rate of 0.5% in countries where this sector accounts for more than 5% of GDP (ECLAC, 2009d). Agriculture still plays a very important role in many Caribbean countries, whose geographical location leaves them particularly exposed to the impact of climate change on agriculture. The most vulnerable sections of society are those at the bottom of the income scale. In the case of agriculture, an inevitable effect will be higher prices as production falls and difficulty in maintaining supply, and the worst placed to cope will be those with the lowest income levels, just as they were during the food price crisis of 2008.

20 The emissions database used is that of the World Resources Institute (WRI), which allows historical comparisons to be made between countries.

Figure I.8

SCENARIOS FOR GREENHOUSE GAS EMISSIONS FROM 2000 TO 2100 (IN THE ABSENCE OF ADDITIONAL CLIMATE POLICIES) AND PROJECTIONS OF SURFACE TEMPERATURES



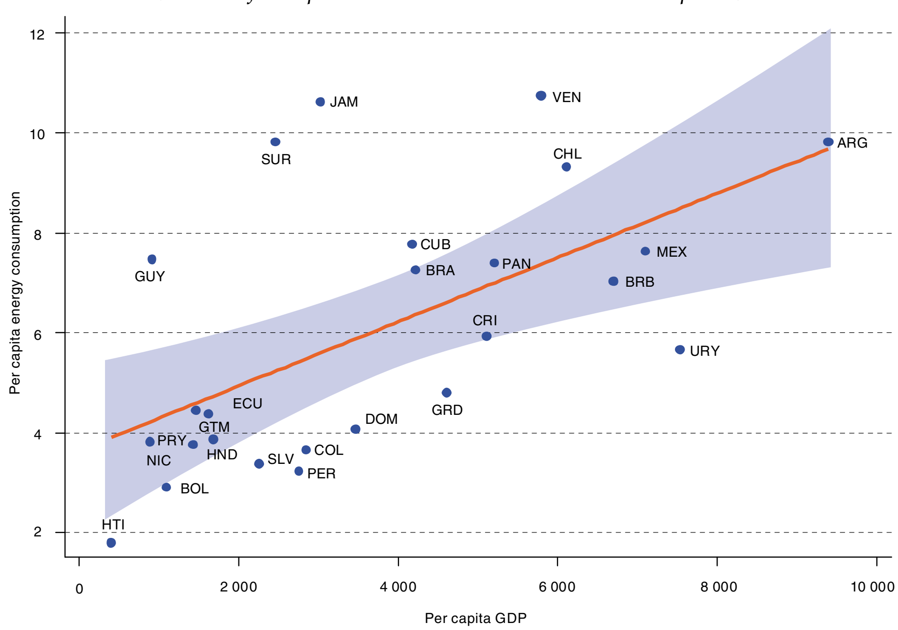
Source: Intergovernmental Panel on Climate Change (IPCC), *Climate Change 2007: The Physical Science Basis. Contribution of Working Group I to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change*, Cambridge University Press, 2007.

Note: SRES = IPCC Special Report on Emissions Scenarios.

Figure I.9

LATIN AMERICA AND THE CARIBBEAN: RATIO OF PER CAPITA ENERGY CONSUMPTION TO PER CAPITA GDP, 2007

(Barrels of oil equivalent and dollars at constant 2000 prices)

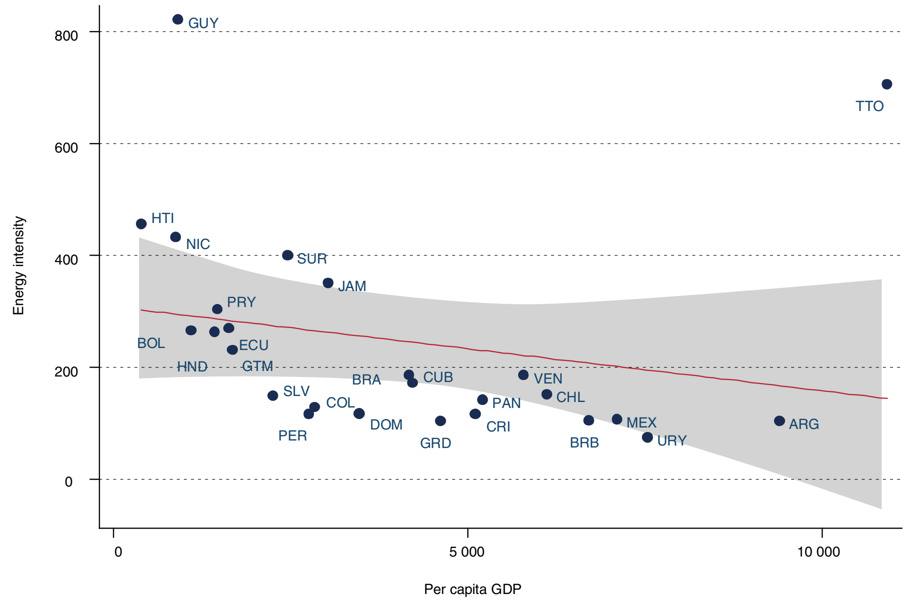


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Latin American Energy Organization (OLADE), the Energy-Economic Information System (SIEE) for total energy consumption statistics, and the Economic Indicators and Statistics Database (BADECON) for data on per capita GDP at constant 2000 prices.

Figure I.10

LATIN AMERICA AND THE CARIBBEAN: PER CAPITA GDP AND ENERGY INTENSITY, 2007

(Barrels of oil equivalent and dollars at constant 2000 prices)

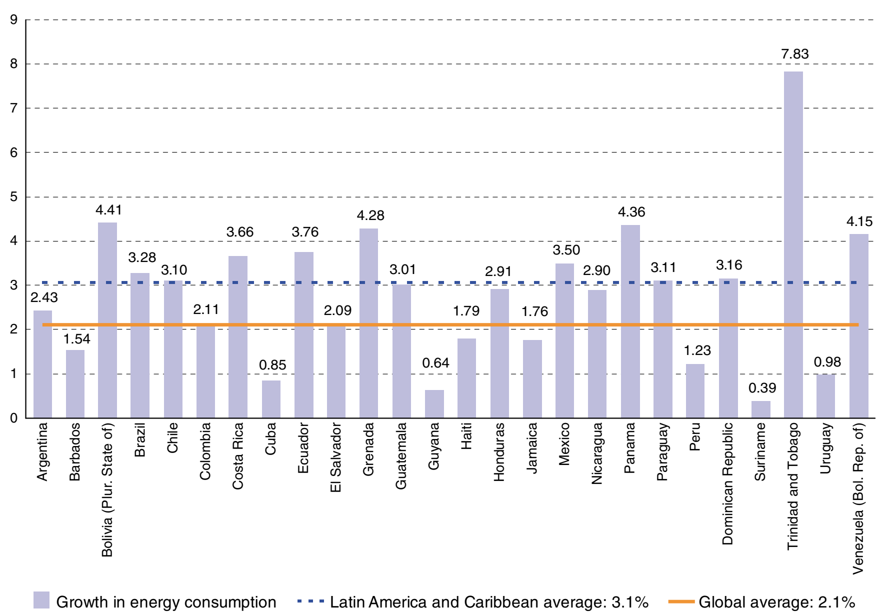


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Latin American Energy Organization (OLADE), the Energy-Economic Information System (SIEE) for total energy consumption statistics, and the Economic Indicators and Statistics Database (BADECON) for data on per capita GDP at constant 2000 prices.

Figure I.11

LATIN AMERICA AND THE CARIBBEAN: ENERGY CONSUMPTION GROWTH, 1970-2007

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Latin American Energy Organization (OLADE) and the Energy-Economic Information System (SIEE).

It is essential to find more effective multilateral means to halt global warming based on administration systems that recognize the interdependence between countries (and the differentiated role each of them has played in its gestation), between public, private and social actors, and between the different generations. These institutional and financial proposals will need to give full consideration to the principle of common but differentiated responsibilities and attach due importance to development priorities in a more equitable system of global governance. It is important for the region to participate actively in international negotiations and benefit from financial agreements based on competitive options for trading carbon emissions between developed and developing countries.

Progress towards effective and equitable multilateralism has not been very encouraging. The targets laid down in the Kyoto Protocol have been met only in part. Furthermore, the results of the fifteenth session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP 15) held in Copenhagen in December 2009 were limited, precisely because no agreement could be reached on quantitative targets for additional emissions reductions by developed countries. Nor was there any success in achieving an agreement clearly embodying financial and technological support for developing countries wishing to commit to emissions mitigation. The Copenhagen Agreement was the outcome of an accord reached between the countries making up the so-called BASIC bloc (Brazil, South Africa, India and China) and the United States in the final hours of the meeting, from which no consensus emerged.

The agreement proposes to limit the global temperature rise to 2°C, which requires restricting the concentration of greenhouse gases in the atmosphere to 450 parts per million (ppm). This implies a considerable reduction in greenhouse gas emissions up to 2020 and a drop of 50% between 2020 and 2050. The document laid down some principles for the provision of financial resources by developed countries on the basis of the principle of common but differentiated responsibilities so that developing countries can contribute to emissions reduction on a voluntary basis and adapt to the immediate effects of climate change.

The Copenhagen meeting did not yield the results hoped for. Although the debate was carried forward, the Copenhagen Agreement, which is not binding, was called into question by many countries and will need to be reviewed and ratified by member States to increase countries' commitment to it, at the same time as a more transparent and inclusive negotiating process is developed.

Two international approaches to achieving climate security remain open in this confused post-Copenhagen scene. The first is to follow a negotiated path on the basis of shared values, agreed timetables and simultaneous efforts and criteria underpinned by the principle of common but differentiated responsibilities in the framework of multilateral negotiations. The second approach is to go along the route of unilateral initiatives that are applied indiscriminately, do not distinguish between relative development levels and are governed only by the laws of competition.

Among the main measures that will form part of the "new normal" of climate economics are the application of unilateral trade regulations and the imposition of international trade taxes based on the carbon content of goods exported to developed countries. This entails a serious risk that mitigation may end up being borne largely by developing economies, whether in this or other ways.

There have been a number of initiatives in this direction, among the furthest-reaching being the one that came out of stage 2 of the Grenelle process in France, which proposes retail product labelling containing information on the carbon content and estimated environmental effect of packaging. This is being closely followed in Japan, the United Kingdom and other of the region's export destination markets.[21] Developing countries will need to prepare themselves if they are to avert a potential export market loss owing to the appearance of competitors that have adapted better to cope with these requirements.

In summary, where Latin America and the Caribbean are concerned, climate change could become either a new constraint on economic growth or, if approached in a well-judged and integrated fashion, an opportunity to renew and improve infrastructure, upgrade production processes, create more efficient transport methods with lower emissions and gradually move towards a lower-carbon development pattern.

The ethical background and the economic dilemma in the discussion about climate issues is that climate change mitigation entails high present costs to generate benefits in the future. The singular problem now being faced at the global level is that climate change is cumulative and irreversible. Consequently, waiting before acting means accepting a great risk, which can perhaps be reduced at a lower cost now than in the future (Stern, 2007). State action is required in both the institutional and the economic spheres to bring about a realignment of prices and reorient markets towards long-term goals. Today's short-term mercantile logic is clearly inadequate.

Lastly, it needs to be made clear here that the implications of this transition to lower-carbon economies could be important from the standpoint of equality and convergence in the productive economy. Actors have contributed unequally to the problem and higher-income countries and groups have a greater responsibility for its causes and a greater capacity to mitigate the effects. The impacts of climate change are also unequal between and within countries. However, gradual mitigation can reduce inequities, for example through improvements in the quality of public services that are very important to the quality of life of the most disadvantaged sections of society.

B. The value of equality for the future

1. Taking the best of modern politics

The crisis and the new international scene referred to in previous pages have appeared at what is a special and, in some respects, a positive moment in the history of Latin America and the Caribbean. First, the region is dominated by democratic political regimes to an extent unprecedented in its republican history, and this has made citizenship a live issue on the public agenda in respect of both political and civil rights.

The playing out of democratic life in the region's countries has also positioned social and cultural rights as a subject for policies and politics. It is no coincidence that public expenditure is growing as a proportion of GDP and that social spending, which to a large extent is social investment, has been rising substantially. The implementation of more active policies of transfers towards the most vulnerable sectors, progress on the right to health care and on more universal

21 See ECLAC (2009d) for the foremost initiatives up to 2009.

social security with solidarity components and greater policy recognition of gender, ethnic, cultural, territorial and age-related inequalities and differences are also connected with this.

This road is long and not necessarily straight, but the progress is undeniable. All the advances referred to have been the result of a hard but rewarding political and cultural learning process. Ideas that promote freedoms, environmental sustainability, non-discrimination in the most diverse areas and respect for the right to self-determination are taking root in the region.

Accordingly, the challenge thrown up by the crisis and the new international scene is to consolidate social gains and the agenda of inclusion and recognition rather than allow them to go into reverse. It is not easy when the effects of the crisis are eroding employment for the most vulnerable, the availability of fiscal resources for social protection and the conditions for greater economic dynamism. Nor is it easy when self-determination comes up against such uncontrollable outside factors as external shocks and global financial volatility. However, the lessons of history cannot be forgotten just because difficulties arise in an increasingly interdependent and unstable world. On the contrary, it is these lessons that must set the future agenda, particularly when it requires a great deal of political will in the present. The steps taken by the countries to maintain macroeconomic equilibria and contain the social costs of the crisis are evidence that this will exists.

It is against this background that we wish to argue for the key role of equality in development. Asserting the value of equality now means re-creating it in the light of the lessons of history and current conditions in the world, in other words, coming to terms with globalization in all its aspects. The value of equality, together with that of freedom, is the most humane way of taking on the tasks of modernity.

Equality is at the heart of modern politics and social struggles to change and improve society. For the past three centuries, equality has meant two things that, while complementary, are in a state of permanent tension. The first is the abolition of privilege and the firm establishment of equal rights for all individuals, irrespective of their origins and of their gender, nationality, age, territory and ethnicity. This dimension is enshrined in the declarations of human rights that began with the French Revolution and continued with those of the United Nations and the successive covenants signed up to by the international community. It crystallizes in an idea of citizenship that refers to the whole array of individuals' rights and obligations, to the political community of which these form part and to the existence of institutional and legal frameworks providing citizens' guarantees and of a public space where the rights and obligations constituting citizenship are exercised. This is the value of the equality proclaimed by democracy and given effect by universal suffrage. Without a doubt, the progress of political democracy in the region is a fulfilment of the mandate of modernity.

The second dimension is the distribution of resources in society in such a way as to allow all its members to exercise their rights effectively. This issue arises out of a particular weakness in the citizen equality dimension, a weakness that is of very long standing in Latin America and the Caribbean, namely the fact that political equality is undermined in its content if it does not acknowledge and seek to remedy inequalities in access to material and symbolic resources. What is postulated, then, is the principle of real or substantive equality in the different spheres of social life where universal rights are asserted. And while the first dimension of equality has to do with rights and the role of the judiciary in enforcing them, the second has to do with social justice and a socio-economic and political structure that promotes this. This is a great unmet challenge in the region, whose equity gaps are and have long been the world's widest.

The issue of equality in the socio-economic structure necessarily leads us to consider the production structure. By this we mainly mean the way people participate in the production system through work, which depends fundamentally on the situation in the economy, the production system, its territorial distribution and its ability to generate high-quality jobs. For this reason, the following four chapters are devoted to these structural aspects. Access to productive resources, capacity-building, access to financing and markets and the availability of infrastructure and technology are determinants of equality in this respect.

Equality needs to be considered from the standpoint of production and of social policy. In this context, social spending should be seen as social investment in human capabilities and production opportunities. This is the structural basis for equality and inequality, and this is where a more active role for the State is essential.

Throughout this document, we have opted to speak of human capabilities rather than human capital, precisely because equality is not resolved by way of a spontaneous meritocratic adjustment. Education and knowledge are certainly essential to give equality its rightful place at the intersection of productive capabilities and social development. For equality of rights, however, the redistributive role of the State is very important; people's "value" in the market cannot be the only consideration. As citizens, members of society cannot see their welfare subordinated to their "human capital" —the value placed on their capabilities in a labour supply and demand relationship— not just because access to education and knowledge is so unequal, but because we are making a political and moral choice to embrace inclusiveness as part of citizenship. We do not subscribe to the premise underlying human capital theory that inclusiveness comes about through meritocratic adjustment in the labour market rather than through a citizenship entailing the possession of rights.

2. Why now is the time for an equality agenda

The pattern of globalization in the two decades prior to the crisis, the effects of the crisis and the new global scene all invite a closer look at where we have come from, where we are going and where we want to go. These questions may seem very broad, but there can be no strategic orientation for development if they are not asked.

Our contention is that an equality agenda is now unavoidable for a number of reasons.

First, because greater equality of rights, opportunities and welfare creates a greater sense of belonging to society and thence greater social cohesion (ECLAC, 2007a). Without social cohesion it is difficult to confront the challenges of a more competitive and complex world as a community and as a country. Growth has a negative effect on social inclusion and cohesion when its benefits tend to be concentrated, which in turn undermines the future growth dynamic. As the expectations gap widens, social conflict increases and erodes the legitimacy of governments, thereby jeopardizing the sustainability of growth.

Second, a society must become more integrated before it can become more productive and more convergent in its production methods. "Genuine competitiveness" (Fajnzylber, 1990), based on increased human capabilities and improved participation in the production process for the whole of society (and not on low wages and overexploitation of natural resources), yields greater returns in terms of sustained long-term growth. A society that shares out educational opportunities and access to formal employment in a more egalitarian way will have a workforce with greater capabilities and will optimize both the use of those capabilities to make progress with productivity and competitiveness and the use of fiscal resources for productive investment and social protection. A society that universalizes timely access to health care and nutrition will reduce the costs associated with disease and malnutrition, from lower productivity to sickness-related expenditure. A society with a higher level of equity will probably incur fewer costs related to public safety and the quality of democracy.

In the long term there is a virtuous circle between the narrowing of social divides, the closing of productivity gaps and more dynamic and sustained growth. There is conclusive evidence that economic development and social equality tend to go together. It suffices to contrast the distribution of income and other assets in poorer and less poor societies.

Third, greater equality in the sphere of social rights leads to greater equality of political visibility and influence. To put it another way, greater integration into decent work, high-quality education, information and knowledge and networks of social protection and interaction improves citizens' capacity for participation in political and union organizations, public debate, informed voting, the use of knowledge to enforce their rights, access to civil associations and cultural dialogue. Again, the more representative and open to public input decision-making systems are, the more influence perennially excluded groups will have on decisions about redistributing resources and universalizing benefits.

Fourth, the experience of earlier crises in Latin America and the Caribbean shows that they usually have a deeper and longer-lasting impact on poverty, welfare and social inclusion than on economic growth. Furthermore, the pattern of globalization that entered into crisis in 2008, heavily dominated by the financial world and relatively divorced from the real economy, proved not only very volatile but also very uninclusive; indeed, it had the unfortunate distinction of creating the most regressive distribution of the benefits of progress in modern history. The long-term effect is to make societies more unjust or leave large swathes of them vulnerable to poverty and indigence. In this context, greater equality is a benchmark that will guide public-sector action to reduce vulnerability and translate economic growth into wider access to well-being.

This discussion of equality is informed by a bitter experience of inequality. The evidence of the final two decades of the last century in the region shows it actually going backwards where equality was concerned. The new public-private alliance led to greater segmentation of service quality, information asymmetries and greater territorial segmentation, and did not correct inequalities of origin through life-path opportunities. Structural heterogeneity, beginning with segmentation in the world of productive work and thence multiplying inequalities in every sphere of society, has increased over the past three decades in most of the region's countries. Furthermore, two areas in which the arrangements between the State, the market and the family exacerbated segmentation were social protection and education. Instead of equalling out opportunities, they widened the gaps. Public policy efforts, redoubled in the decade now ending with a view to reducing poverty, expanding access to education and training and, more recently, mitigating social vulnerability, are undoubtedly a response to this critical evaluation.

The subject of equality forces us to consider degrees of proximity and distance in society as a whole. The aim is to narrow the distance between social groups in terms of power and wealth or, to put it another way, of access to instruments that determine people's capacity for self-realization. Furthermore, the transition from equality of opportunities to a lessening of gaps in terms of achievements, assets and appropriation of the benefits of progress is not automatic, given the deep differences in power, possessions, recognition and social networks that have always marked our societies and, most importantly, the divides between people in the ways they participate in the production and employment structure of society, which reproduce so many other divides. This is why what ECLAC said a decade ago about equity (ECLAC, 2000) also applies to equality: "The sources of inequality are to be found in different areas of social and economic life, and action to further equity has to take (…) into account different aspects connected with equality of opportunities at the beginning and during the course of the educational and employment cycles, equality of access to material well-being but also to participation in decision-making and in public life, equality of access to systems of justice, citizen security and healthy lifestyles, and equality of access to numerous sources of knowledge and information and to social and other support networks." In this context, equality of opportunities at the starting point requires a reasonable equality of outcomes if it is to be effective throughout people's lives, and this brings us back to the principle of equality as a corrective principle over the whole of the life cycle.

3. Different but equal

Age-old differences between groups defined by gender, ethnicity, territory and age are becoming increasingly prominent in the political debate and on the public agenda. Membership of such groups is an increasingly valued source of diversity. Over and above demands for equality before the law, it is present in struggles for identity and for recognition of collective problems and aspirations, whether based on gender, ethnicity, age or other specific conditions. However, a history of discrimination and exclusion means that groups defined by these categories now experience the highest levels of vulnerability and exclusion precisely because of that belonging. That is the paradox.

This being the case, the equality agenda needs to be supplemented by an agenda of difference —not, by any means, to make difference a euphemism for inequality, but for the sake of progress towards greater equality between people who are unalike. Differences have to be taken into account if the universality of rights and equality before the law are to be made effective, not just because of the asymmetries they entail in terms of access to full political and social rights, but also because recognition of diversity calls in turn for affirmative action policies to ensure that everyone is a full citizen. This means extending the time-honoured concept of rights in pursuit of a more inclusive vision of equality, with consideration being given, for example, to the institutional resource of positive discrimination in favour of disadvantaged categories or parity in gender issues.

Ignoring these differences in the name of an abstract, generic equality passes over the fact that human beings and groups have different ways of experiencing their history. Thus, "generic" citizenship can be a source of real discrimination or inequality for specific groups if these factors are not considered. Citizenship or equal rights, social justice or substantive equality, recognition for diversity or equality in difference: these are three components of the concept of equality that cannot be subordinated to one another and that together form the concept of equality we are propounding.

Expanding the horizon of citizenship and policies to fields such as gender relations, the identity of ethnic groups and peoples, preservation of the environment, access to long-distance communication and local and regional administration requires major institutional changes. Failing to consider differences and these emerging areas of the equality agenda reinforces the traditional tendency for people to fall into first- and second-class categories of citizenship in the societies of Latin America and the Caribbean.

4. The interaction of unmet needs

Latin America and the Caribbean are rife with inequalities. The aggregate income distribution indicator is useful not just because it provides a telling picture of the divides that afflict the region, but also because income gaps are underlain by or embody other divides that have proved mutually reinforcing in a kind of vicious circle.

For one thing, education and knowledge gaps are human development gaps, which is why it is not only education that is vital, but also nutrition, preventive health care and training. Knowledge gaps are gaps in the positive exercise of freedom, understood as the set of capabilities needed to implement life plans. In the region, it is the norm for young people from the fifth quintile to complete secondary school and the exception for young people from the first quintile, as will be seen in chapter VI. If complete secondary education is required to gain access to employment options that can halt the intergenerational reproduction of poverty, this educational divide is perpetuating inequality throughout people's lives and between generations.

Productivity gaps, meanwhile, are gaps in welfare and self-realization in the workplace. People's socio-economic group of origin and educational level have a substantial effect on whether they ultimately do low- or high-productivity work, which implies the existence of divides in incomes, access to social networks, collective recognition of their own efforts and the quality of daily life. The so-called structural heterogeneity addressed in the third chapter entrenches mutually reinforcing inequalities in the areas of education, productivity, connection with markets, incorporation of technical progress, contractual stability and political negotiation. This heterogeneity cannot be overcome by means of redistributive policies such as direct transfers to households. Rather, such transfers need to be oriented so that they have a positive impact on people's productive capabilities, while investment in the production system is also needed to improve the jobs on offer.

Social protection gaps give rise to different forms of vulnerability, the main ones being the risks of poverty and indigence, sickness, unemployment and an income-less old age. Just as education and productivity gaps in the region are very acute, so social protection is highly segmented in terms of responsive networks and services. Only a small percentage of the economically active population pays into social security, while welfare pensions are still in their infancy. Health care has tended to be privatized and its quality fragmented by ability to pay, while the introduction of unemployment insurance remains an unmet need.

Inequalities in education, social protection and productivity are sustained by (and feed into) historical divides based on race and ethnicity, gender and territory. Gender inequalities are manifested, first, in different forms of discrimination in the labour market (lower incomes, more unemployment and less well-protected jobs) and, second, in the lack of remuneration and recognition for the care economy, which is vital to social reproduction and is shouldered largely by women. Indigenous people, Afro-descendants and the rural population are poorer and less educated, earn less, enjoy less social protection and have only restricted access to justice and politics. Territorial inequalities are reflected in urban segregation, as poor neighbourhoods have poor services and access restrictions (poor-quality schools, overcrowded environments, greater exposure to violence, fewer jobs, more inadequate health services, less social capital).

These unmet needs on the equality agenda will be addressed in chapters III, IV, V and VI, which refer to productivity, territory, employment, and social protection and education, respectively.

C. The issues before us

The analysis in this document is based on historical evidence in the context of the challenges raised by the new global scene and by the value of equality. Reflecting the change of era, it updates and recasts ECLAC thinking about the fiscal covenant, production development, social protection, territorial convergence, capacity-building through education and the creation of opportunities through employment. The equality agenda is also viewed in the light of various other dimensions and an attempt is made to forge a strategic vision of development in today's world, leading to a profound review of the role of the State in different spheres.

This strategic vision is based on six major pillars dealt with in the six chapters of this document. Chapter II looks more closely at the kind of macroeconomic environment needed to give economic growth a dynamic that is sustainable in the long term. Some of the things that stand out are the need to learn from experience in order to guard against global volatility, to generate suitable signals and incentives for productive investment and to close the gap between real and potential GDP. As will be seen, a great deal can be done with fiscal, monetary, exchange-rate and external capital market reform policies. By applying appropriate policies it is possible to boost growth and improve its quality, which will result in positive impacts on employment and greater fiscal leeway for public policies to stimulate production and provide social protection and advancement. Higher quality here also means growth with equity, by contrast with what has prevailed in earlier decades.

Chapter II highlights the importance of continuous, stable growth, as this is essential for restoring the conditions needed to redress the huge social lags that have been building up in Latin America and the Caribbean. Unfortunately, the global financial crisis and its effects on Latin America and the Caribbean have cut short an auspicious cycle of growth with stability in the region that began in 2003 and that reversed a two decades-long trend of high unemployment and increasingly informal and insecure working arrangements. All this means that there are new challenges to be met on top of the earlier ones in order to achieve economic and social development consistent with citizens' aspirations and rights.

The continuous, stable growth analysed in chapter II may contribute, through various mechanisms, not only to improvements in welfare but also to the reduction of inequality as discussed in chapters III to VI. Some of the most important points to bear in mind with regard to inequality are:

(i) The rate and stability of growth affect the degree of homogeneity achieved in the production system through the growth process and the corresponding convergence in the quality of the jobs created and in worker performance.

(ii) The rate and stability of growth determine how quickly the economic surplus increases and thus how much scope there is for society and the State to use public programmes and projects to reduce inequalities between territories that consolidate and heighten inequality in production conditions and employment.

(iii) The rate and stability of growth and the consequent increase in the economic surplus also give society and the State the fiscal leeway needed to gradually introduce the requisite social protection on a basis of universality. The result is a virtuous circle linking greater economic stability, greater convergence in production methods and employment and the spread of welfare throughout society, plus the assurance that the whole population will enter into possession of full citizenship through education, health care, social security and assistance for the poor, among other factors.

Chapter III shows how production has failed to converge in two senses. The first is that of structural heterogeneity —wide and persistent productivity gaps between and within sectors and in employment. These gaps, as is well known, form a hard core from which inequality spreads throughout society, exacerbating capability and opportunity gaps. The second type of convergence is the narrowing of productivity gaps between the Latin American and Caribbean economies on the one hand and more developed and more dynamic ones on the other. As will be seen, productivity shifts in the region's economies are very slow and require major efforts of public and private investment, appropriate stimuli and active public policies. This document argues that the two convergence challenges, inward and outward, are complementary and need to be addressed as such, with an energy pattern that is more consistent with future sustainability. More competitiveness, more equity and greater social inclusion all come together here. What is proposed, therefore, is development that is more sustainable in every respect.

Chapter IV considers the challenges of economic convergence and social equality at the territorial level. It shows the acute territorial heterogeneity that exists in the dynamics of growth and industrial linkage, poverty and access to welfare. It also shows that territory matters and that it is subject to change, and that what is needed to characterize a territory is not a snapshot but a film of its evolution. The analysis carried out in this chapter gives an idea of the extent to which territorial divides reinforce and are reinforced by national divides in economic and social development. It also argues for the importance of activating synergies using a spatial linkage criterion, and the need to formulate fiscal reforms that level the playing field between different administrative and territorial units.

Chapter V links the world of work clearly to that of social inclusion and equality of opportunity. It does so by discussing the dynamics of both employment and labour institutions. There can be no doubt that employment is the link between productivity and equality, inasmuch as it is the main resource for generating household income and also a key area for social protection, lifelong learning and partnership with others in the effort to realize rights and aspirations. For this reason, the high proportion of the economically active population working in low-productivity jobs, large pay gaps, lower employment rates among the poor and indigent and the particularly disadvantageous situation of women and young people in the labour market are all detrimental to equality and overall productivity. This is why it is so important to develop active policies to improve employment quality and workforce capabilities and employability, minimum wage policies and coordination between labour institutions and social protection.

Chapter VI highlights the vital role of the State and social policies in providing the equality agenda with its social protection and advancement pillars. It also shows the dynamic of social inequalities in key areas such as household incomes and education. It emphasizes progress with social spending, which reveals the willingness of governments to give more of a leading role to the State in providing public goods, but also continuing shortcomings and the limited redistributive effect of this spending. Simulations are deployed to reveal social protection gaps in different areas, their importance for the equality agenda and their potential costs as percentages of GDP. This allows an estimate to be formed of the effort required to close major social protection gaps and the dilemmas involved in the question of how to increase and reorient public transfers. Lastly, it addresses the major educational challenges on the equality agenda, which include the need to narrow learning quality divides and the effort to consolidate universal pre-primary coverage and completion of secondary education.

The final chapter summarizes the major policy challenges identified in the earlier chapters and the new role of the State in meeting them. It emphasizes the growing consensus about the decisive role to be played by the State in guaranteeing public goods, dynamizing growth, stimulating production development, levelling the territorial playing field, coordinating the demographic transition with egalitarian policies from a life cycle perspective and building consensus around fiscal covenants that are clearly redistributive in their effects. The aim is to have a welfare State and not a subsidiary State, one that moves towards a tax structure and a system of redistributive transfers that establish social solidarity at the very heart of communal life, that does not seek to be maximalist or invasive but recognizes fiscal reform as vital for progress towards true equality of rights and opportunities, and that also recognizes growth as a necessary condition for development and seeks to supplement it with other conditions that are in turn both means and ends of development (high-quality employment, social cohesion and environmental sustainability).

The evidence of the crisis and effective responses to its eventual costs reinforce the importance of the State, of countercyclical policies and of social protection. In the face of financial volatility and the certainty that economic agents cannot solve everything or represent the common interest, we argue for the importance of politics as the supreme sphere of decision-making, the forging of broad consensus and the orientation of development. This is a politics that needs to improve its quality, transparency and effectiveness in response to the challenges of democracy in the twenty-first century, the new post-crisis global scene and the increasing complexity of our society. Fiscal and social covenants enshrined in laws, rules and collective behaviours are vital for the support they can give the policies put forward here in pursuit of the development we desire.