INTERGENERATIONAL TRANSFERS AND SOCIAL PROTECTION IN LATIN AMERICA

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This paper examines the available evidence on intergenerational transfers in Latin America, their social and economic importance in different national contexts, their effects on distributional outcomes and on the medium and long-term financial sustainability of social protection systems. In this review, it used as a guide the concept employed by Lee (2003) and Mason and others (2005), according to which intergenerational transfers refer to the reallocation of economic resources among members of different ages, without an explicit *quid pro quo*. These transfers differ from other inter-temporal or intergenerational reallocations, such as investment in assets and credit operations in that the latter involve changes in the capital stock of the economy, transactions of land and property, or borrowing and lending, which are in any case governed by explicit or contractual obligations.[1]

Intergenerational transfers are important because in all types of societies they help to smooth out consumption over the life cycle and, in particular, to cover income deficits during the "dependent" ages of childhood and old age. In Latin America, they are of special relevance because transfers, both intra and intergenerational, are also key to providing basic social protection to the significant proportion of the population living in poverty or, otherwise, subject to the effects of economic fluctuations, in settings of structurally high levels of socio-economic inequality (Uthoff and others, 2005).

Despite their importance, the knowledge on intergenerational transfers in the region is relatively limited. One practical problem has been the lack of readily accessible information on income/productivity, consumption, and public and private transfers, classified by age, as well as the scarcity of primary data sources that would allow for a truly generational/inter-temporal examination of these age schedules over extended periods of time. This is a real limitation in most countries, although there are several sources already available that could be usefully exploited to advance the knowledge in this area.

Another factor may be that national governments have had to deal with many acute and pressing short-term macroeconomic problems such as recession, unemployment, external adjustment, and difficulties in the management of national debt, which, in certain countries and periods of time, have indeed been quite serious. In this context, concerns over the intergenerational redistribution of income have, in general, received low priority in discussions of what are perceived to be the most urgent public policy issues. However, this is not a sound justification for neglecting the issue of intergenerational transfers. The intergenerational, inter-temporal analysis of transfers can be very useful, for example, for advance detection of disequilibria implicit in the combination of population trends and the continuation of current programmes or policies. They can thus help to identify policy options that can contribute to

Leibfritz (1999) for the analysis of equity and sustainability of fiscal policies and the framework of Mason and others (2005) for the analysis of all types of transfers are very helpful.

Before proceeding to the discussion of the different types of transfers, figure 1 illustrates the size, broad shape and net direction of inter-age reallocations in Chile, Mexico

Figure I. Private consumption and labour income by age, Chile, Mexico and El Salvador

Chile 1996-1997

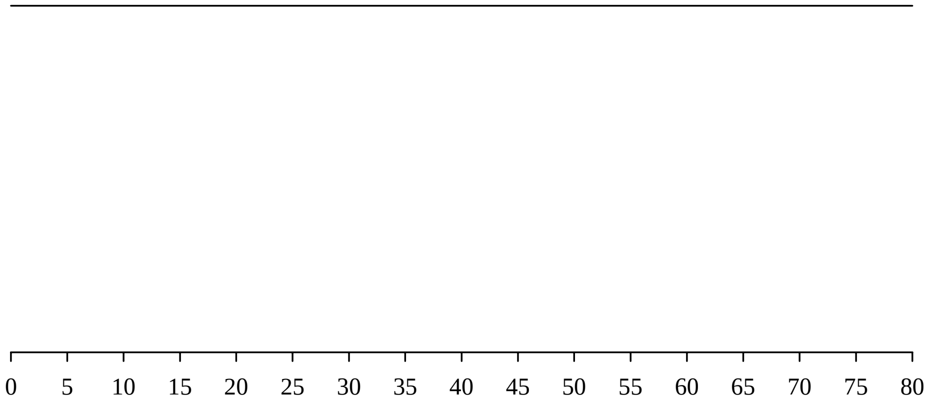
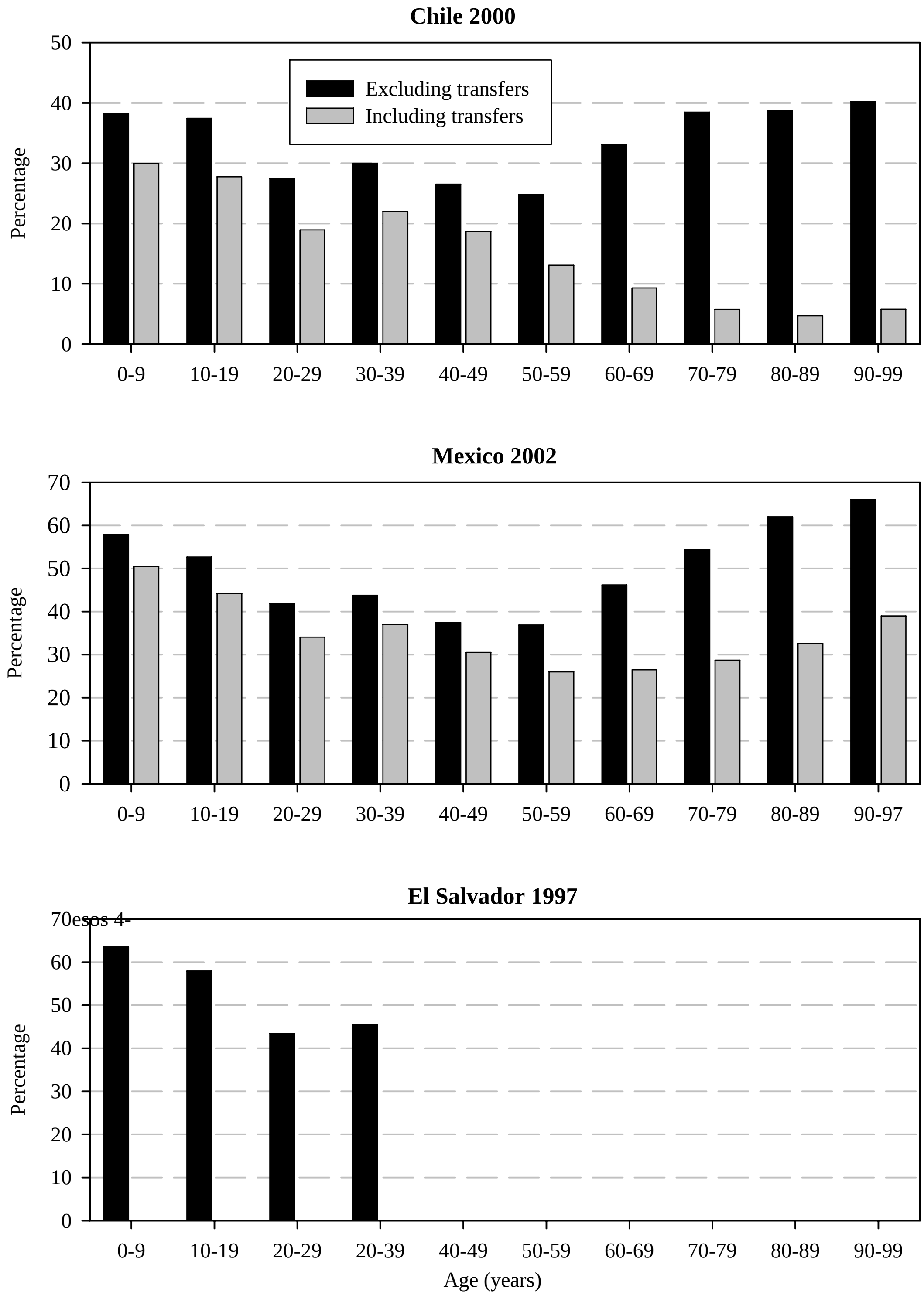


Figure 2. Incidence of poverty by age group excluding and including transfers, Chile, Mexico and El Salvador



A few countries in Latin America have undertaken analyses of the distributive effects of taxes and public spending that correlate with age, such as education, social security and some health programmes, with varying degrees of specificity. Arenas and Guzmán (2003) and Arenas (2005), analysed some broad distributional effects of public social spending and the countercyclical nature of the country's "fiscal surplus" policy[4] in the case of Chile. Government transfers have been concentrated in children's education and nutritional programmes, and health and social security for retirees as well as assistance for the elderly poor. As for their distributional impact, the evidence suggests that over the last decade, fiscal policy and especially social spending, has had a substantial positive effect on the reduction of poverty from 38.6 per cent in 1990 to 20.6 per cent in 2000. Public policy has also, in good part, compensated for the effects of the short-term economic cycles, thanks to the fiscal surplus rule in place, which has also made a key contribution to the medium- and long-term financial sustainability of the overall budget and, in particular, of social programmes.

In a different setting, Paes de Barro and Carvalho children under-12 years of age and the elderly that benefited the most from increased spending. These effects came hand in hand with the greater increase in spending on basic education and especially on social security, the sector found to be the most regressive of all the programmes studied. Thus, despite the overall increase in social spending (referred to in the paper as “social investment”), there is concern over the restrictions imposed on spending in other sectors, particularly in higher education. In fact, spending on higher education has decreased in real absolute and relative terms over the period analysed, a trend that, if continued, could well damage the present and future competitiveness of the Costa Rican economy.

The studies reviewed in the foregoing constitute good advances towards a more systematic and integral examination of intra- and intergenerational

The introduction of social security reform produced a generational imbalance equivalent to a permanent reduction of pensions of between 33 per cent and 48 per cent. Also, given that almost 60 per cent of private pension funds had been invested in state bonds (circa 1995), that particular form of investment of pension fund assets had little effect on government inter-temporal balance. This is because although the net present value of taxes decreased, the national debt stock rose[10], meaning that there was a change in composition rather than in the level of the inter-temporal budget.

Taken as a whole, the policies of the first half of the 1990s are considered by Altamiranda (1999) to be unsustainable. They imply the transfer of a net tax burden to future generations of 75 per cent to 150 per cent, which is greater than that borne by taxpayers in 1995. Thus, according to the author, what appeared to be an initially balanced and macro-economically stabilizing adjustment, evaluated on the basis of the period flows, had implicitly substantial inter-temporal and intergenerational imbalances. The ageing population is one of the factors behind this imbalance, with a weight that varies according to other assumptions in the model. A more recent study by Cetrángolo and Jiménez (2003) provides a detailed and more nuanced assessment of the fiscal policies over the last decade and a half, but it concurs with the previous analysis in identifying the insolvency of the reformed social security programme, together with a series of internal and external problems, as a key factor of the fiscal imbalance that contributed to the severe 2001-2002 economic crisis.

The analysis carried out in Brazil (Malvar, 1999) follows a methodology very much in line with that used in the Argentina study and those of other countries examined in Auerbach, Kotlikoff and Leibfritz (1999). Brazil displays an even greater imbalance in generational accounts than Argentina, as the net tax burden for future generations is estimated (in the base scenario) to be 116 per cent greater than that of taxpayers in the mid-1990s. The ageing population plays an important role (the imbalance would decrease by almost half had the demographic structure remained stable) as does the growth of the national debt, although to a much lesser degree. As in the Argentinean case, the imbalance is found to be related, for the most part, to the insolvency of the social security system, which was worsened by legislation incorporated into the 1988 Constitution. The 1988 Constitution instituted assimilated to that of the United States and, for pension payments, the age profile as the United States social security system was adopted.[12] Finally, spending on education was not included in the accounting, as no data were available at the time the study was made. This could also be remedied by using information that became available subsequently. In any case, as the authors note, the non-inclusion of education in the accounts biases the result downward, i.e the balance would be even more positive than reported.

In summary, different situations exist in Latin America regarding the effect of public expenditure and transfers on income distribution and generational equity. There are cases of globally progressive redistributive effects in Chile, Costa Rica and Mexico, and also cases of low distributive effectiveness, as in Brazil. There are cases of significant intergenerational imbalances in fiscal policy, which are affected by the degree and speed of population ageing and by the insolvency built in some policies and reforms concerning the pensions system (Argentina and Brazil in the 1990s). In other settings, there is evidence that the overall fiscal position and transfer programmes are intergenerationally balanced and sustainable over time (Mexico and Chile, circa 2000).

C. PRIVATE TRANSFERS

Private transfers are important in all regions of the world. In Latin America, they are presumably important because of the significant role that family ties play in support networks and because the coverage of social protection system53 TDu40e penrTJ7.02 y26-(.59-1.5(th)]TJ296 697u4s(in su.(dogressipublicial)5.

documented point to a possibly partial compensation for insufficient public transfers to support the needs of the elderly and also hint at an important role of the older population as a source of support for other family members in contexts of adverse economic conditions.

Taking the case of Mexico, Wong and Espinoza (2005) examined the changes in transfer between persons aged 50 or over and their children (or other non-family members under the age of 50) during the period 2001-2003. They paid particular attention to individuals that switched from being donors to recipients of transfers and vice-versa in a multivariate framework. The results showed that persons over age 50 decreased their propensity to make transfers over time. Age is an important factor, which has a positive correlation with ceasing to be donors and with becoming transfer recipients. Widows and adults with many children are more likely to be recipients of transfers than other persons of the same age. As may be expected, individuals with higher incomes are less likely to be recipients and more likely to be donors, a finding consistent with those of Saad (

Interestingly, it was also found that the level of social security benefits had a negative effect on the amount of transfers from children to parents, which suggests some substitution of private transfers for those provided by the government. It was also found that ill health and unemployment increase the likelihood of receiving transfers.

Figure 2 illustrates the different effectiveness of transfers in reducing poverty in the three countries by showing the poverty rates for different age groups, excluding and including cash transfers. It can be noted that in the three countries the compensatory effect on poverty is proportionately higher among the elderly than in the rest of the population, especially in comparison with children and teenagers.[16] In general, younger individuals display near or below-average incidence of poverty when transfers are excluded. However, when transfers are included they have above-average poverty rates. Except in the case of El Salvador, poverty rates among younger individuals are significantly higher than among older adults.

These estimates suggest that there is room for considerable improvement in the redistributive effect of transfers. Also, the effect across generations is not necessarily balanced, as transfers tend to be biased towards the elderly, which can certainly be justified in terms of the aims of the social security systems. However, viewed from a broader perspective of intergenerational solidarity and productive efficiency, those aims should not lead to the neglect of other population groups, especially children and teenagers, who are subject to high poverty rates in almost all of the countries studied. As mentioned before, in some settings, this problem is compounded by the deficiency of transfers for secondary and higher education, which could jeopardize present and future productivity growth.

E. Final remarks

Intergenerational transfers in Latin America are of a substantial aggregate magnitude. In practically all documented cases, they are essential in smoothing life-cycle consumption and contribute significantly, although in varying degrees, to alleviating poverty.

Public transfers are not always strongly redistributive. In certain countries and sectors, they have been assessed to be rather regressive and tend to favour some generational groups much more than others. In several countries, public transfers have a greater poverty-reduction effect among older adults than among children, which continue to weigh heavily within the poor population in most countries of the region.

Even in countries where government transfers are sizeable, private transfers play a key role in the support of different generational groups. However, the redistributive effect of private transfers is even less clear-cut than in the case of public transfers. In many cases they appear to be directed foremost towards individuals with lower incomes but, in other situations, they tend to favour to a greater extent those who are relatively better off, thus providing a basis for an intergenerational reproduction of poverty and wealth. Some evidence was found of substitution of private for public transfers. However, private transfers appear far from sufficient to replace the state responsibility over the provision of social services and protection to the population as a whole.

The combined analysis of changing demographic structure and age-specificity of public programmes and transfers shows that, in some countries, the ensemble of social programmes and fiscal policy appears to be inter-temporally unbalanced, with ensuing ser

NOTES

[1] Other useful criteria for classifying reallocations and transfers distinguish a) the channel of transmission: the family, financial institutions/markets, or the state, and b)

[15] The proportion of transfers directed towards poor households in El Salvador is similar to that of Chile and higher than in Mexico; therefore, the lower efficacy of transfers in reducing poverty in El Salvador in comparison to Chile and Mexico is due primarily to the smaller relative size of transfers in El Salvador.

[16] This same effect was observed in Brazil by Paes de Barro and Carvalho (2003).

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