

Social policies need fine tuning



Like other countries in Latin America, Uruguay was in a relatively good situation when the financial crisis of 2008 struck. The country's economy continued to grow and its poverty and indigence rates improved considerably thanks to social policies, which in the more prosperous years had been given priority over macroeconomic objectives. Nevertheless, there are still problems to be tackled, such as high poverty and indigence rates among people of African descent and the fact that more and more heads of households at the very poorest level are women. To remedy these situations, combating inequities of gender and/or race should be an integral part of economic policy.

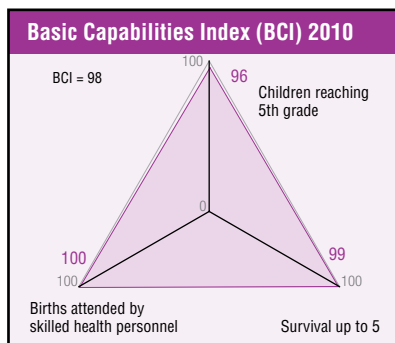
Centro Interdisciplinarios de Estudios sobre el Desarrollo – Uruguay (CIEDUR)
Alma Espino

It might seem obvious but perhaps the main questions for economic policies ought to be: What is the aim of economic activity? Where do social and gender inequalities fit into the current growth model and pattern of consumption? If the purpose of the economy is to provide and maintain a decent level of life we are talking about the economy being at the service of the people, that development should be centred on people. It is very clear that the market is not capable of recognising or valuing the community's great diversity of needs and interests or bridging the gaps that are appearing in various aspects of society and life.¹

Macroeconomic policies should be suitably integrated into social and economic policies, they should be part of a wider development strategy and thus make a direct contribution to long term growth. Macroeconomics has social content, so this is a question of laying foundations that are solid from the point of view of human development, justice and equity.² Therefore the decision-makers in economic policy should consider the social and gender implications of their macro policies. This means not leaving subjects like gender and/or race inequality exclusively in the field of social policies where the assistance effort amounts to just alleviating or compensating for the negative effects of economic policies.

The region and the crisis

There is a general feeling that Latin America was in better condition to cope with the 2008 crisis than in other periods of the recent past. And overall this is true, but while these countries are quite similar in many ways they all have their own individual characteristics, so



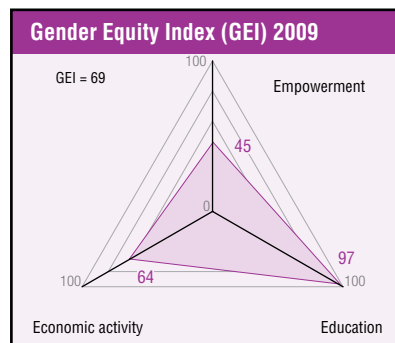
there are big differences in the ways the crisis has affected them and what the impacts have been. In fact, like other economies in the region, Uruguay has been growing and its social indicators have improved.

Prior to 2008 the Uruguayan economy was on a growth path and this was reflected in the fact that the country's GDP increased by 8.9% in that year. This growth was based on expanding domestic demand (consumption and investment) and foreign demand for exports. But when the international economic and financial crisis struck at the end of 2008 signs of a slowdown began to appear. In spite of this, growth continued and in 2009 GDP increased by 2.9%. According to the Institute of Economics, from 2005 to 2009 the country enjoyed an average annual accumulated growth rate of 6.1%.

The way the crisis exerted its effect on the economies in the region was through falling external demand, which was expressed as a decrease in imports from the developed countries and tourism, a fall in prices for commodities, reduced remittances from Uruguayans living abroad and a reversion in foreign investment flows. The fall in international prices for Uruguay's main export products had a severe impact, and although the country managed to diversify and find new clients for its exports the reduction in demand had a negative effect on that sector.

Weaknesses and strengths

In the last two months of 2008, the export growth trend was reversed and imports were rising more than exports, although these too slowed down towards the end of that year. This made for a current account deficit of 3.5% of GDP in 2008, which was mainly due to the big trade deficit.³ In 2009, exports



measured in dollars shrank by 8% even though in terms of physical volume they increased. In any case, the export situation was the factor that had the biggest impact on growth, but private investment was pulling in the opposite direction and the public sector remained stable. Income from tourism had been falling for several years but in 2008 it increased; and in 2009 foreign currency from this source came to USD 1,300 million, 19% more than the previous year when the sector yielded USD 1,053 million.⁴

Foreign indebtedness continued to come down; in 2008 it amounted to 37.3% gross and 14.1% net of GDP. This was a consequence of the country's continued accumulation of reserves, which increased by USD 2,208 million in that year.⁵

In 2009, the overall behaviour of the labour market was basically positive. Jobs were generated and the unemployment rate went down while the number of people who were economically active remained about the same as the previous year. These results show that in 2008 and 2009 the international crisis did not have a direct impact on the Uruguayan labour market as a whole. However, a somewhat more detailed analysis shows that some sectors of economic activity – like those most dependent on foreign markets – did find it difficult to keep their workers employed around the end of 2008 and the beginning of 2009. This can be seen in the fact that, towards the end of 2008, the number of workers in industry fell and the number of people signing on for unemployment benefit at the social security organization (the Banco de Previsión Social) increased.⁶

1 Alma Espino, Report of the Doha conference about finance for development and conclusions of the meeting about the world crisis convoked by the President of the General Assembly (26-29 May 2009). Presentation at the seminar to Analysis of the economic and financial crisis from the gender perspective: impact on women's poverty and work. UNIFEM-CEPAL-INSTRAW-SER-Instituto de las mujeres. Mexico, July 2009.

2 José Antonio Ocampo and Rob Vos, "Policy space and the changing paradigm in conducting macroeconomic policies in developing countries" in *New financing trends in Latin America: a bumpy road towards stability*, BIS Papers, 36, February 2008.

3 Instituto de Economía (Institute of Economics), 2009.

4 Instituto de Economía, 2010.

5 Instituto de Economía, 2009.

6 Instituto de Seguridad Social (Institute of Social Security).

Government measures

In the last 4 months of 2008, in an initiative to respond to the changes taking place in the world, the Government made adjustments to its economic policy. In particular it temporarily stopped intervening to manage interest rates as an operational tool in monetary policy, and it put more emphasis on controlling currency exchange rates in line with the idea that this would become the “automatic stabilizing mechanism” of the system and would help to alleviate the effects of the external shock.⁷

In December 2008, as was happening all over the region, the Government took action to respond to the crisis. They implemented a package of measures to designed to provide liquidity for enterprises, improve their export capabilities and make new investment more viable. This meant increased public expenditure which, in combination with slower growth in income, caused the fiscal deficit to increase to 1.7% of GDP in 2009. In 2010, however, results began to improve.⁸ As happened in most economies, the public sector has played a dominant role in raising investment and consumption. Even though the Uruguayan Government’s income was increasing at a slower rate, it maintained the same rate of increase in its public spending.

The commitment to eradicate poverty

In this period some other indicators improved, such as those measuring the evolution of poverty in terms of income. In 2008, the rate of indigence or extreme poverty decreased from 1.2% of all households in the country to 0.8%,⁹ and this rate held steady in 2009.¹⁰ Nevertheless, it is interesting to note that in 2009 indigent households in which a woman was the head came to 1% while the figure for male heads of households in this situation was an estimated 0.7%. Although these average figures do reflect an improvement, we should bear in mind that they also confirm a trend that has been evident since 2005,

which is that there are more indigent households headed by women. We ought to remember that indigent households are usually associated with a single-parent family structure, they usually have large numbers of children (the initial stages of the family life cycle) and a low number of breadwinners. As a consequence, these households form a vulnerable socio-demographic sector in which there are many dependents, few earners, and in most cases a woman at the head.¹¹

Poverty has been decreasing in all parts of the country, not only in terms of people but in terms of households. According to the Institute of Economics and taking the country as a whole, in 2009 the number of poor households amounted to 14.3%, which was 3.6 points below the 2006 figure.¹² As regards numbers of people, in 2009 the poverty rate for the country as a whole was 20.9%.¹³

The situation of living in poverty or indigence affects people in different ways depending on their age, sex and ethnic origin. The poverty rate by age brackets shows that the greatest concentration is still among minors, mainly children under six years old.¹⁴

The trend is for poverty to decrease in all households, those headed by men as well as those with a woman in charge. From 2003 to 2008 the poverty rate in households with a man at the head fell from 23.3% to 13.2%, and in households with a woman head from 17.2% to 14.5%. Note that the rate for women is higher, but what is important here is that yet again we have a reversal of the trend: in the 2003 to 2006 period the rate was higher for households with men at the head, and in 2007 the figures were almost the same (16.9% and 16.6% respectively), but in 2008 the situation was reversed (13.2% and 14.5% respectively) and the rate for women heads of households was higher.¹⁵ In 2009, according to the Institute of Economics, the figures were 13.9% for men and 14.8% for women.

It is also noteworthy that the biggest gaps are among the population of African descent: everywhere in the country the poverty rate for this group is almost double that of whites. In 2008, some 19.4% of whites were living in poverty but among people of African descent the rate was 43.1%. This means that nearly half the people who define themselves as being of African descent are living below the poverty line. It is clear that ethnic origin is one of the factors behind social inequality.

The trend to poverty reduction is due to more jobs being generated and thus more income in households, and in addition, in 2008, income in the country was better distributed. The falling indigence rate would seem to be linked to social policies, in particular those that involve family allowances, which have been focalized specifically on this population group.

Macroeconomics and inequalities

It is clear from this brief overview of some aspects of the country’s social and economic situation that a close watch should be kept on problematic areas when the time comes for the Government to deliver on its commitments. It is true there has been a great effort to develop social policies to promote equality and fight poverty, and to a degree these have been successful, but the results raise certain important questions.

Various indicators show that progress has been made in the field of gender equity but there are still big problems and perhaps the most serious is that women are under-represented in political and economic decision-making positions.¹⁶ In fact, the country has regressed in this respect when we consider that today there are fewer women at the ministerial level of Government – which took office in March 2010 – than there were during the previous administration. In addition to this we have the beginnings of the unfortunate trend towards more and more women being the heads of poor and indigent households. ■

7 Instituto de Economía, 2009.

8 Instituto de Economía, 2010.

9 The poverty line in 2002 was set by the National Statistics Institute (INE–Instituto Nacional de Estadística) based on the Encuesta Nacional de Gastos e Ingresos de los Hogares (National Household Expenditure and Income Survey) 2005-2006.

10 The data for 2009 are from estimations by the Institute of Economics, FCEyA, UDELAR, based on processing micro-data from the 2009 Encuesta Continua de Hogares (Continuous Household Survey).

11 INE, 2009.

12 *Ibid.*

13 Instituto de Economía, 2010.

14 INE, 2009.

15 *Ibid.*

16 United Nations Development Program, 2008.