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1. Introduction

There is clearly a need for bridging the gulf which has opened up in recent decades between macroeconomic policy and the social dimension. Economic development makes sense to the extent that it promotes welfare and social integration. A commitment to reduce poverty, eliminate extreme poverty, and enhance equity and social integration requires persistent actions to reconcile economic growth, employment generation and an active social policy, within a consistent macroeconomic framework.

The links between social development and macroeconomic policies are multidimensional. First, and foremost, social cohesion and an adequate accumulation of human capital are widely recognized today as essential prerequisites for dynamic economic growth. Given their central role in human capital formation, social investment policies are thus essential to reconcile growth and social development. Social investment is, thus, a productive factor. On the other hand, macroeconomic adjustment and structural reform are more likely to be sustainable when they are equitable. Social policies and programmes aimed at improving social performance in the long run, need stable funding, which largely depends on stable economic growth. Macroeconomic instability –especially episodes of recession or hyperinflation— increases poverty and inequality. Finally, there is no unique macroeconomic policy mix to tackle a given situation, and the policy opitions may not be neutral from a social standpoint.

The evidence of the past two decades in the developing world is not encouraging in terms of an adequate exploitation of these positive links. With the notable exception of some Asian countries, growth rates have been disappointing. In particular, growth rates in Africa, Central and Eastern Europe, Latin America and the Middle East over the last decade were far below the post-war record up to the mid- or late 1970s. Moreover, several least developed countries and transition economies have per capita GDP levels that are sometimes substantially below those of decade or even two decades ago. In regions and countries experiencing slow growth, the reduction in poverty has been equally disappointing. Although the degree of income inequality varies greatly from region to region, it has increased in many countries, while the opposite trend has been quite uncommon. Inequality is greatest in Latin American and sub-Saharan Africa, but the increase is most striking in some transition economies. Social safety nets, the targeting of social programmes and other innovations in social efforts, although useful, did not fully compensate for the social costs of these reforms.

[*]/ This statement summarizes the Report "Social Dimensions of Macroeconomic Policy" of the Executive Committee on Economic and Social Affairs of the United Nations, which I had the opportunity to draft, together with my colleagues Manuel Marfán, Regional Advisor of ECLAC, and Juan Carlos Ramírez, Head of the Bogotá Office of ECLAC.

From a different perspective, growth also became more volatile during the 1990s, imposing additional social costs. The Mexican crisis of 1994-1995 and the recent Asian crisis, with all their propagation mechanisms, revealed the presence of underestimated contagion effects and more subtle types of vulnerability. In this respect, macroeconomic policy efforts and structural reforms failed to anticipate and prevent the crisis, with unacceptable and unfair social effects.

2. Macroeconomic consistency is a component of the social effort

Do these developments reflect a contradiction between pursuing macroeconomic consistency and improving social performance? There are a number of reasons for a strong negative response to that question.

For public policy –including social policy– to be effective and sustainable, comprehensive consistency among the different targets of authorities is needed. The absence of such consistency was precisely a major cause for painful adjustments in policy design, as was the case in the 1980s. There is also a consensus that macroeconomic instability is harmful for both growth and equity, and that a sound macroeconomic environment is a necessary condition for a successful social policy. In particular, episodes of instability disproportionately affect vulnerable groups in the short run. In addition, it also acts as a deterrent for the determinants of growth, since they affect the process of savings and investment and, thus, reduce long run growth and the potential for productive job creation.

Consistency and stability are necessary conditions for tackling structural goals, including improvements in the distribution of income and opportunities. A context of stability and policy consistency increases the degree of predictability and thus expands the time horizon in decision-making for individuals, firms and authorities, in the same way as instability and inconsistency reduce the degrees of predictability and promote short-term speculative actions and short-sighted survival strategies. Given their structural nature, poverty reduction and equity enhancement require a context of macroeconomic consistency and stability.

These positive links between macroeconomic consistency and social performance must, nonetheless, be adequately interpreted. First and most important, stability and consistency are necessary but not sufficient conditions for better social performance. In general, they are necessary conditions for any set of structural goals, which may not necessarily have a straightforward social content. For example, it may be the case that the ultimate and prioritized structural target of the authority is purely and simply to reduce the size of the State, even at the expense of sacrificing social policy efforts. Then, the rival of social policy is not macroeconomic stability and consistency, but the prioritization of long-run objectives.

Second, low inflation and balanced fiscal accounts are components of stability and consistency, but they are not synonymous. This is an important consideration, since most of the macroeconomic effort has concentrated on these two aspects. Among other examples, Mexico and the Southeast Asian economies, on the eve of their respective crises of the 1990s, exhibited fiscal balances or surpluses and low inflation rates, along with exchange rate misalignments and unsustainable current account deficits. In a few cases, also with inflation and fiscal policy under strict control, the main problem was the high weight of short-term liabilities in the term structure of the external debt. It is interesting to notice that in most of these cases fiscal surpluses coexisted with an excess of domestic expenditure, reflected in the current account imbalances, implying that significant private sector deficits were present financed by booming but volatile capital account booms.

Financial globalization provides additional sources of funding for development but, as these episodes reflect, it has also shown that new components of systemic risks may arise. There are, however, no prudential regulation or crisis prevention safeguards related to international financial flows that are widely accepted by the international community. Or, put more straightforwardly, there are no conventional ways to keep international capital flows at manageable levels during periods of financial euphoria.

The constraint that macroeconomic consistency does impose on social policies is that these need sustainable funding through time, and should operate in such a way that they do not deter savings and investment decisions or job creation. In many developing countries, it may be necessary to increase gradually the overall magnitude of public expenditures and that, in turn, would require sustainable additional financing beyond the proceeds from economic growth. Nonetheless, the opportunities for increasing revenues may be limited and, in any case, prudent management of scarce fiscal resources imposes an inevitable condition on the quality and efficacy of social policies. An important contribution that social policy can make to the task of the macroeconomic authorities is to be strict and disciplined in terms of the cost-benefit analysis of social programmes. This is valid both for the allocation of additional resources and for the continuous evaluation of existing programmes, which sometimes tend to survive beyond their optimal time span. Also, the availability of fiscal resources places limits on the velocity at which new social programmes may be consistently implemented.

3. Sustained and stable growth is an important component of social success

Most of the determinants of growth and equity are long-term in nature, and in this arena they also have common elements. Labour income is the main source of revenue for the poor. To that extent, human capital accumulation, job creation and improvement of the quality of employment are key issues for sustainable poverty alleviation. All these ingredients are attainable in a context of dynamic economic growth.

The structural reforms were aimed mainly at enhancing growth, under the conviction that growth alone could provide the ingredients for social relief. In this sense, the main scope of the reforms were to strengthen market structures, to reduce government intervention and privatize public firms, and to dismantle protectionist practices by opening to international markets. These efforts had to be coupled with short-term macroeconomic efforts to ensure stability, which required major cutbacks in government expenditures in most of the developing world. The main social effort prescribed by this process was the introduction of reforms aimed at targeting, decentralizing and promoting private sector participation in the administration of social policy, as well as the introduction of social safety nets during the transition period. As we have seen, the outcome of this process was mixed.

Globalization and the wave of technological change have opened a world of opportunities to do new things, and to do the same things better. In terms of economic growth, there are net advantages to these processes, but the likely social consequences are not clear, however. The mix of creation and destruction inherent to growth has become more evident, creating distinct winners and losers. A context of pure economic "Darwinism", where the strongest, the fittest and the best endowed agents displace the weakest ones may have disastrous social consequences. It may also have disruptive political consequences if the anguish of insecurity provoked by economic change promotes coalitions against globalization, as has been recently observed. On the other hand, rigid structures aimed at protecting against change may eventually discourage change, which would also be counterproductive.

It seems far more promising to take an integral view of this process. The main line of thought in this vein is that growth and equity, if correctly tackled, may reinforce each other. In fact, social efforts should concentrate mainly in supporting an **inclusive growth process**. The best social outcome is one in which all individuals share the benefits but also contribute to economic development. A social policy which seeks to strengthen the weakest, to fit the less adapted, to endow the poorer agents –especially with human capital– and to re-insert the losers as active economic citizens is one that not only contributes to equity, but also to growth. This is all the more true as growth and development is clearly a positive sum game. The attitude should be to see globalization and innovation as an opportunity to attain higher and more equitable levels of prosperity, rather than as a threat to them.

4. An equity-enhancing growth strategy

These unsatisfactory outcomes in terms of equity may be explained by the fact that it has not been a priority in policy design. Or, more explicitly, that macroeconomic authorities, which have also headed structural reforms, have not been as accountable for the social effects of their decisions as they have been for other aspects. To the extent that equity concerns should be part of a coherent strategy, macroeconomic authorities should also accountable for the social consequences of their decisions.

The original stabilization and structural adjustment programmes had few provisions for dealing with social consequences. Consequently, at the Social Summit a commitment was made to include social development goals in structural adjustment programmes. Three central goals were then promulgated: poverty eradication, employment growth and social integration. This commitment was partly based on the conviction that a stable economy cannot be built in an unstable society. To some extent this is what is problematic about a non-integrated structural adjustment strategy. It carries the seeds of its own failure if it creates the type of instability and unrest that are linked to unfairness. Thus, the social dimensions need to be brought explicitly into discussions on structural adjustment and macroeconomic policy design.

A necessary condition for the creation of more just and harmonious societies is the strengthening of policies in support of greater economic and social equity. Equity should be understood as the broad-based access to resources, basic protections, voice (empowerment) and participation. For this purpose, the principles of universality, solidarity and efficiency should guide the design of social policy. Deciding how these principles are put into practice is the joint responsibility of national institutions and the international community.

5. Social policy priorities

Social policy should act on the structural determinants of income distribution and poverty: education, employment, nutrition, wealth distribution and demography, as well as on their associated gender and ethnic dimensions. These factors are the key to breaking the inter-generational transmission of inequality and poverty. This effort should be carried out through an integrated policy to support the poor. The scope of social policy is multiple. Without detriment to other efforts on the social front, for an equity-enhancing growth strategy emphasis should be put on programmes and policies that affect human capital, employment and social protection.

a. Human capital

The accumulation of human capital is a key component of comprehensive development, since it has a simultaneous impact on equity, poverty reduction, growth and social and political integration. It should bee viewed both as a human right in itself and an indispensable means of realizing all human rights. The likelihood of being poor is highest when basic education is incomplete. Education is thus the primary vehicle for lifting marginalized adults and children out of poverty, as well as for enabling them to obtain the means by which they can participate fully in their communities. In this regard, a number of targets should orient public decisions: universal access and coverage of basic education, permanence of students throughout the basic cycle, the continuous improvement of quality standards, and the promotion of democratic values and social tolerance, among other issues related to social cohesion.

Policy makers should seek to ensure the channeling of enough funding to promote human capital accumulation, especially in education. To the extent that there is a correlation between present educational disparities and future income disparities, both within and between countries, developing economies should make an effort to increase the contribution of public resources to education. The prioritization of education and human capital accumulation should thus be reflected in an increasing share of government expenditures in education in the budget, with a view to match OECD standards (6 percent of GDP).

Increasing resources should be coupled with qualitative efforts to improve educational standards. It is essential to guarantee universal coverage for primary and, as much as possible, for pre-school and secondary education. Also, curricula should promote higher standards in formal knowledge –especially language and mathematics–, and should generate permanent learning capabilities that will be useful in an ever-changing environment, including team-work, learning to learn, foreign languages, and computer skills, among others. The emphasis on improving the coverage and quality of education is also a matter of priorities and should not be left aside by fiscal authorities when deciding to implement structural reforms.

A different but no less important dimension of human capital accumulation is that of training programmes. The need for competitiveness in a global economy, along with the rapid development of technological innovation, calls for quick and significant changes in manpower training. Therefore, a large-scale effort should be made to provide individuals with the up-to-date knowledge and skills they need in order to be competitive on the labour market. Also, recognition of the fact that human capital also depreciates, especially when skills are specific to declining sectors, introduces an important additional dimension for re-training programmes.

Formal education and training are the most obvious forms of investment in human capital, but they are not the only ones. Nutrition –especially at the early stages of life, including pregnancy– and access to preventive and curative health are also important components of a strategy aimed at human capital accumulation. In the same vein, investing in water supplies and sanitation and, in general, improving the quality of life in rural and urban areas are other aspects of the integral development of human capital. All these measures are important elements of efforts to improve the prospects for substantial and equitable growth.

b. Employment

Given the crucial role it plays in the growth-distribution link and its ability to reduce poverty and generate social integration, employment deserves special attention. As mentioned before, to the extent that earned income is the main source of revenue for the poor, job creation, human capital accumulation and improvement in the quality of employment are key issues for sustainable poverty alleviation.

Efforts to achieve adequate generation of quality employment so as to guarantee a strong effect of growth on poverty and to avoid adverse distributive effects seem to be one of the weakest links in the current environment. When employment generation is low and skill-biased, the likely outcome is a widening of income gaps between skilled and unskilled workers. Technology trends may be a driving force, but strong competition in traded goods and adverse trends in commodity prices may be associated to low employment generation in traded goods sectors, particularly in commodity-producing countries. Through ratchet effects on employment, instability in growth rates may be an additional complicating factor.

An inadequate generation of quality jobs will defeat efforts in the area of education. The central issue is the adaptability of labour to technical change and the business cycle. Some crucial contributing factors are: strong manpower training schemes; institutions that enhance cooperation, both at the national level (social dialogue) and within firms; adequate social protection, both permanent and for emergencies; and a prudent minimum wage policy. Institutions that facilitate the employment of women also have a significant impact on equity. Flexibility may be an ingredient, if accompanied by greater protection, but it may affect some of the factors mentioned and is certainly no substitute for adequate macroeconomic policies. Indeed, in an unstable macroeconomic environment, additional flexibility may lead to a rapid deterioration in the quality of employment.

The informal sector, which concentrates low levels of productivity, wages, stability and social protection, represents half of the labour force or more in most developing countries and has expanded in crisis-hit countries as the unemployed searched for alternative sources of survival. The switch to informal activities, however, is often made at considerable loss of income. This is partly due to the fact that earnings in the informal sector are usually lower and more volatile than in the modern sector, and partly to the fact that the informal sector is not sheltered by formal protection schemes. As aggregate demand contracts and links are interrupted, the income-generating potential of the informal sector is severely curtailed.

Stable and appropriately funded programmes should therefore be designed to provide informal workers with technical and managerial training and with access to formal financial sources and social protection. Since the institutional structure may be different for the informal sector than for small-scale formal firms, parallel efforts should be made to integrate both of them to the opportunities provided by more modern activities. Historical examples of successful development of small firms are all based either on their complementarity with large-scale firms or on the alliance of smaller firms in clusters.

In addressing these issues, the promotion of social dialogue is of great importance because the process of policy-making can be as influential as its substance in creating the conditions for the achievement of more and better employment. This entails strengthening procedures and institutions for social dialogue, including specific proposals for strengthening representative employer and worker organizations.

c. Social protection

Improved social security systems and safety nets are also key elements of an integrated approach to eradicating poverty and improving equity. These systems should provide for universal coverage and solidarity and should cover basic risks –particularly health, ageing and unemployment– in an integral way. In countries where the labour force is largely rural or informal, such schemes can only be developed gradually. Moreover, social security systems do not come without costs, as may be noted in many developed countries, particularly as the result of population ageing, changing family structures, increasingly expensive medical care, persistent unemployment and the abuses and disincentives they may generate.

To improve the efficiency of social security systems, a number of countries have embarked on reforms where the administration of these systems has been totally or partially privatized. The benefits in terms of transparency and of avoiding misuse of resources have been evident, but other problems have arisen. Market discipline does not necessarily work when the services provided by private operators are public or merit goods with compulsory contributions. Also, there is an obvious loss of the principle of solidarity which is characteristic of public and merit goods. Thus, the appropriate mix between public-sector and market solutions in the provision of public and merit goods and a sound and equitable system of regulation and subsidies is still on the agenda, and varies certainly from country to country.

The incipient and limited social security systems and social safety nets of crisis-affected countries can do little to shield people against a drastic deterioration of their living standards. Because of the lack of integration, much attention has been focused on providing safety nets in economic and financial crises. The development of affordable and appropriate social safety net institutions is indeed essential to reassure populations that the negative consequences of economic reforms and downswings in activity will not fall disproportionately on them. Such safety nets should be designed on a permanent institutional basis, so as to be able to respond quickly when a crisis strikes. They should not be viewed, however, as a substitute for basic social policy. Their financing during crises should thus not crowd-out spending on human capital or on more permanent schemes of social protection. Moreover, with time, they should evolve into elements of a more permanent social security system.

Nonetheless, the usual way in which the notion of safety nets is applied falls very much in the category of "add-ons" to macroeconomic policies. Such views of social policy as an appendix to macroeconomic policy are inconsistent with the integrated policy framework that should be the basis for well-designed social and economic strategies.

Transfers to the poor that are linked to human capital accumulation (e.g., to school attendance or training) or to increased access to production, as well as emergency employment or labour-intensive public works programmes, are particularly promising. Again, such temporary schemes should not be confused with, nor should they replace long-term programmes to fight structural poverty.

6. Institutional demands

Given the crucial links that exist between economic and social development, an integrated policy framework should be developed. Such a framework should take these links into account, as well as the links between social policies (e.g., the mutually supporting effect of different social policies, through integrated poverty programmes, in particular) and between economic policies (e.g., macro-meso linkages, particularly to facilitate the development of a dynamic small-enterprise sector). One of the main weaknesses in this regard is the lack of appropriate institutions for integrated policy frameworks. Such institutions should include: participation of social actors to speak for the poor, systems to allow for the definition of explicit social targets of public sector policies, effective systems to ensure coordination between economic and social authorities, and rules to enhance the "visibility" of the social effects of economic policy.

With rising inequality, the Social Summit commitment of promoting social integration will become more elusive. Social cohesion and solidarity is a fundamental condition of development and social progress, and efforts to develop and reinforce institutions and mechanisms encouraging social integration must be sustained. By promoting inclusion and reducing deprivation, social development strengthens democratic institutions and processes, makes social and economic relations more harmonious, and provides a firm foundation for achieving long-term development and prosperity.

There is no single way to implement these efforts, and diversity of national and regional institutional arrangements may not only be inevitable, but desirable, as they adapt to different social structures and feasible political agreements.

Finally, tackling the agenda of the Social Summit requires efforts not only at a national level but also an explicit commitment of the international community, in terms of accepting, promoting and demanding that priority be given to more effective social investment efforts to promote solidarity and equity. In the case of the richest countries, such commitment should also be reflected in the channeling of aid, in accordance with the internationally-agreed target of 0.7% of GDP, and in the opening up of markets to products from developing countries.