

Target in Motion: the micro-foundations of non-contributory social policy in Latin America

Soledad Artiz Prillaman
Harvard University

Question

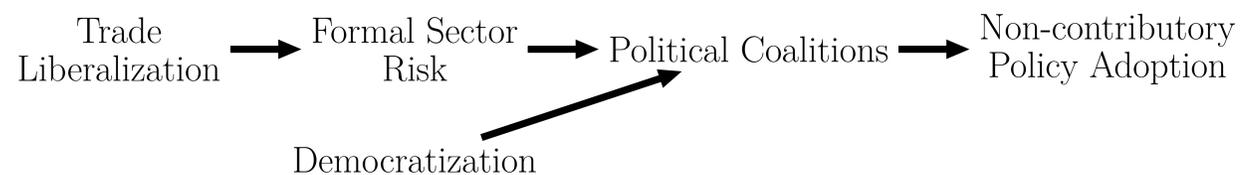
Social policy in Latin America has long been marked by a division between policy “insiders” and “outsiders”. For most of its history, social policy in Latin America was dominated by social insurance programs targeted exclusively at workers within the formal economy. In the late 1990’s and early 2000’s a major shift in the targeting of social policies occurred with the introduction of non-contributory pensions, universal health coverage, and conditional cash transfer programs.

What allowed for this erosion of traditionally cemented boundaries and the expansion of benefits to the informally employed?

Theory

I argue that the emergence of noncontributory social policies is rooted in both a change in the *interests* of the politically pivotal middle-income formal sector labor force and a change in the structure of the *power* of informal workers due to democratization.

- Trade liberalization, through a restructuring of industry and changes in the structure of the economy, increased labor market uncertainty for middle-income formal sector workers.
- As a result, the preferences of at risk formal sector workers shifted towards less corporatist social policies and more universal/non-contributory social policies.
- Democratization increased representation of informal workers in policy process, who prefer the adoption of non-contributory policies.
- Informal workers and at risk formal workers formed a new political coalition with the political power to demand noncontributory policy adoption.



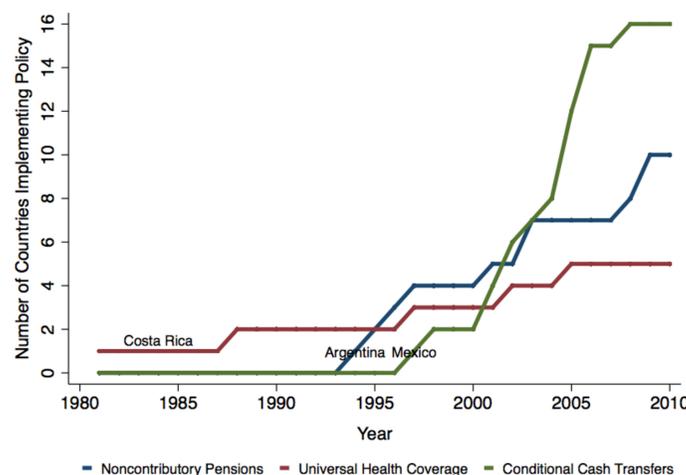
Data

Individual-level Preferences

- Latinobarometer from 1995 - 2010
- Questions on employment risk, occupation, and demand for social insurance

Country-level Policies

- Dummy for policy adoption
- Pension coverage rates
- Analyzing employment risk, informality, and partisanship



Analyzing Preferences

- High employment risk and informal workers are more likely to support parties of the left.
- Employment risk is positively associated with the belief that the state is responsible for the provision of health care, pensions, and welfare.
- Effect of risk holds only for formal sector workers.

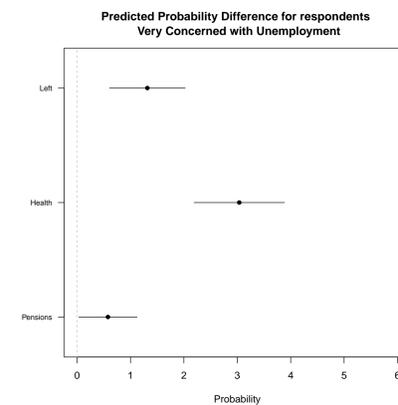


Figure 1: Differences in predicted probabilities between those who were very concerned with unemployment and those who were not

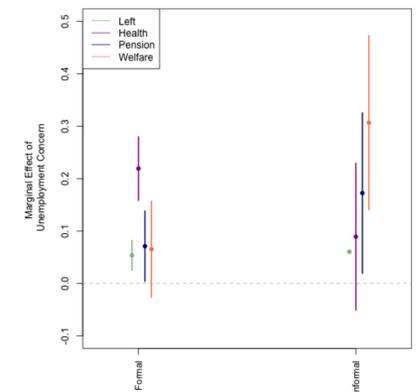


Figure 2: Marginal effect of Unemployment Concern Conditional on Labor Force Status

Analyzing Policy Adoption

Non-contributory Policy Adoption:

- Deindustrialization is associated with a higher probability of non-contributory policy adoption and universal health coverage
- Greater vulnerable employment is associated with a higher probability of non-contributory policy adoption
- Increased deindustrialization, trade openness, and vulnerable employment were all associated with higher coverage rates of pensions
- Strength of the left, electoral competition, and democratization were significant predictors of pension policy adoption

Domestic Politics:

- Democracies associated with much higher political participation
- Deindustrialization associated with a higher seat share for the left
- Vulnerable employment is associated with a lower seat share for the left

Conclusions

- Economic liberalization eroded existing labor force boundaries and reshaped the interests of the previous economic “insiders”.
- Deindustrialization did not lead to a race to the bottom when it came to social policy, but actually stimulated an expansion of social benefits to those outside of the formal labor force.
- This paper documents this expanded coverage of benefits and provides an explanation rooted in individual behavior and economic interests.