

# RECÍPROCAMENTE

DISCUSSION OF SOCIAL INCLUSION IN LATIN AMERICA AND EUROPE.

01/2014



ERADICATING POVERTY AND  
PROMOTING EQUALITY

*Converging Goals?*

EDITORIAL COMMITTEE



DESIGN AND LAYOUT



ILLUSTRATIONS: CARLA LADAU

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# EUROSOCIAL OPEN KNOWLEDGE FOR SOCIAL COHESION



The term **open knowledge** refers to the public regulation of information and knowledge, as well as to the effective transference of such knowledge. This should not be a result or an objective in itself, but a way to assimilate those lessons learned in the past which might still impact upon and influence future action. Although it usually refers to online action, it is both a tool and an objective for other initiatives.

EUROsociAL is a program of cooperation between Europe and Latin America whose aim is that of contributing to bringing about changes in public policies in order to improve cohesion in our societies.

It hopes to achieve this ambitious goal through the use of a modest tool: the promotion of collective open knowledge through training between peers and among analogous institutions which can consult mutually so as to make the desired change effective. The program therefore takes its inspiration from the spirit of open knowledge in order to produce, exchange and apply such knowledge as may have an impact on the reform of public policies.

The task of improving social cohesion is a complex one, and particular attention must be paid to a wide range of interrelated public policies which can contribute to bringing citizens together around a common project in an inclusive, egalitarian way. To this end, EUROsociAL is working on four macro-areas of public policies: Justice and Security, Democratic Governance, Public Finance and Social Policies.

In order to support change in these areas of public policies while promoting open knowledge, EUROsociAL is equipped with a sophisticated but effective structure consisting of 40 partners which liaise with more than 200 specialized European and Latin American public institutions who have placed their knowledge, their know-how and their expertise at the disposal of other institutions committed to promoting change for social cohesion. This in itself represents an important alliance between the institutions of our two regions: Europe and Latin America.

The European welfare state experience is particularly relevant in one area of the program, namely social protection, which is at the heart of policies for social cohesion. On the other hand, other innovative initiatives have been developed in Latin America to guarantee these social rights, especially among the most vulnerable. EUROsociAL aspires to make this experience and knowledge available to all the countries of the Euro-Latin American environment, in order to catalyze change and stimulate progress.

## INMA ZAMORA

Director of the Program EUROsociAL II

# LEARNING FROM EACH OTHER

Since EurosociAL's beginnings, we have been pointing out that Europe and Latin America have much to **learn from each other's** respective histories of constructing and modifying their systems of social protection systems, and the three years which have already elapsed since EurosociAL's founding have only strengthened our conviction. The two regions are today closer than in the past, and thus more able to engage in productive dialogue. Latin America has made much progress towards the shaping of an inclusive model of citizenship which takes into account both social issues and the responsibilities of the state in supplying those services which ensure it, after its pioneering period of cash transfers, which nowadays seem to be an increasingly necessary measure but one that must be anchored to a broader structure of social services and benefits.

The focus is clearly upon human rights as the ruling principle of this process towards change and the awareness of immediate and inevitable challenges, in particular the tackling of persisting social inequalities and the long-term sustainability of social protection systems. Europe, on the other hand, is currently facing a momentous recession which is not just economic but which also affects the very foundations of its welfare states. Despite the fact that it has been these very systems which have enabled countries to contain the effects of recession, in recent years social inequalities, poverty and social exclusion have been on the rise. Nonetheless, the recession is also accelerating the wider process of the reconfiguration of social protection systems. Their foundations were laid during the so-called "thirty glorious years," and they have since been reformed to a greater or lesser extent in each of the various countries. In Europe there is today a consensus regarding the need to rethink welfare systems which aims to adapt social protection to the challenges of today, such as the aging population and the lack of coordination between economic growth and increased employment, which will still be here in the future.

Even though national responses and visions differ, directions and guidelines have been proposed within the framework of the European Union which promote an approach of mediation and convergence. This is the case, for instance, of the Social Investment Package, centered around the notion of preventive social action lasting over the individual's entire life, and giving new impetus to the construction of human and social capital as opposed to merely mitigating hardship. Similarities to approaches based on social protection are apparent in this case, and such approaches are becoming increasingly widespread in Latin America, where the lifecycle and interruption of the reproductive cycle of poverty are the principal focus of social policies.

EurosociAL is a cooperation program which is realizing Latin American and European public initiatives in support of social protection policies in Latin America, and the program is going one step further with its new magazine RECÍPROCAMENTE: its ambition is to foster deeper understanding between the two regions and to encourage each to learn from the other's experiences with, and considerations on, social policy. The first issue of the magazine questions the supposed convergence between policies aimed at fighting poverty and those promoting greater social equality. The printed version you are now reading is a summary of the digital version, which will be disseminated in both Spanish and English on a large scale among Latin American and European audiences. Furthermore, this forum for bi-regional dialogue on social inclusion policies will be supported by a new internet portal, [www.reciprocamente.net](http://www.reciprocamente.net), hosting new content, information and insights, and of which we hope you will visit be frequent and active visitors. I am confident of your cooperation in contributing actively to the collaborative debate in favor of social cohesion in both regions which RECÍPROCAMENTE aims to encourage.



## FRANCESCO MARIA CHIODI

Latin American Institute – Social Policies Area Coordinator - EUROsociAL

# THE CHALLENGE OF SOCIAL INCLUSION IN LATIN AMERICA AND IN EUROPE

*THE CONSTRUCTION OF A MORE COHESIVE SOCIETY IS A NECESSARY CHALLENGE, BOTH IN LATIN AMERICA AND IN EUROPE. IN THE FIRST INSTANCE, THE CHALLENGE HAS ITS ROOTS IN HISTORICAL INJUSTICE, SINCE THE CONTINENT HAS EXPERIENCED MORE SEVERE INEQUALITIES; IN THE SECOND, IT IS MORE NECESSARY THAN EVER IN THE CURRENT HISTORICAL CLIMATE TO EXAMINE THE EFFECTS OF A PROFOUND, WIDE-RANGING RECESSION WHICH HAS INCREASED POVERTY AND INEQUALITY. BOTH, HOWEVER, OFFER IMPORTANT INSIGHTS IN THE FIELD OF SOCIAL POLICIES FOR SOCIAL INCLUSION. TO SUMMARIZE, BOTH REGIONS HAVE MUCH TO LEARN FROM ONE ANOTHER, AND THE AIM OF THIS PUBLICATION IS TO REPRESENT A STARTING POINT FOR THE FOSTERING OF THIS PROCESS.*

With its socio-demographic heterogeneity, Latin America has a long shared history as regards social inclusion, the most conspicuous expressions of which have been poverty and inequality. The various strategies that its countries have adopted since the beginning of the 20<sup>th</sup> century in order to tackle the “social question” allow us to distinguish different approaches, with dissimilar outcomes and results which have often been inconsistent in terms of the active presence of the State as the principal institution tasked with tackling the critical social situations of large sectors of the Latin American population.

Recently, the last decade of the 20<sup>th</sup> century being a good example, the prevailing political trend in the region has been to focus upon poverty, especially extreme poverty, initially through multiple programs whose focus varied according to each country’s institutionalism, and later through the innovation represented by the Conditioned Transfer Programs (CTP) adopted in almost all Latin American countries. Today, such transfers have been instituted in 18 countries in order to face the challenges of tackling the transmission of poverty from one generation to the next.

The outcome of this strategy has both strong and weak points: on the one hand, the actual importance transfers have so far played in increasing income for households in situations of poverty has varied depending upon the country concerned. At the same time, the increased demand for social services through conditionality has brought about advances in educational and healthcare cover, but has not tackled the problem of the quality of such services and their integration into the territory. Furthermore, CTPs promised to improve actual incomes in the long run, thanks to their virtuous interrelation with the labor market, but so far they have produced more pending cases than proven successes.

In the whole of Latin America, the long-delayed task of tackling inequality was resurrected within the framework of social protection limited by conditioned transfers regarding not only income, but also opportunity and results. The region as a whole has been learning - and is still learning - that tackling poverty and tackling inequality are not two opposed objectives, even though the political, fiscal, and practical challenges are more obvious when the aim is that of tackling the multiple dimensions of inequality in a structured manner not solely related to the distribution of income. New political coalitions and large-scale fiscal reforms emerge as two pre-requisites for attaining a more integrated approach to social protection whose focus on rights transcends rhetoric.

The modern State in Europe could be said to have come about simultaneously with the founding desire for an open and liberal society based upon equality and solidarity: the motto *liberté, égalité, fraternité* summarized a challenge which continues to drive the ongoing reform process. The [European Social Model \(ESM\)](#) developed during the post-war period has now become a widespread network where fundamental social rights are recognized and social policies effectively articulated in favor of the entire population.

Nevertheless, during the final decade of the last century it seemed that that model was being called into question: Thatcherism and the various neo-liberal initiatives which sundered [social consent](#) at its roots in the Anglo-Saxon world were followed by a move towards a convergence of all economies in one currency, since it was crucial to make old Europe competitive in a globalized world. Restrictions on the scale of public expense in fact imply a reconsideration of the range of social protection and *welfare*.

The outbreak of the recession in 2007 and its immediate effects have in some way exacerbated the debate: on the one hand, economic contractions have imposed significant austerity policies, while on the other, solid social protection policies are simultaneously being seen as more necessary than ever before. Once again, there is widespread debate in Europe about poverty, social fragmentation and dissolution, more than there has been since the foundations of the European Union were laid. It seems that the young, especially in Mediterranean countries, will be the first generation to experience a reduction in their quality of life. The results of the recent European elections have highlighted the flourishing of so-called “Euro-sceptic” parties, cocktails of xenophobic populism, anti-system and nationalistic-traditionalist parties riding the wave of discontent to express their opposition to the Union project.

In this context, the EU’s institutional efforts in the planning of the EU2020 strategy assume greater relevance: the fight against poverty and social exclusion are once again at the very heart of the political question. The need for “[intelligent, sustainable, inclusive growth](#)” is expressed in very specific measures, wherein the Commission identifies the priorities of each country, analyzes national reforms and issues recommendations which must be adopted. At the same time, a “Platform to fight poverty” has been established as a reaction to the current situation with a view to improving coordinated initiatives.

In short, notwithstanding the various social policy approaches adopted in different decades and their impact upon the welfare of their populations, Latin America and Europe today share the challenge of successfully creating more cohesive and inclusive societies, and this allows us to underline that an exchange of experience in both contexts is a necessary and a pressing task. If the globalization of markets can cause a reduction of rights, a globalization of strategies to tackle both poverty and inequality is more necessary than ever.

RECIPROCAMENTE will host reflections on such crucial issues, and this first issue contains contributions from both of the regions involved (although centered on the dialogue between them) discussing social inclusion, which in order to be fully achieved implies tackling not only poverty but also inequality.

Firstly, we have [interviewed](#) highly respected experts in both contexts, Clarissa Hardy and Lieve Fransen, asking them similar questions which might be useful for opening a very welcome bi-regional dialogue on the issues.

Secondly, from a perspective of “[viewpoints](#)”, we have asked several experts to examine two essential themes: the keys to demographic evolution in both contexts, examined in the articles by Fernando Filgueira, Enrico Pugliese and Mattia Vitiello, and the fiscal sustainability of social protection policies, examined in the articles by Óscar Cetrángolo and Jesús Ruiz-Huertas. In the section entitled “[Geo Zoom](#)” and dedicated to specific aspects of each context, Carlos Sojo focuses on the social challenges facing Central America, while Dimitri Sotiropoulos describes the situation in Greece, a country significantly affected by the recession.

In conclusion, there is also a discussion of governance in Europe and the important function of NGOs in the essay by Bryan Harvey.

We therefore invite readers to share with us this experience, whose aim is to contribute to the dialogue and mutual understanding between Latin America and Europe which is already some decades old, but which still has a long way to go.



LLUÍS FRANCESC PERIS CANCIO



FABIÁN REPETTO



# INTERVIEW WITH CLARISA HARDY



## CLARISA HARDY.

*A Chilean, Ms. Hardy is a psychologist at the University of Chile and a Social Anthropology graduate of the University of Oxford. She has been a professor, a lecturer and a researcher at various universities, both in Chile and in other countries. She is Chairwoman of the Board of Directors of the University of Santiago (USACH). A true expert in social policies, she was Minister of Planning in the government led by Michelle Bachelet, and she has worked as a consultant for Latin American governments in Argentina, Colombia, Guatemala, Mexico, Peru and in the Dominican Republic. She has also worked as a consultant for various International organizations (Pnud, Unicef, Bid and Cepal). She is currently the President of the Dialoga Foundation.*

## 1. WHAT ARE CURRENTLY THE MOST PRESSING ISSUES IN POLICIES FOR SOCIAL INCLUSION IN LATIN AMERICA?

In order to understand the most important challenges that social politics must face nowadays in Latin America, the first thing to do is to try and understand the social realities of the region. I think that, over the past few years, these have not been fully understood. From the point of view of “what to do” in the domain of social policies, it seems that in Latin America we only have the poor, and then the rest of society. This view of things must be reexamined, especially if we look at the turmoil in Latin America over the past three or four years.

In Brazil, social protest is already one year old; in 2011 there were massive student demonstrations in Chile, and later there were also huge protests in other countries such as Argentina, Mexico, and Colombia. Those protests were not necessarily organized by the poorest segments of society, but they are warning voices, saying: “Look, societies are not made up simply of the poor and the rest of society, things are much more complex than that.” And the social policies designed only for that reductive vision of society have not been able to adequately solve the challenges facing us.

Therefore, to put it very simply, I would say that there is indeed poverty in Latin America, and that tackling it is undoubtedly one of the fundamental ethical challenges we have to address. However, it is certain that over the past decade the most important occurrence has not been the systematic reduction of poverty, and the rise of new social segments,

not poor this time, the inaccurately-named “middle sectors”. Strictly speaking, these represent a new social segment in the region, one which is not poor but which is still vulnerable: the emerging medium-sized businesses, which are unlike the traditional medium-sized businesses. These new sectors are those which organize protests, and towards whom social policies are not responding effectively. For the poor there are focused policies which historically have been operating in the region for the past two decades or more. The rich, as they say, defend themselves from the market. And what about the rest?

According to data from a recent study which I have included in my recent book *Social Stratification in Latin America - Challenges for Social Cohesion* (LOM editions, Chile, 2014), there is a growing population in Latin America which is not poor but which is economically vulnerable or insecure, and which outnumbers the population living in poverty, which means that the economically secure segment, and certainly the rich, account for only two percent of the Latin American population. That is the challenge of inclusion in the region.

And why has this happened? Because what is really important is not how to overcome poverty, which is an ethical challenge in itself, but how to overcome inequality. In fact, the lack of security and difficulties experienced by non-poor sectors in integrating themselves into society are a result of the enormous inequalities present in the region. This long preamble is basically just to say that I think that the biggest challenge for Latin America is that of inequality, which is as important as the challenge of overcoming poverty, if not more so.

## 2. WHAT POLITICAL-INSTITUTIONAL AND FISCAL CONDITIONS MUST BE IMPLEMENTED IN LATIN AMERICA TO SUCCESSFULLY TACKLE THE CHALLENGES OF INCLUSION?

Although Latin America has achieved the transition from exclusion to a form of social integration, the forms of integration it has managed to achieve are inequitable, and this remains an unresolved challenge for an inclusive society. There are political and fiscal conditions implicit in facing this challenge.

The political conditions are obvious: the creation of social structures which encourage the participative, democratic, deliberative expression of that majority of the citizens who today do not feel represented by the political responses of government programs or the existing laws.

The fundamental condition of institutionalism is therefore a modern democracy which is participative, with ample power of deliberation left to citizens, and with the conspicuous presence of a mature political system which is able to process the various interests present in a society, and to actively procure the responses that must be elicited from increasingly informed and educated citizens.

If there are no modern, participative, profound, deliberative democracies, it will be impossible to solve one of the fundamental issues - that is, the huge social and political commitment needed to eliminate inequality.

But this alone isn't enough, however. It is impossible to undertake the task of integrating the various actors in society in an increasingly just and inclusive manner if there are insufficient fiscal resources. There must therefore be fiscal sustainability for this new social and political compact for social inclusion, or cohesion, depending upon the terminology we prefer to use. And this not only implies a greater tax burden, but also a progressive tax system. Today, for instance, fiscal resources derived from indirect taxes are given priority in Latin America.

VAT is the most frequently applied of these, and it is the one that weighs heaviest in taxation. However, VAT is one of the most regressive taxes: proportionally, the poor pay much more of it than the rich, since the poor spend almost all their income on food supplies, and therefore use the bulk of VAT to feed themselves. In the richer sectors a very small proportion of income is used for food supplies. Hence, this is what it means to have not only a greater tax burden but also a progressive tax system: let those who have more pay more. This implies charging taxes on the incomes of both persons and companies in an increasing proportion as compared to indirect taxes.

## 3. WHAT IN YOUR OPINION ARE THE MOST IMPORTANT ACHIEVEMENTS OF CONDITIONED TRANSFER POLICIES? AND WHAT ARE THEIR MAIN LIMITATIONS?

Firstly, it is important to point out that in Latin America there are currently 18 countries which, to a greater or lesser extent, have carried out conditioned transfer programs, which account in part for the considerable reduction in systematic poverty in Latin America over the past decade. What has been their virtue? They broke with an assistance model based upon the assumption that simply “assisting” the most excluded sectors, the poorest in the society, is enough, providing them with cash transfers or subsidies in cash or goods (food supplies, provision of school materials) that will permit households the minimum levels for dignity and survival. What have these programs done? They have linked this necessary assistance (that of providing these families with the absolute minimum for their subsistence) with social policies that generate skills and opportunities, basically within the scope of healthcare and education. For the first time it has been decided that cash transfers must be united with the provision of services (which resemble social rights), which were not accessible to the poorest and most marginalized in Latin American societies until a few decades ago. This has been their greatest contribution. Cash transfers were made possible, families were able to educate their offspring, parents brought their children to the doctor to ensure health checks for minors, teenagers, pregnant mothers. National governments have been compelled to implement this type of transfer.

In my opinion, it was erroneously assumed that cash transfers would force poorer families to make use of social benefits, as though it was these families' indolence which explained their exclusion. The surprise was discovering that it was states who did not honor their obligations, which consisted of creating and maintaining doctor's surgeries for poor families, schools and kindergartens, to allow the most marginalized part of the population to access their rights. This therefore forced states to put social investments in place which have made it possible for families to receive transfers. In Latin America, the approach to governmental provision of those social services which had not previously been provided has changed over the last ten years, and this has been reflected in increased public investment. If we examine budgets for social issues in Latin America in recent years we will see that governments have been allocating appreciably greater resources for healthcare and education. So these programs have accomplished their purpose. They have removed the need to grant social benefits throughout the territory to those who had no access to them. These programs therefore served their purpose, and monetary subsidies were thus incorporated with social benefits.

However, now that this objective has been attained, new questions arise. In countries where poverty has been reduced, the non-poor sectors are on the rise: new, vulnerable middle classes - vulnerable because their jobs are insecure, their income is insufficient, and they cannot access the provision of services via the markets other than at a very high cost – prompting new questions regarding what a state can do to ensure the provision of services that comply with the universal criterion of social policies (we must remember that universality does not concern only access, but quality as well), and in fact this appears to be the new phenomenon, or the new face of inequality. Inequality used to mean the possibility or impossibility of accessing a particular right. Nowadays the issue concerns the quality of the rights accessed.

#### 4. WHAT PROGRESS HAS BEEN MADE RECENTLY IN LATIN AMERICA IN TERMS OF SOCIAL PROTECTION CAPABLE OF BRINGING ABOUT GREATER EQUALITY AMONG ALL CITIZENS AND GREATER SOCIAL COHESION? WHICH ARE THE OUTSTANDING EXAMPLES?

I believe that Latin America has made considerable progress in overcoming poverty - some countries have done more than others, but generally speaking the region has behaved very well in this regard. Nonetheless, there has been practically no progress at all as regards the reduction of the various forms of inequality.

When we talk about inclusion we are not just talking about the distribution of income, although this is a basic condition.

If we look at the data about gender inequality we can clearly see how this have not only persisted, but over time has become even more severe.

Paradoxically, levels of education are on the increase, men and women spend more time in educational institutions, women access higher education in higher numbers and graduate increasingly faster than men, but when we look at the growth of salaries and at how many more years of schooling, how many more responsibilities in the labor market, women have today – both at a general and managerial level – we find that the pay gap between men and women is actually increasing. Similarly, the participation of women in public decision-making – for instance within national governments and parliaments – is still much less than that of men, notwithstanding the advances women have made. Thus, we have here a model of inequality which cannot be explained by referring to an unfair distribution of incomes.

We are faced with challenges of inequality that are linked to territorial, ethnic and age issues, we have youth problems –

today they are three times more likely to be unemployed than other age groups – gender problems, and certainly the worst of all is the inequality of distribution, because that is ultimately the matrix from which all other inequalities are constructed.

#### 5. WHAT ASPECTS OF EUROPEAN SOCIAL POLICIES DO YOU BELIEVE ARE THE MOST INTERESTING? AND WHICH ARE MOST STIMULATING FOR THE LATIN AMERICAN CONTEXT?

Without a doubt, Europe should be a cultural reference point for Latin America in tackling the various issues we have mentioned. The recent elections in the European Union have shown a growth in the number of center-right groups. These are small groups and we should ask ourselves why they have managed to call into question the entirety of established European culture. However, besides variations in governments and political colors, Europe has realized a sort of cultural consent expressed in the European social model for social cohesion. This has shown us the value of the perception of being part of the same social community, as well as the value of a social cohesion which comes before all else and which has thus generated an acquired culture where social rights are, by definition, universal. In a nutshell, this, in my opinion, is the most important thing that Europeans can export to Latin America.

This does not exclude, obviously, an analysis of the behavior of welfare models, of the strong and weak points of the individual models, or how they are being revised in the light of previously experienced problems. Clearly, demographic changes, such as the problems brought about by low birth rates, migration, etc., have called the old welfare models into question. Europeans are attempting to respond in different ways without questioning the concept of citizenship endowed with rights under the responsibility of the State. I would say that this is the great lesson Europe can transmit to Latin America so that it can be developed with a Latin American “flavor”, but we are departing from two very different realities, and we have to tackle more sensitive issues than the Europeans. Nevertheless, I believe that in this regard the exchange is an interesting one, since our fragilities and our weak points may represent a warning for Europe, a continent which is today preoccupied by the growth of poverty in some countries and where inequality is beginning to take root where it did not previously exist.

I think that we therefore have much to learn from Europe, but that this is the right time for both regions – which are both facing similar situations - to learn from each other’s respective experiences.

## INTERVIEW WITH LIEVE FRANSEN



#### INTERVIEW WITH LIEVE FRANSEN

*Director of Social Policies and Europe 2020 in the General Management for Employment, Social Affairs and Inclusion of the European Commission, after graduating in medicine she worked for several decades as a health operator in Africa in the fight against AIDS. In 2001 she was appointed Chief of the Social and Human Development Unit of the European Commission. She is the author of more than one hundred publications and documents for the European Council and the European Parliament*

#### 1. BEGINNING FROM A BROAD PERSPECTIVE, WHAT DO YOU THINK ARE THE MOST URGENT OBJECTIVES FOR SOCIAL INCLUSION STRATEGY IN THE EU AT THE MOMENT?

Well, socially speaking, the European Union is faced with, I think, three main challenges, from a broad perspective. The first challenge is the profound, protracted recession that we are facing in the short term, and we are also faced with a social crisis while we’re gradually climbing out of the economic one.

The second challenge is the aging demographic: less children are being born, there are more older people, longer lives – it’s a good thing, but it’s one which also requires our attention. The third challenge is an increase in inequality and divergence. This is happening in Europe but it is also the case in other continents such as Latin America. To me, these are the three main macro-level challenges. The effects of these challenges mean that there’s increasing divergence and inequality, and there’s increasing poverty, which in many countries principally affects children. More children are poorer than older people, so that’s another major problem, and then we must take into consideration the results and insustainability of the welfare system as we know it, so we need major reforms. We urgently need to reform our social systems, our welfare systems in Europe so that we can adapt them to an aging society, to the recession, to unemployment, which are all bringing less finances to the social protection system.

Therefore, we need to increase employment, we need to increase efficiency, we need to create more partnerships, we need to genuinely increase the efficiency of our social welfare systems, what I call social investment systems. For

me, that’s the main macro-level challenge that we’re faced with in Europe, and that is also true for other continents, like Latin America, where the recession is less serious at the moment but where there’s still inequality and there’s still poverty, especially among children, but where aging is less of a problem there so there are greater opportunities to build social protection systems which are more prepared for eventualities like crisis or diminished growth.

#### 2. IN ORDER TO INCREASE EFFICIENCY AND TO BUILD A FUNCTIONING SOCIAL PROTECTION SYSTEM, WHAT DO YOU THINK ARE THE INSTITUTIONS NECESSARY FOR APPLYING THE NECESSARY FISCAL CONDITIONS FOR REACHING THESE OBJECTIVES?

Europe has developed very powerful tools to focus on fiscal sustainability and macroeconomic balance. This was necessary to save the Euro and resolve the imbalance between the economic and the fiscal-institutional mechanisms. But there are also instruments for monitoring social progress and/or non-progress, and these have not been developed in the same way, so the institutional level needs rebalancing. The monitoring of social issues and objectives needs to be seriously improved in the European context.

This is a political question too: because of the recession and the austerity measures that we’re taking, Europe and the Commission itself have lost a lot of credibility and legitimacy, and realizing new governmental structures is, in a way, going to be very difficult politically. Any treaty change for the moment would also be very difficult. For example, we’re talking about developing an automatic stabilizer at the European level. Normally, the countries themselves use

social protection as an automatic stabilizer in the context of a recession. The Eurozone countries have lost that stabilizing aspect, and we would therefore like to organize it at a more European level. But that requires a treaty change which will in its turn require much more credibility, legitimacy, and support from the populations, the countries and the member States.

And that is not necessarily going to happen for the moment, so politically we're faced with a very difficult situation right now. In a few days, we'll know the election results, we will also increasingly know who will be in the new Parliament, who will be in the new Commission, and to what extent there is the will and the ambition that all this requires. Fiscally, I think the European system is becoming a little bit more open because the economy is a little healthier than it was during the recession, so there's also a little more stability in the Eurozone. Some of the countries, like Portugal and Ireland, are moving forward from being what we call "program countries" and from their bailout agreements, so that creates a willingness in these countries to do more and better, even as regards social initiatives. It is absolutely necessary to support the populations who have suffered most from the effects of the recession.

**3. IF WE MOVE A LITTLE BIT FROM THE OBJECTIVES AND CONCENTRATE ON WHAT WE HAVE ACHIEVED OVER THE LAST FEW YEARS DESPITE THE DIFFICULT ECONOMIC SITUATION AND ALL THE OTHER DIFFICULTIES WE HAVE ANTICIPATED, WHAT WOULD YOU MENTION?**

Well, what I actually find most striking is that there are some countries, like Denmark, Sweden, Finland - most Northern countries, actually that have invested properly and sufficiently in their social protection systems, and thus have weathered the crisis best. So they have given quite a lot of support to social protection, but they have also changed their social protection systems into social investment systems. The welfare state in Sweden is basically called a social investment state, rather than a welfare state. I say this because this is what we are trying to do in other countries, too. This means tackling and preventing poverty, or prevent people from becoming unemployed by investing early in children and young people so that they acquire the necessary skills to not leave school too early and are able to fully develop which that will be useful in the job market that exists at the moment in Europe, because it's obvious that those who have more skills and competencies are less often without work.

For example, the recession in Spain taught us that - at the time of the construction boom - two million young people went into construction work before finishing their education. At the same time, they got married, and their wives were also unskilled and hadn't attended training courses, and now there are millions of people who are unemployed. This is a major problem not only for Spain but also for the rest of Europe.

Now, talking about achievements, I think that the countries that made the right investments in very young people, but also reformed their pension and employment systems so that people work longer (people live longer, so they have to work longer) and contribute more to any social protection system, the financing of it, these people, these countries are the most successful, I think that's the major achievement. And it is also important that other countries now start seeing that. Some countries have developed personalized services, but also personalized skill development, like Finland, for example. Finland has one of the best outcomes as regards its education system, according to PISA indicators.

Why is that? It's not because their education system is the best in general, but because they focus on individual children who need specific attention, thus raising the educational level of the whole population: it's not just the best who thrive while the rest are left by the wayside, the general level is higher. The same thing is true in social services or employment services: it is not enough to provide passive cash transfers, we have to actually see what we can do to help specific persons, unemployed or unskilled, to develop their own abilities and therefore play an active role in the labor market or become better integrated in societies.

So, there are a few very good examples of how it should be done and how it could be done successfully, but there are also bad examples, situations in which social protection is seen as something like a "safety net" for people. The safety net is fine, but people shouldn't stay trapped in that net forever: we should help them to find their way out. That's a change of approach.

**4. ANOTHER PROBLEM THAT SEEMS TO BE IN THE SPOTLIGHT AT THE MOMENT, BOTH IN EUROPE AND IN LATIN AMERICA, IS THE DIFFERENCE - OR THE RELATIONSHIP - BETWEEN POVERTY AS SUCH AND INEQUALITY IN A SOCIETY. WHAT ARE YOUR FEELINGS ABOUT THE ISSUE?**

I think we have increasingly proved that inequality across the world is bad for the economy, bad for society, bad for social cohesion and, at the end of the day, it's a major problem,

distinct from poverty. So, what we need to do is to make sure that systems which allow for greater convergence and equality are being created which will provide more opportunities for increasing numbers of people to be involved in society and in employment. Poverty is difficult to measure anyway, because in Europe we look at poverty as a relative measure: everybody under a certain financial level in a certain country would be called poor.

Now, the poor people in Luxembourg are very often much richer than the richer people in Romania. So the measurement of poverty in Europe is very relative. In a way it partially measures inequality within a country, but not within the context of Europe.

In America, they measure poverty in a very different way, they measure poverty more in absolute terms, like having two dollars a day. Once it was a dollar a day, now it's two, so that's really extreme poverty and you can see how that's not enough to live decently. Anyway, poverty indicators tell you some things but they don't say anything about inequality and what should be done about it. So I'm working to have more indicators which measure the adequacy of social protection systems. I think this is one of the major areas where Central and Latin America could really develop in a situation where there's growth. So, in a way, there is inequality, there is poverty, but there is growth at the level that Europe was experiencing ten years ago.

The lesson from Europe should be that when there is growth, use that to really build your systems so that you will be ready for decreasing growth or recession. Construct your systems, decrease inequality, develop skills, invest in young people and prevent instead of correcting after the fact. That way, your system and your society will be more inclusive, and more ready to tackle any recession that might one day also strike Latin or Central America.

**5. SO, IF I UNDERSTAND CORRECTLY, THIS IS THE MOMENT FOR LATIN AMERICANS TO FOCUS ALL THEIR EFFORTS UPON THE REFORMS OF THAT SOCIAL PROTECTION SYSTEM.**

Yes, I think it's a fascinating time for Latin America to take the negative lessons coming from Europe, and also to use their own lessons, because Brazil, for example, has done a lot, as has Mexico, although it's not really a Latin American country. There are a lot of lessons that we can also learn from these countries. The realization, the possibility of services and conditional cash transfers were developed in Latin America. As an example, parents get cash to send their children to school, instead of making them work or keeping them away from school. That makes a difference in Latin America. We're now examining if this is a useful avenue for some of the difficult situations in Europe, like the one involving the Roma population or the severely marginalized populations in some countries, which are also the poorer populations. So we can all learn from each other. This is the right time for Latin America to really move into a strong social protection system.





# DEMOGRAPHICS, SOCIAL CHALLENGES AND THE WAGER OF SOLIDARY MODELS OF SOCIAL PROTECTION IN LATIN AMERICA

Can Latin America make progress towards a universally-applicable model for social protection and investment, a model which is at once efficient and sustainable? It is impossible to begin this discussion without contextualizing it within the framework of the political and social transformations which the region has recently undergone. The first axis of political transformation is the triumph of elective democracy in most countries; the second is the so-called “shift to the left”. In the face of this situation, it is important to consider possible alternative taxation systems and social architectures, and to ask ourselves which alternative might contribute to building a distributive coalition of low- and medium-income sectors, where these sectors may feel adequately represented both at the political level and in the public policies which protect them. As regards social structure, CEPAL has used some quite unambiguous data to highlight several positive achievements: the past ten years have seen a massive drop in poverty, a moderated and in some cases substantial drop in inequality, increased employment, reduced unemployment, and improvements in the quality of employment. Such data are not homogeneous for all the region’s countries but they underline a prevailing pattern. In part, these achievements owe their existence to a series of factors: economic growth, the demographic dividend, an expansive social taxation system, which is crucial for building up new policies; a stable macroeconomic situation with low inflation - a victory



## FERNANDO FILGUEIRA

*Born in Uruguay. After graduating in Sociology, he obtained his PhD from the Northwestern University of Illinois, U.S. After working as an auxiliary representative of UNFPA in Uruguay, and as Social Affairs Official for CEPAL, he was appointed Director of Management and Evaluation of the State in the Planning and Budget Office of the Presidency of the Republic of Uruguay. He has also been a Professor at INDES and an Academic Coordinator of the Research Program on Social Exclusion, Poverty and Social Integration of the Catholic University of Uruguay. Today, among his multiple professional activities, he is the main researcher of the Center for the Implementation of Public Policies for Equity and Growth (CIPPEC) in Argentina.*

for the stabilization models - and improvements in educational achievements, both in the primary schools of those countries which were formerly lagging behind and in middle schools elsewhere.

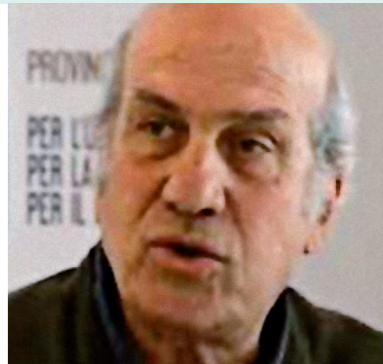
There are however some structural issues which remain to be solved despite these advances. In this regard a considerable portion of the population which is now emerging from poverty cannot become a part of the middle classes, becoming instead a vulnerable sector which, generally speaking, possesses no insurance, savings or other assets to enable them to face situations caused by exogenous or personal contingencies. On the other hand, there has been a noticeable infantilization and feminization of poverty – due to the segmented integration of women in the labor market – which threatens the attainments thus far achieved and their sustainability. A considerable portion of the reduction in inequality in the region, caused by the reduction of the inequality of labor income in families, comes from the addition of a second family member to the workforce, which means women from sectors with lower incomes. If this occurred on a greater scale, reductions in inequality and poverty would also increase. In addition to

# DEMOGRAPHIC CHANGES AND SOCIAL PROTECTION: PROBLEMS FOR THE EUROPEAN SOCIAL MODEL

Europe does not share one single welfare system, but we may nevertheless justifiably speak of a “European social model”, characterized by the existence, in all European countries, of a set of social policies of varying value and effectiveness related to social security (pensions and unemployment subsidies), social services (measures to reduce poverty and integration minimum incomes), health services (in turn characterized by the existence of a national health service), public educational and professional training policies, and various other less important measures. This model, which is often called into question and which at the moment faces considerable difficulties exacerbated by the current recession, can nonetheless be considered valid.

## ENRICO PUGLIESE

*(Castrovillari, 1942) is Professor Emeritus of Sociology of Labor at the Faculty of Political Sciences, Sociology and Communication of the University of Rome “La Sapienza”, where he teaches doctorate courses on Sociology and Social Sciences. He is a member of IRPPS (the Institute for Research on Population and Social Policies) of the CNR (the National Research Council) where he was director from 2002 to 2009. For several decades he has also worked as a professor at the “Federico II” University of Naples, where he was appointed Dean of the Faculty of Sociology. He has published numerous books on the subject of labour and unemployment, international migration and social policies.*



## MATTIA VITIELLO

*(PhD), is a Sociologist who works as a researcher at the IRPPS (the Institute for Research on Population and Social Policies) in Rome. His studies examine emigration and immigration, with a special focus on the integration of immigrants in the field of labour. Over the past few years he has concentrated his research on migratory policies in their historical context. He has published various books, including: “Il modello mediterraneo delle politiche migratorie: le politiche di ingresso e di stabilizzazione,” Donzelli, Roma, 2008, and “Il lavoro degli immigrati in Italia e le politiche del lavoro,” Liguori Editore, Napoli 2012.*



National welfare systems differ from one country to another. Taking into account the traditional subdivisions of welfare systems in Europe (universal, meritocratic-contributory, and residual), we may see how the meritocratic model prevails in continental and Mediterranean countries while the universal model is typical of Scandinavian countries. The latter entails the generalization of social policies for the benefit of all citizens, whereas the former is centered upon the conditions of contributing workers. A third system, the weakest, limits expenditure for social policies to the most impoverished section of the population, and should not be included in the European social model.



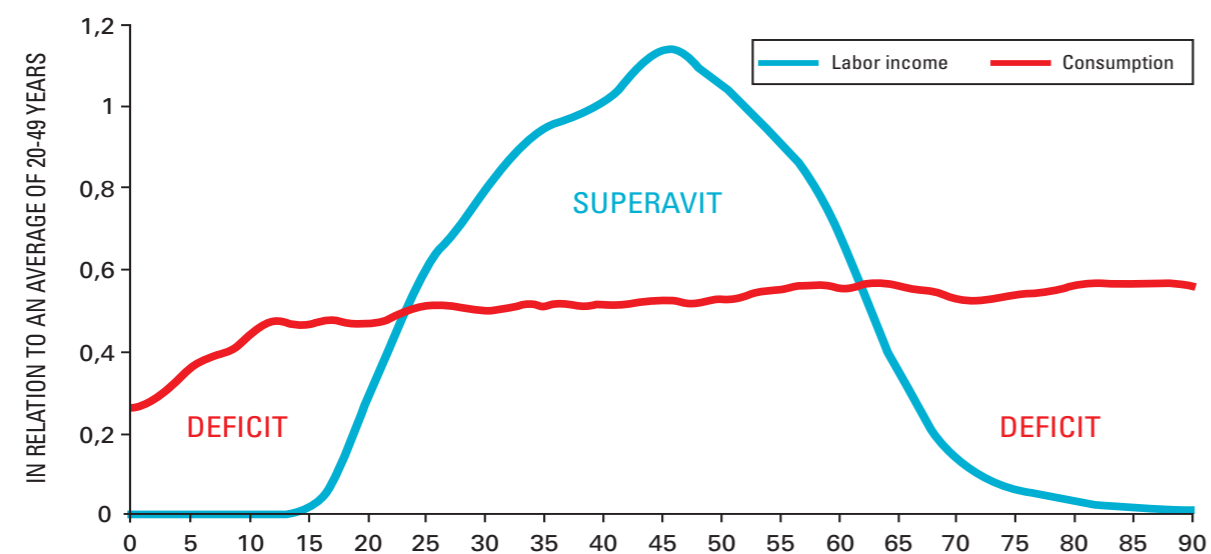
these structural problems, the sustainability of these attainments is also affected by changing trends, one of which being the gradual but inevitable conclusion of the commodities supercycle. Additionally, the closure of quantitative easing, especially in the United States, will entail a reduction of capital flows and of low interest rates. Another potential structural risk is the end of the demographic dividend. In fact, in many countries we are reaching the end of the phase during which the portion of the population dependent upon the active population fell. Is the ongoing social progress in the region sustainable, then? In order to answer this question it is important to group the structural limits among the flaws in the welfare state of the region and to identify its variables and its constants. To address this question is important to group the structural limits below the idea of flaws in the region's welfare regime and identify their variants and constants.

The starting point for understanding some of these flaws is to consider the life cycle and its impact on incomes and consumption, as well as the demographic keys of the region (see Figure 1). Fundamentally, the diagram shows that people generate income in different ways over their life cycle: nothing at first, then a sufficient amount, followed by a smaller amount towards the end of their life cycles. The intersection of the curves in the diagram (life cycle and consumption) shows a sort of "truncated bell curve", where a surplus part and a deficitary part can be seen. At 45, a person consumes less income than s/he generates; children under 16 and the elderly over 70 generate deficit, as they consume more income than they generate. What societies do is to redistribute this income, and they do it in three ways: through the State, by extracting income from the surplus, through families, which reassign their incomes to taking care of their children and elderly relatives, and through individual savings.

As we approach the end of the demographic dividend and the aging process begins, dependency rates are bound to rise, especially as regards the elderly. This implies the need to make adjustments in order to sustain the levels of welfare that society has generated with the given productivity levels.

**FIGURE 1**

Life cycle and demographic keys



Source: CEPAL, *Social Overview of Latin America, 2010*

There are several conditions which are necessary in order to face this challenge. One of these is that fertility does not go above replacement rates and that it is as convergent as possible, meaning that middle- and lower-income sectors should have similar fertility rates. A second condition is solid investment in childhood – not just for reasons of equality, but also to increase productivity levels and the increased efficiency of the economy. The third refers to the basic consumption guaranteed for families with children. Finally, it is necessary to pursue greater and more equitable integration of women into the labor market. The current

Two contradictory trends are appearing across European welfare systems: the first is an impulse towards universalization, that is the extension of social benefits to all citizens, while the latter tends towards "residualization" as a progressive reduction of the set of benefits and their concentration exclusively upon the most marginal categories. An example of the former trend is the implementation of national health services in the whole of Europe, while an example of the latter is the increased contributions required from citizens in order to access services, as well as the diffusion of stigmatizing assistance practices exclusively dedicated to marginal sectors of the population. In Italy, the social card (a small economic cash benefit destined for the very poor) is the most emblematic instance of such practices.

In both the continental model (utilized in countries such as France, Holland, Belgium, and Germany) and in the Mediterranean one, which many consider to be one of its variants, the system is based not only upon general taxation (contrary to that which occurs in universalist systems) but first and foremost upon the contributions paid by workers and their employers.

This connotation is particularly strong in the Mediterranean version, where the welfare system of these countries is often defined as 'occupational', meaning that citizens as such are not at the core of the system, whereas working citizens are.

The main features of the Mediterranean system are the prevalence of cash transfers (benefits in cash) over public services (benefits in kind). As a consequence, pensions weigh on overall social expenses in a much greater proportion than in other contexts, and this is why this system is considered age-oriented, in the sense that it appears to favor the elderly more than other demographic groups. Nevertheless, such a statement does not take into account the fact that the elderly suffer much more because of a lack of services. It is within this framework that we may identify the causes of the recession, of the difficulties encountered by European welfare systems, and of the transformations they are undergoing. The most significant change is demographic, but this cannot be considered an independent variable upon which social change hinges: the demographic reality and its evolution are also dramatically influenced by context and varying social policies.

The issue of an aging population is at the center of current studies and political discussions, but the differing nature of aging processes is not always taken into account. On the one hand, there exists an "aging from above" which consists of a boom in absolute numbers of the elderly population due to increased life expectancy in all countries thanks to medicine's increasing ability to fight the causes of early death, mainly facilitated by the development of national health services. On the other hand, there is the process of "aging from below", brought about by the increased incidence of elderly people in the overall population, determined by the progressive reduction of births, especially in Mediterranean countries. In this instance, the aging process is caused by the decision of young couples to put off the birth of their first child and to give birth only to a limited number of children. We must take into account the fact that the reduction of birth rates does not depend solely upon the possibility of birth control (which is an important social achievement) but also upon the increasing difficulties faced by young couples because of their precarious means of subsistence and the lack of resources for childcare. In this last instance demographic changes do not influence social policies, while social policies or the lack thereof do influence the demographic structure.

In recent years, a divergence in trends linked to the scale and extent of aging has been observed between the countries of the Mediterranean area and the rest of the continent. Until a few decades ago, Mediterranean countries were characterized by a young population and high birth rates; instead, they are now distinguished by low birth and mortality rates, which explains the increase in the elderly population. This is what is happening in Italy, which is now the second country in the world as regards the incidence of the elderly over the total population (the first being Japan). Mediterranean European countries are therefore faced with a particularly sudden phenomenon of unforeseen dimensions. The elderly population is on the rise in the whole continent, but the growth rate is higher in Mediterranean countries, with serious consequences for welfare systems in these critical times.

Another relevant issue found in all European countries but with a higher incidence in Mediterranean ones is the relationship between welfare and the transformation of the family. There has been a reduction of the average size of families and increasing incidence of elderly people living alone (that is, elderly couples or elderly singles). As regards the transition between the third and the fourth age, various approaches have been developed to satisfy the care needs of this sector of the population. In some cases, such as in England, family ties have been affected by the historically high number of women in the labor market, which ultimately entails the impossibility of relying upon the traditional availability of relatives for care-giving. This has produced widespread lodging of elders in care homes. In other, more virtuous instances – mainly found in continental Europe – efficient home care practices have enabled the elderly, even those living alone, to be independent and to avoid institutionalization. In the countries of Mediterranean Europe, especially in Italy

status of these issues do not portend a sustainable route towards social progress for the countries of the region. The table below shows how the configuration of three key variables produces a complex forecast for the region. When compared with other regions of the world, our similarity to the Mediterranean European model is confirmed, and it is thus apparent that we face a problematic future

TABLE 1

	Norway, Sweden, Island, Denmark, Finland	Spain, Portugal, Italy, Greece	Brasil, Chile, Uruguay, Costa Rica, Argentina, Mexico	USA, New Zealand, Australia, Ireland, Great Britain
<b>Fertility</b>	1,84 - 2,22	1,32 - 1,53	1,70 - 2,16	1,94 - 2,12
<b>Fertility Convergence</b>	High and moderate	Moderate	Low	Moderate and Low
<b>Female Employment</b>	High	Low	Low	High and moderate
<b>Stratification of Female Empl.</b>	Low	Moderate	High	High and moderate
<b>Child Poverty</b>	Low	Moderate and high	Very high	Moderate and high
<b>Relation b/w. Child Pov./Gen. Pov.</b>	Lesser	Greater and equal	Greater	Greater and Lesser

Source: CEPAL, 2012 and OCDE, 2013

The Latin American welfare state and the state's role in it present various problems which need to be tackled in order to alter the structural challenges highlighted in this article, one of the most pressing being public and private consumption during childhood. In Latin American countries, 75% of the an average child's consumption derives from his/her family, while the remaining 25% is granted by the State as money or in services. That is to say, child consumption is suboptimal because a considerable portion of it is left to the market and to the original distribution of family incomes.

If we add to this the drop in non-convergent fertility rates and the reduction of employment rates for women from lower-income backgrounds, we are faced with a situation which is temporarily unsustainable from the economic and fiscal points of view, and with an inequality which it will be hard to reduce beyond the point reached by recent achievements.

The virtuous approach we should try is a Northern one: one built on high rates of female and elderly employment, much reduced child poverty - lower than general poverty - and convergent fertility. This approach should be based upon replacement rates and on intensive, community-like quality public service, and we must therefore tackle a fragile and scarcely redistributive tax system. In the past, such systems were clearly founded on four elements: tax burdens which were low or only slightly progressive, high tax avoidance, procyclical tax expenditure which was barely redistributive and generationally unbalanced, and poorly managed expenditure and the services it generates.

Nevertheless, momentous progress is today being made, and this goes some way towards attenuating this gloomy outlook. In fact, at present time the region's tax burden and progressive intentions are increasing, there is an improvement in the efficiency of tax collection, a lower procyclicality of social expenditure, and an increase in overtly redistributive programs, and although the poor quality of services persists, the coverage of healthcare and education are on the rise. There are, though, structural problems which persist or are becoming worse in these same areas, as seen in Figure 2.

and Spain, the high aging rate of the population, combined with the changes occurring within the family (which is now less multi-generational), a wider presence of women in the labor market (and, as a consequence, less availability for care-giving), and the scantiness of services has produced a dependency upon the market to satisfy the care-giving needs of the elderly. This is how a now-standard and well-consolidated practice has emerged in all these countries: the employing of immigrant women for care-giving work. In Italy, these family assistants who care for the elderly are called "badanti" (carers). At least one million of these workers, mainly from East Europe, live and work in Italy. From the point of view of their countries of origin, this phenomenon produces a care drain effect. Families made up of elderly people living alone spend a considerable portion of their pension to pay for assistance, buying care-giving services in the international labor market. This explains some aspects of Mediterranean immigration, specifically the high incidence of its female component. Thus, in a post-industrial and tertiary sector society, immigration does not only respond to the needs of production but also to those of reproduction. In the present situation the demand for care-giving work is however enormous. Female employment (especially work done by foreign women) has not diminished at all during the years of the recession, and it is no coincidence that the expected return of many immigrants to their countries of origin has not taken place.

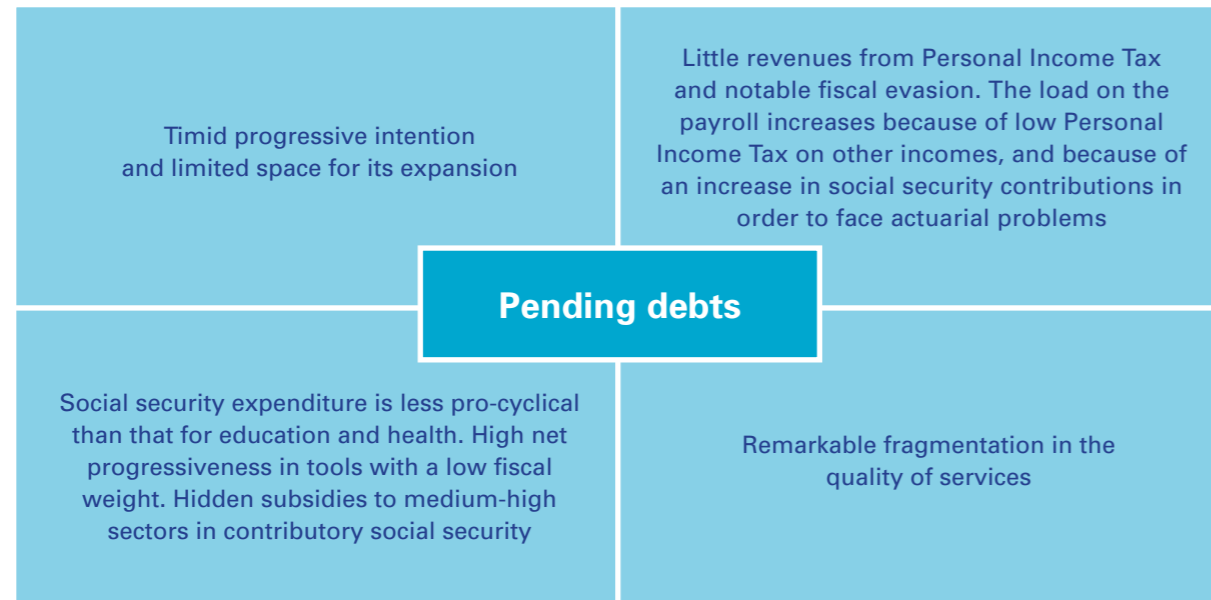
One final consideration about the demographic structure concerns the young: the drop in birth rates in recent decades has now determined a reduced presence of population groups in the productive age group (especially young people.) Nonetheless, in spite of their reduced numbers, the young are also those most affected by changes occurring in the labor market, especially by the considerable increase of unemployment, particularly in Mediterranean countries, where the recession is more serious and recovery perspectives are weaker or further off in the future.

The lack of employment among the young in a contributory system implies lower availability of expenditure for Social Security, since this derives from the contributions of workers and their employers. The origin of the hardships of contributory welfare systems is related to economic and occupational policy issues whose effects are already tangible, but which will become much more serious in times to come. The policies imposed by governments and international organizations during this phase not only limit the current benefits of the welfare system; they are also destined to reduce, in a more-than proportional way, the pensions and other benefits of social policies.

The “structure” which sustains Latin America is at present segmented, incomplete and – on a large scale – dysfunctional.

#### PICTURE 2

Lifecycle and demographic keys of taxation in Latin America: structural problems that either persist or worsen



Source: Own elaboration

This does not imply that there has been no progress, but rather that this progress is characterized by increased coverage and by benefits which have not succeeded in consistently overcoming the above-mentioned segmentation, incompleteness and dysfunctionality.

- Mature contributory insurance systems are only mature in their criteria of eligibility: their financing is actually mixed and their fiscal sustainability complex.
- Individual-based contributory insurance systems follow a market-based logic and they separate middle-high and high-income sectors from the supportive funding of social protection and investments.
- Universal systems (especially services) are heavily segmented in terms of quality and, in some instances, of accessibility.
- The region lacks a universal welfare package for child and family welfare which includes permits, cash transfers and child care: in short, a system which collectivizes some of the risks the new social groups are facing.
- There has been a remarkable expansion in the coverage of targeted tools, but generally reaching the vulnerable non-poor only marginally in their infancy and much more so in old age.

In order to make progress towards universal social protection there are three possible models. One represents the “foundation” and the “ladder” of social protection formulated by the International Labor Organization (ILO), which suggests – acknowledging the impossibility of reaching those sectors through individual contributory insurances – the creation of a basis of universal social protection to access essential services and economic security. Then we have the “ladder”, meaning contributory social insurance, and finally we have voluntary insurance.

The other model, promoted by Santiago Levy of the Inter-American Investment Bank, which is being discussed within the framework of the Mexican social reform, is an efficiency-based model of universal insurance for workers. Levy’s argument in favor of this model is quite simple: “The whole world does not go to factories, but it does go to shops,” and it is therefore necessary to formulate a system fully financed by consumption taxes, instead of taxes imposed over wages. Strictly speaking, Levy is not primarily concerned with equity or equality (although Mexico would acquire more equality through his model) but

## RECIPROCALLY FROM LATIN AMERICA

*In Latin America we are observing with equal amounts of attention and apprehension the current evolution of the European model – and of its variables. As compared with the attempts made in the region during the Nineties, social investments here are becoming less residual and are taking more inspiration from the European tradition. However, as pointed out in the article on the evolution of European welfare, without refuting the validity of the model, the current economic crisis - together with a series of decisive structural changes - offers us a serious warning about its sustainability, especially in its continental version, and even more in its Mediterranean form. I think that the most important lesson which emerges from the reflections herein is that Latin America must at all costs avoid following the path taken by the Mediterranean models in the past if we wish to avoid the petrification of our already extreme inequalities and if we are determined to make our economic development sustainable. The model the authors refer to was characterized by its persistence in a contributory system oriented towards traditional male workers before the major changes which occurred in three key-areas – the market, age demographics and family arrangements – required its adjustment: Globalization has generated a growing trend towards the flexibilization of the labor market and the creation of a collective insurance system in the face of this growing flexibility, which is distancing itself as much as possible from formal contributory approaches.*

*This is unattainable in the Mediterranean model, where the labor market is still nonflexible, and in many instances this model actually favors and fosters the boundaries separating the insiders from the outsiders. In this model, young people, women and immigrants are the categories who pay the highest cost in the face of economic shocks or downturns.*

*With birth rates dropping and the numbers of elderly people increasing, it is important to bear in mind that adequate welfare and consumption of goods and services during childhood is a sort of inter-temporal public good, while ensuring the same level of welfare for each social stratum over the course of their existence is a measure which is only useful on a private level.*

*It is therefore necessary to reform and de-stratify the pension system, and to strengthen non-contributory transfers, with a special focus on care-giving and educational and healthcare services for the younger population. Apparently, this goal has not been achieved in the Mediterranean welfare system, apart from some initiatives in the areas of health services and cash benefits for families with children.*

*In conclusion, as our Authors have rightly shown, the lack of an approach to childcare which takes into account changes occurring within families thanks to the inclusion of women in the labor market will bring about one of three suboptimal results (or a combination of them): the progressive withdrawal of women from the labor market (as highlighted by the low labor participation rates of women in the Mediterranean area), sudden drops in fertility rates, and a crisis of care-giving, both as regards childhood and to the growing fourth-age group. In order to avoid building welfare structures which might bring about such results even in more favorable fiscal and demographic contexts, and to steer clear of the liberal siren song which would leave all the functions of the social state to the markets, it is necessary to design new directions which are fiscally sustainable, economically dynamic and supportive, inspired by the European Social Model.*

**FERNANDO FILGUEIRA**

with efficiency: greater efficiency in the labor market and a higher productivity rate. This efficiency-based model assigns an important role to focused policies because it is an insurance system for workers, not for all citizens. In this instance, insurance is achieved through family ties or focused policies.

The third universal model is the so-called basic universalism. It differs both from Levy's and the ILO's models in that it insists that the key to the solution lies in a social tax system including universal basic guarantees for general income. This implies challenging two potentially limiting factors: contributory models and focused models. The tax burden of those two models should decrease, whereas the tax burden of the universal basic benefit model (cash transfers, universal pensions for the elderly, low unemployment rates and childhood transfers, qualitatively homogeneous services for care-giving, education, and health) should increase.

These three models have increasingly gained in legitimacy, and they reflect the fact that the countries of the region are – in their various ways – attempting to strengthen their universal aspect, or at least the access to universal coverage of risks. Nonetheless, the route so far taken to reform social protection systems in Latin America does not coincide exactly with any of the mentioned models, being a route that requires extremely high growth rates as well as high rates of fiscal capacity expansion. That is because we have been trying to improve contributory systems and focalization, relinquishing part of the supportive funding, to the persistence of private models, individual capitalization models or individual insurance models created during the nineties. By following this route we have actually given up a portion of the “fiscal cake”. On the other hand, the intent is to improve the quality of contributory benefits and to expand the coverage to the low-wage sectors which cannot afford contributory insurance. This could be done in an expansive economic and fiscal context. In the long run, this type of structure is less efficient, less egalitarian, and less cohesive than pursuing basic universal methods as a starting point. It is certain, though, that where there is path dependency, no basic method may be built over a void. Hence, we need to leave contributory systems alone, and outline transformation strategies which are progressive, consistent, stable and long-term.

Will the region be capable of taking a route towards social protection that will be fiscally viable, sustainable in the long-term and, at the same time, egalitarian? To do this the governments of the region must be willing to make complex decisions where their support consists of a basic alliance of middle-income and poor sectors, rather than in the policies dictated by the narrow-minded corporatism of privileged middle-income sectors and simplistic policies based on limited focalization.





## RECIPROCALLY FROM EUROPE

*Fernando Filgueira's study highlights several similarities between the Mediterranean and the Latin American welfare models. South European countries' welfare systems differ as regards their more- or less-advanced state (the Italian one having been formulated in the late forties in a progressive context of great change, while in Spain, Portugal and Greece, Fascist regimes were on the rise or were already established) as well as various other particularities, although several common aspects, such as those regarding financing mechanisms, the principal beneficiaries, and the welfare mix (where families play a crucial role) do exist. Similarly, in Latin America we find differences caused by the political and economic histories of the various countries, as well as profound analogies, including the recent and resolute commitment of national governments to welfare policies.*

*Even though problems and successes vary from one country to another, the principal changes show the existence of a prevailing trend. Despite their not always being acknowledged in Europe, the results obtained by progressive governments in terms of a considerable reduction in poverty, a decrease in inequality and in unemployment and a rise in employment rates, among other positive economic factors, are undeniable. The author is certainly right to point out how such changes were originally brought about by the establishment of elective democracy and the so-called leftist turn, which have reinforced socially-oriented policies based on governmental intervention. Furthermore, analytically speaking, the author's detailed examination of both the positive and negative sides of the initiatives thus far carried out is interesting, since it includes those issues which remain as yet unsolved. We feel that some of these issues are extremely important: the failure of a segment of the population which has come out of poverty to enter the middle classes, the pronounced feminization of poverty, and the persistence of child poverty.*

*Italian readers will be struck by the similarities visible in Table 1 between the systems which characterize Latin America and Southern Europe as regards their ongoing structure and problems. If we observe the perspective which brings together these different welfare models on the basis of the various relevant variables, the similar positioning of Southern Europe and Latin America countries as regards the principal variables is clearly visible. The similar positions of the first three groups in the table are highly convincing, but the fourth is more complicated, bringing together as it does countries which not only have different histories but also divergent welfare systems. America has always had a residual system, whereas England – though also moving in that direction – still presents some universalistic elements, as for example its use of general taxation as the foundation of its system, and above all the existence of a national (though somewhat impoverished) healthcare system. Things are different again when it comes to New Zealand and Australia.*

*Only one more significant difference between Latin America and Southern Europe emerges from the table: the demographic structure, connected in its turn to fertility rates. In Italy and in the other European countries, these rates*

*are very low, whereas in Latin America they are still high. An implication of this can be seen in the truncated bell curve; the deficit in Europe is larger: as a consequence, the 'surplus' is narrower.*

*The Author poses the question of whether Latin America might construct a universal welfare state. The possibility of a shift towards universalism is real, but there are some structural "debts" which must be overcome, and which the developments of the previous decade did not succeed in tackling.*

*The Author singles out three models from contemporary thinking about the ideal strategic approach to develop: the first (ILO) is a universal social protection plan designed to provide access to essential services and economic security, but which, as regards higher-income categories, is oriented towards a social security contributory system through volunteer insurance; the second is the efficiency-based model of social insurance for workers, which is ultimately dependent upon sales tax (which, as is well-known, has always most affected the poorest); the final model is the basic universalistic model, based on social taxation and ensuring universal social security financed by general revenue. Although all three models are in their own way valid, the third appears to be the most convincing.*

*As the author states, however, in order to adopt this approach, the governments of the region must be willing to make complex decision, with the support of an alliance between the middle-income and poorer sectors of the population, as opposed to the corporatist policies of the privileged middle sectors. To summarize, the current social structure implies the possibility of the process being hindered, just as in Southern Europe.*

*On the other hand, structural issues exist which the above mentioned progress does not address but which absolutely must be resolved in order to steer the development of welfare systems in the direction of universality.*

**ENRICO PUGLIESE  
MATTIA VITIELLO**



# NOTE ON THE FINANCING OF SOCIAL PROTECTION IN LATIN AMERICA AND THE CHALLENGES FOR IMPROVING ITS DISTRIBUTIVE IMPACT



## ÓSCAR CETRÁNGOLO

Born in Argentina, he graduated in Economics from Buenos Aires University (UBA) and obtained a Master's Degree in Philosophy at Sussex University - (Institute of Development Studies). He is currently Head of Master Studies in Economics of the Faculty for Economic Sciences of the UBA, a researcher at the Instituto Interdisciplinario de Economía Política (Interdisciplinary Institute of Political Economy) of the UBA (IIEP) and of the Tres de Febrero University (UNTREF). Between 2001 and 2011 he worked as an Expert of Public Policies for CEPAL. He was previously sub-secretary for Relations with the Provinces of Argentina, and has also been advisor to various international bodies (ILO, PAHO, IADB, the World Bank, UNDP). He is the author of numerous papers on public policies, with a particular emphasis on taxation, social security, health, and federalism.

It is well known that Latin America is the world's most inequitable region, as well as one of the areas where it is most difficult to finance necessary redistributive policies through tax collection. The differences are clear in comparison to any other region in the world, but even more evident if we compare ourselves with Europe. Since all European countries have a high level of economic and social development, the greater product values per capita indicate the possibility for higher levels of well-being and social cohesion which are achieved thanks to a stronger and more effective state presence.

Without denying that Latin America is in fact an extremely inequitable region, this article aims to present the major challenges which – from the point of view of financing – the majority of Latin American countries must face in order to attain universal and fair coverage of the benefits which make up welfare schemes. Though I do not intend to offer an exhaustive list, I will present below the five challenges which – in my opinion – should be the focus of discussions on the future of reforms aiming to ensure guaranteed levels of social protection. These should be considered as levels of social protection which increase until equal rights are effectively achieved. Any reform must certainly identify a specific point of departure from which to begin the journey towards the desired changes.

## 1. DEFINING THE EXTENT OF CONTRIBUTORY BENEFITS

It is essential to differentiate the situation of each component of social protection in relation to this challenge. From a conceptual point of view, there are important reasons why pensions systems should possess a large contributory component linked to the obligation to save a part of workers' current incomes in order to ensure a future consumption level after their retirement. This justifies the existence of contributions on wages to finance pensions which maintain some degree of proportionality to the wages received while working. On the other hand, I can see no plausible justification for linking the health coverage guaranteed by the State to participation in the labour market, although this is a standard practice in many of our countries. In addition, there are no reasons for financing income guarantees to households by means of contributions on wages.

Given the significant development of contributory social security systems in many countries of the region, we must discuss and

# ECONOMIC CRISIS AND SUSTAINABILITY OF THE WELFARE STATE IN EUROPE



## JESÚS RUIZ-HUERTA

Professor of Applied Economics at the Rey Juan Carlos University (Madrid) and Professor at the universities of Salamanca and Madrid (Complutense), between 2004 and 2008 he worked as Director of the IEF (Institute for Tax-related Studies), attached to the Spanish Ministry of Finance, where he also held other positions between 1989 and 1996. Between 2000 and 2004, he was Director of the Department for Government, Administration and Public Policies of the University Institute Ortega y Gasset. Since 2013 he has been an associated fellow of the CIRANO institute (University Centre for Research and Analysis of Organizations) of Montreal, Canada. He is one of the promoters of the Consortium Eurosocietal Fiscalidad (Eurosocietal Taxation) as a director of the IEF.

The scale and intensity of the profound recession affecting Europe since the mid-2000s has called into question more sharply than ever before the Welfare State (WS), which had already been blamed for giving rise to the recession of the 1970s. Some forty years elapsed between the two crises and the world has changed significantly in the meantime. Nevertheless, in spite of its limitations and shortcomings, the essential aspects of the model and the implicit social contract that supports it have been maintained and have allowed states to ensure the highest standards of equality, welfare, social cohesion and individual security within the international context, according to available statistical sources.

Such results may be explained by the interplay of various factors, but there can be no doubt that governmental policies have played a unique role. In the majority of European countries social expenditure makes up, with some variations, the majority of the budget, which often entails universal benefits in sectors where expenditure is greater, such as healthcare, education or cash transfers (systems for retirement income or insurance systems intended to provide support in situations of unemployment, including non-contributory benefits). More specifically, retirement income systems are often based upon revenue apportionment mechanisms and play an important role in maintaining social cohesion in the countries of the Union.

However, while keeping in mind the variations in the application of the model and its policies in each European country (including those which make up the European Union) and the need to avoid simplistic generalizations<sup>1</sup>, a crucial factor in ensuring that the European WS will be maintained is the financing model sustaining it, which we will discuss here. The high level of fiscal pressure is without a doubt one feature which helps to identify the European WS. As can be seen from the chart below, the average value of fiscal pressure in Union countries in 2012 was approaching 40% of the gross domestic product, in spite of the differences between one country and another, meaning from about 30% to 45% of the production value of each country.

<sup>1</sup>As has been frequently pointed out, for example by Del Pino and Rubio (2013), since models and contents vary among the countries involved, we should sometimes talk about "Welfare States" rather than insisting upon the singular form of the term. Nevertheless, retaining some common core elements enables us to utilize the term in this paper, at least from a conceptual point of view.

decide which benefits should be contributory (financed by contributions on the wages of beneficiaries), and which should not. The necessary attention to fiscal sustainability in general, and to social protection schemes in particular, means on the one hand not allocating resources which cannot be replaced in the short term, and on the other designing contributory systems which can actually be financed by these same contributions. Otherwise, implicit redistributions between households and generations may be generated which have not been properly debated and which may be unjustified.

## 2. DEFINITION OF SCHEMES WITH NO-CONTRIBUTORY BENEFITS

Unfortunately, the existence of broad sectors of the population which do not manage contribute to the payroll and as a consequence lack the coverage of traditional social security systems is a typical feature of the region's economies, which are marked by a high degree of informal employment. As regards social policies, we must discuss how to act in order to provide coverage for informal workers and their families, while at the same time trying to increase the amount of formalization present in the economy.

For the moment, only a clear definition of the tax benefits ensuring sustainable financing will allow the allocation of non-contributory funding to the benefits which must be addressed under this procedure. For this reason, the greatest challenge awaiting the region's governments is that of clearly defining budgetary priorities and realizing the fiscal space to finance non-contributory schemes of social protection. Clearly, the definition of such priorities must be accompanied by a discussion of the other aims of the public budget.

## 3. INCREASING THE FINANCING OF TAXES

Bearing in mind the need to increase financing for social protection which ensures the full exercise of economic, social, and cultural rights, one major challenge is that of achieving levels of tax revenues sufficient for financing adequate levels of social protection for those who have no access to contributory schemes.

The insufficient level of tax burden in most countries threatens the ability of states to fulfil their obligations in a period in which attention to social issues cannot be postponed. The greatest difficulty for tax systems in Latin America lies in those taxes which have a major distributive impact. Compared to Europe, Latin American countries have very few tax resources derived from property taxes, and collect negligible amounts of money from the income taxes of individuals. In the European Union, tax collection from corporate incomes slightly exceeds 3% of the GDP, and more than 10% of the GDP comes from income taxes paid by individuals. The total collection of income taxes accounts for over 13% of the GDP. In Latin America, the collection of taxes on corporate incomes is slightly less than 2.8% (quite similar to that of Europe), yet the taxes on individuals' incomes does not, on average, reach 2% of the GDP. And it is here that the principal divergence between the two regions lies.

To summarize, most Latin American countries can collect a greater amount of funds for financing the necessary public policies, but at the same time it is possible and necessary to improve the distributive impact and the allocative efficiency of taxation.

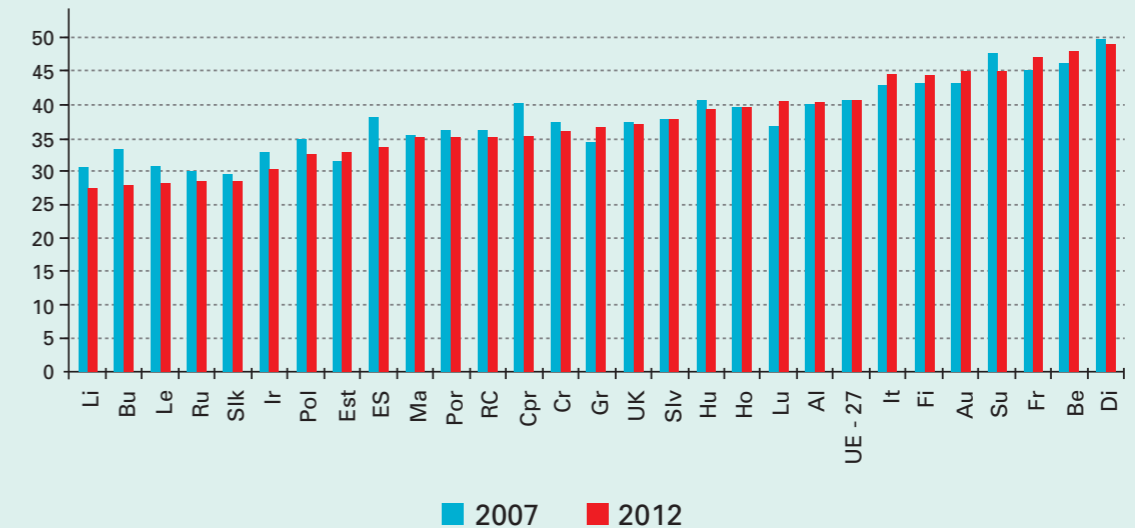
## 4. CATERING FOR TERRITORIAL DIFFERENCES

The countries of the region are, furthermore, highly inequitable from a territorial perspective. Over the last 25 years, the region has seen the implementation of important decentralization processes which have shifted powers and sundry functions to subnational governments. Progress made in areas such as education and public health, as well as, for example, in the supply of drinking water, has been extremely important and adds an additional dimension to the already complex definition of policies in those areas.

However, the scope and structure of these processes – which have involved almost all Latin American countries – has varied widely. Besides the explicitly expressed aims of reform process, each of them has had a significant effect on social cohesion and the public coffers. Various circumstances have led – on many occasions – to tensions between varying policy objectives, and these tensions have become evident in different ways in each case, having had in general a remarkable impact upon relations between the various levels of government in each country. In some cases, they have led to greater financing requirements on the part of subnational governments.

CHART 1:

Evolution of Fiscal Pressure in Europe over the period of the recession



Source: EU-SILC, (2013)

It is well known that the level of fiscal pressure depends significantly upon the public services each society decides to attribute to the public sector. Within this framework, the classic sufficiency principle, though essential in any tax system and used to justify all fiscal reforms, is strictly dependent upon the level and quality of the public services provided for by the governmental sector through the mechanisms of democratic decision. Once such services have been defined, the level and structure of fiscal systems are converted into factors which determine its financing.

From a medium-term perspective, we envisage a drop in the medium values of fiscal pressure, considered as a phenomenon extending from the final years of the last century to today. We do not however foresee the emergence of a drop substantial enough to justify speaking of the existence of a serious problem of sustainability, let alone of a process of "dismantlement" of the WS, even though the recent years of recession and Europe's consequent loss of economic power relative to other areas of the world compel us to reflect on the viability of the model in the long term<sup>2</sup>.

If we focus our attention on patterns of tax systems<sup>3</sup>, we must note that factors including increasingly prevalent globalization and profound technological changes have forced most of the countries involved to face new limitations in order to secure tax resources. This has occurred in the context of direct taxation, wherein international competitive pressures have forced countries to break away from the paradigm of comprehensive personal contributions by introducing various mechanisms for dualization (differentiated treatment of capital income) in countries where consolidated personal taxes are in force, or by applying linear taxation (as in the instance of a certain number of East European countries which have recently joined the European Union). On the other hand, the rising cost of some public services, the problems of applying effective progressive criteria and the criticism of direct taxation and its negative effects upon incentives for employment and savings all seem to render a tax system essentially based on direct taxation impracticable.

<sup>2</sup>Nevertheless, we must acknowledge that the recession, the considerable drop in economic activity and the parallel reduction in the collection of public revenues, especially in Southern European countries and, although singularly, in Spain, has been used to justify restrictive reforms in labor markets and retirement income systems, as well as the application of cutbacks in the greater part of social services, producing new difficulties in ensuring the existence of the WS and of the social rights connected with it.

<sup>3</sup>Although there are no clearly differentiated characteristics in the fiscal structure of the members of the Union, average rates point to a rather well-balanced distribution among the three sources of revenue (direct, indirect and social contributions). Nevertheless, in Northern and Anglo-Saxon countries we may observe a predominance of direct taxation, whereas in the countries that have more recently joined the Union, especially Eastern European countries, indirect taxation is seemingly prevalent.

As regards social protection, these processes have had a significant impact on the scope of health coverage, while on the other hand, the lack of clearly defined competences between the various government levels may be affecting the impact of some conditional cash transfer schemes. As a consequence, the responsibilities of each governmental level in relation to the provision and financing of each social protection component must be determined. The aim is to avoid any overlap which might create inefficiencies in the use of public funds, and to ensure that central governments have the competences and skills to compensate for the differences throughout each country's territories.

## 5. MANAGING THE REFORM PROCESS AND TIMEFRAME

Considering the large perceived gap in each country between the objectives pursued and the current situation, the reform process will necessarily be long and complex. In addition, we should not forget that social policy objectives are always temporary and require ongoing revision. We should therefore be especially concerned about how protection systems work during a period of transition, which will always be long, unpredictable and full of uncertainties. When inequalities are so huge, as is the case in Latin America, reforms which can be justified only by the possible benefits of an ideal, far-off model may leave important groups of a society unprotected. Each step should be understood as a transition towards situations marked by greater equality.

Virtually all the areas of public budgets are undergoing some kind of reformulation, showing the dissatisfaction of our societies with the scale and form of intervention by governments. Hopefully the reforms in social protection will play a central role in building ever more united societies, at the same time increasing the legitimacy of public policies, and, as a consequence, the payment of taxes aimed at financing such policies.

We have likewise been observing a progressive reduction of company taxation, conditioned in part by international competitive pressure, in parallel with increased demands for coordination, in the face of the growing internationalization of a rising number of companies and of the need to simplify taxation and relations with tax administrations, as well as trying to avoid a rise in fiscal evasion through instruments such as transfer prices or subcapitalization.

The available data highlights a trend towards a rise in indirect taxation, especially as regards VAT and some taxes on specific consumption. According to the latest data, indirect taxes are already weightier than direct taxes in 18 countries of the Union<sup>4</sup>. The advantages of such taxes – more neutral and easily applicable, less visible and less likely to generating fiscal illusion – cannot conceal their problems essentially concerning, as is well known, issues of equity and related to fiscal evasion, particularly significant in the territories of the Union in the face of the disappearance of frontiers and the retention of source taxation criterion.

The third major category of taxes employed to fund the European WS are the social contributions intended to finance cash transfers and applied, both directly and indirectly (corporate charges), to labor income. The need to reduce this type of taxation and its possible replacement with alternative measures is more or less justified depending on whether such fees are envisioned as labor taxes or as annuities deferred over time to favor contributing workers. However, this is a fundamental source for ensuring the sustainability of retirement systems, affected in particular by the increasingly aging European population and the extensive unemployment the recession has caused, most notably in Southern European countries.

If our analysis of the structure is based upon taxed economic activities (tributary bases) we must nonetheless keep in mind that, around the year 2011, approximately half of the tributary charges affected labor income whereas the rest were distributed between consumption (30%) and investment returns (20%). The implicit rate applied to labor is high, two thirds of being made up of social contributions, although between 2000 and 2011 there was a trend towards its reduction. On the other hand, we must not forget that – as we have already pointed out – social contributions are used to finance monetary benefits designed to cover social risk factors, and they therefore represent a key factor for balance, cohesion and social stability. Notwithstanding this, the search for a greater balance between tax bases has frequently emerged, bringing about in many countries the application of protection mechanisms for labor revenues, such as reductions of personal income taxes, and the use of various methods to limit fiscal pressure on the lowest wages (“in-work benefits”), all measures aimed at strengthening patrimonial taxation or replacing a portion of the contributions with other taxes such as VAT.

Moreover, the limits shown by current fiscal systems in the financing of welfare services have brought the principle of benefit to the center of the debate through the various forms of explicit or concealed privatization of some of these services. As a matter of fact, the paucity of means for financing services, in addition to accusations of overspending, possible negative effects on the performance of some programs, injustice, corruption and the disarray in expenses, particularly in the context of the recession, have acted as impulses towards privatization and the actual reduction of the dimensions of the WS.

The extension of consultation systems to the sectors of education and healthcare, the introduction of “moderating tickets” or copayments, solely in the case of healthcare, the extension of various forms of private management or instruments for private-public cooperation are some of the alternatives envisaged for financing.

<sup>4</sup>Thus, for example, over the past years, international institutions have recommended to the government of Spain a reduction of social contributions and their replacement with increased VAT.





The application of this type of instrument – justified by a lack of resources, of the existence of patent inefficiencies or of the impossibility of maintaining the universality principle of the basic benefits of the WS – may entail the progressive erosion of public services, particularly as regards citizens with lower wages, social rights being called into question, and the strengthening of trends towards social segmentation. The available data on inequality or poverty and exclusion rates seem to confirm the existence of the issues implied in maintaining the welfare state, especially in some countries of the Union.

In any case, the scale of today's problems makes the identification of reforms capable of adapting the best aspects of the traditional WS to the current situation a necessity. The three main aspects of this approach are, firstly, the improvement of the mechanisms adopted to evaluate and control public expenditure so as to be able to distinguish in a transparent manner those public services which are most effective from those which are not, so as to avoid inefficiency overspending and corrupt behavior. Only by obtaining such information can the current levels of fiscal pressure on citizens be maintained. If there is no clear-cut compensation for services received, the level of tolerable fiscal pressure will drop perceptibly.

On the other hand, the application of fiscal systems – while being suited to levels of expenditure desirable for citizens – must ensure sufficient resources and a reasonable degree of equity and efficiency, attempting to limit the generation of distortions. Increased visibility of the fiscal system and of its results is particularly important, in order that citizens may know how much they are paying and with which degree of equity. This will also enable them to evaluate the degree of balance between what they pay and what they receive. In an advanced democratic society it should not be impossible to provide this information, which is essential for the process of democratic control of public decisions.

Lastly, there is a need to determine which of the tasks traditionally performed by European public sectors may be assigned to both private or third sector parties with no loss to the citizen's welfare. Especially in the latter instance, the possibilities for complementarity or replacement are manifest in some public services, but there is no doubt that even in this case, control of what is actually transferred and the evaluation of results are key strategic variables aimed at preventing mismanagement and misconduct on the part of decision-makers.

In summary, while recognizing the leading role played by tax systems in ensuring the sustainability of the WS, in today's landscape its preservation seems impossible without the introduction of reforms both in the context of services and of their financing, if we genuinely wish to obtain results similar to those attained in previous periods in terms of growth, social cohesion and individual security.

## RECIPROCALLY FROM EUROPE

The recession and the increase of the debt ratio of European countries, especially those of Southern Europe, has forced governments to implement policies aimed at fiscal consolidation and to cut some of the traditional provisions of the Welfare State. The worsening of the recession and the European public sectors' associated loss of "weight" have also implied an increase in inequality and poverty indicators in the region.

In Latin America and the Caribbean – though with important differences between one country and another in the region - there has been a remarkable process of economic growth in the same period, largely due to the expansion of export sectors which followed an increase in the demand for products generated in the region. On the other hand, the implementation of rigorous fiscal policies and the strengthening of domestic markets had positive consequences on the social variables of most of the region's countries, though it still is – as O. Cetrángolo points out - "the world's most asymmetrical region". Cautiously, and bearing in mind the existing differences, we might state that in recent years there has been a certain degree of convergence between both areas as regards the principal economic and social variables. If this is the case, it might be interesting to reflect upon the limits of public action, beginning from a review of the production structure and the scope of public sectors in both regions. In order to analyze the degree of convergence of public sectors, it is essential to understand the basic differences between the two areas as regards public revenues and fiscal structures. According to IMF data, over the period 2010-2014 the average values of general revenues of the public sector in relation to the corresponding GDP showed a difference of 15% between the two areas. As regards fiscal structure, taxation on work in the European Union accounts for half the total amount of collected tax. In turn, the labour market is affected directly by taxes such as contributions to social security and personal income taxes. Their weight is the key factor in tax burden variances between Latin America and the European Union. In addition - as some authors advocating the concept of equivalent tax burden have proposed – if we compare the contributions typical of a pay-as-you-go plan with the compulsory payments made to pension funds and plans, the differences are less significant. It seems clear that the most notable difference between the two areas is that of personal income tax: among countries of central and northern Europe, personal income tax accounts for around 10% of the GDP, while in southern and eastern European countries, the percentages are lower, but generally higher than those of Latin America and the Caribbean. In many American countries, the minimum income threshold for submitting one's tax returns is very high, which noticeably reduces the number of real taxpayers, in addition to problems associated with informal employment and the difficulties encountered in monitoring work-related incomes. The latter are more heavily taxed in the European Union, as are capital-related incomes, despite the reform processes which have been put in place in many European countries. The differences are less significant as regards other taxes. The same occurs with indirect taxes, especially the tax on aggregate value, which accounts – on average - for similar percentages of the GDP in both regions. There are, moreover, no substantial differences as regards property tax, which leads to relatively modest collection both in Europe and in Latin America and the Caribbean. The concentration of capital in both areas - though with different contents – may be a good argument for obtaining resources in this way in future tax reforms, in order to offset a decrease in tax collection in other domains. Maintaining the welfare services that have provided good results in Europe in terms of equality, social cohesion and individual security clearly means maintaining the relatively high levels of tax burden required for financing such services. Only with sufficient tax resources is it possible to maintain high-quality healthcare services which are available to most of the population. It seems reasonable to limit social contributions to the financing of worker's pensions, and prevent the social security system from being obliged to finance healthcare provisions in addition to pensions. Provided that there are sufficient resources, the basic services of the welfare state must be funded by general taxes. In order to obtain the necessary resources, as well as implementing the relevant tax reforms, which - as Cetrángolo suggests – should not neglect equality and should be structured from a gradualist perspective, it is essential to focus upon public expenditure, its evaluation and its control in order to ensure its quality and suitability to the citizens needs, attempting to properly define the tasks of the public sector. The cuts which are being made in some European countries as a consequence of fiscal consolidation strategies should serve to reopen the debate on the current role of the public sector.

JESÚS RUIZ-HUERTA

## RECIPROCALLY FROM LATIN AMERICA

In our countries, the perception of the international crisis is giving way, gradually, the structural problems of each of the countries themselves. However, we can not help but point out that updates on the crisis must be maintained.

Jesús Ruiz Huerta's article gives us an opportunity to put into perspective and reinforce our own conclusions regarding the challenges which await Latin American countries as they increase the scope and improve the impact of their social protection systems.

1. Firstly, it forces us to contextualize each observation. As we learn from this article, concerns in Europe continue to focus upon the economic crisis, its possible development, and - as a consequence - the future of welfare states. In our countries, perception of the international recession is gradually giving way to the structural problems of each country involved, but it is important to highlight the need to remain alert as regards the recession.
2. Secondly, the article points out the capability of the European welfare state to alleviate the effects of the recession. This has been possible thanks to the consolidation of the welfare state during periods of prosperity and by the allocation of important tax resources. Our region has much to learn in this respect.
3. Thirdly, the author emphasizes with great eloquence one of the major strengths of the social protection system in Europe, as well as pointing out the weaknesses of Latin America. Systems envisaging wide-ranging common coverage in Latin America are unthinkable without a substantial increase in the tax burden.
4. Fourthly, the tax reforms in Latin America must focus upon observing the direction of changes in Europe, as highlighted by Ruiz-Huerta. Technological changes and the intensification of globalization oblige the rethinking of fiscal structures. However, it is also important to remember that our points of departure are very different, and that changes in one direction in Europe may mean very different reforms in Latin America.
5. Lastly, a more general reflection which comes to mind after reading the article is the non-existence of an ideal, stable, long-term system. Even the most prestigious schemes require ongoing reformulation. Public policies and their financing must always be regarded as "mobile targets" which need to be adapted to changing circumstances. Monitoring and evaluating the impact of each scheme is an essential part of any policy design.

ÓSCAR CETRÁNGOLO

# DE FACTO POWERS AND PUBLIC POLICIES – THE LONG PATHWAY OF PROTECTION IN CENTRAL AMERICA



**CARLOS SOJO**

*Is from Costa Rica and holds a degree in Social Sciences from the University of Utrecht and a Master's Degree in Sociology from the University of Costa Rica. He is currently an associated researcher at FLACSO Costa Rica and President of Socioanálisis América Latina. Between 2000 and 2008, Dr. Sojo worked as Director General of the FLACSO offices in Costa Rica. He has worked on various projects as an advisor for international bodies and state institutions in Latin America, and has published 28 books on his specialist subjects, as well as dozens of articles in magazines and specialist publications. In 2012, he coordinated the definition of the conceptual contents of the National Programme for Promoting Coexistence in Educational Centres in Costa Rica.*

## THE POST-CONFLICT PERIOD

Almost two decades after the end of armed conflicts in the region, Central America is experiencing slow progress. Two decades of political peace and electoral democracy cannot be considered a minor achievement, especially if we consider that this is the first time in almost two centuries of republican history in which the six countries of the Isthmus all find themselves in the same situation. The period has allowed stability and economic growth, as well as progress – however modest – in the levels of social inclusion of the population, as is evident in the reduction of poverty and improvements in income distribution.

However, social and political stability are not as widespread as they should be. Recent years have seen the growth of a type of criminal violence even crueler than that seen during periods of war. We have witnessed various breakdowns of the constitutional order, sometimes overt and militarized and in other cases caused by the co-opting of public powers by bogus leaderships which – as in previous decades and before armed conflicts – carry out an authoritarian coup and seize control of the rules of democracy. In addition, at least four former heads of state have been accused of corruption and imprisoned or have absconded. This shows that some progress has undoubtedly been made in the fight against impunity, but also that there has been an exponential expansion of patrimonialism as a way of administering public resources.

Although some phenomena are common to all, the situation in Costa Rica and Panama needs to be clearly differentiated. The former is one of the most stable democracies of the entire continent, if not the oldest, as well as the Latin American country where the most widespread experiments in social architecture are being carried out in terms of the population involved. Though Costa Rica has lost some income equality over the last few years and has seen the consolidation of low levels of income in a fifth of its population, it is also true that its social institutions are real and resist the periodic attempts at mercantilist transformation and privatization that have wreaked havoc in other countries of the continent. On the other hand, Panama is currently the ‘star’ of economic growth in the region, and though its social indicators are not the best possible, it has distinguished itself from the rest of the countries in the region by managing to increase the tax resources available for undertakings related to healthcare and education, meaning that some of the brightness of its skyscrapers and the dynamism of its infrastructures – such as the enlargement of the Panama Canal and the Panama City Subway – reaches lower-income groups.

<sup>1</sup> The Central-American Isthmus comprises the 5 countries of Central America, plus Panama, whose political and institutional history is different.

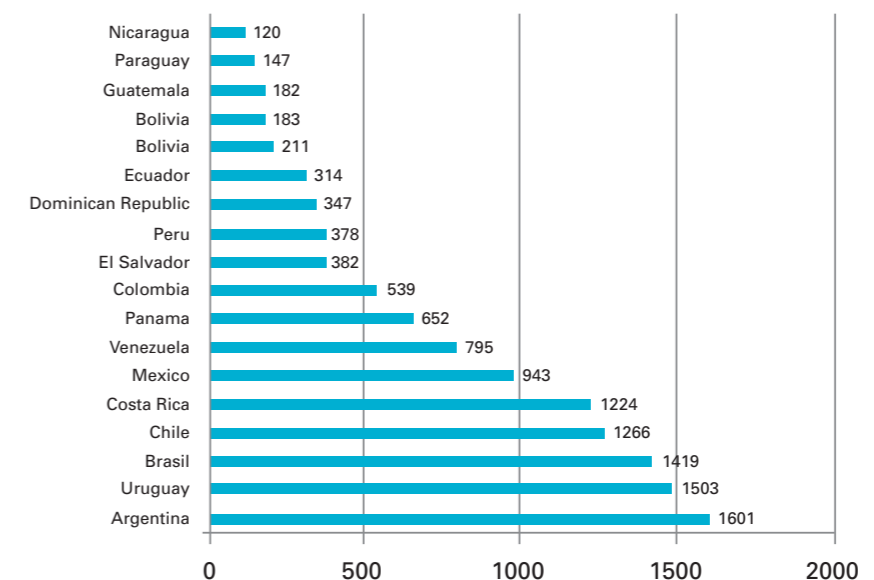
## WEAK INSTITUTIONS, PRECARIOUS FINANCING

It is impossible to speak about public policies without descending into rhetorical flourishes if the institutional plan and the budgetary funds are non-existent or minimal. This is exactly what is happening in the countries in the northern part of the Central-American region. Those countries which did not have sound institutional structures before the '80s harboured a paradoxical ambition to reduce the excesses of an in-existent state in favour of as much privatization of public services as possible. As a consequence, peacetime governments opted for minimalist prescriptions which legitimized social investments exclusively for lowest-income groups, who were only partially catered for.

After the first decade of the 21st century, no trend towards the founding of long-lasting institutions was visible. On the contrary, welfare continued to dominate public investments in the social sector. Both left-wing and right-wing governments promoted social initiatives bearing the hallmark of the authorities of the time, frequently focusing – directly or indirectly - on re-election, as occurred with the candidature of at least two “first ladies”. As a result, as regards social protection, people living in the northern part of Central America are among those that enjoy the least coverage of social protection systems, including non-contributory systems. A study by CEPAL revealed that while in Costa Rica only 9% of the families were subsisting with no mechanism of social protection (either contributory or non-contributory), the same was true of 63% of families in Guatemala.

The insufficiency of resources, on the other hand, is simply outrageous, with the countries in the northern part of the region recording the lowest levels of social public investments in Latin America, which is particularly negative in the case of education and health. Recent governments, at least over the last decade, and above all in El Salvador and in Nicaragua, have made efforts to increase by several orders the investment levels of the previous 20 years, yet the disparity with the most developed countries has remained constant, or has even increased. The problem is of course the result of time and necessity: after a lifetime of social neglect, the needs of most people in Central America are far-reaching, and very little can be achieved in just one mandate, or even in one decade. Even after doubling or quadrupling the levels of investment in the social sector, the countries in the northern part of the region are still far below the regional average of Latin America, and at a distance which is ten or more times that of Costa Rican levels, Costa Rica in fact being is one of the countries in the region with the highest levels of investment in social initiatives. Analysing the extreme cases, we see that while in Nicaragua social investment per capita reached 120 USD, in Costa Rica it was 1224 USD per person. Therefore, the disparities in Central America are the expression of continental gaps in a region in which we all have the same rights, but where only some of us obtain basic levels of satisfaction.

## LATIN AMERICA: OVERALL SOCIAL INVESTMENTS CA. 2010 / US\$ DOLLARS OF 2005 PER PERSON

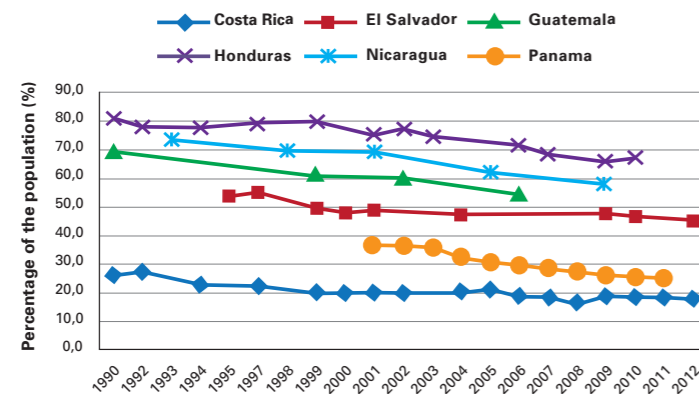


Source: Cepalstat

The final results speak for themselves. According to the latest data from CEPAL, the poverty levels in the northern part of Central America are the highest in all Latin America, with the exception of Paraguay which has overtaken El Salvador. In the other countries, poverty affects over half of the population. In such conditions, it is possible to speak of social achievements, but caution is necessary, in that social exclusion, not citizenship, is the rule.

#### CENTRAL AMERICA: POPULATION BELOW THE TOTAL POVERTY LINE

##### PERCENTAGES



Source: Cepalstat

#### WITHOUT A STATE, WITHOUT A MARKET, WITHOUT CITIZENSHIP

On the subject of the harsh social and political asymmetries marking his country, the current Colombian Senator Claudia López pointed out that around 10 million of her fellow nationals were living in a social organization without a state, without a market, and without citizenship: “getting up every day only to be abused by the de facto powers”.

In the absence of institutions, de facto powers fill the social vacuum. The same occurs in Central America. Social order is less a product of the altruistic articulation of tax resources and institutions for social protection, and more the result of a combination of players, some of them legitimate, others criminal, who manage to meet short and medium-term social demands.

It is easy to imagine the role that organized crime can play for a population the majority of whom live below the poverty line. It is easy for political patronage to obtain votes in exchange for access to public subsidies, investment agreements, infrastructure works and, though of course to a much lesser extent, social funds devoted to compensating lower incomes.

Corruption, a patronage system and extortion are all expressions of redistributive mechanisms where markets fail to generate employment and salaries, and where states are unable to support institutions based on the rule of law and financed through taxation. Attention must be focused on the recent growth in schemes for corporate social responsibility (CSR) in all the countries of the region. Although notable progress has been seen in the evolution of CSR from its original marketing and charity forms, it will take time in most Central American countries to demonstrate that such strategies imply an enlargement, and not simply a cheaper replacement, of public responsibilities. This, first of all, is related to the very low tax burden in the region, and the persistently high tax evasion. On the other hand - even in the most advanced national contexts - the violation of the basic responsibilities of primary distribution, as in the case of fair remuneration for work, is evident. In Costa Rica, where the minimum wage is the highest in Latin America (more than 500 USD per month), several studies estimated that at least 30% of employers fail to comply with this legal obligation. If public institutions are weak or non-existent, CSR is a poor substitute for what labour and tax-related laws produce in advanced capitalist countries.

Yet there are also compensatory de facto powers which are social capital-intensive and express the capability for resilience of a society facing a structural crisis or temporary hardships. I am referring to the compensatory role family remittances play in

the countries of Central America. Perhaps the most important element to highlight in this respect is that in the countries of the northern part of the region, family remittances – as a percentage of the GDP – exceed the total amount of public investment in the social sector. This means that social needs are met mostly by family efforts in the absence of redistributive public institutions and markets able to generate decent employment for all. In this way it is possible to close the vicious circle of job-related migrations in the sphere of human and social development: less people pressing for social services, absenteeism which improves already precarious poverty and employment indicators, and finally, fresh financial resources that compensate the absence of state response and enhance the commercialization of the social sector. In this respect, the contrast between the countries of the northern part of the region and Costa Rica and Panama is equally remarkable. The most recent data (IDB-MIF) indicate that in Honduras, El Salvador, Guatemala, and Nicaragua social investments as a percentage of the GDP are lower than the contribution of family remittances from abroad. In three of these countries remittances account for about 17% of the GDP (2012), whereas the overall social investments hardly reach 13% of the GDP. In Guatemala social investments account for only 8% of the GDP and remittances around 11% of the GDP. By contrast, in Costa Rica remittances account for slightly over 1% of the GDP, and in Panama account for almost 2% of the GDP.

#### CITIZENS' PACTS

Long-lasting changes will not be possible unless political transformations occur which lead to citizen's pacts. Today it is still unclear whether the necessary ability exists to generate long-lasting public policies, which favour such changes in the four countries. As we have seen, there are many reasons for this. The conditions for such transformations require first of all a progressive tax reform, which ensures a leap of tax rates from the current limits of 10% of the GDP to 20%, without considering the burdens for social security. In this respect, the social security institutions should convert working conditions, and not wage-related conditions, into the basis for accreditation to systems of health assurance and provident schemes. With this, it is possible to ensure that the majority of workers are integrated into high-quality public systems, which allow the avoidance of the persistent dualism where commercialized or corporate provisions available to only a few contrast with free but poor provisions aimed at the majority of the population.

In addition, it is necessary to understand that overcoming poverty and fighting for social equality are challenges for the state in its entirety, and not simply for the “caring wing” of social policies. As is well known, the most secure and stable way to ensure a reduction of poverty is to enhance the increase in labour incomes of households. To do that, first of all it is necessary to consolidate the structural foundations of employment and remuneration; secondly, to ensure the strengthening of capabilities by means of universal healthcare and education policies; thirdly, to ensure the survival of those living in extreme poverty.

This requires an alliance between the state, employers and international bodies. It is up to the state to activate options for universal social protection, based on common contributory schemes which are accessible to all those who work, and proportional to the income of each worker. Where it exists, segregation must be eliminated, and sufficiently high-quality basic services are to be provided. Employers, for their part, should ensure compliance with all the labour rules that safeguard labour, as well as ensuring the minimum salary. They should also engage in paying tax contributions suited to the country's needs and to their own income. This may be achieved with state facilities and a clear commitment on the part of the state to a transparent use of public resources. International cooperation should focus on building sustainable state capabilities, avoiding the tendency to finance projects which are poorly replicable, to formulate “paper” policies, or to replace states' redistributive obligations. Real citizens' pacts deal with these issues, not with the activation of superficial social participation mechanisms which silence the voices of the needy, and not with initiatives which force exhausted households to continue to bear the burden of the lack of public responsibility of politicians and employers.



# ANTI-POVERTY POLICIES IN A FLAWED WELFARE STATE: THE CASE OF GREECE UNDER THE ECONOMIC CRISIS



**DIMITRI A. SOTIROPOULOS**

Associate professor of political science at the Department of Political Science and Public Administration of the University of Athens and Senior Research Fellow of the think-tank ELIAMEP, Athens-based Dr. Sotiropoulos has studied law, sociology and political science in Athens, London and New Haven, CT (Yale Ph.D. 1991). His publications include the volumes *Is South-Eastern Europe Doomed to Instability?*, (co-edited with Thanos Veremis), London: Frank Cass, 2002 and *Democracy and the State in the New Southern Europe* (co-edited with Richard Gunther and P. Nikiforos Diamandouros), Oxford: Oxford University Press, 2006.

Since the onset of the economic crisis in Greece, in May 2010, diametrically opposed policies have been pulling the Greek welfare state apart. Social policy changes left large loopholes in social protection, but also simultaneously attempted to rationalize policy sectors such as pensions and child benefits in which necessary reforms had been postponed until the country reached the brink of economic collapse.

Throughout the 1990s and the 2000s, the fiscal burden of pensions upon the state budget had been growing, while the majority of pensioners lived on a minimum pension. This was not so much the result of the rapid ageing of the population as the consequence of the highly fragmented and unequal provision of pensions and other social benefits. Similarly to some Latin American countries, Greece had a multitude of occupation-based social insurance schemes, including hundreds of funds of primary and supplementary pensions, which reflected patronage-based relations forged between successive governments and members of various occupations and professions. The most powerful among these groups, such as members of liberal professions and employees of state-owned enterprises and banks, received early pensions and supplementary allowances of all kinds which were not available to most private sector workers, let alone the unemployed and those with precarious conditions of employment. The latter used to enjoy minimal, if any, social protection. In a nutshell, Greek social protection was already fundamentally flawed before the recession began.

Indeed, Greece's welfare state was already deformed before the crisis. There was grossly unequal disbursement of social assistance funds distributed on the basis of long-term patronage arrangements between successive governments and organized in the interests of those recipients with a strong voice and political leverage<sup>1</sup>. As a result, between 1990 and 2010 - i.e., for a period of twenty years before the recession's onset - poverty hovered at around the 20 per cent mark.

## THE ECONOMIC CRISIS AND ITS CONSEQUENCES.

In May 2010, after it had been revealed that in 2009 the budget deficit had reached almost 16 percent of the GDP and that public debt had soared to 130 percent<sup>2</sup>, Greece and representatives of the European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF), i.e. the so-called 'troika', signed a Memorandum of Understanding (MoU) and a loan agreement. A second MoU followed in February 2012. The MoUs were accompanied by a set of austerity measures in return for the loans. In other words, the MoUs were adjustment programmes calling for immediate fiscal consolidation.

In 2010-2013 the Greek government increased taxes on income and property in an unprecedented fashion and drastically cut social expenditure. It froze pensions and imposed reductions in unemployment, maternity, and sickness benefits. It abolished many benefits, including the 13th and 14th pension instalments which Greek pensioners had previously received on an annual basis, the lifetime pensions awarded to mothers with four or more children, the principal housing benefit and the birth grant<sup>3</sup>. Some of these measures may have led to the streamlining of social spending, but above all they have resulted in the retreat of the state from the social protection of the salaried strata, the unemployed, the poor and the socially excluded.

Austerity depressed the economy to an unprecedented extent and was tremendously costly for the aforementioned vulnerable strata. Between 2008 and 2013 the Greek economy was in recession for six consecutive years, and by the end of 2013, GDP had shrunk by 25 percent. As Table 1 below shows, by 2012 all social indicators - above all poverty, unemployment and youth unemployment - had worsened dramatically in Greece. In 2013, unemployment rose to 27.5 percent, while youth unemployment (15-24 age group) stood at 61 percent<sup>4</sup>.

**TABLE 1. THE SOCIAL EFFECTS OF THE RECESSION.  
GREECE IN THE COMPARATIVE PERSPECTIVE OF THE EUROPEAN UNION (EU)**

	Greece 2009	EU 2009	Greece 2013	EU 2013
<b>0-17 aged living in jobless households</b>	4,8%	10,2%	12,9% (2012)	11,1% (2012)
<b>Youth not in employment, education, or training</b>	16%	14,8%	28,9%	15,9%
<b>GINI coefficient</b>	33,1%	30,5%	34,3% (2012)	30,6% (2012)
<b>Unemployment</b>	9,5%	8,6%	27%	11,1%
<b>People at risk of poverty or social exclusion</b>	27,6%	23,2%	34,6% (2012)	24,8% (2012)
<b>Materially deprived</b>	11%	8,2%	19,5%	9,9%
<b>Youth unemployment rate (15-24)</b>	25,8%	19,9%	55,3% (2012)	22,8% (2012)
<b>Labour force participation</b>	67,8%	70,9%	67,9% (2012)	71,8% (2012)
<b>Index S80/S20</b>	5,8	4,9	6,6	5,1
<b>Life expectancy</b>	79,7	76,7	80,3	80,02

Sources: Eurostat, various years; and the database of the Crisis Observatory of the Hellenic Foundation for European and Foreign Policy (ELIAMEP)

<sup>2</sup>Eurostata data available at <http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home>, last accessed on 25 June 2014.

<sup>3</sup>Manos Matsaganis and Chrysa Leventi, "Distributive effects of the crisis and austerity in seven EU countries", Working Paper 14/04, 2004, Research Programme IMPROVE, pp. 42-43, available at [http://www.centrumvoorsocialeleid.be/ImPRovE/Working%20Papers/ImPRovE%20WP%201404\\_1.pdf](http://www.centrumvoorsocialeleid.be/ImPRovE/Working%20Papers/ImPRovE%20WP%201404_1.pdf), last accessed on 23 June 2014.

<sup>4</sup>Press release, Hellenic Statistical Authority. Available on the web:

[http://www.statistics.gr/portal/page/portal/ESYE/BUCKET/A0101/PressReleases/A01101\\_SJ002\\_DT\\_MM\\_11\\_2013\\_01\\_F\\_GR.pdf](http://www.statistics.gr/portal/page/portal/ESYE/BUCKET/A0101/PressReleases/A01101_SJ002_DT_MM_11_2013_01_F_GR.pdf) login on April 10th 2014.

<sup>1</sup>Manos Matsaganis, "Social policy in hard times: the case of Greece", *Critical Social Policy* 32 (3), 2012, pp. 406-421; Dimitri A. Sotiropoulos, "The EU's impact on the Greek Welfare State", *Journal of European Social Policy*, 2004, 14, pp. 267-284.

### THE CHARACTER OF ANTI-POVERTY AND SOCIAL INCLUSION POLICIES UNDER THE RECESSION

Overall, the torrent of social spending cuts was only countered by limited waves of timid new social protection measures. The cuts have been almost universal, thus affecting those lower-income groups which could not afford to access health care and social assistance outside of state services. By contrast, new social protection measures, albeit non-categorical (i.e., affecting beneficiaries regardless of the occupational category to which they belonged) have been sparse and sandwiched between further austerity measures.

Firstly, to the limited extent that they were attempted, anti-poverty and social inclusion policies under the recession took an erratic path. For instance, in 2010 a “social solidarity contribution” was added to the total tax paid by all middle- and higher-income earners but was soon abolished. In the same year, a “compensation” for the abolition of the 13th and the 14th monthly pensions which pensioners used to enjoy before the pension reform of 2010, was introduced, but this was then abolished in 2013.

Secondly, new social protection measures were occasionally universalistic. They were sometimes targeted at population groups deserving of social support, such as the unemployed - as will be explained below - while other times they were targeted at occupational groups which were not necessarily either socially excluded or poor but which possessed political influence or were considered to be the guardians of the state. For example, even though all public sector employees have suffered income losses since 2010, the government announced in 2014 that it would offer additional compensation only to military personnel and policemen.

Nevertheless, two new, non-categorical, almost universalistic measures were the new unified child benefit, introduced in 2013, and the minimum income guarantee, scheduled for implementation in a pilot program in two of Greece’s 13 administrative regions towards the end of 2014. Before the recession, Greece was one of the very few EU countries which did not have any minimum income guarantee (MIG) scheme whatsoever. Successive governments resisted the introduction of this guarantee, which is typical of European welfare states, claiming that the cost was prohibitive for the state budget. It was only through the insistence of the otherwise neo-liberal ‘troika’ that such a measure was included in the MoUs.

The MIG is directed at individuals earning as little as 400 Euros per month, and individuals claiming it must prove that they earn less than that amount per month and that they are ready to accept work offered to them by prospective employers. MIG beneficiaries are also entitled to an additional subsidy to pay their rent, and also to free health care from public health care services. The MIG program is funded by the state budget, but there is a ceiling of 20 million Euros. If this ceiling is reached, the future of the program will become uncertain.

On the other hand, the new policy of unified child benefit replaced a traditional family policy which was initially fragmented, uneven and dependent upon the nature of the beneficiary’s employment (e.g., there were various child benefits for civil servants and private sector employees but no child benefits for farmers); furthermore, under the influence of the Greek Orthodox Church and well-organized associations of large families, family policy served the interests of large families at the expense of smaller ones.

After the recession erupted, the government acknowledged the large-scale social costs of austerity for most families and changed approach. Before the recession, the government had provided benefits to all large families (those with three or more children) regardless of their income, and a lifetime pension to all mothers bearing four or more children. After the recession began, a means-tested child benefit for all families with children was introduced, regardless of the beneficiaries’ occupation, the large-family benefit became means-tested, and the lifetime pension for mothers with four or more children was abolished. It is too early to say whether this policy shift will help decrease inequality among Greek families, but family policy began shedding its previously particularistic characteristics.

Unemployment insurance policy is another example of a policy shift towards a scheme which is both means-tested and greater in scope. Before the recession, civil servants and public sector workers, including the well-paid employees of state-owned enterprises, enjoyed life-long job tenure. Self-employed workers, including artisans and craftsmen, had no unemployment coverage at all. Private sector workers, if dismissed, could obtain a meager unemployment benefit for a period of up to 12 months. After that period ended, they were left on their own. After the recession, the government relaxed eligibility conditions for unemployment assistance offered to long-term unemployed older workers. Before the crisis such assistance was offered to unemployed people who were 45 years old or over and earned an annual income of 5,000 Euros. Now the benefit is available to people who are between 20 and 66 years old, have an annual income of less than 10,000 Euros and have received a total of 12 months of unemployment benefit (i.e., those unemployed people entitled to fewer months of unemployment benefit are not eligible). There is, however, a ceiling of available funding which, if reached, may jeopardize the program’s future.

Finally, another policy shift aiming to cover a flagrant social protection loophole during the recession, despite the fact that the bulk of economic policy shifts created new loopholes, was the introduction of unemployment insurance for self-employed or autonomous workers, meaning artisans, craftsmen, technicians or small shopkeepers. Before the recession they enjoyed social protection provided by their own social insurance funds, but if they went out of business they were not eligible for unemployment benefits. Economic depression rapidly increased the numbers of jobless self-employed workers. Since 2013, the government has implemented a new program of unemployment insurance for self-employed persons who had ceased their economic activity by the end of 2011, had regularly paid insurance contributions for a least 12 months prior to the time they went out of business and were living on an income of less than 10,000 Euros per year.

### CONCLUSIONS

Apart from the new family policy, the Minimum Income Guarantee (still in a pilot stage of implementation), the broader eligibility criteria for the long-term unemployed and the extension of unemployment insurance to the self-employed, there are other less consequential social policy measures to tackle unemployment, and more specifically youth unemployment. Most of these measures have been announced publicly but little progress has been made since then. They are in the preparation stages or have been legislated, but their implementation is delayed.

Prime Minister Antonis Samaras, a conservative politician who has been in power since June 2012 heading a coalition of the centre-right party (New Democracy) and the socialist party (PASOK), has announced his aim to introduce three pillars of social protection. First, measures to subsidize businesses and assist local government in order to curb unemployment; second, measures to implement the EC’s “Youth Guarantee” program, aimed at integrating young people into training schemes or the job market; and third, assistance to households in which no household member is employed.

Overall, social policy designed to fight poverty and social exclusion in the wake of the recession exists in Greece, but it has not borne visible fruits, and can be summarized by the phrase “too little, too late”. This does not mean that in the future, as long as the Greek economy remains stable and the budget surplus, attained in 2013, is maintained, more effective social policy measures will not be adopted. In addition to economic stability, the preconditions for such a scenario are obvious. They include firstly further financial support from the EU, for instance from the Structural Funds, targeted at the most vulnerable groups of the population, and secondly a sense of measure and fairness on the part of the government which need not and should not reproduce the policy patterns of the past, which dictated that any surpluses were distributed on less-than-transparent and patronage-based criteria to selected groups of the population. There is a good chance that if the government is left to its own devices without any supervision from above (i.e., from the EU) or pressure from below (i.e., from labour and social movements) it may not be able to resist the temptation of repeating these past practices of favoritism and fiscal derailment.

# MULTI-LEVEL GOVERNANCE, ITS TERRITORIAL ARTICULATION AND NGOS IN EUROPE



## BRIAN HARVEY

is an independent social researcher working in the fields of poverty, social exclusion, equality, community development, human rights, civil society and European integration. He lives in Dublin and works for Non Governmental Organizations (NGOs), government agencies, intergovernmental bodies and trusts and foundations in both parts of Ireland, Britain and continental Europe.

The Treaty of Westphalia (1648) not only ended the Thirty Years War, but it also defined the historical starting point of our discussion - that Europe was a collection of nation states ruled only by their sovereigns: mono-level governance. This began to break down in the late 18th century with post-enlightenment notions of civil society (Jean-Jacques Rousseau) and the idea that it was desirable for citizens to group themselves together for common purposes, be it for self-interest or in order to advance the interests of others, for example the movement to liberate slaves, so as to create *"the good society"* (Alexis de Tocqueville). The French Revolution introduced the ideal of societies governed by ideas that extended far beyond their own borders<sup>1</sup>, and by the late 19th century there were numerous civil society movements dedicated to questions of social progress such as equal rights for women. In other words, mono-level governance was being broken down by ideas of governance which both included civil society and possessed an international dimension: governance at multiple levels.

The construction of modern welfare states based upon principles of social inclusion may be traced back to the activities of the older people's Non Governmental Organizations (NGOs) which began shaping the welfare state in Germany in the 1920s. This process continued across most of western Europe in the period after 1945, when NGOs, working with government, helped to design what we know as the modern welfare state, with education from childhood to university available to all, social housing for those unable to afford their own homes, pensions for older people, a minimum guaranteed standard of living and a national health service, although their quality and extent have varied<sup>2</sup>. This period lasted until the mid-1970s and became known in French as *"les trente glorieuses années"* (the 30 glorious years)<sup>3</sup>. NGOs not only pressed governments for these social reforms, but became important actors in delivering these social services. An international review estimated that NGOs comprised between 5.5% and 10.4% of total service employment and from 2% to 4.8% Gross Domestic Product in the four biggest western European countries: Italy, Britain, France and Germany.<sup>4</sup>

These NGOs busied themselves with a wide range of issues: women, youth and children, rural development, older people, health and social services and the environment.<sup>5</sup> A large part dealt directly with social inclusion, such as housing and homelessness,

disability, unemployment, single parents. When the European Commission established the first program against poverty (1975-80), it studied the actions of NGOs in the struggle against poverty, finding that they had played a key role in working with disadvantaged, marginalized communities, developing innovative services and as pressure groups for more enlightened social policies.<sup>6</sup>

The countries of eastern and central Europe had also developed NGO-based services in the 1930s. Most, but not all, of them were subsumed into the state when the people's democracies were established - or imposed - in 1948. When change began to sweep across eastern and central Europe in the 1980s, NGOs, especially those in the environmental movement, led the way and were the cradle from which the political leadership of these states from 1989 on sprang. NGOs were reestablished and became an important part of the fabric of these states which joined the European Union in 2004.<sup>7</sup>

A recent British study suggests that NGOs play a crucial role not just in the delivery of social services and the welfare state but also in participation in citizenship and politics, as well as - through their expertise - in the quality of public administration.<sup>8</sup> When American analyst Jeremy Rifkin examined the civil society sector in Europe, he was impressed not only by its impressive reach but by how it had broken the hold of nation states on determining policy, bringing a new sense of participatory democracy to the political process.<sup>9</sup>

## NGOS AND MULTI-LEVEL GOVERNANCE

*"Multi-level governance"* is the theory that society should be governed at multiple levels vertically (meaning not just the sovereign state, but international, regional and local government) and horizontally (not just the sovereign state, but through civil society and social partners) with a multitude of levels and modes of interaction.<sup>10</sup> Germany is the European country considered to best exemplify the concept, with levels of vertical authority ranging from the European Union through federal government and 16 regional Land governments to commune level, while at a horizontal level government works with social partners (industry, trade unions), NGOs and universities in ways ranging from national consultative forums and power-sharing in the workplace (*Mitbestimmung*) to older people's committees in nursing homes and local authorities.<sup>11</sup> France has made institutional provision for environmental and social NGOs to be elected to the Economic and Social Committee (ESC), which, although less powerful than the Senate or the National Assembly, plays an important consultative role. Organizations working with homeless on the ESC have used it as a foundation for promoting improved legal rights for the homeless. Many states have re-discovered the merits of the diffusion of power through regions, with the development of regional government (e.g. Italy, Spain, Austria, Sweden) and large-scale programs of decentralization (e.g. France). At a European level, a new upper house of the Parliament - the Committee of the Regions - has been created to ensure that all regions can contribute to European regional policy. Multi-level governance is by no means embedded in all states, for there are varying levels of Euro-skepticism, with British political opinion swinging strongly towards the *"Westphalian"* notion that European institutions should have no role in their sovereign state.

During the tenure of the Commission's eighth President, Jacques Delors (1985-95), the European Union was at the forefront in extending the theory of multi-level governance. He introduced *"integrated operations"* (1985) whereby European funding went directly to regional and local authorities (e.g. Belfast and Naples), involving a broad range of actors in economic and social development.<sup>12</sup> With his reform of structural funds (1989), NGOs, together with national and local government and the other social partners, came to be involved in their design and monitoring and in ensuring that structural funds were effective instruments for the promotion of social inclusion.<sup>13</sup> There was a system of global grants, whereby funds could be directly paid to intermediate organizations for the development of urban and rural localities. The tenth president, Romano Prodi (1999-2004), was responsible

<sup>6</sup>Commission of the European Communities: Final report from the Commission to the Council on the first programme of pilot schemes and studies to combat poverty. Brussels, author, 1981, COM 81/769.

<sup>7</sup>Networking in eastern and central Europe. London, Directory of Social Change, 1994.

<sup>8</sup>Hilton, Matthew et al: The politics of expertise - how NGOs shaped modern Britain. Oxford, Oxford University Press, 2013.

<sup>9</sup>Rifkin, Jeremy: The European dream - how Europe's vision of the future is quietly eclipsing the American dream. Cambridge, Polity Press, 2004.

<sup>10</sup>Hooghe, Liesbet & Marks, Gary: Multi-level governance and European integration. Lanham, MD, Rowman & Littlefield, 2001.

<sup>11</sup>Simon Green & William Paterson (eds): Governance in contemporary Germany - the semi-sovereign state revisited. Cambridge, Cambridge University Press, 2005; Naegelé, Gernard: The politics of old age in Germany, from Alan Walker & Gerhard Naegelé: The politics of old age in Europe. Buckingham, Open University Press, 1999.

<sup>12</sup>Manzella, Gian Paolo: The turning points of EU cohesion policy. Glasgow, University of Strathclyde, 2009.

<sup>13</sup>European Anti-Poverty Network (EAPN): Manual on the management of the structural funds for NGOs combating social exclusion. Brussels, author, 1999,2004, 2009.

<sup>1</sup>Woolf, Stuart: Napoleon's integration of Europe. London Routledge, 1991.

<sup>2</sup>Esping Andersen, Gøsta: Three worlds of welfare capitalism. Princeton, Princeton University Press, 1990.

<sup>3</sup>Fouriastié, Jean: Les trente glorieuses, ou la révolution invisible de 1946 à 1975. Paris, 1979.

<sup>4</sup>Salamon, Lester & Anheier, Helmut: The emerging sector: the non-profit sector in comparative perspective - an overview. Baltimore, Johns Hopkins University, 1994.

<sup>5</sup>Networking in Europe - a guide to European voluntary organizations. London, Community Development Foundation, 1992.



for the white paper European governance, which outlined the role of NGOs in providing a channel for “feedback, criticism and protest”, possibly the first time the authorities had accepted the importance of “protest”.<sup>14</sup>

The involvement of social inclusion NGOs in multi-level governance in Europe was taken to the lowest territorial level in the course of the evolution of the programs against poverty. The third program (1989-94) represented a departure from the days when NGOs carried out projects largely on their own. Delors’ Commission now argued that little progress would be made against poverty unless government and NGOs engaged one another in joint enterprise. Accordingly, the boards of the projects were to comprise a partnership of local communities, NGOs, service providers, government departments, local authorities, other government agencies, social partners and others (e.g. the research community). Ways were to be sought to involve the target populations (e.g. deprived urban and rural locations, unemployed people and marginalized groups like ethnic minorities), and furthermore, their actions must tackle the broader aspects of government which affect social policy. These three principles - partnership, participation and multidimensionality - became the guiding elements of European action for social inclusion.<sup>15</sup> Participants from disadvantaged local communities not only joined the boards of projects in their areas, but, provided with access to university education, became knowledgeable and articulate voices of their communities.<sup>16</sup>

## CONCLUSIONS

The role of civil society in European social policy goes back to the 18th century enlightenment and the weakening of the traditional Westphalian notion of mono-level governance. NGOs drove the construction of modern European social policy initially from the 1920s, most markedly in the “*trente glorieuses*” from 1945, to the point that an enlightened social model is a defining feature of the European project. Their participation has been evident at local, regional, national and European level. Within many European states, the concentration of power in the sovereign state has yielded to more sophisticated ideas whereby power is shaped vertically (state-region-local-commune) and horizontally (social partners, NGOs): multi-level governance. From a distance, multi-level governance appears to be a confusing mixture - but those states where it is most embedded, both horizontally and vertically, have delivered the strongest economic and social performances.

Recently, however, not all has gone well with the European social project, social policy, or the role of NGOs. The Treaty of Lisbon shifted power at European level toward the governments of the member states - and away from the Commission, which under Delors and Prodi had championed NGOs and multi-level governance. The third anti-poverty program was also the last such program to focus on NGOs. Although the structural funds provided multiple opportunities for social inclusion NGOs to participate in the design, delivery, monitoring and evaluation of programs, member states were able to frustrate and undermine such participation without difficulty.<sup>17</sup> Many of the gains made in social inclusion in the 1990s and early 2000s were lost following the economic and social crisis of 2008, especially in those countries that followed austerity policies. Here, unemployment, homelessness and poverty rates rapidly escalated and “solidarity”, a term often heard during the Delors-Prodi period, proved to be elusive. In Ireland, for example, where overall government funding fell by 7.1% over 2008-2014, the government reduced funding for NGOs by between 35% and 45%, selling off the program for community development in 31 lots to for-profit companies: the workforce for the NGOs sector is expected to contract by 31% by 2015.<sup>18</sup> The European elections of 2014 saw, in several countries an insurgence of anti-austerity parties rooted in disadvantaged groups and communities (e.g. Podemos in Spain and Syriza in Greece), a fresh articulation of Europe’s social challenges. A new chapter in the story of NGOs and social policy is about to begin.

<sup>14</sup>European Commission: European governance - a white paper. Luxembourg, European Communities, 2001.

<sup>15</sup>Combat Poverty Agency: Combating exclusion - lessons from the third EU poverty programme. Dublin, Combat Poverty Agency, 1994.

<sup>16</sup>Who manages? Models of voluntary boards of management. Working for change - the Irish Journal of Community Work, 33, 2010.

<sup>17</sup>The illusion of inclusion - access by NGOs in eastern and central Europe to the structural funds. Brussels, Euro Citizen Action Service, 2004.

<sup>18</sup>Irish Congress of Trade Unions: Downsizing the voluntary and community sector. Dublin, author, 2012.

# ARE ERADICATING POVERTY AND PROMOTING EQUALITY CONVERGENT OBJECTIVES? EMERGING MARKETS, EMERGING SOCIAL DEVELOPMENTS



**BALÁZS KRÉMER,**

*Hungarian sociologist. Born in 1957 in Budapest, he began his career as a researcher of social structures and inequality in academia. After the transition, he became involved in implementing social and labor policies as head of governmental applied research institutions and expert at international organizations, partly representing Hungary in working parties, and as a member of international teams. In the early 2000s he returned to academia as a tenured associate professor of sociology and social policy at Debrecen University, where he still works today.*

## ERADICATING POVERTY? WHAT IS POVERTY?

What a silly question! Everybody knows the answer: poverty is some substandard way of living that we can characterize as privation and hardship, and extreme poverty is a situation where there are even greater difficulties in satisfying basic needs. It is so sad, and so obvious.

New conceptual problems therefore arise when we try to tackle this topic: if poverty is always sad, and painful, and shameful, and degrading, can this highly moral, emotional approach lead to a “cold and objective” definition? I think not. The principal moral and emotional aspects, such as the shame people feel when addressing poverty and the poor, might be a sufficient motive for discussing poverty, but they do not constitute an appropriate basis for what we say or how we speak when we speak about poverty, especially because we do not speak about ourselves, about our emotions and about how shameful and degrading it is for us to observe poverty, preferring instead to talk about the poor and about those living in permanent hardship.

The scientific paradigm for speaking about poverty is somewhat odd when compared to the normal scientific traditions. In standard scientific procedure, first one defines the phenomenon one wishes to speak about, identifies the key elements of the phenomenon which can be observed and operationally measured, and then one designs a method of measurement, using the results in “evidence-based” way.

In the case of poverty, the standard scientific approach to the phenomenon is different – not exceptional, but certainly rare in science. In fact, if we speak about poverty scientifically, we imitate the way physicists speak about “temperature”: first, we create a standard measuring process (e.g. how to modify the scale and how to use thermometers), we measure (e.g. the temperature), and we identify the result as a definition (the temperature being identical to that shown by the thermometer, if we use it in a standard manner).

This is more or less the same way we speak about poverty. We measure income somehow, draw a “poverty line” based solely upon money, consider those whose income lies below the poverty line as poor, and identify as “not poor” those with an income above the poverty line we have drawn. This also means that different methods result in a “hidden definition” and a distinct measurement of poverty – politicians often get angry with welfare analysts who are unable to give an explicit answer to the simple question: how widespread is poverty in our country?

Technically speaking, is it really so difficult and complicated to define what income means?

Partly, we need to clarify what kind of monetarist profit, earnings, benefits and earnings should be combined to produce “income” as a synthetic variable. The first issue is that the focus is not so much on the amount of the money that people possess but on



what they can buy with that money: the level of consumption, the level of material well-being that they can afford with the income they have earned. In developed, mature market-economies people earn their assets as “money income”, and they satisfy their material needs by buying goods and by spending the money they have earned from labor markets or received from social transfers – and up to this point, the “income” covers the “assets”. In less mature market-economies, or sometimes in traditional, rural or slum-dominated segments of developed societies, the non-monetary assets, e.g. self-produced agricultural products, the products of “productive households” or types of bartering which cannot be calculated in terms of money (or which can only be converted into money via some artificial, unreliable method) may exert an important, and sometimes dominant influence, on the way some people or families get by.

Another complex issue is that of who an income belongs to, and who is to be characterized by his/her income. In statistics we prefer to calculate household income as units of expenditure from the same wallet or bank-account. If we calculate household incomes as “observation units”, we assume that each member of the household is equally rich or poor, but that suggestion might be questioned. It is also hard to decide how we should calculate the income of a household. If we simply add up the income of every household member, we will find that larger families and households will total a higher income, and will thus seem less poor, while smaller households will seem poorer. If we distribute the total added income of the household by the number of household members, our mathematical operation will provide us with the opposite result: large families will seem poorer, and smaller households richer, simply as a consequence of adopting a per capita calculation of household income. (The reason for this is straightforward: household expenditure as housing and nutrition costs does not rise linearly if more people – e.g. more children – live together in the same household.)

The “golden middle way” applied by, for example, Eurostat, the statistical agency of the European Union, ascribes a different “weight” to various household members, and calculates the household income on a “household equivalent basis”, meaning it distributes household income in accordance with the sum of the household member’s weight (that is, less than the total number of members living in same household).

Finally, defining the poverty line is also an issue which implies political and scientific choices. Basically, there are two ways to begin: by linking the poverty line to the overall income level of a given society (“relative poverty”) or by defining the poverty line without taking into account the general income level (“absolute poverty” – which is not identical with “extreme poverty”). Poverty lines defined in an “absolute” manner are typically calculations based upon consumption prices and “shopping baskets”, or often in an even simpler way, e.g. how the World Bank uses it in international comparison: the poor are those getting by with less than 2 USD/day/capita.

By the same token, choosing relative measures means that the poverty rate is an indicator of social (income) inequality. Selecting this method entails taking a kind of implicit political position, since “that” version of poverty refers directly to income distribution, including different policies/measures affecting the way the total income of the society is allocated to the population. Absolute measures are more focused on needs, but they are not the guiding principles when it comes to the concerns and responsibilities of the policies designed to manage income allocation in order to eradicate poverty.

Usually, politicians and voters alike find scientific methodology and considerations regarding poverty uninteresting. They are too complicated: to be able to apply them, “scientific apparatus” is required which is boring and meaningless for most people. Furthermore, it is unfeasible to change these complex measurements overnight and directly – any move forward will be indirect and difficult. The challenge for politicians is to be emotional, moral and populist.

### PROMOTING EQUALITY? WHAT IS EQUALITY?

In the developed countries and mature democracies, policy discussions do not pay too much attention to the fundamental cornerstone of equality, since they take equal rights and equal freedoms for granted. In classical liberal political philosophy, the highest level of social freedom can be achieved if no one has the freedom to limit the freedom of others - if it is only the “rule of law” that controls and limits individual choices and decisions. In other words, legal commitments are equally relevant for all, and a constitutional legal state is monopolistic and applies legal violence against those who transgress this rule of law. This legally egalitarian system is the foundation of democracy, and of free competition-based capitalism, liberating imagination and creative

energies so that all may follow their own preferences and priorities in the various economic, social and political fields of life. Drawing attention to these “evident” circumstances is crucial for emerging democracies and market economies, as neglecting it could well render social development vulnerable during times of transition (although they did in fact make democratic transitions in former Communist countries fragile too).

Equal rights is not simply a matter of the difficult construction work necessary to establish the institutional and constitutional framework for the rule of law. It is perhaps a harder and slower job to develop legitimacy for constitutional systems by educating and shaping the attitudes of everyday people so that they can become “law-conscious citizens”. Legitimacy is not simply something earned as a consequence of free elections. Legal awareness partly presupposes an adequate knowledge of laws and regulations, but more is required than knowledge of the system. Citizens should feel that the legal system is their own: they should believe they can make their wills and voices heard and listened to. They should also be rationally convinced that adhering to the rule of laws is more advantageous for them than going on with their lives without caring about legal regulations. This is a crucial point: poverty is not simply a humanitarian issue, it is also a democratic one - if poor people feel that survival and the struggle for life are more important than constitutional order (and they often do), that leads to weakened constitutional and democratic systems. From that viewpoint, the eradication at least of extreme poverty and austerity is a key factor in maintaining a democratic, constitutional legal system, where people feel they are capable of getting by, do so by respecting the rules, and find the level of freedom they enjoy within constitutional frameworks satisfactory.

Apart from their shared egalitarian commitment to “equal rights”, the American and the European (at least, the continental) egalitarian traditions have been increasingly diverging for centuries.

The American egalitarian tradition emphasized “equal opportunity” to participate in economic and social life. That tradition usually applies the metaphor of competition aiming at fairness, proper and just access to democratic and market competition. Public policy measures implementing equal opportunity are based on civil law and justice: if somebody (consciously or unconsciously) causes damage to others, he or she must reimburse and compensate for that loss, even if the victim is society as a whole. This is the very nature of anti-discriminatory measures and affirmative actions. American tradition is often defined as a “meritocratic” system, since it respects merits, achievements – but it also aims to assist all in fully realizing their own capabilities and talents to achieve the most successful result they can. American egalitarian efforts are usually praised for the help they give people to become emancipated active members of society, but is often criticized because of the paucity of its protective measures against poverty.

In contrast with the “past-oriented” American tradition, European egalitarianism focuses upon future social risks by ensuring egalitarian outcomes, or promising proper assets for living in the case of future “risk-events”. The most typical policy measures for implementing this egalitarianism are social security and social insurance – ensuring substantial welfare and income for periods and situations in which people are unable to make money from the basic economic integration, the market. European welfare states have provided higher levels of protection against poverty, especially against extreme poverty, and their policies have also been effective in reducing income inequalities, but they are often criticized for being “paternalistic”, meaning that they do not efficiently foster active independent living and socioeconomic participation, and that state provisions attempt to manage the lives of people in need, who should, instead, do it themselves.

Over recent decades, a greater degree of convergence between American and European egalitarian policies has been visible. One effect of this convergence is a “new” common egalitarian priority: ensuring equally high quality and equal access to public services such as education, health or social services. Within that common orientation, Europe prefers providing services for free, while the US instead applies “commodity measures” like vouchers and food-stamps convertible into services offering poorer people mobility and assistance, with special regard to children living in poverty.

The other effect of convergence is a real trend of policies to move closer to people. Over the past two decades, EU policies have introduced a new concept of social exclusion-inclusion targeting mainly the poor, not by redistributive transfers but by measures aimed at activating them, particularly in employment. EU regulations and policies have adopted “purely” American egalitarian approaches, such as “gender mainstreaming” or equal opportunity regulations (2004, in labor strategy, and 2006, “directly” and generally). On the other hand, US policy efforts as the “No Child Left Behind Act” (2002) or the ongoing “Obama-care” reforms are strongly influenced by traditional European social insurance and welfare policies.

This ongoing convergence provides evidence that both egalitarian traditions “make sense” and that they are both important egalitarian strategies. Nonetheless, choosing which direction to take in order to start improving equality is an extremely difficult political choice. This is not simply a matter of political and ideological priorities, but also a choice based on given circumstances, such as the capabilities of existing public and private institutions and services, political and social traditions, state-budget deficits, or the strengths of civil society.

### ARE POVERTY AND THE GROWTH OF INEQUALITY THE SAME PROBLEM?

According to certain conceptual frameworks, for example the above-mentioned European tradition (applying relative poverty measures and measuring inequality by results - basically by incomes) the poverty rate is not just an indicator of inequality, but also a consequence of inequalities. If a society reduces (income) inequalities, this will automatically and logically decrease poverty. Most studies define inequalities more widely than simply in terms of income. In many societies, especially in developing and transition countries, different people may exercise different rights. Corruption does not simply interfere with fair market mechanisms, it also means that some people feel free to ignore the rules and take advantage of their official position and power for private gain – while others have no such rights or opportunities.

A situation of inequality might be singled out in the difference existing between those who have the power to choose what they want and those living in depressed and marginalized realities who have no choice about how they will get by. In American political language, power and independence are synonymous with choice, and choice is identical to – equal or unequal – opportunity. Although people do not usually say it explicitly, they mostly understand “choice” as being various options selected within the framework of market-economy and liberal, constitutional legal systems. From this viewpoint social exclusion as a factor in inequality means not having choices within mainstream integration and dominant social-economic systems (which often characterizes rural, geographically isolated communities and persons).

Inequality does not necessarily refer to hierarchical or class differences. Personal economic independence has often split entire countries and societies during periods of transition, since the speed of the transition is not universal over all sectors of the same society. One particular form of fragmented inequality might be between urban, globalized, capitalist, class-divided, developing “sub-societies”, and traditional, rural, isolated, semi-feudal, patronage-dominated fragments of the same country or society.

Taking into account such vertical, fragmented types of inequality, we should conclude that, before coping with poverty and inequality in a modern manner, it is necessary to improve the “integration” of societies: that is, to ensure the relevance of the same rules, laws, standards of behaviors and cooperation as general social, economic and political constraints. Probably the worst forms of inequalities occur in unintegrated societies, where different people and communities follow different laws and live under different rules – there is no communication or interaction between such rules, laws and standards and the representatives of the various social segments.

With regard to the aforementioned conceptual differences, we may say that poverty is not just a shortage of income, but also poor access to laws, public and market services, and poor interaction with the principal institutions of society: in short, it limits human capability, creativity and ability to get ahead. Poverty often means a lack of integration, few networks and connections, a lack of work and difficulty in maintaining relationships.

To answer to the question posed in the title: of course eradicating poverty and promoting equality are converging policy objectives which must be implemented hand in hand. But what do these objectives mean, and what must we do to achieve these converging objectives?

### ONE MAJOR DILEMMA AMONG MANY: WHICH IS THE PRIORITY? FULFILLING BASIC NEEDS OR PROMOTING SOCIAL AND ECONOMIC INTEGRATION?

Quite obviously, in poor countries the poor are more numerous than in richer ones. They need help to eliminate poverty and to promote equality. What is the best way to help them?

Basically, it is to manage efficient, high-quality public services (justice, education, health, labor and social services, etc.), and to provide them with money in the form of benefits or social transfers. Giving money is a way to improve purchasing power, thus giving the poor a chance to buy what they need.

Money creates some freedom, too, and can be spent according to one’s own preferences and needs. This is also a learning exercise in markets: to obtain information about options and make responsible decisions in order not to waste money - being thrifty, bargaining and having contact with others. Cash transfers not only help to satisfy needs, they are also a way towards integration into a market economy. In addition, cash transfers mean demand for providers and sellers: money spent by beneficiary recipients is income for providers competing for consumers.

Delivering cash support is easy and inexpensive: it is easy to apportion the money by entitlement, and also simple to forward the money to the recipient’s account (if banking services are accessible).

The best form of support (suited to the converging objectives) is to provide money. If the government has enough money, this is the right policy. Unfortunately, in poorer, developing countries, governments do not usually have enough money. To cope with that, they often turn to other ways of providing help, such as providing support-in-kind. Household economies may achieve higher levels of self-produced and self-service through the provision of food or food stamps, meals from soup kitchens, land or forests to cultivate, and natural or agricultural raw materials to process and sell. This approach can seem very attractive: helping to satisfy basic needs by means which actually exist, avoiding false promises of support in cash which is not available.

However, in-kind forms of support are in reality not attractive at all. They are an almost impossible mission, as it is extremely difficult and expensive to deliver fresh food, provide clothes that actually fit people or to supply them with raw materials suited to their existing craft-skills. If in-kind support does not match the needs, “secondary markets” of in-kind benefit-products will arise, and the real beneficiary will not be the entitled person but rather the one who buys it on the street corner for half its market price. Only decentralized systems may operate in-kind benefit regimes, but they must put into effect efficient control systems, and this is complicated and costly. Nevertheless, control is essential because of the enormous temptation for public managers to become corrupted and buy from “friends” instead of buying the best the market can offer. Politicians often advocate in-kind supports in order to better handle the poor (e.g. not allowing the sale of alcohol or gambling), but regulation is an ugly social objective. Fair social systems try to avoid in-kind supports, and prefer to provide cash transfers. There exist only two exceptional situations: a) if markets are inadequate for buying the necessary goods and services (e.g. in case of catastrophes); b) if the consumption of a given product or service serves the whole community and not simply the consumer (e.g. vaccination, mandatory public school, etc.). The same could be said of supporting the self-production of households, e.g. by offering lands for free use. That those without adequate nutrition be given the chance to meet their needs through their own work is an attractive idea: it would be much better for the poor to enjoy satiety rather than experience hunger.

However, before becoming overenthusiastic about eradicating rural poverty through such means, we must remember that peasant-like self-production (obligatory or voluntary) equals exclusion from markets. It may ensure the necessary food for a family, but from the perspective of goals of integration it is counterproductive.

### CONCLUSIONS: “KEEP YOUR EYES ON THE PRICE!”

When I was a teenager, it was a “double-protest” in a Communist country to sing the songs of the American singer Pete Seeger. We did it, we enjoyed it, and we protested – sometimes without understanding their message or the words of the English lyrics. Back then, I couldn’t understand how a Union song might say, “Keep your eyes on the price”: at most, I assumed it was being sarcastic about bankers, or something like that.

As an adult, though, I learned that in order to implement egalitarian principles you must keep your eyes on the price. Yes, as adults we cannot believe in fairytales even though we wish we could: if you kiss a frog, nothing happens, it doesn’t turn into a prince - there is no miracle cure. Promising to abolish poverty and improve the equality of humankind is such an attractive proposition.

This is the challenge – and this is the proper way to be populist, as we know very well from our present and past. Real, effective programs serving social development are necessarily difficult, complicated, costly and risky – that is why it’s important to keep our eyes on the price. Somebody, somehow, must pay affordable prices – even for such an attractive, high-priority goal as the eradication of poverty and promotion of social equality.



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