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Policy coherence and coordination: Rebalancing stabilization and developmental policies in Latin America and the Caribbean

ECLAC

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Policy coherence and coordination

Rebalancing stabilization and developmental policies in Latin America and the Caribbean

Introduction

The multilateral architecture was created to promote global stability and social and economic development. Nevertheless, in practice it often has subsumed development objectives to the canons of economic stability.

Maintaining global stability was assigned to the International Monetary Fund (IMF). This mandate boiled down to preventing and managing crisis in middle income emerging market economies initially through short-term programs with associated conditionalities in terms of low inflation, exchange rate and fiscal sustainability (i.e., macroeconomic stability). Eventually, the emphasis shifted from short to long-term programs reflecting the belief that stability was contingent on structural reforms. Moreover, the objectives and effective mandates of other institutions of the multilateral system became interwoven with those of the IMF. As a result, development policy was ultimately designed with the purpose of achieving stability.

The onset of the International Debt Crisis and unsustainable macroeconomic disequilibria in some countries of the region also paved the way for the predominance of stability over development in policy making in Latin America. The policies adopted by Latin American countries in the 1990's followed those encapsulated in the Washington Consensus (1991) with a clear emphasis on price stability and fiscal equilibrium. Although governments adopted some sector policies, these were not the main items in the economic reform agenda. Thereafter, in the period 2000-2008, the governments recognized the need to improve existing social conditions while remaining committed to maintaining nominal and macroeconomic equilibrium.

The predominance of stability over development at the international and national levels has severely limited developing countries, including those of Latin America and the Caribbean, from broadening their policy space objectives and instruments to pursue polices for sustainable development. To summarize, the policies guiding multilateral, regional and national actions have been associated with levels of per capita GDP growth insufficient to overcome the existing inequitable and vulnerable social conditions.

More precisely, the multilateral system created liquidity constraints in the form of insufficient and volatile access to external savings, and credit rationing. Within the real sphere the growth plateau was low and volatility was enhanced by the recurrence of financial crisis and pro-cyclical responses. In both the financial and real spheres, Latin American countries had access to a restricted and narrow set of instruments which severely limited the capacity and policy space from pursuing countercyclical policies.

The effects of the global economic crisis (2007-2008) on Latin American performance including the occurrence in 2009, of one of the most important contractions in GDP since the 1980's Lost Decade, rising long-term unemployment and increased poverty, have led to the perception that placing excessive emphasis on stability and macroeconomic equilibrium can be very costly and outright insufficient to promote economic and social development.

At the same time, there is a growing awareness that policy makers do not have to compromise development for stability or contrarily stability for development. In fact, stability and development can be conceived as two mutually inclusive goals. This however, requires rebalacing the equation between both and more precisely, outlining a framework and agenda for policy coherence at the international, regional and national levels.

Policy coherence to rebalance the equation between stability and development means defining an agenda at the global, regional and national levels taking into account the needs and interests of developing countries with the aim of increasing their income, growth and welfare prospects, as well as their capacity to capture the benefits of globalization. This in turn presuposes that institutional actors within and across these geographic boundaries posess the policy space to undertake systematic, aligned and mutually reinforcing actions towards achieving these agreed objectives.

At the international level policy coherence for stability and development implies that the multilateral system should focus on guaranteeing financial stability and the provision of adequate level for development finance.

This means in practice that multilateral institutions should be endowed with the appropriate capacity and instruments to manage the economic cycle; the strengthening of mechanisms for crisis prevention; and the reform to governance mechanisms to take into account and incorporate the needs and interests of developing countries including those of Latin America in multilateral body decisions through greater voice, representation and participation. Within this setting regional financial cooperation can play a relevant and complementary role to that of the international financial architecture as an additional line of defense to confront and mitigate the effects of financial crisies and avoid contagio. Greater stability of the international financial system must be accompanied by an improved capacity of countries and multilateral institutions to deliver financial development assistance.

At the national level, policy coherence for the objectives of stability and development involve mutually reinforcing actions in the areas of macroeconomic management, social welfare and productive development. In the macroeconomic area the focus should center on stability understood in a broader sense than that of low inflation and fiscal sustainability. In the social area, the agreed objectives should include the improvement of education, and employment conditions and social protection mechanisms. Finally the objectives within the production sphere should include narrowing the productivity gap with developed countries, increase investment, promote international insertion, and the use of green technology.

1. The multilateral system and the rise to predominance of stability over development

The Multilateral System created in Bretton Woods (New Hampshire, July 1944) was created to provide two public goods, stability and development. Notwithstanding, the efforts of the Multilateral System institutions evolved towards one primary goal, that of maintaining economic stability and developmental policies became subsumed to the concerns for stability.

Stability was the main mandate assigned to the International Monetary Fund IMF). Its main objectives as set out in the Articles of Agreement of the IMF included: (i) the promotion of international cooperation through consultation and collaboration; (ii) the facilitation the balanced growth of international trade, high levels of employment and income; (iii) the promotion of exchange rate stability; (iv) the establishment of a multilateral system of payments for current account transactions; (v) shorten the duration and lessen the degree of disequilibrium in the balance of payments; (vi) to provide confidence to member countries by making IMF resources available. IMF focused its actions mainly on promoting exchange rate stability and facilitating resources under a series of conditionality programs.

The role of the IMF as a provider of global stability was not very significant in the early post war years. It became highly relevant following the second oil price shock (1979) and the International Debt Crisis as developing countries faced mounting international payment obligations which were compounded mainly by higher real interest rates and deteriorating terms-of-trade. During this time, the IMF’s role focused mainly on the issue of managing and preventing currency and financial crises in middle income countries and its adjustment programs began to expand considerably.

Moreover, besides concentrating on managing and preventing crises in middle income countries, the IMF started to modify, in the aftermath of the 1980 debt crisis, it conditionality focus with important implications for the relationship between stability and development.

Initially and up until the Debt crisis the IMF provided mainly short term programs which provided liquidity under short-term macroeconomic goals such as external balance, liquidity control and public debt and deficit sustainability. Thereafter, IMF programs and conditionality expanded to cover more developmental aspects.

Initially the emphasis was placed on the Less Developed Countries who required longer periods of time to comply with the requirements of IMF programs. As a result the IMF created long-term programs to ‘alleviate structural imbalances and rigidities’ for countries with low growth rates and declining GDP per capita incomes. Within this category the Heavily Poor Indebted Countries became the beneficiaries of IMF long-term concessional aid.

Structural and long-run programs were reinforced and took on an increasingly important role and relevance relative to short-term lending with the break-up of the Soviet Bloc in the early 1990's and the occurrence of financial crisis throughout that decade.

As table 1 shows available data from 1975 until 1999 shows that short-term programs (such as the SBA, ESBA and EFF) represented on average roughly 2% of the beneficiary countries GDP (the exception is the period 1980-1984 when the importance of short term programs rose to represent 3.9% of the beneficiary countries' GDP). By comparison, longer-term programs assumed a greater relative importance reaching 4.2%, 5.8% and 7.0% of the beneficiary countries' GDP in 1985-1989; 1990-1994 and in 1995-1999.

Table 1
Number of total IMF programs. Short and long term programs as % of beneficiary countries GDP (1970-1999)

Period	Short-term programs (in % of countries GDP)	Long-term programs (in % of countries GDP)	Number of total IMF programs
1975-1979	2.0		113
1980-1984	3.9		169
1985-1989	2.2	4.2	173
1990-1994	2.0	5.8	155
1995-1999	2.2	7.0	150
Total			760

Source: Jha (2003)

The focus on longer term programs reflected the belief that stability could be promoted and achieved through appropriate supply side policies such as structural reforms (i.e., structural conditionality). Moreover the efficient transfer of resources to tackle stability problems as well as the success of monetary and fiscal measures was contingent on the appropriate and adequate structural and development conditions.

The shift in emphasis from short to long run programs blurred the dividing line between the objectives of stability and those of development. More importantly, it paved the way for subordinating development objectives to those of stability.

Since any longer-term structural issue was seen to affect the stability performance of middle income countries which was the ultimate goal of IMF lending and programs, development policy was ultimately designed with the purpose of achieving stability.

Within this context, and as the IMF became increasingly considered the anchor of the international financial system, the mission of other multilateral bodies such as the World Bank became interwoven with that of the International Monetary Fund (IMF). Besides lending for projects, the efforts of the World Bank centered in the 1990's and thereafter to provide broad base support in the form of structural adjustment loans granted under IMF approval.

2. The predominance of stability over development also shaped and guided Latin American and the Caribbean approach to policy making

Latin American governments adopted in the 1990's economic policies associated to the Washington Consensus as a response to the international debt crisis and the worst decadal growth performance in the region's history.[1] The Washington Consensus policies can be divided into stabilization policies proper and development oriented policies.[2] The former included fiscal discipline (including the reorientation of public expenditure and tax reform) and price stability. The latter comprised mainly trade and financial liberalization, and privatization. According to the spirit of the Washington Consensus the effective implementation of these policies would allow market forces to work and allocate resources efficiently generating nominal stability, robust growth and improved social welfare.

In the following decade and more precisely in the period 2002-2008, Latin American countries remained committed to pursue nominal stability and maintain macroeconomic equilibrium as primary policy goals. At the same time countries became cognizant of the need to improve social conditions in Latin America and the Caribbean. Nonetheless, the efforts undertaken in that direction did not significantly narrow the existing social gaps including high unemployment, low levels of education and persistent poverty levels and inequality.

2.1 Stabilization policies: fiscal and nominal stabilization

Following the debt crisis Latin American countries began to reduce their government deficits and pay more careful attention to the management of debt. Initially, the adjustment was achieved through reduced spending to the detriment of more developmental objectives of public finance including the distributive function. In the 1990s, the emphasis of fiscal adjustment shifted placing the emphasis on revenue measures.

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[1] Latin American GDP per capita growth contracted in 1981, 1982 and 1983 (-1.8%, -3.6% and -4.7%) The varying intensity of the debt crisis within Latin America produced large disparities of GDP per capita variation at the country level. In 1981, eight out of eighteen Latin American suffered contractions including three of the largest economies of the region Argentina, Brazil and Venezuela (-7.1%, 6.6% and -3.4% respectively). In 1982, all of Latin American economies, with the exception of Panama, experienced contractions. In 1983, Latin American economies contracted once again with the exceptions of Argentina and three Central American countries (Costa Rica, El Salvador and Nicaragua). In spite of the slow recovery process which began in 1984, these three years of massive downturns produced the worst decadal growth performance in Latin America and the 1980's were termed the 'Lost Decade.'

[2] The Washington Consensus including the following policy prescriptions: (1) fiscal discipline; 2) reorientation of public expenditure; 3) tax reform; 4) liberalization of financial markets; 5) competitive exchange rate; 6) liberalization of trade policies; 7) openness to foreign direct investment; 8) privatization; and 9) deregulation and secure property rights.

The fiscal policy stance adopted in the post-debt crisis period was facilitated by increased inflows of external capital which led to the real appreciation of local currencies and contributed to generate lower inflation rates. Beginning in 1991, the Latin American region benefited from considerable volumes of financial flows and decreasing international interest rates which turned the transfer of resources positive for the first time since the onset of the debt crisis. De-indexation measures and exchange rate as well as, income policies adopted by some of the governments in some of the major economies also contributed to fiscal stability.

In the period 2002-2008, the governments sector continued to narrow their budget imbalances significantly and more over eventually achieved a surplus equivalent to 0.4% in 2007, which increased the level of government savings. The efforts were aided by favorable external conditions including important increases in commodity prices which are an important component of government revenue for some of the countries of the region.

Fiscal efforts permitted jointly with rigorous monitoring of liquidity conditions significant reductions in the rate of inflation. In the 1990’s and in the period 2000-2008 the greater majority of Latin American countries were able to achieve one digit inflation rates (See, Table 2 below).

Table 2
Annual inflation rates for Latin American countries, 1991 and 1999 (In percentages)

Country	1990	1999	2008
Argentina	1,343.9	- 1.8	7.2
Bolivia	18.0	3.1	11.8
Brazil	2,101.3	8.9	5.9
Chile	27.3	2.3	7.1
Colombia	32.4	9.2	7.7
El Salvador	19.3	- 1.0	5.5
Guatemala	59.6	4.9	9.4
Haiti	26.1	9.7	17.0
Nicaragua	13,490.2	7.2	12.7
Panama	0.8	1.5	6.8
Paraguay	44.0	5.4	7.5
Peru	7,646.8	3.7	6.6
Dominican Republic	79.9	5.1	4.5
Uruguay	128.9	4.2	9.2

Source: ECLAC on the basis of official data.

2.2. Development policies: trade and financial liberalization and privatization

Together with policies searching for nominal stabilization, governments in the region undertook policies to promote economic growth. These policies were justified under the assumption that were compatible with the stabilization policies adopted, and also that trade barriers and the inefficiency of public enterprises were a limitation to economic growth and the positive spill over effects that growth would bring to a large fraction of the population.

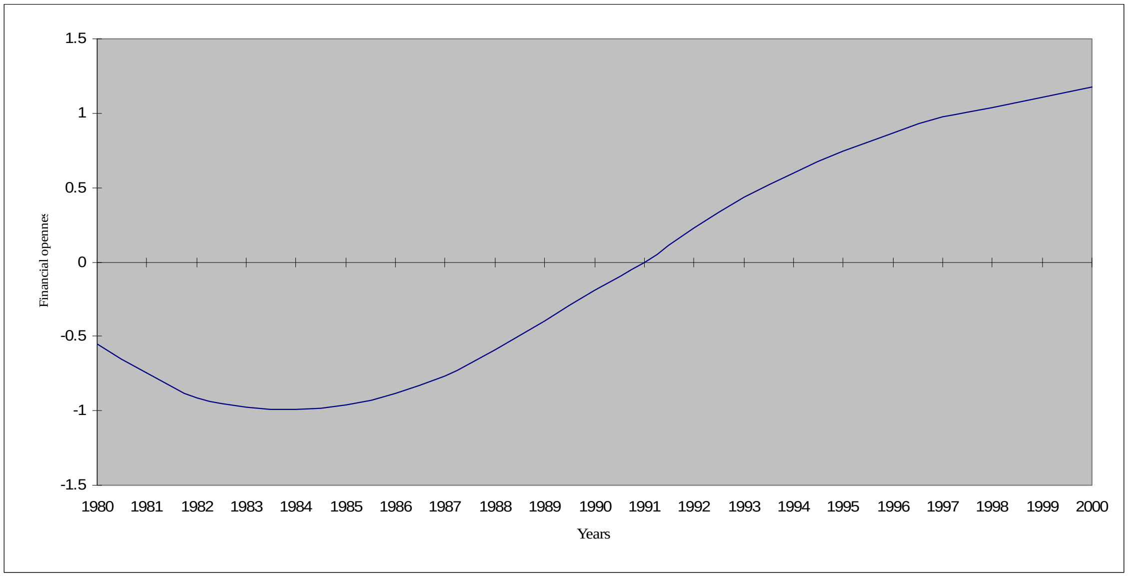
As well from the middle of the 1980's onwards, Latin American governments implemented trade and financial liberalization policies simultaneously. During this period Latin American countries first completed their adhesion to the GATT and following the Marrakesh Agreement (1994) adhered to the World Trade Organization (WTO), reduced their tariff rates and opened up their economies. Following trade liberalization and taking the 1980's as a reference the average regional tariff rate declined from 37% to 12% in the trade liberalization period.

The Latin American stance on free trade was enhanced first by the region's active participation in promoting the Free Trade Area of the Americas, and more recently in the period 2000-2008 by the region's involvement in the proliferation in bilateral free trade agreements.

During the entire period here considered, the openness coefficient measured as the sum of export and imports over GDP almost doubled increasing from 23% to 42% between the periods 1970-1980 and 2000-2008.

Around the same time, Latin American countries implemented financial liberalization policies. Argentina, Brazil Chile, Colombia, Mexico and Venezuela liberalized their respective stock markets (an indication of financial liberalization) in the late 1980's or early 1990's. Evidence of financial liberalization is provided by figure 1 below which shows an index of openness in capital account transactions developed by Chinn and Ito (2008). The higher is the value of the index the greater is the degree of openness of an economy to cross-border capital transactions. As the figure 1 shows, the level of financial openness rose to an index above zero and systematically increased throughout the 1990'decade reflecting the fact that Latin American countries became on average more 'financially open' in the 1990's.

Figure 1:
Latin America. Evolution of the financial openness indicator
1980-2000 (Averages)



Source: On the basis of Chinn & Ito (2008)

In the following decade, Latin American countries continued to liberalize their financial sector as attested by the important presence of foreign owned banks which in some of the big economies own a large share of total commercial bank assets.

A natural complement to trade and financial liberalization was the privatization of public enterprises, which more than any other policy, changed the economic landscape in Latin America and the Caribbean. Privatization was undertaken mainly in the period 1985-1992, as more than 2000 public enterprises (public utilities, financial institutions, airlines, retail shops, etc), were privatized in the region. The precarious financial conditions of most state-owned enterprises, the fiscal burden that implied and the very poor provision of services motivated significant efforts across the region to undertake such a difficult process of handing over the property of those enterprises. Thereafter, with some exceptions involving the energy sector, governments did not reverse the privatization processes.

Governments had multiple goals with the privatization process: some are closely related with the stabilization policies (increasing fiscal revenues and reducing fiscal or quasi-fiscal cost) and others are more closely related with the promoting growth and productivity strategies (increase efficiency in the operation of these firms, reducing the size of the public sector, and make more ‘democratic’ the ownership of those firms). Despite the positive effects that privatization had on productivity and fiscal balance, there are doubts about the welfare implications of this process, given that privatization of public utilities took place without the proper regulation schemes, and public monopolies were replaced by private monopolies.

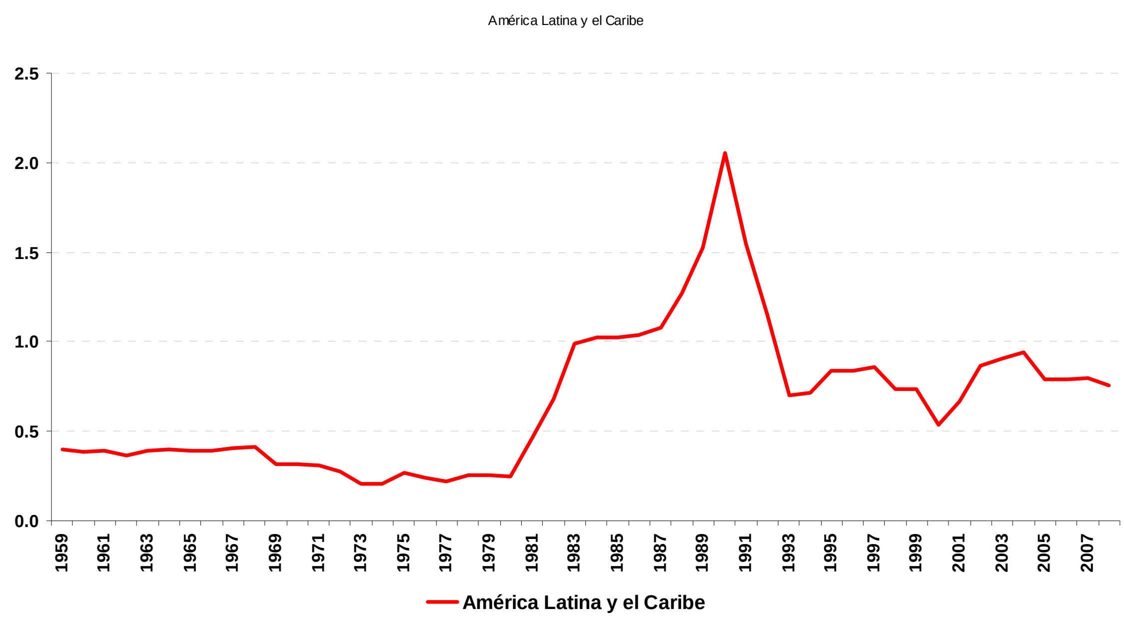
3. The implications of the predominance of stability over development for Latin America

As explained above the consequences of the logic which privileged stability over development permitted Latin American countries to reduce substantially their levels of inflation and their fiscal imbalances. At the same time a higher degree of openness of the economy to international trade and higher degree of integration to international financial markets also provided benefits to Latin American economies in the form of greater access to foreign markets and external savings.

However, greater nominal stability accompanied by increased access to foreign goods and external savings did not improve overall economic performance. Rather the performance was disappointing as Latin America registered on average low growth accompanied by increased volatility. Moreover, the commitment to maintain nominal stability and macroeconomic equilibrium significantly lowered Latin America's policy space to undertake development policies.

Latin America registered a rate of growth of GDP per capita equal to 0.8% in the during the implementation of the Washington Consensus reform period (1990-2002) which was greater than the -0.4% of the 1980's but which fell short of the 3.1% rate of growth achieved in the 1970's. Low growth has been accompanied by increased volatility (See figure 2 below).

Figure 2:
Volatility in Latin America measured by the coefficient of variation of real GDP
(Ten year moving average).1950-2008



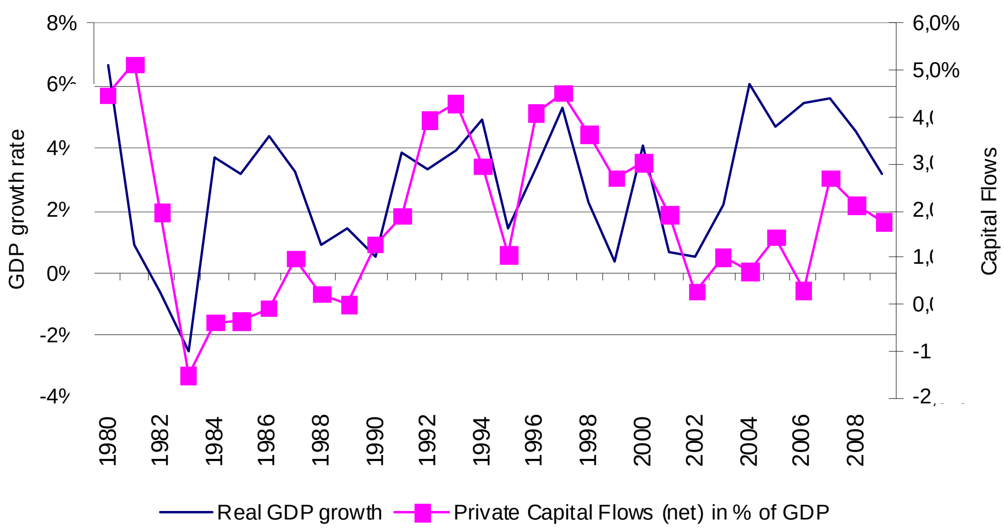
Source: ECLAC(2009)

This responds to the fact that higher economic and financial integration have increased LAC economies exposure to external shocks and to the imperfections of the international financial markets (insufficient and volatile provision of liquidity, and to credit rationing (sudden stops of international capital flows and severe restrictions in domestic credit markets)) which is underscored in international financial crisis episodes (including the Asian, Mexican, Russian, Argentine and the recent Global crises).

Moreover, as Latin American governments had their policy space substantially reduced their response to real and financial volatility (terms-of-trade and sudden capital stops) was for the most part pro cyclical. The pro-cyclical nature of policy took the form of contractions of internal demand as the main response to any significant terms-of-trade decline or sudden capital stops (See Figure 3 below) to restore macroeconomic equilibrium.

The reduced policy space of Latin American countries when confronting external shocks had important economic and social costs for the region. Empirical evidence indicates that the average contraction in absorption due to both financial and terms-of-trade shocks for the period 1980-2006 was equivalent to roughly 10% of regional GDP (ECLAC, 2009).

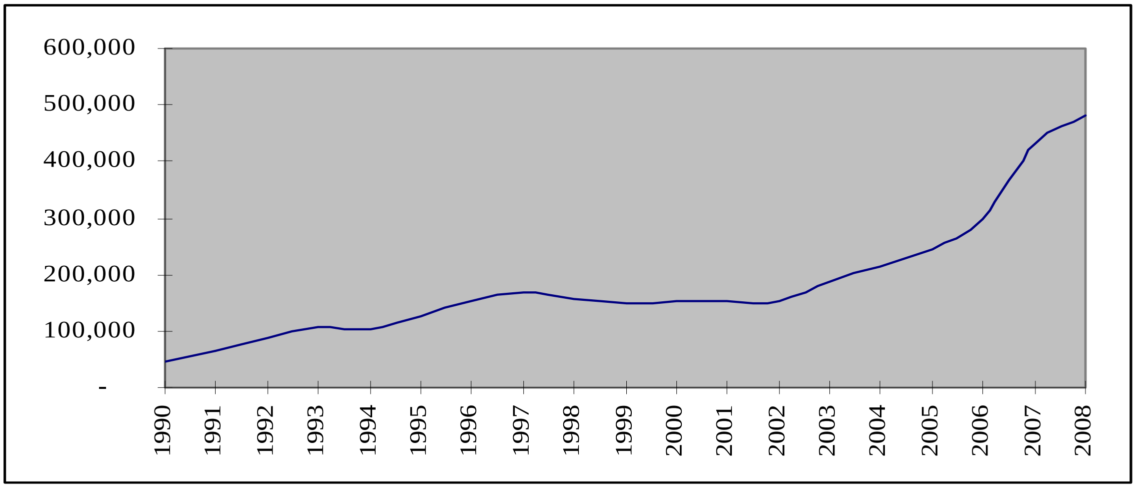
Figure 3
Latin America and the Caribbean (32 countries): Capital flows and the business cycle
(Net private capital flows in percents of GDP and GDP growth rate, in percents)



Source: Development Studies Section ECLAC (2009) using "World Economic Outlook" (WEO) database from the International Monetary Fund (IMF). Available on line: http://www.imf.org/external/pubs/ft/weo/2008/02/weodata/index.aspx.

The need to increase Latin American government's maneuvering capacity through greater policy space has been underscored and reinforced by the experience of the current global economic crisis (2007-2008). The global crisis has shown that the governments in the region still have limited space to mitigate the effects of financial crises. In this episode governments were able to draw resources form the stock of reserves accumulated in the pre-crisis period (See Figure 4). However, rather than promote the growth and development of developing countries, the flow of reserves accumulated by developing economies finds its way back to the markets of developed economies.[3] Thus Latin American countries still need to seek way to broaden their policy space without compromising development.

Figure 4:
Latin America. International Reserves.
US$ Million



Source: ECLAC (2009)

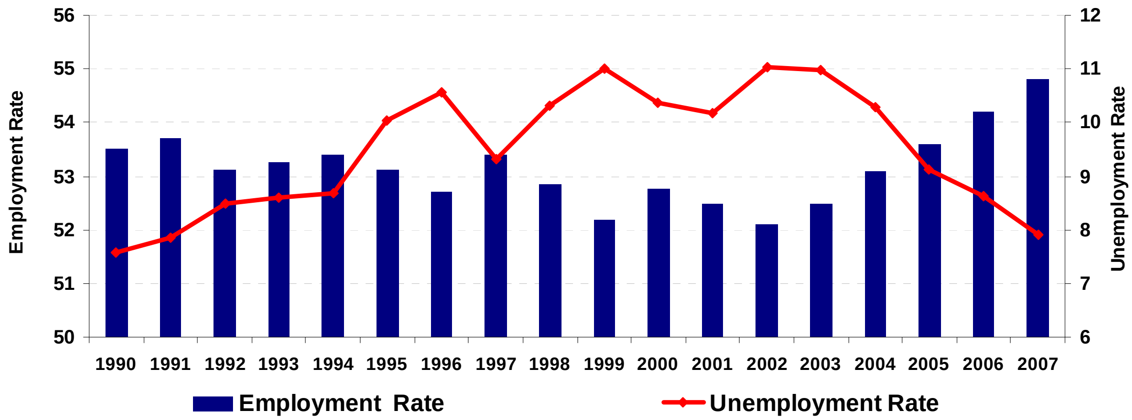
The above analysis has highlighted the linkages between capital inflows, economic growth and development. It showed that the volatility of international and domestic financial markets is closely correlated with the volatility of output. In turn, slow and volatile growth and to a lesser extent, the diversion of resources towards reserve accumulation, have hampered the region's efforts to improve labor market and social conditions, in spite of increases in social expenditure.

In the 1990's Latin American economies were not able to create a sufficient number of jobs to absorb the active population giving rise to an increase in the rate of unemployment. Available data for the period 1990-1999 shows that the rate of

[3] The absence of developed capital markets in developing countries jointly with risk considerations has encouraged developing countries to invest their excess reserves in the capital markets of developed countries. This has coincided with a negative net transfer of resources from the developing to the developed world reaching a record level of US$ 933 billion in 2008. In the case of Latin America, the net transfer of resources turned negative in 2002 and has averaged US$ billion 72 dollars annually for the period 2002-2008The net resource transfer is defined as net capital inflows less net interest and other investment income payments abroad. Developing countries began to record negative net resource transfer since 1997.

unemployment increased from 7.6% to 11%. Consistently with this data, the rate of employment declined from 53.5% to 52.2%. Moreover during this period, labor market conditions became more precarious as shown by the rise of informality and the increase in importance of self employment relative to total employment (See figure 5 below). The precariousness of labor market conditions has been aggravated by the social effects of the current crisis which are deemed to be deeper and of a more lasting nature than the purely economic effects.

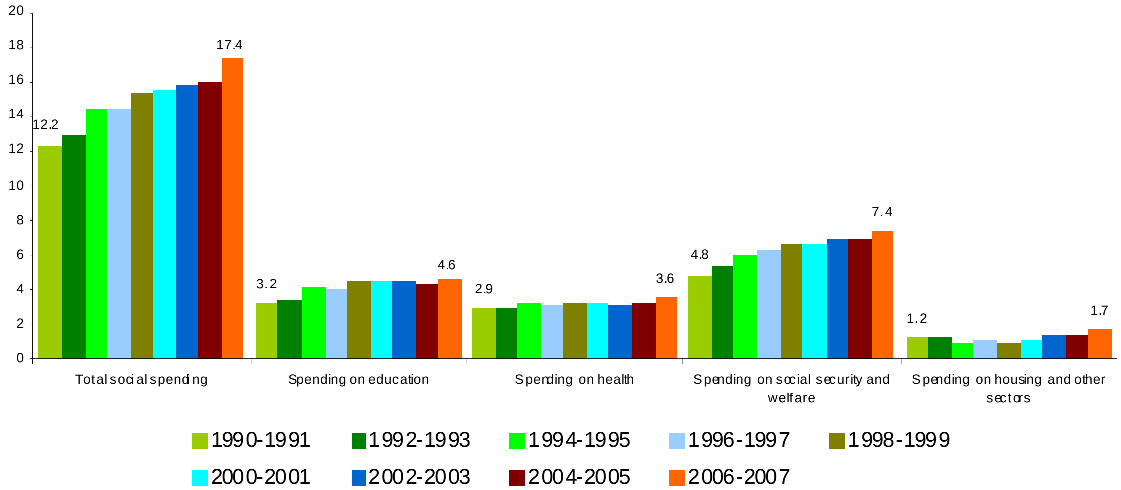
Figure 5:
Employment and unemployment rates in Latin America and the Caribbean
(1990-2007)



Source: ECLAC (2009)

For its part, the period 1990-1999 witnessed an increase in social expenditure from 12% to 15% of GDP mainly driven by expenditure on social security and welfare (See figure 6 below). Thereafter social expenditure has increased slightly by roughly 2 percentage point of GDP, reaching 17.4% of GDP in 2007. This has permitted some reduction in poverty and indigence levels. Nonetheless, the persistence of poverty and hunger throughout the region illustrates the vulnerability of the social conditions in Latin America. This remains an important obstacle to the achievement of improved levels of development throughout the region.

Figure 6:
Social spending in Latin America
(1990-2007) (Percentage of GDP).



Source: ECLAC (2009)

On the average rate of poverty and indigent have shown a decline, in absolute terms the poor population is still too high reaching 184 million in 2007 (116 million non-indigent and 68 million indigent respectively).

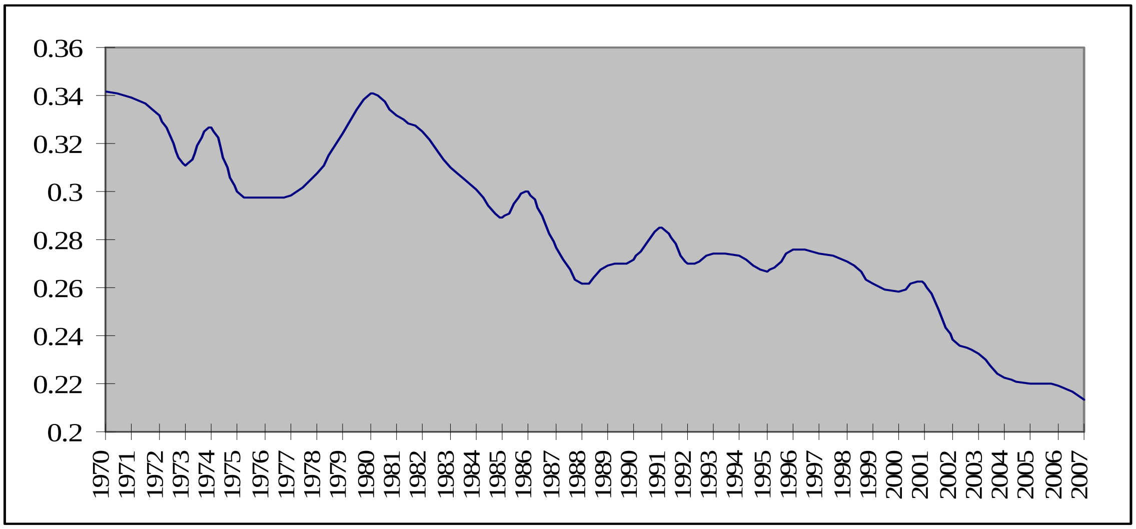
For its part the number of undernourished also declined from 52.6 to 45.3 million people between 1990-1992 and 2004-2006.[4] However, even if the region succeeds in meeting the hunger reduction target of the MDGs, population growth projections indicate that, in 2015, Latin America and the Caribbean will still have more than 40 million undernourished inhabitants. Of greater importance is the fact that the countries with the highest rates of undernourishment and extreme poverty are also the ones that will continue to post the highest rates of population growth in the coming decade.

While as explained above social expenditure increased mainly due to social security and welfare outlays, other important components of social expenditure such as education exhibited a small increase (3.2% of GDP in 1990 and 4% in 1999 and 2007). Expenditure in education still remains at low levels as reflected in the fact that the education gap in Latin America measured by the number of children attending school and by the average education level of the population is still one of the largest in the world.

[4] Extreme poverty rates in the region differ considerably across countries. In Bolivia, Guatemala, Honduras, Nicaragua and Paraguay, more than 30% of the population lives below the extreme poverty line. At the other end of the spectrum in Argentina, Chile, Costa Rica and Uruguay, extreme poverty or indigence rates are below10% FAO. (2006) The State of Food Insecurity in the World 2006 (Rome: FAO).

Low and volatile levels of growth, the precarious condition of the labor market and the large education gap in Latin America explain in part that the productivity in Latin American countries remains below that of developed countries. More importantly, the productivity gap between both has increased over time (see Figure 7, below).

Figure 7:
Average labor productivity of Latin America Relative to that of the United States.
1970-2007



Source: ECLAC (2009).

4. Challenges for the future: the balance between stability and development

As shown above the type of policies followed in Latin America in the 1980's and 1990's, constrained by the dictates and recommendations of the Washington Consensus which privileged stability over development, did not manage to increase the Latin American countries life standards. In fact during the 1980's and 1990's Latin American countries actions reduced their income and growth prospects, and social progress expectations.

Recasting Latin America on a sustainable and welfare enhancing growth path must be founded upon a development agenda based on policy coherence at the international, and national levels, that recognizes that stability and development are not mutually exclusive goals. In fact, efforts have to be made to rebalance the equation between stability and development recognizing that nominal stability is insufficient for development. As important, a broader and more coherent development agenda is required placing on an equal footing economic, social and environmental concerns and policies.

In this context, the development agenda of LAC economies must acknowledge that nominal and real stability are needed, that innovation, industrial and sector-specific policies must seek to reduce the productivity gap with the developed economies, but also that social policies are necessary to reduce inequality and to improve the living conditions of a large number of inhabitant in the region.

Those changes in the global agenda, call for more policy coherence between the different agencies at the international and national level to adequate efforts and coordinate action to achieve more global stability, better distribution of the gains from higher commercial and financial integration and to promote sustainable development. This broader set of objectives, also demand the expansion of policy space, such that the agencies in charge of global architecture and national governments have the appropriate tools to ensure stability and development.

This in turn presupposes a redefinition of agreed objectives which reflects the compatibility and convergence of stakeholders' interests, including those of developing countries and the recognition that achieving this set of objectives should be considered as a shared responsibility of all. Moreover, the policy actions within and across geographic boundaries must be systematic, aligned and mutually reinforcing towards achieving the agreed objectives.

At international level, policy coherence for stability and development implies that the international architecture should be endowed with the capacity and instruments for managing cycle with counter-cyclical tools. It also means that it should strengthen the mechanisms for crisis surveillance. In addition, it requieres that international cooperation system provide enough resources to promote development, i.e., to achieve the MDGs and facing the challenges impose by the climate change. Regional financial cooperation can also play a complementary role to that of international financial institutions in crisis management and prevention. As important the governance of the multilateral institutions should be reformed to take into account developing countries needs and interests through greater voice, representation and participation.

At the national level, in the case of LAC economies, the policy agenda should focus on the macroeconomic, industrial and social policy spheres. Within the macroeconomic area, countries should seek to promote nominal and most important real stability as a foundation for growth, competitiveness and improved social welfare. Within the industrial sphere, the policy goals should focus on narrowing the productive and competitiveness gap of Latin American economies though polices for innovation, greater learning capacities, the correction of market failures and the creation of positive externalities for the private sector. At the social level, policies should aim to correct the persistent deficits of the region in education, employment and social protection.

4.1. Policy coherence at the international level

The policy agenda at the international level should focus on guaranteeing financial stability as a public good and the provision of adequate levels of finance for development.

4.1.1. Crisis management and prevention

To this end, multilateral institutions must be endowed with the appropriate capacity and adequate counter-cyclical instruments to administer the economic cycle. It must be understood that volatility is not exclusive to developing countries and developed countries can be as vulnerable as developing countries to the fluctuations of financial markets and its contagion effects. As well, the capacity of multilateral institutions to prevent crisis must be improved through the creation of a supervisory and regulatory system commensurate with the task of efficiently controlling, monitoring and allocating risk in the financial system. Finally, multilateral institution governance mechanisms must be reformed to coordinate in an inclusive manner the efforts of the different multilateral institutions and stakeholders of the international financial system.

The recent reforms to institutions such as the IMF and the World Bank, while still limited, point to the right direction, increasing the level of capitalization and the change in lending conditions of these institutions. Some of the more relevant initiatives include the recapitalization of the IMF whose available financial resources have increased from 250 to 750 US$ billion and the increase in the lending capacity of the multilateral development banks by at least 100 US$ billion.

To enhance the countercyclical capacity the reforms should also include a more active use of Special Drawing Rights. This would allow the reduction in the cost and needs of indebtedness; maintain adequate levels of solvency and the distribution of liquidity on the basis of countries needs rather than their quotas. As well, a multilateral framework to manage over indebtedness problems should be established as indebtedness prevent countries from implementing policies that mitigate economic shocks and that reduce poverty.

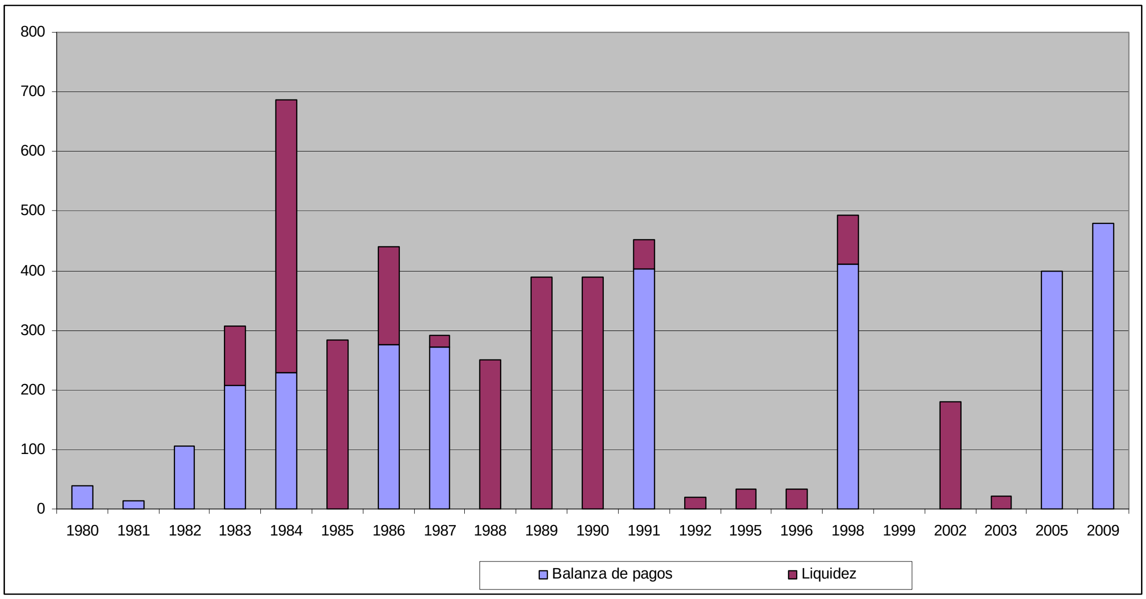
In the area of crisis prevention, the establishment of a system to control, monitor and distribute risk implies strengthening micro-prudential supervision and regulation and complementing it with a macro-prudential framework. Supervision and regulation must be undertaken on a comprehensive scale including all market participants and instruments (banks, hedge funds, credit rating agencies) and incorporating within this framework the shadow banking system. In addition, provisioning norms should be designed and implemented allowing the financial system to absorb rather than act as an amplifier of financial shocks. Finally, surveillance mechanisms must be enhanced through early warning systems and the promotion of improved transparency and accountability practices.

4.1.2. The role of regional financial cooperation

Within a context where the multilateral architecture is partly focused on managing the economic cycle through counter-cyclical policy and instruments, regional financial cooperation can play a relevant and complementary role. Regional cooperation is a complementary line of defense to confront and mitigate the effects of financial crises and avoid contagion. In this sense strengthening regional institutions is an important contribution to the stability and efficient functioning of the international financial system.[5]

As the historical record demonstrates, regional financial institutions can play a very relevant role in the provision of countercyclical finance and in complementing the existing resources that Latin American countries can obtain from institutions such as the IMF and multilateral banks (See, Figure 8).

Figure 8:
Annual credits granted by the Latin American Reserve Fund for balance of payments motives and liquidity
1980-2009. US$ Millions of dollars.



Source: Development Studies Section ECLAC (2009).

[5] In the case of LAC, the main sub-regional financial institutions are: FLAR (Latin American Reserve Fund) (1978) and development banks (BCIE - Centro American Bank for Economic Integration (1961), CAF -Andean Development Corporation (1971), CDB - Caribbean Development Bank (1969)) and ALADI – Latin American Association for Economic Integration. The member countries in the FLAR are: Bolivia, Colombia, Ecuador, Costa Rica, Peru, Uruguay and Venezuela. The member states of the BCIE are: founder members: Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua, extra-regional members: Argentina, Colombia, Spain, México, Panama, Dominican Republic and Taiwan and a beneficiary country Belize. The CAF's country members are: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Spain, Jamaica, México, Panama, Paraguay, Peru, Dominican Republic, Trinidad and Tobago, Uruguay and Venezuela.

Regional financial institutions have specific characteristics, which makes them particularly valuable. They provide a sense of ownership of resources and of their destination; posses the knowledge that is specific to the workings of the region; project an image of trust and confidence and have the capacity to act and provide a response in a timely manner.

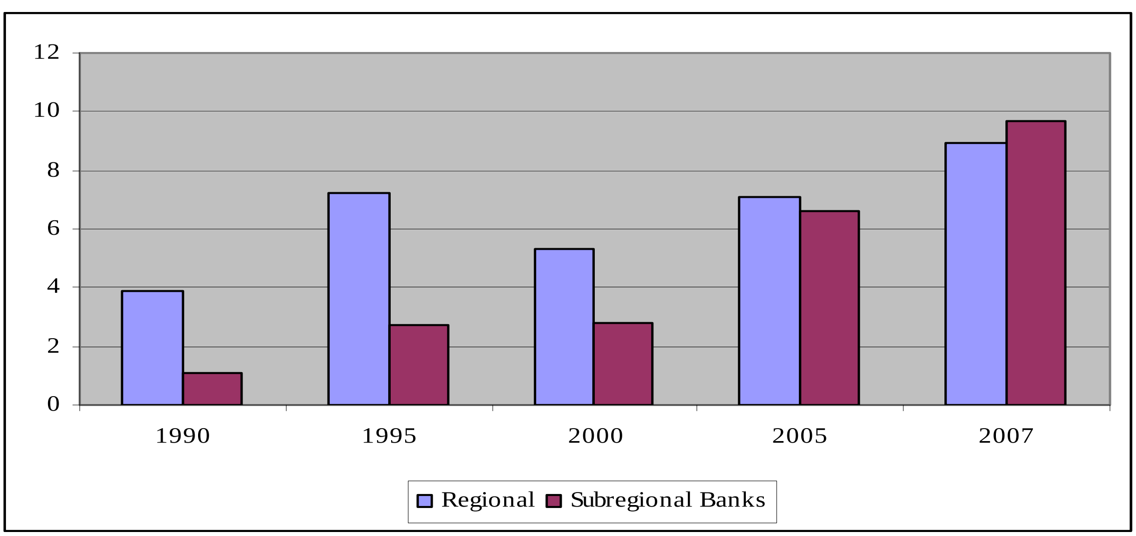
In this sense the efforts to expand the coverage of these institutions would allow to enhance the current policies to manage international reserves and lend greater support to the coordination of macroeconomic and financial policies. Also, they could facilitate and support the access of the countries of the region to financial markets.

There are three important areas for the improvement of the regional financial architecture: the strengthening of the Latin American Reserve Fund (FLAR); progressing towards the consolidation of a capital market at the sub-regional or regional levels; and enhance the role played by development banks

With respect to the FLAR, its coverage should be expanded to improve its resource base helping to reduce contagion between countries. Also it should support coordination of the macroeconomic and monetary policies of the countries in the region and contribute to establish common standards for regulation and financial supervision.

Regarding the role of sub-regional banks whose volume of lending surpasses those of regional banks (see Figure…) these should continue to provide countercyclical financing. They should also expand their functions to include supporting and facilitating the countries' access to international financial markets and actively support national and regional financial development and increasingly provide public goods.

Figure 9:
Loans of regional and sub-regional Banks in Latin America
1990-2007. US$ billion.



Source: Development Studies Section ECLAC (2009).

4.1.3. The reform to governance to increase developing country's participation in the international architecture

Jointly with the reforms to crisis management and prevention, the governance of the institutions forming the international architecture must be significantly reformed. Traditionally global governance has been guided by the dictates of small developed country groupings (G-7 and G-8) that have the greatest participation, voting and decision power in international organizations.

Reform to governance must be inclusive in such a way as to take into account the requirement and needs of all countries especially those of developing countries in the decisions and establishment of rules and procedures.

The absence of representation of developing countries in multilateral for a makes the analysis and policy recommendations misleading and incomplete leading to errors as shown by the supervisory and regulatory errors that were crucial to the formation and onset of the 2008 global crisis. Multilateral institutions need the participation of all countries in order to elaborate codes and regulatory norms that are accepted at the global level.

The reform of the governance of these institutions requires an effort of collective action that can fill the existing institutional vacuum to coordinate and govern globalization. This collective action effort should be oriented to enhance the coherence and consistency of the monetary, financial and trade systems and networks to ensure that these support the development objectives that are agreed multilaterally and form part of the consensus of the global policy agenda such as the social and environmental sustainability.

To this end, increased financial development assistance must complement other sources of external finance as developing countries including the middle-income countries of Latin America still lack a self-sustaining financial capacity to fund development efforts.

4.1.4. Financial development assistance

Despite the agreements framed in the Monterrey Consensus, traditional ODA flows are well below the target set out in that document, and they are not expected to significantly increase in the future. Current levels of aid will not suffice to finance the effort needed to achieve basic development goals including the Millennium Development Goals.

Middle-income countries such as those of Latin America and the Caribbean face significant constraints in their efforts to achieve a self-sustaining financial capacity that will enable them to foster economic growth and reduce poverty. This situation is aggravated by the fact that ODA flows are increasingly channelled towards the poorer developing economies.

Latin American and Caribbean countries are not free from a number of the challenges that also affect lower-income countries. Increases in the level and effectiveness of ODA flows could have a significant impact on the capacity of these countries to reach the Millennium Development Goals.

Despite the importance of ODA flows to pursue MDGs objectives, Latin American economies have been losing relative importance as recipient countries. As will shown in the following sections, despite the fact that upper middle income countries in Latin American and the Caribbean concentrate 60% of total poor and 50% of indigent population these countries show a declining trend in ODA flows and receive a very small share of ODA close to 0.8% of the total.[6]

At the same time, however, the greater emphasis now being placed on directing ODA flows to the poorer developing economies should not eclipse middle-income countries' continuing need for ODA flows. The vast majority of all reported aid (96.4% of the total for 2001-2005) goes to low-income countries (including the least developed, those classified as "other low-income nations", and lower-middle-income countries). For the period 2001-2005, the least developed nations and low-income countries received, on average, 52.4% of reported aid. Middle-income countries received 47.6% of the total. Within this last category, lower-middle-income countries received 44%, while upper-middle-income countries received just 3.6% of the total.[7]

This current ODA distribution is justified in terms of financing gaps and unsatisfied needs of lower middle-income countries. However, middle-income countries and, in particular, upper-middle-income countries such as those of Latin America and the Caribbean also face important challenges, including persistent poverty and inequality levels, vulnerability to external shocks and impending pressures from globalization and economic integration. In the case of Latin America and the Caribbean, some upper-middle-income countries which receive a negligible share of total ODA have made insufficient progress towards meeting the first Millennium Development Goal.

Aid by itself is insufficient to achieve basic development goals. Traditional aid flows must be channeled to expand and improve countries' capacities to benefit from the improvement of trade related and other capacities allowing these countries to benefit from the increased global movement towards the free trade of goods and services.[8]

With this in mind aid should be seen as a complement to other initiatives such as the Doha round which grant provisions allowing developing countries greater flexibility in terms of obligations and time frames to overcome the adjustment costs to international integration. These include measures that reduce or ease the rules and obligations that developing economies have to meet; provisions providing for longer time-frames for the

[6] For 2001-2005

[7] The percentages were computed using assigned ODA income levels as total ODA.

[8] United Nations Millennium Project. Investing in Development: A Practical Plan to Achieve the Millennium Development Goals, New York, 2005.

implementation of obligations; and provisions for technical assistance (WTO, 1999c, p.225).[9]

4.2. Policy coherence at the national level

4.2.1. Macroeconomic policy

Macroeconomic policy should focus on the promotion of stability. As explained earlier stability, in the narrow sense of the term, is understood as nominal stability. Nominal stability is achieved through the maintenance of low inflation and macroeconomic equilibrium. However, the goal of stability must be consistent and coherent with the objectives in the other areas including the social and productive, and cannot be pursued to the detriment of economic growth. To this end, the concept of stability must be broadened in order to encompass not only nominal but also real stability. This is a feasible objective given the change in functions and scope of the multilateral and regional architecture describes above.

Nominal stability refers to the mitigation of economic fluctuations of variables such as prices or monetary aggregates. In the Latin American region nominal stability has been pursued traditionally through internal demand contractions, and more recently through the adoption of outright inflation targeting strategies.

The former strategy entails a significant loss of resources with long-run effects on the productive potential of Latin American economies. As stated earlier, for the period 1980-2006 the average contraction in absorption due to both financial and terms-of-trade shocks was equivalent to roughly 10% of regional GDP. Firms productive capacity are generally severely affected as investment plans are postponed due to the expectations of lower future demand and higher loan costs. Also the rise in unemployment tends in some cases to permanently affect the human capital of countries and increase poverty and indigence levels inducing important setbacks in social gains.

Currently Latin American countries have turned to inflation targeting strategies (See Table 3 below for a summary of inflation targeting strategies in the region).[10] Inflation targeting postulates an inverse relationship between the output and inflation gaps. Within the logic of this framework the monetary authorities can follow a 'lean against the wind' monetary policy. They contract (expand) aggregate demand if inflation is above (below) target. The extent to which authorities are willing to contract demand in this situation is weighted by the ratio of the weight attached to output stability relative to the gains in the reduction of inflation per unit of output loss.

[9] See, WTO. Special and Differential Treatment. Synopsis of WTO Agreements and Related Topics. MM/LIB/SYN4. 23 October 2000 for a detailed list of the provisions of the WTO Agreements on Special and Differential Treatment.

[10] Inflation targeting is traditionally defined as a monetary policy strategy framework consisting in the public announcement of numerical targets for the inflation rate, acknowledging that price stability is the fundamental goal of monetary policy and a firm commitment to transparency and accountability

The inflation targeting framework makes clear that low and stable inflation should not be pursued at any cost. More over, monetary authorities do not necessarily have to pursue a rigid inflation targeting regime. Rather they can opt for a 'flexible' inflation targeting regime. The objective of a flexible inflation targeting regime will be increasingly facilitated under a development friendly global architecture.

Flexible inflation targeting implies that the monetary authorities or the central bank do not have only a monetary objective (stabilizing inflation) but also has a real objective (stabilizing real output). As put by Svensson (2007, p.1): "In practice inflation targeting is never 'strict' inflation targeting but always 'flexible' inflation targeting, in the sense that all inflation-targeting central banks…not only aim at stabilizing inflation around the inflation target but also put some weight on stabilizing the real economy….implicitly or explicitly stabilizing a measure of resource utilization such as the output gap between actual output and 'potential output'." The literature also refers to 'flexible' inflation targeting as pursuing stability of interest rates or of the variation of the exchange rate in an open economy.[11]

The adoption of 'flexible' inflation targeting entails pursuing a 'gradualist' approach to the achievement of monetary policy objectives. 'Flexible' inflation targeting and hence a gradualist approach to monetary policy is conceptually justified mainly on the grounds of uncertainty regarding: (i) the workings and current state of the economy; (ii) the transmission mechanisms and policy parameters; and (iii) the nature of external shocks as well. A gradualist policy can also contribute to buffer the effects on real variables caused by external shocks.

Table 3
Inflation targeting regimes in Latin America

Country	Adoption of target	Inflation measure	Target (2006)	Target horizon	Inflation report	Published forecast
Brazil a/	June 1999	CPI	4.5% (+/- 2%)	12 months	Yes	Yes
Chile	January 1991	CPI	2%-4% centered at 3%	12-24 months	Yes	Yes
Colombia	September 1999	CPI	4%-5%	12 months	Yes	Yes
Mexico	January 1999	CPI	3%(+/-1%)	12 months	Yes	Yes
Peru	January 2002	CPI	2.5% (+/-1%)	12 months	Yes	Yes

Note: a/ According to Levin et al. (2004), in the case of Brazil, the inflation targeting regime requires that the president of the central bank inform in a written letter the minister of finance if the target is breached.
Sources: Levin et al. (2004), Corbo (2008).

Inflation targeting strategies permit monetary authorities to pursue a 'lean against the wind' policy while avoiding large fluctuations, and indeed, lowering volatility, of

[11] See, Svensson (1997) and Jonas and Mishkin (2006).

output. Within the international setting specified in this document, this monetary practice must be accompanied by a consistent and coherent fiscal policy without endangering stability or development objectives. This consists in formulating fiscal policy objectives and instruments allowing it to play at the same time a stabilization role while recapturing its distributive role.

4.2.2. The industrial policy agenda

The current development agenda of Latin American and the Caribbean (LAC) and its associated poor growth performance had negative effects on investment and productivity. It did not manage to create technological capabilities at the national level and reduce the productivity gap vis-à-vis the more highly developed countries. In fact investment has shown a stagnant trend and the productivity gap has increased when compared against developed economies, and even developing economies. Moreover, the region has also been slow in developing its capacity to adopt and disseminate new technological paradigms such as information technology, biotechnology and genetic engineering.

A key element to reverse that performance, to attain sustainable growth and improve living conditions of inhabitants of the region is the design and adoption of policies that promote the development of the industrial sector of the region.

Within the international, regional and national coherence policy initiative developed in this paper, the promotion of productive development need not run against stability trade-offs or constraints. Aided by the counter-cyclical stance and stronger regulatory practices of multilateral institutions and by greater access to sources of development finance, as well as by the concerns to reduce real volatility on the part of the national authorities, governments will be able to broaden their scope to improve productivity and competitiveness.

Growth is both the outcome and cause of transformations in the structure of production and markets of the economies; changes in demand and in the appearance of new products, services and firms; and the decline of those that fail to remain competitive against new entrants and in the face of rapid technological change.

One of the key determinants of diversification of production is innovation, broadly defined as including not only radical changes but also small improvements in product design and quality, in the production process and in its organization, marketing and logistics. This process, in turn, is a function of capacities to create, learn and adapt knowledge and techniques to the productive and commercial domain, possibilities for capturing the greater value added created by those innovations, and the availability of resources (material, human and financial) that the innovations require. (ECLAC 2008).

A society capacity to translate innovation into development and growth depends on the linkages and interconnection existing between those sectors inducing the innovation process and the rest of the economy; but also in the type of incentives that industrial sectors have to innovate and to enhance productivity. Higher linkages and the favorable the business environment will increase the probability that technological changes are incorporated into the production process.

Nonetheless, economies capacities to increase the linkages between innovating activities and the rest of the economy are affected by high level uncertainty, information asymmetries and coordination failures that induce suboptimal levels of complementarities between innovative sectors and the rest of the productive structure of the economy.

A key objective of a proactive strategy to revitalize the production structure and empower its effects on growth should be to strengthen systemic competitiveness, with the emphasis on incorporating knowledge as the main sustainable source of competitiveness, while recognizing that this does not stem just from the individual performance of one firm, but also from interaction with the rest of the production apparatus. Bearing in mind the imperfections and externalities associated with the systemic nature of competitiveness that affect innovation and learning processes and their dissemination, public action, in conjunction with the various private agents participating in processes of innovation and productive change, plays a key role in constructing a virtuous circle between innovation, changing production patterns and growth.

The industrial strategy that Latin American and the Caribbean economies must follow should be based on a capability-centered strategy, where the expansion of the regional and national knowledge-based assets is at the cornerstone of achieving comparative advantages in areas other than commodities and unskilled labor-intensive goods. Under the appropriated business environment and support of governments, this expansion process must induce an increase in investment rates and in productivity. This requires more and better infrastructure, more competitive non-traded services, good-functioning domestic markets, and pro-competitive input prices (e.g. Abugattas and Paus, 2006).

4.2.3. The social policy agenda

As explained above Latin America has made little headway from the standpoint of growth and social wellbeing since the 1990’s decade. The region exhibits persistent social deficits, particularly in employment, education and in general in social protection systems. The wide variety of proposed solutions call for public and active social and economic policies consistent with the proposed, international, regional and domestic macroeconomic and industrial agenda that can enhance the capacity for participating in the globalized world and for constructing and benefiting from economic development.

In the area of education, public policies should aim at identify and prioritizing certain objectives and sectors deemed to be strategic and to define training beneficiaries (companies, sectors, regions, trades and workers).Through public actions and the creation of public-private partnerships, an education policy must provide for training in jobs at a low risk of dying out and training in processes and subject matter required for certain sectors, enterprises and groups of workers, but which the market is unlikely to provide. Its definition must be flexible to allow it to adapt to changing circumstances in such areas as technology and market rules. However, it must not be radically changed in the short-term, because its effectiveness hinges on medium-term agreements between actors (i.e., between the State, companies and workers). Indeed, in order to extend the coverage and enhance the relevance of vocational training, coherent mechanisms are needed which facilitate and increase business involvement and which are in line with the opinion of the State (at the national and regional levels), academic organizations and workers. Once the equity objective has become a major factor in guiding vocational training programs and results, it becomes necessary to redesign programs to match them more closely to the requirements and possibilities of the targeted population.

In the area of employment, it must be understood that labor policies do not, on their own, generate employment. They require recovery of the demand for employment and active labor policies to make sure that there is a supply of appropriate skills and to avoid other possible bottle necks. If there is not rapid growth in demand, labor flexibility must go hand in hand with a good unemployment insurance coverage, active public employment policies and support policies for the informal sector. The proposed policy actions must seek to combine the labor flexibility necessary to adapt to the new conditions for competitiveness in the global market with a fiscally and socially responsible level of economic protection for workers. In order to formulate policy actions that take into account the current state of development of the social protection system and the gradual development of active policies oriented towards the formal and informal labor market, the proposal must be adjusted using different configurations according to the context in which it is applied.

In terms of social protection, policies must provide the population with coverage against the risks of disease, vulnerability during old age and the possibility that households will not have enough resources to cover their basic needs. Viewed in this light, social protection is necessarily related, in the final analysis, to the right to life and well-being. It constitutes a basic right that goes along with membership in society and, as such, is a social imperative. Social protection must not be limited to palliative measures, since it also encompasses policies for human capital development and risk prevention as part of an integrated system for providing universal access to explicitly guaranteed benefits.

A social protection scheme structured along these lines involves both substantive and procedural elements. Its substantive aspects refer to its irreducible guarantees, tangible solidarity mechanisms and transfers, progressive coverage, quality benefits and expanded access governed by the principles of universality, solidarity and efficiency.

This does not mean that any and all benefits can be universalized, but rather that society must establish, on the basis of a dialogue among all relevant stakeholders, what standards of quality and coverage it should ensure for all its members. In addition to setting forth clear-cut, explicit rules and standards of governance, it must also adhere to criteria of macroeconomic stability that will underpin the socialization of benefits and sacrifices. The two sides of the development coin –growth and social equity– can be reconciled only by an economy with a stable and vigorous production structure the incorporates vast sectors of the population and that adheres to the principle of solidarity-based transfers while striving to universalize social protection and the development of capacities and opportunities.

The procedural aspects involve participation issues, the type of deliberative and representational processes to be employed, what kind of oversight is to be performed, how the implementation of agreements is to be monitored, and how the State is to fulfill its regulatory role. In the absence of agreements any achievements in these connections will be subject to the changeable outcomes of negotiations, their continuity over the medium term will not be assured, and their social legitimacy may be called into question. All of these factors may interfere with efforts to shape a social protection system that can serve as a policy framework and as a foundation for coherent linkages between social and economic policies.

The countries of the region therefore need to agree on the path to be followed in combining a rights-based form of development with the design of institutions and policies capable of generating and allocating the necessary resources to permit the full enjoyment of those rights. This entails the establishment of pacts or agreements among the various agents of the State and civil society, together with a corresponding social institutional structure and social authority to engender the political force and viability needed to move in that direction. Fiscal covenants will also have to be reached in order to endow society with the resources it will need to implement the constituent agreements of such a social protection covenant.

The desire to forge improved social protection systems must be accompanied by an evaluation of existing financial constraints and of policy mechanisms for dealing with them. It is not merely a question of developing suitable technical guidelines for optimizing the generation and use of resources for these purposes, however. There is a political challenge to be overcome in this respect, and a key –and problematic– component of that challenge has to do with resource distribution. Within this context, the tax structure and burden, the expansion and selectivity of social expenditure and the degree of decentralization are all crucial, but controversial, factors in enhancing social protection by achieving a better redistribution of its costs and benefits. In order to expand the social protection system and meet the growing demand for non-contributory benefits, social expenditure will have to be reoriented, and tax-generated funding will have to be increased. The latter will involve setting priorities on the basis of the specific situation in each country and taking into account its strengths and weaknesses.

The concern about social expenditure should focus both on its volume and on its structure and efficiency. While raising social expenditure and using such funds more efficiently should clearly be an objective for all governments, this should not be used as an argument for ruling out the “taxation option”. On the contrary, progress on these two fronts should be mutually complementary. In most countries of the region, the tax burden is actually either comparatively or extremely low. Development efforts based on social rights should therefore aim to strengthen both social spending and progressive tax structures while maintaining a position of fiscal responsibility and providing an adequate stimulus for competitiveness.

A rights-based social protection system should focus on human rights and on the need for an integrated form of solidarity or, in other words, a system of transfers to ensure protection via both contributory and non-contributory means. This is the only available pro-equity avenue for universalizing the right to social protection, especially at a time such as now, when, because of the present state of the employment structure, large sectors of the population are left outside the contributory system and are thus unshielded from risk. Thus, social protection schemes should also specify what kinds of solidarity-based financing measures can be used to ensure that all members of society have such access.

Conclusion

The multilateral system has placed the focus of its efforts in achieving global stability to the detriment of development objectives. Latin America and the Caribbean countries have followed suit particularly since the International Debt Crisis. The policy objectives of Latin American and the Caribbean governments have focused on maintaining nominal stability and macroeconomic equilibrium.

The region has managed since the 1990's to significantly narrow the fiscal gap and achieve one digit inflation rates. However, growth for the most part has been low and volatile.

While countries have recognized the need to improve the social conditions of the region's populations, the efforts have not managed to significantly reduce unemployment, poverty and indigence, improve education and narrow the levels of inequality which remain one of the highest in the world. Moreover, the region has not been able to improve its competitiveness, and the productivity gap has consistently increased over time.

The economic and protracted social effects of the Global Crisis (2007-2008) has reinforced the perception that stability and development are not, by any means, two mutually exclusive policy goals; and that there is a need to seek a balance between both. This requires a coherent and coordinated policy agenda at the global, regional and national levels. Policy coherence requires that the institutional actors have the policy space to undertake systematic, aligned and mutually reinforcing actions taking into account the needs and interests of developing countries.

At the international level policy coherence for stability and development implies that the multilateral system should have the capacity to manage the economic cycle in a countercyclical stance while being able to provide resources for development financing. The regional architecture can play a complementary role by enhancing the functions of development banks and reserve funds.

At the national level, policy coherence implies the pursuit of nominal and real stability; improved productivity and competitiveness; and the improvement in social conditions through employment, education and social protection policies.

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