Social protection in Latin America: challenges of the XXI Century

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Outline of the presentation:

1. Different social protection systems at different stages of development

2. The last two decades: only cash transfers?

3. The years ahead: a different economic and political setting

4. Challenges for social protection in Latin America
Different social protection systems at different stages of development

• LA countries had different trajectories and reached different stages in the development of their welfare systems

• The uneven development of social protection systems is associated to a certain chronology of innovations in social protection, mainly to the moment of adoption of social insurance

• Political discretion and political bargaining shaped both the creation and expansion of social protection systems in Latin America (Mesa-Lago, 1978; Collier & Collier, 1992; Filgueira et al, 2011; Pribble, 2013)
The combination of different classifications (Filgueira, 2007; Segura-Ubiergo, 2007; Martinez Franzoni, 2008; Pribble, 2011; Ocampo and Gómez Arteaga; 2017) into one single ranking clearly shows the existence of three groups.

- Argentina, Chile, Costa Rica, Uruguay and Brazil, where social protection systems are most developed and consolidated.
- Dominican Republic, Bolivia, Paraguay, El Salvador, Guatemala, Honduras and Nicaragua tend to be located at the opposite extreme, with poorly developed social protection systems and low coverage.
- An intermediate situation we can locate Mexico, Panama, Venezuela, Colombia, Perú and Ecuador.

Source: Amarante and Rossel (2018)
<table>
<thead>
<tr>
<th>Developed</th>
<th>Intermediate</th>
<th>Laggards</th>
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<tbody>
<tr>
<td>Relatively high coverage of social security among workers and the elderly, as well as in basic education and health services</td>
<td>Social security systems with an intermediate coverage</td>
<td>Very weak development of social security systems and basic social services</td>
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<td>But with high stratification in terms of density and quality of benefits</td>
<td>Limited coverage of basic social services</td>
<td>Very limited coverage of contributive system, only to higher income sectors</td>
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<td>Limited room for reform due to a tighten up architecture responding to strong interests</td>
<td>Dual structure, benefiting primarily urban, educated and higher income sectors</td>
<td>Non contributory programs with weak institutionalization</td>
</tr>
<tr>
<td>Limited informality and lower proportion of workers in low productivity sectors</td>
<td>Higher informality and employment in low productivity sectors, low unemployment</td>
<td>Very small tax burden</td>
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<td>Higher proportion of older population</td>
<td>Non-contributory programs covering large proportions of the poor</td>
<td>High informality</td>
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<td></td>
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<td>Higher proportion of youth in the population</td>
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</tbody>
</table>

Argentina, Chile, Costa Rica, Uruguay and Brazil

Mexico, Panama, Venezuela, Colombia, Perú and Ecuador

Dominican Republic, Bolivia, Paraguay, El Salvador, Guatemala, Honduras and Nicaragua
The Social Protection Coverage Index is the arithmetic mean of the normalized scores of each of the 6 indicators of access to social protection for each country.
Social Protection Coverage Index Scores in Latin America

Source: ECLAC, based on household surveys
Contribution of different dimensions to the variation in the Social Protection Coverage Index (2002-2016)

Source: ECLAC, based on household surveys
Latin America (19 countries): public sector social spending, %GDP, 2000-2015

Variation 2000-2015 3.4 100%
Social protection 1.3 38%
Education 0.9 26%
Recreation, etc. 0.1 3%
Health 0.9 26%
Housing 0.2 6%
Environmental prot. 0 0%

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries
Health: increases in coverage (and spending)

Source: ECLAC, based on household surveys
Health policy

- Transformation in health insurance systems
  - Extension of basic rights to informal sector
  - Increased access and benefits for formal workers
  - New benefits
- Some examples:
  - Chile (2004): Universal Access Plan (*Acceso Universal con Garantías Explícitas [AUGE]*)*, with explicit guarantees for predefined health disorders
  - Uruguay (2008): Increased access to formal workers’ families and reduced barriers to access
  - Mexico (2003) and Colombia (1993): from coverage contingent on formal employment to parallel non contributory health systems
  - Argentina (2005): Nacer/Sumar, strengthening health care to pregnancy and newborns through protocolized insurance
- Main challenges: effective access (high costs and co-payments), high stratification, quality of services
Inefficiencies from non contributory health insurance

- Evidence suggests that non contributory insurance schemes tend to boost informal employment at the expense of formal employment, both in Colombia (*Regimen Subsidiado en Salud*) and Mexico (*Seguro Popular*). Disputed evidence in the case of Mexico (see Bosch and Manacorda, 2012)

- Uruguay: extension of healthcare coverage to dependent children of registered private-sector workers increased registered employment (Bergolo and Cruces, 2014)
Pensions: increases in protection among workers

Source: ECLAC, based on household surveys
Reforms to contributory pension systems in Latin America since 2008

<table>
<thead>
<tr>
<th>Model</th>
<th>Year</th>
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<tbody>
<tr>
<td>PAYG</td>
<td>2008</td>
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<tr>
<td>Parallel</td>
<td>2008</td>
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<tr>
<td>Pay as you go</td>
<td>2008</td>
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<tr>
<td>Substitutive</td>
<td>2008</td>
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<td>Mixed</td>
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<td>Mixed</td>
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<td>Pay as you go</td>
<td>2013</td>
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<td>Pay as you go</td>
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</tbody>
</table>

Source: Arenas de Mesa (2018)

Towards fully funded (several models)
- Argentina: Integrated parallel system
  - 1994

New trend towards public and solidarity-based systems
- Bolivia (Plur. State of): Nationalization of fully funded system
  - 2010
- El Salvador: Individual and collective savings
  - 2017

1981: Chile: Fully funded system
1993: Perú: Parallel system
1996: Uruguay: Mixed system
2008: Argentina: PAYG system
2017: Chile: Bill on increasing State participation in the integrated system

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the countries.
The gender dimension in the recent pension reforms

• Gender dimension was absent from structural reforms of pension systems in LA between 1981 and 2006, implicit assumption of gender neutrality (Arenas de Mesa and Montecinos, 1999)

• Between 2008 and 2016, some of the reforms attempted to address gender inequality:
  • special benefits for women who opt for early retirement (Costa Rica 2006)
  • equal pensions rights for female domestic workers (Uruguay 2006, Chile 2008)
  • child care credits (Chile 2008, Uruguay 2008, Bolivia 2010)
  • recognition of spouse or partner for pension rights (Chile and Uruguay in 2008)
  • elimination of sex differentiated mortality tables for calculation of benefits (Bolivia 2010, El Salvador 2017)

Source: Arenas de Mesa (2018)
Policies designed for more disadvantaged workers had gender equity consequences

- Gender gaps in coverage: relevant decrease due to *Moratorias* in Argentina and non contributory pensions in Chile
- Gender gaps in pension amounts: relevant decrease, specially in Argentina and Brazil, due to the increase in amounts of lower pensions, where women are over represented

![Gender Pension gap among elders (65+). Circa 2000 y 2013](image)

Source: Amarante, Colacce and Manzi (2017)
Non contributory pensions

- 2000s: reform of existing social pension schemes or creation of new ones to provide near-universal coverage (Rofman et al., 2015; Robles et al., 2017)

- Wide variation in terms of eligibility and generosity

<table>
<thead>
<tr>
<th>Non contributory pensions in Latin America: years of creation</th>
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<tbody>
<tr>
<td>Before 1980</td>
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<tr>
<td>Uruguay</td>
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<td>Argentina</td>
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<td>Brasil</td>
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<td>Costa Rica</td>
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<td>Chile</td>
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Source: Arenas de Mesa (2018)
Efficiency: negative labor supply effects among the elderly, attributable to non-negligible income elasticity of leisure in this population (Bosch and Manacorda, 2012). Improvements in well-being of poor older adults without having any indirect impact (through potential anticipation effects) on the earnings or savings of future program participants (Galiani, Gertler and Bando, 217).

Source: Non-contributory social protection programmes database, Social Development Division, ECLAC
Conditional cash transfers

CCT's coverage (% of total population)
(19 Latin American countries)

Public spending on CCTs (% GDP)
(19 Latin American countries, based on budgets)

Source: Non-contributory social protection programmes database, Social Development Division, ECLAC

Debated issues: conditionalities and inefficiencies
Inefficiencies in CCTs due to disconnection of social assistance and social insurance?

• Effects of CCTs on participation and hours of work are generally small in magnitude and statistically insignificant (Bosch and Mancorda, 2012) (income elasticity of leisure close to zero?)

• The loss of benefits at some level of formal earnings may act as an implicit tax and disincentive formal employment: evidence (limited) suggesting that they tend to negatively affect formal employment

• The importance of design to mitigate unintended adverse effects: elegibility based on strict verification of formal earnings may lead to substitutuion effect away from formal employment. Need to think about ways to smooth the cash notch implied by the elegibility rule. Evidence comes from countries with formalized labor markets.
## Impacts of CCTs on informality

<table>
<thead>
<tr>
<th>Country</th>
<th>Program</th>
<th>Source</th>
<th>Data</th>
<th>Identification strategy</th>
<th>Effect on informality</th>
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</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>Plan Jefes y jefas</td>
<td>Gasparini, Haimovich and Olivieri (2007)</td>
<td>EPH (2003-2005)</td>
<td>D with PS matching</td>
<td>Negative significant effect on transition into formal employment. After the increase in formal earnings, the effect disappears</td>
</tr>
<tr>
<td>Ecuador</td>
<td>Bono de Desarrollo Humano</td>
<td>González Rozada and Pinto (2011)</td>
<td>ENEMDU (2004-2010)</td>
<td>RD on predicted index</td>
<td>Positive significant effect on duration of unemployment and separation from formal employment</td>
</tr>
<tr>
<td>Mexico</td>
<td>Oportunidades</td>
<td>Azuara and Marninescu (2010)</td>
<td>ENE (1994-04), ENOE (2005-2009)</td>
<td>DD by municipality and time</td>
<td>No effect on informal employment</td>
</tr>
<tr>
<td>Uruguay</td>
<td>PANES</td>
<td>Amarante, Manacorda, Vigorito and Zerpa (2011)</td>
<td>Administrative data (2004-2010)</td>
<td>RD based on poverty score</td>
<td>Negative significant effect on formal employment</td>
</tr>
<tr>
<td>Uruguay</td>
<td>AFAM</td>
<td>Bergolo and Cruces (2017)</td>
<td>Administrative data and follow up survey (2008-2010)</td>
<td>RD design</td>
<td>Significant negative effects on formal employment (higher for individuals with medium prob. of being registered employee (not among the poorest) Effects are significant for women at the eligibility cut-off</td>
</tr>
</tbody>
</table>

Source: based on Bosch and Manacorda (2012) (updated)
The years ahead: a different economic and political setting

• Changes in social protection systems in LA took place in a context of economic growth and improvements in the fiscal situation (both due to policy decisions and increase in the demand for primary products). This does not longer hold.

• Persistent structural constraints: low levels of productivity, pressure of demography (also different by countries)

• The political context included new left governments, change in the political landscape of the region

• The puzzle of support for redistribution
The end of the Pink Tide?

- The political context for changes in social protection included new left governments in the 2000s, there seems to be a change in the political landscape of the region.

- What are the implications for social welfare? Neither Chile nor Argentina engaged in privatization or spending cuts, on the contrary, they even facilitated marginal expansions (Niedzwiecki and Pribble, 2017).

A decrease in support for redistribution?

Percentage of the population who agrees with the statement that “The state should implement strong policies to reduce income inequality between the rich and the poor”

Source: LAPOP Americas barometer survey
People are poor because they are lazy and lack will to prosper

People are poor because society treats them unfairly

Uruguay: Attitudes towards poverty (1996-2011)

Source: World Values Survey
Challenges for social protection in Latin America

Towards universalization combining contributory and non contributory schemes, or a completely different architecture?

• The horizon of universal social protection (traditional financing): as regional economies develop, labor force will enter the formal sector. In the process, non contributory pillars are central. The risk may be building a two-tiered system of basic public services and transfers for the poor and better services and transfers for the insiders (formal), and even discourage formality? Is this even possible for countries with the lowest levels of productivity?

• Universal basic social rights (ILO among others). Elimination of labor contributions and financing with consumption taxes (Levy, 2008). Searching for a delinking between social insurance from labor status. What are the basic levels? More segmentation (higher incomes go to the market)? Regressivity of financing? Political economy?

• Different strategies for different countries, according to their specific challenges? A complete modification in the architecture may not be adequate in countries with developed social protection systems, with high levels of coverage and where challenges refer to quality.
Different challenges for different countries

• Developed welfare
  • Limited room to deepen changes because poverty is relatively low and systems are ‘tighted’ to acquired benefits and corporate interests
  • Need to improve quality in basic services to avoid middle income sectors to leave public services (some signs of opting out from basic services) (De la O & Rossel, 2018)
  • Reduce stratification of benefits and public services among different categories of workers
  • Activation policies, care, skills and training

• Intermediate
  • Keep expanding coverage through a combination of contributory and non-contributory benefits
  • Improve quality and benefits to capture middle income sectors

• Laggards
  • Everything to be done! Increase tax burden to build minimum state capacity
Thank you very much...