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**Should Policy Aim at Having All People on the
Same Boat?**

The Definition, Relevance and Challenges of
Universalism in Latin America

Juliana Martínez Franzoni and Diego Sánchez-Ancochea



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Should Policy Aim at Having All People on the Same Boat?

The Definition, Relevance and Challenges of Universalism in Latin America

Juliana Martínez Franzoni and Diego Sánchez-Ancochea

Abstract

In recent years, attention to universal social policy has intensified in Latin America and other parts of the periphery. Definitions of universal social policy have traditionally varied between a minimalist approach focused on broad coverage and a maximalist approach focused on generous, citizen-based programs funded exclusively with general taxes. Unfortunately the former is too narrow and the latter relies on over-ambitious policy instruments, hardly attainable in the periphery. Instead, we propose a definition focused on policy goals: universal social policies are those that reach the entire population with similarly generous transfers and high quality services. In the second part of the paper, we review the advantages of universal policies, which can be more redistributive, create less stigma and be easier to manage than means tested programs and can also have positive effects on social cohesion and economic growth. The paper concludes with a discussion of different types of fragmentation as significant threats towards the expansion of universal social policies in Latin America and beyond.

Keywords: universal social policy | equity | healthcare

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1. Introduction

On November 2013 at a dinner organized by the University of California-San Diego, the former Mexican President Felipe Calderón proudly claimed that “now there are doctors, treatments and medicines for every Mexican that needs them” (Garcia Ramos 2013, own translation). Calderón was boasting about *Seguro Popular*, a non-contributory health insurance program that since 2003 reached poor families previously excluded from basic medical access. *Seguro Popular*, which now covers over 50 million Mexicans, embodies a U-turn from the means-tested policies which prevailed across the board during the 1980s and 1990s. The program has also been praised by international institutions and academics alike (Frenk 2006; WHO 2010).

Seguro Popular is not an isolated case but part of a policy trend in Latin America that adds to the acclaimed wave of conditional cash transfers that reach over 100 million people in 18 Latin American countries. According to a recent paper by Santiago Levy and Norbert Schady, “over the last two decades, governments across Latin America have created or expanded health, pension, and related programs that are paid from general revenues and thus are referred to as “noncontributory social insurance” (Levy and Schady 2013: 201). In Chile, for example, since the mid-2000s the AUGE program and a non-contributory pension system have significantly expanded the number of beneficiaries. In Brazil, non-contributory rural pensions have continued growing steadily in the last decade.

In a previous working paper for desiguALdades.net (Martínez Franzoni and Sánchez-Ancochea 2012), we described some of these policies in five South American countries and evaluated their implications for social (and market) incorporation. Here our goal is different. We place current changes in Latin America within the analytical debate on universal social policy. Given that benefits of the new social programs are still limited and that significant differences between contributory and non-contributory programs persist, is Latin America truly moving towards universalism? And why is this question at all important? Why should countries aim to promote universal policies which provide everyone with similar high quality generous services and transfers? Responses to this question require clean analytic grounds to avoid a mere half-empty/half full assessment.

The goal of this paper is thus to place current changes in Latin America within the theoretical and policy debate on universal social policy. We start by discussing minimalist and maximalist approaches to universalism within the academic and policy-oriented literature. By focusing on broad coverage alone, the minimalist definition – dominant in Latin America today – is too narrow. By mixing policy instruments and

policy goals the maximalist approach conflates overly specific combination of ends and means. In addition, by drawing too heavily on the Scandinavian experience, it does not suit Latin America and peripheral countries more generally. Instead, we propose to address universalism by focusing on policy goals, involving broad coverage, high generosity (including quality) and high equity.

We then explain why universalism is an important policy goal and discuss its positive impact on redistribution – including yet not restricted to poverty reduction. We are aware that the full impact of public policy on redistribution depends on both taxes and social spending. In the Nordic countries, for example, social policy has a particularly large positive impact on income distribution because a significant share of the transfers to the wealthy comes back to the state through direct taxes. Unfortunately, in Latin America, redistribution via taxes has been limited because taxes are too low and their impact often regressive (Ocampo and Malagón 2011).

There several powerful reasons to focus exclusively on the positive effect of universal social policies rather than also simultaneously on the impact of taxation on income redistribution. Universal social policies can benefit the poor without creating stigma and can also nurture social cohesion and state-building. Contrary to what some neoclassical economists argue, there is little empirical evidence to believe that universal policies will harm economic growth; quite the contrary, generous, equal health and education have demonstrably supported economic upgrading in the center (e.g. Sweden, Finland) and the periphery (e.g. Costa Rica, Mauritius).

Arguments in favor of universalism as well as the very definitions of universalism generally build a model based on the historically and regionally specific experience of a sub-set of countries in Europe and North America. In this paper, we review these arguments and their implications from the vantage point of peripheral countries in general and Latin America in particular. Despite the distinctive advantages universal policies have, their construction in these parts of the world has been elusive and systematically hindered by a range of political and economic obstacles, including elites' unwillingness to fund public social services, market forces expanding the role of private provision, interest groups protecting exclusive benefits and international financial institutions bundling foreign loans to means tested measures.

We conclude the working paper by discussing fragmentation as the main challenge universal policies must confront. Driven by either segmented public policies such as occupation-based social insurance or by the expansion of private interests, fragmentation has historically prevented advances towards universalism in Latin

America. It may still be a formidable obstacle as the recent experience of countries like Brazil (Hunter and Sugiyama 2009; Lavinás 2013) and Costa Rica (Martínez Franzoni and Sánchez-Ancochea 2013) clearly show.

2. What is Universalism? Minimalist and Maximalist Approaches

As a contested notion, universalism takes on a broad range of meanings. On the minimalist end, much of the recent policy literature – and many policymakers like President Calderón – define universal social policies in terms of coverage, regardless of how generous or equitable such coverage is. In referring to healthcare, Stuckler et al. argue that in developing countries universal healthcare is equivalent to universal healthcare coverage defined as “the existence of a legal mandate for universal access to health services and evidence that suggests the vast majority of the population has meaningful access to these services” (Stuckler et al. 2010: 2). A similar approach prevails in the agenda of the post-Millennium Development Goals (MDGs), which calls attention to a set of services the poor must receive as a matter of right. A downside is that as long as services are defined as essential and all the attention is placed on coverage, universalism becomes decoupled from scope, quality and equity of services.¹ This is clearly the case, for example, in the recommendations made by the 2012 High Level Panel on Global Sustainability, which included “universal access to affordable sustainable energy” (Hoeven 2012: 21, own emphasis) and the creation of an education fund to secure universal access to primary school.

By focusing simply on broad access to a given set of services, this approach to universalism fails to tackle difficult questions about equity and justice. If everyone has only access to vaccination and primary care while costly transplants are just provided for a few, are we really in the presence of universal health services? If the poor receive different sets of services than the non-poor, what are the implications for quality and scope of services? Is such a situation politically and socially sustainable over time? And can high coverage but with high fragmentation in the delivery of services contribute to a sustained reduction of socio-economic inequalities? Or will to the contrary erode the most elementary bonds across socioeconomic groups?

In stark contrast to this minimalist definition, a broader and more ambitious take – a maximalist one – comes out of the literature on welfare regimes. Under this approach scholars relate universalism to the Scandinavian welfare regime: a policy arrangement leading to a robust set of services available to everyone on the basis of citizenship

¹ As such, this take on universalism mirrors the case the MDGs made for primary education when first enacted in 2001.

rights and funded through general taxes. A specific eligibility criterion (citizenship), scope of services (broad) and funding mechanism (general revenues) found in these countries define universal social policy as a theoretical and policy concept (Esping-Andersen and Korpi 1987; Huber and Stephens 2001).

The literature abounds with examples of this approach. Rothstein, for example, argues that the universal welfare state is one which has “a broad range of social services and benefits that are intended to cover the entire population throughout the different stages of life, and that the benefits are delivered on the basis of uniform rules for eligibility” (Rothstein 2008: 3). He contrasts this approach with liberal welfare regimes and with those where most benefits are concentrated in some privileged groups according to status. The maximalist definition of universalism also includes a normative assumption about its desirability. Building on the Nordic experience, Danson et al. are particularly clear about this: “universal benefits and services are there because people have a right to welfare. They do not lose that right if their situation changes, and particularly they do not lose that right if they earn more” (Danson et al. 2012: 3).

Unfortunately such a definition of universalism conflates outcomes with policy instruments capable of reaching such outcomes. This problem may at least partially reflect the enormous influence of Esping-Andersen’s 1990 book on the three worlds of welfare capitalism (Esping-Andersen 1990). He clusters countries in light of welfare arrangements made of both policy principles and policy instruments. He points at Sweden (and more generally the Nordic countries) and at Germany (and more generally continental Europe) as emblematic of social democratic and corporative welfare regimes. The former gives prominence to citizenship and to universal entitlements, while in the latter entitlements revolve around occupation-based contributions. The former nurtures equality, the latter fuels segmentation and is thus considered less desirable from the point of view of income distribution. In this vein, employment-based arrangements become easily conflated to one specific type of such arrangements: occupation-based or Bismarckian. For all the remarkable contributions Esping-Andersen made to our understanding of welfare policies, this typology may have also contributed to an oversimplification between levels of analysis in the scholarly work that followed.

Conflating these dimensions as defining features of universalism is neither conceptually useful nor normatively appropriate especially if universal policies are to be developed for poor and unequal societies (see also Fischer 2012). If universal social policy depends on offering a truly generous set of services funded through general taxes of up to 50% of GDP (as in the case of the Nordic countries), there is hardly any chance that they

will expand in the periphery. As Pribble argues, “in the context of contemporary Latin America, the consolidation of such a welfare state is highly unlikely in the short-to medium run” (Pribble 2013: 8).

On the one hand, it is entirely possible that countries can reach the same normative goal of equal access to good social programs for all with policy instruments but by different paths. In particular, we may witness the successful building of universalism through primarily contributive measures. On the other hand, countries can formally implement policy instruments similar to those in Scandinavia – such as funding based on general revenues – with hardly universal policy outcomes. Indeed, most peripheral countries have public healthcare systems that on paper make every service available to all but in practice provides restrictive and low quality services to only a small part of the very poor population.

3. Addressing Universalism as a Policy Outcome

While the minimalist approach to universalism is too narrow, the maximalist approach mixes policy outcomes with the policy instruments required to reach them. Instead, following Hall in his study of economic policy in Britain, it may be analytically cleaner to distinguish between policy principles (the ultimate policy goal pursued) and policy instruments (how this goal is met), as well as the political conditions surrounding both (Hall 1993).

In terms of outcomes, we rely on a Weberian ideal type based on three dimensions: eligibility criteria, coverage and scope of benefits. Universal social policies are those that reach the entire population with similarly generous transfers and high quality services.² Building universalism is a painstaking process: few countries will perform equally well in all three dimensions simultaneously.

In clearly distinguishing between policy outcomes and the specific ways in which those transfers and services are delivered, we join previous scholarly work. Our approach follows Jennifer Pribble’s superb research on universal reforms in South America. Like us, she focuses on coverage, quality of services and the reduction of segmentation

2 Ours is the type of multi-dimensional definition that Bergh criticizes; in his view, defining universalism in terms of coverage and benefit level “causes problems, because the choice of benefit level is separate from the choice of what groups should be covered by the benefits. Such a definition also makes it difficult to make comparisons between countries and over time” (Bergh 2004: 750). Yet the interaction between the components is precisely what truly delivers universalism and the lack of comparative data is a shortcoming that future research must seek to overcome.

these entail (Pribble 2013).³ She avoids simplistic dichotomies (universalism vs non-universalism) and focuses on the (gradual) process behind building expansionary welfare policies.

Fischer also moves away from oversimplifying dichotomies to distinguish degrees “towards stronger or weaker universalistic principles, along with their equalising or disequalising potentials, as well as the institutional obstacles potentially blocking such shifts” (Fischer 2012: 12). The three categories along which he depicts universalism, however, conflate policy principles (i.e., coverage understood as who has access to the services and under what conditions), and instruments (i.e., cost/price or who pays for the service and financing or how the services are paid for). Yet at the end his goals are similar to ours: to separate the definition of universalism from a specific historical experience, to establish the possibility of promoting universalism through different channels, and to consider different degrees of universalism.

Our outcome-based definition places us in an ideal position to nurture global debates on the expansion of social policy in the periphery. Two approaches are particularly influential in these debates: basic universalism and the International Labor Organization (ILO)’s basic social protection floor. Both address universalism as a proposed policy principle that drives the piecemeal launching of transfers and services for all. As such, they share a similar rationale involving the vertical and horizontal expansion from more to less essential transfers and services. Their main differences are mostly related to their geographical scope and institutional origins. Both are directly linked to our approach and advance our understanding of universalism, but focused excessively on basic services and transfers. They also do not take sufficient account of political dynamics to achieve the desired policy goals.

Basic universalism is a notion set forth by Latin American scholars under the sponsorship of the Inter-American Development Bank in 2006. It comprises a set of essential – yet historically contingent – high quality benefits that governments should guarantee to everyone. By gradually expanding key transfers and services, basic universalism seeks to incrementally deal with the tension between social demands, on the one hand, and fiscal constraints, on the other. Benefit expansion will depend on the improvement in the state’s fiscal capacity and the emergence of new stakeholders and electoral support for policy expansion (Molina 2006). Essential transfers and services are those most capable of reducing inequality by redistributing present and future income: primary

3 Pribble also includes transparency and financial sustainability as two other key dimensions of universalism – which we will only discuss indirectly and as part of policy instruments rather than of the universalistic feature of the policy outcome.

education, preventive medicine and old-age monetary transfers. Targeting has a role to play in narrowing gaps and ensuring access and quality for all (Filgueira et al. 2006).

The basic social protection floor became an ILO policy recommendation in 2012. Initially, the floor referred to a large range of social services including healthcare, water and sanitation, education, food security, housing, and others (Bachelet 2011). When passed as ILO Policy Recommendation 202, its scope was narrow: it only referred to essential healthcare and basic income security across the life cycle alone – i.e. children, adults and the elderly. Unlike basic universalism which was basically an inspiring set of ideas, following the 2008 global financial crisis, the social protection floor became a policy instrument backed by governments, workers and business. By 2012 it had become a global policy breakthrough (Deacon et al. 2013), gaining the support of the United Nations, the World Bank, the G20 and many international non-governmental organizations.

Both of these approaches stress the need for national adaptations to country-specific circumstances; like us, they also recognize the importance of combining different policy instruments to achieve universal goals. They both could contribute to consolidate universalism in the periphery: in particular, the basic social protection floor has the potential to “give way to the global politics of welfare state rebuilding focused on the alliances that need to be constructed between the poor and the non-poor (especially the middle class) to rebuild bonds of solidarity nationally and internationally” (Deacon 2010: 1). Yet their accent on the “basic” and their limited attention to concrete political dynamics and path dependence is worrisome. The basic social protection floor, for example, recognizes the importance of combining social assistance with social insurance, but does not offer clear political (as opposed to technical) insights into how to do so (Bachelet 2011). Because social insurance and social assistance have distinct constituencies and institutional settings, policy processes that promote cooperation – for instance by focusing on populations that can be reached through a combination of subsidies and contributions – are crucial. Devoid of this political “backstage” to state building, the social protection floors can easily become an umbrella concept to what in practice are two tiered systems. Excessive attention to basic services for all can ultimately result in poor quality services that only the poor uses. Moreover, if the basic social protection floor is not accompanied by strong regulations of private services, it could easily perpetuate segmentation – a point to which we will return in Section 5.

4. Why is Universalism Important?

Much of the literature that endorses universalism draws heavily on the experience of Scandinavian countries. Often the arguments are more about favoring the policies specifically adopted by Sweden and neighboring countries than about a more general assessment of policies with universal outcomes. Below, we disentangle arguments based on the Scandinavian countries from arguments based on accomplishments elsewhere. We go beyond socio-economic arguments to consider the political sustainability of social policy and the impact on national identity and state-building. We are particularly interested in exploring how pro-universalist arguments travel to the periphery.

4.1 Universalism can be more Redistributive towards the Poor than Means Testing

Universal policies have traditionally been opposed to means-tested interventions. According to many, the latter are more effective in reducing poverty and inequality because they do not waste resources in people who – being capable to rely on the market – do not actually need state support. According to this view, countries should implement “selective welfare programs that are intended to assist only those who cannot manage economically on their own hand” (Rothstein 2008: 3).⁴

This argument forgets that the middle classes are more likely to support state expansion whenever they directly benefit from it. For example, the European welfare states were primarily established to prevent social unrest among well-organized salaried workers rather than to reach the poor. And yet, the poor greatly benefitted from “universal and adequately funded education, health and social insurance programs the middle class wants and finances through the tax system” (Birdsall 2010: 3). By broadening the number of beneficiaries, universal social policies increase political support for social spending, thus creating a redistributive virtuous circle (Huber 2002; Mkandawire 2006a).⁵

4 Even though he did not use the notion *per se*, Titmuss was the first scholar to make a strong case for universalism back in the late 1950s when distinguishing between institutional and residual regimes. Titmuss also criticized the naivety of the proponents of mean-tests, who did not recognize the complexity of targeting. For a collection of some of his best articles, see Abel-Smith and Titmuss (1987).

5 In fact, there is a risk – which has been evident in many developed countries like the UK and also developing ones – that targeted programs are sooner or later eliminated. As Moene and Wallerstein (2001) show in a formal model based on self-interested voting, the majority of the population who does not receive benefits will vote for their elimination.

Much of the literature draws on the so-called “paradox of redistribution” – programs that benefit all social groups have led to more overall spending, thus benefiting the poor as well – to support flat-rate benefits exclusively (Danson et al. 2012). Yet Korpi and Palmer show that the paradox of redistribution also applies to income-related transfers based on social insurance contributions (Korpi and Palmer 1998). In the case of pensions, for example, if public provision relies on non-contributory transfers alone, the middle class and the wealthy will search for complementary market-based solutions. The result, as evidenced in the case of the United Kingdom, will be market stratification – a problem that is now also appearing in successful peripheral countries like Costa Rica (Martínez Franzoni and Sánchez-Ancochea 2013; Sandbrook et al. 2007). One way around this undesirable stratification is to complement a basic pension for all with income-related social insurance which contains redistributive measures such as minimum and maximum replacement rates.

The creation of a cross-class alliance which incorporates the poor and different segments of the middle class is not only helpful to broaden access to state policy but to guarantee generosity and quality as well (Huber 2002; Mkandawire 2006a). The middle class has more economic and political resources than do the poor and often makes its voice heard. State personnel in charge of service provision (who belong mostly to the middle class) also develop vested interests in having sound quality if they and their families depend on such services.

Although all these arguments rely primarily on the experience of wealthy countries, they may be even more valid for the periphery. First, in many peripheral societies, the level of discrimination against the poor is even higher than in the center (World Bank 2003) and pro-poor policies more unpopular. If social programs are going to be sustained over time and their quality steadily improved, the incorporation of the middle class to any pro-poor coalition is as indispensable as it is challenging! Second, the state revenue capacity is normally low which in turn requires broad coalitions that support tax reforms, something that will not happen unless people see clear-cut benefits from such taxes.

Proponents of means-tested policies also fail to consider that people’s capacity to stay away from public transfers and services is contingent upon a number of factors, from economic and life cycles to accidents and an array of unforeseen circumstances. The assumption that the non-poor will commodify its labor force participation successfully all throughout the life cycle and in such a way as to adequately purchase social services is rather problematic given growing volatility, particularly (even if not exclusively) in the

periphery. In fact, the most relevant social and political distinction is no longer between the poor and the non-poor but between the wealthy and the rest (Birdsall 2010).

The evidence on the contribution of universal policies towards income redistribution is quite convincing. Shaver shows that targeted programs direct a higher share of each dollar to the poor, but that their overall impact on income distribution is lower than universal programs – largely because they involve much fewer resources (Shaver 1998). In his most recent book on Europe and the United States, Jonas Pontusson compares the Gini coefficient before and after taxes and transfers in the central economies during the late 1990s. His analysis shows that

the redistributive effects of the more encompassing welfare states operate through the provision of benefits – service as well as cash payments. To the extent that they displace private mechanisms, even income differentiated social insurance schemes have important redistributive effects. On the other hand, programs that specifically target the poor do not seem to enhance the redistributive impact of social spending (Pontusson 2005: 179-180).

Unfortunately the evidence on the redistributive impact of universalism in the periphery is both limited and problematic. Household surveys are not always reliable or comparable and it is difficult to calculate the benefits received by the top 1 and 5 percent of the population which are more often than not either excluded from household surveys or provide unreliable responses. Most studies also fail to incorporate the value of the services and their distribution among social classes (Martínez Franzoni and Sánchez-Ancochea, forthcoming). Still, the limited evidence that does exist, points to the large redistributive capacity of universal programs. For example, a recent study prepared by Corporación Andina de Fomento (Development Bank of Latin America, CAF) shows that education – particularly at the primary level – and some health services have a much larger impact on the Gini coefficient than targeted but smaller programs (CAF 2012; see also Huber and Stephens 2012). Recent work by the Economic Commission for Latin America and the Caribbean and the World Bank also shows that those services with the highest coverage and relatively equitable provision – primary education and some healthcare services – have the highest impact on the reduction of the Gini coefficient (CEPAL 2006; Goñi et al. 2011).

4.2 Universal Policies do not create Stigma

Poverty does not only refer to the lack of income and other material resources, but also involves lack of power, physical and social autonomy and social respect (Fraser 1994;

Sennett 2003; Townsend 2011). While mean-tested programs may manage to reduce short-term income deprivation among the poor in the short-run, they have a negative effect in power structures and people's autonomy. By signaling who the poor are and by forcing them to provide detailed information about their living conditions to a myriad of state personnel, means-tested programs tend to stigmatize the poor and diminish their equal social standing as human beings even more.

As explained by Walker (2011) in a comprehensive review of the perils of means-testing, this kind of measures can create social divisions between rich and poor and exacerbate the weakness of the latter. When developing her own criticisms of these programs, she relies extensively on Townsend, who was a ferocious critic of targeting. For him,

(selectivity) misconceives the nature of poverty and reinforces the condition it is supposed to alleviate [...] It fosters hierarchical relations of superiority and inferiority in society, diminishes rather than enhances the status of the poor, and has the effect of widening social inequalities [...] it lumps the unemployed, sick, widowed, aged and others into one undifferentiated and inevitably stigmatized category (Townsend 1976: 126 quoted in Walker 2011: 142).

The cost of stigmatization is particularly high in the case of conditional cash transfers (CCTs) – which by 2009 gave cash to over 750 million people across the periphery. Allegedly forcing poor people to take their children to school or to medical check-ups in exchange for money constitutes a method of social control and questions beneficiaries' capacity to make the right decisions. Lack of usage of services is (wrongly) framed as a problem of service demand rather than supply – i.e. they badly need their children to work or do not know how important education and health is for their present and future. This is why Hanlon et al. argue in favor of “just giving money to the poor” (as their book title states): focusing on transfers without conditions (Hanlon et al. 2010). And we would argue, the broader these transfers are in coverage, versus narrowly defined targeting, the better!

Universal policies enhance the social status of the poor by making them subject of rights and equal to everybody else in society. Universalism weakens hierarchies by relying on “one standard of value” for the whole population (Townsend, 1973:15 in Walker 2011). This argument is particularly valid for non-contributory transfers and services, which do not depend on the position of people in the labor market. In the case of contributory programs, which exclude many low income groups, the situation

is more complicated.⁶ Yet if coverage is broad and benefits span over a relatively small range, even social insurance will make a positive contribution to rights. Last but not least, universalism prevents the poor from entering poor programs, namely, those that are under-budgeted, institutionally weak, often discretionary, and prone to political manipulation (Arza 2012).

4.3 Universal Policies can be Easier to Manage

Many critics argue that even if universal policies can potentially be more redistributive, states in the periphery lack the right institutions to implement them effectively. For example, a well-functioning public health system requires nurses, doctors, hospitals and planning institutions capable of operating in every corner of a given country. Social services depend on a minimally efficient state apparatus, including a Weberian bureaucracy that is capable of organizing quality delivery and avoids discretionary use of state resources (Henderson et al. 2003).

In practice, however, it is not clear whether universal policies require more institutional capabilities than means-tested ones. For Rowthorn, Mkandawire and others, universal social spending actually has lower management costs than targeted programs and can reduce clientelism (Rowthorn and Kozul-Wright 1998; Mkandawire 2006a). Targeting requires sophisticated institutional and technical mechanisms to identify the deserving population, making sure that they do not game the system and that the benefits are properly allocated. In the case of CCTs, an institutional apparatus that maps out the poor and enforces conditionality upon them had to be created. In some countries, indicators governments use to identify the deserving poor are periodically changed to inhibit people from making up responses they know will help them be eligible for transfers. It is ironic that programs that argue for a rational use of public resources are at the same time channeling increasing resources to study, control and monitor the poor.

Administrative simplicity is also a powerful reason to have non-contributory, universal and flat-rate pensions in the periphery (Willmore 2007). Even the World Bank recognized in 2005 that non-contributory universal pensions are

6 The counterpoint between contributory and non-contributory programs is more pronounced in some sectors than others, something evident in the case of Costa Rica. In the case of pensions, the self-employed and the poor were excluded until the 1970s and, even then the latter group had to meet severe income conditions to receive benefits. In the case of healthcare, the situation was different: although there were formal differences between contributing and those non-contributing program participants, in practice the system created a continuum of people insured through contributory and non-contributory mechanisms. In short while the generosity of transfers was still stratified, healthcare access and benefits were not.

probably the best way to provide poverty relief to the elderly. Considering the difficulty of identifying who among the elderly is poor, the principal merit of the program is that its universality avoids the targeting issue (Holzmann and Hinz 2005: 95).

In peripheral countries where universal pensions have not been adopted, the integration of different insurance mechanisms within a single institution – a second-best in terms of universalism – can also reduce costs and facilitate management as the Costa Rican experience shows.

4.4 Universal Social Policies can have Positive Macro-social Impacts

Flagship universal programs can enhance a sense of belonging to a specific (national) community and become a defining feature of national identity. Béland and Waddan emphasize the importance of universal healthcare for Canada where

universal health care has long become a core component of social citizenship, as well as a symbol of national identity [...] Canada lacks the strong, shared, political myths and symbols ever present in the United States but the country's very different, universal, health care system helps to build a distinct national identity (Béland and Waddan 2013: 9).

This is not unlike Costa Rica, where since the 1940s the *Caja* has become a healing and a motherly institution, which is intertwined with peace, the rule of law, and a social democracy. The symbolic status of these institutions can help strengthen a commitment to solidarity and social equality. It also makes the adoption of any regressive reform more difficult. In Canada, attacks on the universal health system are out of bounds, both at the federal level and in the provinces (Béland and Waddan 2013). Something similar has happened in Costa Rica where, despite powerful stakeholders seeking regressive reforms, threats to public arrangements have been implicit rather than explicit.

Universal policies can contribute to social cohesion and to the creation of a social contract (ECLAC 2007). Social cohesion appeals to the stability that societies gain from a sense of belonging, membership or shared conditions; these, in turn, rely on social bonds (Hopenhayn 2007). By providing one of the few spaces for interaction between the rich, the middle class and the poor, state transfers and services can nurture these bonds. Universal services shorten social distance, help different socioeconomic groups become part of a community and realize their shared problems and human condition.

On the contrary, the lack of social bonds inhibits the existence of a mutually supportive collective.

Universalism can strengthen a sense of unity which until now has been mostly explored in terms of nation states but which can also extend to smaller and larger collectives – such as cities and the globe. According to de Neubourg, “the stability of nation states depends [...] on at least a minimum level of solidarity, shared beliefs, values and preferences on the part of its citizens” (Neubourg 2009: 68). He shows how in Europe the creation of generous social programs constituted an important step in the process of state-building; they were particularly important after the Second World War when building a new sense of community became urgent. In the same way, in many peripheral countries universal policies could contribute to close divisions and heal past conflicts. In Costa Rica not just health insurance but also the education system played this role. Even today, 87% of all Costa Ricans attending basic education (primary school plus the first three years of secondary) are enrolled in public institutions (Programa Estado de la Nación 2013). Social cohesion can contribute to strengthen democracy and trigger other virtuous circles. For Andrenacci and Repetto, social policy is a key component of a strategy that aims at “the construction of societies that are economically integrated, socially cohesive and politically participatory, where differences do not create segmentation” (Andrenacci and Repetto 2006: 100).

The cohesive role of social policy could be particularly strong in post conflict societies, in which national unity requires transcending separate collective identities and experiences of exclusion. The case of Southern Eastern European societies is illustrative (Deacon and Stubbs 2007). There, citizen-based social policy could have advanced social solidarity in the reconstruction phase not just by taking care of immediate needs but of long-term social development (Cocozelli 2009). The more universal the policy, the more effective the inclusion and the more isolated the exclusion of specific social groups becomes. This is why, Cocozelli argues, the means-tested social welfare system that has emerged in Kosovo “is not likely to realize its full potential to contribute to social solidarity and stability” (Cocozelli 2009: 21).

Even if universal policy is desirable for social cohesion and state building, neoclassical economists often highlight its negative impact on economic growth (Pontusson 2005). They argue that high marginal tax rates can reduce the incentives to work and high payroll taxes can make workers prohibitively expensive. Excessive transfers to the poor can also reduce their effort and productivity. The public provision of social services like health and education can be ineffective, as public providers “have little incentive

to improve productivity and to respond to changes in consumer demand” (Pontusson 2005: 163).

According to critics, universal policies may also be too expensive for countries with low income and social investment per capita and a weak tax system. A Uruguayan Minister appointed under a left-of-center administration criticized the Costa Rican model because “it authorized all the expensive medicines, all the expensive technology and ended up ruining the system and weakening its financial sustainability” (Uy.press 2013). In fact, if resources are limited and the primary income distribution unequal, the argument goes, it is best to prioritize the poor, leaving everyone else to rely on markets to look after their needs and solve their problems. As Lo Vuolo puts it, “the security of the “non-poor” should no longer be “social” and should be resolved by private insurance mechanisms” (Lo Vuolo 2005: 2).

Allegedly, developing “expensive” universal programs is particularly hard under globalization.⁷ Globalization has certainly created downward pressure on tax revenues and made tax expansion difficult in all countries, at least until the 2000s. Three factors are particularly important in explaining this outcome (Grunberg 1998; Tanzi 2004). First, countries across the periphery competed to attract foreign investment in export processing zones, promising large tax subsidies. Second, the increasing weight of transnational corporations in the world economy led to a globalization of the tax base and rendered most tax systems obsolete. Adapting taxes to the new global conditions has proven hard because companies are able to avoid taxes through transfer pricing and other tax planning techniques.⁸ Third, the reduction of import tariffs induced by trade liberalization gave rise to a fall in revenues from duties on foreign trade.

In reality, we argue that few of these anti-universalist arguments can stand up to closer scrutiny. Universal policies are unlikely to be a net cost on countries; quite the contrary, they usually have a positive impact on sustainable economic growth and competitiveness. As Mkandawire (2006b) argues, social policy and economic development are interlinked. Social programs not only compensate for the negative effects of external shocks and economic adjustment, but also contribute to the generation of competitive assets. Universal social policies can assist in the accumulation of human capital, expand aggregate demand and improve social capital. The result will

7 Globalization can be broadly understood as the “economic interdependence between countries where cross-border linkages among markets and production and financial activities have reached such an extent that economic developments in any one country are influenced to a significant degree by policies and developments outside its boundaries” (Milberg 1998: 71). For a detailed discussion of globalization and its main effects in Latin America, see CEPAL (2002).

8 In fact, empirical studies showed that, at least in the 1990s, firms systematically post higher rates of return in countries with low tax rates than in countries with high tax rates (Grunberg 1998).

be higher economic growth and the creation of new competitive advantages: a point that is evident when one considers the high growth rates in the few peripheral countries with universal policies, including Costa Rica and Mauritius (Martínez Franzoni and Sánchez-Ancochea 2013; Sandbrook et al. 2007).⁹

A more credible criticism of universal policies has to do with the obstacles most countries in the periphery face to raise taxes to the level needed to make them financially feasible. Even in the Costa Rican case, expanding taxes to confront the shortage of social security contributions has been difficult. Yet expanding taxes is primarily a political rather than an economic challenge, which takes us back to the role of political coalitions discussed earlier in this section. When a broad political coalition is created – something most likely when large segments of society benefit from social services – expanding direct and indirect taxes becomes less difficult.

Moreover, in the last few years expanding taxes in many peripheral countries, particularly in Latin America, has been easier due to the commodity boom (Cornia 2010). As a result, newly elected progressive governments have often managed to fund social policy without challenging the interests of the economic elite. Two emblematic examples in Latin America are Chile's healthcare AUGE founded in 2004 and Bolivia's *Renta Dignidad* – a pension for everybody 60 years of age or more – created in 2008. The former was funded with copper revenues and the latter primarily with a share of revenues from the direct tax on natural resources.

5. Fragmentation as a major Obstacle to build Universalism

The creation of universalism in central and, especially, peripheral countries has systematically confronted fragmentation as a threat. By fragmentation we mean a situation where the provision of social services varies in access and generosity across groups of people or where some groups have access to high quality private services. In this kind of situation, broad coverage can go hand in hand with unequal provision of services. Fragmentation can be policy driven (what we will call segmentation) or market driven (i.e. marketization).

9 The importance of the historical link between universal social programs and economic development is clear when the Nordic countries are compared to Latin American ones. Valenzuela, for example, tracks the evolution of social programs and economic performance in Chile and Sweden. He demonstrates that the introduction of universal and generous pensions and other social programs in Sweden triggered key socio-economic transformations at the beginning of the 20th century. In particular, they facilitated the incorporation of women to the formal labor market, the reduction in demographic growth and the increase in productivity. Chile's failure to introduce a similar policy package resulted in a more rapid expansion of its population and a less dynamic economic path (Valenzuela 2006a and 2006b).

Segmentation can result from weak state capacity (e.g. services are aimed to reach everyone but in reality the scattered rural population is left behind) or from policy design. Historically much segmentation was driven by the latter, specifically by the promotion of social insurance organized along occupational lines. Such insurance was initially created for income maintenance, not for redistribution. Thus, a diverse set of workers, from teachers to the military and various types of public servants, had every incentive to demand more services restricted to them, resulting in the vertical rather than horizontal expansion of benefits.

This problem was particularly significant in Latin America where “the urban middle class and some blue-collar workers enjoyed access to relatively generous systems of public protection, but peasants and informal-sector workers were generally excluded or underserved” (Haggard and Kaufman 2008: 1). Even among the middle class in the most successful cases like Argentina, Chile and Uruguay, entitlements were highly diverse (Filgueira 1998). In Uruguay, by 1967 there were nine pension funds and nine autonomous health insurance funds for workers in different manufacturing activities (Mesa-Lago 1978). Also, large parts of the middle class were members of the mutual insurance healthcare plans for which they paid a premium. Mutual organizations spent 4,884 pesos per beneficiary compared to 1,562 pesos in the public system. Argentina created separate funds for civil servants (founded in 1906), railway workers (1919), utility workers (1921), bank employees (1923), and several other groups (Lewis and Lloyd-Sherlock 2009). Each fund had different benefits and efforts to unify them during the late 1960s and 1970s failed (Huber and Stephens 2012). In Chile, social insurance had more than 10 different funds, whose differences were contained in more than 2,000 legal texts (Mesa-Lago 1978; Segura-Ubiergo 2007). This fragmentation made the system far from universal in terms of outcomes and in most instances, deepened the socio-economic segmentation created in the labor market (Haggard and Kauffman 2008).

Policy-driven segmentation was one of the rationales behind pro-market and pro-targeted state reforms promoted during the 1980s and 1990s. Yet even if neoliberal reforms weakened what were arguably regressive benefits of previous policies (Rudra 2007), new types of fragmentation emerged. A potential new source of segmentation has come from CCTs which enforce use of basic services, most typically primary school attendance and primary care check-ups, without paying sufficient attention to the quality and availability of those services in particular areas. In practice, simply

placing new demands on users of most of these programs has not improved the quality of services to the level needed to break the inter-generational reproduction of poverty.¹⁰

The elimination of segmentation often requires more than universal social programs. The poor confront a complex set of obstacles that reinforce one another – including asymmetric information, lack of time and human capital, lack of confidence in public servants, more experience with state repression than with redistribution – and inhibits their adequate appropriation of many services. As Titmuss explained decades ago when referring to Great Britain,

universalism in social welfare, though a needed prerequisite towards reducing and removing formal barriers of social and economic discrimination, does not by itself solve the problem of how to reach the more-difficult-to-reach with better medical care, especially preventive medical care (Abel-Smith and Titmuss 1987: 217).

In most cases, we would recommend that countries should thus implement some kind of “affirmative action” in favor of the poor or what Skocpol called “targeting within universalism”; they should create programs that provide “extra benefits and services that disproportionately help less privileged people without stigmatizing them” (Skocpol 1991: 414). Social assistance programs that are interlinked to universal healthcare and education can be particularly powerful. On the contrary, programs that are only targeted to the poor or that give access to fewer or lower quality services (e.g. *Seguro Popular* in Mexico, scholarships to private universities in Brazil, old-age cash transfers in El Salvador) will not enhance the universalistic structure.

In addition to policy-driven segmentation, universalism can be undermined by marketization, which can be defined as the

introduction or strengthening of market incentives and structures [...]. This process may include diverse elements such as creating markets, encouraging competition among providers, giving greater choice and voice to patients [or consumers more broadly], establishing financial incentives for efficient resource utilization and higher quality of care and shifting decision-making and financial responsibility to service providers (Agartan 2012: 458).

¹⁰ The World Bank, for example, reports significant differences in school outcomes between different income groups and links it to “new forms of inequality, in particular those associated with high variances in quality” (World Bank 2003: 7). See also CAF (2012).

Marketization is not a new phenomenon but it has certainly become stronger in recent decades, affecting a growing number of policy sectors from pensions and healthcare to education. Led by the increasing power of the financial sector, what used to be de-commodified areas of social life have become arenas for profit making. In countries like Turkey, attempts to reduce policy-driven segmentation have gone hand in hand with the expansion of private markets. Unfortunately,

the growing number of private providers has given rise to more socially stratified service consumption. The better-off patients, who can afford higher user fees, have a tendency to leave the public sector and prefer private providers (Agartan 2012: 469).

Even when the legal design of social policies remains intact, market forces can erode universalism in practice.

The existence of private pension funds creates new savings opportunities for the middle class and the rich and reduces their commitment to public plans. These groups are also likely to exit the public healthcare system and stop fighting for quality improvements when new private hospitals appear. The expansion of markets also creates new interest groups (financial service providers, private hospital owners, doctors in private practice) which have further incentives to erode the public sector. Even though marketization is particularly harmful when the state has a weak regulatory capacity, current policy debates in England (regarding the NHS) and in Germany (regarding the long-debated merger of private and public insurance) demonstrates that state capacity alone cannot easily mitigate the pressure of marketization, once begun.

6. Conclusion

In many Latin American countries, social policy is becoming more ambitious in the past decade. A combination of international ideas, democratic pressures and growing resources from the commodity boom has resulted in programs that incorporate a larger number of beneficiaries and rely less on means-testing than before. The success of much acclaimed CCTs also play a role: as the 2013 demonstrations in Brazil shows, the broadening of the state's redistributive reach comes hand in hand the voicing of new social demands. In this new context, thinking about universalism (understood as generous services and transfers for all) becomes particularly important. Universal social policies have been hard to build in Latin America, but could potentially have multiple positive effects. By creating cross class coalitions, they can expand public

spending and improve service quality. Universal social policies in areas such as health and education can also enhance social cohesion and expand human capital.

How can Latin American countries secure universal social policies? How can they maximize all the potential benefits of these policies? Universalism cannot be reached overnight, but will be a gradual process. Yet from the institutional literature on path dependency and policy trajectories, we know that paths countries embark on today will have long lasting effects. As a result, Latin American policymakers must be sensitive not just to the short term but to the long term effects of their policy proposals.

Are policies focusing on coverage but disregarding quality and equity? Is policy design strengthening or weakening cross class coalitions? What incentives are policies creating to have people on the same boat? Responses to these questions are crucial not just to the specific policies we discussed in this paper like healthcare and old-age transfers, but also to emerging policies that tackle new social demands like child and elderly care. Across the region, statecraft currently revolves around transferring some amount of child care from families to public and private services. Securing universal outcomes in these new areas will require expanding coverage through different mechanisms, while simultaneously providing similar services to all. In this process, public provision will likely be more successful in resisting pressures towards fragmentation and delivering more homogenous services for all beneficiaries. However, even when government must channel resources through the private sector, its ability to regulate and certify shared standards will be important. By promoting new cross class coalitions and social cohesion, progress in new services could have positive spillovers on preexisting ones.

As futurologists speculate about the world's wealthiest 1% getting ready to move to a new planet if life on Earth becomes unsustainable, for the other 99% the only way out seems to be the strengthening of mutual support and collective bonds. Universalism is one important component to secure that central objective.

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