

# **Towards a universal social protection model in Latin America**

Fernando Filgueira



UNITED NATIONS

**ECLAC**



**NORWEGIAN MINISTRY  
OF FOREIGN AFFAIRS**

# SOCIAL POLICY

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## Introduction

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In the first decade of the twenty-first century, for the second time in its history Latin America tried to build modes of social citizenship,<sup>1</sup> meaning the implementation of policies that guarantee fundamental social services and rights, as well as a material and symbolic “common heritage” (Marshall, 1951). The first experiment occurred during the import substitution period as a response to the crisis of incorporation of the lower strata during the 1920s and even more so during the 1930s. Unlike the current drive, that past effort was for a regulated and segmented social citizenship produced in the image of the socio-political model at its origin: a conservative modernization process in which control prevailed over universalism and the rights of modern social policy (Filgueira, 1998; Santos, 1979). This document is a conceptual discussion on the State’s various modes of social intervention, and develops a proposal on the possibilities of moving towards a Welfare State that guarantees universal access to essential systems of social security and social services.

There has been a longstanding regional and worldwide discussion regarding universal access to welfare through income, goods, services and regulatory protection. This is at the heart of the debate about what we mean by human development. It is also the conceptual focus of the debate on economic, social and cultural rights. However, these discussions and the questions they raise need to be clarified further.

When we analyse the issue of universal access to income, goods, services and regulatory protection, we are really asking at least the following questions:

- (a) Who is entitled to these protections and policies?
- (b) What protection and investment is included in this coverage and access?
- (c) What social spheres are expected to generate this coverage and access?

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<sup>1</sup> Marshall’s classic work (1951) defines social citizenship as the right of all citizens to access the material and symbolic heritage that at one time is considered the minimum needed to live with dignity. For Esping-Andersen (1990), social citizenship is defined by State action to guarantee basic well-being independently of the individual’s family and market status. Lastly, Peter Flora (1986) saw the key of social citizenship as being based on three basic State operations: to guarantee minimum survival, level out social mobility opportunities and correct distributive injustices that were inherent in the capitalist system. The progress of the concepts of economic, social and cultural rights promoted by the United Nations promotes the protection of a social citizenship dimension that is not simply civic or political.

- (d) What level of inequality and equality of access are tolerable in terms of efficiency and equity criteria and the objectives of social cohesion?

As a civilizing normative preference stipulated in international agreements on economic, social and cultural rights, the obvious answer is simple but complex in practical terms: all individuals should access minimum well-being that at a given time forms the basis for human co-existence, dignity and agency; and there should be no initial inequalities that unavoidably segment future opportunities for accessing greater levels of well-being.

The problem with such a definition is that it does not say what are the acceptable minimums, or the initial inequalities to overcome, or how to distribute responsibility and which social spheres are expected to achieve these goals. Are markets the key to achieving this through the efficient allocation of resources? Are States to be the ultimate guarantor of such access through the binding acquisition and allocation of resources? Should families, as the original protection systems, bear this responsibility? Shall the community use social solidarity and communalism based on informal rules to fulfil this key role? There is clearly no one answer, as the four spheres combined will generate risks and insurance, distribute and allocate resources and produce social problems and well-being. It is vital to emphasize that the debate on the role of the State, markets, families and communities in producing and distributing well-being, risk and social investment and protection also covers the debates on targeting versus universalism, or contributive and non-contributive benefit systems and cash transfers.

The document is structured as follows. First, there is a conceptual debate on the State's role in social matters, in terms of social insurance and protection, social promotion and investment, and its distributive and redistributive role. Second, there is a section describing changes and major trends in the region's social investment and protection between the beginning of the twentieth century and the 1980s. Third, there is a section outlining what is being termed "the reform of social reforms" in the twenty-first century, in the light of the challenges of the region's social development. Fourth, we present three recent models of universalism, as well as the debates on their potential and limitations. Lastly, there is a summary of the universalist social protection project emerging in the region, including its enemies and the risks involved should it fail.

## I. Conceptual debate on the welfare State

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Economic growth with increased productivity and decent job creation are the first essential steps towards achieving societies with greater levels of well-being. Key to this are the decisions taken on macroeconomic policies, as well as the State's role in encouraging increased and convergent productivity. The State is what lies between growth and wages, and between the labour market and jobs. Well-being, opportunities and risk protection—and the distribution thereof—are all associated with what is known as the Welfare State. One good definition of the Welfare State, or rather the welfare dimension of States<sup>2</sup> is from Segura-Ubiergo (2012, p. 16): a repertoire of State-led policies aimed at providing all citizens with a minimum level of well-being (protecting them from the risks of unemployment, illness, old age and motherhood) and providing an appropriate accumulation of human capital by investing in health and education. Although this definition tells us much about the purposes of State action and its main instruments, it does not list the basic operating methods of the Welfare State. In other words, it does not *state the essential nature of what it does*. A better definition can therefore be found in the work of Esping-Andersen (1990, 1999, 2009). A flexible interpretation of these works forms the basis for four essential operations of the welfare State:

- (i) Welfare States *decommodify* the population's access to welfare. This is because States provide goods, services and transfers that do not necessarily depend on people's position in the labour market or their purchasing power in the market of goods, insurance and services.
- (ii) States also *defamiliarize* access to welfare. This is because the State provides benefits, services and transfers that do not depend on belonging to a family or the rules of reciprocity and distribution that operate therein.
- (iii) Welfare States *regulate and affect* (through coercive rules, regulations or incentives) some aspects of the behaviour of market agents and family members by using regulation to modify the “natural” principles at work in those spheres.<sup>3</sup>

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<sup>2</sup> It is important to distinguish between the concept of welfare State as a specific historical construct in post-War Europe, from the notion of the welfare State as a series of policies and actions that exist in every country. The latter is the one referred to herein.

<sup>3</sup> For instance, regulation of the labour market and prices, as well as the rights and obligations of family members.



- (iv) The welfare State *redistributes*:<sup>4</sup> by collecting and distributing revenue in the form of goods, services and transfers. The benefits are not precisely matched to the individual contributions, but rather they obey compulsory arrangements based on solidarity, founded on funding sources and eligibility criteria that do not conform to a strict equivalence between contribution and benefit.

This definition of State action has the merit of relating itself to markets and families, as well as to the community sphere. This refers to organized community settings (such as NGOs, churches and so on) and non-organized community (neighbours and friends). In societies where the market is insufficient, as in Latin America, State protection is weak and fragmented and the family overburdened, community social protection becomes increasingly important.

In the twentieth century, the States of many developed and developing countries set up social investment and protection mechanisms for the economically active and dependent population, on the basis that such actions moderated social risk and promoted opportunities for social mobility and the overall efficiency of the economic and social system. Post-War Welfare States were the ultimate expression of these civilizing efforts. These arrangements increasingly became the cornerstones of countries' economic and social systems, often accounting for the bulk of State spending and fulfilling a vital role in price setting (for goods, services and labour). They became key for managing economic cycles, made dramatic changes to primary income distribution and defined human capital investment in those societies.

The basic mechanisms or tools of Welfare States are based around three main sets of public actions: (i) cash transfers; (ii) subsidized access to goods and services or direct provision of education, health and other services; and (iii) regulations of the labour market, the family and the market of goods and services (including insurance systems). A fourth key aspect of State action that goes beyond its social function (while remaining central to it) is its revenue-raising capacity and structure.

It is generally accepted that there are at least three explicit basic functions of the welfare State: (i) to guarantee suitable minimum levels of well-being (by combating poverty); (ii) to improve the distribution of resources among social groups (equality); and (iii) to redistribute resources throughout individuals' lifetimes (for the purposes of insurance and to smooth out income and consumption). Many concrete tools of the Welfare State combine these functions in its architecture.

In modern States, each mechanism and the historical development thereof has faced and does face questions about how efficiently the same results could be achieved by the other three spheres producing welfare and social protection: family, market and community (Polanyi, 1944). Some of the debates of the 19th century can be summarized using the following questions: why is education funded and provided by the State better than that provided by families or the market? Should the State transfer income to families with children? This debate was launched in pre-War United Kingdom, and both Labour and the Conservatives saw it as interference in the labour markets that either reduced the employers' efficiency or subsidized their costs. It was also fiercely debated if it was up to the State to create and manage a retirement system such as the one introduced in Bismarck's Germany. Is health care better provided by private, community and corporative self-help arrangements, or should the State guarantee universal provision or insurance systems? This debate was at the heart of many of the confrontations between Tories, Whigs and Labour in post-War United Kingdom.

The architecture of welfare systems was based on three criteria of eligibility and coverage in relation to social risk: need, belonging (or merit) and citizenship. This was and remains part of an ongoing debate in the region and worldwide. In other words, in order to have the right to transfers, goods, services or regulations, States established that this was sometimes based on individuals' need (and the impossibility of meeting this need in other spheres) and sometimes based on membership of and contribution to social groups or categories (categories of employment or family roles), while at other times citizenship or residency in a given country was deemed sufficient.

<sup>4</sup> Clearly, it is not just the State that redistributes. Families and markets also do so. Redistribution can be progressive or regressive. What distinguishes State redistribution from market and family distribution is its binding nature, in terms of revenue collection and the principles of eligibility of recipients.

Current debates on contributive and non-contributive models of social protection in the region, and on the scope of social benefits in the form of services or the coverage of conditional transfers, hark back to the previous discussion: which eligibility criteria should regulate State responsibility, tax efforts and the population's access to goods, services, transfers and protection. A second discussion is the type and scope of benefits, insurance and transfers that should be provided by the State, and which ones should be subject to market, family or community dynamics.

Strictly speaking, the issue of risk and insurance, or social investment and promotion, comes down to the boundaries between States, markets and families, in terms of who is subject of the actions, the type of risk and social insurance within a given sphere and the quantities to be assigned to each actor. From the State perspective, the mode of intervention or operation is not black and white. The State can produce goods and services, directly influence their distribution, regulate the spheres of production or regulation, or simply fund individuals' purchasing power by modifying original market capacities through income redistribution (Przeworski, 2003).

The reasons for choosing one arrangement of organizing social systems for tackling social risk and promoting social investment have multiple causes and relate to economic, social and political issues. The most relevant ones for our purposes include at least those relating to efficiency, equality, equity, cohesion and social order.

## A. Efficiency

Which is the most efficient provider to protect against risks, distribute welfare and invest in human capacities? From the viewpoint of those that trust the ideal "market" construct as an efficient resource-allocation mechanism, State intervention is only justified on the basis of efficiency<sup>5</sup> when there are market "failures". Typically, the State will be expected to intervene in the following dilemmas or situations: to ensure adequate production of public goods (as by nature these are not produced due to market incentives); to tackle positive or negative externalities that cannot be absorbed by prices given the contractual limits of specifying and identifying such externalities; and to deal with economies of scale, imperfect information systems, asymmetrical powers and the generation of natural monopolies (Barr, 2012; Stiglitz, 1991). In addition, States are expected to intervene in cases of the unpredictability of income, consumption and needs. This is a vital aspect of the need for State involvement in a wide range of insurance systems relating to the life cycle and idiosyncratic or exogenous shocks (Barr, 2012).

These various market problems justify State production, regulation or financing of goods and services. According to this viewpoint, these problems do not impact on the redistribution of monetary income. This is an issue of equity or equality rather than efficiency, except where extreme inequality or windfall receipts and redistribution affect efficient market functioning (minimum capacity for market operations and disincentives to market participation—in other words the appropriation of rents from innovation).

This analytical perspective is useful for guiding the reform of welfare States in the region, but also to explore the associated limits, as it guides State efforts not only from legislative, political, equity and social cohesion perspectives, but also in terms of the impact on aggregate efficiency. This perspective also explores the boundaries between State, market and family, as may be suggested by a naive interpretation of its economic propositions. The definition of what constitutes a public good, the existence of private goods that when consumed do generate public goods or public "bads", the fact that there are few individual consumptions where utilities to the consumer are self contained (externalities), information and power asymmetries in almost all real (rather than abstract) market systems, shortsightedness and the unpredictability of actors' real preferences all confirm that the boundaries of State participation in social investment and protection largely depend on the cut-off points used in these debates. Cut-off points that do not render themselves easily to purely technical criteria, but that involve

<sup>5</sup> The same literature accepts that normative preferences relating to equity can be other forms of justification for State actions, but that these options to increase redistribution have efficiency costs.

normative preferences and political debate. Indeed many boundaries between State, family and market have been and will be political contested issues.

The purely economic perspective contributes little in terms of the role of the family and its efficiency in terms of social investment and protection. Those perspectives associated with Becker's vision (1981) are particularly limited, as they treat exchanged resources allocated to families as comparable to public goods (albeit intrafamily ones), and see the sexual division of labour as an efficient adaptation given the biological characteristics of the sexes and a certain set of cultural constraints (Orloff, 1993). This has been shown to be wrong, as demonstrated by feminist literature, empirical studies on time use and appropriation of family income as well as recent literature on changes to welfare systems (Orloff, 1993; Esping-Andersen, 2009).

Furthermore, a view based on separating efficiency from equality rarely comes up with a valuable analysis of where real inequality overlaps with possible efficiency. As well as seeing the two dimensions as separate, the major problem in this perspective is to consider families as just another "voluntary" mechanism (rarely explored in depth) for producing well-being (Barr, 2012), rather than a central incentive- and power-based mechanism that links with markets and the State to provide one of the main forms of social protection and production of goods and services (Esping-Andersen, 1999).

If the structural position of adult family members in terms of market achievements is a determining factor in children's consumption of material and symbolic goods, and if child consumption below a certain threshold poses aggregate efficiency problems for the future economy, then unequal outcomes and the extent to which the State should moderate such inequality becomes a problem of present (and more specifically intertemporal) efficiency, rather than "just" an issue of distributive preferences. Furthermore, if women's labour-market participation is low and stratified due to the combination of families' material resources and prevailing family arrangements governing the sexual division of unpaid work, the issue of inequality (among classes and sexes) and the State's role in changing this is also a problem of aggregate efficiency, and not just normative preferences or equity.

Besides those relating to social spending and the labour market, the following three factors must be at the heart of any discussion of the role of the State in Latin America and its contribution to the aggregate efficiency of economic systems and the achievement of greater levels of well-being: levels and forms of initial inequality; population dynamics; and family transformations.

## **B. Equality and equity**

Could and should the State actively participate in reducing inequalities? Should it limit itself to tackling unequal opportunities or can it make progress with the inequality of outcomes? What is the trade-off between a State actively combating inequalities and market efficiency? Are there fiscal and economic conditions for a State to be active in this way, or are increased growth and productivity the only option? How can we achieve equality more effectively: with targeted policies, contributive policies or universal policies for access to social benefits and cash transfers? Should the State's role focus on providing equalizing services, the direct levelling of income or a combination of both?

The determining factors of inequality in society have a variety of sources, with the State being just one actor among many. Factors such as the original distribution of assets, labour markets and employment, patterns of family formation and breakdown and mechanisms of residential and social aggregation in communities (segregated or porous and heterogeneous) are considered by many analysts to be as or more important than the State in determining socio-economic inequality. In an immediate sense, this is certainly true.

The prevailing viewpoints on inequality issues —and in many cases the type of data involved— tend to emphasize the State's role as direct redistributor by estimating the magnitude of its involvement based on an original or primary assumption about income from labour markets and asset revenues. This holds that original inequality is defined elsewhere and the tax system and the allocation of public spending enter the stage later redefining the the "original" or primary level of inequality. However, this vision has two significant deficiencies when it comes to explaining the role of the State in equality.

The first is that these perspectives are often static. In other words, they show the net effect of State action on equality or equalization at one point in time. However, allocating spending on cash transfers and access to education, care and health is a dynamic process, as it is not only the net outcome at a moment in time that is changed, but also access to assets and opportunities that will subsequently generate a different “primary” outcome. For instance, the wage gap generated by technological transformation and the resulting premium on skills is moderated or limited if the State guarantees access to those skills on a more egalitarian basis.

Income inequality at a given time is not only moderated by a net transfer of income, but this operates on an intertemporal level if the transfers enable low-income families to be more resilient to external or idiosyncratic shocks. This would be even more relevant if these rises in income lead to the improved socialization of young children. Extending childcare systems to the poorest groups should not only be counted as a cash transfer to recalculate inequality, as it will also impact on the participation and employment rates of low-income women (thereby possibly increasing per capita family income in such groups).

The second problem is that many studies concerned with a snapshot of equalization gloss over the impact of the State as a regulator of actions within the market and families, and the resulting effect on inequality. However, the State does not only operate on “natural” or “original” distributions through the tax system and spending, but also acts on their functioning, thus affecting outcomes —egalitarian or otherwise— in these spheres.

When the State establishes a legal minimum wage, it acts on inequality rather than how much (or the way in which) it collects and spends revenue. The most obvious cases relates precisely to labour market regulations. The State affects and changes how the labour market functions. There are various forms of State regulation of labour markets, and these affect job stability and the appropriation of productivity gains and the evolution of wages: redundancy rules, collective bargaining institutions, labour regulations and so forth.

However, the State does not just affect the labour market. It also regulates and impacts the functioning of at least the following critical arenas: the market of goods and services, families, communities and civil society. The regulation of family obligations, obligations following family breakdown and the regulation of the residential sector and the land and property market have marked effects on inequality. In addition, the setting or regulation of certain prices of goods and services alters the “natural” market prices, thereby enabling many people to access consumption that would not be available to them at market prices.

### **C. Social order and cohesion**

The idea of social cohesion has justifiably being accused of being polysemious, ambiguous and abstract (or not founded on concrete indicators).<sup>6</sup> However, the idea of social cohesion survives for one good reason: it places the issue of cooperative action and the social order at the heart of the debate. Whether these actions take place in markets, the territory or the community, it is essential to have a shared normative template to produce positive social interactions, with individuals able to adapt their actions based on the expectations of how others will act.

In the 2007 ECLAC definition, social cohesion was understood in relational terms: on the one hand, concrete mechanisms and forms of social inclusion and exclusion; on the other, how individuals perceive the operation and assess the results from their perception of social integration and inclusion. Social cohesion is the:

<sup>6</sup> In 2007, ECLAC proposed a series of indicators combining data on objective welfare gaps, institutional mechanisms for social inclusion and subjective perceptions thereof. In 2001, the Laeken European Council carried out an empirical exercise on social cohesion. Strictly speaking, the latter was more about measuring social exclusion.

“Dialectic between established mechanisms of social inclusion or exclusion and citizens’ responses, perceptions and dispositions in relation to the way these operate” (ECLAC, 2007, pg. 13).

The absence of social cohesion occurs when the content of unavoidable interactions lacks appropriate normative frameworks. When different types of individuals and social groups occupy the same territory, some interaction is inevitable. When different groups inhabit a Nation-State, normative systems regulating their interactions are essential. In this sense, social cohesion is a key factor in producing social and political order, in a context of increasing systemic integration.

State and the market (along with territory and civil society) all determine the spaces for interaction. Shared normative frameworks are essential from the most insignificant negotiation (such as who gives way when boarding a bus) to what is deemed relevant in economic policy (such as wage bargaining in an industrial dispute). It is therefore worth mentioning the material bases for interaction and normative systems that regulate these interactions. When these normative systems or basis are transformed, asynchrony, asymmetry, misunderstanding and tension are produced. For balance to be restored, the normative systems or material basis must be changed —or (and this is important) the material basis for interaction will give rise to new normative models. If neither option applies, social cohesion suffers, as does social, economic and political order.

The many bases that make up shared normative frameworks and spaces for identity include those relating to collective risk protection and the collective promotion of well-being. The risks of losing an earner from the family unit, unemployment, illness, academic failure and many others determining individuals’ access to their present and future well-being are not random, and neither is the distribution and intensity of such risks within a country and among various social categories and groups. The ability to access a suitable education that leads to a satisfactory current position and a credible promise of intra- and intergenerational social mobility is not simply due to individual merit or chance either. This is also the result of market, family and State operations. Social protection policies therefore fulfil a fundamental role in producing risk and promoting well-being. The system’s capacity to integrate individuals into a shared normative framework is largely dependent on the extent to which the individuals see their belonging to a joint system of interaction, cooperation, negotiation and conflict as entitling them to —at least partially— enjoy the social opportunities and protection against the various risks and possibilities generated and distributed by the system (Sojo, 2003). In this sense, the level and form of State spending on social affairs is one of the clearest indicators of how and to what extent social risk and opportunities are socialized and collectivized beyond individual merit and chance.

Lastly, we should bear in mind that the dimensions of social order and cohesion are not orthogonal (or dissociated) from the dimensions of efficiency and equality. Transaction costs, distributive coalitions, time frames, predictability, individual actions and market agents’ capacity for coordination are largely dependent on the level of cohesion and order in their respective societies.

## **II. Targeting, contributive models and universalism: promises and limitations**

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The responses that emerge to the previous debates can be used to deduce arguments for the discussion on targeting, contributive models and universalism. This discussion could be said to be debate on tools, in contrast to our previous section that centered on objectives.

The literature on social policy has long agreed that there are three stylized criteria for determining those who have the right to social benefits provided by the State: need, contribution and citizenship. Need is linked to targeted tools, the second relates to contributive models of traditional insurance based on the payroll of formal workers, and citizenship is associated with non-contributive universal models. Welfare States in their various forms almost always combine these different tools. Pension systems can combine targeted criteria (welfare pensions), contributive elements (traditional social security based on insurance or assurance) and universal aspects (basic universal pensions). All three criteria can also be applied to health and education. However, citizenship models tend to dominate in education, with targeted tools within universal models. These various arrangements are also present in transfers to families with children (or family allowances).

In Latin America, although almost all countries have evolved towards a universal education system based on citizenship (at least up to tertiary education), cash transfers, health systems, insurance for income loss and other social services (care and tertiary education) or goods (housing) tend to combine limited contributive arrangements and limited targeted arrangements. In the light of the employment situation, the scale of poverty and inequality is such that much of the population lacks access to basic forms of social protection (and the access enjoyed by the few is the result of stratified and segmented systems).

Since the end of the century, the region has reopened the debate on the role of targeting, contributive models and the possibility of developing models based on universalism or citizenship.

### **A. Targeting**

Much of the literature on social protection credits targeting with efficiently and effectively combating inequality and poverty. In their extreme form, targeted policies have the merit of concentrating scarce resources on the people who really need them. The more targeted the policy, the more effective and

efficient it is in redistributing income and tackling poverty. The principle is simple and uncontroversial. If I allocate fiscal resources to populations with higher incomes than someone else, I am wasting resources on people who do not need additional support (or who need less support) and I lose the ability to help those people who do need it.

On this basis, targeting generally assumes the principle of subsidiarity to the market. In other words, I must allocate resources when the person is or has been unable to access them through the market or insurance based on my participation in the labour market. What is more, the way in which I define who benefits and by how much, must be carefully built so as not to disincentivize people from obtaining these resources and insurance through their own abilities. This extreme view of targeting alerts decision-makers to the scarcity of resources and the problem of incentives, as well as paving the way for direct transfers to the population lacking formal insurance protection. Taken to the extreme, this position does not make sense as the main principle of social protection architecture.

Once these assumptions are accepted, the best targeted policy involves weak social spending, as it is always possible and feasible to argue that an income-transfer system or the provision of free goods and services to a population group is inefficient in redistributive terms, as those people will never have uniform incomes or income-generation capacities. It will always be possible to further restrict the universe to increase redistributive power. Taken to absurd levels, under this model only the poorest family or person should receive any transfers.

Also justifiable is this approach's restriction on benefits and transfers, on the basis of lack of confidence in the State's ability to allocate resources efficiently (as well as the loss of efficiency through individuals disincentivized to join the market). Except in extreme cases where working is completely impossible for biological reasons, transferring resources to people who are able to work may interfere with work incentives. From this point of view, targeting is a minimum operation for extreme cases, rather than a solid mechanism of a welfare State.

Another debate is one where targeting is defended from a broader and more pragmatic perspective. In many cases, targeting has a normative argument, set parameters and appeals to pragmatism: to guarantee a minimum level of subsistence for all the population, by targeting the population below some indicator of basic welfare or the population that lacks other forms of social protection. In these cases, issues of redistributive effectiveness and efficiency do not disappear, but they become subordinate to the wider interest and the real situations experienced by societies and individuals.

In this perspective, targeting is an instrument of compensation for people who do not access other insurance mechanisms. In those cases, targeting will cover all those who for any reason fall below an income threshold and cannot make formal insurance contributions or acquire a good or service considered essential on the market. This retains the idea of subsidiarity, as the resources to be allocated should not reach those who meet the basic threshold through other means. This perspective also defends the idea of improving the distributive impact with limited resources, while also recognizing that there is a normative limit to the recipient population (and therefore a minimum to be guaranteed for the entire population).

One of the main problems with these perspectives (the extreme one and the pragmatic one) relates to an issue of moral risk and efficiency. Defining eligibility criteria based on a parameter of family or individual status (income, Unsatisfied Basic Needs, unemployment, number of children, lone-parent and so on) may discourage people from overcoming their situation or encourage them to acquire that status (as this would involve losing or accessing the benefit).

Another problem pointed out by critics of targeting is its effect in terms of destroying or segmenting potentially broader distributive coalitions. This happens because the eligibility criteria generally do not apply to the middle class (and often not to formal workers). The criteria therefore pit groups against each other and create social segregation that affects national social cohesion, as well as the political sustainability and quality of models targeting the poor (Huber and Stephens, 2001; Huber and Stephens, 2004).

According to the critics, what is suggested by comparative evidence is even more significant: countries that make greater use of targeted programmes have the lowest level of fiscal efforts on social

matters and the highest levels of poverty (Esping-Andersen, 1990, 1999; Huber, 2002).<sup>7</sup> In other words, although targeting is more redistributive in static terms per unit of money, as an intertemporal measure and by aggregate redistributive effect other models of progressive taxation and universal or contribution-based models are more redistributive in general (Korpi and Palme, 1988). Thus targeting can produce what seem like paradoxical effects: increasing the redistributive impact of a given instrument at one point in time, while reducing the scope or fiscal sustainability of such efforts and threatening social cohesion (Huber and Stephens, 2004).

One interesting discussion on targeting is the constructive dialogue on the variety of targeting arrangements and the extent to which these stray from the principle of universality (Skocpol, 1991; Tobar, 2000). There are many ways of concentrating resources on the poorest and most vulnerable. Although all of these can be called targeting, some tools prevent ineligible people from accessing benefits, while others generate or devise ways of concentrating resources on the target population without explicitly giving it solely to them. Drawing two axes, one for the distance from universality (as a principle) and another for the unit being targeted, there is a range of tools with various scopes and risks. The key is distinguishing the technical operation of targeting resources, from the tools with eligibility criteria that exclude some groups from benefits. There are many ways of achieving the former without straying from universalism. It is not possible to combine the latter with universal benefits.

The purest arrangement is an individual targeting system based on income to tackle extreme poverty. Such a model is the one that is furthest removed from universality and has the most risks to economic policy (administrative costs, disincentives and moral risk). However, a policy to provide a free set of medication in low-income areas will often target real access without renouncing legal universality (Tobar, 2000). In that case, targeting takes the form of a location, rather than barriers to legal access. The second example is closer to the idea of universal rights. Everyone has the right to receive a basic kit of medication, but the obligation to travel to outlying areas generates a de facto targeting of the population (without preventing a middle-income citizen from accessing the same benefit). In addition, increasing certain human resources in disadvantaged socio-educational settings of the same type of school (through school selection incentives such as additional pay for highly rated teachers) targets resources without stigmatizing beneficiaries.

Furthermore, selecting a combination of demographic criteria and attributes present in all the population but overrepresented among the poor (such as families with children aged 0 to 5 or all mothers in lone-parent households) still fulfils a targeting function, but one that is introduced as a universal right to a given category of population. Lastly, targeting the construction of basic infrastructure (such as schools, clinics, sewage systems and waste disposal) in areas with a high proportion of poor people tends to be a targeted policy for achieving universality (as the services and infrastructure already exist in other areas), rather than a targeted policy *per se*.

The experience in Latin America has clearly shown that, as a guide for the tools used, targeting has much to offer in terms of increasing the number and visibility of social benefit systems in low-income groups (either in the form of transfers or services). However, these tools must be considered dynamically and not statically, as well as in the broader context of other social and economic policies in which they emerge. A policy can begin in a targeted way, having always been presented as having a universal vocation (such as full-time schooling, child benefits and so on). It is also vital to see the targeting debate as part of a wider discussion on contributive systems. These are the main arrangement in mature systems, and not always with progressive features.

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<sup>7</sup> According to the OECD social database, Nordic countries (which are more universalist) spend an average of about 26% of GDP on social expenditure (although Norway and Iceland spend around 20%), United States is below 20%, Australia 19% and New Zealand spends 21.8%. Continental European countries like France, Germany, Italy and Spain spend around 26-27% of GDP on social issues. See (online) <http://www.oecd-ilibrary.org/docserver/download/3012021ec088.pdf>.



## B. Contributive mechanisms

Social protection systems for health, old age, disability and death (or survival benefits for spouse and children), as well as the scarce unemployment insurance protection systems, are mainly systems that insure against external or local shocks. These models of insurance in the region were largely built on contributive mechanisms, generally managed by the State, with the possibility of delegating that management to private agents.

The difference between these mechanisms and a purely private insurance system is that, in the former, the State obliges participants (namely formal workers and business owners) to contribute to the insurance, regulates and/or manages the systems and often makes payments in the form of subsidies or contributions.

From an efficiency point of view, these systems tend to be based on the argument that market failures require State involvement in social insurance. Strictly speaking, the main question should be the opposite: why not let the market offer insurance products and services and let individual choose one or none of them? There is considerable literature that uses efficiency parameters to establish why it is undesirable to leave insurance in the hands of the market when it comes to retirement, disability, survival, health and unemployment benefits (Barr, 2012; Esping-Andersen, 1999; Stiglitz, 1991). Before outlining the most common arguments therein, it should be stated that this debate is between the market and compulsory State-run contributive mechanisms (rather than between contributive, targeted or universal systems).

The defence of the State's role as funder, regulator and/or direct provider of insurance is mainly based on market failures. The argument is a simple one. In order to allocate resources efficiently, markets need: perfect and symmetrical information from agents; prices that adequately reflect the value of goods or services based on certain production and demand factors; profit functions self-contained in individual consumption (or prices that adequately reflect externalities); and rational actors. These combine with two additional factors that would favour significant State involvement: clear economies of scale and the risk associated with wrong allocations.<sup>8</sup>

Insurance markets in areas such as health do not fulfil any of the above-mentioned requirements. The most blatant example is that of vaccinations and infectious diseases. Allowing the market to define the production and allocation of vaccines has serious problems of externalities, and is a clear reflection of the public good dilemma.<sup>9</sup> Lack of access to vaccinations on the part of some people generates a public problem (risk of infection, survival and viral or bacterial mutation) affecting other individuals. With health insurance for other treatments (for non-infectious diseases), the problems lie in the massive information asymmetry between providers and consumers, scale issues and consumer shortsightedness.

In the area of pension insurance systems, the issues of information, shortsightedness and their intertemporal effects are key to defending substantial State involvement, as the latter makes insurance compulsory, regulates systems or directly produces and manages them.

Should these insurance mechanisms be universal (everyone subject to risk), contributive (for every contributor) or targeted (for the poor or vulnerable or those who cannot access through the market)? Also, what risk and level of coverage should be covered? The debate over efficiency, equality and cohesion are also relevant in this discussion.

State-mandated compulsory contribution systems do not have income redistribution among economic strata as their central aims, although they do alter the original distribution. Their architecture tends to be based on redistributing resources among population groups defined by being or not being in a specific vulnerability or risk situation (healthy or sick, active or inactive, employed or unemployed).

<sup>8</sup> If the risk has small effects or causes little harm, one could expect that with time markets will complete the information system, moderate actor power asymmetry and enhance the price mechanism's capacity to operate effectively. If the risk is life, this would be unacceptable. Such an argument is used regarding health care.

<sup>9</sup> The issue of public goods is mainly an expanded version of the problem of externalities not reflected in prices (negative externalities should translate into higher prices, through consumer taxes for instance, while positive externalities result in lower prices or free goods through subsidies). There are no individual consumptions without externalities, which means the decision on how much the State or extra-market mechanisms should be involved in funding, regulating or directly producing is part of a continuum, rather than a dichotomy.

Depending on the specific architecture involved, these operations also redistribute resources among people of different socioeconomic statuses (although this is not at their essence, and progressive redistribution is not their main purpose) (Tokman, 2005). Furthermore, depending on how they are funded and who is eligible, these systems can often have an aggregate effect that ends up being regressive, although they still manage to cover eventualities for the eligible population.

A restricted view of efficiency would consider such contributive systems suitable if: there were an equivalence between contributions and insurance quality (with some redistributive risk pooling), they were actuarially sustainable and did not increasingly require support from general revenue. If the latter does occur, their efficiency (not necessarily their progressivity) becomes debatable. If contributions from general revenue are used to subsidize system participation for those who cannot contribute through their own means, what is lost in efficiency is made up for in terms of redistribution or equality. Although theoretical contributive architectures do allow this to happen, our countries' political economy (with low levels of formal employment and the corporate power of the middle and upper-middle classes) conspire against this possibility. Organized sectors are much more likely to demand and receive subsidies for the system before informal low-income sectors receive subsidies to be recognized as eligible.

The ongoing presence of electoral democracies has successfully moderated this negative equation stacked against informal and poor groups, but it has not been reversed. Except in Costa Rica, this mechanism for subsidizing formalization has not been typical in the region. Recent pension-system reforms in Chile,<sup>10</sup> Uruguay and Argentina point to a trend towards strengthening the progressive nature of subsidies, without leading to full progressivity for the system as a whole.

Indeed, insofar as these systems emerge and are introduced in the region to protect formal workers and the middle classes, they should restrict their financing to contributions from these population groups. However, many of these systems are set up with generous conditions and benefits that only remain viable at the beginning (with plentiful contributions and a handful of beneficiaries), but come up against actuarial problems after a short time. There are two options for tackling such problems: increasing the contributions from formal workers or allocating resources from general revenue as a subsidy. The second option has been used and abused in the region, thereby resulting in regressive redistribution (Filgueira, 2007, Huber and Stephens, 2012).

Strictly speaking, these systems only remain contributive from the point of view of their eligibility criteria. When we consider them based on their real sources of financing, they are mixed systems with contributive and non-contributive bases. Almost all of the region's mature pension systems have this deviation (Huber and Stephens, 2012). Many contributive health systems also have this regressive combination. In some ways, targeting is a poor response from a resource-poor system. There are two basic reasons for this: much of the potential resources are already committed to financing stratified and underfunded contributive regimes; and the rest of the State's tax base also tends to be weak.

### C. Universalism

Universalism is the best principle for promoting the goal of social cohesion, as it only distinguishes those accessing a series of basic services and benefits on the basis of belonging to a community or having citizenship. As long as such transfers and benefits do not replace or hamper market dynamics where the latter would prove efficient, then universalism does not clash with the quest for efficiency. In terms of equality, although by definition these systems are less progressive than targeted mechanisms, comparative evidence and political economy studies show that universal social protection systems promote greater aggregate redistribution on an intertemporal basis and help create more equal societies where market and

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<sup>10</sup> The case of Chile does not precisely match the regressive hypothesis, as its recent solidarity-based reform combines with a previous pure capitalization system, such that—in theory—the State is not subsidizing a stratified contributive regime (except in the few cases left over from the stage prior to capitalization reform and soldiers' social security). The Chilean pension system appears to have equivalent contributions and benefits, with a strong redistributive component based on general revenue. This suggests that there is a possible way of achieving universalism through liberal market models.

targeting coexist (Esping-Andersen, 1990, Filgueira, 1998). If this is so, it is worth wondering why these systems are the least widely developed in the region (except in the sphere of education).

The simplest answer is an economic one: universal systems are expensive. However, this has not prevented countries in other regions with similar wealth levels to ours from being early adopters of modest universal pillars that were later supplemented by contributive pillars or improved universal benefits.

A secondary answer is more complex. This involves pondering the function of social protection or benefits for social promotion or investment. When benefits are uniform in quality, then universality is certainly the system that promotes the highest levels of efficiency, equity and social cohesion. The reasons for this are simple: the lack of eligibility criteria based on acquired attributes does not generate a moral vagary or perverse adaptive behaviour. Partly due to the above, the system does not generate labour-market distortions, as there are no dilemmas around formal versus informal employment. However, when such a system is protecting against risk in a stratified way (as in pension systems and many health insurance systems), universality is not efficient or equitable. In other words, universal transfer or benefit systems only make sense if they are unstratified.

In summary, the advantage of universal models can be defended on the basis of equality, social cohesion and efficiency. Universality generates shared services, transfers and goods that benefit the entire population, and are therefore a community brand and a factor of cohesion. In addition, a universal system has lower administrative costs and generates less market distortion, as it operates equally for everyone and is not funded by payroll but from general revenue. Universality also has advantages in terms of redistribution as a dynamic and intertemporal process. Redistribution is increased through the political economy of universalism, which treats a share or proportion of the resources and services needed for basic well-being as public goods for all. This largely equates to what is known as the welfare package in Nordic countries: State-guaranteed universal access to income, goods and services.

This does not do away with the problem of how costly such a system is, but nor does that invalidate this option or make it unviable. For every level of relative development and fiscal capacity that each State has, it should be possible to define a basic universal package. What is important is changing the model's architecture: its form of financing (from payroll to general revenue) and eligibility criteria (from formal contributor to citizen). Such a system does not remove all targeted policies or contributive systems, but simply adjusts their importance and role (leaving the basic universal package as the focus).

A general principle proposed herein is that social protection systems should successfully universalize minimum transfers and benefits that represent pre-insurance systems for income and a guarantee of minimum consumption needs. Market-based and contributive options remain for the middle classes and go beyond such basic parameters to strengthen risk protection. This smoothes out the curves in consumption and income. Targeted instruments also remain, but are limited to options that supplement universal access or highly targeted mechanisms for small populations living in extreme poverty or subject to high levels of discrimination.

In the light of the demographic situation and age inequality in our region, these options should have a generational slant: universality of uniform quality for children and families with children (education, maternal and infant health, care and early education, maternity/paternity leave and cash transfers) and targeted or quasi-universal basic benefits to avoid poverty and vulnerability among older adults, leaving the market or actuarially sustainable contributive systems to replace stratified realities in terms of longevity and target more costly and complex benefits (such as complex health problems) on vulnerable older adults.

These options are geared towards building a productivist model of welfare with a high preponderance of transfers at life stages that have the greatest impact on the inequality of future outcomes (childhood, youth and young families).

### **III. Trends and transformation in the region's social protection systems**

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The history of social policies in the region is linked to the history of its development models and economic and social paradigms that prevailed at various stages of Latin America's development.

As stated by Cecchini and Martínez (2011), although not all countries went through the stages in a uniform way and there is no full linearity between development models and social models of the State, there is a series of features that make it possible to identify four main stages.

The first stage, which was dominated by the primary export model and the influence of 19th century liberal thinking, lasted until the 1929 crisis. The second stage was associated with the import substitution model, and ran from the 1930s to the late 1970s. The third model began where the second left off and lasted until the beginning of the next century, in a basic framework of export reorientation, neoliberalism and fiscal austerity. Cecchini and Martínez (2011) propose a fourth stage that began with the crisis of the Washington Consensus, the shift to the left of the region's governments and the quest for systemic competitiveness based on human capital in a normative context that emphasized entitlement to rights and access to guaranteed minimum levels of social promotion and protection. Diagram 1, which is taken from their study, shows the characteristics of each stage in terms of social protection and promotion.

#### **A. Free-market model**

In Latin America, the development model based on import substitution industrialization (ISI) prompted a social policy system, and especially a form of social security based on the contributive and stratified male bread-winner model, which emulated (albeit imperfectly) the continental European paradigm of the post-War era. In the late 1970s and early 1980s ISI and its social policy model confronted a crisis that finally led to its demise (Franco, 1996; Cohen and Franco, 2006). The crisis of this model was accelerated by persistent fiscal deficits that eroded the basis of such social protection systems, the debt crisis and the gradual transformation from national industrial capitalism to global capitalism based on finance and services.

**DIAGRAM 1**  
**SOCIAL PROTECTION IN DIFFERENT STAGES OF SOCIAL POLICY**

	1. Early 19 century	2. Great Depression of 1929	3. Debt crisis of the early 1980s	4. 21 <sup>st</sup> century
Development model	Primary liberal	Import substitution	Fiscal discipline and austerity	Systemic competitiveness
Main characteristics of social protection and advocacy.	<p>First examples of social security in the urban formal sector.</p> <p>Assistance: viewed as charity.</p> <p>Start of sectoral policies for education and health.</p> <p>Little State regulation.</p>	<p>Social security in the urban formal sector.</p> <p>Assistance: consumer subsidies for food and energy.</p> <p>Centralism and growth of the health and education sectors.</p> <p>Welfare State.</p> <p>Protection based on formal employment.</p>	<p>Social security with pre-funded individual accounts.</p> <p>Assistance: targeting the poor, social investment funds.</p> <p>Oriented to demand, decentralization, outsourcing of social services.</p> <p>State as subsidizer and mitigator.</p> <p>Protection against emergencies.</p>	<p>Assistance: breaking the intergenerational transmission of poverty.</p> <p>State as subsidizer and promoter.</p> <p>Protection as assistance and access to promotion.</p> <p>Social protection systems based on incremental minimum standards.</p> <p>State as guarantor.</p> <p>Protection as a citizen guarantee.</p>

Source: Cecchini and Martínez (2011).

During the 1980s, the region tackled the crisis using economic stabilization and structural adjustment programmes. These heralded the arrival of the free market and external liberalization model in the region. In order to shore up indebted economies and the ability to pay, the new model sought to increase productivity and macroeconomic stability through a combination of social and economic measures. Stabilization and adjustment models involved respecting macroeconomic equilibria; reducing inflation; withdrawing State involvement from production spheres; increasing competitiveness; eliminating tariff protection; and modernizing public administration. However, the collapse of the previous model and the process that followed it was more than a simple adjustment: it gave way to a new liberal model based on open economies (Serrano, 2005a).

In this new model, which was also known as the post-adjustment model (Cohen and Franco, 2006), the economy was driven by the “external market” based on the sale of competitive goods incorporating some level of technical progress (often based on natural resources). Unlike in the previous model, the State had a mainly subsidiary role to the market and a limited regulatory role in terms of social and economic dynamics. Indeed, the market took centre stage, in terms of directing economic activity and the social sphere, and became the main mechanism for social coordination (Huber and Stephens, 2001).

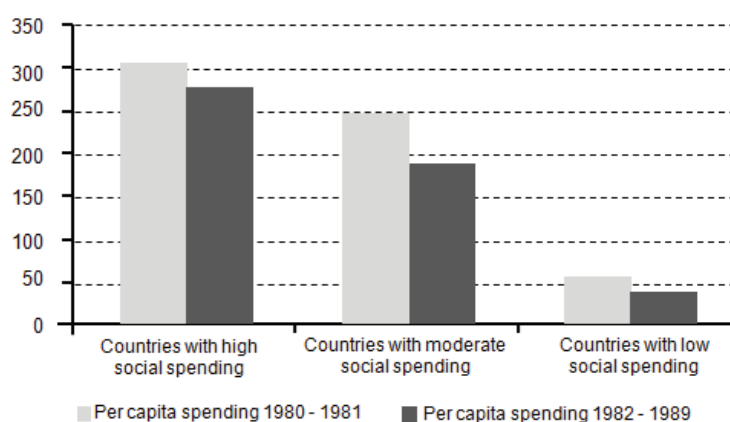
The State’s social, regulatory and business roles shrank, and this brought about a sea change in the understanding of social policy and more generally the State’s role in social matters. Some welfare

provision was privatized, public social spending was reduced in per capita terms and in relation to total public spending (see figure 1) and decentralization was promoted.

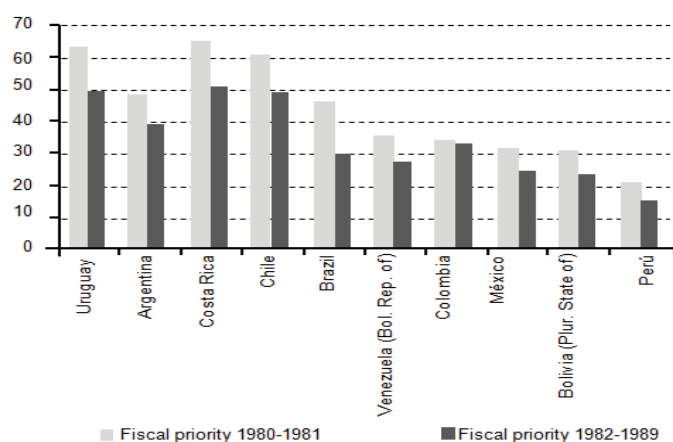
Various mechanisms based on solidarity and redistribution from the previous model were abandoned, rather than reformed. The underlying argument was that the malfunctioning of those mechanisms was not due to an implementation or design problem, but simply due to their existence. Social security, health and even education systems were transformed from a pay-as-you-go system which redistributed revenue and risk, to systems that were meant to match benefits to people's market capacities - while encouraging individual insurance and self-funding. Only those people who could prove their inability to take on the basic risks would receive State assistance in the form of targeted policies (Filgueira and Filgueira, 2002).

**FIGURE 1**  
**PER CAPITA SOCIAL SPENDING AND FISCAL PRIORITY OF SOCIAL SPENDING IN THE 1980S**

Per capita spending in countries with high, moderate and low social spending



Fiscal priority of social spending  
(social spending as a proportion of total spending) in Latin America



Source: Prepared by the author, based on ECLAC, 1990, 2000, 2001, 2002.

Public spending on education was maintained (or increased in some cases), but with an emphasis on decentralized arrangements. This decentralization was based on the suspected ineffectiveness and inefficiency of centralized delivery models and what were seen as benign market dynamics (quasi

markets, competition for beneficiaries) affecting what were essentially non-market systems. Although functional decentralization (from the centre to schools), territorial and political decentralization (from the centre to municipalities) and market decentralization (from the centre to private provision) did help to make the system more flexible (and in some cases more accountable), it also aggravated the fragmentation, lack of coordination, inequality and stratification within the system.

The health sector combined the rationale behind pension reform (privatization and generation of insurance markets) with those from education (incentive for quasi markets, subsidies for demand and so on), which weakened coverage for low-income or informal groups, as well as fragmenting and increasing territorial inequality in the public system (Filgueira and Filgueira, 2002).

In addition, welfare programmes arose that were based on a new tool elevated to the status of a principle: targeting. Almost the only social problem tackled by this social policy was poverty and extreme poverty, as this was a palpable expression of the “social cost” of the economic crisis (often exacerbated by adjustment reforms) (Serrano, 2005b).

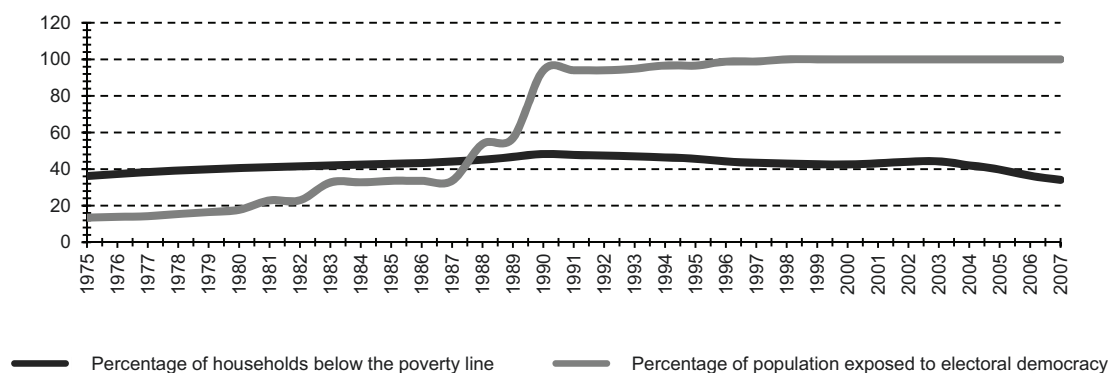
In brief, social policy in the free-market model was typified by labour policy based on deregulation and contractual flexibility with a decreasing wage bill and less contractual security. This encouraged self-employment and informal work, amidst high unemployment. Coverage against the risk of employment loss was recommodified in the form of quasi markets in which health and social insurance were privately managed and publicly regulated. In terms of social services, education and public health systems were decentralized, which led to subnational funding problems, with some being privatized (along with basic social infrastructure). In the welfare sphere, efforts were focused on developing policies to tackle poverty, with the resulting proliferation of widespread targeted social programmes.

## B. New tools and approaches in social policy

Since the mid-1990s, without a substantial change to the open economy model where the market was still regarded as the main provider and distributor of social services and without jeopardising fiscal balance, new types of social policy tool were tried out to tackle the persistent problems of poverty, equity and inequality.

Political and economic factors partly explain the transformation of anti-poverty policy and general social policy in the region. The stability of ongoing electoral democracies in most of the region since the 1990s helped to transform social protection mechanisms for the poor into tools that were attractive from an electoral point of view. In a region where poverty affected almost 40% of the population in the 1990s, the election rewards of policies targeting the poor made them increasingly popular (see figure 2).

**FIGURE 2**  
**POVERTY AND ELECTORAL DEMOCRACY**  
(Percentages)



Source: Filgueira et al, 2011. Based on *World Development Indicators*, World Bank, 2009; Smith, and poverty estimates based on ECLAC, 2010a. Does not include Caribbean countries.

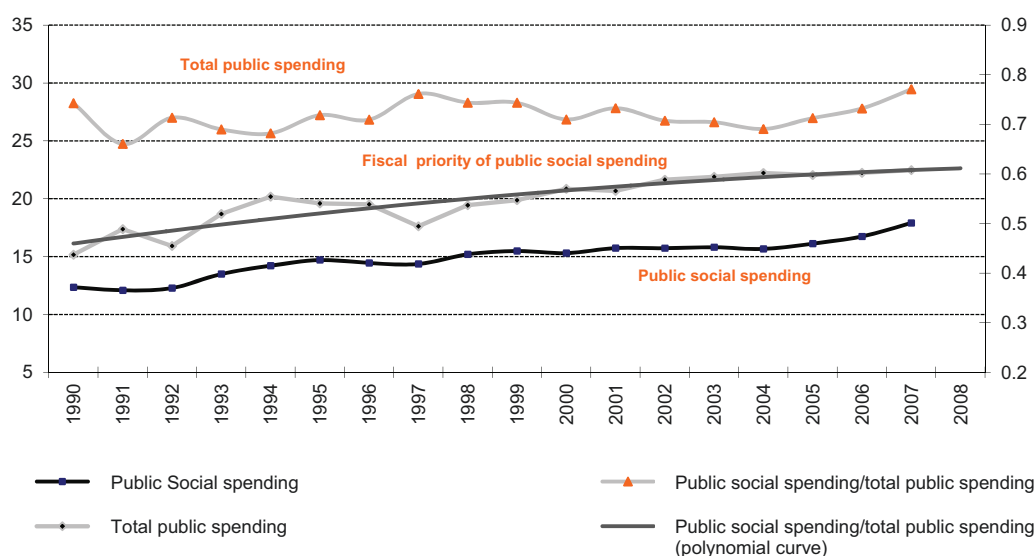
Other triggers for the reformulation of general social policy and poverty policy in particular included the economic crises of the late 1990s (Asian crisis, natural disasters in Central America, falling international grain prices), the world economic slowdown in 2000 and then the crisis that affected Argentina and Uruguay. Lastly, the region's good economic and fiscal performance based on the commodity boom, plus positive fiscal and macroeconomic results in terms of price stability, helped to expand social spending in the new millennium.

The end of the 1990s and beginning of the new millennium saw the emergence of new social protection approaches that emphasized protection from income loss, poverty and social exclusion, trying to reach people in vulnerable situations and social risk (Serrano, 2005a). These approaches have been partially and gradually influenced by normative visions of the need to ensure economic, social and cultural rights, focused around the notion of social citizenship. They also break with the conflict between the principles of universal rights and the rationale of targeting, as well as questioning the benign nature of market models and dynamics in social protection systems. Lastly, these views and innovations also shift or combine the emphasis on combating poverty with the fight against inequality and the promotion of social cohesion.

Some of the risks facing the population that are covered by this type of programme are joblessness or job loss —particularly for certain groups (young people, women, ethnic minorities and low-skilled workers)—, fall in household income due to job loss for head of household, risks associated with certain life stages (old age, maternity and so on), negative effects on human capital due to academic failure, poor nutrition, lack of healthcare or the impact of natural disasters (such as floods, earthquakes and drought).

In some ways, the structural principles that characterized post-War welfare states are gaining ground over more individualist and market-based approaches, as well as overtaking targeting as a social assistance principle. This is happening alongside the practical and theoretical innovations around social capital, cohesion and risk insurance re-entering the debate around and the design of public policies. This is also accompanied by a renewed concern for inequality and a recognition of the limited contribution that family and market dynamics make to the problem. Thus the State becomes not central again, but now has more of a strategic role in considering the issues of inequality and well-being. As shown in figure 3, social spending has also changed (rising as a percentage of GDP and of total expenditure).

**FIGURE 3**  
**LATIN AMERICA (21 COUNTRIES): SOCIAL PUBLIC SPENDING AND TOTAL PUBLIC SPENDING**  
**AS A PERCENTAGE OF GDP, 1990-2008**  
(Average weighted GDP)



Source: ECLAC, 2010.





## **IV. Structural challenges and reforms of reform in Latin America**

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In terms of social policymaking, there are four changes (albeit with some variation among countries) that can be identified as more or less robust innovative trends that can be called “reforms of reforms”: i) direct transfers to families with children; ii) new agenda in pension and health insurance; iii) inclusion of care and value of unpaid work on the public agenda; and iv) expansion of the State’s fiscal capacities.

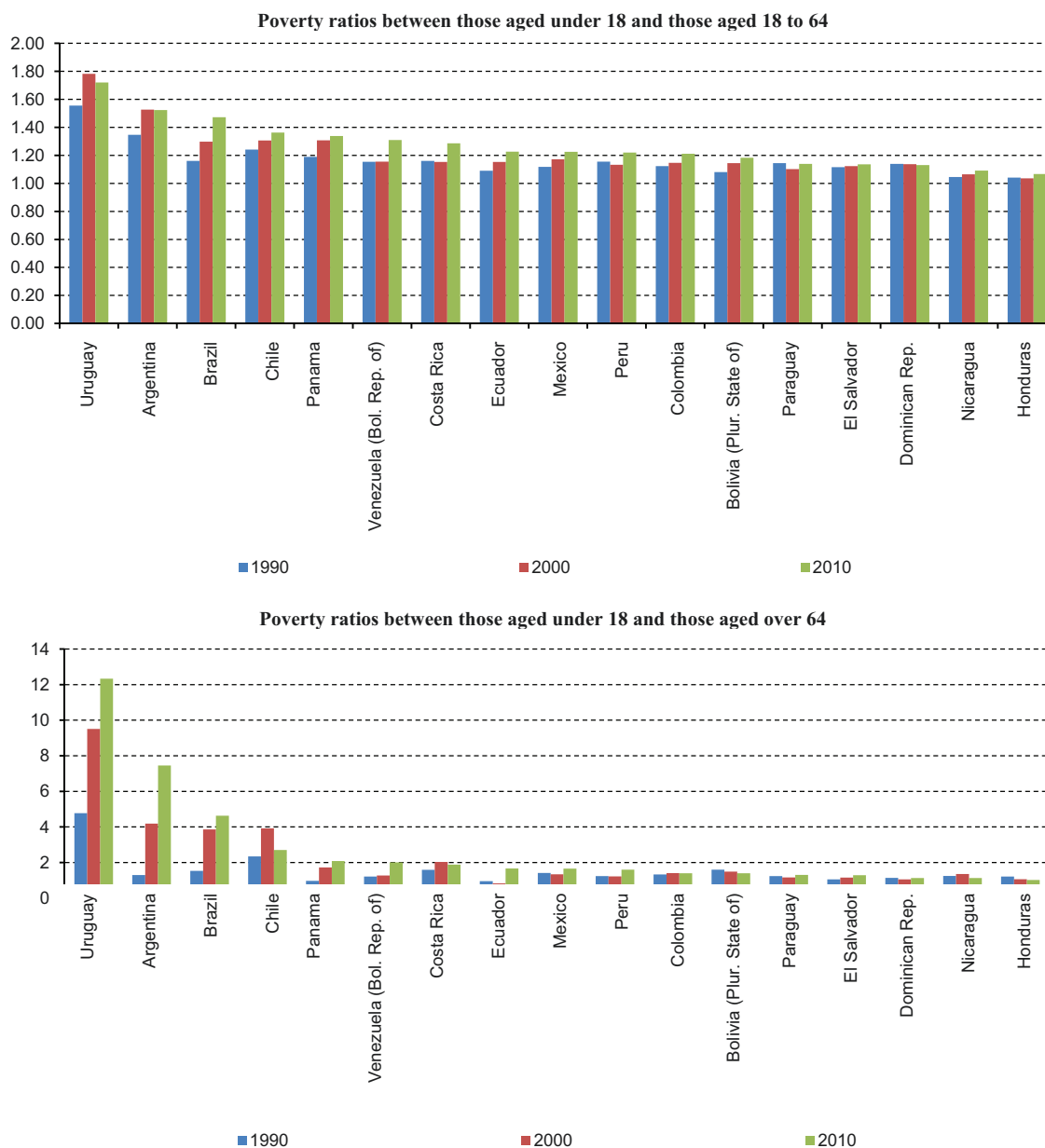
### **A. Direct transfers to families with children**

By the mid-1990s, contributive social protection systems and limited models of extreme targeting based on social investment funds had all failed to substantially increase access to cash transfer systems for poor families with children. This was against the backdrop of an overrepresentation of children among the poor (see figure 4).

The rising number of children in poverty, which remains a defining feature of all the region’s countries, highlighted to need to create direct transfer systems to moderate the intensity of poverty and help to include excluded sectors in social protection mechanisms.

In the mid-1990s, Mexico and Brazil developed transfer programmes in which benefits were conditional upon recipients joining sectoral social programmes. In 1989, Mexico introduced the National Solidarity Programme (PRONASOL) that used four mechanisms to transfer resources: i) transfer of current income and subsidies in the form of grants, social services, dairy products and tortilla subsidies; ii) accumulation of inalienable assets such as health and education; iii) investment in projects to increase the productivity of the assets of the poorest; and iv) funding of community production projects through organized participation (Cohen and Franco, 2006). In 1995, Brazil introduced the Minimum Family Income Guarantee Programme and the School Grant Programme at the initiative of municipal governments.

**FIGURE 4**  
**LATIN AMERICA: POVERTY RATIOS, 1990, 2000 AND 2010<sup>a</sup>**



Source: Rossel, 2012.

<sup>a</sup> A value over one implies higher child poverty.

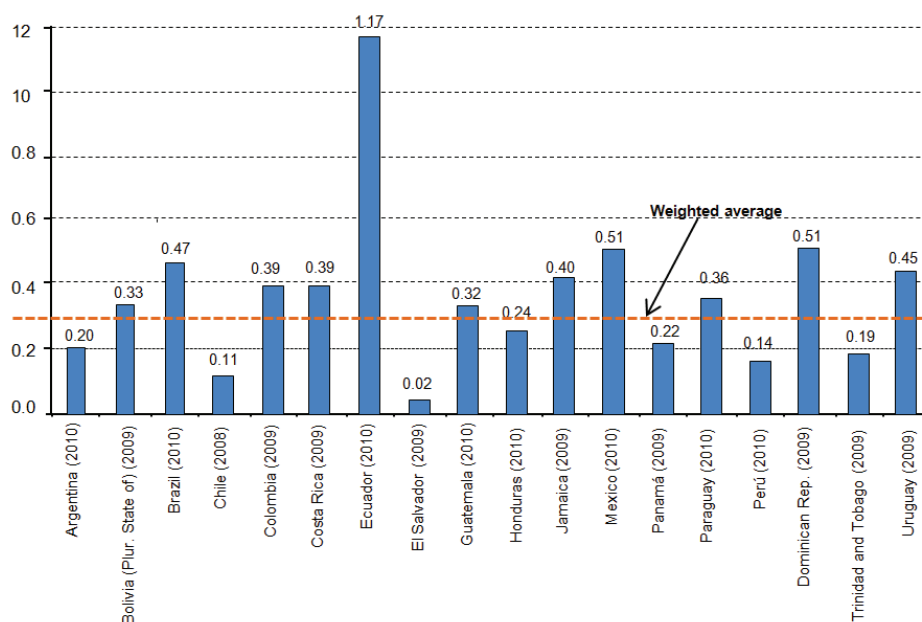
The type of fund developed in the 1990s would give way to direct transfers to the lowest income groups, with gradually expanding coverage. In 1997, Mexico's PRONASOL was replaced by the Education, Health and Food Programme (PROGRESA), with cash transfers clearly focused on combating poverty and investing in human capital. Variations of the Mexican model and Brazil's Family Grant scheme (nationwide conditional transfer programme introduced in 2003 by the first Workers Party government) would spread to the rest of the region. In 2007, Mexico's Social Development Plan integrated under the Opportunities programme a wide range of cash transfers combined with other actions of promotion and transfers for the poor (Valencia Lomelí, Foust Rodríguez and Tetreault Weber, 2013).

In the late 1990s and early 2000s, these programmes were expanded to several countries, giving rise to what are now known as conditional, or “co-responsibility”, transfer programmes with three main features: (i) direct transfer of income to alleviate poverty; (ii) incentives for human capital investment; and (iii) incorporation of the population into social promotion and protection networks.

In Argentina and Uruguay, recent reforms to family benefit systems (abandoning their contributive character or generating a non-contributive pillar) are universalizing a benefit to families with children or reaching all poor or vulnerable children (Filgueira and Hernández, 2012; Repetto and Potenza Dal Masetto, 2012).

Although these programmes account for modest spending levels compared with traditional social protection pillars, they clearly represent an important change in the protection matrix by accounting for an average of almost half a percentage point of GDP for countries as a whole (see figure 5).

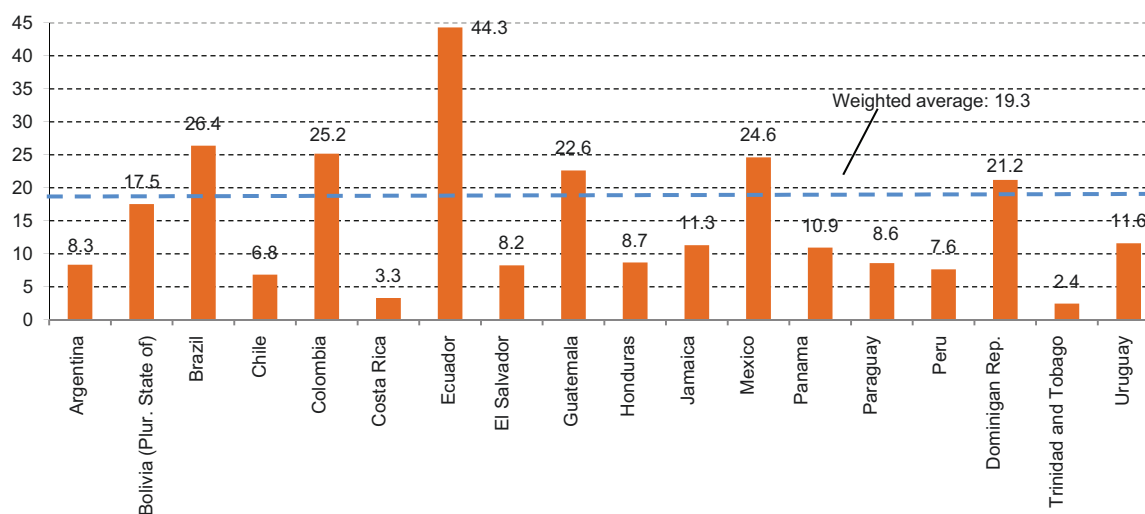
**FIGURE 5**  
**SPENDING ON CONDITIONAL TRANSFER PROGRAMMES**  
(Percentages of GDP)



Source: Cecchini and Martínez, 2011.

Perhaps more important are the coverage levels achieved by these programmes (see figure 6). Using targeted mechanisms, for the first time in the region’s history, conditional transfer programmes have recognized the subjects at the bottom of the distribution structure by guaranteeing or (mainly) generating the expectation of a State that is open and sensitive to the demands of the poorest.

**FIGURE 6**  
**COVERAGE OF CONDITIONAL TRANSFER PROGRAMMES IN LATIN AMERICA**  
*(Percentages of total population)*



Source: Cecchini and Martínez, 2011.

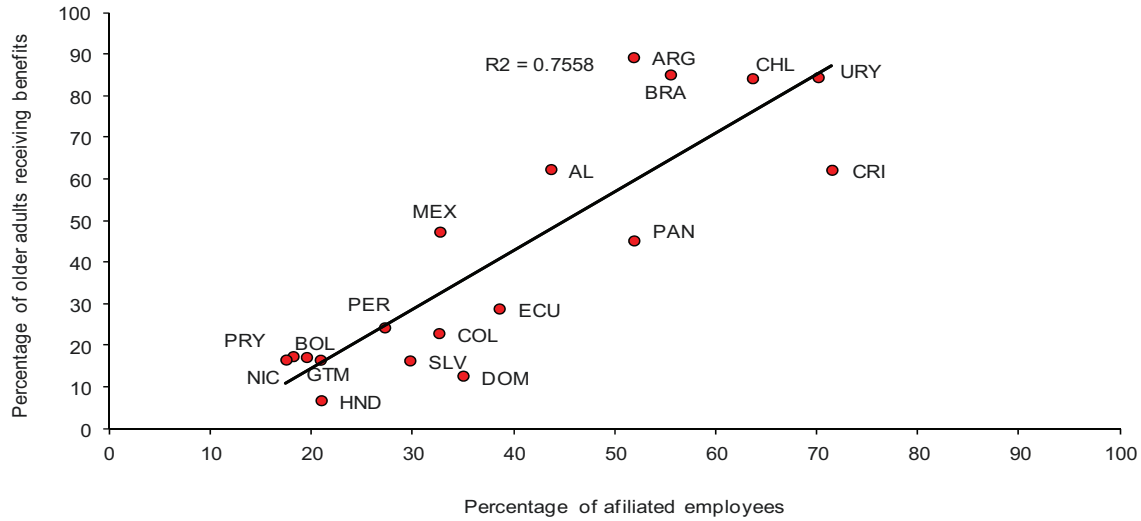
## B. Towards a new agenda in pension and health insurance

Albeit with significant differences, the region is undergoing and will see an acceleration of a process of population ageing in the next 30 years. In some countries, such as in the Southern Cone, population ageing has begun and will accelerate dramatically in the years to come, along with an “ageing of the old”. Strictly speaking, there are two main dynamics at play. First, a fall in fertility, accompanied by the arrival into old age of many cohorts, will increase the percentage of older adults in the overall population. Second, increased longevity will accentuate this trend, with not only a rise in the percentage of older adults but also in the proportion of the oldest older adults. Both processes involve complex scenarios in terms of social protection coverage (particularly health and pensions), in terms of their fiscal sustainability and the economic health of nations.

The current situation of pensions systems involves very low coverage. This low coverage applies to the present (with few older adults receiving cash transfers) and the future (in the light of eligibility criteria and the level of formality and density of contributions from the working population). These two challenges are on a differing scale in various Latin American subregions, with countries facing a range of challenges (present and future coverage, fiscal sustainability, stratification and segmentation).

The situation is starkly demonstrated by stylized data on coverage of the older adult population and social security contributions by the working population (see figure 7). With the exception of Southern Cone countries, Brazil and Costa Rica, there is an enormous coverage and contribution deficit. In countries that do have higher levels of coverage, the fiscal architecture and contributor-beneficiary ratio are such that they are facing a huge financial deficit.

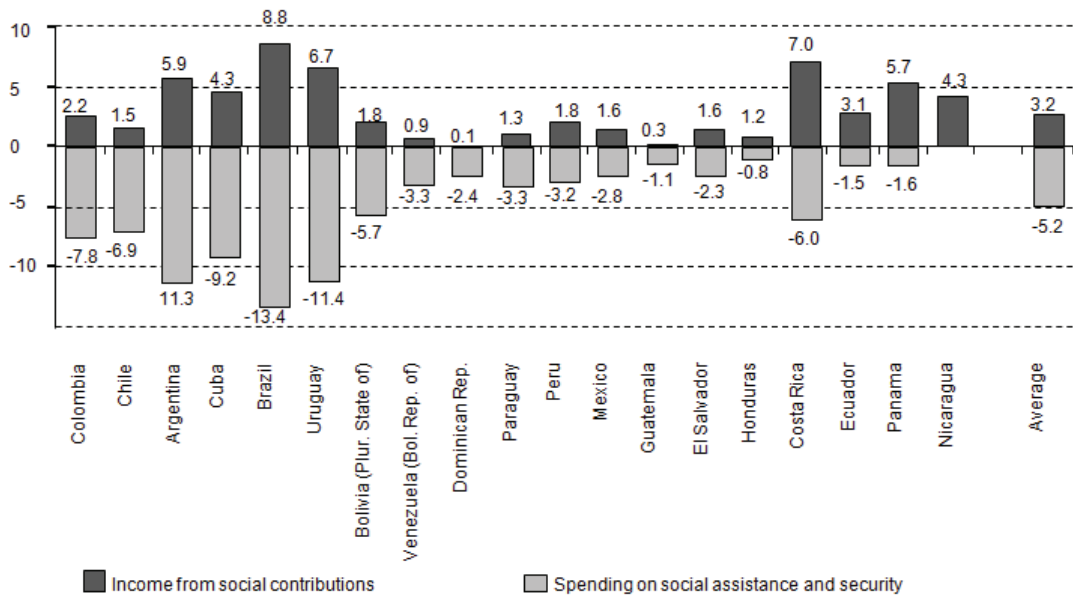
**FIGURE 7**  
**LATIN AMERICA (17 COUNTRIES): RATIO BETWEEN LEVELS OF SOCIAL SECURITY AFFILIATION**  
**AMONG THE EMPLOYED AND PENSION AND RETIREMENT BENEFIT COVERAGE FOR THOSE AGED**  
**65 AND ABOVE, AROUND 2009**  
*(Percentages)*



Source: ECLAC, 2011.

More relevant still is the fact that even countries with modest welfare systems have a deficit between social security contributions and social security benefits (with high levels of subsidies coming from general revenue) (see figure 8).

**FIGURE 8**  
**LATIN AMERICA (19 COUNTRIES): PUBLIC REVENUES BY SOCIAL CONTRIBUTIONS AND PUBLIC**  
**SPENDING ON SOCIAL SECURITY AND ASSISTANCE, AVERAGES 2008-2009<sup>a</sup>**  
*(Percentages of GDP)*



Source: ECLAC, 2011.

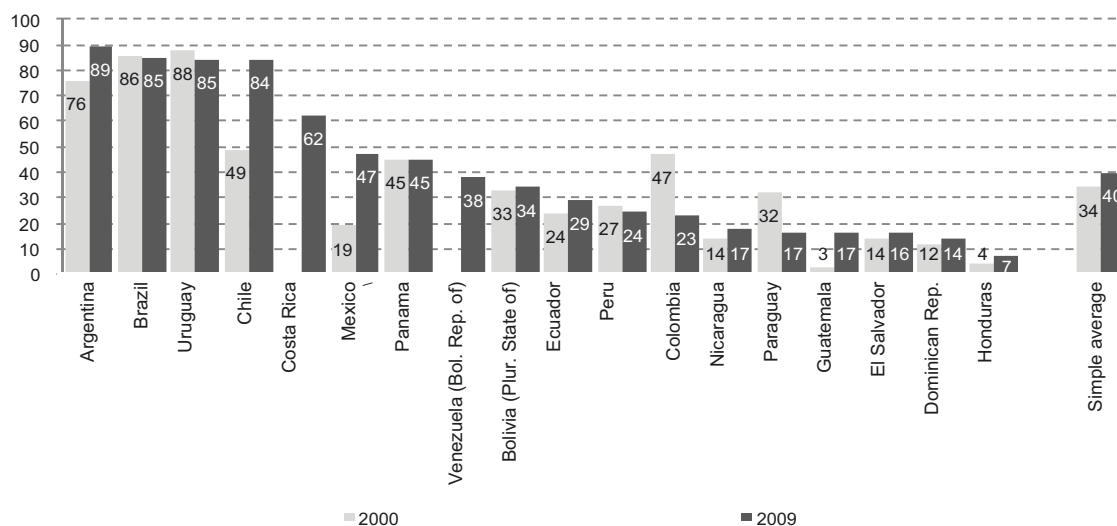
Owing to how the data are compiled, there is no real way of distinguishing between social security and social assistance within social spending. However, the evidence we do have on the percentage of GDP used for social assistance indicates that the bulk of the deficit funded by general revenue does not correspond to welfare costs in the form of cash transfers.

Following health and social security reforms that privatized insurance and the established effect this had in terms of present and future unequal access and limited coverage, the idea of building or strengthening the solidarity-based or non-contributive pillars within these systems gained ground. Health reform in Uruguay, the Universal Access with Explicit Guarantees Plan (AUGE) in Chile, the pioneering Single Health System in Brazil, the People's Insurance in Mexico and health reform in Colombia adopted the model of socially managed risk with a greater emphasis on solidarity and citizenship.

There are many examples of innovation in pensions, such as the reform of pension systems and solidarity-based pensions in Chile; Mexico's non-contributive universal pensions in Mexico City (and its variants in several other Mexican states), the welfare pension component of the Opportunities programme and the federal "70 plus" programme (Valencia Lomeli, Foust Rodríguez and Tetreault Weber, 2013); pension reform in Argentina and its semi-contributive expansion (Repetto and Potenza Dal Masetto, 2012); expansion of the Continuous Cash Benefit Programme (BPC) in Brazil and the rural pension; the 100 at 70 Programme from 2009 in Panama (Rodríguez Mojica, 2013), the 2011 pension at 65 in Peru (Lavigne, 2013a) and the basic food benefit for poor older adults in 2009 and its extension to all indigenous older adults (universalization in 2012) in Paraguay (Lavigne, 2013b).

As shown in figure 9, although the average coverage of pensions in Latin America between 2000 and 2009 only rose modestly (6%), the increase was more dramatic in some countries. Argentina returned to historic levels of coverage of almost 90%, and Brazil had already expanded to reach 85% of those aged 64 and over by 2000. Uruguay stopped the signs of a fall that was building up in the 1990s to largely maintain high levels of coverage (with a slight decrease). The two most dramatic changes were in Chile and Mexico. In Chile this was due to solidarity-based pension reform, while in Mexico the reason was the expansion of non-contributive mechanisms ("70 plus programme", non-contributive State pension and others). The data in figure 9 cover up to 2009, and therefore do not cover (or not completely) new non-contributive systems in Panama and Peru (65 pension in 2011), universal basic pension in El Salvador in 2008 (Martínez, 2013b) and the food pension for older adults in 2008 and expansion from 2011 (Lavigne, 2012b).

**FIGURE 9**  
**LATIN AMERICA (18 COUNTRIES): POPULATION AGED 65 AND OVER**  
**RECEIVING A PENSION, AROUND 2000 AND 2009<sup>a</sup>**  
(Percentages)



Source: ECLAC, 2011.

## C. Inclusion of care and valuing unpaid work on the public agenda

Expanding the education system to include pre-school levels and lengthening the school day are policies with the purpose of improving human capital and the early equalization of opportunities. However, they are also policies with an additional purpose: they collectivize the care and time required by helping to redistribute the burdens among genders and social strata (Martínez Franzoni, 2008). The inclusion in the debate of policies to reconcile paid and unpaid work is a recognition of the need to consider care and unpaid work from the perspective of rights and equality. Reforms of maternity, paternity and family leave are also part of this new paradigm that considers inequality, early opportunities and the gender challenge together (Martínez Franzoni and Voorend, 2009). Programmes such as “Chile Grows With You” and its equivalent in Uruguay, the expansion of the crèche system in Brazil, longer school days in Chile—and to a lesser extent in Uruguay and Brazil—, as well as maternity and paternity leave on the public agenda (and in some cases reformed—as in Chile and Uruguay recently), all point to the growing incorporation of gender, childhood and family issues in the welfare package of countries.

## D. Expansion of the State’s fiscal capacities

In keeping with a strict interpretation of economic orthodoxy, the Washington Consensus claimed that there were no good taxes and that, if they were necessary, they should be neutral. This view has increasingly been questioned and States have undertaken tax reforms that increase fiscal capacity. Although strictly speaking, these changes cannot be considered a classic issue of social policymaking, they do impact on social policy as they alter the tax base and redistributive effects. Almost all of the region’s States have increased their tax burden as a proportion of GDP (see table 1).

**TABLE 1**  
**LATIN AMERICA: TAX REVENUE TRENDS, 2000-2011**

Country	Tax revenues without social security		Tax revenues with social security		Total revenue	
	2000	2011	2000	2011	2000	2011
<b>Group 1</b>						
Argentina	18.1	27.4	21.5	34.9	25.0	38.0
Brazil	23.0	26.0	30.1	34.8	32.5	38.3
Uruguay	14.6	18.6	22.5	26.5	27.4	29.0
<b>Group 2</b>						
Bolivia (Plurinational State of)	16.3	20.4	17.9	22.1	26.7	34.5
Costa Rica	12.6	14.4	18.9	22.0	21.3	24.1
Chile	16.9	18.9	18.2	20.2	21.9	24.6
Ecuador	8.9	14.4	10.1	20.1	19.0	31.2
Nicaragua	11.2	15.2	13.5	19.0	16.8	21.8
Colombia	11.6	16.2	14.0	18.1	17.7	22.4
Panama	9.6	11.3	16.0	17.8	24.6	24.3
Peru	12.4	15.3	14.1	17.0	17.0	19.4
Paraguay	9.3	12.1	12.5	16.1	18.1	21.7
Honduras	13.8	15.0	14.3	15.8	16.2	18.3
El Salvador	10.2	13.9	12.4	15.5	14.2	17.1
<b>Group 3</b>						
Haiti	7.9	13.1	7.9	13.1	8.2	14.3
Guatemala	10.5	10.9	12.4	12.8	14.1	13.6
Dominican Republic	11.2	12.7	11.3	12.8	13.3	13.5
Venezuela (Bolivarian Republic of)	12.9	11.9	13.6	12.5	20.9	23.0
Mexico	10.1	9.7	11.9	11.4	17.4	19.5

Source: ECLAC, 2012.

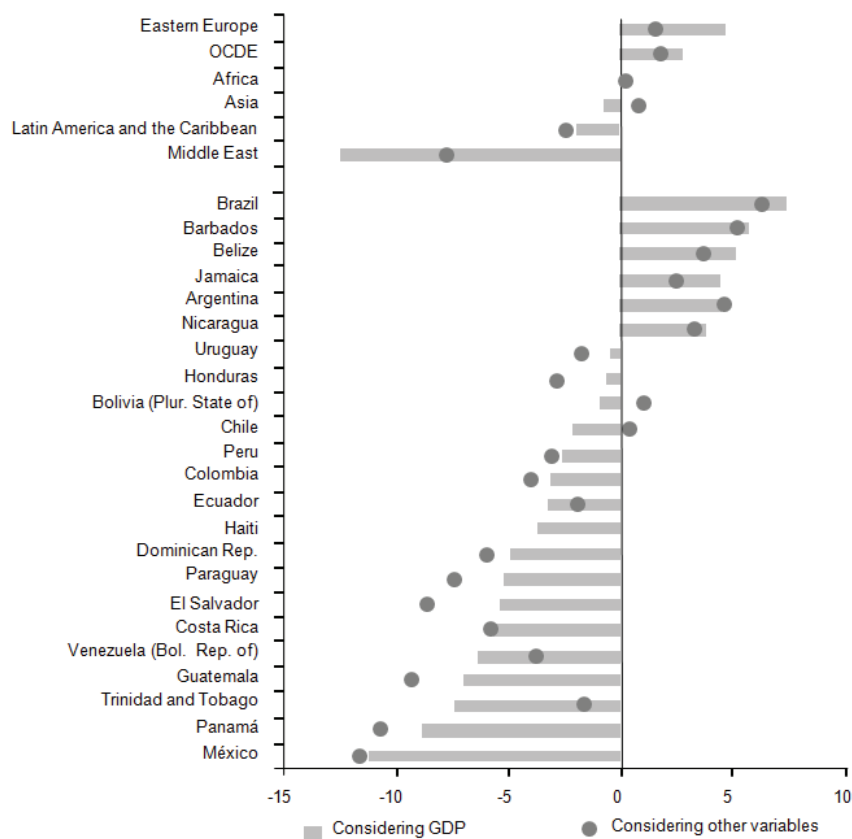


In addition, there has been an increase (albeit a more modest one) in the progressivity of collection structures, be they in the form of income, tax, royalties on the exploitation of non-renewable resources, tax burdens on major operations to extract natural resources or improved capacity for controlling tax avoidance.

Despite this significant increase in States' fiscal capacities, most of the region's countries still have a total tax burden that is below the world average (either as a simple regression of GDP in relation to fiscal capacity, or considered as part of a more complex model incorporating other variables).<sup>11</sup> What may be more relevant is the largest gap between the region and the world average: income tax (see figure 10).

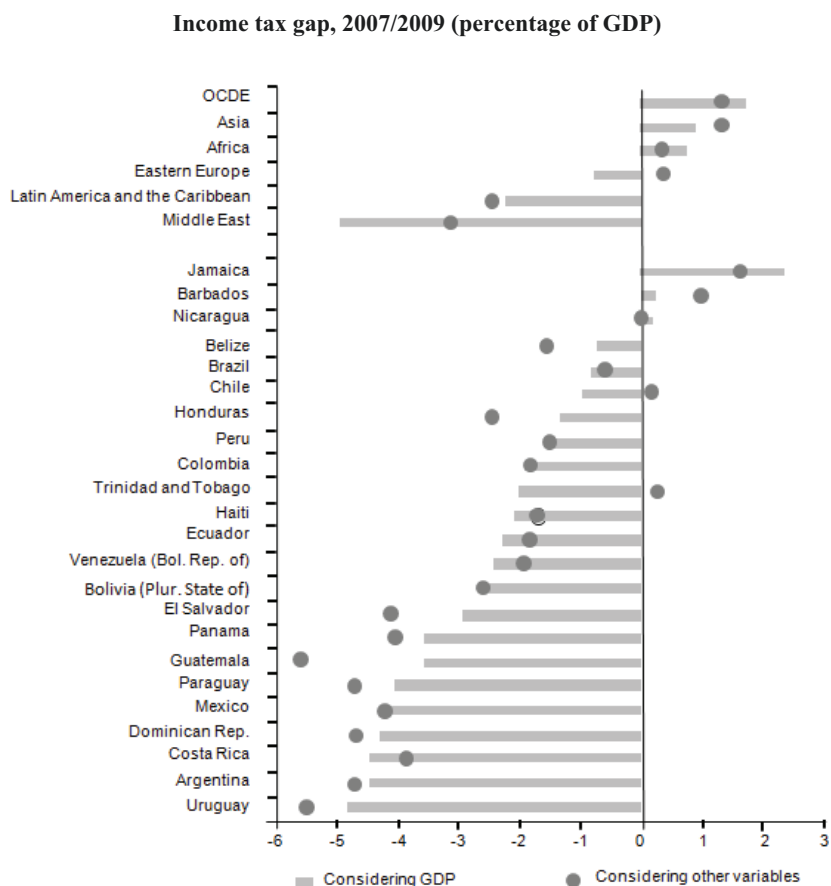
**FIGURE 10**  
**GAPS BETWEEN THE TOTAL TAX BURDEN AND INCOME TAX BURDEN**

**Tax burden gap, 2007/2009 (percentage of GDP)**



<sup>11</sup> Variables such as dependent population, population employed in the informal sector, ratio of exports and imports over GDP and weighting of natural resource income within GDP.

Figure 10 (concluded)

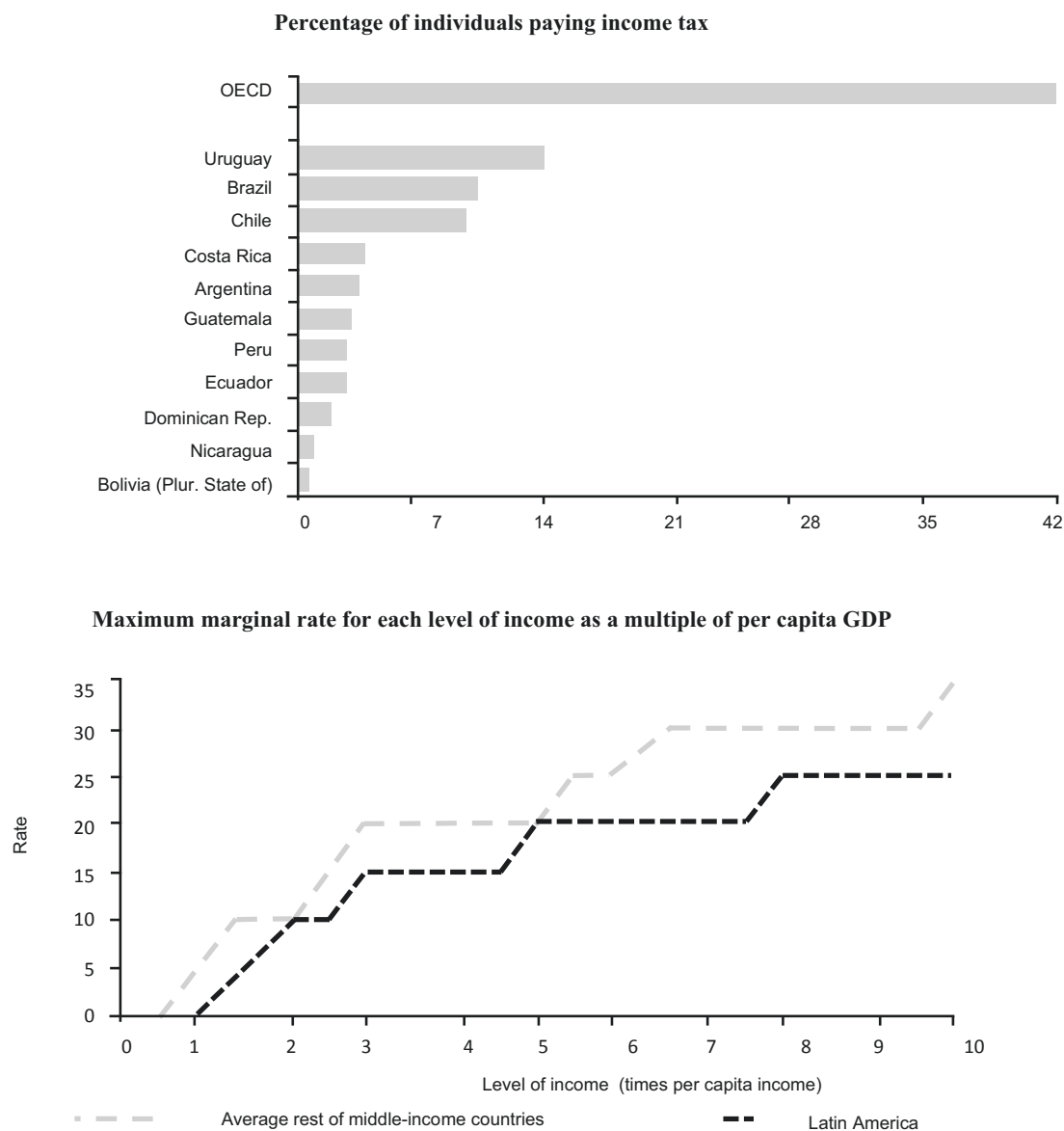


Source: Prepared by the author calculations, based on IDB and CIAT (2012) and IMF (2011).

The main reason behind these large fiscal gaps relating to income tax lies in low taxation of companies and the very small tax base for personal income tax. The latter is nuanced by the high social security burdens involved (which are not included in the estimates of figure 10). This means that the bulk of personal income tax collected comes from worker salaries and is used to fund social security systems. Receipts from personal income tax always have lower levels of scope, coverage and magnitude. Although some left-leaning governments have successfully corrected this bias, in most cases the bulk of the increase in receipts for the entire 1990-2010 period related to rises in VAT and in social security contributions (IDB, 2012).

One particularly important aspect is the comparison between threshold for personal income tax in relation to each country’s per capita GDP. According to the evidence, this threshold is much higher in the region than in OECD countries, which leaves much of the middle classes exempt from income tax. In addition, tax rates for different income brackets are considerably lower than in other middle-income countries (see figure 11). Although this is partly explained by the heavy burdens these sectors bear in terms of contributing to social security, it does show a scenario characterized by low progressivity and fiscal “cohesion” (IDB, 2012).

**FIGURE 11**  
**TAX BASE FOR INCOME TAX AND MAXIMUM MARGINAL RATES FOR INCOME (OECD AND**  
**SELECTED LATIN AMERICAN AND CARIBBEAN COUNTRIES)**



Source: Prepared by the author, calculations based on ECLAC (2012), CAIT (2012) and IMF (2012).

## V. Three possible models of universalism: potential and limits

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Increasingly, the region, its governments and parties, technical officials and multilateral agencies are all beginning to consider it possible to have a State with a universal social protection system. There are three main proposals currently being considered as possible options in the region: (i) the basic social protection floor proposed by the International Labour Organization (ILO) as a global initiative; (ii) universal insurance systems funded by consumer taxes to combine contributive and non-contributive mechanisms; and (iii) basic universalism initially proposed by a group of technical officials but increasingly accepted by a number of governments.

### A. ILO social protection floor

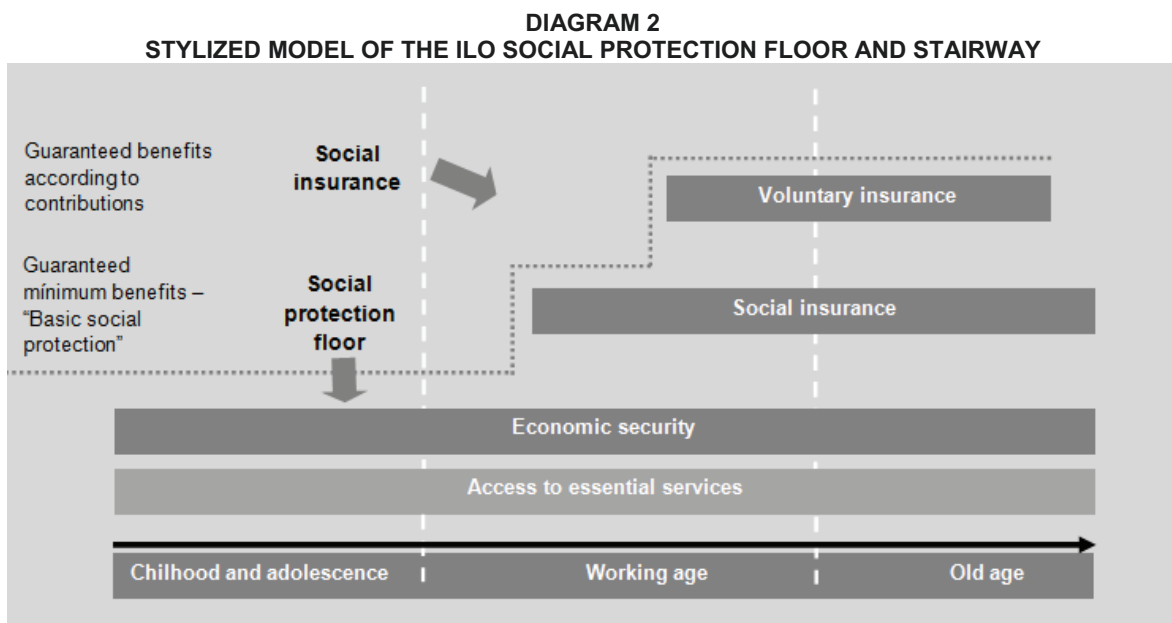
For ILO, tripartite contributive social protection firmly based on formal employment is in its DNA. The idea of decent work is part of the same tradition, with its strong emphasis on employment, job quality and rights, as a fundamental source of protection and well-being. However, even ILO itself is acknowledging the need to generate basic social protection floors that do not require formal membership of the labour market as the only means of accessing social protection. Thus emerged the idea of the State-led drive towards a basic social protection floor.

In 2009, ILO spearheaded the United Nations adoption of the global social protection floor initiative, which aims to guarantee access to essential services and income security for all. In particular, the basic floor should at least cover:

- Universal access to essential health services;
- Basic income security for children;
- Basic security for working-age people unable to obtain sufficient income;
- Basic income security for older adults.

The idea of a social protection floor is supplemented by the notion of a social protection staircase. The foundation of a series of basic transfers and essential services to guarantee universal coverage (the

horizontal dimension) is thus added to by other protection, insurance and services from contributive systems and voluntary insurance systems. A stylized outline of this proposal can be seen in diagram 2.



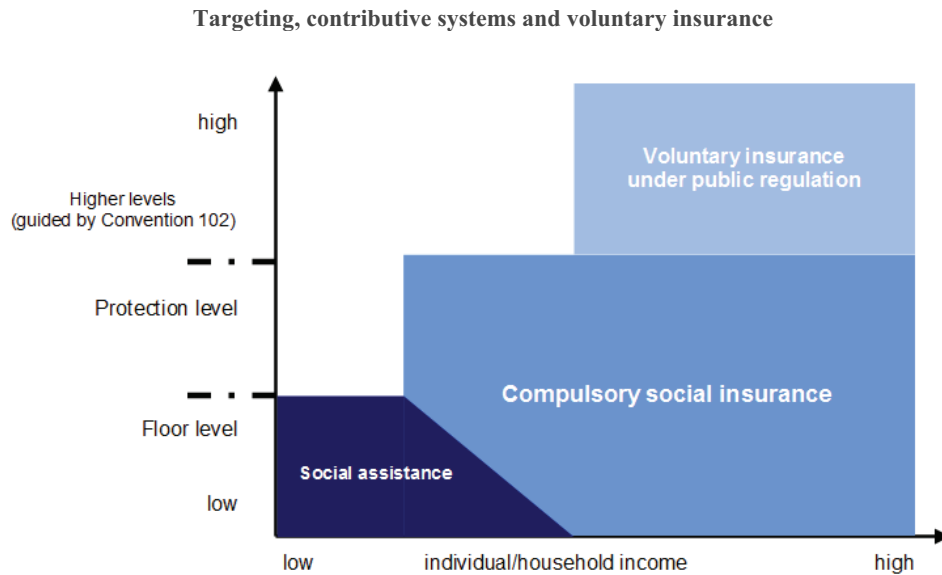
Source: Bertranou and Vezza, 2010.

It is also important to note that ILO sees the floor and stairway architecture as variable, as long as it effectively provides universal coverage for the population in terms of insurance for basic income and essential services. Diagram 3 clearly illustrates two examples of ways of achieving the same result.

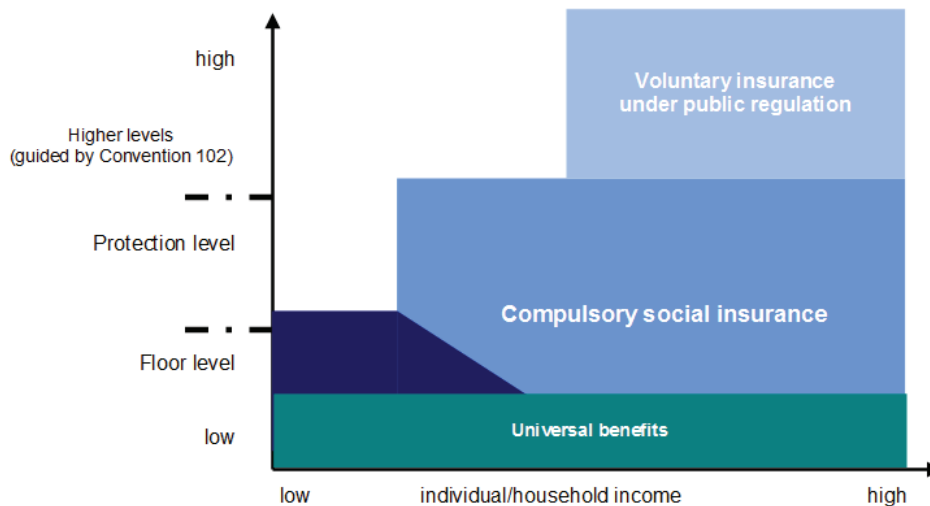
ILO has based this proposal on two resolutions from very different times: ILO Convention 102 from 1952 on classic social security principles, and ILO recommendation 202 from 2009 on the basic social protection initiative. Clearly, ILO still sees the contributive system as being at the heart of social protection. The horizontal impossibility of reaching everyone through such systems highlighted the need for a basic protection floor that was not linked to formal employment. In other words, the proposed floor is not a technical or normative preference in a non-employment based social protection system. Although ILO still defends the contributive model as the feasible way forward in the early post-War years in countries with Ford-style industrial models involving full employment and stable family structures, it does acknowledge that the model is insufficient for meeting the basic needs of everyone.

The ILO is firmly normative and aims to achieve results in terms of coverage. It is less concerned with the concrete architecture of these mechanisms, and this is for very clear reasons. It states that each country must use its own tools to achieve universal coverage for insurance for income and access to basic services.

**DIAGRAM 3**  
**ALTERNATIVE ARCHITECTURES FOR THE ILO SOCIAL PROTECTION FLOOR AND STAIRWAY**



**Universal floor, supplement, contributive and voluntary insurance**



Source: ILO, 2013.

ILO also does not specify the sources of financing for this universal coverage, but it is reasonable to assume that it basically has general revenue in mind. What it does make clear is that countries with different levels of economic development and fiscal capacity should adapt their ambitions accordingly when constructing such floors. For more mature countries, ILO tends to see the social protection floor as a stepping stone towards universal social security coverage based on contributions. In the least developed countries, ILO defines the floor as a starting block (without necessarily giving up on the construction of contributive social security systems).

ILO clearly has little confidence in purely universal systems that use general revenue to offer basic protection to the population.

*The concept of Social Protection Floor **does not replace classic social insurance**, nor does it aim to propose that social protection policies should have a flat-rate design. The ethical and moral priority assigned at the international level to the eradication of poverty and extension of social protection policies to those excluded by means of a Social Protection Floor, in accordance with Recommendation 202, **in no way prevents the simultaneous vertical development of existing contributive and/or universal regimes** (ILO, 2013, p. 14, emphasis in the original).*

One central problem with this proposal relates to the funding sources of these basic systems, and the way in which they compete with the resources used in contributive systems. According to ILO, mature countries need to improve the actuarial sustainability of contributive systems, which points to at least a concern for these costs. But clearly, ILO deems it necessary for the State to maintain a key role in managing, regulating and possibly supporting traditional contributive systems.

In summary, the ILO proposal is novel in that it recognizes that it is impossible to achieve adequate coverage using classic social security and to explicitly defend the State's role in achieving this. Although this suggestion has a universalizing tendency, it is more risky to describe it as a proposal for a universal State architecture.

## **B. Efficient universalism: universal worker insurance**

Santiago Levy (2009, 2011) and a group of technical officials from the Inter-American Development Bank (IDB) and the Mexican Center for Economic Research and Teaching (CIDE) (Antón, Hernández and Levy, 2012) are behind this proposal. For the first time, this proposal starts out from a markedly liberal perspective to advocate a universal insurance model for workers. This has gained increasing technical acceptance, although it is difficult to translate into policy. It should be stated that the proposal was devised and developed for Mexico, and some of its features have then spread regionwide.

The central premise is that there are four shortcomings in the current mixed system that combines the separate strands of contributive and non-contributive insurance and services for workers and their families:

- (i) Incomplete and erratic risk coverage;
- (ii) Promotes evasion and narrows the tax base;
- (iii) Disassociates contributions from benefits, thereby undermining fiscal sustainability;
- (iv) Distorts the labour market and reduces real wages and total factor productivity.

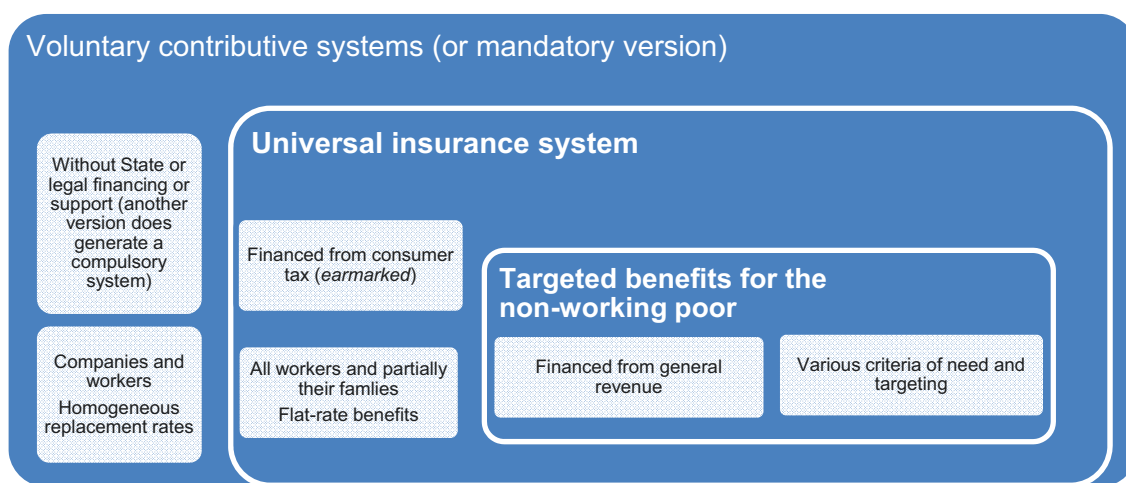
In order to overcome this situation, the authors suggest changing the source of financing from payroll to consumption and from contribution-based eligibility to worker registration and wage declaration. They consider that this achieves improved and more robust coverage, creates a link between contributions and benefits that ensures fiscal sustainability (in a single contribution and flat-rate benefit model), reduces labour market distortion, increases equity, reduces poverty, decreases evasion and broadens the tax base. In this scenario, basic worker benefits cover the usual pension, disability, survival, work accidents and health insurance. Unemployment insurance is also added, while daycare for workers' children is not included (as such centres are now part of the system in Mexico).

In Mexico, these benefits currently apply to formal workers contributing through their payroll, along with employer contributions and some State contributions. Non wage workers and informal waged workers receive a less extensive and impressive range of benefits, which are based on targeting criteria rather than contributions. This can generate labour market distortions and encourage employees and employers to avoid formality and receive the State subsidy for informal work. Furthermore, because many formal workers will not have accumulated enough contributions to benefit from the pension, disability or survival benefits, they see their contributions as a tax (rather than insurance to be benefited from).

What lies at the root of the proposal is a quest for increased labour market efficiency and a more transparent financing and eligibility system. The proposal is a simple one: the systems and their benefits will be universally funded from a portion of consumption taxes (or a new consumption tax). On a more detailed level, these systems would ideally be fully funded rather than pay as you go (PAYG), with the State making individual contributions per worker on the basis of consumption taxes and the individual registration of workers.

This model also clearly separates universal worker insurance from net transfers to tackle poverty situations. The latter do not disappear completely, but their only aims are poverty reduction and redistribution to the poor. More demanding and higher quality insurance systems also survive, and will be provided by employers to workers through contributions (but will not be legally backed by the State) (see diagram 4). This vision is already being considered in Mexico (Antón, Hernández and Levy, 2012), but with second pillars remaining compulsory.

**DIAGRAM 4**  
**STYLIZED MODEL OF UNIVERSAL WORKERS' INSURANCE**



Source: Prepared by the author, based on Levy, 2011.

The advantage of this model is to provide tangible financing options and to tackle the roots of the dual nature of Latin American labour markets: contributive systems based on the formal payroll. Strictly speaking, this is a model involving universal insurance for workers and targeting for the poor (rather than a purely universal model).

Pensions and health insurance will be universal for workers. What is removed is the distinction between waged and unwaged workers and between formal and informal workers. There are no eligibility criteria not based on work. This is partly because many of the risks being covered relate to or are defined as risks that come with worker status. However, this does not have to be the case. The non-contributive pension systems in the Netherlands, New Zealand and other countries that dominated the Scandinavian countries in the early stages of building their Welfare States do not define eligibility based on prior or present work status, but only on the basis of citizenship, residency and age. The basic pension system in the Federal District of Mexico is similar. Protection does not take the form of insurance against retirement, but rather there is a guarantee of basic income for citizens.

In addition, the funding mechanism for this proposal is clearly based on consumption tax, and this is because this instrument is the most neutral in distributive terms (many consider it regressive, particularly the way it is applied in the region). In any event, such a universal insurance system would clearly have much more redistributive potential than the payroll system for formal workers. This is not so much a reflection of the new system's redistributive vocation, as an indication of the regressivity of such systems in many of the region's countries. As pointed out by Antón, Hernández and Levy (2012), the economic



mantra is that it is not reasonable to ask one instrument (universal insurance system) to perform two functions: alter individual consumption over time (its explicit aim) and redistribute income (side effect due to high initial inequality and the regressive structure of existing social security architecture).

### C. Basic universalism: social investment and citizenship

Basic universalism was proposed by a group of independent technical officials involved in debates within the Inter-American Institute for Economic and Social Development (INDES) and IDB on 1990s social reform in Latin America (Filgueira et al, 2006). From a position that was critical of old contributive models and new targeted and market-based models alike, the idea emerged of a basic universal model. This meant fundamental guarantees of insurance and services. They also argued for a spending limit on traditional contributive options and for less emphasis on compulsory individual insurance administered by the State. This was because it was tantamount to the State giving up on correcting shortsightedness in middle- and high-income groups.

Lastly, this proposal is not opposed to the targeted policies from the twenty-first century for poor families with children or other vulnerable groups. They see targeting as a step, not on the way to contributive systems (like the ILO view) but as a basis for building universal or quasi-universal coverage systems based on citizenship. The next stage is then to build basic universal floors that become policies that now do become targeted on extreme poverty and social exclusion (Huber and Stephens, 2012).<sup>12</sup>

Basic universalism is based on six key systems of benefits and transfers:

- (i) Guaranteed basic income for families with children;
- (ii) Guaranteed basic income for older adults;
- (iii) Basic income for the unemployed;
- (iv) Universal coverage for compulsory schooling;
- (v) Insurance in the form of a basic universal health package;
- (vi) Universal family time and care service policies.

As seen in the above description, basic universalism is far removed from social security models based on worker risk (apart from basic unemployment insurance). These basic benefits are intended as a general social investment and insurance system that is not linked to formal employment or to workers. Although basic universalism and the ILO view share a basic universal floor and agree on the efficiency and effectiveness problems of segmented contributive and non-contributive systems described by Levy and collaborators six years later, basic universalism goes further. It is part of and inspired by citizen wage models and Nordic universal services, where basic welfare guarantees are as separate as possible from labour status and the purchasing power of individuals and families (Huber and Stephens, 2012). It also places a huge emphasis on productivist welfare styles and early social investment based on efficiency, not only to lift the costs and distortions of contributive systems on the labour market but also to guarantee adequate consumption in the early years of the life cycle.

Coverage is designed to be complete for population categories defined by attributes that everyone has or is highly likely to have at some time in the life cycle. As a result, all children, mothers, older adults, unemployed and sick people should be covered by one or more mechanisms in a basic universalist package. Systems based on belonging to vulnerable social groups or those in income poverty may or may not be part of basic universalist strategies (in the light of States' fiscal limitations and institutional capacities at a given time). However, their fate within this type of model depends on the maturity of the contributive systems. In mature systems, these arrangements tend to disappear or become

<sup>12</sup> See Huber and Stephens (2012), Chapter III, where they use the basic universalist model to make an explicit proposal of basic universalism that excludes higher income deciles to cover about 60/70% of potentially eligible population (with an estimate of the redistributive effects of this strategy).

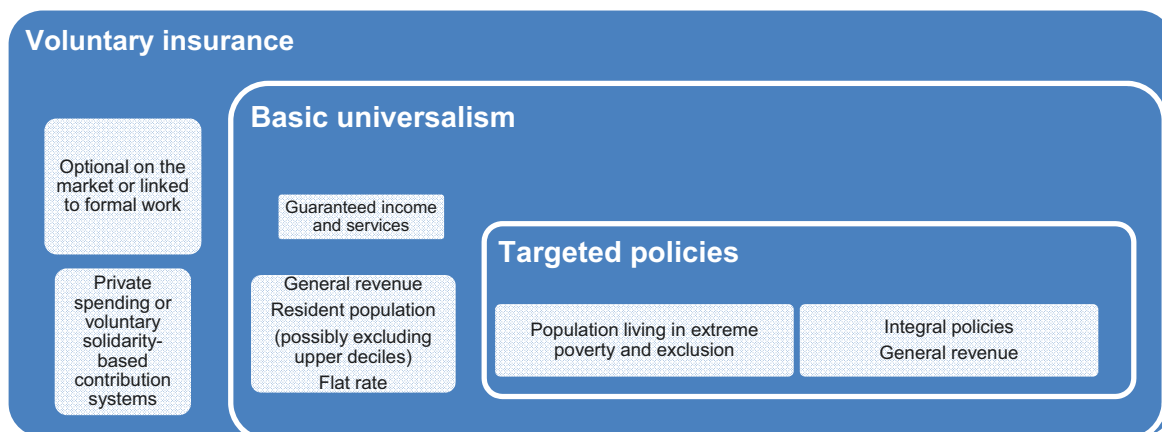
a marginal part of social protection. In less developed systems, they may form the basis for a universal floor but would lose their own targeted nature.

There are some features of basic universalism that make it very difficult to implement as a public policy and to make it politically viable. According to basic universalism, implementing this set of basic benefits requires States to move away from financing social security from payroll, and move towards using general treasury resources. However, this involves carrying out two difficult operations simultaneously. The States must reduce payroll charges, as well as decreasing spending and therefore the benefits provided under the systems. Strictly speaking, basic universalism proposes a long-term removal or minimization of stratified contributive systems. As an alternative, these systems can be gradually converted into flat-rate universal coverage models including voluntary market-based or solidarity-based models (but with no State participation or support). This is essential for basic universalism, as it exempts formal middle- and high-income groups from their contributions to social security, but then taxes them more in the form of income tax and consumption taxes.

On this new fiscal basis, basic universalism provides a system of benefits to the general population, rather than to workers. This takes the form of a highly selective set of benefits that are limited in quality and quantity. Conceptually speaking, this operation implies the radical collectivization of basic risks in redistributive form, basic human capital investment in the general population and the privatization of stratified consumption curves and additional investments in human capital. The model is schematically represented in diagram 5.

In summary, the operation is technically simple but politically complex, as it redefines and restructures the State's roles in smoothing out consumption curves and redistribution. The axis becomes redistributive as the State withdraws from or minimizes its role as income and consumption curve smoother throughout society, and concentrates instead on guaranteeing basic income and services of uniform quality to the entire population. It is not up to the State to subsidize social investment throughout the chain of stratified opportunities, except at that basic common level.

**DIAGRAM 5**  
**STYLIZED MODEL OF BASIC UNIVERSALISM**



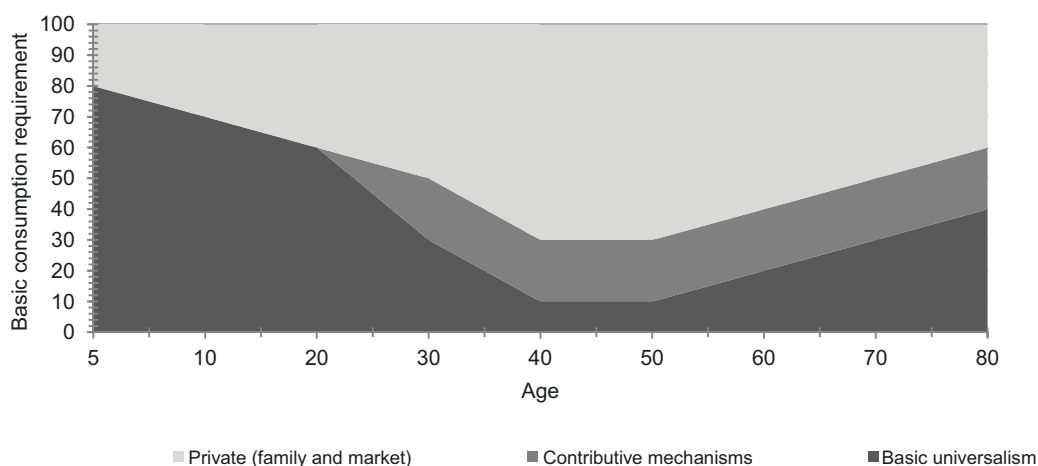
Source: Filgueira et al, 2006.

The key to redistribution is inherent in the system, as it collects revenue in a progressive manner and spends it in a homogenous or almost homogenous way (Huber and Stephens, 2012; Filgueira, 2007, Afonso, 2006).<sup>13</sup> In this model, targeting is therefore a marginal tool, which is aimed at tackling extreme situations of exclusion (rather than redistributing income).

<sup>13</sup> This would be almost homogenous because some basic universalist proposals for fiscal restrictions allow the exclusion of higher-income groups from benefits and transfers. In the words of Huber and Stephens: "target them **out** of the system". The other option is to recover those costs via high marginal tax rates for the richest quintile or decile.

Another characteristic of basic universalism is its strong generational bias, in terms of fiscal efforts made and the scale of risk and investment collectivized in different generations (and what part of the risk and investment is left in the hands of the market or to be decided by individual agents). Figure 12 shows the stylized trend for what might be a desirable structure for basic universalism in terms of guaranteed consumption, consumption under contributive insurance mechanisms and consumption accessed through purchasing power in the market - with 100% represented by adequate basic consumption.<sup>14</sup> Although the average weighting of each sphere will vary on the basis of each country's fiscal capacities (because of per capita GDP, tax collection capacity, formal employment rates and private purchasing power), the architecture's emphasis on age remains the same.

**FIGURE 12**  
**AGE AND WEIGHTING OF VARIOUS DYNAMICS IN ACCESSING ADEQUATE CONSUMPTION**  
**IN THE BASIC UNIVERSALISM MODEL**



Source: Prepared by the author, based on Filgueira et al, 2006 and Filgueira, 2007.

Lastly, basic universalism is not at odds with the dynamics of a deregulated labour market, as it is associated with ideas of flexicurity. In the same way that it imposes high levels of collection and social spending, basic universalism chooses flexible labour regulation as the best way of protecting the person and not the job. It therefore blurs the boundaries between formality and informality. In other words, it redefines the space for production and guarantee of social rights: moving it from the worker to the citizen.

<sup>14</sup> In this case, adequate consumption is defined as one above the income that defines vulnerability threshold, which in recent literature has been estimated at 1.8 poverty lines according to ECLAC. This means that, in early childhood, basic universalism would guarantee consumption above the poverty line (80% of 1.8 poverty lines). Clearly, reaching these thresholds requires a complex process of reform and a strengthening of State fiscal instruments, as well as changes to the focus of social spending and increased coverage and quality of basic services. This is therefore not an immediate target but a technical and distributive guideline.

## **VI. Universalism, its allies and enemies: the limits of social reform in Latin America**

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State fiscal capacities, direct transfers to families with children, solidarity insurance mechanisms, care policies and their intersection with gender and inequality are now being debated along with different models of the welfare State that would guide the fate, architecture and properties of the region's States. There will be no pure models, but rather a prevailing architecture: egalitarian universalism, stratified corporatism or the targeted model. It should be clearly stated that the three State options, as part of a welfare system architecture that includes the market and families, do offer possibilities for universal coverage (albeit not explicitly promoted or guaranteed by the State) in terms of social investment, protection and insurance. However, each model has a different way of achieving that coverage, with varying levels of stratification in the coverage. For instance, a thriving and highly formalized labour market that extends contributive protection to families can be one route to universal coverage. Another route is an economy that enables middle-income groups to buy insurance, care and education in the market place, in conjunction with targeted policies for the poor.

However, that does seem unlikely. These options are made less probable due to high inequality, low levels of formality among the workforce, partial but incomplete incorporation of women in the workplace and the major transformations underway in terms of family arrangements. We therefore believe that it is vital to have some basic universalist insurance and promotion in order to achieve universal coverage.

In a recent work, Jennifer Pribble (2013) proposed a set of criteria to assess progress or reform towards a basic and egalitarian universalist model:

- Universal coverage.
- Transparency and rights in allocation (not discretionary or resulting from distributive pressures).
- Service quality or scale of transfers with low level of segmentation.
- Equitable and sustainable basis for financing.

A pure universalist model would offer full universal coverage (to all families with children, older adults, unemployed and the entire working and non-working population with access to health), based on objective and legally established criteria on basic rights, appropriate and uniform service quality, low or non-stratification of transfers and funding from general revenue (with a progressive tax base). This funding should also be sustainable. Using more lax criteria, Pribble (2013) accepts reforms and models that would be categorized as advanced (not pure), moderate and weak universalism. Failed or regressive reforms would make a new social benefit structure less universal using the criteria defined by Pribble (2013): coverage, allocation criteria, quality, stratification and financing.

The reality in the region does not seem to be heading for pure universal models, although it is clear that States are stepping up their efforts to achieve coverage for the poor (and in some cases the vulnerable) in terms of insurance and services. States are also making efforts or fielding responses to social pressure to improve the quality or level of benefits or transfers. Lastly, States are making progress in terms of the variety of benefits and transfers used to cover greater and more diverse social risks.

However, it is also apparent that such efforts are rarely part of a clearly universalist approach. There is an attempt to create targeted programmes or subsidies to inclusion to smooth over the cracks of contributive regimes and/or the inability of some population groups to access certain services and insurance through the market. In the region, this is generating wider coverage, albeit in a form that remains incomplete and/or significantly segmented.

Indeed, these efforts are generally presented as differentiated measures in contributive pillars and insurance based on market dynamics. This results in improved coverage and scope for social States, without any substantial change to the contributive design of the original system and its market-based or targeting variants of the 1990s. Universalizing pressures on States as part of the segmented mix of welfare systems are behind recent efforts by left-wing governments. One way of describing these efforts could be what Midaglia and Antía (2007) refer to as hybrid regimes, as in the Uruguayan case. This is particularly true for countries with mature or more developed welfare systems.

The political economy of the recent political shift goes some way towards explaining these dynamics. There are three relevant factors here: (i) electoral coalitions; (ii) the lock effect of contributive systems and the veto effect of private social benefit systems; and (iii) the private route that emerging groups imagine being associated with middle-class status.

## **A. Electoral coalitions at the basis of public policy and political shifts**

Loose electoral coalitions that lead governments to choose options with redistributive rhetoric and actions are supported by middle-income formal sectors (historical beneficiaries of pre-1980s models) and those excluded from protection but partly benefiting from targeted policies in the 1990s. More importantly, the latter population group is becoming increasingly significant in election dynamics. The former group is the organized foundation for many left-wing coalitions or parties that came to power in the new millennium. This combination of corporative base and new sectors becoming key election players explains the hybrid nature of reforms to welfare systems. One set of reforms aims to improve benefits for those in the contributive regime, while other reforms aim to provide new non-contributive benefits to historically unaffiliated groups. Few reforms generate uniform non-contributive or mixed-finance benefits aimed at informal groups (the poor and vulnerable) at the same time as formal lower-middle and middle-income groups.

The problem with these strategies and their limits in forming distributive coalitions is that they increasingly generate a sense of “fiscal injustice” that affects the scope for the State to continue increasing its collection capacity. The perception of middle-income groups is that they make fiscal contributions to a State that gives them few benefits. This is strictly untrue, as State subsidies to their health and social security contributions have often been increased by more than rises in welfare payments to the poor.

However, the very nature of such underfunded regimes conceals such subsidies, while the institutions and criteria make subsidies to the poor highly visible. This increasingly leads to a symbolic and distributive clash between the bases that brought the new governing coalitions to power.

## **B. The lock effect of contributive systems and the veto effect of privatized and private social benefit systems**

Countries with broad contributive health and social security systems face a complex institutional, fiscal and often constitutional engineering task to redefine some benefits (a health basket or some transfers) as a basic universal floor. In those countries, the technically expedient path would be to define some existing benefits and transfers as a universal floor and add coverage by integrating uncovered groups. This operation would require redefining the rights of contributive beneficiaries and applying new criteria for guaranteeing and index linking their present benefits. Basically, this would involve limiting subsidies to the stratified contributive system and redirecting them to non-protected/non-covered groups.

This does not mean doing away with contributive benefits, but rather adjusting any expansion in their quality and cost to actuarially sustainable levels. Chile has made the most progress with this type of model, precisely because its liberal reforms did away with pay-as-you-go contributive regimes (except for military personnel) and vertical solidarity-based health insurance. However, Chile has also come up against the limits of a more extreme route to universalism, due to new actors vetoing the expansion of social rights in a non-contributive system: the private actors of pension fund administrators and health insurance institutions (ISAPRE).

For these private actors, coverage that competes with their “clients” and quality that makes their cost-benefit provision unattractive is a direct threat to their survival. They will therefore veto universal mechanisms that apply to more than vulnerable groups, and will limit the quality of benefits as much as possible. A model whereby the State targets the population that is not and will not be in their portfolio is useful. Going beyond this towards a substantive decommodification of middle-income sectors constitutes a threat.

## **C. Fixed private costs and the private routes that emerging groups imagine being associated with middle-class status**

In the world’s most unequal societies, achieving an average good that is attractive to the middle classes is a highly complex task. Middle classes emulate upper classes by seeking private insurance and services. Furthermore, for the middle classes, sharing services with the poor and vulnerable is a threat to their status.

This has extremely high fixed private spending costs in order to achieve middle-class status. If the emerging and vulnerable groups escaping poverty this decade “buy into” this model, then it will be almost impossible to build a universal solidarity-based welfare system. In addition, distributive pressures will become unmanageable. The population that votes for a more redistributive and universal option is somewhat schizoid in its preferences: they want more solidarity insurance, public transfers and quality services, while also wanting more purchasing power to use their wages and pensions to access private consumption patterns perceived as being middle class. This is partly because they consider that public and collective goods guaranteed or subsidized by the State are of a lower quality than those provided by the private sector.

High growth rates over the past decade made it possible to respond on both fronts (private wages and social spending), but it will be economically and fiscally difficult to sustain this strategy in the future. This may be interpreted as or seen as directly linked to a trap involving public goods: the latter are poor quality, which leads the middle classes to abandon them as soon as their income allows it (private education and health, residential segregation and private risk insurance). This self-imposed exile of the elites and middle and upper-middle classes means that public goods lack powerful users who demand quality. This feeds back into low provision of quality public goods. In a typically Hirschmanian tragedy (exit, voice and loyalty), society is segmented on the basis of ability to go private, while public and collective goods deteriorate or lose the race with the private sector.

In summary, the ideology and tone-based shift towards redistribution in Latin America was based on a loose coalition of subordinate sectors that punished the faults of a conservative modernization project that legitimized aspirations but did not enable reliable access to spheres that would have satisfied such aspirations. This loose inter-class coalition is not a stable distributive coalition, and nor will it become one without a series of State-guaranteed public goods, transfers and services that will satisfy them as consumers and that will then cultivate their loyalty.

This dilemma is something of a chicken-and-egg situation. Such a distributive coalition requires quality goods and services. In order to build such goods and services, a distributive coalition is required to encourage the government to affect short-term interests, in order to generate more equitable aggregate well-being in the long term. The push towards universalism is an important cornerstone of the desirable shift in the distributive political economy of our region. Without it the coalition that brought redistributive policies into place will be burst asunder by unmanageable distributional pressures.

## VII. Conclusions

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Latin America is immersed in a social experiment of epic proportions. The paths to be followed by the region's countries depend on political economy, technical knowledge and the consensuses reached by academics, international agencies and decision-makers (technocrats and politicians) on possible and desirable options.

One road that beckons over the horizon is a social model that, without drastically modifying its DNA, adds a stable non-contributive component and anti-poverty tools to its menu. This model has three differentiated and separate forms of social protection: a transfer and services policy for the poor; a contributive model just for middle-income formal workers and privileged public officials; and a private market-based model for high earners.

Another route that is possible but less likely is for a universal basic transfer and benefit system and an additional contributive and/or market-based model for insurance and access to additional goods and services. This document aimed to lay the foundations for this second option, based on the conviction that it offers the best strategy for increasing levels of efficiency, equality and social cohesion in the region. If States offer the region's new emerging classes the option of increasing their private purchasing power to access suitable insurance, goods and services, the poor will remain separate and distributive pressures will become unmanageable. On the other hand, if the State successfully generates—with fiscal responsibility—a shared basic floor for poor and middle-income groups that can be valued and defended by them, then distributive pressures will be moderated and the path to development is more solidarity-based.

This document has also suggested, although much remains to be proven, the need to redirect social spending. Passive social protection systems (protection against loss of income) should give way to active social protection systems (protection of income and services for appropriate basic consumption in childhood, services conducive to the incorporation of women into the labour market, as well as education and health). The second option is where an emphasis on guaranteed universal minimums comes into its own, with positive synergies generated between the family, State and, market—thereby contributing to a productivist slant to welfare regimes that combine the objectives of equality, efficiency and social cohesion.





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