

"THE OAXACA INITIATIVE": A FRAMEWORK FOR EQUITABLE AND SUSTAINABLE DEVELOPMENT

IN THE AMERICAS

EXECUTIVE SUMMARY

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The past decade has been marked by an increasing concentration of income and wealth and environmental degradation in the Americas. There is a critical need to consider economic policy options that can address these problems and engender a process of equitable and sustainable development. What has been lacking, however, is the space necessary to implement new approaches. Greater openness on the part of the international financial institutions will be required if this space is to be created.

The proponents of structural adjustment often say that there is no viable economic-policy alternative. The authors of this document agree that there is no one alternative; there are many that are emerging from concrete experiences in each country. The alternatives reside in the process itself. They should emerge from a process of consultation and consensus building among affected sectors, eliciting broad participation by civil society.

In this regard, representatives from a dozen NGOs from ten countries in Latin America and the Caribbean came together in Oaxaca, Mexico in September 1993 for a four-day workshop. At the meeting, they shared economic-policy alternatives that they had been developing in their respective countries in consultation with local groups. The framework document that emerged from those discussions reflects their common approaches to equitable and sustainable development. It also reflects a common commitment to a set of underlying principles that the participants agreed should guide the process of shaping alternative development policies throughout the region. Among these principles are economic equity, gender equity, environmental sustainability and broad-based participation and consensus building in economic decisionmaking.

The participants focused on a number of key sectors and policies. A summary of their recommendations on each follows.

Integrated Production Strategies: Agriculture

Strategies to achieve equitable and sustainable development objectives must be based on existing national resources and experiences. This means a strong emphasis on the contributions of small-scale agricultural producers, who have historically been responsible for the major portion of national harvests in many parts of the region. The role of these producers should be included in planning related to agro-export activities, at the same time as their production for the national market and for family consumption is promoted. These three dimensions are complementary.

Food security should be based on the expansion of basic grains production, on greater stimulus to the production of fruits and vegetables, on the strengthening of fishing and aquaculture, on

domestic cattle production and on support for poultry farming. There should be a tendency toward food self-sufficiency. This should include products such as the most-consumed fruits and vegetables and those derived from cattle raising.

An alternative development policy must also correct the tendency to ignore women's contributions and conditions in agricultural production. Rural women must be involved integrally in agricultural programs, including those providing productive and technical support from public and private institutions. As far as women's insertion into the work force as wage earners is concerned, there must be better training so that women are in a position to select employment outside the home that offers acceptable working conditions.

In order to achieve equitable development, there must also be a decentralization of agrarian resources and capital. The processes of agrarian reform and land transfers should be deepened, as should the democratization of agricultural credit, broad access to technical assistance, distribution and information channels, and access of small and medium-scale producers to basic infrastructure and public services, among other measures. Local producers should participate in decisionmaking, not only regarding agricultural-sector policies, but also in those macroeconomic measures that affect agriculture, such as foreign-exchange and tariff policies. Furthermore, as credit policy affects environmental sustainability, it should be guided by criteria that, for example, reward farmers for practicing intercropping and integrated pest management and for adapting other renewable production methods.

Programs are also needed to help improve the forecasting of local food shortages and surpluses, the monitoring of domestic and international prices and the relating of agro-meteorological data with market conditions, and to develop systems capable of accurately predicting the crop-supply situation. These measures would facilitate the establishment of a comprehensive production and trading system responsive to both domestic and external needs.

Industrial Policy

Too often, industrial parks become islands of economic activity with little connection to the rest of the economy. Industrial policy should not be separated from overall development goals. Whether for manufacturing or agro-industrial production, it should, in addition to being an engine of economic growth, be a tool for the achievement of equity and sustainability, the creation of decent jobs, the strengthening of technological capacity and the satisfaction of the population's basic needs.

The development of agro-industry, should be a priority in many countries. Decentralized agro-industrial production can create jobs in secondary cities or rural areas, generating income and markets in the rural sector and thereby reducing migration to urban centers. In the external sector, it can increase the value added to exports, while at the same time reducing the price instability that many raw-materials exports experience. It can also reduce imports of agricultural inputs.

Industrial policy should take into account the differing needs of the microenterprise and the small, medium-sized and large industrial plants, particularly with regard to their access to credit

and other productive resources. Rather than basing industrial "competitiveness" on low wages and poor working conditions, strategies of genuine competitive insertion into markets must be adopted, starting with improvements in productivity, product quality, the incorporation of new technologies, and improvements in organizational structures and in human resources. This implies the need for short and long-term technological development policies.

In the short term, such strategies require the application of certain principles regarding foreign investment. The host country should be able to select the technologies that respond to its development plan and therefore channel the transmission and dissemination of "know how". The analysis of appropriate technologies should include not only financial costs, but also technical coherence, as well as the environmental and social effects. In the long term, there must be a comprehensive education policy that incorporates primary and secondary education programs, technical and administrative training, and the development of a national scientific-research capacity.

Commercial Services

The service sector has grown enormously in the hemisphere in relation to agricultural and industrial production, and it deserves special treatment and careful consideration in national planning. One aspect of this planning is regulation. The difficulties experienced by Chile in the early 1980s (and by the United States shortly thereafter) demonstrate the need to regulate financial services. Regulations and accountability mechanisms should be developed with the active participation of service consumers. Services such as data processing and off-shore banking also require regulation to ensure that local labor laws are respected, as well as to prevent the misuse of these services for the laundering of drug money.

As part of the reorientation of Latin American and Caribbean economies, many countries have been encouraged to develop the tourism sector. While tourism can serve to generate employment and foreign exchange, its net economic and social effect can be negative unless it is fully integrated into the host-country economy and culture. Special care must also be taken to ensure that the tourism sector does not overload local ecosystems or cause other environmental damage.

Social Services

Education, health and other social services should be recognized not just as poverty-alleviation measures but also as investments in the future. Instead of experiencing budget cuts, as has been the case in many countries under structural adjustment, health and education services should be strengthened, as should the requirement that there be greater participation and consideration of diverse social groups in service provision and oversight.

The decentralization of the institutions that provide services should be accompanied by the decentralization of financial resources and the authority to adapt the services to the specific needs of each community. In some cases, institutional strengthening of local and municipal governments will be necessary in order for them to function effectively and to address the concerns of their local constituencies. NGOs could be appropriate agencies to provide certain social services, but they should not be utilized as substitutes for the state.

Labor Policy

Full employment of the economically active population should be a priority in national planning. It is not only the quantity of jobs created that matters, however, but also the quality of those jobs, i.e., that they tend to be relatively stable, full-time jobs with salaries and benefits adequate to support a decent standard of living. Increasing employment can be an important tool in reducing poverty, but if only precarious, low-wage jobs are created, countries run the risk of simply increasing the number of working poor.

There is a special need for new mechanisms to correct women's particularly precarious situation in the labor market. There should also be special legal and social efforts to correct the obstacles to women's participation in unions, both as members and as leaders. Facilitating the expansion of unions, generally, will require changes in labor legislation in many countries. To prevent unfair labor practices from being used as the competitive basis for attracting foreign investment, there should be international coordination to ensure adherence to International Labour Organisation (ILO) conventions, particularly Convention 87 on the freedom to establish unions and Convention 98 on collective bargaining.

Trade Relations and Foreign Investment

Trade relations should complement the development program articulated by each society. A first and necessary step in the process of defining appropriate trade policies is the democratization of negotiations of trade agreements. The signing of any trade and development pact should be the culmination of a broad process of democratic discussion and debate. These negotiations should be designed to take into account the balance between the need for international rules on trade and each society's need for self-determination. The resulting pact should recognize the right, in accordance with national legislation, of national and local governments to apply additional regulations affecting investment or trade when the interests of the majority of their populations so dictate. The agreement should also respect the right of each country to manage its natural resources and to support and protect its food-production sector.

An increase in trade among the countries of the South, appropriately regulated, would enable them to expand their productive base and develop export activities that are more integrated with the rest of their national productive systems, stimulating domestic demand and broadening the small and medium-scale business base.

Where there has been a determination to formulate policies to reduce trade barriers, several principles should be considered. First, trade liberalization should not be carried out when the currency is overvalued. In this situation, the prices of imported goods in the national currency will be artificially low at the time that import barriers are lowered, which will simply result in greater consumption of imports. Second, trade liberalization should be carried out at a pace that permits national industry

and agricultural production to adjust to the new conditions. Third, trade liberalization should occur before deregulation of foreign investment in order to prevent that investment from being concentrated only on short-term speculative activities.

Both national and foreign investment are essential components of economic growth. Obtaining an adequate quantity of investment, however, is a necessary but not sufficient condition for development. The quality and use of that resource must also be considered. The state should play a decisive role in regulating and providing incentives for investment in strategic industries and in ensuring that deregulation of investment does not result in environmental degradation or economic instability.

Besides efforts designed to attract appropriate foreign investment, policies must be designed to increase domestic savings. This should include measures to ensure citizens a living wage and to encourage them to save, as well as measures to attract remittances and other investments from citizens who have migrated abroad or who are currently investing their capital overseas. Instruments should also be designed to channel these resources into strategic uses rather than into only consumption or imports of luxury goods.

Transformation of the State

Structural adjustment programs have produced enormous cuts in government budgets and personnel, thereby reducing the capacity of the state to intervene in the economy. The experience of the 1980s demonstrates that this concept of the minimalist state is inadequate to the objective of achieving sustainable and equitable development. As the President of the Inter-American Development Bank has stated, "Each country should define the areas reserved for regulatory, productive or social functions that it wants to maintain in the hands of the state."

The successful examples of economic transformation and promotion of equitable development in Latin America and Asia demonstrate common elements that contributed to effective and efficient state action in the implementation of reforms. These elements include an active and selective presence of a state sufficiently strong to prioritize objectives and expenditures, to impose necessary restrictions, and to distribute losses. Success also requires the existence of a qualified bureaucracy and the insertion of the state in the private sector, complementing its activities. It is not necessary for the state to assume all of society's social and economic functions, but it must have an important role in such strategic projects as the implementation of an industrial policy.

Representatives of different social sectors, in addition to business interests, should be integrally involved in the definition, implementation and evaluation of public policies and programs. Consistent with this broad-based involvement, there should be a restructuring of the state in a manner that transfers power and, with it, economic resources to municipalities and communities.

Development Financing and Fiscal Policy

The best social policy is an appropriate economic policy. Therefore, an alternative development strategy should be centered on the stimulation of productive activity and the generation of well-paying jobs. Income-generation policies should be combined with the establishment of compensatory funds to attenuate regional and sectoral inequalities. World Bank-style social-investment funds are a poor substitute, however, for well-conceived and -designed economic policies that directly address the problems of poverty and economic inequality.

The crushing foreign-debt burden constitutes a serious limitation on the potential for equitable and sustainable development. Latin American governments should do everything necessary to achieve forgiveness of a major portion of the foreign debt, considering that a good part of it originated in the significant increase in interest rates during the 1980s. The part of the debt that cannot be forgiven should be re-examined, reducing it as a function of the market price of debt instruments.

Fiscal policy must also be reformed. Substantial fiscal exemptions have been provided for agro-export, maquiladora and tourism activities, while the burden on the majority population has increased to unacceptable levels. The above-mentioned subsidies should be reduced, and support should be provided to those resource-lacking economic activities of particular national interest. There must be an increase in tax revenues, not through taxes on consumers or indirect taxes, but rather through other means such as a selective increase in taxes on certain goods and services and an increase in direct taxes with a progressive character. Tax evasion must also be fought through campaigns to motivate people to declare incomes and assets.

Conclusions

The achievement of equitable and sustainable development is not dependent on the emergence of a single development model. In fact, one of the reasons for the failings of structural adjustment is that it has been applied around the world without substantial consideration of fundamental differences in resources, cultures, environments and, most importantly, the concrete objectives of the populations in those countries. Development will never be achieved through the imposition of models constructed in the world's capitals; it must be based on local experiences and the active participation of every sector of the population in the design, implementation and evaluation of economic, social and environmental projects and programs.

The authors offer this document not so as to implant another model, but rather to stimulate a debate on the objectives and strategies appropriate for different countries of the region. While we believe that the principles of economic and gender equity and environmental sustainability should guide any development or economic-reform program, more specific decisions regarding the nature of production, its relative orientation toward the national or international market, the breadth of industrial policy and the overall role of the state, and other key economic issues must reflect the knowledge, priorities and involvement of local populations.

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