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New Trends on Social Policies in Latin America

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Introduction

This paper is centered on four sets of relevant questions:

1. What, if anything, is 'new' in the forms of social policy in Latin American emerging and developing countries? What are the drivers behind these new forms of social policy?
2. What are the key features of these new forms of social policy? What specific risks and challenges do they address? What are the key institutions behind such social policies? How do they relate to other policy domains, such as economic and environmental policies?
3. What are the impacts of these new forms of social policy in terms of immediate results and institutional development? How sustainable (fiscally, politically) are such policies? What are the key factors to sustain these new forms of social policy?
4. What is the role of global or regional factors or social policy initiatives in these developments? What are the key features of new global social policy initiatives such as social protection floor and universal health coverage? What are their potential and limitations?

The paper is organized around these policy questions.

New forms and drivers.

Latin America is addressing and reversing the exclusionary dynamics of structurally heterogeneous labour markets, redistributing assets through social spending and promoting the full exercise of citizenship. The ultimate aims are the promotion of greater equality of opportunities through education and the benefits it brings to poor families, and strengthening democracy while laying the political foundations for the consolidation of more inclusive societies.

Access to benefits through out of pocket expenditures and contributory schemes tend to reproduce inequality. A different approach is needed to cope with the new global order and its implications for national societies. Solidarity based mechanisms are needed because labor

markets alone have not demonstrated capacity for greater inclusiveness. In the short- and medium- terms, employment cannot be expected to serve as the sole mechanism for protecting the bulk of the population from the risks associated with a possible loss of income, health problems, ageing and the presence of dependants in the household.

Factors underlying this decline include higher unemployment, slack growth in wage and salaried employment, rising informal employment and precarious labor markets. Wage earners are no longer guaranteed coverage under a contributory social security system. Faster growth is essential to boost workers contributory capacity and energize the labor markets, but it is not a sufficient condition and must therefore be supplemented by labor policies to promote social protection. Adaptive labor policies must not conflict with social protection coverage. Workers must be given guaranteed access to unemployment insurance and assisted to re-enter the workforce. Training programs focusing on innovative learning processes need to be promoted to facilitate a rapid adjustment to changes in labor market demand, and steps should be taken to limit the use of unconventional contracts, develop unemployment insurance systems that include solidarity-based public financing mechanisms whose use should be conditional upon the recipients.

In spite of the efforts made in this area, it is unlikely that there will be a reversal in the situation in the short- to medium- term. It is therefore urgent to work towards the development of social protection systems that are not necessarily employment-based. This calls for an analysis of the fiscal viability of implementing government-funded social protection mechanisms.

Structural changes in the current situation call for a fresh approach to social protection within a framework of integral solidarity that combines contributory and noncontributory mechanisms. A new social covenant must therefore be formed in which social rights are seen as the normative horizon and existing inequalities and budgetary restrictions are the limiting factors to be addressed. The ethical imperatives that underpin a social rights based covenant must be reconciled with existing financial constraints. Emphasis must also be placed on efficient resource use with a view to expanding the coverage and raising the quality of services, especially for the lowest-income sectors of the population.

The proposals put forward in the region include bridging between social rights and policy guidelines aimed at making them more enforceable through improved access, better financing and greater solidarity.

Key features of new forms of social policy

The region's heterogeneity demands an expansion of financing non-contributory programs. Countries have differing needs and possibilities in redeploying social expenditure or, where this is not possible, increasing the tax burden. In some countries, rates are comparatively low, especially in the case of VAT and excise taxes, and there are also a number of exemptions that

could be reconsidered. Whenever it is increasingly difficult to introduce new taxes or raise tax rates, the elimination of exemptions, the limitation of tax deductions, and improvements in tax administration could serve as important sources of tax revenues.

Tripartite contributive schemes coverage has been limited by the large size of the informal labor market. Noncontributory, general taxed financed benefit schemes, have failed due to the low taxation burden and base. Market solutions have not been able to reconcile the equivalence principle that governs individual actuarial contracts with the solidarity principle needed to benefit vulnerable groups.

The region is implementing a series of reforms on a sustained basis with a view to creating a stronger, more mature system of government financing. They are essential components of the effort to consolidate public policies that guarantee economic and social rights. Clearly, a lasting consensus will have to be built in order to ensure the success of these initiatives.

Necessary agreements for a fiscal covenant to reinforce social policy financing will have to take into consideration the following: (i) political and institutional difficulties involved in introducing reforms to strengthen the public sectors solvency and to distribute the tax burden more equitably; (ii) constraints imposed by macroeconomic conditions, inasmuch as the experience of the past two decades has shown that macroeconomic stability, understood as rapid and stable growth in conjunction with low inflation, is the main prerequisite for an increase in tax revenues; (iii) fiscal policy priorities as they relate to expenditure vis-à-vis the wide range of demands for resources for purposes that are not necessarily linked to social protection; (iv) targeting mechanisms to address the needs of the most vulnerable; and (v) strengthening regulation, monitoring and supervision thru an integrated data base.

Impacts and developments

Assessment of educational attainment and employment

More advanced education and better employment options for young people holds true only for a minority of high achievers. In spite of better knowledge acquisition and human capital formation processes, in the present stage of technical progress more years of education are required to qualify for jobs. This is viewed as an “educational devaluation”, whereby a given number of years of schooling is worth less than it was 20 years ago. Other factors include greater job instability associated with new types of organizational patterns found in today’s labor market, new jobs being created in the informal sector, and new entrants’ lack of acquired rights and work experience.

Thanks to the virtuous circles formed by increased education, social and labor mobility, and higher income, education is also considered to be the main means of reducing inequalities and

overcoming the intergenerational reproduction of poverty. However, gaps in educational quality and achievements between differing income levels or geographical, ethnic or racial groups tends to perpetuate inequalities from one generation to the next, as well as among social groups, between urban and rural areas, and between ethnic minorities and the rest of the population.

Human development improvements and ascriptive inequalities

Groups whose identities are based on ascriptive factors as geographical location, ethnicity, race or gender are more vulnerable to poverty and inequality. Thus the right to education is very much an ongoing issue. Ascriptive-based inequalities are the result of limited access to the labor market and employment conditions, vulnerability at home, and the exercise of citizenship and reproductive rights. These inequalities invariably work to the detriment of women and minorities. Indirectly, they also have a negative effect on social protection, since access to benefits is closely linked to employment status.

They represent an accumulation of systemic disadvantages and forms of discrimination that are ingrained in day-to-day practices. Countries have made significant inroads during the last decade in rooting out both ethnic and gender discrimination (in the areas of political institutions, legislation and justice, as well as in the formulating social policies targeted to groups whose vulnerable or disadvantaged positions are associated with their members' gender or ethnic origin). Deeply rooted social differences still condemn these groups to increased poverty and higher risks than other members of society. Transition from de jure to de facto rights is not immediate. Profound cultural change is still required.

Failure to achieve greater equity in these areas stands in contrast to major achievements in other areas, (e.g. increase in life expectancy as the result of expanded access to health and education, better nutrition and availability of water and sanitation services; lower illiteracy rates; higher and gender-balanced gross enrolment rates in primary and secondary education; and increased supply of durable goods in people's homes). These advances constitute the key themes of the United Nations Millennium Declaration. One factor that helps to account for this unevenness in progress is the sustained effort over several decades to set up and consolidate State institutions and programs aimed at achieving universal coverage, especially for primary health care, access to basic services and formal education. The present situation is the outcome of those historic initiatives' cumulative effects.

Integration of health systems and insurance: towards integrated solidarity

Solidarity exists in health care when access to services is independent of people's contributions or out-of-pocket payments. Part of the population needs to finance the costs of health services consumed by another part. Transfers to do so can come from fiscal resources earmarked for public health-care systems or from contributions to the health-care segment of social-security systems. Solidarity is either integrated or segmented, according to the extent of integration between these two subsystems. Greater integration can increase the synergies between the two, raising the level of financing available for solidarity purposes and enhancing equity. Articulation between social-security and public systems can have a positive effect on efficiency by leading to

fuller utilization of installed capacity and rationalization of resource use through improved management and administration.

However, tax resources are scarce and funds raised from social security contributions are major sources of health-care financing. It is unrealistic to replace contributory financing in the near future. The primary goal is to achieve an equitable health system with solidarity-based financing that comes mainly from general revenues or proper articulation of this source with social security contributions.

The region exhibits a wide variety of institutional mechanisms. A distinction can be drawn between three alternatives: first, those in which public health-care services are funded entirely from general revenues (primarily in the Caribbean and Brazil); second, systems with some degree of integration between contributory financing and general budgetary resources; and third, systems that lack such articulation. It is important to note that the different reform strategies reflect both the diversity and importance of each country's starting point. The specifics of each health system and its institutional setting produce different constraints and lead to different priorities that reform policies need to take into account.

The first alternative requires substantial tax collection capacity, articulation between the public and social-security sectors, and making public health-care coverage universal on the basis of public financing.

The second alternative integrates both funding sources by any of the following:

1. Pooling different income groups —the same facilities and same services— as a key element of health policy. Wealthier people may prefer private services rather than use the public system, and need to be forced to maintain their contributions to social insurance, which means that solidarity is not undermined, but creates incentives to evade contributions.
2. Unifying the mandatory contributions and benefits plans in each subsystem (with more extensive coverage of health services in the case of the contributory regime), making affiliation mandatory, and extending comprehensive health coverage to workers' families. A basic state-funded health care plan is established, free for the entire population to cover public and community health activities relating to health promotion and disease control and prevention. Also a solidarity and guarantee fund is created to articulate contributory and noncontributory financing, and to fund the system's four solidarity components; internal compensation (solidarity) within the contributory regime; solidarity with the subsidized regime; health promotion and disease prevention; and traffic accidents, terrorist attacks, and natural disasters. Great institutional capacity is needed to regulate competition and ensure the proper functioning of solidarity and risk-adjustment mechanisms.
3. A dual model with partial integration. Mandatory health contributions can be paid to either a National Health Fund, which is a public health insurance scheme, or private health-insurance institutions operating within the social security domain. Affiliates are then covered by the health plans offered by these institutions according to the individual affiliate's risk and payment capacity. Articulation between the financing of the public

system and social security occurs only in the framework of the public health system. Hence, this subsector exhibits solidarity of both risk and income. Despite the existence of income solidarity, the duality of the system and the individual nature of insurance in the private system create obstacles to full integration of financing and to greater equity. Higher-income individuals tend to enroll in the private system, especially at the stage of the life cycle in which health risks are relatively low; so they pay high contributions and carry low risk but do not participate in contributory solidarity mechanisms.

Lastly, there are systems with little or no articulation between public financing and social security. Highly fragmented social-security systems coexist with a multiplicity of institutions that lack coordination mechanisms and have little in the way of solidarity financing. The public sectors in these countries provide varying degrees of coverage, accessibility and quality. Despite many attempts at integration, substantial systemic progress has yet to be achieved in these countries, although a number of initiatives are now underway.

Defined contributions and solidarity in Pension systems

Pension systems aim both to smooth consumption and alleviate old age poverty. The integration of a ‘pay as you go’ (PAYG) component (with clear rules for changing parameters), a funded scheme (competitive and low-cost), a guaranteed non-contributory pillar for older adults living in poverty, and solidarity rules for contributors with inadequate pensions (financed out of general tax revenue or through contributory solidarity) comprises a satisfactory arrangement.

Articulation needed to introduce solidarity mechanisms is better achieved under defined contribution schemes. It facilitates the articulation of the pension system; the affiliate and managers can keep track of accumulated benefits; better incentives can be created for contribution efforts; and the solidarity fund can design rules accordingly. It needs not substitute PAYG schemes by using notional accounting.

Current characteristics of pension systems are important. Options will depend on the starting situation. Whichever is taken, a solidarity pillar to alleviate old age poverty should be introduced with appropriate incentives for saving and work. Parametric reforms can either be made in the context of notional systems or else be targeted on specific parameters. Transition costs that arise from the incorporation of an individually funded component must be considered.

Current experiences show that all demographic, economic, financial and political risks have weight in deciding which option to take.

Transforming Social Assistance into a Comprehensive Social Protection Floor

Conditional transfer programs are being used to promote social protection floors. They provide rights-related benefits based on obligations by recipients, empower women, and promote citizen

participation and development of social capital. They match supply and demand of services expanding opportunities for beneficiaries to enter the labor market, and build steps of a social security staircase.

Rights and obligations

Benefits provided by transfer programs demand a shared responsibility from beneficiaries. By encouraging beneficiaries to adopt a proactive attitude, conditional transfers make it possible to establish a relationship based on mutual responsibilities on the part of beneficiaries and the programs. Co-responsibility is an incentive for the adoption of responsible attitudes in the long term. By partly neutralizing opportunity costs, conditional transfer programs enable beneficiary families to clearly recognize the present value of human capital investments, especially in education, health and nutrition of their children.

In order to progressively strengthen entitlement to rights, social programs need to actively identify and incorporate eligible families, rather than merely waiting for those needing support to ask for it.

1. Target populations must be linked to the established institutional structure and to official information campaigns, responding to public initiatives. Programs cannot be “captured” by people who are not necessarily those who need them most.
2. Identifying the poor or extremely poor should avoid stigma effects reinforcing latent conflicts in the respective communities.
3. More participatory features in the intervention unit and the diagnostic phase are seen as activities where the community itself has something to say.

Empowerment of women, citizen participation and social capital

Empowerment, participation and the promotion of social capital should represent instruments that enhance program effectiveness through synergies and better utilization of community assets, strengthening enforceability, accountability and transparency. They also improve citizenship, engendering empowerment, inclusion and a voice in public affairs for beneficiaries.

However, neither the community dimension nor the creation of social capital has been singled out as an explicit priority in conditional cash transfer programs, and attempts to implement the social capital approach in the specific areas of management and design have not been entirely successful.

Empowerment of women

Women receive a monetary income as direct recipients of transfers in conditional transfer programs. This enables them to play a more important role as providers. It leads to greater recognition of their position in the household and enhances their self-esteem and self-confidence.

However, greater empowerment increases their workload, since they need to meet program requirements relating to their families and the promotion of community involvement, restricting their chances of gaining autonomy through participation in the labor market. Domestic chores as component of women's role will require counterpart contributions from them outside the home, without considering the cost of having their domestic functions undertaken by others. Other undesired effects include the emergence of conflicts between spouses.

Citizen participation

Citizen participation in program monitoring is an essential element to: (i) make sure they receive the services offered in the program, accessing authorities, program managers and information needed to evaluate the latter's effective compliance; (ii) strengthens beneficiaries' awareness of their rights; (iii) give greater "voice" to people with no access to decision-making mechanisms; (iv) a social learning effect into a virtuous circle of greater empowerment and increased capacity to demand resources and transfers; (v) lead to greater transparency and accountability in public affairs, thereby reducing mismanagement, corruption and abuse.

It also encourages civil society involvement in the design and execution of activities (especially adaptation to the local environment and the cultural heterogeneity of the beneficiaries), allocation of resources and definition of priorities. It helps enrich social programs by disseminating the social learning that is spread throughout the community. The opening of participation channels thus facilitates the capitalization of social innovation through public policies.

Social capital

The promotion of social capital can foster greater social inclusion by altering the scope of social networks and the degree of association between groups. It stresses the role of social relationships of trust, reciprocity and cooperation in sustaining community initiatives and in poverty mitigation strategies. They encourage participants to play a more active role in solving their own problems.

As an intangible asset it includes a sense of belonging, inclusion and power given to people by organizing and relating to others. It facilitates access to other resources. They also enhance agreements on technical and methodological issues (the system for providing goods and services, the role of intermediaries and modes of beneficiary participation, among others) and to the project design, its institutional setting and its management.

Social programs should include: (i) a baseline analysis of the predominant dynamics of cooperation and conflict, both inside communities and between them and social institutions; (ii) definition of the projected effects in terms of social capital; (iii) methodological tools for strengthening identity, association and local leadership; (iv) consideration of the role of

promoters as it relates to their ties to the area, the horizontal nature of the work they undertake and their experience in development activities; and (v) institution-building.

Coordinating the supply and demand for services

Social programs stimulate the demand for services (education and health, among others) and thus need to be coordinated with their supply. Consequently, supply must be guaranteed in both qualitative and quantitative terms. Steps therefore need to be taken to make sure that: (i) the relevant services are available and accessible; (ii) the necessary budgetary and administrative resources to strengthen areas in which shortcomings are identified; and (iii) a degree of intersectoral coordination is achieved.

Intersectoral coordination arrangements range from the establishment of social cabinets and coordination via networks to the creation of a coordinating agency for all social projects. It should: have a formal structure, be permanent through time, and be empowered. Information technologies can make a valuable contribution, in beneficiary selection but also, increasingly, in the coordination of social programs and the interoperability of State institutions.

Service quality and inclusiveness imply interventions designed to take the beneficiaries characteristics and needs into consideration, since a homogeneous supply in heterogeneous situations will only perpetuate the original differences that run counter to the principle of equity.

Interrelationship between short- and long-term goals of employment-related emergency programs should be considered. These programs should harmonize short-term job creation with the development of long-term productive capacities.

Coordination should not be limited to health and education services. It is also important to build bridges between these areas and other spheres of government activity, and particularly with public policies on infrastructure, housing, drinking water, sanitation and transport.

Productivity and employability

Success depends not only on human capital accumulation, but also on employment opportunities once beneficiaries leave the program. Such expansion of productive opportunities for the poor is not guaranteed. Consequently, efforts to upgrade education, health services and nutritional levels through social programs need to be complemented with production policies that elicit a greater supply of decent jobs; and strengthen productive development.

Microenterprises and small businesses are an important complement to poverty reduction strategies, especially since roughly two thirds of all new jobs created in the region in the 1990s were in the informal sector. Their modernization raises systemic productivity of the economy and strengthens the production base that underpins the well-being of low-income groups.

Such process includes provision of financing for their business activities, access to relevant information on their production processes, and incentives to formalize their activities; they should also combine horizontal and selective policies. The former improves access to information, credit, technology and marketing systems; simplify rules and procedures; reduce the tax burden; and, especially in the rural sector, regularize land titles among small-scale producers. The later establishes small-business associations, and strengthen networks between large firms and their SME suppliers or customers.

Production policies need to be backed up by macroeconomic policies to speed and stabilize growth and by an increased awareness that informality is not overcome in the short run. Formalization of the economy requires sustained growth and active policies to promote employment and productive modernization.

Role of global or regional factors or social policy initiatives

Social rights are increasingly invoked as a guiding principle for social policy. They open the way to the incorporation of the principle of universality in the provision of social assistance and welfare services. The Universal Declaration of Human Rights adopted by the United Nations in 1948 established three types of rights which all form part of an indivisible whole.

- Civil rights refer to individual liberties and freedom from state coercion, and include: freedom of opinion and expression; freedom of peaceful assembly and association; freedom of thought, conscience and religion; own property; and justice.
- Political rights include taking part in the government, directly or through freely chosen representatives, and equal access to public service.
- Economic, social and cultural rights (ESCR), include work, free choice of employment, social security, just and favorable remuneration, rest and leisure, a standard of living adequate for health and well-being, shelter and participation in the cultural life of their community.

A rights-based social covenant or contract cannot be applied across the board to all countries in all circumstances. Although the rights themselves are universal, the standard of implementation that is judged to be adequate is determined by historical factors. Social contracts must therefore: (i) adjust to rising or falling levels of resources and to increases in the thresholds that must be crossed in order to lift people out of poverty, mitigate vulnerability and reinforce social inclusion; (ii) recognize that the principles of solidarity, universality and equivalence must be in balance in order to permit the use of a proper mix of incentives; and (iii) build and legitimize such balance by reaching an agreement on the optimum combination of incentives to encourage individual contributions and transfer mechanisms to serve the interests of solidarity and universality. Thus, a covenant must seek to reflect a consensus regarding the following elements:

- A minimum realistic threshold of social protection to which all members of society are to have access simply by virtue of their citizenship (e.g. ILO SPF).

- This basic minimum is to be increased, together with the sequencing and progressiveness of the steps taken to do so by considering a feasible level of resource redistribution, and expanding the supply of available resources through economic growth. (e.g.- ILO SS Staircase).
- Tangible manifestations of solidarity, having an institutional structure with sufficient authority and legitimacy (from the standpoint of both the state and society) to implement the relevant social policies.
- State-enforced regulatory procedures to guarantee the effective use of these solidarity-based mechanisms.
- A progressive social expenditure and taxation system that clearly defines the intended use of any increases in spending or taxes, directed towards social investments that will clearly benefit the most vulnerable groups.
- Agreed standards in relation to the social impact of funding increases. The job of upholding these standards should be assumed by the State as one of its obligations under the social covenant.

A social covenant that sets acceptable standards for all citizens will invariably be situated between the extremes of individual equity and social equity (i.e., between a direct correlation of contributions to benefits, on the one hand, and the social optimization of the benefits financed by total contributions, on the other). It is an equation in which social rights are the normative horizon, while existing inequalities and budgetary restrictions are the limiting factors to be dealt with. The ethical imperatives that underpin a social rights-based covenant must be reconciled with the financial constraints generated by the dynamics of the economy. A task that is unique for each individual country.