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SOCIAL POLICY ARCHITECTURE AND POVERTY ERADICATION IN THE POST-MDGS AGENDA: GENERAL REFLECTIONS AND LESSONS FROM COSTA RICA

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Universal services and the post-MDGs agenda

Across the world, people are often "one illness away from poverty" (Krishna, 2010). Eradicating poverty thus entails not only lifting people out of poverty but also preventing people from falling into it. This is a key reason why over the past decade scholars and policymakers have revisited the importance of social policies that reach both the poor and the non-poor alike. The post-MDG debate has placed universal access to healthcare and other services at the heart of anti-poverty strategies (Von de Hoeven, 2012).

In Latin America the growing emphasis on new, more ambitious social policies is particularly evident. Although targeted conditional cash transfers are still wide-spread, most governments are moving away from exclusive market-inspired, narrow social policy designs. Instead, governments have created more ambitious, non-contributor programs funded from general taxes and focusing on both the poor and the lower-middle class. In Chile since the mid-2000s the new health program AUGE and a new non-contributory pension system are expanding the number of beneficiaries significantly. In Mexico, during the past decade 43 million people had non-contributory access to healthcare via the "Seguro Popular" (Levy and Schady, 2013: 201). Will these new programs redistribute income and opportunities in the long run or, to the contrary, will they lock the poor into dependence on low quality transfers and services?

Beyond Latin America, global policy instruments like the social protection floor proposed by the International Labour Organization (ILO) and adopted by the UN in 2009 promotes the creation of a basic set of transfers and services for *all* (ILO, 2009). The building blocks of such universalism are (contributory and non-contributory) social security and basic health care services. But how can this policy project be put into practice? What are the political dynamics that will secure future progress? To answer this question, it is particularly useful to look at one of the few cases of successful implementation of universal policies in the developing world; here we focus on the Costa Rican experience. In doing so, we pay particular attention to the architecture of social policy, namely how it is initially designed and what type of incentives it creates for its future path. Devoid of this political "backstage" to state building, the social protection floors can easily become an umbrella concept to what in practice are two tiered systems; excessive attention to basic services for all can ultimately result in poor quality services used only by the poor for lack of alternatives. Moreover, if the basic social protection floor is not accompanied by strong regulation of private services, it could easily perpetuate segmentation.

Key Points:

- The lack of adequate social services is a key factor locking people into poverty.
- Extending social services to the poor is a positive trend, but unless service provision caters for both the poor and the non-poor, the sustainability and quality of these services will be under threat.
- Building universal services requires addressing the political dynamics behind policy formation as reflected in policy architectures.
- Policy architectures leading to universalism must at least accomplish three goals:
  - simultaneously incorporate lower and middle income groups;
  - targeted measures should complement universal programs rather than be developed in parallel;
  - there is a need to strongly regulate private providers and restrict their expansion.
- Lessons from Costa Rica's policy architecture can shed light on reform agendas both in countries with robust yet stratified social policy, as well as in countries struggling to overcome a history of exclusionary social policy.

Costa Rica as a learning source

A primary goal of the new agenda should be to advance universal social policies that reach the entire population with similar generous transfers and high quality services. To think about how to build this kind of policy over time, Costa Rica can provide relevant clues. In 1940 most school children there were barefoot and the country had a higher infant mortality than Mexico, El Salvador and Ecuador. Costa Rica was then still a rural society, far from the manufacturing capacity of Brazil or the modern sophistication of urban Argentina. Education levels were high but social polarization significant. It did not seem the most ideal place to build a health and pension system with high quality for everybody. Yet over the following forty years Costa Rica built a social policy that initially expanded among low and lower-middle income workers and later also incorporated the poor and the upper middle class. Through this approach universalism became an indispensable instrument to promote human development and social justice.

By 1980 Costa Rica had become "the closest case to a universalistic egalitarian social state or even more an embryonic social democratic welfare state" in Latin America (Filgueira, 2005: 21). Social security coverage among the urban population went from just 8 per cent in 1950 to 70 per cent in 1980 (Román, 2008). Costa Ricans gained access to high quality healthcare, education and pensions, and human development indicators were better than in almost any other developing country and were achieved at a cost which was a fraction of that in richer countries (Sandbrook et al, 2007; Garnier et al 1997).

Several factors contributed to Costa Rica's success:

- Electoral competition (even if incomplete) forced successive governments to confront social demands.
- The elimination of the army which was replaced by the creation of a police force in the late 1940s, thus eliminating a socially conservative stakeholder.
- Costa Rica's centralized government made the expansion of social insurance easier than in countries with federal systems. It is also likely that the small size of the country facilitated the process of expansion—in fact, most cases of universal social policy in developed and developing countries have occurred in comparatively small economies (including the Scandinavian countries).

None of these factors, however, drove the formation of universal policies. Instead, our research highlights the role of the policy architecture in gradually creating universalism—a variable that can be helpful to draw lessons from for other developing countries.

Key features in the formation of universalism

Three features were particularly important:

1. **Building from the bottom up:** ***policy must, from the onset, incorporate lower income groups – rather than the poorest alone –and create incentives to increasingly engage higher income earners.***

Those that get in first must not be able to shut the door and leave the rest locked out. Coverage does not need to be massive at first, but must create the incentive for further incorporation both horizontal (that is, reaching everyone that meet similar eligibility conditions) and vertical (that is, bringing on board people located up and down the social ladder) into the same social policy regime in the medium to long run. This policy dynamic feeds into the progressive realization of social and economic rights.

Unlike any other country that expanded services through social insurance, Costa Rica started off by insuring workers under a relative low wage ceiling (about US$ 50 per month at prices of 1940). The ceiling was incrementally lifted, but all along workers joined a unified system and not a diversity of unequal insurance plans.

2. **Targeting within universalism:** ***Specific measures must facilitate the access of the poor to the same social programs that the middle income groups rely on.***

Starting off from the lower-middle class is helpful, but it may still lead to the marginalization of the poor. If those poor groups are then incorporated into social policy through specific programs aimed at them alone, a two-tiered, segmented system will emerge and the poor will receive a worse treatment that the non-poor.

To avoid this scenario, in the 1970s, the creation of a Social Assistance Fund (FODESAF) funded the non-contributory incorporation of the poor to services already in place for the non-poor. By reaching out to—in particular the rural—poor, FODESAF complemented social insurance and health care reforms. FODESAF provided the financial means for programs aimed at improving nutrition, health, non-contributory pensions and other forms of income for the population who, until then, were marginalized from Costa Rica's social policy. The new programs were managed by the regular government ministries, therefore avoiding the creation of different institutions for the poor and the rest of the population. In doing so, FODESAF also strengthened bureaucratic stakeholders within the ministries with vested interest in reaching out to the poor population.

3. **Taming markets:** ***Policy architecture must effectively deal with the threat that the expansion of private providers of social services represents for universalism.***

Neoliberal globalization created numerous threats to universalism. Fiscal bottlenecks created downward pressures on per capita social spending and lowered the quality of public services. Public sector reform reduced the management capacity of the central government. Deregulation and privatization expanded private providers, who were not interested in equitable provision of services and transfers.

Costa Rica shows, in particular, the negative consequences of the expanding private sector in the midst of initially robust universal services. First, private providers—which often grew thanks to lucrative state contracts— exerted pressure for further deregulation and the segmentation of services. Second, in a context of insufficient resources and growing demands on the state, private providers encouraged the exit of the middle class from public services and weakened cross-class solidarity. This deepened inequality and eroded social rights while clearly not delivering better health outcomes. Thirdly, private providers encouraged dual—public/private—medical practice, particularly among highly specialized medical personnel—reducing their commitment to the public sector and strengthening individualistic agendas.

Policy lessons

Lessons from Costa Rica's policy architecture could influence reform agendas all over the developing world. Where social insurance only reaches a small number of people, the poor are many, and private health insurance is expensive, governments should:

- Find ways to build the system from the "bottom-up".
- Find politically viable ways to raise funds. Direct, progressive taxes may be particularly beneficial, but they face large political obstacles. Payroll taxes may be easier to implement and more effective, particularly in the presence of strong formal labor markets.
- Make sure to support stakeholders that can demand further improvements in the future.

Among countries that already have robust, yet stratified social insurance, governments should:

- Avoid any measure that further consolidates parallel regimes and, instead, should make sure to use transfers and other resources to incorporate the excluded into the main social programs.
- This, in turn, requires that changes in both contributory and non-contributory regimes address quality and generosity, rather than coverage alone. The real challenge is how to promote high quality public services, to strongly regulate the private provision of services and find ways to, for the first time in these countries, create coalitions between the poor and different segments of the middle class that succeed in building universalism.

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