



The Forgotten Relationship between Ethics and Development

BERNARDO KLIKSBERG

Latin America is showing a thirst for ethics. Citizens are demanding that corruption be eradicated, that leaders behave ethically, and that organizations and policies be founded on ethical bases. The *Latinobarómetro* survey has found low levels of trust in institutions and leaders—undermining effective governance.

Responding to these concerns, IDB President Enrique Iglesias, with support from Norway organized an international meeting on ethics and development held on December 7 and 8, 2000 at IDB headquarters. Among the participants were Nobel prize-winner Amartya Sen, former Chilean President Patricio Aylwin and former Argentine President Raul Alfonsín, Secretary of Peace and Justice of the Vatican Diarmuid Martin, philosophers Edgard Morin and Peter Singer, former World Bank Chief Economist Joseph Stiglitz, religious leaders, ministers, mayors, and academics. Together they analyzed a topic that, Sen said, “makes a fundamental difference in the economy.”

The meeting focused on several concerns. Current risks were emphasized, including growing poverty among Latin American children, increasing numbers of street children, high youth unemployment, the deterioration of the family due to poverty, and rising crime. All these issues, besides being economic and social problems, have an ethical dimension. They affect the conception of life in a democratic society, they are morally unacceptable, and they urgently require solutions. They generate countless sufferings every day, causing irreparable damage. Morin noted that “we believed that the locomotive of economic development would take us to human development, but this is not the case, and we have to humanize the development process.”

Continued on page 5

The New Economy's Impact on Equity in Labor Markets—and the Implications for Public Policy

OMAR ARIAS, ARIANNA LEGOVINI, AND NORA LUSTIG

Advances in information technology are revolutionizing production and significantly increasing productivity. This “new economy” could widen the opportunity gap facing different groups and challenge the limitations of old labor institutions in addressing increased employment mobility and uncertainty. Thus there is a need to reform labor market institutions and ease disparities in access to education and telecommunications.

These were the themes of the second meeting of the Social Equity Forum, and IDB initiative aimed at bringing social equity to the fore of economic and social policy discussions in Latin America and the Caribbean. The meeting was opened by Enrique Iglesias, President of the IDB, and Eduardo Aninat, President of the Forum and Deputy Managing Director of the IMF, together with Forum Coordinators Nora Lustig, Senior and Chief of the IDB's Poverty and Inequality Unit, and Nancy Birdsall, Senior Associate at the Carnegie Endowment for International Peace and Special Advisor to President Iglesias.

The meeting discussed the different effects of information technology on equity in the labor market. Increasing demand for skilled labor and decreasing job tenure and rapid obsolescence of knowledge tend to increase inequality. Better access to information on job and business opportunities, decentralization of public and private management, and faceless

Continued on page 4

Education—a Tool for Equitable Growth: Lessons from Mexico and Taiwan

CESAR BOUILLON, ARIANNA LEGOVINI, AND NORA LUSTIG

Massive investment in education is one mechanism for achieving growth with greater equity. This lesson is clear from Taiwan (China), where income inequality has been low and constant since the 1970s. In Mexico greater progress on education would have helped contain the increase in income inequality between 1984 and 1994.

In Taiwan earnings inequality fell slightly between 1979 and 1994, with the Gini coefficient dropping 2.4 percentage points (table 1). Per capita household income inequality increased slightly, with the Gini rising 2.1 percentage points. Mexico, by contrast, saw a much bigger increase in inequality between 1984 and 1994, with the Gini coefficient rising 8 percentage points for earnings and 6 points for per capita household income. In both economies these changes in income inequality occurred at the same time as a substantial increase in average education levels. But Taiwan's average years of schooling jumped 50 percent, far outpacing Mexico's 24 percent increase. In both economies the increase in schooling was accompanied by an improvement in the distribution of education.

In both Mexico and Taiwan a widening gap in the returns to skills—as measured by education—contributed to higher inequality in individual earnings and per capita household income (see table 1). Behind these trends in returns to schooling lies the skill-biased nature of technical change—and in Mexico, to a lesser extent, the costs of trade liberalization.

Continued on page 3

Best Practices in Poverty-Reducing and Equity-Enhancing Lending in 2000

OMAR ARIAS, ISIDRO SOLOAGA, AND GUSTAVO YAMADA

Some 45 percent of the IDB lending volume approved in 2000 are devoted directly to reducing poverty and enhancing social equity—exceeding IDB’s indicative target of 40 percent. These loans include many examples of best practices in the IDB’s four priority action areas, including:

Social sector development

- Nicaragua’s *Innovation Loan to Support the Implementation of the Poverty Reduction Strategy* aims to establish a model for implementing the poverty reduction strategy that can be sustainably replicated at the national level.
- Colombia’s *Social Support Network Program* seeks to protect consumption and foster human capital accumulation among poor families through targeted education, health, and employment interventions.
- Brazil’s *Program of Urban Upgrading “Favela-Barrio” Second Stage* provides basic infrastructure, social services, and property regularization to favelas and unregulated subdivisions in Rio de Janeiro to better integrate them with the formal city.

Modernization of the state

- Ecuador’s *Beneficiary Identification Mechanism for Social Programs* supports the government in establishing a tool for identifying beneficiaries of social programs to enable current and future programs to better target poor families.
- Nicaragua’s *Managua Municipal Modernization Program* promotes decentralization and civil society participation in the design and implementation of pilot socioeconomic projects, with an emphasis on expanding the coverage and quality of municipal services in marginal neighborhoods.
- Argentina’s *Program Support for Modernizing the Cordoba Provincial Government* aims to improve Cordoba’s financial and administrative capacity to manage public policies, including implementation of policies for education, social assistance, and justice.

Competitiveness

- Brazil’s *Program of Self Sufficiency Agrarian Reform Settlement* seeks to accelerate land reform through infrastructure development, social and technical assistance, land titling, and establishment of procedures and policies needed to guide the reform.
- Honduras’s *Rural Economy Reactivation Program* promotes rural recovery by making rural production more competitive through institutional strengthening and targeted public investments.
- Ecuador’s *Rural Transportation Infrastructure Project* supports the development of innovative rural transportation infrastructure schemes that ensure access to markets, productive activities, and social services in the poor communities of the Ecuadorian Sierra and Coast regions.

Integration

- Paraguay’s *Western Integration Corridors Program* provides producers in the Western region with opportunities to access broader national markets, as well as markets in MERCOSUR and the Pacific region, facilitating the development of productive activities and improving the living conditions of rural residents.



Inter-American
Development Bank

Sustainable Development
Department

Poverty and Inequality Unit

Mission Statement

The Unit’s mission is to provide technical leadership for the IDB’s and its member governments’ work on poverty reduction and to enhance the IDB’s lending and non-lending activities to increase their poverty reduction and equity-enhancing impact.

Senior Advisor and Chief

Nora Lustig

Professional staff

Omar Arias
César Bouillón
Arianna Legovini
José Antonio Mejía
Isidro Soloaga
Gustavo Yamada

Support staff

Neli Vera Díaz
José Montes
Aura Oradei
Eliana Villagomez

This newsletter is published twice a year by the Poverty and Inequality Advisory Unit. Contact us at povunit@iadb.org.

Editors: Gustavo Yamada and Eliana Villagomez with help from Neli Díaz, Melissa Boisson and Christine Samano.

Learning by Sharing: The Poverty Reduction and Social Protection Network of Policymakers

GUSTAVO YAMADA

Reducing poverty in Latin America and the Caribbean is an overarching goal of IDB activities. At the request of the IDB Board of Directors, the Poverty and Inequality Unit and the Regional Technical Cooperation Division are organizing the Poverty Reduction and Social Protection Network of Policymakers within the “Regional Policy Dialogue” initiative. The goal is to create a forum in which countries can share experiences, learn about practices outside the region, and explore opportunities for regional cooperation on poverty reduction and social protection. The network includes a high-level representative from every country in the region who is experienced in designing and implementing poverty reduction policies and programs (presidential advisers, vice ministers, coordinators of poverty reduction strategies).

At the preparatory meeting of the network, held in October 2000, it was agreed that the first round of network activities would have as its core theme the institutionalization of social protection systems. This is extremely important in Latin America and the Caribbean, where over the past 20 years the poor have suffered a series of shocks—including macroeconomic crises and natural disasters—that have lowered incomes and exacerbated poverty. The first formal meeting of the network will take place in June 2001 and will include the participation of Amartya Sen, winner of the 1998 Nobel Prize in economics, in a session comparing the development experiences of Asia and Latin America. The meeting will also feature a presentation by Jere Berhman on the experience in targeting social protection programs to the poor and vulnerable. These scholars will guide the dialogue among the policymaker members of the network.

Education

Continued from page 1

In Taiwan the expansion of education helped offset the unequalizing impact of the rising returns to skills (see table 1). In Mexico the expansion of education and its more equal distribution (the Gini for years of schooling dropped from 0.42 to 0.37) were not sufficient to offset the impact of the rising returns. This occurred because, with the widening gap in earnings between poorly educated and well-educated people, the expansion of education at the bottom of the distribution was weighted by smaller marginal returns than the smaller gains in schooling at the top of the distribution. Only much greater gains among the least educated can overcome the dampening effect of their smaller returns. The relationship between education inequality and income inequality takes the shape of an inverted U: as education inequality falls, income inequality initially rises before it starts to fall.

What are the policy implications of these findings? The economic justification for public investment in education is based on the benefits of an educated population—benefits that go beyond the private returns to education. The difference between social and private returns of basic education can be assumed to rise during periods of increasing income inequality. Because massive investments in education appear to forestall undue increases in income inequality brought about by changes in the demand for skills, it seems safe to conclude that increased investment in education would contribute to both economic efficiency and equity. In addition, investing in the human capital of the poor is one of the most effective ways to reduce poverty.

Thus there is a need for strong government interventions to increase education levels among the general population—and especially among the poor. Supply-side interventions include improving the quality of public education and increasing the supply of education facilities. Demand-side interventions include providing poor families with scholarships as well as addressing other factors that may keep families from sending their children to school, such as cultural barriers and threats to children’s safety.

There are examples of successful interventions on the demand side. A leading one is *Progresa*, an integrated approach to poverty reduction introduced in Mexico in 1997. The program aims to eradicate extreme rural poverty by increasing poor people’s demand for education and health services. Beneficiary households receive cash transfers, school supplies, and nutritional supplements conditional on their children’s school attendance and regular preventive health care visits. Evaluations show that *Progresa* has increased enrollments (for example, secondary school enrollment is up 17 percent among beneficiary households) and reduced child labor (with a 25 percent drop).

References:

Bourguignon, Fournier, and Gurgand. 2000. “Distribution Development and Education: Taiwan, 1979-1994.”
Legovini, Bouillon, and Lustig. 2001. “Can Education Explain Income Inequality Changes in Mexico?”

Table 1. Decomposition of changes in inequality in Mexico and Taiwan
(percentage points)

	Mexico 1984-94		Taiwan 1979-94	
	Earnings	Household income	Earnings	Household income
Change in the Gini coefficient	7.9	5.8	-2.4	2.1
<i>Change due to:</i>				
Returns to education	1.9	1.4	2.8	2.1
Distribution of assets (education)	1.3	0.9	-1.7	-0.6
Other and unexplained	4.7	3.5	-3.5	0.6

The New Economy's Impact

Continued from page 1

communication can reduce discrimination and equalize opportunities. Information technology is also a powerful tool for more equitable access to education and knowledge. Over the long term, information technology's effect on equity will partly depend on the distribution of factors that provide access to it and on occupational and intergenerational mobility. To the extent that the balance of these effects can be influenced, information technology offers possibilities and challenges for public policies that promote equity.

Participants in the meeting included former presidents, senior officials, business people, union leaders, and representatives of international organizations, the academic community, and civil society. They concluded that to strike a better balance between efficiency and equity and make the most of areas where the two complement one another (such as education), reforms are needed of labor and social protection policies and policies to expand opportunities for low-income groups—while ensuring fiscal sustainability despite increased global competition and rapid technological change.

- **Labor policies.** New labor market institutions should seek greater flexibility, liberty, and equity in labor relations. Striking a balance between worker protection and a more flexible labor market requires the state to move from direct to indirect intervention and to establish clear rules for the functioning of the labor market. Redistribution and economic security objectives should be pursued not through traditional labor market regulations but through policies that expand opportunities for low-income groups (for example, ensuring access to education, health care, and basic infrastructure) and social protection mechanisms (pensions, unemployment and health insurance). New labor institutions should promote job mobility by lowering the costs of job searches, ensuring the portability of accrued benefits, making labor contracts more flexible, and reducing hiring and dismissal costs through lower payroll taxes. These measures should be complemented by social safety nets and training for people who are out of work. New forms of consensus building should allow bilateral negotiations between employers and employees, collective bargaining for resolving conflicts and setting wages linked to productivity and trilateral negotiations (including government) for agreeing on national policies. Unions should participate in the reforms and renew their role in protecting basic rights, ensuring genuine union freedom and voluntary membership, decentralizing, and promoting greater participation.
- **Policies to expand opportunities for low-income groups.** Public

policies should promote equity in the accumulation of human and physical capital and in access to productive opportunities. Among the main challenges are to provide sufficient education at all levels and to invest in basic and information technology infrastructure—electricity, telephones, Internet access—so that the entire population can use these technologies. Countries should tap information technology opportunities to democratize access to quality education, and offer training in using information technology as part of school programs. Competition in telecommunications should be increased to facilitate the dissemination of information technology. Public policies should also promote the use of information technology by microentrepreneurs and small businesses, pay attention to the informal sector and its problems, and increase access to financial services.

- **Social protection policies.** Effective social protection policies are needed because of the lag between changes in education and labor, the speed at which the new economy is advancing, and the greater job insecurity associated with new production and employment patterns. Social protection mechanisms can include minimum pension benefits and emergency employment and training programs financed through general taxes, compulsory self-protection mechanisms (such as defined contribution systems and individually funded plans) coupled with a solidarity component that provides adequate protection for low-income workers, and microfinance, credit, and insurance services to lower the risk of productive activities. Basic labor standards should be enforced to avoid a race to the bottom and prevent child labor and discriminatory hiring against women and ethnic groups.
- **Fiscal implications.** New fiscal resources are required to compensate for the lower payroll taxes needed to increase efficiency in the labor market, and to finance redistribution programs, solidarity components of social security systems, and the transition from systems based on defined benefits to systems based on defined contributions and individually funded plans.

Carrying out the reforms and generating new fiscal resources will require building considerable consensus in legislatures and society (particularly among unions and the middle class). The next meeting of the Social Equity Forum, scheduled for 16–17 March 2001 in Santiago de Chile, will focus on the role of political actors and legislative processes in implementing the reforms suggested at the first two meetings in order to gain a better understanding of the political economy of these processes and find ways of overcoming obstacles. The meeting will include a keynote address by former IMF Managing Director Michel Camdessus and involve the participation of influential legislators and government officials.

Responding to a call from Peru's new government, Gilberto Moncada left as coordinator of the MECOVI Program at IDB to become director of Peru's Instituto Nacional de Estadística e Informática. José Antonio Mejía was appointed acting coordinator of the MECOVI Program.

- Under the framework of the MECOVI Program, Guatemala's Instituto Nacional de Estadística finalized the fieldwork for the country's living conditions survey, the Encuesta Nacional de Condiciones de Vida. The thematic richness of this survey—covering social capital, adverse shocks, safety and crime, ethnicity, and other topics—positions it as the basic tool for the formulation of social policies and the preparation of Guatemala's poverty reduction strategy.
- The MECOVI Program's Sixth Regional Workshop took place on 14-16th of November 2000 in Buenos Aires. Its central topic was "Social Indicators for Development." Representatives from 18 countries participated in the event.
- The MECOVI Program's Fifth Regional Training Course is scheduled for April 16 to May 4, 2001 in Buenos Aires. The course is being organized in cooperation with Argentina's Instituto Nacional de Estadística y Censos. For more information, visit <http://>.
- In coordination with the World Bank Institute and the Organization of Eastern Caribbean States, the MECOVI Program has scheduled a training course for March 16 to April 6, 2001 in Saint Lucia. The course is expected to attract participants from most English-speaking Caribbean countries and from Suriname.

**MECOVI is the Program for the Improvement of Surveys and the Measurement of Living Conditions in Latin America. It is sponsored by the IDB, the World Bank and the Economic Commission for Latin America and the Caribbean.*

Ethics and Development

Continued from page 1

The discussion also pointed to the need to overcome reductionism. Analyses and policies should take into account more than just economic variables, reflecting issues such as politics, institutions, human capital, social capital, the environment, and values. A one-dimensional focus weakens analysis and results in inefficient policies. A wider vision would enable better, more integrated development.

The responsibilities of the main social actors were also discussed. Singer exhorted that ethics should influence individual behavior, claiming that "those that decide the destiny of millions of people who live in absolute poverty should show their attitude toward the inequity and selfishness in their own lives." Themes that should be actively debated include the social responsibility of managers, the elimination of corruption in public office, consistent ethical behavior in political leaders, and the potential of volunteer efforts in civil society. Stiglitz suggested establishing an ethical code for economic policy advisers. The code's first article: not to impose economic theories that do not have full empirical validation.

The meeting also examined the global economy. Though there are exceptional opportunities for scientific and technological advances, there are also serious risks—such as the vulnerability of the poor, severe inequalities like those in Latin America (the world's most inequitable region), and tendencies toward excluding large groups of people. Sigrun Mogedal (Norway's Deputy Minister of Foreign Affairs) urged that these issues be discussed frankly because "to ignore the complaints of the poor is a violation of principles of human rights." Aylwin and Alfonsín warned about globalization without solidarity, and asked that international cooperation be strongly reinforced.

Society's goals were also taken into consideration. For Martin, the poverty in today's world is an insult to human dignity and to divinity. Freedom will readily advance only in societies with full access to health and education, opportunities for all, and active participation. According to Sen, today's huge inequalities threaten freedom: "If freedom is really important, it is not correct to reserve it for some few chosen...inequality is a central concern from the perspective of freedom."

A consensus emerged at the meeting that the debate on ethics must be given greater visibility. Doing so could increase trust, foster civic participation, and help in the assumption of responsibilities by key social actors. This debate has ancient roots, for in the Bible it is written: "Do not disregard your neighbor's blood" (Leviticus 19:16).

Bernardo Kliksberg was General Coordinator of the International Meeting on "Ethics and Development" and is the Coordinator of the Inter-American Institute for Social Development (INDES) of the IDB.

Research and publications

• Equalizing Opportunities for Human Development (in One Country), John E. Roemer

This paper proposes that the three most important inputs into human development are education, quality-adjusted years of life, and income. It outlines how a country can use its national budget to equalize opportunities for education and quality-adjusted life years, and its fiscal system to equalize opportunities for income. The paper also addresses the political feasibility of implementing such programs. It concludes with a discussion of the data needed to perform these computations, and of the challenge of equalizing opportunities across countries.

• Rising Inequality in Mexico: Returns to Household Characteristics and the "Chiapas Effect," César Bouillon, Arianna Legovini, and Nora Lustig

Using data from Mexican household surveys, the authors decompose the effects of returns to household characteristics and geographic variables in 1984-94. Household characteristics explain the largest share of the changes in inequality, but deteriorating conditions in the rural South account for a significant portion of the country's rising income inequality.

For more information on these publications—along with many other studies, working papers, technical notes, and information about events involving the Poverty and Inequality Advisory Unit—visit <http://www.iadb.org/sds/pov>. Or, write the IDB, Poverty and Inequality Advisory Unit; 1300 New York Avenue, NW Stop E0421, Washington, D.C. 20577.

The Rio Meetings of the Network on Inequality and Poverty

ARIANNA LEGOVINI

Minutes after the October 11 announcement that he was a winner of the 2000 Nobel Prize in economics, Professor James Heckman opened the Rio de Janeiro meetings of the Network on Inequality and Poverty. The network, cosponsored by the Latin American and Caribbean Economic Association (LACEA), the IDB, and the World Bank, promotes high-quality analysis of poverty and inequality and strengthens research capacity in the region by sponsoring projects led by top academics and encouraging cross-country collaboration.

In his keynote address Dr. Heckman, professor of economics and director of social program evaluation at the University of Chicago, spoke about econometric policy evaluation—a subject to which he has contributed more than anyone, revolutionizing how public policy is assessed. It is an issue of central importance to institutions (like the IDB) interested in monitoring the public programs financed by their projects and to governments facing greater demands for accountability in the use of public funds.

The rest of the day's discussions focused on crime and child labor. Presentations by François Bourguignon (Delta, Paris) and Andrew Morrison (IDB) provided a methodological framework for studying the social impact of crime, supported by applications to Colombia and Mexico. These presentations were part of a project funded by the Network on Inequality and Poverty to rigorously analyze crime in order to assess its economic costs in the region and thus its importance for public policy.

The session on child labor was led by Sonya Bhalotra (Cambridge University), who presented a conceptual framework for analyzing the causes of child labor and their implications for policy. A paper on Mexico's *Progres*a program suggested that giving poor families incentives to invest in their children's human capital can help lower the number of working children. A paper by Luis Felipe López Calva (Colegio de México) titled "A Social Stigma Model of Child Labor" was awarded one of two awards for best paper. The other award went to Samuel Freije (Cornell University) for "Measuring Income Mobility and Poverty Dynamics in Venezuela." All the papers presented in Rio can be downloaded from <http://www.nip.cl/>.

During 2001 the network will sponsor two events, one in collaboration with the LACEA Political Economy Group on the delivery of social services (to be held in Lima, Peru on June 21-22) and one in conjunction with the LACEA annual meetings (in Montevideo, Uruguay on October 17) on social exclusion, the distributional implications of privatization, and impact evaluations of poverty programs.

Arianna Legovini was the coordinator of the 2000 meetings of the LACEA/IDB/WB Network on Inequality and Poverty.



Professor James Heckman delivering the Keynote Address at the NIP 2000 meetings.

Upcoming events

The **Socially Responsive Globalization** seminar will be held on **18 March 2001** in conjunction with the IDB's Annual Meetings in Santiago, Chile. The seminar will present multiple perspectives on globalization's effects on social conditions, labor markets, and regional disparities, and spell out the tradeoffs inherent to globalization. Speakers will discuss the role of international regulations and public goods in promoting social responsiveness in an integrating global economy.

The third meeting of the **Social Equity Forum** will be held on **16-17 March 2001** in conjunction with the IDB's Annual Meetings in Santiago, Chile. Members of the forum include economic, finance, planning, and line ministers, leaders of civil society groups, academics, opinion makers, and leaders from inside and outside government who have promoted or implemented equity-enhancing reforms in the region. The meeting will focus on the role of political actors and legislative processes in implementing a social equity agenda.

Did you know?

Latin America and the Caribbean is the world's poorest region when poverty is measured using country-specific relative poverty lines. But when poverty is measured using the international \$1 a day poverty line, the region falls in the middle of the ranking. Thus Latin America and the Caribbean is not so much a poor region as one with a very unequal distribution of income.

Poverty incidence by region, 1998 (percentage of population)

Region	Relative poverty	Absolute poverty
Latin America and the Caribbean	51.4	15.6
Sub-Saharan Africa	50.5	46.3
South Asia	40.2	40.0
Europe and Central Asia	25.6	5.1
East Asia and Pacific	19.6	15.3
Middle East and North Africa	10.8	1.9
Total	32.1	24.0

Note: These are preliminary estimates, based on income or consumption data from countries for which data from one survey were available for 1985-98. Relative poverty lines are equal to one-third of each country's average per capita consumption in 1993 at 1993 purchasing power parity (PPP) if that figure was higher than \$1 a day. Otherwise the \$1 a day poverty line was used. The absolute poverty line is \$1.08 a day per capita at 1993 PPP.

Source: World Bank 2000, World Development Report 2000/2001: Attacking Poverty.