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SOCIAL SECURITY AND DEVELOPMENT: THE LATIN AMERICAN EXPERIENCE

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I. Introduction

Few issues of public policy in Latin America today encounter such wide apparent consensus as the shortcomings of the social security systems.<sup>2/</sup> The Kafkaian trials of the citizen seeking his rights from the social security bureaucracy and the plight of the retired employee as inflation erodes the purchasing power of his pension are described in similar language in conservative, reformist and revolutionary periodicals. Consensus on the desirability of social security is equally wide; for the most part, even the most exasperated critics take it for granted that social security has become part of national life, that somehow and eventually it will be reformed and extended to ever wider strata of the population. Laws providing new social security benefits are supported by parties of the right as well as the left. Social security costs continue to edge upward in relation to the national product; in a few countries these costs have reached 12 per cent or more of the product and in many others they are in the same range (2 - 5 per cent) as the sums spent on education, the social sector making the largest direct claim on public resources.

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<sup>2/</sup> The delimitation of "social security" in Latin America presents various difficulties. On the one hand, certain types of protection (e.g., workmen's compensation for accidents, indemnification for dismissal) are commonly treated as direct obligations upon the employer. On the other hand, as will be explained below, the social security institutions commonly engage in a variety of activities (health protection, housing, low-cost credit, social welfare, etc.) that fall outside a strict definition of social security and overlap with activities of other public institutions. For present purposes, it will be necessary to take into account what the social security institutions actually do, as well as their degree of correspondence to "social security" conceived as a system of protection for defined population groups against defined contingencies.

It is surprising to find that this area of public social action, in spite of its prominence in the expectations of the average wage-earner, the enormous sums channeled through it, and its complex influence on the labour force, has been practically untouched by the development planning movement of recent years. All of the published plans and investment programmes of the Latin American countries specify social objectives, most generally in the sectors of education, health and housing, but often also in income distribution, employment, food consumption, water supply and sanitation, with occasional mention of clothing and footwear consumption and of community development. Only one or two plans discuss social security.<sup>3/</sup> Sectoral planning units linked to the national planning agency, such as most countries now possess for education and health, do not exist in social security. Social security was not included among the numerous social objectives specified in the 1961 Punta del Este Charter, and it was not until the June 1967 Meeting of the Inter-American Economic and Social Council that a resolution was passed including among the objectives of the Alliance for Progress "the development of a social security policy integrally co-ordinated with the plans of economic and social development".

In the other social sectors, inclusion in published plans and the organization of sectoral planning machinery has been far from equivalent to effective sectoral planning, let alone incorporation into a really comprehensive strategy for allocation of resources. Social chapters have been juxtaposed with economic in the plans rather than integrated. Relations between sectoral and overall planning machinery remain ill-defined. In most of the social sectors, however, it is evident that both sides feel a need for inclusion and integration. The planners have come to see education and health as important components of development strategy as well as peremptory claimants to major shares of public resources. The educators and public health specialists feel a real need for help from the planners toward the attainment of greater internal efficiency, and also a real need for a voice in planning so as to protect their claim to

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3/ The content of the plans and programmes is summarized in Chapter VIII of ECLA's Economic Survey of Latin America 1964. The only national plan to include a chapter on social security seems to be that of Uruguay, published after the above summary was made, and even here social security is allotted one of the briefest chapters in a multi-volume work. ("Reforma de la Seguridad Social", in Tomo IV, Plan del Sector Público, Plan Nacional de Desarrollo Económico y Social 1965-1974, Comisión de Inversiones y Desarrollo Económico, Montevideo, 1965.)

a share of public resources. The resulting dialogue shows good promise of practical results. Other social sectors such as housing are at earlier stages of the same process.

In social security up to the present neither the planners nor the sectoral administrators seem to have been particularly anxious for dialogue. One might surmise that planners feel that they have enough problems without tackling a sector characterised by administrative autonomy and compartmentalization, the focus of strong and complex political pressures, and the preserve of well-entrenched bureaucratic interests. Moreover, while the resources handled by the social security systems are enormous and of obvious importance for development policy, only a small fraction comes directly from the pool of public resources that the planners must try to allocate. From the other side, the social security administrations and the organized social forces that have been able to wring disproportionate benefits from the systems cannot help being aware that subjection to planning would mean painful changes, the cutting back of special privileges and hypertrophied bureaucracies, and new principles for the obtaining, investing and distributing of social security resources - matters over which the national Governments now exert influence mainly through the negative device of evading their own legally-required contributions. Meanwhile, the danger of upsetting the compromises on which their support is based and the continuing electoral appeal of social security promises has made the national political leaderships reluctant to intervene in the direction of rationalization.

In view of the costliness of the social security systems, the popular discontent with their functioning, and the irresistible pressures toward universalization, investigations of their problems and proposals for planning and reform were bound to come, but they have come mainly from directions other than the planning movement. Individual economists and social policy specialists have for some years criticized the systems and proposed remedies.<sup>4/</sup> In a few

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<sup>4/</sup> For example, Dr. Hernán Romero, La Crisis del Seguro Social y la Reforma de la Salubridad, Ediciones de la Universidad de Chile, Santiago, 1958; Aníbal Pinto, "Alternativa para una Reforma de los Sistemas convencionales de Previsión Social", El Trimestre Económico, III, July-Sept. 1961; and Humberto Vieitez Novo, "Sistema de Previsión Social del Uruguay", Revista de la Facultad de Ciencias Económicas y de Administración de Montevideo, 22, June 1963.

countries, advisory bodies on social security have been set up by the national executive.<sup>5/</sup> The international agencies concerned with technical advice and financial aid - the International Labour Organization, the Organization of American States, and more recently the Inter-American Committee on the Alliance for Progress - after many years of promotion of social security are now warning with increasing insistence that the systems as they are evolving are neither equitable nor viable. The main symptoms of crisis are sufficiently documented in recent reports of these agencies, although information on social security is remarkably fragmentary, tardy and of doubtful comparability, considering that social security institutions by their very nature might be expected to give a good deal of attention to statistics, record-keeping and cost-accounting.

The present paper will deal very briefly with the historical evolution of social security in Latin America and with the present symptoms of malfunctioning, relying mainly on the documentation prepared by the various international agencies.<sup>6/</sup> It will then turn to the processes of social change

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5/ In particular, Chile's Comisión de Estudios de Seguridad Social, which in 1963 published an Informe sobre la Reforma de la Seguridad Social Chilena in several volumes, and Argentina's Comisión Asesora Permanente de Seguridad Social.

6/ The most extensive information is to be found in a report prepared by the ILO for its Eighth Conference of American Member States, Ottawa, September 1966: "Papel de la Seguridad Social y del Mejoramiento de las Condiciones de Vida en el Progreso Social y Económico". A brief chapter on "New Orientations in the Field of Social Security" in the OAS Social Survey of Latin America 1963-64 reached similar conclusions. The International Bank for Reconstruction and Development in 1962 published a study of Financial Aspects of Social Security in Latin America. A document on "The Social Security Sector and Its Financing in Developing Countries", issued by the International Monetary Fund for internal use, contains a good deal of information on Latin America. Several of the country reports on "Domestic Efforts and Needs for Internal Financing" prepared by the Secretariat of the Inter-American Committee of the Alliance for Progress discuss national social security systems. An annotated table on social security financing supplied by the ILO to the Latin American Free Trade Association's Study Group on Labour Affairs and reproduced in the Inter-American Development Bank's Boletín de la Integración (Junio de 1967) brings out the complexity and lack of internal consistency of the systems.

and the pressures from within the social structures that have more to do with the lines of growth of all the sectors of public social action than do official policies and plans. Finally, it will discuss the functions that might be expected of social security within a really comprehensive and vigorous strategy for development, and will suggest some requisites if social security is to be linked with planning in more than a ritualistic sense.

## 2. History

The evolution of the social security systems in Latin America has taken two main forms. Although most of the problems the systems now face are common to the region, their relative importance is affected by the age of each system, by the lines of its evolution, and by the evolution of the national economy.

1) The first countries of the region to embark on social security were those of the "Southern Cone". Chile and Uruguay began in the 1920's or even earlier to establish separate funds (cajas) for specific categories of employers and workers, each with its own legally defined sources of income, conditions of entitlement, range of benefits, and administrative apparatus. Argentina followed somewhat later along the same path. These systems have grown by accretion until most of the economically active population is now covered, at least in principle, rural workers, domestic workers, and the self-employed being quite recent additions. The proliferation of separate funds has been followed but not replaced by the setting up of broad institutions covering most wage-earners not covered by pre-existing funds. The enactment of legislation regulating the working conditions and organizational rights of specific categories of employees and workers has followed a similar course.

While these countries show many dissimilarities, by the 1920's they were all set apart from the rest of the region by their relatively high degree of urbanization, by the emergence of urban middle classes as decisive political forces, and by the growth of trade union movements of some importance. The social security and labour protective initiatives derived from the conceptions of social justice held by the new political movements; they also represented promising means of strengthening the following of these movements among public and private employees and of winning over the organized workers from more

revolutionary appeals. It deserves emphasis that Chile and Uruguay began to build up their social security systems well in advance of most countries of Europe and North America; in all three countries income levels were much lower and the proportion of industrial wage earners much smaller than in the European countries that pioneered in social security.

During the 1920's it would have seemed reasonable to expect that the income levels of these three countries would continue to rise, that incomes would become more evenly distributed, and that the ability of the economies to support social security systems would be strengthened. In fact, the countries have shared with the rest of Latin America the traumatic effects of the depression of the 1930's and the vicissitudes of export booms, import shortages and import-substitution industrialization that added up to apparently satisfactory rates of recovery and economic diversification up to the early 1950's. Since then, they have deviated from most of the other Latin American countries in the sluggishness of their economies. The reasons have been debated in an extensive literature and cannot be assessed here.

One feature of this evolution has been the gaining of ability by population strata much wider than in the rest of the region to enforce demands for a larger share of the national product and for specific services from the public sector, through organizational strength and the vote. The ability of the political leadership to reconcile these demands and combine them into a whole compatible with dynamic development has been limited. Albert Hirschman has pointed to the function of the high rates of inflation characteristic of these countries since the 1950's or earlier as devices permitting the authorities to avoid direct confrontation between the size of resources and the size of separate claims on them.<sup>7/</sup> Up to a point, the piecemeal growth of social security in response to pressures and competitive political appeals seems to have served the same purpose, while the inflation has furthered a complicated juggling of the burden of costs.

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<sup>7/</sup> See Chapter 3 in Journeys to Progress, (Twentieth Century Fund, 1963).

In Brazil, the evolution of social security, beginning in the 1930's, has been rather similar, although the greater dynamism of the Brazilian economy and the wide gap between internal regions in levels of income, degrees of urbanization and size of the strata able to exert effective political pressure introduce important differences, and the percentage of total population covered remains much lower than in the first three countries named.<sup>8/</sup>

2) Most of the countries that embarked on social security during the 1930's and 1940's enacted legislation setting up a single institution to provide limited benefits to certain categories of urban workers and employees for a beginning, but with the intention of gradual expansion of coverage in respect of occupations, geographical areas and types of coverage; such expansion by stages was generally provided for in the basic legislation itself. Pre-existing pension systems for public employees and the armed forces generally retained their separate administrations. During this period, the standards and recommendations adopted by the ILO and other international agencies exerted considerable influence, and the countries drew on expert advice from these agencies. The most important social security systems established along these lines are those of Colombia, Mexico and Venezuela. While these countries were urbanizing rapidly and industrializing somewhat less rapidly, the urban middle strata and wage earners constituted relatively small proportions of total population during the formative period of social security, and political pressures for expansion were weaker than in the first group. During the past two decades the growth of national product has been considerable, but its distribution has been extremely uneven. The numbers of urban wage earners and employees in the "modern" sectors of the economies have grown rapidly, but the gap between their incomes and those of the remainder of the population seems to have widened; except in Venezuela, the rural population is still a majority. The social security systems have been able to expand only to a limited extent beyond the categories of urban workers and employees originally covered; the growth of the systems has depended mainly on the growth of these groups and on the provision of more extensive benefits

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<sup>8/</sup> While up-to-date and strictly comparable information is not available, social security contributors are estimated to have amounted to 6.5 per cent of the population of Brazil in 1962, against 40.6 per cent in Uruguay (1962), 27.4 per cent in Argentina (1961), and 22.9 per cent in Chile (1960).

to them.<sup>2/</sup>

Most of the smaller countries of the region also took the first steps toward social security through general enabling legislation, at intervals from the 1930's to the 1950's. Although trends in the individual countries have since been quite diverse, the relatively limited degree of urbanization and extent of urban salaried employment has restricted the expansion of social security in most of them. In several instances, the provision of social security is divided between a fund for public employees or public and private employees and a fund for some categories of urban workers, the latter offering much more limited benefits than the former.

### 3. Problems

The crises of the social security systems at present involve their financing, their administration, their capacity to meet their legal obligations for benefits and their capacity to extend protection to wider population strata:

1) Estimation of the costs of social security is complicated by the lack of internal coherence of the larger systems and by the discrepancies between legal obligations and actual payments by employers, workers, and the State. It is evident, however, that in the countries with systems of the first type they have reached levels found elsewhere in only a few European countries. The ratio of combined employer-employee contributions to the wage bill in covered occupations has climbed, according to one estimate, to 42-49 per cent in Chile, 39-45 per cent in Uruguay, 12.5-33 per cent in Argentina, and 22 per cent in Brazil. Contribution rates in the second group of countries are much lower, but in a few small countries with quite restricted occupational coverage they have reached anomalously high levels: in Bolivia

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<sup>2/</sup> Social security contributors are estimated to have constituted 5.0 per cent of the population of Mexico in 1963; 4.1 per cent of the population of Venezuela in 1961; and 3.2 per cent of the population of Colombia in 1964. Peru, with a dual social security system for employees and workers, had a coverage of 7.0 per cent in 1961.



35.5 per cent of the wage bill and in Paraguay 19 per cent.<sup>10/</sup> Employer contributions generally amount to two-thirds or more of the above totals. The economic implications of contributions on this scale and the real final distribution of the burden raise complex questions. It can be assumed that a large part of the burden is shifted to the general public in the form of higher prices for goods and services produced in the sectors covered by social security. It can also be assumed that, to the extent that employers cannot pass on the higher labour costs, social security contributions of these dimensions constitute important stimuli toward the adoption of capital-intensive techniques and hinder the absorption of the rapidly growing urban labour force. At the same time, a very large part of the burden is evaded, often by collusion between employers and workers; increased contribution rates forced by the chronic deficits of the systems only increase the incentives to evasion. Moreover, under inflationary conditions private employers, by delaying payment to the social security fund of their own contributions and those of their workers, are able to add significantly to their working capital with payment of only nominal interest on the "loan". In Argentina in 1960/61 employer evasion and delays in payments subtracted an estimated 47 per cent from the total that should have been collected. In some countries this practice has become institutionalized through the periodic passage of laws permitting delinquent employers to consolidate their debts to the system and pay them in quotas over several years. Prompt payment thus tends to be penalized and more and more employers wait for a consolidation law to regularize their situation.

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<sup>10/</sup> The above totals were derived from various sources by the IMF document cited in footnote 6/. Other sources differ to some extent, depending on their delimitation of "social security", but do not significantly alter the order of magnitude.

2) In a good many countries, the State itself has succumbed to the same temptation as the private contributors and is in arrears in three kinds of payments: in direct obligations for subsidies under the tripartite systems of financing, in obligations as an employer to contribute sums related to the salaries of public employees, and also in contributions withheld from these salaries. Such arrears, sometimes covered by issuance of government securities, are particularly large in some of the countries in which inflation is chronic. In Argentina in 1963, the increase in the Government's nonconsolidated debt to the social security sector was equivalent to more than 30 per cent of social security receipts, and in Brazil it amounted to nearly 28 per cent.

3) The social security systems were originally expected to meet benefits from the returns on investment of their reserves. Such returns have generally been very low, and in the systems of the first type, inflation has practically wiped out the reserves themselves; one reason has been the obligatory purchase of bonds covering government budget deficits. In the maturer systems, income from contributions of the active population no longer produces a significant surplus for investment; the system has to depend almost exclusively on such contributions to meet its current obligations. In Uruguay, between 1957 and 1965, the percentage of social security income from State contributions and special taxes fell from 10.9 to 6.4 and the income from interest from 7.4 to 1.5, while contributions of active insured rose from 77.7 to 90.3. <sup>11/</sup>

4) It is generally agreed that administrative costs are excessive, although information on them is only fragmentary. The ILO has pointed out that even where such costs are limited by law "certain devices have been adopted to hide some of these costs, imputing them to other accounts." <sup>12/</sup> In Chile the Comisión de Estudios de Seguridad Social found that, as early as 1959, social security funds employed 38,700 persons, or 26 per cent of the total number of public employees. Ratios of one functionary to every 100 contributors seem to be common in systems belonging to both of the main types. The result has been not only an important diversion of resources away

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<sup>11/</sup> Plan Nacional de Desarrollo Económico y Social, op.cit.

<sup>12/</sup> "Papel de la Seguridad Social y del Mejoramiento de las Condiciones de Vida en el Progreso Social y Económico", op.cit.

from the supposed beneficiaries of the systems, but also extreme inefficiency in their functioning. Lack of prior qualifications among the functionaries has usually not been offset by training on the job, and in spite of their numbers adequate records are not kept. (An ILO report concludes pessimistically that, without basic administrative reforms, the recent introduction of electronic data-processing in some of the systems will only increase the expense and confusion.)

5) The circumstances described above mean that the maturer systems are unable to meet in full their obligations to the population already covered for benefits that have been legislated without any regard to actuarial realities or foreseeable resources. Even among the younger and smaller systems, a few seem to have reached this point. Frustrated applicants blame the long delays in processing of benefits on bureaucratic lethargy and incompetence, but it is apparent that several of the systems are forced to use delays, evasions and dilution of the quality of services as a means of bringing the real level of benefits down to the level of resources. The ILO survey cited one institution with a waiting list for retirement pensions of 83,000 and an average processing period of more than three years; prompt action on applications would mean immediate bankruptcy. Inflation has also functioned to ease the burden upon the systems; periodic readjustments practically never restore the original purchasing power of the pensions except for a few privileged categories of pensioners. Up to a point, the very deficiencies of the systems may increase their utility to practical politicians on whom the applicants must depend for expediting of their applications.

6) All of the countries have endorsed the objective of gradual extension of social security to the whole of the low-income population, and it is generally agreed that without such an extension social security constitutes either a redistribution of income of limited importance within the lower-middle income strata or an inadmissible redistribution of income towards these strata at the expense of the needier parts of the population. The two main types of social security system present different deficiencies in regard to capability of reaching this objective:

a) In the maturer systems of the first type, rural workers, domestic servants, self-employed, etc., have in recent years been included. Difficulties in collection of contributions from these groups and their employers are naturally greater, and capacity to contribute much lower, than in the cases of the employees and workers previously covered. It can be assumed that the very wide gap between the size of these groups and the number of social security contributors among them cited by the ILO for years around 1960 has since narrowed somewhat, but effective coverage remains far from universal. Moreover, the systems have built-in inequities that are accentuated by the new accretions. The most serious of these inequities derive from a distinction between "employers" and "workers" that is particularly clearcut in Chile, where it reflects an exceptionally wide gap in average incomes between the two categories. According to calculations made by the Comisión de Estudios de Seguridad Social and since cited repeatedly, a million and a half workers affiliated to the largest social security fund in 1959 received 33 per cent of total social security benefits provided by the country, while 550,000 employees affiliated to other funds received 59 per cent. <sup>13/</sup> (Miscellaneous funds accounting for 8 per cent of benefits are excluded from the calculation.) The newer groups covered have either been added to the workers' social security institution or given a new fund of their own (e.g., the fund for rural and domestic workers in Uruguay). In the former case, the already inadequate funds of the insured workers will have to be spread much thinner. In the latter case, the amount of protection that can

<sup>13/</sup> The Comisión de Estudios de Seguridad Social also made an interesting calculation of the percentage distribution of direct costs, of real costs, and of benefits of social security in 1959:

	<u>Direct costs</u>	<u>Real costs</u>	<u>Benefits</u>
Workers	6.0	21.8	25.6
Employees	14.7	31.9	43.0
Employers	43.7	15.8	-
Receivers of income from real estate and enterprises	-	25.3	-
Public treasury	30.8	-	-
Community in general <sup>*/</sup>	4.9	4.9	4.4
Costs of administration and surpluses			27.0

<sup>\*/</sup> Costs to community in general represent certain earmarked taxes not entering into the general revenue.

be financed from the contributions of workers whose incomes are close to the subsistence level is bound to be small. If social security is to become a reality for the newly covered groups, the State will have to assume directly a large part of the cost, at a time when the State is unable to meet in full its previous social security obligations.

b) In the countries with systems of the second type, the legislative basis for planned expansion is more satisfactory and inequalities in social security rights within the systems are less complicated and less entrenched. However, the percentages of national population engaged in agricultural labour, self-employed, or intermittently employed in urban marginal occupations are a great deal larger than in the first group and their per capita incomes are lower. At their present stages, the social security systems are particularly vulnerable to the charge that they are protecting urban minorities at the expense of the whole population, but the possibility of expanding contributory systems to the majority seems to be nil.

To sum up, the systems of the first type are facing crises of inclusion, those of the second type crises of exclusion.

#### 4. Structural sources of the problems

The difficulties summarized above are well-known, and have been sufficiently documented in national and international reports not to require detailed discussion in a brief survey such as the present. The Chilean system, in particular, has been the subject of exhaustive studies and reform proposals since the 1950's. The fact that reforms are slow in coming or limited to details, and that piecemeal legislative granting of new benefits, hand-to-mouth financing and tortuous administrative procedures persist is certainly not due to unawareness on the part of Governments or the public.

The explanation must be sought in present processes of change in the economic and social structures of Latin America. Since 1961, when the ideal of planned and harmonious economic and social development was embodied in a series of commitments agreed to by the Governments of Latin America, economic growth

has continued to be fitful and very unevenly distributed between countries, economic sectors and internal regions. Social change has been rapid and pervasive but subject to striking contradictions and discontinuities. The following phenomena are particularly conspicuous facets of the overall process of change: 1) rapid and concentrated city growth, accompanied by a transformation of patterns of urban life under influences from industrialized high-income societies outside the region; 2) rural unrest associated with stagnation of incomes and employment opportunities, widening rural contacts with urban forces of change, and weakening of the traditional systems of power relationships; 3) incapacity of the dynamic sectors of the economies to offer employment to a labour force with high rates of growth and low levels of qualification; 4) emergence and rapid growth of geographically and occupationally mobile "marginal" population strata with increasingly insecure relationships to the national systems of production, consumption and political participation.<sup>14/</sup>

The objectives agreed upon in 1961 and subsequent years included more equitable income distribution, with special emphasis on shifts in the incidence of the tax burden; agrarian reform; and full employment. Objectives of this kind imply far-reaching changes in power relationships and in the character of economic growth. They also imply strong and consistent political leadership backed by administrative structures able to cope with difficult new functions. It is not surprising that tangible progress in these areas has been limited or that the passage of legislation and the setting up of new administrative and planning machinery remain the chief reasons for optimism that can be cited by the regional bodies responsible for assessment of progress.

The commitments of 1961 also included specific targets in a number of sectors of public social action. Programmes in all of these sectors could present strong cases for their indispensability to the cause of development itself, under the conception of "human resource development", and they also

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<sup>14/</sup> These questions are to be discussed in ECLA's 1967 Economic Survey of Latin America.

responded to strong popular demands. Objectives could be formulated in simple and politically appealing terms, and expansion of social programmes would not expect to meet the tenacious resistance sure to be encountered by agrarian reform and fiscal reform. It thus might be expected that the former would advance more rapidly and smoothly than the latter.

In practice, trends since 1961 have been quite irregular, both between countries and between sectors of social action. For the region as a whole the social programmes, taken together, seem to have barely maintained their previous share of the product in relation to other forms of public and private expenditure. The most impressive quantitative gains have been made by education, in which upward trends visible long before 1961 have attained a momentum making the educational systems key factors within present processes of social change, both as objects of pressures from within the societies and as sources of pressures upon the societies. The most disappointing experiences have been in housing, in which publicly-financed programmes of low-cost construction and stimulation of private initiative have proved almost irrelevant to the needs of the growing urban low-income population, so that uncontrolled shantytown expansion now threatens to overwhelm the cities. In health, the easier gains associated with the control of mass diseases have already been realized, and the relatively expensive area of protection represented by water supply and waste disposal systems is progressing, under the stimulus of large-scale external aid. Increasing life expectancies have thus far not affected age distribution in most of the countries because of continuing high fertility rates, but the fact that larger numbers of persons of all ages are now surviving under conditions unfavourable to their general levels of health and in urban settings that make them aware of the existence of modern medical services means that the demand for a wide range of curative services is rising rapidly - a trend that has important implications for social security. In

regard to food consumption, although targets have been set forth in a number of national plans, public action remains fragmentary and self-contradictory, unable to reconcile pressures to raise agricultural prices and pressures to keep urban food prices low. Although reliable information is scarce, it is probable that the diet of large low-income strata has deteriorated in recent years.

If one goes beyond the rather ambiguous indications of trends afforded by statistics that represent national averages, it is evident that the evolution of programmes in each of the social sectors has been influenced only to a limited extent by the publicly formulated objectives of social justice and human resource development. Rather, the lines of growth are the resultant of diverse pressures emanating from within the societies. This resultant cannot coincide in full with the aspirations of any one of the groups exerting pressure, nor with the publicly endorsed objectives of the programmes. The pressures come from the following directions:

- 1) The growing bodies of professionals and public functionaries employed in the social programmes. Each social sector has its own internal momentum and aspirations toward a larger share of public resources. At the same time, the rapid expansion of secondary and higher education and the limited capacity of the private sector to provide jobs meeting the expectations of educated youth have intensified previous pressures for expansion of public employment. All of the social programmes have suffered from a disproportionate growth of administrative posts in relation to staff providing direct services. In social security, administrative autonomy, sources of income not subject to central budgetary control, and political appointment of top functionaries have sometimes opened the way to padding of staffs on the basis of party recommendations rather than qualifications and have enabled the functionaries to determine their own share of social security resources without effective external control. (In an extreme case, an important part of the reserves of



one social security institution were "invested" during a period of inflation in low-interest loans for housing restricted to the functionaries of the system.) Except in the countries with the older and larger social security systems, the functionaries constitute rather small percentages of the total number of public employees, and as pressure groups do not compare in importance with the teachers and public health employees. Their influence in the passage of new social security legislation seems to have been minor, but they undoubtedly have considerable ability to block rationalization of the systems. Another kind of "internal" momentum has come from the legislative bodies, some of which have been remarkably generous in voting benefits to their own members.

2) The social strata constituting the principal clientele of the educational, housing, health, social security and social welfare services up to the present. <sup>15/</sup> These strata have been almost entirely urban, made up of employees and workers belonging to the "modern" sectors of the economies and with incomes enabling them to meet some part of the real costs of the services (through social security contributions, medical fees, housing amortization payments, maintenance of children during prolonged schooling and purchase of school supplies). While the characteristics of these strata vary widely according to national rate and stage of urbanization and industrialization, they seem to be growing not only in absolute numbers but also in relation to total population in all except a few small countries with stagnant economies. Their aspirations, under the influence of their own rising levels of education and of the consumption patterns and stimuli imported from the high-income countries of North American and Western Europe, are increasing faster than their abilities to satisfy them; a trend supported by their concentration in the larger cities. At present, they are threatened

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<sup>15/</sup> It might be expected that the social welfare services would concentrate upon the neediest strata of the urban population. To a very large extent, however, these services have evolved within social security systems, housing programmes, modern industrial enterprises and special programmes for public employees, the armed forces, etc. They have thus dealt mainly with social strata having relatively secure jobs and incomes rather than with the marginal population.

on the one hand by rising costs of the services and durable consumer goods they consider indispensable to their status, and on the other by rising taxes, since in practice the shift to progressive direct taxes strikes the salaried groups earlier and harder than the upper-income strata. Their capacity to absorb assistance from the public sector in meeting their social needs, particularly in education and housing, is practically unlimited. Their views of social "rights" are influenced by comparison of their lot with that of the middle classes of other regions, much more than by comparison with the low-income strata of their own countries. Except among the youth, prior to absorption into employment and family formation, their willingness to make sacrifices in the name of social solidarity or development is small. As was previously indicated, the salaried or "dependent" component of these middle strata is now the main beneficiary of the social security systems, after the functionaries of the systems themselves, but with wide inequalities by occupational categories and with nearly universal dissatisfaction deriving from the gap between expected and real benefits. The past domination of social security by salaried employees, with job security but little capacity for individual savings, made it natural for the systems to concentrate on retirement pensions, with legal provisions as to pensionable age and years of service for entitlement becoming steadily more generous. In public employment, relative advantages in pensions and years of service required for entitlement seem often to be the main considerations behind choices of public careers.<sup>16/</sup> As the functions of the public sector expand, the burden of retirement pensions for individuals in their forties and fifties becomes more formidable; pension for school teachers, for example, threaten to consume an unmanageably high proportion of educational allocations. At present, under the need to finance

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<sup>16/</sup> The struggle of public employees for pension privileges seems to have been deeply rooted in some of the countries long before the introduction of contributory social security. In a work published in 1876, the Uruguayan statesman José Pedro Varela stated in a denunciation of chronic budget deficits: "We see among us men in full vigour of age and health receiving fat retirement pensions; others that have served the nation only a few years and who have nevertheless been pensioned, counting as years of service years passed abroad or in other occupations, on the pretext that during these periods they were unjustifiably separated from their posts. The widows reproduce themselves with astounding fertility...; the minors keep themselves in a perpetual infancy..." (Quoted by Aldo Solari, Estudios sobre la Sociedad Uruguaya, Tomo I, Montevideo, 1964.)

pensions out of current income, the clash of interests between the "active" contributing employed groups and the "passive" pensioners is coming to the fore. The former try to evade contributions and the latter depress salary levels by seeking new jobs to supplement their pensions. The financing of middle-income housing through social security reserves can also be attributed to the domination of the systems by the urban middle strata.

3) The urban and rural low-income strata that constitute the majority in most Latin American countries. Until quite recently these strata received only token benefits from public social action - at most, a year or two of elementary schooling and some protection against mass diseases. Urbanization, coinciding with the gradual breakdown of previous sources of minimal security from the family, the community, or the paternalistic landlord is changing the meaning of "deficits" in social security as well as education, housing and health. As long as the cities were small and the rural majorities were controlled and isolated by the hacienda system, the obvious deficiencies measurable by statistical indicators did not amount to real demands exerting pressure on the public sector. The demands are now real and potentially overwhelming in their political implications, although they have no more backing than before in terms of private or public purchasing power, and although the capacity of the more marginal strata to relate demands to immediate needs is erratic. The governmental commitments to universalize and equalize the social services, however far from realization, have contributed to a widening awareness of social rights. Movements contending for political power now have to bid for the support of masses that a few years ago could be ignored or counted on to vote as directed by the landlord or local caudillo.

The low-income masses are insecure in many different ways and the promise of protection against risks has a powerful appeal to them, but their priorities are likely to be quite different from those of the previous beneficiaries of social security, and their adaptability to systems based on insurance principles and compulsory savings quite limited. Retirement pensions probably fall outside the scope of their immediate aspirations, and their forms of employment as well as their low life-expectancies would make such pensions hardly relevant. Although their response to preventive health measures may be

apathetic, free medical care is of crucial importance to them. Family allowances have an obvious appeal to groups with high fertility and subsistence levels of living. Secure tenure of a dwelling or even of a space on which to erect a shack is anxiously sought.

The most basic and intractable problem of the low-income strata, however, is employment security. Up to the present, makeshift ways of livelihood supplemented by informal mutual aid among relatives and neighbours have shown remarkable resilience in keeping measurable urban unemployment from reaching crisis dimensions, but there are symptoms that this resilience may be reaching its limit. Meanwhile, in the rural population, despite the movement to the towns of about half the population increment resulting from natural increase, the most precariously situated elements - cultivators of dwarf holdings needing additional wage income to meet minimum subsistence needs, and landless migratory workers dependent on seasonal labour - seem to be growing in numbers. Unemployment insurance would be completely inapplicable to the situation of these strata and the financing of direct measures for the support of minimum family incomes would be out of the question, even if the State becomes able to capture and redistribute a much larger share of the national income. While the resources already allocated to social programmes could undoubtedly support health care, family welfare and housing measures much better adapted to the needs of the low-income masses than at present, the underlying deficiencies and frustrations will remain until these masses can be drawn into employment with a reasonable degree of continuity and with incomes supporting an adequate level of living. Such employment is an obvious precondition for the functioning of any contributory system of social security. Moreover as long as family incomes remain highly insecure as well as inadequate, depending on a succession of temporary expedients, the families are unable to make effective use of the educational services that are counted on to raise the future employment qualifications of their children.

In all of the social sectors the State confronts pressures from previous beneficiaries for more and from potential beneficiaries for equal rights. Until recently bargaining over the allocation of public resources was restricted to urban minorities. Now, ever wider population strata are finding political channels through which to enter the bargaining. Even when the inability of the "normal" political process to satisfy contending interest-groups brings in the armed forces as arbiters or guarantors of the status quo, the problem remains and the search for expedients to attract wider popular support without threatening existing privileges is soon resumed.

In this process, the ability of the State to implement existing plans and schemes for rationalization of the social services is restricted by the low degree of consensus and confidence in its impartiality as arbitrator of the allocation of resources.

5. Criteria for social security reform

What should be the guiding principles for reform and planning of social security under the circumstances outlined above? Plausible answers to this question do not call for much originality; they have been set forth in several of the regional and national studies cited above. The more intractable problem lies in the securing of popular understanding and support for the difficult choices that must be made:

1) Costs must be kept compatible with per capita income levels and with the whole range of claims on public resources. Latin American experience demonstrates that when costs rise above a certain point neither the direct contributors nor the State can really assume the burden; in the process of evading or shifting it economic distortions and social injustices proliferate. The fixing of practicable top limits in terms of percentage of national income would depend on many factors peculiar to the country and its ways of obtaining and using social security revenue, but it would seem undesirable to allow employer-worker contributions to rise above 20 per cent of the wage bill.

2) Financing and distribution of benefits must be made compatible with national objectives for income redistribution. It is probably desirable that whatever social protection the country can afford should continue to be

financed mainly from a special tax based on earned incomes; whether this is formally contributed by the employer or the employee may not affect the real incidence of the burden very much. The objective of income redistribution implies, however, that an important share of social security income will have to come from general public revenue and that a much higher proportion of the tax sources of this revenue will have to be shifted to the high-income strata. It also implies that benefits financed in this way will have to be distributed in accordance with need, and that the better-off contributors to the system should not expect benefits matching the size of their contributions. Additional social insurance for employed groups with income levels permitting them to save for their own future security may also be desirable, but should not be subsidized by the community at large, either directly or through higher costs of goods and services produced by the insured groups.

3) The relevance to Latin American conditions of the traditional principles of insurance and financing of benefits through capitalization must be re-examined. These principles have broken down in all of the maturer social security systems of the region. Ideally, social security surpluses should constitute a valuable source of compulsory savings for developmental investment and a tool of anti-inflationary policy through limitation of current spending. The investment potential has been squandered in the past, and it is doubtful whether the future record can be better, in view of economic vicissitudes, political pressures, and the problems of extension to social strata less able to contribute than the groups previously covered. The countries with chronic inflation have been unable to use the contributions to control consumption, in view of the dimensions of evasion, and by now the social security systems constitute sources of inflationary pressure. Most countries of the region seem to have no practicable alternative to the treating of social security as a redistribution of part of the current national income to meet certain defined contingencies. If capitalization is to be retained, however, the public authorities must make really determined and coherent efforts through the planning machinery to reconcile two objectives that pull in different directions:

- a) channeling of investment to projects with high development priority;
- b) satisfactory and assured rate of return on investment. Renunciation of

the principle of capitalization would not mean abandonment of the contributory principle. If the systems are freed from the obligation to accumulate reserves, however, the immediate burden can be lightened somewhat, and, incidentally, the systems will be less tempted to spend on imposing buildings and to enter into services that should be provided by other organs of the State.

4) Social security provisions must be brought into compatibility with national objectives for full employment and for higher productivity. This criterion requires that interference with the mobility of the labour force should be kept to a minimum and that social security costs should not constitute an artificial stimulus for employers to reduce their labour force and turn to capital-intensive techniques.<sup>16/</sup> It also requires that premature retirement from the labour force should be discouraged and that the active population should not be saddled with an excessive burden for support of the retired. The agricultural labour force presents special problems in relation to these criteria. The regionally-endorsed objectives of agrarian reform imply far-reaching changes in occupational structures and the emergence of a new class of family farmers producing for the market. The alternative means by which the beneficiaries of agrarian reform can be helped to provide their own security cannot be discussed here, but there seems to be a danger that the introduction of traditional forms of social security for rural wage earners, prior to agrarian reform, will introduce employment rigidities hindering the wider transformation that is needed.

5) Uniformity, consistency and simplicity in legislative basis, administration and conditions of entitlement must be sought within a single institution responsible for the entire social security sector. As long as

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<sup>16/</sup> This also applies to the whole range of labour-protective legislation, which often has consequences the opposite of those intended, when applied to employment situations characteristic of Latin America. For example, laws prohibiting dismissals of workers or providing generous compensation for dismissal after a minimum period of employment commonly motivate employers to dismiss workers prior to completion of the minimum period for entitlement.

this requisite is not met, little progress can be expected toward the income redistribution and full employment objectives. Aside from the hindrances to labour mobility introduced by differential legislation and the important share of resources eaten up by administrative costs, administrative complexities inevitably mean that the system is manipulated for the benefit of the better-educated and more influential middle-income contributors.

6) The whole range of activities carried out by social security institutions at present should be reviewed so as to bring them into closer correspondence with the more urgent needs of the population to be covered and at the same time eliminate duplication with other social sectoral programmes. In general terms, this should mean more emphasis on protection of the family as a unit rather than the insured worker as an individual, and in particular on strengthening of family capacity to provide for the children on whom future development depends. The practicability and desirability of generalized family allowances in Latin America at present are questionable, but they would respond to more urgent social needs and should have more positive developmental consequences than do the retirement pensions.

Public agencies (and even sub-divisions of agencies) in all of the social sectors tend to function in isolation and to set up services paralleling those of other agencies, whether in ignorance of the latter or on the plea that the existing services are not meeting needs that impinge on their own direct responsibilities. The social security systems, with their administrative autonomy and restricted clienteles, have been particularly subject to this temptation and their earlier stages, when contributions provided large surpluses, made it easy to indulge the temptation.

The financing of health services through a social security tax is legitimate, and this should be one of the most promising ways for a system with limited resources to afford some protection to families of contributors as well as the population at large. Up to the present, however, the large expenditures of the social security agencies on health services have entailed various anomalies and sources of inefficiency. It has not been uncommon for



the social security system (or several separate social security funds) and the ministry of health to engage in parallel hospital-building programmes, with neither agency able to recruit sufficient physicians and auxiliary personnel to provide effective services for the masses of the population. In a good many systems the families of insured workers are entitled to only limited medical benefits, or none. Moreover, the attempts of the population strata newly incorporated into social security to make use of the medical services to which they are entitled faces them with new sources of insecurity deriving from the insufficient resources of these services: long waits for attention, perfunctory treatment, arrogance of personnel. This is probably now the most prominent and neuralgic aspect of social security to the groups covered other than the better-off salaried employees. Several workable alternative means of financing and administering public health services, inside or outside of social security, could no doubt be introduced; what is essential is that the services be unified and rationalized, one way or another.

The housing activities of the social security institutions have generally vacillated between the objective of income-earning investment of reserves and the objective of providing low-cost housing for members, without accomplishing either. The cost of housing constructed by the social security funds has placed it out of the reach of the majority of the contributors, inflation and rent freezes have wiped out the returns, and functionaries have found a tempting source of illicit gains in their ability to obtain and dispose of such housing. While the housing needs of the low-income masses are desperate, other means of mobilizing resources to meet these needs seem likely to be more effective than social security.

Future relationships between social security, social assistance and social welfare (social service) deserve more careful consideration than can be given here. Many social security institutions have set up their own social welfare units and these now constitute a leading source of employment for graduates of schools of social work. Their main function, however, is to help applicants through the administrative labyrinth constructed by the social security systems themselves. Simplification of the systems and

awakening of a disposition to serve the public among administrative personnel would eliminate most of the need for this function. At the same time, extension of social security to the marginal strata, with their manifold difficulties in gaining a secure foothold in the kind of urban society now evolving in Latin America, should open up a large and challenging area for the functions more legitimately expected of trained social workers, while attempts can be expected to invest social security with responsibilities more properly belonging to social assistance. Outside the social security systems, one finds a wide variety of small-scale public agencies and private agencies receiving public subsidies that are charged with social assistance and social welfare functions. The establishment of such agencies has responded to many separate initiatives and to the disposition of the public authorities to provide at least a token solution to glaring social evils - such as the large numbers of abandoned and vagrant children - when they have no clear ideas as to how the larger problem can be solved within the limits of the resources at their disposal and when the problem itself does not generate strong enough pressure to force them to allocate larger resources. The pressures are sure to become stronger and the future planning of social security will have to be accompanied by the working out of clear principles for the kinds of social assistance that can be afforded, the sources of its financing, and the administrative channels for its dispensing.<sup>17/</sup>

7) The social security systems must begin to plan and evaluate their operations in the light of full and reliable statistical information. In all of the social sectors the informational basis for planning remains lamentably weak, and social security is probably the worst off of all. This deficiency has several aspects:

First, practically all of the systems have neglected the opportunity to organize and disseminate information that should be an automatic by-product of their own activities. The lack of records concerning

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<sup>17/</sup> See Virginia A. Paraiso, "Social Service in Latin America: Functions and Relationships to Development", Economic Bulletin for Latin America, Economic Commission for Latin America, XI, 1, April 1966.

contributors and of full data concerning costs is striking. One of the first stages in reform will have to be the systematic collection of internal statistics and their prompt dissemination in a form intelligible to the public.

Second, neither the legislative bodies nor the social security administrations have taken advantage of the information already at hand that would throw light on the practicability and future implications of specific benefits and measures of financing. This refers particularly to demographic statistics on age distribution and rates of growth of different age groups, and to statistics on composition of the labour force. In some of the systems there is reason to believe that this neglect has been deliberate; actuarial calculations have been kept confidential because of the non-viable position they would reveal.

Third, existing demographic information is far from adequate, and information on employment and unemployment, wage levels and income distribution much less so. Quantitative generalizations and forecasts on these latter topics can be found, but for the most part they rest on very shaky foundations. It is probable that underemployment and concealed unemployment are growing in importance and that levels of living of some of the marginal groups are deteriorating, but very little is known concerning the dimensions and specific characteristics of these problems. Rational social security policies - as well as overall development policies - will require much more comprehensive and reliable information, information that can be obtained only through systematic sample surveys.

#### 6. Social security and planning

In view of the nearly universal endorsement by public authorities in Latin America of the indispensability of comprehensive longterm planning for development, it would seem obvious that social security should be incorporated into such planning, along with the other sectors of social policy. For many reasons, however, the inclusion of social security chapters in plans and the setting up of sectoral planning units would be only a first step, and not necessarily a decisive one.

The entire planning movement is now going through a stage of rethinking as a result of its confrontation with the realities of the societies and economies since 1961. The planning machinery created in these years and the accumulated experience in application of plans represent assets of great potential value, but the experience has included a great deal of frustration stemming from "general lack of political support for planning, inadequate overall development strategies, absence of effective co-ordination between policy and operational machinery and more specific drawbacks."<sup>18/</sup> Planning has not been able to substitute for vigorous and consistent policy directives, and it cannot be affirmed that the planning structures have yet functioned as effective frameworks for policy in any of the social sectors.

In social security, with its array of vested interests entrenched behind legislative and administrative entanglements, the preparation by a planning agency of a consistent programme embodying the criteria suggested above, with timetables and specifications of the share of public resources to be devoted to social security, is likely to have no immediate effect at all. In fact, as experience in other sectors indicates, planning can easily become one more device for evasion or postponement of policy decisions that would endanger the existing political compromise, and one more means of satisfying the pressures for public employment of professionals. The slowness of progress toward implementation of the recommendations made several years ago by social security reform commissions and international experts demonstrates the difficulty of crossing the gap between planning and action. The more elaborate and abstruse the techniques introduced for social security programming, the smaller the likelihood of any practical effect.

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<sup>18/</sup> "Planning in Latin America" (E/CN.12/772, 2 March 1967). This is the most recent in a series of studies in which the ECLA Secretariat has analyzed the achievements and problems of development planning.

The potential utility of planning, however, can be viewed from another and more optimistic direction. John Friedmann has made a very interesting distinction between "manifest" and "latent" functions of planning, with special reference to Venezuela.<sup>19/</sup> The former comprise the use of certain techniques for the allocation of resources in order to reach quantitative targets. The latter include the focussing of public attention on the creation of a "development society" and the rationalization of political debate over economic and social issues within a common understanding concerning limitations of resources, priority objectives, the need to choose between alternatives and the need to weigh relative costs and benefits of different measures. These latent functions can be of great value even if circumstances outside the control of the planners bring about wide divergencies between their calculations and the actual directions of economic and social change, but they cannot be realized unless public opinion has some faith in the capacity of planning to accomplish its manifest functions.

In social security the latent functions can be of crucial importance. The process of piecemeal expansion without regard to resource limits, equitability or economic by-effects is bringing unpleasant practical consequences that make millions of people aware of the need for some kind of change. The social security systems cannot be made to function better until strong popular demands that they function better offset the more

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<sup>19/</sup> John Friedmann, Venezuela: From Doctrins to Dialogue, National Planning Series I, Syracuse University Press, 1965. Another of Friedmann's conclusions is equally relevant to the probable opportunities for the application of planning to social security: "...planning typically occurs - and receives political backing - under conditions of crisis. The rationality of planning practice must therefore be a rationality adapted to its conditions; it must sacrifice comprehensiveness to the urgency of overcoming specific bottlenecks; it must be more problem - than goal - oriented; it must be piecemeal and fragmented rather than coordinative. Unfortunately, many would-be planners regret this passing of functional rationality to the point where they fail to see the rationality in successful adaptive behaviour to crisis situations... For crises always occur when there is rapid change and this, of course, is precisely the condition of modern economic development."

selfish and short-sighted pressures. The emergence of such demands requires a degree of confidence that the public authorities are acting in good faith, that they are capable of planning, and that they are trying to meet the real needs of the people affected by their plans. Effective application of planning to social security will require presentation of the factual bases and the objectives of such planning in language that can be readily understood, the widest possible publicity for these presentations, and formal representation of all groups affected by social security in the planning process.

This last requisite presents obvious difficulties. "Popular participation in planning" has become a slogan of increasing attractiveness to political leaders and planners, but there are no simple recipes for its translation into practice in societies with rigid social stratification, low consensus and intense political competition. Paternalistic traditions predispose even the most socially-oriented administrators to assume that they know what people need without asking them. Conversely, the low-income masses understandably try to escape from their pervasive insecurity by transfer of decision-making to any figure who seems to have sufficient power to produce solutions - whether employer, public official or populist leader. The strength and representativeness of the organizations representing different classes and occupational groups vary widely; many of these organizations are ideologically committed to intransigent opposition to the present public authorities, and the greater part of the low-income population can make its voice heard only by voting for populist candidates, if at all.

Nevertheless, the recent growth of peasant unions and of organizations for defense of local interests among the urban marginal population - phenomena that are only beginning to be studied - indicate that the ability of the different strata to express themselves in an organized way through leadership from their own ranks is likely to be more evenly distributed in the future. For the present, planners have to be prepared to swallow considerable portions of disorder, waste, and diversion of resources to meet demands quite different

from their own conceptions of priorities. However, if they prepare themselves to enter into a frank dialogue with the people on development objectives, resources and social needs, there are sufficient grounds for hope that the present crises can be overcome and that forms of social security capable of contributing both to development and to social justice can be evolved.