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POVERTY, SOCIAL INEQUALITY AND CONDITIONAL CASH TRANSFER PROGRAMS IN LATIN AMERICA

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One of the many things that the countries of Latin America have in common is their extreme social inequality. Nowhere else in the world is there more income inequality than in Latin America; nowhere else do the richest 10 per cent of the populous earn a greater proportion of total income; and nowhere else do the poorest 10 per cent earn a smaller share of the total aggregate income.¹ The statistical average income is nothing more than an abstract figure, as in reality the salaries and wages of 85-90 per cent of workers fall well short of this level. Even the Latin American country with the lowest relative level of social inequality, Uruguay, has a more distorted pattern of income distribution than the OECD country with the highest degree of social inequality, which is Portugal.²

Such glaring social inequality is accompanied by huge numbers of people living in poverty. Widespread and extreme poverty is partly a consequence of major social disparities, and both of these phenomena have proved to be hard to budge. It is true that sustained periods of strong economic growth have led to regular reductions in the poverty rate, but the end of each boom cycle has also consistently

- 1 | For a comprehensive analysis of social inequality in Latin America, cf. CEPAL, *La hora de igualdad. Brechas por cerrar, caminos por abrir*, Santiago de Chile, 2010.
- 2 | The members of the Organisation for Economic Co-operation and Development (OECD) Mexico and Chile are not included in this comparison. Tellingly, these two countries have the most polarised social structure of all the 22 members of the OECD. See OECD, *Society at a Glance 2011 – OECD Social Indicators*, Paris, 2011.

brought further increases in negative social indices, showing that robust economic growth is not sufficient in itself to eliminate the structural causes of more widespread poverty. During the “lost decade” (1980-1990) caused by the region’s debt crisis, the poverty rate rose from 40.5 to 48.4 per cent, with the absolute number of people classified as poor increasing from 136 to 204 million. Rocketing unemployment was mirrored by the expansion of the informal sector and some members of the middle classes found themselves sinking closer to the poverty line or even falling below it, resulting in even higher levels of social inequality. The general economic recovery which ensued until 1999 led to the poverty rate dropping to 43.8 per cent, but in real terms this still meant that 11 million more people were living in poverty than in 1990. The end of a five-year downturn in 2002 marked a (temporary) high in the number of people living in poverty: 225 million people in Latin America, corresponding to 43.9 per cent of the region’s inhabitants were classified as living in poverty, with 99 million of these (19.3 per cent of the population) being classified as living in extreme poverty.³

Since then there has been a remarkable change, with poverty rates plummeting since 2003. This improving trend has been much more marked in South America than in Mexico and Central America. Within six years, the regional poverty rate dropped by 10 per cent to 33.2 per cent. Even the onset of the financial and economic crisis in the second half of 2008 only put the brakes on this positive trend in the short-term, as Latin America recovered astonishingly quickly from this turning point in the global economy.⁴ According to ECLAC’s calculations, in 2011 the number of people living in poverty was 10 million less than two years’ previously. And it is not only poverty that has reduced significantly since 2002: at the same time, there have been clear signs of a shift in the

It is not only poverty that has reduced significantly since 2002: at the same time, there have been clear signs of a shift in the region’s glaring social inequality.

- 3 | Cf. Economic Commission for Latin America and the Caribbean (ECLAC), *Social Panorama of Latin America 2011*, Santiago de Chile, 11 et seq.
- 4 | See Hartmut Sangmeister, “Der Wirtschaftsraum Lateinamerika: Positive Aussichten für 2011”, *GIGA Focus Lateinamerika*, 1/2011.

region's glaring social inequality.⁵ This was not the case to any significant extent during earlier periods of economic growth. The Gini coefficient for the region as a whole fell from 0.574 to 0.534 between 1995 and 2009.⁶ Since 2000, there has been a massive increase in the number of mid-range earners in some countries, particularly Brazil, bringing with it a corresponding growth in the Latin American middle class, which until now has only existed in a fairly rudimentary form.⁷

This striking drop in the poverty rate and corresponding improvements in the lives of a significant proportion of the Latin American population can first of all be attributed to the region's booming economy that has brought unusually high levels of growth since 2003. The boom was ignited and driven by rapid growth in export volumes combined with rising prices on the world markets for many of the region's products. A large, rapidly-expanding proportion of Latin American and South American exports are

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- 5 | This trend took hold some years before the economic upturn after 2003. See Luis F. López-Calva and Nora Lustig, "Explaining the Decline in Inequality in Latin America: Technological Change, Educational Upgrading, and Democracy", in: idem (eds.), *Declining Inequality in Latin America. A Decade of Progress?*, Baltimore, 2010, 6-9. Relatively reliable figures are only provided by observing trends within individual national economies, as "the lack of a uniform basis for measuring equality in different countries [...] throws up serious comparability issues", World Bank, *World Development Report 2006*, Bonn, 2006, 46. The use of purchasing power parity comparisons has become more prevalent, but they can also lead to faulty interpretations. See Charles Kenny, *Getting Better: Why Global Development is Succeeding – And How We Can Improve the World Even More*, New York, 2011, 18. For more idiosyncratic view of the subject of inequality, see Branko Milanovic, *The Haves and the Have-Nots. A Brief and Idiosyncratic History of Global Inequality*, New York, 2011. See *ibid.*, 24 et sqq. for a discussion of how to measure inequality.
- 6 | This conceals some wide variations in national trends. Whereas some countries (such as Peru and Paraguay) have slipped back disproportionately, others have remained largely stable (e.g. Bolivia, Uruguay) and Costa Rica's coefficient has increased markedly. Cf. World Bank/LAC, *A Break with History: Fifteen Years of Inequality Reduction in Latin America*, Washington D.C., 2011, 22.
- 7 | On the growth of the Latin American middle classes after 1990 see Rolando Franco et al., "The Growing and Changing Middle Class in Latin America", *CEPAL Review*, 103, 4/2011, 7-25.

now going to the Asian growth markets, above all China.⁸ A decisive factor for positive social development was the fact that an economic upturn that was triggered by external factors was increasingly being stabilised by domestic market forces. Most countries experienced a significant rise in employment and the creation of many new jobs in the formal business sector.⁹ If domestic demand had been less robust, Latin America would not have got off quite so lightly after the spread of the financial and economic crisis from its origins in the USA in 2008/2009. Many governments made use of the improved fiscal conditions (which were also a result of reductions in foreign debt¹⁰) to counter the potentially negative effects of this turning-point in the world economy with targeted counter-cyclical measures. This economic boom was further fuelled by low inflation, general demographic changes due to falling fertility rates and, in some countries, huge increases in the volume of money transfers (*remesas*) from people working abroad (particularly in the USA).¹¹

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A second major factor that explains the fall in the poverty rate and in the number of people living in poverty between 2002 and 2011 is the introduction of innovative social

8 | Many Latin American economies (such as Chile, Peru and Bolivia) found that the price increases in certain raw materials caused by soaring Chinese demand were even more significant than the rise in exports to China. But for some Central American countries, "[t]he net impact of Chinese demand on commodity prices has been negative." Rhys Jenkins, "The 'China Effect' on Commodity Prices and Latin American Export Earnings", *CEPAL Review*, 103, 4/2011, 84.

9 | See Organización Internacional del Trabajo (OIT), *Panorama Laboral 2010. América Latina y el Caribe*, Lima, 2010, 43 et sqq.

10 | "Debt levels have been reduced (from around 80% of GDP at the beginning of the 1990s to around 30% today) in part thanks to an increase in fiscal revenues", OECD, *Latin American Economic Outlook 2012. Transforming the State for Development*, Paris, 2011, 9.

11 | The *remesas* flowing into Latin America reached a historic peak in 2008 at 69.2 billion U.S. dollars; in 2009 they dropped back to 58.8 billion U.S. dollars and then stabilised at this level in 2010 (58.9 billion U.S. dollars). In Guatemala, Nicaragua, El Salvador and Honduras these money transfers accounted for over 10 per cent of GDP in 2010. Cf. René Maldonado et al., *Remittances to Latin America and the Caribbean in 2010. Stabilization after the Crisis*, Inter-American Development Bank, Washington D.C., 2011, 7, 25.

programs that combine the payment of monetary benefits to needy families with certain criteria designed to improve school performance and the health of mothers and children. These conditional cash transfer programs (CCTs) were first introduced in the mid-1990s in Brazil and Mexico, and now exist in almost every country in the region.

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There is no doubt that the rapid expansion of these programs in the region is a result of widespread agreement about the usefulness and clearly positive effects produced by these kinds of schemes. Every country that has introduced these CCTs has seen clear improvements in the nutrition, health and school attendance levels of the recipient families. Many developing countries in other regions of the world have also introduced CCTs, often with the help of financial and practical support from the World Bank.

In Latin America, more than 120 million people are now receiving cash benefits from CCT programs. These benefits are different because of the way they have been conceived, their scope and costs, their socio-economic effects and their political implications. The most surprising thing about the apparent success of CCTs is the fact that they are based on a very simple calculation. After decades of largely unsuccessful experiments with a range of programs for combating poverty (swallowing up billions of euros), can CCTs finally be the silver bullet to resolve once and for all the problem of poverty? Could it be that the simple principle of "Just give money to the poor"¹² will actually have a lasting impact on the prosperity of the Third World's most disadvantaged people? The answer to this question hangs on whether these predominantly assistance-based programs can forge their own dynamic in order to stamp out the structural causes of the emergence and spread of mass poverty. It is still too early to assess the true value of CCTs in terms of development policy.

12 | This is the title of a recently-published book by Joseph Hanlon, Armando Barrientos and David Hulme, *Just give money to the poor. The Development Revolution from the Global South*, Sterling, 2010.

THE CONNECTION BETWEEN (ABSOLUTE) POVERTY AND (EXTREME) SOCIAL INEQUALITY

Even though there is a widespread consensus that nowhere in the world is social inequality as extreme as in Latin America, the statistics and parameters used to illustrate the situation generally tend to downplay the true scale of the problem. As a rule, the unequal pattern of distribution is presented and measured using income statistics, but this totally fails to take into account people's financial circumstances. It is an inescapable fact that there is a massive gulf between the top ten per cent of earners and the majority of the population who live on or below the poverty line when it comes to having opportunities to save money and accrue assets. It is not possible to simply gain a true measure of the huge discrepancies between rich and poor because there are no reliable methods of determining and comparing the true asset value of more well-situated social classes, something that is partly due to the inefficiency of the tax authorities. Any knowledge about this critical element of the region's social reality is restricted to a small amount of rough data and limited insights.¹³

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However, the concrete living conditions of those at the bottom of the social pyramid depend only to a very limited extent on whether the unequal distribution is causing a much greater imbalance than is suggested by the calculations based on income differences. Even if Latin America

13 | The *World Wealth Report*, published annually by Merrill Lynch and Caggemini, gives an insight into the world of millionaires and multi-millionaires. The Report describes as High Net Worth Individuals (HNWIs) "those having investable assets of US\$ 1 million or more", whereas Ultra-HNWIs are "those having investable assets of US\$ 30 million or more". *World Wealth Report*, 2011, 4. The report continues: "In Latin America, the general population of HNWIs is still small, numbering under 0.5 million. However, the prevalence of Ultra-HNWIs multiplies the aggregate level of HNWI wealth, which grew 9.2% to US\$ 7.3 trillion in 2010. The Latin American HNWI segment was quite resilient at the height of the crisis (the number of HNWIs shrank just 0.7% in 2008) and the HNWI population has grown modestly since, gaining 8.3% and 6.2% respectively in 2009 and 2010. The disproportionate number of Ultra-HNWIs has also contributed to the gains in HNWI wealth, which is now up 18.1% since 2007". According to the 2010 *World Wealth Report*, less than 1 per cent of the world's HNWIs live in Latin America, but 10.7 per cent of Ultra-HNWIs.

has for years been notorious for combining an extremely unequal social structure with a large proportion of people living in poverty or extreme poverty, the two issues are actually less closely connected than it may seem at first glance. And an extremely unequal distribution of income

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and assets does not *per se* lead to widespread poverty, nor does a relatively small proportion of people living in poverty point to above-average levels of social inequality. Poverty is not defined by the degree of social inequality; it is solely defined by the monetary and non-monetary income that is available to the individual, along with a lack of opportunities for personal and professional development in the broader sense.¹⁴ There are developed countries whose social structures and income distribution are just as unequal as those of many developing countries – if not to quite such an extreme extent as in Latin America – without this phenomenon being accompanied by significant levels of poverty.¹⁵

In order for the poor people of Latin America to be able to escape their precarious living conditions, they need the means and the opportunities to allow them to lead a dignified existence. If the income of a lesser or greater proportion of the disadvantaged people in this or that country were to be elevated above the poverty line, then social inequality would diminish to some extent – as long as the income (and assets) of the top 10 to 20 per cent of the social hierarchy did not grow faster than that of the lower stratum. A lessening of social discrepancies may be accompanied by a reduction in the poverty rate, but it is not a given, just as an intensification of social imbalances does not inevitably lead to greater poverty¹⁶ or exclude the possibility of making progress in reducing poverty. The rich of Latin America are not rich because so many of their fellow countrymen are poor, even if they do profit in many ways from widespread poverty, such as by paying miserable

14 | For more on the idea of poverty as a lack of opportunities for personal and professional development, see Amartya Sen, *Ökonomie für den Menschen. Wege zu Gerechtigkeit und Solidarität in der Marktwirtschaft*, Munich, 2002, 110 et sqq.

15 | "In France, the richest 5% of the population own 40% of the wealth, while 50%, the poorest, own barely 8%." Ignacio Ramonet, *Le Monde Diplomatique*, 2/1998.

16 | Through an increase in the number of people living in poverty and/or worsening of the manifestations of poverty.

wages to their household staff. It would not help the poor if the rich were less rich, unless this diluting of the concentration of riches were used to help the lower classes by means of targeted wealth redistribution policies. Such policies can certainly play an important role in reducing poverty, but on their own they are not sufficient to eliminate the causes and current scale of the problem.

A central criterion for drawing up poverty statistics is the creation of thresholds to decide whether or not a person or household should be classified as living in poverty or extreme poverty. This inevitably leads to the concrete everyday realities of a proportion of the people under review being played down, because minimal monetary deviations from the poverty line serve to determine their exact classification.¹⁷ We can only speak of a real improvement in the social situation once a large number of people have managed to put the greatest possible distance between themselves and the statistical poverty barrier. Comparisons between the poverty rates in different countries are not particularly meaningful if the often striking differences in poverty levels are ignored.¹⁸ The higher the absolute numbers and percentages of disadvantaged people who leave the poverty zone once and for all and manage to create a modest standard of living, the more likely it is that social disparities will gradually start to lessen. A levelling-out of social disparities can be both the cause and effect of a drop in the poverty rate.

From a historical perspective, extreme social inequality and widespread poverty are the result of one and the same process and to some extent have causes that are either the same or at least closely-linked. In the first 50 years after political independence, social inequality was much less marked and, to all intents and purposes, poverty was

After around 1870, social inequality increased steadily in parallel with Latin America's gradual integration into the global markets.

17 | CEPAL (ECLAC) anticipated an increase in absolute poverty, counter to the downward trend in (simple) poverty due to higher food prices. ECLAC, n. 3, 12.

18 | "In Colombia, not only poverty is more widespread, but the poverty gap is twice as much as in Argentina. That implies the need of higher transfers to the poor to lift them out of poverty [...]", Pablo Acosta et al., "Should Cash Transfers Be Confined to the Poor? Implications for Poverty and Inequality in Latin America", The World Bank, Working Paper 5875, Washington D.C., 2011, 11.

the norm for most people. But after around 1870, social inequality increased steadily in parallel with Latin America's gradual integration into the global markets. This was primarily a result of income and ownership being increasingly concentrated on a very small upper class, who took to importing luxury goods in order to share in the lifestyles enjoyed by the elite of the major industrialised societies. A decades-long phase when Latin American exports were granted favourable terms of trade led to the establishment of an economic structure that blocked the emergence of the conditions needed for some sort of balanced, long-term social development. At the beginning of the 19th century, the miserable standard of living of the majority of the population was certainly worse, but not massively worse, than that of people in Europe. But the lives of the lower classes in industrialised countries began to see real and lasting improvements, whereas these changes failed to materialise in Latin America for many years. This was due to the extreme concentration of ownership in the agricultural sector which led to the dependence and exploitation of the majority of the workforce and prevented the growth of domestic demand to any great extent. The main influence on social development were the changes to the Latin American labour market that began slowly but increasingly gathered momentum and totally changed the face of poverty in the region.

There was a significant lack of available labour in many economic sectors in Latin America during the last twenty-five years of the 19th century and, to an extent, up until the

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First World War, but this situation changed considerably over the following decades. Since the 1950s in particular, there has been a rapid growth in urban unemployment due to a fatal combination of increased rural migration, high demographic growth rates and a high degree of capital intensity in (industrial) production relative to the number of people looking for work.¹⁹ Lack of a state social welfare system resulted in the rapid expansion of the informal sector, which basically amounts to nothing

19 | In 1950, around 75 per cent of the people in Latin America lived in rural areas, but by the turn of the millennium this figure had reversed. For some time now, some countries in the region have had a higher level of urbanisation than many European countries.

less than a survival economy. Since the 1980s, this sector has accounted for more than half of those in work in many countries in the region.²⁰ It is this kind of structural data that helps to explain why economic boom periods have not been able to bring about a sustainable reduction in poverty. With very few exceptions, people working in the informal and small-scale agricultural sectors generally only indirectly profit during periods of prosperity, if at all. Because of their limited purchasing power, they are very restricted in their ability to add to or help bring about relatively high and stable economic growth.

Up until the most recent economic boom (2003-2008), it was quite normal in Latin America for more new jobs to be created in the informal than in the formal sector, even in times of high growth. The bigger the percentage of people who are unemployed or under-employed, the less likelihood there is of any noticeable and sustainable social improvement during periods of economic growth. From this perspective, extreme social inequality can be seen as a key factor that has a negative impact on the necessary preconditions for successfully reducing poverty. Pronounced social inequality inevitably results in the fruits of high economic growth being distributed unevenly and so tends to have a dampening effect on the growth itself.²¹ The more unevenly that income is distributed, the more growth is needed in order to reduce poverty. There is also clearly a subjective element to this problem that feeds on people's feelings that it is their fate to live on the breadline in the same way as previous generations: "As with poverty, inequality is a phenomenon caused by constraints, which, in addition to limiting access by broad swathes of the population to basic *functionings*, also affect people's aspirations and perceptions of their possibilities to achieve certain objectives, such as securing a university qualification or landing a well-paid job."²² However, even more than the glaring social disparity,

20 | See Guillermo Vuletin, "Measuring the Informal Economy in Latin American and the Caribbean", IMF Working Paper 102/2008, Washington D.C., 2008.

21 | See J. Humberto López and Guillermo Perry, "Inequality in Latin America: Determinants and Consequences", World Bank, Policy Research Working Paper 4504, Washington D.C., 2008.

22 | *Regional Human Development Report for Latin America and the Caribbean 2010*, UN Development Program (UNDP), New York, 2010, 13. This particular aspect is looked at in detail in Chapter 4 of the Report (79 et sqq.).

it is the nature of the socio-economic context in which poor people exist that actually has a more significant effect on the inertia and cycle of extreme poverty in Latin America today. The most important contributory factor to the precarious living conditions of many people is clearly the huge, structurally-determined, lack of adequately-paid jobs, with the corresponding massive growth in the informal sector.

FISCAL POLICY AS AN AMPLIFIER OF SOCIAL DISPARITY

The argument that the interests and needs of the poor are not sufficiently taken into account in the expenditure policies of Latin American countries is a recurring theme in the endless debates over social hardship and what needs to be done to combat it. The poor quality of the primary school system is seen as a serious handicap that limits opportunities for children from poor families. Health care in many countries, especially in rural areas, is also seriously inadequate. The main expenditure items in a country's budget that can have a direct impact on the living conditions of poor people and which are more or less aimed at alleviating their misery or covering their basic needs include various welfare programs, but also subsidies for food and essential public services (electricity, water, gas, etc.). Compared to the public sector expenditure aspects of a country's budget, discussions on the ways and means of reducing social inequality and poverty pay little attention to tax revenue and the particular features of Latin American tax systems. This is all the more remarkable because – unlike in the OECD – taxes are not used as a socio-political corrective but rather as a means of maintaining or strengthening social disparity. This regressive effect is one of three things that clearly differentiate the tax systems used in Latin America from their counterparts in the OECD. The other two factors are the significantly lower tax ratio and the higher importance attached to indirect taxation.²³

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23 | For further information on the characteristics of Latin American tax systems see Edwin Goñi/J. Humberto López and Luis Servén, "Fiscal Redistribution and Income Inequality in Latin America", World Bank, Policy Research Working Paper 4487, Washington D.C., 2008; Karl-Dieter Hoffmann, "Steuern, Subventionen und soziale Ungleichheit in Lateinamerika", ▶

Even if the average Latin American tax ratio has risen significantly in the last 20 years, at around 19 per cent (2008) it is still only a little over half that of the OECD average (35 per cent). Only Brazil, with 34 per cent, (including approximately 15 per cent social security contributions) reaches OECD levels, while Argentina has the second highest ratio at 30 per cent. In some countries, tax revenue is less than 15 per cent of GDP, with Guatemala bringing up the rear at just 12 per cent. In those countries with valuable natural resources (oil, gas, copper, etc) export income makes a significant contribution towards tax revenue (e.g. Venezuela, Mexico, Ecuador, Bolivia, Chile).²⁴

However, these low tax ratios are not primarily the result of low tax rates. Tax revenues would be much higher if it were possible to reduce the significant levels of tax evasion that in many countries amounts to more than 40 per cent of tax revenues. The problem is closely linked not only to the inefficiency of many of the tax authorities, but also in part to the fact that the tax systems are often overly complicated.²⁵ Many medium and large companies pay no tax at all or pay only a fraction of what they should pay.²⁶ And many tax rates are somewhat irrelevant because there are so many exceptions and special rules as well as (legal)

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GIGA Focus Lateinamerika, 7/2010; *Panorama de la gestión pública en América Latina. En la hora de igualdad*, ILPES/CEPAL, Santiago de Chile, 2011; *Latin American Economic Outlook 2012. Transforming the State of Development (Overview)*, OECD, Paris, 2011, 10 et sqq.

24 | During the period 2004 to 2010, copper accounted for over 60 per cent of Chile's export revenues and, on average, 24 per cent of state revenues. From 2000 to 2008 an average of 27 per cent of Ecuador's national income came from exports of oil and oil derivatives. Mexico's tax ratio is just under 20 per cent, with a third of income coming from the oil sector.

25 | Business owners in El Salvador, Panama and Uruguay, for example, have to pay their taxes on a weekly basis, while in Venezuela they have to pay 70 times a year. See *Doing Business 2012: Doing Business in a More Transparent World, Regional Profile: Latin America*, World Bank/IFC, Washington D.C., 2012, 53.

26 | The high level of tax evasion is due to the non-declaration of commercial transactions, turnover and profit, which are not reflected in the country's national accounts and which therefore seriously undermine the credibility of official macroeconomic statistics. This makes it much more difficult to make accurate economic comparisons between different countries or to assess differences in social inequality.

loopholes. One of the main reasons for low tax revenues is the massive discrepancy between the number of people working and the actual number of taxpayers. The size of this discrepancy is mainly the result of the huge amount of economic activity in the informal sector.²⁷ Because of their links to the formal part of the economy, those who are employed in the informal sector still make a contribution to national income via the payment of excise duty, which is one of the reasons why value-added-tax is so important. Regionally, VAT amounts to nearly 40 per cent of all tax revenues, around twice as much as in OECD countries.

Not only does the informal sector not pay any direct taxes, but its provision of goods and services reduces the turnover of officially registered businesses, which means that tax revenue from these companies is also reduced. Every itinerant tradesman who sells goods that are also sold by legally-operating businesses is contributing indirectly to the lowering of tax revenues.²⁸ The non-payment of taxes and social security contributions acts like a subsidy, which allows even those manufacturing units with low productivity levels to gain market share at the expense of legal companies with more sophisticated production techniques. These

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formal companies then often react to this pressure by trying to strengthen their competitive position by saving money through tax evasion. If a government plans to raise a particular tax, and this tax is only likely to be paid by formal businesses, then the option of shifting at least a part of their business activities to the informal sector can become an attractive one for these companies. Expanding the tax base to include parts of the informal sector is only likely to succeed if those elements of the tax and revenue system that actually encourage

27 | "In 2005, 50.3 per cent of non-agricultural workers in Latin America were employed in the informal sector. Of these, 55 per cent were own-account workers, 33 per cent worked in micro-enterprises employing fewer than five workers and the remainder, 12 per cent, were domestic workers." Victor Tokman, "The Informal Economy, Insecurity and Social Cohesion in Latin America", *International Labour Review*, Vol. 146, 2007, No. 1-2, 86.

28 | In Columbia itinerant tradesmen selling illegally imported cheap clothing from Asia have practically brought domestic textile production to a standstill. Cf. *El Espectador*, 12 Jun 2010.

informality can be weeded out.²⁹ The rise in the cost of labour in the formal economy, for example, helps to make it more attractive for companies to shift at least parts of their operations to the informal sector. Ancillary wage costs have increased the cost of labour for companies operating legally by a regional average of 40 per cent. Unless innovative initiatives can be introduced which at the very least use general taxation to finance an appreciable amount of social security payments and so reduce the cost advantages enjoyed by informal businesses, it is unlikely that progress can be made in formalising economies in general and expanding tax bases in particular.

This combination of low tax rates and high tax evasion means that income tax is of significantly less importance than in the OECD. Although income tax represented 26 per cent of total tax revenues in 2008, around two-thirds of this revenue came from business taxation. The fact that personal income tax is of low significance is one of the key reasons why Latin American tax systems tend to have a regressive influence and increase social inequality. Unlike in the OECD, where the income distribution-based Gini coefficient after direct taxation is on average 5 percentage points lower, the effect in Latin America amounts to only one per cent.³⁰ In most countries, what has so far been at best minimal progress made by direct taxation has been over-compensated for by the regressive effect of excise duty. Even though the upper twenty per cent of the income pyramid in the region pay, as a general rule, more than half of all taxes, the effective tax burden in terms of actual available monetary funds is proportionally higher on the lower quintile and on poor households in particular. Lower VAT rates on goods bought for daily needs

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29 | "Doing Business data show that economies where it is more difficult and costly to pay taxes have larger shares of informal sector activity." *Doing Business 2011. Making a Difference for Entrepreneurs*, World Bank/IFC, Washington D.C., 2010, 22.

30 | In recent times, income concentration (before tax) has increased noticeably within the OECD, while the equalisation effect of the tax system has tended to be watered down. *Divided We Stand. Why Inequality Keeps Rising*, OECD, Paris, 2011, 36. See also Milanovic, n. 5, 68 et sqq.

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do little to change this situation.³¹ The regressive effects of social security contributions, which stop climbing after a certain income level is reached, are an additional factor. So in these tax regimes we can identify an additional factor that influences the huge social disparities. Low tax ratios not only significantly limit room to manoeuvre when it comes to redistribution, but also reduce the ability of the state to improve public investment to increase competitiveness, especially in the very important area of infrastructure.

The reinforcement of social inequality via the tax system would be less of a concern from a social and development perspective if there were a corresponding correction on the expenditure side of national budgets. But this is not the case. Transfer payments, which, at 7.5 per cent, amount to around half the proportion of GDP seen in OECD countries, generally only have a minimal effect on social discrepancies and in some countries actually serve to increase these discrepancies. A glaring example of this is the generous pension schemes that have been put in place for certain groups of public sector workers, where tax revenues are used to make up the huge shortfall between current pension contributions and actual pensions paid.³² The benefits enjoyed in this kind of pension system, such as lower pensionable ages or higher pension emoluments, are rarely to be found in OECD countries. On average, around 80 per cent of all pension payments in Latin America are made to the top two income quintiles. "Computing an elasticity of inequality to each source of income over time suggests that pensions have become increasingly regressive. In particular, in 2009, a 1 per cent increase in pensions increased total inequality more than proportionally by 1.8 per cent."³³

31 | With reference to Mexico, the OECD have stated: "VAT tax expenditure are inefficient as a poverty alleviation mechanism, as higher-income households capture the largest part of the benefits in absolute terms." OECD, *OECD Economic Surveys: Mexico*, Paris, 2011, 14. This is not a convincing argument, as the poor also take advantage of lower VAT rates, even if the higher income classes get the most benefit. The fact that the treasury may lose potential income in this situation, is a different issue altogether.

32 | Cf. David Tuesta, "A Review of the Pension Systems in Latin America", BBVA Research Working Papers, No. 11/15, Madrid, 2011, 12 et seq.

33 | World Bank/LAC, n. 6, 14.

The effects of subsidy programs can result in a similar unbalanced picture. Although in the vast majority of cases these programs are designed with the needs of the poor sections of the population in mind, it often turns out that it is precisely those higher-income groups who don't need such benefits that actually account for the majority of the costs involved in these programs. Subsidies for petrol and other fuels are particularly expensive, and, in the case of exporting countries, the (huge) difference between domestic prices and potential export income means that the cost of these subsidies is effectively being borne twice. In Venezuela, where automotive fuels are cheaper than anywhere else in the world,³⁴ as well as in Ecuador and Bolivia, a significant proportion of these costs are the result of extensive fuel smuggling into neighbouring countries. For Mexico it has been calculated that for every peso spent on subsidising fuel, 50 cents goes to the upper income quintile, while only 3 cents are accounted for by the lowest 20 per cent of the income pyramid. The latter are naturally the first to protest and demonstrate when petrol prices are raised, as they are proportionally the ones most affected by the price increases because of higher bus ticket prices and the fact that food prices tend to go up due to higher transport costs. In December 2010, the Bolivian government announced the end of fuel subsidies due to the smuggling of oil products to neighbouring countries, causing such a storm of protest that, after a week, President Evo Morales decided to quietly cancel the decision.³⁵

For Mexico it has been calculated that for every peso spent on subsidising fuel, 50 cents goes to the upper income quintile, while only 3 cents are accounted for by the lowest 20 per cent of the income pyramid.

In terms of budgetary expenditure, it would appear that only CCTs tend to have a clearly progressive effect – that is to say they can help to reduce inequality – because they are specifically aimed at those segments of society that are truly in need. However, because they account for a relatively small part of public expenditure, they are not actually able to compensate for the predominantly regressive

34 | "It costs less than US\$1 to fill your car with petrol because the price of one litre of petrol is between 3 and 4 cents after 12 years of unchanged tariffs." *El Universal*, 13 Feb 2011.

"[A]bout 44 per cent of the \$ 12 billion spent by Venezuela in oil subsidies every year goes to the richest 20 per cent of the population." *The Miami Herald*, 11 Dec 2008.

35 | Cf. *El País*, 1 Jan 2011; *El País*, 3 Jan 2011.

impact of fiscal policies overall. The enormous redistribution potential offered by the fact that income and ownership is disproportionately concentrated in the upper echelons of society is, however, at least being exploited to some extent.

THE WIDE RANGE OF CCTS IN LATIN AMERICA – THEIR DESIGN, SCOPE AND COSTS

Mexico and Brazil are the two pioneers of the CCT scheme in Latin America. The programs were created there in the mid-1990s and since then they have been amended several times. Today, the programs in the two countries reach out to more than 90 million people, corresponding to 70 per cent of all the region's recipients of CCT assistance.

The first Mexican CCT program was launched against the background of the economic and financial crisis that broke out around the time that President Ernesto Zedillo took office (1995/95). This crisis very quickly reversed the generally improving trend in overcoming some of the worst social consequences of the decade of debt crisis. Between 1994 and 1996, the number of people who could not afford to feed themselves grew from 21.1 to 37.1 per cent, and at the same time there was an increase in "asset poverty (lack of sufficient income to cover food, health, education, clothing, shoes, housing, and public transport needs)"³⁶

The main goal of PROGRESA was to take an integrated approach towards improving the basic capacity of people living in extreme poverty by raising standards of nutrition, health and education.

from 55.6 to 69.6 per cent. Various government agencies were involved in designing a new social program called PROGRESA that was implemented in 1997.³⁷ The main goal of PROGRESA was to take an integrated approach towards improving the basic capacity of people living in extreme poverty by raising standards of nutrition, health and education. The new concept borrowed some elements from previous poverty reduction programs, but consciously avoided reactivating the system of

36 | Iliana Yaschine and Monica E. Orozco, "The Evolving Antipoverty Agenda in Mexico: The Political Economy of PROGRESA and Oportunidades", in: Michelle Adato and John Hoddinott (eds.), *Conditional Cash Transfers in Latin America*, Baltimore, 2010, 57.

37 | For more on the history and characteristics of the PROGRESA/Oportunidades programme, see *ibid.*, 62-71; Simone Cecchini and Aldo Madariaga, *Conditional Cash Transfer Programmes. The Recent Experience in Latin America and the Caribbean*, CEPAL, Santiago de Chile, 2010; Hanlon et al., n. 12, 40 et seq.

food subsidies that had been used for many years, a system which had largely fallen victim to the austerity measures introduced during the 1980s as part of adapting to the exigencies of a market economy. The households selected to receive PROGRESA aid had to fulfil a long list of criteria and were then able to claim certain cash payments, as long as they met various conditions.

The program aimed to improve the standard of living of everyone in the household, but particular attention was paid to the situation of women and children. Money transfers were paid to the mother, in order to ensure that the cash was used for the welfare of the family. The payments were made via independent financial institutions in an attempt to avoid corruption and political manipulation. The families were obliged to ensure that their children attended school on a regular basis and to periodically undergo medical examinations to check their levels of nutrition and overall health. Mothers were also obliged to attend training in nutrition and reproductive health and participate in community work (such as cleaning schools). After an increase in its budget in 1997, the program was able to expand its scope beyond its original focus on extreme poverty in rural areas. At the end of 1997, the new CCT scheme was working with around 300,000 families in almost 11,000 municipalities, whereas by the end of Zedillo's term in office (2000) it covered almost 2.5 million rural families in around 53,000 different locations. The PROGRESA concept also provided for measurement and evaluation of its impact and of the results of its actions, leading to a series of recommendations for improvements and partial reforms to the program (including expansion into urban areas). However, it was not possible to carry these through during the last months of the Zedillo administration. President Vicente Fox continued with the CCT program because of its obvious success and great popularity. In 2002, he renamed it Oportunidades, and since 2003 a few more elements have been added. The main ones include the payment of a monthly benefit to elderly people upon reaching 70 years of age and cash incentives to over-30s to take out private pensions. During the term of the first PAN administration, the number of people receiving assistance from the program increased to around five million families in 90,000

President Vicente Fox continued with the CCT program because of its obvious success and great popularity. In 2002, he renamed it Oportunidades, and since 2003 a few more elements have been added.

rural and urban districts. In 2010, Oportunidades reached 5.6 million households, or 26 per cent of the Mexican population, meaning that in theory, all families living in extreme poverty and 63 per cent of people classified as being poor were receiving aid.

These figures were exceeded by the Brazilian Bolsa Família program, which began as an innovative approach to fighting poverty during the term of President Fernando Henrique Cardoso (1994-2002). Cardoso authorised cash payments to poor families to buy food and cooking gas. Another program was aimed at helping poor households who were supplementing their scant incomes by sending their children out to work. In order to stop this practice and allow children to attend school, these families were given payments of between 11 and 17 U.S. dollars a month. In 2002, corresponding payments were made for almost 870,000 children. In 1995, the Workers' Party took control of the local government of Brazil's capital Brasilia and introduced the Bolsa Escola model, which provided assistance to poor households by giving them monthly cash payments if their children attended school. From there, the scheme spread to around 100 municipalities before the central government elevated it to the ranks of a national program. Poor households with school-age children received between 8 and 10 U.S. dollars per child; in 2002 8.2 million children in five million households were being supported by Bolsa Escola.

In 1995 the Bolsa Escola model was introduced, which provided assistance to poor households by giving them monthly cash payments if their children attended school.

When the Lula da Silva government took office in early 2003, it maintained this program and extended it to include large sections of the population. President Lula initially launched additional CCT programs, such as Fome Zero to improve food access for the poor, then in 2004 he integrated all existing CCT schemes into the Bolsa Família program.³⁸ As a

38 | For more details on this program, see Natasha Borges Sugiyama, "Bottom-Up Policy Diffusion: National Emulation of a Conditional Cash Transfer Program in Brazil", *The Journal of Federalism*, 42, 2012, 1, 52-77; Valéria Pero and Dimitri Szerman, "The New Generation of Social Programs in Brazil", in: Adato and Hoddinott, n. 36, 78-100; Sergei Soares, "Bolsa Família, its Design, its Impacts and Possibilities for the Future", International Policy Centre for Inclusive Growth, Working Paper, No. 89, Brasília, 2012; Hanlon et al., n. 12, 39 et seq.; Aaron Ansell, "Brazil's Social Safety Net under ▶

result, annual expenditure on the program rocketed, and by 2010 its budget amounted to 6.2 billion U.S. dollars. As in Mexico, the cash payments are generally made to mothers via banks, shops, lottery agencies or ATM machines. On average, each family receives 70 reais (approximately 35 U.S. dollars) a month, with the exact amount depending on various criteria (number and age of children, gap between actual income and the minimum wage). The maximum amount a family can receive is 182 reais (around 91 U.S. dollars). To get the money, families have to apply to the program and allow their income to be checked by the local authorities. For their part, the families have to ensure their children undergo regular health checks and do not exceed a maximum number of days' absence from school. Pregnant women are obliged to place themselves under medical supervision.

On average, each family aided by the Brazilian Bolsa Família program receives approximately 35 U.S. dollars a month.

By the end of Lula's second term in office (2010), around 12.5 million families were receiving money from the Bolsa Família program, corresponding to around 52 million people and more than a quarter of the total population. The distribution of Bolsa Família funds was very heterogeneous, reflecting the wide regional disparities in the respective social indicators. Around half of the recipient families live in Brazil's Northeast region, an area which has traditionally had a high poverty rate. Here, almost one-in-two families (45.7 per cent) are receiving aid from the program, while in the North region the figure is one-in-three (35.1 per cent). In these regions' poor municipalities it is not at all unusual for two-thirds of families to be receiving benefits from Bolsa Família. By increasing disposable income, these money transfers play a major role in slowing down the notoriously high rates of migration to the cities. In the country's other three main regions (Central-West, South and Southeast), the proportion of Bolsa Família recipients is running at 14 to 16 per cent of the population. Almost half of all beneficiaries of the cash transfer program belong

Lula", *NACLA Report*, 3-4/2011, 23-26; Matthew L. Layton, "Who Benefits from Bolsa Familia?", *AmericasBarometer Insights*, No. 47, Vanderbilt University, 2010; Ricardo Barros et al., "Markets, the State, and the Dynamics of Inequality in Brazil", in: López-Calva and Lustig, n. 5, 165 et sqq.; Sara Miller Llana, "Brazil Becomes Antipoverty Showcase", *The Christian Science Monitor*, 13 Nov 2008.

to the rural population and around 22 per cent live in urban areas. The extreme demographic dominance of the urban zones means that this corresponds to a rate of 3 to 1 in favour of city-dwellers. If we include other cash transfer programs such as those providing assistance to needy older people and the disabled, the total number of people in Brazil who are receiving aid from CCT programs is almost 75 million.

After the huge increase in CCT programs being launched in the region between 2000 and 2010, there are now 17 Latin American countries who have introduced social welfare systems based on cash transfers.³⁹ Although there are some major differences in design of the various CCT schemes, along with the amount of benefits they pay out and their scope (number and percentage of recipients), the underlying idea is still largely identical.

Economic growth is no longer seen as the panacea for resolving the social problems. It is being recognised that precarious living conditions are passed on from one generation to the next.

The simplicity of the way the CCTs are meant to work should, however, not detract from the fact that the rapid spread of these schemes represents a real paradigm shift. Economic growth is no longer seen as the panacea for

resolving the region's serious social problems. They are also finally causing people to revise their long-held opinions – even if these were not openly expressed – that poor people are partly to blame for their plight. Instead, it is now being recognised that in most cases poor people find themselves caught in the kind of poverty trap that is almost impossible for them to escape without help. This is particularly obvious in the way their precarious living conditions are passed on from one generation to the next. One of these fatal mechanisms is the way poor families on very low incomes send their children out to work rather than to school, and in this way all but destroy their chances of finding a well-paid job in the future. Primary schools report that many children stop attending school in times of economic crisis.

39 | The exceptions are Cuba, Haiti and Venezuela, where President Chávez has indeed launched a wide range of welfare programs since 2003, but they are not CCT-type schemes. For more on the Chávez *misiones* system and their less stable form of funding (decapitalisation of the oil sector) see Javier Corrales and Michael Penfold, *Dragon in the Tropics. Hugo Chávez and the Political Economy of Revolution in Venezuela*, Washington D.C, 2011, 47-70.

In their struggle for survival, poor households quite simply cannot afford to act with a view to the long-term. This is where CCTs come in. They combine a rapid response to the acute symptoms of poverty with strategic goals linked to development policies. The increase in their consumption potential means that, right from the first payment, the recipient families are released from their most pressing everyday worries, while the conditions linked to the cash transfer enhance the physical and mental capacity of children and hence promote a systematic improvement in the quality of human capital. The CCT scheme recognises that the spiral of extreme poverty is first and foremost caused by lack of money and income. This poses massive restrictions on the actions and choices of those who are affected and prevents them from using services (such as schools) that could in the long-term improve their lives and those of their children.⁴⁰ CCTs focus on increasing the demand that is necessary to make it possible to use many services and to weigh up different options. And in these schemes, the poor are not primarily the objects of governmental action but to a great extent are also the subjects, in that they are given autonomy over how they use the cash benefits they receive.

CCTs focus on increasing the demand that is necessary to make it possible to use many services and to weigh up different options.

Beyond the basic developmental approach – generally similar in all the Latin American countries using CCTs – we find there are in fact quite a few differences.⁴¹ Most programs have a system whereby the beneficiaries are paid according to a list of criteria with varying degrees of complexity. The advantage of this is that the target groups can be included in the program in a systematic way, but it incurs high administrative costs because the original selection also requires periodic checks and controls. On the other hand, CCTs which use more general criteria to select their beneficiaries

40 | “[I]t is worth noting that the relationships we do see between income and quality of life might be because better quality of life raises income rather than (or as well as) because incomes raise quality of life.” Kenny, n. 5, 109.

41 | For more details on the various CCT programs see Julia Johannsen, Luis Tejerina and Amanda Glassman, *Conditional Cash Transfers in Latin America: Problems and Opportunities*, Washington D.C., Inter-American Development Bank, 2009; Hanlon et al., n. 12, 101 et sqq.; Adato and Hoddinott, “Conditional Cash Transfer Programmes: A ‘Magic Bullet’?”, in: idem, n. 36, 3-25; Cecchini and Madariaga, n. 37, 13-100.

(e.g. people over 65, inhabitants of particular regions, etc.) run a higher risk of misallocation of funds, but their administrative costs are much lower. This latter type of scheme is more suited to countries with a very high poverty rate or strong regional concentrations of people living in poverty.⁴² Bolivia uses this method with its Juancito Pinto program, which offers a (modest) financial incentive to attend state-run schools, and its Renta Dignidad system that guarantees everyone over the age of 60 a non-contributory pension funded by income from the state-owned gas industry. The Panamanian Red de Oportunidades program is a combination of criteria based on categories (regions with a very high poverty rate) and on more target-oriented factors, but it does not seem to be working particularly well.⁴³ But even programs that are much more focused on particular target groups do not guarantee that all needy families will be helped and/or that families which do not meet the official criteria will not receive any kind of cash transfer. The quantitative expansion of a program increases the chance

Academic debate on Latin American CCTs has not produced a single voice questioning the extreme discrepancy between administrative costs and the net sums transferred in one of the programs.

that the largest possible number of people in the social target group will be included, while at the same time reducing the likelihood that the allocation of cash benefits will be used for political ends. Academic debate on Latin American CCTs has not produced a single voice questioning the extreme discrepancy between administrative costs and the net sums transferred in one of the programs or detected a drastic misallocation of benefits.

SOCIO-ECONOMIC EFFECTS OF CCT PROGRAMS: MORE THAN JUST DEPENDENCY?

Because of the design and inherent functional set-up of CCTs, it is hardly surprising that positive changes can be identified in the areas covered by the programs' conditions. These changes are clear to see in every region where these programs have been operating for some time. It goes without saying that these improvements are less obvious in countries with lower coverage and/or extremely low transfer

42 | Cf. Acosta et al., "Should Cash Transfers Be Confined to the Poor? Implications for Poverty and Inequality in Latin America", World Bank, Policy Research Working Paper 5875, Washington D.C., 2011, 21.

43 | Cf. Cecchini and Madariaga, n. 37, 35 et seq.

payments.⁴⁴ In this way, the families receiving benefits have, as a rule, been able to increase their average calorie intake and to some extent improve the nutritional quality of their food.⁴⁵ This includes a clear increase in the amount of milk consumed in Brazilian households that receive Bolsa Família benefits. Many poor families have finally been able to buy a refrigerator. This improved food situation has had a positive effect on the health of both children and adults: their physical condition has improved and they are less susceptible to illnesses. There are fewer instances of underweight children in poor families, and the fact that they are physically stronger has helped them to progress at school. There has also been a downturn in infant and child mortality rates. Contraceptive use is on the increase and teenage pregnancies are becoming less common. The central condition of "School Attendance" has also improved markedly, with more children enrolling in school, staying in school longer, fewer children having to repeat classes and more children from poor families moving on to higher schools. In Mexico, Oportunidades has closed the yawning gap in school enrolment rates for boys and girls and increased the average time at school for both sexes. Before the program was introduced, 75 per cent of twelve-year-old boys in rural areas attended school, compared to just 65 per cent of girls of the same age. The positive effects of CCTs are particularly concrete in the case of families whose older children have either not had the benefit of CCT funding, or only for a few

Trough Bolsa Família, many poor families have finally been able to buy a refrigerator. The improved food situation has had a positive effect on the health of both children and adults.

44 | For more on the effect of CCTs see Enrique Valencia Lomelí, "Conditional Cash Transfer as Social Policy in Latin America: An Assessment of their Contributions and Limitations", *Annual Review of Sociology*, Vol. 34, 2008, 475-499; Cecchini and Madariaga, n. 36, 111-146; Hanlon et al., n. 12, 53 et sqq.; Soares, n. 38; various chapters in Part III ("Impacts") of the volume edited by Adato and Hoddinott, n. 36, which deals with the changes achieved in the areas of education, health, nutrition, consumption and the role of women.

45 | Hanlon et al., n. 12, 9, 129 et seq., argue in favour of distributing cash transfers without conditions because they believe poor people know how to make best use of the money. But this is belied by the fact that it was often the advisory sessions linked to the CCT programs that provided the impetus for healthier eating. Cf. Cecchini and Madariaga n. 37, 237 et seq.; see also Kenny in this respect, n. 5, 128 et sqq.

years of their lives.⁴⁶ It is hardly surprising that in concrete, individual cases, success at school depends very much on the quality of the particular school, proving that spending longer in the school system is not on its own a guarantee of improved academic performance.⁴⁷ If conditionality is to be worthwhile in this area, the government has to undertake to improve the situation in terms of funding and teachers for the (primary) school system. This has already happened in many cases, at least in part, but not in others.

The benefits are often not enough to make up the shortfall if children stop working or to compensate for other advantages (such as reducing the burden on other family members).

The results are ambiguous when it comes to preventing child labour. Instead of totally abandoning the practice, many parents have simply reduced their children's workload in order to allow them to attend school. The benefits they receive are often not enough to make up the shortfall if children stop working or to compensate for other advantages (such as reducing the burden on other family members).⁴⁸ Some studies have shown that when

46 | "Parents whose work consisted of using a machete to cut grass had children who, thanks to Oportunidades, had finished high school and were now studying accounting or nursing. Some families had older children who were malnourished as youngsters, but younger children who have always been healthy because Oportunidades had arrived in time to help them eat better. In the city of Venustiano Carranza, in Mexico's Puebla state, I met Hortensia Alvarez Montes, a 54-year-old widow whose only income came from taking in laundry. Her education stopped in sixth grade, as did that of her first three children. But then came Oportunidades, which kept her two youngest children in school. They were both finishing high school when I visited her. One of them told me she planned to attend college." Tina Rosenberg, "To Beat Back Poverty, Pay the Poor", *New York Times*, 3 Jan 2011.

47 | "[W]hile conditional cash transfers may improve attendance, they do not necessarily improve service quality. [...] Forty percent of fifteen-year-old Mexican students fail an internationally comparable reading test passed by all but 5 percent of students in the average member-country of the OECD." Kenny, n. 5, 168. And a report in the *Economist* on the Brazilian school system puts it succinctly: "On a bad day in bad schools in bad states, teachers' absenteeism can reach 30%." In order to improve the quality of teaching, "Brazil needs qualified teachers, who are in short supply. Many have two or three different jobs in different schools and complain that conditions are intimidating and the pay is low." *The Economist*, 4 Jun 2009.

48 | In Brazil, rural child labour has dropped more markedly than in the cities, partly because of the different kind of work done, but also because in the cities, "their earnings are often greater than the modest benefits from Bolsa Família. So there is an economic incentive to cut school and leave the programme. ▶

children work less and attend school more, mothers end up having to work harder. Other studies have shown that the central role of mothers and women in the CCT programs often help to strengthen their position in the family and the community – with all the attendant positive effects on female self-confidence.

It is difficult to make a reliable calculation of the net effect of CCT programs on the significant reduction in the poverty rate over the last decade. There is no question that these programs have made a major contribution to this favourable development. From CEPAL's point of view, the accentuated trend towards smaller income gaps that has been noticeable since the end of the 1990s and during the current economic boom has in relative terms played the most important role in reducing poverty and levelling out social disparities. The effects of the CCT programs then follow on behind.⁴⁹ We should not attempt to make a too tightly-drawn causal connection between CCTs and the poverty rate. This is borne out by the fact that the group of countries that have in relative terms made the most progress in reducing social problems includes some countries that have little in the way of cash transfer programs (Peru, Paraguay, Panama) but whose economies have grown disproportionately in relation to their regional neighbours over recent years. On the other hand, those countries whose CCT coverage is greater than the number of people who are statistically shown to be living in extreme poverty will also not be able to stamp out this drastic social deprivation in the near future. The funds available are simply not sufficient to close the gap between actual living conditions and the line that separates poverty from extreme poverty.⁵⁰ In these countries, further success in reducing poverty depend less on increases to transfer

The group of countries that have in relative terms made the most progress in reducing social problems includes some countries that have little in the way of cash transfer programs.

Of the 13,000 households who lost their grant because of school truancy in July, almost half were in São Paulo alone." *The Economist*, 29 Jul 2010.

49 | Cf. ECLAC n. 3, 13 et sqq.; see also OIT, n. 9, 38 et sqq.

50 | "On average, in the countries with high human development indices, cash transfers cover over 100% of the income deficit of the extremely poor and 22.2% of the income deficit of the poor. In the countries with medium human development indices, cash transfers cover just 12.9% of the aggregate income deficit of the extremely poor and 3.4% of the income deficit of the poor." Cecchini and Madariaga, n. 37, 170 et seq.

payments than on general economic growth and its implications for the labour market.⁵¹

Even if the cumulative effects of transfer programs can stimulate local economies, they are not fully in a position to create a significant, dynamic stimulus when economies are weak or stagnating.

The considerable success of CCTs is in large part due to the socio-economic situation brought about since the 1960s by the strongest period of economic growth in Latin America's recent history. The acid test for state transfer programs is still to come, during a period of recession.⁵² Even if the cumulative effects of transfer programs can stimulate local economies, especially when the payments are concentrated in specific geographic regions, they are not fully in a position to create a significant, dynamic stimulus when economies are weak or stagnating. The fact that a small proportion of the recipients of CCT payments have been able to find employment in the formal sector is not primarily attributable to this type of program in itself, but is mostly due to the robust economy. Even in those countries that introduced other measures to stimulate the job market alongside CCTs, or provided loans to set up businesses, the majority of the CCT recipients who were looking for work found sources of income in the informal sector, and in many cases this work was only temporary. The vast majority of CCT recipient families are only able to maintain their very modest living standards with the help of monthly benefit payments, in spite of an unusually good economic situation. Without an increase in human capital there is little or no chance of the poor getting an adequately-paid job. The improvements in qualifications envisaged in the CCT program have failed to materialise, as it has not been possible to eliminate structural deficits in the job market, which are particularly prevalent in the largely unproductive informal sector. While demand-oriented CCTs can deliver improvements in human capital, the (formal) job market is only able to partially absorb this

51 | Good arguments against the idea that cash transfers just encourage the unemployed or underemployed poor to be idle, Hanlon et al., n. 12, 73 et sqq. See also Cecchini and Madariaga, n. 37, 142; cf. Layton, n. 38, 5.

52 | Mid-term prognoses for the Latin American economies are consistently positive. See Hartmut Sangmeister, "Der Wirtschaftsraum Lateinamerika weiter auf Wachstumskurs", *GIGA Focus Lateinamerika*, 1/2012. The President of the Inter-American Development Bank, Luis A. Moreno Mejía, optimistically predicted that the decade from 2011 will be "la década de América Latina". *El País*, 28 Nov 2010.

under current conditions. As a result, it is likely that, for the foreseeable future, those components of CCTs that have a short-term (assistance-based) effect are likely to continue to be important and to play a prominent role. Those effects that are directly linked to reducing poverty could, in some cases, also be optimised by making changes to the design of the CCT programs.⁵³ It should also be possible to not only improve the social impact of CCTs, but also to take pressure off national budgets, by introducing cash transfer schemes to replace subsidy programs that achieve little and tend to systematically misallocate funds.⁵⁴

Even though the potential of CCTs is often better realised during times of significant economic growth – by stimulating or strengthening multiplier effects – their true value to social cohesion is only likely to be seen during times when the economy is depressed. They should at least be able to ensure that social repercussions do not turn out to be as severe as during earlier economic downturns. Admittedly, this is only likely to be the case in countries with relatively extensive CCT programs. It should also be stressed that in every country in the region there are also sectors of society that tend to miss out on every type of (institutional) social protection.⁵⁵

CCTs should at least be able to ensure that social repercussions do not turn out to be as severe as during earlier economic downturns.

Irrespective of the extent to which they achieve their long-term development aims, for political reasons alone there should be no going back now as far as CCTs are concerned.

53 | E.g. in Brazil: “[P]overty is still 10 times greater among children than among the elderly, but the average noncontributory public transfer for an elderly person is at least 20 times greater than the average noncontributory public transfer for a child. This suboptimum nature of Brazilian social policy has two interrelated implications. On one hand, it is one cause of the persistently high levels of inequality and poverty. On the other hand, optimizing social policy design gives Brazilian policymakers plenty of room to further reduce inequality, without the need of additional resources.” Barros et al., n. 38, 170.

54 | “Mexico has [...] started an interesting pilot programme to replace electricity subsidies for pumping irrigation water with direct cash transfer in some states, thus removing the price distortions.” OECD, n. 31, 18.

55 | This is the case for 9 per cent of households in Costa Rica and at least 20 per cent of Argentinian families. “[H]ouseholds without protection stand at 58% in El Salvador, 63% in Guatemala and 69% in Paraguay.” ECLAC, n. 3, 36.

Particularly in those countries with a large number of CCT recipients, these programs have had a more or less significant impact on the result of presidential elections. The Brazilian president, Lula da Silva, owed his re-election in 2006 in large part to voters from the poor regions in the north of the country who had voted for the conservative candidate Serra four years earlier.⁵⁶ Then again, the massive growth in the number of recipients of CCT payments under Lula has, to a large extent, neutralised the conditions favourable to a political instrumentalisation of the program, something which was much more widespread under the more limited Bolsa Escola program of the Cardoso government.⁵⁷ In Columbia, CCT money was used in some regions in 2006 specifically to help with the re-election of Álvaro Uribes, even though his resounding victory should have made such steps unnecessary.⁵⁸ For left-wing populists such as Morales in Bolivia or Rafael Correa in Ecuador, the widespread use of CCT programs forms an essential part of their legitimacy, even if no one in the region uses social benefits to ensure their position in power quite as shamelessly as the pseudo-democrat Ortega in Nicaragua.⁵⁹

In times of economic growth, CCTs have shown that they are capable of providing a certain amount of relief from serious social ills. But history tells us that high rates of growth cannot be permanently sustained, so we should be somewhat sceptical about the potential for further significant and sustained successes when it comes to reducing poverty.

56 | Cf. Karl-Dieter Hoffmann and Silvana Krause, "Die brasilianischen Wahlen von 2010: Von Lula da Silva zu Dilma Rousseff", in: Frank Zirkl (eds.), "Brasilien und die Ära Lula: Neue Entwicklungsszenarien im 'Land der Zukunft'?", *Mesa Redonda*, No. 26, Eichstätt/Erlangen/Augsburg, 2012 (forthcoming).

57 | Cf. Ansell, n. 38, 25.

58 | Cf. Oskar Nupia, "Anti-Poverty Programs and Presidential Election Outcomes: Familias en Acción in Colombia", Bogotá, Universidad de los Andes, Documentos CEDE 14, 2011.

59 | Some of the money spent by Ortega in an attempt to ensure that voters remained pro-government came from Chavez' Venezuela, and so, according to the political calculations of the ruling clique, can be distributed outside the national budget. "In 2010 alone, Venezuela provided Nicaragua with \$511 million in oil discounts and direct aid – accounting for a whopping 7.6 per cent of Nicaraguan GDP." Richard Feinberg, "Daniel Ortega and Nicaragua's Soft Authoritarianism", *Foreign Affairs*, 11/2011. See also Timm B. Schützhofer, "Nicaragua: Neue Wege in Sozialpolitik und ländlicher Entwicklung?", Working Papers, Universität Kassel, 1/2011, 42 et sqq.