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*Remarks by the Secretary General of the Organization of American States
at the second plenary session*

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1. Historians will very likely describe this splendid Annual Meeting of the Inter-American Development Bank and of the Inter-American Investment Corporation as one characterized by “tempered optimism.”
2. That would be a reasonable portrayal. While no one can deny that the problems afflicting the world economy (in particular the United States economy) will continue to impact the region through the end of the year and into the next, the fact is that this will be the sixth consecutive year of growth for the region as a whole. And as we all know, this growth is reflected in declining poverty and indigence figures.
3. Above all, in my opinion, the moderately good condition in which we currently find ourselves should serve to remind us of the very poor condition we were in just a short time ago. It is enough to recall that in the last five years we have grown more than in the previous 15 years, and in 2006 the percentage of Latin Americans living in poverty was, for the first time, lower than in 1980.
4. Yet despite progress in the social sector, we must not forget that 194 million people in the region are still living in poverty, and 71 million in extreme poverty. Those 71 million represent nearly twice the population of Argentina, and more than four times the population of my country, with incomes are so low that they cannot meet their minimum vital needs.
5. This is what we mean when we speak of the “lost decade” of the 1980s. And it makes us appreciate how much we have continued to lose over the last 27 years. It forces us to think very seriously about what happened in those years and to lay responsibility so as to fix what went wrong, keep what went right, make up for what was lost, and achieve what still escapes us.

6. In my opinion, as I have said many times, the main responsibility for what happened lies in the fact that the size and, above all, the functions of government in our region were reduced more than was necessary or wise, likely due to the truly blind faith of so many economists and politicians in the idea that the market would solve all problems.
7. Today we know that, while the market could fix many problems, it could not fix them all. We also know that many of the most grave difficulties we face today grew out of the momentum toward smaller government that ended up dismantling basic services without replacing them. These were services essential to adequately address needs in education, health, environmental protection, public safety, and other areas that would help to provide our citizens with equal opportunities.
8. Fortunately, those extreme ideas and measures relating to the State and the market are on the decline in our region, and very few people now believe that growth and distribution are solely matters to be left to the market.
9. On the contrary, today there is conviction that, to do things right, we need sounder and stronger governments that can frame and bring the necessary public policies to bear to solve the grave problems still plaguing us.
10. Of course, this does not mean reverting to the populist politics of the 1950s. I believe that the vast majority place a high value on sound macroeconomic policies, lower inflation, balanced budgets, and opening our economies to new international markets. What it does mean is that policies of fiscal responsibility and economic balance should not come at the cost of abandoning the core obligations of the State in a democracy.
11. We have a duty to find a responsible way to meet the obligations that our citizens rightfully demand of us, and at the same time to conduct the economic and financial affairs of our governments efficiently. What I am saying is that we need effective and efficient States, equipped with the capabilities and tools to perform the functions demanded by citizens in a democracy, and vested with the authority to use those capabilities effectively.
12. As recently as last September, the “*Latin America and the Caribbean–European Union Forum on Social Cohesion*” concluded that social policies and social safety nets should be backed, particularly, by fiscal policies that enable better distribution of wealth and adequate levels of social spending.
13. Yet despite this consensus, the subject is receiving little attention, perhaps out of fear that broaching it may unleash the excesses or populism we have suffered in the past. This is indeed a risk that we must guard against, but not so much as to keep from moving forward decisively with public policies enabling the State to meet its obligations in a democratic system.

14. This is not just a technical debate, but a political one. Our technical experts and policymakers must be made more aware that fiscal policy is not an end in itself, but a means of achieving the level of social welfare that citizens demand in a democracy. If we recognize this, we will have to admit that fiscal policy today is failing to perform that function in most, if not all, of our countries.

15. Indeed, we have taken such precautions against populism and been so cautious in our fiscal policy that we have been working against our real goals. *The 2008 Latin American Economic Outlook* published recently by the OECD shows that fiscal policy is regressive in many of our countries, because wealthier households receive most of the benefits, and that social security programs, in particular, tend to be hit harder.

16. This is nothing more than ineffectiveness and irresponsibility in performing the function that should be undertaken by the State. Just how ineffective can be seen in the fact that, as the OECD study shows, while the effect of taxes and transfers in Europe is to reduce the Gini coefficient of income distribution from 46 to 31, on average, in Latin America the reduction is only from 52 to 50.

17. This ineffectiveness cannot continue. I believe the time has come for a serious debate about introducing tax reforms that would shift the tax burden away from the middle- and lower-income segments of our societies, toward those with the highest incomes. There is room for progress here, since tax revenues in Latin America are still low, with the possible exception of Brazil. It is enough to note that tax revenues equivalent to 17% of GDP in Latin America are well below the 36% average for OECD countries.

18. Let me stress that I am not talking about expanding the State apparatus unnecessarily, or slipping into populism. But our region cannot bear forever the lags and deficiencies we now suffer in such sensitive areas as education, health, housing, public works, and transportation.

19. What I am calling for, in reality, is genuine State reform that will bring the government apparatus into the 21st century, and meets our development needs in line with the new aspirations of our citizens.

20. If we want to catch up with those aspirations, we must begin by recognizing that many of our States are institutionally weak, their officials are insufficiently prepared, and they lack the capabilities and technical resources to perform their functions.

21. We also need States that are more transparent. This is another area in which we lag far behind; so far behind, as I have often said, that we have not even found a term in Spanish to truly articulate the magnitude of this need. What is called “accountability” in English, is not fully expressed by the translation, “rendición de cuentas,” which means “reporting” or “rendering accounts.” We do need that, of course, but we also need the people rendering those accounts to take responsibility and answer for them. It is not just a question of reporting. We must have information, certainly, and with greater transparency, but our authorities must also assume political, economic, and social

responsibility for what they have done, recognizing that they are not our rulers, but accountable to us.

22. At the same time, we need policies that are stable, which means they must be based on broad domestic consensus. Political stability, security, and certainty as to the rules of the game are the ultimate guarantee not only of democratic stability but of the confluence of capital, domestic and foreign, needed to fuel economic growth. And it bears mentioning here that without economic growth it is useless to think about income distribution or social equity policies.

23. At this Annual Meeting we have been examining some important issues. We have talked about youth as agents for change, about the macroeconomic changes awaiting our region, and about the innovations needed to cope with climate change and secure sustainable sources of energy.

24. All these issues point to the future, and to the need for change. They remind us that we can build the future ourselves, and that we must start now. Let us begin by building upon we have already achieved in our region at great effort, such as responsible management of public affairs. But let us not be afraid to change all those things that need to be changed, and let us always keep our eyes fixed on the most pressing problems and the most urgent needs of our society, to which we owe a duty.