



## *Introduction*

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In May 2004, the first Copenhagen Consensus was held in Denmark's capital. This was a groundbreaking event, which for the first time brought together a group of the world's most eminent economists to jointly prioritize additional spending on some of the world's most pressing problems. A second global event took place in 2008 and, in the meantime, other focused projects have been run in conjunction with the United Nations. While these processes are all global in focus, this volume brings together the material from the first regional process: the Consulta de San José, held in Costa Rica in October 2007.

The need for prioritization is as real as ever. Good progress has been made in a number of areas in recent years, particularly on the overall economic front, but a number of problems in the Latin American and Caribbean (LAC) region are seemingly intractable. Potential solutions based on best practice, either in the region or more widely, form the basis of this volume, but to make real progress over the coming years, limited resources need to be committed where they are likely to do most good.

The LAC region is part of the developing world, but many countries within it have achieved considerable economic growth in recent years and can certainly not be considered among the world's poorest. This in itself is a compelling reason to focus an event purely on the region. If issues are assessed globally, the vast problems of extreme poverty in sub-Saharan Africa (SSA) and parts of Asia dominate considerations. When basic needs are unfulfilled for hundreds of millions of people, and some states are dysfunctional, assuring food and water security and providing basic healthcare often becomes a prerequisite for further successful interventions.

This is not to suggest that the LAC region does not have problems of poverty and less-than-ideal government. Unfortunately, it does. Haiti is among the world's poorest states by any reckoning, and Bolivia has particularly high levels of rural poverty, for example. Inefficient and

corrupt bureaucracies hold back growth. But there has been considerable progress in the region, both economically and in terms of governance. Encouraging though this is, it also means that it is not immediately obvious which of the remaining problems can be addressed most cost-effectively.

The essence of the Copenhagen Consensus process is to assess, as objectively as possible, both the extent of the problems and the cost and benefits of interventions aimed at tackling them. Expert authors have been commissioned to produce a series of Challenge papers (chapters 1–10), and these in turn have been critically reviewed by other experts in alternative view papers (2.1–10.1). An eminent Expert panel has been set up to make the prioritization.

For the Consulta de San José, the challenges presented to the Expert panel were selected via a survey conducted by the IDB: 1,800 professionals in LAC – policymakers, academics, business representatives, journalists, and researchers – were asked to list the most important challenges facing the region. The top ten issues that emerged from this exercise, and which form the framework of the volume, were:

- Democracy
- Education
- Employment and social security
- Environment
- Fiscal policy reforms
- Health
- Infrastructure
- Poverty
- Public administration
- Violence and crime

The Expert panel was asked a question which appears simple, but is actually very difficult to answer: What should LAC governments do with an additional nominal \$10 billion which becomes available? The straightforward answer, of course, is to spend it on the projects which give the greatest results. In the language of economics, we should choose the projects with the largest benefit-cost ratios (BCRs).

The difficulty comes in estimating the true costs and placing a value on the benefits which flow from the intervention. Economics provides us with a powerful intellectual framework to compare choices, but relies on placing a value on things which a layperson may consider have

no monetary value (or, alternatively, may be considered priceless). One of the biggest criticisms of economic evaluation is the need to place a price on human life itself. Yet this has to be done if priorities are to be evaluated.

But the fact that there is inevitable room for debate about the exact value we place on certain benefits means that BCRs of this type can never be definitive and accurate; rather, they are indicative. In other words, prioritization is not necessarily simply a case of choosing projects which have the highest BCRs. Many contributors look at the sensitivity of the figure to the assumptions which are made. If an intervention appears cost-effective across a range of assumptions, we can assume that any conclusions we draw are robust. But that also means comparing projects on the basis of a range of BCR values rather than simply ranking by a single value.

Time preference is also an important matter to consider. In an economist's view, benefits received (and costs outlaid) in years to come are worth less than similar amounts in the present. Most laypeople would agree with this principle. Faced with taking \$100 now or in a year's time, there is no reason for delay. However, if the choice was between \$100 and \$110 in a year, or even \$200 in five years, then it would possibly be rational to choose the larger amount in future, assuming that our current needs were met. Economists assign an annual discount rate to indicate the degree of time preference and in the case of Copenhagen Consensus process evaluations, interventions are generally assessed at both 3% and 6% rates. If BCRs are favorable at both rates, we can again be quite confident in the robustness of the conclusion.

However, many of the solutions proposed to the LAC region's problems have benefits which will accrue over long periods of time; in the case of interventions aimed at young children or pregnant mothers, for example, this can be for a whole lifetime, or even extend to later generations. Taking typical discount rates, even the ones used here which are, by economic standards, relatively low, means that benefits which may be very significant to individuals or societies in several decades' time will have a very low discounted value today. While this may seem unreasonable, it is important always to keep in mind that resources spent on solutions that will achieve their benefits only many decades from now are resources that can not be used to achieve more immediate benefits (which in turn may lead to greater, long-term benefits).

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The Consulta de San José, in common with other Copenhagen Consensus process events, held a Youth Forum in parallel with the deliberations of the Expert panel. The young people in the Forum assessed the same material as the experts and, like them, were asked to prioritize the solutions put forward. However, they were not obliged to base their conclusions on purely economic analysis. It is interesting to see how the priorities of expert economists are validated by the rather similar rankings of the Youth Forum.

The Expert panel had a difficult task in choosing between a range of options on which to spend the nominal \$10 billion. Some critics of the process would argue that they should be doing no such thing, that all the problems of developing countries deserve attention and that to choose between them is iniquitous. But we believe, on the contrary, that the best way to help poor people in the LAC region is to do things which improve lives a lot rather than a little. This may involve some hard choices, but generalized, unfocused attempts at help will simply mean doing less good at higher cost.

Another criticism of the Copenhagen Consensus process is that the answer to poverty lies not in specific interventions launched by governments or international organizations on behalf of the poor, but in creating the right conditions in developing countries so that they can undertake their own development. This is not lightly to be dismissed since, in an ideal world, such self-help should arguably be the norm. Indeed, the transformation of a number of Southeast Asian countries since the 1960s has been to a great degree due solely to their own efforts.

Nevertheless, there remain in the LAC region not only great disparities between countries, but also enormous inequality within countries. Across the region, it is the rural population which often suffers to an undue degree. Countries have not made the rapid progress of many dynamic Asian economies. Focused interventions could provide a kick-start for progress across a range of issues.

Prioritization produces losers and winners. In this case, the winners – the top priority interventions chosen by the Expert panel – were educational (childhood development programs), financial (better fiscal rules), and infrastructural (greater investment). At the bottom of the priority list came projects including the introduction of quota systems for female politicians, voucher systems for education, restrictions on alcohol sales, and prison rehabilitation programs. However, some

proposals could not be ranked with the current level of information, and thus the Expert panel emphasized the need for more research for several areas, including options for reducing domestic violence, improving the quality of education and healthcare delivery, and improving rural infrastructure and financial services for the poor.

But, whether they are deemed “winners” or “losers,” all the proposed interventions are thoughtful and deserve our consideration. The rest of this introduction gives a brief summary of the issues and solutions put forward in the chapters and alternative views which form the core of this book. You, the reader, may form your own conclusions. Although the Expert panel has made a well-argued set of choices, this is not the final word. By re-analyzing the evidence and proposing different approaches, it is perhaps possible to make a different argument for prioritization. What is important with this collection of essays, which represents our best knowledge on policy choices in the LAC region assessed by the Copenhagen Consensus framework, is that such a debate can now be based on the best available facts, focusing on the pressing need for setting smart priorities.

## The challenges

**Democracy** is the topic covered by Mark P. Jones of Rice University (chapter 1). Although the political systems of Chile, Costa Rica, and Uruguay bear comparison with those of North America and Western Europe, Haiti and Venezuela stretch the concept of democracy to its limits, while a group of countries including Bolivia, Colombia, and Paraguay are considered only partly free. The specific issues discussed by Jones are the weakness of political parties (thus encouraging short-term, populist policies) and the vast under-representation of women in national politics.

Reforming the party system to encourage consistent policies and reduce the plethora of short-lived, personality based parties could in principle be achieved via several specific systematic changes. However, the conclusion is that, while such reform would have benefits in some countries, in many others it would be likely to fail – and, indeed, merely consolidate corrupt systems. It seems that other conditions need to be in place for a fully functioning democracy to thrive.

The under-representation of women in national government can be considered not only a flaw in democracy, but also to prevent their

fundamentally different policy approach from influencing politics. It is proposed that this be corrected via a system of quotas, closed-candidate lists, and multi-representative electoral districts. While this would undoubtedly increase representativeness and government legitimacy, the benefits are difficult to quantify.

Amy Damon and Paul Glewwe of Macalester College and the University of Minnesota discuss the issue of **Education** in their contribution (chapter 2). In their view, although many claims are made for the benefits of education *per se*, it is the outcomes which are important, and Damon and Glewwe propose three policies which they suggest will benefit the region. With a few notable exceptions, such as Haiti, large strides have been made in the LAC region in recent decades, and yet the educational outcomes in even the best-performing countries, such as Argentina and Chile, do not compare with those in the rich countries of the industrialized world.

Better-educated people not only have the potential for higher earnings, but the quality of life both for them and for their children is better. Although not directly educational, the authors' proposal to implement nutritional programs for pre-school children would have the benefit of improving both the number of years of schooling and the achievement of the children during that time. The benefits of this are significant, and the Expert panel made this intervention their top-priority recommendation.

Secondly, conditional cash transfers to families (CCTs), made while children attend school, can certainly increase years of schooling, although the quality of teaching remains an important but ill-defined issue. Thirdly, providing vouchers to enable parents to choose to send their children to private schools appears to improve outcomes via increased competition.

Miguel Urquiola of Columbia University provides an alternative view (hereafter, AV) of the educational issue (AV 2.1). He points out that although education has improved, the LAC region is still losing ground in comparison to East Asia, and that reducing the repetition of years would be more cost-effective than merely increasing the number of years spent at school. He also argues that the improved outcomes found in some private schools can be accounted for by socio-economic factors, and questions the perception that private education is necessarily better.

**Labor market reforms** are perhaps not the most instantly crowd-pleasing subject, but that does not make them any less important. Alejandra Cox Edwards of California State University, Long Beach, argues in chapter 3 that current labor laws restrict job creation and productivity, and prevent the LAC region from seizing the benefits of globalization. Nevertheless, these laws were enacted to protect workers, and their reform is politically difficult, despite the fact that a shortage of jobs in the formal, regulated sector means that countries in the region have large informal (and hence unprotected) sectors.

Edwards suggests that social security payments are currently seen purely as a tax, since the link with benefits is indirect. By reforming the system to reduce the tax element, workers will value their contributions more, and those who do not benefit will no longer be taxed. The overall objective of her proposals is to increase the flexibility of the labor market, and other interventions suggested include defined severance pay for all who leave jobs and replacement of the minimum wage by earned income tax credits (EITC) to give more job opportunities to unskilled workers.

Edwards argues that these interventions would increase formal sector employment, reduce the size of the informal sector but improve the lot of those still working in it, reduce overall unemployment, and raise productivity. Adriana Kugler of the University of Houston and Stanford's Center for the Study of Poverty and Inequality suggests, in her alternative view (AV 3.1), that the benefits of the proposed interventions may actually be lower than estimated.

Roger A. Sedjo and Juha Siikamäki of Resources for the Future focus on proposals concerning **Forests and biodiversity** (chapter 4). Actions within this area currently tend to be decided on a political basis because of the difficulty of doing a conventional economic analysis. The chapter attempts to put in place a more evidence-based foundation for future decisions. The region is rich in forests, particularly tropical ones, which are especially high in biodiversity. This species richness is threatened by deforestation.

Species can have a direct value – for example, to hunters – but also a public good value which can be estimated in terms of willingness-to-pay (WTP) surveys. Valuing forest ecosystems is also difficult, but this has increasingly now been done by way of their carbon sequestration potential; in the LAC region, this has been estimated to be over

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\$3 trillion. There are various conceptual ways of protecting forests, including compensation of owners and even paying up-front for the whole area to be protected. Costs are high, but far lower than the benefits.

Randall A. Kramer of Duke University argues in his alternative view (AV 4.1) that Sedjo and Siikamäki under-estimate the difficulties of moving away from timber extraction, and thereby over-state the net benefits. Kramer proposes as an alternative the protection of forests on the basis of non-use values, using WTP studies to justify the cost-effectiveness of this. Ultimately, of course, this intrinsic value is likely to be estimated significantly higher by prosperous non-residents of the region.

In his discussion of **Fiscal policy reform**, Miguel Braun of IDP and CIPPEC describes the region in chapter 5 as a historical “basket case.” Fortunately, much progress has been made, but Braun’s concern is that an underlying structural deficit may have been disguised by the healthy international economic climate (at least, until recently). The problem is compounded by a procyclical fiscal policy in many countries: expansionary when the economy is growing, and contractionary during recessions.

Finding long-term solutions means addressing root causes: an inherent volatility when countries have high levels of foreign currency debt, coupled with decentralized political systems which do not encourage responsible policymaking. The solutions proposed are improved debt management, consolidating and reforming the budget process to promote greater responsibility and accountability, and tax reform coupled with a more rigorous process of prioritizing cost-effective expenditure. Implemented together, these reforms could give a 3% annual boost to growth.

Max A. Alier and Benedict Clements of the IMF provide an alternative view (AV 5.1). While largely agreeing with Braun’s analysis and proposals, they think that he has been too pessimistic about recent progress. The key issue, in their view, is to promote economic growth, and this is best achieved by introducing a more progressive tax system and spending government revenues more effectively. Nevertheless, they caution against introducing excessive rigidities into the budget process, which introduce distortions and limit the possibilities for the introduction of counter-cyclical policies.



**Health** is clearly an important topic which still provides many challenges in the region. Philip Musgrove, Deputy Editor, *Health Affairs*, proposes in chapter 6 a very different approach to earlier Copenhagen Consensus studies. Rather than focus on specific disease states, he proposes a systemic approach to increase access to quality healthcare. In practice, this is complementary to the disease-driven approach, looking at ways in which specific interventions can be delivered better to more people.

Musgrove quotes evidence of poorer people in particular being unaware that they are in the early stages of chronic diseases such as diabetes. For those who know they need medical help, services may not be accessible or may be delivered inefficiently, or to a low standard. Musgrove's first proposal is to provide better access by introducing some form of universal health insurance, which will particularly benefit the poorer members of society. This should be accompanied by policies designed to raise treatment standards and deliver care more efficiently. However, it is very difficult to estimate quantitative benefits and costs for such approaches.

William D. Savedoff of Social Insight, in his alternate view (AV 6.1), supports Musgrove's proposals for systemic change, which he suggests is particularly relevant for a region which is relatively prosperous and where non-communicable diseases (NCDs) are an important problem. He adds to this by estimating BCRs, which for a range of assumptions look very favorable. He also suggests an additional, low-cost intervention of increasing taxes and restrictions on the sale of alcohol and tobacco.

**Infrastructure** is less obviously a priority than something as basic as healthcare. However, Julio A. Gonzalez, José Luis Guasch, and Tomas Serebrisky of the World Bank make a convincing case in chapter 7 for increased investment. With international trade becoming freer, logistics costs are now a larger proportion of the total costs of trade than are tariff barriers. While by no means the worst region, LAC growth is constrained by infrastructure limitations, and investment needs to be increased from the present approximately 2% of GDP to between 3 and 6% to keep pace with China, for example.

Increasing the number of phone lines has a marked effect on overall growth, with power-generation and transport networks also being significant. But this investment is not in itself sufficient: policies must

also be adopted which foster improved logistics efficiency and facilitate trade. Although physical infrastructure costs are large, policy reforms have low monetary costs but are often politically difficult to institute. The rewards, however, would be significant in terms of increased economic growth.

Ronald Fischer of the Universidad de Chile supports this analysis and set of proposals in his alternative view (AV 7.1). However, he suggests that the effect on growth may be over-stated, and that major infrastructure projects may not be warranted in sparsely populated countries. Reform proposals such as these have been held back for many years by political and bureaucratic difficulties. Nevertheless, Fischer points towards the creation of an open and efficient economy in Chile as an example of what can be achieved.

The LAC region, although by no means the world's poorest, still has deep-rooted problems of **Poverty** in many countries, as discussed in chapter 8 by Sebastian Galiani of Washington University in St. Louis. The poverty issue is compounded by high rates of inequality, with indigenous and rural populations being most severely affected. This means that economic growth alone is not sufficient to solve the problem: there must also be an element of redistribution. It is remarkable that, even in economically progressive Chile, the tax system itself is still slightly regressive, and the situation is even worse in other countries.

Interventions such as nutritional supplementation, CCTs (generally linked to school enrollment), and investment in early childhood development (ECD) can help to build human capital, lift people out of poverty, and reduce inequality in a cost-effective way. For rural areas, where poverty is most widespread, land reform, creation and enforcement of secure property titles, and infrastructure investment can provide additional benefits.

Stephen D. Younger of Cornell University makes two criticisms of Galiani's proposals in his alternative view (AV 8.1). First, he thinks that too little attention is paid to inequality. Second, he believes that investment in ECD, while good in itself, will have benefits only in the longer term. For more immediate poverty alleviation, transfer payment schemes are more appropriate. These can be made even more effective by weighting them with respect to income distribution.

Susan Rose-Ackerman of Yale University addresses the thorny issue of problems with **Public administration and institutions** in chapter 9.