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Highlights Of 1990 Inter-american Development Bank Annual Report On Economic & Social Progress

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On Nov. 3 in Washington, the Inter-American Development Bank (IDB) released its 1990 report on regional economic and social progress. Summarized below are selected highlights. * Net return of flight capital in 1990 came to US$14 billion, compared US$4 billion in 1989. * Latin America receives 80% of all direct foreign investment in the Third World. * Total foreign exchange reserves increased by US$13 billion last year. Nineteen of 25 IDB member-nations registered an increase. Chile, Mexico and Venezuela accounted for 75% of the total US$13 billion. * Aggregate GDP rose 0.8%, resulting in a 2.8% per capita GDP decline. Per capita GDP in 1990 was equivalent to income levels prevailing in 1977. * Regional economic performance was mixed. Aggregate GDP growth for Mexico and Central America came to 3.8%; Andean nations (including Chile), 2.4%; the Caribbean, -1/4%; and, Southern Cone nations (Argentina, Brazil, Paraguay and Uruguay), -4.1%. Brazilian GDP growth last year was -4.6%. The Argentina rate was -0.5%. The four Southern Cone nations account for 44% of the region's population, and 52% of GDP. * For 1991, the IDB expects a 2% aggregate GDP growth rate for the region; for Mexico and Central America, around 4%; the Andean region, 5%; Argentina, 3.5%; and Uruguay and Paraguay, 2.5%. * The economic recovery of member-nations after the "lost" decade of the 1980s remains uncertain, due to continuing uncertainty about the outcome of the General Agreement on Tariffs and Trade (GATT) Uruguay Round; economic slowdown of advanced industrial nations; competition with Eastern Europe, the Soviet Union and the rest of the Third World for financial resources; and, an expected increase in interest rates. * Economic performance perspectives for the 1990s are nonetheless more optimistic than in the 1980s. IDB justifications for this claim follow: (1) resumption of economic growth in several nations of the region, particularly Argentina, Colombia, Chile, Mexico, Nicaragua and Venezuela; (2) success in gaining control over inflation, particularly in Peru, Nicaragua, Argentina and the Dominican Republic; (3) continuity of economic reforms in most countries such as Colombia's trade opening, and the commencement of privatization in Brazil and continued privatization efforts in Argentina and Uruguay; (4) reversal of a chronic negative balance of payments situation, result of the return of flight capital and increased direct foreign investment flow; and, (5) spectacular progress in economic integration efforts (Andean Pact, MERCOSUR, among others), and the broad-based potential of the Initiative for the Americas. * The IDB recommends that Latin American and Caribbean governments undertake "reforms" of social security systems, aimed at greater equity and increased effectiveness in alleviating the high social cost of economic "modernization." IDB recommendations are based on a study by Carmelo Mesa Lago, economics and Latin American affairs professor at the University of Pittsburgh (Pennsylvania). The study defines social security as a broadly conceived network of mechanisms guaranteeing at least minimum health and education requirements for needy citizens. The Mesa Lago study recommends restoring social welfare system financial solvency via an increase in salary and wage contributions; elimination of ceilings on contributions by workers; reinstatement of sliding fee scales for use of selected services; reduction of administration costs; and, elimination of overly generous benefits. Next, the study calls for the elimination of early retirement and mandatory retirement on the basis of chronological age. If the above changes are not possible, study authors

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recommend instead that the minimum number of years of employment (i.e., years of providing social security contributions) be raised in order to qualify for pension benefits. Another option would be to establish a pension system defined by a subsistence level amount. Increments to the basic pension would be financed primarily by future beneficiaries who choose such a plan. Report authors say they recognize the difficulty in practice of implementing their recommendations on revamping existing pension systems, and offer an alternative of a dual system. In this scenario, current beneficiaries would continue receiving pensions, but would lose the most costly components of same. Poor persons who at present receive no benefits would be incorporated into the system, obtaining basic services (primarily medical care). (Basic data from EFE, AFP, 11/03/91)

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