



Opportunities and Challenges for Social Policy in Latin America: Towards Fiscally Sustainable and Egalitarian Basic Universalism

by Fernando Filgueira *

Latin America is undergoing a profound transformation of its social policies and of the very concept of social citizenship. Such transformation takes place within a broader epochal change: the end of conservative modernization as it was defined in Barrington Moore's seminal work. The triumphs of electoral democracy, urbanization, educational attainment and increased exposure to new and broader consumption patterns have destroyed the political basis of conservative modernization. While access to arenas and statuses that turn expectations into legitimate demands had expanded radically, access to the means to satisfy such demands had remained static (unequal and segmented) until the end of the century.

The so called "shift to the left" in the region is the political outcome of this second (the first being the one that opened the doors to popular and populist political projects in the 40s and 50s) crisis of incorporation. The "Washington Consensus" (WC) was indeed the last attempt of incorporation under conservative modernization dynamics: pushing forth democracy, education and incorporation into market dynamics but leaving unchanged and at some points even deepening segmentation of opportunity, status and asset enclosure, and dramatic patterns of inequality.

The turn of the century shows advances in social outcomes and public policies that for the first time provide a true window of opportunity for more productive and egalitarian societies. Decreasing poverty, lowering income inequality, improved and expanded employment and access to transfers and services to popular sectors are indeed welcomed changes.

These outcomes have been dependent on five critical allies, some structural, some contingent and some policy dependent. In the first place Latin America has experienced an excellent external context regarding the prices of its commodities and this has helped the economy and translated into employment. Secondly and as a positive legacy of the WC era, prices have remained stable, thus gain in wages were not undermined by inflation. Thirdly the state has increased its fiscal capacity and commitment to social policy almost doubling in 15 years real social per-capita expenditure. Four: the demographic transition places most countries squarely within the demographic bonus when combined dependency ratios are lowest. Finally education access, completion and credentials have improved in most countries of the region, allowing for enhanced opportunity and increased productivity.

Yet these five allies will lose steam in the next couple of decades. First, Growth will remain positive, but not at the levels seen in the past decade. Employment growth that accompanied economic growth faces bottlenecks if the trade-off between

production and reproduction (wage work and household care and work) is not confronted. Second most economies are facing increased inflationary pressures and the bonus that the first retreat of inflation provided to distributional outcomes will no longer be there. Thirdly, with its present tax structures and in other cases productivity levels, social expenditure will not be able to increase at the rate of the last 15 years. Fourth: the easy phase of the demographic transition (when dependency rates are going down) is or will be over in most countries towards 2025. Dependency rates will remain in some cases low for a couple of decades, but will no longer diminish year after year. In other countries dependency rates will start to increase led by the growth of the older cohorts. Some countries in the region will face the European dilemma but with a lower GDP per-capita, a weaker fiscal state and a more unequal society. Investing in younger cohorts, women and children becomes thus a necessity and a complex distributional challenge given the fact that the share of the lion goes usually to contributory –yet deficit ridden- pension systems that mostly cover the formal worker and are based on the idea of the male breadwinner model. Finally while the soft targets of expanded education have been achieved (primary school and expansion of lower middle school), the tough ones remain: extended coverage in early childhood, completion of high school, quality improvement, and true reduction of inequality of outcome in learning.

It is in this context and these challenges that the possibility of a new social citizenship based on robust public goods, expansion of merit goods and universality of entitlements emerges. Yet it is not enough that elites are no longer able to control the political and economic game through status enclosure and authoritarianism. In order to craft truly universal social policies narrow corporatism and restricted targeting -and the political economy they sustain- have to be confronted as well. Contributory models based on formal wages and targeted social policies based on need will not disappear, but they have to take the back seat to a model of basic universalism where access to quality public and collective goods is truly universal, and entitlements in transfers and services are not dependent on need nor labor formality.

For this to happen at least three major changes or levers of change have to be put in place: i. a new fiscal contract that expands the tax base and at the same times redefines the drivers of the expansion of social public spending (from subsidies to cash transfer old age contributory models to women and child welfare), ii. The reforms of state civil service and the expansion and reforms in health care, education and care systems, increasing quality, efficiency and equity, and attacking both pure market oriented models and corporatist appropriation of the social service machinery, iii. The defense of collective and public goods. Collective goods such as urban transport and public spaces and public goods such as security have to be a priority, risking otherwise a continuous urban segregation that undermines equality and social cohesion.

If this is achieved then popular-middle class alliance can be forged; a distributional coalition that will in turn give political support and economic feasibility to a path of prosperity and increased equality of opportunity and outcome. If not, the promise

will be shattered, and the pendulum between, on the one hand, failed populist, state led “robin hood” like incorporation attempts and on the other, technocratic closure of democracy, and state bashing will remain the central and tragic dynamic of the region.

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This paper is based on Dr. Filgueira’s presentation at the EU-LAC Foundation’s discussion forum “Latin America and the Caribbean in the context of changes: Opportunities and challenges for the EU”, which took place in Berlin on the 6th of March 2014.