THE QUEST FOR A NEW WELFARE SAFETY NET IN LATIN AMERICA

EM BUSCA DE UMA NOVA REDE DE SEGURIDADE SOCIAL PARA A AMÉRICA LATINA

Clemente Ruiz Durán(*)

Universidad Nacional Autónoma de México, México (DF), México.

* Doctor, Professor and researcher at the Facultad de Economía of Universidad Nacional Autónoma de México (UNAM).
E-mail: <ruizdc@me.com>. Received in 01.10.2013, approved in 05.12.2013.

Resumo: Em duas décadas, um processo de democratização ocorre na América Latina que estabeleceu novas políticas que têm contribuído para reduzir a desigualdade e a pobreza. Em uma primeira etapa, se estabeleceram programas de transferências condicionadas e, em uma segunda etapa, se estabeleceram ajustes nas políticas; de adesão dos trabalhadores. Com efeito, não foram todos os países que seguiram estas políticas, para diferenciar tais efeitos, este trabalho faz uma análise contrafactual que contribui para determinar as formas como aconteceram as modificações dos sistemas de bem-estar social do Brasil, Argentina, Chile, Colômbia e México.

Palavras Chaves: Redução da pobreza; Programas de transferência de renda; Previdência Social.

Abstract: In two decades, a process of democratization occurred in Latin America, leading to new public policies that have helped reduce inequality and poverty. Government programs had been set up for that purpose, in a first stage through conditional cash transfer programs, and in a second stage through income policies to wage adjustment. Not all the countries followed these policies, therefore, the paper explores in a counterfactual analysis, the trends that have emerged from these reforms and how they have reshaped the welfare systems of Brazil, Argentina, Chile, Colombia and Mexico.

Key words: Reduction in poverty; Cash transfer Programs; Social Security.
1. POVERTY AND INEQUALITY REDUCTION

At the turn of the 21st century, Latin American societies strengthened their democracies and set up public policies within a variety of citizen agreements that pushed for new institutional arrangements to reduce inequality and poverty and improved living conditions in the region. Augmented citizen participation in the region allowed voter turnout to reach a high participation (see table 1), similar to that observed in democratic societies of developed countries. In the reform of the welfare state, countries’ experiences depend not only on their economics, institutions, and policy responses but also on politics, that is, on governments’ ability to gain agreement for reform through discourse, understood as both a set of ideas and an interactive process (SCHMIDT 2002).

<table>
<thead>
<tr>
<th>Table 1. Latin America: poverty reduction effort</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Highest level of population below poverty line</strong></td>
</tr>
<tr>
<td><strong>Argentina</strong></td>
</tr>
<tr>
<td><strong>Brazil</strong></td>
</tr>
<tr>
<td><strong>Chile</strong></td>
</tr>
<tr>
<td><strong>Colombia</strong></td>
</tr>
<tr>
<td><strong>Mexico</strong></td>
</tr>
</tbody>
</table>

Source: Own estimates based on ECLAC, Social Panorama of Latin America 2012.

As political discourse in Latin America became more acquainted with inequality, new public policies were enacted to reduce poverty and inequality; the results observed are positive. According to the Economic Commission for Latin American and the Caribbean’s (ECLAC) there was a dramatic reduction in poverty: Argentina from 45 to 4 percent of its population\(^{(1)}\), Brazil more than halved its poverty indicator from 1990 to 2012, Chile reduced it to one third, Colombia by 40 percent, and Mexico by 30 percent (see graph 1). Inequality as measured by Gini coefficient also dropped in the last twenty years: in Brazil from 0.627 in 1990 to 0.557 in 2011; in Chile from 0.552 in 1994 to 0.516 in 2011; in Colombia from 0.601 in 1994 to 0.547 in 2011; and in Mexico from 0.542 in 2000 to 0.481 in 2010.

\(^{(1)}\) Argentina data refers to urban areas only.
Although data varies among sources, downward trend is shown in all cases. Different studies agree on the trend, however they differ on the origin of the process. Otaviano Canuto, Vice President of Poverty Reduction and Economic Management at the World Bank in a conference in 2012(2), argued that the region was able to reduce poverty and inequality simultaneously, due to a stronger labor market that increased employment and raised wages for unskilled workers, especially those in the lowest deciles of the income distribution; also, the demographic shifts have allowed for greater female labor market participation in the region, growing from 35 percent in the 1980s to more than 55 percent today; these changes were accompanied by a progressive fiscal policy especially in the form of redistributive transfer programs — such as Oportunidades, Bolsa Familia, and the like — have greatly improved the opportunities of the poor. And last, governments in the region have taken a more pro-union stance, which has raised minimum wages and increased pensions.

A similar stance is argued by Lustig, Lopez Calva and Ortiz Juarez (2012); they suggest two main phenomena underlie this trend: “a fall in the premium to skilled labor and more progressive government transfers”, where “the fall in the premium to skills resulted from a combination of supply, demand, and institutional factors”.

(2) “How Committed are Latin American Governments to equity?” Conference by Otaviano Canuto, Inter-American Development Bank, June 2012.
This paper argues that the large push to reduce inequality came from income policy that helped to develop a larger middle class in the region, as has been recently debated by Ferreira et al. (2013). Differences in outcome were related to a complex process of redesigning the Welfare States among the region. Most of the countries established conditional cash transfer (CCT) programs, readapted public care on health and education modifying institutional arrangements and some were able to set up income policies to foster equality. Policy mix for reducing poverty was based on three pillars: the CCT Programs, Income Policies and Social Security Reforms. This paper explores what changes were more effective in bringing down poverty and inequality in Latin America, and how they helped to redefine welfare standards in the region. The emergence of conditional cash transfer programs: bringing relief to the lowest incomes in the region.

Debt crisis in the eighties led to a reduction of government expenditure in Latin America, deteriorating the population standards of living and increasing their poverty levels. After a long period of distress, governments among the region agreed with International Organizations and debtors for a systematic reduction of State intervention and the establishment of stabilization policies. As a consequence, social unrest intensified and unions and political organizations claimed for a new social policy. Governments’ response was the adoption in the 1990s of CCT programs as the main instrument of their poverty reduction strategies. As mentioned by Bastagli (2009), CCT have three components in common: a cash transfer, a targeting mechanism and conditionality. In sum, CCT pay a transfer to the poor following a pre-specified course of action. Even though all CCTs share the objective of reducing poverty, there are differences in the emphasis placed on how this objective is to be achieved (Table 2).

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>CCT NAME</th>
<th>START YEAR</th>
<th>COVERAGE</th>
<th>TARGET POPULATION</th>
<th>COST AND FUNDING</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Plan de Familias</td>
<td>2006</td>
<td>450,000 families. Poor families with at least 2 children under 19, and/or disabled; must not have completed secondary school. 156 pesos per family.</td>
<td>Aims to reduce intergenerational transmission of poverty by expanding and consolidating a program of subsidies for poor, children and those seeking formal employment. Conditional upon compliance with health and education requirements</td>
<td>0.6% of GDP (2010)</td>
</tr>
</tbody>
</table>
### Conclusion

#### TABLE 2. LATIN AMERICA: CONDITIONAL CASH TRANSFERS, START YEAR, COVERAGE, TARGET POPULATION AND COST

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>CCT NAME</th>
<th>START YEAR</th>
<th>COVERAGE</th>
<th>TARGET POPULATION</th>
<th>COST AND FUNDING</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BRAZIL</strong></td>
<td>Bolsa Familia</td>
<td>2003 (previous national CCTs included Bolsa Escola 2001)</td>
<td>11.2 millions households (2006) 24% of total population</td>
<td>Two target groups: all extreme poor (defined as anyone with a declared per capita monthly income below 1/4 the minimum wage), all poor households (with a per capita monthly income below 1/2 the minimum wage) with children aged 0-15 years (up to three) or pregnant woman; in all municipalities</td>
<td>0.4% of GDP (2007)</td>
</tr>
<tr>
<td><strong>CHILE</strong></td>
<td>Chile Solidario - Programa puente</td>
<td>2002</td>
<td>225,000 households (target group covered between 2002 and 2005)</td>
<td>Cash transfer to poor households with children conditional on school attendance and use of primary health centers. Aims to reduce poverty raise school enrolments and provide a safety net. Part of the Red de Apoyo Social (RAS)</td>
<td>0.1% of GDP (2005)</td>
</tr>
<tr>
<td><strong>COLOMBIA</strong></td>
<td>Familias en Accion (FA)</td>
<td>2001 - 2002</td>
<td>515,000 households (2005), 5% of total population. 762 municipalities (out of 1,060). Targets 20% of the poorest households in towns with fewer than 100,000 people, adequate education and health structures.</td>
<td>Extreme poor households with children (0 to 17 years old) in selected municipalities with adequate infrastructure and fewer than 100,000 inhabitants</td>
<td>0.1% of GDP (2005)</td>
</tr>
<tr>
<td><strong>MEXICO</strong></td>
<td>Progresa/ Oportunidades/ Cruzada Nacional contra el Hambre</td>
<td>1997/ 2002/ 2013</td>
<td>5.8 millions households, geographic targeting and proxy means test per family for consumption and for education.</td>
<td>Support to families in extreme poverty to develop their potential and expand their options, hence leading to better levels of well being, through improved education, health and food intake. Conditional upon school attendance and health check ups</td>
<td>0.4% of GDP (2013)</td>
</tr>
</tbody>
</table>

*Source: Bastagli Francesca (2009); Desai Raj (2007).*
The recent expansion of CCT programs provides a promising approach for enhancing the distributive power of public spending in developing economies. These programs target income transfers at poor households and condition the continued receipt of the transfer on households investing in the education and health of family members. Such programs have been adopted in many developing economies, including some low-income African economies, albeit on a smaller scale (FISZBEIN and SHADY, 2009; GARCIA and MOORE, 2012). In Latin America, 17 economies are currently operating CCT programs, with program expenditures typically falling below one percent of GDP. It has been estimated that the largest programs, in Brazil and in Mexico, have reduced the Gini for disposable income by 2.7 percentage points, accounting for about a fifth of the decrease in the Gini coefficient between the mid-1990s and the mid-2000s (SOARES and others, 2007). However, these programs are most cost-effective when targeted at the poorest households, which tend to be most disadvantaged in terms of human capital, so expansions need to be carefully designed in order to generate human capital impacts and avoid labor supply disincentives.

In some countries, the prevailing principle underlying the introduction of CCTs is universalism, understood as the objective of covering those excluded from existing policies, establishing minimum common procedures and benefit levels nationally. This is the case of Brazil’s Bolsa família, launched in 2003 to guarantee a minimum income to the extremely poor and to promote national standards and procedures within a selective measure. The Brazilian reform took four existing national CCT programs focused on low-income people, consolidating them into a single national transfer, including an increase in the average benefit payment, and introducing an unconditional transfer component that was paid to anyone with an income below the extreme poverty threshold, regardless of their family composition or any other characteristics.

In other countries, CCTs were launched to assist the very poor, who were falling through an existing safety net, with the aim of integrating them into a national social protection system. An example of this is Chile’s Programa Puente-Chile Solidario (Programa Puente means “bridge program”), which provides beneficiaries with a variety of personalized services designed to assist them in overcoming poverty traps. The program’s emphasis on the establishment of adequate incentives to modify beneficiary behavior arises from the prevailing perception in Chile that the incentives generated by pre-existing social transfers are largely responsible for the persistence of extreme poverty (COHEN and VILLATORIO, 2006).

Other CCTs among the region were originally introduced as compensatory measures, targeting the poorest, who were adversely affected by periods of adjustment, as happened in Colombia and Honduras. Colombia’s Familias en Acción was initially designed as an emergency response to one of the country’s worst recessions (1996-1999), and was introduced as part of the Red de Apoyo Social (RAS) component of Plan Colombia. Familias en Acción has been transformed into a long-term component of Colombia’s system, although its design parameters — the emergency transitional approach, the choice of target population and target areas — still largely reflect the original motivations underlying its introduction.

The main stated goal of CCTs might also be to promote human capital accumulation among the poor, who are at high risk of being excluded from access to basic services in education and health. This approach was reflected in Mexico’s Programa de Educación,
Salud y Alimentación (PROGRESA), introduced in 1997. Now known as Oportunidades, this CCT aims to improve health, nutrition and education among the poor, particularly children and their mothers. From the outset, PROGRESA transfers were designed to reach families that were unable to meet their basic needs. Its introduction was accompanied by a considerable reorganization of Mexico’s social policy, as generalized food subsidies were gradually phased out and administrative reforms were instituted to improve integration among government programs (LEVY and RODRIGUEZ, 2004). As a complement to this strategy, in 2013 Mexican Federal Government launched its National Crusade Against Hunger, which attempts to generate health and nutrition support for the 400 poorest municipalities, that are located mostly in Puebla, Guerrero, Chiapas, Oaxaca and Chihuahua.

2. A SECOND STAGE PROGRAM: ADJUSTING INCOME POLICIES IN LATIN AMERICA

Stabilization policies of the eighties led to the disappearance of income policies in the region, reducing the share of wage income, which, in turn, led to a deterioration of income distribution and a systematic increase of poverty, a trend that continued up to the 21st century. At the turn of the century, democracies in Latin America were strengthened, through new waves of citizenship participation that led to a renewal in the party structures. In Argentina, after a long period of instability, Nestor Kichner was able to complete his constitutional mandate, followed by Cristina Fernandez. In Brazil, a renewal of the political forces under the New Republic brought in Social Democracy Party (Partido da Social Democacia Brasileira) with Fernando Henrique Cardoso, followed by the Workers Party (Partido dos Trabalhadores) with Luis Inacio Lula da Silva and later with Dilma Rousseff. After the dictatorship in Chile, a renewal for a new type of government brought in Socialists Ricardo Lagos and Michelle Bachelet, followed by the rightist Sebastian Piñera, with a reelection of Bachelet in December 2013. In Colombia there was a resurgence of democracy with Andrés Pastrana, Alvaro Uribe and Juan Manuel Santos. In Mexico, a transition towards democracy allowed the center-right party Partido Acción Nacional to win elections in 2000 with Vicente Fox and in 2006 with Felipe Calderón; by 2012 Enrique Peña Nieto of the Institutional Revolutionary Party (Partido Revolucionario Institucional) won the elections. All of them introduced a renewed discussion of democracy into their countries; coexisting with democratic regimes more to the left in South America, i.e. Evo Morales in Bolivia, Hugo Chávez/Nicolas Maduro in Venezuela, Rafael Vicente Correa in Ecuador, Fernando Lugo in Paraguay, Ollanta Umala in Peru and José Mujica in Uruguay.

Democracy brought in a more complex process of decision-making, and one key area was the response to the drop of wage income. South American countries decided to use minimum wage as a tool of public policy to recover wage income, with the enactment of this policy, Argentina raised wage income from 31.6 percent of GDP in 2005, to 41.5 in 2010; Brazil’s wage income rose from its lowest point in 2001 with 30.8 percent to 34 percent in 2009; and Chile from a low of 40.9 in 1995, to 44 percent in 2010; the exception was Mexico, with an orthodox view of stabilization policies, resulting in an income share fall from 38 percent in the eighties to 25 percent in 2011, as shown in Graph 2.
Wage income behavior was determined by two main factors: a minimum wage policy and the commitment to reduce informal labor. The first one was a critical factor in determining the wage share of total income of the selected group for analysis. Argentina and Brazil were the leading economies to review the minimum wage; in the period 2003 to 2011 Argentina raised the minimum wage by 170.3 percent, Brazil by 48.3, Chile by 19.8 percent and Colombia by 9.4 percent. Mexico was the exception, where there was a cumulative decrease of 5.3 percent in the period.

Trends in wage earnings were key for reducing inequality and poverty, as explained by BARROS et al. (2000, 2005 and 2007) whose results show through contra factual simulations that Brazil increase of minimum wage reduced inequality; FIRPO and REIS (2006, 2007) reinforce this analysis and explain how minimum wage was key for inequality reduction in the high inflation period. Minimum wage policy helped the revamp of income policies in the region, allowing for a restructuring of income distribution. The paradox is Mexico, where orthodox policies avoided the emergence of a dynamic income policy, but inequality decreased. A hypothesis that could explain such behavior is the continuous growth of employment, and the upgrading of the labor force through training in the country as a result of the North American Free Trade Agreement (NAFTA).

In all cases, inequality reduction was linked to a restructuring of income distribution, comparing the period 1990 to 2011: middle-income groups (deciles IV to VIII) raised their income share in Argentina, Brazil, Chile and Mexico, but not in Colombia, where their share remained almost static. This rise of middle classes in Latin America shows a dynamic that has helped broaden domestic markets as a source of growth, mainly in South American economies.
The Quest for a New Welfare Safety Net in Latin America

Table 3. Latin America: health and pensions of urban population

<table>
<thead>
<tr>
<th>Country</th>
<th>Health Coverage</th>
<th>Wage earners</th>
<th>Non wage earners</th>
<th>Domestic Labor</th>
<th>Pension coverage</th>
<th>Wage earners</th>
<th>Non wage earners</th>
<th>Domestic Labor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>73.4</td>
<td>85.9</td>
<td>60</td>
<td>49.7</td>
<td>53</td>
<td>78.1</td>
<td>0</td>
<td>19.7</td>
</tr>
<tr>
<td>Brazil</td>
<td>65.4</td>
<td>82.3</td>
<td>88.9</td>
<td>37.9</td>
<td>68.8</td>
<td>83.2</td>
<td>42.3</td>
<td>43.7</td>
</tr>
<tr>
<td>Colombia</td>
<td>48.1</td>
<td>75.4</td>
<td>27</td>
<td>29.1</td>
<td>37.9</td>
<td>68.1</td>
<td>13.5</td>
<td>14.3</td>
</tr>
<tr>
<td>Chile</td>
<td>95.5</td>
<td>97.4</td>
<td>90.8</td>
<td>97.1</td>
<td>69.9</td>
<td>86</td>
<td>23.4</td>
<td>49.8</td>
</tr>
<tr>
<td>Mexico</td>
<td>47.6</td>
<td>68.5</td>
<td>0.3</td>
<td>6.7</td>
<td>42.2</td>
<td>60.7</td>
<td>1</td>
<td>1.7</td>
</tr>
</tbody>
</table>

Source: ILO, Labour Overview 2012, pages 97-104

3. THE DILEMMA OF THE QUALITY OF EMPLOYMENT: INFORMALITY AND SOCIAL SECURITY PARADOX IN LATIN AMERICA

Although there has been a poverty and inequality reduction, one of the main problems for further improvement in welfare is the prevalence of a large informal sector in the region. The largest is located in Colombia with 59.6 percent of non-agricultural employment, followed by Mexico with 54.2 percent, Argentina with 46.7 percent, Brazil with 42.1 percent, and Chile with 30.7 percent (see graph 3). There are two main facts that explain the informal sector: the first is a lack of a constituency that compels business and government agencies to enroll all their employees on Social Security, and the second is the low creation of employment in the formal sector, that push young people to accept jobs in the informal economy, where they could spend their entire lives without becoming part of the formal sector.
For almost a decade, the debate on social security in the region has revolved around the diversification of risks, macroeconomic effects of the systems, and private sector participation in their management. Now, however, policy makers are starting to focus on the issue of coverage. This “back to basics” approach may be related to a slow but steady accumulation of indicators showing that the reforms of the 1990s had little or no effect on worker participation in formal social security systems, and that the number of elderly without income will steadily grow in the future, both in countries that advanced on reform processes and those that did not. But one main issue is that informality clearly shows that Latin America has serious problems in meeting the basic objectives of their social security systems. Only three of the seventeen countries of the region (Uruguay, Costa Rica and Chile) offer effective protection to more than two-thirds of their elderly population, while ten countries protect less than one-fourth of that population.
### Table 4. Welfare Safety Net in Latin America

<table>
<thead>
<tr>
<th>Country</th>
<th>Highest level of population below poverty line (HLPBP)</th>
<th>Year</th>
<th>Latest level of population below poverty line (2011)</th>
<th>Real Minimum Wage in the year of the HLPBP</th>
<th>Real Minimum Wage 2011</th>
<th>Variation in real minimum wage</th>
<th>CCT as percentage of GDP</th>
<th>Beneficiaries CCT as percentage of population</th>
<th>Health Coverage Year</th>
<th>Health Coverage 2011</th>
<th>Variatio</th>
<th>Pension Coverage Year</th>
<th>Pension Coverage 2011</th>
<th>Variation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>45,4</td>
<td>2002</td>
<td>5,7</td>
<td>39,7</td>
<td>348,2</td>
<td>2,2</td>
<td>5,36</td>
<td>67,8</td>
<td>2007</td>
<td>73,4</td>
<td>5,6</td>
<td>2007</td>
<td>53</td>
<td>3,9</td>
</tr>
<tr>
<td>Brazil</td>
<td>48,0</td>
<td>1990</td>
<td>20,9</td>
<td>27,1</td>
<td>146,7</td>
<td>0,4</td>
<td>27,02</td>
<td>53,4</td>
<td>2001</td>
<td>65,4</td>
<td>12,0</td>
<td>2001</td>
<td>68,8</td>
<td>10,9</td>
</tr>
<tr>
<td>Chile</td>
<td>38,6</td>
<td>1990</td>
<td>11,0</td>
<td>27,6</td>
<td>125,0</td>
<td>0,1</td>
<td>6,2</td>
<td>88,5</td>
<td>2000</td>
<td>95,5</td>
<td>7,0</td>
<td>2000</td>
<td>69,9</td>
<td>3,2</td>
</tr>
<tr>
<td>Colombia</td>
<td>56,1</td>
<td>1991</td>
<td>34,0</td>
<td>22,1</td>
<td>12,4</td>
<td>0,1</td>
<td>17,72</td>
<td>47,4</td>
<td>2000</td>
<td>48,1</td>
<td>0,7</td>
<td>2000</td>
<td>37,9</td>
<td>3,1</td>
</tr>
<tr>
<td>Mexico</td>
<td>47,7</td>
<td>1989</td>
<td>36,3</td>
<td>11,4</td>
<td>40,4</td>
<td>0,4</td>
<td>21,72</td>
<td>48,9</td>
<td>2000</td>
<td>47,6</td>
<td>-1,3</td>
<td>2000</td>
<td>42,2</td>
<td>-2,7</td>
</tr>
</tbody>
</table>

The root of the problem lies in the active stage of the system, since the high rate of informality results in limited access to social security benefits for the elderly. Few countries have implemented non-contributive schemes that recognize this reality and attempt to offer protection to the elderly through other means. Among these, the case of Brazil is remarkable, as it used a contributory but highly flexible scheme. Alternatively, Bolivia has developed non-contributive programs of a significant magnitude.

Of course, developing any noncontributory or highly subsidized scheme requires a careful analysis to ensure its financial sustainability. The data indicates that coverage problems transcend the debate on public versus private management of the systems. Eight of the countries in the region have reformed their social security systems introducing funded schemes with individual accounts and private management, while the rest still rely on pay-as-you-go schemes managed by the government.

The low coverage, with inequities by income level, sector of the economy, and area of residence, recur in almost all the countries, indicating the existence of structural problems in the labor markets and in the design of the social security systems, which ought to be revised. Countries still need to tackle the very low coverage of contributory social insurance, which recent reforms have not resolved. The main difficulty is that the region’s mandatory systems for providing pensions, health insurance, and unemployment benefits are not apt to cover workers in the informal sector. More than half of the region’s workforce is employed in the informal sector and is not covered by social security.

The challenge for Latin America is to progressively reduce informal sector, or to introduce a universal system of health and pensions. Nowadays, half the region’s workers are excluded from basic rights to social security. Opening up pensions, unemployment and health insurance to include informal workers will be critical to boosting job quality and economic growth and to protect workers against future shocks.

The combined effects of the policies and the future of Welfare State in LA Policies that have been addressed in the paper can be recognized as a heterogeneous policy mix that has had differential effects on poverty and inequality reduction. There is no integrated approach, as could be expected, although policies had a positive effect on poverty and inequality reduction in mid the global crisis of 2008-2009. They have proved that Latin America framework for facing poverty are working within a large spectrum, where some countries strength has been shown, as they have been able to built up a social protection floor, but still with many voids within the structure that prevents universal coverage.

Some key points should be mentioned about the varieties of policies:

- CCT have been limited but have brought millions of poor families within the social protection framework for the first time and have strengthened anti-poverty safety nets. Nonetheless, there is scope to focus more on promoting human capital development and links to better quality jobs. As mentioned by Brazil’s Social Security Minister — Carlos Eduardo Gabas — during his remarks at the Second Rio de Janeiro Conference on Human Development “alternative social policies are capable of reducing poverty in
Latin America and the Caribbean, (particularly) in Brazil, strong investment in social programs has led the country through the global financial crisis in a less turbulent manner. However, still a lot of work remains ahead of us in order to expand our social security programs”.

- Social insurance systems in most countries are fragmented, meaning that parallel programs offer different benefits to various segments of the labor force, even when they make similar contributions. Pensions, unemployment benefits, and health insurance systems are running deficits in many countries, which must be financed from general taxes on current and future generations.

- One key factor that has to be addressed by economic and social policy is informality, as it has risen in recent decades. Many workers move in and out of the formal sector (and the social security system) multiple times throughout their working lives. In Argentina, Chile, and Uruguay, for instance, the average worker spends only half of their working life contributing to social security. Informality has to be linked to industrial policy; social policy has no tools to face it effectively.

- Informality and social security have to be addressed in a joint form. If they remain to be each one in a different path, a welfare system in Latin America would preserve its fragility and will lack strength to develop an income floor for societies. The aim would be to have a universal social security system, rather than one based on contributions. To reduce informality, the region has to strengthen active labor market policies (ALMPs), improve the relevance of training programs, and increase the efficiency of the job seekers and matching process.

- Income Policy has shown its strength in reducing poverty and inequality. The key factor has been the increase of minimum wage in four of the five countries analyzed. Its steady increase has shown to be effective in reducing poverty levels. It has to be acknowledged that in a first stage, minimum wage policy could be key for redistributing income, but in successive periods income policies require to be more complex and have to be linked to productivity levels, so they could be effective and permanent.

There is a long way for Latin America before it achieves a Welfare State. Governments approach should be to reduce fragmentation of institutional arrangements, which arises, in part, from the ad hoc development of subsidized programs and leads to differentiated provision and benefit adequacy between insurers and population groups. A unified approach is necessary, where political forces are required to address, in an explicit way, the need to have a real safety net for all population.

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