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Social protection in Latin America: challenges of the XXI Century

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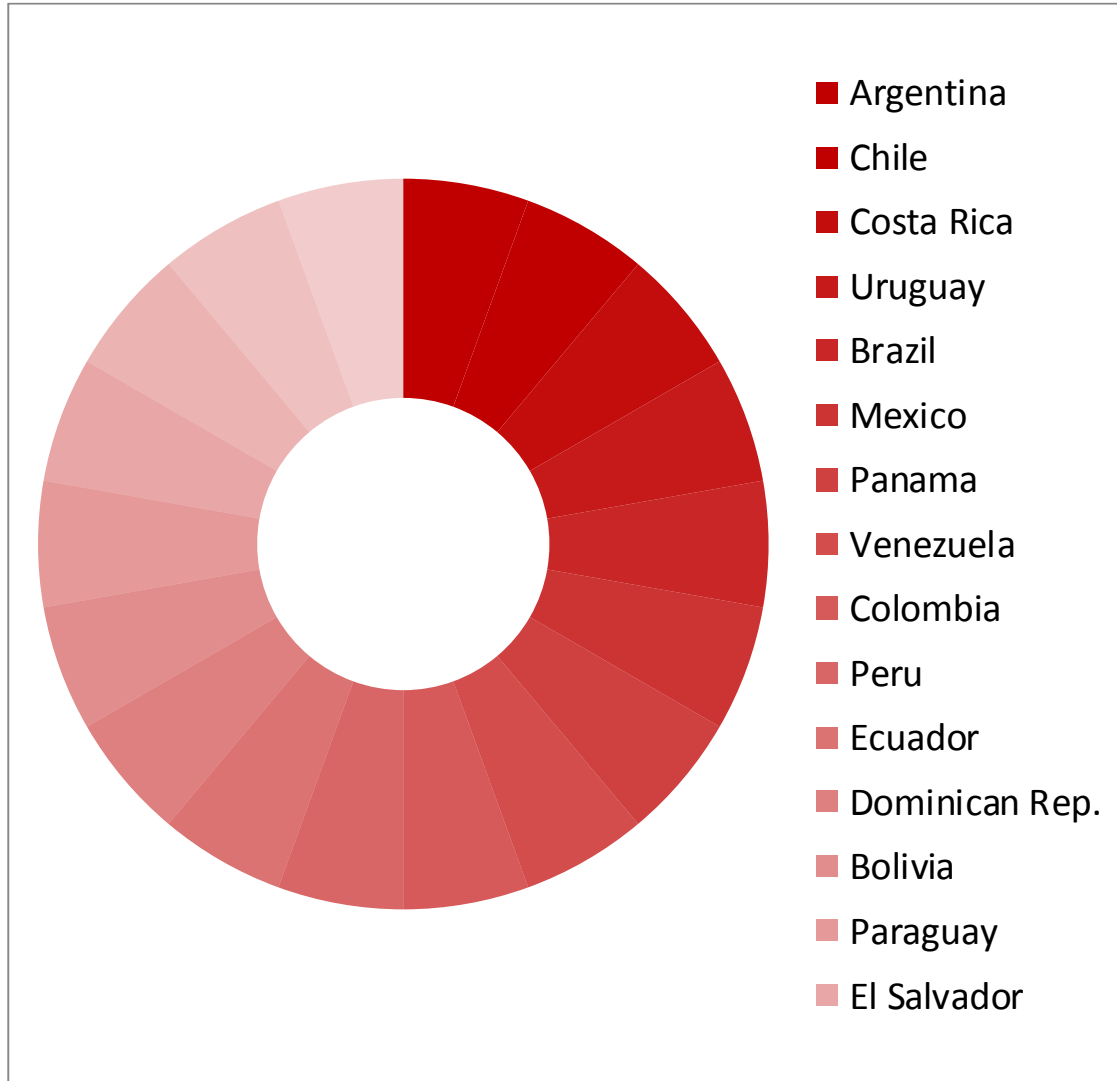
Outline of the presentation:

1. Different social protection systems at different stages of development
2. The last two decades: only cash transfers?
3. The years ahead: a different economic and political setting
4. Challenges for social protection in Latin America

Different social protection systems at different stages of development

- LA countries had different trajectories and reached different stages in the development of their welfare systems
- The uneven development of social protection systems is associated to a certain chronology of innovations in social protection, mainly to the moment of adoption of social insurance
- Political discretion and political bargaining shaped both the creation and expansion of social protection systems in Latin America (Mesa-Lago, 1978; Collier & Collier, 1992; Filgueira et al,2011; Pribble, 2013)

Social protection development in Latin American countries. Ranking based on multiple classifications



Source: Amarante and Rossel (2018)

The combination of different classifications (Figueira, 2007; Segura-Ubiergo, 2007; Martinez Franzoni, 2008; Pribble, 2011; Ocampo and Gómez Arteaga; 2017) into one single ranking clearly shows the existence of three groups.

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

Developed	Intermediate	Laggards
<p>Relatively high coverage of social security among workers and the elderly, as well as in basic education and health services</p> <p>But with high stratification in terms of density and quality of benefits</p> <p>Limited room for reform due to a tighten up architecture responding to strong interests</p> <p>Limited informality and lower proportion of workers in low productivity sectors</p> <p>Higher proportion of older population</p>	<p>Social security systems with an intermediate coverage</p> <p>Limited coverage of basic social services</p> <p>Dual structure, benefiting primarily urban, educated and higher income sectors</p> <p>Higher informality and employment in low productivity sectors, low unemployment</p> <p>Non-contributory programs covering large proportions of the poor</p>	<p>Very weak development of social security systems and basic social services</p> <p>Very limited coverage of contributive system, only to higher income sectors</p> <p>Non contributory programs with weak institutionalization</p> <p>Very small tax burden</p> <p>High informality</p> <p>Higher proportion of youth in the population</p>
<p>Argentina, Chile, Costa Rica, Uruguay and Brazil</p>	<p>Mexico, Panama, Venezuela, Colombia, Perú and Ecuador</p>	<p>Dominican Republic, Bolivia, Paraguay, El Salvador, Guatemala, Honduras and Nicaragua</p>

The last two decades: only cash transfers?

Social Protection Coverage Index

Health coverage
for wage earners

Pension system
membership
among wage
earners

Health coverage
for non wage
earners

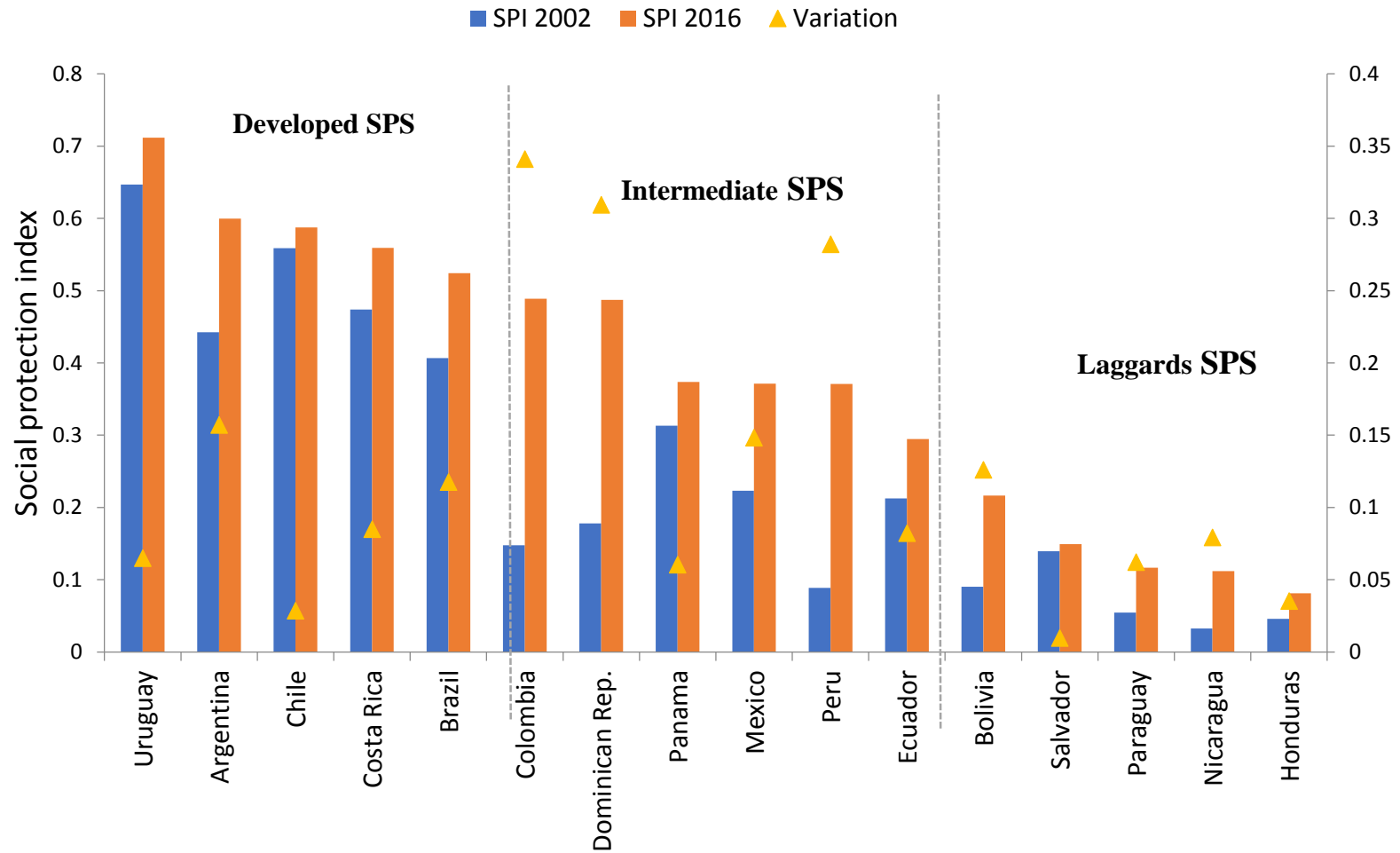
Pension system
membership
among non wage
earners

Older population
who receive
pensions

Total CCT coverage

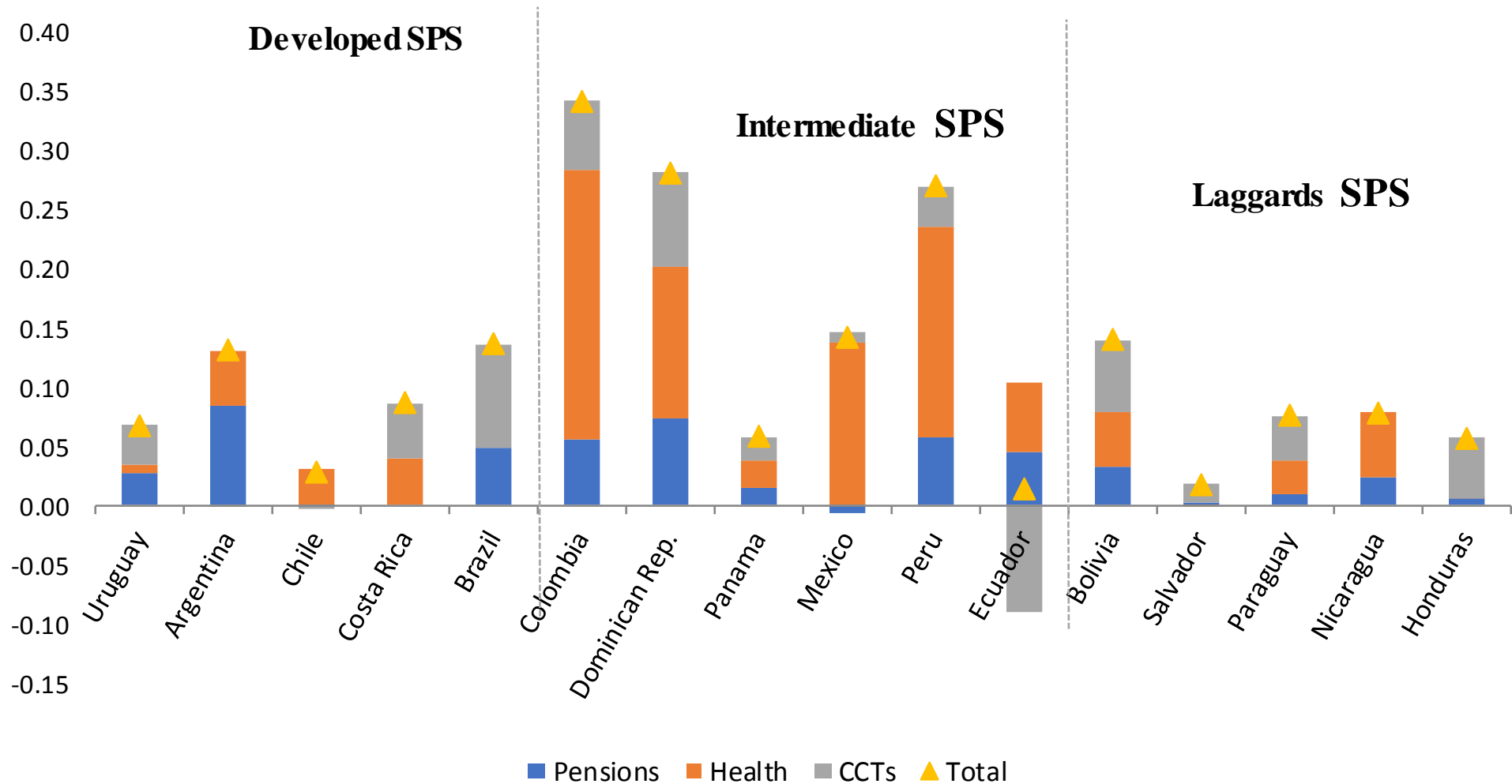
The Social Protection Coverage Index is the arithmetic mean of the normalized scores of each of the 6 indicators of access to social protection for each country.

Social Protection Coverage Index Scores in Latin America



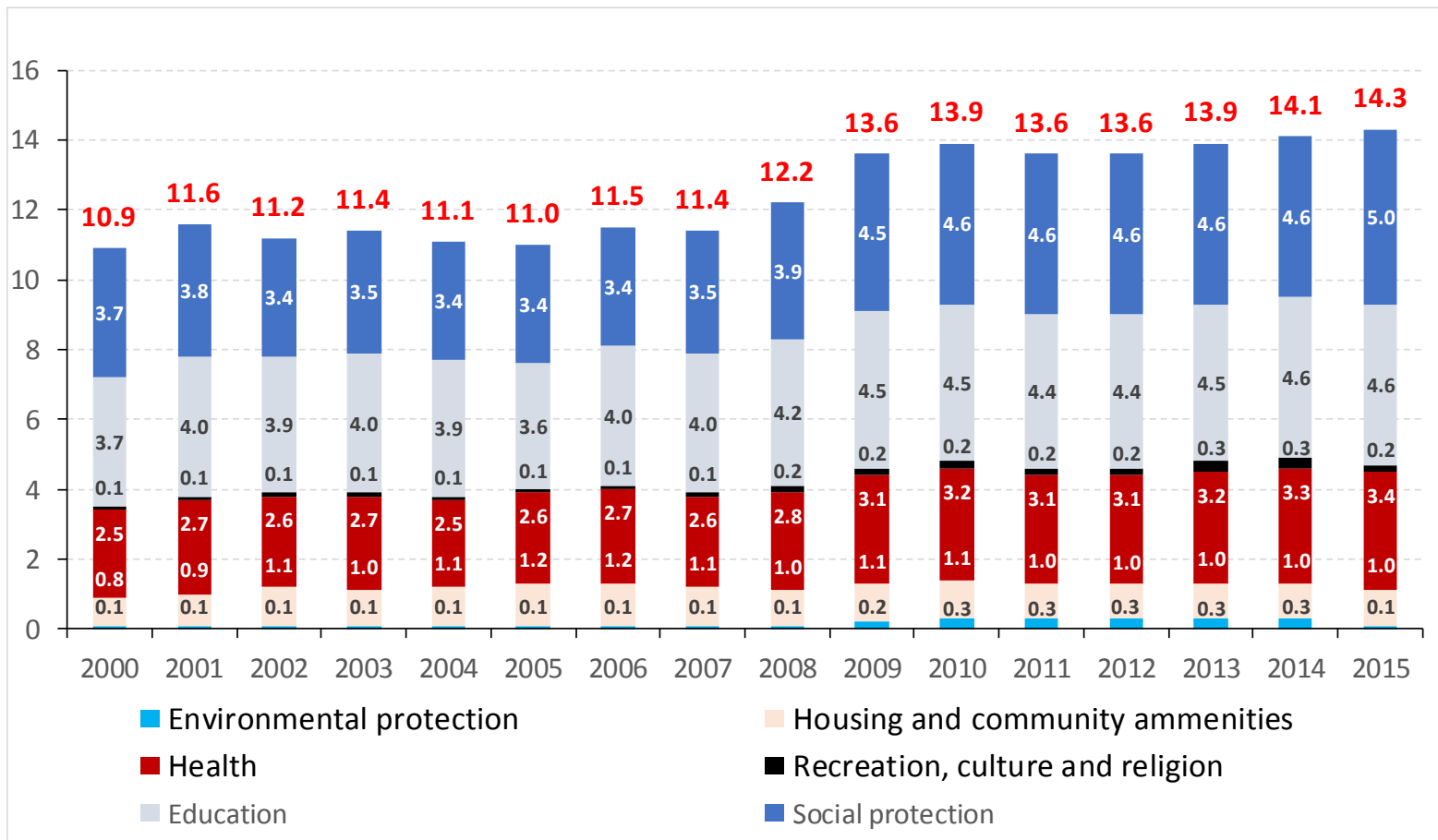
Source: ECLAC, based on household surveys

Contribution of different dimensions to the variation in the Social Protection Coverage Index (2002-2016)



Source: ECLAC, based on household surveys

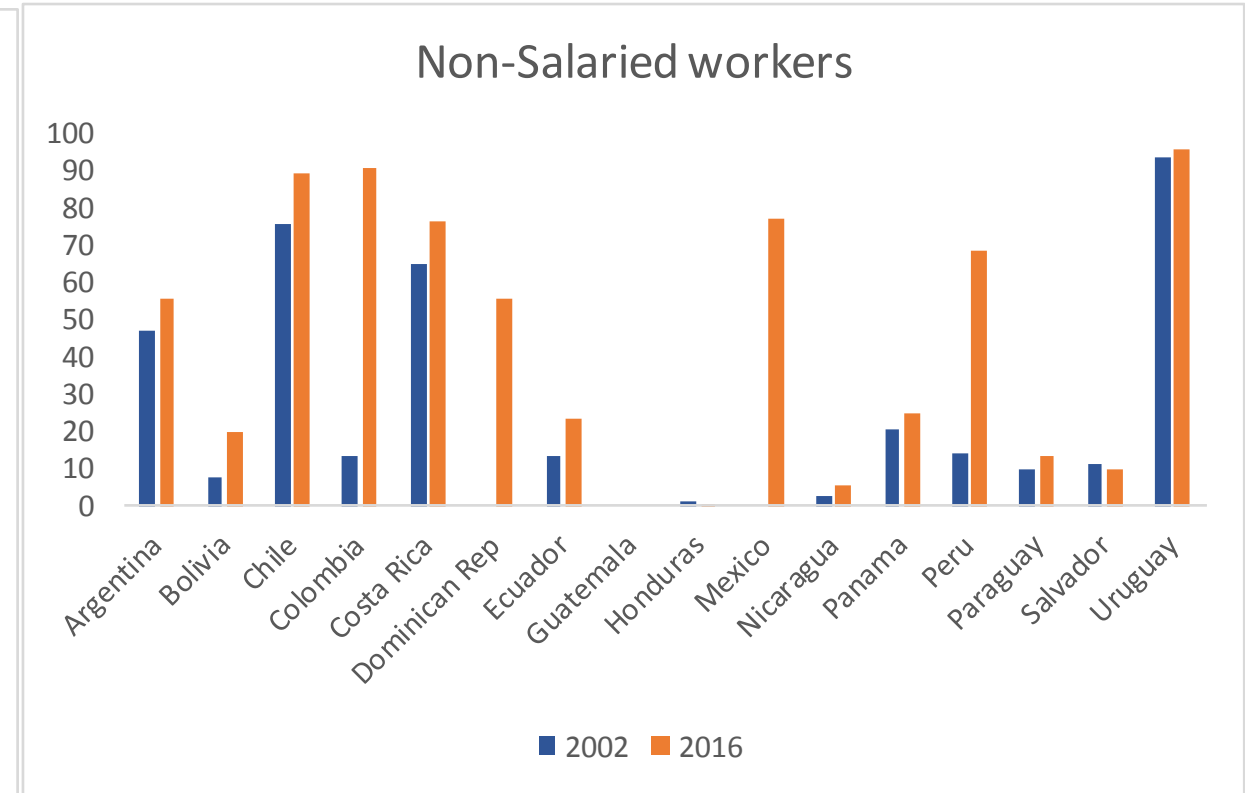
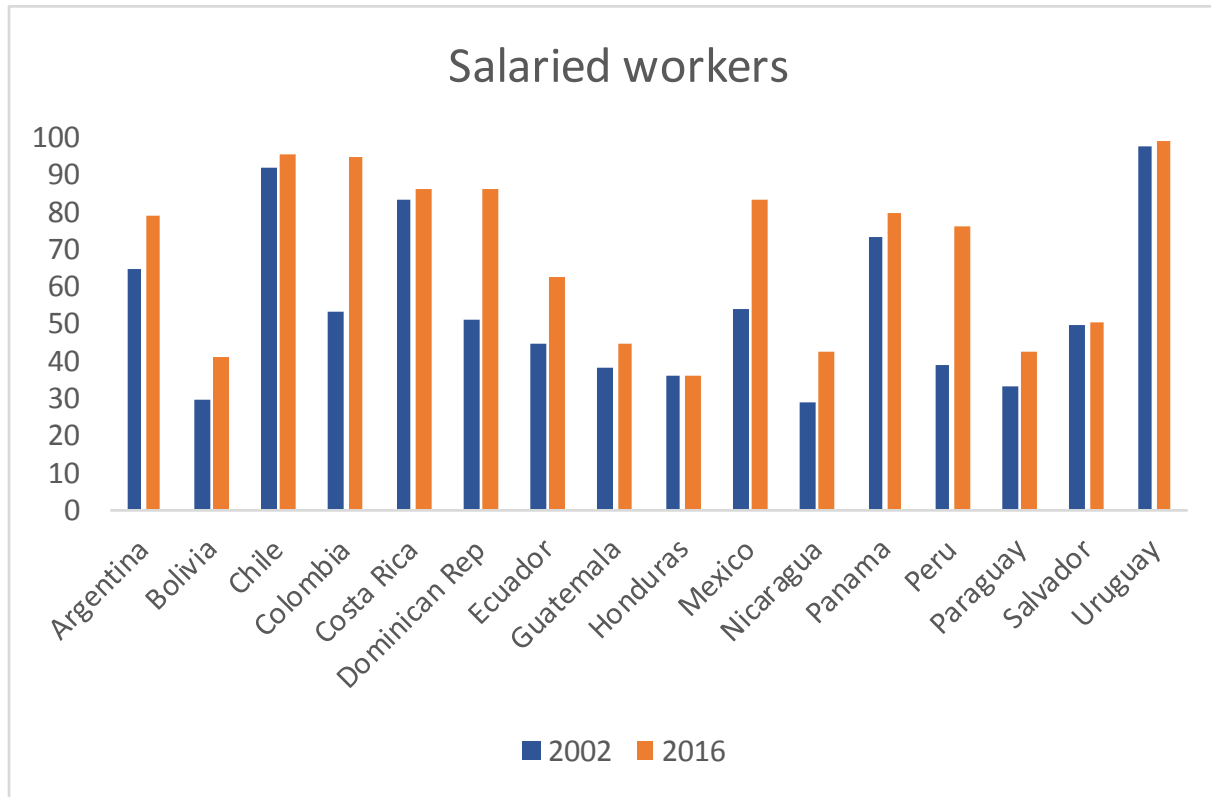
Latin America (19 countries): public sector social spending, %GDP, 2000-2015



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

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

Health: increases in coverage (and spending)



Source: ECLAC, based on household surveys

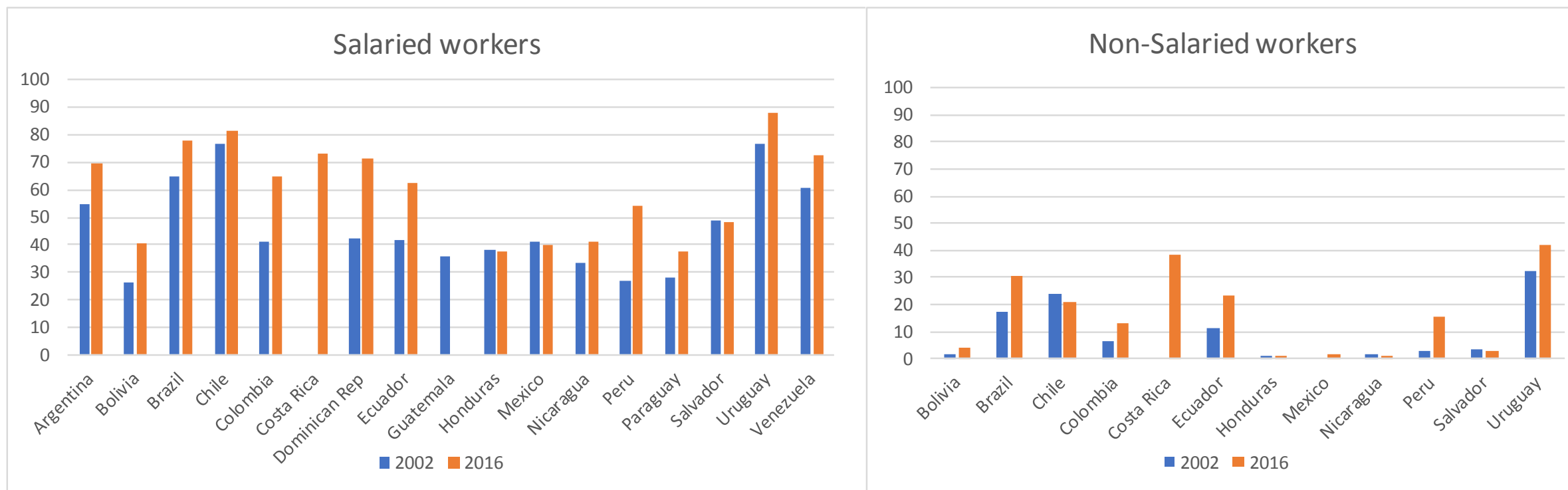
Health policy

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

Inefficiencies from non contributory health insurance

- Evidence suggests that non contributory insurance schemes tend to boost informal employment at the expense of formal employment, both in Colombia (*Regimen Subsidiado en Salud*) and Mexico (*Seguro Popular*). Disputed evidence in the case of Mexico (see Bosch and Manacorda, 2012)
- Uruguay: extension of healthcare coverage to dependent children of registered private-sector workers increased registered employment (Bergolo and Cruces, 2014)

Pensions: increases in protection among workers



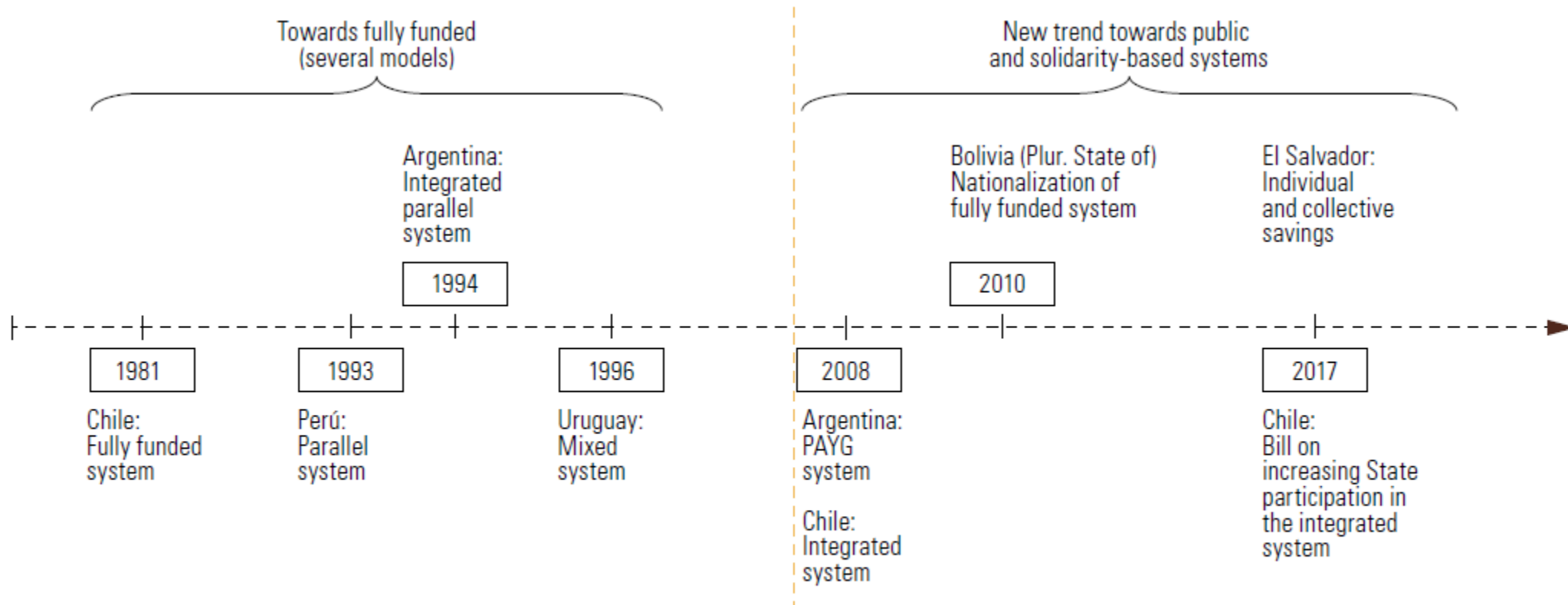
Source: ECLAC, based on household surveys

Reforms to contributory pension systems in Latin America since 2008

	Structural reforms (3)		Parametric reforms (14)	
	Year	Model	Year	Model
1. Argentina	2008	From fully funded to PAYG		
2. Chile	2008	From fully funded to integrated		
3. Bolivia	2010	From fully funded to nationalized system		
1. Colombia			2008	Parallel
2. Peru			2016	
3. El Salvador			2017	Substitutive
4. Uruguay			2008	Mixed
5. Costa Rica			2016	Mixed
6. Cuba			2009	Pay as you go
7. Paraguay			2010	
8. Guatemala			2010	
9. Nicaragua			2010	
10. Venezuela			2013	
11. Honduras			2014	
12. Haiti			2014	
13. Ecuador			2015	
14. Brasil			2015	

Source: Arenas de Mesa (2018)

Trends in Pension System reform, 1981-2017



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the countries.

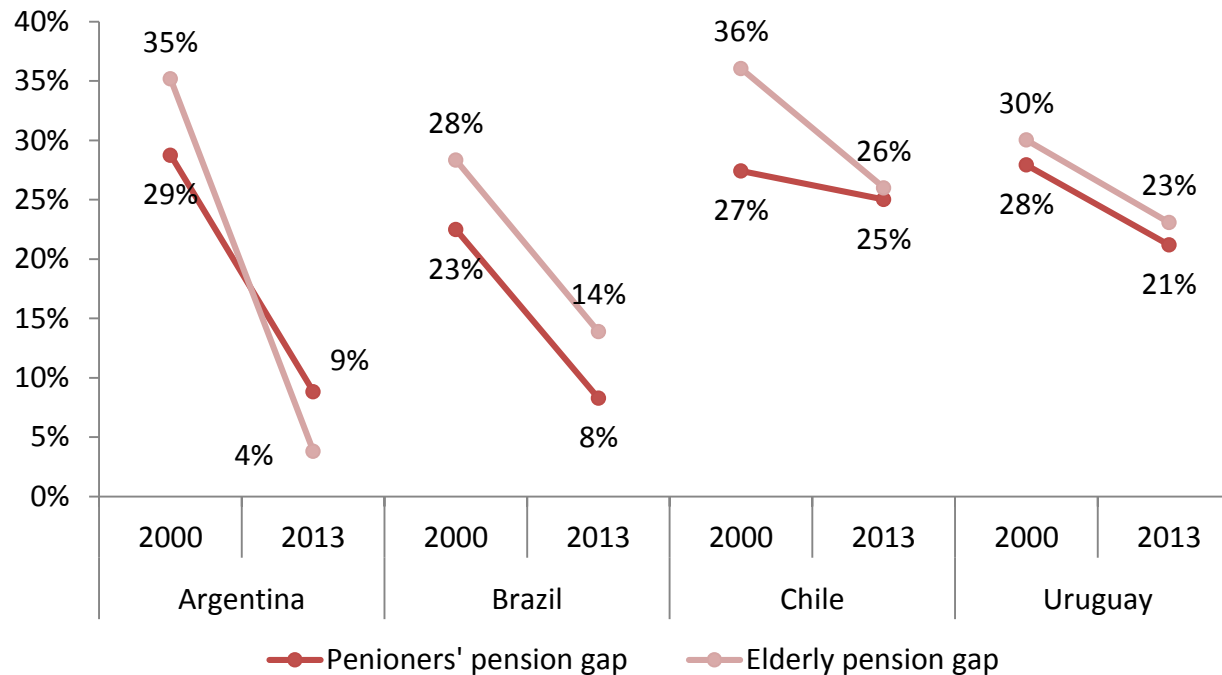
The gender dimension in the recent pension reforms

- Gender dimension was absent from structural reforms of pension systems in LA between 1981 and 2006, implicit assumption of gender neutrality (Arenas de Mesa and Montecinos, 1999)
- Between 2008 and 2016, some of the reforms attempted to address gender inequality:
 - special benefits for women who opt for early retirement (Costa Rica 2006)
 - equal pensions rights for female domestic workers (Uruguay 2006, Chile 2008)
 - child care credits (Chile 2008, Uruguay 2008, Bolivia 2010)
 - recognition of spouse or partner for pension rights (Chile and Uruguay in 2008)
 - elimination of sex differentiated mortality tables for calculation of benefits (Bolivia 2010, El Salvador 2017)

Policies designed for more disadvantaged workers had gender equity consequences

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

Gender Pension gap among elders (65+). Circa 2000 y 2013



Source: Amarante, Colacce and Manzi (2017)

Non contributory pensions

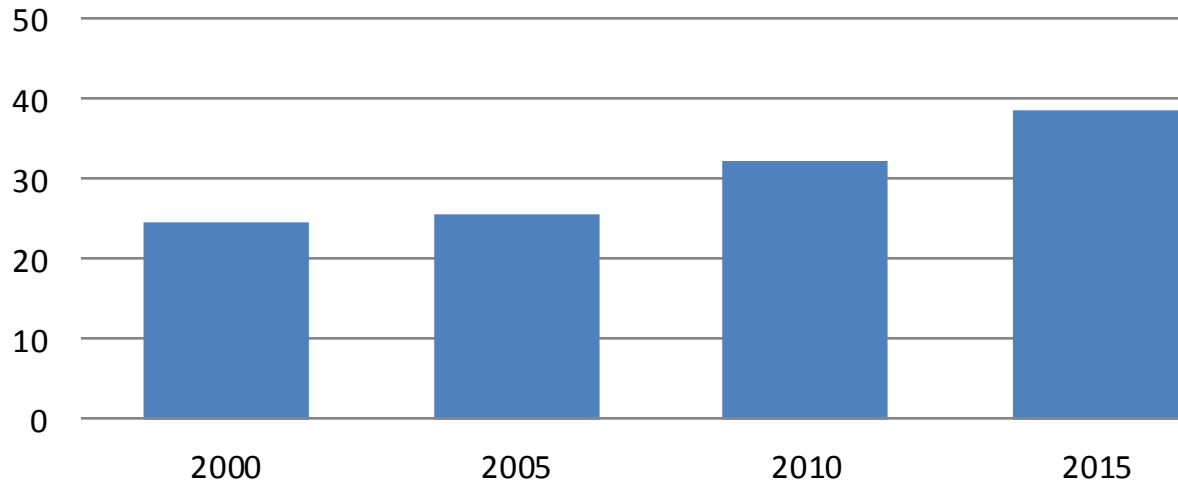
Non contributory pensions in Latin America: years of creation			
Before 1980		After 1997	
Uruguay	1919	Bolivia	1997
Argentina	1948	Ecuador	1998
Brasil	1971	Colombia	2003
Costa Rica	1974	Guatemala	2005
Chile	1975	Mexico	2006
Cuba	1979	El Salvador	2009
		Panama	2009
		Paraguay	2009
		Honduras	2010
		Peru	2011
		Venezuela	2011
		Dominican Rep.	2013

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

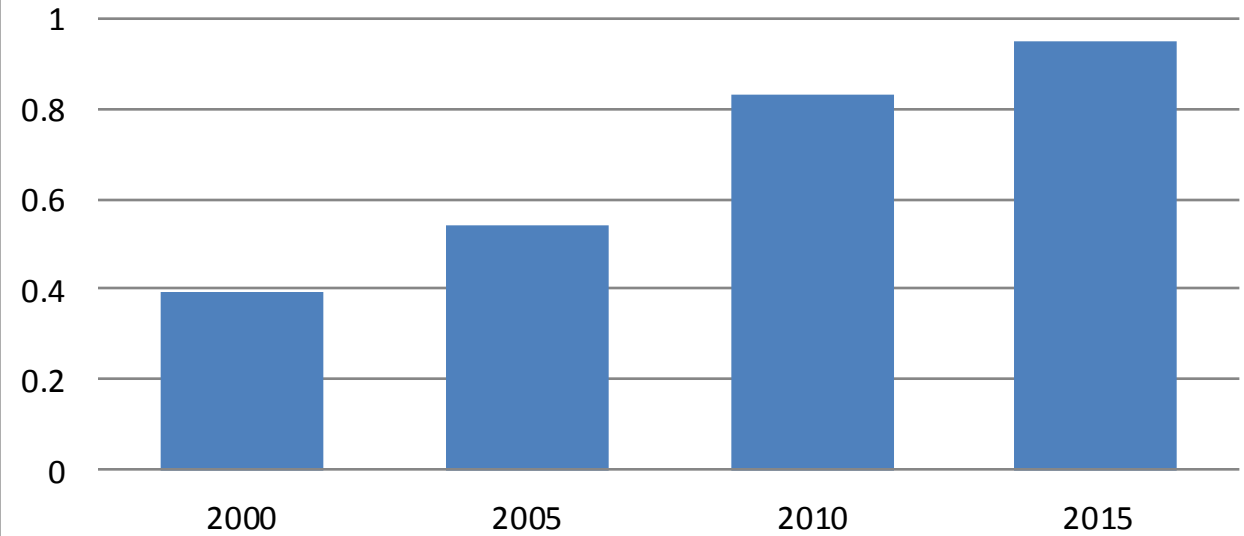
Source: Arenas de Mesa (2018)

Non contributory pensions

Non-contributory pensions coverage (% of total population over 60 years)
(weighted averages for 15 Latin American countries)



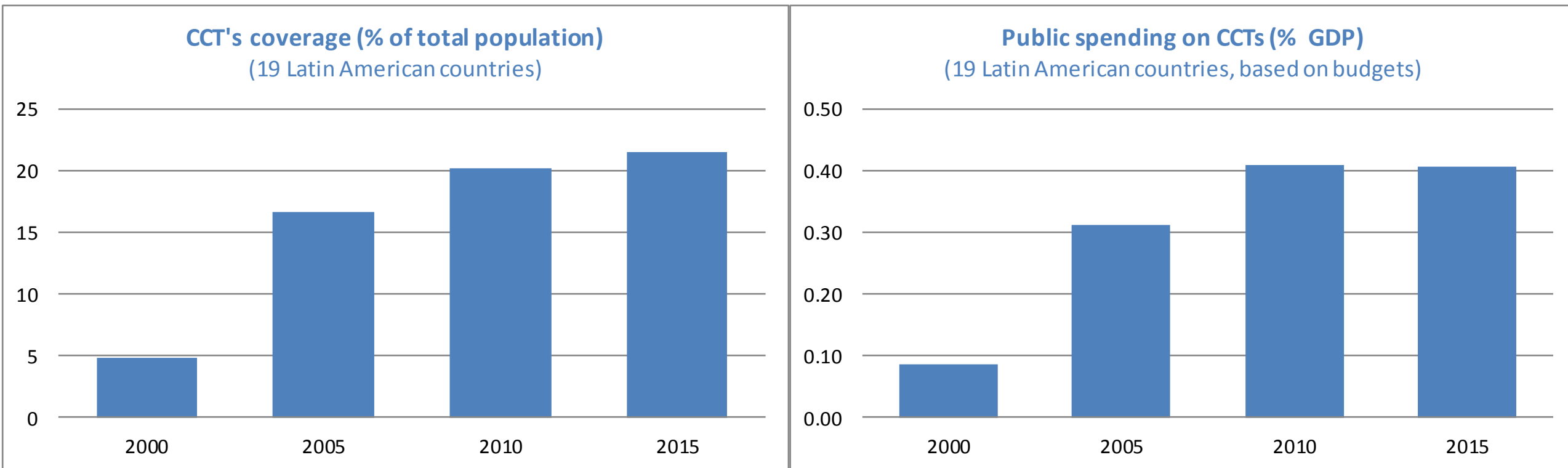
Public spending on non-contributory pensions (% GDP)
(weighted averages for 15 Latin American countries)



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

Efficiency: negative labor supply effects among the elderly, attributable to non-negligible income elasticity of leisure in this population (Bosch and Manacorda, 2012). Improvements in well-being of poor older adults without having any indirect impact (through potential anticipation effects) on the earnings or savings of future program participants (Galiani, Gertler and Bando, 2017).

Conditional cash transfers



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

Debated issues: conditionalities and inefficiencies

Inefficiencies in CCTs due to disconnection of social assistance and social insurance?

- Effects of CCTs on participation and hours of work are generally small in magnitude and statistically insignificant (Bosch and Mancorda, 2012) (income elasticity of leisure close to zero?)
- The loss of benefits at some level of formal earnings may act as an implicit tax and disincentive formal employment: evidence (limited) suggesting that they tend to negatively affect formal employment
- The importance of design to mitigate unintended adverse effects: eligibility based on strict verification of formal earnings may lead to substitution effect away from formal employment. Need to think about ways to smooth the cash notch implied by the eligibility rule. Evidence comes from countries with formalized labor markets.

Impacts of CCTs on informality

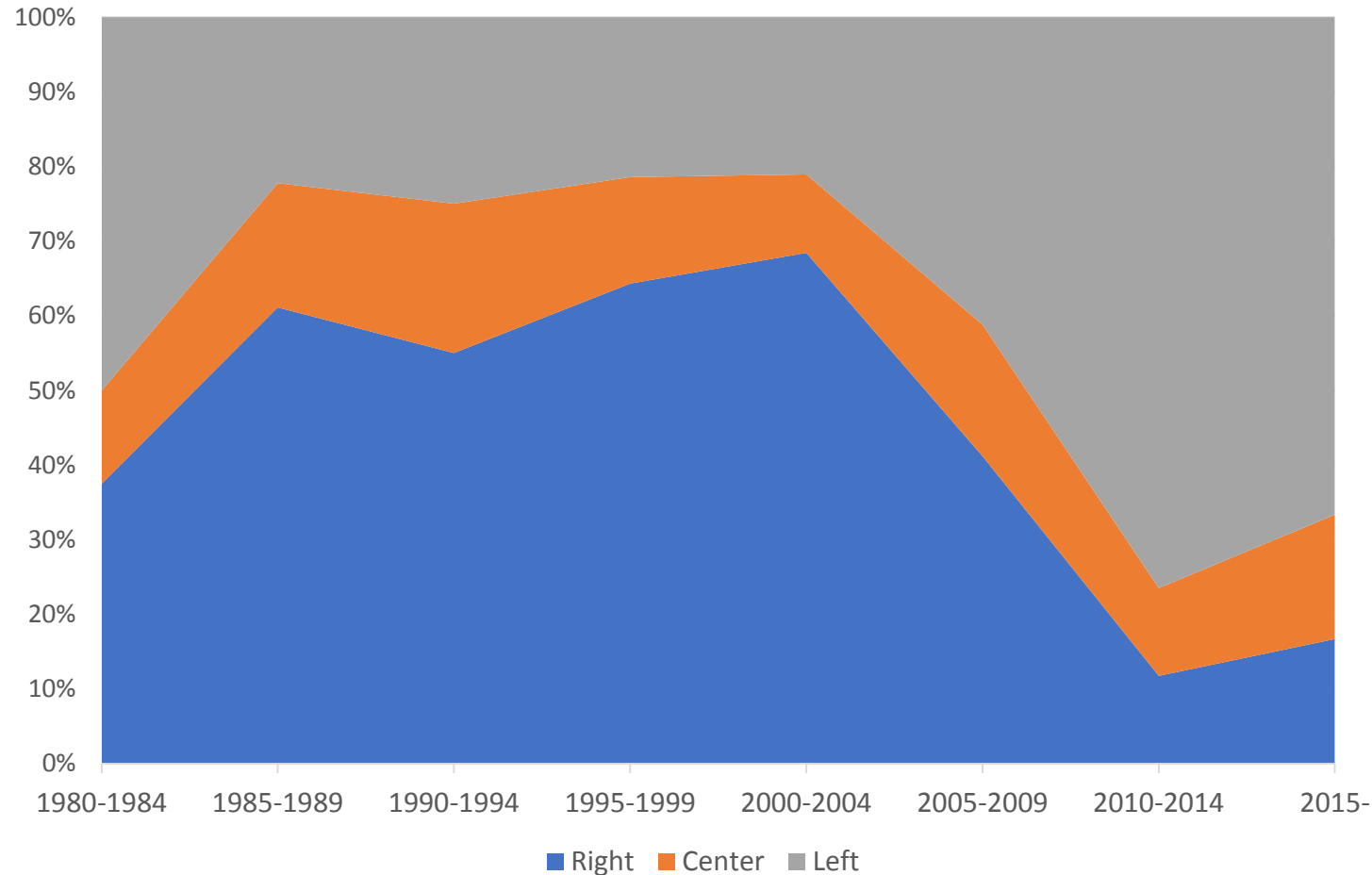
Country	Program	Source	Data	Identification strategy	Effect on informality
Argentina	Plan Jefes y jefas	Gasparini, Haimovich and Olivieri (2007)	EPH (2003-2005)	D with PS matching	Negative significant effect on transition into formal employment. After the increase in formal earnings, the effect disappears
Argentina	Universal Child Allowance (AUH)	Garganta and Gasparini (2015)	EPH (2005-2011)	DD (hh with and without children)	Significant and large disincentive to labor market formalization. No evidence of incentive for formal to become informal
Ecuador	Bono de Desarrollo Humano	González Rozada and Pinto (2011)	ENEMDU (2004-2010)	RD on predicted index	Positive significant effect on duration of unemployment and separation from formal employment
Mexico	Oportunidades	Azuara and Marninescu (2010)	ENE (1994-04), ENOE (2005-2009)	DD by municipality and time	No effect on informal employment
Uruguay	PANES	Amarante, Manacorda, Vigorito and Zerpa (2011)	Administrative data (2004-2010)	RD based on poverty score	Negative significant effect on formal employment
Uruguay	AFAM	Bergolo and Cruces (2017) Bérgolo and Galván (2018) Bérgolo et al (2015) Failache, Giacobasso and Ramírez (2016)	Administrative data and follow up survey (2008-2010)	RD design	Significant negative effects on formal employment (higher for individuals with medium prob. of being registered employee (not among the poorest) Effects are significant for women at the eligibility cut-off

Source: based on Bosch and Manacorda (2012) (updated)

The years ahead: a different economic and political setting

- Changes in social protection systems in LA took place in a context of economic growth and improvements in the fiscal situation (both due to policy decisions and increase in the demand for primary products). This does not longer hold.
- Persistent structural constraints: low levels of productivity, pressure of demography (also different by countries)
- The political context included new left governments, change in the political landscape of the region
- The puzzle of support for redistribution

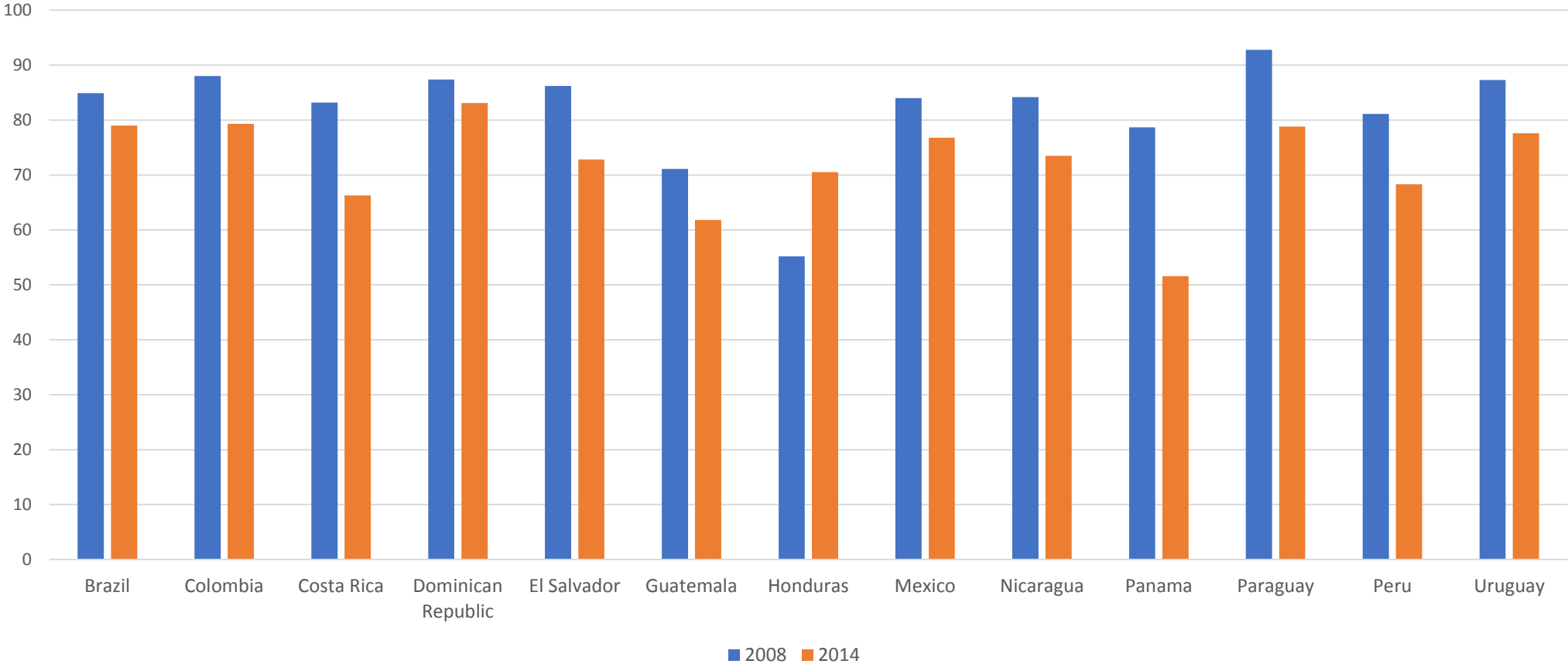
The end of the Pink Tide?



- The political context for changes in social protection included new left governments in the 2000s, there seems to be a change in the political landscape of the region
- What are the implications for social welfare? Neither Chile nor Argentina engaged in privatization or spending cuts, on the contrary, they even facilitated marginal expansions (Niedzwiecki and Pribble, 2017)

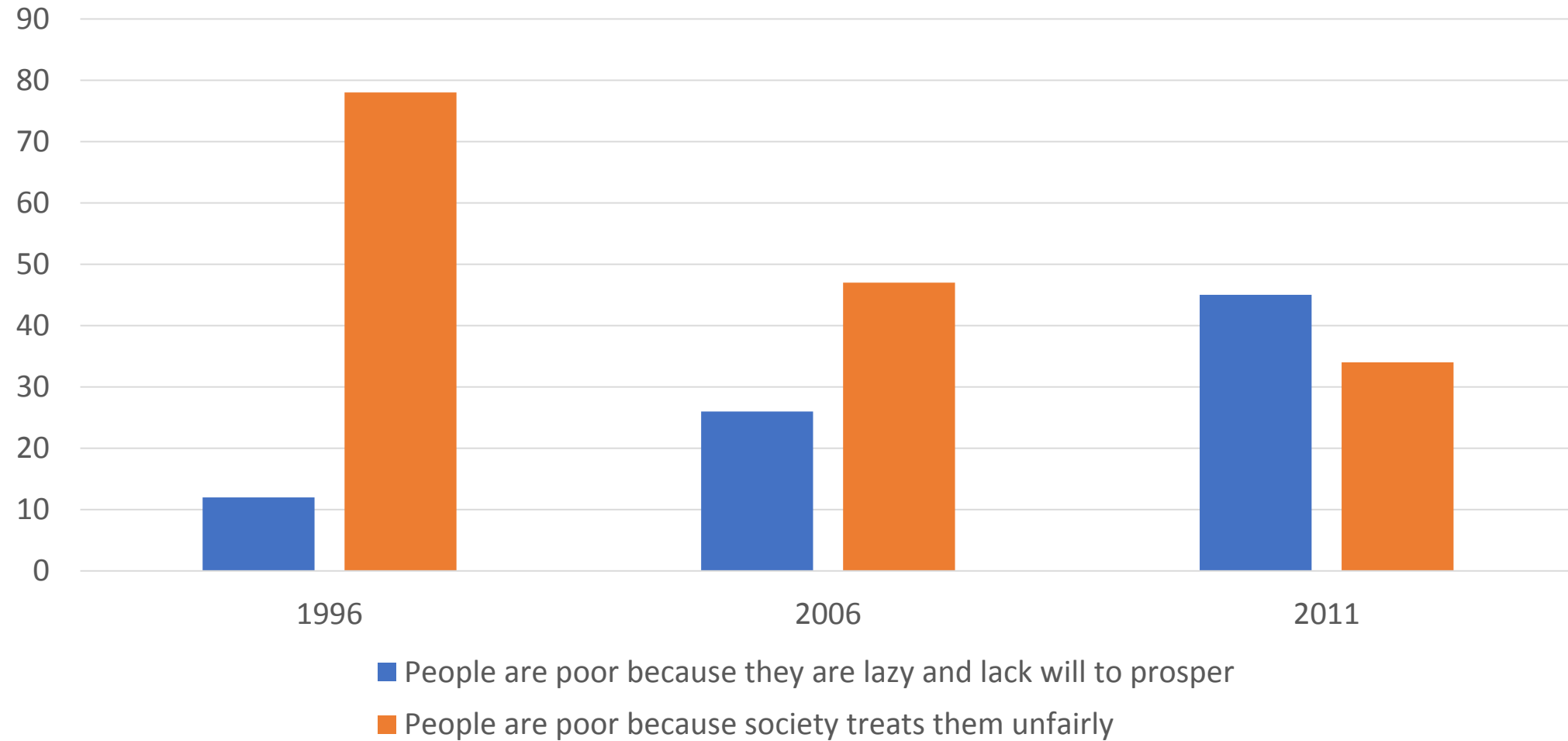
A decrease in support for redistribution?

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



Source: LAPOP Americas barometer survey

Uruguay: Attitudes towards poverty (1996-2011)



Source: World Values Survey

Challenges for social protection in Latin America

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

- The horizon of universal social protection (traditional financing): as regional economies develop, labor force will enter the formal sector. In the process, non contributory pillars are central. The risk may be building a two-tiered system of basic public services and transfers for the poor and better services and transfers for the insiders (formal), and even discourage formality? Is this even possible for countries with the lowest levels of productivity?
- Universal basic social rights (ILO among others). Elimination of labor contributions and financing with consumption taxes (Levy, 2008). Searching for a delinking between social insurance from labor status. What are the basic levels? More segmentation (higher incomes go to the market)? Regressivity of financing? Political economy?
- Different strategies for different countries, according to their specific challenges? A complete modification in the architecture may not be adequate in countries with developed social protection systems, with high levels of coverage and where challenges refer to quality.

Different challenges for different countries

- Developed welfare

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

- Intermediate

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

- Laggards

- Everything to be done! Increase tax burden to build minimum state capacity

Thank you very much...