

The Welfare State in Latin America: reform, innovation and fatigue

O Estado de Bem-estar Social na América Latina: reforma, inovação e fadiga

El Estado del Bienestar en Latinoamérica: reforma, innovación y agotamiento

Sonia Fleury ¹

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Abstract

This paper analyses the challenges of building the Welfare State in late democracies in Latin America. The author shows how the literature has identified different social protection patterns in the region and how recent reform models have transformed institutions, in an unfavorable socioeconomic context. The results point to the emergence of a mixture of social protection measures that have increased coverage and reduced poverty, but are unable to guarantee universal citizens' rights and longevity.

Social Policy; Social Services; Health Policy

Correspondence

S. Fleury

Escola Brasileira de Administração Pública e de Empresas,
Fundação Getúlio Vargas,
Praia de Botafogo 190, Rio de Janeiro, RJ 22250-900, Brasil.
sonia.fleury@fgv.br

¹ Escola Brasileira de Administração Pública e de Empresas,
Fundação Getúlio Vargas, Rio de Janeiro, Brasil.



This article analyzes recent transformations in patterns of Latin American social protection, given the challenges of building democratic institutions and social inclusion in unequal societies, in a context of increasing expectations and global macroeconomic adversities. Facing the pressure for social inclusion was all the more difficult in Latin American countries because these were societies characterized by some of the worst income disparities in the world. They are characterized by high degrees of labor market informality and the presence of powerful actors with vested interests in maintaining privileges in a stratified and inclusive social insurance system developed during the 20th century. In light of the industrialization of the South of the continent, countries such as Argentina, Chile, Uruguay and Brazil were considered by Mesa-Lago ¹ as pioneers in building a stratified and centralized protection model for formal workers that was unable either to reduce stratification of the entitled or to extend coverage to rural and informal workers.

Combining levels of stratification and exclusion, Filgueira ² found three types of systems in Latin America up to the 1970s: stratified universalism (Chile, Uruguay and Argentina), dual (Mexico and Brazil) and exclusionary regimes (several less developed countries). However, one can add a universal type to include Costa Rica and Cuba. Despite the scarcity of resources, in both countries universalization must be attributed to the political contexts. While universalization in Cuba was the result of the revolutionary transition to socialism and the revolutionary commitment to pursue equity, in Costa Rica it was an outcome of social democracy, due to the interaction among political leadership in the absence of social veto actors, and the central role of technocrats in ensuring international alignment for the country ³.

Another typology identified three welfare regimes in the region, according to the main provider of social protection: the state, the market and the community ³. They are named state-productivist, state-protectionist, and a family welfare regime. The state-productivist regime is geared towards the expansion of human capital and market inclusion of the labor force as in Chile and Argentina, while the state-protectionist model protects from market risks and includes countries that are both more homogeneous such as Costa Rica, Uruguay, and more heterogeneous, namely Brazil and Mexico. Family dependent welfare can be found in Guatemala and Nicaragua, where people largely count on relatives to provide protection. This final regime may offer tangible situations whereby the social burden is placed on the shoulders of the family and of society, but it can hardly be included in a typology of social welfare if the main criterion is the attribution of some kind of citizen status endowing users with access to benefits and services. Beyond the mere distribution of revenue and services, welfare is a political phenomenon in which capitalist societies create mechanisms to assure social security to citizens in an inclusive and expansive democracy ⁴.

Most of the efforts to characterize welfare patterns are inspired by Esping-Andersen's ⁵ typology of welfare regimes, in which the main criterion to evaluate the degree to which people can make their living independently of pure market forces is the level of de-commodification. Universal systems promote equality of status and access to flat benefits. "*But the solidarity of flat-rate universalism presumes a peculiar class structure... (more homogeneous, otherwise it) inadvertently produces dualism...*" ⁵ (p. 25). Nevertheless, only in historical situations with a particular class structure (in which the vast majority of the population is in the same strata) is it possible to avoid the tendency of ending in a dual system in an affluent society ⁵.

We prefer to consider citizenship as the decisive criterion for analyzing social protection, because the growing intertwinement of market and state has blurred boundaries and made de-commodification a less clear-cut characterization. "*By citizenship, we understand a sort of basic equality to be associated with the concept of belonging to a community, which, in modern terms is the equivalent of the rights and obligations that all individuals have just by belonging to a national state*" ⁶ (p. 60).

Social protection modalities correspond to citizenship variation with consequences for inclusiveness and social cohesion, the main challenges faced in Latin America. In ideal typologies, while social assistance implies benefits without rights in a kind of citizenship inversion, where one has to prove its failure to be protected ⁷, social insurance transforms rights into privileges for occupational categories, generating a type of citizenship regulated through the labor market ⁸. Social security, on the other hand, universalizes social rights to access public systems on a needs-basis. In concrete societies however, one can find all of them together, not without stresses and contradictions, often subsumed into one of the three ideal models.

Transitions to democracy in Latin America after the 1980s and liberal trends during the 1990s have created pressures to reform the corporative social insurance model that is perceived to be inefficient and to reproduce social injustice. These reforms involved new designs for social policies in a double movement of universalizing coverage and targeting poverty. They were facilitated by the fragile institutionalization of social rights and an explosion of urban demands⁹. The absence of veto players is attributed to the debilitation of the traditional political community gathered around social protection policies, including actors like bureaucrats and trade unions. A new political arena was formed because of the introduction of market mechanisms in social policies and the emergence of social movements and non-governmental organizations that generated a complex web of relations among financiers and providers, public and private actors.

Fleury⁹ identified in the health sector some paradigmatic structural reform models in the region, named as dual, plural, or universal, according to their policy proposals, contents, instruments, public-private relations, and supportive coalitions. These reform models can also be applied to pensions in the region.

Market-oriented reform was based on the Chilean experience during the period of the dictatorship that created a dual system of health care and pensions, locating the poor in the public sector while those who can afford an insurance affiliation were stimulated to move towards a flourishing private market. Rising inequalities was a consequence of moral hazard and cream skimming in an unregulated market, problems that were only addressed after democratization.

The Colombian reform has been labelled “plural” since it involves private and public resources in a comprehensive insurance system, thus forming a pluralistic model based on state regulated competition. To reduce inequalities and the tendency to exclude disadvantaged groups, some mechanisms of solidarity and public cost control were designed. The existence of duality in the system regarding contributive and solidary regimes was supposed to be temporary, but still persists.

The Brazilian experience has been called “universal”, and involves a public universal system of integral social benefits, in which the state guarantees social rights through an equitable, decentralized, and participatory system of social policies. The solid institutionalization of social rights and the democratization of decision-making processes were not consistent with the public dependency on private health care provision and the chronic situation of an underfunded public system. Universal protection based on social rights and state guarantee is more properly applied to health care, but it became a common value encompassing also non-contributive pensions and target benefits.

Despite certain differences among these paradigmatic models that arose during this first wave of reforms, what they have in common is an urgency to make structural changes in the corporative model that had dominated industrialism during the first three quarters of the last century. They were successful in reducing exclusion and increasing coverage although inequalities still persist and are expressed by duality and stratification, even in universal systems. The Brazilian experience, however, clearly makes it impossible to attribute all reforms to liberalism, since it follows a social democratic design.

A crucial variable to explain different options for reforming the Welfare State is the timing of the reform with respect to two main macro processes in the region: economic crisis with the ensuing macro structural adjustments, and a transition to democracy accompanied by the upsurge of a new political fabric. At the root of the Brazilian experience in building a national health system was a strong political coalition that pushed for social rights as part of the transition to democracy. The singularity was a social protection system designed by civil society movements and its strong association with the transformation of the state and society into a democracy. This hallmark added some important characteristics to this reform, such as the combination of a highly decentralized health care system with a decision-making process that incorporates cooperation among federative bodies and organized society in participatory arenas created to empower civil society and favor negotiation and consensus-building.

After extending social rights to all citizens, a principle that is enshrined in the social security concept of Brazil's 1988 *Federal Constitution*, this context has changed radically. Since the 1990s, all universal systems in the region - Cuba, Brazil and Costa Rica - suffered from shortages of resources, a deterioration of public services and providers, and a growing presence of the private sector in social policies. The three experiences show that economic austerity imposes severe restrictions on universal health systems. Their sustainability requires political support from government and social actors.

Nevertheless, social mobilization can decrease as a consequence of the incapacity to turn rights in law into rights in practice. The constraints are accentuated by the restricted fiscal basis for funding health systems and the dependency on private providers for different health inputs and services. Hence, it contradicts the equity requirements of universal citizenship, either as a result of consumer choice or by the permanent stress between profit interests and public policies based on solidarity. Solidarity and social cohesion are expected outcomes of the universal systems, but, when they become ineffective, the result can lead to high levels of “judicialization”, increasing inequity, putting in danger universal policies, and threatening democratic governability ¹⁰ (Table 1).

After the wave of pension privatizations in the 1990s, Mesa-Lago ¹¹ highlighted the occurrence of “re-reforms”, partial reforms that aimed to correct earlier failures in design and performance. From 2008, Chile, Argentina and Bolivia, each in their own way, enhanced the role of the state in regulating pension systems in order to extend coverage to the poor and low-income people. In Brazil, non-contributive pensions legally guarantee a minimum wage to the poor, elderly and people with disabilities (Noncontributory Regular Pension - BPC, acronym in Portuguese), meaning that eight out of ten elderly Brazilians are covered by some kind of pension. Recent programs created to fight poverty, however, do not entitle beneficiaries to legal rights, as is the case of the “Bolsa Familia”.

The Brazilian option of a universal social security model - including pensions, health care and social assistance - had to face three challenges: problems from the past relating to stratification and exclusion; current challenges of fighting poverty that legitimized democratic governments; and future issues concerning the kind of society that needs to be created to address demographic, urban, gender-based, and familial structural changes. This mammoth challenge was somehow addressed by several countries in the region, irrespective of the reform model implemented; and has been made harder in light of a new context involving labor insecurity and reduced power of the state in economically uncertain times.

Towards a new paradigm of social investment?

The new global economic environment has destroyed the foundations on which welfare has been built since states have moved from tax collectors to debt payers, drastically reducing their capacity to fulfill citizens’ needs. Moreover, labor market dynamics have given rise to greater instability and have generated new forms of inclusion (e.g. women) and exclusion (e.g. migrants, Internet access).

In mature Welfare States, the weakening of their social and economic foundations and the pressures for austerity did not diminish their enduring popularity, which led to changes in “*the renegotiation, restructuring and modernization of the post-war social contract rather than its dismantling*” ¹² (p. 410). The resilience of mature welfare systems is attributed to electoral incentives and institutional cohesion.

Nevertheless, Hemericjck ¹³ considers the functional, normative and institutional recalibration of Welfare States to be part of a strategy to transform social policies, so that they are able to cope with the challenges of relative austerity, international competitiveness, and demographic and labor structural changes. Pressures for a new social contract and the need for a new paradigm are considered neces-

Table 1

Number of health litigations per capita (tentative figures).

Country	Lawsuits (annual figures)	Population (millions)	Health litigation per capita (lawsuits per 1,000,000)
Colombia	150,00	45.6	3,289
Brazil	40,000	193.7	406
Costa Rica	500	4.6	109

Source: adapted from Yamin et al. ²¹.

sary to build an active Welfare State, e.g., getting people back to work, establishing a new contract on gender and for the elderly, and focusing investment on childhood ¹⁴.

Supporters of a new paradigm stress the importance of human capital investments through active labor policies in different phases of life, that are compatible with the knowledge-based era and have permanent requirements for renewing competences.

Studies on poverty reduction in advanced democracies ¹⁵ concluded that poverty is further reduced when: (a) resources are devoted to child, family and maternity allowances, as opposed to means-tested benefits; (b) the class power balance pushes for more equitable distribution and; (c) states' constitutional structures have a limited number of veto points.

In Latin America, social policies designated to fight poverty have become a major priority for governments, whether they be center-leftist (Brazil, Ecuador, Bolivia, Argentina) or right-of-center (Mexico, Chile, Peru, etc.). After the period of structural reforms, the new pattern of social policies in the 21st century was characterized by the number and variety of social assistance programs. While social insurance policies were designed for formal workers and linked to their previous contributions, social assistance policies break the link between social protection and the labor market ¹⁶. Social assistance programs included non-contributory pensions and conditional cash transfers (CCT). The existence of conditionality, target groups and means-testing is often part of their design, and both of them are financed with revenues from general taxes and contributions.

In spite of the general tendency to develop social assistance programs, they cannot be taken as politically homogeneous. Arza ¹⁷ showed their differences based on the analysis of some countries' recent experiences with noncontributory pensions. She highlighted the need to understand such variations based on the political and institutional frameworks into which social assistance programs are inserted. Comparing those programs based on the achievement of certain principles (security, paternalism, rights-not-charity, family neutrality) she concluded that most of the ongoing programs are far from being a rights-based policy. Only universal (or quasi-universal) programs (Renta Dignidad in Bolivia and Rural Pensions in Brazil) are not subjected to discretionary selection mechanisms. However, Latin American and Caribbean social programs do not achieve family neutrality because most of them are based on income testing at the family-level rather than for individuals.

Other important criteria to distinguish among them are the degree of institutionalization and benefits levels, because they can assure a rights-based policy and enhance the beneficiaries' standards of living. For example, in Brazil, noncontributory pensions are legally set at the same level as the minimum wage and in recent years have been raised at a rate above inflation, which may account for the significant reduction in poverty levels among eligible rural households.

The success of Latin America in reducing poverty and increasing coverage has been attributed to the transformation of its social protection matrix. A comparative study of 19 countries ¹⁸ concluded that the main trends of this change are the expansion of state action resulting in broader coverage; partial or full re-nationalization; increased social spending; and a combination of vectors of need, supply and demand to determine investment and fiscal effort.

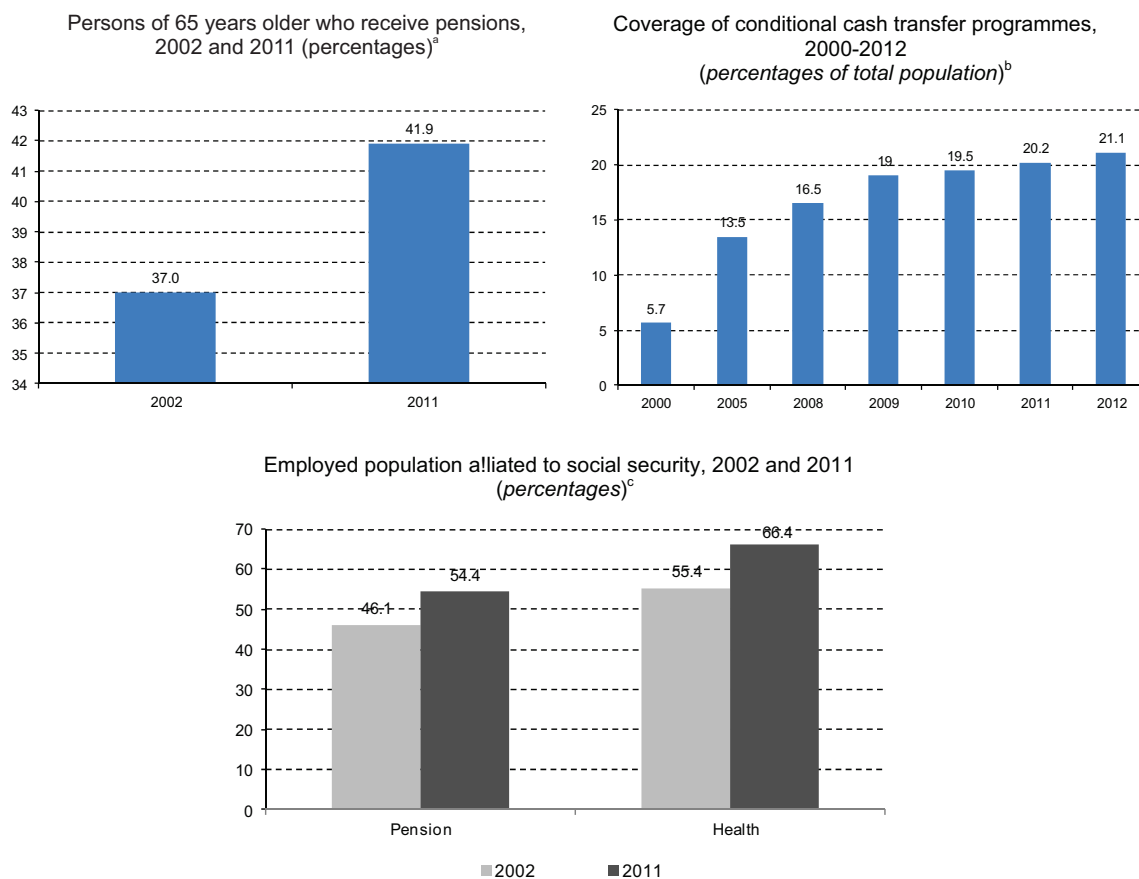
The undoubtable expansion of social protection is reported by Cecchini et al. ¹⁸ in Figure 1.

These results occurred in a very favorable economic context, a period in which GNP and employment levels rose. However, after the economic crisis in 2008, these trends have stagnated or are retrograding in countries like Brazil. Economic limits to the expansion of social protection are threatening the progress of welfare in the region.

A social report published by the Economic Commission for Latin America and the Caribbean (ECLAC) highlights the recent slowdown in the pace of poverty reduction (Table 2): *“Compared with the figures reported in 2002 (when they were the highest in the past 15 years), poverty has decreased by almost 16 percentage points, of which 10.4 percentage points are for the period to 2008 (at an annual rate of 1.7%). The decline was slower between 2008 and 2013: a cumulative decrease of 5.4 percentage points, equivalent to an annual rate of 1.0%. The regional poverty rate has held steady at around 28% from 2011 on”* ¹⁹ (p. 15). Some countries that presented an outstanding performance in poverty reduction between 2005 and 2012 have confirmed the trend of exhaustion of this redistributive model.

Figure 1

Latin America and the Caribbean: increases in social protection coverage.

Source: reproduced from Cecchini et al. ¹⁸ (p. 33).

To conclude, we can highlight some remarkable characteristics and challenges for social protection in Latin America:

- Expansion of coverage and poverty reduction in the region are noteworthy, in particular with the increase of noncontributory or semi-contributory pensions, cash transfers for families with children, primary education enrollment, and access to health services;
- This trend to universalization combined a mix of contributory benefits with cash transfers for poor families, targeting the elderly and children but also having an indirect impact on reducing gender, race and urban/rural gaps;
- The result of this complex web of social programs was more social inclusion and poverty reduction but in a fragmented welfare system that faces difficulties to go further in a less favorable economic context;
- The general trend to universalization cannot disguise the enormous differences among social policies regarding their capacity to enhance citizenship and assure rights to benefits at sustainable and adequate levels. Universal coverage in fragmented systems is distinct from rights-based policies and may preserve stratification, paternalism, discretionary selections, and insecurity. Coverage that does not entitle rights is more likely to be retrograde, by linking government to beneficiaries who act as sheltered clients, rather than creating solidarity and social bonds;

Table 2

People living in poverty and misery in Latin America, around 2005, 2012 and 2013 (percentages).

Country	Around 2005			Around 2012			Around 2013		
	Year	Poverty	Misery	Year	Poverty	Misery	Year	Poverty	Misery
Argentina	2006	24.8	9.6	2012	4.3	1.7	-	-	-
Bolivia (Plurinational State of)	2004	63.9	34.7	2011	36.3	18.7	-	-	-
Brazil	2005	36.4	10.7	2012	18.6	5.4	2013	18.0	5.9
Ecuador	2005	48.3	21.2	2011	35.3	13.8	2013	33.6	12.0
Peru	2003	52.5	21.4	2012	25.8	6.0	2013	23.9	4.7
Uruguay	2005	18.8	4.1	2012	6.1	1.2	2013	5.7	0.9
Venezuela (Plurinational State of)	2005	37.1	15.9	2012	25.4	7.1	2013	32.1	9.8

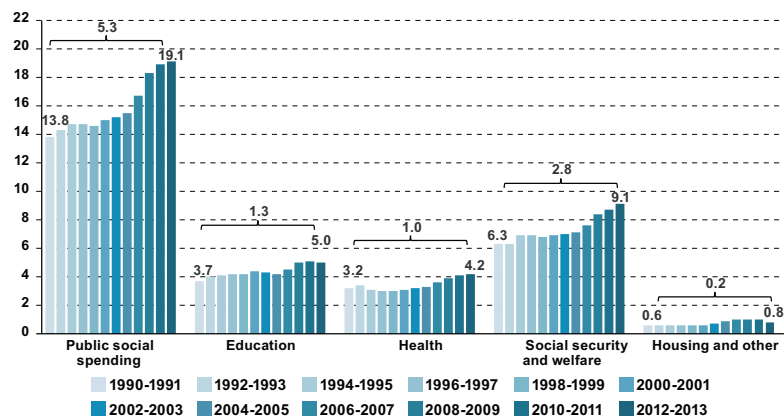
Source: adapted from the Economic Commission for Latin America and the Caribbean ¹⁹ (p. 17).

- Low public investment in social policies that are considered pivotal for human development, as health and education, demonstrates the lack of an integrated approach to welfare in the region. Cash transfers for families with children require their enrollment in school and in health care preventive programs, but public expenditure in these areas have not been treated as a priority;
- According to ECLAC ¹⁹, social expenditure on social security and assistance in the region increased from 5% in 1990-1991 to 9.1% in 2012-2013, although the bulk of this expenditure goes on social insurance, the less redistributive social policy. In the same period, public social expenditure has increased only from 3.2 to 4.2% on health and from 3.7 to 5% on education, while it stagnated at a much lower level on housing (Figure 2);
- Cash transfers represented an important innovation in approaches to social protection, targeting poor people and improving their living standards using fewer resources. However, given the multi-dimensional natures of poverty and misery, they are resilient and cannot be addressed by means of one-off measures. This kind of innovation introduced more flexibility in the social policy matrix and could create a safety net to mitigate poverty risks, but to be effective and resistant they must be integrated into a comprehensive welfare system. Only by aligning all benefits with social rights will it be possible to assure stability and equity in periods of economic restrictions;
- Relationships among the state, market and community in the region have been redrawn by social policies by reducing inequalities, legitimating democratic governments and introducing millions of consumers to the market. The emergence of a new middle class was proclaimed as a requirement for consolidating democracy in the region. Nevertheless, the inability to meet the rising expectations of emergent consumers has generated frustrations and disenchantment with democracy. The lack of strong public policies in education, housing, health and labor has been responsible for recent uprisings in countries that were considered benchmarks in fighting poverty like Chile and Brazil. They have pointed to the economic and political limits of this welfare strategy to match people's hopes and provide true improvements in capacities and opportunities;
- Due to the poor quality of public universal systems of health care and education the poor and young are not able to compete with the same opportunities. Besides, social policies have been unable to interfere in labor market dynamics, which gives rise to permanent insecurity and marginalization;
- This fragmented Welfare State has another important characteristic that causes enormous obstacles to universalizing social rights for all citizens. Financial restrictions to the appropriate funding of public systems and a market oriented bias in public policies gave birth to a mixed arrangement, where public funds are assigned to contracted private management and service providers while public entities are increasingly neglected. This arrangement led to new forms of re-commodification, and reinforces the opinion that only private services are efficient.

To conclude, one can affirm that the Welfare State in Latin America has undergone different models of structural reforms in the final two and a half decades of the twentieth century while, in the

Figure 2

Latin America and the Caribbean (21 countries): social public spending by sector, 1990-1991 to 2012-2013.



Source: reproduced from the Economic Commission for Latin America and the Caribbean ¹⁹ (p. 260).

first decades of the 21st century, a more diversified, inclusive and universalized matrix has begun to emerge. These innovations have been effective in reducing poverty but are still distant from the ideals of forging a democratic society based on social rights, solidarity and assuring the same opportunities to all citizens. Paradoxically, one can observe the existence of benefits without rights (cash transfers) and rights without benefits (health and education) as signaled by Fleury ²⁰.

Moreover, this model of fragmented and stratified inclusion seems to be reaching the point of exhaustion and is unable to progress in a period of lower growth in the region. Threats to cut benefits will reduce legitimacy for democracies, unless the inner core of expanded citizenship is restored as part of a public commitment to guarantee equal rights and opportunities to all.

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Resumo

O artigo analisa os desafios da construção do Estado de Bem-estar Social nas democracias tardias da América Latina. O autor mostra como a literatura identifica diferentes padrões de proteção social na região, e como os recentes modelos de reforma transformaram as instituições em um contexto socioeconômico desfavorável. Os resultados apontam para a emergência de uma mistura de medidas de proteção social que aumentaram a cobertura e reduziram a pobreza, mas que não conseguem garantir os direitos universais e a longevidade dos cidadãos.

Política Social; Serviços Sociais; Política de Saúde

Resumen

Este trabajo analiza los desafíos de construir un Estado de Bienestar en las tardías democracias latinoamericanas. El autor muestra cómo dentro de la literatura se han identificado patrones diferentes de protección social y cómo se han transformado las instituciones con los recientes modelos de reforma, dentro de un contexto socioeconómico desfavorable. Los resultados señalan el surgimiento de una mezcla de medidas de protección social, que han incrementado la cobertura en salud y reducido la pobreza, pero que son incapaces de garantizar los derechos universales de los ciudadanos y su esperanza de vida.

*Política Social; Servicios Sociales;
Política de Salud*

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