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The Double Challenge of Market and Social Incorporation: Progress and Bottlenecks in Latin America

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Has the past decade of sustained economic growth and political transformations reversed Latin America's historical failure to secure market and social incorporation? To address this question this article draws on the experiences of Bolivia, Brazil, Chile, Peru and Uruguay by distinguishing between short-term outcomes – which may depend on benign international conditions – and policy changes, which are more important for long-term performance. It highlights the overall success of both Brazil and Uruguay and shows that the other countries have made more progress in terms of social than market incorporation.

Key words: Economic policy, social policy, social and market incorporation, Latin America

1 Introduction

Across Latin America, one of the most entrenched and challenging dimensions behind inequality involves securing good jobs and comprehensive social rights for all. This article focuses on market and social incorporation as two necessary but insufficient conditions to diminish inequality. How much progress has the region made and how sustainable are these changes?

Market incorporation refers to people's participation in the cash nexus in desirable conditions, which in turn requires the creation of a sufficient number of formal well-paid private and public jobs. Social incorporation refers to people securing their wellbeing independently of the market, that is, in a non-commodified or decommodified fashion (Esping-Andersen, 1990). This is important for a number of reasons. First, at any given point in time, most people do not participate directly in the market economy either because they are too young, too old, sick or disabled. Secondly, economic cycles come and go and people need to have safety-nets to buffer economic uncertainty. Third, incorporation into the market economy requires the building of human capital – something most people may not be able to afford privately and/or is not always effectively provided by the market. Last but not least, each country explicitly or implicitly establishes a certain 'floor' of social rights, which cannot be left up to market forces.

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Although historically most Latin American countries failed to reach and sustain a double incorporation, in the past decade the region has shown notable improvements. To a large degree, however, recent achievements may have resulted from externally driven high rates of economic growth that will not last for ever. Our aim in this article is to discuss the direction of change and to learn how sustainable changes are.[1] We therefore address recent policy shifts towards market and social incorporation with particular attention to measures towards structural change that are friendly to job creation as well as to social programmes that bring more people on board with transfers and services.[2] We seek to map two types of changes: short-term outcomes and, more importantly, policy trajectories.

South America is the region within Latin America that has grown the fastest and has experienced more policy innovations. We chose a sub-set of South American countries (Bolivia, Brazil, Chile, Peru and Uruguay) which are emblematic of the region's diversity. All of them are commodity exporters benefitting from rising international prices. As Table 1 indicates, the share of primary exports over total exports has increased during the 2000s in all cases, partly as a result of growing trade relations with Asia and the Pacific. In 2010 primary exports accounted for 89% or more of total exports in Bolivia, Chile and Peru. Historically, three of the countries in our sample (Brazil, Chile and Uruguay) were successful at import substitution, while the other two were not. Two of them (Chile and Uruguay) have a legacy of robust social policy followed by radical change (Chile) and incremental change (Uruguay but also Brazil). Peru and Bolivia did not have such a legacy, while Brazil had it for urban areas but not for rural (Filgueira, 1998). Between 2003 and 2009, all five countries apart from Peru have had left-of-centre governments.

Table 1: Primary exports and exports to Asia Pacific (%), 2000 and 2010

	Primary exports		Asia-Pacific	
	2000	**2010**	**2000**	**2010**
Bolivia	72.3	92.6	1.4	16.3
Brazil	42.0	63.6	10.3	28.2
Chile	84.0	89.6	26.1	49.7
Peru	83.1	89.1	16.9	26.5
Uruguay	58.5	74.3	8.3	9.0
Latin America and the Caribbean	41.4	54.1	5.3	17.2

Source: ECLAC (2011; 2012a).

This article has three goals: (i) to show the analytical pay-off of the concepts of social and market incorporation in evaluating policies and outcomes with a consistent measuring stick; (ii) to apply both concepts to recent outcomes across a diverse set of Latin American countries; and (iii) to evaluate the potential contribution of recent policy changes to future market and social incorporation, discussing additional policies that may be required in the

1. We are concerned about sustainability in the long run and not simply in short-term responses to specific crises. Sustainability in this way depends on meaningful shifts in socio-economic policy more than in annual macro-economic management.
2. These policies should also help decrease wage differentials between different sectors, making low-productivity sectors better paid and introducing additional incentives for productivity growth.

future. In this cross-national comparison, we set aside policy legacies and focus on country trajectories relative to their past.

Our analysis shows similar improvements regarding outcomes and departures concerning policy trajectories. In terms of outcomes, all countries have benefited from higher formal employment and coverage of social programmes, a trend which has continued even after economic conditions deteriorated in 2011–12.[3] In terms of policy, Brazil and Uruguay have made progress with measures towards both market and social incorporation, while the other three countries have made more progress towards the latter than the former. This may become problematic if/when commodity prices fall in the future and economic growth slows down.

2 Income distribution and the double incorporation in Latin America

Sustained reductions of inequality involve some combination of growing amounts of formal jobs, higher real wages (particularly of unskilled workers) and increased state redistributive capacity.[4] The concepts of market and social incorporation help address all three mechanisms. Contrary to what went on in the advanced industrial countries, peripheral countries have yet to bring large proportions of their adult population into formal labour markets (Sandbrook et al., 2007). In many countries the informal economy accounts for half of the total gross domestic product (GDP), and low productivity services and subsistence agriculture are still employers of last resort. The lack of incorporation in formal employment leaves many workers with low wages, vulnerable labour conditions and limited access to skill upgrading and social rights. Expanding the number of formal jobs and increasing wages for formal unskilled workers is thus a necessary condition for a sustained reduction of inequality and requires three types of changes: (i) a rapid process of structural change towards high productivity sectors (Ocampo et al., 2009; Rodrik, 2011); (ii) institutional changes in labour–capital relations and (iii) a sustained increase in minimum wages.

Market incorporation, however, is not a sufficient condition for the reduction of inequality. We can easily envision new formal jobs rapidly expanding yet wages of skilled workers and profits growing faster than those of unskilled workers, therefore increasing inequality. Exclusive dependence on market income will also leave low-income groups exposed to unpredictable risks as well as risks that are hard to cope with on an individual basis (for example, aging and disability). This is why expanding social incorporation is also extremely important for people's wellbeing. Social incorporation usually depends on three factors: (i) periodically updating social spending to match changes in the structure of social risks; (ii) sustained increases in social spending through a wide range of tax options: payroll (indirect) and personal and corporate (direct); and (iii) combined targeted and non-targeted services to make them affordable to the poor and attractive to the middle class.

Table 2 summarises the components of market and social incorporation, pointing to useful indicators, and listing policies that can help accomplish incorporations. While the

3. GDP growth in the ten countries of South America decreased from 6.5% in 2010 to 4.5% in 2011 and 2.7% in 2012. Within our sample, the deterioration was particularly significant in Brazil (from 7.5% in 2010 to only 1.2% in 2012) and Uruguay (from 8.9% in 2010 to 3.8% in 2012). Data from http://www.cepal.org/prensa/noticias/comunicados/5/48595/TablaPIB_Balancepreliminar2012.pdf (last accessed 11 March 2013).
4. In most Latin American countries, a better distribution of income also requires a reduction of the income share in the hands of the richest 1% of the population.

components and indicators are unproblematic, our proposed requirements and policies are more contentious in the literature. A growing body of research does emphasise, however, the importance of active state interventions in terms of production, better, more secure jobs and overall social rights (Lin and Treichel, 2012; UNRISD, 2010).

Table 2: Market and social incorporation: indicators, requirements and policy dimensions

Type	Indicators	Requirements	Policies
Market incorporation	- Increased share of formal jobs. - Wage growth, particularly in minimum wages.	- Structural change towards sectors with higher productivity. - Shifts in labour–capital relations.	- Measures towards structural change or sectoral policy.[a] - Steady growth of minimum wages. - Promotion of labour rights and collective bargaining.
Social incorporation	- Increased coverage of healthcare, pensions and education.	- Periodical updates of social policies to meet changes in risk structure. - Stress on universal policies with affirmative action through targeted measures.	- Growing social spending. - Universal measures seeking more equal access to social protection. - Targeted programmes that help bring the previously unprotected population into universal policies.

Note: (a) These policies are usually referred to as ‘industrial’ policies even if they target sectors other than industry (e.g. service or agricultural sectors). We prefer to refer to them as policies towards structural change or ‘sectoral’ policies.

Source: Authors’ elaboration.

All economic policies have an effect on market incorporation. If monetary policy is excessively focused on controlling inflation, interest rates may be excessively high and affect domestic investment and employment growth (Stiglitz et al., 2006). If fiscal policy is pro-cyclical, GDP will be below its full potential during long periods of time, affecting investment and hiring decisions (Ffrench-Davis, 2010). A weak exchange rate is also important in promoting exports and facilitating import substitution in the domestic market.

Yet securing market incorporation in the long run ultimately depends on creating new sectors and upgrading existing ones – particularly in services. Successful countries like South Korea, Taiwan and China have been able to transfer a growing number of workers from the agricultural sector – where productivity was traditionally low and informality high – to high-productivity manufacturing activities (McMillan and Rodrik, 2011; Ocampo et al., 2009). At the same time, expanding productivity in services is also a pre-condition for sustaining formal job creation, given the large contribution of the tertiary sector to the overall economy.

Policies towards structural change are ‘any type of selective government intervention or policy that attempts to alter the structure of production in favour of sectors that are expected to offer better prospects for economic growth (and good jobs we would add) in a way that would not occur in the absence of such intervention in the market equilibrium' (Pack and Saggi, 2006: 1). This type of policy constitutes a fundamental tool for employment-creating structural change. Given market failures in the process of learning and knowledge creation, lack of venture capital and co-ordination failures of different types in developing countries, the government must intervene to promote new high-productivity sectors (Amsden, 2001; Paus, 2012; Rodrik, 2007).

Yet the promotion of high-productivity sectors is not enough to significantly improve market incorporation, particularly in commodity-exporting countries like those addressed in this article. If state intervention is restricted to high-productivity sectors and links between them and the rest are weak, countries end up with a large informal sector. This was precisely Latin America's Achilles' heel during the import-substitution period. To prevent the growth of informality, states may need to promote high- and low-productivity activities at the same time (Perez, 2010).

Broadly defined, policies involved in social incorporation are those that detach people's wellbeing from the cash nexus. They can include a broad set of redistributive measures, from infrastructure that facilitates access to water to health-care services. Social policy, whether universal, contributory or targeted, is particularly influential for social incorporation. Universal policies will tend to be especially effective for at least three reasons. First, whether it is schooling or health-care, individuals from all income levels and personal characteristics end up sharing a similar treatment based on their condition as citizens. Second, the middle class is more likely to support services it benefits from, whether these services are tailored for specific groups or the population at large. When the middle class supports universal policies, the mobilisation capacity frequently benefits low-income groups as well. Third, this cross-class alliance is helpful not only in achieving a broad access to state policy but also in guaranteeing good quality. Thus, the resulting expansion of transfers and services in health and education will have a substantial redistributive effect, thus creating a virtuous circle for social incorporation (Huber, 2002; Mkandawire, 2006).

In many instances, the expansion of universal policies is not enough to guarantee access among low-income groups. Those most vulnerable may require affirmative action to assure their effective incorporation in universal transfers and services. For instance, children from low-income families may need uniforms, transport and complementary nutrition to benefit fully from free and high-quality schools. Whether tied to universal measures or as stand-alone programmes, reaching the previously unprotected population has been a key role of social assistance at large and, during the last decade, of conditional cash transfer (CCT) programmes in particular. CCTs have also provided more groups with minimum entitlements, reaching populations that may have never before benefited from state policy. This is why we consider CCTs a step in the right direction – even if an insufficient one – and assess in subsequent sections both their scope and their co-ordination with universal policies.

3 Latin America's historical failures

Depicting the historical evolution of market and social incorporation in Latin America is beyond the scope of this article. But a brief summary of the comparative record sheds light on the analysis that follows. Argentina, Chile, Uruguay and, to a lesser extent, Brazil were more successful in promoting economic modernisation and expanding social rights during the 1950s,

’60s and ’70s, while Bolivia, Paraguay and Peru were not (see Filgueira, 2005; Martínez Franzoni, 2008; Sheahan, 2002; Thorp, 1998, among others). However, in general, all Latin American countries failed to secure market and social incorporation *simultaneously*, thus contributing to making the region the most unequal in the world for at least the last century. Before the 1980s, the amount of new urban jobs was unable to absorb the growing supply of labour, and informality increased rapidly in the service sector (Ffrench Davis et al., 1995).

Structural heterogeneity – i.e. sharp differences in productivity and labour conditions between leading and backward sectors – had a negative impact on social policies and contributed to segmented social incorporation. ‘Bismarckian’ social-insurance regimes created ‘occupationally fragmented schemes’ that pivoted around formal employment and excluded the urban and rural poor (Seekings, 2008: 25). With the exception of Costa Rica, social insurance led to high degrees of stratification under what Filgueira (2005) refers to as ‘stratified universalism’.

The Washington Consensus aimed to expand job opportunities through trade liberalisation, the promotion of foreign direct investment and the deregulation of the economy. Proponents argued that market-friendly reforms would increase investment levels and the use of labour-intensive production techniques (Edwards, 2010). At the same time, neoliberal policies aimed to reduce segmentation in the welfare system through privatisation, decentralisation and targeted social programmes.

The results, however, were generally disappointing for both market and social incorporation. Investment demand never expanded as fast as initially expected and economic growth remained sluggish (Ocampo, 2004; Taylor and Vos, 2002). Large manufacturing firms survived by reducing their employment levels and informality increased in most countries (Reinhart and Peres, 2000). Meanwhile, except in countries with exclusionary welfare regimes, social incorporation shrank until the 2000s. In the more liberal cases like Chile, large segments of the middle class and the poor hardly benefited from the privatisation of pensions and did not improve their access to health services in any significant way. In other cases like Uruguay, there were relatively limited reforms and segmentation remained (Filgueira et al., 2005).

4 Progress since 1995

What has happened more recently? Below we discuss the trajectory of a small set of contrasting countries: Bolivia, Brazil, Chile, Peru and Uruguay. During the last decade all of them but Peru experimented with heterogeneous left-turns (Cameron and Hershberg, 2010). Peru thus constitutes something of a control case for whether ideological changes of parties in office influence market and social incorporation – even if we are not here considering driving forces or drawing causal relations between politics and the outcomes we are interested in.

We assess performance in market and social incorporation based on well-established and available comparative indicators and statistics. In all cases, cut-off values to establish changes are relative rather than absolute (i.e. they depend on the specific context and consider the starting point for each country). We begin our analysis in 1995, but focus in particular on the period 2000–2009 when new governments came to power and external conditions were positive for economic growth. In addition, we briefly discuss the extent to which positive trends were sustained in 2011–12 when GDP growth slowed down.

4.1 Market incorporation

In the past decade and after years of weak performance, all five countries considered expanded market incorporation. In Table 3 wage-earners are presented as a proxy measure of formal employment; in this category we include those working in micro firms, who are usually more vulnerable than workers in larger businesses.

Table 3: Working population per type of job in the urban sector, 1995, 2000, 2009 and 2011 (% of total)

	Wage-earners		Non-wage-earners		Domestic workers
	Total	In companies with 5 or fewer workers	Total	Non professionals, technical & administrative	
Latin America					
1995	59.0	13.4	27.8	21.6	8.0
2000	60.7	13.5	27.3	20.8	8.2
2009	63.0	12.9	26.5	20.1	7.8
2011	65.1	12.7	25.6	19.7	7.1
Bolivia					
1995	45.0	11.7	37.4	28.5	5.4
2000	44.5	10.8	43.5	38.2	4.2
2009	51.2	14.5	36.4	28.1	3.8
Brazil					
1995	58.6	13.4	28.3	22.2	8.6
2000	59.8	13.6	27.8	21.3	8.8
2009	63.5	12.9	25.8	19.6	8.4
2011	66.1	12.7	24.7	19.2	7.7
Chile					
1995	70.4	10.2	22.7	17.1	6.1
2000	65.2	7.7	27.6	23.1	5.0
2009	68.3	7.4	26.0	21.8	4.1
2011	68.7	7.2	25.0	18.4	4.9
Peru					
1995	52.6	19.5	36.4	28.3	4.7
2000	49.9	13.2	39.1	30.4	5.3
2009	51.4	12.7	37.0	29.7	6.6
2011	52.0	13.0	37.8	30.3	6.5
Uruguay					
1995	65.4	11.3	25.5	18.7	6.9
2000	64.3	10.4	25.5	17.5	8.7
2009	64.3	9.2	26.3	14.6	7.8
2011	67.2	8.2	24.3	13.3	7.0

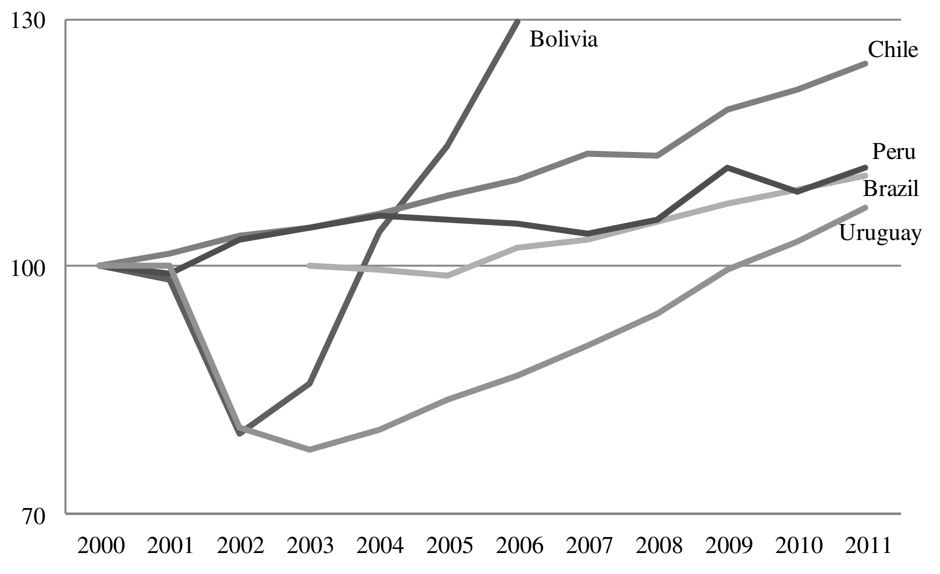
Source: Authors' calculations with data from ILO (2010; 2012).

Between 2000 and 2009 the share of wage-earners increased in all the countries. The percentage of wage-earners among the urban working population increased by around three percentage points in Brazil and Chile, by five in Bolivia and by more than six in Peru (Table 3). Uruguay is the one exception, but even there the percentage of non-professional self-employed and domestic workers decreased significantly.

There is a clear contrast between the positive performance of the 2000s and the poor performance of the previous decade. Between 1995 and 2000 – the year in which the region was in the midst of a recession – formal employment decreased in four of the five countries considered. With a reduction of five percentage points in the share of wage-earners, Chile's performance was particularly disappointing. By 2009, Chile still had more informality than fourteen years earlier.

The growth in formal employment went hand in hand with the expansion of average real wages (see Figure 1). In two countries (Peru and Uruguay), real average income first dropped, largely due to slow economic growth, to recover afterwards. Growth was impressive in Uruguay between 2003 and 2009, while Peru's performance was erratic and disappointing. Regrettably data on average real wages are not available for Bolivia after 2006.

Figure 1: Real average earnings, 2000–2011 (2000=100)



Source: ILO (2010; 2012).

Improvements in labour-market outcomes continued despite the deterioration in economic conditions. In 2011 and 2012, in Brazil, Chile and Uruguay the share of formal employment continued its moderate expansion and real income per person increased. While this trend is positive and may signal these countries' commitment to labour-market formalisation (particularly in Brazil), data based on only two years call for a cautious interpretation.

There are also some questions about the quality of the jobs created in Latin America. Most are located in the services sector, which tends to have lower labour productivity than manufacturing. During the 2000s, the share of service jobs in total employment increased from 65.4% to 68.7% in Brazil, from 70.2% to 76.0% in Chile and from 71.5% to 77.8% in Uruguay (Martínez Restrepo and Gray Molina, 2012). Peru was the only country in which service employment decreased in relative terms as a result of the rapid growth of jobs in mining and agriculture, but most new primary jobs also had lower productivity than the average. In characterising the changes in South America as a whole, Martínez Restrepo and Gray Molina conclude (2012: 11) that 'the on-going economic transformation process is mostly about employees leaving low-skilled, low productivity and low-paid jobs in agriculture or the manufacturing sectors and moving to low-skill jobs in the service sectors such as retail trade, construction or transportation…'.

4.2 Social incorporation

Against the backdrop of previous retrenchment and emphasis on macroeconomic stability as the best social policy, all progressive governments run on promises to increase social spending and to look after people's social needs. Consistent with these promises and regardless of actual explanatory factors, the 2000s witnessed an improved social incorporation as measured by coverage.

Drawing on ILO data, Table 4 shows pensions and/or health coverage. Data are available for Latin America as a region as well as for our five countries, apart from Bolivia. During the 2000s increases in coverage were impressive across the region, particularly in the informal sector. Between 2000 and 2009, the percentage of non-wage-earners with access to pension and/or health benefits increased from 28% to 47%, and domestic workers with access to these services went from 30% to 44%.[5] Improvements in Chile and Peru were particularly significant, while Uruguay was the only case showing no gains, partly because by 2001 96% of the population already had access to social insurance. The positive performance in this area continued even during the short recession of 2011; this was particularly impressive in Brazil, where a sharp economic deceleration did not have a significant effect on social-insurance coverage.

The sustained improvement in coverage even in difficult times was partly made possible by prudent macroeconomic management in the period 2003–9, which allowed countries to adopt moderate counter-cyclical policies more recently. Public debt as a share of GDP in Latin America decreased from 60% in 2004 to 50% in 2011 (IMF, 2012) and in 2007 all countries in our sample had significant primary surpluses, ranging from 2.1% in Uruguay to an astonishing 9.4% in Chile.

Nevertheless, there are some caveats to this overall assessment of social incorporation. First, improvements in Chile and Peru were only enough to make up for their losses of the late 1990s. The case of Peru is particularly dramatic: between 1995 and 2000 overall coverage decreased from 45% of the working population to less than 37%. Second, coverage in the informal sector is still quite low in many countries: by 2011, only 40% of self-employed and family workers in Latin America benefited from health care and/or public pensions. Third, these figures do not tell us anything about the type, quality and disparities in health-care services and/or pension insurance. Finally, countries' improved fiscal position has in most cases resulted from higher revenues from commodity taxes (including corporate taxes) rather than from any progressive reform of the tax system. According to Kaceff (2012: 92), 'the growth [of income taxes] in recent years has been driven by the expansion of corporate taxes, linked mainly to the significant growth of tax

5. ILO statistics include as non-wage-earners firm owners and self-employed workers.

revenues from mining and oil companies'. In fact, while tax revenues from primary goods as a share of GDP doubled in Bolivia between 2001 and 2009 and multiplied by more than five in Chile and by more than nine in Peru, the share of personal income taxes in Latin America has remained stagnant (CAF, 2012; Kaceff, 2012).

Table 4: Working population with social security (health and/or pensions), 1995, 2000, 2009 and 2011 (% of specific group)

	Total in the country	Wage-earners		Non-wage-earners		Domestic workers
		Total	In companies with 5 or fewer workers	Total	Non professionals, technical & administrative	
Latin America						
1995	55.0	71.8	32.9	28.8	24.5	27.3
2000	55.9	72.7	34.2	29.1	22.1	31.9
2009	64.3	78.8	47.0	44.8	37.1	41.7
2011	67.9	82.2	51.0	47.6	40.6	46.6
Brazil						
1995	57.6	74.0	37.4	36.4	29.8	26.8
2000	58.3	74.0	39.2	38.3	27.8	35.6
2009	65.0	80.5	47.4	40.8	31.1	39.2
2011	69.2	83.4	52.3	43.3	35.1	44.0
Chile						
1995	92.4	96.6	90.7	80.6	90.1	91.9
2000	89.7	94.8	86.9	80.1	74.6	91.2
2009	95.4	97.3	92.3	89.9	90.1	96.6
2011	97.0	98.8	95.7	91.6	91.7	97.9
Peru[a]						
1995	45.0	59.8	15.2	27.1	24.9	20.4
2000	36.6	53.8	14.7	22.7	18.5	16.8
2009	45.3	58.8	26.3	31.0	27.0	24.4
2009	59.0	69.2	39.7	57.4	49.0	41.0
2011	63.8	73.4	46.7	62.6	53.1	52.0
Uruguay						
1995	94.3	96.4	92.2	89.3	88.1	94.2
2000	96.9	98.5	95.9	93.6	92.8	96.6
2009	96.4	98.1	93.2	92.3	91.2	96.9
2011	97.3	98.7	94.3	93.4	92.3	97.6

Note: (a) For Peru data, from 1995 to 2009 are based on the National Survey of Employment and Occupations and for 2009 and 2011 on the National Household Survey.

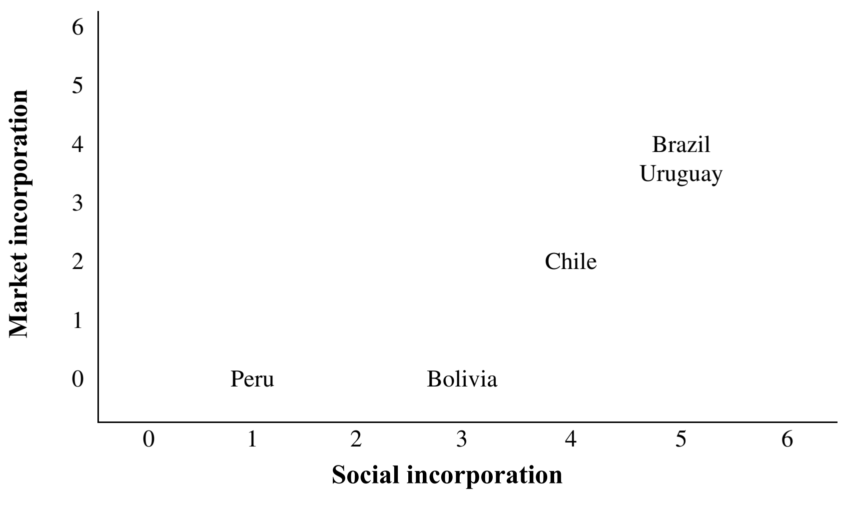
Source: ibid.

5 How sustainable are these improvements? A look at policy change

Any attempt to assess changes in economic and social incorporation by looking at short-term outcomes faces two shortcomings. First, commodity-based economic growth is an intervening variable largely dependent on external factors. Second, it is really too soon to evaluate the impact of transformations that started unfolding only a few years ago. Excessive focus on changes in productivity, the sectoral composition of employment or other structural variables in only seven or eight years runs the risk of conflating short-term macroeconomic fluctuations with long-term structural transformations.[6] Instead, in order to evaluate how sustainable changes are across time, we consider whether policies that promote the double incorporation have changed. Policies rather than outcomes can shed light on whether countries may meet the requirements involved in sustainable economic and social incorporation in the future. These policies can be diverse and will necessarily reflect a combination of historical legacies and contemporary policy formation.

Figure 2 reflects the improvement of social and economic incorporation policies over the past decade in the five countries considered. Criteria to place each country in the graph draw on assessing progress made by all three policy dimensions considered under market and social incorporation, respectively. Below we explain how we measured and coded each dimension.[7]

Figure 2: Policy change in market and social incorporation in Author's sample



5.1 Market incorporation

Table 5 presents all three policy dimensions considered in assessing market incorporation, along with our criteria to code how well each country performs regarding each dimension.

6. Moreover, many studies of productivity growth compare aggregate sectors (see, for example, Rodrik, 2011) or combine the neoliberal period and the last decade. ECLAC (2012b) offers the most comprehensive study of patterns of structural change and its impact on productivity, but compares the 1990s with the 2000s and, in many chapters, ends its analysis in 2007 or 2008.
7. While acknowledging the importance of public revenues for the sustainability of social programmes, we do not focus on this policy realm here. This is partly due to space limitations but also because public revenues are a necessary but by no means sufficient condition for the expansion of social spending. Moreover, new social programmes themselves can create political pressures for subsequent increases in taxes. See, in any case, the previous section for a short discussion of tax policy in the past decade.

Each policy dimension ranges from 0 to 2 in light of criteria explained in the table. The overall index ranges from 0 to 6.

Table 5: Coding of policy dimensions towards market incorporation

Policies	Measurement	Brazil	Bolivia	Chile	Peru	Uruguay
1. Measures towards structural change	Absence (0), timid (1) or clear (2) presence of industrial policies	2	0	1	0	0
2. Steady growth of minimum wages	Minimum wage growth over growth of per capita GDP: no growth (0); growth below (1) and above (2) GDP per capita	2	0	1	0	2
3. Promotion of labour rights and collective bargaining	Passage of laws and increased guarantees: no laws (0) and significant laws (2)	0	0	0	0	2
Total index (0 to 6)		***4***	***0***	***2***	***0***	***4***

Source: Authors' elaboration.

Few Latin American countries have implemented the kinds of policies towards structural change that may be useful to enhance employment creation or the regulatory policies that can modify labour-capital relations in a meaningful way. Even relatively successful cases like Brazil and, to a lesser extent, Chile and Uruguay, have focused most of their efforts in high-productivity, capital-intensive sectors and/or have lacked clear policy direction.

Following reluctant liberalisation, **Brazil** has more recently developed active industrial policies and increased the minimum wage. Sectoral policies have had three pillars: promotion of learning and innovation, investment in infrastructure and expansion of credit by the *Banco Nacional de Desenvolvimento Econômico e Social* (the National Bank for Economic and Social Development, BNDES).

Since 2002 the centre-left Lula administration adopted an increasingly aggressive industrial policy to promote large national firms. Two policy statements signalled Brazil's new approach (Doctor, 2009): the *Política Industrial*, *Tecnológica e de Comércio Exterior* (Policy for Industry, Technology and Foreign Trade, PITCE) from 2003 and the *Plano de Desenvolvimento da Produção* (Production Development Plan, PDP) from 2008. The PITCE concentrated on learning and innovation and proposed a series of steps to create a national system of innovation. New incentives were created with particular attention to strategic sectors like semiconductors, pharmaceutical and chemical products, software, energy and capital goods.

In 2004 the Lula administration created the *Agência Brasileira de Desenvolvimento Industrial* (National Agency for Industrial Development, ABDI) to co-ordinate efforts in innovation, research and industrial development (Arbix and Scott, 2010). New laws for innovation and other areas were approved and the government put more emphasis on promoting research and development at the firm level. The creation of new institutions went hand in hand with the expansion of public resources. In just two years, the budget of the Ministry of Science and Technology increased by 34% from US$2.3 billion in 2007 to US$3.5 bn in 2009. According to data from Arbix and Scott (2010), the total public expenditure in science, technology and innovation went from US$14.3 bn in 2000 to US$43.4 bn in 2008.

Brazil's new industrial policy is aimed at innovation in knowledge-intensive sectors or activities where the country has comparative advantages. Companies like Petrobras in oil or Vale in mining, for example, have received ample support and are expected to become global competitors in high-tech activities within their sectors (Singh and Massi, 2011). This is a sensible strategy, but one that is unlikely to create a substantial number of well-paid jobs. Instead, its impact on market incorporation will be indirect: by creating linkages with other activities and generating foreign exchange that should promote economic growth and demand in other sectors. The extent to which capital-intensive sectors lead to overall market incorporation even through these indirect means, however, needs to be questioned.

The new approach to industrial policy also has the potential to assist small and medium enterprises (SMEs), where a large share of formal employment is concentrated.[8] In 2006 the Brazilian government passed a law for micro and small firms that reorganised incentives, maintained other standing programmes and promoted co-operation between groups of firms at the regional level. Nevertheless, policies towards SMEs still have significant shortcomings. They tend to treat all SMEs in the same way; they focus on companies that already have some potential and offer little long-term support for micro firms in traditional sectors; and they fail to adopt a systemic and coherent approach (Crocco and Santos, 2010).

Probably even more important for employment growth and market incorporation was the *Programa de Aceleração do Crescimento* (Growth Acceleration Programme, PAC) introduced in 2007 under the supervision of President Dilma Rousseff. The PAC committed the government to spending more than US$200 bn in four years on infrastructure projects like road construction, urban regeneration and new houses for disadvantaged groups – all labour-intensive activities (ILO, 2010). In 2010 a PAC 2 was introduced: the government planned to spend US$526 bn between 2011 and 2014, concentrating on urban infrastructure, housing, sanitation and electricity, renewable energy, oil and gas, highways and airports.

The BNDES constitutes the third pillar of Brazil's policy towards structural change and economic transformation. The BNDES participated in the design of the PITCE and committed substantial resources to new sectors. Between 2004 and 2006 alone, BNDES disbursements represented 13.3% of gross capital accumulation and 8.3% of total credit

8. In 2005 micro and small firms accounted for 52% of total formal employment (Crocco and Santos, 2010) and an even larger percentage of informal employment.

from the Brazilian financial system (Hermann, 2010). In the subsequent years, disbursements increased even faster. While most loans are allocated to promote the internationalisation of large firms, the BNDES also has a number of smaller programmes in support of SMEs.

Although no other country has advanced as much as Brazil in the development of new industrial policies, some of **Chile's** efforts should also be acknowledged. During the 1990s, horizontal policies confronting market failures across the board were dominant. The government paid particular attention to the promotion of exports through schemes like tax reimbursements and export credits – typical instruments of what Schrank and Kurtz (2005) call 'open industrial policy'. These measures complemented the work of the *Fundación Chile*, a non-profit organisation created in 1976. *Fundación Chile* has funded innovations in six natural-resource-based sectors and has also acted as a sort of venture-capital firm: it succeeded in creating a salmon industry in Chile and is now involved in important projects in solar-energy production and other sectors (Agosín et al., 2010). The first *Concertacion* government in 1990 also implemented some policies to support SMEs, including subsidies to promote collaboration between firms and several lending programmes (Belmar and Maggi, 2010). But spending in all these programmes was low (only 0.5% of GDP in 2003) and there were too many different programmes (125 in 2005, with almost 100 of them for SMEs).

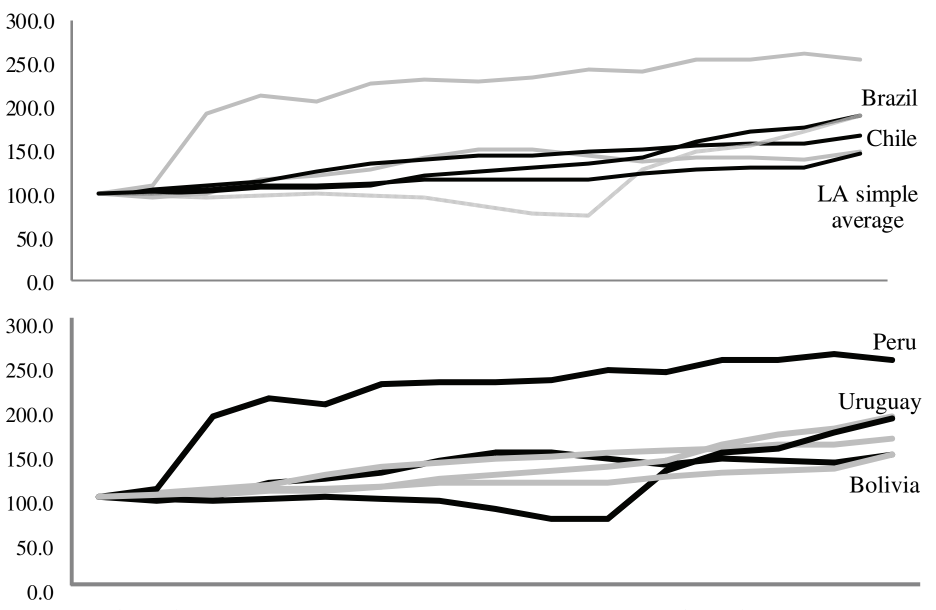
The government stepped up its efforts to develop vertical policies focused on specific sectors in the early 2000s. The Corporation for the Promotion of Production (*Corporación de Fomento de la Producción*, CORFO) created a new subsidy programme to promote foreign investment in high-tech activities like software, semiconductors, back office and other ICT services. During the 2000s the Chilean government also implemented more aggressive learning and innovation policies, including new incentives for university–firm collaboration and the creation of the National Council of Innovation for Competitiveness (NCIC).

Unfortunately Chile's industrial policy is still concentrated on expanding traditional comparative advantages and has little focus on employment. Agosín et al. (2010) argue that industrial policies are still residual: there is insufficient spending and there are multiple simultaneous initiatives and no strong, co-ordinating institution. Lending programmes are also small. CORFO's Financial Intermediation Department (*Gerencia de Intermediación Financiera*, GIF) lending programme – which concentrates on small and medium firms – managed only 1.1% of the total portfolio of the Chilean financial system in 2006, well below equivalent programmes in Mexico (9.7%) and Colombia (5.3%).

Economic policy in **Bolivia** and **Peru** differs substantially. Since 2001 under the centre-right Toledo and Garcia administrations, Peru maintained a neoliberal stand based on the attraction of foreign direct investment in mining and other natural resources (Tanaka and Vera, 2008). In Bolivia, on the other hand, the Morales administration increased royalties and taxes in the hydrocarbon sector significantly and tried to expand the state's production capacity (Kohl, 2010). Yet in many ways the Bolivian and Peruvian approaches to industrial policy share similar shortcomings. The combination of weak public institutions and high commodity prices in the context of a long-term dependence on natural resources has limited their ability to promote structural change and new sources of employment. In Peru, most policies are aimed at furthering liberalisation and creating a more 'effective' business environment (Tello and Tavara, 2010). Public spending in research and development is very low: in 2009 Peru spent 0.16% of GDP compared with 0.54% in Latin America as a whole and 1.5% in China (Tavara, 2010). The Toledo administration did create a new institutional architecture promoting SMEs, including a new department in the Ministry of Labour and a new law (Villaran, 2010), but the lack of co-ordination and funding remained problematic. By 2007 micro and small firms received an average of US$3.20 per month in various subsidies – equivalent to just 0.4% of total monthly production (Tello and Tavara, 2010). In Bolivia, the government committed to add value to the gas industry and achieve economic diversification, but no adoption of policy seems to have yet taken place (Kaup, 2010; Kohl, 2010; Webber, 2009).

Beginning in 2005 and after years of neglecting the promotion of structural change, **Uruguay** adopted a more aggressive stand under the left-wing administrations of Vázquez and Mujica. Uruguay has begun to promote collaboration between different ministries, has created new institutions to promote learning and innovation (namely, the National Agency for Research and Innovation) and has implemented new tax subsidies to promote private investment, cluster development and learning and innovation (Barrios et al., 2010). Investment incentives depend on meeting a series of performance requirements, including the creation of full-time employment and the signing of collective agreements, which are not usually found in other countries. Nevertheless, most incentives are still channelled to agricultural products and natural resources with limited employment potential. Policies towards structural change still play a minor role in the country's overall public policy agenda – reasons that justify our low mark in Table 5.

Figure 3: Real minimum wages, 1995–2011 (1995=100)



Source: ILO (various years).

Uruguay is, on the other hand, a leader in the promotion of labour rights and collective bargaining. The Vázquez administration re-established the Wage Councils, a tripartite forum for the negotiation of wages created in 1985 but inactive during the following two decades (Chasqueti, 2007). A 2005 decree re-enacted the council for the private sector and created new councils for the public and rural sectors. Negotiations have been generally fruitful: between 2005 and 2008 there were 628 collective agreements, more than four-fifths of them achieved by consensus (Méndez et al., 2010). Between 2005 and 2006 the government also approved 11 new laws strengthening labour rights, including the regulation of paid domestic employment, the promotion of trade union rights and the establishment of maximum working hours per day among rural workers. The government has also aggressively expanded the minimum wage: between 2003 and 2009 it increased by an annual average of 16% compared with 5% in Latin America as a whole (Figure 3). Like the other countries considered, apart from Peru, Uruguay has succeeded in sustaining minimum wage growth even in the last two years of economic deceleration.

Efforts to influence capital–labour relations and strengthen trade unions have been relatively absent in the other countries. Even in Brazil, where the ruling *Partido dos Trabalhadores* (Labour Party, PT) had close historical ties with the unions, the government has done relatively little to promote collective agreements. Instead, the PT's wage policy has promoted a continuous expansion of the minimum wage, which grew by an average rate of 6.7% between 2003 and 2009. Higher minimum wages put pressure on other wages in the formal sector and have also had positive effects on pensions and other social benefits.

5.2 Social incorporation

Overall, during the last decade, Latin American governments have adopted a new set of policies that are more ambitious and, in many cases, more sensitive to social incorporation (Reygadas and Filgueira, 2010). Table 6 addresses three policies following the methodology presented earlier in Table 5 with regard to market incorporation. The coding criteria are similar to that analysis: each policy dimension ranges from 0 to 2 in the light of criteria explained in the table, and the overall index ranges from 0 to 6. Overall, gains in social incorporation reflect increases in per capita social spending, re-reforms of health-care and pensions and the expansion, redesign or creation of new social-assistance programmes.

Brazil's performance on social spending was particularly impressive: between 2000–1 and 2008–9 total spending per capita increased by 48%, going from real US$785 to US$1165, with health spending also expanding at a similar rate. In contrast, in Peru and especially Bolivia, total spending per capita increased well below GDP per capita growth (8% versus 19% in the case of Bolivia, 28% versus 43% in the case of Peru). This said, increases in social spending say nothing about regressive or progressive, exclusive or inclusive characteristics.

Increases in social spending may reflect a regressive allocation of resources: a few people could be getting the bulk of the new programmes. As a result, it is necessary to pay close attention to the composition of social spending and the reforms introduced to the largest programmes like pensions and health-care. Brazil, Chile and Uruguay have undergone changes towards more universalism in pensions and health-care access and benefits.[9] Pension reforms were introduced in Bolivia but not health-care reforms; Peru transformed neither sector.

Table 6: Coding of policy dimensions towards social incorporation

Policies	Measurement	Brazil	Bolivia	Chile	Peru	Uruguay
1. Growth of state-led social protection	Absence (0), slight (1) or considerable (2) increase in per capita social spending over growth in per capita GDP	2	0	1	0	2
2. Universal policies seeking equal access to social protection	Level of sectoral reforms towards universalism; none (0); only healthcare or pensions (1); both healthcare and pensions (2)	1	1	2	0	1
3. Targeted policies reaching previously unprotected population	No adoption of CCTs (0); little coverage (1) or massive coverage (2)	2	2	1	1	2
Total index (0 to 6)		***5***	***3***	***4***	***1***	***5***

Source: Authors' elaboration.

Brazil began its health and pensions reform under the Cardoso government and continued during the Lula administration. The power of organised groups with vested interests in pre-existing arrangements of social protection and human-capital formation has made advances incremental in content and slow in pace. Brazil has thus witnessed a gradual move towards raising minimum living standards among populations previously excluded from state intervention, along with the maintenance and expansion of entitlements for the better-off (Hunter and Sugiyama, 2009). In pensions, reforms did not alter benefits among particular occupational groups. In health-care, the better-off left or stayed away from the newly created Unified Healthcare System. As a result, Brazilian social incorporation has

9. Mesa-Lago's (2007) comprehensive assessment of reforms involves six dimensions: coverage, benefits, equity, sustainability, efficiency and social participation. The first three relate directly to people's wellbeing and the last three to managerial matters. Here we are mostly interested in coverage, benefits and equity. Since we are not assessing each reform in substantive terms (i.e., whether benefits include every health-care service needed) we conflate benefits and equity as part of a single dimension tackling people's equal access.

taken place through the expansion of a floor of basic social protection rather than by shortening the distance between higher- and lower-income groups.

Differences between pension and health-care reforms are noteworthy. The Lula administration sought to tighten requirements for pensions (like the minimum retirement age) and redefine entitlements (like benefits for economically dependent family members), while also taxing the benefits of the most affluent population. It did not change the segmented architecture of the system but intervened in the parameters defining requirements and benefits. In health-care, the reform was more fundamental and established a national system aimed at reaching the overall population. This involved a major change in the policy architecture, but it fell short in the reform of private provision. Nevertheless, both reforms entailed important steps in the right direction.

The two socialist administrations of the **Chilean** *Concertación* took some steps towards universalism with the creation of basic health entitlements for the population at large through the Plan for Universal Access with Explicit Guarantees (*Plan de Acceso Universal con Garantías Explícitas*, Plan AUGE). This created a universal mandate of services that every health insurer is obliged to provide within explicit timelines, thus halting the practice of private insurers offering plans that omitted key services, such as reproductive health care for women (Dávila, 2005; Ewig, 2008). Services have been selected based upon their cost-effectiveness in preventing death and disability (Ewig and Kay, 2011). New benefits have been added only when it has been fiscally possible to pay for additional pathologies (Biblioteca del Congreso Nacional, 2002).

The 2008 pension reform maintained private individual accounts as the core of the pension system while introducing a new programme of redistributive benefits, a Basic Solidarity Pension (*Pensión Básica Solidaria*). The basic pension can reach up to $160 per month and involves a public subsidy to households earning up to 60% of the income scale, and which increases as contributions decrease. The reform also includes a bonus for women for each birth (Ewig and Kay, 2011).

In January 2008 **Uruguay** launched an Integrated National Health-care System.[10] The system brings together previously fragmented and unco-ordinated public and private services with unequal access and benefits. Previously, the poor relied on public services, while the middle class relied on private services financed through either mandatory social insurance for workers or voluntary affiliation for the non-active population. With the reform, the population at large (not just workers in the private sector) contribute to the National Health-care Fund, rather than directly to providers, according to their income. Insurance reaches the working population, retired workers and economically dependent family members. Health-care providers receive resources from the National Fund according to their risks (rather than per insured person as before), thus eliminating adverse selections of people with more income and fewer risks. Altogether, these measures expand coverage and universalise access regardless of income levels. In addition, the reform strengthens primary care and establishes what are guaranteed services that must be ensured to everyone regardless of provider. Behind these transformations lie changes in health-care delivery, management and financing.

While maintaining the system of individual pension savings, the left-of-centre party in office in 2009 'expanded access to public benefits while keeping the defined contribution

10. Depiction of the Uruguayan health-care reform is based on Borgia (2008), Pérez (2009) and Setaro (2010).

system of individual pension fund accounts intact' (Ewig and Kay, 2011: 36). The reform reduced the minimum age for early retirement and the minimum years of contribution, creating more generous pension formulas. Women also received recognition for the period spent raising children.

In **Bolivia** the Morales administration assumed control of contributory pension funds, eliminating two private businesses which previously oversaw these accounts. The administration also reduced the retirement age, creating a reduced contributory pension for people with at least ten years of contribution. It also created a minimum, non-contributory pension set at 70% of the national minimum salary (in 2010, US$66). To this purpose, the government re-named the old *Bonasol* universal pension programme *Renta Dignidad*, expanded it to reach a broader swathe of the population, and increased the monthly benefit by 25% (Müller, 2009).

In addition to health-care and pension reforms, CCTs were launched in all five countries, although with very different characteristics, resources and coverage (Reygadas and Figueira, 2010). **Brazil's** *Bolsa Familia* is the largest and most successful CCT programme in South America. It benefits more than 12 million households that receive a monthly cheque between US$20 and US$152 (based on 2010 exchange rates). The programme expanded significantly during the Lula administration and has contributed to the rapid reduction in poverty and inequality that Brazil has experienced.

In **Bolivia** CCTs also occupy a central role in the reorganisation of social policy. The Morales administration created two different cash-transfer programmes: the *Bono Juancito Pinto* and the *Bono Juana Azurduy*. The former was launched in 2006 and gives a subsidy of US$28 to every child in primary school (Yañez et al., 2011). It covers 17% of the total population and represents a total spending of 0.33% of GDP (ECLAC, 2010). The latter was introduced in 2009 to reduce infant mortality. It is composed of small cash transfers to pregnant women and families with children under the age of two if they attend regular health check-ups.

Chile and **Peru** devote very few resources to CCTs (0.10% and 0.14% of GDP, reaching 6.8% and 7.6% of their total populations, respectively) (ibid.). However, the Chilean programme is part of a larger set of social-assistance programmes and seeks to specifically target the extreme poor with access to various services and a small cash transfer (US$6–20).

6 Conclusion

In recent years, South America has shown positive improvements in market and social incorporation. Formal employment has increased in all countries and coverage of social programmes has also expanded. South America has even succeeded in protecting formal jobs and social spending between 2008 and 2012, in the midst of one of the worst global crises in the last hundred years.

This article has proposed a novel way to assess recent policy trajectories and consider future requirements. We are aware that our analysis of sustainability is incomplete, failing to properly address recent changes in economic structure and to discuss tax policy in much detail. Yet we offer a systematic attempt to address recent policy changes (going beyond socio-economic outcomes) on which analysts could draw. This framework can also contribute to overcoming sterile debates about populist policies and 'good' and 'bad' left-wing political parties in the region. In the end, different governments should not be evaluated by their rhetoric or their macroeconomic performance alone, but primarily by their ability to promote long-term market and social incorporation simultaneously.

Based on the tool put forward to assess progress towards market and social incorporation, we have shown, first, that progress has indeed taken place and, second, that some countries, like Brazil or Uruguay, have been more successful than others. The common lack of progress in the transformation of the economy – together with limited expansion of personal income taxes – is particularly worrisome, not only because it slows down the creation of formal employment but because it can also limit further advances in social incorporation. As we show in other work (Martínez Franzoni and Sánchez-Ancochea, 2013), building constructive and stable links between economic and social interventions may be the unavoidable challenge for the future.

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