



## **Social spending in Latin America and the Caribbean: recent trends, orientation and redistributive impact**



## INTRODUCTION

In earlier editions of the *Social Panorama of Latin America*, taking into account the considerable redistributive effects of public resources allocated to social sectors, ECLAC highlighted three general goals for social spending in the region. First, to intensify efforts to increase that spending and consolidate its recovery, particularly in the poorest countries, where the priority attached to public social spending and the amount of that spending remain extremely low. Second, to stabilize its financing in order to avoid adverse effects resulting from cuts in the resources allocated to social investment during recessionary phases in the economic cycle. Third, to improve the targeting and the positive effects of public spending on social sectors, particularly population groups which are vulnerable or in situations of poverty, reallocating it to those components of social spending which have the greatest progressive impact in terms of income distribution.

In more recent documents, ECLAC has pointed out the need to construct social institutions organized according to the three basic principles of universality, solidarity and efficiency, and to design long-term social policy to increase equity and inclusiveness. Among other things, this means that government actions in the economic and social fields must avoid social segmentation and exclusion. Social policies should therefore be based mainly on a universalist and integrationist viewpoint, which does not rule out targeting as a means of focusing on the most underdeveloped sectors of the population. Social spending should be within the framework of that policy (ECLAC, 2005b).

This chapter presents new information on the scale of public social spending in the region, its recent and longer-term trends, its orientation and its effects on income distribution, and will attempt to answer the following questions:

- (a) What is the scale of the resources allocated by the countries of Latin America and the Caribbean to the various social sectors, and what changes have taken place in this area over recent years?
- (b) How was social spending affected by the economic recession in certain countries in the early 2000s? Have there been changes in the behaviour usually observed in social spending in relation to the economic cycle?
- (c) What is the trend in spending on education and health, that is, the proportion of State resources allocated to the various income strata of the population according to income? How progressive is social spending in the region?
- (d) What is the redistributive effect of public social spending and its main components?

Part B of this chapter on social spending, prepared with the cooperation of the Inter-American Development Bank (IDB), considers the orientation of social spending in the region, based on the distribution of the various components of social spending among income strata, emphasizing State resources allocated to education and health. This study is based on the most recent data available, corresponding to 17 countries of the region.

As in earlier editions of the *Social Panorama*, the information on the scale of social spending which appears in this chapter is taken from official data from the countries and is based on the functional

classification of public spending provided by them. On this occasion, the number of countries covered has increased to a total of 21, and the data have been updated to 2003. It should be noted that the figures for public social spending and overall public spending presented in this chapter differ from those contained in earlier editions of this publication. The following box shows the reasons for those differences.

Box II.1

### UPDATING OF SOCIAL SPENDING

For this edition of the *Social Panorama of Latin America*, updated data have been obtained for public social spending up to 2003, to match the global and sectoral series published in earlier editions. Although data for 2004 were received from 14 of the 21 countries, the decision was made not to publish them because of their provisional, estimated or incomplete nature. Since data updating took place in the first half of 2005, major changes can be expected in budget execution results for 2004 following the consolidation of income and expenditure balances by the relevant official institutions in the countries.

In most cases data were collected on central government budget execution, and information was also available in several cases on the actual spending of bodies having an independent budgetary setup, local governments and state-owned companies of the non-financial sector (see box II.2). Three countries only provided information from the budgetary law: Nicaragua and Paraguay for 2002 and 2003, and the Bolivarian Republic of Venezuela, for which the complete historical series (1980–2004) corresponds to budgeted public social spending (budgetary law, and modifications to that law made on 31 December each year).<sup>a</sup> No comparable data at the sectoral level were available from Peru (2002 and 2003). For Mexico (education, culture and religion) and the Dominican Republic (social security and labour), from 2003 onwards there was a change in classification which entailed the regrouping of subsectors; as a result, the information provided may not be identical with official figures published by the countries.

Unlike previous editions of the *Social Panorama of Latin America*, which covered a total of 18 countries (Argentina, the Bolivarian Republic of Venezuela, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay), this edition also includes comparable series on overall public spending and social public spending for Cuba, Jamaica and Trinidad and Tobago. As a result, regional results (simple averages) and trends may differ, although not significantly, from those previously published. This edition also includes regional aggregates (weighted averages).

The *Social Panorama of Latin America* usually presents overall and sectoral data on the basis of two-yearly averages. The selected indicators are overall and sectoral public social spending as percentages of GDP, as percentages of total public spending, and in United States dollars per capita. The first two are ratios calculated from each year's figures at current prices for each country, and at constant prices in the case of the regional weighted average. In this edition, the figures for the last indicator are given in United States dollars at the 2000 level, a monetary basis which coincides with that currently used by various international bodies. This may involve a relatively significant change in the national and regional per capita spending figures shown in this edition, in relation to those reported earlier (in United States dollars at the 1997 level), depending on the degree of appreciation or depreciation in each country's currency from 1997 to 2000.

Figures in current currency on overall and social public spending, and the sectoral breakdown of the latter, are official data provided by the corresponding government bodies which, depending on the country, are Directorates, Departments, Sections or Units for planning, budgeting or social policy within the Ministries of the Treasury, Finance or the Economy. In addition, information on budgetary execution was obtained from the countries' general accounting offices or treasury departments, and occasionally from central banks, national statistical institutes, and national social and economic information systems.

Gross domestic product (GDP) at current values, and the implicit GDP deflator, correspond to official figures contained in the ECLAC Statistical Yearbook for Latin America and the Caribbean ([http://www.eclac.cl/badestat/anuario\\_2004/index.htm](http://www.eclac.cl/badestat/anuario_2004/index.htm)), and subsequently updated to August 2005. The exchange rate used is the 2000 average of the "rf" series of the International Financial Statistics of the International Monetary Fund (IMF), and population figures are taken from projections by the Latin American and Caribbean Demographic Centre (CELADE) – Population Division of ECLAC, published in its Demographic Bulletin and also on the internet ([http://www.eclac.cl/celade/proyecciones/basedatos\\_BD.htm](http://www.eclac.cl/celade/proyecciones/basedatos_BD.htm)).

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC).

<sup>a</sup> The availability of data on the execution of public social spending between 1999 and 2002 bears mention. The per capita amount of social spending by the budgetary central government in the biennium 2000–2001 averaged US\$ 497, about 12% below the US\$ 565 which had been agreed.

## A. RECENT TRENDS IN SOCIAL SPENDING IN LATIN AMERICA

In recent years, social spending in Latin America and the Caribbean has continued the upward trend of the 1990s; the great majority of countries have boosted the amount of State resources allocated to social sectors. Between 1990–1991 and 2002–2003, the region's per capita social spending rose from US\$ 440 to US\$ 610, an improvement of almost 39%. The higher priority attached to social spending was reflected in an increase in these resources as a proportion of the countries' gross domestic product (GDP), from 12.8% to 15.1%. These advances were achieved despite cuts in public social spending in Argentina, the Bolivarian Republic of Venezuela and Uruguay during the biennium 2002–2003, which resulted from falling GDP and the sharp contraction of fiscal revenue in those countries.

The efforts made for almost 15 years to bring about a sustainable rise in public spending on social sectors is among the most outstanding events in the recent development of the great majority of Latin American countries.<sup>1</sup> From the early 1990s to the biennium 2002–2003, thanks to these efforts, per capita resources used for education, health, housing and social security and assistance increased by about 39% in real terms, a gain of US\$ 170 per capita, from US\$ 440 to US\$ 610.<sup>2</sup> This is a significant increase in a region whose seven

poorest countries currently have levels of spending which are much lower than the amount of that increase.<sup>3</sup> The improvement has been widespread, enabling public social spending as a proportion of GDP to rise by more than two percentage points, from 12.8% to 15.1%, in the region as a whole. This is despite significant per capita spending cuts in absolute terms in Argentina, the Bolivarian Republic of Venezuela and Uruguay, and as a percentage of GDP in the first two of those countries, owing to the recessionary cycle they

<sup>1</sup> This and previous editions of the *Social Panorama* have looked at changes in social spending from 1990, on the basis of biennial averages, in order to focus more closely on variations in trends.

<sup>2</sup> These figures, expressed in United States dollars at 2000 prices, correspond to an average weighted according to the size of each country's population. The simple average of public social spending in the region rose by a little over 44% (US\$ 333 to 481 per capita). The simple average for the relationship between social spending and GDP rose from 10.2% to 13.1% between 1990–1991 and 2002–2003.

<sup>3</sup> In 2002–2003, per capita social spending in Bolivia, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua and Paraguay averaged US\$ 110 per year.

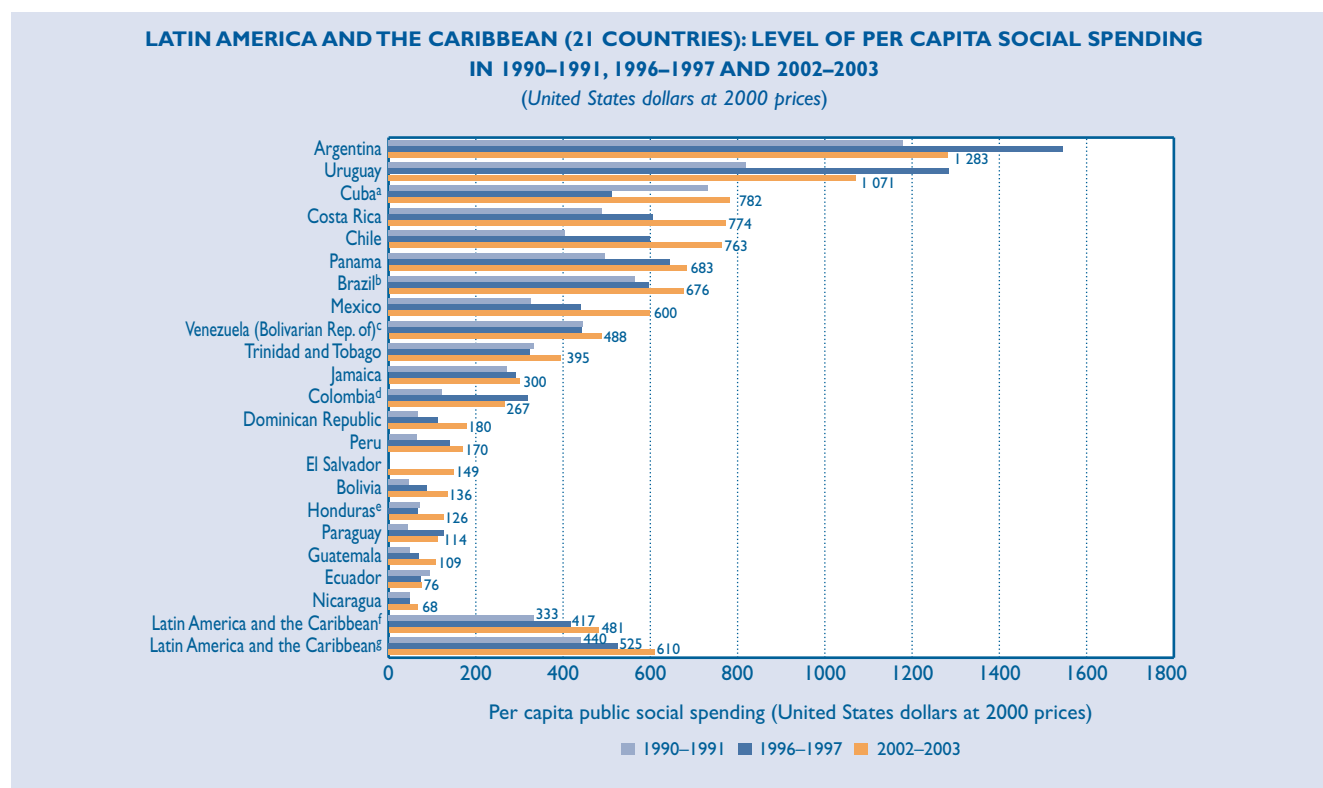
suffered in the biennium 2002–2003.<sup>4</sup> In all the other countries, 18 out of the total of 21 considered, the longer-term trend towards higher social spending, as seen in the region since the early 1990s, has continued.

## 1. RECENT TRENDS IN SOCIAL SPENDING

Variations in public social spending in Latin America and the Caribbean in recent years and in

the 1990s have made no major difference to the great variety seen in that regard among the countries of the region. Looking at social spending both in terms of the amount per capita and as a proportion of GDP, the countries' relative positions have changed little. Just as in the early 1990s, the region's poorest countries still allocate a much smaller fraction of GDP to social sectors than the more prosperous States (see figures II.1 and II.2). Argentina, Brazil, Costa Rica, Cuba and Uruguay are currently allocating more than 18.5% of GDP to social spending, whereas the figures for Dominican

Figure II.1



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), based on information from the Commission's social expenditure database. Figures are updated to the second quarter of 2005.

<sup>a</sup> According to the official exchange rate (one United States dollar = one peso).

<sup>b</sup> The figure in the 2002–2003 bar corresponds to an estimate of spending at the three levels of government (federal, state and municipal) based on information on social spending at the federal level.

<sup>c</sup> The figures for this country correspond to agreed social spending (the budget and modifications made to it at the end of the year).

<sup>d</sup> The figure for the 2002–2003 bar corresponds to the average for 2000–2001, and is not taken into account in the averages.

<sup>e</sup> The figure in the 2002–2003 bar corresponds to 2004, and is not taken into account in the averages.

<sup>f</sup> Simple average for the countries, not including El Salvador.

<sup>g</sup> Weighted average for the countries, not including El Salvador.

<sup>4</sup> Unlike Argentina and Uruguay –countries where steep drops in GDP were accompanied by even deeper cuts in social spending– in the Bolivarian Republic of Venezuela, social spending as a proportion of GDP did not fall, so the reduction in fiscal revenue had a lesser impact on spending on social sectors. Between 2000–2001 and 2002–2003, social spending as a proportion of GDP in Argentina fell from 21.8% to 19.4%, and in Uruguay, from 22.2% to 20.9%. The same proportion in the Bolivarian Republic of Venezuela was 11.6% in 2000–2001 and 11.7% in 2002–2003.

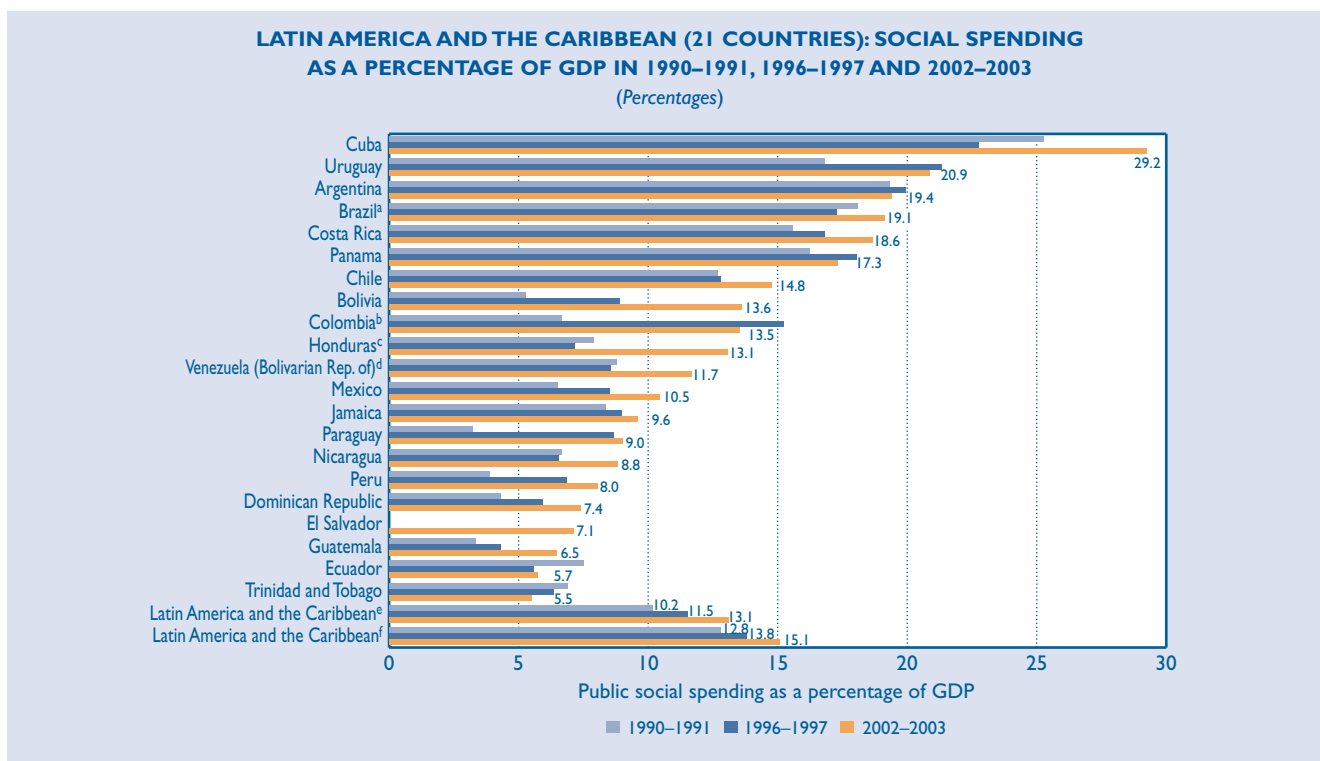
Republic, Ecuador, El Salvador, Guatemala and Nicaragua are not much more than 7%.<sup>5</sup> Since these wide differences are proportionate to per capita incomes, differences in absolute terms or in terms of per capita social spending remain very high. The ratio is approximately 4 to 1 if we consider social spending as a proportion of GDP. Despite the poorest countries' efforts to raise social spending, there has been no clear trend towards convergence in this respect.

The poorest countries' huge social disadvantage and the need to increase resources to close the gap have become all the more evident in considering the

challenges to those countries in implementing the Millennium Development Goals. Progress towards achievement of the targets listed in the United Nations Millennium Declaration and, all the more so, of the broader goals it sets out, must be based on both increased internal efforts and more official development assistance, including external debt relief.

Two factors are important in that regard. Firstly, major increases in social spending are needed in many countries having low per capita incomes –although such increases will start from very low initial levels. If we take the biennium 1996–1997 as

Figure II.2



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), based on information from the Commission's social expenditure database. The figures are updated to the second quarter of 2005.

- <sup>a</sup> The figure in the 2002–2003 bar corresponds to an estimate of social spending at the three levels of government (federal, state and municipal) based on information on social spending at the federal level.
- <sup>b</sup> The figure in the 2002–2003 bar corresponds to average for 2000–2001, and is not taken into account in the averages.
- <sup>c</sup> The figure in the 2002–2003 bar corresponds to 2004, and is not taken into account in the averages.
- <sup>d</sup> The figures for this country correspond to agreed social spending (the budget, and modifications made to it at the end of each year).
- <sup>e</sup> Simple average of the countries, not including El Salvador.
- <sup>f</sup> Weighted average of the countries, not including El Salvador.

<sup>5</sup> Cuba and Trinidad and Tobago are clear exceptions to the relationship between macroeconomic priority for social spending (social spending as a proportion of GDP) and per capita income (see figure II.4). Bolivia and Honduras also allocate a relatively high percentage to social spending, close to the regional average despite their low per capita incomes.

a basis, five of the seven countries with the lowest per capita spending have succeeded in boosting it considerably. Social spending in Bolivia expanded by 55% between that biennium and 2002–2003. In El Salvador the increase was 21%, in Guatemala 58%, in Honduras 37% and in Nicaragua 42%; these percentages far surpassed the average of 16% for the region recorded over the same period.<sup>6</sup> Three of those countries –Bolivia, Honduras and Nicaragua– are among the group of countries which have met the requirements for the Heavily Indebted Poor Countries (HIPC) Debt Initiative. This no doubt helped them to increase social spending, and in 2004 they were already helped by debt forgiveness measures equivalent to 25%, 101% and 12% of GDP, respectively, which led to more comfortable fiscal circumstances (United Nations, 2005).

Secondly, in spite of efforts to raise social spending in the region and the relief some countries received thanks to external help, the resources allocated to social sectors –especially in countries with high levels of absolute poverty– will remain insufficient to satisfy the needs of the poorest strata or to achieve the Millennium Development Goals. Even in optimistic scenarios, that is, if conditions in the coming years were favourable for higher economic growth levels and increased tax yields, and if increased public social spending were achieved compatible with fiscal revenues, those countries' resources would remain insufficient to close the main social divides.

As an illustration, let us take as a basis the average per capita social spending of the countries benefiting from the HIPC Debt Initiative (US\$ 110 per year), and as a target date, the year 2015 which

was chosen for the fulfillment of the Millennium Development Goals. If the annual average GDP growth rate in those three countries in the coming 10 years were 4.5% (much higher than the 2.8% averaged by the region from 1991 to 2004), and if they raised the proportion of GDP they allocate to social spending to the region's current average of 15.1%, per capita spending would reach US\$ 220. Although a doubling of public social spending in one decade would be a major achievement, especially if that increase were accompanied by improved effectiveness and efficiency in its use, it would still be minimal, representing barely 36% of average regional spending for 2002–2003.

Per capita social spending is very low, however, not only in those countries benefiting from the HIPC Debt Initiative but also in a number of other countries in the region having very high levels of extreme poverty (over 20%).<sup>7</sup> The Dominican Republic, Ecuador, El Salvador, Guatemala, Paraguay and Peru are spending annual per capita amounts of no more than US\$ 180 on social sectors, whereas the regional average stands at US\$ 610. This is due to low per capita incomes in these countries, their modest tax yield and the fact that in most of them, social sectors account for a relatively small share of overall public spending. As a result, public social spending is only a small fraction of GDP, less than 10%.<sup>8</sup>

Generally, low levels of per capita public spending and of resources allocated to social spending result from low tax revenue. Taken in the worldwide context, fiscal revenues in the countries of the region also tend to be relatively low when expressed as a percentage of GDP. When social

<sup>6</sup> Figures for El Salvador before 2000 are unavailable, so the 21% increase took place over a period of only three years. In Ecuador, per capita spending remained unchanged during the period under consideration, at about US\$ 75, and Paraguay showed a decrease of about 10%.

<sup>7</sup> No social spending figures are available for Guyana, another member of the group of countries benefiting from the HIPC Debt Initiative. Given its low per capita income, it is very likely that it allocates a fairly modest amount to social spending, perhaps less than US\$ 100 per year.

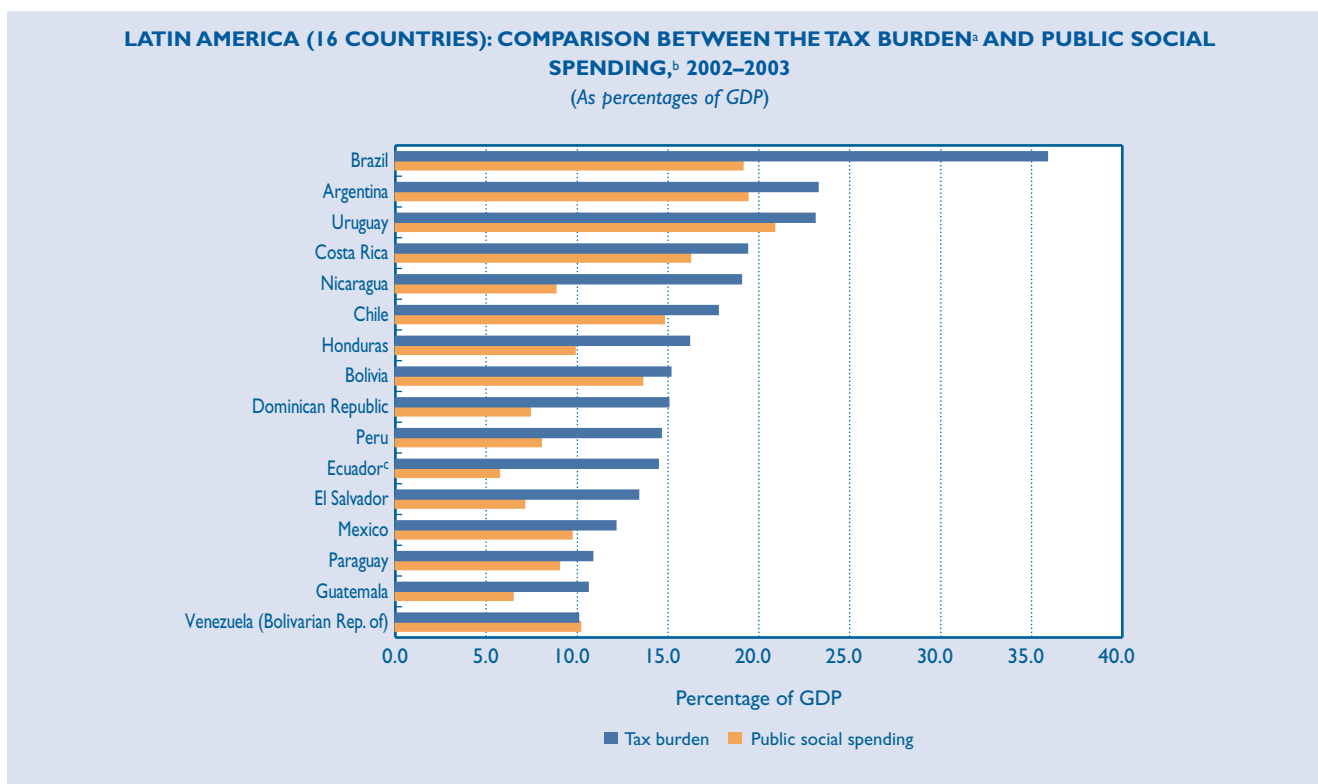
<sup>8</sup> Bolivia and Honduras are an exception among the region's less developed countries, having allocated a relatively high percentage of GDP to social spending in 2002–2003 (13.6% and 13.0% respectively), close to the simple regional average of 13.1%. Despite that relatively high macroeconomic priority on spending, the actual amounts spent in the two countries is very low. In 2002–2003, Bolivia spent US\$ 136 per capita on social sectors, and Honduras US\$ 126.

security is included in the figure, the tax burden in 19 of the countries of the region in 2003 was 16.8%, whereas in 30 OECD countries it was 36.3% and in 15 European Union countries it averaged 40.8%. In those countries, the State is very active in promoting equity (United Nations, 2005).

Figure II.3 shows that in 10 countries in the region the tax burden is below the Latin American average of 16.8%, and in five countries (the Dominican Republic, Ecuador, El Salvador,

Nicaragua and Peru) social spending was barely half of that figure.<sup>9</sup> In other words, the priority attached to that spending is very low, even in comparison with other countries of the region which are also characterized by a very low tax burden. ECLAC has therefore pointed out that a fiscal covenant is needed, so that the overall tax burden can be increased in order to boost State revenue and that, at the same time, the share allocated to social programmes must be increased (ECLAC, 1998).

Figure II.3



**Source:** For the tax burden, Latin American and Caribbean Institute for Economic and Social Planning (ILPES)/Economic Commission for Latin America and the Caribbean (ECLAC), based on official figures; for public social spending, Economic Commission for Latin America and the Caribbean (ECLAC), based on information from the ECLAC social expenditure database.

<sup>a</sup> The tax burden includes social security contributions and, apart from Ecuador (2002), Mexico (2000) and Panama (2000), the data are for 2003.

<sup>b</sup> The data on public social spending are an average for 2002–2003, apart from Honduras, Mexico and Panama, whose figures are for 2000–2001. Apart from Argentina, Brazil and Costa Rica, whose data coverage is from general government, the information corresponds to the central government. In the Bolivarian Republic of Venezuela, information on paid social expenditure was used, and not agreed expenditure as in the other figures and tables.

<sup>c</sup> Includes disbursements by the Ecuadorian Social Security Institute.

<sup>9</sup> It should be noted that the difference between the tax burden (which includes social security contributions) and public social spending does not correspond to spending for the other functions of the State (e.g., economic or administrative) and that social expenditure includes spending from social security contributions made by the taxpayers.

Measures to increase State revenue and allocate it to social programmes constitute a positive signal, encouraging greater support from the population for government programmes, to the extent that increased spending is financed by a more progressive tax structure that attenuates income disparities. This is all the more so when resources are focused on social programmes which are widely accepted or which concentrate on the poorest social strata, and it facilitates the strong social consensus needed for any raising of the tax burden. This can create improved conditions for increased internal resources to be complemented by the necessary official development assistance, particularly in countries with the lowest per capita income. However, in several of the countries of the region, boosting State revenue and allocating it to social sectors may be a slow process because, as mentioned above, increased social spending is closely linked to economic growth, which has been low and volatile. This last aspect is discussed below.

In recent years, public social spending has continued the procyclical behaviour it has traditionally shown in the region. Along with lower economic growth, the rate of increase of spending on social sectors has fallen: from an average annual growth rate of 4.6% in the first seven years of the 1990s, it slumped to 2.8% in the period from 1998 to 2003. In recent years, however, public social spending has varied more closely with the economic cycle, in comparison with the early 1990s, when expansion in many countries' social spending was well above the rise in GDP and cuts in that spending were deeper than falls in GDP. Thus, fiscal budgets have been managed more conservatively and the planning of public social spending has been more in line with expected fiscal revenues. This has led to improved conditions for longer-term continuance of social programmes designed exactly for the purpose of assisting population groups which were worst affected by falling growth and rising unemployment.

As mentioned in the previous section, overcoming conditions of extreme poverty and inequality in the region requires that high priority should be given to the countries' social spending. That spending should be seen in its full complexity: as an essential component of public spending, and on the basis of explicit criteria in the interest of greater equity. This requires the identification of priority areas for social investment, with a view to ending the principal mechanisms which perpetuate inequalities. This is possible only by means of long-term, explicitly designed social programmes. To that end, it is vital that those components of social spending considered most important should be "armour-plated". This leads to the important question of whether or not there have been changes in the traditional performance of social spending in the region during periods of growth or recession in the economic cycle.

The evidence presented in previous editions of the *Social Panorama* has drawn attention to the vulnerability of social policies during periods of crisis, as a result of the fact that, as a general rule, social spending has tended to grow when more budgetary resources were available to finance it, and to contract when public-sector finances were declining, usually as a result of falling economic growth (ECLAC, 2001). In referring to that behaviour, the term "procyclical" has often been used, as opposed to the opposite, "countercyclical" behaviour, where social spending increases in times of economic downturns which lead to lower State revenues. That would enable resources for social assistance to be protected during recessionary periods, which is exactly when those resources are the most needed in order to prevent or counteract deteriorations in the living conditions of the most vulnerable population groups. A priority goal of public policies, therefore, is to prevent or moderate the procyclical behaviour of social spending in adverse economic situations, especially spending

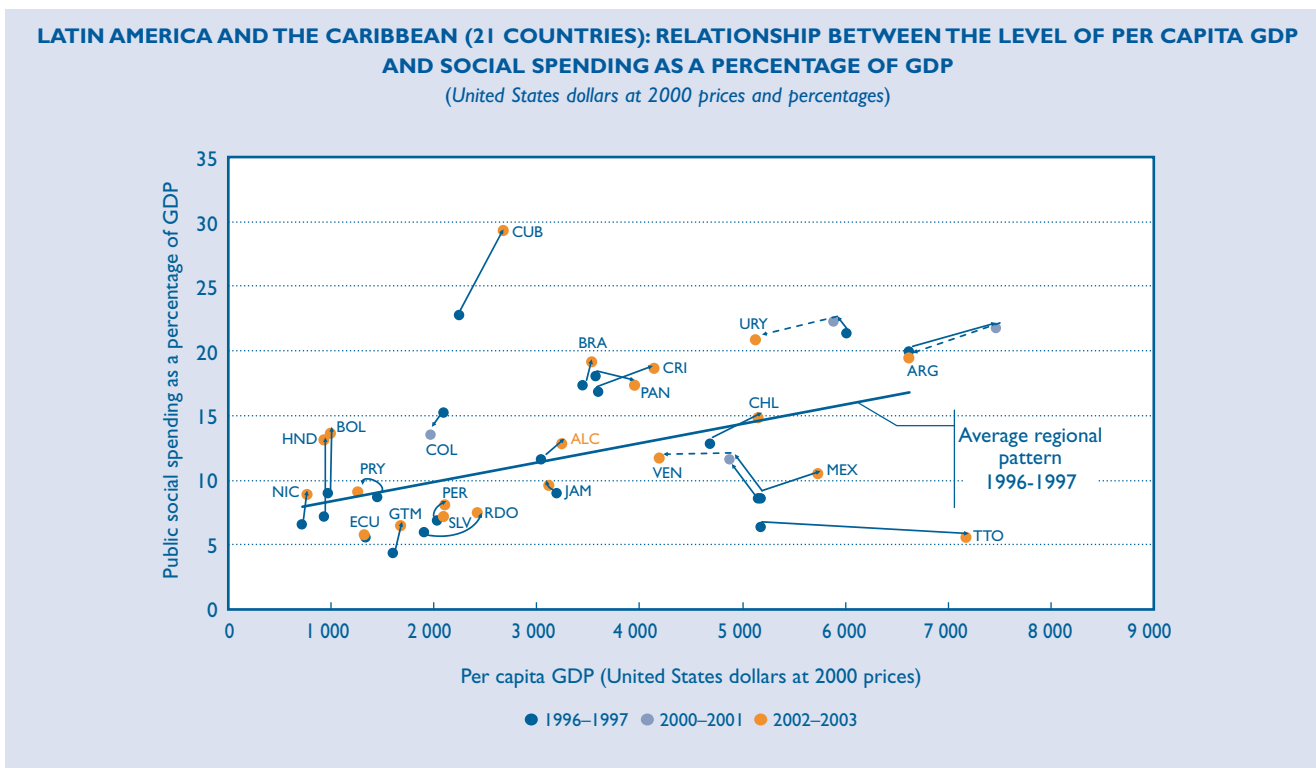
which benefits the poorest sectors, strengthening practices which consolidate and stabilize that spending.

Before examining the performance of social spending in relation with the economic cycle in the region in recent years, we should analyse the relationship between the scale of that spending as a proportion of the countries' GDP (which is described as the macroeconomic priority of social spending) and their per capita GDP. To give a clearer picture of the changes which have occurred in recent years and to illustrate the impact of the Argentine, Uruguayan and Venezuelan crisis of the early 2000s, figure II.4 shows the mean regional pattern of the two variables for the biennium 1996–1997. The figure also shows the relationship between social spending and GDP

for the biennium 2002–2003. In the cases of Argentina, the Bolivarian Republic of Venezuela and Uruguay, it also includes data for the biennium 2000–2001 which preceded the steep drops in GDP that affected those three countries.<sup>10</sup>

Firstly, it draws attention to the persistence of considerable disparities in the State resources that the countries are able to allocate to social sectors. The changes observed since 1997 have made no major difference to the regional pattern prevailing at that time, although there was an increase in the dispersion in the group of countries having the lowest social spending as a percentage of GDP, owing to considerable increases in spending in Bolivia, Honduras and Nicaragua. In the context of economies which barely increased their per capita

Figure II.4



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), based on information from the ECLAC social expenditure database. The figures are updated to the second quarter of 2005.

<sup>10</sup> In both Argentina and Uruguay, the crisis was the most intense in 2002, but in 2001 the two countries had already seen a fall in GDP of 4.4% and 3.6% respectively.

incomes between 1996–1997 and 2002–2003, the proportion of GDP allocated to social spending increased by about five percentage points in the first two of those countries and by a little over two points in the third. As indicated, this was possible to a great extent thanks to the increased resources from official development assistance from which those countries benefited.

Secondly, although the proportion of GDP that countries are able to allocate to social spending depends to some degree on their per capita income, the relationship between the two is not very close. There are countries which have a relatively low per capita GDP and which nonetheless attach greater priority to social spending. Costa Rica is a good example of this. With a per capita income far below that of Chile, Mexico and Trinidad and Tobago, Costa Rica spends a significantly higher proportion of its GDP on social sectors (see figure II.4). Similarly, in 1996–1997, with a per capita income very similar to that of Peru –about US\$ 2,000 per year– Colombia allocated more than double the percentage points of GDP to social spending: 15.2% compared with 6.9%.

Lastly, the same figure shows the adverse impact of recessionary situations on social spending, particularly when they cause steep falls in GDP. In Argentina, the drop in fiscal revenue resulting from a loss of GDP of over 15% in the biennium 2001–2002 resulted in a decline of more than two percentage points in the macroeconomic priority attached to spending. In per capita terms, public social spending in Argentina fell by 21%, from US\$ 1,624 to US\$ 1,283. In Uruguay, the fall in GDP over the same period was a little over 16% and the decrease in per capita public social spending was also very sharp (about -18%), although the decline in social spending as a proportion of GDP, 1.3 percentage points, was somewhat less than in

Argentina. The Bolivarian Republic of Venezuela, which experienced a reduction in GDP in the biennium 2002–2003, even greater than that in Argentina and close to that in Uruguay (almost 19 percentage points), managed to maintain the proportion of GDP allocated to social spending, although this effort did not prevent a fall in absolute terms and on the basis of a much lower spending level. In this case, the fall was close to 14% (from US\$ 565 to US\$ 488 per capita).

Those three countries showed very high rates of GDP growth in 2004 (9%, 12.3% and 19.9% respectively, for the biennium) and, at the same time, they largely recovered their pre-recession fiscal revenue levels. Unfortunately, we do not have more recent social spending data for Argentina and Uruguay in order to examine spending trends during this period of recovery and determine the impact of the resources allocated to broadly-based social programmes, such as income transfers to heads of household, in the case of Argentina, or the recent National Social Emergency Plan (PANES) in Uruguay. In the case of the Bolivarian Republic of Venezuela, preliminary data for 2004 are available, suggesting an 11% increase in per capita social spending for that year. That would largely compensate for the previous year's loss, with a result close to the 2000–2001 level, the highest recorded in that country in the past 14 years.<sup>11</sup>

## **2. THE BEHAVIOUR OF PUBLIC SOCIAL SPENDING IN RELATION TO THE VOLATILITY OF GROWTH**

The goal of counteracting the severe negative impact of recessionary crises on the most vulnerable population groups by protecting resources allocated to social sectors and improving public policies designed to improve the effectiveness of those

<sup>11</sup> In the case of the Bolivarian Republic of Venezuela, institutional coverage of data on public social spending corresponds to budgetary central government (see box II.2). These data omit a very significant proportion of the resources invested in social programmes in recent years by means of "social missions", expenditure largely financed with resources generated by the marked increase in oil revenue. Posting the resources invested in education, health and nutrition could significantly increase the figure of US\$ 541 recorded in 2004.

resources is increasingly among the major concerns of governments. This is due both to the reduced resources that most of the countries of the region are able to dedicate to social issues and to the worsening volatility of economic growth. Indeed, although there have been improvements in the institutional framework for economic policy –in many cases, with the creation of independent central banks and anticyclical funds, together with the imposition of fiscal deficit restrictions– the region has continued to be affected by high levels of volatility which have made it difficult to provide stable levels of resources for social sectors. This has been compounded by fragile productive and financial systems and the impact on the region's economies of various international crises, with heavy costs for public finances, and in many cases the absence of a strong authority dealing with social issues. Since the total amount of public resources tends to covary with national levels of GDP, it has been observed that in general, social spending in the Latin American countries has followed the behaviour of the macroeconomic cycle, shrinking during recessionary periods and growing in times of economic recovery or growth.

In light of this problem it is fair to ask whether or not, together with the increasing volatility of growth, there has been a change in the behaviour of social spending in the region; in other words, whether there has been improved capacity to protect or "armour-plate" resources allocated to social sectors during periods of contraction of fiscal revenue, or whether its procyclical performance has generally continued. A better picture can be obtained by comparison of the performance of the economies and public social spending before the crisis of 1998 with the later period up to 2003.

The first notable fact is that from 1998 onwards, not only did the region's economic growth decline, but it also became more volatile than in the early 1990s. The average annual GDP growth rate of 3.6% recorded from 1991 to 1997 fell by more than half in 1998–2003, to 1.4%, and there was a succession of shorter cycles of expansion and contraction.<sup>12</sup> The increased volatility of the region's economic growth following the crisis of 1998 is reflected by a comparison of coefficients of variability in annual GDP growth rates; they stood at 0.41 from 1991 to 1997 and 1.15 from 1998 to 2003 (see table II.1).

Table II.1

<b>LATIN AMERICA (20 COUNTRIES): AVERAGE ANNUAL RATE OF VARIATION AND VOLATILITY OF GROSS DOMESTIC PRODUCT, OF TOTAL AND SECTORAL PUBLIC SOCIAL SPENDING AND OF TOTAL PUBLIC SPENDING, 1991–1997 AND 1998–2003</b>						
<i>(Average annual rate of variation and variation coefficient of observed annual rates)</i>						
	Period				Total period	
	1991–1997		1998–2003		1991–2003	
	Average annual rate of variation	Variation coefficient	Average annual rate of variation	Variation coefficient	Average annual rate of variation	Variation coefficient
<b>Gross domestic product</b>	<b>3.6</b>	<b>0.41</b>	<b>1.4</b>	<b>1.15</b>	<b>2.6</b>	<b>0.73</b>
<b>Public social spending</b>	<b>4.6</b>	<b>1.16</b>	<b>2.8</b>	<b>1.08</b>	<b>3.8</b>	<b>1.19</b>
Education and culture	4.1	2.48	3.3	1.75	3.7	2.30
Health and nutrition	2.3	2.36	1.7	2.58	2.0	2.47
Social security and welfare	6.7	0.94	3.6	0.56	5.3	0.97
Housing and other	1.1	6.55	2.2	3.62	1.6	5.67
<b>Total public spending</b>	<b>1.5</b>	<b>3.37</b>	<b>1.8</b>	<b>1.86</b>	<b>1.6</b>	<b>2.69</b>

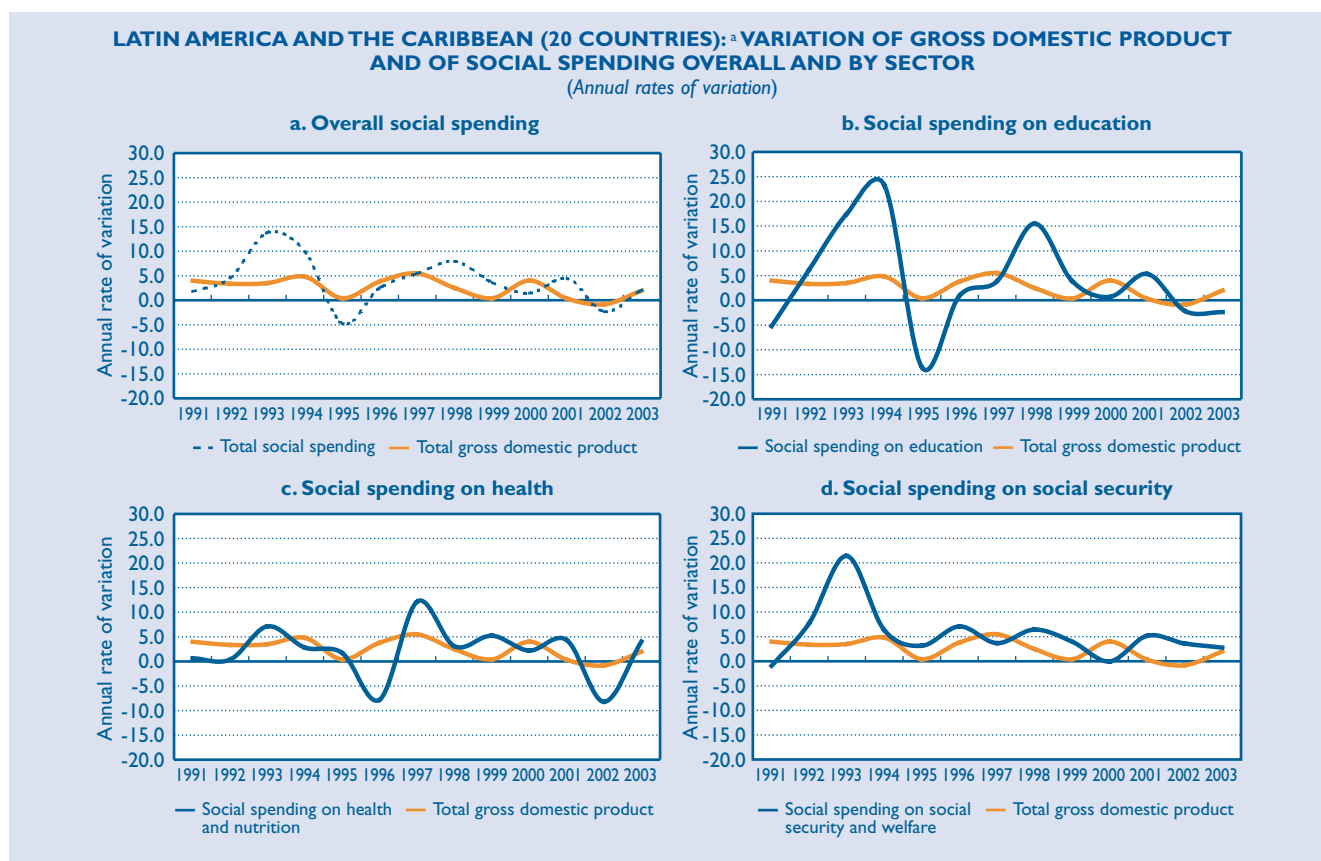
**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), based on official figures from the countries.

<sup>12</sup> The strong recovery in the region's economic growth in 2004 (5.9%) was not enough to raise the post-1998 growth rate (1.9%) to the level it had attained in the first seven years of the 1990s (3.6%).

Reduced growth in the economies led to a lowering of the rapid rate of expansion in the region's public social spending. The average annual rate of 4.6% in the early part of the decade fell to 2.8% – a less sharp drop than that of GDP over the same period (1998–2003). However, public social spending in recent years has followed the economic cycle more closely than in the previous period, with many countries expanding their social spending at a rate well above that of GDP growth, and also cutting it more steeply than the fall in GDP. Figure II.5a shows those differences in the performance of social spending in relation to the economic cycle in the two subperiods. In other words, although social spending retained its procyclical nature, there has

been a tendency to manage it in line with the possibilities offered by increases in resources and the limitations imposed by cuts.<sup>13</sup> In that sense, there has been more prudential management of fiscal budgets, and planning of public spending which was more in accordance with expected fiscal revenues, in an overall context of increasing social spending in the region, although the rate of increase was less than that made possible and motivated by the economic growth of the first four years of the 1990s.<sup>14</sup> This has led to improved conditions for the establishment and continuation of social programmes designed precisely to assist those population groups hit hardest by falling growth and rising unemployment.

Figure II.5



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), based on information from the ECLAC social expenditure database. The figures are updated to the second quarter of 2005.

<sup>a</sup> Aggregate of countries having information on social spending, excluding El Salvador.

<sup>13</sup> The coefficient of variation of annual growth rates of public social spending fell very slightly between the two subperiods, from 1.16 to 1.08 (see table II.1).

<sup>14</sup> It should be recalled that, in most of the countries of the region, a considerable proportion of public spending is centralized. See box II.2.

## METHODOLOGICAL ISSUES REGARDING STATISTICS FOR OVERALL PUBLIC SPENDING AND FOR SOCIAL SPENDING

There are differences in methodology within the region, particularly in the coverage of the series of overall public spending and public social spending. The former include those relating to the accounting record of expenditure and the definition of public social spending. In the second case, discrepancies relate to the countries' various institutional characteristics, and to the possibility of including the expenditure of local governments and entities whose budget is independent.

Public spending can be broken down according to the various entities which execute it, which normally defines the coverage of the information. The widest coverage of total public expenditure is the total public sector, which can be initially broken down into financial public sector (FPS), which includes the central bank and other State-owned financial institutions, and the non-financial public sector (NFPS), which includes the central government (CG), non-financial public enterprises (PE) and local governments (LG). The non-financial public sector (NFPS) is the broadest possible coverage in terms of public social spending. The fact that spending by public enterprises (PE) is not included in NFPS gives rise to the general government (GG) entity, which includes only central government (CG) and local governments (LG). Lastly, within central government (CG), a distinction can be made between agencies with budgetary autonomy (AA) and those whose funds come directly from the central government budget (budgetary central government, or BCG).

Although six countries provided information on different types of institutional coverage, this chapter includes those which, together with the greatest institutional breadth, can provide a 1990–2003 series which can be disaggregated clearly into the various social sectors analysed (including education, health, social security and assistance, and housing). The following list groups the countries according to the institutional coverage of their social expenditure series.

Institutional coverage	Countries
NFPS = CG + PE + LG	Argentina, Brazil, Colombia, Costa Rica, Panama
CG = BCG + AA	Bolivia, Chile, Cuba, Dominican Republic, Ecuador,* El Salvador, Guatemala, Honduras, Jamaica, Trinidad and Tobago, Uruguay
BCG	The Bolivarian Republic of Venezuela, Mexico, Nicaragua, Paraguay, Peru

\* There was a series of disbursements by the Ecuadorian Social Security Institute, which was added to the amount of the expenditure budgeted by the central government.

In terms of the accounting definitions used in the series for these 21 countries and the way social expenditure is financed and implemented in each of them, the figures for 20 of them can be described as reasonably comparable. Because Mexico's series do not include social spending at the local level, and the financing of such spending is to some degree decentralized because of the country's federal structure, its public social spending figures are underestimated and are therefore not fully comparable. The following table shows information from Brazil and Argentina, which are also federal republics, illustrating the degree of decentralization of public social spending at the different levels of government.

### ARGENTINA (2003) AND BRAZIL (1996): PUBLIC SOCIAL SPENDING AT THE VARIOUS LEVELS OF GOVERNMENT

(Per capita public social spending in United States dollars at 2000 prices and percentages)

	Federal government		State governments		Municipal governments		Consolidated total
	US\$ per capita	% of total	US\$ per capita	% of total	US\$ per capita	% of total	
<b>Brazil 1996</b>	409	57.4	166	23.2	138	19.4	713
	National government		Provincial governments <sup>a</sup>		Municipal governments		Consolidated total
	US\$ per capita	% of total	US\$ per capita	% of total	US\$ per capita	% of total	
<b>Argentina 2003</b>	696	53.1	525	40.0	90	6.9	1311

**Source:** Brazil: Institute for Applied Economic Research (IPEA), "Gastos sociais das tres esferas de governo – 1996", Rio de Janeiro, 1996. Argentina: Official figures from the Department of Consolidated Social Expenditures, Ministry of Economic Affairs.

<sup>a</sup> Includes the spending of the City of Buenos Aires.

For this reason, and given that in Brazil consolidated figures for the spending levels of the three areas of government are not systematically available, estimates have been made of the ratio of growth in federal spending to consolidated spending for each sector, based on various studies by the Institute for Applied Economic Research (IPEA) and information on state and municipal spending available from the National Treasury of the Ministry of Finance.

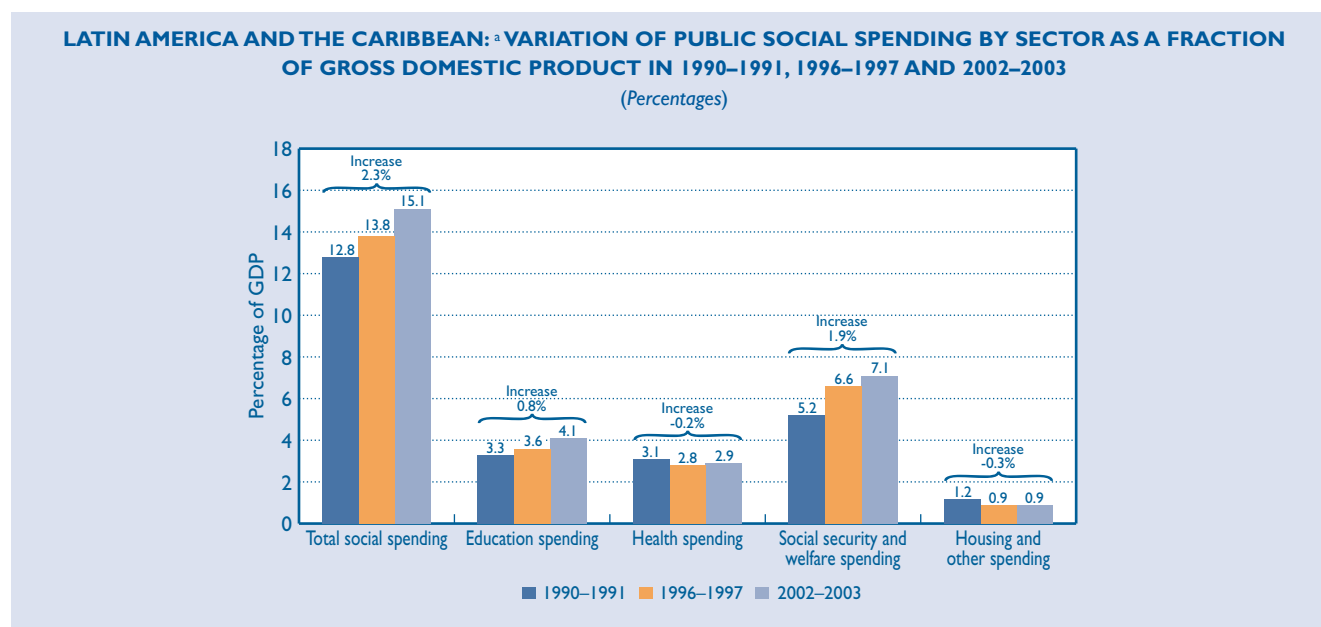
**Source:** Economic Commission for Latin America and the Caribbean (ECLAC).

The changed trend in the performance of public social spending as a whole in relation to the cycle reflects some differences between the principal sectors towards which resources are targeted (see figures II.5b, II.5c and II.5d). Education spending –just as social spending as a whole– has tended to follow the economic cycle more closely, although its share of GDP has continued to rise. Spending on health and nutrition, on the other hand, is the one component of public social spending which continued to vary widely from 1998 onwards, with a fall in 2002–2003 of the same magnitude as that seen in 1994–1995, as a result of the crisis which first affected Mexico, and then Argentina and Uruguay. From 1990–1991, spending on health and on housing and sanitation received a lower share, in response to increased spending on education and especially on social security and welfare. This

emerges clearly from figure II.6, which shows the significant increase in the priority given to those two areas, measured as a percentage of regional GDP.

Lastly, an increasing share of resources has been allocated to social sectors in relation to spending on other State activities, particularly its economic and administrative functions. Social spending as a percentage of total public spending rose from 47.6% in the early 1990s to 59.2% in the biennium 2002–2003. Although fiscal revenue grew more slowly, and fell during recessionary periods, four points of that increase of over 11 percentage points were achieved from 1998 onwards (see tables II.2 to II.8 at the end of this section). These figures are indicative of the higher priority which the countries of the region have, as a general rule, attached to social spending.<sup>15</sup>

Figure II.6



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), based on information from the ECLAC social expenditure database. The figures are updated to the second quarter of 2005.

<sup>a</sup> Weighted average of the countries which have all the information on social spending for the relevant periods; this is why values may not coincide with other figures and tables. Since the figures are rounded, percentages do not necessarily add up to the corresponding total.

<sup>15</sup> Although these percentages show the greater fiscal priority attached to social sectors within public spending, they do not strictly speaking refer to that priority, as long as they include resources which do not come under the central government and consequently are not subject to decisions adopted in the annual budgetary framework.

In a context where growth in public social spending is slower than it had been before the 1998 crisis, and countries with the lowest per capita incomes will have difficulty in increasing it to a significant degree within a reasonable period and, in addition, higher-income countries are already

spending a high percentage of GDP on social sectors—close to the average for the OECD countries—it is crucially important to answer the question of how those resources are oriented or distributed among the population.<sup>16</sup> This aspect is considered in the following section of this chapter.

Table II.2

LATIN AMERICA AND THE CARIBBEAN (21 COUNTRIES): PER CAPITA PUBLIC SOCIAL SPENDING (United States dollars at 2000 prices)							
	Period						
	1990–1991	1992–1993	1994–1995	1996–1997	1998–1999	2000–2001	2002–2003
Argentina	1 180	1 416	1 552	1 546	1 677	1 624	1 283
Bolivia	47	59	68	88	108	121	136
Brazil <sup>a</sup>	565	547	641	597	663	662	676
Chile	404	477	512	599	691	750	763
Colombia	122	152	235	319	278	267	...
Costa Rica	488	516	566	606	651	728	774
Cuba <sup>b</sup>	731	665	477	512	568	658	782
Ecuador	95	106	81	75	64	64	76
El Salvador	...	...	...	...	...	123	149
Guatemala	50	63	64	69	99	104	109
Honduras <sup>c</sup>	71	76	71	67	69	92	126
Jamaica	271	262	273	291	...	294	300
Mexico	327	420	452	442	512	567	600
Nicaragua	49	45	49	48	58	64	68
Panama	496	579	601	644	637	680	683
Paraguay	45	95	115	126	127	104	114
Peru	64	85	125	140	151	158	170
Dominican Republic	68	98	105	114	140	171	180
Trinidad and Tobago	334	344	324	325	...	342	395
Uruguay	820	1 009	1 150	1 284	1 378	1 309	1 071
Venezuela (Bolivarian Rep. of) <sup>d</sup>	446	495	400	443	438	565	488
Latin America and the Caribbean <sup>e</sup>	333	375	393	417	461	466	481
Latin America and the Caribbean <sup>f</sup>	440	479	529	525	575	589	610

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), based on information from the Commission's social expenditure database. The figures are updated to the second quarter of 2005.

<sup>a</sup> The figure in the 2002–2003 column corresponds to an estimate of social spending at the three levels of government (federal, state and municipal) based on information on social spending at the federal level.

<sup>b</sup> According to the official exchange rate (one United States dollar = one peso).

<sup>c</sup> The figure in the 2002–2003 column corresponds to 2004, and has not been taken into account in regional averages.

<sup>d</sup> The figures for this country correspond to agreed social spending (the budget and the changes made to it at the end of each year).

<sup>e</sup> Simple average of the countries, not including El Salvador.

<sup>f</sup> Weighted average of the countries, not including El Salvador.

<sup>16</sup> Of the OECD countries, 21 use an average of 21.9% of their GDP for social spending. In Argentina, Brazil, Costa Rica, Cuba and Uruguay, public social spending averages 19.5% (see <http://www.oecd.org/>).

Table II.3

LATIN AMERICA AND THE CARIBBEAN (21 COUNTRIES): PUBLIC SOCIAL SPENDING AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT (Percentages)							
	Period						
	1990–1991	1992–1993	1994–1995	1996–1997	1998–1999	2000–2001	2002–2003
Argentina	19.3	20.1	21.1	19.9	20.9	21.8	19.4
Bolivia	5.2	6.5	7.2	8.9	10.7	12.1	13.6
Brazil <sup>a</sup>	18.1	17.6	19.2	17.3	19.3	18.8	19.1
Chile	12.7	12.8	12.4	12.8	14.3	15.0	14.8
Colombia	6.6	7.9	11.5	15.2	13.7	13.5	...
Costa Rica	15.6	15.2	15.8	16.8	16.4	18.0	18.6
Cuba	25.3	30.0	23.2	22.8	24.3	25.6	29.2
Ecuador	7.5	8.1	6.1	5.6	4.9	5.0	5.7
El Salvador	...	...	...	...	...	5.9	7.1
Guatemala	3.3	4.1	4.1	4.3	5.9	6.1	6.5
Honduras <sup>b</sup>	7.9	8.1	7.8	7.2	7.4	9.9	13.1
Jamaica	8.4	8.0	8.2	9.0	...	9.5	9.6
Mexico	6.5	8.1	8.9	8.5	9.2	9.7	10.5
Nicaragua	6.6	6.5	7.2	6.5	7.6	8.2	8.8
Panama	16.2	17.0	17.3	18.0	16.4	17.4	17.3
Paraguay	3.2	6.6	7.8	8.7	9.1	8.0	9.0
Peru	3.9	5.1	6.5	6.9	7.4	7.8	8.0
Dominican Republic	4.3	5.9	6.1	5.9	6.5	7.2	7.4
Trinidad and Tobago	6.9	7.3	6.6	6.4	...	5.3	5.5
Uruguay	16.8	18.9	20.2	21.3	22.0	22.2	20.9
Venezuela (Bolivarian Rep. of) <sup>c</sup>	8.8	9.2	7.8	8.6	8.8	11.6	11.7
Latin America and the Caribbean <sup>d</sup>	10.2	11.2	11.2	11.5	12.5	12.6	13.1
Latin America and the Caribbean <sup>e</sup>	12.8	13.4	14.4	13.8	14.8	15.0	15.1

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), based on information from the Commission's social expenditure database. The figures are updated to the second quarter of 2005.

<sup>a</sup> The figure in the 2002–2003 column is an estimate of social spending at the three levels of government (federal, state and municipal) based on information on social spending at the federal level.

<sup>b</sup> The figure in the 2002–2003 column corresponds to 2004. This figure is not taken into account in regional averages.

<sup>c</sup> Figures for this country correspond to agreed social spending (the budget and the changes made to it at the end of each year).

<sup>d</sup> Simple average of the countries, not including El Salvador.

<sup>e</sup> Weighted average of the countries, not including El Salvador.

Table II.4

LATIN AMERICA AND THE CARIBBEAN (21 COUNTRIES): PUBLIC SOCIAL SPENDING AS A PERCENTAGE OF TOTAL PUBLIC SPENDING (Percentages)							
	Period						
	1990–1991	1992–1993	1994–1995	1996–1997	1998–1999	2000–2001	2002–2003
Argentina	62.2	63.4	65.7	65.5	64.2	62.7	66.1
Bolivia	34.4	30.2	27.5	30.2	34.2	35.4	33.0
Brazil <sup>a</sup>	48.9	47.2	58.2	57.0	58.5	62.1	59.4
Chile	61.2	62.8	64.2	65.2	66.0	67.3	67.6
Colombia	28.8	32.2	39.9	41.8	32.7	32.3	...
Costa Rica <sup>b</sup>	...	...	...	...	63.6	63.7	64.5
Cuba	31.5	31.8	34.4	41.6	44.8	47.1	51.4
Ecuador	42.8	48.5	33.7	27.6	21.7	20.9	25.2
El Salvador	...	...	...	...	...	35.5	35.9
Guatemala	29.9	33.3	41.3	42.7	45.1	47.3	50.4
Honduras <sup>c</sup>	36.5	28.0	32.3	31.7	31.4	38.7	52.0
Jamaica	26.8	23.2	20.6	19.2	...	17.1	17.3
Mexico	41.3	50.2	53.1	52.3	59.4	61.3	59.3
Nicaragua	34.0	38.5	39.9	37.0	37.1	38.4	40.0
Panama	40.0	37.8	43.2	43.8	44.7	44.3	45.1
Paraguay	39.9	42.9	43.3	47.1	44.5	38.3	41.6
Peru	33.0	35.0	39.4	39.6	41.9	45.0	...
Dominican Republic	38.4	37.0	40.8	39.0	39.3	43.3	39.7
Trinidad and Tobago	40.6	40.6	42.8	40.7	...	40.6	40.3
Uruguay	62.3	67.7	70.8	70.8	69.5	66.6	60.6
Venezuela (Bolivarian Rep. of) <sup>d</sup>	32.8	40.1	35.3	35.4	36.6	37.8	38.6
Latin America and the Caribbean <sup>e</sup>	40.3	41.6	43.5	43.6	45.4	44.6	46.0
Latin America and the Caribbean <sup>f</sup>	47.6	50.7	55.7	55.2	57.6	59.2	59.2

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), based on information from the Commission's social expenditure database. The figures are updated to the second quarter of 2005.

<sup>a</sup> The figure in the 2002–2003 column is an estimate of social spending at the three levels of government (federal, state and municipal) based on information on social spending at the federal level.

<sup>b</sup> Unlike the statistics shown for Costa Rica in the other tables and figures in this chapter, the statistics in this table correspond to the general government, rather than the entire public sector. The figure given in the column headed "1998–1999" corresponds to 1998.

<sup>c</sup> The figure in the 2002–2003 column corresponds to 2004. This figure is not taken into account in regional averages.

<sup>d</sup> Figures for this country correspond to agreed social spending (the budget and the changes made to it at the end of each year).

<sup>e</sup> Simple average of the countries, not including El Salvador.

<sup>f</sup> Weighted average of the countries, not including El Salvador.

Table II.5

<b>LATIN AMERICA AND THE CARIBBEAN (21 COUNTRIES): LEVEL AND VARIATIONS OF PER CAPITA PUBLIC SOCIAL SPENDING ON EDUCATION AND AS A PERCENTAGE OF GDP</b>								
<i>(United States dollars at 2000 prices, as a percentage of GDP and variations in absolute terms)</i>								
	Period 1996–1997		Absolute variation in relation to 1990–1991		Period 2002–2003		Absolute variation in relation to 1996–1997	
	U.S. dollars per capita	Percentage of GDP	U.S. dollars per capita	Percentage of GDP	U.S. dollars per capita	Percentage of GDP	U.S. dollars per capita	Percentage of GDP
Argentina	328	4.2	108	0.6	279	4.2	-49	0.0
Bolivia	51	5.2	22	1.9	66	6.7	16	1.5
Brazil <sup>a</sup>	112	3.2	-5	-0.5	128	3.6	16	0.4
Chile	141	3.0	64	0.6	209	4.0	68	1.0
Colombia <sup>b</sup>	100	4.8	52	2.1	86	4.3	-14	-0.4
Costa Rica	164	4.6	41	0.6	235	5.7	71	1.1
Cuba <sup>c</sup>	177	7.9	-145	-3.2	328	12.3	151	4.4
Ecuador	34	2.5	-2	-0.3	36	2.7	2	0.1
El Salvador	...	...	...	...	67	3.2	...	...
Guatemala	27	1.7	4	0.1	44	2.6	17	0.9
Honduras <sup>d</sup>	33	3.5	-6	-0.8	70	7.2	38	3.7
Jamaica	157	4.9	25	0.8	162	5.2	5	0.3
Mexico	190	3.7	60	1.1	233	4.1	43	0.4
Nicaragua	21	2.9	3	0.3	32	4.1	11	1.2
Panama	178	5.0	54	0.9	185	4.7	7	-0.3
Paraguay	62	4.2	44	2.9	55	4.4	-7	0.1
Peru <sup>b</sup>	50	2.5	24	0.8	50	2.5	0	0.0
Dominican Republic	44	2.3	26	1.1	72	3.0	29	0.7
Trinidad and Tobago	152	3.0	-1	-0.2	223	3.1	71	0.1
Uruguay	182	3.0	63	0.6	173	3.4	-10	0.3
Venezuela (Bolivarian Rep. of) <sup>e</sup>	166	3.2	-14	-0.3	213	5.1	47	1.9
Latin America and the Caribbean <sup>f</sup>	118	3.8	21	0.5	157	4.6	39	0.9
Latin America and the Caribbean <sup>g</sup>	137	3.6	23	0.3	171	4.1	33	0.5

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), based on information from the Commission's social expenditure database. The figures are updated to the second quarter of 2005.

<sup>a</sup> The figure in the 2002–2003 column corresponds to an estimate of social spending at the three levels of government (federal, state and municipal) based on information on social spending at the federal level.

<sup>b</sup> The figure in the 2002–2003 column corresponds to the average for 2000–2001. This figure is not taken into account in regional averages.

<sup>c</sup> The figure in United States dollars per capita is given according to the official exchange rate (one United States dollar = one peso).

<sup>d</sup> The figure in the 2002–2003 column corresponds to 2004, and is not taken into account in the regional averages.

<sup>e</sup> Figures for this country correspond to agreed social spending (the budget and the changes made to it at the end of each year).

<sup>f</sup> Simple average for the countries, not including El Salvador.

<sup>g</sup> Weighted average for the countries, not including El Salvador.

Table II.6

<b>LATIN AMERICA AND THE CARIBBEAN (21 COUNTRIES): LEVEL AND VARIATIONS OF PER CAPITA PUBLIC SOCIAL SPENDING ON HEALTH AND AS A PERCENTAGE OF GDP</b>								
<i>(United States dollars at 2000 prices, as a percentage of GDP and variations in absolute terms)</i>								
	Period 1996–1997		Absolute variation in relation to 1990–1991		Period 2002–2003		Absolute variation in relation to 1996–1997	
	U.S. dollars per capita	Percentage of GDP	U.S. dollars per capita	Percentage of GDP	U.S. dollars per capita	Percentage of GDP	U.S. dollars per capita	Percentage of GDP
Argentina	354	4.6	89	0.2	291	4.4	-64	-0.2
Bolivia	9	0.9	0	-0.1	16	1.6	7	0.6
Brazil <sup>a</sup>	98	2.8	-14	-0.7	102	2.9	4	0.0
Chile	114	2.4	51	0.5	155	3.0	41	0.6
Colombia <sup>b</sup>	68	3.2	51	2.3	87	4.4	19	1.2
Costa Rica	171	4.7	17	-0.2	236	5.7	65	1.0
Cuba <sup>c</sup>	119	5.3	-31	0.1	168	6.3	49	1.0
Ecuador	11	0.9	-7	-0.6	15	1.1	4	0.3
El Salvador	...	...	...	...	34	1.6	...	...
Guatemala	13	0.8	-1	-0.2	17	1.0	4	0.3
Honduras <sup>d</sup>	20	2.1	-4	-0.5	34	3.5	15	1.4
Jamaica	76	2.3	6	0.2	78	2.5	2	0.2
Mexico	112	2.2	-36	-0.8	136	2.4	24	0.2
Nicaragua	18	2.5	-3	-0.4	24	3.0	6	0.6
Panama	208	5.8	44	0.5	236	6.0	28	0.1
Paraguay	19	1.3	15	1.0	16	1.3	-3	-0.1
Peru <sup>b</sup>	29	1.4	15	0.6	36	1.8	7	0.3
Dominican Republic	26	1.4	10	0.4	39	1.6	13	0.2
Trinidad and Tobago	100	2.0	-27	-0.7	93	1.3	-8	-0.7
Uruguay	151	2.5	10	-0.4	125	2.4	-26	-0.1
Venezuela (Bolivarian Rep. of) <sup>e</sup>	59	1.1	-20	-0.4	67	1.6	8	0.5
Latin America and the Caribbean <sup>f</sup>	89	2.5	8	0.0	106	2.8	18	0.3
Latin America and the Caribbean <sup>g</sup>	105	2.8	-1	-0.3	120	2.9	15	0.1

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), based on information from the Commission's social expenditure database. The figures are updated to the second quarter of 2005.

<sup>a</sup> The figure in the 2002–2003 column corresponds to an estimate of social spending at the three levels of government (federal, state and municipal) based on information on social spending at the federal level.

<sup>b</sup> The figure in the 2002–2003 column corresponds to the average for 2000–2001. This figure is not taken into account in regional averages.

<sup>c</sup> The figure in United States dollars per capita is provided in accordance with the official exchange rate (one United States dollar = one peso).

<sup>d</sup> The figure in the 2002–2003 column corresponds to 2004, and is not taken into account in the regional averages.

<sup>e</sup> The figures for this country correspond to agreed social spending (the budget and the changes made to it at the end of each year).

<sup>f</sup> Simple average of the countries, not including El Salvador.

<sup>g</sup> Weighted average of the countries, not including El Salvador.

Table II.7

<b>LATIN AMERICA AND THE CARIBBEAN (20 COUNTRIES): LEVEL AND VARIATIONS OF PER CAPITA PUBLIC SOCIAL SPENDING ON SOCIAL SECURITY<sup>a</sup> AND AS A PERCENTAGE OF GDP</b> (United States dollars at 2000 prices, in percentages of GDP and variations in absolute terms)								
	Period 1996–1997		Absolute variation in relation to 1990–1991		Period 2002–2003		Absolute variation in relation to 1996–1997	
	U.S. dollars per capita	Percentage of GDP	U.S. dollars per capita	Percentage of GDP	U.S. dollars per capita	Percentage of GDP	U.S. dollars per capita	Percentage of GDP
Argentina	756	9.8	163	0.1	642	9.7	-114	-0.1
Bolivia	27	2.7	20	2.0	51	5.1	24	2.4
Brazil <sup>b</sup>	380	11.0	91	1.8	444	12.6	65	1.6
Chile	336	7.2	77	-1.0	390	7.6	54	0.4
Colombia <sup>c</sup>	128	6.1	82	3.6	76	3.8	-52	-2.3
Costa Rica	208	7.3	55	1.0	232	7.4	25	0.2
Cuba <sup>d</sup>	171	7.6	-36	0.4	209	7.8	38	0.2
Ecuador	27	2.0	-14	-1.3	23	1.7	-4	-0.2
El Salvador	...	...	...	...	29	1.4	...	...
Guatemala	12	0.7	1	-0.1	20	1.2	9	0.5
Honduras <sup>e</sup>	2	0.2	1	0.1	5	0.5	4	0.3
Jamaica	11	0.3	-8	-0.3	15	0.5	4	0.1
Mexico	79	1.5	73	1.4	144	2.5	65	1.0
Panama	179	5.0	24	-0.1	218	5.5	39	0.5
Paraguay	40	2.7	23	1.5	38	3.0	-2	0.3
Peru <sup>c</sup>	57	2.8	34	1.4	67	3.3	11	0.6
Dominican Republic	13	0.7	7	0.3	28	1.1	15	0.5
Trinidad and Tobago	5	0.1	2	0.0	5	0.1	0	0.0
Uruguay	924	15.3	380	4.2	754	14.7	-170	-0.7
Venezuela (Bolivarian Rep. of) <sup>f</sup>	154	3.0	52	1.0	170	4.1	16	1.1
Latin America and the Caribbean <sup>g</sup>	184	4.4	54	0.8	211	5.2	27	0.7
Latin America and the Caribbean <sup>h</sup>	253	6.6	73	1.4	314	7.5	61	0.9

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), based on information from the Commission's social expenditure database. The figures are updated to the second quarter of 2005.

<sup>a</sup> Includes spending items allocated to labour.

<sup>b</sup> The figure in the 2002–2003 column corresponds to an estimate of social spending at the three levels of government (federal, state and municipal) based on information on social spending at the federal level.

<sup>c</sup> The figure in the 2002–2003 column corresponds to the average for 2000–2001. This figure is not taken into account in regional averages.

<sup>d</sup> The figure in United States dollars per capita is provided in accordance with the official exchange rate (one United States dollar = one peso).

<sup>e</sup> The figure in the 2002–2003 column corresponds to 2004, and is not taken into account in the regional averages.

<sup>f</sup> The figures for this country correspond to agreed social spending (the budget and the changes made to it at the end of each year).

<sup>g</sup> Simple average of the countries, not including El Salvador.

<sup>h</sup> Weighted average of the countries, not including El Salvador.

Table II.8

LATIN AMERICA AND THE CARIBBEAN (21 COUNTRIES): LEVEL AND VARIATIONS OF PER CAPITA PUBLIC SOCIAL SPENDING ON HOUSING AND OTHERS AND AS A PERCENTAGE OF GDP (United States dollars at 2000 prices, in percentages of GDP and variations in absolute terms)								
	Period 1996–1997		Absolute variation in relation to 1990–1991		Period 2002–2003		Absolute variation in relation to 1996–1997	
	U.S. dollars per capita	Percentage of GDP	U.S. dollars per capita	Percentage of GDP	U.S. dollars per capita	Percentage of GDP	U.S. dollars per capita	Percentage of GDP
Argentina	108	1.4	6	-0.3	72	1.1	-36	-0.3
Bolivia	1	0.1	-1	-0.1	3	0.3	2	0.2
Brazil <sup>a</sup>	8	0.2	-41	-1.3	4	0.1	-4	-0.1
Chile	10	0.2	4	0.0	10	0.2	1	0.0
Colombia <sup>b</sup>	24	1.1	15	0.6	19	1.0	-5	-0.2
Costa Rica	64	2.0	6	-0.1	79	1.9	15	-0.1
Cuba <sup>c</sup>	46	2.0	-8	0.2	79	2.9	33	0.9
Ecuador	3	0.2	3	0.2	3	0.2	1	0.0
El Salvador	...	...	...	...	19	0.9	...	...
Guatemala	19	1.2	18	1.1	29	1.7	10	0.5
Honduras <sup>d</sup>	13	1.4	5	0.5	17	1.8	4	0.4
Jamaica	47	1.4	-2	-0.1	56	1.4	9	0.0
Mexico	62	1.2	19	0.3	90	1.5	28	0.4
Nicaragua	8	1.2	-1	-0.1	13	1.7	5	0.5
Panama	80	2.2	28	0.5	47	1.2	-33	-1.1
Paraguay	6	0.4	0	0.0	6	0.4	-1	0.0
Peru <sup>b</sup>	4	0.2	3	0.2	5	0.2	1	0.0
Dominican Republic	32	1.7	4	-0.1	46	1.7	14	0.1
Trinidad and Tobago	68	1.3	18	0.3	71	1.0	3	-0.3
Uruguay	28	0.5	13	0.2	20	0.4	-8	-0.1
Venezuela (Bolivarian Rep. of) <sup>e</sup>	65	1.3	-22	-0.4	39	0.9	-26	-0.3
Latin America and the Caribbean <sup>f</sup>	35	1.1	3	0.1	38	1.1	3	0.0
Latin America and the Caribbean <sup>g</sup>	32	0.9	-9	-0.4	36	0.9	4	0.0

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), based on information from the Commission's social expenditure database. The figures are updated to the second quarter of 2005.

<sup>a</sup> The figure in the 2002–2003 column corresponds to an estimate of social spending at the three levels of government (federal, state and municipal) based on information on social spending at the federal level.

<sup>b</sup> The figure in the 2002–2003 column corresponds to the average for 2000–2001. This figure is not taken into account in regional averages.

<sup>c</sup> The figure in United States dollars per capitals provided in accordance with the official exchange rate (one United States dollar = one peso).

<sup>d</sup> The figure in the 2002–2003 column corresponds to 2004, and is not taken into account in regional averages.

<sup>e</sup> The figures for this country correspond to agreed social spending (the budget and the changes made to it at the end of each year).

<sup>f</sup> Simple average of the countries, not including El Salvador.

<sup>g</sup> Weighted average of the countries, not including El Salvador.

## B. THE DISTRIBUTION OF SOCIAL SPENDING IN LATIN AMERICA<sup>17</sup>

### INTRODUCTION

Latin America has the world's highest levels of inequality. According to the statistics, this has been the case ever since records have been kept. Furthermore, inequality has not been the only recurrent phenomenon in the region; poverty, although worsened in times of crisis and attenuated during more prosperous periods, has been persistent in the region, with no less than 35% of the population living in poverty over the past 50 years (Londoño, 1996).<sup>18</sup> The long-term combination of these phenomena has brought about a scenario in which significant elements of society suffer from extreme deprivation and economic and social exclusion, while some minority groups enjoy levels of consumption and well-being similar to those of the highest social strata in the developed countries.

**T**his deplorable social situation is not only the result of economic conditions. Although poverty worsens in times of crisis, Latin America—with very few exceptions—has not been able, in times of stability and growth, to reduce or eliminate the conditions which produce extreme poverty. Those conditions have become a chronic and structural problem.

Most of the countries of the region have levels of poverty which are far higher than they should be,

given the existing levels of wealth. Apart from Chile, Costa Rica, Panama and Uruguay, the current percentage of the population having incomes below what is needed in order to afford a basic basket of goods exceeds the proportion estimated on the basis of per capita GDP (INDES, 2005).

The performance of other major social indicators shows a mixed outcome. On average, Latin America has made progress in primary-school enrolment, life expectancy at birth, infant mortality and access to

<sup>17</sup> Part B of this chapter was prepared by Nohra Rey de Marulanda, manager of the Integration and Regional Programs Department (INT) of IDB and Director of its Inter-American Institute for Social Development (INDES), and by Jorge Ugaz and Julio Guzmán, researchers at INT/IDB. The views expressed in that part of the chapter are solely those of its authors and are not attributable to IDB. The authors are grateful to Robert Devlin, Arturo León, José Luis Machinea, Jeffrey Puryear, Vito Tanzi and Luiz Villela for their useful and constructive comments.

<sup>18</sup> Estimated poverty levels at the regional level for the 1970s and 1980s are also available in Altimir (1979), and Feres and León (1991).

basic services such as drinking water. These variables at least lie within an acceptable range in terms of the region's development measured according to per capita output. These are real advances, but there are still significant lags, particularly in access to secondary education, repetition rates in primary and secondary schools, sewerage systems and basic communication infrastructure.

In the light of these problems, there have been renewed international and local commitments to combat poverty. It is now accepted that it is not enough to aim for economic growth without at the same time implementing policies to overcome the aforementioned deficiencies. Multilateral bodies place particular emphasis on the implementation of national poverty reduction programmes, and on the social impact of sectoral financing projects, public or private, as the centrepiece of their mandate to support development in their member countries. At the national level, the Latin American governments have ratified their political will to achieve the Millennium Development Goals proposed by the United Nations, the objective of which is to attain concrete social targets in areas such as poverty, malnutrition and infant mortality.<sup>19</sup>

It is then necessary to determine how much priority is attached to, and what is the effectiveness of, the fight against poverty, inequity and the inadequacy of basic social services in Latin America. One way to answer this question is to analyse the role played in each of the countries of the region by public social spending (its scale, orientation and evolution, and its size as a proportion of overall public spending), by social policy, and by the relationship between the latter and economic policy.

There are many factors which determine the opportunities available to the population groups living in conditions of poverty and inequity. Economic policy, for example, with its decisive influence on the rate and quality of output growth, determines the likelihood of access to new

and improved sources of income. In addition, macroeconomic management has a direct impact on levels of income through its effects on inflation and interest rates, access to credit, and the sustainability of the external balance. The role of economic policy is also essential in creating the conditions for the functioning of the labour market and its impact on the creation of employment and underemployment (formal and informal).

The importance of economic policy is undeniable in terms of the creation and provision of economic opportunities for the whole population. Nonetheless, the orientation of social policy is another crucial element which must be borne in mind. That orientation, and the role it plays in public policy, reflect the priorities and the relative importance attached by a government to social sectors. Public social spending is the manifestation of the State's direct actions in allocating fiscal resources to deal with social issues. That spending, and its relationship to overall public spending, should therefore reflect governments' revealed preferences, among other issues, in terms of direct or indirect attacks on poverty, inequity and their consequences.

The implementation of the State's preferences in the social field may be threatened by a variety of economic, political and social factors which flow in the opposite direction. Inertia related to past spending or spending linked to constitutional rules, pressures exerted by influential elites and by social groups, such as the middle classes, which can exert pressure, and a bureaucratic structure whose functioning and organization do not favour the adoption of spending policies which give priority to low-income groups, are all variables which make it difficult for current governments to implement policies which would reflect their social priorities. Such threats are always potentially present, but it is the responsibility of a democratically elected government to combat them in order to implement a social agenda which will reflect its preferences. That is what governing means.

<sup>19</sup> Further information on the agreements reached in the framework of the Millennium Development Goals is available in United Nations (2005).

This section is an effort to reveal such preferences through an analysis by population income level of the magnitude and destination of public spending on education and health, which make up, in terms of simple averages, about 55% of overall public social spending in Latin America.<sup>20</sup> The object of this analysis is to understand what the action of the State contributes to meeting the needs of the poorest sectors of the population. Although social spending is only one of many variables which explain the reason for conditions of poverty, inequity and exclusion, it is nonetheless important and revealing to see to what extent health and education spending, which averaged 7.4% of GDP in the countries of the region in 2002–2003, is intended to solve the problems of the lowest-income groups or whether, on the contrary, its orientation favours the highest-income groups (ECLAC, 2004).

## 1. SOCIAL POLICY PRIORITIES

In theory, it can be difficult to define the scope and limits of social policy and of the programmes it comprises. The numbers and diversity of the population, differences between target groups, and the variety of entities executing social projects financed by State authorities make it hard to thoroughly analyse government strategies in the social field. However, difficulties in defining social policy should not lead to conceptual confusions between that policy and programmes to combat poverty and care for low-income groups, which are of a compensatory nature and which aim at specific target groups, and which are therefore progressive *par excellence*.

For purposes of analysis, social policy is understood to be all State measures in specific social sectors at the national level (in areas such as education, health, housing, sanitation and social security), and which are intended to a greater or lesser extent to affect all citizens, poor or not. In this sense, the level,

sectoral composition, and pattern of implementation of those resources in the different income groups represent the preferences and priorities a government attaches to social issues; they constitute the materialization or concrete implementation of social policy.

Unfortunately, there are few national studies on the composition and orientation of social spending by socioeconomic level. Many reasons, of which statistical and methodological factors are among the most important, have restricted the literature to a series of isolated and infrequent initiatives, mostly prepared on the basis of information relating to the past 10 years, and on the basis of techniques which are not strictly homogenous. Nonetheless, studies of that nature are essential in understanding the priorities of social policy and the ways in which social spending helps to deal with them.

Lastly, two distinctions are worthy of notice. The first of these must be made between preferences revealed by the State in the social field –reflected in the level, sectoral composition and orientation of public social spending between income groups– and the effectiveness of that spending in the provision of services. A particular level of per capita spending, a high sectoral allocation of fiscal resources to social issues, and the orientation of those funds to the most vulnerable groups do not necessarily produce the expected or desired results. The cycle of spending and results or impacts can be assessed only when the management or implementation process –in other words, execution– is also examined. Secondly, the present study gives statistical information on the distribution of social spending by income quintile, not strictly that of benefits resulting from the application of those resources. Where social spending which, in accounting terms, has been allocated to lower-income groups, is partly "captured" by individuals from higher income strata who do not provide high-quality social services (for example, through the salaries of excessive or

<sup>20</sup> The research focuses on the orientation of social spending without any type of tax deduction, which is also referred to as gross social spending (Adema, 2001). Few studies have been conducted in the region on the allocation of net social spending, which incorporates the payment of direct and indirect taxes by income group, and on total net social spending, which includes social spending by the private sector.

ineffectual bureaucracies of teachers, doctors, nurses etc.) the real benefits received by the poorer population groups will be less than the fiscal resources budgeted for their needs (Tanzi, 1974).

## 2. THE CHALLENGES OF SOCIAL SECURITY

Although this study focuses on the orientation of public social spending on education and health, it also provides statistical information on the orientation of overall public spending on social security by socioeconomic level in eight countries in the region.<sup>21</sup> Although this is not the central focus of the research, it is hard to refrain from commenting, given the clarity of the figures. The latter show that the social insurance system in Latin America is highly unequal and focused on higher-income groups.

The modern concept of social security was introduced in Germany over a century ago. Subsequently, it was embodied by the International Labour Organization as a fundamental instrument for the protection of workers and their families from certain social risks (Mesa-Lago, 2004). Social security, as a means of protecting vulnerable population groups, is certainly a social achievement which should be preserved in Latin America, a region historically characterized by inequality and poverty.

Nonetheless, a social security system which protects only a small part of the labour force, with huge inequalities in the allocation of pensions to an

already limited number of beneficiaries, and at the cost of a very high proportion of fiscal resources, represents a distorted version of the social insurance system as originally intended.<sup>22</sup> In Latin America, where most of the work force is not salaried and is, on the contrary, a growing part of the informal sector, the social security system needs to be carefully and responsibly redesigned.

## 3. INCIDENCE OF SOCIAL SPENDING: THE IMPORTANCE OF DATA

There is a glaring shortage of information on the incidence of public social spending in the region by socioeconomic level. Unlike the statistics derived from national accounts, the allocation of social spending by income level is based on figures from surveys of living conditions. As of the second half of the 1990s, these are conducted in Latin America in a standardized manner and with a representative coverage.<sup>23</sup> Unfortunately, perhaps because of the difficulty in obtaining reliable figures, this type of analysis has not had a privileged position in the conduct of social research in the region in recent years. As a result, the analysis and implications of the orientation of social spending by socioeconomic level have not been included on the agenda of public policy-makers in recent years. Since statistics have been available, no clear interest has been seen in the region for conducting analyses on the orientation of overall social spending. All of the above, together with the relative methodological complexity of calculating the incidence of social spending, has restricted the literature on the subject to one series of isolated and infrequent studies, mostly using

<sup>21</sup> It should be noted that, in addition to state taxes, the total social security spending element of public social spending also includes taxes paid by the individuals and enterprises benefiting from it. In a way, it reflects accumulated savings by individuals during their working lives. It should also be made clear that state contributions to social security are taken from fiscal revenue, and absorb a significant portion of the State's disposable income. Its distribution by income quintile is therefore very important for this analysis.

<sup>22</sup> According to the World Bank (1994), only 39% (simple average) of the workforce in Latin America was covered by the pensions system in the 1990s. Uruguay reported the highest coverage (69%) and Bolivia the lowest (12%).

<sup>23</sup> Since the mid-1980s, the World Bank has conducted living standard measurement surveys in a limited number of countries in the region. In 1996, the Inter-American Development Bank (IDB), the World Bank and the Economic Commission for Latin America and the Caribbean (ECLAC) established the Programme for the Improvement of Surveys and the Measurement of Living Conditions in Latin America and the Caribbean (MECOVI), whose main objective is to support national measures to construct periodic and comparable household surveys. As of 2005, the programme has been implemented in 10 countries. Together with Brazil, Chile and Mexico, which already had greater experience in setting up household surveys, those countries account for 90% of the region's population.

information from the past 10 years, and based on techniques which are not strictly homogenous.<sup>24</sup> Given these limitations, it is difficult to make comparative analyses. Comparisons between two temporal points for countries where information is available, and the calculation of regional averages, can produce results which are unrealistic and statistically questionable.

Despite these limitations, research on the incidence of social spending at the national level is very useful. Case-by-case observation is not subject to the inherent limitations of comparative analysis and can contribute significantly to improved formulation and assessment of public policies in the social sector. National studies conducted in Latin America not only offer a broader view of the orientation of social spending in the region, but also facilitate internal policy assessment regarding the allocation of the social budget. While comparative analysis has its limits, studying a representative group of countries can suggest a certain regional order in the degree of progressiveness in the execution of social spending. Lastly, with the production of a statistical series of progressiveness indexes for social spending in the region, it is

possible to evaluate the correlation between measures for the orientation of social spending and, for example, wealth distribution or institutional quality. Is social spending less progressive in countries with greater inequality in wealth distribution? Is institutional quality linked with higher levels of progressiveness in social spending?

#### 4. EVIDENCE AND EMPIRICAL RESULTS

In *Social Panorama 2000–2001*, ECLAC made an initial effort to collect data from six national studies on the incidence of public social spending by socioeconomic level, covering the period from 1986 to 1997.<sup>25</sup> Four years later, thanks to increased production of household surveys, the regional coverage has been broadened. This section presents information on the concentration of public social spending on education, health and social security between 1997 and 2003 in 17 Latin American countries, representing 90% of the region's population and 94% of its GDP. The statistics were collected from various national studies (see table II.9).

<sup>24</sup> Of the methodological problems in calculating the incidence of social spending, two merit particular attention. The first relates to the criterion used for the valuation in monetary terms of the unit cost of a social service. One good example of this is primary education where, although it is possible to project the number of children who will actually attend school by using data from household surveys, the challenge lies in quantifying the cost per student (in each social and geographical segment) borne by the State on the basis of public spending on primary education. In that same context, the second problem lies in defining the limits of social spending on primary education within the national budget for the sector. There is no clear criterion for allocating a variety of expenditure which, in some countries, may account for up to 10% of the sectoral budget—for example, funds allocated to cultural and sporting items and certain central government costs—as belonging exclusively to a particular educational level. It is also important to remember that information on the orientation of social spending in countries having a federal structure (Argentina, Brazil and Mexico) does not reflect the pattern of allocation of spending in the social field under the authority of local governments. Consequently, results could be distorted in such cases.

<sup>25</sup> Bolivia (1990), Chile (1996), Colombia (1997), Costa Rica (1986), Ecuador (1994) and Uruguay (1993). Studies on the cities of Buenos Aires, Argentina (1991) and São Paulo, Brazil (1994) were also included.

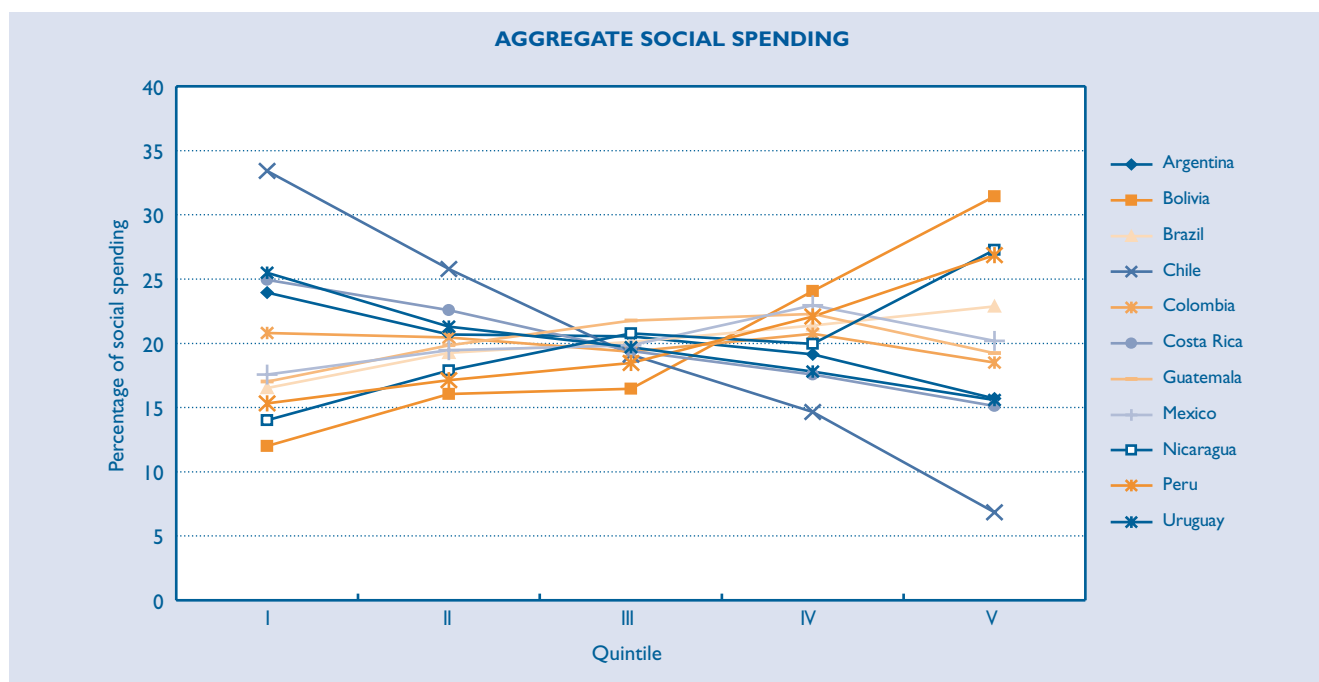
Table II.9

STATISTICAL BIBLIOGRAPHY ON SOCIAL SPENDING IN LATIN AMERICA				
Author	Title	Number	Publisher/City	Year
<b>Argentina</b> Ministry of Economy and Production	El impacto distributivo de la política social en la Argentina: Análisis basado en la encuesta nacional de gastos de los hogares	Working document, No. GP/12	Secretariat of Economic Policy, Buenos Aires	2002
<b>Bolivia</b> Fernando Cossio Muñoz	Incidencia distributiva de la política fiscal en Bolivia	Document prepared for CAN, IDB and DFID	La Paz	2005
<b>Brazil</b> World Bank World Bank Carlos Eduardo Vélez and Vivien Foster	Brazil Inequality and Economic Development Attacking Brazil's Poverty Public Social Expenditure in Brazil: An International Comparison	Report No. 24487 – BR Vols. I and II Report No. 20475 – BR	Washington, D.C. World Bank World Bank World Bank	2003 2001 1999
<b>Chile</b> MIDEPLAN	Pobreza, distribución del ingreso e impacto distributivo del gasto social, Vol. I	Serie CASEN 2003	Santiago, Chile	2004
<b>Colombia</b> Francisco Lasso and Natalia Millán	Incidencia del gasto público social sobre la distribución del ingreso y la reducción de la pobreza	Mission for the design of poverty and inequality reduction strategies	Bogotá	2004
<b>Costa Rica</b> Juan Diego Trejos	La equidad de la inversión social en el 2000	Eighth State of the Nation in Sustainable Human Development report	San José, Costa Rica UNDP	2002
<b>Ecuador</b> Rob Vos, Juan Ponce, Mauricio León, José Cuesta, and Wladimir Brobovich	¿Quién se beneficia del gasto social en Ecuador? Desafíos para mejorar la equidad y la eficiencia del gasto social		Quito Institute of Social studies of the Hague	2002
<b>El Salvador</b> Andrew Mason and Omar Arias	Reducción de la pobreza en El Salvador	Presentation of the World Bank poverty study	Washington, D.C. World Bank	2004
<b>Guatemala</b> World Bank	Guatemala: Poverty Assessment Report		Washington, D.C. World Bank	2003
<b>Honduras</b> World Bank	Honduras: Public Expenditure Management for Poverty Reduction and Fiscal Sustainability	Report No. 22070	Washington, D.C. World Bank	2001
<b>Jamaica</b> Aldrie Henry–Lee and Dillon Alleyne	"The 20/20 Initiative in Jamaica" in Gasto público en servicios sociales en América Latina y el Caribe: análisis desde la perspectiva de la Iniciativa 20/20.	LC/R.1933	Santiago, Chile ECLAC	1999
<b>Mexico</b> World Bank World Bank	Mexico: Public Expenditure Review Mexico: Poverty in Mexico: An Assessment of Conditions, Trends and Government Strategy	Report No. 27894 – MX Report No. 28612 – ME	Washington, D.C. World Bank World Bank	2004 2004
<b>Nicaragua</b> World Bank	Nicaragua: Poverty Assessment		Washington, D.C. World Bank	2001
<b>Paraguay</b> Marco Robles	Pobreza y gasto público en educación en Paraguay		Washington, D.C. Inter–American Development Bank	2001
<b>Peru</b> Jonathan Haughton	An Assessment of Tax and Expenditure Incidence in Peru	Document prepared for IDB, CAN and DFID	Boston, MA	2005
<b>Dominican Republic</b> World Bank	Dominican Republic: Poverty Assessment. Poverty in a High–Growth Economy (1986–2000)	Report No. 21306 – DR	Washington, D.C. World Bank	2001
<b>Uruguay</b> World Bank	Uruguay: Poverty Update 2003	Report No. 26223	Washington, D.C. World Bank	2003

Figure II.7 shows the pattern by income quintile of the allocation of social spending (education and health), excluding social security contributions, for 11 countries in the region for which aggregate data are available.<sup>26</sup> Table II.10 provides detailed sectoral information for 17 countries. Two facts attract immediate attention. Firstly, the countries of the region are spread over a fairly broad range in terms of the orientation of social spending. In Chile, the poorest 20% of the population absorbs 33% of social spending, whereas the richest quintile receives 7%; in Nicaragua, however, the poorest 20% benefits

from only 14% of social spending, but 27% is spent on the richest 20%. The second noticeable aspect is the countries' marked dispersal within the regional range. According to the concentration coefficients (see figure II.8), social spending is progressive in five countries (Argentina, Chile, Colombia, Costa Rica and Uruguay), and regressive in six others (Bolivia, Brazil, Guatemala, Mexico, Nicaragua and Peru). Social spending is described as progressive when it is distributed more than proportionately among low-income groups, and regressive when a greater proportion of it goes to high-income groups.<sup>27</sup>

Figure II.7

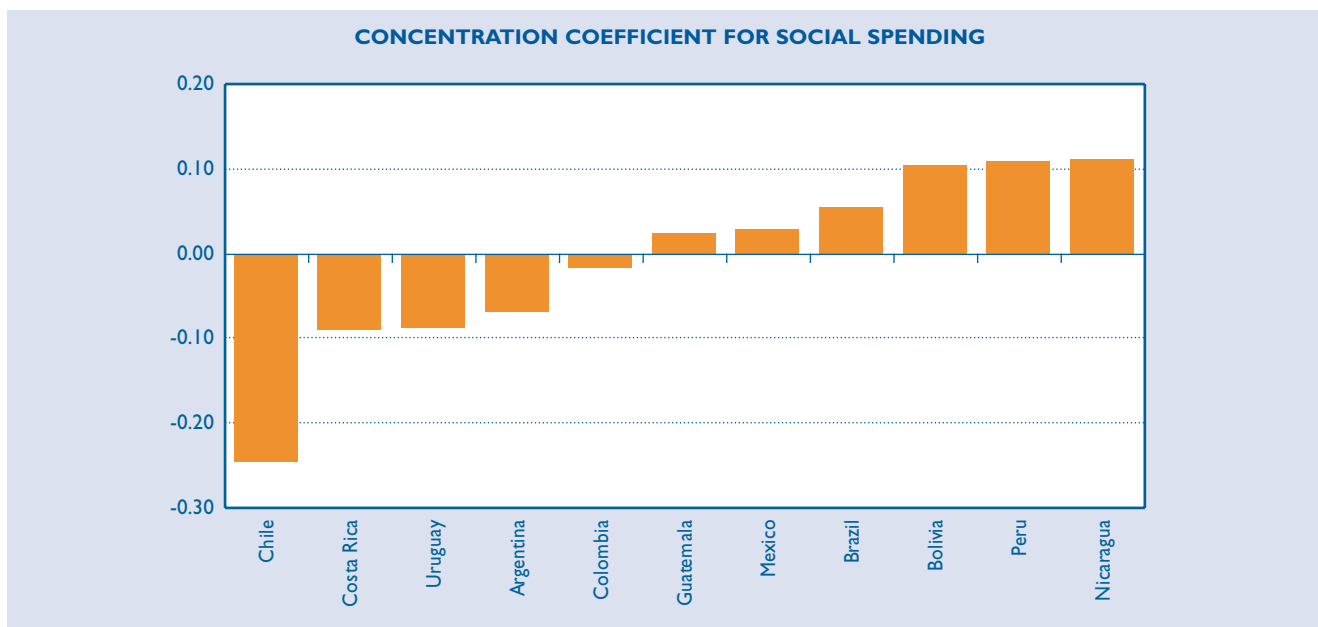


Source: Inter-American Development Bank (IDB), on the basis of national studies.

<sup>26</sup> From now on, total or aggregate social spending is understood to be that which includes public expenditure on education and health. Although it is part of the statistical data provided, spending on social security has been excluded from the analysis.

<sup>27</sup> Box II.3 contains an analysis of the concept of progressiveness of social spending.

Figure II.8



Source: Inter-American Development Bank (IDB), on the basis of national studies.

Table II.10

LATIN AMERICA: DISTRIBUTION OF SOCIAL SPENDING BY INCOME QUINTILE								
Country	I (poorest)	II	III	IV	V (richest)	Total (%)	Quasi Gini <sup>a b</sup>	Kakwani index <sup>c</sup>
<b>Argentina 1998</b>								
Education	21	20	21	20	18	100	-0.02	-0.54
Health	30	23	20	17	10	100	-0.19	-0.70
Social security	10	14	20	27	30	100	0.21	-0.30
Social spending without social security	24	21	21	19	16	100	-0.07	-0.58
Social spending with social security	19	18	20	22	21	100	0.03	-0.48
Income distribution <sup>e g</sup>	3	7	11	18	61	100	0.51	
<b>Bolivia 2002</b>								
Education	17	17	21	22	23	100	0.07	-0.37
Primary	25	25	23	18	10	100	-0.15	-0.59
Secondary	15	18	24	24	19	100	0.06	-0.38
Tertiary	3	5	17	30	45	100	0.44	0.00
Health	11	15	14	25	35	100	0.23	-0.21
Social security	10	13	14	24	39	100	0.28	-0.17
Social spending without social security	15	17	19	23	26	100	0.12	-0.32
Social spending with social security	13	16	17	23	30	100	0.17	-0.27
Income distribution <sup>d f</sup>	4	9	14	20	53	100	0.44	

Table II.10 (continued)

LATIN AMERICA: DISTRIBUTION OF SOCIAL SPENDING BY INCOME QUINTILE								
Country	I (poorest)	II	III	IV	V (richest)	Total (%)	Quasi Gini <sup>a b</sup>	Kakwani index <sup>c</sup>
<b>Brazil 1997</b>								
Education	17	18	18	19	27	100	0.09	-0.47
Primary	26	27	23	17	8	100	-0.19	-0.75
Secondary	7	12	28	33	19	100	0.18	-0.38
Tertiary	0	1	3	22	76	100	0.68	0.12
Health	16	20	22	23	19	100	0.04	-0.52
Social security	7	8	15	19	51	100	0.40	-0.16
Social spending without social security	17	19	20	21	23	100	0.06	-0.50
Social spending with social security	11	12	17	20	40	100	0.27	-0.29
<i>Income distribution<sup>d g</sup></i>	2	5	10	17	66	100	0.56	
<b>Chile 2003</b>								
Education	35	27	19	13	6	100	-0.29	-0.76
Health	30	23	20	17	9	100	-0.19	-0.66
Social spending without social security	33	26	19	15	7	100	-0.26	-0.72
<i>Income distribution<sup>e g</sup></i>	4	8	12	19	57	100	0.47	
<b>Colombia 2003</b>								
Education	24	23	20	19	14	100	-0.09	-0.62
Primary	37	28	19	12	4	100	-0.32	-0.85
Secondary	24	27	23	19	8	100	-0.16	-0.69
Tertiary	3	8	17	31	42	100	0.40	-0.13
Health	18	19	19	22	22	100	0.05	-0.48
Social security	0	2	5	13	80	100	0.68	0.15
Social spending without social security	21	20	19	21	19	100	-0.02	-0.54
Social spending with social security	14	15	15	18	38	100	0.20	-0.32
<i>Income distribution<sup>e g</sup></i>	2	6	11	18	63	100	0.53	
<b>Costa Rica 2000</b>								
Education	21	20	19	21	19	100	-0.01	-0.44
Primary	32	25	19	15	10	100	-0.22	-0.65
Secondary	18	21	22	22	17	100	-0.01	-0.44
Tertiary	3	8	14	30	45	100	0.43	0.00
Health	29	25	20	15	11	100	-0.19	-0.62
Social security	12	12	12	18	45	100	0.29	-0.14
Housing	19	23	23	20	16	100	-0.04	-0.47
Social spending without social security	25	23	19	18	15	100	-0.09	-0.52
Social spending with social security	21	19	17	18	25	100	0.03	-0.40
<i>Income distribution<sup>e f</sup></i>	4	9	14	22	52	100	0.43	
<b>Ecuador 1999</b>								
Education	15	20	20	22	23	100	0.08	-0.41
Primary	35	26	20	13	6	100	-0.28	-0.77
Secondary	15	24	25	22	14	100	-0.02	-0.50
Tertiary	3	13	16	28	40	100	0.36	-0.13
Health and nutrition	19	23	23	24	11	100	-0.06	-0.55
Social security	4	7	21	22	46	100	0.40	-0.09
<i>Income distribution<sup>d f</sup></i>	3	8	12	19	58	100	0.49	

Table II.10 (continued)

LATIN AMERICA: DISTRIBUTION OF SOCIAL SPENDING BY INCOME QUINTILE								
Country	I (poorest)	II	III	IV	V (richest)	Total (%)	Quasi Gini <sup>a,b</sup>	Kakwani index <sup>c</sup>
<b>El Salvador 2002</b>								
Education								
Primary	27	25	23	17	8	100	-0.18	-0.66
Secondary	11	20	26	25	18	100	0.08	-0.40
Health	26	23	21	18	12	100	-0.13	-0.61
<i>Income distribution<sup>e,g</sup></i>	3	8	13	21	56	100	0.48	
<b>Guatemala 2000</b>								
Education	17	21	21	21	21	100	0.03	-0.51
Primary	21	25	23	21	10	100	-0.10	-0.64
Secondary	3	12	23	31	32	100	0.30	-0.24
Tertiary	0	0	6	11	82	100	0.69	0.15
Health	17	18	23	25	17	100	0.03	-0.51
Social security	1	3	5	15	76	100	0.65	0.11
Social spending without social security	17	20	22	22	19	100	0.03	-0.51
Social spending with social security	14	17	19	21	29	100	0.14	-0.40
<i>Income distribution<sup>d,g</sup></i>	3	6	10	18	64	100	0.54	
<b>Honduras 1998</b>								
Health	22	24	24	17	14	101	-0.10	-0.60
<i>Income distribution<sup>e,g</sup></i>	3	7	12	20	59	100	0.50	
<b>Jamaica 1997</b>								
Education								
Primary	31	27	21	15	6	100	-0.24	-0.78
Secondary	10	15	25	30	20	100	0.14	-0.40
<i>Income distribution<sup>e,g</sup></i>	7	11	15	22	46	100	0.36	
<b>Mexico 2002</b>								
Education	19	20	19	23	19	100	0.01	-0.48
Primary	30	26	20	16	8	100	-0.21	-0.70
Secondary	14	20	21	26	19	100	0.06	-0.42
Tertiary	1	7	15	33	44	100	0.45	-0.03
Health	15	18	21	23	22	100	0.08	-0.41
Social security	3	11	17	28	42	100	0.38	-0.11
Social spending without social security	18	19	20	23	20	100	0.03	-0.45
Social spending with social security	16	19	19	23	23	100	0.07	-0.41
<i>Income distribution<sup>d,g</sup></i>	3	7	12	19	58	100	0.49	
<b>Nicaragua 1998</b>								
Education	11	14	20	21	35	100	0.22	-0.27
Health	18	23	22	19	18	100	-0.02	-0.51
Social spending without social security	14	18	21	20	27	100	0.12	-0.38
<i>Income distribution<sup>e,f</sup></i>	4	7	11	18	60	100	0.49	
<b>Paraguay 1998</b>								
Education	21	20	20	20	19	100	-0.02	-0.51
Primary	30	26	21	15	8	100	-0.23	-0.72
Secondary	14	18	25	24	19	100	0.06	-0.43
Tertiary	2	5	8	29	56	100	0.53	0.04
<i>Income distribution<sup>e,g</sup></i>	3	9	15	22	52	100	0.44	

Table II.10 (concluded)

LATIN AMERICA: DISTRIBUTION OF SOCIAL SPENDING BY INCOME QUINTILE								
Country	I (poorest)	II	III	IV	V (richest)	Total (%)	Quasi Gini <sup>a,b</sup>	Kakwani index <sup>c</sup>
<b>Peru 2000</b>								
Education	16	18	19	21	26	100	0.10	-0.31
Health	14	16	18	24	28	100	0.14	-0.27
Social spending without social security	15	17	18	22	27	100	0.11	-0.30
<i>Income distribution<sup>d,f</sup></i>	4	9	15	22	50	100	0.41	
<b>Dominican Republic 1998</b>								
Education								
Primary	25	26	24	16	9	100	-0.17	-0.60
Secondary	14	19	25	26	16	100	0.04	-0.39
Tertiary	2	13	18	28	39	100	0.36	-0.08
<i>Income distribution<sup>e,f</sup></i>	5	9	13	20	53	100	0.43	
<b>Uruguay 1998</b>								
Education	28	23	19	16	15	100	-0.13	-0.54
Health	24	20	20	18	18	100	-0.06	-0.47
Social security	3	7	15	24	52	100	0.46	0.05
Social spending without social security	26	21	20	18	16	100	-0.09	-0.50
Social spending with social security	12	13	17	21	37	100	0.23	-0.18
<i>Income distribution<sup>e,g</sup></i>	5	9	14	22	50	100	0.41	

**Source:** Inter-American Development Bank (IDB), on the basis of national surveys.

<sup>a</sup> The Quasi Gini or concentration coefficient is a measure of the orientation of social spending. Its values range from -1 to 1. A negative coefficient indicates that social spending is progressive and a positive coefficient indicates regressive social spending (see box II.4).

<sup>b</sup> The concentration coefficient for income distribution is equivalent to the Gini coefficient.

<sup>c</sup> The Kakwani index or relative concentration coefficient is a measure of the orientation of social spending in relation to income distribution. Its values range from -2 to 1, with a negative value when social spending is progressive and positive when it is regressive.

<sup>d</sup> The population of this country was divided into quintiles according to consumption levels.

<sup>e</sup> The population of this country was divided into quintiles according to income levels.

<sup>f</sup> In these countries, the basic analysis unit was households.

<sup>g</sup> In this country, the basic analysis unit was individuals.

The lack of a clear pattern in the measurement of concentration of social spending in Latin America, however, is not reproduced at the subregional level. Indeed, at first sight the statistical evidence would seem to suggest the existence of trends in the orientation of social spending in subregional blocks. Aggregate social spending tends to be progressive in the Southern Cone group of countries (Argentina, Chile and Uruguay) and regressive in Brazil and the Andean area (Bolivia, Ecuador and Peru), except for Colombia.<sup>28</sup> In the Central American countries for

which data are available (Costa Rica, Guatemala, Mexico and Nicaragua), results are mixed and tend to resemble those of the region as a whole. The analysis of sectoral spending, particularly on education and health, leads to similar conclusions. Differences between geographical blocks in terms of the orientation of social spending, as indicated below, are more likely to be related to per capita income levels, wealth distribution, institutional quality, and predominant trends in the conception of social policy objectives in the various parts of the continent.

<sup>28</sup> No data are available for the Bolivarian Republic of Venezuela or Paraguay.

**DEFINITION OF THE PROGRESSIVENESS OF SOCIAL SPENDING**

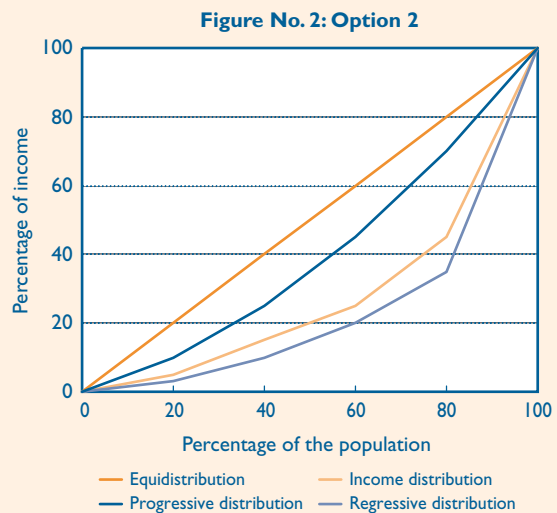
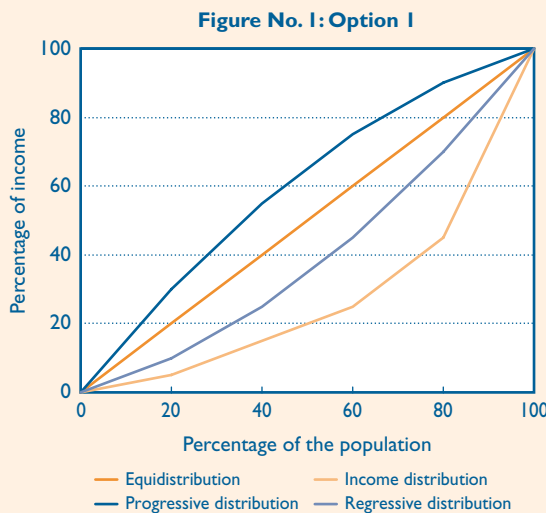
There is no consensus in political and academic circles as to the definition of progressiveness or regressiveness in social spending. There are two main interpretations: The first considers spending to be progressive (regressive) when it is distributed more than proportionately to social groups having lesser (greater) incomes or consumption levels. The second interpretation considers spending to be progressive (regressive) when the proportion of resources allocated to groups having lower (higher) incomes exceeds their share in terms of income distribution.

The difference between the two versions is substantial. In the first, spending is considered progressive when the absolute per capita amount distributed to lower-income individuals is higher than that distributed to richer groups; that is, when the poorest quintiles or deciles receive a proportion of spending greater than their percentage of the population, regardless of the proportion of income that they receive.

In the case of a social policy which allocates 15% of social spending in education to the poorest 40% of the population, which generates only 10% of total government revenue, that spending would be regressive from the first perspective (figure 1), since the poorest 40% receive only 15% of overall education spending. Under the second interpretation (figure 2), the same spending pattern would be considered progressive, since a group producing 10% of national revenue is receiving a higher proportion of social spending on education, 15%.

In other words, while the first option defines social spending as progressive or regressive by reference to the 45 degree line of complete equality, the second uses the income distribution curve, or Lorenz Curve. As a result, it is usually said that the first viewpoint measures absolute progressiveness, whereas the second considers relative progressiveness (in relation to income).

In this case the first interpretation has been chosen, the one which considers spending to be progressive when it is distributed more than proportionately to lower-income social groups. The results of analysis of the orientation of social spending based on the second viewpoint –the one which proposes that the progressiveness of social spending depends on income distribution– may send mixed signals to public policy-makers. For example, if two countries use the same pattern for social spending distribution across different socioeconomic groups, the country with the worst income distribution would, paradoxically, appear the most progressive in the distribution of spending, and the one with the best income distribution would appear to be the most regressive. Likewise, if a country keeps a constant pattern in social spending by social group during a certain period, but income distribution worsens at the same time, concentration ratios calculated on the basis of the second approach would lead to the conclusion that social spending in that country has become more progressive. On the other hand, this study postulates that State action through social spending on the provision of basic services should be assessed independently from each socioeconomic group’s contribution to national revenue and should rather be guided by the equity principle.



Source: Inter-American Development Bank (IDB).

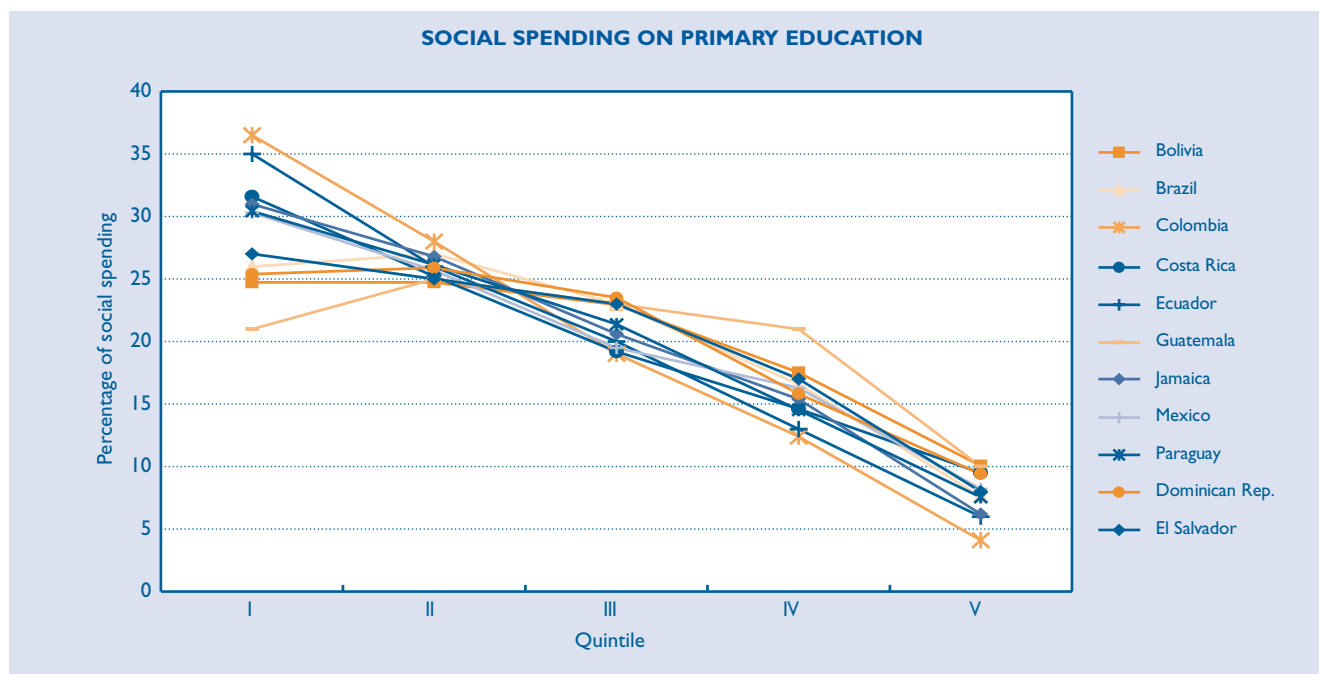
## 5. EDUCATION: TOWARDS PROGRESSIVE SPENDING IN PRIMARY EDUCATION

From the perspective of public policy, the region's most significant achievement up to the late 1990s was undoubtedly the establishment of a progressive pattern for spending on primary education. As shown in figure II.9, the distribution of public resources in primary education is biased towards the poorest quintile of the population in the 11 countries for which data are available. Furthermore, the share of fiscal resources allocated to each income group shows an upward trend in favour of the poorest quintiles, with the sole exception of Guatemala.

Although it cannot be affirmed with total certainty that the progressive spending matrix at the primary education level is a recent development, because of the lack of similar, comparable indicators for past years, statistical data obtained from related variables used as the basis in elaborating measurements

of the incidence of spending suggest that this was achieved at the end of the twentieth century. There are two important indicators which show a revitalization in the 1990s. Firstly, according to ECLAC, per capita social spending on education in all the countries of the region, aside from Cuba and Ecuador, grew between 1990–1991 and 2000–2001 by percentages ranging from 13% (Brazil) to over 250% (Dominican Republic). The average increase was 46.3% (from US\$ 98 to US\$ 143, an additional US\$ 45 per capita). Of this expansion, 42% resulted from growth in national budgets for the education sector, driven by the political will to promote access to basic services for the most needy population groups. Secondly, the net primary–school enrolment rate increased steadily across the region during the same period, from a median figure of 88% in 1990 to one of 92% in 2001. In short, increased public spending on education, growing primary–school attendance, the shared political will to extend educational services, and the relative –albeit still insufficient– improvements in institutional quality in the region during the 1990s, suggest that the high

Figure II.9



Source: Inter-American Development Bank (IDB), based on national studies.

progressiveness of public spending on education in the region is an achievement which was heightened over the last decade, owing to the aforementioned factors.

There are two factors which could partly explain the increased social spending on education for the poorest quintiles. Firstly, poor families generally have more school-age children than those in high-income groups.<sup>29</sup> Also, wealthier families are reluctant to send their children to State schools.<sup>30</sup> Secondly, even if we assumed that the number of direct beneficiaries per income group were the same, social spending on the lowest income quintiles would be higher because of the greater cost per student incurred by the State in providing the service in those segments. Generally, the more needy the target population, the greater the cost of providing a social service. The per capita cost of identifying, organizing and training marginalized social groups in the use and maintenance of basic health and education services, and the cost to the State of improving the social environment so that social services can be better enjoyed, are significantly higher than the cost of providing similar services to the middle classes.

That does not at all detract from the political will that has been shown in the region to redirect fiscal resources towards the provision of social services. On the contrary, it recognizes the efforts of the Governments of the region which, faced with major obstacles both financial and related to social

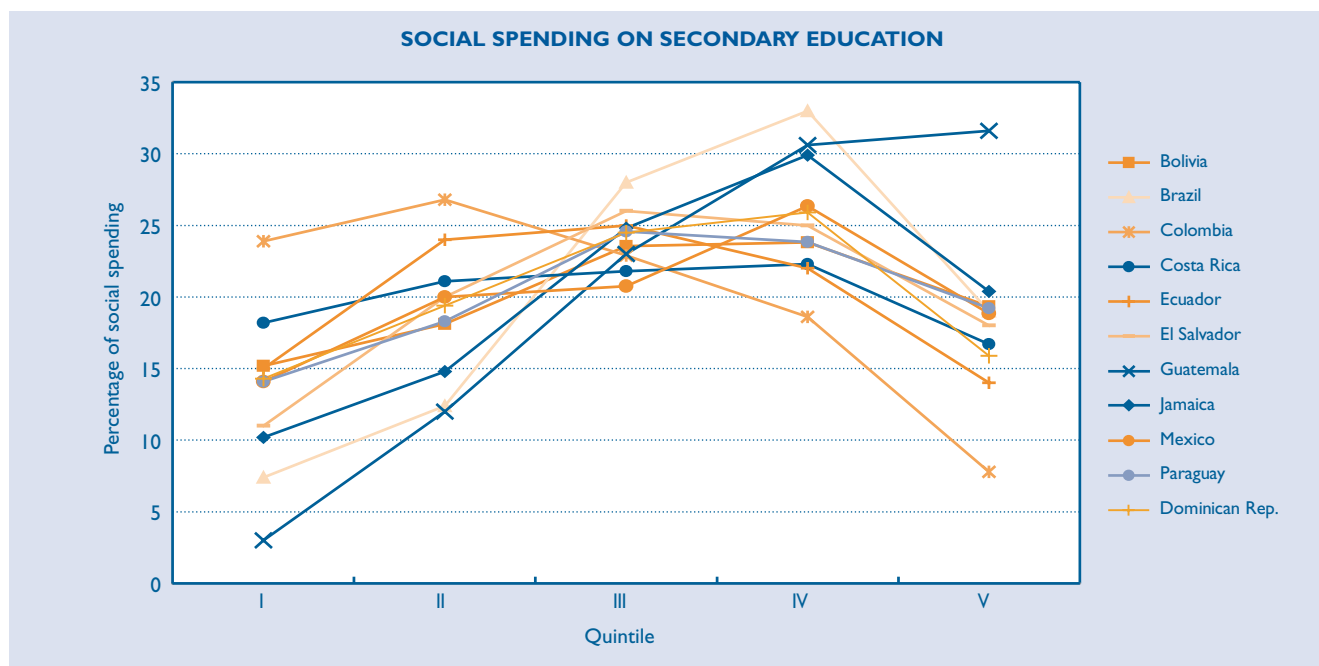
structure, chose to commit themselves to extending social services to the most needy groups.

The distribution of secondary education spending, on the other hand, tends to be regressive; in eight countries, social spending is more than proportionately devoted to higher-income groups, and in two (Costa Rica and Ecuador) the distribution of spending tends to be neutral. The only exception is Colombia, which has made progress in the orientation of education spending beyond the primary-school level. One characteristic common to the whole region is the marked bias in favour of the middle classes (see figure II.10). The inverted-U form predominant in the distribution of secondary-education spending in the Latin American countries may be due to the high opportunity cost for pupils from the poorest quintiles of the decision to continue their studies, and the low rate of return of public education in the region. Firstly, the need for new sources of income in the poorest households leads to higher school drop-out rates in the lowest quintiles. Secondly, the lower expected rate of return from public education is a disincentive for the highest income groups to apply to State schools. According to the World Bank (1995), the rate of return on public primary education between the early 1980s and the early 1990s stood at 17.9%, compared with 26.2% for private primary schools. The figure for public secondary education was 12.8%, and for private education at the same level, 16.8%.

<sup>29</sup> This argument is valid provided that social spending has been allocated by income levels calculated on a household basis. Of the 16 national studies in which methodological information is presented, 10 use the household as the unit of analysis, and in the other six the unit of analysis is the individual.

<sup>30</sup> As public education improves for all social strata, differences between the quality of education provided by the State and by some private schools diminish, mitigating the segmentation between the two systems.

Figure II.10



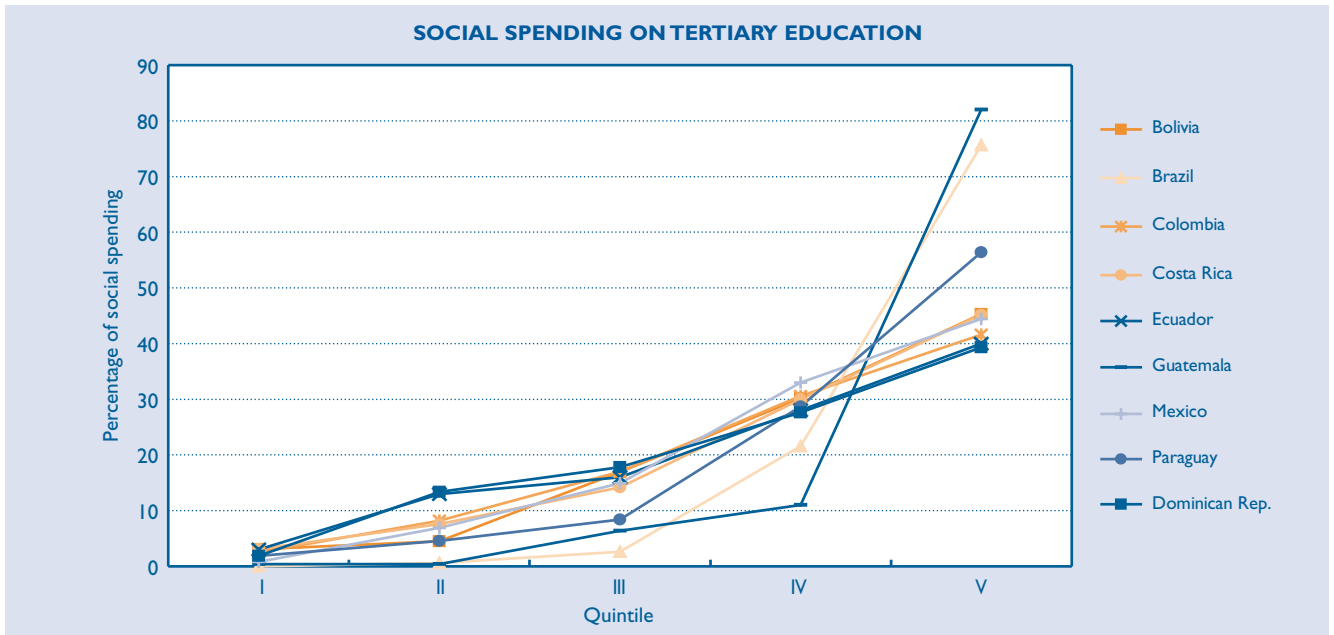
**Source:** Inter-American Development Bank (IDB), based on national studies.

As a natural consequence of limited access to secondary education for the lowest income groups, spending on university education is significantly regressive. Figure II.11 shows a high concentration of higher-education spending in the 40% of the population with the highest incomes. That segment of society takes up a percentage of public resources which varies between 70% and 97% in the sample of eight countries. The most strongly marked cases are Guatemala and Brazil, where 76% and 82% respectively of resources allocated to tertiary education benefit the 20% of the population with the highest incomes.

Spending on higher education and on science and technology is extremely important in Latin America, a region having an urgent need to improve its competitiveness in an increasingly globalized world. Nonetheless, for reasons we have already

mentioned, the poorest segments of the population have limited access to higher education. It is students from high-income segments who benefit directly from State spending; the latter is therefore regressive, and it is financed from meagre fiscal resources. As a matter of urgency, there must be a discussion in the region –on equitable terms– concerning the share of public funds that should be used for the provision of higher education, to ensure that policies are implemented to promote and facilitate access to higher education for young people from modest social backgrounds who have managed to complete secondary education. Such policies could involve credit facilities, scholarships and other forms of financing. Given the scarcity of fiscal resources to meet demand for higher education from the lowest income groups, public funding received by the wealthier segments could be gradually lowered.

Figure II.11



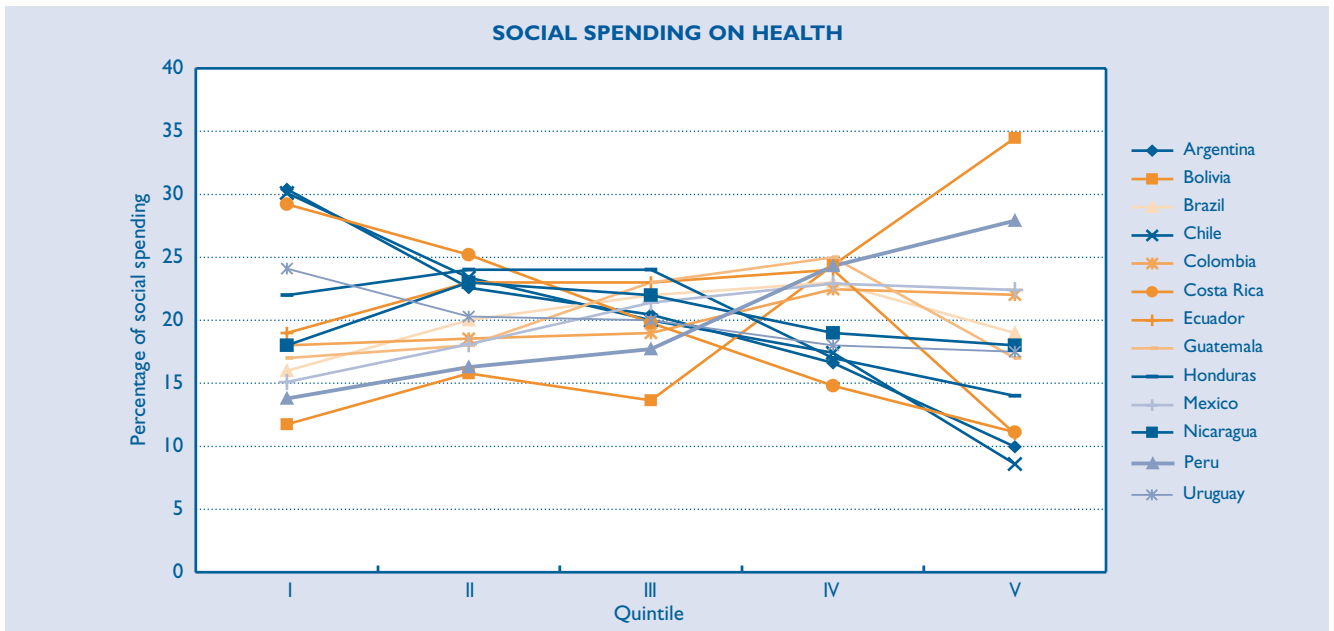
Source: Inter-American Development Bank (IDB), based on national studies.

## 6. HEALTH: MIXED RESULTS

As is the case for overall social expenditure, the orientation of public health spending shows a fairly wide variation in the region (see figure II.12). However, instances where such spending is

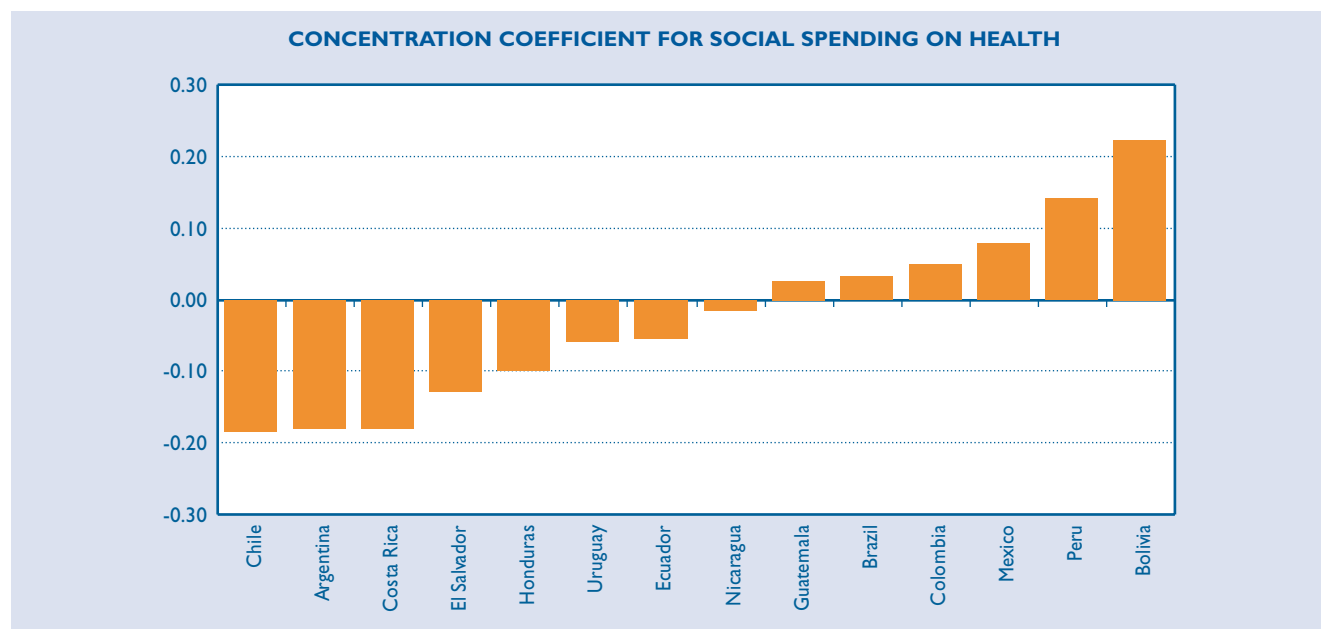
progressive are more numerous and more marked. In eight of the 14 countries for which information is available, the public health budget is distributed more than proportionately towards low-income groups (see figure II.13).

Figure II.12



Source: Inter-American Development Bank (IDB), based on national studies.

Figure II.13



**Source:** Inter-American Development Bank (IDB), based on national studies.

Could it be argued that the current leaning towards progressiveness in the conduct of public health spending represent a step forward relative to previous decades? Unlike the case of primary education, analysis based on related variables does not show a clear trend. In the 1990s, there were some favourable conditions for improving the orientation of spending in the sector, such as increasing per capita health spending (25% on average, or an additional US\$ 20), the existence of political will to expand basic services, reflected in a 10% rise in health-sector resources as a proportion of national social budgets, and institutional improvements.

Nonetheless, evaluation of the potential distributive effect of these conditions is made more difficult by a number of factors. For example, after achieving the difficult task of identifying the target population living in extreme poverty, the obstacles to be overcome in order to set up a hospital or a basic health centre are significantly greater in comparison with those involved in establishing an educational centre, since the former requires a more complex

infrastructure, including electric power, drinking water and sewerage systems. This marked difference in costs may have held back the reallocation of fiscal resources in the health sector towards less privileged social segments, despite increases in the sector's overall budget.

Another factor adding to the difficulty of analyzing public social spending on health is the fact that, in most of the countries being considered, data have been provided in aggregate form, making it impossible to evaluate the allocation of public social spending on health by income levels and by type of service (preventive or curative, for example).

In the analysis of the net distributive effect of public social spending (a subject considered in the next section of the *Social Panorama*), the health sector presents particular complications owing to the recurrence of private spending associated with service provision, either because the free public health service must be complemented by private resources (for items such as medications) or because a service, being unavailable to certain social groups,

has to be covered entirely by the families concerned.<sup>31</sup> In proportion to income, such private spending is higher for lower-income households. Consequently, in any analysis of distributive effect in the health sector, those resources should be discounted by income quintile.

From the global and sectoral analysis of public social spending it can be said that the pattern of social spending on education and health in Latin America is moving towards progressiveness, although slowly and unevenly. The evidence for this includes the rise in per capita social spending, sustained increases in primary- and secondary-school enrolment, better access to health services, institutional improvements, and political will among governments to allocate a greater proportion of fiscal resources to social spending during the 1990s. Although the statistics presented show only five of the 11 countries under consideration reporting progressive aggregate social spending in the early years of the twenty-first century, the evidence

suggests that in comparison with the figures recorded 10 years earlier, there seems to be a significant rise in the number of countries in the region where social spending was more progressive (or less regressive). It can therefore be said with some optimism that if this trend continues, Latin America could within a similar period see the consolidation of a progressive social spending strategy, which would of course affect the standard of living of the lowest-income groups, and levels of inequality.

However, this cautious optimism should be contrasted with the fact that in only five of the 11 countries for which updated information is available is social spending on education and health progressive, and the rate of change seems very slow. In other words, is the glass half full or half empty? We must not lose our optimism, but at the same time we must recognize that the region needs to tackle the problem of equity with a greater sense of urgency, so that the periods needed to show visible changes do not become too long.

Box 11.4

#### CONCENTRATION AND PROGRESSIVENESS COEFFICIENTS

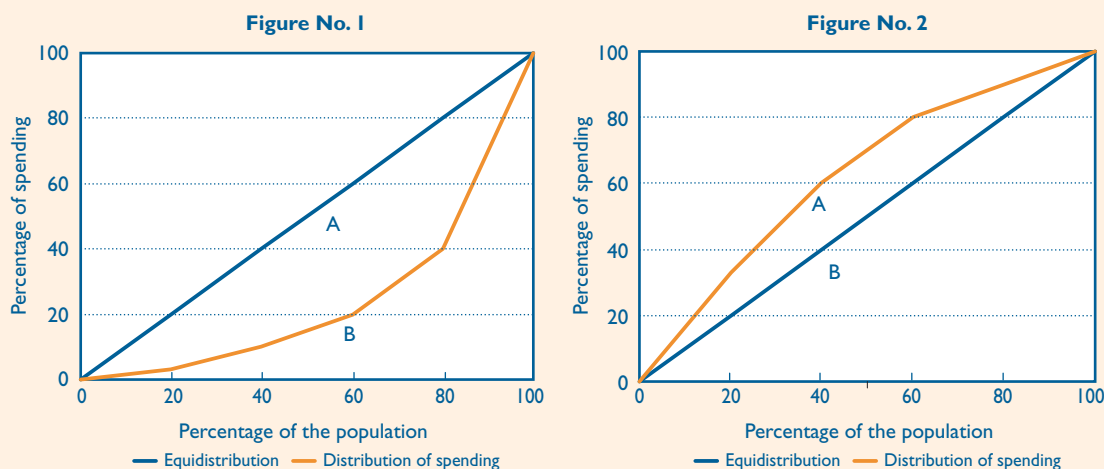
Assessing the progressiveness of social spending involves working out what proportions of that spending are allocated to the poorest and to the richest population groups. One of the most widely-used indicators for that purpose is the concentration coefficient (or quasi-Gini), which measures the bias or orientation of social spending, and whose values vary between -1 and 1.

Figures 1 and 2 will help to understand the nature of the concentration coefficient. The horizontal axis represents the cumulative percentage of individuals or households, in ascending order by level of income or consumption; the vertical axis measures the cumulative percentage of social spending. The pattern of distribution of social spending (for example, in quintiles or deciles) is represented by the concentration curve for spending. Thus, the concentration coefficient for social spending, or quasi-Gini, is defined as the ratio between the area located between the equal-distribution straight line (45°) and the concentration curve for social spending ( $A$ ), and the area below the 45-degree straight line ( $A + B$ ).

In other words, the quasi-Gini is equivalent to  $A/(A+B)$ . When  $B$  is equal to 0 (so  $QG=1$ ), the distribution of spending is totally biased in favour of higher-income groups. That is, the higher the deviation of the concentration curve for social spending below the 45-degree line, the greater the orientation of social spending towards the wealthier population groups; in other words, it is more regressive.

<sup>31</sup> This phenomenon is not so widespread in the education sector, where, given the lack of access to State education, in some cases low-income families decide not to send their children to school because they are unable to pay for it out of their own income.

## CONCENTRATION AND PROGRESSIVENESS COEFFICIENTS



If the concentration curve is located above the 45-degree line (that is, when social spending is progressive), as in figure 2, technically the area between the two lines is negative ( $QG = -A/(A+B)$ ). A Quasi-Gini equal to -1 means that the orientation of spending is totally favourable to the poorest population groups. The orientation of spending is neutral, or perfectly egalitarian, when the concentration curve for social spending coincides with the line of equidistribution ( $QG=0$ ). In short, the quasi-Gini varies between -1 and 1, shows negative values when spending is progressive, and positive when it is regressive.

The formula used to obtain the quasi-Gini coefficient of concentration is:

$$G=1-\sum_{i=0}^N (\delta Y_{i+1} + \delta Y_i) \times (\delta X_{i+1} - \delta X_i)$$

where  $\sigma X$  and  $\sigma Y$  are the cumulative percentages for  $X$  (population) and  $Y$  (social spending) respectively.  $N$  is the number of percentiles used to divide the population (for example, quintiles or deciles).

While the calculation of the progressiveness (or regressiveness) of social spending depends solely on the concentration curve, the measurement of the progressiveness of spending relative to income distribution also rests on the income distribution curve (or Lorenz curve), resulting in the coefficient of relative progressiveness, or Kakwani index. This index is equivalent to the difference between the social spending concentration coefficient and the Gini income coefficient. The calculation of the relative progressiveness of social spending uses income distribution as a point of reference. The Kakwani index, whose values vary between -2 and 1, is negative when spending is progressive relative to income distribution, and positive when spending is regressive relative to income distribution. For example, if a country registers a Gini income coefficient of 0.51 and a social spending concentration coefficient of 0.21, the Kakwani index will be -0.3. In that hypothetical case, social spending is regressive if measured by the concentration coefficient, but progressive in terms of income distribution.

Source: Inter-American Development Bank (IDB).

## 7. CORRELATIONS

The distribution of public social spending by socioeconomic level in the region shows a high degree of variability, which inevitably leads to the question of whether the degree of progressiveness of

social spending is associated with other economic or social variables. If that is the case, what are those variables? Are lack of equity in wealth distribution, social exclusion and the quality of institutions related to the degree of progressiveness of social spending? In this section, statistical data are

presented in a first attempt to find answers. This analysis is intended to serve as a starting point for future academic research in this area, rather than a series of conclusive arguments.

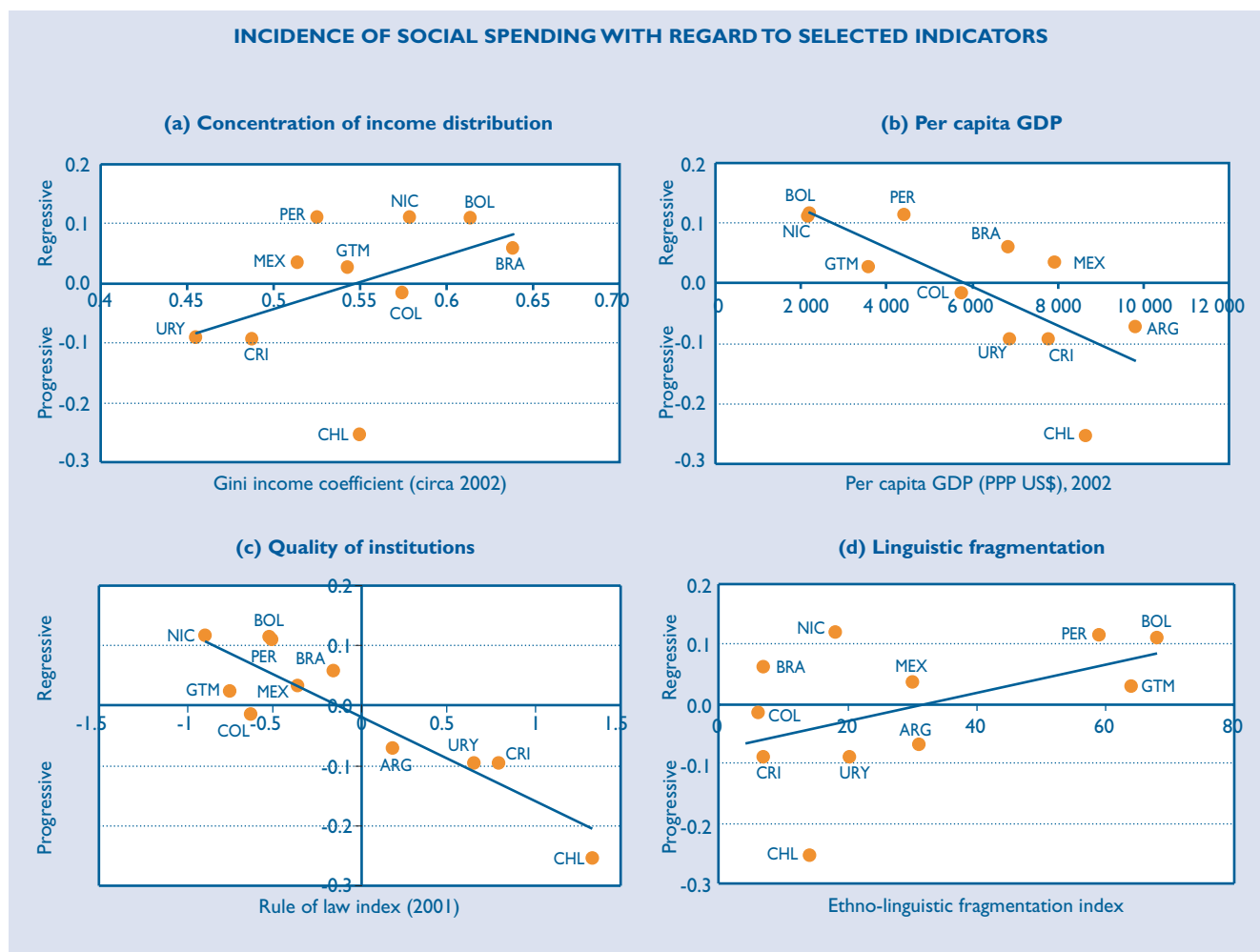
First of all, the distribution of social spending by income group is correlated with the lack of equity in income distribution (see figure II.14a).<sup>32</sup> The simple relationship between the two variables suggests that more equitable societies give higher priority to the needs of underprivileged groups. A number of theories have been developed to explain the reason for the link between equity and distributive spending policies. Some theories suggest that in countries or regions with a high degree of inequality, economic and political power are vested in the same groups, which undermines the government's capacity to carry out social reforms to meet the demands of the lowest income groups (Haggard, 1994; Bénabou, 1996). In contrast, Engerman and Sokoloff (1997) and others claim that the existence of social groups with extensive economic and political power together with significant gaps in income distribution contribute to making societies less democratic, and less likely to foster policies for human capital accumulation in the poorest segments of the population. Although the academic debate on the effect of wealth distribution on the implementation of distributive public policies remains open, it is essential to recognize the restrictions imposed by the lack of equity on the implementation of more progressive spending policies when designing social programmes in Latin America, the region with the highest inequality indices in the world.

Secondly, the information available shows that the orientation of social spending is highly correlated with the average level of wealth. In higher-income countries social spending tends to be more progressive (see figure II.14(b)). The dynamics behind the distribution of public funds in the region could explain the nature of the link between the progressiveness of social spending and per capita GDP. In fact, in low-income countries, the struggle between polarized social groups over scarce fiscal resources reaches an extreme level. In this context, the segments with the greatest capacity to exert pressure and resources in favour of their demands, that is, the middle and upper classes, are more successful in influencing the allocation of public funds, to the detriment of underprivileged groups. In higher-income countries there is also social conflict, but it is less intense in view of greater financial flexibility to accommodate social demands. The result is a more progressive, or less regressive, pattern of spending.

There is another way in which the level of per capita GDP may influence the pattern of social spending by socioeconomic segment. As was mentioned above, the cost of providing a social service is higher when the target population has more unmet needs. It follows from this that social projects that have to operate in those circumstances are more feasible both financially and politically in countries with more fiscal resources. When income is higher, there is more headroom to cope with the fiscal challenge of dealing with the most vulnerable groups.

<sup>32</sup> The data on the Gini coefficients of income distribution are from ECLAC (ECLAC, 2005b).

Figure II.14



**Source:** Inter-American Development Bank (IDB), on the basis of national surveys.

Thirdly, the orientation of social spending is linked to the quality of institutions (see figure II.14(c)). The data available for 11 countries in the region show a clear negative correlation between the coefficient of concentration of aggregate social spending and the rule of law index.<sup>33</sup> More progressive social spending is reported in countries in which there is stricter compliance with the law. In the private sphere, the quality of institutions

determines how efficient markets are, by establishing rules and controls that are clear, coherent, credible, stable over time and applied equally to all economic agents (Burki and Perry, 1998). In the public and social sphere, solid institutions, both governmental and political and civil, are associated with societies that monitor the Government's compliance with the social agenda through formal institutional mechanisms, demand accountability from bureaucracy and allocate

<sup>33</sup> The rule of law index is one of the six institutional quality indices constructed by Kaufmann, Kraay and Zoido-Lobaton (2002). The values of the index vary between -2.5 and 2.5, where the highest values are associated with societies in which there is more widespread compliance with the law. The index has been constructed on the basis of surveys which consider the perceptions of non-governmental organizations, risk classifying agencies and consultants. Data are available for 173 countries for the period 1997–2001.

responsibility for social impacts, and where the law can be applied when the circumstances so require. This could explain in part why in Latin America, a region that is formally committed to resolving the problems of the poorest, those countries that have a better quality of institutions are also those that have a more progressive pattern of social spending.

Lastly, the statistical evidence shows that regressive social spending policies go hand in hand with greater ethnic diversity, which is measured by the index of ethno-linguistic fragmentation (see figure II.14(d)).<sup>34</sup>

Final conclusions on the relationship between the pattern of social spending by income group and variables such as per capita GDP, the quality of institutions, the lack of equity and ethnic differences could only be drawn by ignoring a series of theoretical and empirical considerations. Aggregate social spending by socioeconomic level does not show clearly how resources are distributed across sectors and programmes. Similarly, the analysis of simple correlations should follow a detailed process of incorporating new explanatory and control variables. Observations should be included from other continents and from Latin American countries not considered here, as well as other quantitative procedures that are required for a more rigorous methodology, in order to evaluate the existence and direction of a possible causal relationship between the orientation of social spending and the variables mentioned. In practice this analysis has been limited by the lack of information on the orientation of social spending. Despite such limitations, this first consideration of the possible relationship between social spending policies and economic and social

phenomena is intended to encourage research in this area and the identification of new tools to improve public policy-making on social issues.

## 8. SPENDING ON SOCIAL ASSISTANCE

Social assistance spending is often confused with public social spending. They are different in nature, target populations, the level of resources involved and also, very often, in the type of services financed. Unlike public social spending, which is intended to offer social services to all citizens without distinction, the goal of social assistance programmes is to focus its resources on the social groups with the most needs. Although the areas of activity in which the resources of social assistance programmes and public social programmes are invested are not mutually exclusive (for example education and health), very often the assistance programmes offer a broader range of services, as in the case of school meals, maternal nutrition programmes and monetary subsidies.

The resources allocated to social assistance programmes in Latin America are a small proportion of public social spending or of total public spending. On average, the funds allocated to assistance programmes are close to 15.1% of public social spending and 7.7% of total public spending in the 10 countries for which statistical information is available. The country that allocates the highest percentage of its aggregate social spending to this type of programmes is Peru (32.3%), while Brazil allocates the lowest percentage (2.2%) (see table II.11).<sup>35</sup>

<sup>34</sup> The ethno-linguistic fragmentation index is the average of five indices that measure the degree of ethnic diversity in a particular country. The values of the index vary from 0 to 1. The higher the index, the higher the degree of ethno-linguistic fragmentation. Data are available for 161 countries and were obtained from La Porta and others (1998).

<sup>35</sup> In some cases, such as that of Brazil, spending on social assistance programmes is probably underestimated owing to the fact that a significant portion of public spending is administered by local governments. This might also be the case in Argentina or Mexico.

Table II.11

LATIN AMERICA: SPENDING ON SOCIAL ASSISTANCE PROGRAMMES, BY INCOME QUINTILE									
Country	I (poorest)	II	III	IV	V (richest)	Total (%)	Quasi Gini <sup>a</sup>	Kakwani Index <sup>b</sup>	% of social spending <sup>c</sup>
Argentina (1998) <sup>d</sup>	54	25	11	6	3	100	-0.48	-0.99	15.0%
Brazil (1997) <sup>e</sup>	29	25	22	16	8	100	-0.20	-0.76	2.2%
Chile (2003) <sup>f</sup>	48	26	16	8	2	100	-0.43	-0.83	19.6%
Colombia (2003) <sup>g</sup>	29	25	20	18	9	100	-0.18	-0.71	15.7%
Costa Rica (2000) <sup>h</sup>	38	25	16	14	8	100	-0.29	-0.72	6.8%
Ecuador (1999) <sup>i</sup>	28	26	25	18	4	100	-0.22	-0.71	23.7%
Guatemala (2000) <sup>j</sup>	16	24	26	20	13	100	-0.04	-0.58	12.8%
Mexico (2002) <sup>k</sup>	49	22	11	11	7	100	-0.37	-0.86	6.3%
Peru (2000) <sup>l</sup>	29	26	23	16	7	100	-0.21	-0.67	32.3%
Uruguay <sup>m</sup>	29	21	17	20	12	100	-0.14	-0.55	16.5%

**Source:** Inter-American Development Bank (IDB), on the basis of national surveys.

<sup>a</sup> The quasi-Gini or concentration coefficient is used to measure the orientation of social spending, with values ranging from -1 to 1. A negative coefficient indicates progressive social spending and a positive coefficient indicates regressive social spending (see box II.4).

<sup>b</sup> The Kakwani index or relative concentration coefficient is used to measure the orientation of social spending in relation to income distribution. Its values range from -2 to 1, with a negative value when social spending is progressive and positive when it is regressive.

<sup>c</sup> Education and health.

<sup>d</sup> Includes public social awareness campaigns and social assistance.

<sup>e</sup> Includes child services, school meals and maternal nutrition.

<sup>f</sup> Includes monetary subsidies for assistance benefits, the single subsidy for families, drinking water consumption and unemployment benefits.

<sup>g</sup> Includes care for children aged under seven years, school meals and training.

<sup>h</sup> Includes support programmes for the poorest groups, including the disabled, rural families, indigenous groups, older adults and others.

<sup>i</sup> Includes the solidarity bonus, school meals, free food programmes and infant care.

<sup>j</sup> Includes school meals, school items and materials, scholarships, in-kind transfers, and programmes implemented by PRONADE.

<sup>k</sup> Includes the Oportunidades and Procampo programmes.

<sup>l</sup> Includes school breakfast programmes, school milk programmes, soup kitchens, mothers' clubs, and school uniforms and materials.

<sup>m</sup> Includes early childhood development programmes, food programmes and cash transfers.

In terms of orientation by income quintile, all the countries with the exception of Guatemala show progressive spending patterns in the allocation of resources administered by the social assistance programmes, which clearly favour low-income groups. Within these groups, the pattern of spending on social assistance shows a fairly broad range of degrees of progressiveness. Mexico leads the list of countries that allocate this type of social assistance in a form that is disproportionately favourable to lower-income groups, which is mostly due to the successful government programme "Oportunidades".

Although social assistance programmes that target the poorest groups are important, the resources assigned to them are insufficient, as they only receive a small proportion of the total fiscal

resources allocated to the social sphere. In a region that has a high level of poverty and inequality, equating social assistance programmes with social policy means ignoring the full scale of the problems of both phenomena and the huge responsibility of social policy, as manifested in public social spending, to reduce or eliminate the structural problems that lead to poverty, social exclusion and the lack of equity in the region.

Furthermore, equating social assistance with social policy may, in practice, convert the social services that are oriented to the poorest groups into inferior goods.<sup>36</sup> Social services in a democratic society should not be segmented into two classes of services: those provided for low-income families and those provided to the rest of the population, that

<sup>36</sup> An inferior good is one for which demand falls as an individual's income rises. This distinguishes it from a normal good, demand for which varies in the same direction as income.

is, the medium and high-income groups. Such segmentation brings enormous risks in terms of the quality of public services and social fragmentation. Although in many countries of the region such segmentation is inevitable in the short term in view of the low level of fiscal income, the development of quality social services with standard content is a desirable medium- and long-term goal.

## 9. CONCLUSIONS

The following reflections arise from an analysis of the distribution of public social spending by income group in Latin America:

(a) The orientation of public social spending is important because it reveals governments' preferences in relation to confronting poverty, inequity and their consequences. The level of spending, however, is also important. Even if public social spending is distributed only proportionally among the different income groups, a higher level of aggregate spending would bring disproportionately higher benefits for low-income groups. An increase in public social spending in Latin America is thus a necessary, but not sufficient, condition for combating poverty, the lack of equity and their consequences. In this context, it is important to note the expansion of public spending in the social sectors between 1990 and 2001 in the 18 countries of the region for which statistical information is available. Although an increase in social spending does not necessarily result in social policy that is more targeted towards reducing the unmet needs of the lowest-income groups, it does throw into relief the relative priority that has been given to the social sectors in the process of allocating public resources. Lastly, as public social spending is less concentrated than income in all countries of the region, it does mitigate the inequality in primary income distribution.

(b) In brief, there are indications that the pattern of social spending on education and health in Latin America has been changing direction and becoming more progressive, although in a slow and uneven manner. These indications include higher per capita social spending, sustained increases in the levels of primary and secondary enrolment, the expansion of access to health services, institutional improvements, and the political will demonstrated by the region's governments in the 1990s to reallocate a greater percentage of fiscal resources to social spending. In this context, although the statistical data available show that only five of the eleven countries studied reported progressive aggregate social spending at the beginning of the twenty-first century, the information indicates that, compared with ten years ago, there are now many more countries in the region whose social spending has become more progressive or less regressive. It is probable that if this trend continues, a strategy of progressive implementation of social spending could be reinforced in Latin America, within a similar period, which would influence the standard of living of the lowest-income groups and the levels of inequality. This cautious optimism is attenuated, however, by the fact that social spending on education and health is progressive in only five of the 11 countries for which updated information is available, and the rate of change seems very slow. Is the glass half empty or half full? We should not lose hope, but we must recognize that the region needs to approach equity issues with determination and a stronger sense of urgency in order to bring about tangible changes more swiftly.

(c) The establishment of a progressive pattern of spending on primary education is undoubtedly the most significant achievement in the region at the end of the 1990s, and has been observed in the ten countries for which

statistical information is available. Although it is not certain that this phenomenon is unique to the 1990s, in view of the lack of information, the data on the development of social spending on education, the greater fiscal priority given to the social sectors, the higher primary enrolment rates and the institutional improvements at the regional level do seem to corroborate this idea, although further progress is still needed. Meanwhile, the great challenge for Latin America in this new century is to resolve the problems of access to and orientation of social spending on secondary education.

- (d) The achievement of a progressive pattern of public social spending on primary education in the region is not necessarily associated with higher levels of effectiveness in providing the service or with enhanced quality. There are even serious questions about the quality of public education in Latin America compared to other regions, questions with an empirical basis. Any deterioration in the quality of public education brings the risk of transforming it into an inferior good in society, as the expected benefit moves further away from what is offered by certain types of private educational institutions, thus excluding the middle-income groups from its coverage and leading to it being seen as the only option for the poorest groups, thus increasing their social exclusion.
- (e) The orientation of public spending on health shows a fairly broad range of variation in the region. Nevertheless, the examples of progressive implementation are more numerous and more significant. Unlike the case of primary education, the analysis based on related variables (increase in per capita spending, greater coverage and institutional improvements) does not clearly indicate that the trend towards progressiveness of social spending on health is a change in relation to past decades.
- (f) The allocation of public spending to social security is highly regressive. The data available on the pattern of social security spending by income quintile for eight Latin American countries show that this spending benefits the highest-income groups to a significantly greater degree. The commitment and political will of the region's governments to reduce poverty, lack of equity and exclusion in their societies requires a study in greater depth of the causes and consequences of this phenomenon, as well as the design of alternative policies to mitigate the regressiveness of social security spending. In view of the huge relative weight of social security as a component of social spending in the public sector, a lack of awareness of its regressive nature in terms of the performance of public-sector functions in other social sectors weakens the commitment to reducing poverty and the lack of equity.
- (g) Lastly, it should be recalled that social policy has only a limited effect on the structural conditions of poverty and lack of equity. What does have a profound and lasting effect is the interaction between economic policy and social policy. A detailed analysis of the social impact of the linkages between economic policy and social policy is beyond the scope of this section. Social policy, however, does absorb a high proportion of available fiscal resources. Accordingly, if social policy does not make a decisive contribution to alleviating poverty and reducing the lack of equity, it is unlikely that economic policy alone can manage to achieve this. One of the most important lessons to be learned from the past decade is the incapacity of the market alone to resolve the conditions of exclusion and indigence of large segments of the Latin American and Caribbean population. Direct action by the State plays an important role and a large part of this must come from social policy.

## C. REDISTRIBUTIVE IMPACT OF SOCIAL SPENDING

Despite the fact that most countries in the region show a low degree of progressiveness of social spending, mainly because of the concentration of resources allocated to social security and protection in the higher-income groups, the redistributive impact on income is still significant. It not only corrects to some extent the poor distribution of primary income observed in most of the countries, but also results in a substantial increase in income, and more generally in the well-being, of the poorest groups. For these groups, the most important contribution is made by expenditure on human capital (education and health), an investment that supports long-term strategies against poverty and the reproduction of poverty. In the higher-income groups, the public contribution to social security is more significant, especially in relation to retirement and other benefits. Unfortunately, the impact of social spending on household income is much less significant in the poorest countries, as the levels of resources they allocate to social spending are low.

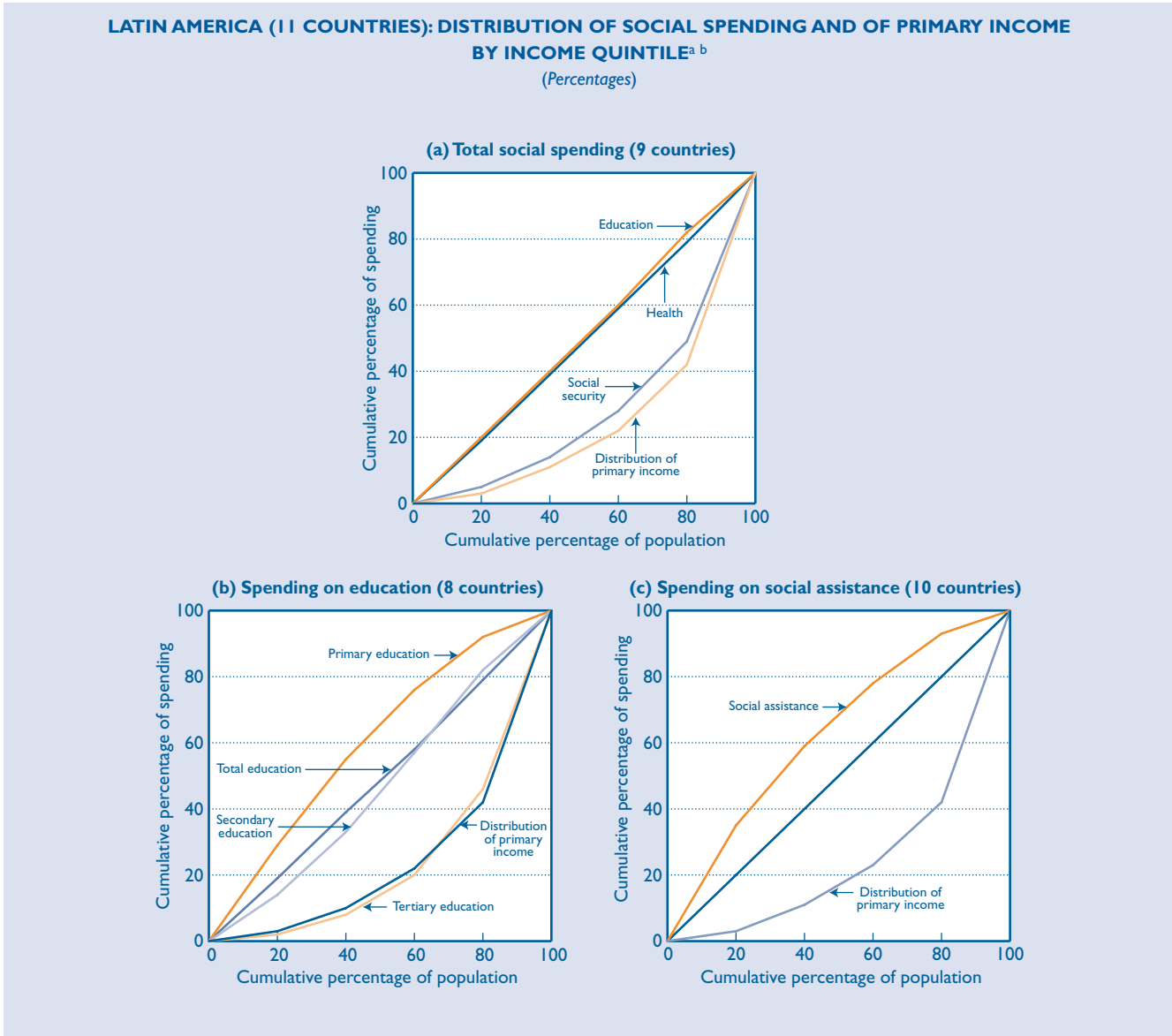
The previous section contained information on the region's countries which indicated the varying degrees of progressiveness or regressiveness of the various social spending components in terms of their distribution among the different income groups. Although spending in some areas, such as primary education, is generally progressive, there is no general rule as to the degree of progressiveness of the various items of spending for all countries. Moreover, the real impact of public social spending, depending on the level and distribution of primary income within each country, and also on the level

and distribution of sectoral social spending, tends to differ substantially for different income groups in each country and also for the same income group in different countries. The figures in this section illustrate the average distribution of the different social spending items by income group, and show that an increase in social spending does not necessarily translate into a better targeting of fiscal resources to the lowest-income groups, but does reflect the relative priority given to the poorest groups in the allocation of public resources, as is clear in the case of resources assigned to primary

education and to social assistance. Secondly, the data show that in all countries of the region public resources are less concentrated than income and that

they therefore mitigate the inequality of income distribution, with the exception of resources assigned to tertiary education (see figure II.15).

Figure II.15



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of national surveys provided by the Inter-American Development Bank (IDB)

<sup>a</sup> The figures are obtained as the simple average of the percentages of spending obtained for each quintile of income distribution.

<sup>b</sup> Refers to groups of 20% of households ordered according to the per capita level of primary income (without social spending).

## 1. EFFECTS OF SOCIAL SPENDING ON INCOME DISTRIBUTION

The information available for 17 countries in the region shows that the different components of public social spending show pronounced differences in their degree of distributive progressiveness. The degree of regressiveness or progressiveness in the different sectors, and also the amount of resources allocated to each one, affects the extent to which public social spending modifies the level of concentration of primary income, that is, the monetary income of households after taxes and without considering monetary transfers and free goods and services provided by the State. The volume of resources

allocated to each group in relation to its level of primary income determines the impact in terms of increasing the capacity of households to meet their needs.

Table II.12 shows the effect of social spending on each income distribution group for all countries for which information was available. In this case it is measured as the change recorded in the quasi-Gini coefficient when social spending is added to the primary income distribution, which refers to income deriving from economic activity, without transfers (see box II.3). In addition, table II.13 shows the impact of social spending on each group, expressed as a percentage of their primary income.

Table II.12

LATIN AMERICA (9 COUNTRIES): DISTRIBUTION OF PRIMARY INCOME AND OF TOTAL INCOME (INCLUDING PUBLIC SOCIAL SPENDING) AND THE QUASI-GINI COEFFICIENT <sup>a</sup> (Percentages and coefficients)									
Country		Total	Income quintiles					Quasi-Gini coefficient <sup>2</sup>	Reduction owing to impact of social spending
			Quintile I	Quintile II	Quintile III	Quintile IV	Quintile V		
Argentina (1998)	Distribution of primary income	100.0	3.0	7.0	11.0	18.0	61.0	0.51	
	Distribution of total income	100.0	6.5	9.5	13.2	19.1	51.7	0.40	
Bolivia (2002)	Distribution of primary income	100.0	4.0	9.0	14.0	20.0	53.0	0.44	
	Distribution of total income	100.0	4.8	9.6	14.3	20.3	51.0	0.41	
Brazil (1997)	Distribution of primary income	100.0	2.0	5.0	10.0	17.0	66.0	0.56	
	Distribution of total income	100.0	4.1	6.6	11.6	17.7	60.0	0.49	
Colombia (2003)	Distribution of primary income	100.0	2.0	6.0	11.0	18.0	63.0	0.53	
	Distribution of total income	100.0	3.3	7.0	11.4	18.0	60.2	0.50	
Costa Rica (2000)	Distribution of primary income	100.0	4.0	8.9	13.9	21.8	51.5	0.43	
	Distribution of total income	100.0	7.4	11.0	14.5	21.0	46.1	0.35	
Ecuador (1999)	Distribution of primary income	100.0	3.0	8.0	12.0	19.0	58.0	0.49	
	Distribution of total income	100.0	3.6	8.5	12.5	19.2	56.2	0.46	
Guatemala (2000)	Distribution of primary income	100.0	3.0	5.9	9.9	17.8	63.4	0.54	
	Distribution of total income	100.0	3.5	6.5	10.4	18.0	61.6	0.51	
Mexico (2002)	Distribution of primary income	100.0	3.0	7.1	12.1	19.2	58.6	0.49	
	Distribution of total income	100.0	4.4	8.4	12.9	19.6	54.7	0.45	
Uruguay (1998)	Distribution of primary income	100.0	5.0	9.0	14.0	22.0	50.0	0.41	
	Distribution of total income	100.0	5.7	9.4	14.3	21.9	48.7	0.39	

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of national surveys provided by the Inter-American Development Bank (IDB) (see table II.1).

<sup>a</sup> See box II.4.

Table II.13

LATIN AMERICA (17 COUNTRIES): IMPACT OF PUBLIC SOCIAL SPENDING <sup>a</sup> ON HOUSEHOLD INCOME (Percentages)												
Country	Total	Includes public spending on social security					Total	Excludes public spending on social security				
		Quintile I (poorest)	Quintile II	Quintile III	Quintile IV	Quintile V (richest)		Quintile I (poorest)	Quintile II	Quintile III	Quintile IV	Quintile V (richest)
<b>Argentina (1998)</b>												
% of primary income	31	183	79	57	40	11	15	129	47	28	16	3
% of total income (incl. PSS)	24	65	44	36	28	10	13	56	32	22	13	3
<b>Bolivia (2002)</b>												
% of primary income	19	64	32	24	22	11	11	46	21	16	13	5
% of total income (incl. PSS)	16	39	24	19	18	10	10	31	17	14	11	5
<b>Brazil (1997)</b>												
% of primary income	30	160	73	51	35	19	11	94	43	23	14	4
% of total income (incl. PSS)	23	62	42	34	26	16	10	48	30	18	12	4
<b>Chile (2003)</b>												
% of primary income	...	...	...	...	...	...	13	60	32	19	10	2
% of total income (incl. PSS)	...	...	...	...	...	...	11	38	24	16	9	2
<b>Colombia (2003)</b>												
% of primary income	13	86	30	16	12	8	8	86	29	15	9	2
% of total income (incl. PSS)	11	46	23	14	11	7	8	46	22	13	9	2
<b>Costa Rica (2000)</b>												
% of primary income	26	129	53	31	21	13	16	100	40	22	13	5
% of total income (incl. PSS)	20	56	35	23	17	12	14	50	29	18	11	4
<b>Ecuador (1999)</b>												
% of primary income	6	26	13	10	7	3	4	24	12	8	5	2
% of total income (incl. PSS)	6	20	11	9	7	3	4	19	10	7	5	2
<b>El Salvador (2002)<sup>b</sup></b>												
% of primary income	...	...	...	...	...	...	5	38	15	9	5	1
% of total income (incl. PSS)	...	...	...	...	...	...	5	28	13	8	4	1
<b>Guatemala (2000)</b>												
% of primary income	5	24	15	10	6	3	4	24	14	9	5	1
% of total income (incl. PSS)	5	19	13	9	6	3	4	19	12	8	5	1
<b>Honduras (1998)<sup>c</sup></b>												
% of primary income	...	...	...	...	...	...	3	22	10	6	3	1
% of total income (incl. PSS)	...	...	...	...	...	...	3	18	10	6	3	1
<b>Jamaica (1997)<sup>b c</sup></b>												
% of primary income	...	...	...	...	...	...	6	24	14	8	4	1
% of total income (incl. PSS)	...	...	...	...	...	...	6	19	12	8	4	1
<b>Mexico (2002)</b>												
% of primary income	12	54	29	19	16	5	9	50	24	14	10	3
% of total income (incl. PSS)	11	35	23	16	13	5	8	34	19	12	9	3
<b>Nicaragua (1998)</b>												
% of primary income	...	...	...	...	...	...	6	22	16	12	7	3
% of total income (incl. PSS)	...	...	...	...	...	...	6	18	14	10	6	3

Table II.13 (concluded)

LATIN AMERICA (17 COUNTRIES): IMPACT OF PUBLIC SOCIAL SPENDING <sup>a</sup> ON HOUSEHOLD INCOME (Percentages)												
Country	Total	Includes public spending on social security					Total	Excludes public spending on social security				
		Quintile I (poorest)	Quintile II	Quintile III	Quintile IV	Quintile V (richest)		Quintile I (poorest)	Quintile II	Quintile III	Quintile IV	Quintile V (richest)
<b>Paraguay (1998)<sup>d</sup></b>												
% of primary income	...	...	...	...	...	...	6	41	13	8	5	2
% of total income (incl. PSS)	...	...	...	...	...	...	6	29	12	7	5	2
<b>Peru (2000)</b>												
% of primary income	...	...	...	...	...	...	7	35	15	9	8	4
% of total income (incl. PSS)	...	...	...	...	...	...	7	26	13	9	7	4
<b>Dominican Rep. (1998)<sup>d</sup></b>												
% of primary income	...	...	...	...	...	...	3	10	7	6	4	1
% of total income (incl. PSS)	...	...	...	...	...	...	3	9	7	5	4	1
<b>Uruguay (1998)</b>												
% of primary income	11	47	23	15	9	5	9	46	21	12	7	3
% of total income (incl. PSS)	10	32	19	13	8	5	8	31	17	11	6	3
<b>Simple average<sup>e</sup></b>												
% of primary income	17	86	39	26	19	9	10	66	28	16	10	3
% of total income (incl. PSS) <sup>f</sup>	15	46	28	21	16	8	9	40	22	14	9	3

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of national surveys provided by the Inter-American Development Bank (IDB) and official figures from the countries.

<sup>a</sup> In all cases excludes expenditure on housing, water and sewerage.

<sup>b</sup> Public spending on education excludes in this case the amount allocated to higher education.

<sup>c</sup> Only includes public spending on health.

<sup>d</sup> Only includes education.

<sup>e</sup> Simple average of the countries which provided figures for education, health and social security.

<sup>f</sup> Calculated on the basis of the previous line, and not as an average of the values of each country.

Generally speaking, although social spending and its components are not progressive in absolute terms, they are so in relative terms, as the degree of concentration in the medium- and high-income groups, or the benefits received by those groups, is very different from that of the primary income distribution. It may therefore be predicted that social spending has a deconcentrating effect on total income, although in many cases it is rather slight.<sup>37</sup> Considering the information provided in the first section of the chapter on the resources assigned to social spending in the different countries, it can be seen from table II.13 that, with the exception of Uruguay, in the countries where social spending is higher (Argentina, Brazil and Costa Rica), it has a

more significant deconcentrating effect, even though the household income is also high in the regional context. In Argentina, social spending increases the primary household income by about 31%, which is a very significant volume of resources in view of the high level of household income. Argentina is one of the countries where social spending is less regressive, even though social security is a significant item because of the stage that that country has reached in the demographic transition process and the significant amount of resources allocated to retirement and other benefits. Of the countries which provided information, social spending has the greatest deconcentrating effect on primary income distribution in Argentina. The

<sup>37</sup> Information was available for only 9 countries on the distribution of spending on education, health and social security by quintiles, which allows a more or less adequate consideration of the effect of social spending on households. The studies on the distribution of social spending that were used did not consider spending on housing, sewerage and drinking water.

quasi-Gini coefficient of the primary income distribution amounts to 0.51, but the effect of social spending distribution reduces it by 0.11, so that the final coefficient is 0.40. The final income distribution is thus one of the least inequitable among the countries considered, surpassed only by Costa Rica and Uruguay.

The situation is similar in both Brazil and Costa Rica. In Brazil, the resources allocated to social spending increase primary income by about 30%, allowing a fairly substantial correction of its high concentration, lowering the quasi-Gini coefficient from 0.56 to 0.49. Meanwhile, in Costa Rica, although lower amounts are allocated to social spending than in Argentina and Brazil (social spending adds an additional 26% to primary income), its high degree of relative progressiveness (or low absolute regressiveness, similar to that of Argentina) has a significant impact, especially as the primary income distribution is the least concentrated of the countries in the region. This is reflected in the quasi-Gini primary income indicator, which is reduced from 0.43 to 0.35 when social spending is included in the calculation.

Uruguay is an exception among the countries with both higher per capita income levels and higher social spending levels because, owing to the high degree of ageing of its population and the extended social security coverage (which benefits, inter alia, a significant proportion of retired workers from the higher-income groups), its spending is highly regressive. This to a large extent mitigates the net effect of social spending on the total income distribution. The relatively slight increase in household income (the items of expenditure recorded would only mean a little over 10% of primary income), together with the rather regressive nature of social spending in absolute terms, result in a significantly lower reduction of the quasi-Gini coefficient: from 0.41 to 0.39.

Meanwhile, little optimism is inspired by the situation of the medium and low per capita income countries, which have significantly lower levels of social spending than the previous group while at

the same time relatively high proportions of their population live in poverty and indigence. In Colombia and Mexico, middle-income countries with low-to-medium social spending in the regional context, the social spending items represent a contribution to households of between 12% and 13% of primary income distribution. The net effect of social spending on income redistribution is quite low. In Colombia the quasi-Gini coefficient is reduced by 0.03 to reach 0.50, and in Mexico it is reduced by 0.04, reaching 0.45. In both cases, in addition to the fact that social spending is relatively low, the slight attenuation of income concentration is mainly due to the highly regressive effect of the social security component, whose quasi-Gini coefficient is 0.68 in Colombia and 0.38 in Mexico, and to its high share of total social spending (35% and 29% respectively).

Lastly, in the countries with the lowest levels of social spending (Bolivia, Ecuador and Guatemala, with per capita social spending of US\$ 136, US\$ 76 and US\$ 126 in 2002–2003, respectively), the effect of social spending on primary income is relatively low. The exception is Bolivia, where social spending increases household income by 19%. In Ecuador and Guatemala, the contribution does not exceed 6% of primary income. In all three countries, this low impact brings only a slight adjustment of the concentration indices. After allowing for social spending in relation to the various income quintiles, the quasi-Gini coefficient is situated at 0.41, 0.46 and 0.51 respectively.

## **2. THE EFFECTS OF SOCIAL SPENDING IN TERMS OF INCREASING THE INCOME OF THE POOREST HOUSEHOLDS**

The effect of social spending in terms of increasing the income of all households is relatively low, but its effect on the income of the poorest households is very significant.

The impact of social spending on income for all quintiles can be seen from table II.13. An analysis of

the simple average for the 9 countries for which information is available on education, health and social security shows that while social spending increases primary income for all households by 17%, it almost doubles the income of the lowest-income quintile, for which social spending increases income by 86%; as a proportional contribution, its effect is over five times higher than the effect on all households and over 10 times higher than the effect on the income of upper quintile. This ratio of contributions to primary income of the highest- and lowest-income groups is more or less similar across the countries. In Brazil, Colombia, Costa Rica, Ecuador, Guatemala, Mexico and Uruguay the contribution received by the lowest quintile is between 9 and 11 times higher than that of the richest quintile. In Argentina, the contribution is 16 times more than that received by the highest-income quintile, and in Bolivia it is only 6 times higher.

Despite the fact that the ratio of contributions to the lower and upper quintiles is more or less constant, the impact of social spending on the primary income of the lowest-income group varies significantly in the different countries. In Argentina, Brazil and Costa Rica, social spending represents more than one half of the total income of households with the lowest income (65%, 62% and 56% respectively), which is mainly explained by the large volume of social spending allocated by these countries, its low level of regressiveness (Argentina and Costa Rica) and the strong primary income concentration (especially in Brazil, despite the fact that the social security component in that country is fairly regressive, as the richest quintile receives 7.3 times the amount of social security received by the poorest quintile).

In contrast, in the poorest countries, in this case Bolivia, Ecuador and Guatemala, the proportion of the income of the poorest households which is contributed by public spending is 40% or less (in the last two countries it is no more than 20%). This reflects not only the higher absolute regressiveness of social spending mostly due to social security, but also the low level of social spending in general, and of spending channelled to the first quintile in particular.

### 3. SECTORAL REDISTRIBUTIVE IMPACTS

As can be seen in the previous sections, the level, sectoral composition and the degree of progressiveness of the distribution of the different spending items influences to a significant extent the impact of social spending on household income. In the same way, the increase in more progressive items or in the progressiveness of current items (for example, expanding educational and health coverage or distributing pensions to lower-income groups) can have a significant influence on increasing the income and consequently the well-being of the poorest households.

There follows a brief analysis of the social spending items which have the greatest impact on the lowest-income groups and, in contrast, on the highest-income groups.

Table II.14 contains details of the sectoral spending distribution in each income group. In the nine countries for which all the necessary information is available, the most relevant item for the lower-income groups is education, which represents, on average, 52% of the social public contribution to those groups; in contrast, in the highest-income quintile, this proportion falls to 27%. A similar situation occurs in the case of social spending on health, which represents 33% of the total contribution to the 20% of poorest households and only 15% in the richest quintile. Clearly, in the case of social security, the situation is quite the opposite, as it represents only 16% of the contribution for the lowest quintile, while it amounts to almost 58% of the public contribution to the households of the upper quintile. To sum up, it may be said that over 80% of the contribution received by the lower-income households corresponds to expenditure on human capital (education and health), while this figure is only 42% in the case of the highest-income households, which receive the greater part of their State support in the form of social security.

Table II.14

LATIN AMERICA (9 COUNTRIES): DISTRIBUTION OF PUBLIC SOCIAL SPENDING <sup>a</sup> WITHIN EACH INCOME QUINTILE (Percentages)						
Country	Total	Income quintiles				
		Quintile I	Quintile II	Quintile III	Quintile IV	Quintile V
<b>Argentina (1998)</b>						
Education	23.7	28.3	26.8	24.6	20.7	19.2
Health	24.8	42.4	32.3	24.5	18.4	11.2
Social security	51.5	29.3	40.9	50.9	60.9	69.6
Social spending on human capital	48.5	70.7	59.1	49.1	39.1	30.4
Total social spending <sup>a</sup>	100.0	100.0	100.0	100.0	100.0	100.0
<b>Bolivia (2002)</b>						
Education	49.5	61.9	55.3	59.5	47.1	37.1
Health	11.5	9.3	11.3	9.2	12.4	13.1
Social security	39.1	28.8	33.4	31.3	40.5	49.7
Social spending on human capital	60.9	71.2	66.6	68.7	59.5	50.3
Total social spending <sup>a</sup>	100.0	100.0	100.0	100.0	100.0	100.0
<b>Brazil (1997)</b>						
Education	19.0	30.6	28.2	20.3	18.3	12.7
Health	18.5	28.0	30.6	24.2	21.6	8.7
Social security	62.5	41.4	41.2	55.5	60.1	78.6
Social spending on human capital	37.5	58.6	58.8	44.5	39.9	21.4
Total social spending <sup>a</sup>	100.0	100.0	100.0	100.0	100.0	100.0
<b>Colombia (2003)</b>						
Education	32.4	56.8	51.8	44.8	34.4	11.5
Health	32.9	43.2	43.4	43.2	40.4	18.3
Social security	34.7	0.0	4.8	12.0	25.2	70.2
Social spending on human capital	65.3	100.0	95.2	88.0	74.8	29.8
Total social spending <sup>a</sup>	100.0	100.0	100.0	100.0	100.0	100.0
<b>Costa Rica (2000)</b>						
Education	30.0	31.3	32.3	34.2	35.1	21.6
Health	32.0	46.1	43.1	38.4	26.7	13.4
Social security	38.0	22.7	24.6	27.4	38.1	65.0
Social spending on human capital	62.0	77.3	75.4	72.6	61.9	35.0
Total social spending <sup>a</sup>	100.0	100.0	100.0	100.0	100.0	100.0
<b>Ecuador (1999)</b>						
Education	57.6	66.5	66.5	55.4	56.7	49.9
Health	17.7	25.9	23.5	19.6	19.0	7.3
Social security	24.7	7.6	10.0	25.0	24.3	42.8
Social spending on human capital	75.3	92.4	90.0	75.0	75.7	57.2
Total social spending <sup>a</sup>	100.0	100.0	100.0	100.0	100.0	100.0
<b>Guatemala (2000)</b>						
Education	54.1	68.8	70.0	63.7	55.2	34.9
Health	23.2	29.5	25.8	29.9	28.2	12.1
Social security	22.7	1.7	4.2	6.4	16.6	53.0
Social spending on human capital	77.3	98.3	95.8	93.6	83.4	47.0
Total social spending <sup>a</sup>	100.0	100.0	100.0	100.0	100.0	100.0
<b>Mexico (2002)</b>						
Education	47.0	66.6	55.6	47.2	44.2	33.8
Health	24.1	26.9	25.6	26.7	22.6	20.1
Social security	29.0	6.5	18.8	26.0	33.2	46.1
Social spending on human capital	71.0	93.5	81.2	74.0	66.8	53.9
Total social spending <sup>a</sup>	100.0	100.0	100.0	100.0	100.0	100.0
<b>Uruguay (1998)</b>						
Education	40.9	53.5	50.6	41.8	35.5	25.9
Health	38.8	43.6	41.8	41.8	38.0	29.5
Social security	20.3	2.9	7.7	16.4	26.5	44.6
Social spending on human capital	79.7	97.1	92.3	83.6	73.5	55.4
Total social spending <sup>a</sup>	100.0	100.0	100.0	100.0	100.0	100.0
<b>Simple average of the countries</b>						
Education	39.3	51.6	48.6	43.5	38.6	27.4
Health	24.8	32.8	30.8	28.6	25.3	14.8
Social security	35.8	15.6	20.6	27.9	36.2	57.8
Social spending on human capital	64.2	84.4	79.4	72.1	63.8	42.2
Total social spending <sup>a</sup>	100.0	100.0	100.0	100.0	100.0	100.0

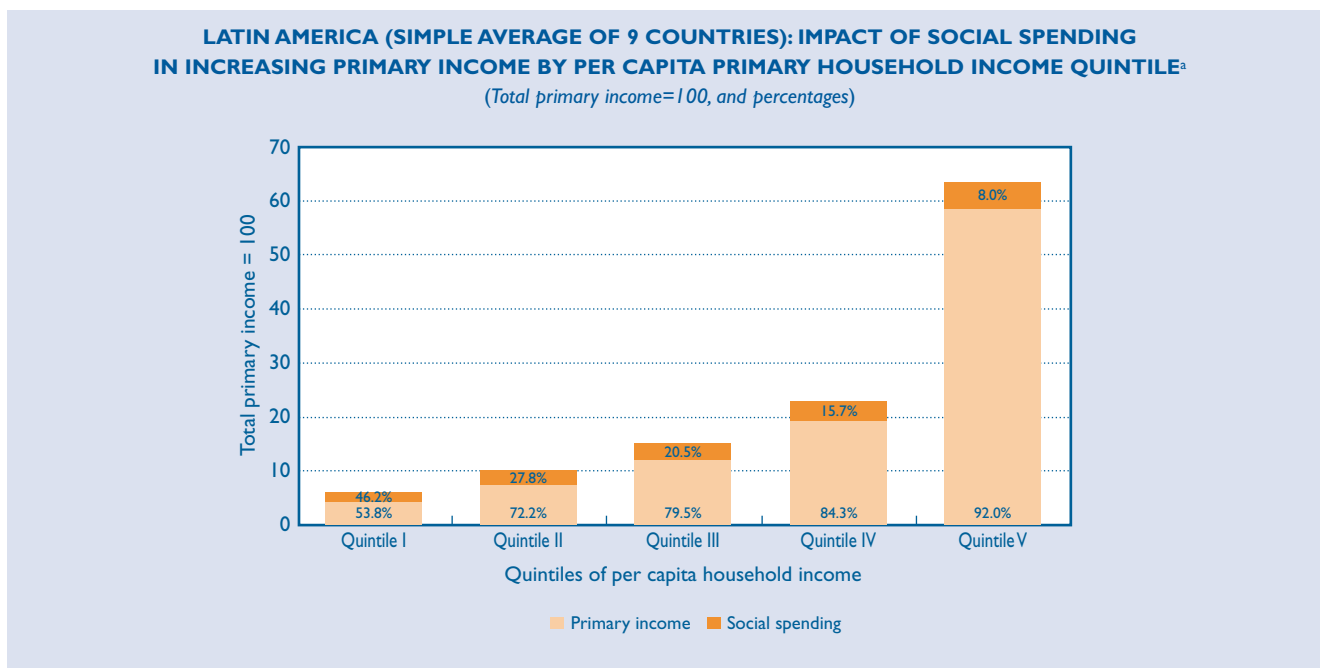
**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of national surveys provided by the Inter-American Development Bank (IDB) and official figures from the countries.

<sup>a</sup> Excludes spending on housing, water and sewerage.

Although the percentages vary from one country to another, expenditure on human capital usually represents a very significant proportion of the resources received by the lowest-income sectors. With the exception of Brazil, where there are extensive pension programmes for low-income older adults, expenditure on human capital represents between 70% and almost 100% of the resources that benefit the poorest groups. It is different, however, at the upper extreme of income distribution. Although the highest share of resources for this group tends to come from social security and spending on human capital provides a smaller share, the situation is more variable. While in Argentina, Brazil, Colombia and Costa Rica, expenditure on social security represents at least 65% of the resources received by the upper income quintile, in Bolivia, Ecuador, Mexico and Uruguay it represents less than half of the spending allocated to these groups.

Although the various studies of the distribution of social spending point to a mixed situation in relation to progressiveness or regressiveness, it clearly represents a significant contribution to the well-being of households. When this contribution is calculated in monetary terms and compared with household income, its impact, especially on the lower-income groups, is very significant, and sometimes doubles the resources available to meet their basic needs and for social and labour integration (see figure II.16). At the sectoral level, the most significant contribution to the poorest groups is spending on human capital, and within this area, spending on education, which for these groups is mainly primary education (see section B). Meanwhile, spending on social security and protection tends to benefit to a greater extent the higher-income groups, although this does not necessarily mean a substantial increase in their incomes.

Figure II.16



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of national studies provided by the Inter-American Development Bank.

<sup>a</sup> Does not include spending on housing, water and sewerage.

The fact that social spending in many cases is not progressive and that it benefits to a significant extent the high-income sectors (see figure II.17), should not be interpreted as an indicator of the lack of targeting of social spending. In the case of social security, the most regressive spending component is retirement pensions for former workers whose past and current incomes place them in the non-poor groups. This does not necessarily reflect an incapacity or lack of will of the governments to benefit the low-income sectors, but is rather the result of complying with commitments relating to contributions based on legal regulations associated with the past and current functioning of the labour market, where the formal sector includes only about half of the urban labour force. In the case of spending on education and health, the low level of progressiveness in these areas is often due not to the fact that education and health services are focused on medium- and high-income groups, but rather to insufficient access for potential beneficiaries from low-income groups owing to a lack of awareness of their existence, distance, low valuation or to gradual processes of social exclusion. This is the case of secondary and tertiary education: the lower enrolment rate and the higher degree of school failure in primary education (repetition and drop-out) among children of the poorest groups results in a lower entrance rate and performance in secondary education and, naturally, an almost zero or very low enrolment rate in higher education. It does not necessarily follow that public financing of secondary and tertiary education is inadequately focused and that the State should not incur expenses in these areas.

An enhanced focusing of social spending on the poorest groups, and the resulting higher degree of progressiveness, depends both on the investment effort and the availability of social services for the low-income groups (including free access or very low co-payments) and on the actual access of these groups to such benefits. As indicated in the first section of this chapter, the Governments took significant measures in the 1990s to increase social

spending, which has been reflected both in an absolute increase in the resources allocated to social services and in a real improvement in access to education, health and social assistance, and this in turn has brought a significant improvement in various human development indicators.

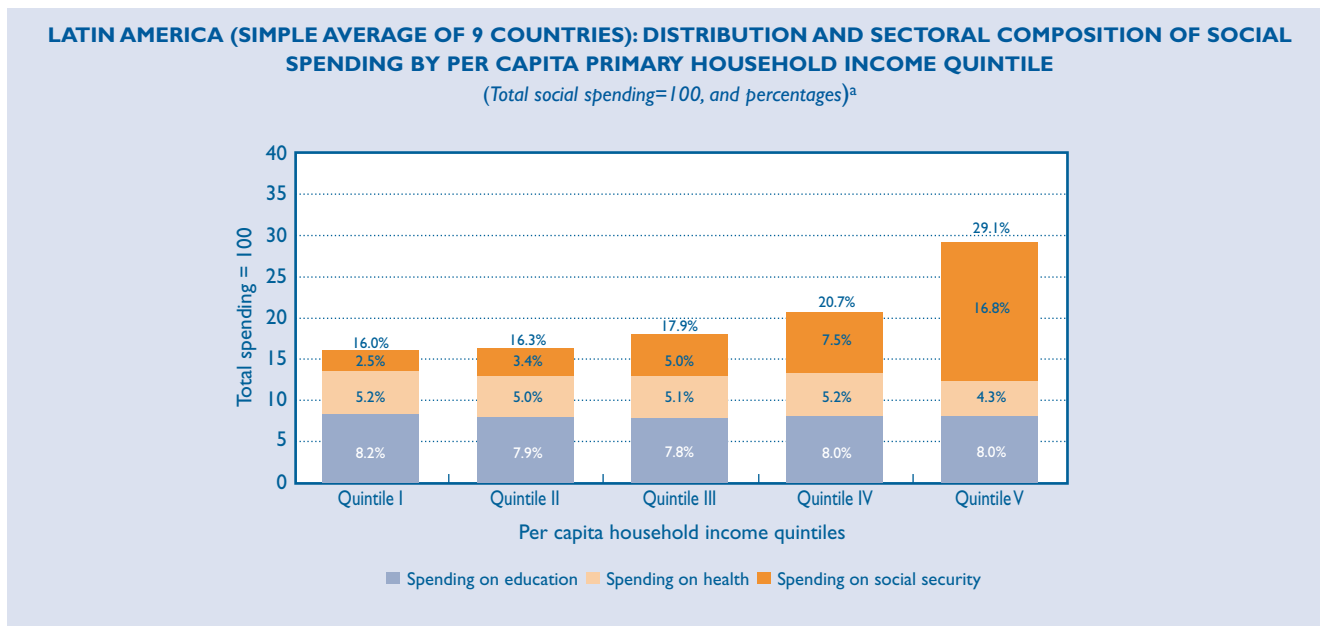
These efforts must be continued in order to increase the material and social well-being of the lowest-income sectors. This means continuing to give priority to investment and the development of social services, while providing facilitating channels to ensure that the benefits are actually obtained by the poorest groups. This includes direct confrontation with all of the mechanisms of poverty reproduction and social exclusion, enhancing the efficiency of public resource use and developing instruments to control the management and impact assessment of social policies and programmes. Measures to enhance the efficiency of social spending and to orient social investment towards the poorest groups do not necessarily mean re-allocating the resources that currently benefit non-poor groups, as in many cases families have lifted and maintained themselves out of poverty precisely because of the benefits obtained from public social spending and the opportunities they were given to be part of productive and social protection systems.

There is also the need to go beyond both the segmented protection systems that were typical in the past, such as the purely compensatory view of social policy that predominated in the past two decades, as such systems ignore the principles of universality, solidarity and efficiency, which are prerequisites for good social policy. These principles, however, do not have a simple correlation in practice. As resources are always scarce, certain benefits have to be focused on the most vulnerable groups. Even so, the targeting in itself cannot be a social policy principle, but rather a tool for establishing priorities in relation to resources. Although it has a redistributive effect in the short term, it should not be extended indefinitely as it is

not the best option for moving towards the creation of more egalitarian societies. The greatest risk is that it could lead to the establishment of a segmented regime in terms of the quality of the services

provided (education for the poor and the non-poor, health for the poor and the non-poor), reinforcing inequalities in paths and results, however much effort is made to equalize access opportunities.

Figure II.17



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of national studies provided by the Inter-American Development Bank.

<sup>a</sup> The percentages in the bars are expressed with respect to the total accumulated in all the quintiles.

