The role of the labour market and social protection in reducing inequality and eradicating poverty in Latin America

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OBJECTIVE

Analyze to what extent the more positive macroeconomic conditions experienced in the region in recent years, before the international crisis, have been an opportunity for these countries to recover their labour markets and conduct a more active social policy.
OUTLINE

- Evolution of the macroeconomic situation in Latin America: from volatility to growth.
- Labour market, labour institutions and income distribution: recent trends and structural deficits.
- Facing poverty during childhood, working age and old age.
- Final remarks.
Six years of sustained GDP growth with improvements in the fundamentals

Latin America: Growth rate of Per Capita GDP, 1990-2009

Source: ECLAC
The 2008 international crisis put an end to economic growth

Growth rate of GDP, 2009 (%)

- Mexico: -6.7%
- Paraguay: -3.5%
- Honduras: -2.5%
- Costa Rica: -1.8%
- Dominican Republic: -1.8%
- Chile: -1.5%
- Nicaragua: -1.2%
- Argentina: -1.0%
- Peru: 0.3%
- Brazil: 0.3%
- Ecuador: 0.7%
- Colombia: 0.8%
- Venezuela: 1.0%
- Uruguay: 1.2%
- Panama: 2.0%
- Uruguay: 2.5%
- Chile: 3.5%
- Latin America: 0.3%
However, recovery has been very quick and most of the countries are growing again.
But, the region still faces strong structural challenges

- Achieve sustained growth path, with a reduction in nominal and real volatility and increases in systemic productivity.

- Advance in the reinforcement of the States’ redistribution capacity.

- Recognize the negative impacts that macroeconomic volatility has on income distribution.

- Relevance of anti-cyclical policies.
Economic growth has had a positive impact on social and labour market indicators.
... and on income distribution

Reduction of 11 p.p in poverty and 6 p.p. in extreme poverty

Latin America: Poverty and Extreme Poverty, 1980-2008

-11 p.p
Four groups of countries according to poverty incidence

- Low poverty
- Middle - low
- Middle - high
- High poverty

- Uruguay
- Chile
- Costa Rica
- Argentina
- Brazil
- Panama
- Venezuela
- Peru
- Mexico
- Ecuador
- Colombia
- El Salvador
- Bolivia
- Guatemala
- Paraguay
- Nicaragua
- Honduras
Despite the progress during the expansion phase, there still are significant deficits…

- High unemployment, precariously, informality, inequality and low average wages.

- Around 8% of the active population is unemployed. **50% of workers are informal** and 30% are non-wage earners. Most of them are non-professional own-account and belong to the informal sector.

- Those precarious conditions often give rise to poverty and social exclusion.

- **Phenomenon of “working poor”** that shows that having a job is no reassurance against poverty.
Three structural characteristics in the region:

- **High income inequality**, both at labour and family levels.
- **Very low systemic competitiveness**.
- **Scarce protection for workers and their families** due to the narrow scope of contributory-based social security and the insufficient development of other non-contributory schemes.
Areas where the region has made progress but significant deficits still persist:

- Childhood protection.

- Protection of the unemployed and of the people in the working age facing employment difficulties.

- Protection of the elderly.
Greater incidence of poverty on children compared to other age groups
Protecting children through cash and in kind transfer policies

- Currently almost all countries have some sort of this policies.

- They have become an important component within regional social policies.

- **First group** of countries that has especially designed these programmes: *Progresa* (Mexico), *Bolsa Familia* (Brazil). **Second group** (Chile, Uruguay and Argentina) which has extended its contributive child allowances systems.

- Most of them include conditionalities related to certain nutrition, education and health objectives.
Protecting children through cash and in kind transfer policies (cont.)

Positive effects:

- These programmes are, in general, well focused.
- They are effective in reducing extreme poverty and inequality.
- They do not only imply an increase in family income in poor households but also ensure an amount of money that does not depend on macroeconomic or labour fluctuations.
- Increases in school enrolment rates and a reduction in malnutrition have been observed.
Protecting children through cash and in kind transfer policies (cont.)

Shortcomings and future challenges:

- Restrictions and challenges as to coverage, conditionalities, institutional design and evaluation.

- They account for only 2% of public social spending and 0.25% of the countries’ GDP on average.

- A comprehensive public policy for children cannot be exclusively grounded on cash transfers.

- This requires ensuring access to good quality health and education services.

- Dimensions such as child-care, gender inequality and child labour should also be considered a priority.

- These programmes should be combined with labour policies for economically active adults.
Contributory-based unemployment insurance has not been fully developed in LA.
Efforts to implement non-contributory unemployment assistance programmes, but they are still insufficient

- **Unemployment protection in Latin America is still a pending task.**

- The lack of unemployment protection forces workers to quickly accept precarious jobs.

- The region must move forward in implementing transfer instruments to reduce the vulnerability of informal workers.

- A difference with regard to formal wage earners is the identification of a situation of unemployment. It is not easy to differentiate it from informality or inactivity.

- It would be essential to consider some sort of activity in order to “disclose” the person’s jobless condition.
Weak integration with ALMP

- Unemployment protection schemes are not properly integrated with other active labour market policies.

- The aim of the unemployment protection policies should not only compensate for loss of income but also support efforts in the search for a new job.

- Training programmes are an important component of ALMP. Advances in Latin America in last years.

- However, they still have important shortcomings: limited coverage; training offers are not always recognized; few outcome evaluations; skill certification is not always transparent; difficulties to predict demand specificities in the future.
Active Labour Market Policies

- Training systems shall adjust to the different needs of the productive sectors and labour force.

- A greater diversification of the programmes offered and permanent monitoring of providers are needed.

- **Two previous conditions:** (1) economic development path; (2) high level of coverage and quality in formal education.

- Importance of programmes to support job retention and promotion, thus avoiding further impacts on unemployment.
Protection of the elderly

- Limits of contributory pension systems given the structural labour market deficits: high unemployment, informality, occupational instability and low average wages. Aging of the population.

- In recent years, efforts to increase coverage of the pension systems by creating non contributory components or reducing requirements in contributory regimes. For instance, Argentina, Brazil, Chile and Uruguay.

- Make more efforts to reach out to people with no coverage, either through their inclusion in more flexible contributory regimes or through the expansion of non-contributory schemes.
Final remarks

- **High-income inequality**: concentration in the primary income distribution and incomplete social protection systems.

- Employment formalization, strengthening of labour institutions and active employment policies are essential to allow jobs to become an effective mechanism to overcome poverty and achieve social cohesion and protection.

- A building of a comprehensive social protection system grounded in universal rights. However, universalization strategies do not override the purpose of creating more and better jobs.

- Integrate public policies so that they become a coherent system of employment, social protection and development. Definition and implementation of a mid and long-term economic development strategy.

- To take into account the heterogeneity across the countries.