

# **The role of labour market and social protection in reducing inequality and eradicating poverty in Latin America**

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## **Abstract**

After an unprecedented period of macroeconomic stability, growth and employment creation between 2003 and 2008, Latin American economies are facing the post 2008-2010 global crisis with the challenge of a jobs-centred recovery. The two previous decades had put behind the role of the labour market as a central social welfare generator. The eighties were identified as the “lost decade” because of the debt crisis, while the Washington Consensus oriented-policies of the nineties yielded a sharp deterioration of labour market outcomes: priorities were the reduction of macroeconomic volatility and the strengthening of pro-poor social policy. The new millennium, however, brought better international conditions, higher economic growth in the region, and changes in perspectives of the role of labour market.

The main aim of this paper is to analyze to what extent these more favourable conditions have been an opportunity for these countries to recover their labour markets and conduct a more active social policy. In turn, the paper evaluates the contribution of the labour market and of the social protection system as effective mechanisms to overcome poverty and reduce income inequality in Latin America.

This article briefly analysis the processes over the last three decades, tries to assess the role of labour market, and looks at its interactions with both the macro stability policy context and the reforms in social protection. Finally, the article states that, even though the labour market policy framework has changed, and now yields better outcomes, there are many more issues and challenges ahead than the ones that are usually acknowledged.

**Keywords:** Latin America, labour market, poverty, inequality, social protection, macroeconomic stability.

**JEL Classification:** O54, J80, I30.

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## Introduction<sup>1</sup>

The high economic growth experienced in Latin America in recent years –before the last international crisis- was accompanied by an improvement in social and labour market indicators in which the creation of jobs and the reduction of unemployment are the most evident processes. At the same time, in several countries fiscal space has increased and given rise to additional manoeuvring capacity in social policies. Furthermore, solidarity-based public components that supplement existing contributory schemes in the different social protection areas have been implemented in some of Latin American countries. Additionally, most of these countries currently have some sort of cash transfer programme (conditioned or partly conditioned) to those households where children and adolescents live.

However, despite all the progress achieved during the expansion phase before the international crisis and the policy responses during such crisis, the region still shows significant deficits in the labour dimension, in which the most recurrent expressions are the high unemployment rates, underemployment, precariousness, informality, inequality and low average wages. At the same time, given the importance that the labour market has in household income generation, especially in a region where social protection coverage is limited, those precarious conditions often give rise to poverty and social exclusion.

These outcomes seem to be mostly linked to three structural characteristics in the region: high-income inequality both at labour and family levels, very low systemic competitiveness and high productive heterogeneity, and scarce protection for workers and their families. In turn, inequality of labour income partly reflects the productive heterogeneity where highly efficient and competitive sectors and companies coexist with activities and firms that operate under a survival rationale.

The Latin American experiences suggest that the current reality of its labour markets does not allow moving forward in the construction of a social protection system only through traditional social insurance based on contributory components. In this regard, the extension of the principle of universality in the supply of basic goods and services in the region is highly positive. This, however, does not mean that the labour market's role as a social integration axis can be ignored or the importance of macroeconomic stability diminished and, essentially, of decent employment dynamics to improve the wellbeing of the population and reduce inequality.

Progress towards the universalization of citizens' economic and social rights cannot go hand in hand with a weakening of labour regulations and institutions. In this context, progress in employment formalization and the strengthening of labour institutions as well as of active employment policies –still modest in the region- are processes that must be positively assessed. If no progress is made in this direction, the expansion of universal social protection will not eliminate income gaps between the formal and informal jobs. The huge differences that still exist in the region's working conditions require acting permanently in the field of primary income distribution as a means to reduce inequality and allow jobs to become an effective mechanism to exit poverty and open the door to protection.

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<sup>1</sup> We thank Luis Beccaria for his very valuable comments and suggestions.

Ultimately the goal is to structure mechanisms that will allow protection to be enhanced during the different stages of the life cycle. The challenge along this path is to design protection systems based on a coherent articulation between contributory and non contributory components that tends to increase coverage taking into account efficiency and equality. It is thus necessary to integrate public policies so that they are no longer mere programmes and become a coherent system of training, employment, social protection and productive development. Achieving this objective will depend, among other factors, on the specific features of the system, its design, requirements and benefits as well as on the macroeconomic and labour market context.

The region needs to make progress in the definition and implementation of a mid and long-term economic development strategy built on the basis of an integrated productive structure leading to high efficiency and systemic competitiveness. Productive convergence within a framework of high productivity standards is a necessary condition for sustained growth throughout time. In this regard, it is necessary to have high levels of consistency and integration between the macroeconomic regime –which sets proper objectives and creates stability and predictability- and development strategy guidelines geared to social inclusion and equality. This, in turn, must be grounded on long-term policies agreed upon by consensus among all social actors so as to turn them into “permanent State policies” which will also allow an evaluation of the mid and long-term outcomes, ensure their funding and avoid their deactivation for reasons other than their performance.

Finally, it is important to recognize the significant heterogeneity across Latin American countries in terms of economic development, fiscal capacity, labour market and social conditions, international competitiveness and institutions, suggesting that there is no one way to reduce inequality, increase social cohesion and overcome poverty in the region. Therefore, policy recommendations should take into account the complexity of the development process and incorporate not only economic but also institutional and political dimensions.

The main aim of this paper is to analyze to what extent more favourable macroeconomic conditions have been an opportunity for these countries to recover their labour markets and conduct a more active social policy. In turn, the role of labour market and social protection as effective mechanisms to overcome poverty and reduce income inequality in Latin America is also assessed.

The paper follows with a brief analysis of the evolution of the macroeconomic situation in Latin America over the three last decades. Section 2 describes recent trends and structural deficits in labour markets, labour institutions and income distribution. Section 3 describes the social policy approaches and general trends in the region’s social protection system while section 4 analyses the reforms in different social protection areas during the recent years, focusing on four areas where the region has made progress but significant deficits still persist: childhood protection; social protection for the unemployed and for people of working age facing employment difficulties; protection of the elderly; and health protection for all age groups. Section 5 presents final remarks.

## **1. Evolution of the macroeconomic situation in Latin America: from volatility to growth**

Over the last three decades Latin America has experienced profound changes in terms of macroeconomic regimes as well as in relation to social and labour market indicators. The “Lost Decade” of the eighties was characterized by an important capital outflow that the countries in the region had to make for the payment of the external debt services accumulated mainly in the second part of the previous decade, when the region became part of the financial globalization process. Indeed, the second half of the seventies was characterized by a growing volume of international financial transactions and by significant domestic reforms aimed at the deregulation of national financial systems (Frenkel, 2003). The debt crisis at the beginning of the eighties interrupted the integration process of the region in international capital market. Therefore, during the 1980s the region was excluded from new financing. However, it continued to be strongly linked to the international capital markets, negotiating the payment of debt services contracted during the previous years. The domestic consequences of the external situation were the expected: high levels of inflation, high macroeconomic instability and average GDP growth rates close to zero.

Faced with this regional outlook, the market-friendly recommendations of the Washington Consensus promised the region stability and economic growth. Using the argument that the negative results of the previous years were largely due to state inefficiency, the do’s and don’ts of economic policy measures were based on the reduction of state participation in the economy and in market deregulation. This is how the countries, some more than others, began to implement a set of measures, which included commercial and financial liberalization, privatization of public companies, tax reform and labour market flexibility.

In the same way, with the aim of putting an end to high inflation, stabilization plans were implemented in the larger countries such as Mexico, Argentina and Brazil, using the fixed exchange rate as a nominal price anchor: the Mexican *Pacto de Solidaridad* established in 1988, the *Plan Real* in Brazil in mid 1994 and the *Plan de Convertibilidad* in Argentina in 1991 are examples of currency board regimes.

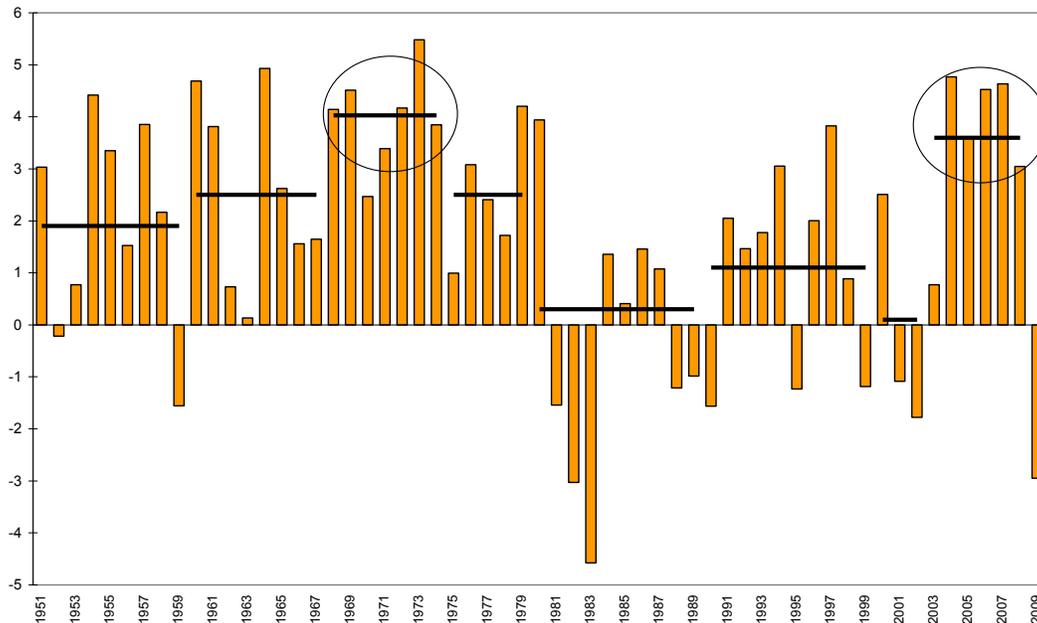
In parallel, at the beginning of the nineties the region re-entered the international capital market, experiencing an important increase in capital inflows that came to an end with the Mexican crisis. However, the recession was short and was followed by a new influx of external capital. The growing deficit in the balance-of-trade was accompanied by a deficit in the financial account of the balance-of-payment. The crises in Mexico (1994-1995), Argentina (1995), Brazil (1998-1999) and again in Argentina (2001-2002) emerged in the countries that had received major capital inflows. Therefore, although these macroeconomic regimes managed to stabilize high inflation, the external debt became unsustainable which in turn culminated in important macroeconomic crisis.

However, after the crisis Latin America experienced a highly positive economic cycle in the first few years of the current decade. The commodity price boom and the renewal of capital inflows to the region characterized this. At the same time, the largest countries in the region underwent important changes in their exchange rate regimes in comparison to the 1990’s. This contrast is particularly notable in Argentina, Brazil and Mexico, where liberalization of capital and financial accounts with fixed exchange rate

were replaced by an intermediate regime that combined intervention in the foreign exchange market and management of the domestic interest rate.

From 2003 to 2008 Latin America experienced six years of sustained growth.<sup>2</sup> During this period, GDP per capita increased at an annual average rate of 3.6%, a dynamic whose only precedent in terms of intensity and duration in the region dates from the late sixties to the mid-seventies (Graph 1).

**Graph 1**  
**Growth rate of per capita GDP. Latin America. 1951-2009**  
 (%)

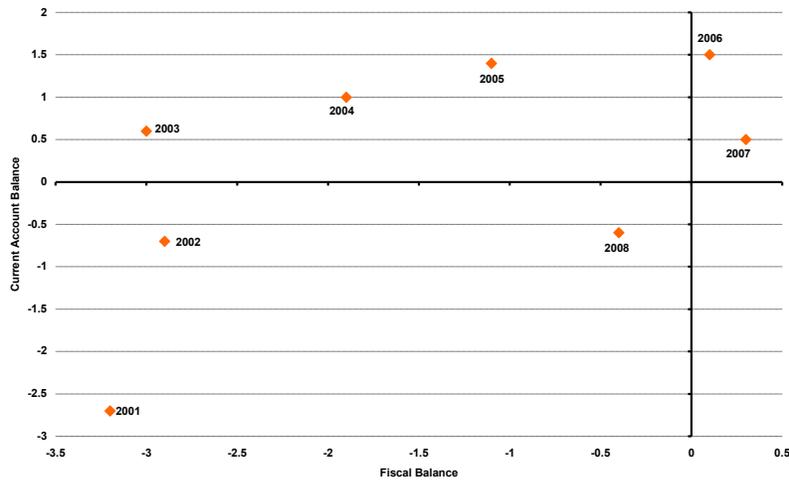


Source: Authors' elaboration based on ECLAC (2010a)

This growth, unlike other expansion experiences in Latin America, was accompanied by fiscal and trade surpluses. The current account surplus in the balance of payments was linked to an improvement in terms of trade in some countries, and in others, to an increase in remittances. This favourable situation allowed Central Banks to accumulate international reserves. On the other hand, the great improvement in public accounts was reflected in primary surplus increases and in the elimination of the operational deficit in 2006-2007 (Graph 2), which translated into a better public debt profile in these countries. Public debt of the non-financial public sector decreased from 47.3% of GDP to 30.8% between 2000 and 2008.

<sup>2</sup> Kacef & Lopez-Monti (2010).

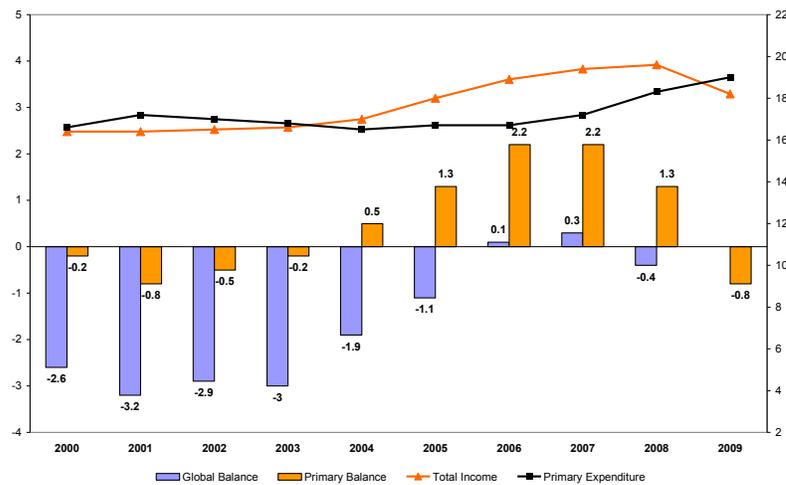
**Graph 2**  
**Current Account and Fiscal Balance. Latin America. 2001-2008**  
 (% of GDP)



Source: Authors' elaboration based on ECLAC (2010a)

In turn, these positive trends in fiscal accounts were associated with an increase in fiscal revenues together with relatively constant expenditure levels in terms of GDP from 2001 to 2006. From then on, the expansion of primary surpluses has been made possible thanks to an increase in revenues, which has surpassed the growth of public spending. As a consequence of these developments, as shown in Graph 3, Latin America experienced five years of primary surplus from 2004 to 2008 reaching the maximum value in 2006 and 2007 where it represented 2.2% of GDP (simple average).

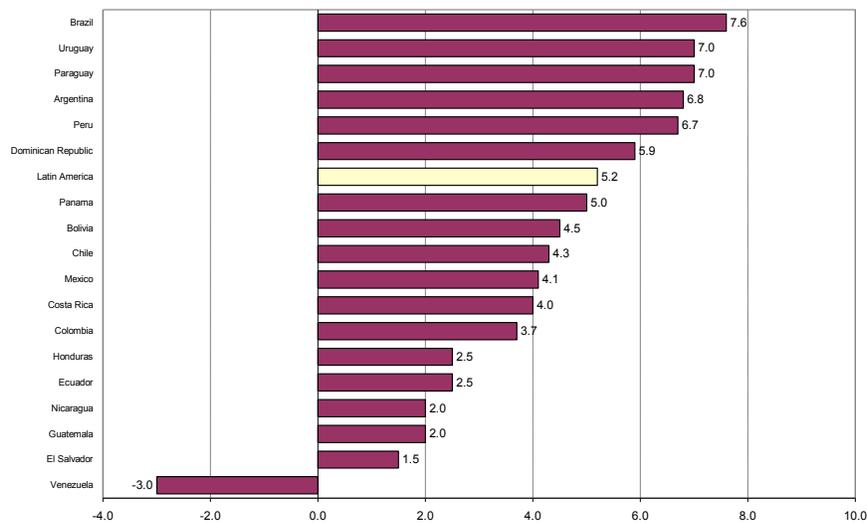
**Graph 3**  
**Income, expenditures and primary and global balance of Central Government**  
**Latin America, 2000-2009**  
 (% of GDP)



Source: Authors' elaboration based on ECLAC (2010a)

The 2008 international crisis put an end to this path of economic growth that was marked by significant improvements in the *fundamentals* (curbing of inflation, accumulation of international reserves, reduction of debt and *twin* surpluses). Apart from a fall in foreign trade (expressed through a drop in export prices and volumes), in remittances and international credit, domestic demand was also less dynamic. Although in 2009 GDP diminished by around 1.9% (3% of GDP per capita), recovery has also been very quick. Indeed in the second half of 2009 most countries had already entered a new growth phase that, once consolidated, could lead to regional growth of 5.2% in 2010 (Graph 4). ECLAC prospects for 2011 are that no country in the region will experience negative GDP growth.

**Graph 4**  
**GDP growth rates**  
**Latin American Countries, 2010**  
**(%)**



Source: Authors' elaboration based on ECLAC (2010a)

The rapid exit from the crisis –a distinctive feature of the current situation- is associated with domestic and external factors.<sup>3</sup> Among the former, it is worth highlighting the macroeconomic soundness of these countries as a result of their positive dynamics in the years prior to the crisis that gave them more room to implement anti-cyclical policies. On the external side, continuity in demand for the region's products from Asian economies and a slower recovery of the United States and Europe, has allowed in the former, an increase in export volumes and prices in South American countries and, in the latter, a gradual recovery of external demand and remittances to Mexico and Central America.

Nevertheless, estimated growth for 2010 is lower than the figure for the six-year period 2003-2008 which will reduce these countries' labour market dynamism and their

<sup>3</sup> This general overview does not reflect the situation of certain Central American countries that, unlike the rest, were affected by an increase in international commodity prices since they are net importers of these products. Furthermore, they have been strongly impacted by a drop in external demand –particularly from the USA- while their debt remains high.

fiscal capacity. Likewise, questions on the future dynamics of developed countries and the international context cast a shadow on the regional outlook in the medium run.

Even after the consolidation of the recovery process, the region will still face strong structural challenges. Countries need to strengthen their growth based on productivity gains, increased public and private investments and an improvement in public accounts so as to enhance the States' manoeuvring capacity. These are necessary conditions for economic growth to effectively diminish inequality and augment wellbeing. In this regard, it is important to recognize the negative impacts that macroeconomic volatility has on income distribution because of its effects on the growth rate as well as its greater impact on the most vulnerable people. One of the lessons learnt through this crisis is the importance of anti-cyclical policies that could be implemented in these countries due to the greater macroeconomic solvency gained in previous years, which marks a substantial difference with regard to the response capacity in prior crises. Furthermore, it is necessary to highlight the role that appropriate macroeconomic management has in the medium and long-term predictability of fundamental variables that will be used as a reference in decision-making and lead to higher growth rates in the future.

From a long-term perspective, Latin American experiences clearly show that the macroeconomic framework does not remain indifferent to its consequences on income distribution and wellbeing. There are environments that do not favour the creation of jobs and contribute to a growing inequality despite the fact that they bring about substantial GDP growth. Likewise, the negative effects that certain macroeconomic regimes have on these dimensions still remain even after the countries have resumed growth. In this regard, a pattern identified in the region shows that the successive crises have worsened income distribution and wellbeing while recovery cycles face constraints to fully reverse these trends. This means that the full retrieval of living conditions –even within macroeconomic regimes that favour the generation of decent work- calls for important additional efforts in public policies, especially those targeted at the most vulnerable groups of the population.

The region faces the challenge of achieving sustained growth, with a reduction in nominal and real volatility and persistent increases in systemic competitiveness and productivity that help towards better international insertion and a strengthening of the States' redistribution capacity, through a more progressive taxation structure and greater fiscal pressure, as well as through more social spending.

## **2. Labour market, labour institutions and income distribution: recent trends and structural deficits**

During the nineties, the countries in the region have carried out important reform processes regarding labour legislation. In most cases, the objective was to make the different components of the labour market more flexible. Among the most important measures are (1) the incorporation of fixed term contracts (2) reduction of dismissal costs (3) reduction of other labour costs and (4) greater internal flexibility through flexible management of the working day. However, neither a unique package of measures has been observed in the region nor the countries implemented these changes with the same intensity and speed. Argentina and Peru appear to have strongly implemented these

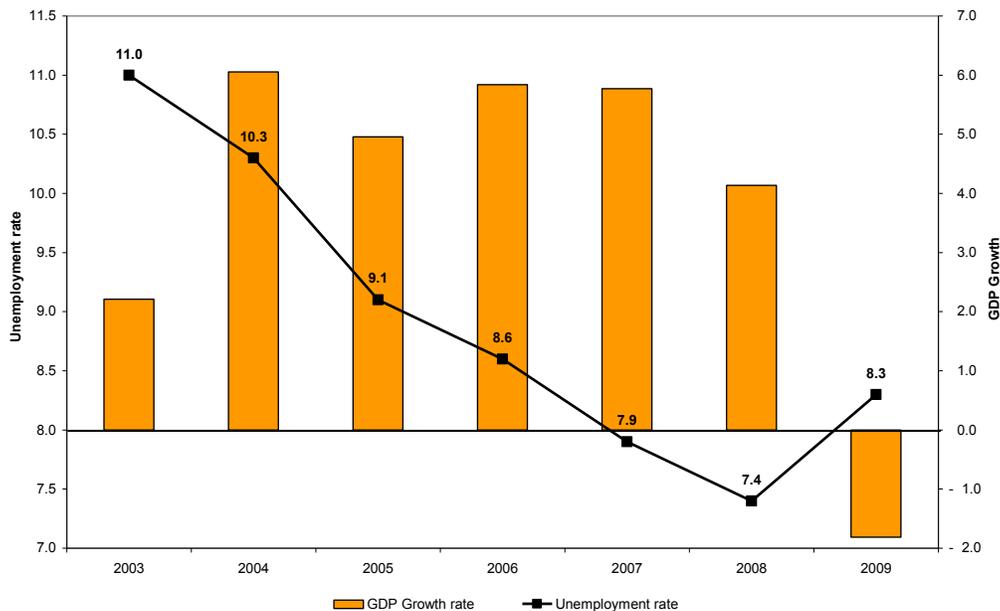
reforms, and at the same time flexibilization processes were also verified in, for example, Brazil, Colombia, Ecuador and Panama.

All of this took place in a context of deep changes in occupational structure when the weight of the informal sector increased –as much as a result of the rise of micro-businesses as of non-skilled independent workers- together with a considerable rise in labour precariousness associated with wage earning jobs that are not registered in the social security system. Both of these processes actually reduced coverage of formal labour institutions.

On the contrary, in the current decade a moderation in flexibility process has been evidenced as well as, in some cases, a reversion of labour deregulation and the implementation of worker protection policies.

At the same time, the high economic growth experienced in Latin America in recent years –before the 2008-2009 international crisis- has had a positive impact on social and labour market indicators. This was made evident through the creation of jobs, the reduction of unemployment, an increase in the number of formal jobs and a slight recovery in average wages. Employment rates showed a positive trend, increasing from 52.3% to 55% between 2003 and 2008. During this period, the regional unemployment rate decreased from 11.4% to 7.5% (Graph 5).

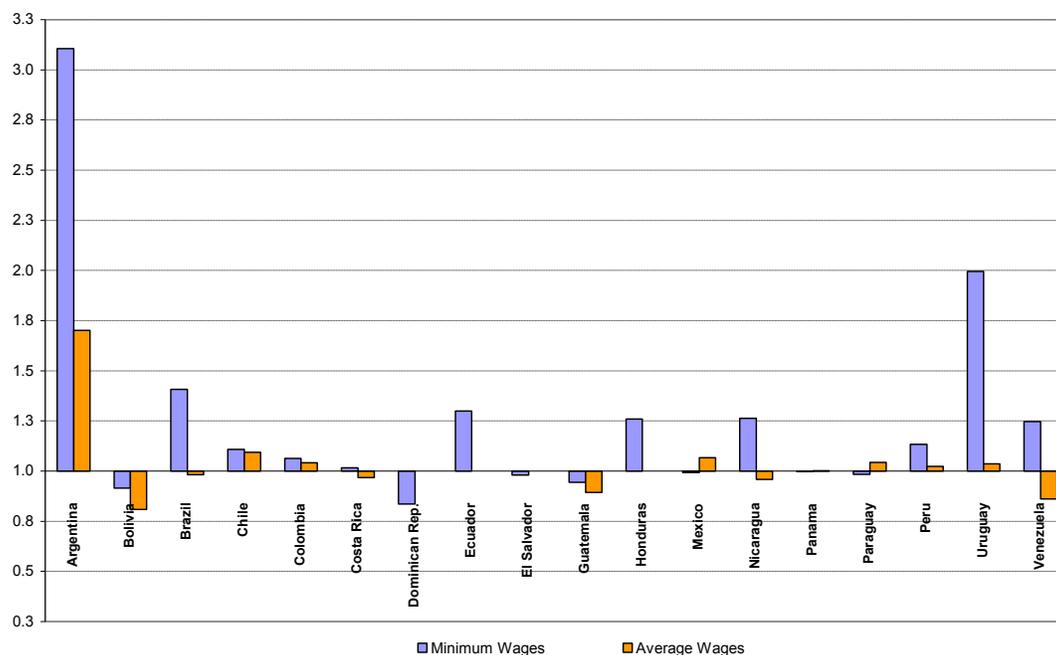
**Graph 5**  
**GDP growth and unemployment rate. Latin America. 2003-2009**  
(%)



Source: Authors' elaboration based on ECLAC (2010a) and ILO (2009)

Overall, this favourable macroeconomic situation seems to have helped in wage recovery, while in some countries this was also due to the active real minimum wages policies and the reactivation of collective bargaining, together with policies that promote labour formalization (Graph 6).

**Graph 6**  
**Variation of Real Average Wages and Minimum Wages between 2002 and 2008.**  
**Selected Latin America countries**  
 (%)

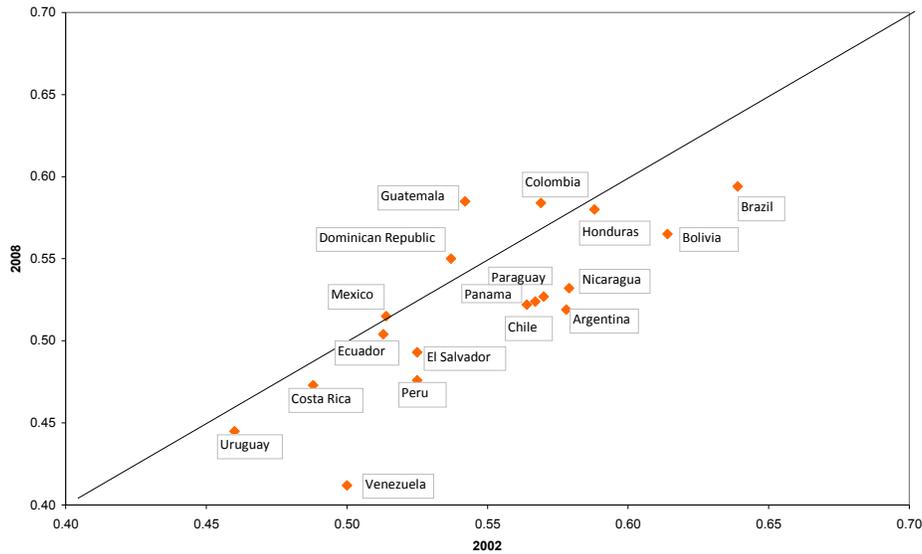


Source: Authors' elaboration based on ECLAC (2010a) and ILO (2009)

Furthermore, these measures also had a positive impact on reducing inequality by extending coverage of labour institutions to previously excluded groups. Indeed, these years were characterized by a reduction in income inequality. As shown in Graph 7, with a few exceptions, Gini coefficient is lower around 2008 than during the first few years of the century.

Less inequality and higher incomes resulted in lower poverty and extreme poverty incidence rates. In the growth period 2003-2008, the region experienced a drop of 11 percentage points (pp) in poverty and 6 pp in extreme poverty (Graph 8). This reduction in poverty incidence rates was also accompanied by a fall in the number of poor people, differing from what happened during the eighties and nineties.

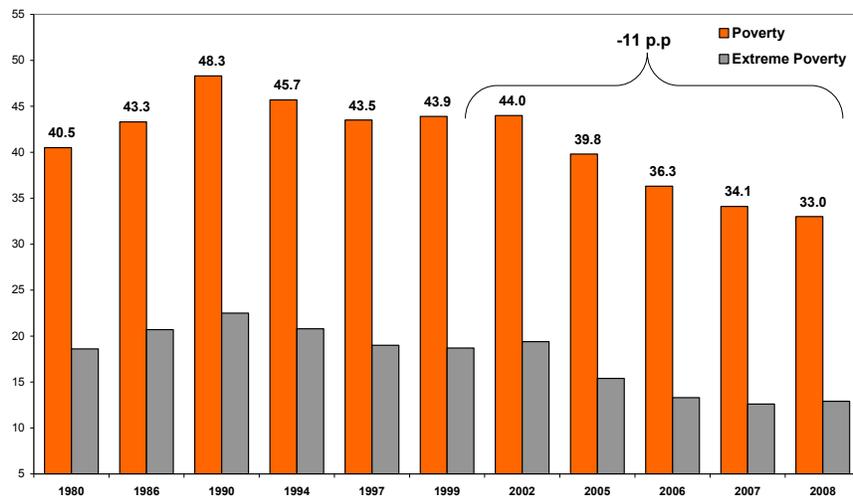
**Graph 7**  
**Gini Coefficient. Latin America (18 countries). Around 2002 and 2008<sup>4</sup>**



Source: Authors' elaboration based on ECLAC (2010a)

However, despite all of the progress achieved during the expansion phase, 33% of the population in Latin America was still living in poverty in 2008 while 13% was living in extreme poverty. For that same year, the total amount of poor people was around 180 million, of which 72 million were indigent (ECLAC 2010a).

**Graph 8**  
**Poverty and extreme poverty rate. Latin America. 1980-2008**  
 (% of total population)

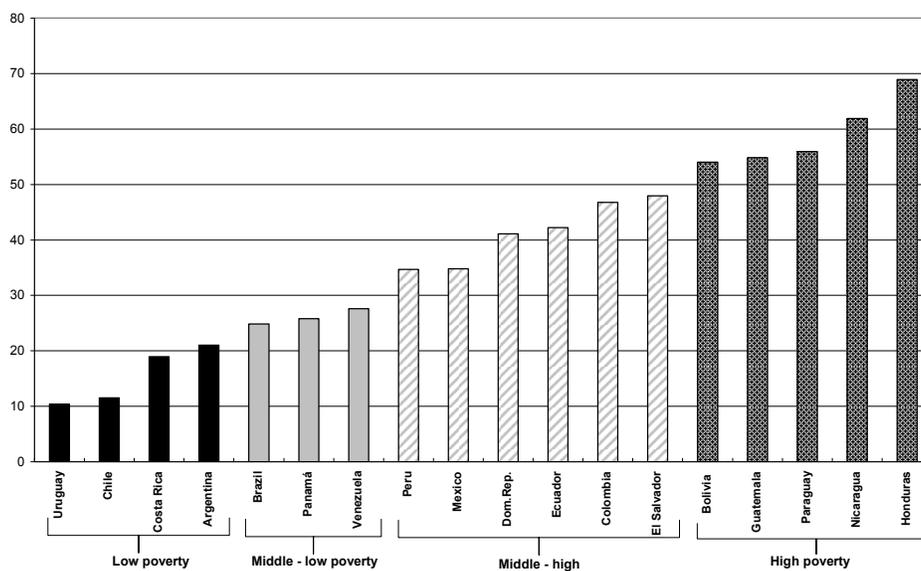


Source: Authors' elaboration based on ECLAC (2010a)

<sup>4</sup> Data for 2002 corresponds to the latest available information for the period between 2000 and 2002, whereas data for 2008 corresponds to the latest information for the period between 2004 and 2008.

Behind this general outlook, there is very high heterogeneity across the countries. According to ECLAC (2010), it is possible to distinguish four groups of countries according to their poverty and extreme poverty incidences. The first group, “Low poverty rate” is made up of Argentina (urban areas), Chile, Costa Rica and Uruguay, with poverty rates below 23% and indigence rates between 3% and 7%. The second group, “Middle-low poverty rate” comprises Brazil, Panama and the Bolivarian Republic of Venezuela with poverty rates below 30%. The third group “Middle-high poverty rate” includes Colombia, the Dominican Republic, Ecuador (urban areas), El Salvador, Mexico and Peru, with rates between 35% and 48%. Finally, the “High poverty rate” group comprises Guatemala, Honduras, Nicaragua, Paraguay and the Plurinational State of Bolivia, with poverty rates above 50% (Graph 9).

**Graph 9**  
**Poverty rate. Latin American Countries. 2009**  
 (% of total households)



Source: Authors' elaboration based on ECLAC (2010a)

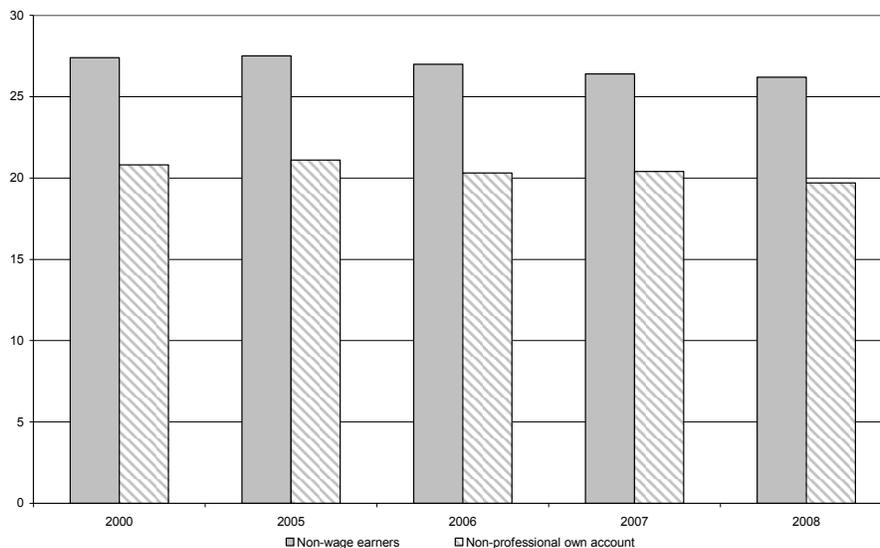
Although a significant negative correlation can be observed between poverty levels and per capita GDP (PPP), this correlation is weaker when poverty is compared to inequality. For example, even though Mexico has the highest per capita GDP it is among the countries with middle-high poverty; Brazil has one of the highest inequality levels, but is in the middle-low poverty group; in Chile relatively high income concentration levels are found with a low poverty incidence. On the other hand, countries like Bolivia, Guatemala, Paraguay, Honduras and Nicaragua show low income levels as well as high poverty and inequality indices.

The international crisis put a brake on the improvements experienced by the regional labour market in the period 2003-2008. Indeed, in 2009 most of the countries recorded a drop in employment rates with a resulting increase in unemployment (Graph 5). Nonetheless, a slow-down in inflation rates allowed real wages to remain stable and even increase in some countries. Once again, the minimum wage policy enforced by some nations to avoid a reduction in purchasing power helped in this regard.

It is encouraging to find that in this crisis the region's countries did not resort to labour market reforms that tend towards more flexibilization in order to improve employment and reduce unemployment rates. The lesson learnt from the flexibilization processes implemented in the region in the nineties is that when they operate in contexts where there is no broad coverage of social and labour protection systems or tripartite dialogue instances, this flexibility leads to increasing vulnerability of workers whilst broadening social gaps. Furthermore, these processes resulted in unfulfilled promises with regard to an increase in employment-product elasticity, employment formalization and efficiency increases.

Despite the progress achieved during the expansion phase before the crisis and the policy responses during this crisis, the region still shows significant deficits in the labour dimension, in which the most recurrent expressions are the high unemployment rates, as well as underemployment, precariousness, informality, inequality and low average wages. According to ECLAC in 2008 around 7% of the active population was unemployed, while 50% of workers were informal. At the same time, non-wage earners represent a significant share of total employment (about 30%), much higher than that observed in developed countries. For example, according to Blanchflower (2004), the self-employed represent only 6% of urban employment in the United States. Most of them are non-professional own-account and belong to the informal sector (Graph 10). Finally, this type of labour insertion is more prevalent among men than women. In 2008 in Latin America, 29% of men and 23% of women were independent workers (ILO, 2009). However, there are important differences across countries. For instance, in Chile and Argentina the proportion of independent workers is about 25% whereas this value reaches 40% or more in Bolivia, the Dominican Republic, Colombia, Honduras and Nicaragua.

**Graph 10**  
**Proportion of non-wage earners in total employment**  
**Latin America. 2000-2008**



Source: Authors' elaboration based on ILO (2009)

Within this context, certain groups of workers (among them, the less skilled, women, youths and ethnic minorities) experience the most unfavourable conditions. Given the importance that the labour market has in the generation of household income, especially in a region where social protection coverage is limited, those precarious conditions often give rise to poverty and social exclusion. Thus the phenomenon of the “working poor” in these countries -even in the most developed in the region- shows that having a job is no guarantee against poverty. For instance, around 20%-30% of poor heads of household in Argentina, Brazil, Costa Rica, Ecuador and Peru are employed as informal workers. This means that in Latin America unemployment is not the only problem in the labour market, but low wages and precarious labour conditions are important issues as well.

From a dynamic point of view, a significant proportion of the new jobs accessed by members of poor households in those countries are non-registered in the social security system (informal jobs). This kind of jobs, together with insertion in independent occupations explain most of the increase in employed individuals in households that manage to exit poverty, while registered occupations have relatively low relevance. This result is important because in all cases obtaining a registered wage-earning occupation is associated with a higher probability of exiting poverty than other types of occupation. This means that the possibilities of getting a job covered by social security are scarce but, given that the average wages of registered jobs are higher than the rest, the probability of exiting poverty when this type of episode takes place is higher. For instance, in Argentina if a member of a poor household obtains a registered job, its household has nearly three times more probability of exiting poverty than if he had obtained a non-registered occupation.<sup>5</sup> This clearly shows the reduction in the opportunities of escaping poverty associated with labour precariousness and informality in Latin America.

These outcomes are mostly linked to three structural characteristics in the region: (1) high income inequality, both at labour and family levels; (2) very low systemic competitiveness and high productive heterogeneity; and (3) scarce protection for workers and their families because of the narrow scope of contributory-based social security and the insufficient development of other non-contributory schemes. In turn, inequality of labour income partly reflects the productive heterogeneity where highly efficient and competitive sectors and companies coexist with activities and firms that operate under a survival rationale. These gaps are reflected in wage distribution, either in an amplified or moderate way. Therefore, the broad group of informal workers is at least partly linked to the high presence of small, unstructured productive units where it is frequently more feasible to conceal labour relations. This ultimately derives from an insufficient job creation capacity of the formal sector.

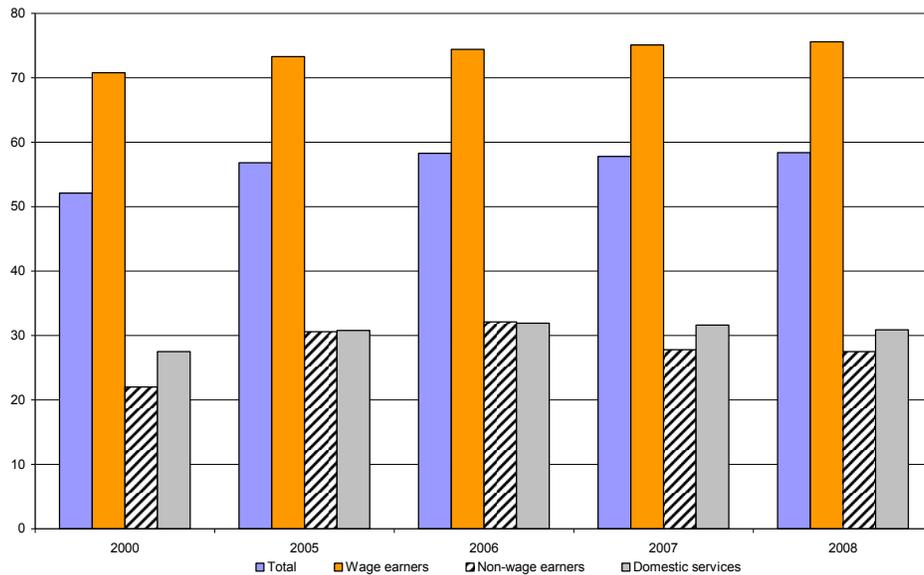
It is therefore important to point out that there is a significant percentage of workers (and households) that are not covered by social security benefits, such as unemployment benefits and pension coverage or those related to occupational accidents or diseases. As shown in Graph 11 only around 50% of employed people in Latin America (simple average) contributes to social security-pensions. This general situation is even worse among non-wage earners and domestic services where only 20% of those workers have such kind of social protection. In turn, these regional averages hide the strong contrasts among countries. On the one hand, in Brazil, Chile, Argentina, Costa Rica and Uruguay

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<sup>5</sup> Beccaria *et al.* (2010)

50% or more of total workers are covered by pension systems. On the other hand, in Ecuador, Paraguay and Peru only one third or less are protected.

**Graph 11**  
**Urban employed population contributing to social security-pensions**  
**Latin America, 2000-2008**



Source: Authors' elaboration based on ILO (2009)

Informal jobs are not regulated by minimum wage standards or working hour standards, or by rules that protect them against redundancies. Neither are these workers part of mandatory social security schemes which guarantee an old age pension or their access to low-cost health services. Informal workers are not only exposed to occupational instability, income insecurity and lower remunerations, but also lack of the protection of labour institutions. Informality and its consequences mostly affect the less qualified workers that have lower incomes, leading to increasing inequality. In fact, after a period of inequality reduction, income distribution continues to be very unequal: 40% of the poorest households in Latin America obtained 15% of total income in 2008 while the richest 10% received 34%.

When social protection is exclusively or mainly provided through labour market institutions, high unemployment, underemployment and a lack of decent work yield incomplete and insufficient coverage against social risks. It is therefore essential to supplement the contributory arrangements with non-contributory schemes, both through monetary transfers and universal access to essential social services and goods. This, however, should not entail weakening the efforts to move towards greater labour formalization and to reinforce labour institutions. In this regard, it is worth mentioning that the objectives of labour institutions –such as protecting the lives of workers and their families- still hold and are even more pertinent within the current context of economic globalization.

Finally, mention has already been made of the long-term impacts of macroeconomic instability on labour and social indicators, which highlights the

importance of building sustainable growth paths and establishing mechanisms to reduce the vulnerability of individuals when faced with aggregate volatility. This should be supported through effective labour institutions, which prevent job precariousness and lowering of salaries during the contraction phases of the cycle, and through universal social protection systems that reduce any deprivation in the wellbeing of citizens, particularly of the most vulnerable sector.

### **3. Social policy approaches and trends in the region's social protection system**

As from the beginning of the nineties the region has recorded a sustained growth in public social spending, both in absolute and relative terms. During the current decade, however, a more comprehensive outlook on social policies seems to be incipiently emerging, which attaches greater importance to the universality of certain social rights such as access to appropriate income security during the different phases of the life cycle and to essential basic services. This clearly appears in the solidarity-based public components that co-exist with contributory schemes in different social protection branches. This seems to be the case of the health and pension systems where progress has been made in expanding both components (contributory and non-contributory), for extending coverage. Furthermore, most countries in the region currently have some sort of cash transfer programme (conditioned or partly conditioned) to those households where children and adolescents live, supplemented by contributory-based child allowance regimes, especially in the Southern Cone countries. At the same time, in several countries, such as Argentina, Brazil, and Uruguay, fiscal pressure has increased and given rise to additional manoeuvring capacity in social policies. Despite these favourable trends, the region still shows important weaknesses in these dimensions. Persistent low tax collection, tax regressivity and insufficient resources allocated to social components and institutional and social policy fragmentation, all interact with growth volatility to derive in social protection results that are not satisfactory.

Countries in the Latin American region, therefore, need to continue increasing the amount of resources allocated to social expenditure so as to “shield” them against macroeconomic volatility, reduce their pro-cyclical bias and provide greater progressiveness to the tax structure while increasing redistributive public spending. All this should go side by side with a better institutional design where countries shift from transitory social programmes approach to that of permanent social protection policies, so as to move forward in building a more integrated and coordinated universal social protection system based on citizenship rights. Within contexts such as the current one that is characterized by high economic volatility and uncertainty, the role of the State as a regulator of social relations is of utmost importance. Ultimately it is a matter of improving the State's redistribution capabilities with the purpose of not only reducing poverty levels but also reversing the highly unequal distribution matrix, interrupting inter-generational transmission of poverty and moving towards setting up societies with greater social and political cohesion.

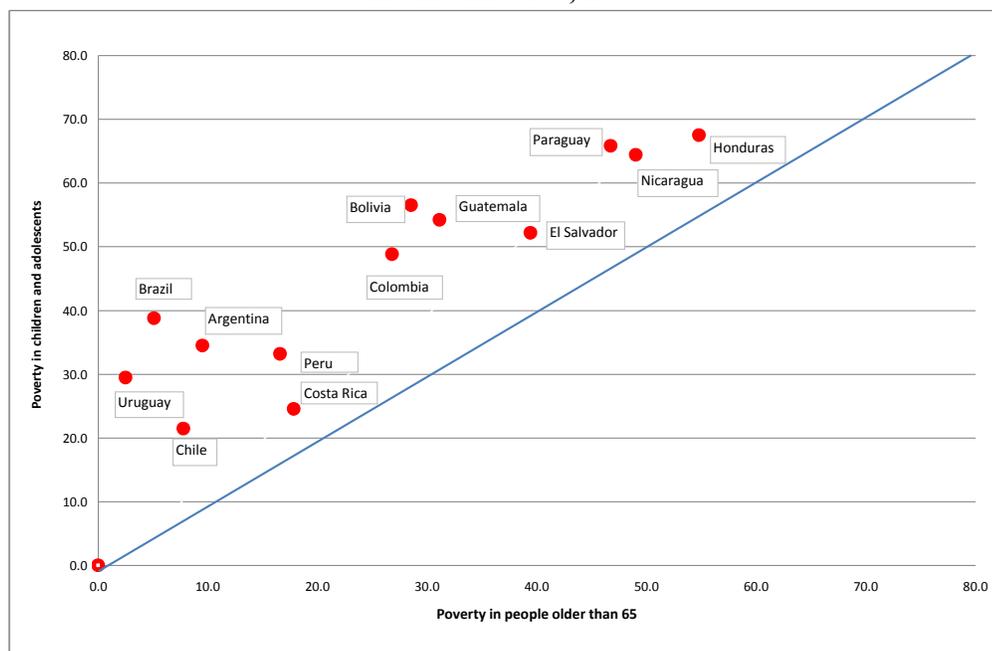
#### 4. Facing poverty over the life cycle: cash transfer programmes and access to essential goods and services

There are four areas where the region has made progress but significant deficits still persist: (1) childhood protection; (2) unemployment benefits and support for people of working age facing employment difficulties; (3) protection of the elderly; and (4) health protection for all age groups. Given its complexity and diversity, this paper will not address education issues as a pillar of social policies but only relate it to cash transfer programmes and to labour-market oriented training policies. Furthermore, the situation and changes in the health system will be mentioned very generically. A comprehensive analysis of these two social policy components goes beyond the objectives of this short article.

##### 4.1 Protecting children through cash transfer policies

Given the greater incidence of poverty in children and adolescents compared to other age groups, as from the mid-nineties the region's countries have been implementing and expanding non-contributory cash transfer programmes (conditional cash transfer programmes, CCTs) to households with children and adolescents. A simple graph with information provided by ECLAC (2009) compares poverty for children under 14 years old with those over 65 years old, and shows that in all the countries, the poverty combinations are above the 45 degree curve indicating a higher poverty incidence among children and adolescent (Graph 12).

**Graph 12**  
**Poverty Incidence in children and old people**  
**Latin America, 2008**



Source: Authors' elaboration based on ECLAC (2010a)

Almost all countries in the Latin American region currently have some sort of CCT program. They have gradually become important mechanisms within social policies and regional poverty reduction strategies. These programmes are being implemented in 17 of the region's countries and reach out to over 22 million families, that is, around 100 million people which account for 17% of the Latin American and Caribbean population (ECLAC, 2010b).

There is a first group of countries that has designed specific programmes; the most internationally renowned examples given their size are *Progresa* in Mexico and *Bolsa Familia* in Brazil. Then there is a second group of countries in the Southern Cone, Chile, Uruguay and Argentina, that have extended contributive child allowance schemes to segments of the population that had no coverage before. It is important to mention that as those first experiences that generated ad-hoc programmes evolve and grow have also begun a process of integration with other social security transfer policies. These programmes have been set up under different designs, scopes, administrative procedures, legal frameworks and eligibility criteria.<sup>6</sup>

The immediate objective is overall to reduce poverty and extreme poverty incidences while –in the long run– break the inter-generational transmission of poverty. Consistent therewith, most of the programmes include conditionalities (or co-responsibilities) related to certain nutrition, education and health objectives, particularly for children and adolescents.

Based on the experience obtained by the different countries in the region, there is an overall consensus that these programmes are well focused (despite some exclusion mistakes or leaks)<sup>7</sup>, that they are effective in reducing extreme poverty and inequality<sup>8</sup>, and that they have other positive short and long-term impacts. This type of transfers not only implies an increase in family income in poor households but also ensures an amount of resources that does not depend on macroeconomic or labour fluctuations. This is of utmost importance since the poorest households are the ones that generally have more unstable incomes. In some cases, these transfers also seem to have contributed to eliminating barriers to their entry into certain productive activities, which has allowed beneficiaries to have a greater share in the economy. Likewise, they have permitted an increase in liquidity in the poorest communities, thus favouring trade and development in these areas (ECLAC, 2010b). As regards longer-term outcomes, increases in school enrolment rates and a reduction in malnutrition have been observed.

Since mothers are usually the wardens of these benefits, the gender dimension has also been included in these assessments with mixed results. In particular, there is an ongoing debate about the effect of these programmes on household strategies and the role of women in families (empowerment, family violence, etc.), and also about the impact of these programmes on the relationship of beneficiaries (and their families) with the community.

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<sup>6</sup> A comprehensive analysis of this kind of programme goes beyond the scope of this article. For further information see, for instance, ECLAC (2010b), the World Bank (2009), Bertranou *et al.* (2007), ILO (2007), ILO/IPEC (2007). Perez Rivas *et al.* (2008), Villatoro (2007, 2008), Yashine and Dávila (2008), Bertranou (2010), among others.

<sup>7</sup> ECLAC (2010b) shows that in these programmes from 60% to 75% of transfers go to 40% of the poorest inhabitants.

<sup>8</sup> Sometimes the degree of reduction is low, depending not only on the targeting but also on the amounts of money transferred and on programme coverage.

Beyond the positive impact of these programmes, the region still has important restrictions and challenges in terms of coverage, conditionalities, institutional design and monitoring and evaluation methods. Although these programmes have called the technical and political attention of the region, they account for only 2.3% of public social spending and 0.25% of the countries' GDP in average<sup>9</sup>, an aspect that restrains the effect they can have on poverty and inequality at the national level on their own.

One of the lessons arising from these experiences is that a comprehensive public policy for children cannot be exclusively grounded on cash transfers, so countries must move forward towards greater integration with other programmes that aim at tackling both the social risks and the needs of human capital faced by households in which children and adolescents live. This requires ensuring access to good quality health and education services so as to effectively support the human and economic capabilities of future generations. In this regard, it seems more appropriate to change the perspective of “conditionality” for that of a universal right for children to access these basic or essential services. Understood as such, and in order to ensure this right, it is necessary to guarantee the existence of health and education centres in the beneficiaries' area of residence as well as the quality of these services. Dimensions such as child-care, gender inequality, child labour and child ill-treatment also need to be considered a priority in building a comprehensive protection system for children and adolescents.

From the region's empirical evidence, it is not possible to identify the independent role of the conditionalities beyond the impact of the cash transfer. As Medeiros *et al.* (2008) and Reis and Camargo (2007) suggest, in the Brazilian case, the conditionality in itself does not seem to have an additional impact apart from the transfer; rather, the factor that could be associated with greater school attendance and medical check-ups for children and young people is the increase in the total family income more than the conditionalities. This suggests that not only transfers aimed at children could have an impact on household decisions regarding employment and school attendance, but also other kind of transfers that increase family income and that allow new intra-household arrangements. As Medeiros *et al.* (2008) mention, in many instances the existence of conditionalities is justified more by the general social consensus on these programmes than that this generates than by the independent effect that they actually have.

There is much debate regarding the impacts that these types of programmes have on the labour market. It is usually argued that cash transfers (1) discourage participation in the labour market as a result of the increase in the household's income that the transfer implies; (2) reduce the worker's incentives for formality. The first argument is based on the assumption of leisure is a “normal good” and so any increase in non-labour income would imply a reduction in worked hours or in participation in the labour force. However, this argument is highly debatable, and has to be verified using empirical evidence. It could be argued, on the other hand, that if the cash transfers are large enough to change individual behaviour in that way, they also might have the opposite effect. For instance, they could allow starting certain productive activities/enterprises or to active certain economic decisions which would not be possible under any other circumstances. In this sense, these transfers could (partially) substitute the lack of access to credit that these households experience, more so when the stability of this income is taken into account.

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<sup>9</sup> ECLAC (2010b).

Additionally, a lack of participation in the labour market shouldn't always be considered as negative. The evaluation in these terms should also take into account other aspects, such as which member of the household has reduced their participation in the labour market and the quality of the job and the type of work they are giving up. For example, it cannot be considered as a negative impact when young people or children decide to leave the labour market when their household obtains a transfer of this nature, especially (in the case of young people) if the jobs that they have do not meet decent work requirements or if leaving the labour market is accompanied by a return to study. In the same way, this could contribute to an increase in minimum wages in informal jobs when the "reservation wage" of the programme's beneficiaries is raised.

As the worker's incentive to participate in the formal employment, the actual effect that the transfers can have depends on if it is really the worker's choice or if she actually has no other option. The decision can also be influenced, in the first case, by the difference in wages (and other benefits) that she would obtain in a formal position as opposed to an informal one. In this sense, the "disincentive hypothesis" is based on the idea that the informal workers receives as net salary the contributions that their employer does not pay to the social security system which should, in turn, imply higher wages for informal than for formal workers (controlling for the rest of characteristics). The truth of the matter is that the latter argument does not have empirical support, at least in several Latin American countries.<sup>10</sup>

Lastly, another widely debated aspect in relation to CCTs is the optimum duration of benefits when they are considered to be temporary. The "exit door" strategy aims at avoiding beneficiary dependence and ensuring that only eligible families remain in the programme, paying special attention to the possibility that there are other households that weren't originally included and that should have been. In some cases, the beneficiaries become ineligible and so have to leave the programme when the household income surpasses a maximum threshold. Graduation rules are present especially in those countries included in the first group already mentioned. In Southern Cone countries, the integration of these programmes with the social security system makes the main "exit door" the contributive family allowances, even when income limits are also established.

In this regard, it is important to consider income fluctuation in households over time, which means that even though there may be some households that obtain a higher income than the maximum at the time that the evaluation is carried out, this does not necessarily imply that these have been incorrectly identified at the time the benefit was granted or that they won't be below the limit again in the future. This is a very relevant aspect to be considered, as the poorest households are those who suffer greatest income instability.

Maybe one of the most relevant aspects is to what extent the objectives of these programmes are consistent with their design among those "exit door" strategy (and also the amount of the transfers) is a fundamental part. Many of them establish break the intergenerational transmission of poverty and the increasing of human capital in children and young people as an objective; these are processes which require a long period of time and which are therefore not compatible with temporary programmes.

Finally, it is desirable to combine these programmes with labour policies that help to a better and greater labour insertion of economically active adults. The institutional

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<sup>10</sup> Beccaria and Maurizio (2010).

design of these programmes is essential to ensure that they last throughout time, especially turning such programmes into permanent state policies to fulfil not only short but also long term objectives. One of the essential elements to achieve this is the existence of a modern, efficient and timely monitoring and evaluation system on a permanent basis to make all necessary adjustments and maximize positive impacts on wellbeing and equality.

## 4.2 Unemployment benefits and active labour market policies

### *Unemployment benefits*

As previously mentioned, two characteristic features of the region's labour markets (although with differing intensity according to the country) are high unemployment and precariousness which, in turn, imply a low capacity to generate sufficient labour income for some groups of workers. However, contributory-based unemployment insurance has not been fully developed in Latin America. Only Argentina, Brazil, Chile, Ecuador, Uruguay and Venezuela have included unemployment insurance within their social security systems although in all of them coverage and benefits are very low.<sup>11</sup> This is mainly due to the high levels of labour informality (since these programmes have been designed to protect wage-earners that hold a formal job, generally under a permanent contract) and, to a lesser extent, to the occupational instability of workers in the formal market.<sup>12</sup> Although these systems receive contributions from workers, they tend to depend on fiscal revenues, be it through regular contributions or indirectly when the State has to cover its operational deficits.

Over the last few years, some countries have extended unemployment protection to other groups of workers, such as rural, in the construction sector and those with temporary contracts. For example, in Argentina and Brazil, coverage has been extended to temporary agricultural workers. Uruguay has advanced towards the inclusion of domestic workers while Chile has a special system for those with fixed-term contracts. On the other hand, in Argentina, Brazil and Chile the system does not cover public sector workers who usually have special employment stability and severance payment schemes. Additionally, some countries in the region have implemented non-contributory cash transfer programmes not only for the unemployed but also for low-income households.

One experience of this type is the *Seguro de Capacitación y Empleo* (Training and Employment Insurance) in Argentina, which is focused to those unemployed excluded from the social security system. The programme's design is aimed at unemployed people, who receive a fixed monthly amount equivalent to 15% of the minimum wage and to 62% of the maximum contributive unemployment benefit. While the person receives the benefit –a maximum of two years- he must carry out some training activities. The programme also offers a set of services aiming at supporting an active employment search. There are two relevant aspects associated to this program. The first is that the time that the beneficiary remains in the programme is taken into account for their future pension. The second is that the beneficiary can receive the benefit at the same time as

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<sup>11</sup> Overall this insurance has never covered more than 20% of the unemployed (Velásquez Pinto, 2010).

<sup>12</sup> During the crisis some countries reformulated these benefits, relaxing certain access requirements, extending their duration and combining them with training programmes.

they are employed, for a period of up to six months if the job is in the private sector and up to a year if it is in the public sector. The aim of this is to decrease potential disincentive to accept a job if the worker have some uncertainty about how long it will last.

There are other countries that have programmes of this kind, for example the *Programa de Formación y Capacitación* belonging to the *Chile Solidario* system which is aimed at the unemployed between 18 and 40 years old who receive skills training to increase qualifications in forest activities. The training programmes last for four months and offer some payment to the beneficiaries. A similar case is the *Programa de Apoyo al empleo* (Employment Support programme) in Mexico where the unemployed and underemployed who are over 15 receive economic support for job searching as well as training grants.

Beyond these experiences, unemployment protection in Latin America is still a pending task. Very few countries have unemployment insurance, beyond severance payment, and coverage and benefits are generally very limited. Neither do non-contributive schemes cover all unemployed people while the amount of the transfer is usually very low. Therefore, efforts do not seem to suffice and the region must move forward in developing transfer instruments to reduce the vulnerability of informal workers' income, including non-wage earners. An important difference with regard to formal wage earners is the identification of a situation of unemployment since it is not always easy to differentiate it from informality or inactivity. For those coming from informal jobs, it would be necessary to consider some sort of activity like training or working in order to "disclose" the person's jobless condition. Given the fiscal cost that this sort of scheme could have, it is essential to implement mechanisms so that beneficiary selection is strictly limited to the unemployed.

Anyway, the region's unemployment situation constitutes an important source of lack of protection, especially due to the high occupational rotation that characterizes informal jobs. At the same time, the lack of unemployment insurance coverage forces workers to quickly accept precarious jobs so as to obtain an income that allows them to survive. This behaviour, in turn, feeds the importance of informal jobs. Therefore, it is worth considering that the aim of the unemployment protection policies is not only to provide benefits to compensate for loss of labour income but also to support efforts in searching for a new job, thus improvising global efficiency.

Contributory and non-contributory unemployment protection schemes are not properly integrated with other active labour market policies, an issue that is usually reflected in their little connection with training programmes. It is also common for insurance beneficiaries not to receive assistance while searching for jobs.

Finally, according to the multiple arguments found in international literature on the impacts of unemployment protection programmes, it can be said that the actual effect on labour indicators will depend upon the system's specific characteristics, their design, requirements and benefits, as well as the macroeconomic and labour context. So the main challenge is to design unemployment protection systems with a high level of coverage, that limit the potential moral hazard and that are integrated to active policies so as to speed up the beneficiaries' reinsertion in the labour market.

### *Active labour market policies*

Active labour market policies are those aimed at avoiding job losses or at speeding up the transition from unemployment to employment. These plans act in three dimensions: quality and type of labour supply, on labour demand or on intermediation between both parts of the labour relationship. In the context of globalization, higher competition and technological developments, the countries in the region face the risk of falling behind these advances and at the same time the inequality of access to new technologies by different groups of people in these countries could be reinforced. Therefore, the challenge is to transform these “threats” into opportunities for major development with social inclusion.

In this context, training programmes are usually a component of active labour market policies accepted by social actors who acknowledge their positive effects on productivity, labour stability, labour careers and salaries. Moreover, the importance of a skilled labour force for the improvement of systemic competitiveness is recognized, while acquiring knowledge is considered an essential component of employability.

These programmes have undergone changes in Latin America in the last few years with a view to increasing their efficiency, efficacy and equality. Among the most important modifications, it is worth mentioning a greater diversification of training suppliers, which nowadays also includes the private sector, and a decentralization of public sector programmes; certification of competences; a greater focus on training to meet demand-side requirements; the design of different programmes according to the problems of the target groups and new instruments for funding such programmes.

Nonetheless, despite these modifications, training systems still have significant shortcomings: their coverage is usually limited; training offers are not always transparent; outcome assessments are few and skill and competence certification is usually carried out through systems that are not always recognized and agreed upon by consensus; the attempts to guide training taking into account the requirements of the productive apparatus come across the difficulties of accurately predicting demand specificities in the future, especially in those countries of the region characterized by strong economic instability.

Within this context, the region must gradually shift from a traditional transfer of knowledge approach for a given job to competency-based training. The advantage of the latter is its “portability” from one job to another, which favours people’s employability. Furthermore, it is necessary to bear in mind the needs for specialized training and the gaining of labour competencies by those who are still part of the labour force. Here it is especially relevant to consider lifelong learning. Training systems should adjust to the different needs of the many segments of the productive sectors and labour force through a greater diversification of the programmes offered. It is necessary to have a comprehensive monitoring and control system for those institutions that provide training services to ensure the quality and appropriateness of the training provided. It is also necessary to consider the broad spectrum of the working population not included in the social security system. This contrasts with the coverage and scope of the training programmes in the region since most of them focus on formal workers.

In order to progress towards an integrated training system which shall effectively lead to improvements in global efficiency and increases in equality, it is necessary to

meet at least two conditions: (1) a development path defined for the medium and long run that generates continuous demand for greater human capital, either general or specific, which allows the offer of education and training to be reflected in higher salaries and better working conditions; (2) to have achieved a high level of coverage and quality in formal education. At present the region's countries do not satisfactorily meet any of these two conditions, which are key aspects to bear in mind in the performance assessments of these programmes.

Direct employment generation programmes have arisen in the region mainly as emergency measures, in contexts of strong demand contraction and faced with the absence of widespread systems that protect against unemployment (one example of this type of program is the *Plan Jefas y Jefes de Hogar Desocupado* in Argentina implemented during the 2002 crisis). These are plans that offer temporary work for a remuneration that is similar to the minimum wage and they are generally oriented to members of poor households (sometimes only heads of households). The low remunerations are usually used as self-selection mechanisms. The types of tasks that are carried out as part of these programmes are generally labour-intensive activities such as cleaning, construction and maintenance. A shortcoming of these plans is that they don't provide sufficient knowledge or skills recognized in the labour market, which is why they don't always contribute to better labour insertion when these tasks finish. At the same time, after the crisis the programmes generally had to continue due to the fact that the majority of beneficiaries were unable to get a job, even in a more favourable economic context, which in turn reflects the structural deficit of job creation, which characterizes the region.

Another alternative for strengthening the labour demand has been indirect employment creation policies through an economic incentive for private companies when hiring labour. This consists in a subsidy that reduces the cost of non-salaried labour or that covers part of the salary. Indeed, when faced with the crisis several countries started to use different mechanisms to sustain the demand for jobs through programmes to support job retention and promotion, thus avoiding further impacts on unemployment. In this regard, a lesson learnt by the region is that high levels of unemployment in a context with low social protection significantly deteriorate the remaining labour indicators (wages, job quality, etc.) and have long term impacts that are difficult to reverse.

The region also has vast experience with labour intermediation services and over the last few years they have been reassessed and broadened, and this kind of services are now considered as effective tools in speeding up the matching process between those offering employment and job-seekers (Mazza, 2003). Ministries of Labour (for instance, in the case of Argentina and Uruguay) or public training institutions (as in the cases of Colombia or Chile) usually managed these services. There is a broad heterogeneity in the way in which they are implemented in the region. In this regard, different forms of public-private cooperation have been established upon which the former exclusively public structure was modified, while labour offers to some segments of the informal sector were incorporated. In some countries (such as Mexico) employment services also intervene in international migrations.

Despite the advances achieved in this area in some of the countries in the region, a large proportion of labour contracts are still made through personal contacts, which tends to weaken matching efficiency and deepens labour market segmentation since the

workers with larger networks of contacts generally belong to the medium and high income strata. This is why, in general, those that finally turn to public employment services are those with the greatest structural job insertion difficulties.

Countries of the region should advance in the incorporation of new information and organization technologies as well as of highly skilled staff who respond to a wide range of situations that can arise in these employment agencies; these services should be more directly integrated in active and passive labour market policies and they should tend to expand coverage towards other important sectors of the population, such as informal workers.

Given the structural deficit in the salaried employment generation, many countries in the region have implemented programmes that foster independent employment, through own-account activities or micro businesses. According to Chacaltana (2009), the usual approach to encourage micro and small businesses is to develop favourable economic environment and specific productive development programmes for this kind of businesses. One of the problems for developing these enterprises is the existence of financial systems that have high operational costs and who usually consider small businesses as riskiest enterprises and so ration their access to credit. In the same way, restricted access to new technologies and markets, especially external, are also important barriers for development and sustainability over time of this kind of enterprises.

#### **4.3 Protection for the elderly: pension system reforms**

After the wave of structural reforms implemented in the pension systems in several of the region's countries in the nineties, when a privately managed individual capitalization (advanced funding) component was introduced, the last few years have witnessed reforms which have not deepened that trend. In recent years the region has made efforts to increase coverage of the pension systems by creating non-contributory components or reducing requirements for individuals to somehow get access to benefits in government-administered contributory regimes. Thus the limits of pension systems based only on contributory social security have been admitted given the structural labour market deficits such as high unemployment, informality, high occupational instability, irregular labour contributory trajectories and low average salaries, apart from the aging of the population that takes place at a varying intensity in the region's countries. In other words, the structural reform that introduced the rationale of private insurance through individual savings accounts did not change the level of coverage; to the contrary, in some cases it even deepened the contributory nature of the systems.

It therefore seems appropriate to make efforts to reach out to people with no coverage, either through their inclusion in more flexible contributory regimes or through the expansion of totally or partly non-contributory components to protect the elderly. On the other hand, there is also consensus about keeping the contributory component as the main pillar of the system. This leads to maintaining a certain incentive to work and to workers' registration. The challenge is to generate a coordinated system, which brings together the above-mentioned non-contributory and contributory components whether the latter are publicly or privately managed. The 2008 pension reform in Chile has shown the consensus reached in supplementing the privately managed individual retirement account scheme with a tax-financed benefits scheme in order to close the coverage gap, to provide

an income floor to the old-age and disabled without or with partial previous participation in the pension system, and to better manage the consequences of systemic risks, as the private component is not capable for the latter.

In sum, the high old-age benefit coverage reached by countries as Argentina, Brazil, Chile and Uruguay is the result of a combination of contributory and non-contributory schemes that recently expanded thanks to better fiscal space. Even countries with less economic and institutional development, such as Bolivia, have managed to put in place non-contributory old age benefits that provide modest, but universal, benefits.

#### **4.4 Health protection for all age groups**

The different reforms of the health systems implemented in the region required a careful and detail analysis that goes beyond the purpose of this article. It is important to highlight, however, that a common characteristic in Latin America is since the beginning of the eighties has led to high levels of stratification in access to health services, which goes against equality and the global efficiency of the system. At the same time, for a large proportion of the population, informality has systematically caused exclusion from access to health services through social security, whilst fiscal constraints has gone against the quality and coverage of public services. Therefore, the reform agenda required moving towards universal coverage, at least for basic essential services, and an improvement in service quality. These could provide the system with greater equality, reduced fragmentation, and narrow coverage and quality gaps between formal workers and the rest of the population. A step forward in this direction is the articulation and integration of the existing subsystems in the region: public, private and social security, which will bring about significant efficiency and quality gains. Some countries in the region have made significant advances such as defining minimum guarantees mandating public and private insurers to provide access to coverage to a defined set of risks and health contingencies; expanding mandatory legal coverage to family members of insured persons; integrating financing sources; and building solidarity funds to allow risk-adjusted per capita resource allocations.

#### **5. Contribution of the labour market and of the social protection system to reducing inequality and eradicating poverty. A few final remarks.**

The high-income inequality that characterizes Latin America is associated to both, the concentration in the primary income distribution and the existence of incomplete social protection systems. This is partly because these systems are largely based on contributory social security mechanisms, which usually cover a limited part of the population that is either linked, or weakly attached to formal employment.

Therefore, these huge differences that still persist in the region's working conditions require permanent action in the field of primary income distribution as a means to reduce inequality. The perspective adopted in this paper suggests that the macroeconomic regime determines the global performance of the labour market and it has, through this channel, a direct impact on the level and distribution of welfare. In this context, progress in employment formalization and the strengthening of labour

institutions as well as of active employment policies are essential processes to allow jobs to become an effective mechanism to overcome poverty and achieve social protection.

The current situation in Latin American labour markets also requires to continue the construction of a comprehensive social protection system grounded in universal rights, built not only on traditional social insurance pillars but also on non-contributory components. In this regard, the extension of the principle of universality in the supply of basic goods and services in the region is critical to strengthening human development and unlocking people's productive capacity.

This, however, does not mean that the labour market's role as a social integration axis can be ignored or the importance of macroeconomic stability diminished and, essentially, of decent employment dynamics to improve the wellbeing of the population and reduce inequality. Progress towards the universalization of citizens' economic and social rights has been proved that cannot go hand in hand with a weakening of labour regulations and institutions. Within the framework of this strategy, labour market rules could call for adjustments but need to take into account the positive impact of these institutions not only on equality but also on efficiency. In short, social protection strategies based on universal rights do not override the purpose of creating more and better jobs.

In this sense, it is important to remember the origin and purpose that brought about the development of labour regulation in the different countries, and at the same time taking into account the objectives of these institutions –protect the health of workers and their families by limiting the working day; reducing poverty and inequality by establishing a minimum wage; providing financial support to the unemployed by means of an insurance and giving power and rights of expression to the workers via collective bargaining and the freedom of labour union affiliation- are not only valid but are more relevant in the current context of economic globalization (Berg and Kucera, 2008).

At the same time, the construction of robust labour institutions is an indispensable element for advancing in the implementation of a development strategy with social inclusion, not only motivated by equality, but also by efficiency. In particular, labour regulations do not necessarily have a negative impact on the labour market; labour laws and labour market policies are necessary to ensure social justice and cohesion on the one hand, and on the other greater efficiency and productivity.

Therefore, the challenge is to structure mechanisms that will allow enhancement of protection during the different stages of the life cycle, starting with the most vulnerable households where children are generally over represented. The challenge along this path is to design protection systems based on a coherent articulation between contributory and non contributory components that tends to increase coverage taking into account efficiency and equality. In particular, the integration of policies aimed at securing full formal employment and consolidating a framework of protective labour regulations, a means of achieving appropriate working conditions and to facilitate social integration; on the other hand, universal policies that provide guarantees to access to essential services and ensure appropriate income levels, including periods of unemployment and when retiring at old ages.

All of these public policies need to be integrated so that they are no longer mere programmes and become a coherent system of training, employment, social protection and productive development. This approach clearly differs from those strategies that

target the poor and its residual role of safety net. On the contrary, the huge levels of poverty and inequality that still persist in the region call for a broader role of the social policy as a fundamental part of the development strategy while addressing distribution and redistribution issues.

Latin American experiences clearly show that the pattern of growth matters for income distribution and wellbeing. There are macroeconomic regimes that do not favour the creation of jobs and contribute to growing inequality despite the fact that they bring about important GDP growth rates. Therefore, the region needs to make progress in the definition and implementation of a mid and long-term economic development strategy built on the basis of an integrated productive structure leading to high efficiency, systemic competitiveness and increasing labour demand. Productive convergence within a framework of high productivity standards is a necessary condition for sustained growth throughout time. In this regard, it is necessary to have high levels of consistency and integration between the macroeconomic regime –which sets proper objectives and creates stability and predictability- and development strategy guidelines geared to social cohesion and equality. This, in turn, must be grounded on long-term policies agreed upon by consensus among all social actors so as to turn them into “permanent State policies” which will also allow for an evaluation of the mid and long-term outcomes, ensure their funding and avoid their deactivation for reasons other than their performance.

Finally, it is important to recognize the significant heterogeneity across Latin American countries in terms of economic development, fiscal capacity, labour market and social conditions, international competitiveness and institutions, suggesting that there is no “one-fits-all” way to reduce inequality, increase social cohesion and overcome poverty in the region. Policy recommendations should take into account the complexity of the development process and incorporate not only economic but also institutional and political dimensions.

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