

Growth, Employment, and Equity

*The Impact of the Economic
Reforms in Latin America
and the Caribbean*

Barbara Stallings
Wilson Peres

UNITED NATIONS
Economic Commission for Latin America and
the Caribbean



BROOKINGS INSTITUTION PRESS
Washington, D.C.

Contents

<i>Foreword</i>	vii
<i>Preface</i>	xi
1 <i>A New Approach to Analyzing Reforms: Macro-Micro Linkages</i>	1
The Literature on the Reforms	2
A New Conceptual Framework	7
Six Propositions	11
Methodological Considerations	13
2 <i>The International Context: Trade and Capital Flows</i>	17
Latin American Trade Relations	19
Capital Flows to Latin America	25
Conclusions	33
3 <i>Structural Reforms and Public Policies</i>	35
First Generation Structural Reforms	36
Macroeconomic Policies and Outcomes	51
Links between Reforms and Macroeconomic Policy	62
Social Policy and Social Expenditure	64
Conclusions	70
4 <i>Investment, Productivity, and Growth:</i>	
<i>Recovery and Modest Advances</i>	72
Long-term Trends in Investment and Productivity	75
Post-Reform Phases of Investment and Technological Change	80

The Impact of the Reforms on Investment	86	
Reforms and Growth	88	
Accounting for Differences in Growth	92	
The Impact of the Reforms on Growth	99	
Growth and the External Sector	102	
Conclusions	107	
 5 <i>Employment and Equity: Continuing Challenges</i>		110
The Supply Side: Demography and Education	113	
The Impact of the Reforms on Employment	116	
Wages and the Wage Differential	126	
Trends in Primary Income Distribution	129	
The Impact of the Reforms on Household Income Distribution	137	
The Impact of Social Expenditure on Equity	142	
Conclusions	149	
 6 <i>Heterogeneity in Responses of Sectors and Firms</i>		153
The Sectoral Dynamics of the Economy as a Whole	155	
Specialization and Heterogeneity in Manufacturing	166	
Specialization and Polarization in Agriculture	178	
Natural Advantages and Access to Foreign Investment in Mining	182	
Technological Revolution and Privatization in Electricity and Telecommunications	186	
Increasing Heterogeneity in Sectoral Employment	191	
Conclusions	199	
 7 <i>A Policy Agenda for the Next Decade</i>		202
The Reforms and Their Impact	202	
Recommendations to Improve the Outlook for the Region		210
Concluding Comments	221	
 <i>References</i>	225	
 <i>Additional Project Publications</i>	233	
 <i>Index</i>	239	