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After a decade of requiring that developing countries apply strict neoliberal economic policies, international lending organizations have announced that increasing poverty shows that the model should be changed, and that economic adjustment will not be their formula for the new millennium. Experts who have reviewed lending policies over the past few months have shifted their stance radically, calling for reconsideration of the role of the state and application of more equitable income distribution policies.

The World Bank and Inter-American Development Bank (IDB), which for years have promoted the theories supported by the US and the International Monetary Fund (IMF), have offered a mea culpa and a quick change of formula. Their spokespersons are now traveling the world preaching a new order that polishes up the new points but maintains the same objective as the old protecting the interests of large international investors.

"What market are we talking about if more than one-third of the Latin American people are excluded because of poverty?" asked Mexican economist Diana Alarcon, of the IDB's Instituto de Desarrollo Economico y Social (INDES). "Today the great challenge is to incorporate the poor into the market. If the region doesn't want to be left behind with the mediocre growth rate it has shown in past years, it has to move ahead now in redistributing income."

Alarcon expressed that view in a mid-July seminar in Colombia, repeating it a few days later in Buenos Aires and admitting the need for substantial changes in policies imposed during the past decade. In an interview in an Argentine publication, she was asked why, if economic growth has increased in the region, poverty has also increased. "Poverty is so high," she replied, "that the economic growth was not sufficient to combat it.

This was aggravated by the fact that growth characterized by renewed capital and decreased demand for labor, which is typical of Latin America, creates unemployment." Joseph Stiglitz, vice president and chief economist of the World Bank, agreed with Alarcon. "The first generation of reforms has improved conditions," he said, "but many countries did not achieve growth rates equal to the levels they had before the external debt crisis of the 1980s, and poverty has not decreased." Stiglitz cited statistics of the World Bank and the Economic Commission for Latin America and the Caribbean (ECLAC), showing that 4 million more people are poor now than at the beginning of the

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1990s, and the region's combined GDP "is only recently growing at the same rate as it did 10 years ago."

In a recent report released in Buenos Aires, the IDB indicates that "by any standard of measure, Latin America stands out as the most inequitable region in the world....Income distribution has not improved in the 1990s and remains below levels of two decades ago." The IDB study shows that one-fourth of Latin America's wealth is in the hands of 5% of the people, while the poorest 30% receive only 7.5% of the region's income. Brazil, Chile, Guatemala, Ecuador, Mexico, Panama, and Paraguay "stand out as the nations with excessive inequality," the report says. The report says that the concentration has occurred partly because, unlike the situation in First World countries, "there is an abyss" between the richest segment and the rest of society.

In Canada and Sweden, people at the top of the income ladder have incomes only 20% to 30% above those on the next rung. In Chile or the Dominican Republic, on the other hand, the richest 10% have incomes 300% higher than the 10% of the population in the next level on the social scale. The IDB says this unequal distribution is directly related to increased poverty. "More than 150 million Latin Americans more than 30% of the population have an income below the US$2 a day necessary to meet basic needs," the report says.

Alarcon and Stiglitz are not the only ones who see the inequalities and propose a return to a model of greater government commitment to social development. During the seminar in late July in Buenos Aires, Michael Walton, a World Bank director, said that, rather than removing the state from the economic-adjustment picture, as has been done in the past two decades, the formula for coming years must include a re-evaluation of the government's role. "There is a new way of thinking in the world that complements the previous model," he said.

"Macrostability and integration into the market continue to be necessary for attacking poverty, but from now on, in the light of the experiences of southeast Asia, Russia and Brazil, international financial rescue programs must be more balanced in order to protect the poor from the worst effects of the crisis."

Academics at the seminar organized by the Facultad Latinoamericana de Ciencias Sociales (FLACSO) were surprised by passages Walton quoted from a World Bank study. "The first thing that governments of emerging markets must learn is the need to avoid irreversible deterioration of the social well-being of the poor," he read, adding, "If we want a more equitable society, the state has to play another role helping households manage the risks that exist in the market."

Until the beginning of this year, neoliberal technocrats argued that increased concentration of wealth would lead to greater savings in a small sector of society, stimulating growth. Only after that, they said, could policymakers begin to think of redistributing wealth. But increased poverty proved their theory false. "For these inequalities to continue is politically and economically unsustainable. There are greater and greater social indicators warning of imbalances.

Moreover, academic research is proving that inequality slows growth," Alarcon said. "Internationally, empirical evidence does not support that theory [of increased savings and growth].

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On the contrary, comparative studies show that countries with a lesser concentration of wealth tend to grow more rapidly," the IDB report cited by Alarcon said. In addition, "there is no relief program that has succeeded in reducing poverty, because poverty is also the lack of opportunity and employment," Alarcon said.

Alarcon, Stiglitz and Walton agreed on several key points for the new financial formula: * The need to regulate financial systems, because liberalization increases the possibility of a crisis and, as a result, decreased growth. *Not privatizing state-run monopolies without first creating a regulatory system to guarantee competition (although they did not mention guarantees of quality). *Not allowing a single powerful company to gain total control of an industry. *Strong government investment in public education and technology, where the market is ineffective because there is not an immediate return on investment.

For some countries, like Argentina, where the model has been imposed rigidly, the recommendations of the early 1990s that spoke of "making the state smaller to make the country greater" have already proven false, and the international lenders' policy shift comes late. The mea culpa and its results, however, are likely to have one positive effect. Many economists at the FLACSO seminar said they will stimulate a debate that until recently has been the domain of people contemptuously considered nostalgic for the past, who have called for reconsideration of the state's role and argued that when economic means take precedence over social ends, crisis is inevitable.

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