

WHY BASIC INCOME IS BETTER THAN RENEWED POLICY PROMISES FOR LATIN AMERICAN INFORMAL SECURITY REGIMES

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1. The Institutional Responsibility Matrix in Latin America: informal welfare regimes

Latin America (LA) lives in a permanent tension between contradictory discourses and practices related to social issues. The public discourse (not only from the government but also from NGOs, the media, etc.) talks about what people could demand, using words like citizenship, rights, universalism, social justice, etc. In practice, one can see multiple special programmes that mobilize resources and techniques directed to a particular group which expresses some malfunctioning of the society that should be controlled. This tension has historical and structural roots.

Social protection systems (SPS) in LA, especially in those countries considered *pioneers* in the implementation of social insurance schemes, were founded on universalistic aims and followed European models. However, SPS developed in a fragmented and unequal manner with severe limitations to expand coverage and to treat different social groups equally (Mesa-Lago 1978; 1989; Lautier 2006). Emphasising the hybrid nature of SPS systems, available studies devote considerable attention to the origin and expansion of institutions, mainly social insurance schemes. The origin and expansion is presented (Mesa-Lago 1978) as a sequence of public responses to pressure strategically placed groups of organised workers or (Malloy 1977; 1979) as a pre-emptive, elite-designed programme intended to divide the working class through the controlled inclusion of targeted groups. From the later viewpoint, co-option, not the organisational strength of key pressure groups, determined the social insurance development.

In any case, given the ad hoc development and occupational focus, the studies show the hybrid nature of the systems. In practice, the universalistic aim moves to particularistic, stratified and meritocratic institutions: distinct conditions and entitlements applied to different categories of workers and coverage was conditional on employment. In this way, and in contrast to other developing regions, in the 1970s several Latin American countries exhibited fairly extensive systems and showed well-developed formal institutions. However, the systems showed strong barriers to expand coverage and to guarantee minimum socioeconomic security levels. Here, the region reveals the limits of comparative studies that are based on stylized Welfare State (WS) regime typologies (Esping-Andersen 1990; Esping-Andersen 1999)².

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² For a critical view of the use of WS typologies for comparative purposes, see (Théret 1997), (Gough y Wood 2004), (Hicks 1991), (Goldberg y Lo Vuolo 2006, chapter 1).

The complex and vast presence of the informal sector is crucial to understand how the “institutional responsibility matrix” (IRM) of welfare regimes is in the region (Gough 2004). In other words, how regimes combine the domains of state, market, community and households as overlapping but flawed potential providers of individual welfare. The map of IRM in different countries leads to the identification of different “welfare regimes”.

In particular, countries in the southern cone of Latin America appear as “actual or potential welfare state regimes”, but most of the region is placed within the category of “informal security regimes”, which reflects a set of conditions where people cannot reasonably expect to meet their security needs via accessing services from the state or via participation in open labour markets. Thus they have to rely more heavily upon community and family relationships of various kinds³.

Therefore, an “informal security regime” reflects “*a set of conditions where people rely heavily upon community and family relationships to meet their security needs, to greatly varying degrees*” (Gough 2004, 1). The dividing line of this “welfare mix” prevalent in LA depends on how the large segment of the informal population who largely depends on household and market welfare production is. From this framework, until the eighties, the welfare mix in the region has been characterized as “informal-conservative” or “conservative-informal” (Barrientos 2004), depending on whether the emphasis is placed on existing, or absent, “institutional features”; recent reforms process resolved the dilemma pushing firmly the region in the direction of “liberal-informal” regimes.

The key element of the IRM in the region is the informal sector which helps to explain the extent to which the welfare regime is politically settled. The informal sector is crucial to evaluate the state’s inability to meet declared welfare objectives and the potential of different and competitive policy proposals, such as Basic Income, to reach consensus over core values and priorities in a given society. But, the informal sector is very heterogeneous and the concept does not have a precise meaning.

1.1. The complexity of the informal sector and the confusion around the concept

The informal sector is heterogeneous, but normally involves unskilled workers with low productivity. Among them, the most relevant are self-employed workers, domestic servants and employees in micro-enterprises. Other informal workers are home, seasonal, part-time and unpaid family workers, all of them without a labour contract.

The informal sector, as a percentage of the employed urban labour force, averaged 47 per cent in 18 countries (data is not available for Cuba and Haiti) in 2001-2004 and ranged (lower to higher) 29-43 per cent in Chile, Costa Rica, Panama, Argentina, Brazil and Uruguay—pioneer-high group and one country in the intermediate group—and 50-63 per cent in El Salvador, Ecuador, Paraguay, Venezuela, Guatemala, Honduras, Nicaragua, Peru and Bolivia—countries in latecomer-low group and less developed in intermediate group (Mesa-Lago 2007). Being excluded from social insurance, these workers are exempt from minimum wage laws and wage adjustments under capital-labour negotiations (corporative agreements) for the formal sectors.

³ At the other extreme are countries classified as “in-security regimes”.

Self-employment is the largest segment of the informal sector, averaging 30 per cent of the employed urban labour force in 2001-2004⁴. Although there is a significant heterogeneity among the self-employed, it is very difficult to offer social insurance protection to most of them because of the lack of an employer, the unstable nature of jobs, and low earnings. The requirement for the self-employed to pay a double contribution (the combined percentages charged to salaried workers and employers) is simply unfeasible for most of them. The situation is so heterogeneous and complex that 14 countries in the region have only voluntary legal pension coverage of the self-employed, and some countries directly exclude them from legal coverage (Mesa-Lago 2007, Table 2). In addition, the self-employed are covered by mandatory health insurance only in Colombia and Costa Rica.

Domestic servants are another important group among informal workers, although they account for a smaller proportion than the self-employed. In the region, 3 to 10 per cent of the urban employed labour force in 2001-2004 was domestic servants. These workers have an employer but many of them lack a labour contract, which makes it difficult for workers to demand employers' contributions. In many cases the wage is so low that workers agree with the employer to evade social security affiliation in order to avoid payroll taxes.

Employees in micro-enterprises are another relevant group. Excluding professionals and technicians, this labour group ranged from 7 to 16 per cent of the urban labour force in 2001-2004 for the whole region. These percentages of informal workers working in enterprises are underestimated because many macro-enterprises also hired informal workers.

The rural percentage of the total labour force has diminished in the region, but still fluctuates between 29 and 55 per cent. Furthermore, self-employed and unpaid family workers average 56 per cent of the rural labour force and reach 69-86 per cent in some countries⁵. The majority of rural workers are peasants, seasonal workers, self-employed, sharecroppers or squatters, employed in subsistence agriculture. The employees either lack an employer or work for a few months of the year with meagre wages. Social security coverage of rural population is usually one-third to one-sixth of the coverage enjoyed by urban population.⁶ Only three countries have introduced special social insurance pensions for rural workers or peasants.⁷

The heterogeneity of the groups included under the label of "informality" is also revealed in the lack of a precise meaning of the concept (Lautier 1994, 11). This notion comes from an international agency (the ILO), which constructed the term to justify public policy. The term "informal sector" is rooted in a particular notion about the relationship between public policies and the economy. Around the 1970s, the ILO defined the concept with the practical objective to include a group of activities which seemed difficult to integrate in the Keynesian virtuous circles: small-sized firms, an easy entrance of new workers, the absence of regulations, the use of labour-intensive technologies, etc. A consequence of this origin is the vagueness and imprecision of the term.

⁴ It ranges from 15 to 24 per cent in Chile, Argentina, Costa Rica, Mexico, Panama, Uruguay and Brazil; and from 32 to 46 per cent in El Salvador, Ecuador, Nicaragua, Guatemala, Honduras, Colombia, Venezuela, Peru and Bolivia (Mesa-Lago 2007).

⁵ The lowest percentages are in Costa Rica and Chile, 26 and 32 per cent respectively (Mesa Lago, 2007, Table 1).

⁶ Just to give an example, the proportion of the agricultural labour force that enjoys pension insurance oscillates between 4 and 12 per cent in five Latin American countries (Mesa-Lago 2007). Regional dispersion is a barrier to healthcare provision. Only five countries in the region grant full legal pension coverage to agricultural workers. The rest have special regimes or impose restrictions.

⁷ They covered 18 per cent of the rural labour force in Ecuador, 29 per cent in Mexico, and 50 per cent in Brazil in 2004-2005. In the first two countries coverage has declined in recent years while in the third has increased.

The initial idea is that the informal sector emerges in developing economies. Using a Keynesian framework, the belief was that throughout the industrializing and development process there will be an assimilation and formalization of the informal. This gives an active and central role to the state: the informal sector is considered as a field of “natural” action for the state. From this original idea, the conception of informality and its relation with public policies has been changing (Theodoro 2002).

From the mid 1970s to the mid 1980s, the actions towards the informal sector were strictly associated with long-run macroeconomic policies, were thought to help speed up the process of formalizing, and hence eradicating, informality. In those years, the informal sector was considered as a problem that should be solved using social policy. From the mid 1980s, the informal sector was conceived not only a characteristic of developing countries, but as a virtuous phenomenon, that should be enlarged in order to favour and generate employment putting an end to poverty. Under this approach, instead of formalizing, social policy should support the informal sector, with the purpose of eradicating poverty. Finally, from the 1990s onwards, the informal sector is not viewed any more as an instrument that will abolish poverty, but as a way of ameliorating it. The idea now is to “manage” poverty in order to alleviate its effects and consequences on the population, since poverty is now viewed as a structural characteristic of Latin American societies.

In this way, Social Liberalism conceives informality as all those activities that lay outside the law and assumes that the state is an accomplice of the emergence of such activities. Building laws that benefit a limited number of privileged citizens, the “interventionist” state in LA has generated distortions that have inhibited private economic decisions and entrepreneurship. The main idea is that if the state abandons the economic arena, informal sector activities would enter the formal market. Thus, during Social Liberalism hegemony, public policies oriented to reduce the presence of the informal sector have tended to reduce the state’s interference in the market and promote work and entrepreneurship among the poor.

All these conceptions of the informal sector do not coincide with the original Structuralist analysis. Under this theory, the informal sector is also a result of the specific relationship between state and society, arguing that in LA there is a more complex and broader form of regulation of economic activities, hence generating informality. Thus informality does not denote the absence of the state or its excessive presence, but is part of it, due to a limited extent of a particular form of the legal and administrative institutions. Informality would represent a limited respect for the law, accepted by society as a whole which strongly rests in extra-legal norms and procedures. In other words, informality is a stable and settled component of the IRM of the region’s welfare regime.

Therefore, the informal sector should not be reduced to certain characteristics of the labour market. Informality in LA is the historical result of a accumulation regime in which the expected profit rate is estimated considering the persistence of barriers that inhibit the generalization of the salaried labour relation, and hence the existence of underemployment and other labour market pathologies. Contrary to the liberal view, it does not represent a question of state, but a specific “regulation mode” on which the state, informality and other institutional forms will forge social reproduction based on fragmented labour markets, inequality, poverty, etc. The state is not viewed as an accomplice, but as part of a whole. Informality is perceived as a modus operandi of society. The state, economy and society produce and are produced by informality.

Informal labour relations and informal economic activities do not form a closed system without connection to the rest of the economy and the society. Informality has two

functions in LA: i) it acts as a permanent buffer for labour market flexibility (reserve army?) allowing workers to enter or exit formal jobs; ii) it reduces costs of the formal sector, providing inputs at a low price. This includes production both in enterprises and families, as is the case of the domestic labour.

Informality is widespread in different economic sectors and has an effect in the functioning of the whole economy and society. Its negative impacts are not evident on the open unemployment or underemployment rates, but in multiple forms of labour precariousness, income insecurity and lack of social protection coverage. Even when the informal sector does not compete with the formal one, it does not mean that it is detached from the rest of the economy. Since it provides goods and services as inputs, it lowers the costs of formal enterprises. A strong evidence of this fact is the growing gap in the relationship between informal and formal wages.

In conclusion, any income policy proposal (and any social policy proposal) should pass the test of the informal sector. Would the policy offer a clear coverage of this sector? Would the policy stimulate more informal labour?

1.2. The new scenario and the renewed social policy

The electoral support to more “leftist” political coalitions combined with a new phase of economic growth⁸ has changed the scenario in the region. However, this new scenario is not accompanied by major changes in social policies and in the IRM of welfare regimes. On the contrary, there is a renewed discourse admitting minor drawbacks in the past and pushing further the idea that the solution to the social question will come from a combination of growth, social insurance and a new generation of assistance programmes.

I would argue that the renewed social policy in the region combines the following elements:

- i) A “pro-poor” growth discourse is used to explain why the most vulnerable groups will now benefit from the new phase of economic growth;
- ii) The *risk management* approach claims that the problem of old social insurance schemes is that they do not take into account the different social risks of the population while poor people have more chances to suffer unexpected economic shocks. The solution is a modular social insurance scheme which takes into account different social risks of different social groups;
- iii) A new generation of Conditional Cash Transfers programmes (CCT) renews the more traditional approaches to social assistance providing money to poor families contingent upon certain behaviour, usually investments in human capital such as sending children to school or bringing them to health centres on a regular basis. The alleged objectives are both to address traditional short-term income support objectives, as well as to promote the longer-term accumulation of human capital by serving as a demand-side complement to the supply of health and education services. International organizations that promoted these programmes claim that this “innovative” design is quite successful in addressing many of the criticisms of social assistance such as poor poverty targeting, disincentive effects, and poor welfare results.

⁸ According to CEPAL’s estimations, growth in LA and the Caribbean was 2.2 per cent in 2003; 6.2 per cent in 2004; 4.5 per cent in 2005, 5.6 per cent in 2006 and 2007. Estimations for 2008 are 4.8% (<http://www.eclac.cl>).

In the following sections I will discuss to what extent this new scenario gives hope for better regulation of the informal sector and from there to improve the functioning of the IRM in the region. This analysis begins discussing to what extent the new economic scenario is a fundamental change from where one can expect a different regulation of the informal sector and a less pronounced tension between universalistic discourse and particularistic practice in the SPS. Then, I will discuss some aspects of the renewed social policy discourses and practices to evaluate which one is better equipped to address the persistent social question in the region. In this line, I will finish claiming the need of building alternative welfare institutions under the idea of a basic income, universal and unconditional.

2. The relation between the economic system and welfare regimes

During the 1940s and 1950s, the guiding principles of most Latin American governments were similar to those that guided Western European governments in the construction of Welfare State institutions. These principles can be briefly summarized as follows.

First, resources used to cover social risks are part of earned wages. The premise was that social protection can actually be sustained by earned income. It was a matter of the government intervening and mandating contributions. From this principle, the implementation of a social protection system is not an economic matter, but rather, a political decision of creating or not to the so-called “social wage”. Second, three variables were identified to impact on the level and evolution of resources: i) the evolution of the number of wage-earners; ii) the evolution of wage levels; and iii) the shares reserved for the social wage. Third, the relative evolution of these three variables is likely to be as follows. At the outset, there tends to be a rapid increase in the number of wage-earners; afterwards, the increase takes place at a lower rate. At the same time, wage increases are regular and self-sustained. As the number of wage-earners and the level of wages increase, the social wage steadily increases.

From these principles, it was concluded that social insurance institutional arrangements could reach universal coverage based on an implicit trust in a virtuous circle: social protection increases productivity; productivity increase wages; wages increase social protection. Trust was simultaneously placed in both economic and political aspects. The economic aspect implies that there is an economic cost associated with social protection, but there is also an economic benefit: an increase in worker’s productivity. The political aspect means that a political commitment can be made regarding how the increase in productivity is further translated into a stable distribution between wages and benefits, and into an increased participation of social wage in total wage.

These guiding principles did not work in the same manner in Europe and in LA, mainly in terms of coverage and distribution. The result was a hybrid with: i) a “corporative” body of social insurance schemes (whose principal programmes were social security provision, social health insurance and family allowances); ii) some 'social-democratic' policies (education and public health); and iii) few assistance programmes poorly funded and functioned in an inorganic and barely structured way. “Unemployment insurance” and active employment policies were not an important part of SPS.

There are many explanations according to each country’s peculiarities and heritage, but a common economic limit: informality. In fact, the lack of effectiveness to cover informal workers was one of the key arguments used to justify the use of the region as a kind of

laboratory where the most extreme recommendations of the so-called Washington Consensus (WC) were put into practice. The universalistic aim of SPS in the region was confronted with the argument that it did not serve in the best interest of the poor but the upper and middle classes. To be effective in the struggle against poverty, the universalistic aim should be set aside in order to strengthen the relationship between benefits and contributions, preferably through private insurance. The poorest groups, selected by social management experts, would receive direct subsidies by means of social assistance programmes. Public institutions' recognition of the income differences in unequal social sectors turned to be a dogma that guided administrative management.

Under the inspiration of this sort of *Social Liberalism* (Abel y Lewis 2002) or *Inclusive Liberalism* (Craig y Porter 2004), during the eighties and nineties the majority of Latin American countries have surrendered to profound reforms of their public policies and markets. The reforms included a joint impact of the "structural reforms", a strongly pro-market rhetoric, a passive monetary policy, severe restraints to fiscal policy, openness to international flows of trade and capital and several deregulatory measures in the goods, financial and labour markets.

The results of this experiment in LA were highly negative. During the 1990s the Gini index increased in almost every country (except for Colombia and Uruguay), ranging between 0.45 (Uruguay) and 0.65 (Brazil). At the beginning of this decade open unemployment averaged 9 per cent, showing a marked growing tendency with peaks of 20 per cent in Argentina and 16 per cent in Uruguay, Colombia and Venezuela. Also, public employment participation dropped and low productivity services increased.

Contrary to the Social Liberalism discourse, the informal sector was nurtured during this period. The "de-regulation" of labour relations (in fact, "re-regulation") created a variety of channels to facilitate segmentation of the labour market, disqualification of the labour force, underemployment and other labour market pathologies. Since the 1980s, the informal sector has increased steadily in the region⁹. The main reasons are reduction of formal public employment, employment growth in large enterprises at a slower rhythm than labour force, labour expansion in micro-enterprises, domestic service and self-employment, increase in labour "flexibilization" in the formal sector, subcontracting part-time work or jobs without contracts (ILO 2003).¹⁰

As a result, an increasing number of people continued to fall out of "normal" work and the cost of labour decreased sharply, consolidating a society in which the most significant division lies where there is a separation between those who hold formal jobs with full social security coverage and the rest of the population. Along with the lack of social security coverage, excessive working hours, etc., two thirds of the employment generated during this period was informal (including micro-enterprises) enforcing the widespread unstable labour relations. Precarious employment conditions increased for both men and women.

These transformations exacerbated the tension between universalistic aims and particularistic practice for many reasons: (i) concentration of social security coverage on formal groups with stable contributory capacity, (ii) pro-cyclic behaviour of social expenditure; iii) ineffectiveness of assistance programmes focalized on the poor. The

⁹ The estimations are from a regional average of 43 per cent of urban employment in 1990 to 47 per cent in 2002 (Mesa-Lago 2007).

¹⁰ This document evaluates the level of social protection in the region labour market, based in household surveys taken between 1992 and 2002 in seven countries: two in the pioneer-high group (Argentina and Chile), three in the intermediate group (Bolivia, Ecuador and Peru) and two in the latecomer-low group (Guatemala and Nicaragua).

occasionally improved conditions that benefited the most impoverished sectors during short periods of economic boom were worn out by recurring financial crises that had greatest impact on the largest countries (precisely, those which firmly relied on economic liberalization). Labour flexibility and privatization of public services (including social services) enhanced the negative impact of the volatile economic cycle on the population.

Social assistance programmes disseminated in the region did not reach the expected results. First, narrow poverty targets leave aside vulnerable groups with urgent needs. Second, high administrative costs and excessive costs of components such as materials in workfare programmes reduce the percentage of resources actually transferred to vulnerable families. Third, the uncoordinated collection of programmes with a multiplicity of overlapping or unrelated goals is a source of inefficiency. Fourth, there have been criticisms of paternalism, clientelism and corruption in social assistance programmes, many of which have been perceived as vehicles for political patronage.

All these results of Social Liberalism experiments renew contradictions and confrontations and at the beginning of the decade some countries experienced economic crises transferred both to social and political areas. This, in part, explains the loss of electoral support of Social Liberalism and the rise of more “leftist” political coalitions. After two decades of SPS’s retrenchment, the universalistic discourses come back again but without a consistent programme to rid off particularistic practice. In fact, the institutional framework built during Social Liberalism hegemony settled in the new phase of economic growth.

2.1 New phase of economic growth: ¿pro poor?

The new phase of economic growth is taking place in a very favourable international context: a growing global economy, low interest rates and increasing prices for commodity-producing countries. The current economic recovery in the region was triggered by changes in the relative prices in favour of the tradable goods sectors. The main macroeconomic changes are the reversal of deficit in trade and fiscal accounts; many countries have also changed the exchange rate policies, from overvaluation to devaluation. In the last decades, there have been numerous experiments with exchange rate policies in LA, many of them primarily focused on controlling inflation.¹¹ Performed during the period of “financial liberalization”, these policies opened room to unsustainable balance of payments’ current account and external debt trends that led to crises followed by maxi-devaluations. In turn, in the last years, with some exceptions like Brazil, the balance of payments became the main focus of exchange rate policy; fiscal accounts moved from deficit to surpluses, rising growth and employment.

The optimistic interpretation is that the region is again in a “virtuous circle” and that this new economic environment will solve the long-lasting labour market problems and from there on will benefit poor groups. The “pro-poor” growth concept refers to the intrinsic “quality” of the growth pattern and it is being used by many international agencies referring to the new opportunity of the region. Crucial to this quality are the developments in social policies: i) a renewal hope in social insurance schemes, under the conviction that not only total employment is growing but also formal employment; ii) conditional assistance programmes for the marginal poor who do not find a job in the labour market.

Evidence does not support these hopes. Even when employment is growing fast following the economic recovery, this growth does not guarantee the restoration of pre-crisis welfare or the expansion of social insurance coverage. After years of steady rises,

¹¹ For example, Argentina and Chile in the late seventies, Mexico in the late eighties-early nineties, and Argentina and Brazil in the nineties

unemployment is decreasing but at a low rate and in a heterogeneous manner: informality, precarious labour conditions and wage differences between formal and informal sectors are also increasing. In most cases, public wages, which correspond in a great percentage to social services, lost in relative terms (partly due to the pressure for fiscal surpluses). Other social indicators, like poverty, indigence and income distribution, reveal minor improvements.

The available evidence suggests that the persistence of informality and labour pathologies reflect a structural form of economic functioning and profit generation. The predominant economic and social thought is what could be referred to as the “revision of orthodoxy”, even if the official discourse claims to be against reforms applied in the 1990s. The “renewed” economic and social thought: i) shares the orthodoxy’s reliance in the spill over effect of economic growth on employment, formality, wages and population’s welfare; ii) does not solve and even contributes to labour market segmentation; iii) is consistent with the old implicit trust in a virtuous circle from growth to employment, wages and social protection; iv) does not question the central institutions of the welfare mix prevalent in the region.

The new orthodoxy claims to endow its new conceptual framework with an *institutional dimension*. From this perspective, economic crises and their perverse effects on growth potential and welfare, result from the lack of institutions that ameliorate market functioning (Marques Pereira 2006); promoting greater financial caution and favouring employment potential for workers appear to be the two key institutional springs for adjusting markets. This renewal of orthodox thinking lies in the definition of a series of rules and institutions that should reinforce competition, giving rise to the idea of a *Post-Washington Consensus*, where the state, in whatever market it intervenes, is forced to continue playing a stimulating role.

Regarding institutions, this revision is not far away from *Neo-Structuralism*, a economic thought supporting the macroeconomic ideas of the many governments in the region (Bresser-Pereira 2007; Marques Pereira 2006). The criticism of Neo-Structuralism to the WC is focused on the macroeconomic unbalances attached to *market imperfections* but, as in the most orthodox thought of the nineties, the distributional issue is a dependent variable of a sound macroeconomic policy.

In this way, Neo-Structuralism dissolves original Structuralism in a utilitarian view of institutions: they must serve to guarantee proper market functioning. Original Structuralism puts emphasis on the key role of distribution to define the pattern of economic growth in the region¹² and little distribution is to be expected as a consequence of *spill-over* productivity profits in a growing economy. If a sound distribution is pursued, the social and economic institutions should not be organized based on utilitarian criteria of proper functioning of the market.

On the contrary, Neo-Structuralism continues trusting on spill-over from economic growth through employment as the rationale solution for the most vulnerable groups. The novelty is that now, the *twin surpluses* (on fiscal and external accounts) are central for a healthy macroeconomics. But in institutional terms, post WC and Neo-Structuralism place distribution and social protection institutions at a subordinate position in relation to the macroeconomic policies that guarantee growth. Accordingly, the policies in the social arena are not much different from those that have prevailed during the reign of the WC.

This explains the advance of a new strategy in social policies following three different but complementary lines. One, seeks to renew social insurance ideology as the core of SPS

¹² To this respect, it is worth recalling the classic work by (Furtado 1965).

under the inspiration of the so-called “social risk management” paradigm. Other, looks for the stimulation of the spirit of entrepreneurship among the poor by means of micro-finance. Finally, a movement from “narrow” focalization to a “wider” focalization of conditional programmes can be identified. This wider focalization is presented as the best road to universalism where two branches could be recognized: i) one where conditionality is attached to the unemployment status leading from workfare to a universal programme of employment (the proposal of the State as Employer of Last Resort, ELR); ii) the other where conditionality is attached to poverty status leading from Conditional Cash Transfer (CCT) programmes to a universal basic income (BI).

3. Renewed promises: social risk management and the universal basic pension

The changing distribution and intensity of social risks and the way social risks are shared between the state, the family and the market is crucial for classifying WS regimes (Esping-Andersen, 1999: 33). Accordingly, the World Bank (WB) has placed the concept of *social risk management* (Holzman y Jorgensen 2000) at the centre of its “critical revision” of its social policies advices¹³. The idea is that poor people are more vulnerable to unexpected economic shocks. This greater vulnerability is due to low availability of resources, scarce possibilities of diversifying risks, as well as high risk-aversion. Social protection institutions should help individuals to manage social risk; thus, *safety nets* are defined as a modular system of programmes that adjusts to the specific risk patterns of each group.

This modular system performs by means of different social insurance institutions which permit risk diversification, balance of consumption fluctuations and promotion of individual saving strategies. Through the spreading of social insurance tied to each risk pattern, the most vulnerable groups could undertake risky activities and reduce the gap between income and the desired level of consumption throughout their lifetime. At the same time, the increased capacity to take risks would stimulate the *entrepreneur spirit* and promote skills that enable people to overcome poverty by themselves (for example, looking for better jobs or creating micro-enterprises).

This strategy is presented as a powerful mechanism to deal with informal work, because workers’ *myopia* to understand the benefits of being insured is placed at the core of this pathology. Ideally, this problem should be solved by private insurance companies, but high premium costs or co-payment makes it impossible for the poorest people to have access to such services. The solution is *mandatory social insurance* schemes administered by private insurance companies. Why? The mandatory nature of the system would help to overcome the workers’ *myopia* and its social nature would permit to subsidize the contributions of the poor.

A clear example of the *social risks management* approach is the revision of policy advices in pension programs. For the WB, the problems observed in private pension schemes of individual capitalization established in LA in the last decades are transitory and caused by low return from pension funds due to bad economic performance as well as by deficient public regulation. The WB states that older people are in an advantageous position compared to other needed social groups because they may have accumulated wealth throughout their lives. If they don’t, the explanation is the lack of sound insurance mechanisms to transform accumulated wealth into liquid assets¹⁴.

¹³ I follow here the main arguments presented in (Lo Vuolo 2005).

¹⁴ This advice is pushed even when the WB itself acknowledges that six to eight of the selected LA countries showed an increase in poverty among people over 65 years of age, notwithstanding the incorporation of privately-administered pension systems. In light of this evidence, as a justification WB experts question the

According to the WB, reformed pension systems paid excessive attention to the income-replacement function of pension systems, but paid little or no attention to poverty-reduction function. Keeping aside that this choice was widely disseminated by the WB itself (World Bank 1994), now the advice is that governments should undertake two tasks: i) the control of the correct functioning of a poverty-prevention pillar through an unconditional basic universal benefit; and ii) the adequate regulation of the performance of private savings and voluntary insurance. The problems detected in private system of individual accounts could be solved by increasing competition among private administrators, providing workers with financial education and limiting state to a regulating role.

Why does the WB now defend an unconditional basic pension? Because it is better not only for poverty alleviation but to legitimize private social insurance schemes, since targeted benefits are perceived as *charity* and therefore families do not take them into account when making an inter-temporal optimization of consumption. Now the WB prefers a universal and unconditional first pillar concluding that the cost of this system does not differ much from the cost afforded by other countries going through the transition toward reformed systems. Even though, this BI for the elderly should be of low level in order not to erode *savings incentives* to the second pillar of individual accounts.

What are the limits of this conceptual revision of the WB? First, it is a forgone conclusion that economic instability affects the poor to a greater extent than other privileged groups, and that the poor are the most affected by economic volatility. However, three issues are not to be ignored: (i) economic and social policies of labour market flexibilization promoted by the WB exacerbate this vulnerability and therefore debilitates the efficacy of social risk management; (ii) access to employment does not guarantee access to social insurance coverage; (iii) poverty is not random; for some people the chance to experience poverty is more a ‘certainty’ than a risk”.

Another wrong diagnosis relates to the apparent workers’ myopia. For this approach the problem of informality and lack of coverage is an issue of adequate rules and techniques to promote certain types of behaviour. This argument hinders an adequate understanding of the problem of informality. Workers do not choose a given job but they resignedly accept what society offers them. The responsibility for labour pathologies does not lie in workers’ myopia when making a decision, but in how easy and profitable it is for employers to impose informal labour relations in the region. Within the conceptual framework of social risk management there is a huge area of *working poor* perceiving low and unstable incomes that are excluded from both corporate mutualisms of social insurance and targeted assistance policies for unemployed people.

The difficulties for accessing social insurance coverage are experienced not only by unemployed people but also by *semiformal* workers, namely unregistered employees working at formal companies and employees registered for a lower number of hours than they actually work, thus perceiving lower wages and coverage. On the other hand, there is the generalized practice of enacting rules and revoking labour statutes; for example, *temporary* workers in Argentina and Colombia do not pay contributions and thus are not entitled to social rights and Brazilian workers’ cooperatives that have been exonerated from complying with social rights. The promotion of employment by means of the exoneration from payroll taxes end up *legitimizing* informal employment practices and permanent staff rotation.

quality of empirical evidence and claim that data are biased because they only record population *incomes* leaving *wealth* (and pension funds) aside, and that retired population tends to underreport income.

The problems of the social risk management approach are clear when looking at the renewed pension policy advised by the WB. The flaws of pension reforms pushed in the region are indeed originated or at least exacerbated by the reforms promoted from this institution for a long time and were clearly predictable (Lo Vuolo 1996; 2002). Most of the theoretical background supporting those policy advices are still in its revised version, as the postulates of an incentives theory that cannot be demonstrated, a catastrophic vision of the relation between government-managed pay-as-you-go retirement systems and *population ageing*, the misunderstanding of empirical evidence showing that in LA poor elderly people do not live in better conditions than other vulnerable groups. Someone who has been poor most of his/her life could not accumulate wealth.

In any case, for the purpose of this paper it is interesting to look at the unique novelty: the WB's defence of an unconditional basic universal pension benefit. The arguments for defending this basic pension are contradictory. If poverty prevention is the priority, the level of basic universal benefit has to fulfil such function and not be as low as possible to encourage workers' contributions to the individual funded system. Private pension funds have not proved to be more efficient than public systems in the administration of the so-called demographic transition nor do they foster workers' contributions or ameliorate fiscal problems. Their main effect is to create a financial business and deepen a regressive pattern of income distribution.

On the contrary, savings are not stimulated by the fear of being poor but when there is security of accessing coverage and a progressive distribution pattern that guarantees a risk pooling wider enough to include the whole population. Segmented social insurance institutions transfer the problems of segmented labour markets and unequal distribution of income and wealth to other arenas of public policies. As we postulate in another work (Goldberg y Lo Vuolo 2006) a universal and unconditional basic pension should have a level high enough to prevent poverty and should be a first pillar of social public insurance run under the guidelines of notional accounts well adapted to the LA specificities.

4. Renewed promises: microfinance or poor as an entrepreneur

According to the most widespread definitions, microfinance consists of providing financial services to low-income population or to economic agents excluded from the formal financial sector. While micro-credit is the most renowned instrument, in theory, microfinance includes the provision of other financial products such as savings facilities and insurance. The subjects of microfinance would be economic agents who, besides having insufficient income, are excluded from the formal financial system, due to a lack of guarantees, the high repayment risk attributed to them or the small dimension of the economic activity they perform.

With a general purpose of correlating microfinance with productive undertaking, the aim pursued in theory is that self-employed workers start a micro-enterprise that increases in capacity and size over time until it consolidates in the market and becomes a self-sustained productive activity. Thus, poor people do not regard themselves as *beneficiaries* but as *clients* and *debtors* of the microfinance institutions. Based on this central idea, two prevailing approaches stand out (Robinson 2005): *loans to poverty* and *financial systems*.

The first approach aims at reducing poverty by means of loans granted by institutions financed through subsidies from donors, governments or other funds. From this original approach, encouraged by social solidarity movements, saving is not an instrument specially promoted except when it is a necessary condition to receive a loan. This approach prevailed in

LA in former credit cooperatives established during the 1950s and 1970s –many of them organized by catholic movements, volunteer organizations and the United States Agency for International Development (USAID)– which in general showed severe institutional limitations: lack of professional managing, subsidized interest rates and inefficient recovering of loans and retaining incomes for further expansion.

Since the mid 1980s, largely because of the debt crisis in LA, many donors' funds disappeared and the credit cooperative movement receded. Based on this experience, criticism advanced on poverty-focused institutions, pointing out that if they are managed in this way, they become unsustainable. Alternatively, the orthodox revision proposes a different financial system approach, with an emphasis on the sustainable growth of institutions. The argument is that if an institution has a good performance and loans obtain high repayment rates, it can be concluded that clients are improving their well-being and overcoming poverty (Garber y Beard 2003). This claim corresponds to a particular conception about the causes of poverty in the region: the poor have a problem of *self-confidence* or lack of *enterprising spirit* that would prevent them from overcoming the situation (Robinson 2005). Access to financial systems would allow the poor to demonstrate that they are capable of borrowing money and paying it back in due time; thus by being incorporated in the competitive logic of the market their income would increase, which would make them gain self-confidence.

In the early 1990s, institutions that had achieved the so-called *full financial sustainability* through this new modality already existed in the region¹⁵. Simultaneously, *downscaling* processes are observed by which commercial banks or traditional financial entities enter the field of microfinance¹⁶. The financial systems approach is prevalent in the region: regulated NGOs have the major share (53.4 per cent), followed by Commercial Banks that participate with 35.4 per cent of total portfolio in dollars (Marulanda y Otero 2005, chart I.1.). Regulated microfinance institutions also absorb the greatest number of customers (47.3 per cent), followed by non-regulated ones and banks that equally share the rest of customers' portfolio. These institutions have not developed homogeneously in the region. If microfinance coverage relative to the size of micro-enterprises sector is considered, small and medium-sized countries in Central America (headed by Nicaragua) and in the Andes region (especially Bolivia) are the countries of greatest penetration of microfinance. On the contrary, the four largest economies in LA show less penetration of microfinance institutions.

There are many problems with the advance of microfinance in the region (Goldberg 2006). For instance, the advocates of microfinance in LA assess its impact on the basis of repayment rates, risk portfolios, and other typical indicators of the financing sector. Commonly, these indicators are used not only to determine the success of institutions but consequently of beneficiaries of the programmes. Such a criterion leads to a biased analysis of the effective impact of these programmes (Mac Isaac 1996).

¹⁵ For example, in 1992 PRODEM from Bolivia was the first NGO in the region to become a regulated commercial bank (Bancosol). Since then, regulated microfinance institutions have spread: (i) Cajas Municipales in Perú, in 1993; (ii) in 1994, Corposol NGO from Colombia (member of Acción Internacional) became a regulated commercial bank (Finansol). Later, in 1995-96 this bank faced the greatest bankruptcy in the history of microfinance in LA; (iii) in 1995, NGOs from Bolivia (Caja Los Andes) and El Salvador (Financiera Calpiá), affiliates to the German group IPC, became regulated institutions entitled to capture deposits.

¹⁶ In many cases, the transformation process was supported by the *Microenterprise Global Credit Programme* of the Interamerican Development Bank-IDB. For instance, starting with a loan of this type and with the technical assistance of IPC, five financial institutions engaged in microfinance in Paraguay. In Chile three commercial banks downscaled and nowadays dominate the microfinance market in the country. More recently, Banco Solidario in Ecuador and Banco de Trabajo and Banco de Crédito in Peru have engaged into large-scale micro-credit activities, while two commercial banks in Guatemala (Bancafé and Banrural) have become pioneer banking institutions by incorporating micro-credits with the modality of *community banks*.

The (apparently) high rate of credit repayment conceals the fact that many customers take loans from diverse institutions to settle previous debts, with no necessary improvement in their social situation. Repayment also may be financed by savings or other incomes from activities different than the ones that generated the credit. The criteria used for defining delays or lack of payment are also questionable (for example, long-term standards for classifying a credit as unpaid). Repayment is often not related to the borrower's payment capacity and debts are often paid by selling the few family assets or with money coming from abroad. Repayment could not be considered as an indicator of increased family well-being, because sometimes the need for obtaining incomes to comply with repayment implies increased hours of work for spouses and underage children.

In contrast, some clients are not able to operate a business or do not have access to a potential market to take advantage of credit in order to increase their incomes. In fact, micro-entrepreneurs have seldom developed into large-scale business due to the urgent need in using incomes for satisfying extra basic needs (school tuition, clothing, medical emergencies, etc). Market limits and borrowers' lack of enterprising spirit have also played important roles. The deficiencies of credit programmes mainly oriented to finance working capital have provided projects with the fixed assets needed to achieve sustainability and development. This is evident in the strong rotation of clients of microfinance institutions; hence, good technical relations may be established between financial institutions and clients but with low impacts on the latter's poverty condition.

All this factors help explain why *success* and *self-sustainability* of micro-enterprises receiving financial assistance is not part of the evaluation. Among many questions with no adequate answer are the following: What is the history of development and performance of micro-enterprises before and after becoming micro-credits borrowers? What activities are most frequently financed and how do they perform? What do beneficiaries use micro-credits for? To what extent do micro-enterprises succeed in developing their business and becoming self-sustained or growing to have access to traditional financing services at lower interest rates? To what extent are circles of micro-indebtedness created? Do micro-credit borrowers change or are they always the same clients that are not able to get out of the system?

The problem is not only technical but mainly conceptual. For example, to put the blame of poverty condition on the poor' lack of enterprising spirit is groundless in a region with such unequal life opportunities. This thought begs the question: why should the poor have an enterprising spirit that qualified wage-earners' lack? Or, if they do have this spirit, why will a micro-credit be the best way to guarantee the success of a new enterprise? What is really occurring is an effort to place the blame of the social and economic ills of the society on the affected people, thus avoiding society's responsibility to offer the most vulnerable groups formal employment and full insertion in SPS.

Another misconception is associating *access to income* with *access to credit*. The latter is the result of access to income only if other conditions are met. For instance, a certain level of income has to be guaranteed to people in order for them to devote credits to a productive activity and not to urgent consumption; access to markets, training, etc. must also be guaranteed. In addition, micro-entrepreneurs must have organizational capacities as well as appropriate technologies to be able to become inserted in the corresponding field (Pauselli 2005). Since these elements are not guaranteed, the success of financial institutions does not imply the success of their clients.

Microfinance institutions lack the knowledge about the special features of their clients and their economic behaviour performance once they have acceded to microfinance products. In this way they elude addressing the above problems. Those problems put serious doubts on

the paradigm that “if a poor is provided with a loan and an adequate training, he or she may become an entrepreneur”. This paradigm is not applicable in LA for the majority of social vulnerable groups. The difficulties of microfinance devoted to poor sectors have the same roots as other “closed” programmes: in the majority of cases the poor have access to a domestic market that has been impoverished by regressive distribution of income in the region. A market of poor people selling low-quality products and services to poor people cannot reach the objective of reducing vulnerability and poverty in the region.

5. Renewed promises: from a wider focalization to universality

5.1. From workfare programmes to a universal Employment of Last Resort (ELR)

Advocacy of workfare is based on arguments similar to those previously mentioned: to encourage individual responsibility without introducing negative stimuli for seeking a paid job. The idea is neither distributing goods resources nor giving money for nothing in return, but demanding a work done in return for the benefit received: only unemployed people who are willing to work “deserve” assistance. Instead of emphasizing *incentives* and *rights* to have a job or receive benefits, workfare is based on the *obligation* for workers to work in exchange for an allowance.

The results expected from workfare programmes in the region can be illustrated with the case of Argentina, a pioneer country in large-scale experiences of this kind (Baker 2000). Since 2002, the most extensive programme in the region, *Programa Jefes y Jefas de Hogar Desocupados* (PJyJHD) (programme for unemployed heads of household), has been implemented.¹⁷ Financially supported by the WB, the programme was launched after the hyper-devaluation of the *peso* (Argentine currency), which put an abrupt end to the convertibility regime that had been in force for a decade.

The programme intended to strengthen the idea that income can only be guaranteed by means of employment, thus the programme becomes employment-fostering and income-sustaining at the same time. In this sense, the PJyJHD did not represent a modification of the general logic behind previous and smaller workfare programmes applied in the nineties. The main innovation regarding previous experiences is that this plan promotes self-targeting, since beneficiaries acknowledge themselves as eligible programme participants. Once the required application procedures are met, heads of households are assigned a task, whether in-service training or in-job assignment in a productive activity. Unlike other temporary employment programmes, the task demanded in return is not previously defined but is assigned after the beneficiary is admitted to the plan.

In practice, the programme had a very low impact on poverty.¹⁸ This is explained by a combination of several factors: how beneficiaries are selected, the payment of an equal amount of benefit for households of different size and composition, the exclusion of many working poor and the extremely low level of the benefit (which represents only 15 per cent of the family poverty line at the end of 2007, own estimations). Impacts on unemployment are not important either¹⁹ because the programme excludes groups that have greater difficulties

¹⁷ (Galasso y Ravallion 2003) offers the WB’s point of view regarding this programme. For a critical analysis see (Barbeito et al 2003).

¹⁸ Without including the cash transfers from the programme, in the first half of 2006 poverty rate represented 31,7 per cent of the population; and including these benefits, the poverty rate was only reduced to 31,4 per cent.

¹⁹ In May 2003, almost 3 million registered unemployed workers accounted for 21.4 per cent of the economically active population. If 1.8 million beneficiaries of PJyJHD were considered “employed” workers, the rate would go down to 15.6 per cent; if beneficiaries of PJyJHD actively seeking jobs were considered as employed, and if those who do not seek employment were considered as non-working people, the rate would only be 19.7 per

finding a job (young people without children or elderly adults who do not have underage children are not included). Also, the PJyJHD has control failures²⁰ generating a sort of a *particular unemployment trap*: even when it is banned, many beneficiaries of workfare programmes seek complementary incomes in informal labour markets since there is no capacity or political will to control such prohibition.

Simultaneously, the programme stimulates engagement of non-working people. Despite of the norm of incompatibility between the benefit and paid work, 2/3 of the male beneficiaries and 1/3 of the women declared to have additional occupations. Logically, they are informal occupations to avoid sanctions and the exclusion of the list of beneficiaries, mainly by means of daily extensive working hours. Finally, the programme has debatable impacts on gender division of roles both in the labour market and the family. Even when the normative design of the Programme was thought mainly to assist the male unoccupied “chief of the family”, in practice, it absorbed a massive incorporation of previously inactive women (Rodríguez Enríquez 2005).

In brief, the impacts of this workfare programme are controversial in terms of employment creation, poverty reduction and its potential overcoming social exclusion. Overall, the PJyJHD proved to be an effective political instrument. Since it turned into a central element in the surviving strategy of many low-income households, in practice the two most evident impacts of this programme are: i) it encourages (and is functional to) the generalized environment of precarious labour conditions; and ii) it works as a mechanism for attracting political loyalties and capturing votes (Auyero 2004).

The problems detected in PJyJHD are similar to those found in assessments of other workfare programmes in the region²¹. In practice, workfare programmes contribute to make the labour market in the region even more fragmented and to consolidate social divisions by discriminating between those who deserve assistance and those who do not. The real impact is blaming the individuals of being unemployed and poor, focusing on the personal incapacity to get a formal job in the market, and favour political clientelism. This way of *activating* social policies increases individual's dependence on the selection criteria of the bureaucracy, thus promoting political disaffection, which erodes the basis of citizenship. In a sense, workfare programmes legitimize a particular class of citizenship.

5.1.1. Universal Employment of Last Resort.

Arguing for the need to supersede the drawbacks of workfare programmes (and of BI), ELR advocates claim that full employment could be achieved in a context of flexible labour market by implementing a programme with the following characteristics (Wray 2000; 2007; Tcherneva 2005; Cibils y Lo Vuolo 2004):

- (i) The state provides paid employment to anyone able, willing to work and who do not find a job in the labour market
- (ii) In contrast to traditional workfare programmes, access to employment would be *universal*.

cent. By the third trimester of 2006, open unemployment rate would increase from 10.2 to 12.1 per cent if beneficiaries of PJyJHD performing workfare tasks are not considered employed workers.

²⁰ In some regions of the country, the number of benefits granted by the PJyJHD plan is greater than the number of unemployed workers recorded in statistics.

²¹ See (Rocha 2001) for Brazil.

(iii) The programme acts as a buffer stock, allowing workers to enter or exit the scheme, depending on labour market's expansion or contraction; jobs offered by the programme do not compete with private or public access to formal employment, beneficiaries would be trained in skills required for formal employment.

(iv) Beneficiaries perform tasks that are considered *useful to society*, including training for a better job in the labour market.

(v) Wages guarantee a *basic* living standard; the price-wage relation is stable, and even the provision of health insurance and childcare services can be included.

The central argument that supports the proposal is that unemployment is caused by low demand and that governments could –and should– compensate for insufficient job opportunities allocating public expenditures to ELR. In terms of macroeconomics, this proposal is based on the theory of *functional finance* (Lerner 1947) arguing that countries' currency becomes a generalized mean of payment when the state is “sovereign” and accepts it as tax payment. The state does not need citizens' money to pay for expenditures, because the state creates the money.²² Taxes would subsequently absorb part of the money supply created by public expenditure. It is concluded that the state should always issue (and spend) more money than it collects, because individuals will always want to retain money.

In other words, fiscal deficit is not an exception but a rule to any economy functioning with a certain degree of *normality*. Fiscal deficit would be equal to the difference between money issued to be spent and a lower amount of money collected from taxes. This is basically money in circulation that economic agents have decided to keep as liquid cash.

Taxes and public bonds are not a useful means to finance public expenditure, but they are rather useful to remove excess money in circulation. Government could and should afford additional expenses by creating money when aggregate expenditure level is lower than full employment level, and when there is no excess cash circulating. When overall expenditure of the economy is exceedingly high, the state should reduce expenditure and raise taxes. The opposite should occur when overall expenditure is low. Thus, fiscal policy would determine the monetary base, while monetary policy would regulate money excess by placing bonds.

This does not mean that fiscal deficit has no limits. If it were too high, it would imply that public expenditure is higher than required to maintain an aggregate demand level consistent with full employment. If this were the case, inflation pressure would be generated; otherwise, unemployment would take place.

Based on this reasoning, ELR advocates assert that any modern economy would be able to provide a job to all unemployed people at a predetermined fixed wage, allowing budgetary deficit to grow as far as it is necessary to reach full employment. The programme would perform the function of paying wages to a *reserve army* that, instead of being unemployed, would be permanently available to obtain a better job.

Even if ELR supporters point out that their proposal was designed on the basis of the United States economy (Wray 2000), research has been conducted in less developed countries. Moreover, ELR supporters claim that the PJyJHD in many ways resembles their proposal and that Argentina joined the ranks of true sovereign-currency-nations after it abandoned its currency board in January 2002 (Tcherneva y Wray 2005a; 2005b). However, as we discuss in other work (Cibils y Lo Vuolo 2004), many difficulties of this proposal arise when its principles are confronted with the particular scenario of the region.

²² This would be feasible because money creation and public expenditure always occur before tax collection.

First, when assessing how the functional financing mechanism would work in Latin American countries, especially if we consider that most countries have difficulties to sustain a sovereign currency and have high indebtedness levels. In this situation, *cyclic* managing of indebtedness proposed by ELR supporters is very difficult.²³ In this scenario, economic agents are likely to be reluctant to buy bonds at the offered rates; instead they prefer other financial alternatives. Central banks would be very restrained from negotiating interest rates because they would be more concerned with exchange rate. Consequently, handling aggregate demand and taking it to full employment level with functional finance mechanisms poses many obstacles. Besides, it should be noted that aggregate supply is usually inelastic in the short-term and could generate greater inflationary pressures than assumed.

Other structural problem is the following: a great portion of unemployment in LA is not *cyclical*²⁴ but has *structural* roots and multi-causal explanations (some of them very peculiar, like rural unemployment, massive rural-urban migration, etc.). Besides, the precarious conditions of many employed workers would lead to a situation where ELR could be demanded by employed people and could attract new workers to the labour supply, increasing pressure on unemployment. For instance, let us assume that the programme is able to offer *good jobs* (providing social services and a minimum income close to formal sector's minimum wage). In this case, the programme would not only attract the unemployed but the underemployed, precarious and informal workers as well; thus becoming the main employer in the economy. This would affect its own function of *stabilization buffer* besides turning the programme into a substitute for the current low-quality jobs. On the contrary, if the programme offers very precarious jobs, it would have the same problems previously mentioned in the case of *workfare* programmes. Also, the ELR could hire workers to perform tasks that the state requires anyhow. The results of workfare programmes like PJYJHD in Argentina show that these and other problems are quite probable because those programmes require a very complex institutional engineering far from state's capacity in the region.

ELR's supporters tend to minimize institutional and administrative problems to put this policy in force. The argument is that the universal character will solve the matter because anyone able and willing to work will get a job without demand of means test. However, the obligation to give a job to the potential beneficiary leads to an unclear selectivity: the authorities need to define (and offer) jobs in selected activities. Administrative problems will be worse if other activities are included (training, education, social and personal services, family care, etc.). The more flexible or generic the selected activities are (and of organizations where to work), the more ambiguous the content of the "work" conditions both to officials and to beneficiaries. Even with a precise definition of those activities and how to access them, experience shows that it is impossible to avoid major deviations²⁵.

In opinion of ELR's proponents, problems referred to the identification of the activities are reduced if an important portion of the employment is channelled through the local governments and NGOs. "*These organizations are already providing the kinds of services that communities need, and have a very good idea of labour needs to increase services to fulfil unmet needs. Furthermore, this sort of decentralizations should tend to*

²³ If other causes of indebtedness are not considered, the growth rate of GDP should be higher than real rate of public debt growth originated by ELR, for the latter debt not to be explosive (Sawyer 2002).

²⁴ In his original formulation, Abba Lerner (Lerner 1947) stated that this mechanism served to eliminate cyclical unemployment originated by normal fluctuations of market economy.

²⁵ The considerations of this sort pointed by De Wispelaere y Stirton 2007 in relation to the "participation income" proposal are valid in the case of ELR.

reduce fears of corruption as the public (at least in the case of the US) places greater trust in non-profit-service organizations that it does government or for-profit firms"²⁶.

The virtuosity attributed to the administrative decentralization of ELR has doubtful validity in developing countries. First, there exists a weak institutional development mainly at the local level which not only raises problems of efficiency but of participation mechanisms and social control. Second, the huge dimension of the informal sector will lead to massive administration work exceeding local capabilities, including NGOs'. Third, the problem remains about the use of selectivity mechanisms for the consolidation of structures of power and local leaderships.

Even when it becomes evident that improving employment conditions in the region needs a re-examination of macroeconomic policies that regulate effective demand, there are serious limits for the ELR in the region. These limits are both at the macro level and at the micro and institutional levels, rising serious doubts about the success of this universal workfare programme to manage a complex monetary and fiscal environment superseding the well-detected problems of narrower workfare programmes.

5.2. From Conditional Cash Transfer programmes to *Renda Basica de Cidadania*

The new generation of Conditional Cash Transfer (CCT) programmes has received wide support from international organizations. These "incentive-based poverty reduction" programmes seek two objectives: to help reduce short-term poverty through the transfers while giving households the incentives to invest in the human capital of their children and thereby reduce poverty in the long-run. This concept has led several countries to experiment with a variety of programmes of this sort, having different effects. The adoption of a particular approach to targeting and accountability depends not only on the rules and budgets under which it operates, but also on its own socioeconomic and political settings, institutional arrangements, and administrative capacities.

The most popular type of programme includes a combination of health, education and nutrition objectives and includes initiatives such as Mexico's *Programa de Educación, Salud y Alimentación* (PROGRESA) launched in 1997 and then modified to *Oportunidades*; Colombia's *Familias en Acción* (FA); Honduras' *Programa de Asignación Familiar* (PRAF); Jamaica's *Program of Advancement through Health and Education* (PATH); Nicaragua's *Red de Protección Social* (RPS); Bolivia's *Beca Futuro*; Ecuador's *Bono de Desarrollo Humano*; Chile's *Subsidio Unitario Familiar*. Brazil is a special case, with the implementation of *Benefício de Prestação Continuada* (BPC), *Bolsa Alimentação* and *Bolsa Escola*, then transformed (since 2003) in the *Bolsa Família* (BF) programme.

The Brazilian example is especially interesting insofar as the domestic debate regarding policies of "struggle against poverty" never limited itself to the question of the "techniques". Certainly, this question is discussed extensively but it is registered in, and determined by, a discussion on the citizen's social rights, and on the citizen's rights to a basic income.

Indeed, in order to analyze the social policies in Brazil it is necessary to make reference to a founding event, the Constitution of 1988. Based on the Constitution and on the *Lei Orgânica de Assistência Social* (Social Assistance Act), numerous programmes were implemented (including local programmes of minimum income, *Renda Mínima*). The Constitution did not specify the social policies to adopt but introduced principles of

²⁶ (Wray 2007: 14), the bold emphasis is ours.

universality for social rights attached to citizenship, which were so vast that any limitation of their expansion immediately appears as illegitimate: health, education, lodging, a “decent” income for the aged or handicapped people are “rights of the citizen” and “duty of the Nation”. It remained to be decided whether income itself was a citizenship right. The affirmative answer came in 2004 with the establishment of the "*Renda Basica de Cidadania*", the closest existing right to a Basic Income.

In 1988 the majority of Brazilian analysts smiled of this rhetoric and saw the mere effect of the political effervescence following dictatorship, in a country auspicious to pomposity. Twenty years after, this judgment must be reviewed. For instance, in spite of enormous problems of quality of the teaching, the rates of schooling of the 7-15 years now approach 100% and the rise of *Sistema Único de Saúde* (SUS, *Unified System of Health*) approach an universal access to the basic medical care (with many problems of quality). At the same time, the country developed a large set of income policies, such as doubling the basic farm pension and aligning it to the minimum wage, and a variety of CCT at the local level (mainly to Municipalities)²⁷. Nowadays, the two most important CCT programmes are the *Benefício de Prestação Continuada* (BPC) and the *Bolsa Família*.

The BPC has been instituted on December 1993 and concerns the aged people without resources of more than 65 years old (67 since 2004) and people affected by a "severe handicap" (stopping them from having a gainful work) living in a home of which the income per capita is lower than a quarter of minimum wage (Medeiros et al 2006). The benefit is equivalent to the minimum salary and, therefore, has a curious statute: it is an individual allowance, but taking in account the family's resources. In 2003, a law excluded from the domestic income calculation the allowances received by other family members. In other words, before 2003, a couple of aged people could not receive two BPC benefits but it is possible since then. This “technical” measure is one of the most important measures in the struggle against the poverty of Lula’s government.

This benefit is not completely unconditional. People aged of more than 65 years have to declare insufficient income and social workers, mandated by the town halls, make some investigations on the level of resources of the candidates to judge the plausibility of the declarations. Concerning handicapped, the criteria of the inability to work are fuzzy: two laws (of 1995 and 1999) tempted to define them, but they excluded (among others) the neurological, renal illnesses, the AIDS, etc; the inspectors (physicians) have, in general, transgressed these legal limitations, and number among them challenges the normative aspect of the debate on the "intellectual" inability to work.

Joining both groups of benefits, BPC is the most important taking into account the volume of income transfers and the second (after *Bolsa Família*) in number of beneficiaries. The number of recipient increases 10% per year, because of the advertisement made around the BPC and the ageing of the population; probably, benefits will increase more because the programme will expand to the rural zone where poverty is stronger. On the contrary, the reduction of "indigence" should limit the number of the recipients. But there are numerous propositions of law to increase the very low ceiling of the benefit and several courts have pronounced in favour of doubling doorstep of eligibility. This legal battle is quite important: it is about knowing who has the right to an unconditional aid. The problem is not only the amount of the expenditure and its affectation but it must be taken into account that the BPC is supported entirely by the INSS (Social Security Institute) and increases its expenses: in 2006, BPS represented 9% of the Social Security system expenses.

²⁷ This movement, along with the fiscal decentralization, increases the geographical inequalities among the poor.

Along with this quasi-unconditional programme, *Bolsa Família* is in force since October 2003 and constitutes, along with Mexico's *Oportunidades*, the best example of CCT politics of "large focalization" supported by international institutions and particularly by the WB²⁸. Politically, *Bolsa Família* is the concrete expression of *Fome Zero*, a programme campaigned in 2002 by President Lula and resulted from the pooling of diverse programmes: an allowance destined to the domestic gas purchase (*Auxílio Gas*), food tickets (*Bolsa Alimentação*), subsidies destined to promote schooling (*PETI*), and *Bolsa Escola* (allowance to the families having the schooled children). *Fome Zero* was ambitious: the "population targets" amount for more than 9 million families or 44 million people because there was not another condition that the ceiling of income. The previous programmes were therefore very quickly merged under the name of *Bolsa Família* under a particular criteria: one level of benefit for the "poor" (less than 120 *Reais* of income monthly per capita) and another for the "indigents" (less than 60 *Reais* per capita)²⁹. The conditions to the remittance of the allowance are: a school attendance of at least 85% (for the children of 7 to 14 years), a follow-up of the calendar of vaccinations, and of the medical exams for the pregnant and nursing women.

The amount paid by *Bolsa Família* is much lower than the one paid by BPC and it is not indexed to minimum wages. Thus, the political impact of the *Bolsa família* does not rest so much on the importance of the individual allowances, or on the volume of funds distributed, that remains lower to 0.4% of the GDP; the impact has to do with the "public" targeted: poor families, very concentrated in the poor regions since the plan extended progressively from the *Nordeste* region. The programme is considered a concrete exercise of citizenship rights for citizens excluded of the economic activity: adults in charge of family without handicap nor infirmity, small farmers, sellers of street alternating with the undeclared salaried class in the micro-enterprises. The problem was then to select the potential recipients.

Since 2001, the Ministry arranged the *Cadastro Único*, a national registration that endowed every Brazilian of a unique number to facilitate the payment of the allowances (through the intermediary of a public bank, the *Caixa Econômica Federal*) and also to rationalize the administrative procedures and especially to eliminate the double perceptions of allowances. The *Cadastro Único* is actualized every two years in order to "rectify" the list of the recipients; the census of the potential recipients is made by local civil servants, in public buildings (schools, offices of social help) and in some cases to their domicile. The fact that the payment is made directly through the *Caixa Federal* is supposed to eliminate the risk of clientelism.

The growth of *Bolsa Família* expenditures during Lula's government passed from 3.4 billions of *Reais* (3.6 millions of beneficiary families) in 2003 to 8.5 billions of *Reais* (11.1 millions of families and 46 millions of recipients) in 2006. Given the conditionality, the setting up of these conditions was a matter for "human capital" rhetoric according to which the programme does not have an assistance vocation but a productivity objective. This rhetoric seems very formal: on the one hand the *Bolsa Família* necessarily has some effects in terms of schooling rate but it seems to be very little since this is already very elevated to the primary level. Moreover, there are claims of a perverse effect according to which the *Bolsa*

²⁸ In (Lindert et al 2007), the WB technocrats use expressions like "world-wide interest" for this "natural laboratory for innovation". Also, when talking about the Ministry in charge of the programme: "*We are consistently impressed by their dedication, professionalism and technical excellence (...) in the design and implementation of the BFP*" (p.3).

²⁹ Since April 2007, the benefits paid are the following: i) in the case of families having an income per capita of less than 120 *Reais*, a supplement of 18 *Reais* by child of less than 16 years is paid, in the limit of 54 *Reais*; ii) If the revenue is less than 60 *Reais*, a supplement of 54 *Reais* is paid, allowing indigent families to receive 112 *Reais*.

Família seems to increase the middle school delay, simply because it pushes families to maintain at school children who would have left it before. Concerning infantile and maternal health, the effects of "conditionality" are probably positive to very long term. But it seems impossible to discern what can be assigned to the *Bolsa Família*, and what to SUS.

In general, the assessments of *Bolsa Família* are very positive (Lindert et al 2007; Veras Soares et al 2007). On the one hand, it is claimed that it permitted an important reduction of "indigence" at a very low cost, even though the effects on poverty are a lot less clear. On the other hand, it is argued that the "focalization" is more precise than the previous assistance programmes: the poor receive 80% of the transfers of *Bolsa Família* and the "extremely poor" 48% (whereas for the BPC, the corresponding numbers are 72% and 50%). As was said, for the WB, and more than other CCT programmes, it offers a great example of good "governance": decentralization of the management without being used as an instrument of local clientelism; good technology of remittance (via the *Cadastro Unico* and the ticket windows of the *Caixa Econômica Fédéral*); weak but controllable conditionality. As many politicians in Brazil argued, it is also a good political investment at a very low cost. The outcome of the election of October 2006 seems to have given a reason: the "electoral output" of this aid plan is without precedent³⁰.

But these positive aspects should be tested against the limits of *Bolsa família*. First, it is submitted to the government's goodwill both in terms of its very existence and regarding the level of the benefits. This limit has been observed in 2007, year where the level of the benefit has been adjusted for less than the adjustment of the minimum wage (unlike the BPC). However, given the support of the programme, it seems to be a political impossibility of such a deletion and to escape what is the obsession of the liberal philanthropy: that the poor consider help like a due. Government's "tactics" help this results and rest on polarizing the debate to elude what is nevertheless the essential: the question of the primary distribution of incomes, the tax system, and the offer of public services.

Second, the amount of the benefit is very low. This explains its better impact as a mean to a momentary exit from indigence but certainly not of lasting exit from poverty (Lavinias 2007). Other problem is, as its name indicates it, the programme is destined to "true families", while the mono-parent families with children represent (in 2004) 37% of the 10% of the poorest families, and 63% did not benefit from any programme of income transfer. Finally, the argument according to which the *Bolsa Família* would escape from being an instrument of local electoral clientelism, displace the issue only: it became a major instrument of the presidential clientelism.

5.2.1. Brazil's Renda Básica de Cidadania

As was said, in January 2004, Brazil passed an Act that institutes –theoretically since 2005– the programme *Renda Básica de Cidadania* for all residents and foreigners with more than five years of residence. The level of the benefit would be uniform, regularly paid and profit-tax free. The fundamentals of the Act allude to the principles of the Basic Income proposal. However, although the Act recognizes that the right to this benefit is independent of an individual's socioeconomic condition, it states that the programme should be first aimed at lower income groups. The way to establish the amount of this benefit is not fixed by law, but by the Executive who should take into consideration the regulations of the Fiscal

³⁰ As an example, it is commonly cited that Lula obtained 82% of the votes in *Maranhão*, the poorest *Estado* of the country and where conservators traditionally win.

Responsibility Act. This Act establishes that any expenditure increase has to be accompanied by justification of the origin of the funds and cannot affect fiscal goals set in the budget.

The *Renda Básica de Cidadania Act* appears to be the most important legislative change in income transfer policies in LA and is supposed to be the final step of the long process which has begun with 1988 Constitution and the *Lei Orgânica de Assistência Social* (social assistance Act). In this process, many programmes granting monetary benefits were launched and then gradually unified; at the meantime, this process triggered a debate about the need for concentrating efforts in a programme that directly paid cash benefits. Senator Eduardo Suplicy from PT (Workers' Party) passed several bills that intended to establish a minimum universal income within the *negative income tax* scheme (Suplicy 2002). The result is the sanctioned *Renda Básica de Cidadania Act*.

The legal recognition of a universal right to income is a significant conquest. However, many doubts remain about the practical possibilities of applying it in practice. As an example, the macroeconomic policy in Brazil –strong primary fiscal surplus devoted to debt payment and monetary policy oriented to inflationary goals– is not the best environment to put this Act into practice. Doubts arise when it is observed that it fails to define how benefits are estimated and which are the financing sources; as said, this limit has been observed in 2007, when the level of the benefit has been adjusted for a little amount even less than the amount of the BPC. In addition, the Act explicitly subordinates its practical application to compliance with effective application of the Fiscal Responsibility Act, which establishes very strict limits to the incorporation of additional public expenditure.

Also, the inconsistency of an Act that does not establish funding sources and whose implementation is not associated with a tax reform, particularly with the reform to the income tax, was also mentioned. The proposed alternative is to advance gradually toward universality with other criteria, but first covering the needs of underage population, since this mode should have a greater impact in poverty indexes and associating changes to a tax reform.

Another question is conceptual and methodological: how can an unconditional BI objective be reached through a conditional cash transfer focused on the poor? Here is again expressed the tension between the universalistic discourse and the targeted practice, even when it is well recognized that recent Brazilian movements in social policy are in the sense of expanding coverage. Indeed, the Act does not set a deadline to reach universal coverage. Doubts increase if we consider that the BI has many difficulties to gain grounds even in Europe, where there is a sound universalistic tradition and extended systems of social protection.

A targeted policy always shows great capacity to extend coverage to other sectors at the beginning, but this capacity is then restricted to certain *categories* of poor people either according to individual characteristics or to geographical locations. As more *selection criteria* are introduced, advancing becomes more difficult. In fact, it could be possible that the BPS expands more than *Bolsa Família* given its minor conditions of accessibility.

The problem in Brazil and LA is how to shift perspective from a technology to struggle against poverty to an approach of (re)constructing the whole system of social protection. Experience shows that when the aim is universality the criteria for selecting policies are different from those of targeted programmes. Organizing a programme from a universal criteria refer to a type of solidarity introduced by a given mode of financing and to the capacity of spreading protection mechanisms very different from those used to organize targeted programmes.

Building a universal institution cannot be achieved by employing *target technologies* but, rather, by making use of *universalistic technologies*. BI is one of the best universal technologies to build a more efficient social protection system with a better balance between the universal discourse and the particularistic practice in the region

6. Why Basic Income is better than current renewed promises to build a better welfare regime in Latin America

Current social policies in LA do not represent major changes in relation to the Institutional Responsibility Matrix of the “informal security regime” type. This revision does not offer plausible solutions for poverty and other acute social problems. The highly pro-cyclical nature of targeted policies and the low public expenditure devoted to them has no capacity to reduce vulnerability and experience reveals that the spreading of this type of programmes is usually an excuse to justify the dismantlement or postponing of universal social policies. Despite of this new phase of economic growth, it is difficult to see any substantial shift in the welfare regime mainly because informality still is treated as a synonymous of unemployment or poverty.

On the contrary, informality is a specific “regulation mode” on to which the state, markets and other institutional forms forge social reproduction based on inequality. Informality is a modus operandi of the economy and the society; it won’t be superseded by economic growth because economic growth is explained in part by means of informality. The existence of labour market pathologies implies cheap labour and the possibility to reduce labour costs thanks to segmented markets.

Public policies of struggle against poverty in LA are not merely ambivalent, or ambiguous. Until now they exist by this constituent tension between universal discourse and particularistic practice that made them to be born and to change permanently, in a sinuous course often regressive. This general direction is the affirmation of a peculiar conscience of the citizen's rights.

In this scenario, BI proposals found little room to be part of the rhetoric supporting variants of wider workfare and/or CCT programmes. In order to escape from this trap, BI must show its potential to deal with the informal sector limits to social coverage and to fill the gaps between the discourse, the rules and the real outcomes of welfare regimes in the region. BI is well equipped to fill the gap between universalistic discourse and particularistic practice in the region because, as an income maintenance public policy, has the potential to reach universality without the limit of the informal sector.

In this sense, it should be reminded that public policies are “public” not only because they are conducted from the “public place” but also because they are the structural and concrete form where the relation between state and society is expressed. Accordingly, it is worth remembering that SPS were not conceived to assist the poor but to struggle against social vulnerability by devoting part of the incomes of the population to the social wage. More precisely, this is not about *giving* resources to poor people but about driving up the social wage and allotting that amount to cover social risks. The aim of SPS is, as its name suggests, to *protect*; that is, to prevent and reduce vulnerability. Secondary distribution of income is a mean to achieve such protection. The core of the problem is the contents of the social wage concept when we deal with informal welfare regimes.

Another remark helps to understand the point: welfare regimes have to do with *social mobility channels*. Indeed, in societies where SPS have broadly expanded, it can be observed a strong intra- and mostly inter-generational mobility. This is true for both the European

experience during the four decades that followed the end of World War II, and for those Latin American countries that have been pioneers in building SPS.

Social mobility channels have been blocked in the region by means of the segmented labour market, fragmented social insurance institutions and targeted social assistance programmes. This weakens the emergence of a different welfare regime based on generalized interests that could make formal workers accept the reallocation of resources in favour of precarious workers who cannot contribute to social insurances. This could be done if the most advantageous groups accept that the informal workers will make future contributions once they have overcome precarious working conditions. This situation blocks upward *mobility circuits* of workers and, as a consequence, the foundations that sustain the principle of mutual aid which is based on payroll taxes. Consequently, the main political problem is not knowing whether to distribute or not, but to define the *population* that is to be covered by social protection mechanisms and how social mobility will be stimulated.

To change the informal welfare regimes in the region it is advisable to take into account the need to build *different institutions*, assuming that they have to reach the informal sector as well as the formal population in order to stimulate general interests. Building a more universal SPS cannot be achieved by employing *target technologies* but, rather, by making use of *universalistic technologies*. When sheltered by massive targeted programmes, a collective imagery (legitimacy) and a specialized bureaucracy (technical rationalization) are created, which are exactly opposite to the universal and unconditioned nature of benefit. A targeted policy always ends up covering only a few categories of poor and creating a particularistic ethic of social protection.

This is not solved when the passage from a narrow to a large focalization is done in the name of “human rights”; it is just a new way to delimit the space where should be discussed the tension between universalistic discourse and particularistic practice in the region. One limit is established by the techniques and technicians (in schools, in health, in roads etc.), where politics does not have any part. Other limit is the “human right to a minimal income” where politics takes the form of a “moral state”, carrier of the voice of the “without-voices” but at the same time applying its voice to stop any other discussion of distribution. The problem is therefore how to shift perspective from a *technology to struggle against poverty to an approach of (re)constructing the whole system of social protection*, including both arms of the fiscal policy: taxes and expenses.

This is a different road which implies having at the centre of the reconstruction a clear conceptualization of the informal sector and to re-examine the idea of moving from wider focalization to universality. The magnitude and characteristics of poverty and employment in the region indicate that there is an urgent need for establishing policies for a universal and unconditioned BI to *prevent* and not to *alleviate* insufficient incomes. Assistance programmes of any size should be the exception, not the rule that characterizes social policies.

The BI idea responds better to the need of (re) construction of SPS in order to alleviate the tension between universalistic discourse and particularistic practice. Its direct universal technology reduces to the minimum the institutional and administrative problems of both narrow and wider focalization. BI norms of eligibility for the access (and permanency) are the most simple and minima, limited only to make sure the physical existence of the beneficiaries. Therefore, it does not require complex apparatuses for identification, admission, monitoring, persons or activities, reducing management costs.

However, BI could not be an isolated reform. It should be a crucial component of a policy package taking into account cultural and institutional heritages, avoiding the rise of uncontrolled costs like irresponsible pension reforms performed by orthodoxy. Although it

may be too concise, I will propose some guidelines regarding the way that this alternative political project should follow.

A reasonable way is to start by reforming existing family allowance programmes that currently only cover some groups of formal employees and turning them into a programme that pays a basic income per underage children. At the same time, it is necessary to reform the pension systems imposed under the financial paradigm of individual capitalization of pension funds and substitute them for others founded on a universal and unconditional benefit necessary to prevent poverty among retired people. These reforms would have a direct impact on family income using resources that at present, to a large extent, are financing inefficient programmes. Furthermore, these policies would settle an inter-generational distributive agreement necessary to any political project intending to go beyond the mere objectives of appropriating short-term gains.

In addition, these policies would have *externalities* that go beyond the simple aim of distributing incomes. Benefits for childhood would favour school attendance and put an end to child labour and exploitation which, in turn, would have positive impacts on the present and future labour market. The basic pillar of pension systems would also have a favourable impact on the regulation of entering and leaving labour market while offering minimum guarantees that would foster participation in other contributory pillars. For this purpose, contributory pillars should abandon the financial capitalization systems in privately administered individual accounts and transform them into pay-as-you-go systems of notional accounts. This would facilitate an ordered transition with no fiscal costs.³¹

Second, income policies should be combined with *food sovereignty* policies. The specific character of these policies varies for each particular case; in LA, strategies are needed to guarantee that most popular sectors³² have access to a healthy food consumption pattern. An increased purchasing power of popular sectors is the guarantee to legitimate the reforms. For this purpose, actions are required on distribution channels; promotion of self-managed cooperatives, society and community-driven undertakings; education policy intended to change popular sectors' consumption behaviour, etc. Food market regulation policies are also needed to avoid supply problems and price increases.

Third, a tax reform reinforcing the implementation of direct and progressive taxes and reducing pro-cyclical behaviour is needed. In LA, the after-tax Gini index shows a bigger concentration of family income than before-tax. This situation results from a tax structure with a clear predominance of indirect taxes. For instance, in OCDE countries' personal income tax represents in average 9% of GDP and 3.4% in the case of firms; in LA the registers are 1.8% and 2.8% respectively (CEPAL 2008). A progressive tax reform is also necessary to ensure safe financing of public policies to avoid social budget dependence on loans granted by IFI. This is a necessary condition to recover autonomy in public policies formulation. Several countries in the region have demonstrated a capacity for achieving fiscal surplus under the pressure of paying public financial debt; however, the challenge today is to use this capacity for purposes like changing the tax and expenditure structure inherited from institutional reforms

Universal policies of income transfer are also helpful for fiscal reform, for two reasons: (i) they are useful to reform income tax systems, by integrating them as effective fiscal credits;³³ (ii) they are useful to legitimize tax reforms, since imposing taxes to pay for a financial public debt that benefited some concentrated powerful groups is different from

³¹ For a proposal of reform aligned with this thought for Argentina case, see (Goldberg y Lo Vuolo 2006).

³² On this respect, see the work by Aguirre 2005.

³³ For an exercise applied to the Argentine case, see (Lo Vuolo et al 1999, chapter IX).

paying universal benefits immediately perceived by all the population. This will help the implementation of tax reforms reinforcing direct and progressive taxes. It is also necessary to ensure safe financing of public policies so as to avoid social budget dependence on conditioned loans granted by IFI which is needed to recover autonomy in public policies formulation. Several countries in the region have demonstrated a capacity for achieving fiscal surplus under the pressure of paying public financial debt; however, the challenge today is to use this capacity for other purposes especially that of changing the tax and expenditure structure inherited from institutional reforms imposed in the last decades.

Fourth, formal employment creation should not be matter of social policies. It requires multiple integrated economic policies, including macroeconomic policies attentive to effective demand. In addition, the public sector should recover its role as an employer in abandoned public service areas: health, education, community service, social infrastructure, etc. These activities are all labour intensive and barely dependant on foreign inputs, thus fostering economic recovery without strong pressure on the money market.

Policies that foster the establishment of new enterprises and the support of already established small-sized ones are relevant to promote employment creation. But this is not a problem that could be addressed through micro-credits. What is needed is a package of incentive policies tied to the explicit generation of formal jobs. These policies should not be based on reducing taxes that finance social insurance, but mainly on financial, administrative and commercial support so that companies have well-grounded expectations in creating their own development capacities once the incentive programme is over.

Latin American countries need to find a new direction to a collective project that goes far beyond governments' short-term urgent needs. The current macroeconomic scenario in the region gives ample room for change but needs to be accompanied by an adequate revision of the institutional system that was built in the previous years. The answer to this is not a revision of orthodox policies but to rebuild the institutional setting of the SPS on the basis of identifying general interests of different population groups and to consolidate a more equitable distribution pattern within a common institutional system. In this sense, BI is the best alternative as a cash transfer policy consistent with other reforms seeking to change the nature of current informal security regimes.

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