



How have IMF and World Bank policies impacted the development of social protection systems in Latin America?

CAROLINA DANTAS - carolina.dantas@csa-csi.org

SOCIAL PROTECTION OFFICER

TRADE UNION CONFEDERATION OF THE AMERICAS (TUCA) csa-csi.org

Panel "FINANCING UNIVERSAL SOCIAL PROTECTION TO PROMOTE INCLUSIVE DEVELOPMENT AND REDUCE INEQUALITY".

Wednesday, April 18th, 2018 from 4:00 – 5:30 pm - Civil Society Policy Forum, Spring Meetings, Washington DC

The Latin American and Caribbean countries experienced structural adjustments promoted by the International Monetary Fund (IMF) and the World Bank (WB) during the 80's and 90's. At that time, the foreign debt crisis that affected the region entailed local governments to assume a commitment with market reforms, implementing policies like the privatization of the public pension systems. During the 90's, credit rating agencies included regressive structural pension reforms as a positive point in their evaluations.

The consequences of those policies are seen in social indicators: poverty, for example, increased 3,3% between 1980 and 2000 in 18 countries of Latin America and Haiti (according to ECLAC, 2003). Furthermore, the predictions made by IMF and WB have not been confirmed: competitiveness has not increased, nor the employment or the creation of formal jobs. The privatization of pension systems has not enlarged the coverage or decreased evasion. On the contrary, it has generated a considerable number of workers who do not have a sufficient pension to maintain themselves at the end of their working lives.

In Chile, the laboratory of neoliberalism, the failure of the AFP¹ model – the private pension system - was demonstrated. According to the "Opinion and perception poll about the Chilean pension system" 2014: 71% of the retired declare that the pension they receive is not enough to meet their needs, what is more evident when the household income is lower. The level of discontent of the retired is 76%. Moreover, the research "Pensions at a Glance" (2015), elaborated by OECD, shows that the replacement rate in Chile is between 39 and 28%, while in Brazil is between 97 and 52%.

Until during the 90s, the World Bank internalized the idea of "fight against extreme poverty" in the neoliberal agenda, through punctual programs of compensatory alleviation and, after, in the 2000, conditional cash transfers, that are auxiliary mechanisms of liberalization and privatization of national economies. There is no contradiction, to the Bank, in defending the application of the neoliberal prescription, and, at the same time, advocate the fight against misery. In reality, it is in the name of the fight against poverty – which programs are extremely cheap, if compared to universal social protection policies – that the hard economic adjustment moves forward.

¹ Administradoras de Fondos de Pensiones



During the first decade of the 21st century, some Latin American countries, like Brazil, were living a decade of progressive centre-left-wing governments, and combined a period of economic growth with redistributive policies, such as strengthening employment regulation and creating conditional cash transfers. Due to the magnitude of the social fracture found in Latin American countries, those programs had an important impact in the reduction of poverty and indigence but cannot limit the idea of social policies - as a substitute to the universal social protection systems.

This progressive cycle has stopped since 2013: justified by the fall of commodity prices and the necessity of “**financial sustainability of public accounts**”; regressive pension, labor, salary and subsidy reforms are being implemented in Latin America with IMF and WB support. Several countries are also increasing consumption taxes and establishing limitations to public expenditure. In addition, privatizations are being considered in many sectors, such as energy and water.

Concerning pension systems, the current reforms recommended by IMF and WB in Latin America, are not exactly the same as the ones from the 80s and 90s, in general terms they are oriented to parametric adjustments:

- reduction of replacement rates,
- increasing the reference period for calculating the replacement rate,
- raising:
 - retirement ages,
 - contribution time and
 - the value of workers’ contributions;
- unifying female and male retirement age,
- as well as urban and rural workers criteria,
- untying the value of the benefits from the minimum salary,
- in addition to the flexibilization of labor laws.

Parametric reforms with some of those characteristics mentioned where recommended by IMF to several Latin American countries, such as Argentina, Brazil, Colombia, Nicaragua, El Salvador and Panama.

Using manipulation of actuarial data to create the impression of a deficit - in countries like Brazil¹, where there is a surplus -; those IFIs say that the public social security funds are unsustainable and will be depleted in a short-medium term, terrifying the people who rely upon their retirement pensions. Furthermore, there were bad earlier reforms in countries like Panama 2001, that are being used nowadays to justify the fallacious argument of public inefficiency and private efficiency.

In the Brazilian case, many documents were produced by IMF and WB in the last 3 years. The IMF have recommended and supported the freezing in social expenditure during 20 years, regressive reforms of labor laws and unlimited outsourcing. One of the documents was the report entitled “A fair adjustment: efficiency and equity of public spending in Brazil” launched in November 2017 by the World Bank launched, this documents have many prescriptions about what Brazilian authorities should do in terms of fiscal adjustment.



One of the chapters is entitled “Pensions: An Unaffordable Bill” - employing the same discourse used in the reports for another countries of the region - the WB states that Brazil “spends a lot” on pension benefits, subordinating the social rights to the “fiscal space” and presenting as unique solution: urgent austere cuts, instead of progressive fiscal reforms that could guarantee the sustainability of comprehensive policies.

The report supports the pension reform proposed by Temer’s administration, declaring it necessary.

The kind of research made by the WB has the appearance of a high quality technical research, but actually is highly biased and prescriptive about what the governments should do or not in terms of public policies. The research activity is frequently used to proselytize about the political agenda of the Bank, without a balanced vision based on evidences and without express the adequate skepticism.

For countries like Brazil, that don’t depend on the WB loans, those recommendations are not unilateral impositions, its used by Temer’s administration to justify its political choices, unpopular measures, like regressive reforms to the vast majority of the population. Certainly, there were an alignment between the Temer’s counter-reform and the political agenda of the World Bank.

The discourse and practices used by the bank provide arguments and resources to consolidate positions of power and ideological convictions. In this sense, nothing better to a government, to use the recommendations or the loan’s conditionality, as an argument from authority to defend the implementation of an unpopular reform.

In Argentina, the IMF Article IV report for 2017, states that “Argentina’s pension system is actuarially unbalanced [...], with high replacement rates, low retirement age for women, and an indexation formula that increases benefits above inflation.” And calls for the rationalization of social assistance spending. Reports like this served as argument to the suspension of payment of 70,000 disability pensions. Additionally, the parliament, even facing strong popular opposition, halted expected retirement pension and child allowance (AUH) increase, by modifying the formula of calculation.

In the same way, in El Salvador, the IMF Article IV report recommends a deep parametric reform. And in Panama, the Article IV report indicates that the defined benefit part of the pension system (the public column), would be depleted in 2024, it states that the IVM (invalidity, old age and death) subsidies are too generous, and the solution would be to raise of retirement ages, unifying female and male retirement age and reducing in replacement rates.

When IMF and WB recommends those austere and regressive reforms to the Latin American and Caribbean social protection systems, they act against the guarantee of a “social protection for all”, violating the human rights, moreover, they lead to the increase of socioeconomic inequality, poverty, indigence, informal labor and entail a process of gradual privatization that diminishes the possibility of the neediest to have access to a protection. This means violating the guarantee of a social justice, decent work; and of a universal and comprehensive social protection; distance the Latin America, the most unequal region of the world, from achieving the SDG, especially the Goals 1 and 8.

The Trade Union Confederation of the Americas (TUCA) defends comprehensive, solidarity-based, redistributive and universal social protection under the responsibility of the State, and that IFIs should respect the self-determination of the countries concerned.