LATIN AMERICA AND THE CARIBBEAN

THE 1990s: THE CHALLENGES OF HUMAN DEVELOPMENT

Introduction

During the 1980s, Latin America and the Caribbean went through a profound economic, social, and even political crisis which in some countries, such as Colombia, El Salvador, Grenada, Guatemala, Nicaragua, Panama, Peru, and Suriname, occurred at the same time as intense armed conflicts. The economic and social regression was of such magnitude that the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) has called the 1980s "the decade lost to development." In a few countries the crisis was so intense that per-capita income fell not only to the levels of 1980 but to those of 15 or even 20 years earlier.

At the beginning of the 1990s, however, signs began to appear, however weak and uncertain, heralding the end of the crisis Among them were the first indicators of economic recovery, which among other things reflect changes in the orientation of the region's economies; the end of many of the armed conflicts following laborious negotiations; and the return of democratic lawfulness that seems to close a long period of authoritarian regimes and human rights violations and which, in many countries, has meant changes in institutions and political systems. All this seems to indicate that the end of the crisis does not presage a return to the previous situation, and that in reality we are witnessing a scenario quite different from that of the end of the 1970s. It demands careful examination of the socioeconomic environment of Red Cross Societies nationally and regionally in order to rethink and redefine their sphere of action, priorities, and development strategies.

This regional analysis only attempts to outline the principal economic and social trends in Latin America and the Caribbean in the 1990s Toward that end, the main causes, features, and manifestations of the economic and social crisis are examined in a general way. The economic analysis, which includes projections of growth to 2000, is justified because it defines the region's context and possibilities for confronting its "social debt" during the remainder of the 1990s. In the social situation, which is the focus of the chapter, we examine the situation and prospects of the labor market and poverty, changes that have occurred in the role of the state, social policies, nongovernmental organizations (NGOs), and vulnerability to disasters. All this is to show the extent of the problems to be dealt with as well as the changes that have taken place in problem areas, and to help define the Red Cross's framework of action in the 1990s.

LATIN AMERICAN ECONOMIES IN THE PERSPECTIVE OF RENEWED GROWTH

A retrospective analysis: the origin and causes of the crisis

Although it is useful to note it for comparative purposes, it is a very well known fact that from 1950 to 1980, Latin America and the Caribbean experienced strong economic growth averaging 5.5% annually during that period. This average was higher than that in other parts of the Third World and even in the industrialized countries, whose average annual growth rate during the period was 4.2%.[1] As a result of those high growth rates, the regional GDP grew 4.5 times from 1950 to 1975, ninefold in machinery, equipment, and electric energy, and 13-fold in steel.[2] Some countries and subregions grew much more rapidly than the average, as was the case in Central America and Brazil. Between 1965 and 1980, Brazil achieved growth rates of around 9%, because of which that period was called "the Brazilian miracle." In the region as a whole, and with greater intensity in the most backward countries in the Andean area and the Central American isthmus, economic growth and changes in the productive system were accompanied by extensive changes in the composition of the labor market, modernization of the state, the growing role of the public sector, expansion of education, health, and labor and social legislation, unprecedented development of the physical infrastructure (highways, energy, basic services, etc.), accelerated urbanization, and the emergence or growth of new social groups such as the middle class and urban poor. All these events undoubtedly changed the region's features qualitatively.

Among other reasons, economic growth was possible because of high investment rates, state planning, and economic policies oriented toward industrialization along the lines of "import substitution." High levels of external protection were established to enable development of new industries, and there was extensive exploitation of natural resources, at rates higher than could be sustained.

The advent of the crisis of the 1980s—the longest and most widespread and acute the subcontinent had experienced since the Great Depression of the 1930s—meant the end of this long period of expansion and the cessation of industrialization, modernization, and growth, the most extensive in Latin America and the Caribbean in their recent history. Had the pre-crisis economic growth rates remained constant during the 1975-1990 period, Latin America's GDP today would resemble that of the European Community in 1975.[3] In itself, this projection shows the significance and impact of the crisis in opportunities lost to Latin America and the Caribbean.

Arguments about the causes of the region's crisis continue. This is due to the close relationship between the various explanations of the crisis and economic and social policy proposals to overcome it. Discussion has accordingly focused on the direction and forms that stabilization and structural adjustment policies should take and, in the long term, the development strategy that will have to be adopted to overcome the recession definitively, restart economic growth, and solve the serious problems still prevalent in Latin America and the Caribbean. This discussion cannot be separated from the crisis at the international level, the conventional Keynesian theories about economic growth in vogue during the 1970s, and the appearance and affirmation of neoliberal thinking, whose most visible manifestations were the economic policies of some of the chief industrialized countries, such as the United States during the Reagan era and the United Kingdom during the Thatcher period.

According to the neoliberal view, the serious macroeconomic imbalances that led to the crisis of the 1980s were caused by the economic policies of previous decades, which are held deficient and inadequate. In particular, questions have been raised about excessive public spending, which led to growing fiscal and external deficits, and state overregulation that hinders free market operation and discourages productive investment and technological innovation. The protectionist trade policies linked to the prevailing economic growth model, based on import substitution industrialization, are also called into question to the extent that they cause inefficiency and lack of competitiveness. Also considered a causal factor is the excessive indebtedness run up during the 1970s, a period of international liquidity that made it easy and attractive to resort to foreign credit and poor use of resources. This diagnosis has not usually assigned an important role to the impact of external debt on public finance, although resulting policies have largely been aimed at making payment of interest and amortization on it possible.[4]

Other schools of thought, focusing on Latin American structuralism, hold that the crisis can be characterized as "structural" because of the exhaustion of the economic growth model prevailing during the postwar years, which was based on two growth "engines": industrialization oriented toward import substitution and domestic markets, and exportation of basic products. The decline in industry came about because of the narrowness of domestic markets (a result of unequal income distribution), the loss of dynamism globally of the industrialization on which it was based (against a background of accelerated technological change), and its lack of export orientation. Latin America and the Caribbean, in sum, were unable to adapt themselves to the new model of industrialization linked to the technological revolution, which was characterized by incorporation of technology (data processing, new materials, process technology) and the consequent increase in productivity and competitiveness, diversification of production for different markets, small-scale plants, streamlining, segmentation and mobility of productive processes, and globalization of production and markets. Easy access to credit during the 1970s delayed the appearance of the signs of the model's exhaustion and adoption of the necessary adjustment measures, however.[5]

With respect to basic agricultural and mining products, which account for more than 70% of the region's exports, it must be remembered that from the 1970s to 1980s, fundamental changes took place in the structure of demand, as seen in the sharp fall in international prices for such products. According to ECLAC data, which illustrate the fall, international prices for coffee dropped by 52%; cotton, 20%; sugar, 68%; tin, 67%, and crude oil, 48%, between 1980 and 1991.[6] Among other reasons, these declines are explained by these products' low revenue elasticity, changes in the preferences of consumers in industrialized countries, and the appearance of substitute products. In the end, all this shows the limitations stemming from the dependent and unequal entry into international markets of primary products, a consequence of the marginalization of Latin America and the Caribbean compared with the world's poles of technological innovation.

Without excluding one or another explanation of the causes of the crisis in advance, a set of triggering or catalyzing events can be clearly identified that, at the end of the 1970s and beginning of the 1980s, precipitated its advent. These events enable its general framework to be sketched and, at the same time, define the main economic trends of the 1980s.

Of prime importance externally was the global economic recession, which reduced flows of international trade and, more particularly, exports from the region. Additional factors were the already noted fall in the prices of basic products and the sharp increase in supply by producing countries, which the debt crisis forced to undertake a greater export effort. The access of such products to the market was made difficult, moreover, by new protectionist practices in the industrialized countries, applied individually or in trade blocs. These events led to serious imbalances in trade balances. Finally, we must note the heavy increase in interest rates in international financial markets, which made credit more expensive, decreased net revenues from capital and resources, and above all spectacularly increased payments to service the swollen external debt contracted by the region.[7]

Among the strictly economic domestic causes were excessive indebtedness and the major expansion of public spending. Both factors contributed positively toward maintaining the strong rates of growth in production from the period before the crisis, and especially in industry, a major consumer of imported intermediate goods. Nevertheless, they also led to unsustainable growth in the coefficients of importation, which could only be maintained through external financing, and in the fiscal deficit, which was in turn at the root of inflationary tensions. It must not be forgotten that, particularly in the second half of the 1970s when authoritarian regimes proliferated, outlays were unproductive (arms purchases, for example), overblown public investments were made, and there was considerable capital flight, often linked to corruption.

All these factors unleashed the crisis and produced or aggravated imbalances in the balance of payments and fiscal accounts. Such imbalances, as we noted, could be offset by external credit during the 1970s, a period of abundant international liquidity and low interest rates, but they emerged forcefully when the international capital market suddenly shut down at the start of the 1980s. A key factor in this process was the rise in interest rates in the United States caused by the monetarist policies of the Reagan administration. All this led to implementing severe and recessive stabilization and structural adjustment policies aimed at restoring macroeconomic balance, adapting economies to the international context, and reestablishing capacity to pay the external debt. In many instances, such policies became one more component of the crisis since they helped reduce production and consumption because of the erratic way in which they were at times applied and, especially, because of their heavy social cost.

Although these factors affected all of Latin America and the Caribbean, the intensity of their effects varied from country to country or between groups of specific countries. In Mexico, Venezuela, Ecuador, and Trinidad and Tobago, for example, the fall in international prices for oil exports, in a context of high indebtedness and accelerated industrialization, played a determinative role. Countries dependent on exportation of such products as copper (Chile) or bauxite (Jamaica and Guyana) went through a similar process. In various Central American countries, such as El Salvador and Nicaragua, the economic crisis was accompanied and worsened by armed or insurrectional conflicts of great intensity, at once the cause and consequence of a deep political crisis and, especially, decades of social exclusion.[8]

Indicators of the crisis: from economic growth to stagnation

Behavior of the gross domestic product during the 1980s

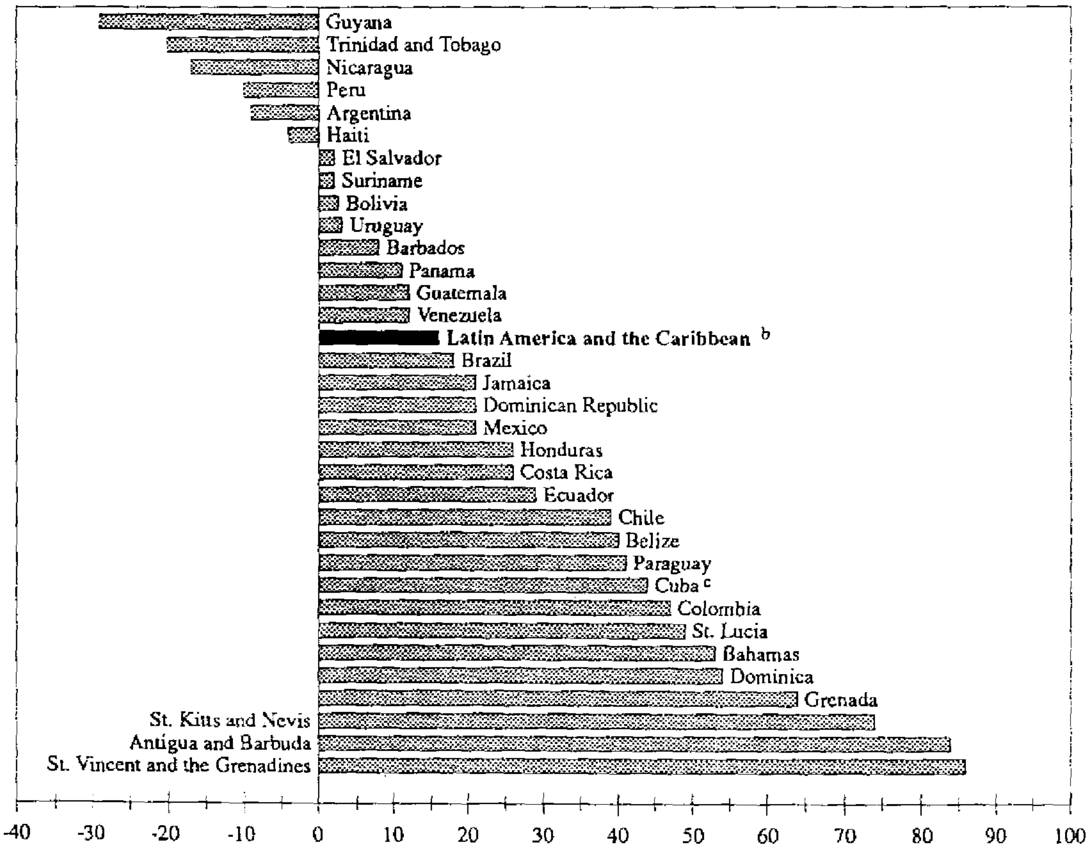
During the 1980s, the economy of Latin America and the Caribbean grew by an average of only 1.1% annually, after having experienced negative rates until mid-decade (see Figure 1) That figure contrasts with the 3% average annual growth rate of the world economy during that period Despite its limitations, per-capita GDP is the indicator that best reflects the regression the region experienced and social cost of the crisis. On average, per-capita GDP had a cumulative variation of -7.9% between 1981 and 1991, when the economic recession was superimposed on demographic growth.[9] In 1990, Latin America and the Caribbean had a population of 440 million, almost 24% more than in 1980. In constant terms, the per-capita GDP in 1991 resembled that of 1977 as a regional average. Only Barbados, Bahamas, Belize, Chile, Colombia, Cuba, Jamaica, and the countries of the Organization of Eastern Caribbean States (OECS) in the English-speaking Caribbean achieved some improvements. In a large group of countries, composed of Argentina, Bolivia, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua, Peru, Trinidad and Tobago, and Venezuela, there were regressions much higher than the average (between 12% and 37%), which shows that the crisis had the greatest impact in those countries (see Figure 2). Per-capita income in 1991 was similar to that in 1970 in El Salvador, Nicaragua, and Honduras. In those cases the "decade lost to development," as ECLAC called the 1980s,[10] is an equivocal phrase since for some countries it means regression up to two decades long. Although to a lesser extent, per-capita production also declined in Brazil, Costa Rica, the Dominican Republic, Ecuador, Mexico, Panama, Uruguay, and, in the English-speaking Caribbean, Barbados and Jamaica.

In addition to the fall in GDP, the crisis led to significant changes in productive organization that define the present nature of the region's economies. An examination of the sectoral structure of the GDP shows that industry's proportional share in it fell during the 1980s. In 1980 it contributed 36.5% of the GDP, and in 1990, 32.9%. Agriculture has remained relatively stable, changing from 9.9% of the GDP in 1980 to 10.4% in 1990. The service sector increased significantly, from 54.1% to 57% of the GDP in Latin America and the Greater Caribbean[11] (see Table 3.3 in the Appendix).

Nevertheless, it must be noted that, in the view of specialists, the growth of the service sector is not due to modernization of the sector's activities themselves, such as tourism, communications, finance, transportation, and essential services (electricity, water, and gas). On the contrary, it reflects the growth of the so-called "informal economy." "Informal economy" or "urban informal sector" (UIS) is defined as that part of the economy characterized by production units created with very little capital which have low productivity and revenue and many self-employed workers, excluding professionals and technicians, or by "microenterprises" of one to five workers. Generally speaking, the sector is on the periphery of state regulation and, as we shall note below, its growth has been the most important mechanism for "adjusting" the labor market to the conditions of the crisis.

The small growth of agriculture shows that the so-called export-oriented "agriculture of change," which is based on "nontraditional" products, has still not been able to expand significantly, despite the hopes for economic reactivation resting on it. The data show the most pronounced retrogression of industry, the "engine" of the growth cycle before the crisis. The contribution of manufacturing to the GDP was lower throughout the decade than in 1980, and sometimes even 1970. The clear crisis in the industrial sector has shown the exhaustion of the "import substitution" model which, in the context of the globalization of the world economy and the scientific and technological revolution, lagged in competitiveness and remained apart from major technological innovations. It has therefore been noted that the industrial sector, instead of being a cushion for the crisis, helped accentuate it.[12] An examination of the changes in the three most industrialized countries (Argentina, Brazil, and Mexico), which represent 80% of Latin America's industrial production, reveals certain differences in behavior. The industrial output of Argentina, the country that experienced the most acute deindustrialization, declined from 34.4% to 26.5% of the GDP. There was also appreciable regression in Brazil. In Mexico, the industrial sector linked to import substitution also slid backward, but there have scarcely been changes between the two extremes of the period covering industry's contribution to the GDP. This is because, since 1987, the country has received major foreign investments in export processing plants, or *maquilas*.[13] This kind of investment, linked to trade liberalization and the new export orientation of Latin American economies, has also developed in various countries in Central America and the Caribbean, such as the Dominican Republic, Costa Rica, Jamaica, and the

Figure 1
LATIN AMERICA AND THE CARIBBEAN:
CHANGES IN GROSS DOMESTIC PRODUCT
Cumulative variation, 1981-1991[a]
(in percentages)



Notes: (a) Preliminary data subject to revision. (b) Excludes Cuba. (c) Global social product.

Source: Based on Table 3.1 in the appendix.

countries of the Organization of Eastern Caribbean States (OECS).

The recession of industry is due to both the crisis itself and the vagueness and contradictions in economic policies regarding the role industry should play in national development. Among such contradictions or inconsistencies, it should be noted that trade liberalization measures have been promulgated that open domestic or regional markets to competition from imports, at times indiscriminately and traumatically, while reconversion programs are launched at the same time to promote the export orientation of national industry; or support of producing sectors is withdrawn at the same time that direct foreign investments are vigorously sought.[14] As the Latin American Economic System (SELA) has noted, the result has been a constantly increasing lag in Latin America and the Caribbean in the international division of work in the manufacturing sphere, and in the distancing of regional industry from the two forces underlying restructuring and industrial growth in an era of technological revolution: investments, especially those involving technological innovation or technology transfer, and the economies of scale related to market size.[15] In this context, note has been taken of the limitations of *maquilas* in the process of industrial development because they are factories that do not involve significant technology transfers, generate little added value, and, by processing imported components, do little to help invigorate domestic demand and expand national output.

Investment, consumption, and the external sector

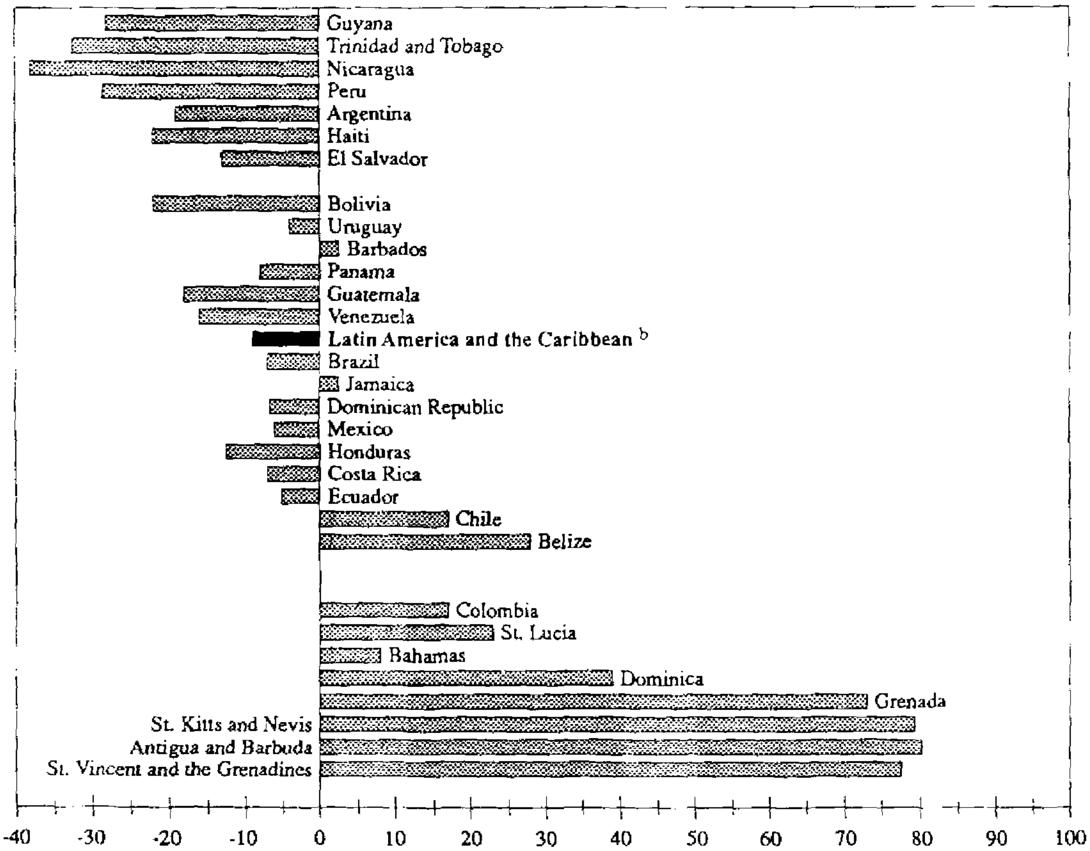
Other economic variables of use in explaining the crisis of the 1980S and gauging its effects for development in the 1990s are investment, consumption, and the behavior of the external sector. With respect to investment, it must be remembered that the accelerated expansion of production capacity and the economic growth of the 1960s and 1970s were possible thanks to high public and private investment rates. During the 1970s, for example, that coefficient was between 22% and 25% of the GDP Between 1980 and 1990, however, investment fell from 24.4% to 15.6% regionally, which clearly indicates that the adjustment policies of that period had a recessive character whose long-term consequences will not be fully visible until the current decade.[16] At the world level, Latin America represented 13% of investment between 1977 and 1981, and only 5.3% in 1986 and 1987. The investment rate fell in all of Latin America and the Greater Caribbean, though the most notable setbacks occurred in Argentina, Uruguay, and Venezuela which, after coefficients of more than 20% of GDP, have come to invest only between 8% and 9.6% (see Figure 3).[17]

Factors such as decreased disposable income, a result of the crisis itself, suspension of external financing, capital flight, inflation, and particularly payments to service external debts have contributed to the fall in investment. The last factor has been decisive in the sharp drop in public capital formation, which in turn has led to a fall in private capital formation. The cases of Mexico and Brazil, which devoted a major proportion of public spending to debt payments, much of it from investment capital, are perhaps the clearest empirical evidence of the direct tie, complementary nature, and even "engine" role that public investment has compared with private investment. This is especially true for Latin America and the Caribbean, whose growth model for decades has been based on the state's active role in creating infrastructure and industrialization In other words, in the context of a fiscal crisis stemming from foreign and domestic indebtedness, the state's immobilization leads to the immobilization of the entire economy [18] This has been the subject of discussion between those who defend an active role for the state in economic recovery and those who, in contrast, rely on market deregulation and private sector activity

In any event, the drop in public and private investment creates a new turning point for the region. A decade of low investment, and thus of massive reduction in the productive base, is undoubtedly a heavy burden on the future. By contrast, other regions and countries better placed in the international economy and trade, such as the Organization for Economic Cooperation and Development (OECD) and Southeast Asia, have in the past and during the last decade based their restructuring and technological and productive modernization on major increases in investment.[19]

Per-capita private consumption, which reflects that part of output used to acquire consumer goods, decreased appreciably (between 9% and 10%) at the regional level between 1980 and 1990. Per-capita consumption in 1990 was higher than in 1980 only in Chile, Colombia, and Paraguay Brazil and Mexico had reductions

Figure 2
LATIN AMERICA AND THE CARIBBEAN:
CHANGES IN PER-CAPITA GROSS DOMESTIC PRODUCT
Cumulative variation, 1981-1991[a]
(in percentages)

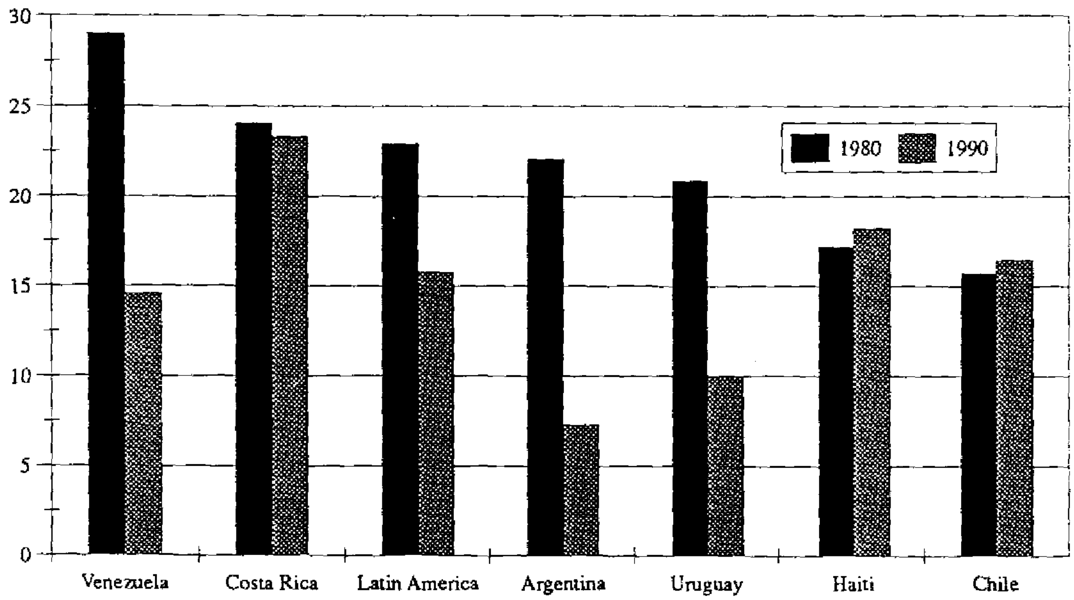


Notes: (a) Preliminary data subject to revision. (b) Excludes Cuba.

Source: Based on Table 3.2 in the appendix.

lower than the regional average, while in all other countries the decline in consumption was between 10% and 34%. The countries where the regression was most pronounced were Nicaragua, Costa Rica, Argentina, Haiti, and Guatemala, in that order.[20] To correctly gauge the impact that the fall in private consumption has had on the population's living standards, other factors characteristic of many countries in the region must be taken into account, such as inequalities in the distribution of income and low per-capita income, especially among the poorest. This means that even small downward variations have great social significance because of the already low

Figure 3
LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES):
CHANGES IN INVESTMENT COEFFICIENT, 1980-1990
(in percentages)



Source: Based on Table 3.4 in the appendix.

level of consumption and, as we shall see, translate into major increases in poverty.

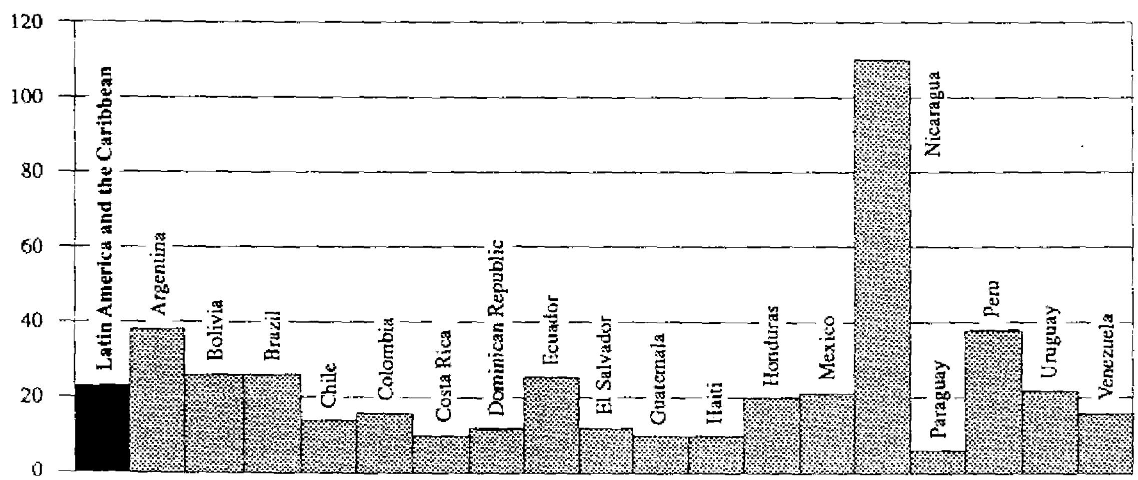
The third important element in explaining the behavior of the GDP and the nature of the crisis is the external sector, as it relates to both trade and capital flow. During the decade, economic policies attached high priority to increasing and diversifying exports in order to obtain resources to make payment of the external debt possible. As a result of those efforts, the regional trade balance improved appreciably, as is clear from the transition from an overall deficit of USD 1,600 million in 1980 to a surplus of USD 27,320 million in 1989 and USD 27,793 million in 1990.[21] These figures represent an important achievement, since prices for the region's chief export products have experienced general declines, as we noted above.

An examination of the current-account balance, which records the financial cost of external debt, shows that results are still unsatisfactory, though there has been some improvement compared with 1980. The deficit of USD 40,200 million in the 1980 current-account balance fell to USD 6,808 million in 1990. These data indicate the heavy burden of debt service, which in 1990 still represented 25.5% of the value of the region's exports (see Figure 4).[22] Only a few countries, such as Argentina, Colombia, Uruguay, and Venezuela, were able to change the current-account deficit into a surplus; in Mexico, Ecuador, and Chile, the reduction in the deficit was less than the regional average, and in Peru and Bolivia the deficit even worsened. The fragility of the recovery in the external sector since 1989 becomes clear, however, when we realize that in 1990 and 1991, exports from Latin America and the Caribbean were affected by the sluggishness of the industrialized economies, drop in demand, and resulting fall in international prices, which meant that the rate of growth in the region's exports was the lowest since 1983, the trade surplus (USD 9,849 million) was only a third of that in 1990, and that the region's current-account deficit of USD 20,485 million tripled compared with the year before.[23]

During the decade the capital balances of Latin America and the Caribbean were dominated by the phenomenon known as "financial flow investment," a result of the debt crisis and the fall in capital flows received in the region (see Table 3.6 in the Appendix). In other words, payments to service the debt were greater than received capital transfers, which meant a heavy transfer of resources abroad with very adverse effects on economic and social development. That developing countries, because of their external debt, are being decapitalized in favor of the industrialized countries is one of the major paradoxes of the present "international economic disorder." Because of this, Latin America made net transfers of capital abroad in 1990 for the ninth consecutive year. Between 1982 and 1990, net capital transfers averaged about USD 24,800 million annually. Only in 1991, as a result of new loans and reentry of capital into the region, was there a positive transfer of USD 9,900 million.[24]

In 1990, Latin America's total external debt was USD 440,899 million and profit and interest payments were USD 35,100 million. The size of

Figure 4
LATIN AMERICA AND THE CARIBBEAN:
TOTAL ACCRUED INTEREST AS A PERCENTAGE
OF EXPORTS OF GOODS AND SERVICES
1991



Source: Based on Table 3.6 in the appendix.

the external debt has remained relatively stable despite financial operations to reduce it, such as those carried out as part of the Brady Plan in Mexico, Costa Rica, Uruguay, and Venezuela, or the debt-for-capital assets conversion programs in Argentina, Brazil, Chile, Ecuador, Mexico, and Venezuela because of new loans contracted in recent years. In 1987 it exceeded USD 428,000 million; in 1989, USD 425,000 million, and in 1991, according to preliminary ECLAC data, USD 439,858 million. In order to gauge the true magnitude of the debt, it must be noted that this amount equaled 43% of the regional GDP and 284% of the region's exports in 1991 (see Table 3.6 in the Appendix).

The most indebted countries in absolute terms are those whose total disbursed debt exceeded USD 20,000 million in 1991. Into this category fall Brazil, with USD 119,709 million; Mexico, USD 104,100 million; Argentina, USD 60,000 million; Venezuela, USD 34,000 million, and Peru, USD 20,860 million. Countries with debts of between USD 10,000 million and USD 20,000 million fall into the second category: Chile, Colombia, Ecuador, and Nicaragua. With debts of between USD 1,000 million and USD 10,000 million, Uruguay, Paraguay, Bolivia, the Dominican Republic, Panama, Nicaragua, Honduras, Costa Rica, El Salvador, Guatemala, Jamaica, Trinidad and Tobago, and Guyana fall into the third and final category. Haiti and other small countries in the English-speaking Caribbean have debts of less than USD 1,000 million.[25]

Taking into account the absolute values of the debt and changes in the economies in the 1980-1990 period, the region has experienced some mild improvement in its payment capacity though, as the indicators noted above suggest, the practical impossibility of dealing with its payment will continue if imaginative and realistic formulas to reduce it are not adopted. It has been duly noted that the debt crisis cannot be understood as a problem of liquidity but one of solvency. In 1982, the total external debt represented 51% of the region's GDP. It reached its peak, 59% of the Latin American GDP, in 1987. By 1991 it had declined to 43%. Payment of interest on the debt, expressed as a proportion of exports and services, increased at the same time from 36% in 1983 to a peak of 36.7% in 1986, to drop to 22.8% in 1991.[26] In view of these indicators, the region's countries nevertheless find themselves in different situations. The ratio between total external debt and GDP shows that some countries are much more indebted, apart from the total amount of their debt. In 1991, Nicaragua's debt represented 618% of its annual GDP; Panama's, 133%; Ecuador's, 113%; Bolivia's, 102%; Honduras's, 99%; Argentina's, 93%; Uruguay's, 79%, and Costa Rica's, 70%. At the opposite extreme are countries such as Brazil, whose debt represented 24% of its GDP, Paraguay, with 29%, and Guatemala, 32%.

If we take into consideration the relationship between exports of goods and services and debt service payments, we find that the countries in which the latter are most burdensome are Argentina, Bolivia, Brazil, Peru, and most of the countries of the Central American isthmus. Nicaragua is perhaps the most dramatic example, since in 1991 debt interest payments represented 110% of its total exports. In terms of per-capita debt, some countries in the English-speaking Caribbean, such as Barbados and Jamaica, must be taken into account in addition to those cited (see Figure 4).

During the decade the massive transfer of resources abroad to pay the debt had a counterpart in the domestic transfer of equally large resources. National resources that could have been allocated to productive investment and "human development" were channeled, through Governments, to creditor institutions and countries. It should be remembered in this regard that the public sector ended up being the chief debtor to the rest of the world, either because it took an active part in contracting the debt or because it ended up by nationalizing the private debt. Governmental resource mobilization nourished and increased the fiscal imbalances in public finance and the resulting inflation that had been building since the previous decade.[27] The need to carry out a fiscal adjustment that would eliminate both the fiscal imbalances inherited from the 1970s and those caused by the debt was undertaken in different ways. In some cases adjustment programs have included a "domestic adjustment" which has managed to reestablish a balance and control inflation, especially through drastic cuts in public spending. In other instances, imbalances were resolved through massive issuances of currency. The inflationary effects of this way of financing the budget, sometimes called "inflationary tax," were reinforced by the need to make adjustments of similar magnitude in currency exchange rates and other economic policy measures. This process, which is manifested in a vicious circle of debt, deficit, inflation, devaluation, deficit, and more debt, becomes all too clear in the hyperinflation episodes in Brazil, Argentina, Peru, and Nicaragua during the second half of the 1980s. The high inflation rates that occurred in those countries have had serious consequences for economic and social development, a few of which we shall note. First, loss of confidence in governmental management and the economy as a whole acts as a brake on both domestic and foreign investment. Second, the constant erosion of the population's real income, particularly of that segment of it that depends on wage income or governmental transfers (pensions), often pushes the lowest strata below the poverty line

All these indicators show how much the debt crisis of the 1980s has been an unprecedented economic and social disaster for Latin America and the Caribbean. Debt, macroeconomic imbalances, inflation, and the adjustment policies to which it led have prevented the region from achieving the economic recovery that benefited other regions in the world during the second half of the 1980s. Debt reduced domestic investment, particularly in areas such as productive infrastructure, technological modernization, and health and education, which are indispensable for sustaining a long-term national development strategy. Debt meant strangulation of imports, which had direct effects on productivity and domestic consumption. Debt alienated external credit because lenders came to fear immediate devaluation of credit instruments in the secondary market. Finally, debt payment became the ultimate goal of economic policies, often governed by international finance agencies, and this has had the effect of slowing down or even reversing the progress attained by Latin America and the Caribbean in social development and so has worsened the living standards of much of the population.

In order to gauge the burden of debt against Latin America's "human development" needs, it should be noted that, according to 1986 estimates, poverty could be eradicated through social investment programs costing 4 8% of the GDP, and that only 1% would be needed to end extreme poverty, or indigence.[28] Looking again at debt indicators for comparative purposes only, let us remember that in most of the region's countries, debt service has meant transferring abroad between 4% and 8% of the GDP,[29] and very high proportions of public expenditure. The counterpart of external debt has thus been an enormous "social debt," an expression coined by specialized agencies of the International Labor Organization (ILO), which is estimated at 5% of the GDP.[30] This shows that indebtedness has not only helped increase poverty, but also that if political willingness exists, there are still possibilities for undertaking programs to solve this problem definitively beyond mere social compensation for the effects of structural adjustment.

Economic policies for dealing with the crisis

As we noted, there was intense discussion during the 1980s about the causes of the economic crisis and the policies that should be adopted to overcome it. The new theoretical approaches proposed by neoliberals were adopted, to a large extent, by the principal international financial agencies, such as IMF and the World Bank, as well as those responsible for economic policy in many Latin American Governments.[31] When the crisis broke, stabilization and adjustment programs agreeing with those approaches and the severe conditions set by the international financing agencies were carried out in most of the countries, and adherence to them has been an essential requisite for securing new financial resources and rescheduling debt payments by both those institutions and private creditors, banded together around the "Club of Paris."

According to the neoliberal analysis of the crisis, the reforms should stabilize economies in the short term by reducing pent-up demand and eliminating deficits, and in the long term restore growth through structural adjustment programs intended to transform the economy by reducing the size of the state, liberalizing international trade, and promoting exports. To that end, stabilization and structural adjustment programs consist of a set of reforms that have been laid down in the "letters of intent" signed by the Governments with the international financing agencies, and which have been synthesized into the Three Ds policy: devaluation, deflation, and deregulation.[32] It is significant that the IMF's prescriptions were generally similar for all countries, though that agency adopted a "case by case" policy, justified on the basis of different national conditions, that avoided a regional approach to solving the problem. In brief, these reforms were as follows.

a) Fiscal discipline to eliminate the public deficit, which involves reducing the size of the state, adopting austerity measures (cuts in public expenditure, including investments, social outlays, and redistributive subsidies), and an increase in fees charged for essential public services. It is noteworthy that public finance could also be improved by increasing taxes (or making their collection effective) and cutting spending in other areas, such as military budgets Nevertheless, carrying out fiscal reforms and reducing defense budgets, which in some cases are excessively high, has generally not been done for political reasons This is particularly significant when we realize that, in contrast to the industrialized countries, most state fiscal revenue in Latin America and the Caribbean comes from indirect taxes and customs tariffs rather than from property and income taxes. Finally, it must be noted that achieving fiscal equilibrium entailed major problems and costs in many of the region's countries, where servicing the foreign debt consumed between 20% and 40% of public outlays.
b) Devaluation in real terms in order to improve the trade balance, and so the balance of payments.
c) Related to the foregoing is wage containment which, by depressing the buying power of wages, reduces domestic demand and lowers production costs. In large measure, this explains why there was a pronounced deterioration in real wages during the decade, something we will analyze below.
d) Full external opening by eliminating or significantly reducing protectionist barriers and adopting measures to attract foreign investment
e) Promotion of the export sector through subsidies and fiscal incentives taking the form of what has been called "state neointerventionism."
f) Privatization of state companies and specific public services, such as health, education, and, in some countries, social security, which often means a rise in costs for users.
g) Elimination of price controls, including those on components of basic food baskets.
h) Finally, streamlining of labor laws which, as is noted below, is a factor causing the so-called "development of precariousness" in the labor market [33]

Such reforms have been carried out at different times and paces, with differing intensity and adherence to neoliberal orthodoxy, and not without contradictions and inconsistencies. Each case has depended on the margins and negotiating capacity of each of the affected countries, which in turn have been governed by the degree of indebtedness and extent of their imbalances. As we will see, this explains why there are different situations in the region with respect to the amount of progress in and scope of adjustment.

Criticisms of these programs have been frequent and very varied. It has been noted that