Address by Alicia Bárcena, Executive Secretary of the Economic Commission for Latin America and the Caribbean (ECLAC) at the thirty-eighth Lecture of the Americas “In search of solutions to the financial crisis: measures adopted and future challenges”

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- José Miguel Insulza, Secretary-General of the Organization of American States (OAS);
- Ambassador Luis Alfonso Hoyos, Chairman of the Permanent Council;
- Laura Albornoz, Minister of the Women’s National Service of Chile and Chairperson of the OAS Inter-American Commission on Women;
- Irene Klinger, Director of the Department of International Affairs;
- Permanent representatives to OAS;

Friends, ladies and gentlemen:

First of all, let me thank you. Thank you for inviting me to give this lecture, which, since the institution of the series in 2005 has been delivered by prestigious speakers, many of them eminent academics, world leaders and representatives of multilateral agencies.

The Organization of American States (OAS) and the Economic Commission for Latin America and the Caribbean (ECLAC) have shared more than six decades of successes and frustrations. Both are unique organizations, whose histories have always been interwoven with the vicissitudes of the contemporary history of Latin America and the Caribbean.

OAS was the great pioneer in the region’s political history. Its contribution to the advancement of democracy, human rights and gender equality attests to this role.

By the same token, it would be difficult to write the economic history of Latin America and the Caribbean without mentioning ECLAC and its tireless, indeed, ceaseless efforts to develop its own thinking.

Both institutions are called to constantly create and reinvent policy and visions to further Latin American and Caribbean integration.

Today, we are united, on the one hand, by the conviction of the homage due to our founders because their visions have in part become reality, and, on the other, by the commitment to meet the challenges of our era and live up to the responsibilities of our generation.

There is no doubt that ECLAC first became known for Prebisch's proposal on how to react to a moment in history that was marked by the protectionism prevalent in the wake of the Great Depression. The idea of a form of thinking unique to ECLAC took shape at an early stage. As Prebisch himself put it: "The reflective knowledge of external matters must not be confused with mental subjection to alien ideas...". Along this path, for just over sixty years, ECLAC has developed a genuinely regional thinking, a vibrant and critical thinking that has been capable of re-examining itself in relation to concepts such as the centre-periphery, truncated industrialization, the empty box, changing production patterns with social equity, styles of development, endogenous development, authentic competitiveness, structural heterogeneity, the fiscal covenant and social cohesion. These ideas, which in their time were often controversial or misinterpreted, return with force today in our everyday analyses.

But in the light of the crisis that we are now caught up in, history seems to vindicate the Commission's ideas.

The crisis caught us unawares at a time when the social benefits of democracy, of global economic integration and the limited advances of regional and subregional integration are being called into question. And it invites us to reflect on the role of the State and the part that policy can play in guaranteeing the provision of public goods.

My friends,

In May of this year, I pointed out to the Americas Magazine that after the collapse of Lehman Brothers Holdings Inc., a few factors enabled us to state with guarded confidence that, unlike in previous crises, things would be different this time for Latin America and the Caribbean.

This statement was based on the following three reasons: first, when the crisis broke out, the region was enjoying an unprecedented economic boom. Thus, it was in a strong position to face up to it and could boast a series of positive public policy experiences in the fight against poverty.

Indeed, when the current crisis erupted, it found Latin America at the height of a historic period of boom and progress, the likes of which had not been seen in the region for more than forty years. This favourable period lasted from 2003 to the first quarter of 2008 and was marked by three unprecedented elements at the regional level: **(i) sound fiscal policies and better and less public debt; (ii) more flexible exchange rates and an unprecedented build-up of international reserves; and (iii) economic growth accompanied by a surplus on the balance-of-payments current account.**[1]

During that six-year period, the number of persons living in poverty diminished by 10 percentage points, in other words 37 million persons were lifted out of poverty.

[1] In terms of economic growth, between 2003 and 2007, the region enjoyed five years of growth, which rose from 2.2% in 2003 to 5.8% in 2007. This momentum allowed the region to record as much as 4.2% growth in 2008, thereby achieving over 3% annual GDP growth for five consecutive years.

Extreme poverty or indigence declined by 7 percentage points, or 29 million people. Employment improved both quantitatively and qualitatively. The regional unemployment rate fell from 11% to 7.5% between 2003 and 2008, and labour income per employed person increased in almost all countries.

The second reason was that in order to cope with the effects, and tackle the causes, of the crisis, a global common sense had rapidly developed and this was summed up very aptly in the first declaration made by the Group of 20 (G20) at its meeting in London: “A global crisis requires a global solution”.

And the last reason, which is **just as, or more, important than the previous two,** is that unlike other similar episodes, such as the debt crisis of the 1980s, this crisis struck at a time when the region had for some time been earning sound democratic credentials, which made it very difficult to make adjustments that were unfavourable to the majority.

The first two claims have, to a greater or lesser extent, been borne out by the facts.

It goes without saying, however, that the **third** reason was rudely disproved by events a month and a half later, when to the astonishment and indignation of all, the constitutionally elected president of Honduras was expelled from his own country by a coup d’état. This was an extraordinarily grave incident, a very dark blot on our democracies and an unexpected and unwanted reminder of the nightmare that Latin America had lived through decades earlier.

But the world has changed and it has changed for the better and thus this incident prompted outright condemnation from all sides. We all understand that the event in Honduras marks a step back, not so much in terms of ghosts from our own past which are returning to haunt us, as in terms of the future that we are seeking to build.

Secretary-General of the OAS, Permanent Representatives, I would like to add my voice to the international recognition of OAS for its action and reaffirm the willingness of ECLAC to support efforts to help to secure the restoration of democratic rule in Honduras.

What should we talk about when we speak of crisis?
How should we be seeking to emerge from the crisis?

The present financial crisis is considered to be the most severe since the Great Depression. One cannot assume, therefore, that its effects will only be short-term. And let there be no mistake, this crisis is yet another experience that impresses on us that we are immersed not so much in an era of change as in a change of era. Hence the importance of rethinking development while reconstructing the international economic order and of doing so with a profound awareness of our regional identity.

In fact, there is a growing perception that the crisis will shift the growth dynamic and the interrelationship between economic, financial and commercial activities towards what has recently been referred to as a new normality in the global economy. The future is going to be different.

But what will this new normality consist of?

First, the post-crisis world will be characterized by lower growth rates. The aggregate demand of the developed countries will experience a decline, partially offset by increases in the aggregate demand of the developing countries. In 2010, global economic activity will grow by an estimated 3%, which will mean a significant reduction compared with the rates observed in 2000-2007.

Second, indications for the short term point to a "jobless recovery". According to the International Labour Organization, unemployment is expected to increase by between 39 million and 61 million in 2009. If this is borne out, it will bring unemployment figures to an unprecedented high of between 220 million and 240 million.

Third, the emerging economies are expected to assume a more dominant role, and a new political geometry will emerge (United States-China axis). These economies are poised to extend their political sphere, by fostering aggregate domestic demand and playing an essential role in the "new normality" as catalysts for a sustainable economic recovery. This is because they built up substantial international reserves, which will enable them, on the one hand, to maintain reasonable levels of liquidity and, on the other, to have the fiscal space necessary to increase public spending and investment. Furthermore, their financial systems in general have not been so seriously damaged as those of the developed countries, since they were not exposed to toxic assets. With the slump in the aggregate demand of the developed economies, the emerging economies will have to reassess their export-based growth strategy and reorient their economic activity towards other alternative growth sectors. Thus, faced with sharp falls in their exports, some emerging economies such as China and India have adopted fiscal policies to stimulate a domestic-demand-based recovery.

Fourth, we will witness a contraction of trade with protectionism. According to various estimates, in view of the slowdown in the volume of world trade in 2008 and the expected contraction foreseen for 2009 (16%), international trade, in volume terms, will continue to register substantially lower growth rates than in the past five years. World Trade Organization estimates for 2010 suggest a rate of as little as 1%.

In this context, some policies adopted by the Governments of developed as well as developing countries to boost aggregate domestic demand are worrying as they may herald **a return to protectionist practices**. Policies such as **the purchase of national goods,** far from creating conditions for the recovery of aggregate global demand, could end up hampering that process, especially given the possible reprisals that it could unleash. Another cause for concern is the slow pace of recovery of the international loan and repayment systems that are necessary to support trade. This brings us to the fifth element of the new normality, which will be characterized by **more sluggish financial flows and stricter supervision and regulation**.

The expected recovery has been uneven in the region and today we can perceive different realities. South America is recovering, especially Brazil, Peru and Chile. Argentina and Uruguay are also showing signs of an upturn. Mexico, however, is still facing very difficult times and there is still no glimmer of a reactivation. Central America and the Caribbean remain vulnerable owing to the scarcity and high price of food and the volatility of tourism, remittances and financial flows.

With three quarters of the year now past, at the aggregate level, the decline in activity seems to have tapered off; commodity prices have started to rebound; access to credit is picking up; and expectations are on the rise. These are grounds for forecasting a recovery in the second half-year. This will not be sufficient, however, to offset the very poor fourth quarter of 2008 and first quarter of 2009. Thus, for the first time in seven years, the region is expected to record negative annual growth (-1.9%).

The gradual recovery will materialize in 2010, when the region could return to growth rates of between 3% and 4%, which, however, are not just lower than the figures seen in recent years, but also probably insufficient to reverse the deterioration expected this year in the region's social indicators.

More than two years after the financial turmoil started, it is clear that the countries of the region have suffered an impact and demonstrated a capacity for response that set this crisis apart from the recurrent crisis episodes experienced in the past. The countries have had margins for manoeuvre which, to varying degrees, have enabled them to apply countercyclical policies in order to cushion the impact of the crisis on production and employment.

Even so, unemployment is rising in the region and the recovery in the social sphere is slow.

Reversing the trend observed between 2003 and 2008, the crisis will push up unemployment by around one percentage point to 8.5% and will trigger a rise in informal employment. Unfortunately, all of this will translate into an escalation in poverty and into the emergence of new obstacles to fulfilment of the Millennium Development Goals.

In 2008, 34% (184 million) Latin Americans were living in poverty and 13.2% (72 million) in indigence. Of especial concern was the trend towards increasing job insecurity and the threat of growing poverty, with the burden of this increase falling disproportionately on women and young people. The proportion of poor women in households will undoubtedly increase and the low level of household income will force women to devote more time to care activities and to producing goods that the household cannot afford to purchase on the market.

My friends,

Latin America's past experience speaks for itself: it took 14 years for growth indicators to climb back up to the levels observed before the crisis of the 1980s, but as many as twenty-five years for poverty levels to fall back to the pre-crisis figure. [2] This means that the losses triggered by crises are not reversed in the next cycle and that social setbacks take twice as long to make up as economic ones.

The global financial crisis has demonstrated the need for thorough-going reforms to the international financial architecture and, in particular, to regulatory and supervisory systems in order to guarantee greater global financial stability. It has also made it clear that institutional mechanisms for monitoring systemic risks have not evolved in tandem with the process of globalization and financial liberalization.

Thus, the future financial landscape will include a change of approach which will require efforts at coordination in regulating financial systems across countries and more instances of multilateral supervision.

The private sector's investment bias towards national financial assets, together with more institutional and political factors such as protection of the national financial space – **financial protectionism –** could result in less integration of international financial markets. The slump in private financial flows towards developing regions since late 2008 is a reflection of this de-transnationalization of banking credit.

What requirements must the new global architecture meet and what steps can be taken to ensure that the expected reform does not stop at modest cosmetic changes?

First, what is required is politically legitimate, representative leadership for defining and orienting the global development agenda, a global governance that reflects the interests, needs and objectives of the international community as a whole. If this is to be inclusive, sustainable and efficient, it must include an entity for accountability which is also inclusive.

Second, global and regional agencies must act to define a globally agreed agenda for development. To date, the global development agenda has been governed by the collective will of a small group of developed countries which wield an inordinate amount of weight and influence in international bodies.

One of the future demands of global governance is the creation of **broader and more inclusive bodies for articulating and implementing the global development agenda**. **Just as the G-20 plays a central role in global financial governance, so the multilateral sphere must be strengthened to ensure better governance of development.**

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[2] In 1980, per capita GDP in region stood at approximately US$ 3,620 (in 2000 dollars) and this level was attained again in 1994. In terms of poverty levels, the poor accounted for 40.5% of the population in 1980 and poverty levels did not fall back to this figure until 2005.

One proposal has been to reinforce the role of the Economic and Social Council of the United Nations to place it on an operational par with that of the General Assembly or the Security Council. Its functions could include analysis and assessment of the economic, social and environmental factors of development and the guarantee of consistency in the policy objectives and instruments of the main international bodies. All the regions and major world economies should be represented on it. This is not the same as having 192 representatives around the table but it does make selection mechanisms more democratic. In this context, the participation of multilateral organizations such as the World Bank, the International Monetary Fund (IMF) and the World Trade Organization will be essential, just as it was at the International Conference on Financing for Development, held in Monterrey, Mexico, in 2002.

Further steps must be taken to achieve a deeper reform of the International Monetary Fund in order to guarantee greater participation and representation of the emerging economies and the developing countries. Fulfilment of the commitment made on 25 September by the G-20 leaders gathered in Pittsburgh, United States, to a shift of at least 5% of voting rights from over-represented to under-represented countries would be a significant advance for our region.

Another achievement in Pittsburgh was the recognition of the central role played by employment as a source and guarantee for recovering from the crisis in accordance with ILO fundamental principles and rights at work.

Reconciling labour markets in a globalized world with greater well-being and integration for workers by ensuring decent work also entails productive convergence within and among countries. Productive gaps that continue to widen, as seen in recent decades, tend to deepen the social divide and cause greater disparities in the pace of development. By the same token, an international order in which the benefits of innovation and growth are distributed in a less segmented manner would also be a world in which we would start to see a reversal in the sharp disequilibria in saving, consumption and investment, which were intensified between and within countries during the recent phase of globalization, and which were an underlying cause of the global crisis. Hence the need to move once more towards greater convergence of production capacities and to seek a different style of growth, whose fruits are associated with an increase in decent employment in a post-crisis world.

Ensuring a more stable future

The new international financial architecture must have **the tools and capacity to manage the economic cycle** and this means reviewing the **reserve system** and consolidating **international financial institutions**.

Strengthening the role of Special Drawing Rights (SDRs) has therefore been proposed and the International Monetary Fund should also be reinforced as the pivotal element in the new international reserve system. This should reduce the degree of dependence on the reserve unit on the political and economic conditions and decisions of any particular countries, thereby increasing in principle the stability and confidence in the international financial system.[3]

In addition, **prudent and appropriate management of economic crises calls for the supply of liquidity at the global level in a countercyclical and inclusive manner**. Hence the need to boost the resources of financial institutions and adopt more flexible financing mechanisms and conditions.

This has been partially achieved through the recent reforms to institutions such as IMF and the World Bank, which have resulted in an increase in their level of capitalization and a change in financing conditions.

As a complementary measure, it is also necessary to increase the financing base of loan agreements since these still depend on the amount of country quotas.

Lastly, a multilateral framework is needed in order to handle the problems of the debt overhang and to be able to restructure amounts and reschedule deadlines for external obligations.

In this regard, it must be borne in mind that the region has a very sound financial architecture, with institutions such as the Inter-American Development Bank, the Andean Development Corporation, the Latin American Reserve Fund, the Caribbean Development Bank, the Central American Bank for Economic Integration and the recently created Bank of the South.

Regional institutions are sources of information and knowledge on the region and in fact can act as a link between the national and global entities to reinforce coordinated efforts in order to compile and summarize macroeconomic and financial information, develop early warning systems, adopt common regulatory schemes and support efforts at macroeconomic coordination between countries of different subregions.

My friends,

[3] Nevertheless, the definition of certain fundamental factors, such as criteria for the issue of the new “reserve currency”, mechanisms for determining the parity of this new reserve unit, convertibility and the determination of this currency, will remain pending.

In the context of this new normality, the world and the region are confronting another huge challenge which marks this enormous change of era, and I refer to climate change. The urgency of this phenomenon was underscored in 2007 with the publication of the Assessment Report of the Intergovernmental Panel on Climate Change (IPCC), which presents unequivocal evidence of excessive temperature rises due to carbon emissions from industrial activity. Measures must be implemented from 2020 and a 50% cut in emissions must be achieved by 2050.

If we fail to act urgently to alter this course, in the coming decades, the economic support base will be changed in a way never seen before in history. The scientific evidence is highly conclusive in this respect. There must be a change in production and consumption patterns, especially with as regards energy.

We must promote the transition to an economy with a lower carbon content. There is also evidence that the impact of global warming will be much more severe in the developing countries and will fall disproportionately on the more vulnerable social groups.

Two international modalities open up before us in our effort to meet the minimum emissions reduction targets. The first seeks a negotiated path, based on shared values, agreed time frames, simultaneous criteria and efforts underpinned by common but differentiated responsibilities and within the framework of multilateral negotiations. The second opens up a path of unilateral initiatives that would be applied across the board without differentiating between relative development levels and would be responsive only to competition laws.

Among the measures that will form part of the new climatic and economic normality are unilateral trade regulations based on the carbon content of goods exported to the developed economies.

A number of initiatives have been emerging in this direction. The European Parliament approved carbon footprint labelling for goods and services, which applies to imports into the European Union. Other developed countries are also considering applying compensatory tariffs to carbon-intensive imported goods with effect from 2020.

To sum up, climate change may become a new constraint on economic growth for Latin America or, if dealt with comprehensively and on a timely basis, it may be an opportunity to renew existing infrastructure, improve production processes and create more efficient modes of transport.

So, if this is the future, consideration should be given to the responses demanded by this new normality. Undoubtedly, many and very diverse responses, but the most pressing and fundamental issue is the response to the following question: **What kind of State do we need for this new normality?**

It has been stated, not without foundation, that the twentieth century ended not with the year 2000, but with the fall of the Berlin Wall in 1989. There is an element of truth in this statement, bearing in mind the tremendous change in political parameters that was brought about at this time and the redesign of the entire political and economic architecture of the planet including that of the region.

This enormous change took place against the background of the **new production paradigm** that has developed following the rapid accumulation of technological and scientific knowledge, the progressive globalization of markets and communications and the exacerbation of competitiveness.

In recent years, Kenichi Ohmae, one of the great thinkers and business strategists of our time, predicted the end of the nation-State, declaring that these categories would be relegated to the history museum and would be replaced by four unstoppable forces: **capital, corporations, consumers and communications.** He also predicted that the actions of States would be replaced at the international economic level by the real economic units or "region-states", by which he referred to the globalized economic zones situated in different parts of the world.

This academic interpretation is reinforced by political pressure and arms itself with concepts derived from the so-called process of State reform and modernization in order to place limits on the action of the State in the economic domain.

It started with an analysis of the Latin American crisis, which was reportedly caused by excessive growth of the State and by economic populism; according to this analysis, this populism manifested itself in an inability to contain the public deficit and the wage demands of the public and private sectors. Consequently, two sets of measures prevailed in the 1990s, the first tended to promote stability through public policies geared to market mechanisms, the second to reduce the size of the State and the extent to which it intervened in the economy.

Almost all the countries in the region proceeded to downsize the public sector, to pare down the semi-public government sector and to eliminate expenses and transfers that were not deemed to be strategic or top-priority; regrettably, these included expenditure in the social sector. Admittedly, this period also saw some significant advances in the development of macroeconomic institutions and in the application of measures that led to more prudential fiscal management. Along the way, institutions that were important for the development of the agricultural or industrial sector were dismantled as well as others that had a significant impact on the formulation of long-term policies and on productive development and equity.

Today, our States are facing a huge deficit.

Our States today are the reflection of our contradictions, of structural heterogeneity, our history of inequality and inequity, our haphazard democratic trajectories and our failed fiscal reforms. They lack sufficient credibility as providers of public goods or protectors of the weak and underprivileged, and, together with their unavoidable passiveness in the fluctuations of the international economy, conspire in a positive way to rally citizen support for their consolidation.

The new international financial architecture compels us to build a new architecture for the public sphere and for the State.

This **new State architecture** will enable the State to reassert its role in directing development strategies in our countries, overcoming the neoliberal paradigm that touted its “subsidiariness”. Instead of dwelling on the sterile debate of whether there should be more or less State, or of State supremacy versus market supremacy, one should recognize that markets are not perfect, that market failures are ubiquitous and that the era of blind market dependency – the so-called laissez-faire – is over, although this does not mean a return to Statist or centralist patterns.

We should therefore avoid allegations that historical evidence now calls into question today and which in their time alternated between demonizing the market and demonizing the State. In the light of the crisis and the divides opened up by the application of those assumptions, it is clear that market regulation is vital. The quality and efficiency of our markets will depend, to a great extent on the quality and integrity of our States in regulating them and on the appropriate control mechanisms, incentives and guidance. Above all, it is clear that certain functions should be the responsibility of the State and that the latter should safeguard the common good and social cohesion.

On the basis of a critical examination of its past performance, we must be able to mould the role of the State, provide it with the necessary tools and determine its proper place so that, in conjunction with the market and with citizens, it can achieve the optimum equilibrium of this trinity. There is no single model: each society will need to work out this balance in accordance with its own development dynamic.

Policy-making must be asserted as the way to guarantee the effective provision of public goods, with a concept of what is public and what is collective, what belongs to society as a whole. Policy-making is rooted in the State. It is not so much a matter of whether ownership of public goods reverts to the State but rather of ensuring that the latter, with the participation of the private sector, oversees their distribution on an egalitarian basis.

This global economic and financial crisis has revealed the need to rethink development and with it policy-making, conceived as the art of choosing between a varied menu of socially legitimate options and building what Buchanan and Musgrave term “the contractarian venture”, a social contract that determines priorities.[4].

Here are some thoughts on this subject:

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[4] See Buchanan and Musgave *Public Finance and Public Choice: Two Contrasting Visions of the State,* Cambridge, Massachusetts, MIT Press, 1999.

First, States must provide public goods, including sovereignty over their borders, the administration of justice, democratic elections, citizen participation, public security and the rule of law (civil, political, economic, social and cultural rights). In addition to providing these traditional public goods, they must be capable of participating in the concert of nations with responsibility for providing global public goods, such as financial stability, control of pandemics and global climate security.

Second, in order to have the legitimacy to reconcile the different interests with clear socio-economic objectives through regulation, States must have the capacity for dialogue. This requires technical capacity on the part of the regulatory bureaucracy and sufficient social empowerment to stand their ground when confronted with the enormous power and influence wielded by the large corporations.

Third, the State must be able to provide strategic management with a long-term perspective. It must play a forward-planning role in guiding national development. It must be borne in mind that State action unfolds in a situation of shared power and that negotiation and national consensus-building are a means and an end in this regard.

But the foregoing raises questions especially about the level of resources at the disposal of our government administrations.

The level of public spending depends on the capacity of countries to collect revenue. On average the tax ratio in the region **is approximately 18% of GDP**. This is very low given the region's relative development level as well as in terms of the resource requirements that are implicit in the demand for public policies that Latin American governments have to contend with. **In a nutshell, not only is the level of tax collection low, in the region, but it is also poor**. Less than a third of revenues come from direct taxation while the bulk of the burden falls on excise and other indirect taxes with clearly regressive effects. Hence it is hardly surprising that income distribution after tax is even more inequitable than primary income distribution. The region must not only collect more revenue but must also do all in its power to rectify the regressive bias of its tax structure.

In short, let us be unequivocal about this: with the existing tax ratio, our States are hard pressed to fulfil their existing functions and even less able to face the challenges of the future. ECLAC has stressed time and again the urgent need for a fiscal covenant, a renewed social contract for a new State architecture.

Fourth, it is in the political and social spheres, where the State plays a leading role, that it must not waver. The aim here should be to achieve a higher degree of democracy and a higher degree of equality, two sides of the same coin. On the side of democracy, the State must safeguard the quality of politics and ensure that it is inclusive, must seek to implement strategic agendas that reflect the deliberation of a broad spectrum of actors and must promote the will of the people, translating it into covenants that provide political legitimacy and guarantee medium- and long-term policies. In terms of equality, the State must strive to increase the stake of the excluded and vulnerable sectors in the benefits of growth, both by including them in productive endeavours and by providing social protection. Equality as citizens, equality of rights, public voice, equality as fully empowered citizens constitute the link between politics and social equality. In this regard, special attention should be paid to gender equality.

The architecture of the future State must therefore reflect a new, sound obsession with increasing the participation of the vulnerable sectors in the benefits of growth and with protecting them in times of recession and crisis.

Five main policy areas should, I believe, be reviewed in the light of this mandate:

1. **Macroeconomic strategies**, which give priority to growth, without disregarding the lessons of the past, in order to achieve a macroeconomic scenario conducive to employment based on the principle **equality for growth and growth for equality.**

2. **Active policies for convergence of productivity,** which should recognize the ability of States to help to close productivity gaps in our societies, and between them and the economies of the centre on the basis of employment linked to innovation.

3. **A social State, which irrespective of the position held by individuals in the market, provides a basic protection floor** in terms of monetary transfers/income, health and education, based on the principles of universality, solidarity and efficiency.

4. **Transparency,** in order to ensure that the agenda is accessible and is subject to the scrutiny of the majority of its citizens. The decision-making process must be implemented on the basis of an agenda with integrity, in which the different interests are transparent and in which dialogue, negotiation and consensus are fundamental tools in the decisions that are adopted. The idea is to construct a public agenda that can accommodate a vibrant private sector and a robust civil society that enjoys rights and is fully empowered to exercise them.

5. I**nstitutional continuity of State policies** to avoid changes in administrative policies every six or every four years with the turnover in politicians or leadership due to a lack of institutional capacity or citizenship.

Clearly, this task will take more than one generation. It is by no means a short-term undertaking, but it is important to start now.

Fiscal viability must be combined with an approach based on citizens' rights, above all social rights. Growth must be geared towards generating more and better-quality employment. Gender and generational changes must be taken into account in a new architecture that reconciles the care economy with participation in the workforce and the demographic transition with the windows of opportunity, and which, moreover, foresees the risks inherent in this transition.

Development, such as we have experienced it, thought it or suffered it, has today reached breaking point. The financial crisis and its social impacts, together with the threat of climate change, call into question the achievements of the production paradigm and the economic paradigm that prevailed in the past decades. In the face of this, citizens are today seeking refuge and guidance from their Governments, from their States and from a fairer international order in which their voice is heard. **Let us state it plainly: without a new State architecture that assumes responsibility for the new normality, for the imperatives posed by the agenda of equality of rights, and for the challenges of climate change, the future is under threat.**

Rallying the will to face up to this change is no easy task. The great development economist, Albert O. Hirschman, in his book *Rhetoric of Reaction* identifies the three arguments generally put forward by those that oppose progress and change. They are *perversity* – any attempt to solve the situation will only aggravate the problem; *futility:* new solutions are useless for dealing with insoluble problems; *jeopardy*: the cost of solving the problem is greater than its solution.

Let us not allow the reactions that are bound to greet these proposals dent our faith in a better future for our region.

Once again, thank you for allowing me to share these reflections with you.