Learning from Contrast: Social Protection in Asia and Latin America in Time of Economic Crisis

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Social Protection (SP) systems are highly conditioned by the macro-economic and macro-social environment in which they evolve. In this short paper, we attempt to learn some lessons relevant to policy-makers by contrasting the way in which SP systems have evolved in Asia and Latin America. In Section 1, we spell out briefly the features of SP systems as they stand currently in Latin America. In Section 2, we examine the differences in the macro-economic and macro-social context for Asia and Latin America, and suggest how that has impacted the current state of the SP regime in each region. In section 3, we present some features of SP systems in Asian countries. In Section 4, we examine the scope for further evolution of SP systems in both Asia and Latin America. In particular, we will examine three types of social safety net programmes: government as an employer of last resort; social insurance systems for those employed in the informal economy; and social assistance for workers in the informal sector. The reason for the focus on the informal economy is two-fold; one, those in the formal economy have in any case access to social security; and two, the workers in the informal sector still constitute a very significant proportion of all workers in both Asia as well as Latin America. In the fifth and the final section, we examine some of the political-economy issues associated with forging an appropriate response by the SP system in these two regions to sudden exogenous shocks such as the current global economic crisis.

1. The Current State of Social Insurance (SI) and Social Assistance (SA) in Latin America

Despite the fact that some 60 per cent of employment in Latin America is in the informal sector, most of the benefits of SI flow to those who are employed in the formal economy. In other words, all that the majority of informal sector workers receive by way of social security is SA, which too was only initiated in some countries two decades ago, and thus, is of relatively recent origin.

Until two decades ago, social security in Latin America was mainly limited to SI benefits – confined to those employed in the formal private and public sectors. (2006) Lindert et al. note that three country sub-groups can be distinguished on the basis of SI benefits:

- A group of early starters, such as Argentina, Brazil, Chile, Cuba and Uruguay which initiated occupationally-stratified SI funds in the 1920s;
- Intermediate countries, such as Colombia, Costa Rica, Mexico, Paraguay, Peru and Venezuela, which initiated SI programmes after the 1940s, usually by establishing a central SI agency to reduce stratification; and
- Late starters in Central America, which developed SI institutions in the 1950s and 1960s, and the Caribbean (except Cuba) that developed contributory SI schemes after independence in the 1960s and 1970s.

One of the consequences of ensuring SI for formal sector employees, to begin with, was that the majority of the workforce was for a long time excluded from any social security. A significant share of these benefits are financed by general tax revenues, since pay-roll contributions by formal sector employees themselves have increasingly fallen short of payment requirements. The result was the increase of state funding for both operations and financing of SI funds. But given that the tax systems in Latin America are only slightly progressive, these SI schemes which are normally deficit ridden, have taken from the poor and redistributed income to the non-poor (Lindert et al., 2006). This may have aggravated Latin America's already high social and economic inequalities.

Social Assistance in Latin America in the early years usually took the form of price subsidies for basic commodities (e.g. food, energy) and direct feeding programmes. In some cases, work-fare programmes were introduced (e.g. Chile in 1980s, Argentina in 1990s and Colombia in 2001). Such wage-employment programmes had been particularly popular in Asia (e.g. India's Maharashtra Employment Guarantee Programmes started in 1972), but they did not catch on much in most of Latin America. It is interesting though that Argentina's formal *Trabajar* programme was one of the best targeted programmes among the international sample with a highly progressive absolute incidence (Coady, Grosh and Hoddinott, 2004).

A completely new type of SA programme was started in the mid-1990s in Latin America in the form of Conditional Cash Transfer (CCT), which provided a direct cash transfer to the eligible usually poor families on condition that members of beneficiary households met certain requirements for school attendance and health care use. Since SA programmes were largely intended to reach those who work in the informal sectors, they did offset to some degree the lack of progressivity of the social security system that had arisen from SI benefits being confined to those working in the formal economy.

Table 1 summarises the scope and mix of SP spending in Latin America in the middle of the current decade, categorizing countries into three groups: High SP Spenders, Moderate SP Spenders and Lower SP Spenders. In the first category, are the countries that spend a significant share of gross domestic product (GDP) on transfers (an average 11.5% of GDP), which is higher than similar spending in the USA (8.3% of GDP), but not as high as the levels of social spending in Europe (16.3%). What is interesting is that the tax-financed net pension subsidies in these countries are over three times higher than the spending on SA in Argentina, Brazil and Colombia. What is equally interesting is that the total SA spending, though lower (1.8% of GDP on average), is still higher than the share of GDP allocated to SA in the low and middle SP groups.

Among moderate SP spenders, Mexico, Venezuela, Paraguay, Peru and Costa Rica allocate a more moderate share of GDP to total public transfer (average 3.7% of GDP). A large share of this spending goes to SI (Pension). Overall, this group spent the least on SA programmes (0.8% of GDP), even less than the countries in group-3 (the lower SP Spenders).

The lower SP spenders, Nicaragua, Honduras, Dominican Republic, Guatemala and EL Salvador spent an average of just 1.9% of GDP on SP. Most of this spending goes to SA, and most of that consists of in-kind transfer such as school feeding and other food programmes, though some countries have initiated CCT.

Table 1: Typology of Latin America and Caribbean (LAC) Countries according to Level and Mix of SP Spending

	Countries	Spending Averages and Mix		
		Overall SP	Social Insurance	Social Assistance
Group 1: Higher SP Spenders	Colombia, Chile, Argentina, Brazil, Uruguay	**Avg: 11.5% of GDP** Mostly SI	**Avg: 9.8% of GDP** Old age, disability, unemployment insurance	**Avg: 1.8% of GDP** Mostly cash transfers
Group 2: Middle SP Spenders	Venezuela, Paraguay, Peru, Mexico, Costa Rica	**Avg: 3.7% of GDP** More SI	**Avg: 2.9% of GDP** Mainly pensions	**Avg: 0.8% of GDP** Mix of in-kind and cash transfers
Group 3: Lower SP Spenders	Nicaragua, Honduras, Dominican Republic, Guatemala, EL Salvador	**Avg: 1.9% of GDP** Mostly SA	**Avg: 0.3% of GDP** Mainly pensions	**Avg: 1.6% of GDP** Mostly in-kind transfers, some piloting of CCTs

Source: Lindert et al. (2006) Using spending data and country information. SI spending includes gross value of pension benefits.

2. The Macro-economic Context of Social Protection systems in Asia and Latin America

There are four or five features of macro-economic and macro-social context that are relevant for SP systems (described in the previous section) if we wish to draw lessons for policy-makers from a comparison between Asian and Latin American economies. The first point of contrast between Asian and Latin American economies at similar levels of per capita income is that the tax to GDP ratio is much lower in Latin America. This ratio in Latin America is only 16 per cent, well below what might be anticipated from the per capita income level prevailing in the region. This low willingness of the State in Latin America to tax its citizens has been a long-standing historical fact, which stubbornly refuses to change. Reflective of this resistance is the fact that direct taxes account for only 26 per cent of total tax revenues in Latin America, while indirect taxes contribute as much as half (46%) of all taxes revenues – an indicator of the tax system's lack of progressivity.

Table 2 shows a comparison across regions of direct taxes as a percentage of GDP. As compared to other regions with similar levels of average income, Latin America collected a relatively low level of direct taxes, i.e., 3.9 per cent as against 6.9 per cent for East Asia and 8.3 per cent for eastern Europe over 1997-2002. Even more remarkably, direct taxes in Latin America had declined to 3.9 per cent of GDP from 5 per cent in the 1970s. This ratio managed to climb back to 5 per cent only in 2006. Even South Africa, another middle income country and also another unequal society, had direct taxes that were nearly 15 per cent of GDP in 1997-2002. In Latin America, in fact, the maximum rates of personal income have been increasingly falling at least since the mid-1980s. An additional problem in this region is that relatively open capital accounts had allowed large proportion of this income to flow abroad, where it is not taxed. Furthermore, wealth is not taxed effectively; taxation of rural and urban property is limited and land-owners have successfully prevented agrarian reforms, and avoided paying land tax. Not surprisingly, the share of indirect taxes, especially consumption taxes such as Value Added Tax (VAT) has grown. The VAT increased from 2.5 per cent of GDP in the 1970s to 5.6 per cent in 1997-2002 in Latin America, a level almost twice as high as that in East Asia where VAT accounted for 2.9 per cent. In a region which is already characterized by high levels of income and wealth inequality, regressivity of the tax system serves to underscore the high levels of inequality and may even worsen it.

A second feature of the macro-economic context is the difference in economic growth experienced over the last quarter century between Latin America on the one hand and Asia on the other. First, Latin America experienced a “lost decade” of growth during 1980s, as it began the decade with a serious debt crisis resulting in many Latin American economies approaching the International Monetary Fund (IMF) and the World Bank (WB) for stabilization and structural adjustment loans. By contrast, the East Asian economies, which had been growing at a rapid clip even in the previous decade, sustained their growth over this decade. In fact, after the economic reforms began in China in 1979, the Chinese economy has been growing at a sustained rate of 9-10 per cent per annum for the last 25 years. By contrast, in the 1990s, while Latin American economies did pick up somewhat at the end of the decade, per capita incomes were not higher than when the decade began. Given that Latin America already had higher levels of poverty as well as inequality, the slower growth of the Latin American economies over two decades did not permit a major expansion in the coverage of formal social security systems.

The third_feature of the macro-economic context that distinguishes Latin America from East Asian economies (though not from the South Asian Region) is the high degree of inequality within the education system. Quality has for long been an issue in the school system in Latin America. By contrast, East Asian nations, especially China and the tiger economies, succeeded not only in universalizing elementary education (class 1 to 8) early on in their development process between 1950 and 1970, but also achieving high levels of secondary enrolment. In fact, the school system in most of these economies has been an important source of generating income equality in the East Asian economies. (It is however true that South Asian economies, particularly, India has shown a much worse record than its East Asian neighbours; and the education system in South Asia is in this respect similarly reproducing inequality, as in the Latin American school system).

The fourth feature in regard to the macro-social context for the SP system in the two regions is the degree to which informal employment is widespread. Some 60 per cent of the total employment in both Latin America as well as the East Asian economies is in the informal sector. In this respect, the two regions are quite similar, though it must be added that the share of informal employment in total employment in the low income countries of South Asia (e.g. 93% in the case of India) is much higher than either in East Asia or in Latin America.

The implication of the significance of informal employment in Latin America and in Asia is that some 40 per cent of the workforce in both Latin America and East Asia, and 90 per cent of the workforce in South Asia are without any form of SI. Although they may be without SI, but they have had access to social assistance in Latin America and in Asia, as we saw in the previous section. The fiscal capacity to provide SI for informal sector workers is much greater in the East Asian economies than in Latin America, primarily on account of the more rapid growth rate in per capita income in recent decades as well as the higher tax to GDP ratio in these countries. Yet, most of the East Asian economies have not provided any SI in the informal sector, just as South Asian and the Latin American economies have not.

Table 2: Direct Taxes as a Percentage of GDP, by Region

Region	**1997-2002**
Latin America	3.9
East Asia	6.9
Eastern Europe	8.3
South Africa	14.6

Source: International Monetary Fund (IMF), Government Finance Statistics

3. Social Protection Systems in Asia

In Asia, it is possible to distinguish two distinct groups of countries at the high end of the scale of SP. First, Japan and Korea – both high income countries – have the highest values on an SP Index (SPI) estimated by the Asian Development Bank (ADB, 2008).[1] The second group is the Central Asian countries (including Mongolia) with high levels of SP resulting from the comprehensive SP system introduced by the former Soviet Union. Although these SP systems have major fiscal costs, yet these systems have been maintained to some degree even in the post-transition period, even though the benefits provided in some countries are low relative to the current poverty line.

There are fewer variations in respect of the SP Index between South and East Asian countries (excluding Japan and Korea). Countries with high human development levels have an SP Index/SP Summary Index values 2.5 to 6.3 times those of low human development countries (Table 3). There is a clear positive association between SPI and both human development index (HDI) and GDP per capita (in purchasing power parity terms). This is not unexpected since higher levels of development are linked to increased SP activities, as higher GDP enables higher expenditure on SP, and better education and health indicators allow the government to give more attention to SP issues. What is important is that in both cases, the SPI in Asia for countries with similar HDI or GDP per capita values vary substantially. Moreover, the pro-poor targeting of this assistance is not correlated with either the HDI or GDP per capita.

The policy implication of this finding is that it is possible for most countries to provide different levels of SP irrespective of their levels of human development or wealth. In fact, this finding is consistent with the conclusion of Mehrotra and Jolly (1997) that very

[1] The SP Index has the following components.

different levels of health and educational outcomes can be achieved at similar levels of per capita income.

Table 4 shows that in most Asian countries, most expenditure on SP is provided through the formal SI system – a situation similar to that in Latin America. Interestingly, this is just as likely to be the case in rich as well as in poor countries (ADB, 2008). Thus, it can reflect both a well-developed SI system with high level of coverage (e.g. Korea and some Central Asian countries) and countries with SI system that is largely confined to the formal sector (including government and the military) and of little relevance to the poor (e.g. Pakistan).

Countries with below-average proportions of expenditure on SI are those with less developed systems but with significant other SP expenditure. The examples are Bangladesh, Bhutan, Colombia and Lao PDR (all of which have large micro-credit programmes).

Unlike SI schemes, the programmes that provided the greatest coverage of, and group benefits to the poor, are the targeted programmes. These include educational assistance, subsidized health care (or fee exemption), food for work/direct job creation and micro-credit finance. Micro-credit schemes are a significant element of SP in countries such as Bangladesh, Kyrgyz Republic, Lao PDR and Philippines. On the other hand, as we noted earlier, formal means-tested social assistance programmes involving direct CCT are not particularly important, except those targeted at the most vulnerable and destitute (e.g. programmes for the disabled, pension for the elderly).

Across Asia, the highest coverage rates are for poor children (educational assistance programmes), social assistance to the poor and the elderly (pension and targeted health and social care health schemes).

Social assistance in the form of CCTs, which have become rather popular in Latin America in the last two decades and successfully reached out to the informal sector have barely taken root in any Asian country (outside of Central Asia). There are almost no direct cash transfers in South Asia, and even in South East Asia CCTs were started in Indonesia and then Philippines only in the last few years. A CCT in Indonesia was initiated in response to the reduction in general fuel subsidy that followed after the fiscal costs became too high for the general population, when oil prices rose between 2007 and 2008 to an unprecedently high level (up to $150 per barrel).

Table 3: Social Protection Index Values – Summary Statistics and Variation by Region and HDI Group

All countries – SPI Values		**By Regional Grouping**			**By HDI Grouping**		
		Region	**Countries**	**SPI**	**HDI Group**	**Countries**	**SPI**
Maximum Minimum	0.96 0.01	Central Asia South Asia	7 7	0.50 0.28	High High Medium	5 11	0.54 (0.65)* 0.39
Mean Median	0.36 0.34	East Asia	7	0.30 (0.42)*	Low Medium	6	0.39
					Low	9	0.21
St. Dev. St. Dev./ Mean	0.21 0.55	All Asia	29 (31)	0.36	All Asia	31	0.36

St. Dev. - standard deviation
*Excluding Tonga ** including Japan and Korea
Source: ADB, 2008

Table 4: Social Protection Expenditure in Asia by Category of Programme - Regions

Region	**Labor Market Programmes %**	**Social Insurance* %**	**Social Assistance %**	**MCF %**	**Child Protection %**	**All %**
Central Asia	2	58	24	6	9	100
South Asia	7	44	13	26	9	100

East Asia	6	64	13	13	4	100
Pacific	12	53	20	8	8	100
All Asia	7	55	17	13	7	100

MCF - micro credit finance
*All social insurance including pensions, health insurance, maternity and survivors and disability benefits
Source: ADB, 2008

4. The Scope for SP Expansion in Latin America

The preceding discussion of SP systems in Latin America, and the comparison with SP systems prevailing in Asia, suggest some fairly clear policy routes open to policy makers in further elaborating or developing the SP systems in Latin America.

We have seen that there are hardly any programme of public works in the sense of government as an employer of last resort in Latin America. There is an incipient movement to introduce such a programme in Brazil in perhaps seven or even more cities of the country.[2] Since early 1990s, most Latin American economies have seen a certain growth in the degree of decentralization, and coming into being of 13,000 municipalities in the continent. It is possible for a region which has taken so enthusiastically to the concept of participatory budgeting in practice (spreading rapidly from Porto Allegre in Brazil to other states of Brazil and from there to the rest of Latin America) to introduce programmes of public employment in key municipalities. Even a country with a rather high fiscal deficit (10.5% of GDP) like India has initiated a National Rural Employment Guarantee (NREG) Programme, providing 100 days of work per annum to rural households despite its high fiscal cost amounting to 0.7 per cent of GDP in 2008-09.

The other big glaring gap in the SP system as it has evolved in Latin America is the complete absence of any form of SI for those in the informal sector. At first it may appear

[2] Personal communication, Jose Carlos de Assis.

that the lower per capita income growth rates as well as lower tax-GDP ratios in Latin America, relative to Asia, may be a constraint upon introducing a SI system for informal sector workers, specially at a time when governments have had to come up with fiscal stimuli in response to the global economic crisis that commenced in the latter half of 2008. Nevertheless, our estimates (Mehrotra, 2008) for India suggest that an SI system for informal sector workers, who account for a much larger share of total employment than such workers do in Latin America, restricted to 26 per cent of the population that lives below the national poverty line, will be a mere 0.11 per cent of GDP per annum. Even if such a programme for those below the poverty line was funded from the general tax revenue, its fiscal costs would hardly be unbearable. Clearly, there is an implication for Latin American governments.

Since Latin American Countries (LAC) governments already have a well-developed SA system for informal sector workers, the introduction of an SI system for informal workers who are below poverty line would ideally complement the social assistance being already provided.

5. Political Economy of responding to the Global Economic Crisis

In this final section, we plan to discuss first, the issue of how to achieve sustainability in SP activities, and what institutional arrangements are most effective in increasing the chances of continuity. Based on the international experience, especially in Asia, one could make the following suggestions in this regard. If funding for SP activities is mainly based on government programmes, it will be possible for future governments to terminate the programme associated with a previous regime after an election leads to a change in government. Therefore, citizens should have access to social protection as a legal right. When certain key features of SI and SA become a legal right, it is difficult for future governments to reverse such a legal right, even if the government wishes to do so. For example in India, there has been a long history of wage-employment programmes, but it is only in 2005 that the

National Rural Employment Guarantee Act (NREGA) was passed which made 100 days of work for every rural household which demands work into a legal right. Similarly, the Right to Information (RTI) Act was passed in India in the same year, making it a legally obligatory for government officials to provide information sought by citizens within 30 days as a matter of right. Brazil and South Africa are, similarly, countries that have initiated framework legislation to ensure right to food. The current Indian government has also announced that right to food security will be the legislated upon and it shall not only be a framework legislation but will contain probably detailed programmatic elements.

The second condition for achieving sustainability of SP activities is to target the beneficiaries correctly. Otherwise, political problems are bound to arise which are compounded by administrative difficulties in implementing the programme. A few principles on appropriate targeting should be mentioned here. First, the provision of public health, school education, safe water and sanitation are public goods and therefore must be universal in coverage. Beyond these public goods, the government has to target the beneficiaries carefully. Some programmes can be self-targeting, and self-targeting normally works best, but there are many SP activities which can not use the principles of self-targeting. Hence, it becomes necessary to arrive at appropriate criteria to identify the beneficiaries. In India, a census of the rural population has been carried out every five years since 1992, with the objective of identifying the population below the poverty line (BPL), since many different social welfare progreammes of both State and Central Government attempt to target the poor. In the first survey, income was used as the major criteria, and in the second census in 1997, the main criteria was consumption expenditure per household. However, in an economy with a very large proportion of total employment in the informal sector, it becomes very difficult to get truthful evidence from the surveyed household of income or consumption expenditure. As a result, in 2002, such money-metric criteria as income or consumption expenditure were dropped and replaced by 13 non-money-metric criteria. Unfortunately, there was not much conceptual or theoretical clarity in determining these criteria, and the result was large exclusion and inclusion errors. Therefore, the Indian government has finalized a set of simple and transparent criteria which will use directly verifiable characteristics of the poor in order to identify them correctly.

A third condition for ensuring the sustainability of SP programmes in the context of Latin America in particular, is for governments to try and minimize to the extent possible, volatility in economic growth rates. Sustained economic growth ensures that financial resources through increased tax revenues are available on a sustainable basis. For example, India has succeeded in significantly increasing government allocations to health, education, and social welfare programmes in the last five years primarily because of a quantum jump in per capita income growth rates. When growth slows, international experience shows that SP programmes are likely to be cut first (Cornia et al., 1987). However, governments need to be reminded that the now-industrialized countries of Europe and North America sustained increases in the size of government over a 100 years period, as evidenced by the rise in public expenditure to GDP ratio from 11 per cent on an average in 1880 to over 40 per cent of GDP by 1980. What is remarkable is that this increase in the size of government over a century was almost entirely explained by a rise in social expenditure (i.e. health, education and social welfare) (Lindert, 2004).

A fourth condition to ensure sustainability of SP programmes is that civil society movements must be behind them, and such programmes should not be dependent only upon the future governments' sustaining interest in them. Support from civil society is the only hope of SP programmes for surviving when economic growth slows down, and this is specially possible in a strong functional democracy.

Finally, there are two issues which are often overlooked: (i) Design problems in social welfare programmes are endemic; and (ii) Implementation capacity, even in middle income countries, is often limited, specially when it comes to SP programmes. The combined effect of both these weaknesses is that corruption creeps in, leakage of funds occurs and the media usually jumps at weekly designed or poorly implemented programmes, giving them a bad press. Over time, such bad press and negative media attention will adversely impact the sustainability of SP programmes. Therefore, careful design, leaving as little scope for corruption as possible, as well as social audit by civil society to monitor the implementation of programmes through public hearings are appropriate ways of minimizing the scope for leakages.