**UNITED NATIONS RESEARCH INSTITUTE FOR SOCIAL DEVELOPMENT**

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# OPTIONS FOR SOCIAL POLICY IN LATIN AMERICA

## NEO-LIBERAL VERSUS SOCIAL DEMOCRATIC MODELS

**by Evelyne Huber**

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# ◆ Preface

The economic crisis of the 1980s had a profound impact on social policy in Latin America. While poverty increased, there was a simultaneous reduction in social expenditure and consequent deterioration in public services. Severe fiscal imbalances also affected social insurance schemes. To deal with these problems, some countries in the region have relied upon market-determined, private and individualistic models of reform, while others have attempted to find market-correcting, public and egalitarian solutions.

In the following paper, prepared for the UNRISD programme on **The Future of the Welfare State**,* Evelyne Huber focuses on experiences in four countries: Chile, Argentina, Brazil and Costa Rica. Although no regime of social protection in Latin America approaches the degree of coverage provided by European welfare states, these nations are among the most advanced in the region in terms of their social programmes.

After providing historical background on the evolution of social policy regimes in each case, Huber explains how existing configurations of political power affected patterns of reform from the 1970s onward. Having crushed political opposition, the Chilean military regime pursued an exclusionary strategy, involving extensive privatization, which has further polarized access to social services, insurance and pensions. In contrast, the Brazilian military, and groups involved in the subsequent transition to democracy, attempted to gain popular support through expanding entitlements — instituting universal health care and a basic minimum wage for rural people. These measures have, however, been stymied by the primitive nature of health services in the poorer regions of the country, by reliance on high-cost private providers and by a pervasive structure of patronage which filters access to benefits.

An attempt by Argentine governments to restrict publicly-funded pension systems and social insurance met with strong public resistance. The adequacy of public pensions has nevertheless eroded markedly — as is the case throughout the region; and growing numbers of the employed are turning to supplementary private programmes. It is only in the case of Costa Rica that severe austerity measures have been accompanied by sustained progress toward a universalistic welfare regime. Since the health care system is public, there is no difference in the facilities available to the insured and uninsured. Distinctions within the pension system have also been lessened through phasing out special treatment for civil servants; and those without coverage are entitled to a means-tested welfare pension which is impartially administered.

To improve the situation in all four countries, significant additional resources must be allocated to social policy. And since the constraints of international competition militate against increasing employer contributions and thus labour costs, more of these resources will need to come out of general revenue. Whether this is possible depends, of course, on a number of factors, including the political coalitions that can be formed in support of tax reform, the capacity of the state to enforce tax legislation, and the rate of economic growth. Administrative reform is also essential, in order to improve the use of existing resources.

Huber argues that extending the scope for universalistic social policy — in health care, insurance and pensions — is desirable not only from the standpoint of equity, but also from that of efficiency. The greater the discretionary power to deliver differentiated public services, the larger the opportunities for corruption and patronage. She also reminds us that in a region marked by widespread poverty and under- or unemployment, private contributory schemes for ensuring social welfare are simply not a viable option for the majority.

Evelyne Huber is Professor of Political Science at the University of North Carolina, and Visiting Fellow at the Swedish Collegium for Advanced Study in the Social Sciences. Work on **The Future of the Welfare State** has been co-ordinated at UNRISD by Cynthia Hewitt de Alcántara.

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Dharam Ghai
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* Under the direction of Gøsta Esping-Andersen, experts on social policy in seven regions of the world were asked to trace the response of different welfare régimes to the challenge of global economic restructuring. Their conclusions were presented during the Social Summit in Copenhagen, on 8 March 1995. at a conference hosted by the Danish Ministry of Foreign Affairs, and co-sponsored by UNRISD and the Danish National Institute of Social Research.

# ◆ Contents

## ◆ Abbreviations and Acronyms

| | |
|---|---|
| AFP | Administradora de Fondos de Pensiones (Chile) |
| CCSS | Costa Rican Social Insurance Institute |
| EAP | economically active population |
| ECLAC | Economic Commission for Latin America and the Caribbean |
| GDP | gross domestic product |
| IBRD | International Bank for Reconstruction and Development |
| IDB | Inter-American Development Bank |
| ILO | International Labour Organization |
| IMF | International Monetary Fund |
| ISAPRES | Institutos de Salud Previsional (Chile) |
| ISI | import substitution industrialization |
| Mercosur | Southern Cone Common Market |
| MPAS | Ministry of Social Security and Social Assistance (Brazil) |
| NGO | non-governmental organization |
| PLN | National Liberty Party (Costa Rica) |
| PMDB | Partido do Movimento Democrático Brasileiro |
| PREALC | Programa Regional del Empleo para América Latina y el Caribe |
| SUDS | Unified and Decentralized Health Systems (Brazil) |
| UNICEF | United Nations Children’s Fund |

# INTRODUCTION[1]

Social policy in Latin America today stands at the cross-roads between market-determined, private, individualistic and inegalitarian models on the one hand, and market-correcting, public, solidaristic and egalitarian models on the other. The hegemony of neo-liberalism — in business and banking circles, and international financial institutions, and among governments in core countries and ruling technocrats in many Latin American countries — during the 1980s seemed to tilt the balance towards the former models. Yet, as the social costs of economic neo-liberalism and state abdication of social responsibilities have become all too visible, and questions of governability of new democracies have come to the forefront, the latter models are getting a serious second look both in international institutions and among the governments in the region. The main obstacle to the pursuit of these latter models in the 1990s is the balance of social and political power that has shifted squarely towards capital and away from organizations representing mass interests, most importantly unions, in the course of structural adjustment policies. This paper explores the costs and benefits of attempts to pursue these alternative models, focusing on the cases of Chile and Brazil, with secondary comparisons to Argentina and Costa Rica. Additional comments on general trajectories are used to situate these cases in the larger Latin American context.

In most Latin American countries, social policy has long been oriented more towards relatively privileged sectors than towards the poor. Social assistance has been of minimal importance and social insurance developed in a highly inegalitarian manner. The same is true of health care systems; public health facilities for the low income groups have been under-funded in relation to need and compared to facilities for those insured or able to pay. The economic crisis of the 1980s had a profound impact on social policy, leading to an increase in poverty and at the same time to a reduction in social expenditure, a deterioration of public services, and severe fiscal imbalances in social insurance schemes. The reactions to these problems have ranged from the neo-liberal solutions of individualization and privatization to the social democratic solutions of universalization and consolidation of public schemes. Chile followed the neo-liberal route and Costa Rica the social democratic route; Argentina has adopted some elements of privatization, and Brazil has *de jure* (though not *de facto*) virtually universalized coverage and improved the benefits of the poorest sectors.

# BACKGROUND

The three most important areas of social policy in Latin America have been pensions, health care and price subsidies and controls. Social assistance has traditionally been underdeveloped (Tamburi, 1985:76). Expenditures for pensions and health care have accounted for between two thirds and virtually all of total social benefits expenditures (see table 1). Price subsidies and controls, of course, are captured neither by data on social expenditures nor by any other comparable data. Their importance only becomes clear if one takes account of the proportion of income spent by poor people on basic foods and transport and of the extent to which these were subsidized and/or sold at controlled prices before the austerity and structural adjustment policies of the 1980s. Only seven out of 34 Latin American and Caribbean countries have family allowances and unemployment compensation (Mesa-Lago, 1994: 16). Compared to welfare states in advanced industrial societies, unemployment insurance, like social assistance, is sorely underdeveloped. Given the persistently high levels of unemployment in most Latin American countries, such an insurance has been considered prohibitively expensive; where it exists, the benefits are extremely limited.

The two central problems in the development of social insurance in virtually all countries have been, first, the *de facto* limitation of coverage by the existence of a large informal sector and, second, the high degree of fragmentation and inequality of entitlements. In most Latin American countries, the right to transfer payments and services is based mainly on the insurance principle and is linked to paid employment, which means that large sectors of the rural and urban poor remain excluded. Only in six Latin American countries (excluding the non-Spanish-speaking Caribbean) is more than 60 per cent of the population covered by social security (in Argentina, Brazil, Chile, Costa Rica, Uruguay and Cuba); in another six countries between 30 per cent and 60 per cent is covered (in Colombia, Guatemala, Mexico, Panama, Peru and Venezuela); and in the remaining countries an even smaller percentage enjoys coverage (in Bolivia, the Dominican Republic, Ecuador, El Salvador, Honduras, Nicaragua and Paraguay).[2] The figures on total social security benefits expenditures as a percentage of GDP confirm this picture. Only Argentina, Brazil, Costa Rica, Cuba, Chile, Panama and Uruguay spend 4.6 per cent or more on social security benefits; the next highest spender is Bolivia with 2.3 per cent, half the Brazilian level