

*Social Protection in Asia (SPA) Annual Conference  
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**Social policy responses  
to the crisis:  
the case of Latin America**

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**C | E | D | L | A | S**

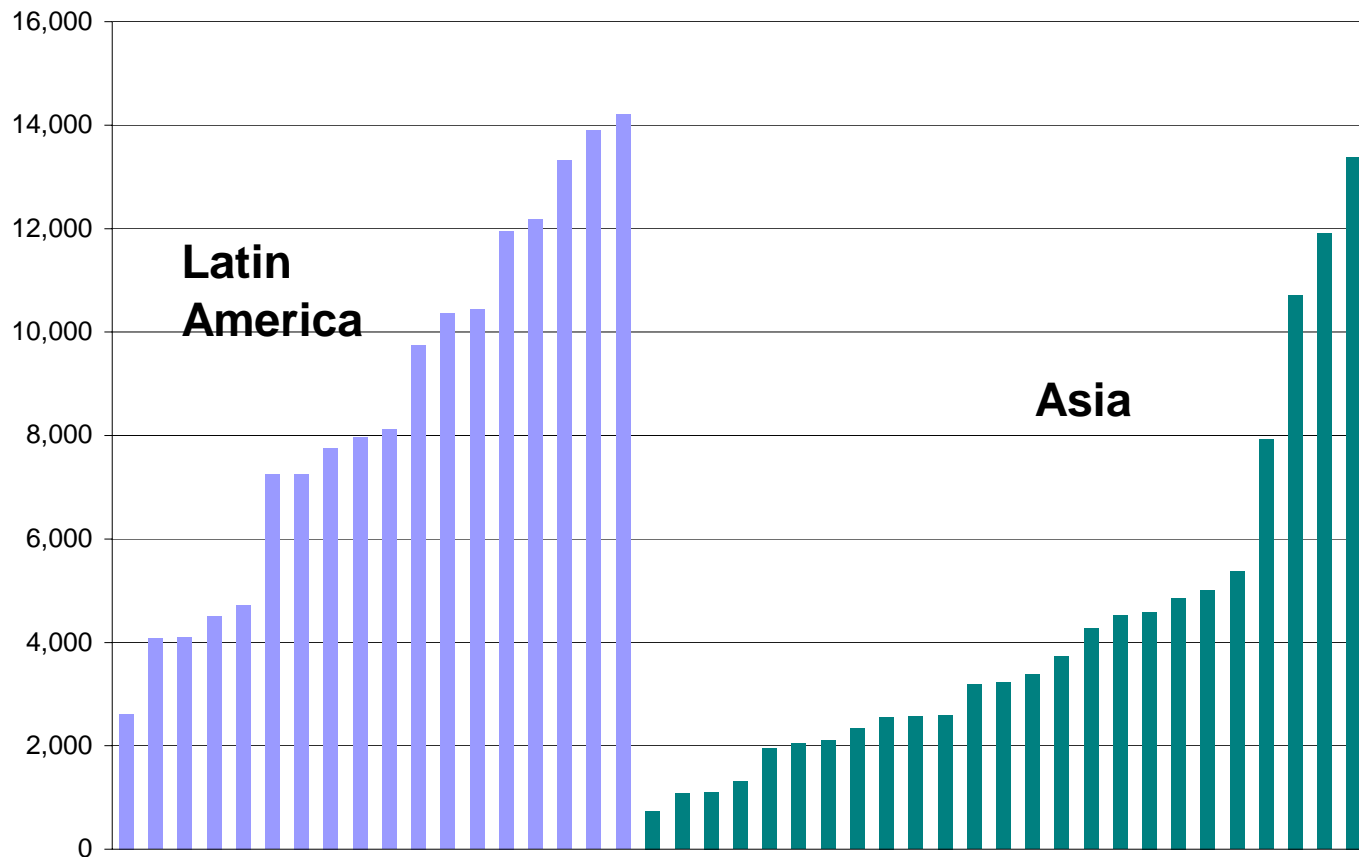
Centro de Estudios Distributivos, Laborales y Sociales  
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# 1. Social situation in Latin America

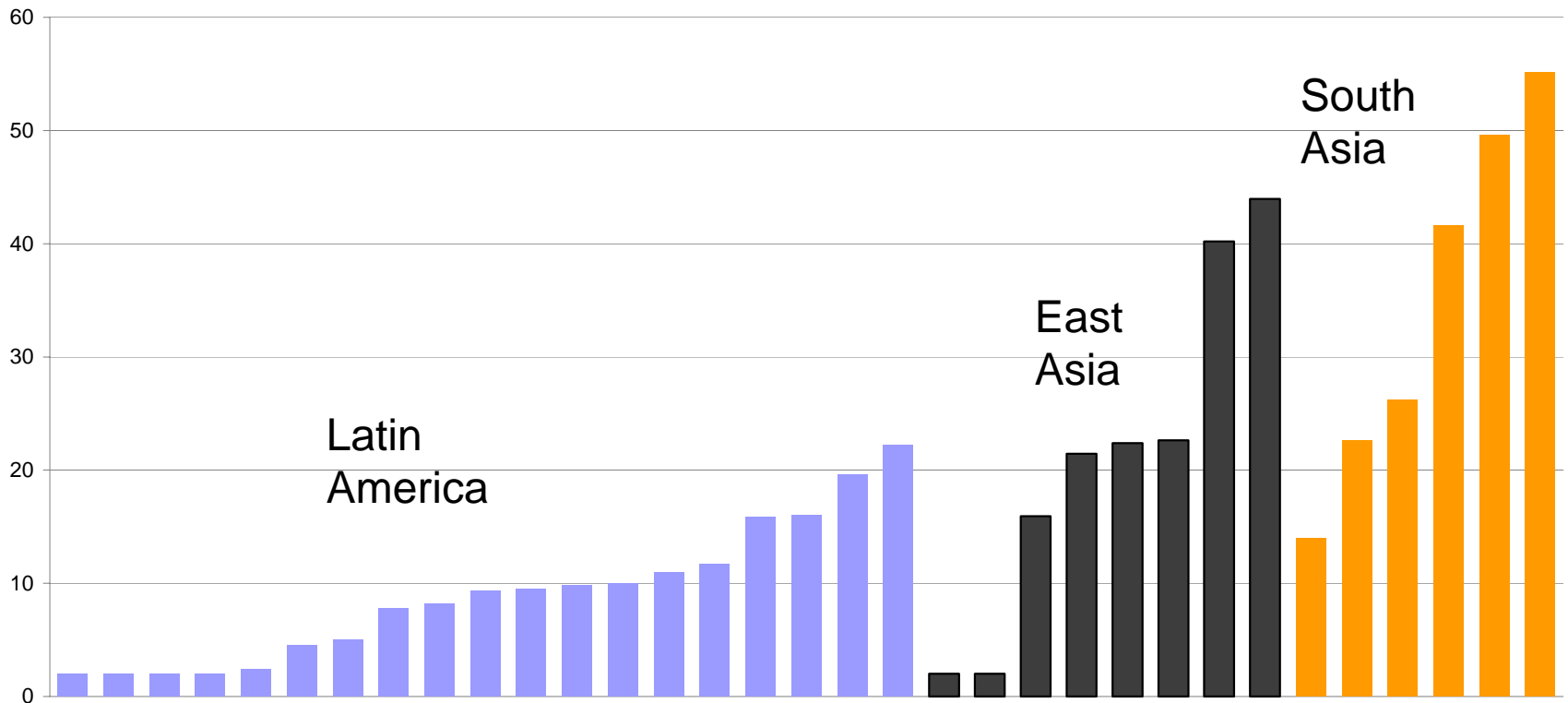
# Per capita GDP

Developing countries in LA and Asia  
(dollars PPP, 2007)



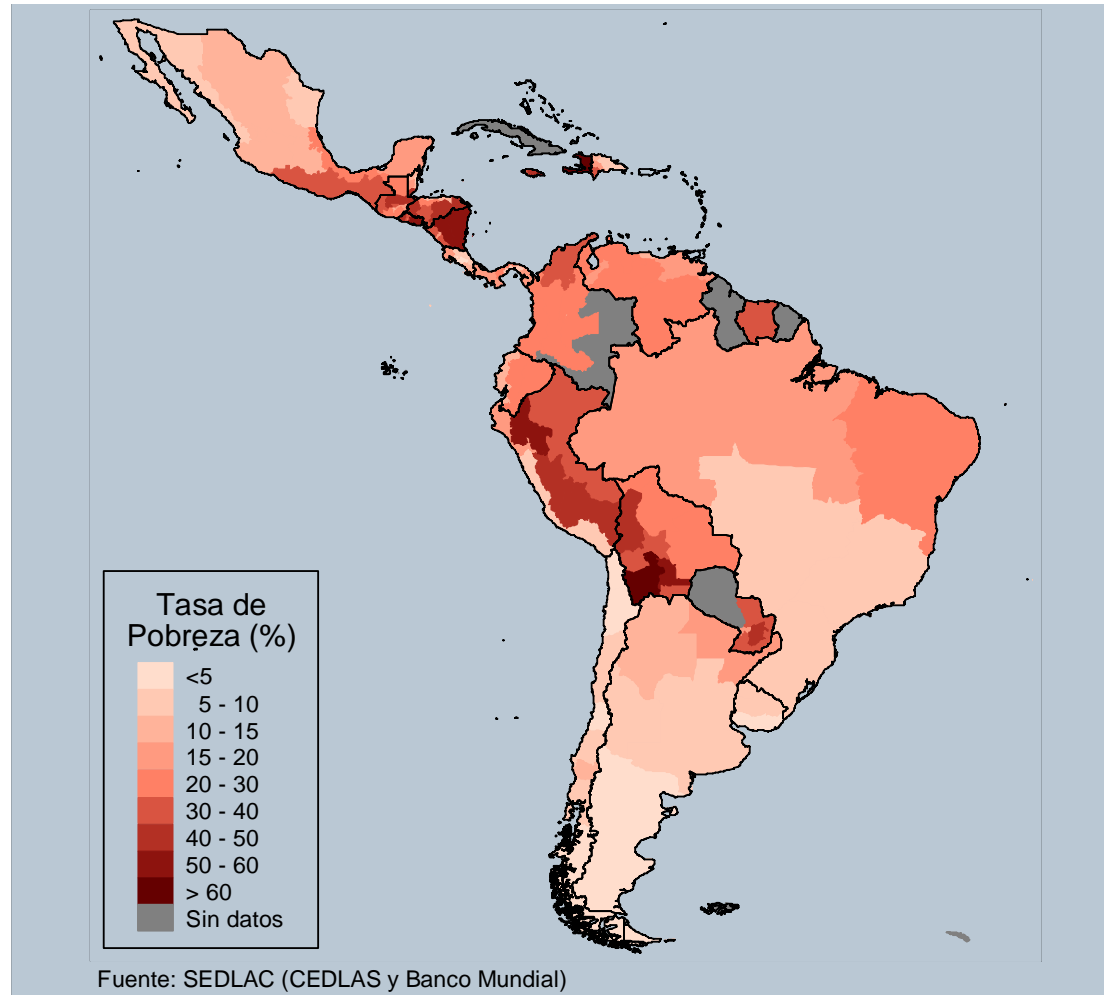
# Poverty

Developing countries in LA and Asia  
(poverty line=USD 1.25 a day, 2007)



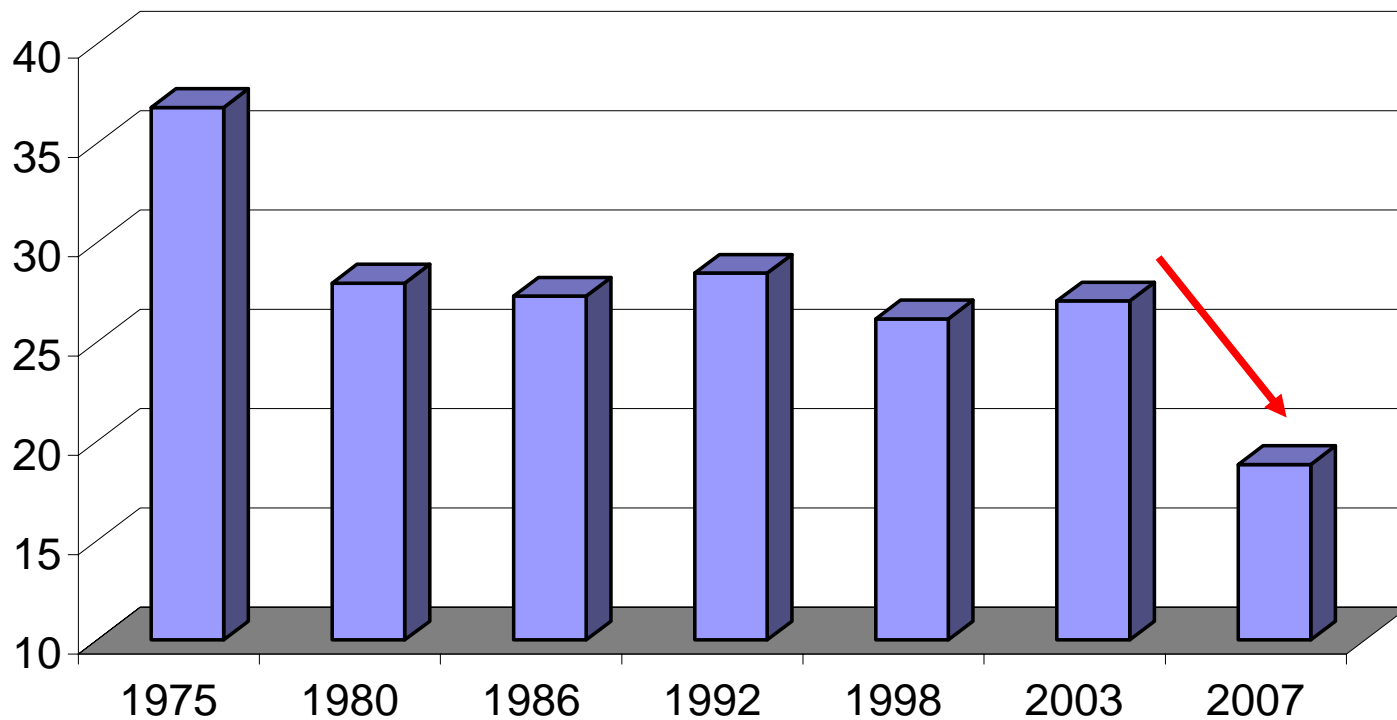
Source: World Bank WDI

# The map of poverty in LA



# Poverty in Latin America

(PL=USD 2.5 a day)



Source: Gasparini et al. (2009)



## 2. The impact of the global crisis

# Crisis from the world to LA

- Reduction in world demand
- Fall in financial flows and direct foreign investment
- Fall in remittances

Novel challenges to LA



# Latin America is in a better position than before

- Better fiscal position
- Higher reserves
- More flexible exchange rates
- Social safety net in place in most countries




So far,

- Speed of growth has been suddenly reduced but..
- Still not in deep recession
- Few social policy reactions to crisis



# 3. Social protection in Latin America

- 
- Weak social protection system structured around formal employment.
  - Informality is a pervasive characteristic of labor markets in LA.
  - Most poor workers in LA do not have
    - right to pensions
    - unemployment insurance
    - health insurance
    - income support

But things are changing...

# Conditional cash transfer programs (CCTs)

- provide income support to households
- promote human capital accumulation

□ Most LA countries have a CCT

<b>Country</b>	<b>Program</b>	<b>Beneficiaries (millions)</b>
Brazil	Bolsa Familia	11
Mexico	Progresa/Oportunidades	5
Argentina	Programa Jefes/Familias	2
Ecuador	Bono de Desarrollo Humano	1.1
Colombia	Familias en acción	0.5
Jamaica	PATH	0.4
Nicaragua	Red de Protección Social	0.3
Honduras	PRAF	0.1
Paraguay	Tekoporá	

# Conditional cash transfer programs (CCTs)

- Evaluations suggest that CCTs are
  - well targeted in poor population
  - effective in reducing income poverty
  - effective in promoting human capital accumulation (education and health)

# Conditional cash transfer programs (CCTs)

- Although CCTs have been growing, coverage is far from universal, even for the extremely poor population
  - Share of the extremely poor who are not covered by CCTs
    - Mexico: 63%
    - Uruguay: 53%
    - Ecuador: 45%
- There is room to expand coverage

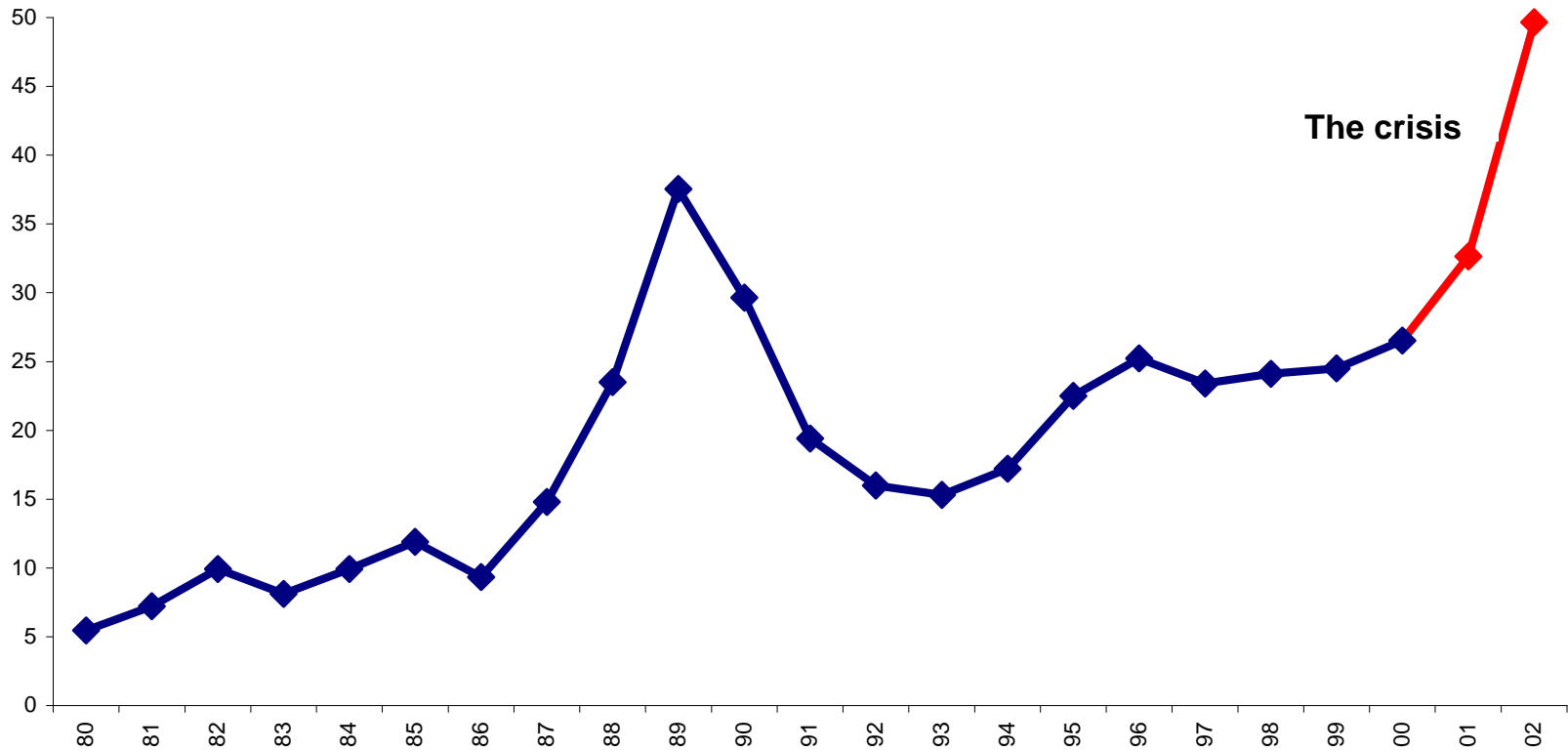


## 4. A case study: Argentina

# The crisis 1999-2002

- Argentina went into stagnation in 1999, and a serious recession in 2001
- GDP fell 15% in one year.
- Social consequences: poverty and unemployment soared.

# Large increase in income poverty



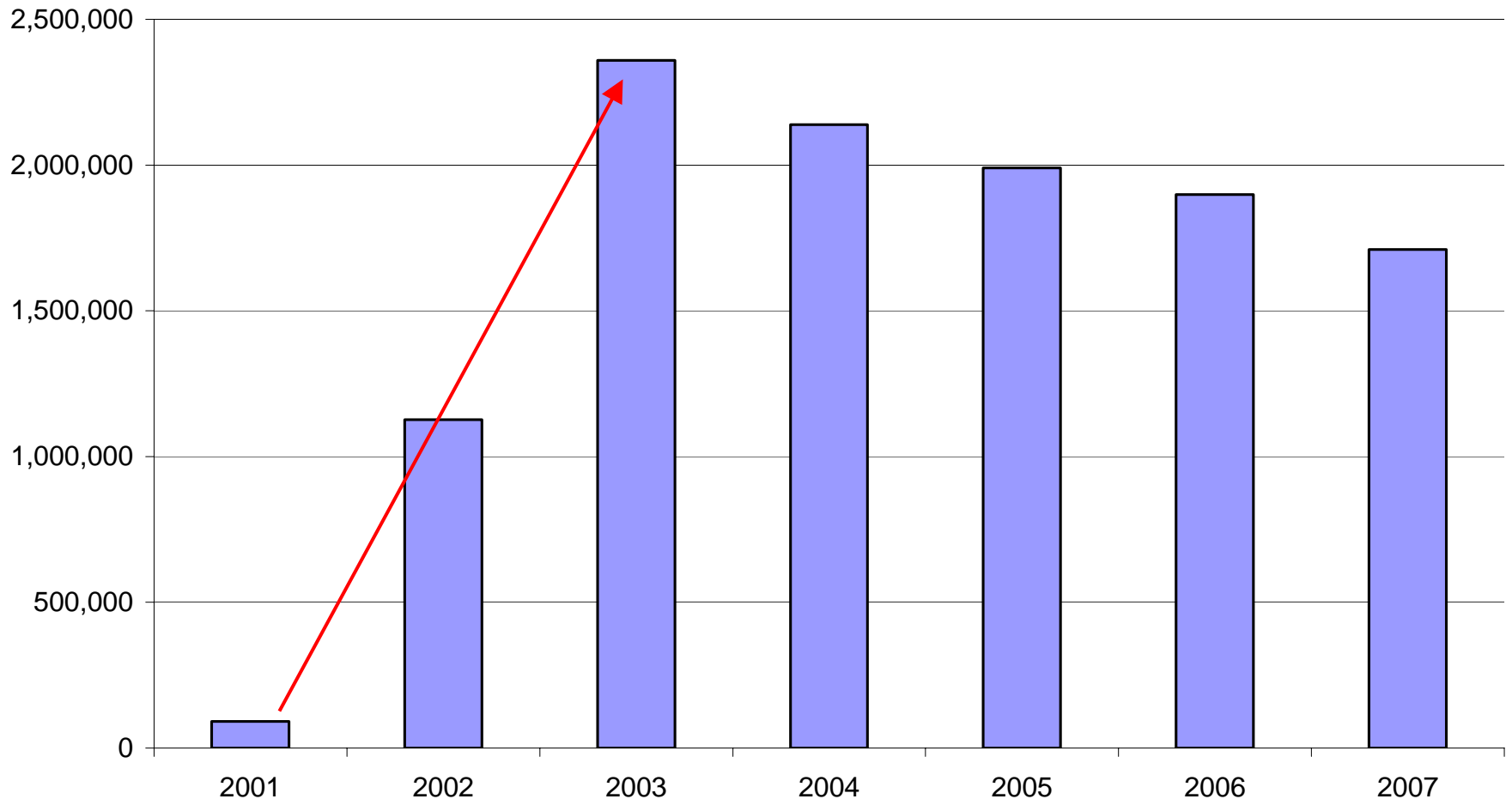
Source: CEDLAS.

# The *Jefes* program

- Main response to the social crisis:  
a new massive CCT - *Jefes* program
  - Implemented in April 2002
  - Cash transfer (monthly USD 50)
  - Conditional to children school attendance
  - Work requirement

# Recipients of cash transfer programs

## Argentina, 2001-2007



Source: CEDLAS based on official statistics.

# The *Jefes* program

## ■ Program was

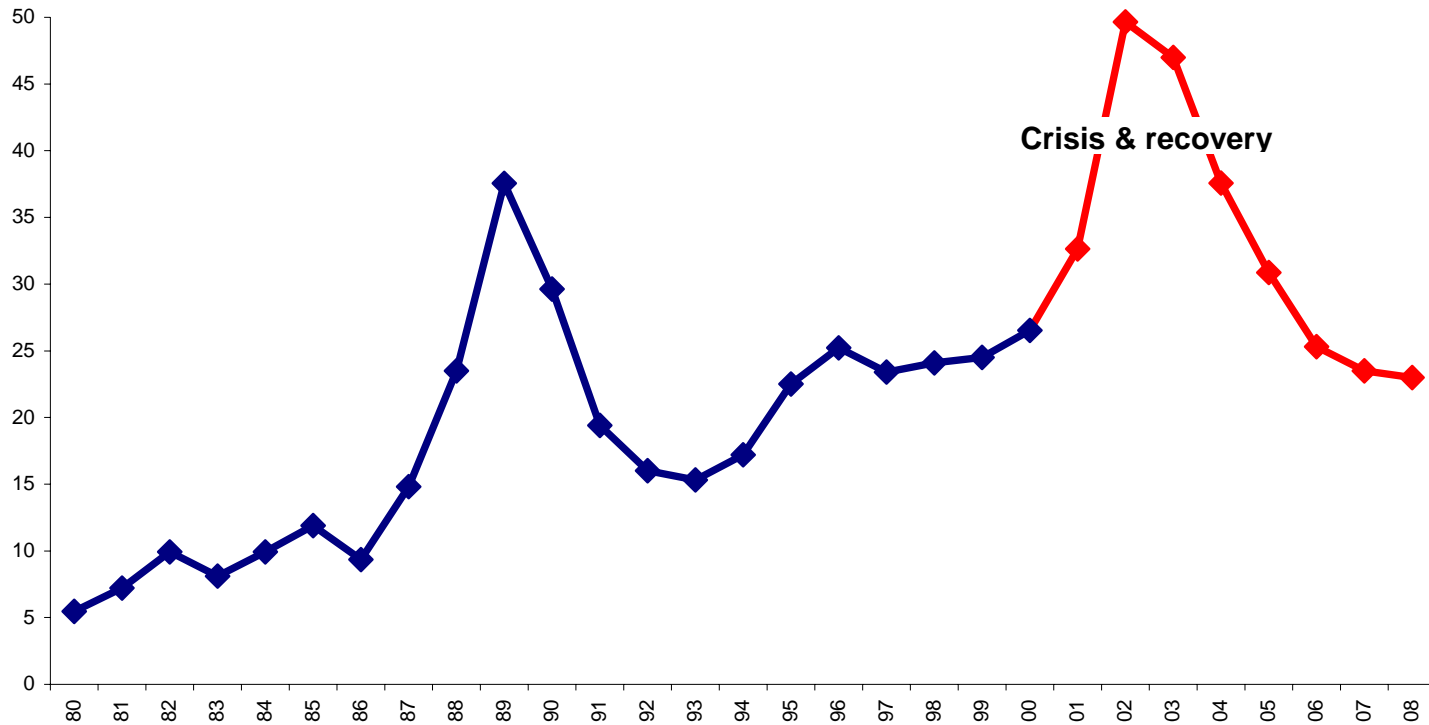
- for unemployed household heads → difficult to monitor
- presented as a *right*

Massive applications → inscription was closed soon, excluding potential beneficiaries.

# Initial assessment

- Good targeting of the poor population
  - 90% of beneficiaries were poor
- Significant impact on income poverty
  - 5 points in extreme poverty (Galasso & Ravallion, 2004)

# Income poverty: the recovery 03-08



- GDP and poverty now at pre-crisis levels

# Problems

- R Rigidity: current beneficiaries are the same as in 2002
  - increasingly weaker targeting (now 55% of participants are poor)
  - few resources to protect the originally excluded and the newly impoverished (only 10% are covered)
  
- Work requirement
  - impossible to provide jobs for such a large program: corruption and clientelism.

# Problems

- Targeted to the unemployed
  - incentive to informality
- A missed opportunity to establish a permanent and more flexible social protection system, able to respond to cycles and adapt to needs.



# 5. Discussion on policy options

# Policy discussion

- Protect the most vulnerable
- Avoid losses than cannot be reversed (e.g. human capital accumulation, nutrition)
- Do not compromise fiscal position, and macroeconomic policies
- Be compatible with scenario of higher competition for investments
- Avoid starting too late and continue with the same structure too long

# Policy discussion

- Think beyond the crisis
  - How to dismantle or downsize the net or
  - How to take advantage, and build a more permanent and flexible net

# Policy discussion

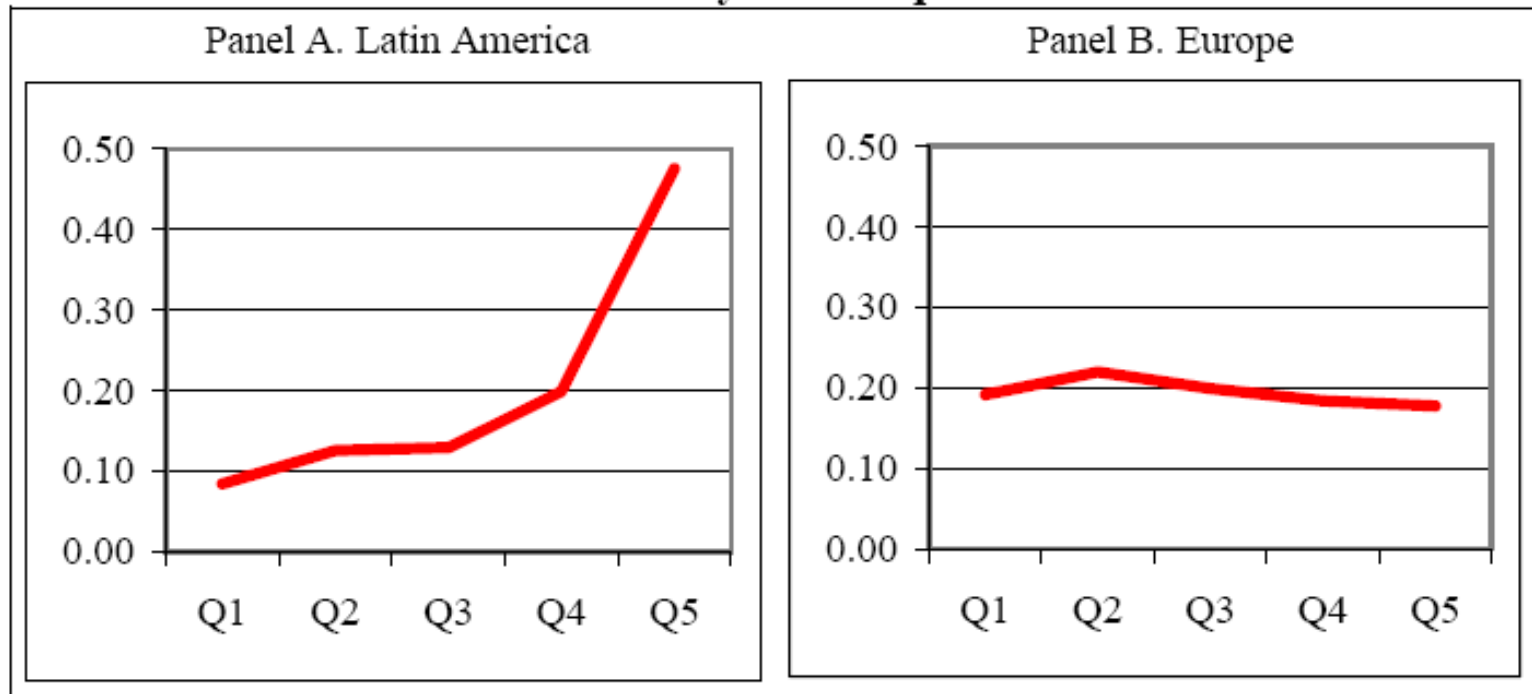
- Take incentives into consideration
  - Specific design features are important
  - Learn from the international experience

# Policy discussion

- Crisis is a good opportunity to
  - improve targeting of social expenditures
    - expand CCTs
  - Increase progressivity of tax system

# Improve targeting of social expenditures

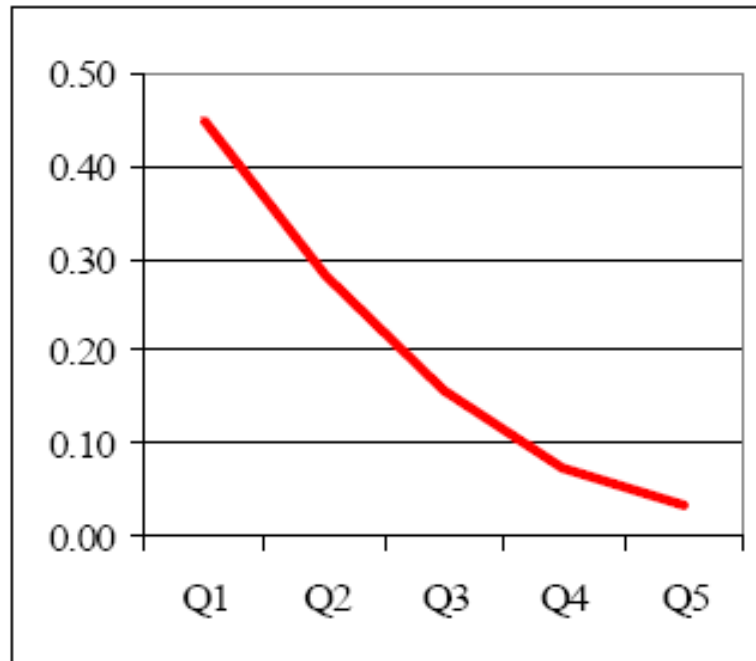
**Public transfers in Latin America and in Europe  
Incidence by income quintile**



Source: Goñi et al. (2008)

# Improve targeting of social expenditures


**Conditional cash transfers in Latin America  
Incidence by income quintile**



Source: Goñi et al. (2008)



## 6. Concluding remarks



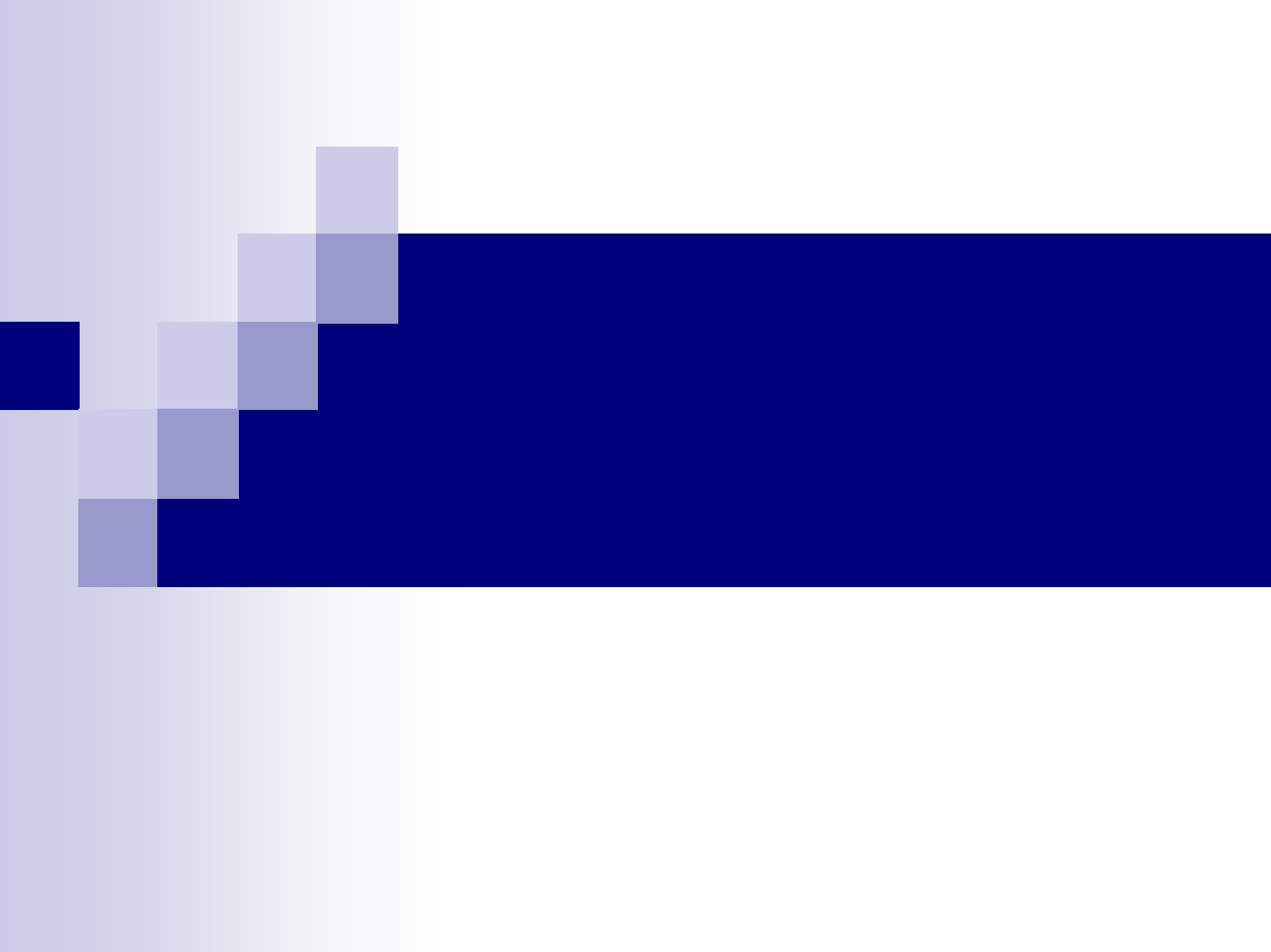
The likelihood of succeeding in protecting the poor depends on the length of the crisis

- If the crisis is short,
  - 
  - good chances of dealing successfully with the social consequences of crisis
    - fiscal situation
    - instruments in place
    - social and political awareness
  
- If it is a long-lasting downturn...



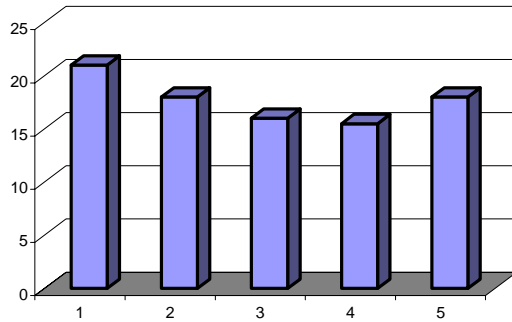
**Many thanks!**

[www.cedlas.org/](http://www.cedlas.org/)

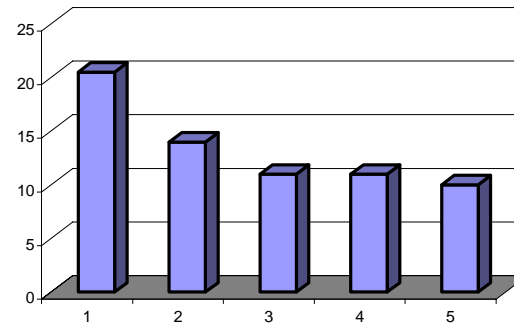


# Tax incidence

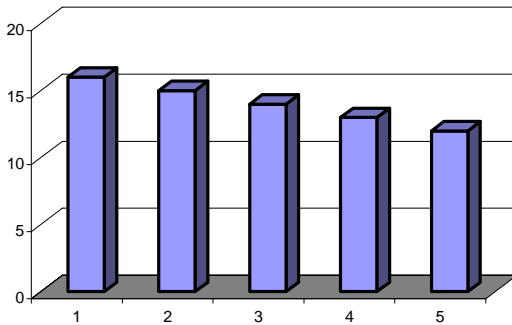
Argentina



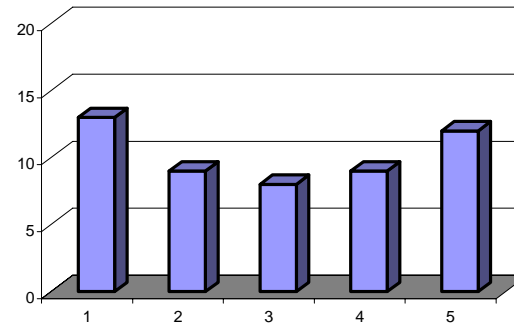
Brazil



Chile

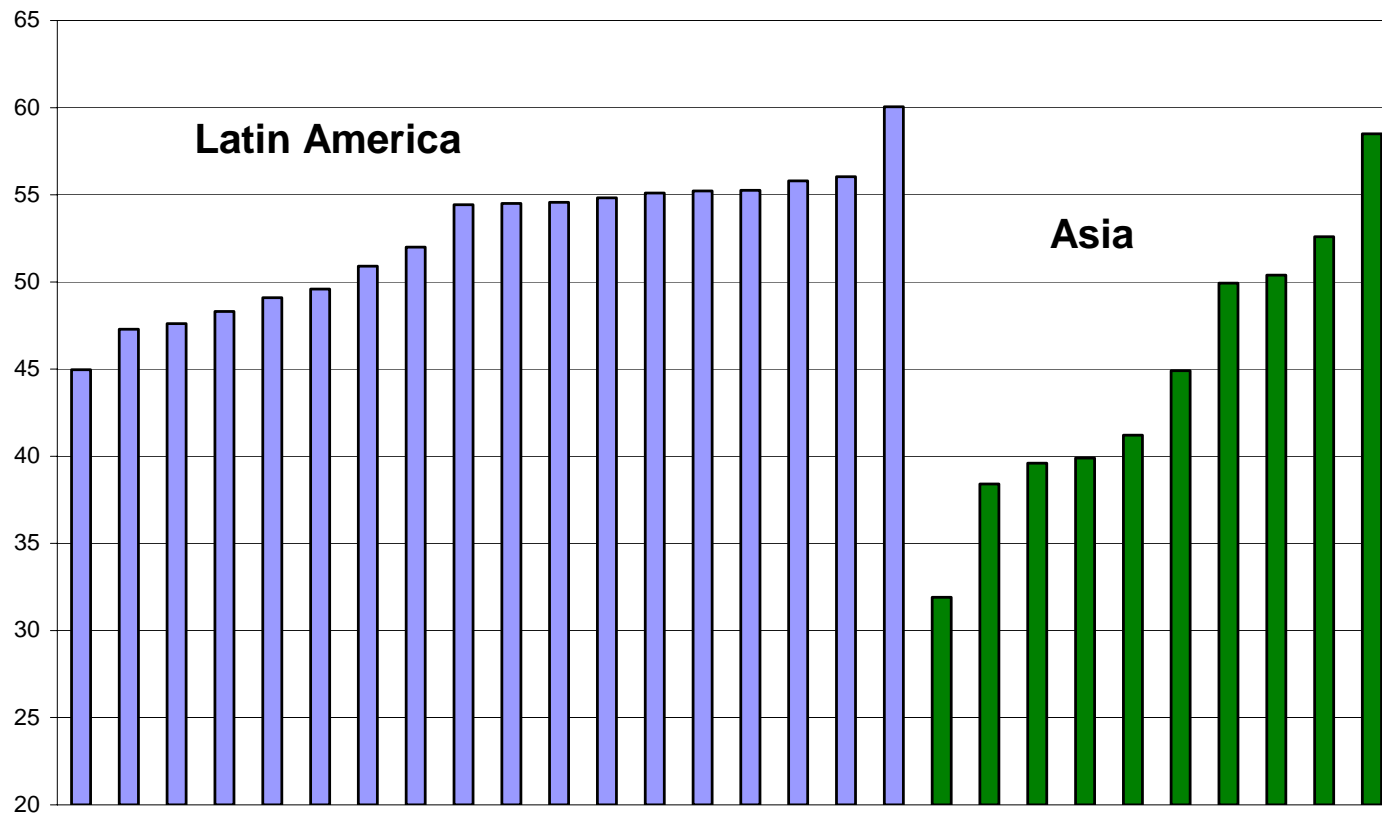


Colombia



# Income inequality

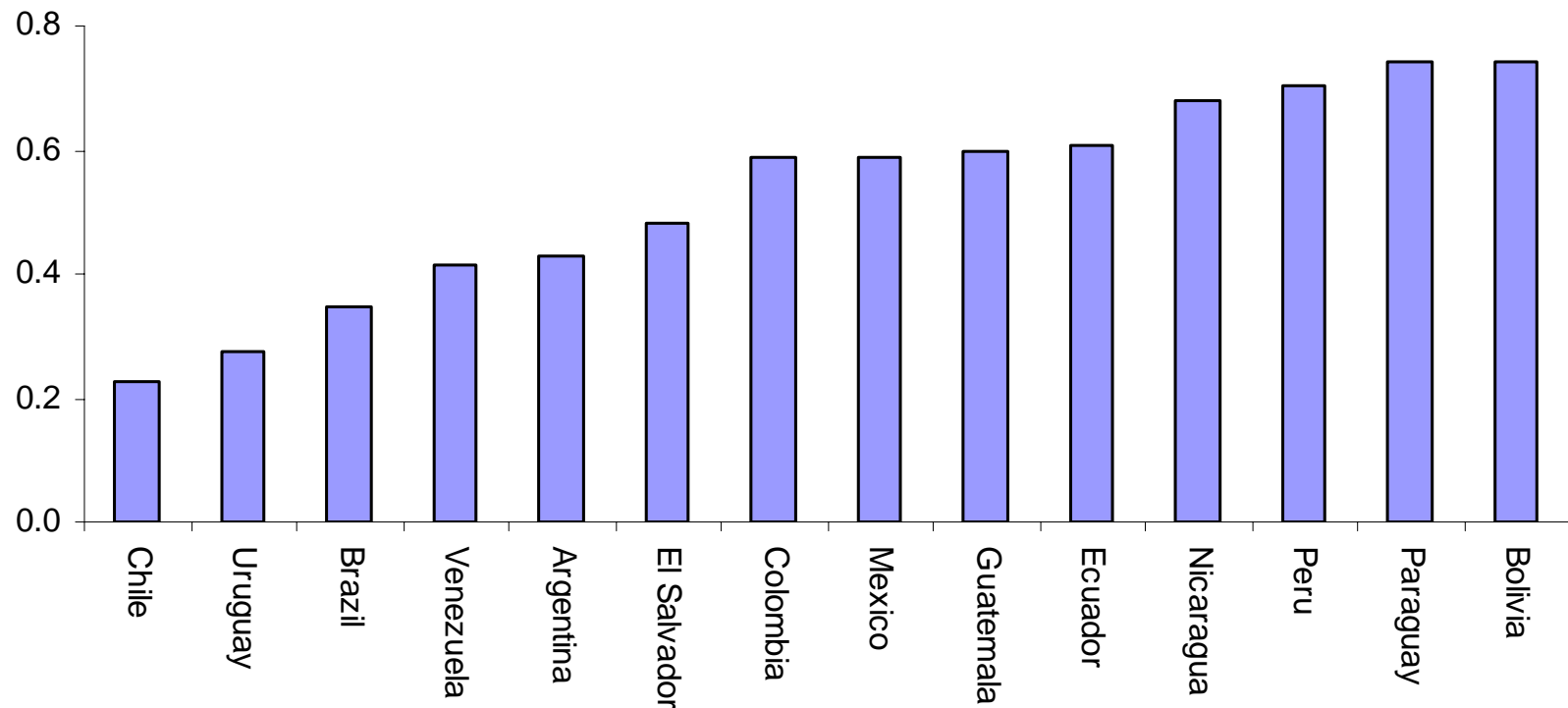
Developing countries in LA and Asia  
(Gini coefficient)



Source: CEDLAS

# High levels of labor informality

## Informality among wage earners



Source: Gasparini and Tornarolli (2009).

# Labor markets

- If crisis is short
  - retain workers in jobs
  - help the temporary unemployed
  
- Instruments
  - Wage subsidies
  - On the job training
  - Temporary employment (public employment) for unskilled poor workers

# Education

- If crisis is short, enrollment probably won't fall
- Anyway,
  - Be alert
  - Expand conditionality
  - Temporary scholarships

# The crisis 1999-2002

- For some reasons
  - fixed exchange regime – overvaluation of local currency
  - increasing fiscal deficits
  - high public and private indebtedness in foreign currency
  - crises in developing markets, and Brazil's devaluation
- Argentina went into stagnation in 1999, and a serious recession in 2001
- GDP fell 15% in one year.
- Social consequences: poverty and unemployment soared.