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**STRUCTURAL
CHANGE
FOR EQUALITY**

*An Integrated Approach
to Development*



UNITED NATIONS

ECLAC

*Thirty-fourth
session
of ECLAC*

*San Salvador,
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Explanatory notes

The following symbols are used in tables in this publication:

Three dots (...) indicate that data are not available or are not separately reported.

A minus sign (-) indicates a deficit or decrease, unless otherwise indicated.

A full stop (.) is used to indicate decimals.

Use of a hyphen (-) between years (e.g. 2001-2003) indicates reference to the complete period considered, including the beginning and end years.

The term "dollars" refers to United States dollars, unless otherwise specified.

Figures and percentages in tables may not necessarily add up to the corresponding totals due to rounding.

The denomination "Central America" includes the following countries: Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama.

The annexes are available online at www.eclac.org/pses34/



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Annexes

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Foreword

A. Continuing the vision

This document deepens and broadens the approach set out by the Economic Commission for Latin America and the Caribbean (ECLAC) in *Time for equality: closing gaps, opening trails*,¹ submitted for consideration by the Governments of Latin America and the Caribbean at its thirty-third session in 2010. It was there that the groundwork was laid for a development vision at the threshold of the second decade of the twenty-first century. The vision was one of equality in its broadest sense, both as a guiding principle and as a strategic development horizon, for steering past the challenges of development policy and dynamics towards that horizon.

That vision of equality as a guiding principle and direction means spreading capacity-building, job opportunities and access to social benefits and safety nets throughout the fabric of society. But not just that. Equality is also the bedrock of citizen participation; it is essential for the exercise of civil, political, social and environmental rights. That is why *Time for equality* stressed, on the one hand, the importance of a deliberative democratic order in which all stakeholders participate fully and have a voice and, on the other hand, the importance of the State as a guarantor of those rights through advancement, redistribution, regulation and taxation. The need for social covenants (and, especially, for fiscal covenants) was the natural culmination of the message set out by ECLAC in *Time for equality*. Such covenants combine this broader view of equality with redistribution of the fruits of growth and access to the links of social inclusion in an entitlement-based approach to rights.

Response to the ECLAC proposal was widespread and is still rippling out to this day. It was an especially favourable juncture in history for making equality the focal point of development, especially in Latin America and the Caribbean. In 2010, among other things, (i) the pressure of long-unaddressed citizen demands had rearranged the region's political map during the previous

¹ LC/G.2432(SES.33/3).

decade; (ii) States and governments were more given to making social investments and using redistributive mechanisms, as can be seen in the systematic rise in social spending and in the countercyclical policies implemented, especially after the outbreak of the 2008 global financial crisis in order to cushion its social costs; and (iii) policies grounded in the universality of rights took front and centre in areas such as health, pensions and retirement.

Equality was no longer anathema to the development discourse; during the 2000s it was firmly ushered back into the picture by gender, ethnic and global civil society movements and a vast array of intergovernmental forums and world summits. Unlike the idea of equity, equality involves not only closing opportunity gaps but also a firm commitment by the State to redistribute the fruits of development, to achieve greater balance in the distribution of production factors and how they appropriate productivity gains, to define a normative framework spelling out social rights and calling for fiscal covenants based on the universality of rights and to be more willing to think not only in terms of thresholds but also in terms of ceilings. This latter idea is especially significant in a region like ours, where income and wealth tend to be overconcentrated in the top percentile, both proportionately and in comparison with other regions.

Our starting point at the time was that the deepening of democracy as a collective order and as a shared global imaginary calls for greater equality of opportunities and rights. We argued that social equality and economic growth that transforms the production structure are not incompatible, and that the challenge lies in finding the synergies between them. We underscored that there is no contradiction, but rather convergence: equality for growth and growth for equality.

We therefore see a historical opportunity to rethink development based on the core value of equality while seeking greater environmental sustainability. But this is to be no rhetorical exercise or just empty talk, but rather a thorough examination of how the components of development policy contribute to thriving, more equal societies.

It was driven by this need that ECLAC set out to draft the document it is now submitting for consideration by the Governments of Latin America and the Caribbean. The goal was to provide a more integrated vision of development, with clear guidelines for moving forward on key components of the development dynamic and development policy, along with virtuous circles between faster growth and more equality that are sustainable in the short run as well as over the long haul.

Employment with full rights holds the master key to equality; and that must come with social policies to tackle the risks on the road to structural change. Industrial policy is a long-term venture; along the way, sector adjustment pressures arising from productivity leaps call for social policies to ensure a well-being threshold for those who cannot, in the early stages, attain well-being through quality employment with rights.

The quest for equality is also universal in scope: everyone wants to be productive, achieve a higher standard of living, have access to knowledge and be educated and have a job and rights. That is our goal here at ECLAC: to build an inclusive development model with space for all segments of society to fulfill their potential and their life goals, grounded in structural change that is environmentally sustainable. When we speak of equality we are talking about production policy. We are talking about distribution of ownership and appropriation of public goods. And about productivity gains that are not ill-gotten but real, that is, based on a full understanding of the renewability of natural resources and their use over time with intergenerational equality in mind.

B. Towards an integrated vision of development: Cycle and trend, macroeconomics and production structure

Set out herein is a sweeping vision encompassing the many interdependent relationships that are the building blocks of development: cycle and structure management, macroeconomic and industrial policy, production growth with productivity level convergence (and the resulting spread of quality employment with rights throughout the economically active population) and their impact in terms of equality. These dynamics and interdependencies are examined in the light of an abundant casuistry running through the document, based on historical evidence and recent experience, comparing the countries of Latin America and the Caribbean with each other and comparing the region as a whole with others that have performed better.

We see this effort as a new foundation for building an integrated approach to development, taking advantage of the lessons of the past few decades and of the development paradigms put to the test in the region since the times of industrialization through import substitution. So, as we face forward, towards the future, we look back to draw on the historical outcomes of development in Latin America.

Learning from the past and from current trends and taking an integrated view that combines the macroeconomic dimension with the production dimension entails binding tightly together all of these policy components that have, in recent decades, been matter for an on-and-off and not particularly productive dialogue. To put it another way, macroeconomic policy and production development policy should not follow separate paths but rather combine to build intertemporal synergies between short- and long-term trends. On the macroeconomic side, fiscal, monetary and exchange-rate policies should do more than work to optimize impacts on the length, costs and benefits of cycles as measured by good national indicators. They can at the same time encourage long-term investment, diversification of the production structure and, especially, greater convergence of productivity levels throughout the economy. This gradual convergence in production and employment strengthens the sense of citizen ownership, yields greater willingness to seek consensus for improving well-being and fosters more virtuous links between citizen involvement and the direction of the economy. Conversely, greater production diversification, with high rates of incorporation of technological progress, narrower productivity gaps and greater energy and environmental efficiency, is essential for shielding the economy from the impact of cycle volatility, especially in the face of external constraints exacerbated by that volatility.

So, the potential synergies between macroeconomy and structure, between business cycles and growth trends and between the short term and the long run, pose the challenge of achieving the most virtuous coordination possible of macroeconomic policy and industrial and technology policy. Macroeconomics for development cannot dissociate the cycle and (real and nominal) stability from structural change and faster long-term growth. This dovetailing should take place under an integrated approach where production change is an explicit priority and capacities and social opportunities are levelled up. And, as pointed out earlier, social policy must be part of this process, especially during periods of structural change when production has still not become the universal best path to inclusion with well-being. In a complete change from the development paradigm that prevailed in the 1980s and 1990s, then, the role of the State and a new market/State/society equation are vital.

The link between macroeconomic policy and production investment is, moreover, crucial for reversing the chain of structural linkages that exacerbates social gaps in our countries. The prevailing pattern up to now has been for investment to reinforce the yawning gaps in productivity that feed labour market segmentation in terms of job quality, labour productivity and wage income. This segmentation largely explains the persistently high rates of informal employment in the region and the low percentage of the population covered by social security through work, which spread inequalities and gaps into the sphere of social protection.

By contrast, *positive coordination of cycle management with the converging expansion of the structure leads the economy to develop its potential in such a way that, over the long run, the benefits for society are more egalitarian.* The main mechanism whereby these two components (production development and social equality) converge is, beyond a doubt, the world of work, that is, the engine of social inclusion. It is in the world of work that the fabric of society can be strengthened through enhanced capacity-building for all of its members, more opportunities for the productive remuneration of those capacities and better conditions for harmonizing the interests of all labour stakeholders.

C. The road to structural change

If the goal and the strategic direction is equality, how do we get there? ECLAC holds here that structural change is the path. Its integrated approach is based on this reasoning.

Structural change means putting qualitative changes in the production structure at the centre of the growth dynamic. Doing so these days has its peculiarities, largely shaped by open economies whose patterns of specialization are defined by the quest for global market insertion. Improved global insertion and virtuous growth in domestic productivity and employment call for greater participation by knowledge-intensive sectors in overall production. This fosters the building of capacities, knowledge and learning in coordination with production and investment across the economy and the social fabric. In this scenario, environmental sustainability will be achieved only if there is structural change entailing a profound and inclusive technological transformation.

In the framework of our proposal, we understand that structural change is virtuous when it takes place on two interconnected fronts: enhancing the share of more knowledge-intensive sectors in production and trade, and diversifying towards sectors where domestic and external demand are expanding rapidly, so that demand can be met with domestic supply and imports and exports can grow in a balanced manner without putting unsustainable pressure on the balance of payments.

Structural change is thus associated with two kinds of efficiency that could be classed as dynamic. That is, they involve faster growth paths for productivity, output and employment over time. The first kind is called Schumpeterian efficiency, where sectors with the highest rate of productivity growth and knowledge and capacity expansion towards the economy and society as a whole are leading the innovation process and driving productivity gains, both in their own sector and radiating out to other sectors. The second kind is Keynesian efficiency, which refers to a pattern of specialization in sectors that benefit from higher rates of growth in both domestic and external demand, with positive impacts on output and employment. It is thus crucial for structural change to strengthen dynamic sectors, not only technologically but also vis-à-vis demand, because rising productivity without a parallel increase in demand could

spark underemployment and unemployment. Both kinds of efficiency are usually found together, because the more knowledge-intensive sectors also tend, in the long run, to stronger demand and more international specialization.

Industrial policy is indispensable for promoting virtuous structural change. This obviously involves political will, because the State has a key role to play in advancing policies in this sphere. It is worth remembering that during the past two decades, talking about active industrial policy conducted by the State was a virtual anathema in the development lexicon that prevailed under the Washington Consensus. Talking about equality was, too. Underlying that “veto “ was the assumption that the market, supported by the right signals, would take care of optimizing factor allocation in a way that would in the end lead to productivity leaps. Experience has clearly shown that this is not the case, especially when looking at the poor productivity trends for Latin America and the Caribbean over the past 30 years. But today the need for such policies has been brought up from both sides of this ideological divide. The view taken by this document is that industrial policy aims in two complementary directions: building the capacities and competitiveness of existing sectors with clear potential for specialization and for incorporating technical progress; and diversifying the production structure by creating new, high-productivity sectors that are more sustainable and environmentally efficient. On top of this comes the pressing need to promote greater productivity among micro and small and medium-sized enterprises, especially because of their capacity to create jobs and become hubs of knowledge dissemination and technology appropriation.

There is no virtuous structural change if all that is done is to create more high-tech enclaves or change just the most efficient edge of the production system. Structural change must be synergized in the economy as a whole, with backward and forward linkages, and with support for intermediate-productivity sectors so as to mesh more dynamically with larger companies or sectors with greater productivity leadership. In this pull-from-the-top and push-from-the-bottom process, the structure of employment changes and gradually shifts the working population from low-productivity sectors to new ones that increase the density of the intermediate space. In this process, gaps tend to narrow in an overall shift towards greater productivity. In the long run, the outcome is more diversified distribution that is, however, also less unequal as more of the economically active population moves to medium- and high-productivity sectors. This has a high equality impact thanks to the conveyor belt of employment.

D. The equality horizon

If structural change is the path, greater equality is the reference horizon and industrial policy and macroeconomics are the tools for attaining that goal. By centring growth on the creation of new sectors and the dissemination of technology throughout the system, structural change creates job opportunities in higher-productivity sectors while pushing labour market participation rates up and unemployment and informality rates down. There is no question that all of this has positive impacts in terms of poverty and inequality reduction.

There are two complementary ways to advance towards higher levels of distributive equity, and they combine in different ways. One is the fiscal route, taxing the higher-income sectors and granting benefits to disadvantaged ones. Social policy is often the vehicle for assisting the most disadvantaged and poorest segments via this route. Another path to equality is structural change, progressing towards a production matrix that endogeneously creates jobs and builds capacities

and broadens high-productivity activities. This includes access to technology, knowledge appropriation and distribution of productivity gains among the factors of production.

Where the production structure is very polarized, purely redistributive fiscal and social mechanisms do not solve the problems of inequality and slow growth and are not sustainable over the long run. Earlier than later, policies will have to target the generation of job and training opportunities in the framework of structural change. The adoption of industrial policies that encourage this transformation should be considered, along with social policies, as they are key dimensions of the equality horizon. For example, production linkages are part of structural change; they prevent concentration and disseminate gains throughout society in a more solidary way.

Conversely, social and redistributive policies should accompany industrial policy. For one, they help to improve distribution and reduce vulnerability in the short term, creating an intertemporal linkage that enables structural-change-oriented policies to achieve their redistributive impacts, which are longer-term. Moreover, social policy should protect the most disadvantaged sectors during the disruptive periods of structural change (when sector realignment can involve periods of adjustment with unemployment), as well as from the social impacts of external shocks.

In short, the thread running through this document is that structural change is the path, macroeconomic policy is the toolbox and equality is both the core value and the horizon towards which structural change is moving. When structural change leads to narrower productivity gaps, production structure diversification and aggregate productivity gains, the world of work benefits in terms of equality. This is because wage gaps decrease, the contributory social safety net expands across sectors of society as decent work becomes much more widespread, fiscal capacity improves thanks to more sustained, robust growth (thereby enhancing the redistributive action of the State), and access to services expands thanks to infrastructure improvements. Besides, a more integrated economy centred on a more diversified, specialized production matrix also means a society in which it is politically more viable to reach stakeholder covenants seeking more equal appropriation of the wealth created by productivity leaps. And formalizing employment and making it more productive fosters dialogue among labour-market stakeholders and lays the institutional groundwork for advancing towards full entitlement to social rights.

As explained at the beginning, the proposal set out herein for the Governments of the region returns to and goes deeper into the ideas put forth in *Time for equality: closing gaps, opening trails*. The following pages spell out our best efforts and our best tools for an integrated approach to development. We set course for equality and propose structural change as the route: a long road whose virtuous impacts call for political will and guidance, State policies and active citizens committed to a certain kind of society.

E. A vision for the generations to come

This proposal for structural change comes at a turning point in the history of humankind. The future of the world, threatened by gathering, powerful forces such as climate change and biodiversity loss, hangs in the balance and can only be addressed by modern, highly innovative policies in the technology and social spheres. The times that we face will likely involve the most radical and fast-moving changes in production and consumption patterns in history. Against this backdrop, Latin America and the Caribbean can be a good platform for this transformation.

Structural change for equality is, then, a long-term vision entailing profound transformations. In this vision, the role of policy is to prioritize, guide and build agreement. Turning that vision into concrete actions and steps towards that strategic horizon requires democratic, efficient institutions.

This vision is informed by true concern for the future of coming generations, to ensure fulfilment of their rights and their potential. First of all, those generations have a major role to play in structural change: they will use their enhanced capacities to disseminate technological progress and drive unprecedented advances in patterns of production, organization and communication.

Second, the coming generations are new technology “natives “ and are as such an essential part of the transition to information and knowledge societies. But there is also a strong potential link between the technological revolution and the new ways to reconcile growth with environmental sustainability, as happens with increasing virtualization that saves materials, energy and movement. Technological change can be steered towards making productivity gains compatible with environmental standards. And it is precisely those new generations who are more aware of long-term environmental challenges that know no national borders.

Third, demographic changes mean that our societies will age in the medium term and will thus grow increasingly dependent on the productivity of the working-age generation. The current stage of the demographic dividend, when there are more people of working age in proportion to the numbers of children and older persons, is the right time to invest in the capacities of new generations. Now is the time to seize opportunities and prepare for the risks of a changing age pyramid. Today’s children and young people will tomorrow be the drivers of productivity gains that will sustain social protection systems in keeping with new demographic profiles.

Lastly, political change and the emerging networked society are bringing about new ways to mobilize and organize in order to make demands heard, carve out new spaces for discussion and reenergize the public space with renewed citizen participation. In this shift towards networked mobilization and greater political space, the young people of today exhibit surprising creativity in the use of available spaces and resources as well as a renewed capacity for reflecting on what lies ahead for all humankind. For this reason, these generations are more open to changes in course like those proposed herein, with a focus on greater social equality, new production and growth patterns, more timely access to capacity-building and more conscious defence of environmental sustainability.

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