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

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Abstract

Latin America has experienced an unprecedented period of macroeconomic stability and high economic growth between 2003 and 2008. The main aim of this paper is to analyse to what extent these more favourable conditions have been an opportunity for Latin American countries to recover their labour markets and conduct a more active social policy. The paper discusses the contribution of the labour market and of the social protection system as effective mechanisms to overcome poverty and reduce income inequality. The conclusions state that, even though the labour market policy framework has changed, and now yields better outcomes, there are many more social and policy issues and challenges ahead than the ones that are usually acknowledged.

Keywords: Latin America, labour market, poverty, inequality, social protection, macroeconomic stability.

JEL Classification: O54, J80, I30

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Introduction[1]

The high economic growth experienced in Latin America in recent years –before the last international crisis- was accompanied by an improvement in social and labour market indicators. At the same time, in several countries fiscal space has increased and given rise to additional manoeuvring capacity in social policies. Furthermore, solidarity-based public components that supplement existing contributory schemes in the different social protection areas have been expanded in some of Latin American countries.

However, despite all the progress achieved during the expansion phase before the recent economic and financial crisis and the policy responses during such crisis, the region still shows significant deficits in the labour dimension, in which the most recurrent expressions are the high unemployment rates, underemployment, precariousness, informality, inequality and low average wages. At the same time, given the importance that the labour market has in household income generation, especially in a region where social protection coverage is still limited, those precarious conditions often give rise to poverty and social exclusion.

The current situation of Latin American labour markets does not allow moving forward towards the development of a social protection system exclusively based on traditional social insurance contributory components. In this regard, the extension of the principle of universality in the supply of basic goods and services verified in the region in recent years could be considered as highly positive. This, however, does not mean that the labour market's role as a social integration axis can be ignored or the importance of macroeconomic stability diminished to improve the wellbeing of the population and reduce inequality. Progress in employment formalization and the strengthening of labour institutions and effective active employment policies –still modest in the region- are processes that must be positively assessed.

In this context, it is important to recognize the significant heterogeneity across Latin American countries in terms of economic and social development, fiscal and institutional capacity, labour market and social conditions, and international competitiveness. This suggests that there is no "one-formula-fits-all" to reduce inequality, increase social cohesion and overcome poverty in the region. Therefore, policy recommendations should take into account the complexity of the development process and incorporate not only economic but also institutional and political dimensions.

The main aim of this paper is to analyse to what extent more favourable macroeconomic conditions have been an opportunity for these countries to recover their labour markets indicators and conduct a more vigorous social policy and labour market institutions strengthening. The role of labour market and social protection as effective mechanisms to overcome poverty and reduce income inequality in Latin America is also discussed.

The paper follows with a brief analysis of the evolution of the macroeconomic situation in Latin America over the three last decades. Section 2 describes recent trends and structural deficits in labour markets, labour institutions and income distribution.

[1] We thank Luis Beccaria, Mariangels Fortuny, Raymond Torres, Evelyn Vezza and Luis Casanova for their very valuable comments and suggestions.

[2] This general overview does not reflect the situation of certain Central American countries that, unlike the rest, were affected by an increase in international commodity prices since they are net importers of these

Section 3 describes the social policy approaches and general trends in the region's social protection system while section 4 analyses the reforms in different social protection areas during the recent years, focusing on childhood protection-, social protection for the unemployed and for people of working age facing employment difficulties; and protection of the elderly. Section 5 shows evidence assessing the contribution of labour market and other income sources in reducing inequality and poverty in Latin America. Section 6 presents final remarks.

1. Evolution of the macroeconomic situation in Latin America: from volatility to growth

Over the last three decades Latin America has experienced profound changes in terms of macroeconomic regimes as well as in relation to social and labour market indicators. The "Lost Decade" of the eighties was characterized by an important capital outflow that the countries in the region had to make for the payment of the external debt services accumulated mainly in the second part of the previous decade, when the region became part of the financial globalization process. The debt crisis at the beginning of the eighties interrupted this integration process. Therefore, during the 1980s the region was excluded from new financing. However, it continued to be strongly linked to the international capital markets, negotiating the payment of debt services contracted during the previous years. The domestic consequences of the external situation were high levels of inflation, high macroeconomic instability and average GDP growth rates close to zero.

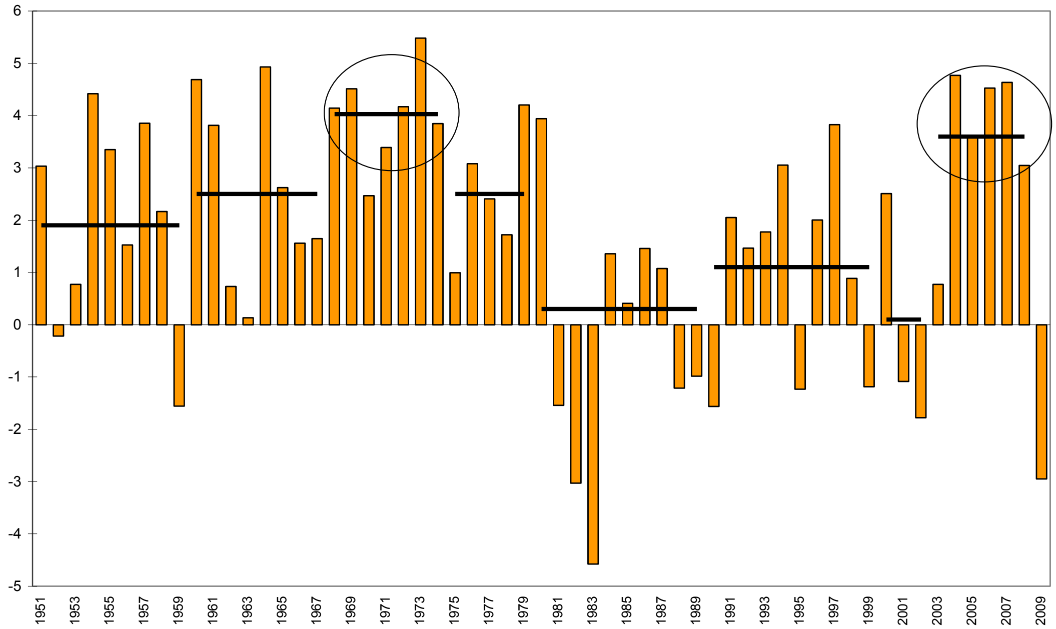
Faced with this regional outlook, the market-friendly recommendations of the Washington Consensus promised the region stability and economic growth. Using the argument that the negative results of the previous years were largely due to state inefficiency, the do's and don'ts of economic policy measures were based on the reduction of state participation in the economy and in market deregulation. This is how the countries, some more than others, began to implement a set of measures, which included commercial and financial liberalization, privatization of public companies, tax reform and labour market flexibilization.

At the same time, with the aim of putting an end to high inflation, stabilization programs were implemented in the larger countries such as Mexico, Argentina and Brazil, using the exchange rate as a nominal price anchor: the Mexican *Pacto de Solidaridad* established in 1988, the *Plan Real* in Brazil in mid-1994 and the *Plan de Convertibilidad* in Argentina in 1991. In parallel, at the beginning of the nineties the region re-entered the international capital market, experiencing an important increase in capital inflows that came to an end with the Mexican crisis in 1994. The macroeconomic regimes managed to stabilize high inflation, however, the external debt became unsustainable which in turn culminated in important macroeconomic crisis. Not only Mexico in 1994-1995 experienced that situation but also Argentina in 1995, Brazil in 1998-1999, and again in Argentina 2001-2002.

However, Latin America had a highly positive economic cycle in the first years of the 2000 decade. The commodity price boom and the renewal of capital inflows to the region characterized this period. At the same time, the largest countries in the region underwent important changes in their exchange rate regimes in comparison to the 1990's.

From 2003 to 2008 Latin America experienced six years of sustained growth. During this period, GDP per capita increased at an annual average rate of 3.6% (weighted average), a dynamic whose only precedent in terms of intensity and duration in the region dates from the late sixties to the mid-seventies (Graph 1).

Graph 1
Per capita GDP growth rate in Latin America: 1951-2009
(%)



Source: Authors' elaboration based on ECLAC (2010a)

This growth, unlike other expansion experiences in Latin America, was accompanied by fiscal and trade surpluses. The current account surplus in the balance of payments was linked to an improvement in terms of trade in some countries, and in others, to an increase in remittances. This favourable situation allowed Central Banks to accumulate international reserves. On the other hand, the great improvement in public accounts was reflected in primary surplus increases and in the elimination of the operational deficit in 2006-2007, which translated into a better public debt profile in these countries. In particular, public debt of the non-financial public sector decreased from 47.3% of GDP to 30.8% between 2000 and 2008.

These positive trends in fiscal accounts were associated with an increase in fiscal revenues together with relatively constant expenditure levels in terms of GDP from 2001 to 2006. From then on, the expansion of primary surpluses has been made possible thanks to an increase in revenues, which has surpassed the growth of public spending. From 2001 to 2008 the tax burden of the central government (including social security contributions) in the Latin American countries raised 2.4 percentage points (pp) in terms of GDP. In this context, Argentina –where the fiscal pressure increased about 10 pp– exhibits the largest improvement. As a consequence of these developments, according to ECLAC (2010a), Latin America experienced five years of primary surplus from 2004 to

2008 reaching the maximum values in 2006 and 2007 where it represented 2.2% of GDP (simple average).

The 2008 international crisis put an end to this path of economic growth that was marked by significant improvements in the *fundamentals* (curbing of inflation, accumulation of international reserves, reduction of debt and *twin* surpluses). Apart from a fall in foreign trade (expressed through a drop in export prices and volumes), in remittances and international credit, domestic demand was also less dynamic. Although in 2009 GDP diminished by around 1.9% (3% of GDP per capita), recovery has also been very quick. Indeed in the second half of 2009 most countries entered a new growth phase.

The rapid recovery from the 2008-2009 crisis was associated with domestic and external factors.[2] Among the former, it is worth highlighting the macroeconomic soundness of these countries as a result of their positive dynamics in the years prior to the crisis that gave them more room to implement anti-cyclical policies. On the external side, continuity in demand for the region's products from Asian economies and a slower recovery of the United States and Europe, has allowed in the former, an increase in export volumes and prices in South American countries and, in the latter, a gradual recovery of external demand and remittances to Mexico and Central America.

Nevertheless, estimated growth for 2010 is lower than the figure for the six-year period 2003-2008 which will reduce these countries' labour market dynamism and their fiscal capacity. Likewise, questions on the future dynamics of developed countries and the international context cast a shadow on the regional outlook in the medium run.

Even after the consolidation of the recovery process, the region will still face strong structural challenges. Countries need to strengthen their growth based on productivity gains, increase public and private investments and enhance the States' manoeuvring capacity through a more progressive taxation structure and greater fiscal pressure, as well as through more social spending. These are necessary conditions for economic growth to effectively diminish inequality and augment wellbeing. In this regard, it is important to recognize the negative impacts that macroeconomic volatility has on income distribution because of its effects on the growth rate as well as its greater impact on the most vulnerable people. One of the lessons learnt through this crisis is the importance of anti-cyclical policies that could be implemented in these countries due to the greater macroeconomic solvency gained in previous years, which marks a substantial difference with regard to the response capacity in prior crises. Furthermore, it is necessary to highlight the role that appropriate macroeconomic management has in the medium and long-term predictability of fundamental variables that will be used as a reference in decision-making and lead to higher growth rates in the future.

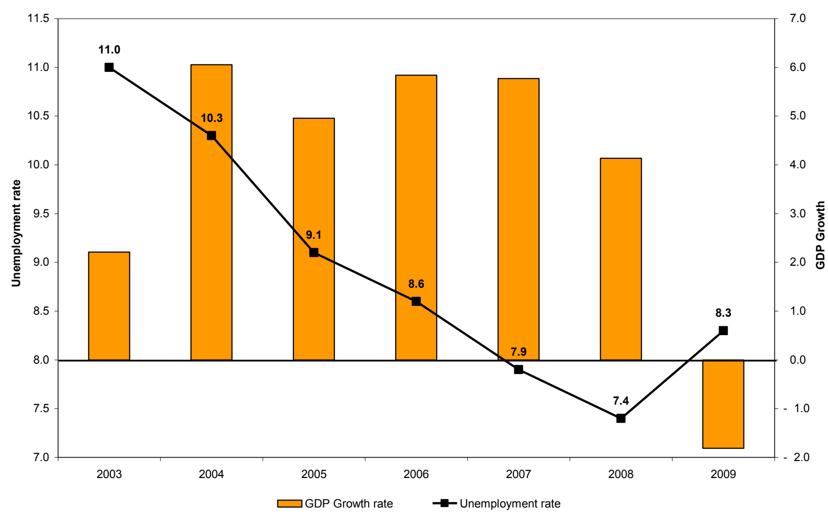
2. Labour market, labour institutions and income distribution: recent trends and structural deficits

[2] This general overview does not reflect the situation of certain Central American countries that, unlike the rest, were affected by an increase in international commodity prices since they are net importers of these products. Furthermore, they have been strongly impacted by a drop in external demand –particularly from the USA- while their debt remains high.

During the nineties, the countries in the region have carried out important reform processes regarding labour legislation. In most cases, the objective was to make the different components of the labour market more flexible. However, neither a unique package of measures has been observed in the region nor the countries implemented these changes with the same intensity and speed. These reforms took place in a context of deep changes in occupational structure when the weight of the informal sector increased –as much as a result of the rise of micro-businesses as of non-skilled independent workers- together with a considerable rise in labour precariousness associated with wage earning jobs that are not registered in the social security system (informal jobs). Both processes reduced coverage of labour institutions.

On the contrary, in 2000s a moderation in flexibility process has been evidenced as well as, in some cases, a reversion of labour deregulation and the implementation of worker protection policies. At the same time, the high economic growth experienced in Latin America in recent years –before the 2008-2009 international crisis- has had a positive impact on social and labour market indicators. This was made evident through the creation of jobs, the reduction of unemployment, an increase in the number of formal jobs and a slight recovery in average wages. Employment rates showed a positive trend, increasing from 52.3% to 55% between 2003 and 2008. During this period, the regional unemployment rate decreased from 11.4% to 7.5% (Graph 2).

Graph 2
GDP growth and unemployment rate. Latin America. 2003-2009
(%)



Source: Authors' elaboration based on ECLAC (2010a) and ILO (2009)

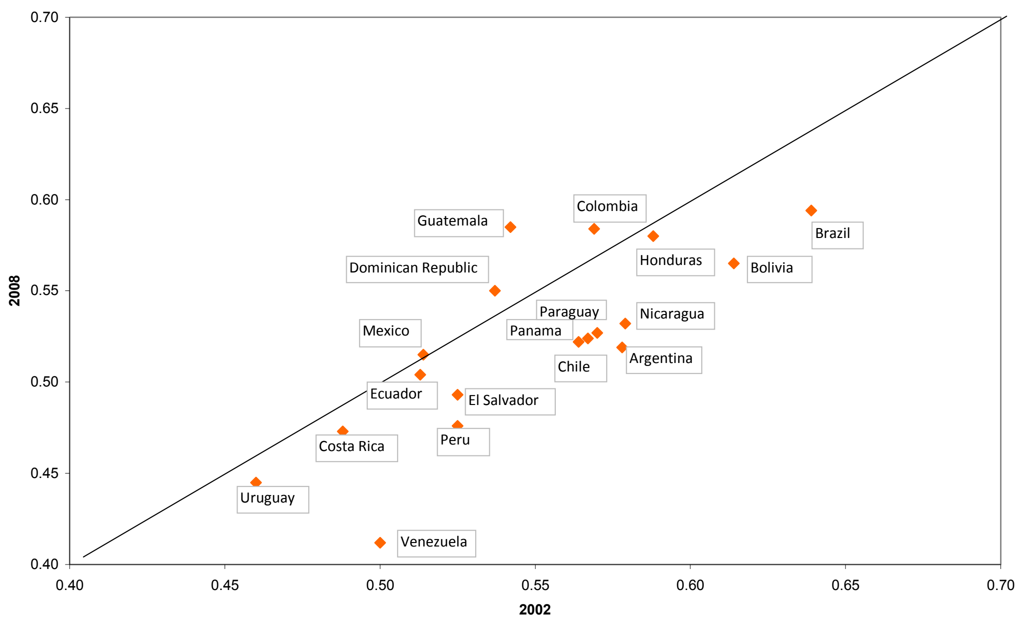
Furthermore, progress in employment formalization (proxied by the proportion of workers making contributions to social security) was also observed in several countries, reverting the negative trends verified during the nineties (Beccaria and Maurizio, 2011). At the same time, the proportion of wage earners who receive annual complementary salary increased from 52% to 56% (simple average of eight countries) while the proportion of dependent workers with signed contract expanded from 55% to 58%

(simple average of six countries)[3] during the period 2002-2007 (Weller and Roethlisberger, 2011).

Overall, this favourable macroeconomic situation before the international crisis seems to have helped in wage recovery, while in some countries this was also due to the active real minimum wages policies and the reactivation of collective bargaining, together with policies that promote labour formalization.

Furthermore, these measures also had a positive impact on reducing inequality by extending coverage of labour institutions to previously excluded groups. Indeed, these years were characterized by a reduction in income inequality. As shown in Graph 3, with a few exceptions, Gini coefficient is lower around 2008 than during the first years of the century.

Graph 3
Gini Coefficient. Latin America (18 countries). Around 2002 and 2008[4]



Source: Authors' elaboration based on ECLAC (2010a)

Less inequality and higher incomes resulted in lower poverty and extreme poverty incidence rates. In the growth period 2003-2008, the region experienced a drop of 11 pp in poverty and 6 pp in extreme poverty (Graph 4). This reduction in poverty incidence rates was also accompanied by a fall in the number of poor people, differing from what happened during the eighties and nineties.

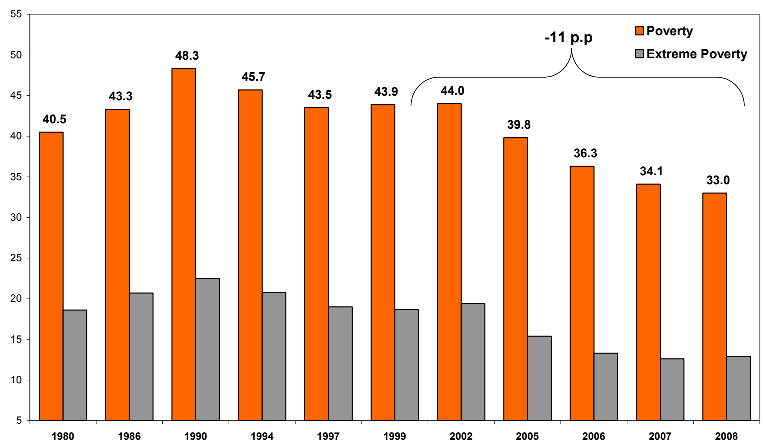
However, despite all of the progress achieved during the expansion phase, 33% of the population in Latin America was still living in poverty in 2008 while 13% was living

[3] Bolivia, Chile, Guatemala, Mexico, Panama and Dominican Republic.

[4] Data for 2002 corresponds to the latest available information for the period between 2000 and 2002, whereas data for 2008 corresponds to the latest information for the period between 2004 and 2008.

in extreme poverty. For that same year, the total amount of poor people was around 180 million, of which 72 million were indigent (ECLAC 2010a).

Graph 4
Poverty and extreme poverty rate in Latin America
1980-2008 (% of total population)



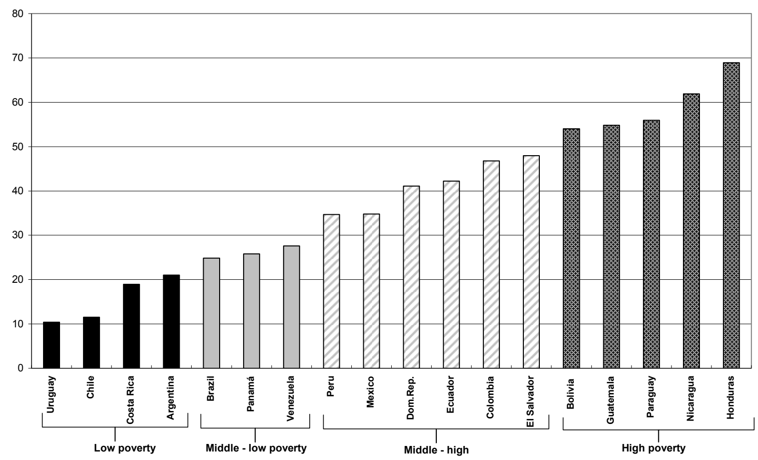
Source: Authors' elaboration based on ECLAC (2010a)

Behind this general outlook, there is very high heterogeneity across the countries. According to ECLAC (2010a), it is possible to distinguish four groups of countries according to their poverty and extreme poverty incidences. The first group, "Low poverty rate" is made up of Argentina (urban areas), Chile, Costa Rica and Uruguay, with poverty rates below 23% and indigence rates between 3% and 7%. The second group, "Middle-low poverty rate" comprises Brazil, Panama and the Bolivarian Republic of Venezuela with poverty rates below 30%. The third group "Middle-high poverty rate" includes Colombia, the Dominican Republic, Ecuador (urban areas), El Salvador, Mexico and Peru, with rates between 35% and 48%. Finally, the "High poverty rate" group comprises Guatemala, Honduras, Nicaragua, Paraguay and the Plurinational State of Bolivia, with poverty rates above 50% (Graph 5). [5]

Although a significant negative correlation can be observed between poverty levels and per capita GDP, this correlation is weaker when poverty is compared to inequality. For example, even though Mexico has the highest per capita GDP it is among the countries with middle-high poverty; Brazil has one of the highest inequality levels, but is in the middle-low poverty group; in Chile relatively high income concentration levels are found with a low poverty incidence. On the other hand, countries like Bolivia, Guatemala, Paraguay, Honduras and Nicaragua show low income levels as well as high poverty and inequality indices.

[5] In this paper ECLAC´s poverty lines are used. However, other methods such as \$2-a-day poverty line could modify the ranking of countries according to poverty incidence.

Graph 5
Poverty rate. Latin American Countries. 2009
(% of total households)



Source: Authors' elaboration based on ECLAC (2010a)

The international crisis put a brake on the improvements experienced by the regional labour market in the period 2003-2008. Indeed, in 2009 most of the countries recorded a drop in employment rates with a resulting increase in unemployment (Graph 2). Nonetheless, a slow-down in inflation rates allowed real wages to remain stable and even increase in some countries. Once again, the minimum wage policy enforced by some nations to avoid a reduction in purchasing power helped in this regard.[6]

It is encouraging to find that in this crisis Latin American countries did not resort to labour market reforms that would have moved them back towards more flexible labour institutions in order to improve employment and reduce unemployment rates. The lesson learnt from the flexibilization processes implemented in the region in the nineties is that when they operate in contexts where there is no broad coverage of social and labour protection systems or tripartite dialogue instances, this flexibility leads to increasing vulnerability of workers whilst broadening social gaps. Furthermore, these processes resulted in unfulfilled promises with regard to an increase in employment-product elasticity, employment formalization and efficiency.

Despite the progress achieved during the expansion phase before the crisis and the policy responses during this crisis, the region still shows significant deficits in the labour dimension, in which the most recurrent expressions are the high unemployment rates, as well as underemployment, precariousness, informality, inequality and low average wages. Around 8% of the active population was unemployed, while 50% of workers were

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[6] For more details about the impacts of the international crisis on labour market, see, ILO (2010b; 2010c).

informal in 2009. At the same time, non-wage earners represent a significant share of total employment (about 30%), much higher than that observed in developed countries. Most of them are self-employed non-professional and belong to the informal sector. Finally, this type of employment is more prevalent among men than women. In 2009 in Latin America, 29% of men and 22% of women were independent workers. However, there are important differences across countries. For instance, in Chile and Argentina the proportion of independent workers is about 25% whereas this value reaches 40% or more in Bolivia, the Dominican Republic, Colombia, Honduras and Nicaragua (ILO, 2010a).

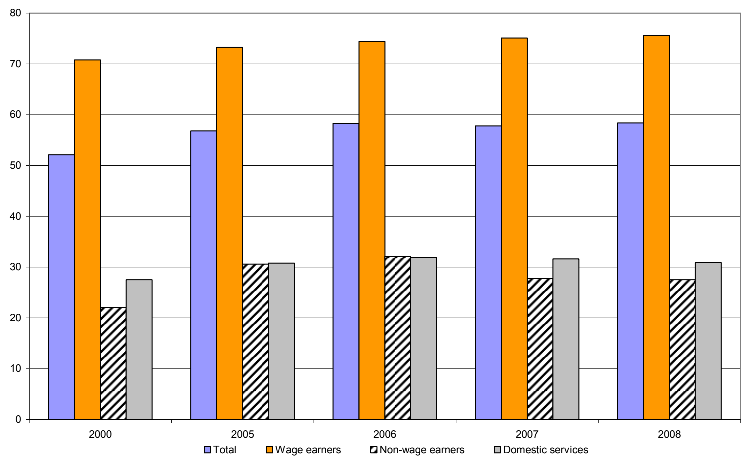
Within this context, certain groups of workers (among them, the less skilled, women, youth and ethnic minorities) experience the most unfavourable conditions. Given the importance that the labour market has in the generation of household income, especially in a region where social protection coverage is limited, those precarious conditions often give rise to poverty and social exclusion. Thus the phenomenon of the "working poor" in these countries -even in the most developed in the region- shows that having a job is no guarantee against poverty. For instance, around 20%-30% of poor heads of household in Argentina, Brazil, Costa Rica, Ecuador and Peru are employed as informal workers. This means that in Latin America unemployment is not the only problem in the labour market, but low wages and precarious labour conditions are important issues as well. From a dynamic point of view, a significant proportion of the new jobs accessed by members of poor households in those countries are non-registered in the social security system (informal jobs) reducing the opportunities of escaping poverty. (Beccaria *et al.,* 2010)

These outcomes are mostly linked to three structural characteristics in the region: (1) high income inequality, both at labour and family levels; (2) very low systemic competitiveness and productivity, and high productive heterogeneity; and (3) scarce protection for workers and their families because of the narrow scope of contributory-based social security and the insufficient development of other non-contributory schemes. In turn, inequality of labour income partly reflects the productive heterogeneity where highly efficient and competitive sectors and companies coexist with activities and firms that operate under a survival rationale. These gaps are reflected in wage distribution, either in an amplified or moderate way. Therefore, the broad group of informal workers is at least partly linked to the high presence of small, unstructured productive units where it is frequently more feasible to conceal labour relations. This ultimately is the result of insufficient job creation capacity of the formal sector.

It is therefore important to point out that there is a significant percentage of workers (and households) that are not covered by social security benefits, such as unemployment benefits and pension coverage or those related to occupational accidents. As shown in Graph 6 only around 50% of employed people in Latin America (simple average) contributes to social security-pensions. This general situation is even worse among non-wage earners and domestic services where only 20% of those workers have such kind of social protection. In turn, these regional averages hide the strong contrasts among countries. On the one hand, in Brazil, Chile, Argentina, Costa Rica and Uruguay 50% or more of total workers are covered by pension systems. On the other hand, in Ecuador, Paraguay and Peru only one third or less are protected.

When social protection is exclusively or mainly provided through labour market institutions, high unemployment, underemployment and a lack of decent work yield incomplete and insufficient coverage against social risks. It is therefore essential to supplement the contributory arrangements with non-contributory schemes, both through monetary transfers and universal access to essential social services and goods. This, however, should not entail weakening the efforts to move towards greater labour formalization and to reinforce labour institutions. In this regard, it is worth mentioning that the objectives of labour institutions –such as protecting the lives of workers and their families- still hold and are even more pertinent within the current context of economic globalization.

Graph 6
Urban employed population contributing to social security-pensions
Latin America, 2000-2008



Source: Authors' elaboration based on ILO (2009)

Finally, mention has already been made of the long-term impacts of macroeconomic instability on labour and social indicators, which highlights the importance of building sustainable growth paths and establishing mechanisms to reduce the vulnerability of individuals when faced with aggregate volatility. This should be supported through effective labour institutions, which prevent job precariousness and lowering of salaries during the contraction phases of the cycle, and through universal social protection systems that reduce any deprivation in the wellbeing of citizens, particularly of the most vulnerable sector.

3. Social policy approaches and trends in the region's social protection system

As from the beginning of the nineties the region has recorded a sustained growth in public social spending, both in absolute and relative terms. During the current decade, however, a more comprehensive outlook on social policies seems to be incipiently emerging, which attaches greater importance to the universality of certain social rights such as access to appropriate income security during the different phases of the life cycle and to essential basic services. This clearly appears in the solidarity-based public components that co-exist with the pure contributory in different social protection branches. This seems to be the case of the health and pension systems where progress has been made in expanding both components (contributory and non-contributory), for extending coverage. Furthermore, most countries in the region currently have some sort of cash transfer programme (conditioned or partly conditioned) to those households where children and adolescents live, supplemented by contributory-based family allowance regimes, especially in the Southern Cone countries. At the same time, in several countries, such as Argentina, Brazil, and Uruguay, fiscal pressure has increased and given rise to additional manoeuvring capacity in social policies.

Despite these favourable trends, including the increase of 3 pp in public social expenditures between 2003 and 2008[7], the region still shows important weaknesses in these dimensions. Persistent low tax collection, tax regressivity and insufficient resources allocated to social components and institutional and social policy fragmentation, all interact with growth volatility to derive in social protection results that are not satisfactory. (ECLAC 2010b; ILO 2010d)

Latin American countries, therefore, should continue increasing the amount of resources allocated to social expenditure so as to "shield" them against macroeconomic volatility, reduce their pro-cyclical bias and provide greater progressiveness to the tax structure while increasing redistributive public spending. All this should go side by side with a better institutional design where countries shift from transitory social programmes approach to that of permanent social protection policies, so as to move forward in building a more integrated and coordinated universal social protection system based on citizenship rights. Within contexts such as the current one that is characterized by high economic volatility and uncertainty, the role of the State as a regulator of social relations is of utmost importance. Ultimately it is a matter of improving the State's redistribution capabilities with the purpose of not only reducing poverty levels but also reversing the highly unequal distribution matrix, interrupting inter-generational transmission of poverty and moving towards setting up societies with greater social and political cohesion.

4. Facing poverty over the life cycle: cash transfer programmes and access to essential goods and services

There are three areas where the region has made progress but significant deficits still persist: (1) childhood protection; (2) unemployment benefits and support for people of working age facing employment difficulties; (3) old age social protection. Other two areas of relevant changes refer to educational and health systems; however their complexity and diversity require a comprehensive analysis which goes beyond the objectives of this summarized article.

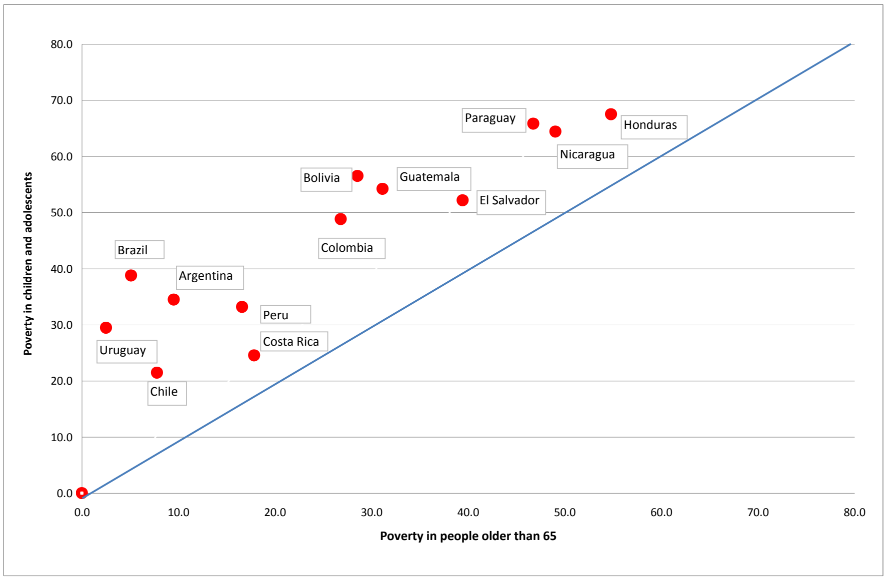
4.1. Protecting children through cash transfer policies

Given the greater incidence of poverty in children and adolescents compared to other age groups, as from the mid-nineties the region's countries have been implementing and expanding non-contributory cash transfer programmes (conditional cash transfer programmes, CCTs) to households with children and adolescents. A simple graph with

[7] According to ECLAC, public social expenditures average in Latin America was 11.8% of the GDP during the nineties; 13.5 in 2003; and 16.5 in 2008. These figures correspond to simple averages for 15 countries in the region that regularly report these figures (includes the largest countries such as Brazil, Mexico and Argentina).

information provided by ECLAC (2009) compares poverty for children under 14 years old with those over 65 years old, and shows that in all the countries, the poverty combinations are above the 45 degree curve indicating a higher poverty incidence among children and adolescent (Graph 7).

Graph 7
Poverty Incidence in children and old age
Latin America, 2008



Source: Authors' elaboration based on ECLAC (2010a)

Almost all countries in the Latin America currently have some sort of CCT program. They have gradually become important mechanisms within social policies and regional poverty reduction strategies. These programmes are being implemented in 17 of the region's countries and reach out to over 22 million families, that is, around 100 million people which account for 17% of the Latin American and Caribbean population (ECLAC, 2010b).

There is a first group of countries that has designed specific programmes; the most internationally renowned examples given their size are *Progresa* in Mexico and *Bolsa Familia* in Brazil. Then there is a second group of countries in the Southern Cone, Chile, Uruguay and Argentina, that have extended contributive child allowance schemes to segments of the population that had no coverage before. It is important to mention that as those first experiences that generated ad-hoc programmes evolve and grow have also begun a process of integration with other social security transfer policies.[8]

The immediate objective is overall to reduce poverty and extreme poverty incidences while –in the long run- break the inter-generational transmission of poverty. Consistent therewith, most of the programmes include conditionalities (or co-

[8] A comprehensive analysis and information of these programmes are described and analysed in ECLAC (2010b), the World Bank (2009), ILO (2007), ILO/IPEC (2007), Perez Rivas *et al.* (2008), Villatoro (2008), Bertranou and Maurizio (2012), among others.

responsibilities) related to certain nutrition, education and health objectives, particularly for children and adolescents.

Based on the experience obtained by the different countries in the region, there is an overall consensus that these programmes are well focused (despite some exclusion mistakes or leaks)[9], that they are effective in reducing extreme poverty and inequality[10], and that they have other positive short and long-term impacts. This type of transfers not only implies an increase in family income in poor households but also ensures an amount of resources that does not depend on macroeconomic or labour fluctuations. This is of utmost importance since the poorest households are the ones that generally have more unstable incomes. In some cases, these transfers also seem to have contributed to eliminating barriers to their entry into certain productive activities, which has allowed beneficiaries to have a greater share in the economy. Likewise, they have permitted an increase in liquidity in the poorest communities, thus favouring trade and development in these areas (ECLAC, 2010b). As regards longer-term outcomes, increases in school enrolment rates and a reduction in malnutrition have been observed.

Beyond the positive impact of these programmes, the region still has important restrictions and challenges in terms of coverage, conditionalities, institutional design and monitoring and evaluation methods. Although these programmes have called the technical and political attention of the region, they account for only 2.3% of public social spending and 0.25% of the countries' GDP in average (ECLAC 2010b), an aspect that restrains the effect they can have on poverty and inequality at the national level on their own.

One of the lessons arising from these experiences is that a comprehensive public policy for children cannot be exclusively grounded on cash transfers, so countries must move forward towards greater integration with other programmes that aim at tackling both the social risks and the needs of human capital faced by households in which children and adolescents live. This requires ensuring access to good quality health and education services so as to effectively support the human and economic capabilities of future generations. Dimensions such as child-care, gender inequality, child labour and child illness treatment also need to be considered a priority in building a comprehensive protection system for children and adolescents.[11]

There is much debate regarding the impacts that these types of programmes have on the labour market. It is usually argued that cash transfers (1) discourage participation in the labour market and (2) reduce the worker's incentives for formality. The first argument is based on the assumption of leisure is a "normal good" and so any increase in non-labour income would imply a reduction in worked hours or in participation in the labour force. However, this argument is highly debatable. It could be argued, on the other hand, that if the cash transfers are large enough to change individual behaviour in that way, they also might have the opposite effect.[12] Additionally, a lack of participation in the

[9] ECLAC (2010b) shows that in these programmes from 60% to 75% of transfers go to 40% of the poorest inhabitants.

[10] Sometimes the degree of reduction is low, depending not only on the programme coverage and targeting but also on the amounts of cash transferred.

[11] The role and effect of transfer program conditionalities are discussed in Medeiros *et al.* (2008 and Reis and Camargo (2007) based on Brazilian experience.

[12] For instance, they could allow starting certain productive activities/enterprises or to active certain economic decisions which would not be possible under any other circumstances.

labour market should not always be considered as negative. The evaluation in these terms need also take into account other aspects, such as which member of the household has reduced their participation in the labour market and the quality of the job they are giving up. For example, it cannot be considered as a negative impact when young people or children decide to leave the labour market when their household obtains a transfer of this nature, especially (in the case of young people) if the jobs that they have do not meet decent work requirements or if leaving the labour market is accompanied by a return to study. In the same way, this could contribute to an increase in minimum wages in informal jobs when the “reservation wage” of the programme’s beneficiaries is raised.

As the incentive to participate in the formal employment, the actual effect that the transfers can have depends on if it is really the worker´s choice or if there is no other option. The decision can be influenced by the difference in wages (and other benefits) that she would obtain in a formal position as opposed to an informal one. The “disincentive hypothesis” is based on the idea that the informal workers receives as net salary the contributions that their employer does not pay to the social security system which should, in turn, imply higher wages for informal than for formal workers (controlling for the rest of characteristics). This argument does not seem to have empirical support in several Latin American countries (Beccaria and Maurizio, 2011).

Lastly, another widely debated aspect in relation to CCTs is the optimum duration of benefits when they are considered to be temporary. The “exit door” strategy aims at avoiding beneficiary dependence and ensuring that only eligible families remain in the programme, paying special attention to the possibility that there are other households that were not originally included and that should have been. In some cases, the beneficiaries have to leave the programme when the household income surpasses a maximum threshold.[13]

In this regard, it is important to consider income fluctuation in households over time, which means that even though there may be some households that obtain a higher income than the maximum at the time that the evaluation is carried out, this does not necessarily imply that these have been incorrectly identified at the time the benefit was granted or that they will not be below the limit again in the future. This is a very important aspect as the poorest households are those who suffer greatest income instability. Additionally, many of these programs aim at breaking the intergenerational transmission of poverty and increasing of human capital in children and young people; these are processes which require a long period of time and which are therefore not compatible with temporary programmes.

Finally, it is desirable to combine these programmes with active labour market policies. The institutional design of these programmes is essential to ensure that they last throughout time, especially turning such programmes into permanent state policies to fulfil not only short but also long term objectives. One of the essential elements to achieve this is the existence of a modern, efficient and timely monitoring and evaluation system on a permanent basis to make all necessary adjustments and maximize positive impacts on wellbeing and equality.

[13] Graduation rules are present especially in those countries included in the first group already mentioned. In Southern Cone countries, the integration of these programmes with the social security system makes the main “exit door” the contributive family allowances, even when income limits are also established.

4.2. Unemployment benefits and active labour market policies[14]

Unemployment benefits

As previously mentioned, two characteristic features of the region's labour markets (although with differing intensity according to the country) are high unemployment and precariousness which, in turn, imply a low capacity to generate sufficient labour income for some groups of workers. However, contributory-based unemployment insurance has not been fully developed in Latin America. Only Argentina, Brazil, Chile, Ecuador, Uruguay and Venezuela have included unemployment insurance within their social security systems although in all of them coverage and benefits are very low.[15] This is mainly due to the structure of employment, i.e. the high levels of informality (since these programmes have been designed to protect wage-earners that hold a formal job, generally under a permanent contract) and, to a lesser extent, to the occupational instability of workers in the formal market.[16] Although these systems receive contributions from employers and workers, they also depend on other fiscal revenues.

Over the last few years, some countries have extended unemployment protection to other groups of workers, such as rural, in the construction sector and those with temporary contracts. For example, in Argentina and Brazil, coverage has been extended to temporary agricultural workers. Uruguay has advanced towards the inclusion of domestic workers while Chile has a special system for those with fixed-term contracts. On the other hand, in Argentina, Brazil and Chile the system does not cover public sector workers who usually have special employment stability and severance payment schemes. Additionally, some countries in the region have implemented non-contributory cash transfer programmes not only for the unemployed but also for low-income households.

An experience of this type is the *Seguro de Capacitación y Empleo* (Training and Employment Insurance) in Argentina, which is focused to those unemployed excluded from the social security system. The programme's design is aimed at unemployed people, who receive a fixed monthly amount equivalent to 15% of the minimum wage and to 62% of the maximum contributive unemployment benefit. While the person receives the benefit –a maximum of two years- he must carry out some training activities. The programme also offers a set of services aiming at supporting an active employment search. There are two relevant aspects associated to this program. The first is that the time that the beneficiary remains in the programme is taken into account for their future pension. The second is that the beneficiary can receive the benefit at the same time as they are employed, for a period of up to six months if the job is in the private sector and up to a year if it is in the public sector. The aim of this is to decrease potential disincentive to accept a job if the worker have some uncertainty about how long it will last.

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[14] Labour institutions such as minimum wages or collective bargaining as well as employment protection legislation (severance payment) are not discussed in this article because they require a comprehensive analysis that goes beyond the objectives of this paper.

[15] According to Velazquez (2010), unemployment insurance benefits have never covered, overall, more than 20% of the unemployed.

[16] During the crisis some countries reformulated these benefits, relaxing certain access requirements, extending their duration and combining them with training programmes.

There are other countries that have programmes of this kind, for example the *Programa de Formación y Capacitación* belonging to the *Chile Solidario* system which is aimed at the unemployed between 18 and 40 years old who receive skills training to increase qualifications in forest activities. The training programmes last for four months and offer some payment to the beneficiaries. A similar case is the *Programa de Apoyo al empleo* (Employment Support programme) in Mexico where the unemployed and underemployed who are over 15 receive economic support for job searching as well as training grants.

Beyond these experiences, unemployment protection in Latin America is still a pending task. Very few countries have unemployment insurance, and coverage and benefits are generally very limited. Neither do non-contributive schemes cover all unemployed people while the amount of the transfer is usually very low. Therefore, efforts do not seem to suffice and the region must move forward in developing transfer instruments to reduce the vulnerability of informal workers' income, including non-wage earners. An important difference with regard to formal wage earners is the identification of a situation of unemployment since it is not always easy to differentiate it from informality or inactivity. For those coming from informal jobs, it would be necessary to consider some sort of activity like training or working in order to "disclose" the person's jobless condition.

In sum, the region's unemployment situation constitutes an important source of lack of protection, especially due to the high occupational rotation that characterizes informal jobs. At the same time, the lack of unemployment insurance coverage forces workers to quickly accept precarious jobs so as to obtain an income that allows them to survive. This behaviour, in turn, feeds the importance of informal jobs.

Contributory and non-contributory unemployment protection schemes are not properly integrated with other active labour market policies, an issue that is usually reflected in their little connection with training programmes. It is also common for insurance beneficiaries not to receive assistance while searching for jobs.

Finally, according to the multiple arguments found in international literature on the impacts of unemployment protection programmes, it can be said that the actual effect on labour indicators will depend upon the system's specific characteristics, their design, requirements and benefits, as well as the macroeconomic and labour context. So the main challenge is to design unemployment protection systems with a high level of coverage, that limit the potential moral hazard and that are integrated to active policies so as to speed up the beneficiaries' reinsertion in the labour market. Impact evaluations of these kind of programs, however, continue to be very scarce in the region.

Active labour market policies

Training programmes are a component of active labour market policies usually accepted by social actors who acknowledge their positive effects on productivity, labour stability, labour careers and salaries. They are present in several countries in the region.[17]

[17] For instance, the *Programa de Habilitación para el Trabajo (Hábil)* in El Salvador is targeted to low income unemployed and its aim is to increase their probabilities of getting a wage-earning job or to contribute to the creation of microenterprises (Weller, 2010). Some programs such as *Aprendizaje* in Costa

In order to ensure their efficiency, efficacy and equality, these programmes have undergone changes in Latin America in the last few years. Among the most important modifications, it is worth mentioning a greater diversification of training suppliers, which nowadays also includes the private sector, and a decentralization of public sector programmes; certification of competences; a greater focus on training to meet demand-side requirements; the design of different programmes according to the problems of the target groups and new instruments for funding such programmes.

Nonetheless, despite these reforms, training systems still have significant shortcomings: their coverage is usually limited; training offers are not adequately delivered; outcome assessments are few and skill and competence certification is usually carried out through systems that are not always recognized and agreed upon by consensus; the attempts to guide training taking into account the requirements of the productive apparatus come across the difficulties of accurately predicting demand specificities in the future, especially in those countries of the region characterized by strong economic instability. At the same time, these programs cover workers mainly from the formal sector, with a significantly lower coverage among the unemployed and, especially, among the most vulnerable groups (women and youth). For instance, in Guatemala only 1.4% of the vulnerable people participated in training programs while this percentage was about 10% for the rest of the workers (Baroni, 2009).

Within this context, the region should gradually shift from a traditional "transfer of knowledge approach for a given job" to competency-based training. The advantage of the latter is its "portability" from one job to another, which favours people's employability. Furthermore, it is necessary to bear in mind the needs for specialized training and the gaining of labour competencies by those who are still part of the labour force. The relevance of lifelong learning is critical. Training systems should adjust to the different needs of the many segments of the productive sectors and labour force through a greater diversification of the programmes offered. It is necessary to have a comprehensive monitoring and control system for those institutions that provide training services to ensure the quality and appropriateness of the training provided.

In order to progress towards an integrated training system which shall effectively lead to improvements in global efficiency and increases in equality, it is necessary to meet at least two conditions: (1) a development path defined for the medium and long run that generates continuous demand for greater human capital, either general or specific, which allows the offer of education and training to be reflected in higher salaries and better working conditions; (2) to have achieved a high level of coverage and quality in formal education. At present the region's countries do not satisfactorily meet any of these two conditions, which are key aspects to bear in mind in the performance assessments of these programmes.

Direct employment generation programmes have arisen in the region mainly as emergency measures, in contexts of strong demand contraction and faced with the absence of widespread systems that protect against unemployment (one example of this type of program was the *Plan Jefas y Jefes de Hogar Desocupado* in Argentina

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Rica, *Procajoven* in Panamá, *ProJoven* in Uruguay or *Programa Jóvenes con Más y Mejor Trabajo* in Argentina are targeted to youth.

implemented during the 2002 crisis).[18] These are programs that offer temporary work for a remuneration that lower but close to the minimum wage and they are generally oriented to members of poor households (sometimes only heads of households).[19] The low remunerations are usually used as self-selection mechanisms. The types of tasks that are carried out as part of these programmes are generally labour-intensive activities such as cleaning, construction and maintenance. A shortcoming of these programs is that they usually provide insufficient skills recognized in the labour market. At the same time, after the crisis the programmes generally had to continue due to the fact that the majority of beneficiaries were unable to get a job, even in a more favourable economic context, which in turn reflects the structural deficit of job creation, which characterizes the region.

Another alternative for strengthening the labour demand has been indirect employment creation policies through economic incentives for private companies when hiring labour. This consists in hiring subsidies that reduces the cost of non-salaried labour or that covers part of the salary.[20] Indeed, when faced with the crisis several countries started to use different mechanisms to sustain the demand for jobs through programmes to support job retention and promotion, thus avoiding further impacts on unemployment. In this regard, a lesson learnt by the region is that high levels of unemployment in a context with low social protection significantly deteriorate the remaining labour indicators (wages, job quality, etc.) and have long term impacts that are difficult to reverse.

The region also has experience with labour intermediation services and over the last few years they have been reassessed and broadened, and this kind of services are now considered as effective tools in speeding up the matching process between those offering employment and job-seekers (Mazza, 2003). Ministries of Labour (for instance, in the case of Argentina and Uruguay) or public training institutions (as in the cases of Colombia or Chile) usually managed these services. There is a broad heterogeneity in the way in which they are implemented in the region. Different forms of public-private cooperation have been established to expand coverage to segments of the informal sector. In some countries (such as Mexico) employment services also intervene in international migrations.

Despite the advances achieved in this area in some of the countries in the region, a large proportion of new employment contracts are still made through personal contacts, which tends to weaken matching efficiency and deepens labour market segmentation since the workers with larger social networks generally belong to the medium and high income strata. This is, in general, why those that finally turn to public employment services are those with the greatest structural job insertion difficulties.

Given the structural deficit in the salaried employment generation, many countries in the region have implemented programmes that foster independent employment,

[18] Other examples are including direct public employment generation are the *Programa Nacional de Empleo* in Costa Rica and the program *Uruguay Trabaja*.

[19] This is why sometimes they are also considered as anti-poverty programs since they are mostly targeted to low income households.

[20] For example, the program *Apoyo a la Inserción Laboral* in Panama, which subsidizes wages for three months and amounts to 50% of the legal minimum wage.

through own-account activities or micro businesses.[21] According to Chacaltana (2009a), the usual approach to encourage micro and small businesses is to develop favourable economic environment and specific productive development programmes for this kind of businesses. One of the problems for developing these enterprises is the existence of financial systems that have high operational costs and who usually consider small businesses as riskiest enterprises and so ration their access to credit. In the same way, restricted access to new technologies and markets, especially external, are also important barriers for development and sustainability over time of this kind of enterprises.

In sum, countries of the region should advance in the development and strengthening of employment services by incorporating new information and communication technologies as well as of highly skilled staff that respond to a wide range of situations. These services should be more directly integrated and linked to active and passive labour market policies and need to be expanded to informal workers.

4.3. Old-age social security protection of the elderly (pension system reforms)

After the wave of structural reforms implemented in the pension systems in several Latin American countries in the nineties, when a privately managed individual capitalization (advanced funding) component was introduced, the last few years have witnessed reforms which have not deepened that trend.[22] In recent years the region has made efforts to increase coverage of the pension systems by creating non-contributory components or reducing requirements for individuals to somehow get access to benefits in government-administered contributory regimes. Thus the limits of pension systems based only on contributory social security have been admitted given the structural labour market deficits such as high unemployment, informality, high occupational instability, irregular labour contributory trajectories and low average salaries, apart from the aging of the population that takes place at a varying intensity in the region's countries. In other words, the structural reform that introduced the rationale of private insurance through individual savings accounts did not change the level of coverage; to the contrary, in some cases it even deepened the contributory nature of the systems.

The inclusion of people with no coverage, either through more flexible contributory regimes or through the expansion of totally or partly non-contributory components to protect the elderly, has become a priority. There is also consensus on keeping the contributory component as the main pillar of the system. This should lead to maintaining adequate incentives to formal work and employment registration. The challenge is to generate a coordinated system, which brings together the above-mentioned non-contributory and contributory (publicly or privately managed) components. The 2008 pension reform in Chile has shown the consensus reached in supplementing the privately managed individual retirement account scheme with a tax-financed benefits scheme in order to close the coverage gap, to provide an income floor to the old-age and disabled without or with partial previous participation in the pension system, and to better manage

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[21]For instance, the microfinance program *"Usura Cero"* in Nicaragua targeted to poor women; *"Programa Nacional de Emprendedores"* in El Salvador; *Programa de Emprendimientos Productivos* in Uruguay addressed to vulnerable people; *Manos a la Obra* in Argentina, among others.

[22] Argentina in 2008 and Bolivia in 2010 have reversed the structural reforms of the nineties by going back to public schemes.

the consequences of systemic risks, as the private component is not capable for the latter. As a result, a new institutional social security-pensions framework was designed in order to improve coordination and articulation of previous fragmented social insurance and social assistance components.

In sum, the high old-age benefit coverage reached by countries as Argentina, Brazil, Chile and Uruguay is the result of a combination of contributory and non-contributory schemes that recently expanded thanks to better fiscal space, though mainly because the expansion coverage has been a priority in many of the national social security public policy agendas. Even countries with less economic and institutional development, such as Bolivia, have managed to put in place non-contributory old age benefits that provide modest, but universal, benefits.

5. Assessing the contribution of labour market and social protection in reducing poverty and inequality in Latin America

Previous sections showed the improvements in labour market indicators during the period of economic growth before the international crisis, along with the advances made in social protection policies in the countries of the region. In this section we briefly summarize some evidences tending to quantify the contribution of each of these pillars in reducing poverty and inequality in Latin America in the period 2003-2008.

In relation to poverty reduction, in a subregional study for Latin America (Argentina, Brazil, Costa Rica, Ecuador and Peru), Beccaria *et al.* (2010) conclude that events (30 to 70%) exclusively related to the labour market are the most important explaining such reduction in all the countries evaluated. The empirical analysis shows that this is the effect of changes in the number of employed household members in some countries (Brazil, Costa Rica and Peru), while income changes are more important in other countries (Argentina and Ecuador). Labour precariousness, however, appears as an important factor, in particular, a significant proportion of the new jobs obtained by poor household members that are not subject to social security contributions. The second most significant group of events explaining poverty reduction is the combination of non-labour and labour incomes growth. This means that the labour market has played a very important role in the improvement of the living conditions of households in recent years, both through events exclusively related to the labour market, or through a combination of the latter with increases in other non-labour incomes. Depending on the country, these events are followed in importance by exclusively non-labour income events (for instance, Brazil and Argentina) or those which combine demographic and income events (Costa Rica, Ecuador and Peru).[23]

These findings are consistent with the findings reported by ECLAC (2009) which state that in the period between 2004 and 2008, 25% of urban workers (simple average for 17 countries) and 41% of rural workers (simple average for 16 countries) remained below the poverty line. The evidence suggests, therefore, that despite the significant progress evidenced in Latin American labour markets, they continue showing a limited capacity to become an effective means to move out from poverty an important group of households that persistently remain in this situation.

[23] Poverty declined 50% in Argentina (2003-2008), 17% in Brazil (2003-200), 25% in Costa Rica (2006-2008), 29% in Ecuador (2004-2008) and 28% in Peru (2002-2006).

As inequality, according to studies carried out by ECLAC (2010a and 2010b), these improvements in income distribution have been linked mostly to the positive dynamics of the labour market and to a lesser extent to the cash transfers received by households and to demographic changes such as reduced dependency ratio. Also, the relative importance of the labour market in reducing inequality and poverty are explained, although with different intensity depending on the country, both by increases in labour income and growth in employment levels (Cecchini and Uthoff, 2007).

In line with the regional trend, Trujillo and Villafañe (2011) corroborate the importance of labour incomes in changes of household income distribution in Argentina. They accounted for 88% of the reduction in income inequality during the period 2004-2008. This is explained both because labour incomes represent a high percentage of total family incomes and because the labour market experienced substantial improvements from 2003 onwards. Likewise, the authors find that since that year the dynamic of wages for formal salaried workers has been the main factor contributing to the reduction of labour income concentration, an opposite trend to the one observed during the nineties. Labour institutions such as minimum wages and collective bargaining would account for these positive dynamics. On the other hand, incomes from pension also constituted another important source of income contributing to the decreased in inequality. Finally, although other income transfer policies have been progressive, they have had less importance than labour incomes. Similarly, for Brazil, Soares (2006) finds that three quarters of the reduction in family income inequality between 1995 and 2004 is explained by the decline in the concentration of labour income, while transfer programs such as *Bolsa Familia* explain the remaining quarter.

As our own estimates, we are able to confirm the conjectures discussed before. Using micro data from the four most relevant countries in the region, we decomposed the Gini coefficient for per capita family income to corroborate the relative importance of labour market incomes and social transfers in explaining the decline in inequality in the 2000s.[24] In all cases, income from labour market is the main source that explains such reduction, which is, as expected, associated to the larger incidence they have in aggregate family income. The participation of labour income in total family income ranges from 71% to 80% (these figures correspond to the last observed year reported in Table 1).

The results also show that the expansion of cash transfers in Brazil (*Bolsa Familia*) and Mexico (*Oportunidades*) have a relevant role in the Gini index decline, while in Argentina was much lower. Interestingly enough is also the case of Chile, where cash transfers are also relevant, probably because the lower role played by labour incomes. Another source that explains the decline in income inequality is the expansion of social security-pensions benefits. The relative impact, however, is largely linked to the extension of coverage, particularly non-contributory and semi-contributory schemes. Mexico with much lower coverage than Argentina, Brazil and Chile shows an almost nil impact.[25]

[24] For the source of income decomposition, we use methodology proposed by Lerman and Yitzhaki (1995), and for the dynamic decomposition (sources contribution in each moment of time) we follow Helfand et al. (2009) and Soares (2006). Only monetary incomes were used, in kind transfers and imputed rent are excluded.

[25] Note that the relative higher importance of pensions in Argentina could be explained by both the substantial expansion in benefit coverage between 2005 and 2008, and its adequate capture in the survey. Contrarily, the other large cash transfer programme (*AUH* or transfer for child and adolescents)

Labour formality is also an important source that explains changes in inequality. Primarily Argentina, but also Brazil, have had changes in income inequality strongly linked to the performance of labour incomes generated by registered wage earners. This corroborates the conjecture that formalization has been a major driver for progress in improving income equality figures.

Table 1
Decline in income inequality in Argentina, Brazil, Chile and Mexico
Gini decomposition for the 2000s

Income sources	ARGENTINA 2003-2010	BRAZIL 2001-2009	CHILE 2000-2009	MEXICO 2000-2008
Labour income	73%	62%	44%	60%
Registered wage earning jobs	43%	34%	33%	18%
Non- registered wage earning jobs	13%	6%	12%	71%
Non-wage earning jobs	17%	22%	-2%	-29%
Pensions	24%	14%	26%	1%
Public cash transfers	-5%	20%	28%	26%
Other non-labour incomes	8%	4%	3%	13%
Gini coefficient for PCFI (initial year → final year)	0.542 → 0.441	0.60 → 0.548	0.571 → 0.533	0.537→ 0.517
% Labour Income / Total family monetary income	71%	71%	71%	80%

Note: The surveys used are Argentina "Encuesta Permanente de Hogares (EPH)"; Brazil "Pesquisa Nacional por Amostra de Domicilios (PNAD)"; Chile "Encuesta de Caracterización Socioeconómica Nacional (CASEN)"; and Mexico "Encuesta de Ingresos y Gastos de los Hogares".
Source: own estimation using monetary income, not including in kind transfers nor imputed rent.

6. Final remarks

The high-income inequality that characterizes Latin America is associated to both the concentration in the primary income distribution and the existence of incomplete social protection systems. This is partly because these systems are largely based on contributory social security mechanisms, which usually cover a limited part of the population that is either linked, or weakly attached to formal employment.

Therefore, the huge differences that still persist in the region's working conditions require permanent action in the field of primary income distribution as a means to reduce inequality. In this context, progress in employment formalization and the strengthening of labour institutions as well as of active employment policies are essential processes to allow jobs to become an effective mechanism to overcome poverty and achieve social protection. According to Chacaltana (2009b) there are three ways to reduce labour

implemented in 2009 which partially replaced *Jefes and Jefas* implemented in 2002 is not properly capture in the survey, while *Jefes* it was better registered in the survey data collection.

informality. The first one is to improve the ability of enterprises to meet both labour standards and registration, in order to foster growth and development of businesses and their productivity. The second one is to increase the state's ability to enforce the laws through different inspection and supervision strategies. Finally, the third way is increasing the benefits of formality, an aspect that has received less attention than the reduction of the cost of formality in the region.

The current situation in Latin American labour markets, however, also requires to move forward towards the development of a comprehensive social protection system grounded in universal rights, based not only on traditional social insurance pillars but also on non-contributory components. In this regard, the extension of the principle of universality in the supply of basic goods and services verified in the region in recent years is highly positive. The social protection floor framework provides a promising setting to discuss reforms, policies and programs to expand horizontal coverage of transfers and basic social services. (ILO 2010d)

This, nevertheless, does not mean that the labour market's role as a social integration axis can be ignored or the importance of macroeconomic stability and decent work goals. Progress towards the universalization of citizens' economic and social rights cannot go hand in hand with a weakening of labour market regulations and institutions. In this regard, it is important to remark that the purpose that brought about the development of labour regulation and institutions –to protect the health of workers and their families by limiting the working day; reducing poverty and inequality by establishing a minimum wage; providing financial support to the unemployed by means of an insurance and giving power and rights of expression to workers through collective bargaining and the freedom of labour union affiliation- becomes more relevant in the current context of economic globalization (Berg and Kucera, 2008).

At the same time, the construction of robust labour institutions is an indispensable element for advancing in the implementation of a development strategy with social inclusion. In particular, labour laws and labour market policies are necessary to ensure social justice on the one hand, and on the other greater efficiency and productivity. Therefore, the challenge is to design protection systems based on a coherent articulation between contributory and non-contributory components. In particular, the integration of policies aimed at securing full formal employment and consolidating a framework of protective labour regulations to allow appropriate working conditions and to facilitate social integration. On the other hand, universal policies that provide guarantees to access to essential services and ensure appropriate income levels, including periods of unemployment and when retiring at old ages.

All of these public policies need to be integrated so that they are no longer mere programmes and become a coherent system of training, employment, social protection and productive development. This approach clearly differs from those strategies that target the poor and rely on safety nets. On the contrary, the huge levels of poverty and inequality that still persist in the region call for a broader role of the social policy as a fundamental part of the development strategy while addressing distribution and redistribution issues.

The region faces the challenge of achieving sustained growth, with a reduction in nominal and real volatility. The region needs to make progress in the definition and implementation of a mid and long-term economic development strategy built on the basis of an integrated productive structure leading to high efficiency, systemic competitiveness and increasing labour demand. Productive convergence within a framework of high productivity standards is a necessary condition for sustained growth and employment promotion throughout time. In this regard, it is necessary to have high levels of consistency and integration between the macroeconomic regime –which sets proper objectives and creates stability and predictability- and development strategy guidelines geared to social cohesion and equality. This, in turn, must be grounded on long-term policies agreed upon by consensus among all social actors so as to turn them into "permanent State policies".

At the same time, Latin American countries need to continue strengthening the government redistribution capacity, through a more progressive taxation structure and greater fiscal pressure, as well as through more and effective social spending.

Finally, it is important to recognize the significant heterogeneity across Latin American countries in terms of economic development, fiscal capacity, labour market and social conditions and, international competitiveness and institutions, suggesting that there is no "one-fits-all" way to reduce inequality, increase social cohesion and overcome poverty in the region. Policy recommendations should take into account the complexity of the development process and incorporate not only economic but also institutional and political dimensions.

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