

Reassessing social policies in Latin America:

Growth, middle classes and social rights

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This paper examines the analytical bases of social policy in Latin America, as illustrated by empirical data. It finds that the dominant approach is based on the following premises: (i) economic growth is the primary mechanism for poverty reduction; (ii) social expenditure should focus mainly on the “really poor”; (iii) private-sector provision of education, health and pension services should be encouraged; and (iv) emergency social protection programmes are needed to deal with macroeconomic crises and natural disasters. The article then identifies areas in which social policy can be renewed, such as income distribution, attention to the middle class as a target of social policies, possibilities for the poor and middle classes to accumulate capital, and the economic and social rights of the population.

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I

Introduction

Economic growth in Latin America and the Caribbean in the past two decades has been modest and volatile. In fact, average per capita income growth was close to a half per cent per year in 1980-2004, and 44% of the population of the region, or around 220 million people, were estimated to live below the poverty line in 2002 (ECLAC 2003). This weak economic performance and insufficient social progress in the region are raising questions about the adequacy of economic and social policies being applied in the region by the national authorities, policies which during the last decade and a half or so have been largely inspired by the blueprint of the “Washington Consensus”.

The combination of slow growth and persistent inequality has yielded chronic poverty and social disarray despite the fact that the dominant concern in the past decade has been poverty reduction. Other social objectives such as reducing inequality of income and wealth or promoting empowerment and popular participation have not been, on the whole, policy priorities. The bet on growth-driven poverty reduction has been a disappointment in most Latin American countries, perhaps with the exception of Chile during the 1990s. Only countries with steady and very rapid growth – such as China and India – can show real gains in getting people out of poverty, something that has remained elusive in most of Latin America in the last quarter of a century. Even if rapid growth is possible, it is “filtered” by its employment intensity and by inequality levels in its final effects on poverty. In turn, the State’s ability to reduce poverty and inequality will depend on various factors such as its own capacity to raise revenues that can finance social spending, on its administrative capacity to conduct social policy and on the political will of the authorities to improve the situation of the poorest and other less affluent groups in society.

New approaches are being developed that attempt to pose the problem of economic development and

social policy in terms of human rights, including social and economic rights. Economists are trained to think in terms of incentives, constraints, scarcity and the ability of economic systems to create (or destroy) wealth. In contrast, philosophers focus more on rights, values and the ethical underpinnings of alternative social arrangements. Political scientists and sociologists, in turn, highlight the importance of social contracts and social cooperation for attaining certain social goals. Marrying these different perspectives is not easy, although it is needed for broadening our perspectives on social and economic policies. A new view in this direction is the *rights-based development* (RBD) approach that draws from different strands of social thinking. This view assumes that individuals – as citizens, consumers and producers – have a set of economic, social and political rights that cannot be separated. Economic policy should foster an environment that generates wealth as the required material base for those rights to be satisfied. Development is not only an economic problem, however; it also has a political component. The satisfaction of individual wants and rights depends on resource availability and existing power structures, which affect the actual income distribution and the enforcement of economic and civic rights.

This paper reviews the main guiding principles of social policy in vogue since the 1990s and their links with economic policies in Latin America, and it examines the extent to which the new literature on rights and development can shed light on the design of renewed social policies to overcome the deficiencies and shortcomings of current policies.

The paper is divided into five sections, including this introduction. Section II gives an overview of the evolution of social and economic policies in Latin America in past decades. Focusing on current policies, the paper discusses the three centerpieces of the prevailing approach, namely, (i) growth-led poverty reduction, (ii) targeting and (iii) private sector participation in the management and delivery of social services. Section III looks briefly at the theoretical literature on rights and development, including (conservative) libertarians (Nozick), liberals (Rawls) and more eclectic authors such as Amartya Sen and

□ This paper was produced for a meeting on human rights and development, held on 9 and 10 December 2004, at ECLAC headquarters in Santiago, Chile. The author would like to thank Juliana Pungiluppi for the helpful discussions they had on the subject.

others. The relationships between rights, resources and economic growth, on the one hand, and rights, institutions and political regimes on the other are also examined. Section IV identifies some alternatives to current social policies in Latin America and the Caribbean. Targeting of social benefits on the “really poor” as a policy principle is evaluated in terms of two criteria: (i) its demanding informational requirements for successful implementation and (ii) the political problems posed by separating the groups that are benefited by targeted policies from those who pay for those benefits (through taxes). This section discusses the possibilities of moving to broader policies in which the benefits of social policies are more “universal” – at

least reaching the middle class, as a stabilizing segment in any society. It also considers several effects of partially privatized health, education and social security systems in terms of replicating current inequality and social segmentation in the access to social benefits and services. The paper then examines the potential of asset accumulation by the poor and the middle class in housing, education, capital and land as a mechanism to equalize opportunities, to promote social mobility in stratified societies and to realize the hidden saving and productive potential of economically excluded groups that can lead to higher growth. The paper closes in section V with some remarks about social contracts in Latin America.

II

Social policy in Latin America: a brief overview

Under the development strategy of import substitution, in place from the 1930s to the 1980s, the main objectives were social modernization and the training of human resources needed by the industrialization process and the growing State. The instruments used for this purpose were: the expansion of education at various levels, including higher education (universities); housing policies to cope with a growing urban population; national public health systems; and pay-as-you-go social security. Labour market policies included legislation on minimum wages, severance payments and restrictions on firing and hiring by firms to ensure job stability of (incumbent) workers. Land reform was also implemented in some countries in an attempt to correct the highly concentrated pattern of land tenure that characterized most Latin American countries. The social constituency behind these policies consisted of trade unions, various civil society organizations in the public and private sectors and rural workers.

Until the late 1970s this development strategy cum social policy delivered economic growth and a degree of social modernization. However, the economic model also involved micro-inefficiencies associated with import protection and the growth of the public sector. The debt crisis of the early 1980s and its legacy of inflation, fiscal deficits, exchange rate instability

and debt servicing problems led to a change in the development model in Latin America. Criticism of the economic model of import substitution was also extended to its associated social model. Main critical elements of the latter were: (i) social spending was not necessarily reaching the most needy in urban and rural areas; (ii) the subsidies on certain basic goods, such as foodstuffs, were fiscally expensive; (iii) public universities, often tuition free, implicitly subsidized the children of rich households and the upper middle class; and (iv) the social security system based on pay-as-you-go delivered low pensions and did not contribute to the development of domestic capital markets.

Market-oriented economic reforms included policies of macroeconomic stabilization, external opening, financial liberalization, privatization and market deregulation. These policies started to be implemented in the mid-1980s in many Latin American countries (Chile did so in the mid-1970s under the Pinochet regime). The corresponding social policies in the 1990s had the following main features:

(i) The main social objective was poverty reduction led by faster economic growth following the adoption of market-based reforms. The reduction of wealth and income inequality was absent as a policy priority, in contrast to several previous experiments with income

and wealth redistribution that took place in the 1960s, 1970s and 1980s in the region (Solimano, 1998)¹.

(ii) Social policies focused on assisting the most vulnerable segments of the population (the poor, the elderly, children, the disabled), according to the principle of “targeting”. Targeting was complemented by social emergency funds oriented to provide support income and public works programmes to low-income groups in the wake of severe macro-economic crises or natural disasters.

(iii) Market mechanisms and relative prices were supposed to guide resource allocation, savings and investment. Social policies would have to avoid distorting relative prices through the use of price subsidies for basic consumer goods.

(iv) The private sector had an important role to play in the delivery of education, health and pensions as a natural corollary of market-based development in other areas of the economy.

(v) Labour market policies also changed in the direction of seeking more “flexibility”. Firing rules were relaxed, severance payments reduced and minimum wages de-emphasized as an income support policy.

A full evaluation of the results of these economic and social policies is beyond the scope of this paper.² However, the results of social and development policies for the region as a whole are not encouraging in terms of rapid and sustained growth, poverty reduction and lower inequality. Tables A.1 to A.7 in annex A show various indicators of poverty, inequality, social spending and GDP growth for Latin America. This evidence shows broadly a strong deterioration of social indicators (poverty and others) in the 1980s and a certain subsequent recovery, although the social situation remains fragile and critical as measured by current

levels of poverty (tables A.1 and A.2) and other indicators. Inequality persists in the region (table A.3). Modest increases in real incomes and sluggish but volatile growth occurred in the 1980s and 1990s (tables A.4 and A.7). Several growth crises took place during the last two decades that destroyed jobs and increased poverty (Solimano, 2005a).

The existing evidence seems to suggest an unequal access to education and health services by low-income groups and the middle class compared to the upper middle class and the wealthy (ECLAC, 2004). The reality in some countries of Latin America today is that of a private system that offers better quality education and health services (although often below the quality standards of advanced countries) to the upper middle class and the affluent co-existing with a poorly funded public education and health systems. The quality of education is segmented geographically and by income levels (better education is often found in urban than rural areas and in more affluent neighbourhoods than in poor ones). Moreover, international tests of educational performance in Latin American countries often show significant differences between private and public schools.

In the health sector, public hospitals are often under-funded, and queuing time for patients is routine. In Chile, in recent years, thousands of families have left the private health insurance system of ISAPRES (private health providers) and switched to the State-run National Health Fund (FONASA) system because of the escalation of costs in the private system and the limited coverage of the services offered.³ Colombia, Brazil and other Latin American countries have also introduced a growing role for private providers of health services.

¹ The cases of Cuba in the early 1960s, Chile under Allende in the early 1970s, and Nicaragua in the 1980s under the Sandinistas were the most radicalized experiments of asset redistribution. More gradual policies with a redistributive bend were implemented in Chile under Frei Montalva, in Costa Rica and in Uruguay among others.

² See ECLAC (2003) and Birdsall and Szekely (2003) for an analysis of the social situation and social policies in Latin America.

³ See Solimano and Pollack (2005).

III

The literature on rights and development: basic elements

The previous discussion on the social situation in Latin America could be framed also in terms of economic and social rights. Nearly 45% of the region's population is living below the poverty line (about 220 million people). This shows a clearly unsatisfactory effort to promote the economic and social rights of a significant part of the population that is unable to earn the minimum level of income needed to meet certain basic needs (food, clothing, transportation, housing, etc). Moreover, it is undeniable that the poor and some segments of the middle class do not have access to good health services, high-quality education or decent pensions.⁴

The literature on rights classifies the latter as (i) political and civic rights (i.e., the right to free speech, freedom of the press, right to be elected to office, right to due process, right of free movement) and (ii) economic and social rights (i.e., the right to work and to receive education, health services, a decent pension and economic security). In judging social orders, liberal authors such as John Rawls in his *Theory of Justice* have sought a criterion in which the principles of justice could be made independent of original positions in terms of wealth and political power. Thus, the resulting social contract should be not affected by these original positions, in order to ensure fairness. Rawls calls for a "veil of ignorance" in which each individual negotiating the social contract is ignorant of his or her own material interests and of the endowments of the other negotiators (wealth, talent, social connections or other attributes) that may bias the design of that contract's standards, rules and institutions. Rawls then assumes a set of social arrangements (institutions) that give greater benefits to the least well-off compared to any other alternative arrangement to ensure justice and fairness. Rawls also points out the primacy of certain political rights, such as liberty, over the attainment of economic and social rights, should both

sets of rights enter in conflict (Solimano, 1998; Solimano, Aninat and Birdsall, 2000).

Robert Nozick, in *Anarchy, State and Utopia*, adopts a more radical view on the primacy of liberty (Nozick, 1974). In his view, personal liberty, as a case of "self-ownership" or personal sovereignty, and property rights take absolute priority over "economic rights", irrespective of the consequences of exercising these rights. The "minimal State" proposed by Nozick and the libertarian approach must protect property rights and personal security, but it must abstain from any income redistribution through taxation or other compulsory means, as that would constitute a threat to property rights and the freedom of individuals to dispose of the fruits of their efforts and the return on their assets in any way they wish, without State interference (the self-ownership thesis).⁵

Rawls's position on the preeminence of political rights (personal freedom) over economic or social rights has been questioned in cases of severe economic needs such as hunger and deprivation, which can be a matter of life or death (Hart, 1973). More recently, Amartya Sen, in *Development as Freedom*, mentions that "the priority of liberty" has to be qualified in the sense that the demand for personal liberty should not have the effect of allowing economic needs to be overlooked (Sen, 1999). In turn, regarding the issue of "just institutions", the neo-Marxist approach (or analytical Marxism)⁶ questions the feasibility of devising just institutions under the conditions of concentrated ownership of private property that characterize capitalism. These authors question the (Rawlsian) device of the veil of ignorance and the original position in which enlightened legislators and politicians devise such institutions, and they point out that institutions generally serve the economic and political interests of those that design and run them.

⁴ It is apparent that the progress in assuring political rights in Latin America following the transition from military governments in the 1970s and 1980s to civilian elected governments has not been matched by an equal fulfillment of social and economic rights.

⁵ For an alternative analysis of the self-ownership thesis from a neo-Marxist perspective, see Cohen (1995).

⁶ Exponents of "analytical Marxism" are G.A. Cohen (1985), Roemer (1989), Olin Wright (1998) and others; see Gargarello (1999).

A new perspective on social policy is that of rights-based development,⁷ which sees individuals more as citizens with rights and duties than as consumers facing purely economic choices, although the two concepts need not be antagonistic. In this approach, the citizenry is composed of empowered people who actively participate in the design and oversight of the development projects and social programmes affecting them. Government and development agencies are seen as responsive to the claims of citizens for the delivery of social services. Accountability is critical in this approach. In addition, this approach views human rights as indivisible: economic, social, civic, political and cultural rights are seen as all inherent to the dignity of every person, and therefore they cannot be separated (Ackerman, 2004). This approach also put emphasis on the importance of power structures in society in explaining patterns of poverty and exclusion. Certain power structures –those which are more democratic, participatory and accountable– foster the protection of rights while other structures tend to dampen or deny their realization.

It should be noted that the fulfilment of rights assumes the existence of resources and institutional facilities or, in general, an effective democratic regime and social policy institutions that deliver the good or service implied by certain rights. Consequently, rights have an economic dimension as well as institutional and political scope.

1. Rights, resources and growth

When dealing with rights issues, economists instinctively focus on the resources needed to deliver the service or good deriving from a certain right. Trained to see the economic problem as “the allocation of scarce resources to multiple needs” (as defined by Lionel Robbins), the economist will point out the trade-offs involved in ensuring the enjoyment of various economic and social rights. Alternative ends compete for resources. For example, more resources devoted to health care will compete with the resources allocated to education or pensions. In turn, the financing of social services often involves taxation, lowering the return on productive assets and potentially hampering the process of economic growth and wealth creation.

Libertarian theory, with its emphasis on property rights, gives absolute priority to wealth creation,

although it is unclear that it takes only the protection of property rights for wealth creation to automatically flourish. A certain level of social equity and cohesion are also needed to give stability and credibility to the rules of the game. In contrast, liberal political theory seeks to balance economic and social rights with private property and political freedom. In practice this view provides the theoretical underpinnings for social-democratic capitalism. The economic correlate of Rawls in public policy is the welfare State, or a “developmental State” that taxes property and incomes to finance social expenditure and guarantee social benefits and social protection. The welfare state in Europe and the developmental State in Latin America and East Asia have historically used the instruments of taxes, transfers, regulation and public provision of education, health and pensions to provide the physical and human infrastructure needed by any economic system to operate. In addition, these policies, with all their limitations, serve as an instrument of social protection and training of human resources. From the standpoint of required conditions for wealth creation, the recent literature indicates that inequality can harm capital accumulation and productivity growth by various means, such as social polarization, higher taxation and the deterioration of capital-labour relations (Solimano, 1998).⁸

2. Rights, institutions and political regimes

Rights are closely linked to political regimes, institutions and social movements.⁹ Historically, the

⁸ Centrally planned socialism is now discredited, as its historical record shows that the attainment of economic and social rights around the project of an egalitarian society required the virtual elimination of private property rights and a severe restriction of the political rights and freedoms that characterize a democracy. The economic result of the experiment, after an initial period of resource extensive growth, was stagnation and eventual economic collapse followed by political disintegration in the former Soviet Union and Eastern Europe. Social policy, under socialism, provided a high level of social protection around a modest standard of living.

⁹ The concept of human rights and their implementation is the result of an evolutionary process. Voting rights have changed over time. In the nineteenth century, only people with a certain level of wealth could vote. Women’s right to vote came after men’s. Economic and social rights also evolved over time. Social security in the United States and the United Kingdom were instituted in response to the economic hardship people had to endure during the Great Depression and the Second World War. Implicit in the creation of these institutions was the belief that people had the right to at least a basic income level regardless of whether they were employed or not, and that the elderly could not be left to their own fate after a life of work. The point we want to emphasize here is that rights are a “social construction” that combines values, beliefs and social institutions.

⁷ See Hausermann (1998), Ferguson (1999), Ackerman (2004), Nankani (2004) and Alsop and Norton, (2004).

movement towards political rights, supported by labour unions, social organizations of various kinds and left-wing political parties, can be seen as associated with the expansion of democracy. Political rights such as freedom of speech, of forming political parties and of participating in elections, and civil rights such as freedom of association, assembly and demonstration, together with independent media and courts and religious freedom, are all part of the definition of a democracy (Yi Feng, 2003). So when we talk about political rights we implicitly refer to a specific type of political regime: democracy. In the case of economic and social rights, the relationship with the political regime is less direct, in principle. A right-wing authoritarian regime may defend property rights –an economic right– but at the same time deny civil rights and political freedoms. In turn, a classic socialist regime may enshrine social rights to education, employment, health and others but at the same time restrict property rights and political freedoms. Thus, although the concept of “indivisibility of rights” sounds appealing as a general principle, in practice the fulfillment of certain rights has been historically conditioned by the prevailing political regime.

There are various connections between democracy and the fulfillment of economic and social rights. Sen calls attention to the fact that famines tend to be avoided

in democracies but tend to occur in non-democratic systems (Sen, 1999). In the African context, this author mentions that in the late 1970s and early 1980s famines occurred in Ethiopia and Sudan but were avoided in Botswana and Zimbabwe. At the time, the common factor in all four countries was a decline in food production; the difference was, according to the author, that in Botswana and Zimbabwe mechanisms of political accountability and an independent press forced authorities to prevent famines that, if they had occurred, could have been very damaging to the authorities at the time of elections. Those conditions apparently were not present in the former two countries.

The enforcement of rights involves an “agency problem”. There is a beneficiary (principal), and there must be an institution (agent) to provide that beneficiary with the good or service. The right to health care, for example, necessitates an institution that provides health services; otherwise that right will represent a moral category devoid of operational content. The new literature on rights stresses the need to empower the beneficiaries of social services to demand better services and participate in the design, provision and evaluation of these services. The main purpose of the new social policies is to abandon paternalistic practices in the provision of social services and empower beneficiaries to demand social accountability from the authorities.¹⁰

¹⁰ Ackerman (2004) reviews four case studies of social accountability initiatives in social projects in Bangalore, India, Malawi, Indonesia and Peru. Some of these projects are funded and managed by non-governmental organizations or receive support from the World Bank. These social accountability initiatives are structured around “citizen scorecards”, “community scorecards” and “social accountability systems”. This methodology seeks to evaluate the degree of the recipients’ satisfaction with the quality of social services such as public transport, telephone systems, electricity, water, waste disposal and others provided by the State at national, regional and local levels. The Ackerman study evaluates the scorecard methodologies from

a “human rights perspective”. This perspective is certainly more demanding than “simple” consumer satisfaction. In fact, the consumer bias of standard focus group exercises must be replaced by the concept of the *citizen*, endowed with rights and duties. Likewise, “consumer feedback” is to be extended to the accountability of public agencies, making them responsible for delivering social services in an effective and transparent way. In addition, social participation is to be fostered and power structures identified. The approach also calls attention to the need for citizens to organize to increase the impact of their voice in a forceful way and to influence the delivery of social services in a way consistent with citizens’ rights.

IV

Options for Latin America: new criteria for social policy

New and more balanced social policies for Latin America should recognize broader goals and a greater variety of instruments. Bringing the concept of social rights and rights-based development into the picture can help to reform current policies, provided that due attention is given to issues of resource-generation (essentially through economic growth), the devising of adequate social institutions that will carry out reformed social policies and the nurturing of public accountability, connecting beneficiaries with policy makers and agencies in charge of social policy. We can identify at least four areas in which social policies can be broadened:

(i) Define the right to a universal “minimum welfare level”. In practice, this would ensure a level of income (or its equivalent in kind, such as food and other essential goods and social services) that meets the basic needs of all the population. The minimum income must be defined in per capita terms, and institutional measures will need to be put in place to reach the whole population, in particular children and other vulnerable individuals, through a combination of transfers, emergency employment programmes and the minimum wage. The evidence indicates that mothers and schools are often reliable intermediaries for providing aid to children. Other options can also be explored.

(ii) Bring in the middle class as a target of broader social policy. Devise education, health, housing and social security policies that consider the demands and specificities of the middle class, such as its quest for upward mobility and its role as a stabilizing segment in society.

(iii) Focus on the potential (and constraints) for the poor and the middle class to accumulate and own assets (housing, access to good quality education, capital and land). Broader access to asset accumulation by excluded sectors can help to mobilize hidden productive potential with positive effects on economic efficiency and growth.¹¹

(iv) Create and nurture social policy mechanisms of participation and democratic accountability.

1. Universal versus targeted systems

New principles of social policy aimed at universalizing benefits may increase the fiscal cost, but may also bring various economic and political benefits also worth considering. One rationale for targeting was that the cost of universal programmes was difficult for fiscally constrained governments to afford. Another rationale was the desire to use the scarce resources available to help the “really poor”, implicitly assuming that the rest of the population would take care of their social situation by themselves. An increase in the number of beneficiaries would clearly increase the total fiscal costs of various social programmes; however, the administrative costs of managing a targeted system are not negligible either.

In fact, Moene and Wallerstein (1998), in discussing the Scandinavian case of universal coverage for social policies, note that managing a universal system may be less costly (per beneficiary) than managing a targeted system. Moreover, there are economies of scale and standardization of payments in the universal systems that the segmented or targeted systems do not have. Targeting poses considerable informational demands on social policy, since the identification of the “really poor” is not easy. In addition, reaching the really poor is a complex task because of lack of administrative capacities to locate the marginalized, who often reside in remote rural areas or urban slums). In general, the poor are often weakly organized. They have an insufficient capacity to formulate and implement the policies that affect them and to demand accountability for these policies. “Borderline cases” are not easy to manage either. For example, denying benefits to individuals whose incomes are only marginally above the cut-off criterion that is used to define the “really poor” may create understandable frustration and even resentment among the excluded populations. Moreover, targeting implicitly identifies the poor as passive beneficiaries,

¹¹ See the various essays in Olin Wright (1998) on “asset-based redistribution” and its economic and social effects.

or “victims of the system”, rather than as agents or citizens with choices and rights (Solimano, 1998).

In principle, more universal social policies, or at least policies that reach the middle class more forcefully, could avoid several of these problems associated with targeting. Given the fiscal constraints involved, social benefits can be set in terms of an inverse relationship with the income level of the recipient, although the total elimination of the benefit at certain income level entails certain problems, as we have seen.

An important issue is the level of taxation compatible with universal benefits. In the Scandinavian system, where social policies are largely universalistic, the level of direct and indirect taxation is high but the quality of the social services provided by the State is also good. In Latin America, taxation is certainly lower than in the Scandinavian countries (and tax evasion is greater) but the coverage and quality of public services are also lower. In general, a targeted system and limited social benefits involve a lower tax burden than a social policy whose benefits are more universal. A lower level of taxation, by releasing income that would otherwise be paid out in taxes, will enable the individual or household to be free to choose the providers of education, health and pensions systems that they like and pay accordingly. Although individual choice is certainly a good thing, we cannot ignore the informational problems (let alone the income problem, assuming that the beneficiary has the income to pay for the service) of choosing among private providers of complex social services in societies, like those of Latin America, with a still modest tradition of consumer information and client protection. Also, the concentration of providers and the limited competition among them have raised the cost of delivering services. For example, the fees of private administrators of pension funds in Chile are notoriously high, owing to the limited competition and the small number of administrators in that market (Valdés, 2002).

2. Non-economic implications of universal social policies

A move to incorporate the middle class as a beneficiary of social policies may broaden political support for these policies. Targeted policies highlight a problem of incentives: the group that receives the benefits (the poor) is not the same one that pays for them (the middle and more affluent classes). Policies become more redistributive and therefore more conflictive. In turn, if those who pay the cost (i.e. taxes) also receive the

benefits of social policies, their support of those policies can be expected to increase. Also, the current experience with expensive social services provided by the private sector (typically health and pensions) whose benefits are limited to those with an ability to pay is leading people to seek alternative systems of delivery that could offer a more favourable cost-service combination.

In terms of political economy, stable, higher-income democracies often have a strong middle class and relatively low levels of inequality (Solimano, 2005b). In contrast, lower- or middle-income countries often have a weak middle class and more highly concentrated income distributions. The current pattern of expensive and better quality social services for the upper middle class and the rich provided by the private sector along with under-funded and modest quality public services for the poor and lower middle class is socially divisive. The political correlate of this system is popular dissatisfaction with current policies, potentially breeding volatile and populist politics. More universal social policies can strengthen social cohesion and stabilize politics, thereby favouring social peace and economic growth in a virtuous circle.

As we mentioned before in discussing new criteria for social policies, more emphasis should be placed on asset accumulation and ownership by the poor and the middle class as another component of renewed social policies. Sometimes this is called “asset-based redistribution” although the name is slightly inaccurate. The political consequences of asset-based redistribution may take various forms. If the policy is framed in terms of redistribution of *existing assets*, this policy can be politically conflictive, as the owners of capital, land and other assets will not want to give up the degree of social control and income that this ownership entails. Also, asset redistribution creates uncertainty over respect for property rights in the future that can be damaging to investment and innovation in a market economy.

Broader access to wealth accumulation by the poor and popular classes is a more promising approach in this regard, as it can be redistributive of the flows of assets (and not of stocks, which would reduce the zero-sum element of redistributing existing assets) and boost economic growth by unleashing more savings and investment on the part of excluded segments. This can become a powerful policy, for it empowers the recipients to successfully enter the job market, accumulate capital and effectively participate in policy-making. More democratic asset accumulation could be expected to have an economic pay-off and a political

dividend for democratizing the traditionally elitist Latin American societies. Access to capital by small-scale entrepreneurs and the poor is a redistributive policy in a dynamic sense, as it opens up access to capital accumulation by many individuals with entrepreneurial talent and a favourable attitude to risk-taking who are currently hampered by restricted access to capital

markets oriented to large firms and individuals that are socially well connected. A more democratic access to finance can benefit the large segment of small and medium-scale enterprises and the poor who lack assets and collateral. All these policies, should generate greater political support, and if properly implemented, can match social equity with economic growth.

V

Social contracts in Latin America: final remarks

Slow and volatile growth combined with persistent social inequality has led to high poverty levels and social fragmentation in Latin America. A redress of these social trends requires more growth and less inequality, among other things. At the same time, the current social policy approach, based on targeting “the poorest” and on privatized social services for those who can afford them, seems to be exacerbating social stratification in Latin American societies, with adverse effects on political stability. Problems of information, implementation and political economy are pervasive both in the practice of targeting of social benefits and in citizen choice between privately provided social services, although these are worthwhile concepts. Moreover, excessive segmentation in the quality and access of social services adversely affects the middle class, which pays taxes but receives reduced and lower quality social benefits.

A new social contract with a greater awareness of the social and economic rights of the poor and the middle class as a valid subject of the benefits of social policy may be a more promising avenue to explore. In order to be economically feasible, the new social contract must devise ways to accelerate growth on a sustained basis, mobilizing savings, investment and innovation potential from new sources traditionally excluded from the economic process. It is important to make the middle class a legitimate subject of social policies and broaden access by the poor and middle classes to asset and capital accumulation, since these groups have a reservoir of productive talent, entrepreneurship and innovation. Better and more inclusive economic and social policies will also help support the endemically weak Latin American democracies by strengthening the middle class, a traditionally stabilizing force.

ANNEX

TABLE A.1

Latin America (18 countries): incidence of poverty and critical poverty^a 1980-2002

Year	Percentage of population in:					
	Poverty ^b			Critical poverty ^c		
	Total ^d	Urban	Rural	Total ^d	Urban	Rural
1980	40.5	29.8	59.9	18.6	10.6	32.7
1990	48.3	41.4	65.4	22.5	15.3	40.4
1997	43.5	36.5	63.0	19.0	12.3	37.6
1999	43.8	37.1	63.7	18.5	11.9	38.3
2000	42.5	35.9	62.5	18.1	11.7	37.8
2001	43.2	37.0	62.3	18.5	12.2	38.0
2002	44.0	38.4	61.8	19.4	13.5	37.9

Source: ECLAC (2003 p. 50).

^a Estimates corresponding to 18 countries of the region including Haiti.

^b Percentage of population with income below the poverty line.

^c Percentage of population with income below the critical poverty line.

^d Total averages are weighted by the shares of urban and rural populations in total population.

TABLE A.2

Latin America (18 countries): population living in poverty and critical poverty^a 1980-2002

Year	Millions of persons					
	Poverty ^b			Critical poverty ^c		
	Total	Urban	Rural	Total	Urban	Rural
1980	135.9	62.9	73.0	62.4	22.5	39.9
1990	200.2	121.7	78.5	93.4	45.0	48.4
1997	203.8	125.7	78.2	88.8	42.2	46.6
1999	211.4	134.2	77.2	89.4	43.0	46.4
2000	207.1	131.8	75.3	88.4	42.8	45.6
2001	213.9	138.7	75.2	91.7	45.8	45.9
2002	221.4	146.7	74.8	97.4	51.6	45.8

Source: ECLAC (2003 p. 50).

^a Estimates corresponding to 18 countries of the region including Haiti.

^b Population with income below the poverty line.

^c Population with income below the critical poverty line.

TABLE A.3

Latin America (12 countries): income distribution by households 1990 - 2002^a

Country	Year	Share in total income of:		Ratio 10%/40%	Concentration index			
		40% poorest	10% richest		Gini	Logarithmic variance	Theil	Atkinson
Argentina ^b	1990	14.9	34.8	2.3	0.501	0.982	0.555	0.570
	1997	14.9	35.8	2.4	0.530	1.143	0.601	0.607
	1999	15.4	37.0	2.4	0.542	1.183	0.681	0.623
	2002	13.4	42.1	3.1	0.590	1.603	0.742	0.702
Bolivia	1989 ^c	12.1	27.9	2.3	0.538	1.528	0.574	0.771
	1997	9.4	27.9	3.0	0.595	2.024	0.728	0.795
	1999	9.2	29.6	3.2	0.586	2.548	0.658	0.867
	2002	9.5	28.3	3.0	0.614	2.510	0.776	0.865
Brazil	1990	9.5	43.9	4.6	0.627	1.938	0.816	0.790
	1996	9.9	46.0	4.6	0.638	1.962	0.871	0.762
	1999	10.1	47.1	4.7	0.640	1.913	0.914	0.754
	2001	10.2	46.8	4.6	0.639	1.925	0.914	0.760
Chile	1990	13.2	40.7	3.1	0.554	1.258	0.644	0.671
	1996	13.1	40.2	3.1	0.553	1.261	0.630	0.667
	2000	13.8	40.3	2.9	0.559	1.278	0.666	0.658
Colombia	1994	10.0	41.8	4.2	0.601	2.042	0.794	0.817
	1997	12.5	40.1	3.2	0.569	1.399	0.857	0.822
	1999	12.3	40.1	3.3	0.572	1.456	0.734	0.945
	2002 ^d	11.9	39.1	3.3	0.575	1.413	0.714	0.701

TABLE A.3 (continued)

Country	Year	Share in total income of:		Ratio 10%/40%	Concentration index			
		40% poorest	10% richest		Gini	Logarithmic variance	Theil	Atkinson
Costa Rica	1990	16.7	25.6	1.5	0.438	0.833	0.328	0.539
	1997	16.5	27.3	1.7	0.450	0.860	0.356	0.535
	1999	15.3	29.4	1.9	0.473	0.974	0.395	0.573
	2002	14.5	30.2	2.1	0.488	1.080	0.440	0.646
Ecuador ^d	1990	16.7	25.6	1.5	0.461	0.823	0.403	0.591
	1997	16.5	27.3	1.7	0.469	0.832	0.409	0.510
	1999	15.3	29.4	1.9	0.521	1.075	0.567	0.597
	2002	14.5	30.2	2.1	0.513	1.031	0.563	0.593
Mexico	1989	15.8	36.6	2.3	0.536	1.096	0.680	0.598
	1998	15.1	36.7	2.4	0.539	1.142	0.634	0.599
	2000	14.6	36.4	2.5	0.542	1.221	0.603	0.621
	2002	15.7	33.2	2.1	0.514	1.045	0.521	0.571
Peru	1997	13.4	33.3	2.5	0.532	1.348	0.567	0.663
	1999	13.4	36.5	2.7	0.545	1.358	0.599	0.673
	2001	13.4	33.5	2.5	0.525	1.219	0.556	0.636
Dominican Republic	2000	11.4	38.8	3.4	0.554	1.250	0.583	0.635
	2002	12.0	38.3	3.2	0.544	1.216	0.570	0.637
Uruguay ^d	1990	20.1	31.2	1.6	0.492	0.812	0.699	0.519
	1997	22.0	25.8	1.2	0.430	0.730	0.336	0.475
	1999	21.6	27.0	1.3	0.440	0.764	0.354	0.483
	2002	21.6	27.3	1.3	0.455	0.802	0.385	0.661
Venezuela (Bolivarian Republic of)	1990	16.7	28.7	1.7	0.471	0.930	0.416	0.545
	1997	14.7	32.8	2.2	0.507	1.223	0.508	0.985
	1999	14.6	31.4	2.2	0.498	1.134	0.464	0.664
	2002	14.3	31.3	2.2	0.500	1.122	0.456	0.866

Source: ECLAC (2003 pp. 73-74).

^a Country households sorted by per capita income.

^b Greater Buenos Aires.

^c Eight main cities and El Alto.

^d Urban total.

TABLE A.4

Latin America (12 countries): evolution of GDP per capita income and urban unemployment

Country	Year	Per capita GDP (in 1995 US dollars) ^a	Per capita income (in 1995 US dollars)	Urban Unemployment (percentage)
Argentina	1990	5 545	5 291	7.4
	1999	7 435	7 183	14.3
	2000	7 283	7 095	15.1
	2001	6 875	6 645	17.4
	2002	6 055	5 824	19.7
Bolivia	1989	804	821	10.2
	1999	941	961	8
	2000	941	959	7.5
	2001	934	950	8.5
	2002	938	930	8.7

TABLE A.4 (continued)

Country	Year	Per capita GDP (in 1995 US dollars) ^a	Per capita income (in 1995 US dollars)	Urban Unemployment (percentage)
Brazil	1990	3 859	3 733	4.3
	1999	4 217	4 057	7.6
	2000	4 328	4 180	7.1
	2001	4 335	4 155	6.2
	2002	4 340	4 163	7.1
Chile	1990	3 779	5 311	7.8 ^b
	1999	5 631	5 299	9.8 ^b
	2000	5 792	5 459	9.2 ^b
	2001	5 902	5 475	9.1 ^b
	2002	5 952	5 560	9.0 ^b
Colombia	1991	2 158	2 142	10.5
	1999	2 272	2 232	19.4
	2000	2 288	2 222	17.2
	2001	2 282	2 205	18.2
	2002	2 277	2 216	17.6
Costa Rica	1990	2 960	2 870	5.4
	1999	3 793	3 379	6.2
	2000	3 775	3 359	5.3
	2001	3 741	3 506	5.8
	2002	3 762	3 558	6.8
Ecuador	1990	1 670	1 588	6.1
	1999	1 699	1 627	14.4
	2000	1 682	1 677	14.1
	2001	1 742	1 689	10.4
	2002	1 776	1 740	8.6
Mexico	1989	3 925	3 853	2.7
	1998	4 484	4 430	3.2
	2000	4 813	4 878	2.2
	2001	4 720	4 810	2.5
	2002	4 690	4 813	2.7
Peru	1990	1 879	1 795	8.3
	1999	2 310	2 236	9.2
	2000	2 330	2 227	8.5
	2001	2 290	2 179	9.3
	2002	2 376	2 258	9.4
Dominican Republic	1990	1 378	1 380	...
	1998	1 831	2 009	14.3 ^b
	2000	2 052	2 207	13.9 ^b
	2001	2 079	2 274	15.4 ^b
	2002	2 133	2 334	16.1 ^b
Uruguay	1990	4 707	4 577	8.5
	1999	5 984	5 917	11.3
	2000	5 826	5 668	13.6
	2001	5 580	5 413	15.3
	2002	4 946	4 778	17.0
Venezuela (Bolivarian Republic of)	1990	3 045	3 310	10.4 ^b
	1999	3 028	3 003	14.9 ^b
	2000	3 082	3 519	13.9 ^b
	2001	3 130	3 292	13.3 ^b
	2002	2 796	2 929	15.8 ^b

Source: ECLAC (2003, pp. 239-240).

^a Refers to the real gross national income per capita.

^b National total.

TABLE A.5

**Latin America and the Caribbean (12 countries):
minimum wage and per capita GDP 2002**

Country	Monthly minimum wage (in 2002 US dollars) ^a	Urban poverty line (in US dollars) ^b
Bolivia	60.0	49.8
Brazil	68.5	53.5
Chile	161.4	62.5
Colombia	123.4	70.0
Cuba	-	-
Ecuador	128.0	73.3
El Salvador	109.1	72.4
Guatemala	115.1	85.9
Honduras	127.7	89.6
Mexico	123.4	153.9
Peru	116.6	64.2
Uruguay	52.2	75.0

Source: ECLAC (2003 p. 200).

^a Calculated with the “rf” series of the International Monetary Fund (IMF) with the exception of Guatemala for which the “wf” series was used.

^b The values of poverty lines around 1999 were converted to 2002 prices on the basis of annually averaged general price index available in the online database of IMF (<http://imfstatistics.org>) because the food consumer price index which is more suited to this type of updating is not available.

TABLE A.6

**Latin America (12 countries): social public spending
(as percentage of GDP)**

Country	1990-1991	1992-1993	1994-1995	1996-1997	1998-1999	2000-2001
Argentina	19.3	20.1	21.1	20.0	20.8	21.6
Bolivia ^a	12.4	14.6	16.3	17.9
Brazil	18.1	17.7	19.3	17.3	19.3	18.8
Chile	11.7	12.4	12.3	13.0	14.7	16.0
Colombia	6.8	8.1	11.5	15.3	14.0	13.6
Costa Rica	15.6	15.2	15.8	16.8	16.4	18.2
Ecuador ^b	5.5	5.8	7.4	8.2	8.1	8.8
Mexico	6.5	8.1	8.8	8.5	9.2	9.8
Peru	4.0	5.3	6.7	7.1	7.7	8.0
Dominican Republic	4.3	5.9	6.1	6.0	6.6	7.6
Uruguay	16.9	18.9	20.3	21.3	22.8	23.5
Venezuela (Bolivarian Republic of)	8.5	8.9	7.6	8.3	8.4	11.3
Latin America ^c	10.1	10.9	11.7	12.1	12.8	13.8

Source: ECLAC (2003 p. 176).

^a The numbers in the column 1994-1995 correspond to 1995.

^b The numbers in the column 1990-1991 correspond to 1991, and in the column 2000-2001 to 2000.

^c Simple average of countries excluding Bolivia and El Salvador. The average for Latin America and the Caribbean, if these countries were included, would be 11.3%, 11.7%, 12.5% and 13.5% for the columns 1994-1995, 1996-1997, 1998-1999, and 2000-2001, respectively.

TABLE A.7

**Latin America (12 countries): rate of growth of GDP
and per capita GDP 1980-2003**
(exchange rate in percentages)

Country	1980-1989	1990-1999	2000	2001	2002	2003
	GDP ^a					
Argentina	-0.49	4.10	-0.83	-4.44	-10.81	5.45
Bolivia	-0.42	4.00	2.27	1.65	2.74	2.00
Brazil	3.02	1.77	3.97	1.46	1.39	1.50
Chile	3.42	5.88	4.18	3.17	2.07	3.50
Colombia	3.73	2.61	-0.51	1.92	1.75	4.96
Costa Rica	2.08	5.25	1.79	1.21	2.85	4.21
Ecuador	2.15	2.43	0.88	5.46	3.80	1.50
Mexico	2.11	3.41	6.73	-0.29	0.83	1.50
Peru	0.09	3.26	2.72	0.22	4.87	3.45
Dominican Republic	3.62	4.62	7.32	2.99	4.33	-1.00
Uruguay	1.07	3.20	-1.93	-3.54	-10.74	-2.50
Venezuela (Bolivarian Rep. of)	-0.70	2.62	3.77	3.48	-8.99	-13.00
Average	1.64	3.59	2.53	1.11	-0.49	0.96
	GDP per capita ^b					
Argentina	-1.33	2.74	-2.04	-5.60	-11.88	4.19
Bolivia	-3.00	1.60	-0.10	-0.67	0.41	-0.27
Brazil	0.92	0.29	2.63	0.17	0.12	0.25
Chile	2.33	4.26	2.86	1.89	0.85	2.29
Colombia	1.69	0.65	-2.29	0.15	0.01	3.20
Costa Rica	-1.36	2.68	-0.46	-0.89	0.81	2.26
Ecuador	1.04	0.27	-1.00	3.55	1.95	-0.26
Mexico	-0.22	1.61	5.10	-1.77	-0.63	0.07
Peru	-0.97	1.42	1.08	-1.33	3.29	1.93
Dominican Republic	1.17	2.82	5.53	1.30	2.63	-2.59
Uruguay	0.41	2.47	-2.63	-4.23	-11.38	-3.16
Venezuela (Bolivarian Rep. of)	-2.50	0.38	1.78	1.54	-10.67	-14.57
Average	-0.15	1.77	0.87	-0.49	-2.04	-0.55

Source: Prepared by the author.

^a In millions of 1995 US dollars.

^b Millions of people at mid-year.

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