LENA LAVINAS

21ST CENTURY WELFARE

Latin America has long served as a proving ground for economic and political experiments that later acquire a global reach: the shock therapy of neoliberalism was followed by structural adjustment programmes that were visited on debt-stricken states across the continent in the 1980s, before being rolled out in Africa and elsewhere.[1] Since the late 1990s, the region has also served as the laboratory for what the *Economist* has called 'the world's favourite new anti-poverty device': conditional cash transfer programmes (CCTs) which, as their name suggests, supply monetary benefits as long as recipients can demonstrate that they have met certain conditions. In 1997, only three Latin American countries had launched such programmes; a decade later, the World Bank reported that 'virtually every country' in the region had one, and others outside it were adopting them 'at a prodigious rate'. By 2008, 30 countries had them, from India, Turkey and Nigeria to Cambodia, the Philippines and Burkina Faso; even New York City had put one in place.[2]

The reasons for this proliferation appear simple. CCTs hold out the prospect of killing several developmental birds with one stone: by tying receipt of benefits to children's attendance at school or to family visits to health centres, they aim to reduce extreme income poverty while also addressing other disadvantages suffered by the poor—rectifying what development-speak calls 'underinvestment in human capital'. In many cases they also claim to advance an agenda of 'female empowerment', either by requiring women to be the recipients of the cash or by making girls' education a condition of disbursement. Further, by 'targeting' recipients and imposing conditions, CCTs offer a way to attenuate extreme poverty without imposing the kind of fiscal burdens that universal welfare provision would involve; they are an *ad hoc* benefit, subject to significant budget constraints. The *Economist* concluded approvingly in 2010 that 'the programmes have spread because they work. They cut poverty. They improve income distribution. And they do so cheaply.'[3] Little wonder, then, that governments across the developing world, policy experts and multilateral financial institutions—the World Bank foremost among them—have increasingly turned to such programmes as their weapon of choice in the 'war on poverty'.

The rise of CCTs has unfolded in the midst of a broader shift in the nature of social protection, affecting global South and wealthy North alike. In many rich industrialized states, governments of both centre-right and centre-left have proclaimed that they can no longer afford universal welfare systems of the kind created during the twentieth century. Over the last three decades, many have moved to downsize or dismantle them, shifting from comprehensive coverage towards more individualized models—'targeted' or 'means-tested'—and from decommodified provision of goods and services to a greater emphasis on cash benefits. The differences are by no means trivial, underpinned by an ideological sea change with far-reaching effects. Whereas one function of the post-war welfare state had been to remove core provision of health, education, housing and social insurance from the buffetings of the market, the role of the new-model 'enabling state' is to facilitate the play of market forces—providing 'public support for private responsibility'.[4] Rather than recognizing needs, it concedes 'entitlements', and instead of ensuring equal access to public goods, it offers rewards in exchange for the fulfilment of obligations—the quintessential coinage in this sense being 'workfare'.

In the West, one of the key mechanisms for promoting individual responsibility has been financialization: the expansion of credit markets enables citizens better to 'manage risk', with personal and household debt serving in theory both to liberate citizens from dependency on a retreating state and to discipline the feckless. These same doctrines of

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[1] An early draft of this article appeared as 'Latin America: Anti-Poverty Schemes Instead of Social Protection', *desiguALdades Working Paper* no. 51, 2013. I thank Verónica Schild, Robert Boyer, Sérgio Costa, Barbara Fritz and other fellows for their critical comments during my stay at desiguALdades in the autumn of 2012; I am grateful to Tatiana Ferro, Francisca Talledo, Flora Thomson-DeVeaux and Paul Talcott for their valuable assistance.

[2] *Economist*, 29 July 2010; Ariel Fiszbein, Norbert Schady et al, *Conditional Cash Transfers: Reducing Present and Future Poverty*, Washington, DC 2009.

[3] *Economist*, 29 July 2010.

[4] Neil Gilbert, *The Transformation of the Welfare State*, Oxford 2002, p. 4.

individual responsibility and risk management have also been advanced across much of the global South, most prominently by international financial institutions, development agencies and NGOs. Here the agenda has been driven not so much by a desire to dismantle universalist mechanisms—countries in the developing world generally lacked the comprehensive social insurance schemes that were a feature of the Cold War in the West—as by a twofold emphasis on economic growth and 'human capital accumulation'. The generally low educational levels and vulnerable health of the poor are seen as an obstacle to prosperity, not least because they prevent them from participating fully in the market. As one IMF functionary emphatically asserted at a seminar co-organized by the Friedrich-Ebert-Stiftung and ILO, 'there is no vibrant economy if there are no consumers.'[5] In this agenda, the battle against poverty and the advance of finance-led capitalism have fused.

In the 1980s and 1990s, the tools of choice for integrating the deserving poor into the market were microcredit schemes, such as Grameen Bank in Bangladesh or BancoSol in Bolivia. Despite many enthusiastic claims made for them, the impact of such schemes on poverty rates was modest, to say the least.[6] Since the turn of the century, thanks to their record of apparent success in Latin America, it is CCTs that have moved to the fore. Such programmes are not merely a technical device for combating poverty. By targeting recipients on condition that they demonstrate 'co-responsibility' for their own welfare, the schemes reinforce the trend away from universal provision and towards a limited, 'residual' model of social protection. At the same time, by providing select groups of the poor with cash or new modalities of bank credit rather than decommodified public goods or services, they are also a powerful instrument for drawing broad strata of the population into the embrace of financial markets. In that sense, the global spread of CCTs is part of a wider reshaping of welfare regimes in the developing world and beyond.

But just how effective have CCTs been in reducing poverty, and what have been their wider consequences for social provision in countries that have adopted them? The experience of Latin America, where the

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[5] Quotation from Elliott Harris, FES–ILO Seminar on the Social Protection Floor, Berlin, November 2012.

[6] For a robust comparative study of microcredit schemes carried out during the 1980s and 90s, see David Hulme and Paul Mosley, eds, *Finance Against Poverty*, vols I and II, London 1996.

policy was developed and road-tested on populations from Mexico City to Santiago, from the Brazilian *sertão* to the Peruvian *altiplano*, offers the broadest range of case studies to date. In what follows, I trace the emergence and take-up of CCTs across the region, and examine the evidence on their outcomes.

The decisive impetus for the design and implementation of new safety nets came from the severe fiscal and economic crises of the 1980s. The debt spirals that resulted from the hiking of US interest rates in 1979 brought high inflation, unemployment and sharp declines in real wages across Latin America, as growth stalled for what became known as the 'lost decade'. The remedies applied—IMF-decreed structural adjustment plans, which involved sweeping cuts in social spending and elimination of subsidies—aggravated the situation, deepening levels of destitution and forcing millions into the informal economy. Over the course of the 1980s, Latin America witnessed a significant increase in poverty and 'indigence' (extreme poverty) rates: according to figures from the Economic Commission for Latin America and the Caribbean (ECLAC), the overall poverty rate for the region went from 41 per cent in 1980 to 48 per cent in 1990, with indigence rates rising from 19 to 23 per cent. The number officially classed as poor reached 204 million people in 1990, as against 136 million ten years earlier.

There was clearly an urgent need for some sort of cushion against the consequences of liberalization. The existing pay-as-you-go social protection systems, largely the privilege of formal-sector employees, were unable to cope with the effects of structural adjustment, and those outside them fared still worse. But the solutions sought for this situation during the 1990s involved not a reversal, but an extension of the neoliberal paradigm, to which many governments had converted radically and abruptly, pushing through extensive and rapid privatization programmes. Two strategies were pursued initially. On the one hand, the public pension systems were to be fully or partly privatized, to reduce the fiscal burden imposed by demographic shifts (population ageing) coupled with low growth and high rates of informality among the working population. Several Latin American countries adopted pension reforms which, following the example set by Chile in the early 80s, entailed an expansion of the private sector's role: Mexico and Peru in 1992, Argentina and Colombia in 1993, Uruguay in 1995, Bolivia in 1996. A central aim was to foster the development of capital markets in Latin America, considered relatively feeble at this point. On the other hand, at the same time as it withdrew from the social responsibilities of pension provision, the 'enabling' state would play a greater role in ensuring the smooth operation of markets. Reducing poverty and indigence was a key goal of this strategy, since high levels of destitution represented a threat to liberalization. Otherwise, who would pay for the new services to be delivered by the private sector—pensions, health, electricity, water, communications?

These twin strategies—privatization, marketization—were pursued in parallel during the 1990s, without being integrated into a single, coherent model. Moreover, the results of this wave of social-insurance privatization fell far below expectations: as the World Bank itself acknowledged a decade later, the reforms failed to improve coverage rates.[7] Partly due to the dismantling of earlier, fragmented public pension regimes, poverty grew in the 1990s in several countries: Bolivia, Ecuador, Peru and Venezuela all experienced rises in the poverty rate. The continuing vulnerability of large sectors of the population, and the deepening income deficits wrought by the crises of the 1980s and ensuing structural reforms, prompted the development of a different kind of safety net.

A new model

Conditional cash transfers are often described as originating in Latin America—an 'endogenous innovation', in the proud words of two Inter-American Development Bank economists.[8] The story of their emergence and spread across the region usually begins with the programmes implemented in Brazil and Mexico in the late 1990s. However, their intellectual antecedents can be found further north. Conceptually, we might see CCTs as a confluence of two sets of ideas: the idea of 'human capital' on the one hand, and of 'targeting' welfare spending on the other. If Chicago School economics was the founding matrix of the former, the latter took shape under the influence of behaviourist economics and 'decision theory', as embodied by RAND Corporation reports from the late 60s. Earlier

[7] Indermit Gill et al, *Keeping the Promise of Social Security in Latin America*, Washington, DC 2004, p. xviii.

[8] Marco Stampini and Leopoldo Tornarolli, 'The Growth of Conditional Cash Transfers in Latin America and the Caribbean: Did They Go Too Far?', *IDB Policy Brief*, Nov 2012.

in the decade, Robert McNamara had famously commissioned RAND analysts to write reports for the Pentagon applying economic thinking to various aspects of military strategy. Daniel Ellsberg's contributions are the best known of these, but they also included a 1966 paper on the 'Economic Theory of Alliances' co-written by Mancur Olson and Richard Zeckhauser. Olson had just codified the 'free rider' problem in his *Logic of Collective Action* (1965), and here he and Zeckhauser, then a PhD student at Harvard, applied similar reasoning to the uneven distribution of defence spending among NATO countries—small states 'free-riding' on the US. Zeckhauser soon moved on to the problem of welfare, writing a RAND report in 1968 which asked: 'How should assistance programmes to the poor be structured so as to maximize the utility function of the representative citizen?' The answer was 'targeting', for example by encouraging the poor to work through tax incentives—something Zeckhauser recommended to the Nixon Administration in 1970, influenced by Milton Friedman's ideas on a 'negative income tax'.[9] Positive incentives were only one form of targeting, however: Zeckhauser subsequently suggested that allocation of transfers could also be improved by imposing 'restrictions on recipients'. In order to qualify, recipients would have to meet certain 'deadweight costs', heart-warmingly referred to as 'ordeals': 'demeaning qualification tests and tedious administrative procedures', for example, or a work requirement that meant accepting precarious, 'menial' jobs with low wages.[10]

CCTs are founded on this principle of targeting, but with a philanthropic twist: the 'costs' imposed on recipients—education, health-centre visits—are actually beneficial to them in the long run. This second component of CCTs owes much to the work of Chicago School economists T. W. Schultz and Gary Becker on 'human capital', seen as a crucial 'input' that explained much of a country's developmental success. The

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[9] Mancur Olson and Richard Zeckhauser, 'An Economic Theory of Alliances', *RAND Corporation* memorandum RM–4297–ISA, October 1966; Zeckhauser, 'Optimal Mechanisms for Income Transfers', *RAND Corporation* paper P–3878, 1968; Zeckhauser and Peter Schuck, 'An Alternative to the Nixon Income Maintenance Plan', *Public Interest*, Spring 1970, pp. 120–30 (the latter paper warmly thanks Milton Friedman). Zeckhauser later noted with some satisfaction that the idea of Earned Income Tax Credits was eventually taken up by the Ford Administration: Schuck and Zeckhauser, *Targeting in Social Programs: Avoiding Bad Bets, Removing Bad Apples*, Washington, DC 2006, p. 160, n. 13.

[10] Albert Nichols and Richard Zeckhauser, 'Targeting Transfers through Restrictions on Recipients', *American Economic Review*, vol. 72, no. 2, 1982, pp. 372–7.

logic of this, of course, was to downplay the role played by structural factors in keeping underdeveloped countries poor, instead focusing on the internal failings of the countries themselves—thus offering a counter to dependency theory. According to one account, 'Schultz's ideas on human capital are essential to the understanding of the history of the Chicago School expedition to Latin America', since they had a 'lasting impact on the perspective of the US government aid programmes and on the work developed by American foundations in the area'.[11] In particular, human capital was the 'banner' under which Chicago School ideas were implanted in Chilean universities in the 1960s, strongly influencing the economists who would devise Pinochet's drastic liberalization agenda. Among them was Miguel Kast, who trained in Chicago from 1971–73, before returning to work at Odeplan, the Chilean state planning agency; there he carried out extensive work on poverty, producing a national map of extreme poverty in 1975. This would provide the analytical foundations for the 'focused' anti-poverty measures he implemented after becoming Minister of Labour and Social Security in 1980.[12]

In this respect as in others, Pinochet's Chile was the precursor: not only was it the first Latin American country to fully privatize the administration of its pension funds in 1980, it also pioneered the conditional safety net, establishing the Subsidio Único Familiar in August 1981. Combining the ideas of human capital with the principles of targeting, it provided a stipend equivalent to $6 per month to indigent mothers with school-age children, conditional on school attendance, to pregnant women and to women with care responsibilities for disabled people. It was a small-scale programme: less than a thousand beneficiaries were reached for a total cost of 0.09 per cent of GDP. In the following decade Argentina also experimented with a cash transfer programme, introducing the Programa Nacional de Becas Estudiantiles in 1997, focused on adolescents from poor backgrounds and again conditional on school attendance. But it was in Brazil and Mexico that income-support schemes were first extended on a large scale, and the copious

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[11] Juan Gabriel Valdés, *Pinochet's Economists: The Chicago School in Chile*, Cambridge 1995. Valdés studied at the Universidad Católica in Santiago, a key bridgehead for the 'Chicago Boys', in the late 60s; in exile during the dictatorship, he has subsequently served Concertación governments as foreign minister (1999–2000) and diplomat, overseeing the MINUSTAH occupation of Haiti from 2004–06.

[12] An early document of his thinking on social policy can be found in 'Política económica y desarrollo social en Chile' (1976), in Hernán Burdiles, ed., *El pensamiento de Miguel Kast en perspectiva*, Santiago 2006, pp. 151–60.

documentation and data derived from study of them helped propel the adoption of CCTs elsewhere. Although the cash transfer programmes implemented in these two countries converged in their declared aims—short-term poverty relief, coupled with efforts to break intergenerational cycles of poverty via 'human capital accumulation'—their origins and trajectories were distinct.

In Brazil, cash transfer programmes emerged primarily at the municipal and state level, only later being adopted nationwide. With the political loosening of the second half of the 1980s, centre-left governments were elected to run a number of local authorities, mainly in densely populated metropolitan areas. Thanks in large part to the decentralization principles enshrined in the 1988 constitution, such municipalities became hotbeds of institutional and policy innovation, putting into action ideas that had been debated by activists, scholars and policymakers during the preceding years of widespread political mobilization. Initiatives such as participatory budgeting, made famous by Porto Alegre, and the anti-hunger campaign of the Programas de Segurança Alimentar originated in this ferment, as did the country's first large municipal minimum-income programme, established in Brasilia in 1995. The Bolsa Escola provided a monetary stipend to poor families with children between the ages of 7 and 14, tied to school attendance. In addition to attenuating poverty, the scheme aimed to reduce drop-out rates and thereby help to eliminate child labour.

The Bolsa would be held up as a model to be emulated in the rest of the country, for three main reasons. Firstly, the poverty threshold used to identify potential beneficiaries was set at per capita family income of half the minimum wage. Secondly, the benefit was a flat rate that amounted to a minimum wage, a significant sum by local standards—especially given that there had never been a policy in Brazil that had specifically addressed poverty. Finally, the take-up rate was surprisingly high: about 80 per cent of the target population was covered. In view of this, and the low operational cost, local cash transfer schemes conditional on school attendance spread rapidly across Brazil; by the end of the 1990s, around 100 municipalities had implemented one. Faced with this evidence, Cardoso decided to extend the programme nationwide. However, the attempt at scaling up would fail: no more than 1 million poor families, barely 10 per cent of the target population, had been enrolled by the end of his term in 2002. The programme was also redesigned by the federal government, losing much of its effectiveness: the poverty line was set at an even lower level, thereby excluding the bulk of potential beneficiaries, and the payment was reduced and tailored to distinct age groups, providing much less assistance to poor families.

In Mexico, by contrast, the first CCT scheme was a top-down initiative, designed and implemented by the federal government. Created in 1997, Progresa—the Programa de Educación, Salud y Alimentación—was a national programme combining education, food and health benefits, aimed principally at poor rural families. Its main architect was Santiago Levy, deputy finance minister in the Zedillo government, who proposed the scheme as a monetary replacement for existing subsidies on milk, tortillas and other staples. Instead, beneficiaries would receive a basic monthly food grant and further cash conditional on children's school attendance. One of Progresa's innovations was to establish a higher stipend for girls, whose drop-out rates were worse than those of boys, since they were often required to help their mothers with domestic work. A second novelty was that larger stipends were paid for children in higher school grades, as an incentive to increase middle-school enrolment rates. Progresa also differed from previous CCTs in its attention to healthcare: in addition to school attendance, benefits were conditional on regular family visits to clinics for preventive purposes (prenatal care and child nutrition). Yet despite this apparent concern with the population's long-term wellbeing, health-related activities amounted to only 8 per cent of the Progresa budget in 1999. Had the Mexican government been committed to a comprehensive, integrated approach to poverty reduction, the allocation of such a low share of the budget to general healthcare—especially in the absence of existing public provision—could have been seen as an oversight. But the disparity was not accidental, as the further development of such programmes in Mexico and elsewhere would indicate.

Take-up

The spread of CCTs across Latin America after 2000 was contingent on three major factors. Politically, the election of a wave of progressive governments was crucial: starting with Chávez in 1998, through Lula in 2002, Morales in 2005 and Correa the following year, among others, left or centre-left forces arrived in power who were committed to redressing some of the worst consequences of the preceding decade's frenzy of liberalization. The 'pink tide' pushed social concerns up the agenda across the region, making governments of varied political colourations more likely to support anti-poverty initiatives. Second, after the crashes of the 1990s and early 2000s—the Tequila Crisis of 1994, the aftershocks of the Asian Crisis, culminating in the Argentine default in 2002—the continent began to experience a period of renewed if uneven growth. The ongoing housing and credit bubble in the US and other major Western states, and the expansion of manufacturing in China, brought a rise in commodity prices, boosting Latin America's export revenues; after 2008, financial markets across the region received floods of hot money seeking higher returns in 'emerging markets'. This gave governments a margin of fiscal manoeuvre they had previously lacked.

A third critical factor was institutional: after initial scepticism, the World Bank and other development agencies became eager to promote CCTs. Although the World Bank and IMF had played a leading role in pushing through the privatization of social insurance in Latin America, until the mid-1990s both bodies consistently opposed any initiatives providing cash to the needy in developing countries, on the grounds that the poor are 'unable to make efficient choices'; furthermore, they were convinced that governments there lacked the fiscal capacity to guarantee such safety nets. However, around the turn of the new century, World Bank economists began to advance a 'social risk management' strategy for the developing world that offered a pro-market approach to combating poverty. This envisaged 'public interventions to assist individuals, households and communities better to manage risk, and to provide support for the critically poor'.[13] Among the instruments recommended were means-tested safety nets, as well as improving the access of the poor to 'market-based risk management instruments', such as microinsurance and microcredit. The role of the state would be sharply circumscribed, and that of financial markets expanded.

The World Bank acknowledged that reducing wide income gaps would boost market economies throughout the developing world. Yet it remained wary of simply handing cash to the poor. CCTs were instrumental in its change of attitude. Vital roles were played here by the Inter-American Development Bank, which enthusiastically backed

[13] Robert Holzmann and Steen Jørgensen, 'Social Risk Management: A New Conceptual Framework for Social Protection, and Beyond', *Social Protection Discussion Paper* 0006, World Bank 2000.

CCTs from early on, and today claims involvement in 'just about every one of those programmes' in Latin America;[14] and, perhaps more importantly, by the International Food Policy Research Institute (IFPRI). A Washington-based think-tank originally set up to promote the Green Revolution—it claims Robert McNamara and Norman Borlaug among its 'founding fathers'—IFPRI was invited by the Mexican government to carry out an independent technical evaluation of Progresa.[15] Its enthusiastic reports from Mexico and subsequently Brazil provided much of the evidentiary basis on which World Bank economists concluded that 'results from a first generation of programmes reveal that this innovative design has been quite successful in addressing many of the criticisms of social assistance such as poor poverty targeting, disincentive effects and limited welfare impacts.' The early experience of CCTs apparently served to 'debunk claims that targeted programmes in poor countries are inevitably plagued by leakage and high administrative costs'.[16]

As several more Latin American states took up the idea, the World Bank too embraced CCTs as a new paradigm for combating poverty that was compatible with its 'social risk management' agenda; within a few years, it would be funding pilot projects across the developing world. The Bank's chairman, James Wolfensohn, claimed to have been 'very excited' on first encountering Progresa: 'It was homegrown, based on solid economic and social analysis, comprehensive in approach, and sensitive to the institutional and political realities of the country. Most impressive of all, it was designed from the start to have a measurable and sustained impact.'[17] Among other influential voices joining the chorus of approval was Gary Becker, who praised Progresa in 1999 as a 'highly successful' example other developing countries should follow.[18]

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[14] See 'Poverty Alleviation', in the 'Social Protection and the IDB' section of the bank's site, www.iadb.org.

[15] It was reportedly paid $2.5 million for its services: Susan Parker and Graciela Teruel, 'Randomization and Social Program Evaluation: The Case of Progresa', *Annals of the American Academy of Political and Social Science*, May 2005, p. 210.

[16] Laura Rawlings, 'A New Approach to Social Assistance: Latin America's Experience with Conditional Cash Transfer Programs', *World Bank Social Protection Discussion Paper*, August 2004; and Martin Ravallion, 'Targeted Transfers in Poor Countries: Revisiting the Trade-Offs and Policy Options', *World Bank Social Protection Discussion Paper*, May 2003.

[17] Wolfensohn, Foreword to Santiago Levy, *Progress against Poverty: Sustaining Mexico's Progresa–Oportunidades Program*, Washington, DC 2006, pp. vii–viii.

[18] Gary Becker, '"Bribe" Third World Parents to Keep Their Kids in School', *Business Week*, 21 November 1999.

The speed with which CCTs were adopted in one Latin American country after another can be seen from the chronology in Table 1 (below): whereas four countries had one in 1997, within five years the number had doubled, rising to 17 by 2009. Moreover, countries that already had such programmes either expanded and reconfigured them or added others. In 2002, for example, the Lagos government in Santiago established Chile Solidario; the same year, the Fox government in Mexico rebranded Progresa as Oportunidades and extended it to urban areas, while in 2003, the Lula government drew the Bolsa Escola together with other anti-poverty measures from the Cardoso era—food stamps,

Table 1. *The spread of CCTs in Latin America and the Caribbean*

Year	*Country*	*Name of programme*
1981	Chile	Subsidio Único Familiar
1997	Argentina	Programa Nacional de Becas Estudiantiles
	Mexico	Progresa / Oportunidades
1998	Honduras	Programa de Asignación Familiar
2000	Costa Rica	Programa Superémonos / Avancemos
2001	Colombia	Familias en Acción
	Jamaica	PATH
2002	Chile	Chile Solidario
2003	Brazil	Bolsa Família
	Ecuador	Bono de Desarrollo Humano
2005	Dominican Republic	Solidaridad
	El Salvador	Red Solidaria / Comunidades Solidarias
	Paraguay	Tekoporã / Nopytyvo / Propais II
	Peru	Juntos
2006	Panama	Red de Oportunidades
	Trinidad & Tobago	Targeted Conditional Cash Transfer Programme
2008	Argentina	Asignación Universal por Hijo
	Guatemala	Mi Familia Progresa / Mi Bono Seguro
	Uruguay	Asignaciones Familiares
2009	Bolivia	Bono Juancito Pinto

Source: Barbara Cobo, *Políticas Focalizadas de Transferência de Renda: Contextos e Desafios*, São Paulo 2012.

a school grant, a natural-gas subsidy—combining and expanding them significantly to create the Bolsa Família.

Although the programmes vary from one country to another, they have a number of common features. Firstly, the target population is defined by means-testing or other criteria, such as location in an impoverished area; the government agency responsible for identifying potential recipients issues a call for applicants, and then selects beneficiaries. Second, the benefits are paid on a monthly or bimonthly basis, but subject to conditions that can include school attendance, health-clinic visits, participation in community meetings and other activities. The modalities of payment have changed over time: Progresa began with wire transfers but shifted in 2003 to a system based on individual accounts at Bansefi, a state-owned savings bank; Bolsa Família has from the outset operated through a debit card linked to an account at the state-owned Caixa Econômica Federal. A third common feature of CCTs is that monetary benefits are generally paid to wives or mothers, seen as better able to optimize scarce resources. Fourth, benefits tend to vary according to family size. Fifth, the programmes are monitored, both to prevent 'leakage' to the undeserving and to enforce compliance from beneficiaries. Finally, penalties apply in cases of non-compliance, leading recipient families to be removed from the official register and lose the stipend.

Within this framework there is considerable range, both in terms of scope and conditionality; Tables 2 and 3 (overleaf) respectively rank the programmes according to expenditure and coverage. Brazil's Bolsa Família is the world's largest CCT programme in terms of reach and budget: by December 2012, around 45 million people had benefited from the scheme—some 23 per cent of the Brazilian population—and annual spending totalled around 21 billion *reais* ($10 billion), equivalent to 0.5 per cent of GDP. The smallest programme relative to the overall population is perhaps Argentina's Programa Nacional de Becas Estudiantiles, which reaches less than 1 per cent of the country's inhabitants; although in 2009 the government of Cristina Fernández established another stipend, the Asignación Universal por Hijo, giving 460 pesos (around $125) a month to the children of the unemployed, conditional on school attendance and fulfilment of healthcare requirements. The size of the benefits varies widely, from a maximum of $130 in Brazil to less than $10 in Chile, Honduras or Jamaica. The cheapest in terms of expenditure relative to GDP is El Salvador's Red Solidaria, accounting for 0.02 per

TABLE 2. *Latin American CCTs ranked by spending (% of GDP)*

Country	*Annual cost (as % of GDP)*
Ecuador	1.2
Brazil	0.5
Dominican Republic	0.5
Mexico	0.5
Uruguay	0.5
Colombia	0.4
Costa Rica	0.4
Jamaica	0.4
Paraguay	0.4
Bolivia	0.3
Guatemala	0.3
Argentina (AUH + PNBE)	0.2
Honduras	0.2
Panama	0.2
Trinidad & Tobago	0.2
Chile (CS + SUF)	0.1
Peru	0.1
El Salvador	0.02

Source: Economic Commission for Latin America and the Caribbean, *Social Panorama of Latin America 2010*, Santiago 2010, p. 140, Figure III.9.

cent of an already small GDP. Chile Solidario is perhaps the most intrusive in its conditions: to receive a benefit starting at $24 a month before gradually declining to $11, recipients have to sign a contract committing them to 'personalized assistance' with their health, education, employment, family life, housing situation and income, monitored through regular meetings with social workers.

Impacts

There are three major pieces of evidence used to support the broader case for CCTs. Firstly, it is claimed that the intensity of extreme poverty dropped significantly. According to ECLAC, extreme poverty rates in

TABLE 3. *Latin American CCTs ranked by coverage*

Country	*Coverage (% of population)*	*Coverage (% of poor population)*
Ecuador	44	>100
Brazil	26	85
Colombia	25	57
Mexico	25	63
Guatemala	23	40
Dominican Republic	21	46
Latin America average	19	48
Bolivia	18	32
Uruguay	12	85
Jamaica	11	>100
Panama	11	40
Honduras	9	12
Paraguay	9	13
Argentina (AUH + PNBE)	8	46
El Salvador	8	17
Peru	8	21
Chile (CS + SUF)	7	52
Costa Rica	3	17
Trinidad & Tobago	2	15

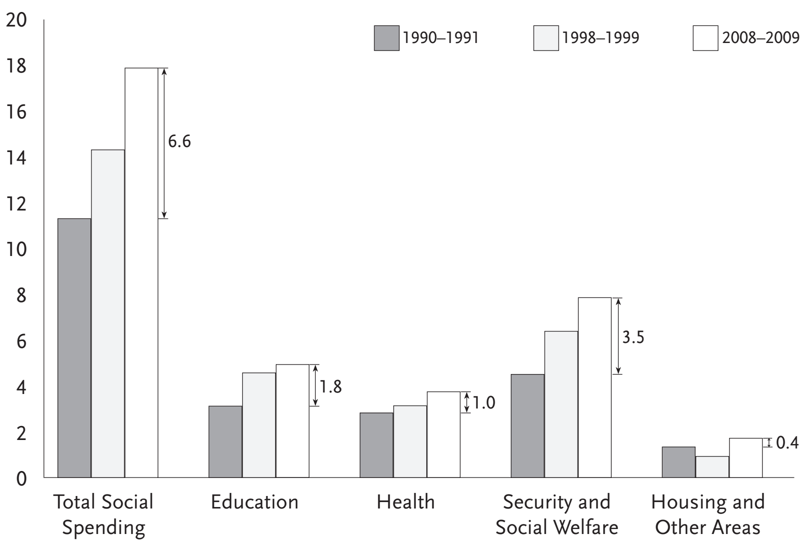
Source: ECLAC, *Social Panorama of Latin America 2010*, p. 141, Table III.1.

Latin America did indeed drop from 19 per cent in 2002 to 12 per cent in 2010.[19] Second, the increase in social spending targeting the most destitute improved some key indicators relating to poverty. A 2009 World Bank report, for example, asserts that 'virtually every programme that has had a credible evaluation has found a positive effect on school enrolment'; 'CCTs generally have increased the use of education and (some) health services.'[20] Third, advocates of the programmes claim that by providing new entitlements, they instituted a new relationship between the state and the indigent, allowing the latter to make novel social demands on the former.

[19] ECLAC, *Social Panorama of Latin America*, Santiago 2012.
[20] Fiszbein et al, *Conditional Cash Transfers*, pp. 125, 129, 141.

How should these claims, and the effectiveness of CCTs more generally, be assessed? The first thing to consider is their impact on the scale and composition of social spending. It is true that total social spending has risen sharply in Latin America. Between 1990–91 and 2008–09, according to ECLAC, average annual per capita expenditure went from $318 to $819, and the size of social spending as a share of GDP rose by 6.6 per cent, accounting for 63 per cent of all public expenditure in 2008–09, as against 45 per cent in 1990–91. The trend certainly looks very positive. Nevertheless, this growth has been unbalanced: monetary benefits have registered greater increases than other modalities of public provision, such as spending on education, healthcare or housing. As Figure 1 (below) makes clear, monetary income transfers—either contributory, as in pensions, or means-tested benefits—accounted for over half the overall increase in public social spending, rising as a share of GDP by 3.5 per cent between 1990–91 and 2008–09. By contrast, spending on health rose by only 1 per cent over twenty years, and on housing by a mere 0.4 per cent.

Figure 1: *Latin American public spending by sector, 1990–2009 (% GDP)*

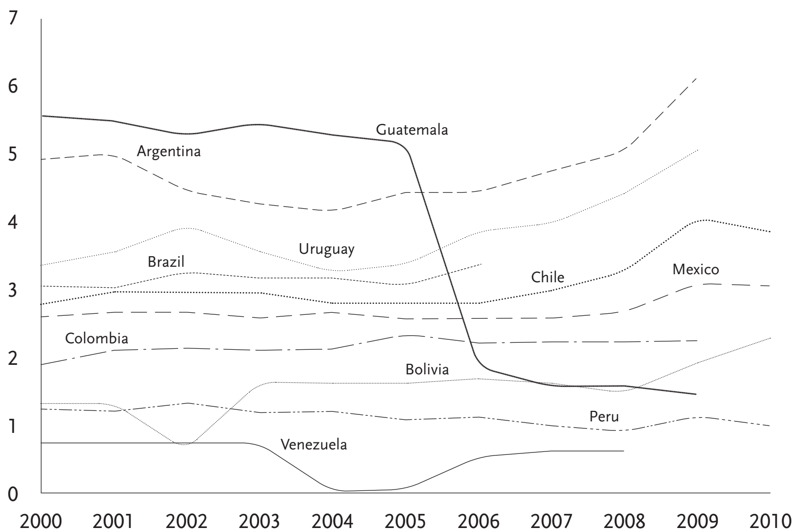


Source: ECLAC social-expenditure database.

Looking at Latin American countries individually, we see a pattern of stagnation or even decline in health spending in the first half of the 2000s, followed by an upturn in several countries after 2005, with the exceptions of Colombia, Peru and Guatemala (Figure 2, below).

But overall, fundamental areas of social provision have lagged behind the growth of the region's economies. Unmet demand in these areas—healthcare, housing and so on—has had to be offset by private household spending, reinforcing the role of private providers and the trend towards commodification of basic rights. Moreover there is a flagrant contradiction in governments establishing CCT programmes that require medical visits, when they have made little effort to provide better public healthcare. In this perverse dynamic, the state's failure to ensure adequate provision is occluded, and responsibility for poor health indicators imposed on those who are supposedly in need of assistance to improve them.

FIGURE 2. *Public spending on health as % of GDP, 2000–2010*



Note: data does not include extra-budgetary spending—which would raise the Venezuelan figure significantly, to between 5 and 6 per cent of GDP. Values calculated by dividing by current prices in the national currency.

Source: author's calculations based on ECLAC, *Social Panorama of Latin America 2012*.

Closer examination of two CCT programmes will allow us to assess more clearly the claims made on their behalf. Peru's 'Juntos'—'Together'—programme, begun in 2005, targeted poor families living in rural areas hit by the ongoing civil conflict, in an effort to pacify areas controlled by guerrilla groups. Foremost among the eligibility criteria was 'exposure to violence', followed by more conventional indicators such as the severity of poverty and malnutrition.[21] All beneficiary households receive a monthly stipend of approximately $30, regardless of family size; between 2005 and 2011, Juntos reached around 475,000 households—around 6 per cent of the population—including 1 million children, at a minimal cost: 0.2 per cent of GDP. Yet an evaluation of the programme made in 2010 by two World Bank economists acknowledged that, although the programme helped to narrow the poverty gap—they weighed its contribution at 5 percentage points—the monetary benefit was insufficient to raise all recipients' incomes as far as the poverty line; its long-term effect on poverty would thus be limited.[22] The additional income did help with nutrition, allowing beneficiaries access to a better diet on a more regular basis. But the healthcare impact of the programme was again limited, because of continuing lack of access to public health services: immunization rates fell far below the targets, with only half the planned number of children and pregnant women covered after five years. Finally, the programme had no discernible impact on educational attainment, since the reported enrolment rates and school-attendance levels were similar among beneficiaries and non-beneficiaries alike.

Analogous considerations apply to the case of Guatemala's CCT, launched in 2008 as Mi Familia Progresa (MIFAPRO). By 2011, the programme was providing a monthly benefit of around $35 to as many as 862,000 families, including 1.6 million children under 15 years old—an estimated 35 per cent of the total population. By this stage the programme was costing 0.36 per cent of GDP.[23] Like the Peruvian Juntos, MIFAPRO did not report the expected outcomes: neither school attendance nor family health coverage improved significantly, once again due to shortages on the supply side. In 2011, when a conservative coalition came to power, MIFAPRO was renamed Mi Bono Seguro and drastically scaled down, now reaching only 110,000 families—an eightfold reduction. Overall poverty rates

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[21] Elizaveta Perova and Renos Vakis, 'Welfare impacts of the "Juntos" Program in Peru: Evidence from a non-experimental evaluation', World Bank, March 2009.

[22] Perova and Vakis, 'Welfare impacts of the "Juntos" Program', pp. 13–14.

[23] UNDP Guatemala, 'Ejercicio de apreciación sustantiva: Mi Familia Progresa', July 2011.

have increased in Guatemala as of late, rising from 51 per cent in 2006 to 54 per cent in 2011, according to a national household survey carried out by the government; though the extreme poverty rate dropped from 15 per cent to 13 per cent over the same period.[24]

The cases of Peru and Guatemala indicate that, of the three main outcomes sought by CCTs—substantial reduction in the intensity of extreme poverty; rise in social spending as a percentage of GDP; reformatting of social demands on the state by the poor—only the first has been accomplished to any degree. Moreover, the trends in healthcare spending shown in Figure 2, above, demonstrate that the Peruvian and Guatemalan governments did nothing to improve public provision. Indeed, while Peru's health spending over the decade was stagnant, that of Guatemala dropped sharply just before the introduction of MIFAPRO and did not recover thereafter. In other words, in both of these cases, the state imposed on beneficiary families the burden of finding non-existent services in order to prove their 'responsibility', and their worthiness to keep receiving the meagre sums they were being offered.

Limitations

Across Latin America, CCTs have varied in their eligibility criteria and conditionalities, aiming at distinct 'target populations'; the amounts of the stipends also vary. Generally speaking, however, these schemes have had only a modest effect on the vast inequalities for which Latin America is renowned.[25] They share a number of significant limitations, both in practice and in principle. To begin with the question of 'targeting', the criteria used to identify potential beneficiaries rely on absolute indigence and poverty lines that have been set at extremely low levels: the equivalent of an income of $1 and $2 per day, which is lower than the indigence and poverty thresholds applied by the World Bank ($1.25 and $2.50 respectively). This tends to hide the real magnitude and severity of destitution. Second, in most programmes neither the poverty thresholds used nor the benefits paid are adjusted annually for inflation; the actual value of the stipends to recipients thus tends to be eroded over time. In Brazil, for instance, poverty lines and benefits for the Bolsa Família have

[24] ENCOVI (Encuesta Nacional de Condiciones de Vida), 2011. Close to three quarters of the poor in Guatemala are indigenous.
[25] Kelly Hoffman and Miguel Angel Centeno have dubbed it 'The Lopsided Continent': *Annual Review of Sociology*, vol. 29, 2003, pp. 363–90.

not been adjusted for inflation since 2009, flying in the face of guidelines stipulating that it should rise in line with other benefits, whose value is indexed annually. Third, none of these programmes displays a take-up rate of 100 per cent; far from it, for they suffer from horizontal inefficiencies due to inadequate targeting and means-testing by the government agencies responsible for them. Often, exclusion from the system or non-registration is a discretionary decision taken at the local level. Fourth, the monitoring mechanisms which are supposed to send information about school attendance and medical visits from the municipal to the federal level, are frequently inefficient; the vast majority lack computerized systems to process and analyse incoming data. Fifth, in countries where universal public elementary schooling was already in place, such as Brazil or Argentina, no correlation between cash transfer programmes and increased matriculation was observed.[26]

Moreover, many of these schemes are funded through general taxation—to which indirect taxes on consumption often contribute heavily; this means they are very likely to be regressive, since any rise in the consumption levels of beneficiaries will in turn contribute to the programmes' funding. The relative cheapness of the programmes is another obvious limitation: all but one of the programmes involve spending less than 0.5 per cent of GDP—the exception is Ecuador's Bono de Desarrollo Humano—and most of them are tiny in absolute terms, down to 0.02 per cent of GDP in El Salvador. Their impact on poverty levels was therefore inevitably going to be restricted, given the scale of the problem across the region. Last but by no means least, all of these CCT schemes operate on a residual basis, as a safety net to compensate for market failures; no Latin American country has transformed them into rights guaranteeing a minimum income. They provide some compensation to the needy, yet they remain disconnected from anti-cyclical and permanent redistributive policies—a constitutive element of any system of universal social protection.

The extent to which CCT programmes have actually contributed to reductions in poverty rates across Latin America has prompted a lively debate, with recent studies indicating that economic growth and job creation have had a much greater impact. Comparative, cross-country analyses

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[26] Lena Lavinas, Barbara Cobo and Alinne Veiga, 'Bolsa Família: impacto das transferências de renda sobre a autonomia das mulheres e as relações de gênero', *Revista Latinoamericana de Población*, vol. 6, no. 10, 2012, pp. 31–54.

demonstrate that increased wage earnings account for as much as half the reduction in poverty across the developing world.[27] Similarly, in Latin America and the Caribbean, according to ECLAC, 'in the countries where poverty lessened, labour income accounted for half or more of the change in total per capita income'; transfers, both public and private, and other income contributed 'to a lesser degree'.[28] Among the fundamental mechanisms that have driven reductions in poverty and labour-market inequality and boosted consumption in the region, the revalorization of the real minimum wage would seem to have been crucial: Figure 3 (overleaf) shows a broad recovery from the lows of the 1980s and 90s in most countries—with the notable exceptions of Mexico, where the trend is static, and Venezuela, where it is more erratic. Argentina, Bolivia, Brazil and Ecuador, where the growth in real minimum wages since 2000 has been strongest, are not coincidentally among the countries which have produced the largest reductions in poverty: according to ECLAC data, between 2002 and 2010 the poverty rates in these countries dropped by 26, 20, 13 and 12 percentage points respectively. Only Peru, Venezuela and Colombia—countries where booming commodity prices fuelled significant growth—could boast of comparable reductions in poverty during the same period, of 23, 21 and 12 percentage points respectively.[29] Conversely in Mexico, whose much-praised CCT scheme has been operating for more than 15 years, poverty fell by only 2 per cent over the period 1992–2010, according to official estimates.[30] As a matter of fact, between 2008 and 2010, the poverty rate rose from 45 to 46 per cent, increasing the headcount to 52 million people.

The Brazilian case

The Bolsa Família has been widely touted as a success story. Would an assessment of its actual impact differ radically from the picture of CCTs elsewhere in Latin America presented above? Initially introduced in

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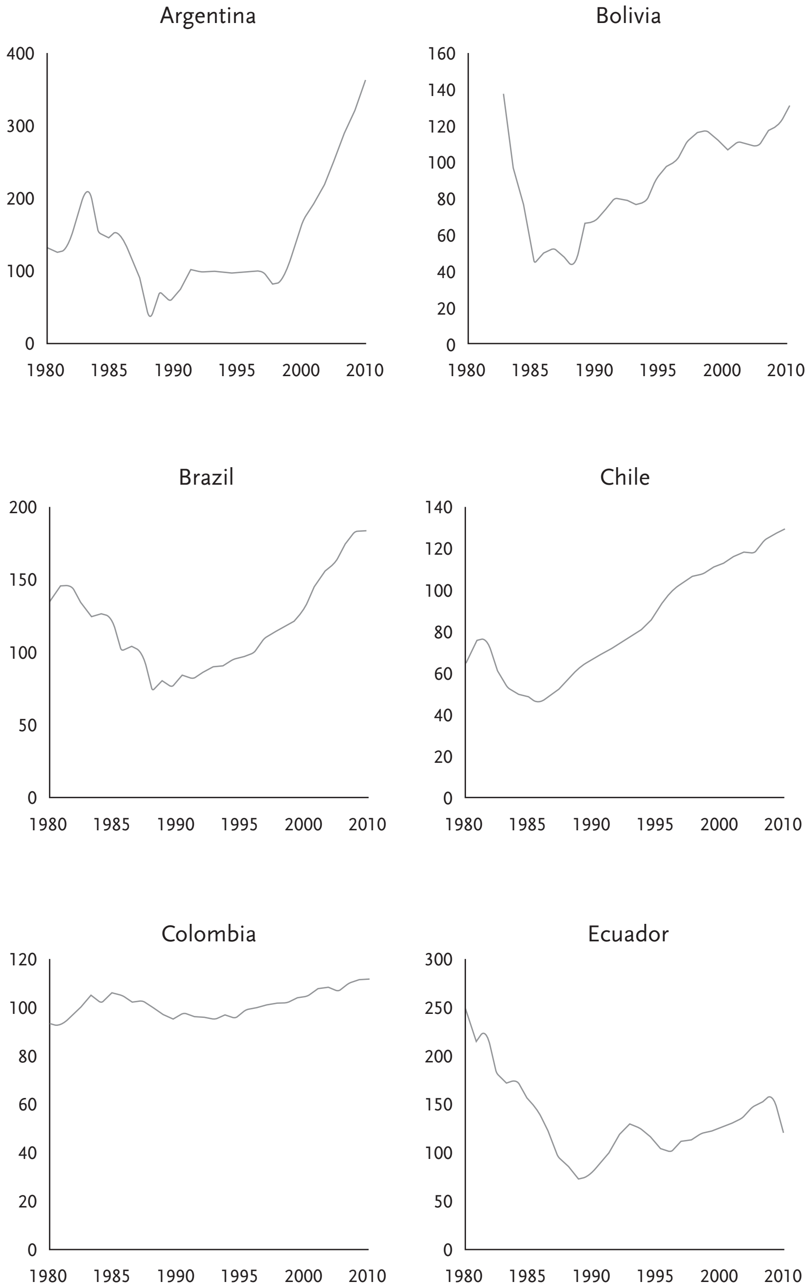
[27] Gabriela Inchauste et al, 'When Job Earnings Are behind Poverty Reduction', *Economic Premise* (World Bank), no. 97, November 2012, found that labour income accounted for 50 per cent of the reduction in 10 out of 16 countries studied, and for 40 per cent in another 2 countries.

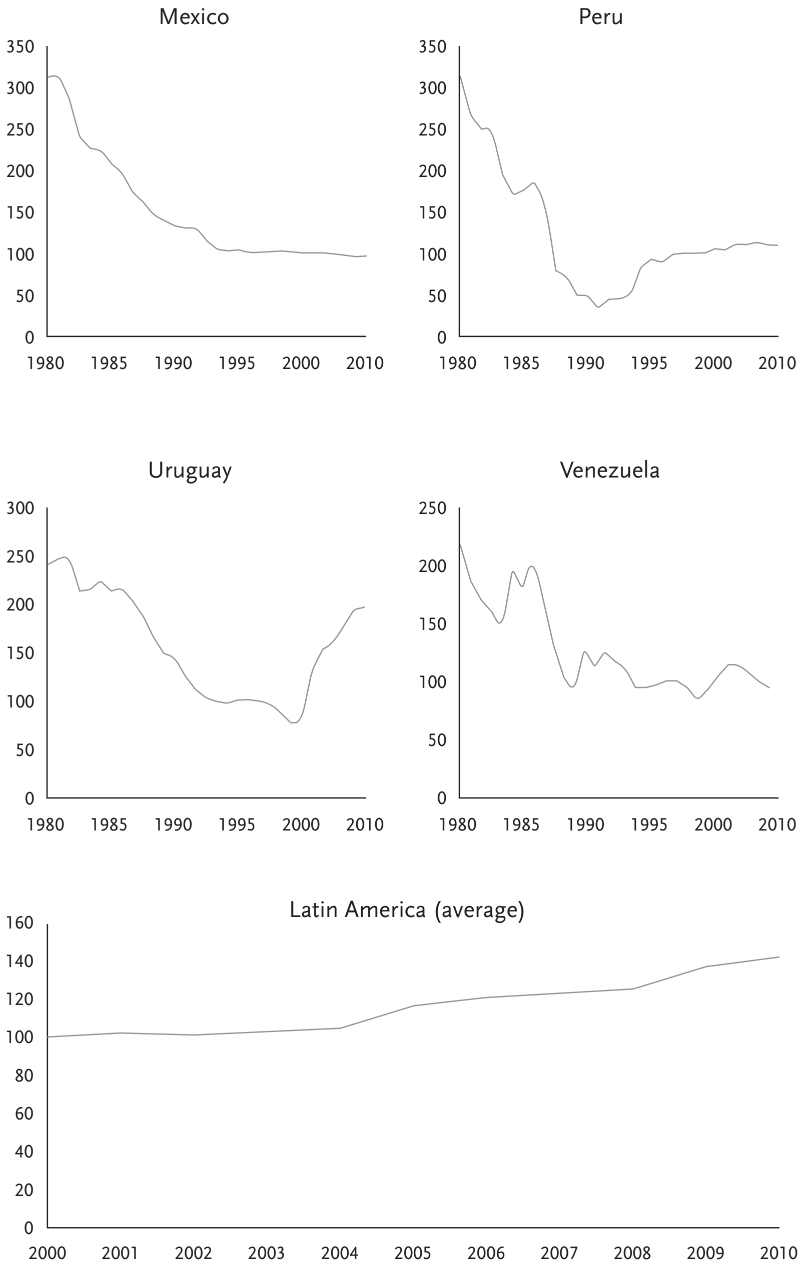
[28] ECLAC, *Social Panorama*, p. 56.

[29] ECLAC, *Social Panorama*, pp. 79–80.

[30] Figures from Consejo Nacional de Evaluación de la Política de Desarrollo Social (CONEVAL); see also Luis Rigoberto Gallardo Gómez and David Martínez Mendizábal, 'México, la persistente construcción de un estado de malestar', *Revista de Ciencias Sociales,* nos 135–136, 2012, pp. 215–25.

Figure 3. *Real minimum wage, average annual index (2000 = 100)*





Source: ECLAC database, using official sources. Minimum wages deflated by either the national or (in the cases of Peru, Mexico and Venezuela) metropolitan consumer price index.

2003, the Bolsa was formally established by law in January 2004, during Lula's first term. The programme aims to ensure a minimum monetary income to poor and indigent families—defined as those with a monthly per capita family income of 70–140 *reais* ($35–70) and less than 70 *reais* ($35), respectively. Rather than providing a single benefit, the programme has flexible parameters, adjusting the amount according to the composition of recipient families. As in most other cases, women are the nominal recipients of the stipend, effectively acting as the government's agents in ensuring compliance with the conditions. In order to receive the monthly stipend, families are required to make regular visits to health clinics—aimed especially at pregnant or breastfeeding women, and children under five—and to ensure children between the ages of 6 and 17 have a minimum 75 per cent school-attendance record. By December 2012, the Bolsa was being paid to 13.5 million families, a total of around 45 million people—just under a quarter of the Brazilian population. In geographical terms, the largest concentration of recipients—50 per cent—is in the Northeast, which has the highest poverty rate in the country, followed by the Southeast, home to around a quarter of recipients.

Nevertheless, the Bolsa Família shares many of the same limitations as other CCT programmes in Latin America. Again, these range from technical flaws—inadequacies in the programme's design or in the targeting mechanism—to the larger question of the Bolsa's actual effects. On the first, one important consideration is that, as in other countries, the Bolsa stipend is not linked to inflation; as a consequence, the recipients have been getting poorer year by year, since the cumulative inflation rate from 2009 to 2013 reached almost 25 per cent. The average monthly stipend amounts to 140 *reais* or $70 per family. The government also made a positive step by recognizing that the Bolsa was not reaching all of those eligible for it. According to estimates released by the Ministry of Social Development, some 800,000 eligible families—at least 2.5 million people—have not been included in the programme; our own estimates, based on the National Household Sample Survey conducted by the IBGE, the national statistical body, put the figure much higher, at 2.2 million families, or 7 million people.[31] Two main factors help to account for this enormous shortfall. Firstly, the targeting mechanism itself produces inefficiencies, as many potential recipients do not display

[31] Lena Lavinas, 'Pobreza: Métricas e Evolução Recente no Brasil e no Nordeste', *Cadernos do Desenvolvimento,* vol. 5, no. 7, 2010, pp. 126–48.

the specified characteristics of poverty. For instance, a family in which one of the members is formally employed and paid a minimum wage, although its per capita income might fall below the poverty line, is likely to be ruled out for having some semblance of job security. At the same time, the imposition of burdens on recipients also serves to reduce take-up. Secondly, the fact that the Bolsa Família is not a universal right but a selective welfare benefit, subject to budget constraints, inherently works to decrease the size of the population it covers.

What of the Bolsa Família's effectiveness in reducing income poverty? Here it is important to weigh the impact of the CCT relative to wage earnings and other fiscal transfers, supplied through Brazil's existing social security system. By decomposing per capita household income according to its origin, we can see the contribution to reducing the poverty rate made by three successive layers of income: (1) wages and other earnings from paid work (labelled 'earnings only'); then (2) wage earnings plus income from pension and other social-insurance benefits (labelled 'contributory transfers'); followed by (3) all sources of income, which includes categories (1) and (2) plus welfare benefits such as the Bolsa Família and any other earnings. Table 4 (below) displays changes in the poverty and indigence rates when these three layers of income are taken into account.

TABLE 4. *Factors in Brazil's falling poverty and indigence rates*

	2001	*2005*	*2011*
Poverty rate			
Earnings only	48	35	26
Earnings + contributory transfers	37	23	15
Earnings + contributory transfers + welfare schemes + other	36	20	11
Indigence rate			
Earnings only	28	20	17
Earnings + contributory transfers	17	10	7
Earnings + contributory transfers + welfare schemes + other	16	7	4

Source: Instituto Brasileiro de Geografia e Estatística (IBGE).
Estimates based on Bolsa Família poverty lines.

Looking, firstly, at the data for poverty, we can see that in 2001, 48 per cent of the Brazilian population—some 80 million people—were officially classed as poor if we take only earned income into account. When we add income received from social-insurance transfers, the poverty rate in 2001 falls to 37 per cent—a decline of 11 percentage points. This means that, contrary to a widespread prejudice, pensions benefits in Brazil are not regressive: quite the opposite, given that in 2001 they lifted the incomes of some 18 million people over the poverty line. The impact of the third layer of income, however, was much more limited at this stage, when the system of safety nets remained fragmented and the Bolsa Família did not yet exist: welfare schemes only reduced poverty by a further percentage point, benefiting another 2 million people. Thus in 2001, 36 per cent of the population lived in poverty, some 60 million people.

By 2011 the picture had changed significantly. The most striking development is that, taking only wage earnings into account, the poverty rate had dropped to 26 per cent—a 46 per cent decrease relative to the 2001 figure—as a direct result of Brazil's economic growth during this period. Indeed, according to the data in Table 2, no other source of income appears to have had as positive an impact on poverty reduction. Thanks to the new dynamism of the labour market, some 30 million people's incomes exceeded the poverty threshold. Moreover, as in 2011, pensions reduced the poverty rate by a further 11 percentage points, benefiting 21 million more people. The recovery of the minimum wage, whose value increased by 94 per cent between January 2001 and May 2012, lies behind both these trends: two-thirds of all public pensions in Brazil correspond to the minimum wage.[32] Together, job creation and growth of the minimum wage brought the poverty rate down to 15 per cent. Finally, welfare schemes involving cash transfers helped to lower the rate further, to 11 per cent, benefiting an additional 7 million people. This is the lowest share ever recorded since Brazil began keeping household income data in the mid-20th century. Overall, the poverty rate fell from 36 to 11 per cent in ten years.

A similar analysis can be made of the data on the extreme poverty rate, which in overall terms went from 16 to 4 per cent over the same

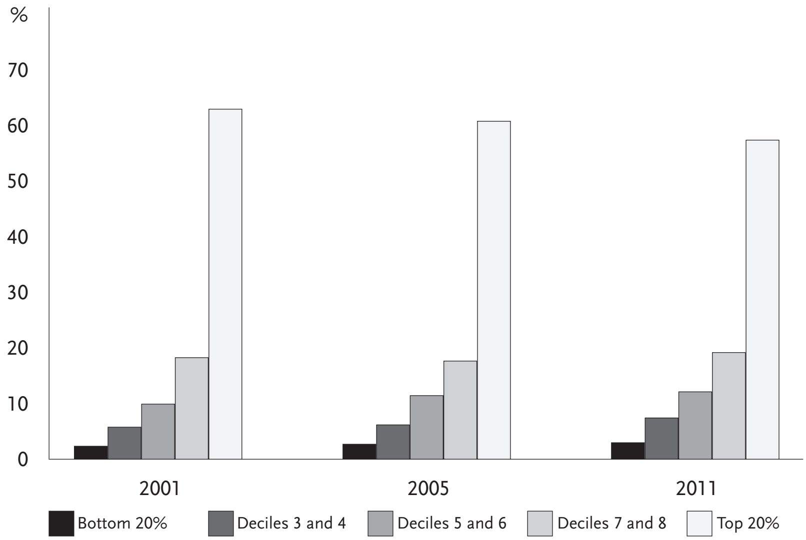
[32] The Lula government indexed the minimum wage to changes in the Consumer Price Index, to allow for inflation relative to the previous year, and also incorporated the economic growth rate reached two years before.

period—thus falling by three-quarters. However, here the effects of economic growth were not as favourable to those living in extreme poverty as they had been for those classed simply as ‘poor’. The much lower levels of schooling, and the even more precarious, badly paid jobs held by the indigent, make them much less likely to benefit from upward trends in the job market. Thus the indigence rate when only wage earnings are taken into account fell from 28 to 17 per cent—a 39 per cent drop, compared with 46 for the poverty rate. By contrast, pension benefits were clearly the major factor in reducing the indigence rate, again thanks to their indexation to the minimum wage: over the decade, they reduced the poverty rate by an additional 10 percentage points relative to wage earnings. Finally, welfare schemes contributed a further 3-percentage-point reduction, equivalent to 4 million people—a significantly broader impact than they had had in 2001, thanks to the extension of safety nets, the Bolsa Família foremost among them.

Nevertheless, the absolute magnitude of poverty remains striking: some 28 million people still fall below the official poverty line. It should also be recalled that poverty and indigence thresholds in Brazil are set at extremely low levels; the figures presented above are therefore inevitably underestimates. If Brazil were to implement a poverty line at the level currently used in the European Union—50 per cent of median per capita income—the current poverty rate would soar to 40 per cent, encompassing 70 million people. In 2011, median per capita income in Brazil amounted to only 466 *reais* a month, around $240; this in turn means that two-fifths of the Brazilian population lives with a per capita monthly income of less than $120. Such figures say a great deal about the choice of poverty measures in Brazil and other developing countries, where many commentators have spoken enthusiastically of late about the emergence of a new middle class.

Alongside the reduction in poverty, there has been a decrease in income inequality in Brazil over the past decade. Yet it remains staggeringly high: the country’s Gini index was 0.529 in 2011, compared to 0.593 in 2001. The pattern of income distribution shown in Figure 4 (overleaf) starkly illustrates the depth and persistence of the disparity: in 2001, the bottom quintile held barely 2 per cent of all income, compared to more than 60 per cent for the top quintile; ten years later, the bottom 20 per cent held just 3 per cent of all income, compared to 57 per cent for the top quintile. It is worth recalling here the flagrantly regressive nature

Figure 4: *Income share in Brazil by quintiles*

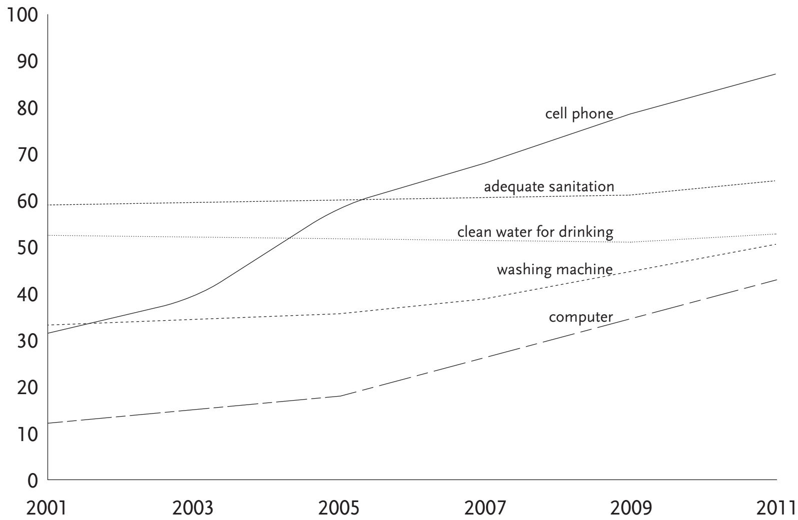


Source: IBGE, various years.

of the Brazilian tax system, with its marked incidence of indirect consumption and production taxes, as opposed to direct taxes on income, inheritance and capital gains. In 2010, the average weight of direct taxes in OECD countries' overall tax revenues was 33 per cent, and of indirect taxes 34 per cent. In Brazil, taxes on income—individual or corporate—accounted for 19 per cent of tax revenues in 2011, and estate taxes just 4 per cent, whereas indirect taxes accounted for 49 per cent. No product or service is wholly exempted, which leads to an especially significant burden for the poorest segments of the population.

As we have seen, it is primarily rising labour earnings that have accounted for the decline in poverty in Brazil, as was the case elsewhere in Latin America. Brazil is also no exception to the wider continental tendency to concentrate social spending on cash transfers rather than expanding provision of decommodified services, such as public health, education, sanitation and other basic social goods. Whereas federal social spending on welfare benefits increased in real terms by 300 per cent between 2001 and 2010, over the same period spending on education doubled

FIGURE 5. *Households in Brazil with specific facilities and goods (%)*



Source: IBGE, various years.

and on public health rose by only 60 per cent. The runt of the litter here is health spending: not only did it grow at a rate below average, but it also saw its share in federal social spending reduced from 13 per cent in 2001 to 11 per cent in 2010. By that time federal expenditures on education and welfare benefits amounted to 1 per cent of GDP, whereas sanitation and housing received only 0.1 and 0.8 per cent of GDP.[33] Little wonder, then, that Brazil ranks so low with respect to living conditions. According to the IBGE data presented in Figure 5 (above), the population's access to clean drinking water or adequate sanitation has improved very little over the last decade. Access to consumer goods such as cell phones, washing machines and computers, on the other hand, has soared: an amazing 86 per cent of households have at least one cell phone, up from 31 per cent in 2001, and one in two have a washing machine—though only 2 in 3 households have adequate sanitation. There was no change in the availability of clean water over the entire decade.

[33] IPEA, 'Gasto Social Federal: prioridade macroeconômica no período 1995–2010', *Nota Técnica* no. 9, 2012. It is worth noting, however, that sub-national governments, such as states and municipalities, also finance education and health through funds transferred to them from the federal level.

In short, in Brazil as elsewhere in Latin America, social infrastructure and access to state-provided, decommodified goods and services are growing at uneven tempos, exacerbating inequalities that are more difficult to measure than raw labour-income disparities. Patchy state provision of basic public goods, coupled with rising wage earnings, have encouraged private spending in education and health. Indeed, healthcare is a prime example of how a universal right has been damaged by the rationale of finance-led capitalism. The 1988 Constitution established a right to healthcare, with provision to be ensured by the state; the Unified Health System (SUS) was created in 1990, strongly influenced by European models such as the British and the French. In theory, the private sector's role should be complementary and heavily regulated by the National Health Agency. In practice, the privatization of the health system has expanded in the absence of public resources (though these exist, they have been diverted to other goals). This has created a vicious cycle of under-financing, steadily worsening since the SUS was founded, which has undermined the system's universality and comprehensiveness. In 2009, private spending on health reached 5.3 per cent of Brazilian GDP while public expenditures amounted to only 3.5 per cent. The commodification of health in Brazil seems inexorable, reflecting the grip of the financial markets.

The dynamic of privatization has been boosted, and the concept of universality in social provision undermined. A third of the adult Brazilian population believes that public services should be limited to the destitute, and therefore narrowed in scope and quality; although a large majority—75 per cent—supports some redistribution in favour of the poor, they do so only if it is tied to conditionalities and controls, with non-compliance bringing loss of benefits.[34] The link between social provision and selectivity has become strong, as the idea of universal rights to decommodified public services wanes.

Banks for the bankless

If poverty-reduction has ostensibly been the main motivation for CCT schemes in Latin America, the expansion of the financial sector down the income hierarchy—what the development literature calls 'market

[34] Lena Lavinas, Barbara Cobo et al., *Medindo o Grau de Aversão à Desigualdade da População Brasileira—um survey nacional*, mimeo, November 2012, p. 137.

inclusion'—has been another important dimension. Indeed, CCTs can be seen as an integral part of a wider drive towards the privatization of ever larger swathes of economy and society—a process taking in all social segments, irrespective of income level, which Nancy Fraser has aptly characterized as 'commodification all the way down'.[35] In Latin America as elsewhere, financial markets have been central to this endeavour. As we have seen, earlier programmes extending insurance and credit to the poor had a modest impact, partly because capital markets in the countries where they were attempted in the 1980s and early 90s were weak, during a period of severe structural adjustment and rising poverty. The relative stabilization of Latin America in the early 2000s, and the effects of the global credit bubble on the region's economies, altered the equation. With the advancing financialization of the world economy, the 'incomplete' or 'missing' capital markets in low- and middle-income countries, and their credit sectors in particular, were extended in the first decade of the 21st century. Increased access to loans at the bottom of the income pyramid would boost mass consumption, bolstering the economy from below even as poverty decreased.

Financial markets now assumed a greater role in reshaping the region's welfare regimes. The process had begun with the pension reforms of the 1990s, which were in part designed to strengthen Latin America's stock markets by putting public funds under private ownership or management. But it gathered momentum in the 2000s, as the emphasis on cash transfers over spending on public goods and services encouraged individuals and households to seek private alternatives to increasingly uneven state provision—reinforcing the dynamic towards marketization at the same time as loans were made available to ever wider strata of the population. Both income security for the elderly and poverty reduction were to be achieved through capital markets, which would become the new providers of welfare, in the form of private insurance on the one hand, and private credit on the other.

The extension of financial products and services to the poor fits well, of course, with the World Bank master-concept of 'social risk management'; what better way to foster greater responsibility than increased individual borrowing? However, it requires a level of 'financial literacy' that cannot

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[35] Nancy Fraser, 'Can society be commodities all the way down? Polanyian reflections on capitalist crisis', *FMSH Working Papers*, no. 18, August 2012.

always be assumed.[36] Training programmes and technical advice on the basic rules of borrowing and how to manage loans, run by NGOs and public institutions, have proliferated in the developing world.[37] CCTs have been a key mechanism for the propagation of 'financial literacy': recipients of benefits are often encouraged to attend talks and short-term courses on the subject. Peru has a pilot programme attached to its Juntos scheme, run by a 'financial inclusion' lobbying group called Proyecto Capital, which seeks to transmit to families 'basic knowledge about the formal financial system and its characteristics, the main products and services offered, and advantages in terms of security and trust'. The initiative's website boasts numerous testimonials from contented Peruvians: 'You feel more alive, because you have your savings, because you can go to the bank and maybe get a loan in the future', says one woman; another confesses that 'when I kept money in my house, I'd take it out and spend it whenever I needed something. Now that it's in the bank, I can't grab it as quickly.'[38] In Mexico, the bank that disburses Oportunidades payments, in partnership with two US-based NGOs called Freedom from Hunger and Microfinance Opportunities, has been running workshops under the rubric 'Your Money, Your Future'; the objective, it claims, is to 'reinforce the behaviours that lead to greater saving, more prudent spending, justified and manageable levels of indebtedness and a culture of risk-prevention'.[39]

Outside Latin America, the gospel of 'financial inclusion' is now being preached in Africa by MasterCard, in initiatives backed by the Bill and Melinda Gates Foundation, among others. Strikingly, this has involved a conception of payment technologies as a basic human right; in the words of Nobel Economics laureate Robert Shiller, the time has come to 'reframe the wording of universal rights so that they represent the rights of *all* people to a fair compromise—to financial arrangements that share

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[36] Notwithstanding Abhijit Banerjee and Esther Duflo's observation that 'the poor face a huge amount of risk—a friend of ours from the world of high finance reflected they are like hedge-fund managers'; see *Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty*, New York 2011, ch. 6.

[37] Lena Lavinas and Camila Ferraz, 'Inclusão financeira, crédito e desenvolvimento: que papel uma renda básica pode jogar nesse processo?', paper presented at BIEN 13th International Congress, São Paulo, July 2010.

[38] See www.proyectocapital.org, 'Promoción del Ahorro en Familias JUNTOS' and 'Testimonials' sections; the initiative, based in Peru, is funded by the Ford Foundation and Citibank.

[39] See www.bansefi.gob.mx, 'Educación financiera' section.

burdens and benefits effectively. In the future of financial capitalism, we ought to see better development of our covenants regarding these "rights", as financial contracts that are more democratic and nuanced, with the rights of mankind refined in more basic terms.'[40]

The integration of increasing numbers of low-income groups into the financial system has resulted in what has been termed the *bancarização*—the 'bankization'—of the poor, as the gap between the financial sector and a huge unmet demand for cheap, short-term loans has begun to be bridged. The Lula years saw a marked expansion of credit in Brazil, for example, where it rose as a share of GDP from 23 per cent in 2003 to 49 per cent in 2011.[41] Much of this derived from the rise in the real minimum wage noted earlier; but a significant proportion of it was due to government measures that helped extend various modalities of credit to poorer segments of the population. Bolsa Família recipients gained access to special consumption credit lines, such as the Crédito Fácil, from the Caixa Econômica Federal, which provides loans of up to $100 with no additional collateral; these are often used to buy durable goods—refrigerators, TVs, washing machines and so on. There is also the Construcard, which is designed to support purchases of housing materials. The big national retailers usually have electronic payment systems that are integrated with the Caixa Econômica Federal, and loan requests can be approved almost immediately. The average interest rates for such loans range from 1.8 per cent to 4 per cent per month; a Crédito Fácil borrower, for example, would have to pay 4 *reais* in monthly interest on a 200-*real* loan, which might seem cheap to someone receiving a monthly stipend of 130 *reais*. In parallel with this credit-backed expansion of consumption, there has been a broadening of the supply of other banking products and services, in particular in the realms of private insurance. By 'securing' needs unmet by the state, the financial system seems to offer a new kind of social provision.

In the name of the poor

Social policy has long played a marginal role in Latin America: the elites of the world's most unequal zone have for centuries ignored those most in need. In that sense, the ascendancy of CCTs over the past decade and

[40] Robert Shiller, *Finance and the Good Society*, Princeton 2012, p. 150.
[41] Banco Central do Brasil, Séries Temporais.

a half marks an undoubted shift: most countries in the region today recognize the need to reduce poverty as a paramount challenge, to be addressed through large-scale public policies. Even conservative forces in these countries have been obliged to back schemes which they initially denounced as clientelist manoeuvres or assumed were doomed to failure. Hence a broad consensus has been forged around the idea that CCTs are worth implementing—aided by the fact that they are inexpensive, easy to manage and politically rewarding. Yet they remain *ad hoc* instruments, unconstrained by legal and institutionalized principles of rights. The distinction is crucial: instead of being one dimension of a wider, universal system of social protection, such programmes enforce a principle of selectivity, targeting the poor as a residual category while insisting they assume individualized responsibility for their fates—thus working to diminish social solidarity and cohesion. The schemes are also designed to extend commodification, on the one hand disbursing monetary rewards to the poor in exchange for their participation as consumers, while on the other offering governments an alibi for scaling back provision of public goods. They thus pave the way for a retrenchment of welfare rather than its expansion.

A large and diverse body of scholarship has provided ample evidence that the more universal social-protection systems are, the more redistributive their impact.[42] On the basis of such empirical evidence, the Swedish social scientists Walter Korpi and Joakim Palme famously identified a 'paradox of redistribution', in which the Western welfare regimes that targeted the poor most heavily actually turned out to have redistributed much less than expected.[43] Evelyn Huber and John Stephens have recently reaffirmed these findings: Scandinavian countries stand out as the most effective in reducing poverty and inequality because they provide large, universal and decommodified services.[44] By contrast, countries whose welfare systems rely principally on means-tested benefits are much less capable of alleviating poverty and reducing

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[42] To cite only a few, Gøsta Esping-Andersen, *Three Worlds of Welfare Capitalism*, Cambridge 1990; Jonas Pontusson, *Inequalities and Prosperity: Social Europe vs Liberal America*, Ithaca, NY 2005; Evelyn Huber and John Stephens, *Development and Crisis of the Welfare State: Parties and Policies in Global Markets*, Chicago 2010.

[43] Walter Korpi and Joakim Palme, 'The Paradox of Redistribution and Strategies of Equality: Welfare State Institutions, Inequality and Poverty in the Western Countries', *American Sociological Review*, vol. 63, no. 5, 1998, pp. 661–87.

[44] Evelyn Huber and John Stephens, *Democracy and the Left: Social Policy and Inequality in Latin America*, Chicago 2011.

inequality, as illustrated by the case of the US. According to OECD figures, member-states with universal social-protection frameworks—the Nordic countries, France, Belgium, Slovenia—have managed to attain relatively high levels of equality, with Gini coefficients ranging from 0.27 to 0.32. The strong tendencies towards reciprocity and redistribution in these societies allowed them better to compensate for market inequalities. The US, by contrast, lacks an integrated, comprehensive social-protection system, and has the fourth highest income inequality of the 28 countries studied. According to US census data, almost 50 million Americans could be classified as poor in 2012—a poverty rate of 20 per cent, which is almost double the level in Nordic countries.[45]

The idea, then, that conditional cash transfers might facilitate a broader process of redistribution, reducing inequality and all but eliminating poverty, does not hold in principle, and still less in practice for a region such as Latin America. Precisely the feature that has made CCTs so popular—their residual nature and cheapness—helps to make them ineffective in reducing poverty in the long term. Aside from their effects on income inequality, their emphasis on market inclusion makes it unlikely they will redress what Göran Therborn has called 'resource inequality'.[46] Indeed, their very focus on extending commodification makes them much more likely to compound the vulnerabilities of the poor, even as state social spending becomes more unbalanced, leaving them further exposed.

The spread of CCTs has now produced a second wave of programmes, this time financed by private companies and NGOs in Africa, which dispense with the conditionalities, handing over cash without strings attached (hence the label UCTs, Unconditional Cash Transfers). These are cheaper to run, since they cut the administrative costs of monitoring the programmes and thus reduce bureaucracy. But they also rapidly incorporate into markets a large mass of people who would otherwise be unlikely, in the short term, to have access to a stable occupation and income. UCTs have drawn praise from many quarters—the *Economist* noted that they 'work better than almost anyone would have expected', and 'dent the stereotype of poor people as inherently feckless and

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[45] OECD, *Divided We Stand: Why Inequality Keeps Rising: An Overview of Growing Income Inequalities in OECD Countries*, Washington, DC 2011.

[46] Göran Therborn, 'Inequalities in Latin America: From the Enlightenment to the 21st Century', *desiguALdades Working Paper* no. 1, 2011.

ignorant'. Nonetheless, CCTs have so far been deemed preferable, for practical and political reasons: after all, 'people left to themselves may not spend enough on education or health', and what is more, 'attaching strings reassures middle-class taxpayers that the poor are not getting something for nothing'.[47] The arguments in favour of conditionalities thus rest not only on their supposed efficacy but also on a logic of control over vulnerable groups.

The social-protection paradigm that emerged at the end of the 19th century and developed, in parallel with the workers' movements, during the 20th, aimed to protect and equalize access and opportunities, irrespective of income level and social status. In this model, the structure of social spending prized not only income security but above all the promotion of equity and convergence. By contrast, the hegemonic paradigm of the 21st century holds that market mechanisms are the key to improving general welfare; cash transfers and expanded household debt, the latter underwritten by the former, are the key elements in this framework, in which decommodified provision is to be pared to the barest bones. What is taking place—spurred on by the 'success story' of CCTs—is a downsizing of social protection in the name of the poor. Over the past six years these programmes have benefited from boom conditions, as surplus capital flooded into 'emerging economies' from the crisis-stricken advanced capitalist zones. Yet how they will weather a reversal of capital flows and tightening of credit, if quantitative easing in the North finally starts to slow, remains to be seen.

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47 'Cash to the Poor: Pennies from Heaven', *Economist*, 26 October 2013.