Chapter VI

Closing social gaps

A. Understanding and combating inequality

The acute inequality that has long marked Latin America and the Caribbean has its roots in the colonial era, when broad swathes of the population were denied rights because of their race or social class and subjected to slavery, serfdom and expropriation of resources. Under later republican regimes, privileges continued to be reproduced in other ways, and asymmetries in rights and living conditions were maintained. Lastly, the pattern of development and modernization served to perpetuate socio-economic divides based on race, ethnic origin, gender and social class. The productive structure and the education system helped to ingrain and reproduce inequality and, to a great extent, continue to do so today.

Successive bouts of social struggle have succeeded in extending rights to traditionally excluded sectors. Yet Latin America and the Caribbean remains the most unequal region in the world in terms of income distribution. The preceding chapters have examined some of the structural factors underlying that inequality. The reforms of the 1980s and the impact of the debt crisis actually widened income gaps, and it was only in the past decade that this trend was reversed, thanks to more inclusive labour market dynamics and the State's assumption of a more active role in income transfer.

The distributional disparity in Latin American countries can be appreciated by comparing income levels between the richest decile and the four poorest deciles, and between the fifth quintile (the 20% of households at the top of the distribution scale) and the first quintile. Taking the first of these indices, the average per capita income of households in the tenth decile is around 17 times that of the poorest 40% of households. This ratio varies greatly from one country to the next, ranging from nine times in the Bolivarian Republic of Venezuela and in Uruguay to 25 times in Colombia (2005 data). The per capita income of the richest quintile is on average 19 times that of the poorest quintile, ranging from a factor of less than 10 (in the same two countries mentioned above) to 33 in Honduras.

The consequences of these levels of inequality on well-being have been amply documented, and they continue to prevent the fruits of growth from being transferred to the poorest sectors.

Between 1990 and 2002, income distribution remained very rigid in the region after rising in the 1980s. The period 2003-2008, by contrast, was characterized not only by sustained economic growth but also by a slight but clear trend towards a lesser concentration of income. The Gini index fell by 5% from its 2002 level for the region as a whole, driven in particular by reductions in Argentina (metropolitan areas),the Bolivarian Republic of Venezuela, Panama (urban areas) and the Plurinational State of Bolivia (urban areas), all of which recorded declines exceeding 10%. Brazil, Chile, Ecuador (urban areas), Nicaragua and Paraguay (metropolitan areas) also saw significant reductions of 7% or more in this indicator.

Figure VI.1

LATIN AMERICA (16 COUNTRIES): GINI INDEX, 1990-2008[a]

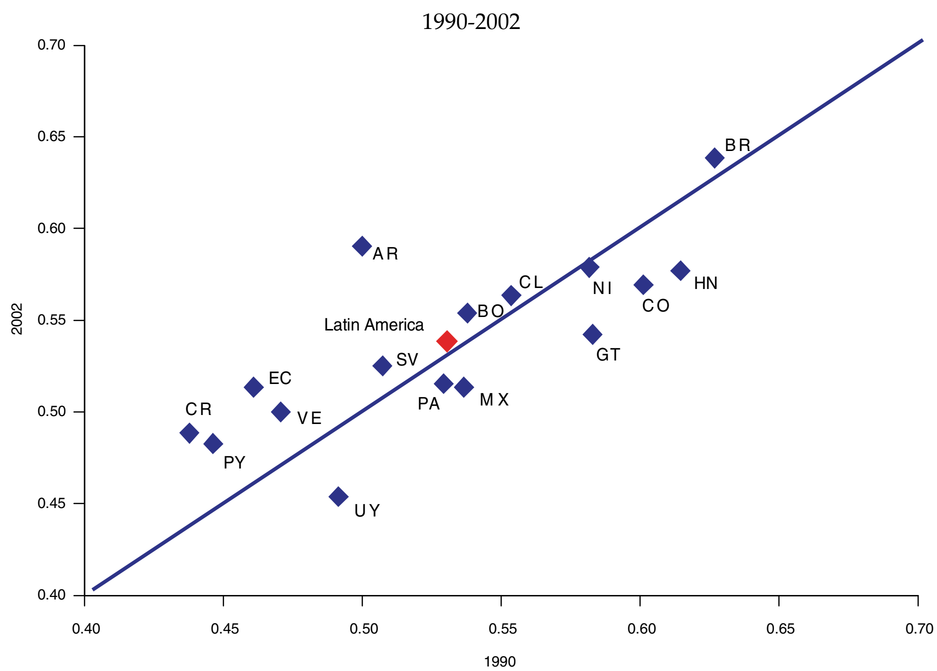
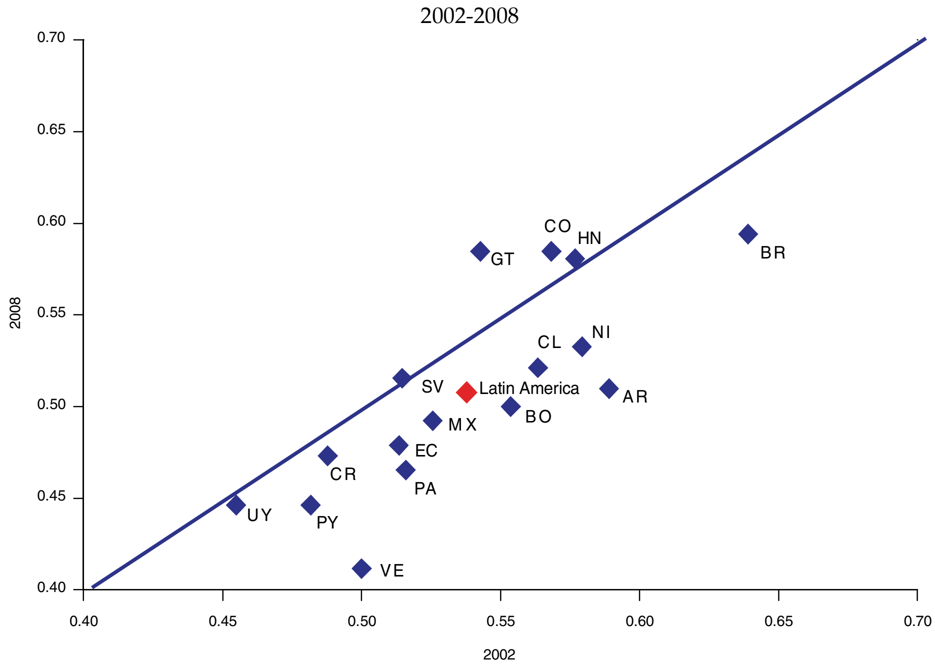
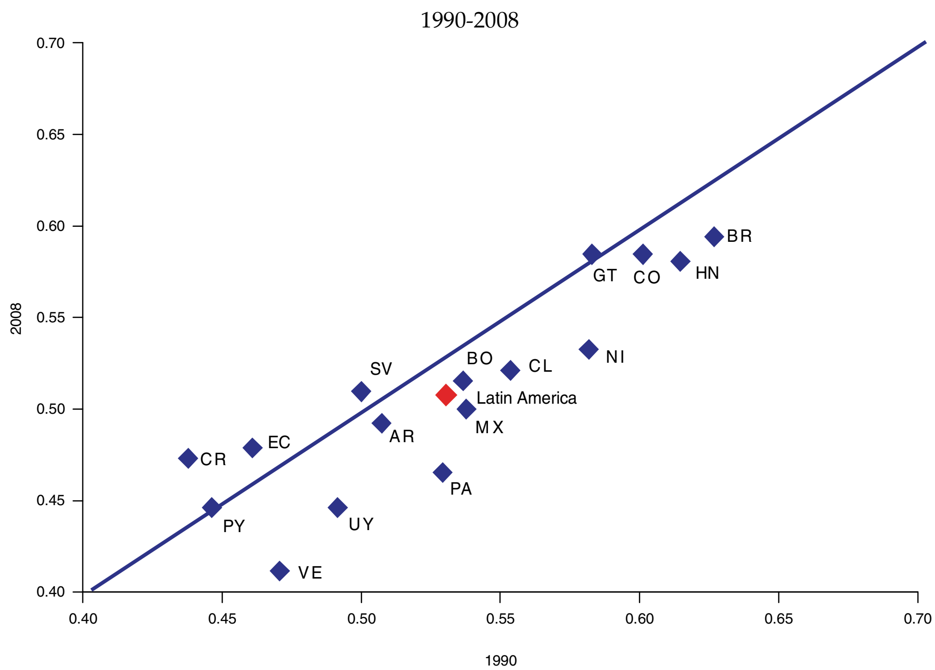


Figure VI.1 (concluded)





Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of data from household surveys conducted in the respective countries.

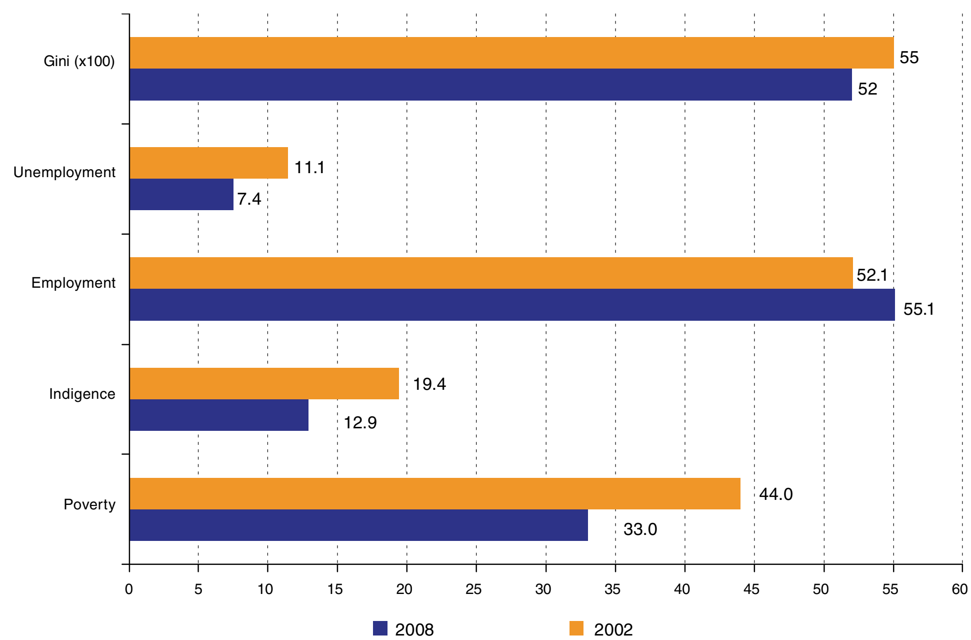
[a] The figure for Latin America corresponds to a simple average of the Gini indices for each country. The survey year used differs from country to country. The period 1990 refers to the available survey nearest to that year; the period 2002, to the most recently available survey between 2000 and 2002; and the period 2008, to available surveys between 2004 and 2008. Data correspond to metropolitan areas for Argentina and Paraguay and to urban areas for Ecuador, Panama, the Plurinational State of Bolivia and Uruguay.

The positive trend in income distribution in Latin America during the six years from 2003 to 2008 was linked primarily to the labour market dynamics discussed in chapter V and, to a lesser extent, to demographic variables (lower dependency rates) and transfers to households. Employment grew faster than the labour supply, and all income groups benefited from the rising employment rate; consequently, this factor did little to reduce the gaps between quintiles. The increase in the proportion of formal, high-quality and full-time jobs, and rising hourly wages, were of proportionately greater benefit to the members of lower-income households, resulting in a narrowing of the gap in average incomes per worker. More active policies for raising minimum wages probably favoured this outcome. Another positive factor was the narrowing of the inter-quintile gap in household transfers. In fact, changes in this income source accounted for roughly one fifth of the reduction in the per capita income gap across the region.

Figure VI.2

LATIN AMERICA AND THE CARIBBEAN: POVERTY, INDIGENCE, EMPLOYMENT, UNEMPLOYMENT AND THE GINI COEFFICIENT, AROUND 2002-2008 [a]

(Gini x 100 and percentages)



Source: Economic Commission for Latin America and the Caribbean/International Labour Organization (ECLAC/ILO), "Crisis and the labour market", *ECLAC/ILO Bulletin The employment situation in Latin America and the Caribbean*, No. 1, Santiago, Chile, June 2009.

[a] The period 2002 refers to the available survey closest to that year and the period 2008, to available surveys between 2007 and 2008. Unemployment and employment data relate to the urban rate for Latin America and the Caribbean.

Although the distributional improvements in the early part of the last decade were encouraging, the evidence points to four key aspects that will constrain future progress towards equality: income distribution, the distribution of education and knowledge, the highly unequal capacity to take advantage of that education and knowledge in the labour market, and the intergenerational transmission of inequality.

Two further factors are widening the gaps on the map of inequality. On the one hand, access to health care and systems of insurance against risk and vulnerability remains deeply segmented, including highly unequal access to health and social security benefits. On the other hand, the fastest growth in social expenditure has been on those instruments that do the least for redistribution, such as social security. Accordingly, the structure of the social safety net needs to be adjusted to move towards greater equality.

As discussed below, the past decade has seen public policies adopt a more active approach to modifying that structure, and some countries are increasing non-contributory income transfers and expanding health-care entitlements. Yet, as noted in the previous chapters, progress in these directions is hostage to regressive tendencies because of economic volatility, inequality in the productive structure, the territorial system and aspects of employment. The clouds now hanging over the region include slowing or stalling regional growth rates (the new scene described in chapter I), the end of the period of reaping the benefits of the demographic dividend (during which there are more people of working age in proportion to the numbers of children and older persons), and low fiscal capacity. For all these reasons, efforts must now be made to strengthen and deepen the mechanisms that have helped to improve distribution and reduce poverty in the recent past.

If the challenge of equality is to be properly addressed, the region must move beyond the "minimalist" view of the welfare State and of social policy that prevailed during the 1990s and move towards the construction of a universal basic social safety net that will become a structural rather than a residual feature of the development model.

B. New approaches to social policy in Latin America and the Caribbean [1]

1. Reforming the reforms of the 1980s

The debt crisis of the early 1980s imposed stiff constraints on public spending in the region. In order to cover fiscal deficits, governments adopted a policy of cutting public expenditure as the preferred adjustment variable for restoring health to the public finances. This implied cutting social expenditure, in particular, at a time when levels of well-being were deteriorating. The State scaled back its role in social, regulatory and enterprise areas. Portions of the welfare system were privatized, public social spending was reduced, and decentralization was promoted. Many social security and health-care were transformed from centralized pay-as-you-go systems in which risk and income were redistributed, to systems that matched benefits as closely as possible to people's capacities in the market, and encouraged individual insurance and self-provided access. The State would step in only with targeted policies designed to help those who were demonstrably unable to deal with basic risks.

On the employment front, social policy under this model generally involved moves to deregulate contractual arrangements and increase flexibility. This tended to lower wage costs and make employment conditions more precarious, which, against a backdrop of high unemployment,

1 There is much literature on reform alternatives and the thrust of social policy over the last 30 years in Latin America. See Andrenacci and Repetto, (2008), ECLAC (2006a, 2006b, 2007c, 2008a, 2009c), Draibe and Riesco, (2009), Huber (2006), Filgueira (1998, 2007a), Filgueira and others (2006), Mesa Lago (1994, 2008, 2009).

led to an increase in own-account work and informal employment. The coverage of work-related risks was meanwhile recommodified in the framework of privately-managed and publicly-regulated quasi-markets for health care and social security. In the area of social services, education and public health systems were decentralized —which led to funding problems at the subnational level— and, along with basic social infrastructure, partially privatized. Social welfare efforts focused on developing poverty reduction policies, and targeted social programmes expanded and multiplied.

The trend in social protection programmes in the English- and Dutch-speaking Caribbean has been very different from that in Latin America and in the former Spanish and French colonies of the region. Since their independence, the English-speaking Caribbean countries have guaranteed free access to social and health-care services. Another positive factor here has been the non-reciprocal preferential trade agreements such as those signed with the European Union and the African, Caribbean and Pacific (ACP) countries (Lomé Convention 1975-2000) and the Cotonou Agreement (2000-2020) and the Caribbean Basin Initiative, which include provisions for cooperation in social and cultural development. Under the pressure of the structural adjustment programmes of the early 1990s, the provision of services between Governments was cut back, with tangible and visible consequences throughout the region. Nevertheless, the periods of economic growth and the beneficial effect of bilateral and multilateral development assistance in the 1990s and the early years of the new century raised national incomes and more funds were earmarked for mitigating social exclusion and poverty. To address both problems comprehensively, around this time many countries in the subregion created ministries for social development and established offices and commissions to eradicate poverty, with participation by civil society.

In the early 1990s Latin American Governments and the international system came to a new appreciation of the role of social spending in channelling resources to the poorest and most vulnerable sectors, and they recognized the key role of social development in boosting productive development and economic growth. Since that time there has been a clear upward trend in government social spending, in both absolute and relative terms. Yet the higher macroeconomic and fiscal priority attached to social spending since the early 1990s was not accompanied until the end of the decade by any rethinking of the market-centred bias and residualist approach that typified the wave of reforms in the 1980s. It was only at the dawn of the new century that the social role of the State came to be seen in a new light, shifting from a focus on poverty (and the segmentation of services according to ability to pay) towards a more integrated vision. This reflected a greater commitment to social policies on the part of Latin American and Caribbean Governments and societies. Those policies have been acquiring greater guarantees of financing and enhanced institutional stability and legitimacy, although such improvements have been tempered by countries' varying degrees of development and fiscal capacity.

The public resources available for financing social protection systems and promoting capacity-building and opportunities have, in fact, been severely constrained by persistently low tax burdens, revenue collection problems, and growth volatility. Nonetheless, Governments have made major efforts to increase public spending, albeit in a framework of tighter fiscal discipline, especially on budget items associated with social development.

In the current decade, the thrust of government policies reveals a greater public commitment to protecting against events that involve loss of household income and combating income poverty and exclusion. That thrust also reflects the notion of equal rights and not only of equal opportunities. For it is by virtue of rights, given their universality, that societies can move from a targeted approach to a more universalist one, and from models focused on individual capitalization to systems that explicitly include mechanisms of solidarity for those who cannot finance their own well-being. These new outlooks, then, seek to combine the fight against poverty with the fight against inequality and the promotion of social cohesion. They strive to achieve this through an array of social programmes designed to articulate the achievements of traditional social security with the provision of social services, and the range of welfare programmes. In this sense, the “solidarity” —redistributive or non-contributory— pillar has now gained recognition in debates and on the public agenda as a key feature of social protection systems.

Box VI.1

SOCIAL PROTECTION: BEYOND THE CONTRIBUTORY RATIONALE

One of the key challenges facing countries of the region is to generate positive synergies between economic growth and social equity. This challenge arises in the context of the modernization of the productive apparatus , which is aimed at enhancing human capital formation, productive employment and citizen participation. In this framework, social policy is particularly important, but at the same time it must be truly universal and make efficient use of resources.

To this end, social protection requires a shift of focus in light of the new global order and its impact on societies, as ECLAC argued in "Shaping the Future of Social Protection: Access, Financing and Solidarity", which was prepared for the thirty-second session of the Commission, held in Montevideo in 2006. That document started from the assumption that the main reason for rethinking social policies and social protection is that the labour market had not been able to promote inclusiveness either by creating decent job opportunities or by increasing social security contributions. The region's labour markets have not succeeded in transforming themselves into a universal and dynamic gateway to social protection systems. Consequently, they cannot serve as the sole means, either in the short term or the medium term, for protecting the bulk of the population against the risks associated with loss of income, health problems or ageing.

At the thirty-second session, ECLAC argued that social protection could no longer be confined to contributory mechanisms mediated by the labour market. The great challenge here is to rethink the solidary dimension of social protection in a more integrated way —i.e., both within and beyond the world of work— in order to develop systems that combine contributory and non-contributory mechanisms. Hence the importance of promoting non-contributory social protection mechanisms, which today are generally limited by fiscal constraints, meaning that in practice broad sectors of the population are excluded from formal protection systems. In addition to seeking ways to improve the capacity of domestic economies to generate decent jobs and extend the tax base, countries will have to guarantee adequate and stable financing to supplement employment-based protection with non-contributory protection mechanisms.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Shaping the Future of Social Protection: Access, Financing and Solidarity* (LC/G.2294(SES.31/3)), Santiago, Chile, March 2006.

Following five years of progress in reducing poverty, unemployment and income inequality, the repercussions of the recent global crisis have brought back into focus the role of the State as a regulating and, eventually, intervening agent to protect against failures of the market and its various asymmetries. Some of the risks that people face and that are taken into account in this new perspective are the absence or loss of employment —particularly among groups such as young people, women, ethnic minorities and unskilled workers— and the loss of income which follows job loss by a head of household. There are also risks connected with certain stages in the life cycle, such as ageing and maternity, the negative impact of school dropout rates on human capital, poor nutrition or the lack of health care, as well as with the effects of natural disasters.

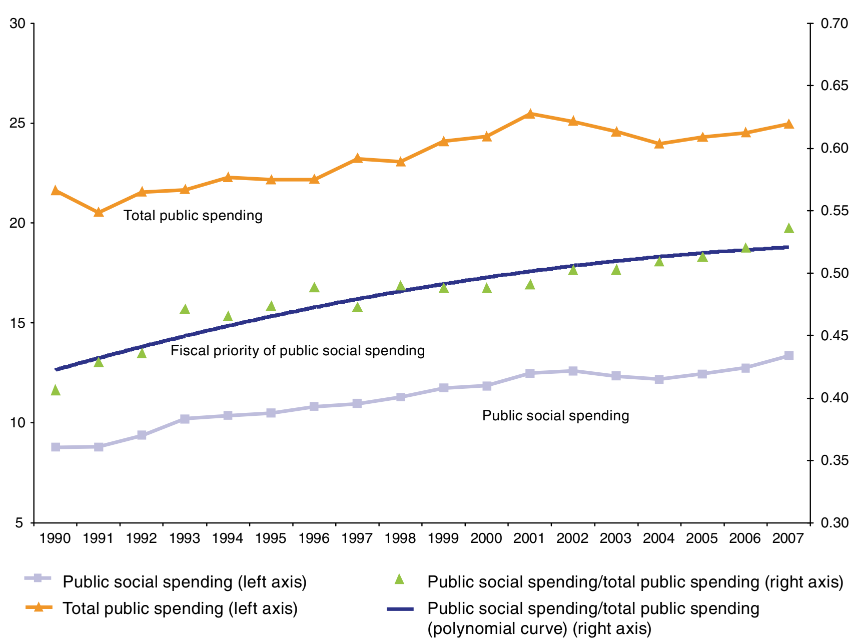
In a way, the more structural principles that characterized post-war welfare States are gaining ground against more individualistic and market-based approaches, and also against targeting as a principle of social assistance. This is occurring alongside practical and theoretical innovations in which the ideas of social capital, cohesion and risk insurance are re-entering the debate and the design of public policies. These principles also show a renewed concern over inequality and recognize the limited ability of family-centred and market-based approaches to address this problem. The State is thus taking on a larger strategic role in the search for solutions to inequality and well-being issues.

This change is reflected in the greater importance now attached to social issues. While the most significant shift in policy orientation occurred only at the end of the 1990s, social spending had in fact been rising since the beginning of that decade. Between 1990 and 2008 it increased by more than five percentage points of GDP, and its share in total public spending rose sharply (see figure VI.3). In absolute terms, government social spending per capita almost doubled from 1990/1991 to 2006/2007, to US$ 820 (at 2000 prices), and it was up by 18% from 2004/2005. There have of course been enormous disparities between countries, with the highest per capita figure as much as 20 times the lowest. Yet despite these differences, as a general trend, social spending has risen as a proportion of GDP in the region during the past two decades.

Figure VI.3

LATIN AMERICA (18 COUNTRIES): TRENDS IN SOCIAL PUBLIC SPENDING AND TOTAL PUBLIC SPENDING [a]

(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the Commission's social expenditure database.

[a] Simple averages.

The largest social spending increases have taken place in social security and welfare, followed by education. Generally speaking, the available information indicates that the education, health and social welfare functions generate progressive distribution patterns. This is true in particular of targeted social welfare, primary education and primary health care. While secondary education and hospital care have produced improvements in the distribution of primary income, the system remains regressive.

Social spending in the region has typically been highly procyclical (ECLAC, 2007c, 2008a, 2009c),[2] which explains the excessive impact of successive crises and economic slowdowns on poverty and vulnerability: when social problems worsen, the public funds available to address them diminish. It was not until the 2000s that some countries began to apply countercyclical criteria to social spending, on the understanding that this is essential to protect the positive dynamics of employment and household incomes in order to reduce gaps and consolidate well-being. Moreover, the current financial crisis and its transmission to the real economy have led Governments in the region to redouble and diversify their countercyclical social spending. There is now a greater awareness that social spending is, in effect, social investment (see box VI.2).

Box VI.2

SOCIAL SPENDING AND SOCIAL INVESTMENT

Social policy outlays represent not just spending but investment, the impact of which can be analysed from three different but complementary angles:

(i) The social impact represents the change in social indicators that justify actions in each function (health care, education, and so forth); it is measured as the change in the target population group from the ex ante situation (before the investment was made) to the ex post situation (the outcome of the investment).

(ii) The economic benefit derived from the social impacts generated by the goods and services transferred to households is quantified by the increase in their assets and their resulting productive potential.

(iii) The redistributive impact, understood as the economic value of the transferred goods and services, is measured as the impact of that value on total household income. This serves to identify the degree of resource transfer among households and measure how progressive or regressive the expenditure is.

These impacts need to be examined comprehensively in the region. The amounts invested by Governments are known with some certainty, but evaluations of the impact of social programmes and policies are still rudimentary and unsystematic.

Source: Rodrigo Martínez and María Paz Collinao, "Gasto social: modelo de medición y análisis para América Latina y el Caribe", *Manuales series*, No. 65 (LC/L.3170-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2009. United Nations publication, Sales No. S.09.II.G.145.

[2] In a recent study Bello and Ruiz del Castillo (2009) confirm the procyclical nature of social spending in the region, with the education and health-care components being the most strongly procyclical. For other research on the determinants and nature of social spending, see Segura-Ubiergo (2007) and Avelino, Brown and Hunter (2005).

This new countercyclical tilt to social spending is a positive development. By contrast, there is a another, longer-running tendency in social spending that needs to be addressed, namely its small redistributive impact. Two years ago ECLAC (2007c) estimated that social spending represented barely 19.4% of household primary incomes, and not all allowances were targeted at the lowest-income population groups. Household survey data reveal the two sides of the coin. On the one hand, people in the first quintile of primary income double their total income through public transfers and services, while the highest-income groups see their total incomes increase by only 9%. On the other hand, the economic value of the funds transferred to the first quintile represents only two thirds of those received by the highest-income families. A key element in explaining the situation is the weight exerted by social security, which is highly concentrated in the fifth quintile.

In light of the foregoing, available country information points to the fundamental importance of social investment in low-income groups, with long-term policies that will counter the swings of the economic cycle and offer explicit guarantees and assured quality levels. Social protection and promotion systems thus emerge as a very useful and comprehensive alternative, although substantial progress is needed in terms of financial security and institutional stability, which again raises the issue of a social covenant that would lend them sustainability.

While there is bad news —social spending in the region has only a marginal redistributive effect— there is also good news: the crisis is leading Governments to place greater priority on social policy. This change of direction reflects the hard lessons learned from previous crises (in particular, but not exclusively, the crisis of the 1980s), which showed how long the social costs of such events can last. It is important, then, to view the crisis as an opportunity to chart a new course, to consolidate the countercyclical slant of social spending, and to maintain the social protection programmes that have emerged in the past decade as they relate to employment policies and social protection for vulnerable sectors.

Such programmes can also make it possible to proceed further with the changes that have been made in the design of social policies over the past decade. Those changes have focused on innovation in five areas of action, although with shadings and variations between countries. These areas make up the platform of what is known as the "reform of the reforms" and are summarized below.

(a) Direct income transfers to the poorest sectors, financed from general revenues

Direct income transfers to the poorest sectors today generally take the form of conditional or “co-responsibility” cash transfer programmes. These are currently one of the key tools in Governments’ strategies and policies for combating poverty. They are non-contributory programmes, designed on the one hand to raise family consumption levels through monetary transfers and thereby reduce poverty over the short term, and on the other hand, to put family members in a better position to break the intergenerational transmission of poverty. Conditional transfer programmes have been spreading rapidly since the mid-1990s, when Mexico launched an education, health and nutrition programme initially known as PROGRESA (now *Oportunidades*) and Brazil[3] began to institute programmes covering the same population group (families with school-age children) and imposing conditions for the delivery of benefits (later consolidated into the *Bolsa Família* programme).

3 In Brazil, these programmes were launched first in the Federal District (Brasilia) and later in the municipalities of Campinas (1995), Belo Horizonte (1997), Vitória (1997) and Recife (1997) (Godoy, 2004).

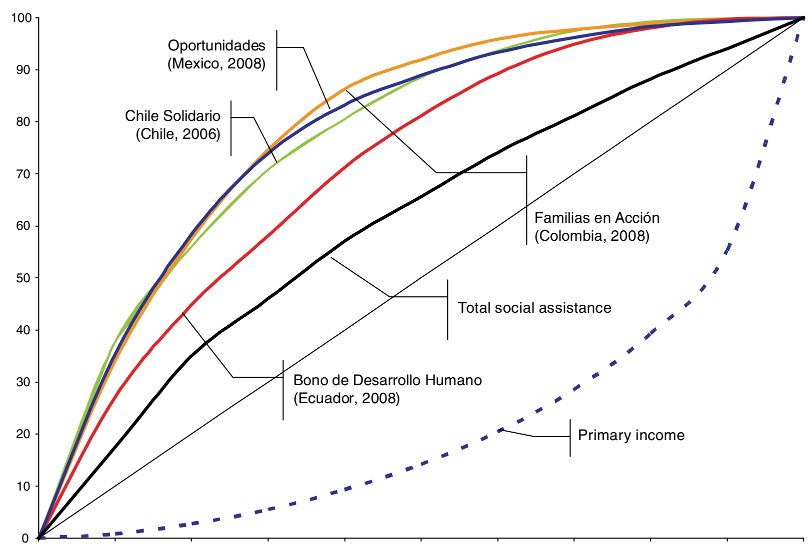
Today conditional transfer programmes are operating in 17 countries of the region, serving more than 22 million families or some 100 million individuals (17% of the population of Latin America and the Caribbean (ECLAC, 2008a)). These programmes have three primary aims: to alleviate poverty through direct income transfers, to provide incentives for investment in human capacity-building, and to bring the target population into the social protection and promotion networks. In the Caribbean, various governments have instituted conditional transfer programmes. The Programme of Advancement through Health and Education (PATH), created by the Government of Jamaica and the World Bank, provides cash subsidies to the neediest and most vulnerable members of society. The Government of Trinidad and Tobago established a targeted programme of conditional transfers in 2005 that offers a safety net for temporarily unemployed heads of household and a provisional food subsidy for persons with little education, combined with training programmes to equip them with the skills needed to find paid employment.

Because they make use of beneficiary selection procedures and techniques designed to minimize errors both of exclusion (families who meet the eligibility criteria but do not participate in the programme) and of inclusion (families that do not meet the eligibility criteria but participate), conditional transfer programmes are generally successful in delivering income to the neediest and they therefore represent one of the more redistributive items of public social spending. As can be seen in figure VI.4, for the programmes included there, between 60% and 75% of spending on these transfers (vertical axis) go to the poorest 40% of the population (horizontal axis). Yet on average across the region, these programmes account for only 2.3% of total public social spending and 0.25% of GDP, which means that their impact on the indicators of poverty and income inequality at the national level are modest.

Figure VI.4

LATIN AMERICA (15 COUNTRIES): DISTRIBUTION OF PUBLIC EXPENDITURE ON SOCIAL WELFARE AND EXAMPLES OF CASH TRANSFERS UNDER SELECTED CONDITIONAL TRANSFER PROGRAMMES, BY PRIMARY INCOME QUINTILE, 2005-2008 [a]

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of data from household surveys conducted in the respective countries.

[a] Simple average.

As to the impact of conditional transfer programmes on inequality, programmes such as *Bolsa Família, Oportunidades* and *Chile Solidario* show divergent results. In the case of *Chile Solidario* the impact is small: the Gini coefficient is reduced by only 0.1 percentage point. By contrast, the *Bolsa Família* and *Oportunidades* programmes have more meaningful outcomes: inequality has been reduced by around 2.7 percentage points in both cases. The key to understanding this difference lies in the proportion of total income represented by the respective transfers, which is much smaller in the Chilean case (less than 0.01% of total family incomes)[4] than in the other two (Soares and others, 2007). Clearly, the effect that conditional transfer programmes will have on poverty and distributive inequality of income depends on their degree of targeting, their coverage and the amount of the cash transfers. With limited resources, some tough trade-offs have to be made between broader coverage and larger transfers.

Some of the impacts of conditional transfer programmes on economic and productive dimensions will be immediate, while others will take longer to mature. The immediate impact of providing direct cash transfers to families is to improve their nutrition and their basic mobility so that they can become more productive. Expanded coverage of conditional transfer programmes has in fact been accompanied by a sustained increase in labour force participation rates among low-income sectors, suggesting that fears about destroying incentives to work are misplaced. Such programmes have also placed more cash in the hands of poor communities, and this has encouraged the emergence of local markets and businesses supplying goods and services. Lastly, over the medium and long terms, the conditions attached to these transfer programmes can be expected to boost investment in human capital (health and education), thereby extending the programme's benefits to future generations.

(b) State-coordinated networks for social protection and activation of human and social capital

Coordinated by the State, active employment policies, microcredit and the formation of mixed community and State networks have gained momentum as instruments for building on the resources and capacities of individuals and communities and linking them with State programmes and policies. Employment policies were discussed in chapter V, and microcredit (or "inclusive" financing) in chapters II and III.

The idea of social networking is gaining currency, and has at least two distinct aspects. First, the State seeks to link different services, benefits and support programmes in order to avoid duplications, generate synergies, and move from a scattered array of programmes (often with differing levels of decentralization and serving different social strata) to an integrated protection system for vulnerable population groups. *Chile Solidario* and the Uruguayan *Rutas de Salida* (“Ways Out”) programme are examples of such initiatives, as is the linking of programmes in Brazil. Second, networking implies greater articulation between public and private agents, and between those agents and social stakeholders. In other countries these networks are often associated with or subsumed into conditional transfer programmes and they create connections between poor sectors of the population and the State, the resources available on the market, and the communities themselves.

The activation of social capital supported by the State and its translation into local initiatives and community networks has no effect on countries' marginal productivity. But it does

4 In fact, *Chile Solidario* is not a transfer programme in the strict sense, but rather an attempt to facilitate the poorest families' use of a broader network of support. The transfer is part of an initial contract for these purposes.

help to boost total national output by increasing use of the labour factor and encouraging social protection strategies supported by previously unused community capital.

(c) Non-contributory State mechanisms or subsidized contributions to social insurance systems (social security and health care)

While the development of social security systems has followed different trajectories in the Latin American and Caribbean countries (earlier in the Southern Cone, later in the rest of the region), the labour market has never become a gateway through which the population as a whole could access social protection benefits. Moreover, the reforms of the health-care and social security systems undertaken in the early 1980s tended to privatize insurance, with adverse effects on equality of access and the extent of coverage. In the health sector, the stratification of access is an issue that must be addressed as a strategic priority (see box VI.3).

Box VI.3

HEALTH SYSTEMS: FINANCING AND STRATIFICATION

In the health sector, the system's financing structure is not neutral from the viewpoint of equality. The greater the relative importance of the public subsystem, the greater will be the implicit redistribution in the overall health system, and the more homogeneous will be its coverage. By contrast, greater out-of-pocket spending implies less redistribution and more inequity. As a proportion of total health spending, private spending is higher in the region (45%) than the world average (42%), and significantly greater than in countries of the Organisation for Economic Cooperation and Development (OECD) (28%). The fact that private spending amounts to nearly half of total health spending and that out-of-pocket contributions are around 37% shows how weak public health and social security systems are in the region in terms of providing effective health coverage. On the other hand, the stronger the social security system is in providing and financing health, the greater will be the coverage gap, in principle, between formal workers and the rest of the population who have access only to the public system. Nevertheless, this will depend on the degree of articulation between social security and the public system and the level of financing of the public sector.

Few of the region’s countries have succeeded in integrating public health-care systems and financing them through general revenues. Notable among these are, first, the countries of the Caribbean, which have followed the Anglo-Saxon model; second, the special case of Cuba, where the predominance of public services goes beyond health care; and finally Brazil, which now has a tax burden similar to that of developed countries. Brazil is also the only country to have reformed a segmented system to achieve full integration through the public health-care system. From the point of view of funding, the change in the sources of financing produced by this reform had the advantage of being neutral in terms of public finances. With adoption of the 1988 Constitution, the right of workers to health care provided under social security was made universal and comprehensive. The new government-supported "Single Health System" began to be financed from general revenues (including some taxes specifically earmarked for the health sector). At the same time, the payroll deductions that had previously financed health coverage under social security were channelled into the pension system that had been funded from general revenues. These reforms stand in contrast to those pursued by many countries, which kept their health systems segmented while incorporating funding from general revenues to finance imbalances in their pension systems.

The problems at hand will require a medium-term strategy to pursue a path of reforms that, while producing marginal improvements, will achieve the strategic goal established. There is no single path. If these processes are to be viable, countries will need to undertake major tax reforms so as to reduce dependency on contributions and to finance universal services from general revenues.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Shaping the Future of Social Protection: Access, Financing and Solidarity* (LC/G.2294(SES.31/3)), Santiago, Chile, March 2006.

In light of this evidence, there is growing support for the idea of building or strengthening the non-contributory pillars of the health-care and social security systems. The health-care reform in Uruguay, the universal access and specific health guarantee plan (AUGE) in Chile, the pioneering Single Health System (SUS) of Brazil, the targeted welfare health insurance scheme (*seguro popular*) in Mexico and the health-care reform in Colombia all bespeak a more universal, solidary and rights-based approach to health policy. A similar approach can be seen in the pension system reform in Chile, the universal non-contributory pensions in Mexico City (now extended, with certain variations, to a number of Mexican states), the programme of Mexico's Secretariat of Social Development (SEDESOL) for persons over the age of 70 in towns of up to 30,000 inhabitants, the reform of the retirement benefits system in Argentina, the "continuing benefit" provision in Brazil and other retirement and pension innovations now under consideration or already implemented in the region. Unemployment insurance reforms in Uruguay and Chile also represent policies of income protection or basic threshold replacement that go beyond the contributions rationale.

Non-contributory health and social security systems have a direct, clear and substantial impact on inequality. Given the sharp segmentation of the region's labour markets, social protection systems that are confined to formal contributory formats tend not only to reproduce but to exacerbate inequality in labour markets.

(d) A more pro-active government role in rectifying asymmetries and inequalities worsened by decentralization and the delegation of responsibilities to quasi-markets or private providers

The reforms of the 1980s were intended to combine decentralization of public management with the privatization of services and benefits. With respect to the first objective, as discussed in chapter IV, persistent asymmetries in financing and in management capacities at the subnational levels exacerbate inequalities at those levels. For the same reason, decentralization today poses challenges of regulation, management-capacity-building, and financing alternatives for remedying those asymmetries.

In light of this situation, and following the reforms that delegated health and education services to private sector suppliers, the current decade has seen moves toward greater regulation through the creation or strengthening of superintendencies. There has also been greater redistribution through solidarity funds and transfer formulas that regulate and moderate the regressive and stratifying impacts that decentralization reforms generated or exacerbated.

(e) New areas of action and redistribution with respect to caregivers and the coordination and redistribution of paid and unpaid work from a gender perspective

What is known as the "care economy" has gained prominence on the public agenda in light of evidence that the burden of care work falls disproportionately on women. This is not only unfair, but also prevents women from entering the labour market and gaining autonomy. At the same time, care services are provided almost exclusively through the market, which implies out-of-pocket family expenditure that the poor cannot afford. This leads to women's participation in employment being unequally distributed among socio-economic groups, which doubles the injustice. Lastly, poor households have more children and their care needs are therefore greater, all of which means a higher proportion of dependants to income earners. This mechanism reproduces socio-economic gaps.

This long-standing situation of care provision, in which care has been provided exclusively by the family and the market, is starting to change, as public policy is promoting greater State involvement in care provision. There is greater recognition that collectivizing childcare helps to redistribute the burden between the sexes and between social strata. This has been accompanied by a growing debate over policies for reconciling paid and unpaid work, from a perspective of rights and gender equality.

One pillar of public policy in this respect is to expand the coverage of day nurseries and pre-school facilities and to extend the school day.[5] The intent is not only to improve educational performances but to allow women greater time for remunerated work. Yet in order to take full advantage of this resource a change is needed in the family and in work. On the first score, profound cultural changes are needed in the gender distribution of tasks in order to do away with the double day worked by women who not only shoulder the bulk of care duties but also hold down a paying job. On the second point, remuneration must be made more gender-equitable, and social security systems need to be created that will make allowance for the fact that women's working trajectories suffer greater discontinuities because of their care responsibilities.

These "reforms of the reforms" must not be hobbled by the constraints imposed by the crisis and the new global scene (see chapter I). Indeed, governments have responded to the potential social costs of the crisis by moving ahead more resolutely with these reforms and attributing a more proactive role to the State. Transfers to the most vulnerable sectors have been increased and there has been progress with unemployment insurance and other labour policies. In this sense, the crisis poses not only a threat but also an opportunity for building consensus around these social policy reforms.

While recent measures taken by Governments speak of an active role for the State in addressing the effects of the crisis, their real significance will depend on the amount of resources that can be mobilized, on institutional strengths, and on the degree of coordination among the various initiatives for dealing with the crisis and between those measures and longer-term sector programmes. To address this challenge requires an understanding of the parameters that define well-being gaps and the possibilities of State action.

C. Structural parameters of well-being and social protection

Well-being gaps have two broad dimensions: the capacity of a society to support its members with income earned through the labour market; and the capacities of States to provide support and protection for dependants —those who lack income or earn inadequate incomes in the labour market.

Dependants are defined by two yardsticks. The demographic measure refers to the age structure, while the occupational definition refers to people's position in the labour market. The combination of these two yardsticks reveals a ratio of labour dependency: the number of

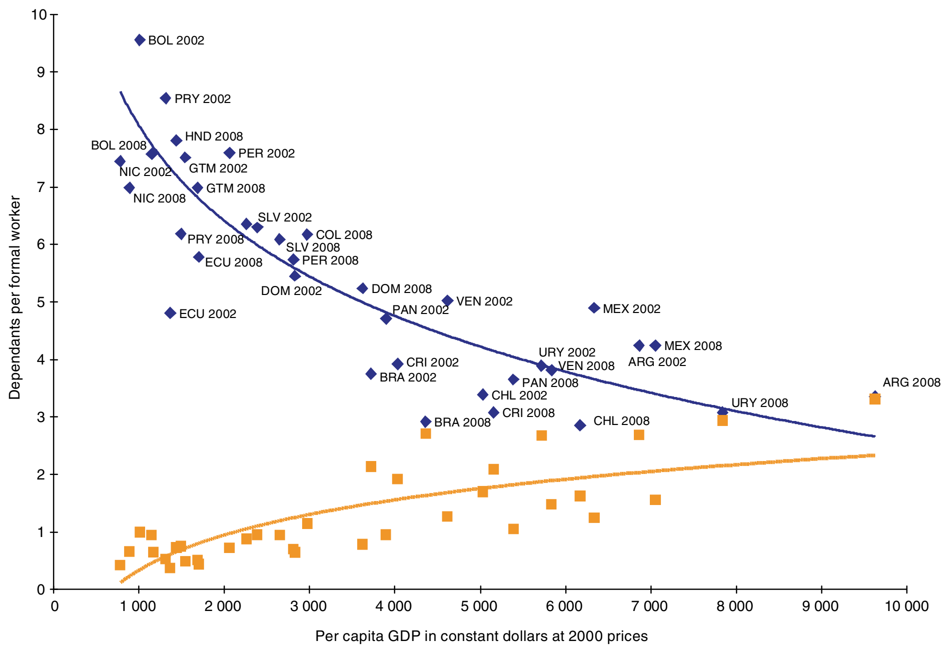
5 Care work can include a vast range of additional services, such as sporting activities for adolescents, the supply of free or low-cost services for the elderly, care for the disabled, neighbourhood security services, environmental protection, and so forth. These services are provided not only by Governments but also by communities and in European countries they are considered important enough to be measured as a contribution to GDP and employment creation. For the purposes here, however, the analysis has been restricted to the relationship between the care economy and the welfare State, and in particular the link between development and use of human capacities in low-income families: hence the emphasis on child care and support for women.

demographic dependants (persons aged under 15 or over 65) plus those who are wholly or partly dependent because of their labour market status (inactive, unemployed, or employed in low-productivity or informal jobs that do not yield sufficient incomes). This is used to define a first "well-being curve" along which countries can be ranked by the capacity of their labour markets to generate sufficient incomes to cover the needs of dependants.

The second "well-being curve" tracks countries' fiscal capacities, comparing the potential for public transfers against the requirements generated by economic dependency. As discussed in the previous section the tendency since the 1990s has been to give greater priority to the social component of public spending and to increase its share of the total. As will be discussed in chapter VII, fiscal capacities must be increased through reforms that will expand the tax burden and transform its structure (recognizing that various countries have already increased their tax burden in recent years).

Figure VI.5

LATIN AMERICA: NUMBER OF DEPENDANTS PER FORMAL WORKER [a]



Source: Based on Andras Uthoff, Cecilia Vera and Nora Ruedi, "Relación de dependencia del trabajo formal y brechas de protección social en América Latina y el Caribe", *Financiamiento del desarrollo series*, No. 169 (LC/L.2497-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2006. United Nations publication, Sales No. E.06.II.G.29.

[a] Population aged under 15 plus population aged 15 to 64 (inactive plus unemployed plus informal workers) plus population over 65, in relation to the population aged 15 to 65 (formal workers).

A potential tax rate can be estimated for each country, according to its level of wealth. That tax rate then translates into a potential level of social spending. Using the estimated cost of basic benefits, it is possible to calculate the number of dependants who cannot meet their needs from employment income but who could be assisted from the State's fiscal resources (and under what conditions this could be accomplished). This defines a welfare "floor" based on guaranteed transfers to the dependent population from State revenues.

With regard in particular to the age-dependent population and the economically active population (EAP) in the informal sector, the well-being gap also reflects inability to access health and social security systems either through contributory modalities or out-of-pocket spending. Ways must be found for the State, with its institutional capacities and monetary resources, to intervene in the systems to provide a well-being threshold for those who lack it.

These size of gaps can be affected by the political and policy decisions that countries make through their Governments. A country's level of economic development is certainly not the only factor in determining how many women can gain ready access to the labour market, or the human capital stock of the active population, the productivity gaps between sectors and activities, levels of employment and unemployment, or the ways social protection is financed. All these will depend as well on the dominant type of development and on the role played by the State. This distinction in turn will affect fertility and mortality rates, people’s productive capacities, and levels of investment and consumption. The State has a key role in these processes. In Latin America, the State can do much to reduce well-being gaps. It can do much to reduce structural heterogeneity by facilitating women's access to the labour market and boosting the human capital of new generations in low-income families. But to accomplish this, State must adopt a hitherto missing proactive and coordinated role in the productive and economic sphere.

The fact that well-being gaps and whether they grow of shrink are not predetermined by level of economic development does not mean that we can overlook the structural parameters that condition State action. Those parameters, illustrated in the following classification, show very different points of departure for countries in the region. As can be seen in table VI.1, countries can be classified by a set of relevant variables into three broad groups: those with severe, moderate and small gaps.

Table VI.1 illustrates some basic features of well-being gaps. Countries have been divided into three groups. Although there are differences within each group[6] there is relative convergence among the components that have the greatest influence on well-being in each group. The countries with smaller well-being gaps have a higher GDP, lower demographic dependency ratios (that is, a larger working-age population relative to the dependent population), less labour market informality, and greater social security coverage, greater public coverage of health services (lower proportion of out-of-pocket spending), lower levels of poverty and indigence, and public social spending that is not only higher in per capita terms but as a percentage of GDP (priority in social expenditure). All of these parameters are less satisfactory in the relatively less developed countries. Well-being gaps vary substantially, then, in terms of social needs and fiscal capacities. At lower levels of development, labour markets are more insecure, families bear more of the burden of providing themselves with services, the demographic dependency ratio is greater, there is more poverty, and public institutions have fewer monetary resources and management and implementation capacities. Some of the features of these various groups of countries are discussed below in order to shed further light on well-being gaps.

[6] For example public social spending as a percentage of GDP is around 18.6% in the Plurinational State of Bolivia, far above the average for group III.

Table VI.1
LATIN AMERICA (COUNTRY GROUPS): SELECTED WELL-BEING INDICATORS [a]

	Group I	Group II	Group III	
	Argentina, Brazil, Chile, Costa Rica, Panama, Uruguay	Colombia, Mexico, Venezuela (Bolivarian Republic of)	Bolivia (Plurinational State of), Dominican Rep., Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Paraguay, Peru	Latin America
Per capita GDP 2008 (constant dollars at 2000 prices)	6 601	5 320	1 975	4 074
Demographic dependency rate 2005-2010 [b]	52.9	54.8	68.3	60.9
Poor population around 2008 (percentages)	19.7	35.1	52.1	38.4
Indigent population around 2008 (percentages)	6.7	14.7	26.8	18.1
Informal sector employed around 2008 (percentages of total employed population)	41.6	55.3	65.3	55.7
Tax burden including social contributions, 2007-2008 (percentage of GDP) [c]	24.8	13.7	16.4	18.7
Public social spending per capita 2007-2008 (constant dollars at 2000 prices)	1 209	619	181	597
Public social spending 2007-2008 (percentages of GDP)	18.6	11.8	10.2	13.3
Retirement pension coverage (percentages), urban areas	64.4	26.6	14.1	33.0
Percentage declaring out-of-pocket expenditure on health care	23.3	35.1	72.1	49.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of data from household surveys conducted in the respective countries.

[a] Simple averages for the countries.

[b] The dependency ratio equals the population aged 0 to14 plus the population aged 65 and over divided by the population aged 15 to 64 multiplied by 100.

[c] For Argentina, Brazil, Chile, Costa Rica and the Plurinational State of Bolivia, figures refer to general government. In the other cases they refer to the central government.

1. Countries with severe well-being gaps

This group includes the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Paraguay, Peru and the Plurinational State of Bolivia. These countries have a demographic structure characterized by relatively high levels of fertility and a young population. Their labour markets are precarious, which means that the dependent population comprises not only the young but also a high contingent of informal workers with low incomes and no employment-related social protection: 75% of the dependents of formal workers are children and informal workers. The other 25% comprises the inactive, the unemployed, and older persons. The level of development of these countries, measured by per capita GDP, averages slightly under US$ 2,000 (at constant 2000 prices). Combined with a low tax burden, this prevents them from allocating significant resources to meeting the educational needs of the young, the social security and assistance needs of working-age people, and the health needs of the population as a whole.

These countries also register poverty rates exceeding 45%. In many cases two thirds of the population is poor; at the same time, less than 30% of employed have social security coverage. Public financing of welfare programmes may come from general revenues or from royalties or taxes on the exploitation of natural resources. These resources underpin poverty reduction programmes that function independently of the demographic structure or the degree of labour market formality. Yet underemployment rates are high, the State has little capacity to allocate funds, financial markets are narrow and concentrated, and there is little emphasis on training: all these factors limit social mobility and the capacity to change social structures.

In these cases the welfare State is key to speeding the pace at which well-being gaps can be narrowed. On the one hand, these States must expand their taxation capacities. On the other hand, rates of economic activity and employment must rise. Lastly, efforts must be made to build up human capital and distribute it more fairly. Accordingly, the threshold that must be attained in order to build more productive and egalitarian societies consists of targeted investment in care services that will free up the female workforce and measures to expand preschool and secondary education and consolidate cash transfers to poor families with children.

2. Countries with intermediate well-being gaps

This group includes the Bolivarian Republic of Venezuela, Colombia and Mexico. These countries have seen their fertility rates drop since the 1970s, resulting in a lower proportion of young dependents. They have a more formal labour market, but they are at a stage of incipient population ageing. As educational coverage extends beyond the secondary level, the proportion of inactive persons among the dependent population is rising. These inactive persons, together with children under 15 years of age, account for 60% of dependants per formal worker. The remaining 40% are older persons, informal workers (partially dependent because of low incomes and lack of social protection) and the unemployed.

These countries' level of economic development exceeds US$ 5,000 per capita (at constant 2000 prices). While they have low tax burdens, they have higher revenue levels and can therefore afford greater outlays on education, social security and assistance, and health care. Poverty rates vary between 30% and 40%, and their social security systems cover close to 50% of the employed population. The provision of social services is possible almost exclusively because of the higher levels of development achieved by societies with Governments buoyed by natural-resource revenues (the Bolivarian Republic of Venezuela and Mexico). These countries have more leeway to allocate a higher percentage of GDP to public social spending, but these advantages do not translate into significant improvements in their social situation, as measured by poverty rates.

The more educated or the better trained reap the greatest benefits from a more dynamic labour market and this perpetuates social stratification and transmits inequalities to future generations. The State does not have sufficient financial capacity to support both a basic social protection network and the necessary improvements in public education. Access to a quality education is segmented by income. Financial market expansion discriminates by risk, selecting the most creditworthy customers. Institutions in this group of countries have, in short, developed along lines that tend to reinforce the mechanisms that transmit social inequalities.

The great challenges facing these countries are to boost productivity in lagging sectors, raise participation rates among the economically active age groups, and universalize basic forms of social protection that will allow households to cope with external shocks and life changes. The key factors for charting a course of greater equality and productivity are therefore the expansion of non-contributory health and social security systems, monetary transfers and additional investment in preschool and secondary education in vulnerable areas.

3. Countries with small well-being gaps

This group includes Argentina, Brazil, Chile, Costa Rica, Panama and Uruguay. These countries have a greater potential for developing a welfare State. They experienced sharp declines in fertility during or even before the 1960s and they have an older demographic structure. Because a larger proportion of people go on to higher education, there are more economically inactive persons who, together with older persons and children, represent 75% of dependants per formal worker. The remaining potential dependants are informal workers and the unemployed. The level of development, measured by per capita GDP, averages more than US$ 6,500 (at constant 2000 prices), and the tax burden is high, allowing public social spending of close to 20% of GDP (as high as 35% in the case of Brazil). Poverty rates are below 25%, and more than 60% of the employed population has social security coverage.

These countries are far from offering conditions equivalent to those of European social democratic States. The market plays an important role in those countries that overhauled their pension systems to incorporate private fund administrators (Chile and Uruguay), while in Costa Rica this component is only marginal.

Despite their stronger institutional development and the availability of greater fiscal resources, the impact of public programmes on inequality is limited. Social protection systems remain segmented by the contributory capacity of their members, a factor that reproduces primary inequalities generated in the labour market. Changes have been made to make systems universal, but only in basic services, owing to budgetary constraints that limit government's ability to fund programmes directly. Public-private combinations in the provision of education make access to quality education contingent upon ability to pay. Governments still lack the regulatory capacity to create the equality of access that was missing in the original design of social service systems.

The demographic window of opportunity in these countries is narrowing as the population ages. This makes it imperative both to provide more comprehensive social protection for vulnerable groups and to limit subsidies to the socially integrated and well-off sectors. Health and social security systems must be recast and subsidies geared to a basic universal and non-contributory threshold. Another challenge is to de-stratify women’s access to the labour market: the existing stratification poses an enormous obstacle to overcoming inequality and it means that a significant portion of human productive capacities is being wasted. In this respect, it is essential to expand good quality childcare services and preschool education in lower-income areas. Lastly, unless completion of a high-quality secondary education becomes more standardized, these societies will not be equipped to expand their productive horizons or to guarantee equality of opportunities.

D. The components of a welfare State [7]

As discussed in previous chapters, the move towards more integrated societies must be backed by more dynamic economic growth with greater productive and territorial convergence and high-quality employment. On all these fronts, as argued throughout this document, the State has a decisive role to play. It is also an essential factor in fostering well-being, human development and protection from risk. As Segura-Ubiergo (2007) notes, the welfare State may be defined as "a repertoire of state-led policies aimed at securing a minimum of welfare to its citizens —that is, protecting them against the risks of unemployment, sickness, maternity, and old age— and providing an adequate accumulation of human capital through public investments in health and education."

To achieve these objectives, welfare States perform four clear functions:[8]

(i) They decommodify welfare services by providing goods, services and transfers that do not depend on a position in the labour market or capacity to pay market prices for goods, insurance and services.

(ii) They delink welfare access from the family nucleus by providing people with services, benefits and transfers that do not depend on family membership or family rules of reciprocity and distribution.

(iii) They regulate and control certain aspects of the behaviour of market agents and family members, changing the “spontaneous” order in these spheres through incentives and regulation of the labour market, prices, and the rights and obligations of family members.

(iv) They redistribute wealth[9] by collecting and distributing it in the form of goods, services and transfers in proportions that do not relate benefits to contributions but that instead apply the principles of solidarity to financing sources and eligibility criteria. This redistribution occurs between distinct groups (from the employed to the unemployed and inactive, from the healthy to the sick, from adults to children, from men to women, from those who have more to those who have less), and this determines the effects that this redistribution has over time between classes, sexes and generations.

What the State does in these areas must be viewed in relation to what the other two spheres —markets and families— are doing. To these three spheres a fourth must be added: the community, both organized (nongovernmental organizations, churches, volunteer associations) and unorganized (neighbours, friends, networks of relationships).

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7 There is an important distinction to be made between concept of the welfare state in the concrete form it took in post-war Europe and the analytical idea of the welfare state as a set of policies and actions that are present in all states. The latter concept is referred to here.

8 For the basis of this concept see Esping Andersen (1990, 1999, 2002). Some variations and further thoughts on the matter are to be found in Orloff (1993), Martínez (2008), Filgueira (2007b) and Filgueira, Gutiérrez and Papadópulos, (2008).

9 It is not only the State that redistributes wealth. Families do so as well, and even markets. That redistribution may be progressive or regressive. What distinguishes the State in this case is that it has binding power, both over the extraction of revenues and over the principles that determine eligibility.

This analysis highlights the fact that a public strategy to promote equality cannot be confined to levelling the playing field by providing equal opportunities: the function of the State extends to achieving greater equality of outcomes and levels of well-being. This is because the most unequal region in the world can hardly expect to equalize opportunities without at least partially equalizing outcomes.

Markets, the State and families complicate this distinction. And the more unequal the initial situations, the more complex and elusive that distinction will be. On one hand, families tend to amplify initial inequality: material inheritances, class endogamy in the formation of new households, and the social legacy that is transmitted through early socialization all tend to reproduce social differences by concentrating and deepening the unequal distribution of human, physical and social capital. Markets also tend to reinforce distinctions, to the extent that they reward the productivity differential arising from people's differing capacities, thereby exacerbating the original differences through the accumulation of physical capital and segmented social capital.

Government policies, then, have a decisive role to play in overcoming the inertial power of inequality. The State has the ultimate responsibility for guaranteeing the economic, social and cultural rights of its citizens. And precisely because they are rights, they demand an equality that the market and the family, left to their own, cannot guarantee: hence the inescapable responsibility of the State.

E. Towards a redistributive system of monetary transfers: when ethical and pragmatic concerns coincide

To a large extent, it is the structure of deep inequality and low average productivity that explains why a large proportion of the population still lacks an adequate minimum income in most of the region’s countries. Individual and household incomes are insufficient for three essential reasons: unemployment, low wages, and inactivity (not by choice but owing to a number of obstacles). This situation must be addressed in a number of ways, including the direct redistribution of income through non-contributory systems.

Two arguments have been raised against such redistribution. The first is that countries lack the fiscal capacity for it. Yet to varying degrees the countries of the region do have fiscal room for assuming this redistributive role. The range of transfers, their amount and their progressivity will depend on a combination of factors that in each country determine the well-being gap (see box VI.1). In any case, the evidence presented below suggests that in much of the region the problem is not technical but political.

The second argument has to do with the right incentives, inasmuch as the receipt of non-labour income is said to undermine people's willingness to join the labour market. This argument is mistaken on several grounds. In the first place, the transfer amounts proposed barely reach minimum consumption thresholds and, in many cases, are insufficient to bring households across the poverty line. In the second place, the experience of recent years shows that the expansion of non-contributory mechanisms in the region has been accompanied by rising participation rates among beneficiaries. Third, in a region where the income of over a third of the population cannot lift those households out of poverty, it can hardly be argued that the lack of insurance against vulnerability is a matter of incentives.

There are also some good reasons to defend a basic system of guaranteed partial income. The first reason, as discussed above, has to do with respecting equal social rights among citizens. Poor and vulnerable households facing exogenous shocks or personal life changes will become decapitalized beyond the "shock effect" precisely because there are no guaranteed minimums or instruments that would at least smooth out income flow troughs in the face of adversity. It is just as necessary in practical terms, and even more imperative from an ethical point of view, to avoid the collapse of the household economies that represent a large proportion of the Latin American population and production base as it is to avoid the collapse of the financial systems (by subsidizing their inefficiencies). Then too, the region has few automatic stabilizers for dealing with crisis and turmoil. In this respect, basic guaranteed income systems constitute mechanisms for sustaining domestic demand in adverse situations. Lastly, the proposals made here and their choice of target population are designed to reduce the amount of time households with young children spend in poverty, thereby promoting the development of human capacities in a region in full demographic transition, in which the outlook for future growth depends on strong boosts to labour productivity.

It is not the intention here to propose subsidies to encourage people to leave the labour market. On the contrary, basic guaranteed incomes are a mechanism that will promote people's participation in the labour market, now and in the future. With a sound understanding of the circumstances that incline people towards work, Governments can make proper use of the incentives and thresholds that sustain that activity and predisposition over time. This section therefore presents a series of estimates of the costs to Governments of assuming its crucial role in social protection (see box VI.4), including a non-contributory system of income guarantees and redistribution.

These estimates give an idea of the fiscal effort required for these transfers; naturally, that effort will vary in accordance with the width of the well-being gap in each country, as discussed earlier. It cannot be expected that the fiscal resources to set up this array of transfers will become available overnight, or at the same rate in different countries, or that public institutions will have the capacity to use the resources in the most efficient and effective way from the beginning. But it is clear that the fiscal effort to work towards meeting the challenges of providing well-being and social advancement will require tax reforms, dynamic growth and various alternatives for filling the coffers for government policy.

1. Combating inequality and the juvenilization of poverty

Poverty is exacerbated by extreme inequality in income distribution, reflecting great inequalities of origin, a low tax burden, poor redistributive capacity on the part of Governments, and inefficient and unequal labour markets that tend to reinforce initial inequalities —those of class, gender, age or ethnic background. As can be seen in figure VI.6, the incidence of child poverty is much higher than that of poverty among the adult population, with variations between countries. That trend has become more marked over the last 20 years.

Box VI.4

METHODOLOGY FOR ESTIMATING THE COSTS OF TRANSFERS

The simulation exercises were conducted on the basis of microdata from the most recent household surveys and were parameterized using national accounts data in order to estimate costs in GDP terms. The model allocates an amount equivalent to one poverty line to each person eligible under the selected criteria and computes the new household income. On this basis, indicators of poverty and inequality are re-estimated and the scope of household coverage for each measure is determined.

$$Cost\%GDP = \left(\frac{\left[\left[\left(\sum_{i=1}^{q} p_i * B \right) * 12 \right] * ER \right]}{GDP} \right) * 100$$

where, ***q*** represents the eligible population according to the various parameters specified; ***p*** represents the persons eligible under those parameters; and ***B*** represents the benefit stipulated for that population. The figure resulting from this simulation is multiplied by 12 (annualized monthly benefit) and expressed in dollars at the exchange rate (ER). This amount is divided by GDP and multiplied by 100 to express the fiscal cost of benefits as a percentage of GDP.

The basis for the estimates is simple and consists of four broad groups of benefits under two different mechanisms. The measures simulated are:

- Allocate one poverty line for children aged under 5.
- Allocate half a poverty line for children aged between 5 and 14.
- Allocate one poverty line for persons aged over 64.
- Allocate one poverty line for the unemployed (people unemployed for the first time in the formal and informal sectors).

The poverty line is the monetary value of a basic basket of goods and services that includes food, housing, transportation, clothing, communications and a few other items required to meet basic needs. One half of the poverty line is equivalent to the cost of covering nutritional needs only; this is also known as the "indigence line". In Latin America, the poverty line currently varies between US$ 60 and US$ 250, depending on the cost of the basic basket and the purchasing power of the dollar in each country.

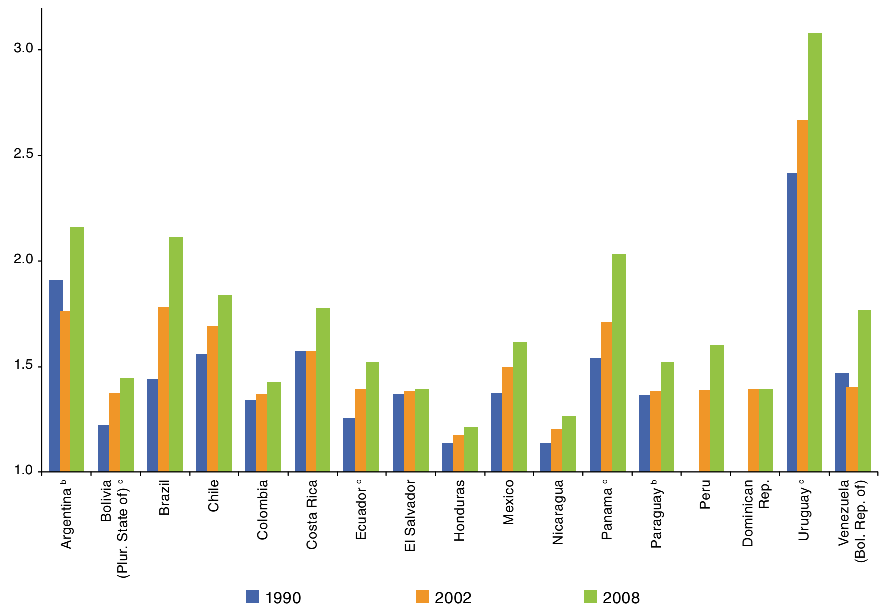
Those benefits were simulated for two universes: on the one hand, benefits flowing to persons in the categories described and, on the other hand, benefits flowing to persons in these categories who also belong to households with an income below 1.8 times the poverty line (or those deemed "vulnerable to poverty"). The population coverage produced using this targeting parameter is almost universal in the poorest countries, but is much more targeted in countries with smaller welfare gaps.

This exercise supports an estimation of the impacts of the alternatives discussed on poverty and inequality, as well as their costs in terms of each country's GDP. Those impacts can also be estimated in relation to each benefit and to all benefits considered together.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of methodologies developed in ECLAC, *Social Panorama of Latin America, 2009* (LC/G.2423-P), Santiago, Chile, 2009. United Nations publication, Sales No. E.09.II.G.135; and *Social Panorama of Latin America, 2007* (LC/G.2351-P), Santiago, Chile, 2007. United Nations publication, Sales No. E.07.II.G.124.

Figure VI.6

CHILD POVERTY RATIOS AROUND 1990, 2002 AND 2008: CHILDREN AGED 0-14 COMPARED WITH THOSE AGED OVER 14 [a]



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of data from household surveys conducted in the respective countries.

[a] The survey year used differs from country to country. The period 1990 refers to the available survey nearest to that year; the period 2002, to the most recent survey available between 2000 and 2002; the period 2008, to surveys available between 2004 and 2008.

[b] Metropolitan area.

[c] Urban areas.

A fundamental aspect of any intergenerational social covenant has to do with the amount of money that each society is prepared to pay to support the family's role in the care, development and protection of children. Traditionally, it was assumed that the male breadwinner would provide these resources for the family and that the woman would look after the children. This relationship of dependency became even more precarious in cases where the link was broken, for women nearly always take full responsibility for raising the children. Control over money thus tends to remain in the hands of the person who, ultimately, does not take responsibility for dependants.

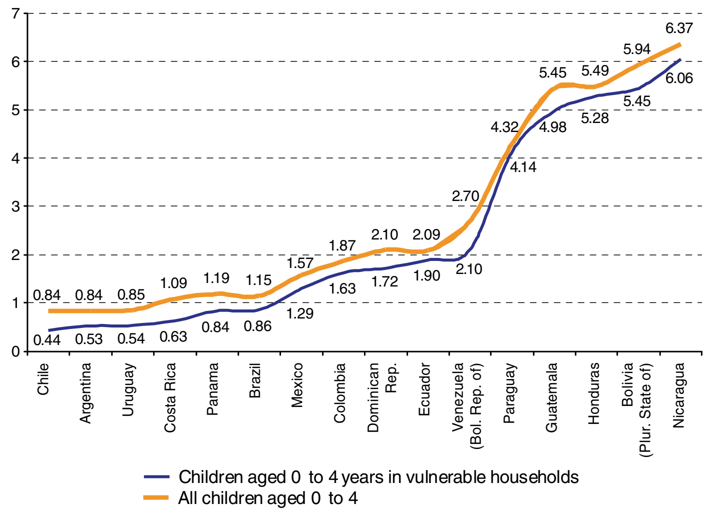
The State has recently started to address this situation through cash transfers and reformed systems of family allowances. These are effective redistribution instruments that have focused public debate more closely on the role of the State in levelling the playing field. They have also become a useful tool of overall social protection. It is important, however, not to confuse a single point of support with a complete platform when considering these programmes within the fiscal structure of Latin American social States. Although these programmes have attracted a great deal of technical, academic and public notice, they represent on average only 0.25% of GDP and 2.3% of social spending in Latin American countries, and they are far from achieving satisfactory coverage (see section 2 of this chapter).

The following simulation exercise (figures VI.7 and VI.8) shows the cost of generating additional income transfers for children from birth to 4 years and from 5 to 14 years, in a universal format and then in one targeted at vulnerable sectors (see box VI.4). Again, these estimates are calculated without eliminating transfers already received by these families and, consequently, the values estimated here are additional to existing efforts.

Figure VI.7

LATIN AMERICA (16 COUNTRIES): COST OF TRANSFERRING ONE POVERTY LINE TO CHILDREN AGED UNDER 5, AROUND 2008

(Percentages of GDP)

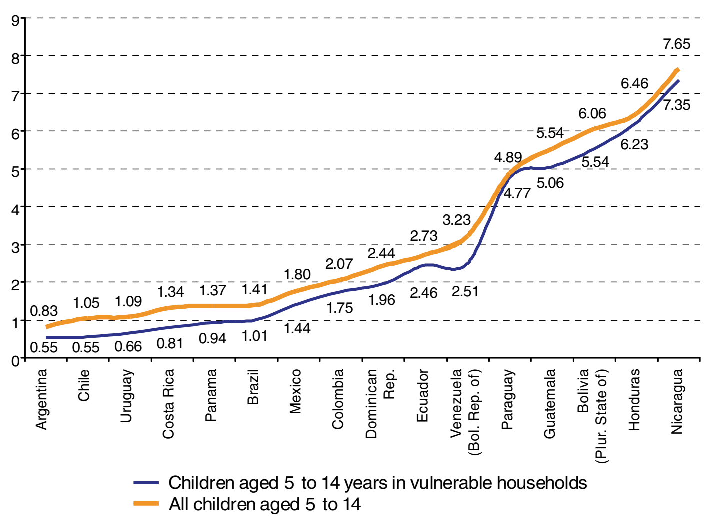


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of data from household surveys conducted in the countries. For single parent households, the transfer amounts to 1.5 poverty lines per child.

Figure VI.8

LATIN AMERICA (16 COUNTRIES): COST OF TRANSFERRING HALF THE POVERTY LINE TO CHILDREN AGED 5 TO 14, AROUND 2008

(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of data from household surveys conducted in the countries. For single parent households, the transfer amounts to 1.5 poverty lines per child.

Once again, in the case of the relatively more developed countries, the cost of supplementing existing benefits with an additional transfer of one poverty line for each child aged under 5 and half the poverty line for each child aged between 5 and 14 is affordable in both the targeted and universal versions within a relatively short timeframe. Given the sharp juvenilization of poverty in these societies and their low fertility rates, this is a highly recommendable measure, since it means investing in more productive future generations and more egalitarian societies. This recommendation does not necessarily require that benefits be configured as shown here.

Table VI.2

LATIN AMERICA (16 COUNTRIES): COVERAGE, BENEFITS AND POVERTY REDUCTION ACHIEVED BY TRANSFERRING ONE POVERTY LINE TO CHILDREN AGED UNDER 5, AROUND 2008

	Targeted coverage (percentage of total households)	Average monthly transfer per capita to households with beneficiaries (dollars at 2000 prices)	Poor households before transfer (percentage of total households)	Poor households post-transfer (percentage of total households)	Poverty reduction (percentage points)
Argentina	12.5	44.3	14.7	12.2	-2.5
Brazil	13.1	21.3	19.9	16.9	-3.0
Uruguay	8.9	35.7	8.5	6.5	-2.0
Chile	10.7	19.1	11.3	9.1	-2.1
Costa Rica	12.2	20.0	14.8	12.4	-2.5
Panama	26.3	21.6	21.5	18.0	-3.4
Mexico	21.1	34.7	27.9	22.8	-5.1
Colombia	21.6	17.6	35.4	30.3	-5.0
Venezuela (Bolivarian Republic of)	19.9	46.0	23.6	19.1	-4.5
Ecuador	22.0	10.4	36.5	31.5	-5.0
Bolivia (Plurinational State of)	27.9	14.7	47.2	41.8	-5.5
Guatemala	37.3	18.3	46.7	39.3	-7.4
Honduras	35.6	16.6	63.1	57.8	-5.3
Nicaragua	35.4	11.7	54.4	48.6	-5.9
Paraguay	28.2	17.2	50.2	44.6	-5.6
Dominican Rep.	19.6	25.3	40.1	35.7	-4.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of data from household surveys conducted in the respective countries.

The investment in children must be calculated not only in terms of the cost of the transfers made. It is also important to calculate the cost of not doing so: in other words, what will be the cost to the State and society of having children with higher malnutrition rates and lower education levels, two inevitable results of exclusion? Studies by ECLAC in conjunction with the World Food Programme (WFP) and the United Nations Educational, Scientific and Cultural Organization (UNESCO) show that, if the current situation persists, it will impose serious long-term economic costs on countries. While social spending supposes the allocation of budgetary funds, not allocating them supposes aggravation of the problem, with major social and economic consequences.

Table VI.3

LATIN AMERICA (16 COUNTRIES): COVERAGE, BENEFITS AND POVERTY REDUCTION ACHIEVED BY TRANSFERRING ONE HALF POVERTY LINE TO CHILDREN AGED 5 TO 14, AROUND 2008 [a]

	Targeted coverage (percentage of total households)	Average monthly transfer per capita to households with beneficiaries (dollars at 2000 prices)	Poor households before transfer (percentage of total households)	Poor households post-transfer (percentage of total households)	Poverty reduction (percentage points)
Argentina	18.7	31.1	14.7	12.1	-2.6
Brazil	23.0	14.3	19.9	16.5	-3.4
Uruguay	15.7	25.1	8.2	5.7	-2.8
Chile	19.8	13.0	11.3	8.5	-2.7
Costa Rica	22.0	14.1	14.8	11.5	-3.3
Panama	44.7	14.8	21.5	17.2	-4.3
Bolivia (Plurinational State of)	40.8	10.3	47.2	42.1	-5.1
Ecuador	39.4	7.5	36.5	30.2	-6.4
Guatemala	50.2	13.9	46.7	39.5	-7.2
Honduras	55.3	12.6	63.1	56.8	-6.3
Mexico	34.4	23.8	27.9	22.1	-5.8
Colombia	34.8	11.8	35.4	30.3	-5.0
Venezuela (Bolivarian Republic of)	33.6	32.7	23.6	18.2	-5.4
Nicaragua	55.6	9.0	54.4	47.4	-7.0
Paraguay	46.3	12.0	50.2	44.0	-6.2
Dominican Republic	33.2	17.1	40.1	35.0	-5.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of data from household surveys conducted in the respective countries.

[a] For single parent households, the transfer amounts to 1.5 poverty lines per child.

For example, the direct costs of health care and education services plus productivity losses —due to the 5.4 million individuals who did not live long enough to form part of the working age population and the two-year schooling gap of those who suffered child malnutrition— were equivalent to 6.4% of GDP in Central American countries and the Dominican Republic in 2004 and 2.6% of GDP in Andean countries and Paraguay in 2005. Those amounts represent in turn an average of 30% of public social spending in those countries in those years. In some cases, this cost is even higher than the social spending reported by the countries. Moreover, meeting the third target Target 1.C of Millennium Development Goal 1 (which calls for halving the 1990 proportion of children underweight for their age by 2015), would mean savings of US$ 2.329 billion between 2004-2005 and 2015. This amount that could rise to US$ 5.966 billion if the scourge of hunger could be completely eradicated over that time (23% and 60% of average annual public health expenditure and 4% and 11% of average social spending by countries in those years, respectively) (ECLAC/WFP 2007 and 2009).

Preliminary data on the costs of illiteracy indicate that in 2006 the inability to read and write entailed productivity losses amounting to US$ 104 million in Ecuador, US$ 135 million in the Dominican Republic and US$ 802 million in the State of São Paulo. If people who have less than six years of education are included, these figures rise to US$ 392 million in Ecuador and US$ 2.254 billion in São Paulo. These amounts are equivalent, respectively, to 69% and 64% of public spending on education for the year in question. Taking into account the entire future working life of illiterate people, the losses indicated above would be 9 to 11 times higher.

The lack of investment in children can be considered a violation of basic social rights, particularly when there are clear nutritional and educational deficiencies. A malnourished and illiterate child is not only a reflection of ethically unacceptable inequalities but is headed for a life with little prospect of achieving his or her potential. Moreover, the loss of capacities and opportunities through malnutrition and illiteracy degrades society as a whole. It means that much of the human potential of future generations —precisely those that should capitalize on the demographic bonus— will be lost as a result of irreversible nutritional damage or the lack of occupational skills. In addition, the costs of remedying the ills that flow from these problems are incalculably higher than the investments needed to avoid them in the first place. When it comes to the cost of not making social investments in children, the ethical dimension and the practical dimension go hand-in-hand.

2. Dealing with old-age insecurity

As the population ages, the generational focus of social spending will become an unavoidable public issue. Spending on social security, in the form of pensions and health care, may rise to the point of crowding out spending on services for society’s reproductive function, which involves women and children. And, even then, the first type of spending may not adequately cover the needs of the older population.

The countries of the region are facing a critical problem: how can they provide basic cash transfers to older persons who can no longer work or find employment while continuing to facilitate high rates of female labour market participation and to invest in human capital for the generations to come? As illustrated in figure VI.8, retirement benefits and pensions reach varying (but generally very low) percentages of those aged over 65, depending on the country. It is clear as well that it is families with low or very low incomes that are most deprived of such support.

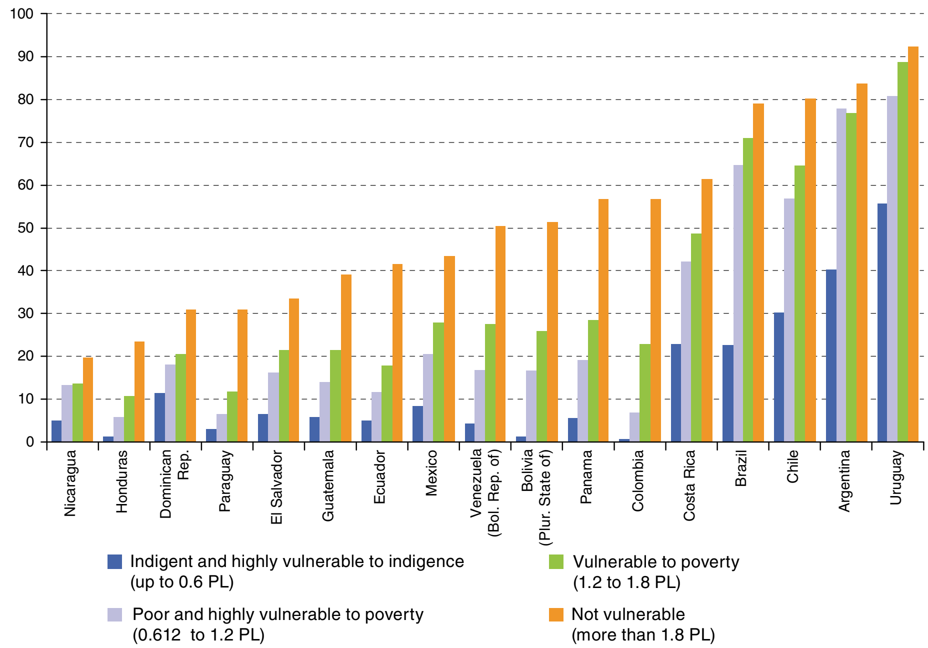
Given the proportion of women among the older population and the fact that few of them have pursued careers that would have entitled them to retirement benefits, pension systems must either recognize the cost in employment continuity and quality foregone by those who shoulder the burden of unpaid work or they must delink a large share of future pensions from the formal labour market.

As ECLAC has proposed (2006b), social protection cannot rely exclusively on contributory systems linked to the labour market, and this calls for a rethinking of redistribution mechanisms. Social security systems have provided only very limited coverage for the rural population. Yet an even greater constraint has been that imposed by the extensive informality in the region's economies. Average social security coverage is below 40%: while it may exceed 45% in urban areas it is lower than 22% in the countryside. Even in those countries with the broadest coverage (Chile, Costa Rica, Panama, Uruguay) barely 60% of urban workers contribute to social security (ECLAC, 2006b).

Figure VI.9

LATIN AMERICA (18 COUNTRIES): PERCENTAGE OF HOUSEHOLDS WITH A MEMBER AGED 65 OR OVER WHO RECEIVES A RETIREMENT BENEFIT OR PENSION, BY INCOME LEVELS, AROUND 2007 [a]

(Multiples of the poverty line)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of data from household surveys conducted in the countries

[a] Data for Peru refer to 2003; those for El Salvador to 2004; those for Colombia and Nicaragua to 2005; and those for Argentina, Chile, Guatemala and Mexico to 2006

The reforms pursued in various countries ultimately undermined the public, contributory and social nature of spending of this kind. This is particularly true in the case of pensions policy, especially where individual capitalization systems were introduced. In the wake of those reforms, many Governments have been attempting to offset the negative distributive effects of the reform through new public programmes. In particular they have begun to consider the most reasonable ways to ensure coverage for those who cannot build up the level of contributions required by legislation. This implies significant strengthening of the non-contributory component and generates fiscal pressures, relating in particular to the costs of transition.

Several Caribbean countries have adopted domestic policies to care for older persons and have drawn up strategic implementation plans. Trinidad and Tobago, among others, provides pensions to all older persons through a means-tested system.

Civil society organizations such as HelpAge International have been advocating a basic social (non-contributory) pension that would be provided without a means test to all older persons, as a way of facilitating access. While policymakers in the Caribbean are beginning to recognize the consequences of population ageing for the viability of pension systems, no country has undertaken an in-depth reform in this area.

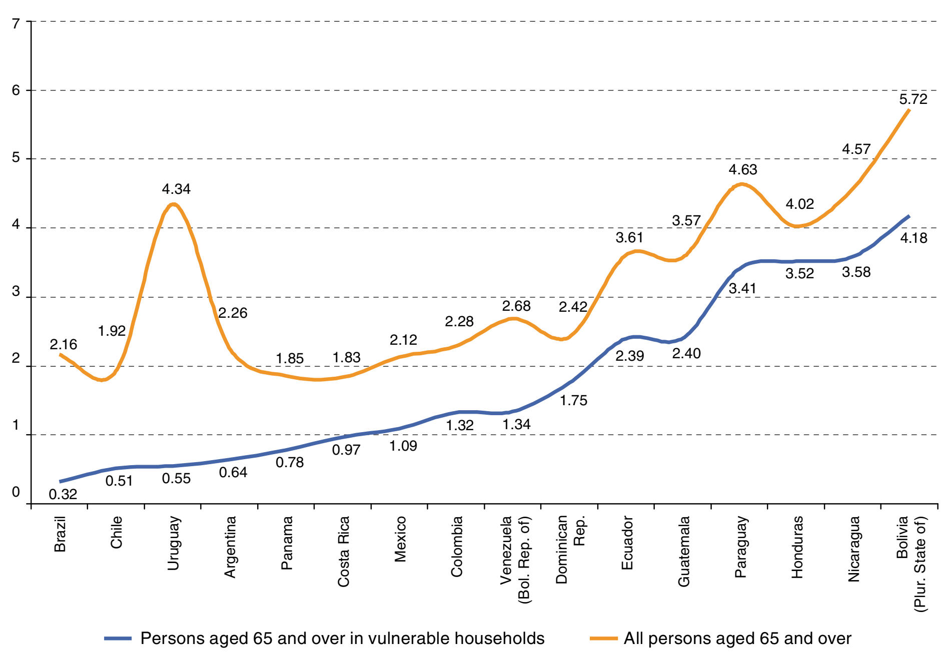
One of the risks in the region is to confuse ageing with the need for traditional pension systems (stratified and contributory). Under this scheme, the population as a whole would soon be called on to finance those few retired formal workers who had stable working careers in the past. Over the long term, it would also imply using the public purse to cover the deficits that this contributory and stratified social security would inevitably generate. On the other hand, the privatization of social security may resolve the deficit problem, but if such systems continue to receive no State subsidy they are bound to exclude a large portion of the older population in the future (Mesa Lago, 2009).

Following attempts to combine stratified pay-as-you-go contributory systems and privately administered individual capitalization models, public debate and policies are now embracing the option of non-contributory uniform pensions, whether universal or targeted (ECLAC, 2006b; Filgueira and others, 2006; Tanzi, 2008). These systems or instruments do not of course resolve the problem of income replacement for active workers: that is not their function. Rather, they are intended to guarantee a basic level of income that is fiscally sustainable and fairer from the intergenerational viewpoint. In Argentina, Brazil, Chile, the Plurinational State of Bolivia and Uruguay (at the provincial and national levels) as well as in Mexico (Federal District and some states) it has been found that a basic guarantee for older persons can be both fiscally prudent and socially desirable if subsidies to the better-off retirees and pensioners (generally men) are limited.

Figure VI.10

LATIN AMERICA (16 COUNTRIES): COST OF TRANSFERRING ONE POVERTY LINE TO PERSONS AGED 65 AND OVER, AROUND 2008 [a]

(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of data from household surveys conducted in the countries.

[a] Data for Nicaragua refer to 2005; those for Argentina, Chile and Guatemala to 2006; those for the Plurinational State of Bolivia and Honduras to 2007.

A simulation exercise was used to estimate the cost to the region's economies of providing older persons with a universal and a targeted cash benefit (and giving it to all persons over 64 years living in households with per capita incomes below a certain poverty line). As will be seen, for many countries these costs are not exorbitant but merely require the reallocation of available funds. In Argentina, Brazil, Chile, Costa Rica and Uruguay the outlay required represents 1% of GDP or less. This does not mean that these countries should necessarily opt for the benefit examined in this simulation. More targeted or less generous benefits can gradually pave the way for meeting the objective at lower fiscal cost, as is the case in countries where this effort would represent too high a burden on budgets.

The impact of a measure such as the one estimated, in its targeted version, would bring about a clear decline in poverty among the targeted households, since it would reach more than 5% of households in Ecuador and just over 0.5% in Uruguay (a country with very low rates of poverty among older persons).

Table VI.4

LATIN AMERICA (16 COUNTRIES): COVERAGE, BENEFITS AND POVERTY REDUCTION ACHIEVED BY TRANSFERRING ONE POVERTY LINE TO PERSONS AGED 65 AND OVER, AROUND 2008 [a]

	Targeted coverage (percentage of total households)	Average monthly transfer per capita to households with beneficiaries (at constant 2000 prices)	Poor households before transfer (percentage of total households)	Poor households post-transfer (percentage of total households)	Poverty reduction (percentage points)
Argentina	7.6	88.3	14.7	13.1	-1.6
Brazil	3.9	26.5	19.9	19.3	-0.6
Uruguay	5.4	61.3	8.5	7.8	-0.7
Chile	7.8	30.6	11.3	10.0	-1.2
Costa Rica	8.9	41.7	14.8	12.2	-2.7
Panama	23.3	38.3	21.5	18.6	-2.9
Mexico	11.2	55.6	27.9	24.9	-3.0
Colombia	12.0	25.9	35.4	31.8	-3.6
Venezuela (Bolivarian Republic of)	9.1	63.8	23.6	21.5	-2.1
Bolivia (Plurinational State of)	12.9	24.4	47.2	42.5	-4.7
Ecuador	15.8	18.4	36.5	31.3	-5.2
Guatemala	12.2	27.0	46.7	43.3	-3.4
Honduras	17.1	23.0	63.1	58.6	-4.5
Nicaragua	17.2	14.1	54.4	51.0	-3.4
Paraguay	15.0	26.6	50.2	45.1	-5.1
Dominican Republic	14.4	35.2	40.1	35.7	-4.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of data from household surveys conducted in the countries.

[a] Data for Nicaragua refer to 2005; those for Argentina, Chile and Guatemala to 2006; those for the Plurinational State of Bolivia and Honduras to 2007.

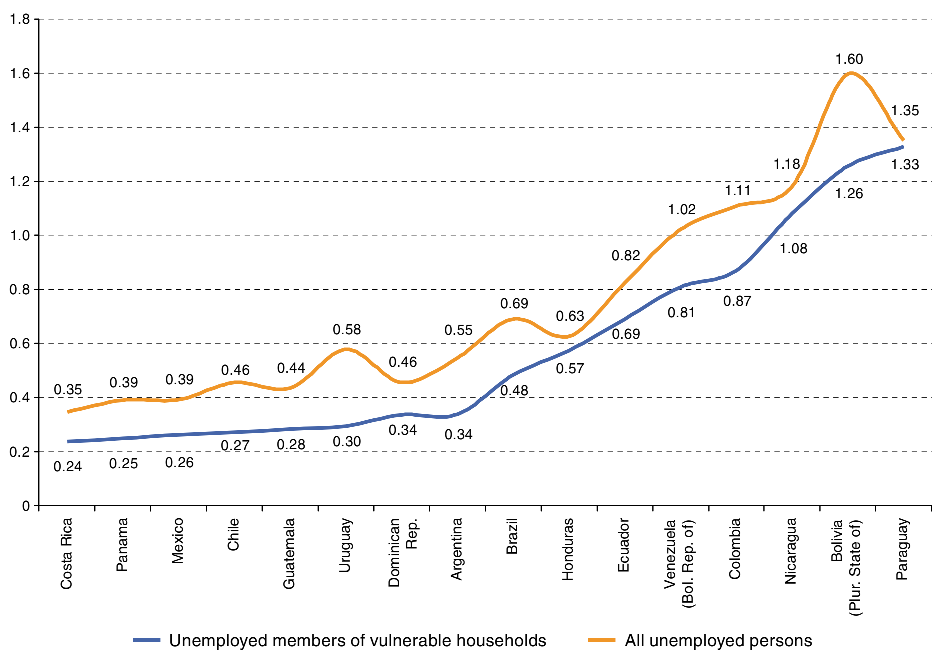
3. Towards a less vulnerable labour market: unemployment protection

Unemployment is a scourge not only because of its effect on household incomes but also because of its impact on people's state of mind and their position in society. Government strategies must therefore pay close attention to combating unemployment, especially at times of crisis or when labour markets are sluggish. Yet it is clear that if unemployment insurance is restricted to people who held formal jobs and had sufficient seniority to be eligible, coverage will be insufficient and will not reach the neediest population groups. If programmes are to help the vulnerable and unemployed poor they must be designed to identify and include workers who have no social security. A benefit such as that proposed here could be accompanied by part-time employment in Government-administered works and services and by training. The cost of such a measure would be moderate under several scenarios if it included a selection system to capture those effectively unemployed. As well, given the complexities in identifying unemployed informal workers, the system could be applied only in a typically countercyclical mode, when open unemployment exceeds a predefined threshold or when GDP stalls or contracts. In those cases such mechanisms could be activated to the benefit of all workers who declare themselves unemployed, linking then to Government-sponsored employment and training programmes.

Figure VI.11

LATIN AMERICA (16 COUNTRIES): COST OF TRANSFERRING ONE POVERTY LINE TO THE UNEMPLOYED, AROUND 2008 [a]

(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of data from household surveys conducted in the countries.

[a] Data for Nicaragua refer to 2005; those for Argentina, Chile and Guatemala to 2006; those for the Plurinational State of Bolivia and Honduras to 2007.

Table VI.5

LATIN AMERICA (16 COUNTRIES): COVERAGE, BENEFITS AND POVERTY REDUCTION ACHIEVED BY TRANSFERRING ONE POVERTY LINE TO UNEMPLOYED PERSONS, AROUND 2008 [a]

	Targeted coverage (percentage of total households)	Average monthly transfer per capita to households with beneficiaries (at constant 2000 prices)	Poor households before transfer (percentage of total households)	Poor households post-transfer (percentage of total households)	Poverty reduction (percentage points)
Argentina	7.5	48.0	14.7	13.3	-1.5
Bolivia (Plurinational State of)	6.6	14.4	47.2	460	-1.2
Brazil	6.8	23.3	19.9	18.3	-1.5
Chile	5.7	22.1	11.3	10.0	-1.2
Costa Rica	4.7	19.4	14.8	14.1	-0.8
Ecuador	7.3	11.5	36.5	34.8	-1.7
Guatemala	2.4	16.3	46.7	46.3	-0.4
Honduras	4.3	14.9	63.1	62.6	-0.5
Mexico	4.8	31.0	27.9	27.1	-0.8
Colombia	12.2	16.8	35.4	32.9	-2.5
Venezuela (Bolivarian Republic of)	8.0	44.1	23.6	22.2	-1.4
Nicaragua	6.4	11.4	54.4	53.6	-0.8
Panama	8.8	21.5	21.5	20.3	-1.1
Paraguay	8.7	17.8	50. 2	48.6	-1.6
Dominican Rep.	4.5	21.6	40.1	39.3	-0.9
Uruguay	5.1	34.3	8.5	7.5	-1.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of data from household surveys conducted in the countries.

[a] Data for Nicaragua refer to 2005; those for Argentina, Chile and Guatemala to 2006; those for the Plurinational State of Bolivia and Honduras to 2007.

4. Summing up

The estimates and recommendations offered here are intended to indicate opportunities and tentative roadmaps for reform. They do not claim to propose a single model for the region, with respect to either the design or the scope of reform. They should be treated as a starting point for considering direct income transfer systems and how they could be designed and funded, not as a uniform prescription.

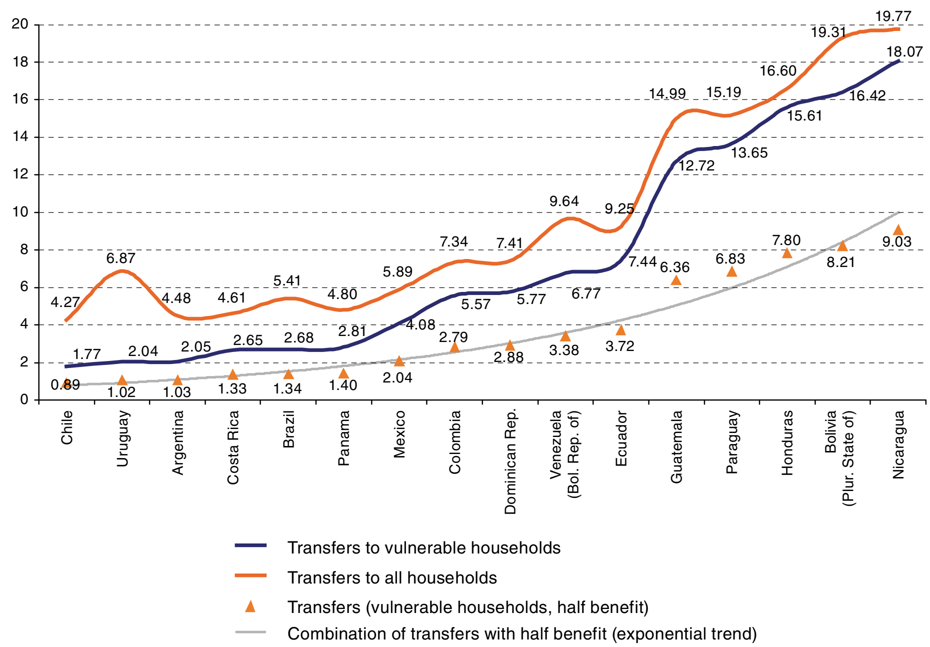
In looking at the total cost involved in direct transfer systems, there are some relevant data to be considered. As shown in figure VI.12, even if the transfer is targeted solely at vulnerable households (with incomes below 1.8 poverty lines), countries with smaller well-being gaps would need to commit between 1.8 and 2.7 percentage points of GDP in order to transfer income equivalent to a basket of food and non-food goods to the unemployed and to those aged over 65 or under 15. While this represents a significant effort, it is not unreasonable if those targets are projected over time. By way of illustration, if coverage were restricted or benefits reduced (for example by half) the effort would in no case tie up more than 1.5% of GDP. In many of these countries the measures proposed here already exist, but not with the simplicity and the scope with which they were simulated in the exercise. This suggests that a relatively simple design of a basic guaranteed income supplement is fiscally feasible.

As we move towards countries with intermediate or large welfare gaps, the challenges become more complex. In countries with a serious welfare gap (see figure VI.12) fiscal reality and social needs clearly imply starting from different bases and prioritizing among options, and they will demand strong political will and renewed social covenants (particularly for increasing the tax burden, reforming its structure and strengthening public institutions). It seems essential at least to progress towards providing basic income coverage for households with young children, since this would have the greatest impact on human capital.[10]

Figure VI.12

LATIN AMERICA (16 COUNTRIES): COST OF ALL INCOME TRANSFERS TO VULNERABLE HOUSEHOLDS AND ALL HOUSEHOLDS

(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of data from household surveys conducted in the countries.

Lastly, as shown in table VI.6, the impact on poverty reduction and income distribution from this set of transfers is very significant, particularly in countries of the third group with relatively lower levels of development, more poverty, weaker social protection systems and more precarious labour markets.

[10] It should be recalled that the simulation exercise for the targeted alternative referred to the entire population under 1.8 times the poverty line, which represents between 70% and 80% of the population in the group of countries with the widest well-being gap.

Table VI.6

LATIN AMERICA (16 COUNTRIES): IMPACT OF A BASIC TRANSFER ON POVERTY AND EQUITY [a]

	Coverage (percentage of total households)	Average monthly transfer per capita to households with beneficiaries (at constant 2000 prices)	Poverty before transfer of one poverty line (percentage of total households)	Poverty after transfer of one poverty line (percentage of total households)	Poverty reduction (percentage points)	Gini without transfers	Gini after transfers
Argentina	30.2	71.8	14.7	6.7	-8.0	0.52	0.48
Bolivia (Plurinational State of)	59.3	20.9	47.2	29.2	-18.0	0.58	0.48
Brazil	32.4	26.9	19.9	11.2	-8.7	0.61	0.58
Chile	28.7	28.8	11.3	4.5	-6.8	0.54	0.51
Costa Rica	33.5	30.4	14.8	5.9	-9.0	0.49	0.45
Ecuador	56.9	15.8	36.5	18.1	-18.5	0.52	0.44
Guatemala	65.6	26.7	46.7	26.7	-20.0	0.59	0.50
Honduras	72.9	23.9	63.1	44.1	-19.0	0.58	0.46
Mexico	49.1	47.3	27.9	13.0	-14.9	0.54	0.49
Colombia	51.8	25.2	35.4	18.0	-17.4	0.59	0.58
Venezuela (Bolivarian Republic of)	45.9	64.3	23.6	10.0	-13.6	0.42	0.36
Nicaragua	70.3	17.5	54.4	34.6	-19.8	0.55	0.45
Panama	73.3	31.8	21.5	9.9	-11.6	0.52	0.47
Paraguay	64.6	24.7	50.2	29.2	-21.0	0.54	0.45
Dominican Rep.	50.1	33.2	40.1	23.6	-16.5	0.58	0.50
Uruguay	23.0	52.7	8.5	2.6	-5.9	0.44	0.41

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of data from household surveys conducted in the respective countries.

[a] Data for Nicaragua refer to 2005; those for Argentina, Chile and Guatemala to 2006; those for the Plurinational State of Bolivia and Honduras to 2007.

It is essential to steer social investment towards the lowest-income groups, with long-term countercyclical policies that will offset the swings of the economic cycle, and with explicit guarantees and assured quality levels. Social protection and promotion systems should be seen as a comprehensive alternative of great utility. But they require significant progress in the areas of financial security and institutional stability, for which reason they need to be backed by a social covenant. This will be explored in greater depth in chapter VII.

F. The lever of education

Education is a multifaceted lever for development. A society with higher education levels will be better equipped to take prompt advantage of technical progress, it will produce more innovation and it will be more competitive and productive. Political action will also benefit from a better-educated population, for the knowledge society and democratic life require broader political participation by an informed citizenry with critical capacities and a civic mindset.

Education plays a decisive role in the search for equality. Learning that is less segmented by socio-economic level, gender, territory and ethnic origin will help reduce the inequality gap from one generation to the next. It will prepare new generations to take their place productively in the labour market and it will offer them greater opportunities for social and occupational mobility throughout their lives, thereby reducing future wage and well-being gaps. In addition, knowledge and information are today the keys to expanding social capital and participating in distance communication, which are in turn fundamental to social inclusion and life plans. Today's greater educational achievements will result tomorrow in households with greater cultural capital, which in turn is a key condition for the educational success of future generations. There is here a virtuous circle that helps to reduce educational divides. Lastly, evidence shows that in families with higher education levels there is less risk of child malnutrition and adolescent pregnancy, which reproduce exclusion from one generation to another.

A strategy to achieve equality in education must give priority to expanding the coverage of preschool education and lengthening the school day in public schools, improving secondary completion rates in socio-economic sectors with lower achievement levels (considering that coverage and completion are now almost universal for primary education) and reducing the learning and knowledge gaps built up over the education cycle from preschool to the end of secondary.

1. Universalizing preschool education and extending the school day

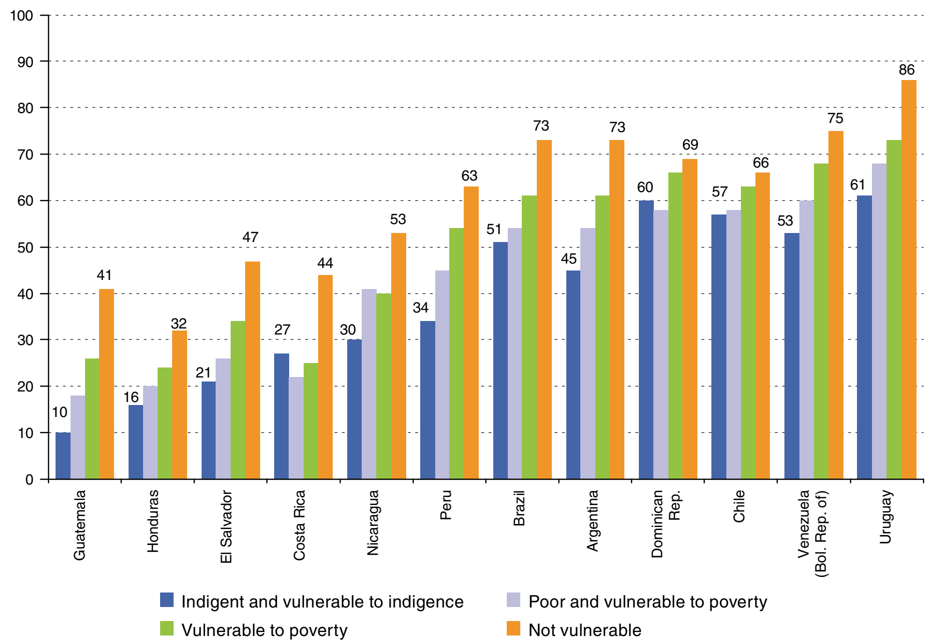
Preschool education serves a double purpose. First, it evens out learning abilities at the outset of the educational career, which has a strong bearing on outcomes at later levels of education. Early stimulation and preschool preparation have been shown to make a substantial difference in performance at the subsequent levels, particularly primary and secondary. Ensuring preschool education within the public system can help counter differences of family background and promote equality of opportunities for learning. Second, increased preschool coverage, like the lengthening of the school day, reduces the hours that adults, especially women, have to devote to child care. This facilitates the emancipation of women, enhances their access to the labour market, boosts household incomes (particularly for poor households, with a positive effect on equality and reducing monetary poverty) and promotes gender equality.

Although significant progress has been made, the coverage of childcare services is still poor and fairly dispersed. In most countries the majority of facilities offering high-quality, full-day childcare are private, and their coverage is segmented by ability to pay. Participation rates in childcare and preschool education programmes are higher in urban areas, a factor that reproduces inequality since, according to a wealth of international empirical evidence, it is children from the most disadvantaged social groups who are most in need of early education programmes (ECLAC, 2008a).

In recent years policies to expand education programmes have been gaining ground in public agendas in various countries. Costa Rica, Peru, Uruguay and the Caribbean countries, for example, have made significant progress in preschool education (birth to 5 years). Nevertheless, much remains to be done to make early childhood and preschool education into building blocks for redistributing opportunities for young children and for re-balancing care responsibilities between the sexes. In the countries with greatest coverage, participation in preschool education is two thirds of the primary school enrolment rate (with the sole exception of Uruguay, where it is 74%), while it ranges from 20% to less than 50% in other countries. As figure VI.13 indicates, preschool attendance by children from 3 to 5 years is highly stratified, with access proportional to household income: participation is lowest among children from poor households and those vulnerable to poverty (with incomes up to

1.8 poverty lines). There is no systematic information available to assess coverage for children from birth to three years of age. However, coverage is very low in those countries that do have such data.

Figure VI.13
LATIN AMERICA (12 COUNTRIES): CHILDREN AGED 3 TO 5 ATTENDING AN EDUCATIONAL ESTABLISHMENT, AROUND 2007 [a]
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of data from household surveys conducted in the respective countries.

[a] Data for Peru refer to 2003; those for El Salvador to 2004; those for Nicaragua to 2005; and those for Argentina, Chile and Guatemala to 2006. Information on the Dominican Republic refers to attendance by children aged 4 and 5.

International research has shown that a longer school day creates the conditions to enhance learning processes. It also creates positive externalities for families, by alleviating concerns over after-school care, including nutritional needs, and freeing mothers to join the workforce. When children are kept longer in school they are less likely to be exposed to the risks associated with spending several hours of the day in the street. This in turn helps to reinforce family life, giving parents greater assurance that their children will be safe in their activities (ECLAC, 2008a). In Chile, Colombia and Uruguay, for example, there have been significant efforts to extend the school day, at least at the primary level (and also at the secondary level in the case of Chile). However, such moves are still pending in most countries.

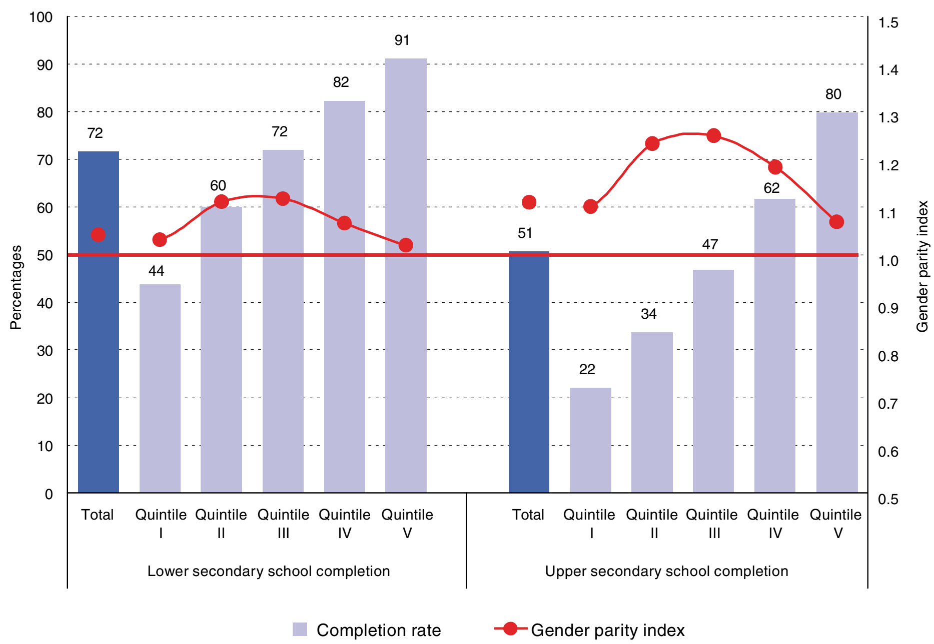
2. Greater equality in secondary education outcomes, with smaller learning gaps

According to ECLAC estimates, secondary school completion is a key to social inclusion. With a education credentials, young people are better equipped to find a job and hence to avoid or escape from poverty. Yet the pattern of secondary school graduation in the region is highly stratified. Figure VI.14 illustrates this stratification in secondary and tertiary completion rates in Latin America around 2006. While gender parity has been more than achieved (a greater percentage of young women then men complete secondary school), in general the average graduation rate is very low (51%), and this perpetuates low productivity in economies. The secondary graduation gap by income quintiles is extremely significant: in the first quintile one in five youngsters will complete secondary school, while four in five will do so in the fifth quintile. These contrasts show that education in its current form reinforces the intergenerational transmission of inequality instead of reversing it.

Figure VI.14

LATIN AMERICA (18 COUNTRIES): LOWER AND UPPER SECONDARY SCHOOL COMPLETION AMONG YOUNG PEOPLE AGED 20 TO 24, BY HOUSEHOLD INCOME QUINTILE AND SEX, AROUND 2006 [a]

(Percentages and ratios)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of data from household surveys conducted in the respective countries.

[a] Regional totals may differ from those shown in other figures because in this case the widest available geographic coverages were used. The right-hand axis here represents the ratio of female to male graduates: values exceeding 1.00 indicate a higher percentage of female than male graduates.

In the English-speaking Caribbean, secondary school enrolment rates have risen considerably, but it is still the case that only 75% of primary school leavers go on to secondary school. Major challenges remain in terms of the quality and equity of the education provided. Constraints on the capacities of the teaching body[11] contribute to the fact that many young people leave the school system without the basic knowledge needed to play a productive role in society. A school completion certificate is often the only official document that a young person in the subregion will have. The content of secondary education continues to be abstract and remote from current social and economic needs in the Caribbean. This poses a serious constraint on the development of the Caribbean subregion, for knowledge demands are growing sharply with the expansion of services, construction and tourism, which require employees with intermediate or higher instruction.

Latin America and the Caribbean must therefore improve coverage, grade promotion and completion in secondary education, as well as enhancing the quality of its contents. This is essential, first, from the viewpoint of socially equitable economic development. Second, it also represents a sociodemographic opportunity. These societies are moving towards having a smaller relative (and absolute) child population, while the numbers completing primary school will rise steadily (ECLAC, 2008a). This offers an opportunity to increase financial and political efforts to improve the coverage and advancement rates in public secondary education. Yet this window of opportunity will close as the proportion of older people increases, with the attendant financing demands for health care and pensions. For the same reason, in most countries of the region now is the time to focus efforts on secondary school advancement and completion, particularly for those sectors of society that face the most obstacles in this regard. There is a need, then, to review the composition of education expenditure by levels and to boost investment in secondary education. Coherent incentives also needed to increase the system's human resources (teachers, managers, planners), to encourage students to stay in school, and to enhance the quality and relevance of schooling by updating contents, technologies and knowledge transmission methods.

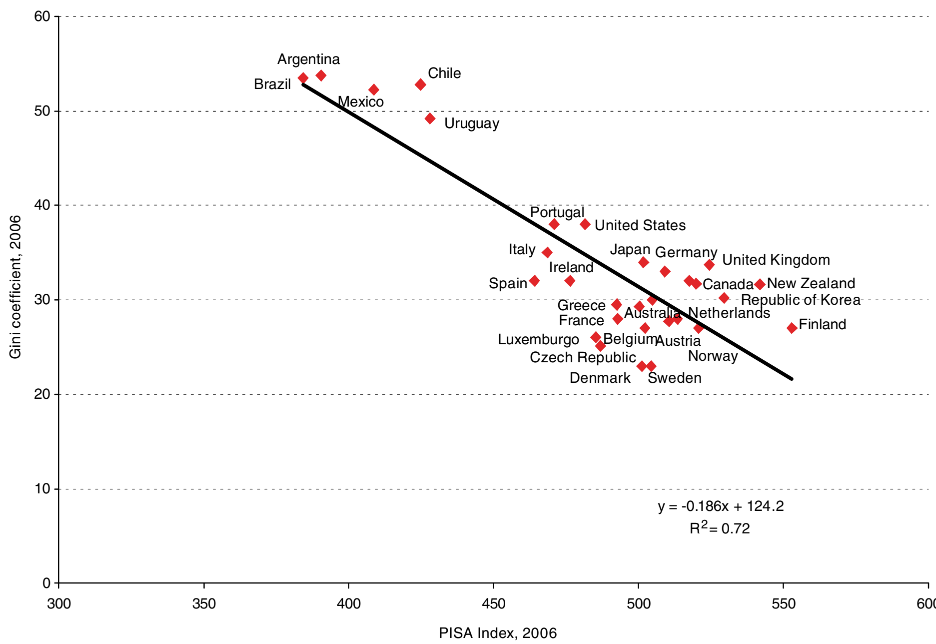
Secondary school completion is today a minimum requirement for finding employment that will support an acceptable standard of living. It is also a condition for participating effectively in the information society and exercising citizenship. Improving the quality of education will offer lower-income youth more equitable access to higher education and training. This will give young people a greater sense of belonging and a stronger belief in meritocracy, both of which are key aspects of social cohesion (ECLAC/OIJ, 2008).

Finally, education gaps by socio-economic group are found not only in access to preschool education, secondary school completion, and access to vocational or technical education. The quality of education offered to different socioeconomic groups throughout the education cycle is also very uneven, as are learning outcomes. Figure VI.15 compares the findings of the Programme for International Student Assessment (PISA), which measures learning in the education system. It shows that countries with less income inequality have much higher effective learning scores. In

[11] With World Bank support, member states of the Organization of Eastern Caribbean States (OECS) have been pursuing an education reform strategy adopted by their ministers of education in 2000. The strategy seeks to develop a regional approach that will make more efficient use of scarce institutional capacities and financial resources so as to improve the quality and accessibility of secondary education in a selected number of OECS member countries. The initiative is based on earlier reforms of basic education undertaken in Dominica, Grenada and Saint Lucia, and the secondary education reforms in Dominica and in Saint Kitts and Nevis.

other words, more egalitarian countries exhibit greater synchrony, with much higher aggregate learning achievements. There is no more compelling relationship between educational equality and development dynamics.

Figure VI.15
EDUCATIONAL OUTCOMES AND THE GINI COEFFICIENT



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Antonio Afonso, Ludger Schuknecht and Vito Tanzi, "Income distribution determinants and public spending efficiency", *Working Paper*, No. 861, European Central Bank, 2008 for countries of the Organisation for Economic Co-operation and Development (OECD); Ivonne González and Ricardo Martner, "Del síndrome del casillero vacío al desarrollo inclusivo: buscando los determinantes de la distribución del ingreso en América Latina'', document presented at the twenty-second Regional seminar on fiscal policy, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 26-29 January 2010, for Latin American countries.

Available data from standardized tests measuring the quality of education show a systematic and persistent learning gap in some Latin American countries in favour of students in private schools compared to those in public schools. This indicates that the quality of the education available is stratified according to families' ability to pay for education from their own pocket. Moreover, the educational level of parents plays an important role in their children's academic achievements, and this is also correlated with family income. On demand and supply sides alike, then, the status quo reproduces gaps in knowledge and skills.

Public policies face many complex challenges in closing social gaps. When it comes to education policy, the array of challenges is wide and well known: to improve teachers' skills and rewards, to make greater instructional use of information and communications technologies (ICT) in the public education system, to improve management at the level of the school and also of central and decentralized agencies, to work with families to keep young people in the school system and ensure they progress through it in a timely fashion, to lengthen the school day while making the contents of instruction more relevant, and to provide universal preschool education.[12] These achievements are the springboard for a qualitative leap towards greater equality, better educational outcomes, and less segmentation of abilities to absorb knowledge and acquire skills through education.

Yet it is not just a question of investing more money. Those additional resources must be applied in ways that will achieve greater impact and efficiency. The evidence suggests that nearly all countries of the region experience a persistent problem in translating spending into better indices of learning, advancement and completion. Public education spending has risen steadily in nearly all countries of the region over the last two decades (see the case of the Caribbean in table VI.7). The bulk of this increase has gone to primary education, followed by secondary. However, this financial effort has not produced any significant progress in learning outcomes or in the quality of public education. Progress at the secondary level is inadequate both with respect to grade advancement and completion rates. The region thus faces the challenge of understanding and dealing with the "lag effect" in education investment. It is known that the fruits of such investment take a long time to mature, but it is also true that many countries of the region have been boosting investment and reforming management in education for two decades now.

Table VI.7
THE CARIBBEAN: PUBLIC SPENDING ON EDUCATION
(Percentages of GDP)

Country	1991	2000-2007
Bahamas	16.3	19.7
Barbados	22.2	16.4
Belize	18.5	18.1
Grenada	11.9	12.9
Guyana	6.5	15.5
Jamaica	12.8	8.8
Saint Kitts and Nevis	11.6	12.7
Saint Vincent and the Grenadines	13.8	16.1
Trinidad and Tobago	12.4	13.4

Source: United Nations Development Programme (UNDP), *Human Development Report, 2009*, New York, 2009.

What is needed now is a concerted effort in the institutional sphere and in the public management of education. Today the sociodemographic window of opportunity is open for addressing productivity and equality needs. The wind is blowing is favour today, but if the region fails to grasp the opportunity, it may blow against tomorrow.

12 In this respect, conditional cash transfer programmes seek to have a positive impact on low-income families by requiring their children's attendance at school as a condition for the transfer.