Human development, the environment and international order: a Latin American perspective

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The golden years

The "golden years" of Latin American development encompass the period from the end of World War II to the beginning of the 80s. During those years annual production grew 5.5% and the manufacturing industry 7%. Urban population rose from 45% to 70% of the total, capital reserves swelled to 23% of earnings, and training of the labor force increased significantly.

Several social indicators also progressed notably. There was a substantial drop in infant mortality, life expectancy increased, school enrollment rose at all levels and public health care improved. Economic growth and expanding employment opportunities reduced the number of inhabitants below the poverty line. In 1960, these numbered 110 million people, representing 51% of the total population. Twenty years later this proportion had dropped to 35%.

By 1980, however, we were still a long way from laying firm foundations for sustainable development. Even in rapidly growing countries like Brazil and Mexico, pockets of poverty persisted in rural areas and had begun to expand in the urban sector. Wealth and income became concentrated in the hands of small groups, thereby inevitably increasing social inequality.

Endemic problems, such as the squandering of funds, excess consumption, and capital flight worsened. At the same time, environmental factors were neglected to the extent that forest, biological, agricultural, water and energy resources suffered severe damage. Meanwhile crowding and poverty led to growing environmental deterioration in various Latin American regions and urban centers.

Political instability was a common characteristic during these "golden years". *De facto* governments were installed for long periods in several countries while democracy, liberty and human rights were conspicuously absent for a large portion of the continent.

These weak points in Latin American political systems and their ongoing development programs coincided with the endemic macro-economic weaknesses that led to the crisis of the 80s. These affected both the fiscal domain and the foreign sector.

In the former there was a rapid overall increase in public spending, which at the same time failed to generate any genuine sources of financing. Nationalization of private enterprises, while increasing government

This essay proposes that Latin America attend primarily to human development and the preservation of the environment, as a means of putting an end to its prolonged economic crisis and restoring sustained long-term growth.

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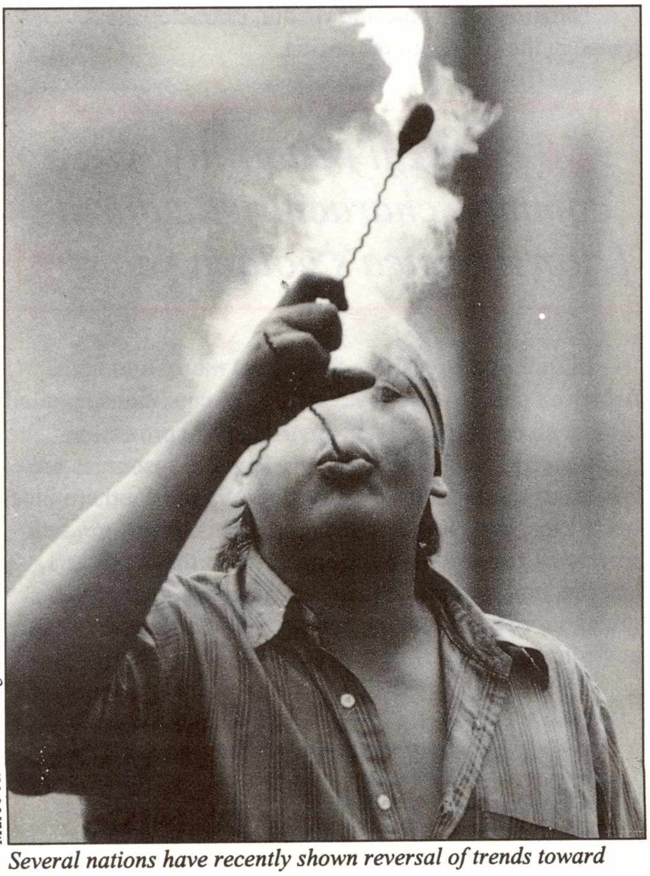
involvement in the production of goods and services, was not accompanied by prudent price, tariff and finance policies. This affected the administration of monetary policy negatively: deficit spending inflated the money supply and monetary instability.

The foreign sector proved to be even more vulnerable. Countries that had progressed industrially, transformed production methods and introduced new technology, did not develop sufficient competitiveness to participate adequately in the international marketplace. Raw materials continued to dominate Latin American exports with the result that their share in world commerce and the terms of trade continued to decline. Yet models for replacing imports by "internal development" generated chronic economic instability and dependence on foreign resources to finance recurrent deficits in international payments.

Latin American's share in world trade declined persistently from more than 10% of world exports in 1945 to 7.5% in 1980. On the other hand, chronic fiscal and balance-of-payments deficits encountered practically unlimited availability of private international credit. This contributed to the creation of the huge foreign debt that, from the beginning of the 80s, set off the crisis in Latin American development.



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Several nations have recently shown reversal of trends toward recession.

The lost decade

Mexico's suspension of foreign debt payments in August 1982, formally marked the beginning of the foreign debt crisis and the "lost decade" of the 80s. In Argentina and Chile, internal political circumstances had brought on the crisis somewhat earlier.

> *"Recent reversals can be seen in trends for recession, capital flight and high inflation rates"*

According to ECLAC (Economic Council for Latin America and the Caribbean), real prices of the principal Latin American export commodities fell almost 30% in the 80s. In addition, the region continued to suffer the effects of European Common Market agricultural policies and increasing protectionism for such sensitive products as textiles and steel. Changes in conditions abroad forced a huge effort of adjustment and a massive transfer of funds to service foreign debt.

This unleashed a general decline in economic and social conditions. During the "golden years," annual inflation had fluctuated around 25%, but by the end of the 80s it was over 1,000%. Per capita output that had grown 3% annually, suddenly dropped close to 1% in the 80s. The investment rate fell 30%, while Latin American's share in world trade continued to decline, falling to only slightly more than 3% in 1990.

During this period, the number of people below the poverty line increased to more than 200 million, and currently number around 40% of the total population. The reduction in economic growth and drop in capital formation led to increased unemployment, socioeconomic isolation, and the migration of both unemployed and skilled workers.

Economic insecurity succeeded in aggravating the endemic capitalflight. It is currently estimated that funds deposited in foreign accounts by Latin American residents equal approximately 50% of the region's foreign debt.

The change of direction

The crisis unleashed by adjustment to new conditions, foreign trade during the 80s increased frustrations that had built up during the boom period. On the political front there was a general rejection of dictatorial regimes by all the nations of the South American sub-region. Argentina, Brazil, Chile, Paraguay, and Uruguay all succeeded in establishing democratic governments.

In the economic sphere there was open debate as to the advisability of traditional methods of import substitution

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Progress in environmental goals will not be possible without the eradication of poverty.

backed by strong government participation. A new model gradually took hold. It was based on the search for macro-economic equilibria and free markets, curtailing government intervention by deregulation and divestiture, reducing protectionist barriers and liberalizing rules for foreign investment.

The financial community and creditor governments played a very important role in this process. The same factors that had provoked endemic weakness in development patterns and a huge foreign debt by the end of the 70s, also prevented Latin American debtor nations from adopting strong negotiating positions to confront their creditors (Ferrer, 1984).

Conditions imposed to permit access to foreign funds complementary to resources designated for debt service, added new elements to the terms traditionally observed in foreign debt adjustment by the IMF.

Other components were added to classic fiscal, monetary, and exchange agreements. These tended to liberalize the functioning of the market system by reducing government presence and opening up the economy to outside competition. Foreign investment, technological development and other sensitive areas were deregulated to facilitate the participation of leading industrialized nations. These criteria, defined in the *Washington Agreement*, make up the present agreement conditions of the Brady Plan and the support of participating creditor nations.

The long-term impact these new directions will have on human development and environmental protection in Latin America is still unclear. Several nations have recently shown considerable economic improvement, including reversal of trends toward recession, capital flight and high inflation that predominated during the "lost decade" of the 80s.

Chile and Mexico showed the most successful results of these new tendencies. Economic activity, investments, and employment have begun to rise, starting up a substantial new influx of foreign capital. Real estate and share prices on local stock exchanges have increased strongly in both nations.

These results, however, are not particularly impressive when compared to the "golden years." Not even the most successful nations have recovered the growth rate and capital accumulation of those years. Nor has the inflation rate differed substantially, despite rigorous and successful application of stabilization and adjustment procedures in Chile and Mexico.[1]

Directional changes are being made, but so far results are still insufficient to support reliable predictions of results. It may be said unequivocally that there are real costs attached to such changes in direction and that they are paid by lower income groups, precisely those who should be the beneficiaries of sustainable development.

If there is no progress in the eradication of poverty, in dealing with urban problems and others that affect the quality of life, the necessary progress toward strictly environmental goals will not be possible.

Current dominant trends and the effect of foreign influence in Latin America reveal fewer opportunities for Latin American societies to choose their own path of development. At the same time growing inequalities and cracks in the social structure continue, based on concentration of income and wealth, characteristically rooted in the history of the region.

"Political instability was a common characteristic during Latin America's golden years"

In short, the prevailing theoretical model and Latin American policies do not yet satisfy the conditions required for human development and environmental protection.

Poverty and the destruction of natural resources are now central problems affecting not only the southern bloc but the leading nations of the world. It is, therefore, not surprising that studies have appeared on these subjects, and that multilateral financial organizations have been giving more attention to problems of poverty and environmental protection.

[1] A comparison between the two periods should take into account changes in international conditions. At present, world production is growing at a rate approximately 50% below that recorded between 1945 and the beginning of the 70s, and world trade is growing at about 20% less than it did then. International financing conditions are also less permissive and the results of foreign debt persist, at different levels, in various countries.

As a result, the Second United Nations Conference on Environment and Development (1992) was held in entirely different circumstances from the first, twenty years ago.

In view of this new context, the fact that 77% of the world's population receives only 15% of its income can no longer be ignored, nor that *per capita* income in the North is almost 20 times higher than in the South and, according to current demographic trends, 85% of humanity will live in the Third World in the first quarter of the next century, while 95% of the increase in the world's labor force will also be based in the South.

> *"Democratic governments were established in South America during the 80s"*

The principal problems that developed nations face are migrations of political refugees and people looking for work, drug trafficking, spread of epidemics, environmental destruction and conflicts that constantly break out in various regions of the planet.

The gap between agreements made for sustainable development and real behavior on a global basis is huge. Military expenditure, for example, continues to absorb an important part of world resources.

The Third World, with 15 % of world income, imports 75% of the world's arms. This is probably the greatest "transfer of technology" ever from North to South within the southern bloc. Around 4% of world income continues to be destined for military purposes, thus diverting funds essential for human development and environmental protection.

Sustainable development is also sabotaged by the following:

1. *Transfer of funds.* Up to 1981, money transferred from North to South totalled 43 billion dollars. The flow was reversed in the 80s, between 50 and 60 billion dollars having moved from South to North by 1989. The money drained out of Latin America during the decade represented 4% of the region's entire income. It was only in 1991, for the first time in a decade, that a positive transfer of 6.7 billion dollars reappeared. Prevailing insecurity and aggressive pursuit of deposits by private international banks aggravated the endemic problem of capital flight in many developing countries.
2. *Trade.* Southern exports are subject to tariff and non-tariff restrictions in the markets of industrialized countries that protect such sensitive sectors as agriculture, textiles, and steel. Estimated annual cost to developing countries is 100 billion dollars on agricultural and 50 billion dollars on textile exports. At the same time, restrictions on technology transfer, trade in services and foreign investment dealings are designed to favor the interests of businesses and influential economic sectors in developed countries. But the terms of trade and relative share in food production, commodities, and energy are declining not only because of protectionism in the industrialized nations. New technological models in microelectronics, information systems, and biotechnology tend to reduce labor, energy and raw materials costs in the overall cost of production. Low paid, unskilled labor is being displaced by knowledgeable skilled labor. Natural products are displaced by new compound materials and energy-saving policies. Inevitably these processes reduce competitive advantages based on low salaries and natural resources.

Furthermore, macroeconomic disequilibria prevailing in industrialized countries and in their reciprocal relations generate instabilities in exchange and interest rates. This stimulates speculation and short-term capital movements in the main money markets, unrelated to production growth and real investment.

Advances by industrialized countries in recent years have not yet managed to solve chronic problems of unemployment and deficits in the balance of trade and payments. The current dispute between the United States and Japan proves that profound imbalances persist among industrialized nations. The formation of trade blocs in North America, Europe and Asia will hardly solve existing inequalities within the northern sector and,


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The number of people below the poverty line has increased.

viewed pessimistically, could even force the break-up of the world market.

The new international order

The principles set out in the United Nations Charter acquire fresh meaning and validity in the new global framework. Its bases are not only political. They also respond to requirements essential for human development and environmental protection.

At the same time, participation in concerted international action for sustainable development and the protection of human rights implies waiving the concept of sovereignty and a commitment to fulfill contract obligations. What are the conditions necessary to reconcile such apparently contradictory elements?

1. *Making common interests operational.* To implement acts that reflect and deal with recognized problems, joint action by the international community must be based on symmetrical commitments involving all its members and on truly multilateral design and execution of programs.

Symmetrical commitments. Since it has tremendous impact on the functioning of the world economy, the northern bloc's role in a new international order should require commitment to several basic resolutions. These are the correction of imbalances in the leading economies, reconstruction of the monetary system and the consolidation of free and multilateral international trade. Policy coordination between major nations should be more efficient to assure stable interest and exchange rates as well as promoting increased production, investment, and world trade. The North must take effective measures to ensure environmental protection, to prevent global warming, the destruction of the ozone layer, and of temperate forests, and the spread of toxic waste —all areas to which it is a major contributor. Efficient control of drug use and arms trafficking are further priority areas. The North should also be responsible for transferring funds and technology as a contribution to the sustainable development of the world economy. At the same time, developing nations in the new order should assume wide-ranging commitments, from protection of tropical forests and bio-diversity to policies for reducing extreme poverty, protecting human rights, consolidating democracy and mobilizing their societies' creative potential, including programs for regional integration between developing countries and South-South cooperation.


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"Latin America's fiscal deficits became the source of a growing money supply and monetary instability"

Multilateral design. A "new human order," a "world-wide agreement for human development," and a United Nations program for Sustainable Development or, on the American continent, a Pact for the New World, can only be designed in forums that are truly multilateral. The United Nations is the natural setting for the design and follow-up of concerted action for sustainable development. This does not exclude the existence of regional programs such as, for example, those within the Organization of American States. Building a new framework for solidarity in sustainable development requires a profound change in international decision-making.

2. *Making the right to self-determination operational.* Effective participation in the benefits and support for an emerging new world order cannot exist without active commitment to human development and environmental protection. These commitments must not refer to the national policies, because the capability to design and implement such policies is the essence of the right to self-determination and individual choice. They need to be based on concrete indexes of health, education, distribution of wealth,

effective enjoyment of liberty, respect for human rights, and environmental conservation. A realistic and global understanding of economics and society, from the perspectives of human development and environmental protection, requires an orderly manipulation of macroeconomic variables. It is impossible to improve the quality of life or implement effective environmental policies in any country beset by macroeconomic disorder and hyperinflation.

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