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Market, Social Cohesion, and Democracy

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Abstract

This paper offers three guiding principles for a better relationship between the economy and democracy: democracy as the extension of citizenship; democracy as diversity; and democracy as complementary to clear, strong macroeconomic rules. This view, it is argued, implies that economic and social institutions must be subject to democratic political choice. In this context, it analyses the role of both national and international institutions in improving the complementarity of the market, social cohesion and democracy. The central role of economic and social rights serves as the overarching framework for the analysis.

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Market, Social Cohesion, and Democracy

José Antonio Ocampo[1]

Developing countries are familiar with the dramatic gap between the expectations raised and the outcomes actually achieved by the reforms undertaken to broaden the role of the market in economic processes, and with a similar gap between expectations and outcomes associated with the extension of democratic regimes. This phenomenon reflects a more widespread problem: how to generate a good relationship between the market, social cohesion and democracy in a globalized world. The tensions among these elements are manifest in both industrialized and developing countries, but it is in the latter that they are particularly acute.

Latin America provides the best, if not the only, example. This was the developing region in which the adoption of market reforms coincided at a very early stage, and in a generalized fashion, with the consolidation of representative democracy. This coincidence was judged by some authors as a signal event in the history of Latin American democracy (see, for example, Domínguez and Purcell, 1999). It allows us to see more clearly how both the economic and political reform processes are linked to the frustrations expressed by the citizenry. In fact, as is evident from the regional surveys by *Latinobarómetro* (2004), while in 2004, 72 per cent of the population considered democracy to be the only system that would allow their countries to become industrial economies and 53 per cent considered it the best system of government, only 29 per cent felt satisfied with its functioning. Similarly, although the majority of the Latin American population thought that the market economy was the only system through which their country could become developed (60 per cent), the percentage showing satisfaction with its results was even lower than in the case for democracy (19 per cent).

This paper analyses ways in which better relations between the market, social cohesion and democracy can be built. It begins by offering three guiding principles for a better relationship between the economy and democracy. The second section examines the role of national institutions in improving that relationship. The third section presents some succinct considerations regarding international institutions, and the fourth draws brief conclusions.

Principles for the relationship between the economy and democracy

Democracy is the extension of citizenship

The point of departure of this paper is that *democracy means much more than a democratic regime.*[2] A democratic regime can be defined in terms of electoral institutions, mutual balance and control of powers, responsibilities of the majority and rights of minorities. Democracy has a wider meaning, rooted in the extension of the concept of equality before the law and, therefore, of the rights associated with citizenship, which can be understood in a broad sense as *civil, political and social citizenship*.

1 This paper has benefited from discussions over the years with some friends and colleagues, especially Carlos Vicente de Roux, Eugenio Lahera, Manuel Marfán, Ernesto Ottone and Juan Carlos Ramírez, and from discussions with Dante Caputo, Arturo O'Connel and Guillermo O'Donnell during seminars held within the framework of the UNDP project on Democracy in Latin America (UNDP, 2004), for which an earlier version was prepared.

2 This is the central message of UNDP (2004) on democracy in Latin America, itself based on O'Donnell (2002).

This powerful concept of democracy can thus be identified with the modern and richer view of citizenship that goes beyond civil and political rights. It ties democracy to the effective expansion not only of civil and political rights, which guarantee individual autonomy before the state and participation in public decisions, but of economic, social and cultural rights, which respond to the values of equality, solidarity and non-discrimination (ECLAC, 2001).

These interrelated views of democracy and citizenship also underline the universality, indivisibility and interdependence of human rights, an understanding that has emerged largely as a result of a long historical process. In terms of their character, enforceability and mechanisms of protection, civil and political rights are governed by legal statutes that differ from those that refer to economic, social and cultural rights. Nonetheless, they are all part and parcel of the fundamental rights of people, recognized by corresponding international declarations and covenants. Furthermore, where there is limited or no progress on economic, social and cultural rights, civil and political rights, laboriously attained in many cases, tend to lose significance for the poor segments of society.

The recognition of equality of all individuals before the law is perhaps the most important achievement of the modern era. It was associated with the development of modern capitalism, which demanded recognition of those who transact in the market as equals before the law. In economic thought, this concept has had a contemporary renaissance in institutional economics, which has put emphasis on both equality before the law and respect for property rights as essential elements for reducing transaction costs and, consequently, for the proper functioning of markets (North, 1990).

However, a considerable historical literature, both political and economic, has highlighted the tension that also exists between social equality and property rights, inasmuch as property rights effectively consolidate the inequality in the distribution of wealth and income generated by the functioning of markets. The focus on this tension accounts for the ambivalent relationship between liberal thought and democracy, that still exists today (see, for example, Bobbio, 1990).

Resolving the tension albeit never fully between equality and property rights has been possible only through a gradual evolution of political citizenship, which has incorporated the principles of social citizenship throughout history. The development of these principles has led to redistributive policies that compensate inequality generated or reproduced by market forces. At the same time, it has led to economic regulations that directly target the relationship between the functioning of markets and the distribution of wealth and income. In this way, the expansion of social citizenship has implied the expansion of the regulatory and re-distributive roles of the state. Proponents of free markets consider these interventions to be a source of "distortions" in the functioning of markets, or even blatant restrictions of property rights. In fact, different schools of economic thought are deeply divided on this question.

As a corollary, these state interventions must be analysed in relation to their effects on the functioning of markets as well as in relation to the benefits they generate (Atkinson, 1999). This means that the efficacy of these interventions depends on their capacity to reduce inequalities generated by market forces and also on the benefits which society derives from a greater degree of equality and social cohesion. These benefits could include the positive effects of better income distribution on economic growth as well as the investment appeal of a society characterized by higher levels of social cohesion and political stability.

In highly unequal societies, overcoming the tension between the above principles becomes especially complex. First and foremost, ensuring equal opportunities is in itself difficult because disadvantage is not due to any one single factor, but to a combination thereof. That is why the provision of equal opportunities demands positive action for those in dissimilar situations.

Moreover, equality of opportunities is an insufficient objective. In fact, merit as a factor of mobility gives rise to social ascent or descent and, in the long run, generates inequality of opportunities. On the other hand, if a society provides inadequate opportunities to a broad segment of the population during the earlier stages of their lives, the result can, to a large extent, be irreparable losses. For example, malnutrition during childhood can make it difficult to attain the minimal levels of education necessary to secure a decent opportunity in the job market. This accounts for the need to have policies that may compensate for the inequality of life trajectories, and not only of opportunities.

In this view of democracy and citizenship, social equality is an objective in itself, as the true expression of the collective aims that move societies and, therefore, as a basic principle of social cohesion. Therefore, the defence of economic, social and cultural rights and their gradual redefinition in more complex forms (Borja, 2002) become the very purpose of development.

The indivisibility of these rights raises, nonetheless, complex issues. For example, the political declaration of "the right of everyone to an adequate standard of living for himself and his family, including adequate food, clothing and housing, and to the continuous improvement of living conditions" (Article 11 of the International Covenant on Economic, Social and Cultural Rights) does not allow for the creation of wealth or for distributing what is non-existent. Its instrumentation must be compatible, therefore, with the level of development achieved and, as we shall see, with the fiscal situation prevailing in each society in order to avoid resulting in unfulfilled expectations or macroeconomic imbalances, which may affect, through other channels, the very social sectors that are meant to be protected. Equity, in this sense, must be understood as involving the creation of targets which the society may be in a position to effectively achieve, given its level of development. That is to say, its point of reference is *that which can be realized*, but nothing less, and therefore aims at *maximizing the realizable.*

This having been said, it is necessary to bear in mind that the counterparts of rights are the responsibilities and obligations of the members of society who stake their claims on the corresponding social benefits (Palme, 2000). These responsibilities include the contribution (according to capacity) to production, compliance with tax obligations and participation in the public sphere.

Democracy is diversity

The second essential concept for analysing the relationship between the economy and democracy can be formulated simply as: *democracy is diversity*. Citizenship is meaningless when citizens lack options for making choices. Fortunately, history shows that even market economies are characterized by diversity due to the existence of different "varieties of capitalism", to use the term expressed by Albert (1993) and Rodrik (1999) expression.

In fact, despite the trend towards strengthened market relations, the modern world continues to exhibit variations in the mix between the state and the market. In the industrialized countries, models range from the limited welfare state of the United States to the elaborate welfare states of the European continent (Alesina and Glaeser, 2004). In Latin America, we find countries that allocate 4-6 per cent of gross domestic product (GDP) to social spending, and others, like Uruguay, which allocate more than 20 per cent (ECLAC, 2004: chap. 4). There are models of radical privatization of state enterprises, and others where such a process has been limited. Also, there are different models for restructuring social security, with varying components of solidarity and different mixtures of public and private participation.

Moreover, this view enjoys the backing of the notion that even though the basic functions of the institutions may be the same, the particular form they adopt varies (Rodrik, 2001). This reflects the fact that institutional development demands an active process of learning, which gives rise to different outcomes. It implies that institutional development ("institutional capital"), as well as the building of mechanisms of social cohesion ("social capital"), are essentially *endogenous* processes. Indeed, this is a characteristic that they share with human capital and technological capacity ("knowledge capital").

On the other hand, this view militates against market fundamentalism, which holds that there is only one desirable model of development applicable to all countries under all circumstances and sees the "market economy" as being antagonistic to state interventionism. The importance of this view has declined during the last few years, thanks to the recognition accorded to institutional development and, therefore, to the state being complementary to the market, and to the recognition of the crucial importance of "ownership" of national policies for the effective deployment of development assistance. It must, however, be underlined that these principles often clash with the conditionalities attached to international financial cooperation (see the section on international institutions below).

A revisionist view is that of "generations of reforms", which holds that, to overcome the problems experienced by developing economies with the liberalization processes, it is necessary to complement the first generation of reforms with a second one. The lines between the "generations" of reforms have become confusing. Even the first generation reforms, associated with economic liberalization and macroeconomic discipline, have been subjected to different interpretations and emphases in their implementation, inviting wide-ranging polemics. The "second generation" of reforms has as many meanings as there are possible interpretations of what appropriate institutional development (their major focus) should be. The need to improve the results of reforms in terms of equity and to place this objective at the centre of policy agendas, may be seen as a call for a third generation of reforms.

This is not the best way to deal with the need for change. The concept of "generations" of reforms implies linear and universal processes in which the achievements of previous stages prevail in unmodified forms as foundations for building new floors of a building. However, the fragility of some foundations can lead to problems that can only be resolved at later stages. This is, for example, what occurs in the cases of liberalization that result in higher levels of macroeconomic instability, destruction of productive and technological capacities that are not replaced by new ones, or increasing dualism in the productive structures. In such cases, it will be necessary to "reform the reforms" (Ffrench-Davis, 2000; ECLAC, 2001).

The same terminological confusion underlies the idea that it is necessary to "consolidate" the reforms. There is a minimum substrata around which a certain degree of consensus exists: a consolidation of macroeconomic achievements with respect to the reduction of inflation and the improvement in public sector accounts; an opening up to the opportunities offered by integration into the international economy; a broader participation of the private sector in the development process; and the need for more efficient states. All these terms, however, have different meanings for different analysts as, in fact, there is no single model of macroeconomic management that could guarantee stability (including, as we see later, differences of what is meant by "macroeconomic stability"). Moreover, there is no single way to integrate into the international economy or to combine the efforts of the public and the private sectors. These differences are reflected both in the industrialized and the developing world, where the diverse solutions to the problems posed by this minimum consensus are, at times, more important than the supposed homogeneity of the "market economy".

In reality, the idea that there must be some unique pattern, style or model of development applicable to all countries is not only ahistorical, but also damaging and contrary to democracy. Support for democracy is linked to the recognition that democracy generates a diversity of solutions to the problems of the people.

Democracy and clear, strong macroeconomic rules are complementary

A positive evaluation of diversity should not lead us to lose sight of the fact that, on more than one occasion, some policies have destroyed the foundations on which economic systems function, thereby falling into the category of "economic populism", to use a concept suggested a few years ago by Dornbusch and Edwards (1989).

Although this concept has not been used in a systematic manner in contemporary debates, it is used—as we do here—to refer to macroeconomic practices that result in temporary prosperity but that inexorably lead to crises due to the unsustainable nature of the public and private spending they entail. The concept has also been used to refer to policies aimed at redistributing income through forms of economic regulation that distort the functioning of markets, but it is difficult to differentiate such a meaning of "populism" from state intervention in a broader sense.

The concept of "economic populism" has thus been rightly criticized for its lack of precision and unclear relationship to the concept of populism developed in political science, where it refers to particular forms of mass mobilization based on the promises of social welfare. Actually, "economic populism", as defined above, has been practiced in more than one case by non-populist political regimes, including dictatorial regimes and even by seemingly very orthodox economic authorities. This is true, for example, of countries that have used periods of euphoria in international capital markets to accelerate financial liberalization. Accompanied by overvaluation of national currencies and other macroeconomic imbalances, this can unleash accelerated expansion of public and private spending and, later, deep macroeconomic crises. It might be better, therefore, to refer to these policies as "facile macroeconomics" rather than "populism".[3]

However, the most important corollary of this ambiguous process is that the progress of democracy and the establishment of clear and strong macroeconomic rules should not be seen as antagonistic, but rather as complementary. There are at least two strong reasons for this. The first is that, for any public policy to be efficient and sustainable, there has to be consistency between the different goals established by the authorities. In actual fact, the lack of consistency has been one of the main reasons for the painful adjustments in macroeconomic policies during the 1980s and the more recent crises in the developing world.

The second is that all forms of macroeconomic instability are costly, not only in economic but also in social terms. The regressive effects of inflation—and especially high inflation—have been amply

3 This is the term suggested by Arturo O'Connel in commenting on a prior version of this paper.

registered in the developing world. The same holds true for the effects of exchange-rate crises, as capital flight guarantees adequate protection to the rich, while exchange rate adjustments, exacerbated by capital flight, redistribute the burden of external debt servicing to other social sectors.

The "lost decade" of the 1980s in large parts of the developing world and the strong macroeconomic ups and downs of the 1990s made it clear that *real* instability (i.e. acute business cycles) also carries high social costs. Recessions provoke a disorganization of social services provided by the state; a rapid rise in unemployment and poverty rates which decrease only slowly during later periods of economic recovery; permanent loss in human capital of those unemployed or underemployed, which could lead to their structural unemployment or underemployment and, in critical conditions, drop-outs from schools, which becomes a permanent loss of opportunity. Furthermore, real instability severely punishes smaller enterprises through their unstable access to credit, among other factors.

Consistency of policies with macroeconomic stability, understood in a broad sense (see below), is therefore necessary to achieve development objectives. Actually, when the economy is undergoing recession, unemployment, increasing inflation or a balance-of-payment crisis, long-term programmes and objectives tend to become subordinate to short-term macroeconomic policies aimed at overcoming different manifestations of macroeconomic instability. A context characterized by stability and consistency of policies broadens the temporal horizons of individuals, firms and authorities and, therefore, facilitates the proper functioning of democracy.

Stability and consistency of policies are necessary, but not sufficient, conditions for better social performance in a democratic context, however. In particular, many of the structural targets formulated during the period of economic reforms in the developing world lack clear social dimensions or even have negative implications—particularly when they are aimed at reducing the size of the state at the cost of sacrificing social policy. The conflict is, therefore, not between social policy, on the one hand, and macroeconomic stability and consistency, on the other, but between macroeconomic inconsistency and long run priorities (United Nations, 2001).

Moreover, as the foregoing discussion indicates, low inflation and sustainable fiscal accounts are components of macroeconomic stability and consistency, but they are not synonymous (Ocampo, 2002; 2005). This is an important consideration because the emphasis on macroeconomic stability in recent years has focused on these two aspects. Among other examples, in the run-up to their crises of the 1990s, Mexico and several South-East Asian economies registered equilibrium or even a fiscal surplus and low inflation rates while having an exchange-rate misalignment and an unsustainable current account deficit associated with large private sector deficits (Marfán, 2005). In other cases, where inflation and fiscal policy were also controlled, the most serious problem related to the high share of short-term external debt.

All this points to the importance of attaining higher levels of macroeconomic stability, in a broad sense, which includes not only fiscal sustainability and lower levels of inflation, but also stability in economic growth and in external accounts, as well as sound domestic financial and external balance sheets. It is clear that attaining price stability or rapid growth with overvalued exchange rates is costly in the long run, as are pro-cyclical policies which accentuate the effects of external financial cycles on the domestic economies, or a very narrow application of the objectives of price stabilization which ignores the costs of transition that anti-inflationary policies may entail. The formulae for achieving stability, in this broader sense of the term, are not unique and can result in multiple trade-offs, best resolved by democratic institutions.

National institutions

Market, state and society

The foregoing analysis shows that it is necessary to find a new balance between the market and the public interest. The definition of the realm of the "public interest" takes us, in turn, to classical discussions of the functions of the state or, in the terms of the contemporary debates, to institutional development.[4] There are several possible taxonomies but, for the purpose of this paper, we can use a very simple one that classifies the public functions/institutions relevant for an analysis of the relationship between the economy and social cohesion, in two broad groups: those that ensure the proper functioning of markets and those that ensure consistency between their functioning and social cohesion.

The former can be classified, in turn, in four sets of functions/institutions, which are certainly interrelated: (i) institutions to *create markets*, i.e. those focused on reducing transaction costs (information, negotiation, oversight and control) among economic agents, including granting property rights (in a generic sense which includes not only private property but also its limits, and collective property rights in the diverse forms that we will analyse below), and on developing legal institutions to check violations of these rights or possible conflicts of interests; (ii) institutions for *the provision of public goods*, in a general sense of the term, which includes the adequate supply not only of pure public goods in terms of welfare economics (goods that are non-rival and non-excludable in consumption) but also of those that generate positive externalities and enhance the proper management of the public *commons;* and, on the negative side, the reduced supply of "public bads" and of goods generating negative externalities; (iii) institutions for *microeconomic regulation*, particularly in relation to non-competitive market practices, whether on account of the presence of scale economies or information problems; as regards the latter, since there is never factual information regarding the future (only mere expectations about the future course of events), markets involving an inter-temporal dimension (financial and technological markets, in particular) are essentially imperfect; (iv) institutions for *macroeconomic regulation and design of structural strategies and policies,* aimed at avoiding short-run macroeconomic imbalances (recession and unemployment as well as inflation, and unsustainable fiscal or balance-of-payment accounts, and risky public or private sector balance sheets) and creating appropriate conditions for long-term growth (adequate incentives and financing of innovation, accumulation of human capital and investment, as well as development of complementarities and production linkages).

The functions mentioned include elements of social policy. Thus, human capital generates high externalities that play an important role in economic growth. Labour market regulation is another central element in macroeconomic regulation and can contribute towards proper macroeconomic regulation. However, market operation can give rise to very different distributive results. The concept of a "Pareto optimum" of welfare economics is the most concrete expression of the way in which an "efficient" outcome, from the point of view of markets, can be consistent with different distributions of the benefits. This concept is therefore insufficient for an analysis of the relationship between the economy, society and politics.

The functions/institutions which aim at making the workings of the market consistent with social cohesion can also be classified in four categories: (i) those which guarantee adequate provision of goods and services that a particular society considers should be provided for all of its members, either because of the influence they exercise on their capacities or on their welfare, and that we will call *"goods of social*

4 On this aspect, see the new classical texts of Musgrave (1959) and Atkinson and Stiglitz (1980), as well as a more recent essay by Rodrik (2001).

value"[5]; (ii) *redistributive institutions,* which aim at raising the structure of wealth ownership and income distribution to levels considered desirable or at least tolerable by society and at establishing rules for the functioning of markets, especially markets of factors of production, which could guarantee such outcome; (iii) those related to *conflict management* generated by the functioning of markets and to the framing of agreements for their management and eventual elimination; (iv) those relating to *participation* in decision-making processes, not only relating to distributive outcomes but also to the very functioning of markets. The latter is essential because, as we have seen, it gives rise to different distributive outcomes, and, generally, it is not possible to achieve the desirable distributive results without influencing the functioning of markets. It is worth recalling Sen's observation (1999) that the exercise of political citizenship and the specific channels offered by democracy are not only rights which contribute to the well-being of people, but they are also the most effective means by which to guarantee that the social objectives of development are adequately represented in public decisions. As we will see below, institutions of participation also include those associated with the contribution of civil society to the fulfilment of all public functions, either as a partner of or substitute for the state.

In the framework of citizens' rights, "goods of social value" express economic and social *rights*. From there, it follows that these goods are simultaneously rights and commodities and express genuine *social preferences* which go beyond the individual preferences, the starting point of welfare economics. Actually, such a definition is arrived at through political processes and expressed as constitutional and legal norms. In recent times, the constitutions of Brazil, Colombia and South Africa, among others, concretely express this concept, indicating that such "goods of social value" are part of the social covenant underlying political institutions. Moreover, as the possibility of access by the whole population and the very definitions of such goods and rights broaden over time, achievements in different historical periods must be interpreted in relation to the potential that exists in a particular society at a specific point in time. It implies, furthermore, that making such access a reality, when possible, is an ethical imperative.

The basic functions of public policies are, therefore, related to how to guarantee the proper functioning of markets and the consistency between the latter and social cohesion. In this wider sense, "public policies" must be understood as all forms of collective action in pursuit of the common interest rather than as action exclusively by the state. Accordingly, the "public domain" must be conceived of as the meeting point of collective interests rather than as being synonymous with state activities. In other words, *"the public domain" belongs to society*, and not to the state, which is the principal, but not the only instrument that society can employ to achieve the objectives of collective development.

In fact, although natural leadership falls on the state, the institutions that may be developed to carry out the public functions outlined above must take into account not only the "market failures" which lead to these functions but also the "government failures" (and those of other forms of collective action). The latter includes problems associated with imperfections of the mechanisms of representation ("agency" problems, as they have come to be called), the introduction of non-economic and non-social (bureaucratic or clientele) rationalities in the functioning of institutions and the reflection of dominant economic and social interest in their operation (i.e., problems related to political economy), opportunities generated by state intervention for capturing rents and information failures equally affecting government action.[6] During periods of state crises, when these shortcomings become marked, it is necessary, therefore, not

5 This is a redefinition of the concept of "merit goods" or "merit wants" used by Musgrave (1959).

6 These are the preferred themes of the new institutional literature relating to the functioning of governments, but they have a long tradition in the literature relating to public choice on the use of new institutional approaches.

only to look for improvement in the functioning of the state apparatus but to open up new opportunities for the participation of civil society in the exercise of public functions.

This approach underscores the importance of creating a strong institutional framework—a high *institutional density*—with active participation of multiple social actors and adequate accountability to the citizenry—i.e. a high *democratic density*. It creates room both for state institutions and civil society and, in each case, for local as well as national, international and supranational institutions, as a result of the profound restructuring of the domain of "the public" that has taken place in recent decades. It means, in other words, that all sectors of society must participate more actively in democratic public institutions, while at the same time developing multiple institutions of their own, which may strengthen the relation of solidarity and social responsibility, thus consolidating a culture of mutual understanding and collective development.

Development of integrated economic and social policy framework

Market reforms offered only a limited role to social policy and, in particular, paid no attention to the distribution of wealth and income and, therefore, to the distributive effects of such reforms. On the other hand, equity was central to the alternative proposals formulated by, for example, the United Nations Economic Commission for Latin America and the Caribbean (ECLAC, 1990; 2001). Over the past few years, concern for income and wealth distribution, the productive assets of the poor, the need for a system of social protection and the effects of macroeconomic instability among the vulnerable sectors have enriched the policy agenda (see, for example, Birdsall, de la Torre and Menezes, 2001; Kuczynski and Williamson, 2003; De Ferranti and others, 2004).

This is a positive development. Even these recent contributions, however, have not entirely overcome a basic problem of social policies promoted during the reform period: the emphasis on the instruments (targeting, equivalence criteria between contributions and benefits, decentralization, private sector participation), instead of on the principles that ought to guide their design (universality, solidarity, efficiency and integrated character, in accordance with the ECLAC formulation (see ECLAC, 2001)). This has become problematic in some cases, e.g. when private participation in social security systems (health and pensions) has not been based on principles of solidarity, when targeting has been used as an instrument for reducing public sector spending rather than as an instrument to guarantee the access of the poor to certain fundamental services (and thus facilitate the application of the principle of universality) or when decentralization has not fully taken into account regional disparities.

Principles are important because they underline the fact that, as already mentioned, social policy is a basic instrument for social cohesion and, therefore, its design must be based on more than economic rationality. In any case, as we can see in the recent literature on the positive economic and political links between income distribution and economic growth, emphasis on income distribution and social cohesion does not preclude economic rationality (Ros, 2000: Chap. 10; World Bank, 2005). Actually, a principal corollary of this literature is that inequality may be an important obstacle to economic growth in Latin America and Africa, that is fast becoming a problem in some parts of Asia, and more generally, that social cohesion is a source of competitive advantage being supplied in increasingly scarce quantities.

The main problems of the recent formulations lie, however, in two areas: inadequate acknowledgement of the need to mainstream social objectives in the design of *economic policy* and disregard for the fact that economic and social institutions involve more than pure economic rationality. The choice of such policies, therefore, must be an explicit decision of citizens through adequately structured democratic institutions. Actually, in a more fundamental sense, political institutions that facilitate the exercise of democratic choice in selecting economic and social institutions are among the most important in any society. They give full meaning to the term "ownership" of development policies, a concept very much in fashion in recent international debates. In any case, as has been underscored in the first section of this paper, it is obvious that political "voluntarism", political populism and "facile macroeconomics" have never served as adequate paths for economic and social progress and, therefore, the options chosen must, as we have seen, obey principles of rationality and macroeconomic consistency.

The idea that social objectives ought to be included in economic policy is contrary to the model of "leader/follower" that characterizes the design of macroeconomic policies today, according to which the latter is determined first, and social policy is left to address their ensuing social effects (Mkandawire, 2001). The importance attached to designing "safety nets" in place of broader systems of social protection, with an emphasis on the application of principles of universality and solidarity—and, ultimately, the creation of modern welfare states—is also a reflection of the vision of social policy's being subordinate to market reforms.

This is also characteristic of many other debates, especially those on labour market regulations. Undoubtedly, the need for institutional designs that can facilitate adaptation to changing economic circumstances ought to be taken into account in the design of labour institutions; however, traditional labour market flexibility (and, especially the flexibility to lay off workers) is only one of the possible alternatives, and one that can be applied in varying degrees and through different modalities. Its weak points relate to its negative effects on the accumulation of social capital by firms, on workers' commitment to the success of the enterprises they work for and on the harmonious relations between the workers, owners and managers of the enterprises. In recent debates, it has been increasingly felt that this flexibility ought to be accompanied by increasing investment in workers' training and strong social protection. Other alternatives include cooperation between workers and enterprises to enable adaptation to changing circumstances through social dialogue both in their own work places and at local and national levels. Moreover, labour market flexibility should never be considered a substitute for adequate macroeconomic policies that generate employment. In an unstable macroeconomic environment, additional flexibility may result in a marked deterioration in the quality of employment with unclear benefits for the quantity of formal employment, which is intended as its main objective.

In view of the link between economic and social development, it is necessary to design integrated policy frameworks that take into account the links among different social policies and between economic and social policies. Many analysts have pointed out the lack of appropriate institutions in this area, including those involved in the recent World Commission on the Social Dimensions of Globalization, which in its 2004 report called for "policy coherence", both at the national and the international levels. These integrated frameworks ought to start by designing rules to ensure the "visibility" of the social effects of economic policies and by asking macroeconomic authorities (including autonomous central banks) to regularly examine the effects of policies on the main social variables (particularly employment and income of workers). Similarly, finance ministers should be asked to include an analysis of the distributive effects in any budgetary or tax reform initiative they present to their legislative authorities. Likewise, public entities entrusted with technological, industrial or agricultural policy ought to evaluate regularly who the beneficiaries of their programmes should be. These exercises must be considered only as starting points for designing efficient coordination systems between economic and social authorities, in which *social objectives are effectively mainstreamed into economic policy decision making*, i.e. into monetary, fiscal, production and technological policies.

Besides these considerations, the recognition that economic and social institutions have multiple objectives, and some that go beyond their economic role, is essential. Thus labour market institutions have objectives that go beyond the creation of formal employment. As has been pointed out, the quality of employment, the promotion of cooperation between workers and enterprises and the distributive effects of those institutions are equally important objectives. On this question, it should be noted that labour market liberalization has been one of the principal forces behind the tendency towards the deterioration of income distribution in a broad range of countries and that centralized negotiations of salaries has acted as a defence mechanism against this tendency in a few countries (Cornia, 2004). Moreover, beyond their role in negotiations on labour conditions, trade unions are one of the most important mechanisms of social participation.

Fiscal covenant and state rationality

Public finances are central to all democratic processes. The strength or weakness of public finances reflect the strength or weakness of the "fiscal covenant", which contributes to a legitimization of the role of the state and to a definition of the area of governmental responsibilities in the economic and social spheres (ECLAC, 1998). In fact, the absence of a generally accepted pattern of state functions erodes the consensus on the quantity and composition of the resources that the state has to manage, as well as on the rules for their allocation and utilization. Therefore, political agreement between different social sectors on what the state should do helps to legitimize the level, composition and direction of public spending, and the tax burden necessary for its functioning.

Seen in this context, the "fiscal covenant" must include five distinct elements: (i) clear rules of fiscal discipline, accompanied by adequate tax revenues to finance the functions that society assigns to the state; (ii) transparency of public expenditure;[7] (iii) the design of efficiency criteria for the management of state resources; (iv) acknowledgement of the central role played by the public budget in the provision of "goods of social value" and, more generally, in the distribution of income; and (v) the design of balanced and democratic fiscal institutions, which include room for citizens' participation.

The first of these criteria must be reflected in targets for balanced budgets or deficits that are sustainable in time or, alternatively, in limits on public debt, within a multi-year budgeting framework that serves to make the action plans of the state more orderly. This operation should not, however, be inconsistent with the use of fiscal policy in the short run to smooth out the business cycle.

In any event, budgetary rules must be accompanied by an adequate allocation of resources for the fulfilment of the basic functions that society assigns to the state. In fact, many developing countries have a tendency to burden the state with objectives while providing it with too few resources to fulfil them, thus giving rise to unsustainable fiscal imbalances and non-compliance of governmental programmes, both of which are damaging for democracy. This reflects the absence of a culture of responsibility of the citizenry

7 Transparency implies, on the one hand, inclusion of all the items of expenditure within public budgets, including those of a contingent nature or those that result from the multiple tax benefits typically contemplated in tax legislation and, on the other hand, public awareness of such budgets, their execution and evaluation.

vis-à-vis the state and, especially, tax responsibility—in other words, of a culture of civic responsibility which, as we have seen, is the counterpart of citizens' rights.

That is why, in countries where tax rates and, consequently, levels of public spending are relatively low compared to international patterns, the "fiscal covenant" almost invariably requires a raising of the tax burden and, in particular, a strengthening of the less developed tax sources (direct taxes in general). The lack of a culture of tax responsibility also encourages the tendency to overburden tax legislation with exceptions. Hence the convenience of limiting specific benefits, of including in the budget an estimate of the costs of the tax benefits established by legislation and, of course, of severely punishing those who violate tax norms.

Fiscal institutions must pursue the above-mentioned objectives simultaneously. They must strive for fiscal discipline, but also guarantee income levels compatible with the functions of the state arising from the democratic process and offer incentives for the proper use of public sector resources. Placing these responsibilities on the shoulders of a few organs of central power—especially strong finance ministries—has not proven to be adequate in practice, because it does not ensure that a culture of discipline and proper use of resources permeates the entire structure of the state. It even encourages confrontations within the state and a search for quasi-fiscal practices to evade controls exercised by finance ministries. Even more debatable is the idea of assigning this function to an autonomous power—a fiscal board—which, among other things, could be considered an institution that would deprive democracy of one of its most essential elements. Indeed, in any democracy, nothing can replace the basic functions of the parliament in defining desirable levels of income and public expenditure, or its accountability in ensuring the proper use of resources by each organ of the state and by leading government officials. Accordingly, the promulgation of fiscal responsibility laws and adoption of explicit fiscal rules is the most appropriate approach for achieving fiscal discipline. This is equally the case as regards the proper use of resources and, indeed, all actions geared towards improving public sector management.

One of the most important corollaries of this analysis is that balanced and democratic fiscal arrangements require specific actions to strengthen the weakest entities within the budgetary process: the legislative power (in most countries), the sub-national governments and the citizenry. This implies that it is necessary to promote a broad democratic debate of public sector budgets. The creation of budgetary offices in parliaments as well as mechanisms for citizens' participation in budgetary debates (including participatory budgets), and the involvement of civil society in debates regarding annual or multi-year fiscal plans (as part and parcel of debates on development plans and strategies) are democratic virtues which must be promoted.

Policies on property rights

As has been extensively analysed in the recent institutional literature, while there is no market without property rights, neither is there a market which functions in an institutional vacuum. Institutional development leads, however, to the creation of regulations that, in some way or another, restrict property rights.

No other area of economic analysis gives rise to so many differences among various schools of economic thought as this one, especially on two specific issues: the limits that society must impose on large private property (or, according to the formulation used in some institutional contexts, to define the "social functions of property") and the scope of state ownership. This theme also covers at least two other dimensions: the promotion of small private property and alternative forms of property rights (cooperative and communal).

The limits to large private property are related mainly to the strong association between a mal-distribution of wealth and a mal-distribution of income. Therefore, one set of limits to private property rights relates to the levels of inequality in wealth distribution which a society is willing to tolerate and to the imposition of taxes on incomes from capital or from wealth as compensatory mechanisms against existing inequalities. A second set is related to the possible abuse of market power that large firms can exercise, as well as the abuse by large shareholders and executives of companies vis-à-vis small shareholders; the corresponding rules of "corporate governance" are thus part of the rules for the proper functioning of markets. The third set of limits refers to the capacity of economic power to expand its influence beyond markets, thanks to its preferential audience in the political system or to the control it exercises on other typical spheres of power in contemporary societies, the mass media in particular. Constitutional and legal rules which define the relationship between economic and political power as well as between economic power and the control of the mass media are, therefore, an essential component of policies on large private property (or factor in their absence).

In the production of public goods, in the wider sense in which we use this term, or when the control of a particular economic sector confers huge power in a particular economy, one of the options promoted by some political movements and schools of economic thought has been state ownership. The indirect regulation of private firms active in these sectors is one option, but regulatory authorities may encounter serious problems of asymmetric information and difficulties in avoiding the "capture of regulation" by the economic power that controls the respective sector. For this reason, direct ownership by the state can be an attractive option.

However, evidence indicates that this option also faces problems associated both with "government failures" and with the lack of definition of effective property rights (in this case, *public* property rights). Both problems lead to the control of public sector firms or of some of their operations by specific interests (control of their bureaucracies and/or company contracts by specific groups and, in the extreme, corruption), thereby resulting in the *private* appropriation of public enterprises. To this, we must add the absence of "hard" budget constraints facing these firms, which can translate into inefficient management (although this is not the only possible outcome). A similar problem to that which characterizes large private enterprises may also arise, although with a twist: political control can generate excessive economic control. All of this means that the rules guaranteeing the effective *public* character of the state enterprises and their proper economic functioning are an essential part of a policy on property rights in the broad sense of the term.

The defence of collective assets and commons has acquired increasing importance given the awareness of the importance of the environment, but it covers a broader group of subjects, amongst which the protection of the remaining urban and rural commons is noteworthy. The problem cannot be solved with a private allocation of the required assets or commons, mainly because the lack of some markets (for environmental services, in particular) would generate inefficiencies in the allocation of resources; the lack of information on the specific nature of externalities that they generate would, by itself, reduce the efficiency of any regulation; and also because private control of resources could generate the capture of the regulatory entities.[8] The problem is more complex because the allocation of private property rights over

8 The controversy over assigning right of private ownership to sources of water is a case in question.

some assets can give rise to the general presumption of rights on such assets or services in cases where property rights are not clearly defined. One of the most relevant cases in point is ownership of land, since proprietors consider that environmental resources that are associated with it, such as water or shifting flora and fauna, are integral parts of their rights. This underscores the need for clear constitutional and legal norms regarding collective assets and commons and the creation of effective defence mechanisms for the collective rights over them.

Promotion of small private ownership is the least controversial element of a policy on property rights. Accordingly, it can be argued that the form of private property that is more akin to democracy is widely diffused ownership.[9] In line with this principle, related policies are the promotion of access to ownership of housing, support to small enterprises, both rural and urban, support to small shareholders and—something more debatable today than some years ago—the participation of workers in the ownership and management of enterprises (which in modern terminology can be conceived of as a means through which workers acquire some property rights to the firm they work for).

The promotion of small private property must be closely linked to support to associative forms of ownership (cooperatives) which small property holders use to exploit economies of scale in related activities (in acquiring inputs or marketing of their products, for example) and, therefore, to compete with large firms. The promotion of these alternative forms of property rights also arises from the coexistence of modern economies with communal organizations, such as the indigenous communities, as well as from the advantages that alternative forms of property rights entail as expressions of a larger domain of "the public" (Moulián, 2001).

Democracy, public debate and technocracy

These reflections lead us finally to the one related directly to the concept of democracy as diversity: an effective democracy is *not* possible if the themes of economy and social organization are not part of its agenda. To eliminate such subjects from democracy is to leave it bereft of one of its fundamental dimensions.

This concept, however, conflicts with some of the most commonly shared ideas in contemporary economic thinking, which can be referred to as "technocratic ideology". Behind this ideology lies a deeply pessimistic vision of democracy as a system of competition for the concession of privileges granted by the state—for capturing rents, to use the most common expression. In the face of this reasoning, it is desirable to develop economic institutions that are isolated from democracy and even protected from it. There is also, in this regard, an undercurrent of intrinsic oligarchic tendency, in a very Platonic sense of the term—of the "government of the wise"—which is shared in one way another by all schools of economic thought that give a central role in economic decision-making to economic knowledge and to the elitist group that controls it—the technocracy (Ocampo, 1992).

Without ruling out the importance of solid technical institutions for the proper functioning of the state, and without failing to acknowledge the scientific underpinnings of all economic analysis, the truth is that the latter is always coloured by ideology, which divides economics into antagonistic schools of thought. For this reason, economics must be subjected to politics and, in particular, to democratic political processes, as it is through the latter that society settles its ideological controversies.

9 For a defence of this point of view, see Ramos (1991) and Ocampo (1992).

This type of reasoning has three basic implications. First, it is difficult to conceive of proper democracies without solid political parties that offer citizens alternative options for economic and social order. Without this ideological competition, politics will, in the worst of scenarios, become pure clientelism and, in the best, electoral competition among potential "public managers". Might it be the case that the increasing incapacity of politics to mobilize people is associated with the elimination of this basic substance of politics? Reversing this trend, and injecting more substance into democracy, is essential to creating a political sphere that will be more responsive to the needs of development.

To achieve these results, it is necessary to guarantee academic pluralism and create mechanisms to transform technical debates into *social* ones. This is the reason it is so important to facilitate interaction between academic groups and different social organizations and to disseminate the resulting debates through the mass media.

The third implication is that the strengthening of technocratic entities and autonomous centres of economic power must be accompanied by appropriate political control. One essential element in this respect is to strengthen the capacity of the units of political control to exercise this function properly. A priority issue in this regard is the development of technical support groups and think tanks for parliaments, political parties, trade unions and popular organizations, as well as for entrepreneurial organizations. Without such entities, there cannot be an appropriate dialogue with the technical sectors of governments and central banks. This is one of the priorities of a democratic agenda to which little attention has been paid.

The contributions of the recent literature on the "economics of politics" can help us better understand how political institutions comply with these principles, thus helping to improve the relationship between ideological debates, political programmes, decision-making processes and public policies. Accordingly, they contribute to an understanding of the virtues and limits of the institutions developed for overcoming the main government failures, especially with regard to ensuring the primacy of general versus specific interests, and the interests of the electorate over those of the elected, as well as the effective capacity to translate preferences into public decisions and policies. The analyses of the functioning of parties, of electoral institutions, of rules for the expression of specific interests (*lobbying*), of countervailing institutional setups and of rules that define the relationship between powers and decision-making processes are some of the critical themes in this context (Persson and Tabellini, 2002). On this subject, and in particular, on its relation to economic policies, much more research is needed (in this context, see IDB, 2000: Chap. 4).

International institutions

Brief notes on globalization and democracy

The tension between the principle of equality and the protection of property rights has acquired a new dimension in the present phase of globalization. The normative "levelling of the playing field" (homogenization) generated by globalization has given a new impetus to the defence of property rights and, more especially to the extension, in this area, of the rules of the game of the industrial world. This has been reflected in a number of treaties relating to protection of investment as well as in a generalization of the rules regarding the protection of intellectual property rights.

In a world where opportunities for development are unequally distributed, this normative homogenization has been accompanied by increasing distributive tensions (UNCTAD, 1997; UNDP, 1999; Bourguignon and Morrison, 2002; Cornia, 2004). Alternative explanations of these tensions continue to be the subject of heated debate. Perhaps the most appropriate explanation lies in the adverse distributive effects of market reforms (or of at least some of them) and the simultaneous weakening of the institutions of social protection, as well as the increasing reluctance and difficulties of governments to offer effective instruments of social protection (Cornia, 2004). Another explanation is the increasing asymmetry between the international mobility of some factors of production (capital and highly skilled labour) and the restricted mobility of others (low-skilled labour), which generates adverse distributive effects against the latter (Rodrik, 1997). Increase in income differentials according to the relative demand for skilled labour is the third explanation, and the one that generates perhaps the broadest consensus among analysts.

It must be remembered, however, in the face of these trends, that the present phase of globalization is a multidimensional phenomenon that has also included a global extension of common ethical principles and international objectives of a social character, which have been upheld in declarations and international conventions on human rights as well as in the declarations and action plans of the United Nations conferences and summits, including the Millennium Summit (United Nations, 2000), which have generated what can be called the United Nations development agenda. These processes and this agenda are rooted, furthermore, in the history of struggle by international civil society to ensure human rights, social equity, gender equality, environmental protection and, more recently, globalization of solidarity and the “right to be different” (cultural diversity).

This “globalization of values”, as ECLAC (2001) has called it, has helped the spread of democratic regimes and a broader vision of citizenship across the world. The coincidence of this process with the liberalization of market forces has, however, generated tensions without creating mechanisms for their attenuation. The basic reason for this is that the globalization process, while promoting democracy and setting internationally agreed social goals and targets, has eroded the capacity of action of governments to meet these targets; it has reduced the “policy space”, to express this problem in the terms that have become common since the Eleventh United Nations Conference on Trade and Development (UNCTAD XI), held in São Paulo in 2004. Globalization has left the complex task of maintaining social cohesion in the hands of the nation-states, but with less room for manoeuvre to realize it. Moreover, as a result of normative homogenization and the burden of conditionality in international financial assistance, the scope for diversity required by democracy has been reduced.

As has become evident in recent controversies on international financial instability, these dilemmas are only finally resolved by strengthening global governance. But current trends do not point in this direction. There are, on the one hand, problems of representation of developing countries in international economic decision making, which were been recognized at the Monterrey International Conference on Financing for Development (United Nations, 2002). On the other hand, there are no processes that would create opportunities for directly consulting citizens on economic decisions of a global character—that is to say, for going beyond the representation of citizens through their governments. Furthermore, independently of these problems, there are no strong forces at work for strengthening global economic governance.

The absence of a true internationalization of politics is, in this sense, the main paradox characterizing the current globalization process. In other words, the simultaneous accentuation of democratic forces and distributive tensions has not been accompanied by any effective strengthening of political institutions that may permit the reduction of tension between the two. In fact, although there are incipient spaces of global citizenship associated with the struggle of international civil society, their capacity to transform reality continues to depend on their incidence on national political processes.

This has profound implications for the international order. It implies, first of all, that it is necessary to create democratic spaces of a supranational character. This process will inevitably be slow, however—as reflected, for example, by the most advanced supranational process in the world, the European Union (EU). For this reason, and while the expressions of political citizenship continue to be essentially national in character, the promotion of democracy as a universal value acquires meaning today only if national representation and participation processes are allowed to determine economic and social development strategies, and if they are able to exercise an effective mediation of the tensions created by the globalization process. This means, in turn, that the *international order must be profoundly respectful of diversity*, within the limits of interdependence. It also implies that an essential function of international organizations is to support national strategies that may contribute to reducing, through political citizenship, the profound tensions existing today between the principle of equality and the functioning of the globalized markets.

The demands for economic and social rights and international assistance

In the human rights framework that underlies this paper, the building of a social agenda is identified with the acknowledgement that each member of the society is a citizen and, therefore, is a depository of rights. The international scope of declarations and conventions on human rights as well as the United Nations development agenda that has evolved from the global conferences and summits can, therefore, be considered as a basis for a definition of a concept of global citizenship, albeit and incipient one.

In this area, however, there has not been a full transition from national to international institutions. In actual fact, respect for human rights and the accountability for meeting internationally agreed social goals continue to be essentially national responsibilities. On the other hand, the application of these obligations is limited to the state and does not explicitly cover other social agents. Lastly, there are as yet no clear incentives for the enforcement of these rights and commitments, nor are there methods to guarantee their application in each nation-state.

One essential activity in this field relates to the production, dissemination and analysis of information regarding the situation of economic, social and cultural rights—and to the provision of "goods of social value" through which the former are expressed—as well to the compliance with goals and targets set in global summits. These periodic evaluations ought to be subject to debate in representative national forums, with the active participation of parliaments and civil society. A process of this kind will contribute to the creation of a culture of accountability for international commitments whose effectiveness depends on their ability to bring about necessary adjustments in public policies. In this manner, accountability in all of these fields will contribute to a much clearer *political demand* for international commitments. Accordingly, the mechanisms designed for the follow-up to the United Nations Millennium Development Goals, and the political visibility of these goals, represent significant progress. It would be important, therefore, to build upon this experience and create broader mechanisms of accountability, which may then eventually lead to an integral evaluation covering not only respect for declarations and conventions on human rights but also for other sets of internationally agreed social rights (the fundamental principles and rights of work agreed upon in the International Labour Organization (ILO), and the rights of children, women and ethnic groups) and the goals and targets agreed to in world summits that belong to the United Nations development agenda, with which they are closely related.

In some cases, this political demand could gradually lead to a *judicial demand* for economic and social rights, both in national and in relevant international courts. Europe has been the only place in the world where this step has been taken. In all cases, as stated before, present and future commitments and the consequent political demands for them must be in consonance with the degree of development of the countries concerned, and especially with their capacity to attain goals which could effectively benefit all citizens, while avoiding both political voluntarism and populism, and facile macroeconomics.

It is also important to acknowledge that the responsibility for the full application of social rights and goals transcends state borders. That is why some international organizations have undertaken new initiatives, including the dissemination of the concept of corporate social responsibility. One such concrete example is the United Nations Global Compact, through which subscribing enterprises commit themselves to promote respect for human rights in their sphere of activity, to comply with basic labour rights, to protect the environment and to fight corruption. Another example is the guidelines for multinational companies prepared by the Organization for Economic Cooperation and Development (OECD) in 2001. These processes have been accompanied by strictly private initiatives from both business sectors and social movements.[10] These principles of and commitments to corporate social responsibility have become subject to regular follow up by different organizations. It is worth adding, however, that significant controversy still persists between those (mainly non- governmental organizations) who advocate schemes of corporate social responsibility of a compulsory character and business organizations who prefer voluntary frameworks of “best practices” which will spread through emulation.

On the other hand, the marked inequalities and asymmetries of the global order indicate that an essential element in the realization of rights and goals at the world level in the social area is official development assistance (ODA). ODA ought to be made available in conformity with the commitments set at the United Nations (to grant official assistance equivalent to 0.7 per cent of the gross domestic income of developed countries) and with the basic criteria shared by the international community, which were clearly spelled out at the Monterrey conference: assigning priority to the fight against poverty and “ownership” of the strategies and policies of economic and social development by the countries that adopt them (United Nations, 2002). From this perspective, development cooperation must be conceived as a simultaneous support to poverty eradication and to the construction of democracy, in accordance with a rights-based approach.

A complementary approach lies in the explicit acknowledgement that globalization will not achieve the aim of contributing to the convergence of the development levels of different countries if it is not accompanied by resource flows explicitly intended for this purpose. The EU represents an international process in which these principles have crystallized through their policy of “social cohesion”. It is symptomatic of the political philosophy underlying these agreements that the deepening of economic integration during the last decade of the twentieth century was accompanied by a strengthening of the policy regarding cohesion (Marín, 1999). There is, however, no other process of this type outside the European context. That is why, as argued by some analysts, it would be desirable to extend this practice to other integration processes (see, for example, Bustillo and Ocampo, 2004, in relation to an eventual free trade area of the Americas).

10 Relevant initiatives include the Dow Jones Sustainability Index, the International Certification on Environmental Management ISO14001 and the Corporative Accountability Index, promoted by the British firm, Business and the Community, and associated with the Financial Times Stock Exchange Index.

Conditionality in international financial assistance

The analysis of international resources leads us to the debate on the conditionality attached to international financial assistance and the relationship of such conditionality with national processes of participation and political representation. The conclusions of recent debates emphatically indicate that conditionality is not an effective, or at least is an insufficient, means to fulfil those objectives that the international community wants to tie to financial assistance. If there is no true "ownership" of policies (in other words, if they do not enjoy strong domestic support), it is unlikely they will be sustained. Furthermore, ownership is essential for institution-building, which is now widely acknowledged as one of the key factors for the success of development policies.

The particular meaning of this principle, however, has been the subject of great controversy and has in practice been ignored in many cases. There have even been attempts to "force" on recipient countries the "ownership" of policies that donors and international organizations consider appropriate (Helleiner, 2000; Stiglitz, 2002). In any case, the principle of "ownership" establishes the basic rule for the donors: their role is not to replace but to support national processes of participation and political representation. This has led to the acceptance of "ownership" as a central theme of ODA (OECD/DAC, 1996) and of IMF and World Bank programmes (Köhler and Wolfensohn, 2000; World Bank, 1998; IMF, 2001). The Paris Declaration on Aid Effectiveness of 2005 has recently raised this principle to the level of a basic criterion for ODA.

A full application of this principle requires a clear understanding of the way conditionality operates in reducing, eliminating or distorting the "ownership" of national policies. The mechanism is not—or at least not always, or not mainly—a plain and simple imposition of policies by the donors. In actual fact, four additional channels are decisive: (i) the terms under which financing is available severely restrict countries' options; (ii) in a crisis situation, possible support from donors and international financial institutions affects discussions within the government, increasing the negotiating power of groups more inclined towards the points of view of the donors; (iii) technical support that institutions provide to countries affects domestic discussions, and (iv) participation of representatives from these institutions also influences these debates.

In this manner, for "ownership" of policies to become consistent with international financial assistance, two additional conditions must be met: (i) a strict ban must be established against any form of conditionality that goes beyond the factors *directly* affecting the objectives of the programme being financed;[11] and (ii) countries must have at their disposal alternative packages of reform and adjustment, and international institutions must be available to supply such alternative support whenever countries ask for it, with the same technical rigor as is the case for traditional reform programmes. The composition of the international financial institutions' technical teams must therefore represent the heterogeneous approaches to macroeconomic and structural adjustment, and/or these institutions must be ready to tap organizations and economists who think differently to help them design alternative programmes. This implies, furthermore, that "ownership" can only be promoted through an effective pluralist discussion of the virtues of alternative macroeconomic and structural reform packages (Stiglitz, 1999).

11 In this regard, one difficulty encountered in discussions and decisions of the IMF aimed at streamlining conditionality, is the fact that, although the IMF concentrates on macroeconomic and financial matters, it is also involved with the institutional and structural aspects that are supposedly related to them. Such a broad definition was responsible for increasing the scope of conditionality during recent decades.

On the other hand, the inclusion of social criteria in designing the programmes of international financial institutions, especially their emphasis on poverty reduction as an explicit objective of international cooperation, represents a significant improvement in these programmes. It is essential, however, that this should not lead to new forms of conditionality or to the promotion of a particular approach to social programmes in the developing world. In particular, the inclusion of social issues in macroeconomic and structural adjustment programmes cannot be limited to designing adequate social safety nets for social sectors affected by macroeconomic crises or structural adjustment, the issue that has received greatest attention. In fact, the compensatory approach of the social programmes has been seriously questioned (United Nations, 2001). Rather, as has been argued throughout this paper, it should lead to mainstreaming social objectives in the very design of macroeconomic policies and structural reforms.

Conclusion

The citizens' rights framework that serves as the stepping stone of this paper bears a great resemblance to other contemporary visions of development. The concept of "human development" (UNDP, 1994), "development as freedom" (Sen, 1999) and the integral character of development (ECLAC, 2001) are various expressions of this perspective, but it has profound roots in the debates on development. As we have indicated, during the last two decades, it has been manifested mainly in the form of a gradual dissemination of global ideas and values like human rights, sustainable development, gender equality, and respect for ethnic and cultural diversity. Global values and, above all, human rights, in their dual dimension of civil and political rights, on the one hand, and economic, social and cultural rights, on the other, must be considered as the ethical framework for the formulation of development policies and for any political order.

The consequences of this new perspective are deeper than what most economists are ready to accept. Following Polanyi (1957), this basically means that the economic system must be subordinated to broader social objectives. This affirmation underscores the need to confront the powerful centrifugal forces that characterize the private sphere today. Thus, in many (developing and industrialized) countries, people are losing their sense of belonging to their society, their identification with collective objectives and their bonds of solidarity. This underscores the importance of "creating society", of a broadening awareness of the social responsibility of individuals and groups, based on initiatives which could come from the state as well as civil society. Accordingly, as we have argued, the domain of "the public" must be seen as the meeting point of collective interests more than as synonymous with the activities of the state. This means that the domain of "the public" belongs to the society, not to the state, which, while being the principal actor, is only one of the tools used by society to attain its collective development.

Another implication of this point of view is that economic and social institutions must be subjected to democratic political choice. This implies that there is no such thing as a unique or optimum design for a "market economy". As has been noted by a number of authors, there are different "varieties of capitalism" and it is not clear that any one form is superior to the others in every way—not only in relation to dynamism and economic stability but to distribution of income and social cohesion. Controversies over the virtues of different economic institutions indicate that economists are profoundly immersed in ideological debates, which can and must be resolved in the democratic arena. In that context, the role of international cooperation, of national and international technocracies—and, incidentally, of international markets—is neither to promote nor, even less so, to dictate a dominant model of economic and social organization.

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