

# Economic adjustments, income inequality, social cohesion and social policy<sup>1</sup>

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# **Economic adjustments, income inequality, social cohesion and social policy**

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## **Responses do economic adjustment**

Since the 1980s, an important division took place among the countries that, during the cold war years, used to be known as making up the “third world”. A few, particularly the “Asian Tigers”, Korea and Taiwan, developed very quickly with reasonable levels of social equity, and reached in a few years the economic standards of the developed world. Others, particularly in Latin America, like Argentina, Brasil and Mexico, had difficulties to cope with the economic adjustments and transformations needed to balance their economies, to deal with the issues of poverty and inequity, and benefit from the opportunities of the international flow of capital, trade and technology, and went through a succession of economic and political crises. A third group, particularly in Africa, became what is known today as “failed states”, unable to keep their public sector functioning, and entering in a pattern of growing poverty, violence and health decay. Today, this division seems to be stronger than before. China, and to a certain extent India, and, in Latin America, Chile, are joining the club of the Tigers, with an expanding economy; while others, like the Andean countries (Peru, Bolivia, Ecuador) seem to be on the brink of joining the failed states. Some of the former communist countries in Europe are integrating without much difficulty in the developed world; others, particularly in Asia, seem to be entering the long list of failed states; while others, including Russia, seem to be joining the large Latin American countries the club of intermediate countries struggling to complete the transition from obsolete economic and social arrangements into the modern world.

An initial, but shortsighted explanation for the achievements of the “Asian Tigers” was purely external: the assumption was that these countries were successful because they had kept their economies open to the international markets, while countries like India and Brazil did not. However, this explanation was not sufficient, since, for instance, the presence of the State in the economy of Japan, Korea and Taiwan had been much stronger than in any country in Latin America. It was necessary to go back to the countries and try to understand, beyond the circumstances of the Cold War and short-term economic options, why some were able to carry out internal and external policies that allowed them to reap the benefits from participation in the international economy, making their societies richer and more egalitarian, while others did not. This included some old questions, like their different climate and natural resources (Landes, 1999) and others not so old, like the way their governments were organized, the extent and quality of public education, the space allowed for free enterprise, how they dealt with science and technology, and the legal, institutional and cultural conditions for the operation of efficient public administration and modern business enterprises.

The second approach was to put emphasis not on countries, but on the new international context, described now by the term “globalization,” as something different and more overwhelming than the old “internationalization”. There is no consensus on what this new globalization actually means; but the starting point is the intense penetration of national societies by all kinds of international networks, associations, institutions and cultures – financial markets, large multinational companies, nongovernmental organizations, the international media, instant communications, academic circuits, religious movements and new international and multilateral institutions, such as the United Nations, NATO, the European Union and the Arab League. Globalization is seen as a multi-dimensional trend, with economic, military, cultural, technological, political and environmental aspects and consequences, each requiring special attention. A common feature of this second approach is sometimes a rebirth, in new clothes, of the old dependency theory: the notion that the global constraints placed on individual countries are too strong to be countered by local policies, and a renewed concern with the need to reform the international order. Instead of the old

imperialism and neocolonialism, the culprit is now globalization, with similar consequences and implications.

The first dramatic manifestation of the risks of globalization was the financial and currency crisis that affected Mexico in 1982, and spread out to other countries in the following years. In Latin America, the 1980s became known as “the lost decade”, and one explanation for what happened was the inability of the countries in the region to adapt to the volatility of international capital flows and the other changes brought about by globalization. International organizations, and more specifically the International Monetary Fund, were called to help the countries to deal with the situation, and developed a view of what the countries should do integrate and benefit from the world economy, The expression “Washington Consensus” was coined by the economist John Williamson in 1989 to describe this view (Williamson, 1990). Twenty years later, after recurrent crises in Latin America, Asia and Russia, it became obvious that something had gone seriously wrong, and the Washington consensus came under attack. One of the best-known critics was Nobel Prize economist Joseph E. Stiglitz, formerly the chief economist and senior Vice-President of the World Bank, and before that the Chairman of the Council of Economic Advisers to President Clinton (Stiglitz, 2002).

Stiglitz and Williamson agree on their diagnosis of the crisis faced by the Latin American economies in the 1980s, as well on the main recommendations on how to deal with them. First, these countries were spending beyond their means, and this was leading to inflation and the disorganization of the economy. Fiscal discipline was particularly difficult for the democratic regimes that replaced the military governments of the 1980s. The growing public expenditures were a consequence of the overextension of the state apparatus, through political patronage, a large and mostly ineffective public bureaucracy, the creation of heavy and usually non-competitive companies, the uncontrolled expansion of social benefits and pension systems, and widespread corruption. Second, they were importing more than they exported, and the deficits in the balance of payments led to growing indebtedness. To correct these two problems, they should *cut public expenditures* and *devalue their currency*, favoring the export sector. Third, their economies were closed to international markets and technologies, which led to high

prices internally, and the inability to import; for this, they should *lower their tariffs*, forcing the national companies to compete. The basic recommendations were that they should reach *macroeconomic equilibrium*, that is, not to spend more than what was allowed by their tax basis; not to import beyond their ability to obtain dollars; and keep inflation under control. They should *liberalize their economies*, opening up for foreign capital investment and international trade; and *privatize public owned companies*, particularly in areas such as steel production, energy, public transportation, and telecommunications. With privatization, the public sector could get resources to help to balance its accounts, private capital would bring new investments, and the quality of products and services would improve.

This diagnosis and recommendations are still strongly contested in Latin America. During the Brazilian presidential campaign of 2002, the Cardoso government, which worked hard and quite successfully to put the Brazilian economy in order, was accused by the opposition of dismantling Brazil's public sector, sacrificing economic growth and public services for inflation control, and surrendering the economy to international bankers, capitalists and speculators. His party lost the elections. The Workers Party, PT, as well as the new President, Luis Ignacio "Lula" da Silva, had a long history of fighting against these policies, favoring the expansion of the public sector, and preaching policies based on the protection of national industries, growing social investments, and control of the flow of foreign capital. Politicians like Néstor Kirchner in Argentina, Alan García in Peru, and Hugo Chávez in Venezuela had defended similar policies. Lula's economic policies, however, have been as conservative as those of Cardoso, if not more. García and Chávez' policies have failed, and it is too early to say what will happen in Argentina. In spite of their eventual popular and electoral appeal, it does not seem to be possible to reenact, in the 21<sup>st</sup> Century, the policies of inflation, isolation from the international economy and uncontrolled growth of the public sector, which led to the crises in the seventies and eighties.

Williamson and Stiglitz do not disagree on the needs for fiscal responsibility, free markets and lean governments, and they concur that these policies tended to be implemented dogmatically, often based on simple-minded market ideologies, and without

taking into account the specific situations of each country. Privatization, which Stiglitz believes was an important goal, was often undertaken with haste, led by the short term urge of reducing the public deficit and generating resources to pay the debts, and under the wrong assumption that private groups would always come up to compensate for closed public companies and services. In Brazil, privatization was clearly a success in the areas of mining, steel production and telecommunications, but a disaster in the area of energy, for instance. In Russia, privatization led to the creation of a new, mafia-like oligarchy that took control of most of the country's economy and political life. In the absence of appropriate regulatory frameworks and well established markets, privation can lead to situations of corruption, monopoly, reduction of public services, growing costs for the population, and unemployment (Manzetti, 1997). It seems clear that the solution for these problems is no end with privatization, but to do it properly.

Trade liberalization, another important policy, can easily lead to the destruction of local and small companies, generating unemployment and social dislocation. Stiglitz says that there was a clear hypocrisy in the US policies in this regard, since it pressured for and often obtained liberalization measures from developing countries, while keeping its agriculture protected by very large subsidies. Trade negotiations are a fertile field for the manifestation of special interests in the developed countries, which other countries have difficulty in handling. The liberalization of financial markets is still more problematic. Most Latin American countries had inefficient public banks, used politically and supported through inflation, which had to be closed or handed over to the private sector. The combination of economic stabilization and international opening led many banking systems in Latin America either to bankruptcy or to dramatic and expensive reorganizations (Kaminsky & Reinhart, 1999). The free flow of international, speculative, "hot" money brought more problems than benefits, since it seldom led to long-term investments and new jobs, created the need for large international collaterals that tied up public resources, and it was the first to run out in situations of uncertainty, creating very serious crises of confidence.

Could it have been different? Stiglitz believes that it could, and has several examples of countries, from Chile to China, that were able to avoid the major pitfalls of

the IMF version of the Washington consensus. The main problem with the IMF approach, for him, was the dogmatic and authoritarian way in which its policies were imposed, leaving little or no space for the countries to make use of their own competencies and adapt to their peculiar conditions. There was no concern with the pace and sequencing of the reforms, both because of the market fundamentalism of the IMF authorities, and of their almost imperial power over the countries that needed their support. Proper policies of economic readjustment should consider that there are no market automatisms to compensate for the destruction of traditional institutions and companies; that a market economy, to grow, needs well-established institutions, including a properly functioning legal system, property rights, effective anti-trust legislation, and the availability and freedom of information. The transformation agenda should not be limited to economic equilibrium and the expansion of the market economy, but should include items like the maintenance of employment and basic social services, land reform, public education, and a direct attack on situations of extreme poverty.

More fundamentally, Stiglitz believes that economic transformation requires the preservation and gradual transformation of society, led by competent and legitimate leadership. Governments may have to become less expensive, but they need to improve their ability to regulate the economy and to implement social policies, and no reform can be done from Washington, without the active commitment and participation of leaders and intellectuals of the countries themselves.

It is easier to point to the problems associated with the Washington consensus than to suggest a better alternative, since it seems impossible, and undesirable, to return to the times of closed economies, growing public deficits, and permanent social inequity. Dani Rodrik, a Harvard economist identified, like Joseph Stiglitz, as a member of the “Cambridge Dissensus” (Bacha, 2002), also agrees with the main economic objectives, but put his finger in the problems associated with attempts to translate general policy recommendations into specific institutional arrangements, which are far from obvious and automatic:

Principles such as appropriate incentives, property rights, sound money, and fiscal solvency all come institution-free. We need to operationalize them through a set of policy

actions. The experiences above show us that there may be multiple ways of packing these principles into institutional arrangements. Different packages have different costs and benefits depending on prevailing political constraints, levels of administrative competence, and market failures. The pre-existing institutional landscape will typically offer both constraints and opportunities, requiring creative shortcuts or bold experiments. From this perspective, the “art” of reform consists of selecting appropriately from a potentially infinite menu of institutional designs {Rodrik, 2003 #17700 p 13}.

## **Globalization and poverty**

Early in his book, Stiglitz says that, in recent years, “the gap between the rich and poor have been growing, and even the number in absolute poverty – living on less than a dollar a day – has increased.” (p. 24). But has it? The actual effects of globalization in the economy were the subject of a detailed analysis by Stanley Fischer, First Deputy Managing Director of the International Monetary Fund from September 1994 to August 2001, in an indirect reply to Stiglitz’s criticisms {Fischer, 2003 #19579}.

The landmark of globalization, for Fischer, was the breakdown of the Breton Woods world monetary system, established in 1944 by the agreement that created also the International Monetary Fund and the International Bank for Reconstruction and Development, now known as the World Bank. Until the seventies, there was the general expectation that the currencies of all countries would have a fixed relationship with the dollar – a “pegged exchange” rate – and it was the mission of the IMF to provide support and assistance to countries in circumstances in which this rate was difficult to maintain. After the 1970s, with the grow of international capital flows and the use of monetary policies for domestic purposes, currency values started to float, leading to instability in the financial relationships among countries. This was not a new phenomenon, since international capital flows today are not higher then they were, proportionally, before the First World War; but was an important departure from the situation of the last fifty years or so, and is raising.

Fischer starts his paper by quoting the late economist Rudi Dornbusch {Dornbusch, 1999 #17620}, which, in his awe towards globalization, reminds one of Marx's fascination with capitalism, almost two centuries ago:

This century, and in particular the last three decades, have witnessed just that as the nation state has been dismantled in favor of a global economy, state enterprise and economic repression give way to free enterprise, and breathtaking innovation and greedy capitalism break down government and corporate bureaucracies. Anyone who says impossible finds himself interrupted by someone who just did it. The process is far from complete; innovation and free enterprise spread the mindset, the success and the acceptance of this model to the horror of status quo politicians and the sheer exuberance of all those who are willing to embrace a can-do attitude. If this century taught anything it is surely this: even daunting setbacks like depression and war are only momentary tragedies – buying opportunities, if you like – in a relentless advance of the standard of living and the scope for enjoying better lives. One of the great economists of this century, Joseph Schumpeter - Austrian finance minister of the 1920s and Harvard professor at the end - wrote of creative destruction as the dramatic mechanism of economic progress. That process is at work (Dornbusch, 1999, as cited by Fischer, 2003, p. 4-5).

Fischer agrees with Dornbusch, but with less enthusiasm. He looks at the available evidence on changes in the global economy in the last several decades, and finds a mixed picture. On poverty, his main conclusion is that the situation is improving, specially in heavily populated countries, like China and India, with little change in Latin America, and a clear deterioration in southern Africa, associated in large part with the spreading of AIDS. Income inequality, on the other hand, seems to be growing, both among and within countries. In other words, the poor are getting less poor, but their distance from the rich is growing. Is this the consequence of the opening of national economies to the international market? On that, he examines the effects of the free circulation of capitals, not just trade. The evidence is that the countries that performed better had opened their economies for trade and capital flows, but not all countries that opened up were successful. An open economy, concludes Fischer, is a necessary, but not a sufficient condition for economic growth. On the long run, as a true liberal economist, Fischer believes that capital should be free to roam through the world in search of the

best possible returns; on the short run, however, he agrees that it may be necessary to place some limits on this flow, as Chile did successfully for a period; but above all to make the financial conditions of the countries more transparent, and make sure that the overall macroeconomic conditions are right – reduced public deficits, low inflation, and adequate interest rates.

Fischer believes also that the international global trading system is unfair and unfavorable to the developing countries, because of the protection and subsidies of the agricultural sectors in Europe and the United States. He does not lend support, however, to the old views of Raul Prebisch and the UN Economic Commission of Latin America about the long-term superiority of industrial over agricultural economies in international trade, and believes that the current imbalances can be overcome through negotiations within the World Trade Organization.

What can we expect from the future? Most of what will happen depends on the economic growth of the industrialized countries. If the world economy continues to grow, almost everybody can benefit from it; if it does not, it will be much more difficult. Some large and important countries in the developing world, such as India and China, are moving ahead, and, in Latin America, some countries are getting organized and perhaps finding their ways – Chile, Mexico, Brazil. The big problems are in Africa and in many Latin American countries, particularly in the Andean region. The policies for the future, for Fischer, should not be different from those of the past. It will be necessary to go ahead with the recommendations of the Washington consensus, with more emphasis on poverty, the establishment of social safety nets for situations of extreme poverty, and institutional reform. It will be necessary to end with the trade barriers against the poor countries, and increase international aid; and mechanisms should be devised to make the international financial system less crisis prone. It would be necessary to have better policies for international migration, and improve governance throughout.

All these propositions would require much stronger and competent multilateral organizations, and go against the current trend of growing unilateralism in the United States. International aid, which could deal directly with the problems of poverty in the

poorest countries and help them to improve their economies, has been declining steadily. This is so particularly regarding the United States and other rich economies, perhaps because of the poor results of aid programs and the mismanagement of the resources in many countries. The end of the cold war and the weakening of the United Nations and other multilateral organizations can also explain the growing neglect to which the poorest countries have been treated. Fischer concludes his paper by a somber note, saying that

As the words of Keynes remind us, we cannot take it for granted that the world will continue down the road of globalization, greater prosperity, and greater democracy. That may be an astonishing thing to say at the end of a century that witnessed the first sustained competition between two clearly defined economic and political systems. The pro-democracy, pro-market, pro-globalization system won that contest decisively. Nonetheless that system is under attack (p. 26).

George Soros, the economist and financier who profited so much from playing the financial market and is now a philanthropist, is much more critical of the global capitalist system as it stands today than Stiglitz (Soros, 1998). His writings are sometimes difficult to understand for readers not familiar with the intricacies of financial markets, and heavily marked by his personal involvement in specific situations. He introduces the concept of “reflexivity” to express the notion that economic realities are not independent from the observer, but are shaped in large part by the interpretations and actions of those who try to understand and deal with them<sup>3</sup>. For him, reflexivity is more important than equilibrium for the understanding of economic realities, particularly in the financial markets. The broad conclusion, however, is not difficult to understand: global financial markets are inherently unstable, and need control and regulation. The IMF, by stimulating the countries to open their economies and providing them with resources to

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<sup>3</sup> The concept by itself, also known as the “Pygmalion effect”, is nothing new (“I shall always be a flower girl to Professor Higgins, because he always treats me as a flower girl, and always will, but I know I can be a lady to you because you always treat me as a lady, and always will”). It was made explicit by Robert K. Merton on his 1957 article on “the self-fulfilling prophecy”, and is widely adopted by sociologists of science since then. Its use in economic analysis, however, is more recent (Merton, 1957)

overcome short-term crises, became part of the problem, rather than the solution. Given this situation, he sees only two outcomes: either countries would tend to withdraw from the global economy, or be pushed out from it; or the most developed countries would agree in the establishment of a much more regulated international capital market.

Writing in 1944, Karl Polanyi talked about the three “fictitious commodities” that had been thrown into the markets by capitalism, but should be placed under social, non-market controls – land, labor and money. Land remains an important issue in many societies, but, overall, the process of destructing the traditional peasant societies, moving the population to the cities, has completed its course. The development of the welfare state placed strong limits on the free commoditization of labor within the nation-states, and there are many more restrictions now for the international flow of labor than a century ago, when millions of immigrants moved from Europe and Asia to other parts of the world. The problems of globalization today are in large part associated with the commoditization of money, and those who know more about it would agree with Polanyi that money is too important to be left to be controlled by markets alone.

### **Citizenship, human rights and the modern nation states.**

The notion that human beings are endowed with rights and obligations that transcend the peculiarities of their cultures has existed for centuries, and in the 20<sup>th</sup> century, with the rise of Fascism, Stalinism and the manslaughter of the World Wars, acquired a new and dramatic urgency. In the 1930s the Russian sociologist Georges Gurvitch, living in France, published a history of the notion of social rights, followed, in the mid forties, by a proposal for a Declaration of Human Rights (Gurvitch, 1932, 1944) Hannah Arendt, in the meantime, worked on her classic book on the origins of totalitarianism, which remains a central reference today (Arendt, 1951; Power, 2004).

Another classic reference is the text by British sociologist T. H. Marshall on social class and citizenship, written in the 1940s, as an effort to develop a concept of rights which would not lose sight from its roots in the history of modern European societies, while aiming at the definition of principles and goals that should be considered universal (Marshall, 1950). The notion of rights, for him, was closely associated with the

notion of citizenship – a right was not something one has in abstract, but defined a relationship between the members of a nation-state – the citizens – and that nation state.

For Marshall, there are three types of rights, which have developed with the creation of the modern democratic, welfare-oriented states. The first are the civil rights, defined as “the rights necessary for individual freedom – liberty of the person, freedom of speech, thought and faith, the right to own property and conclude valid contracts, and the right to justice”.<sup>4</sup> These are legal rights, which can be implemented by a proper legislation and a minimum set of institutions –courts and enforcement agencies. Secondly, there are political rights – “the right to participate in the exercise of political power”. This includes the rights to vote and to be elected, and their universalization in modern democracies is much more recent. In most countries, voting rights used to be limited by strict rules of gender, property ownership, education attainment, age, race and birthplace, and their extension to women, the illiterate, non-whites and foreign-born – a process known as “enfranchisement” - are recent achievements. Political rights require a different set of institutions: political parties, parliaments, and rules of the game assuring equality in voting rights. The examples of the United States, where a presidential candidate can have the majority of popular vote but lose in the electoral college; of Brazil, where a Congressman or a senator in a small state can be elected with a fraction of the votes needed to elect another Congressmen in the State of São Paulo; and of England, where the “first-past-the-post” system was devised to assure the dominance of small towns over the population concentrated in large urban centers, are examples of the existing limitations of political rights in modern democracies.

Social rights were defined by Marshall as “the right to share to the full in the social heritage and to live the life of a civilized being according to the standards prevailing in the society.” This meant, in the European context, the right to education, welfare protection and to a minimum, “decent” income. The institutions required to

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<sup>4</sup> In this brief presentation of TH Marshall concepts, I am making use of the discussion about the implementation of social rights in the Scandinavian countries, developed by (Klausen, 1995)

implement these rights are the systems of public education and social service. Civil and political rights are “passive”, in the sense that they depend mostly on the legal rules of the game of democratic conviviality, and do not require too many resources to be implemented. Social rights, however, are “active”: they require large institutions endowed with significant resources, and the active distribution of benefits to the population – education, retirement benefits, health care, minimum wages. To pay for this, governments had to raise taxes, to constrain the private companies to provide specific benefits to their employers, or both.

### **Human rights and social cohesion**

The evolution of the concept of human rights has not been associated with a corresponding concern with issues social cohesion, and it is a mistake to think that they are both the same. It is possible to date both concepts to the motto of the French Revolution, *Liberté, Égalité, Fraternité*, and to note that, while civil and political rights are associated with *Liberté*, and social rights with *Égalité*, no corresponding rights agenda came from *Fraternité*.

One possible explanation is the emphasis on individualism, a central value in the modernization of Western societies, which developed by rupturing the traditional ties that linked the persons with their primary groups, his family or clan. In the social sciences, the notion of “social cohesion” is often associated with the notion of “community”, a social unit where people are linked by common values and unconditional loyalty, in opposition to the individualist and calculating *homo oeconomicus* of Adam Smith. With the development of the modern nation states, the values of solidarity and social cohesion were transferred from the local to the national levels, with nationalism and patriotism taking precedence over family, religious or linguistic ties. However, social scientists never believed that modern societies could function without some degree of social cohesiveness, an issue discussed in the classical work of Émile Durkheim, who wrote about the importance of *solidarité organique*, the bonding of modern societies maintained through the common values instilled by public education, and Michael Polanyi, who denounced the risks of disembodiment of economics from the social fabric of belongingness.

(Durkheim, 1973; Polanyi, 2001). The importance of consensus and social cohesion in liberal democracies was the subject of a pioneering paper by Michael Mann, who, looking at the available evidence in 1970, concluded that “cohesion in liberal democracy depends rather on the lack of consistent commitment to general values of any sort and on the ‘pragmatic acceptance’ by subordinate classes of their limited roles in society” (Mann, 1970) This approach has been renewed recently in the growing literature on “social capital”, defined as a set of shared values and social identity required to the development and maintenance of modern business institutions (Dasgupta & Serageldin, 2000; Esping-Andersen, 1999; Fukuyama & IMF Institute, 2000; Putnam, 2001).

It is remarkable, in this context, how the European Union has placed social cohesion as a central issue of its agenda (European Commission, 2001, 2003), as an encompassing value. We could suggest two possible explanations to this. The first is that, in Western Europe, traditional forms of social cohesion were never fully replaced by individualist values, and linguistic, religious and professional identities remained strong throughout the 19<sup>th</sup> and 20<sup>th</sup> century. A reflection of this is the extension of the European welfare state, when compared with that of the US, and the concern of European policy makers, and their population, to preserve the benefits of this welfare system from the onslaught of international competition. The second are the concern about the tensions created by conflicting nationalities and cultures in all European countries, either because of historical cleavages in their own societies, or the presence of growing immigrant populations arriving from Africa, Asia, and the Muslim countries.

### **The globalization of human rights**

For Marshall, individual rights are inseparable from citizenship, which assumes that people belong to a community – usually a nation – in relation to which they have entitlements and responsibilities. More recently, however, human rights (an expression that encompasses the three types of rights described by Marshall) became an international concern, pushed by multilateral and non-governmental organizations, with wide coverage and support in the mass media. The first important document in this line was the Universal Declaration of Human Rights, approved by the United Nations in 1948

together with the Genocide Convention, after extensive negotiations led, in large part, by Eleanor Roosevelt, which covers the full range of civil, political and social rights. Several regional and human rights conventions and treaties followed, and, today, each branch of the United Nations system has its own specific rights agenda or declaration, like, for instance, the International Labor Office declaration on the rights at work of 1998, and the “Education for All” Jomtien Declaration of 1990. They include the International Covenant of Economic, Social and Cultural Rights; the Convention on the Elimination of All Forms of Racial Discrimination; the Convention for the Elimination of All Forms of Discrimination Against Women; the Torture Convention; the Convention of the Rights of the Child; International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families.

How important, and how effective are the human rights approach to deal with the contemporary problems of poverty and deprivation, that accompany the market economy and globalization? They are very important from a moral point of view, by defining what is and is not acceptable, and establishing standards which governments, private firms and other institutions are required to adopt; and their recognition empower those suffering from deprivation and social discrimination to get mobilized to assert their rights. To be effective, however, these standards have to be enforced by national and international public opinion, international organizations, social movements and legal institutions, but, above all, by nation states, which tend to establish priorities in terms of their own definition of “national interests”, or, in modern democracies, but the demands of their voting populations. In the name of national interests, Western democracies have supported all kinds of authoritarian political regimes, or turned against them on the name of human rights when convenient; and the protection of narrow interests of powerful national groups have placed limits on the ability and willingness of national governments to protect human rights of distant foreigners. “The Rights of Man, Arendt wrote, had been defined as ‘inalienable’ because they were supposed to be independent of all governments; but it turned out that the moment human beings lacked their own government and had to fall back upon their minimum [international human] rights, no

authority was left to protect them and no institution was willing to guarantee them” (Power, 2004).

The question becomes still more complex when the human rights agenda is associated with agendas of collective rights, keen to the concept of social cohesion. Modern, Western societies are used to respond to the demands of individual rights and economically defined social classes, but are not well prepared to consider the collective demands of particular social groups, and particularly so when they present themselves in terms of their linguistic, religious or ethnic identities. One of the reasons for this difficulty is that the notion of collective rights goes against the principles of individual equality under the law, challenge the universalism in the implementation of public policies which is a central tenet of the modern nation-state; and, in extreme situations, it comes a threat to the very survival of the nation states as they have been organized in the past.

The introduction of human and collective rights in the internal agenda of countries can also create difficulties when they are associated with attempts to replace “conventional” politics with ideological mobilization, and bureaucratic, administrative policy implementation with voluntary action. The Landless Movement in Brazil, like the Chiapas Zapatistas in Mexico, has been very successful in getting international support for their cause and extracting some benefits for its members, even if not commensurate with their initial, revolutionary ambitions. A more important example was the impressive electoral victory of Luis Ignacio Lula da Silva for the Brazilian presidency in 2002, in a campaign based on the assertion of absolute, ideal goals of social justice, against the supposedly pragmatic, “material interest” orientations of the previous government.

In real life, of course, ideal and pragmatic goals are always intermingled. Peasants joining the Landless Movement in Brazil do so because of their expectation of receiving land and subsidies from the government, and their political leaders have all the direct and indirect benefits – and occasional hazards - of national and international exposure (Carter, 2003). The new government in Brazil, once in power, had to face the practical need to organize the economy and to negotiate with politicians to get enough votes in

Congress for their proposed legislation, a kind of “material orientation” that shocked significant sectors of its constituency, and led to a serious crisis and widespread frustration.

This does not mean that the distinction pragmatic and human rights based politics do not exist in real life, or is irrelevant for politics and policymaking. By placing themselves in a higher moral ground, human rights movements can get support for groups and sectors that would be the weakest part in traditional politics, and get results and concessions that otherwise would not be forthcoming. Several authors have tried to analyze these social movements as just another rational strategy for resource accumulation, not different, in essence, than other modalities of political action (Jenkins, 2002). Michael Ignatieff describes the use of the human rights argument in political life as similar to the use of a trump card in a game, which, when put on the table, wins against all others. (Ignatieff & Gutmann, 2001) The difficulty with this is that, in practice, human rights are subject to controversies, different interpretations, different priorities, and have to be negotiated – a situation which contradicts the notion that they are absolute values, and, as such, non-negotiable. Two negative consequences can follow from that. The first is the escalation of conflict and confrontation, were there would be room for negotiation, compromise and the use of established legal procedures for conflict resolution. Thus, as in these examples of Chiapas and the Landless movements, conflicts of interest are routinely carried on as dramatic fights between Good and Evil, with the constant threat of imminent tragedy and bloodshed, attracting therefore the attention of the mass media and international public opinion, and the denial of legitimacy to the established legal institutions. The second is that negotiations and compromise take place in any case, but under the cover, as something forbidden, and therefore more subject to unprincipled deals and accommodations than if they were done on the open, according to clear rules and procedures.

### **Human rights and public policy**

When public bureaucracies are inefficient and corrupt, and the political process is subject to the influence of big money and the manipulation of public opinion through the

mass media, there is a strong temptation to replace the working of established institutions with voluntary action. There are many examples of this, like the efforts to provide education through campaigns, rather than through regular schools, or to replace the usual procedures for budget allocation by some kind of participatory budgeting process.

One difficulty with this approach is that human rights actions are, by definition, voluntary, while the action of established institutions are, again by definition, compulsory and universal. Social policies based on the ability of specific groups to mobilize for their interests and motivations are in great risk to leave aside the interests and needs of those less able to get organized. The other potential risk is that, by turning away the attention and energy of society away from the established institutions, human rights activism can contribute, unwittingly, to weaken these and make them less able to fulfill their roles than if they were under the pressure and oversight of social movements and public opinion. As Albert Hirschman wrote years ago, they would not be subject to “voice”, but will still be protected from “exit”, because of the public nature, and this is the best possible recipe for institutional decay(Hirschman, 1981)

In Brazil, in recent years, several municipalities have introduced systems of “participatory budgeting”, in which the destination of public resources is supposed to be decided in town meetings with the participation of members of the local community. The assumption is that this procedure is more democratic than the traditional one, in which the budgets are prepared by the mayor and submitted to the elected municipal chamber for approval. In fact, because of the way the electoral system works, the links of accountability between the population and their elected representatives are often weak or non-existent. The problem with town hall democracy, however, is that not all groups are equally represented in these meetings, and decisions tend to favor those more able to get organized and to press for their interests, rather than those in more need, but less able to participate. In practice, most of the municipal expenses are never subject to this kind of decision, since they are tied up with salaries and permanent services, and the attention given to town hall meeting may divert the public eye from the process by which most of the resources are actually allocated (Fedozzi, 1997).

Is the human rights, “ideal interest” orientation, more appropriate for policy implementation than the rational, “material interest” approach preferred by economists? Varun Guari discusses this question, regarding the implementation of education and health policies in developing countries, and strikes a conciliatory note:

With regard to practical policy consequences, rights advocates and economists are not far apart in their approaches to health care and education. Claiming that there are rights to education and health care is consistent with the belief that the rights cannot be realized at once, that social rights are goals and not constraints, that the financing and provision of services can be public or private, and that defending social rights requires local institutions, information, organization, and advocacy. A modern economic approach to health care and education in developing countries also emphasizes the need to strengthen accountability, sectoral governance, transparency, and access to information. Both approaches would recommend greater parental participation in school management, more patient input in health care decision-making, more effective local and civic organizations for monitoring service delivery performance, more transparency in and clearer rules for budget allocations, and a simplification of management and governance in the health and education sectors. In both approaches, the goal is to strengthen the position of service recipients (Gauri, 2003, pp. p. 2-3).

One important consequence of the human rights approach to policy-making is the emphasis on general rights and their enforcement through court procedures, rather than the reliance on the technical work of the public administration. Brazil is a good example. The 1988 Constitution, written after 20 years of military autocracy, has a very detailed list of individual rights and the obligations of authorities to fulfill them, without any consideration for priorities or the means necessary for that. As an extreme example, Paragraph 3rd of Article 192 established that real interest rates could never be higher than 12% a year, with severe criminal punishment for those who did not obey. In practice, this provision was never implemented, under the assumption that it had to be regulated by ordinary legislation, which the government never proposed. There was also a tacit agreement not to challenge the infringement of this constitutional clause in court.

The power of the judiciary to interfere against the administration on behalf of perceived rights, however, cannot be minimized. The best example, in Brazil, has been a series of decisions changing the ways the government converted salaries and adjusted for inflation during inflation control plans creating huge public deficits in favor of specific sectors. To these broad decisions of the high courts one should add the myriad decisions and injunctions established by local judges in favor of individual and group claimants, decisions which, in the Brazilian tradition, are not bound by the precedents established by the higher courts (Sadek, 2001). Surveys have shown that, in Brazil, judges tend to think that general principles of human rights should prevail over the cold letter of the law. This view provides moral support for resistance against attempts to make the rulings of the higher courts mandatory. Thus, for instance, a judge can decide against confiscating the properties of poor persons in order to pay their debt with a bank. The consequence of this kind of humanitarian decision, however, is that banks become insecure, increase their interest rates, and refuse to provide small loans to persons with limited resources. The autonomy of local judges has led also to the development of an industry of judicial appeals by special groups (for instance, firms challenging the constitutionality of specific taxes), which flood the tribunals with thousands of demands, making the whole legal system heavy and inefficient, reducing the ability of governments to function, and increasing the costs of private transactions (Pineiro & Cabral, 1999)

There are many other examples of policies based on human rights considerations that may produce questionable results: the forced extension of school years at the expense of education quality; free and unlimited medical care for everybody, overburdening the health care systems and reducing their quality; high minimum wages and generous work protection benefits, leading to unemployment and stimulating informal and illegal work; free higher education, channeling public resources to high and middle income groups.

This does not mean that the world would be better if the human rights agendas did not exist, and did not influence the way political life and policy making take place. The human rights perspective helps to set priorities, to establish goals, and to define standards against which public policies can be evaluated. The difficulties that exist can be better understood in terms of the classic analysis of Max Weber about charismatic domination

and the institutionalization of charisma, which is parallel to the classic distinction between the ethics of absolute goals and the ethics of responsibility. Human rights politics and policymaking are charismatic actions, geared by ultimate goals and values, which do not pay attention and do not care much about formal procedures and administrative rituals. This is their strength, and also their weakness: they tend to destroy the institutions, and are incompatible with professional specialization and long-term stability. They tend also to make the collective will, as expressed by vocal and charismatic leaders, to prevail over individual action and choice.

Modern democracies, to exist and implement policies based on human rights principles, require well-designed democratic institutions, space for professional administration, stable legal norms, and individual freedom. Public actions cannot be judged solely by the intention of leaders and the presumed rights of individuals and groups, but should also be evaluated by their abidance to formal procedures and by their practical results for society as a whole. When human rights move from the realm of values and goals to the realm of political action and policy implementation, without the due consideration for democratic procedures and institutions, all these mechanisms can come under threat. When the commitment to human rights and the mobilization for their implementation leads to the strengthening of public institutions, however, their contribution can be invaluable.

### **The reform agendas**

Even if we granted that globalization and the growing use of advanced technology could solve, on the long run, the problems of poverty and social exclusion, on the long run, as Lord Keynes has famously said, we will all be dead. It is not possible just to seat and wait for the benefits of economic growth to trickle down to those that are being left aside. The human rights agenda provides important references and benchmarks for what needs to be achieved, but it does not translate easily into actions and results. Beyond that, it is necessary to implement policies that can help the economy to grow, to help people to benefit from this growth, and to deal directly with needs that are not related directly to the workings of the economy.

“Social reform” entered the political vocabulary of the 20<sup>th</sup> century with the creation of the International Socialist organization after the First World War, in opposition to the International Communist organization proposed by Lenin and the Russian Bolsheviks. The communists were revolutionary and internationalists; the socialists, reformists and nationalists to some extent. The First International was organized by Marx around the tenets of the Communist Manifesto, and proposed a revolutionary agenda above and beyond the boundaries of the nation states. The Second International, meeting for the first time in 1889, reinstated the same idea, pressing for organized resistance of workers against the threats of War and the expansion of colonialism. The International would not survive the First World War, when the socialist parties in all countries supported their respective governments in the conflict. With the Russian revolution, two International organizations were created, one Communist, led by the Soviet Communists and bringing together the Communist parties in Europe and other parts of the world, and another social-democratic, led by the main European socialist, social democratic and labor parties in Germany, England and France (Lowenthal, 1997).

In the European tradition, the word “reform” became associated with the creation of the welfare state, pushed by political parties with strong associations with the labor unions. In many occasions, particularly after the Second World War, the social democratic and labor parties won elections and became responsible not only for defending the interests of the workers, but to implement policies of all kinds, to foster economic growth and to participate in the new international networks and arenas, military and economic, being created in those years. As the economies grew, the relative weight of the working class was reduced, and the old social democratic parties became more similar to their “bourgeois” counterparts, disputing the preference of voters in periodical elections with very broad platforms, while the implementation of social policies and economic reforms fell in the hands of growing public bureaucracies.

### **Setting up the reform agendas**

There are political parties affiliated with the International Socialist organization in most countries today, but they are usually very different from their European

counterparts, not always very significant in their own countries, and their international affiliations are just symbolic, if at all. The reform agendas that have been proposed recently do not come so much from such parties, but from a combination of intellectuals, professionals, bureaucrats, international institutions and members of new, activist social movements, some national, some international, which get organized around specific issues and work to mobilize support through the mobilization of public opinion.

Different countries have developed different reform agendas, and for each of them there are myriad of proposals, suggestions and experiences. However, there is a clear core of issues that are shared by all. Economic growth and employment have been central concerns. It is necessary to deal with the growing costs of pension systems, public health and public education. Beyond that, the developed economies have been struggling with issues related to the environment, the rights of minorities, international migration, and social alienation. In the United States, poverty, racial discrimination, urban decay and crime are high in the agenda. Most of the former socialist countries are still learning how to live with an open economy and an open democracy. Democracy, civil and political rights are still central issues in many Asian and African countries and the Middle East. In Africa and many countries in Latin America, the main issues are still the organization of viable public administrations, which could deal with a very difficult and urgent agenda of economic austerity, inequity, extreme poverty and, as in Colombia, endemic warfare; and the elimination of race and ethnic barriers among different social groups. Throughout Latin America, a central issue has been how to turn traditional state bureaucracies into modern and efficient governments, while preserving democracy and the citizens' rights. Another way of looking at it would be to distinguish different types of agendas: political, to change and improve the "rules of the game" for political disputes and political participation; administrative, to improve the ways the public sector is organized and works; economic, dealing with the broad issues related to economic transactions, investment, taxes, currency, capital flows, foreign trade; and social, dealing with issues of social rights and entitlements.

A common misconception about the reform agendas in less developed countries is to think that they come solely from abroad, as a consequence of the globalization process,

either through multilateral organizations such as the World Bank and the International Monetary Fund, or from the reform agendas developed by human rights activists and international organizations. It is true that the “Washington consensus”, consisted in a clear recipe for economic and institutional reform to be applied worldwide, and its also true that the international human rights agenda has helped to raise important questions and issues, like the protection of the forests and the rights of native peoples, which have been neglected for centuries. However, if we consider Latin America, by the 1970s several of the major countries were going through severe internal crises that did not have much to do with globalization, but mostly with internal processes, aggravated by unexpected changes in the international economy – particularly the oil shocks and the increase in the US interest rates in the early 1980s. In different degrees, all countries witnessed the raising expectations and consumption patterns of the population, spurred by urban growth, the expansion of mass communications and political participation, which developed much more rapidly than the ability of the economy and the public sector to respond. Political competition in open democracies also stimulated the increase of public spending and the distribution of benefits and privileges, by extending public services, hiring more people, creating public sector companies and corporations, granting additional rights to vocal civil servants, and subsidizing the private sector. Urbanization and the expansion of mass communication reduced the political power of traditional oligarchies and opened the political arena for populist politicians, which fueled the expansion of the public sector. To pay for this, governments raised taxes and use the resources generated by social security contributions of a young and growing working population for other purposes. When these resources became insufficient, governments started to increase the public debt and to print money, leading to inflation. In the seventies, international cheap capital became available, and international borrowing compensated for the lack of internal investment and growth. In the 1980s, as international interest rates soared, the national economies broke, leading to default, currency devaluation and economic stagnation. In the context of the cold war, the distributive conflicts generated by raising expectations and limited growth often translated into right-left confrontations, provoking interventions from outside, and a series of military regimes. By the late 1970s, most of these authoritarian regimes had failed in their

attempts to keep society under control and opened the way to civilian governments, which had to face again the tensions between expectations and the availability of resources, in times of general economic stagnation.

The first attempt in situations of crisis is to hope for a legal or administrative trick, the “magic bullet” that could kill inflation and institutional incompetence, without affecting too many interests. Unfortunately, or perhaps fortunately, no such tricks seem to exist, in the absence of much more profound and lasting institutional changes. A clear example of what should not be done comes from Argentina, where a legislation establishing a fixed parity between the local peso and the dollar was heralded for a whole decade as the magic converting a problematic country into a modern economy. On hindsight, Domingo Cavallo, the economist who championed and implemented this policy, believes that it failed because of the incompatibility between the institutional prerequisites for a stable currency and the way the Argentine political system works. (Cavallo, 2004). The earlier failure of the 1985 Brazilian “Cruzado Plan” can be explained along similar lines (Baer & Beckerman, 1989).

### **From economic to social reform**

Nancy Birdsall, in a recent paper, tried to put together the available information on the impact of economic reforms on poverty and inequality in Latin America, and concludes that they did not have the negative impact that is often attributed to them, but did not have positive effects either on this regard:

In summary, our preferred estimates suggest that except for financial sector reform, the economic reforms of the last two decades have not contributed to increased poverty and inequality. On the other hand, it is also the case that these reforms have not made much contribution to reducing poverty and inequality. In a sense, it is not particularly surprising that increasing reliance on market mechanisms apparently has not in itself created new income opportunities for the poor. The constraint may be the poor’s limited assets, including human capital, a constraint that market reforms alone cannot change. Financial sector liberalization in particular appears to have made the poor worse off, at least relative to the rich and the middle groups. This is also not

surprising; without collateral the poor are less able to exploit liberalized financial markets (indeed the end of repressed interest rates alone may make credit more costly in the short run). In addition, new higher-yield financial instruments will help mostly those with special and diverse investment needs (Birdsall & Szekely, 2003)

The goal of empowering the poor population with assets and capital, through cheap and easily available credit and legal reforms providing property rights to slum dwellers, has been presented as a revolutionary proposal to deal with poverty, transforming each person in a micro-entrepreneur (Soto, 2000). One example of such programs is the effort to extend credit to micro-enterprises in Chile, where the larger 1% of the firms contribute to 77% of the sales in the economy, and the small ones, comprehending 83% of the firms, sell only 4% of the total. However, these small firms provide 50% of the employment, and need to be supported and expanded (Román, 2003). Other programs provide resources to families in extreme conditions of poverty, in retribution for some action – like keeping their children in school, or participating in public health campaigns. Examples of such programs are *Oportunidad* (formerly *Progresas*) in Mexico, *Bolsa Escola* in Brazil, and *Chile Joven* in Chile. The expectations surrounding these programs have been high, and there is a growing technical literature trying to assess their impact (Bourguignon, Ferreira, & Leite, 2002; Castro, 1999; Schultz, 2001). There is little evidence, however, that such programs have meaningful impact on education as such, given the fact that the monetary benefit of child work is small, and only becomes more significant for those closer to adult age. For most parents, to keep their children in school is the best possible choice, protecting them from street life and allowing the mothers to work. School absenteeism, particularly for older children, is more related to the lack of schools or their inability to teach and old the youngsters, particularly from less educated families, than to the family's economic needs (Schwartzman, 2004a, p. chapter 6, 2005b) In any case, the monetary benefits these programs distribute, even if small, can be important for segments in conditions of extreme poverty. At the same time, when not properly handled, such programs can easily turn into electoral instruments in the hands of their administrators.

In her paper, Birdsall suggests a chronology of four stages in the implementation of social policies in Latin America. The first phase coincided with economic expansion until the 1970s, and the policies consisted mostly in providing subsidies for goods and services, which benefited mostly the middle sectors. It was also a period of expansion of the public sector, for the free provision of education and health services. This period ends with the economic crisis of the 1980s, and the second phase is one of retraction and absence of policies. The third period, which she dates to the mid and late 1980s, takes place when governments and international agencies start to acknowledge the persistence and in some cases aggravation of the conditions of the poor, and to put forward proposals for compensatory policies, through the creation of safety nets and mechanisms for income distribution and the focalization of the existing resources to the poorest segments of the population.

The fourth phase, dated from the mid 1990s on, is described as a series of efforts not only to distribute resources to the poor, but also to provide them with conditions to care for themselves: “having an army of unskilled workers with low wages was no longer seen as a basis for global competitiveness. Emphasis on meeting the needs of the poor continued, but with much more attention to increasing their productive capacity, consistent with the view that competitiveness in open economies required much greater investment in human capital.” (p. 13).

Elsewhere, I suggested a different classification of social reforms, in terms of three generations (Schwartzman, 2005a). In the first generation, resources and benefits are distributed to whoever has the ability to get organized and claim them – usually the workers in large industries, public employees, and professionals. The poorest and less organized get little, but gradually they also get organized and demand their share. This is the period where new schools, health posts and hospitals are built, public jobs are created and distributed to the political groups supporting the government, and legislation is passed providing all kinds of legal benefits and entitlements to different constituencies. The second generation starts when continuously expanding the benefits becomes impossible, and it is necessary to redistribute or even to reduce them, because of economic stagnation. Resource distribution is always a difficult proposition, since it

requires to take benefits from some to give them to others; and this is much more difficult when the total amount of available resources is not growing, or, worse, is being reduced. No wonder that governments that try to engage in such policies become extremely unpopular, and are defeated in the polls.

The third generation of reforms, which is more a wish than a reality, would be an attempt to do better with the same amount of resources, by injecting intelligence and professional competence in the administration of social programs. In education, it would mean to make sure that the teachers teach properly, instead of just raising their salaries and building more schools. In health, it would mean work more on preventive medicine and primary health care; in housing, it would mean to create appropriate zoning rules, financing mechanisms and legislation to induce people to move away from illegal housing settlements like the Brazilian *favelas* and similar shantytowns. Two basic requisites for these reforms would be to establish proper rules of the game for the participation of private groups, both voluntary and for profit, in their formulation and interpretation; and to shield the public agencies in charge of these reforms from the daily give-and-take of patronage, pork-barrel politics. In areas like education, sanitation, housing, health provision and social security, it is indispensable to bring the contribution of private investment and private institutions – both profit and non-profit – according to well-established legislation and oversight. Shielding public institutions from pork-barrel politics is not easy, but has been done in many countries, in areas like education, science and technology and economic policy, and can be eventually extended to others.

Two other central components of these third generation policies are knowledge and transparency. To improve the quality of education institutions, to make the best possible use of health resources, to devise an intelligent structure for social welfare, to take care of the environment, to deal with violence and criminality, all this requires constant research, experimentation, international comparisons, and permanent assessment, which can only exist if there is a community of specialists educated in good universities, with support for their research, and the ability to move between the world of government and the world of the academy, and a well structured public service. In the last several years, the concern of international and national governments, agencies and

foundations with the issues of poverty and inequality may have had, as an unintended consequence, to neglect the need to provide support for the maintenance and expansion of good quality academic and research institutions, and this may be creating a problem, now that they are so necessary.

Transparency, in the era of the Internet, is a relatively easy goal, requiring little more than the political will to make the information on the use of resources, beneficiaries and the impact of social programs available to the public. There is a thin line, however, separating information from public relations and propaganda, and one way of dealing with this is to create oversight agencies and institutions with power and independency to get the necessary information and demand corrective action. Knowledge intensive and transparent institutions are much less likely to be run over by patronage politics and special interest groups than those that remain closed to external views and without an active knowledge community committed to their goals.

It is interesting to note that this kind of “third generation” reform does not appear in the classification proposed by Nancy Birdsall, who is less concerned with improving the quality and efficiency of the public sector than to deal directly with the population, empowering the poor in such a way that they would not need, as it were, the services of the state. One possible explanation for this is the mistrust on the ability of government institutions to improve, and a growing reliance on voluntary, community-based and other forms of organizations and institutions to carry out the tasks of social reform. This mistrust can be observed both in international organizations, which have difficulty dealing with public bureaucracies, and social movements of different kinds, which believe to be better equipped and motivated to deal with social issues than the established agencies. There are many good reasons for this mistrust, but still, it is impossible to provide basic services like public education and health care without the participation of public agencies, and, as these agencies are neglected or bypassed by other short-term, ad hoc arrangements, their chances for improvement diminish.

## **The political economy of the reforms**

The establishment of reform agendas and their implementation is a complex political process, discussed in detail, for Latin America, in an article by Merilee Grindle (Grindle, 2002). How come that social reforms of the second and third generations, requiring the redistribution of resources from established interest groups - strong losers - to poorer and less organized sectors of society – weak winner - take place at all? Simple rational choice” theories, trying to explain the results in terms of the relative strengths of the actors involved, are clearly not adequate to explain it. In fact, the picture is always more complicated: the winners may be divided, public opinion may support change, information may be limited, and so on. Then, it is never a single game: there are negotiations, adjustments, specific interests may be protected. The other approach is of the institutionalists, who look for the relative weight of and strength of the parliament, the presidency, the political parties and other sectors. Here again, this kind of analysis tends to predict that second and third generation reforms will not happen, since they go against the interests of the more established interests. And yet, against the odds, many times these reforms do take place, and have to be explained, according to Grindle, by looking at processes, negotiations, entrepreneurship, and initiative.

To all this, I would add two elements, constraints and history. Redistributive social reforms are seldom proposed and implemented in the abstract. They come as responses to situations of crisis, when, for instance, inflation runs out of control, the pension systems put the public budget in jeopardy, urban violence becomes intolerable, or unemployment becomes too high. Public perceptions are as important as the problems themselves, and they are shaped in large part by history – the memory of past achievements and failures, and the strength of political leaders that are able to seize the moment and get public support for their ideas. In presidential systems as we have in Latin America, the first year of any government is the time to run and eventually succeed against the odds – after that, usually, vested interests take over.

Grindle proposes also a useful classification of stages in the implementation of reforms, each one characterized by the participation of specific actors: setting the agenda,

designing the reforms, going through Congress for approval, implementation, and, finally, sustaining the reforms through time. Agenda setting involves small groups of intellectuals and specialists, responding to priorities set up by pressing issues, like inflation, or by issues raised by social movements, international organizations and the press, like human rights. Design is usually technical, done by specialists within ministries, sometimes with the support of international advisers and consultants. Approval is a political process, requiring support from public opinion and Congress, and hard bargaining. Implementation and maintenance depend on institutions sharing the values and having the necessary competence to deal with the issues that are the subjects of the reform. Some reforms, requiring just a change in legislation and a specific way of handling and distributing resources, are easier to implement than others, requiring profound changes in the way the public administration works. For instance, it was relatively easy for many Latin American countries to transfer the responsibility for the administration of basic education from national and regional governments to municipalities: to transform the schools from small bureaucracies into truly learning institutions, however, is proving much more difficult.

The complexities and difficulties involved in agenda setting and implementation are well-known for those involved in political life, but often ignored by specialists that still adhere to the old modernist belief on the unlimited powers of science and rationality. There are many versions of this belief. For some, everything can be solved through planning and a powerful state, ignoring the historical failures of planned economies and the political and human costs of centralized bureaucracies. In the Latin American tradition, there is still the strong belief that what matters is to get the proper legislation, granting rights and entitlements, limiting powers and establishing how much should be spent on what. More recently, the idea of institutional reform started to get support – changing the party systems, creating regulatory agencies, reforming the judiciary, decentralizing power, and redistributing the responsibilities of central governments, states or municipalities.

In fact, no meaningful reform can be implemented without some combination of these elements – institutional reform, changes in legislation and improvement in the

government's ability to plan ahead. They will not work alone, or not at all, however, if they are not part of deeper changes in the values and attitudes of the population, and the daily workings of political life. This does not mean that moral and behavior reforms should come first, through some kind of preaching or public opinion campaign. Public attitudes, values and perceptions may change quickly when external conditions change – as it happened in Brazil with the end of decades of military politics in the 1980s, and the end of inflation in the 1990s. Social reform requires knowledge, but it is mostly art – the art of identifying priorities and the ability to communicate their urgency and importance to society.

### **Social policies and social cohesion**

If a society is profoundly divided among rich and poor, educated and illiterate, and poor and rich regions, as most countries in Latin America are, its social fabric will be under permanent threat. In this sense, social policies to reduce poverty and increase social equity are also policies that help to strengthen and maintain social cohesion. The same holds for social policies societies with strong cultural and ethnic cleavages, with some groups – like the descendants of native groups and African slaves in Latin America – living in much worse conditions than whites of European extraction.

However, it is clear that such policies are not policies for social cohesion as such. There are authors, in the social policy literature, that try to associate specific policies with social cohesion issues, usually understood in the broader sense of questions of social exclusion and individual anomie (Carnoy, 1999; Flippen, 2001; Gradstein & Justman, 2002; Lockwood, 1996; White & Harary, 2001; Widgren, 1990; Wydick, 1999). The policy agenda for social cohesion is much more controversial and difficult than the agenda for social improvement in general. A list of issues related specifically to social cohesion should include topics such as the integration of immigrants in local community, education policies for linguistic minorities, affirmative action of different kinds, and granting special status to specific groups – like land demarcation for the native populations in Brazil, or accepting the use of Sharia law for Muslim communities in Europe, or granting different degrees of political autonomy to specific regions. What

these policies have in common is that they recognize the existence of collective rights, and may go against the universalist and individualist tradition of the modern nation-state. This does not mean that they are inherently good or bad. It only means that we should take into account their special nature, and not assume that they are another social policy as we are used to think about them.

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