

# Towards a welfare state in Latin America and the Caribbean.

Identifying the key priorities

*Basic wrong premise:* “We cannot afford a welfare state”. Let me exemplify with Chile:

Chile’s GDP per capita now = 14.500 US \$. In 1970, when Sweden was rolling out its welfare state, GDP per capita was 12.700.

Chile’s social expenditure now = 11% of GDP.

In 1970, Sweden spent 19% (and Sweden did not go bankrupt)

Basic premise no. 1: “ Programs for the poor become poor programs”.

Social policy in Latin America is heavily biased towards means-tested benefits to the poor.

\* They typically fail to lift families out of poverty, primarily because they are underfunded.

\* And they are underfunded because targeting to the poor does not mobilize broad political support.

→ *prioritize universalism*

Basic premise no. 2. Good social policy is also social investment.

\* Latin America is generally caught in a 'low-skill, low-productivity equilibrium'.

\* Strong investments in early childhood is one precondition for move into a 'high-skill, high-productivity equilibrium'.

-> *invest in high quality, universal pre-school programs*

## The case for universalism:

\* Targeted social assistance to the poor will typically fail to alleviate poverty. Underfunded due to lack of broad public support. Provoke 'them' versus 'us' cleavages

### \* Why universal coverage?

1) to cement citizenship and solidarity. Entitlements identical for all citizens. Broadens public support for taxing/spending.

2) and benefits received by the 'rich' are mostly taxed back

### Priority policies for universal coverage:

1) child allowances (which also help reduce poverty) → *recognizes that children's welfare is in everybody's interest*

2) basic peoples' pension (as in Nordic 'peoples' pension). These basic benefits are then supplemented with contributory social insurance

3) health care

Investing in today's children = investing in tomorrow's prosperity

\* Most policy debates assume that investing in skills begins with elementary school and ends with university.

\* This ignores what is firmly established in developmental psychology:

a) *cognitive stimulation* ages 1-7 (especially age 3+) is key to later learning abilities;

b) age 0-1 must prioritize '*attachment*', which is important for mental development.

*Key to a nation's human capital is pre-school cognitive stimulation.*

## Optimal Pre-school policy.

\* not cheap (universal high quality system will absorb ca. 2% GDP). But!

Key principles:

1) pedagogically qualified personnel (esp. For ages 3+)

2) Full-day, full-year participation

3) low pedagogue: child ratios (for 3-6 ages, optimal max 1: 10). Spain is bad system 1: 25; Denmark is World leader 1: 6.

4) universal coverage with similar quality standards across-the-board

*NB: kids from (good) preschool are 1 year ahead of those without when starting formal school*

## Financing Pre-school system

- 1) it is investment, not current consumption. It has positive economic (and social) returns:
- 2) parental co-payments = 20-30%(?) of cost, with sliding scale down to zero for low income families
- 3) Pre-schools free mothers to return to paid work. Several cost estimates (UK and DK) concur that over mothers' long term employment, taxation of her higher earnings more than repay original cost of pre-school
- 4) we also save expenditure on costly (and ineffective) remedial learning programs later in childhood.

*The social returns lie in the equalization of life chances and opportunities --- which is goal number one for social policy to begin with!*