Wissenschaftskolleg zu Berlin

“Poverty is not just a matter of money“

Lena Lavinas, a welfare economist at the University of Rio de Janeiro, researches the effects of financialization upon social policy in Latin American economies

by Ralf Grötker

Ralf Grötker: In one of your recent articles you describe your research area as “Welfare Policy in the Twenty-First Century.” One aspect of your work is in bringing certain empirical phenomena of contemporary history together with more generalized approaches in explaining social and economic developments. What are the keywords demarcating the terrain that you describe and analyze?

Lena Lavinas: I am interested in mapping out the recurrent changes brought to our daily life by ever-evolving capitalism. My field is welfare economics and as such I am very attentive to anti-poverty policies, welfare regimes, pension systems and all dimensions of well-being. For instance social policy in recent years has undergone a structural change. Instead of the state itself providing for the citizens' basic needs – for example operating hospitals or pensions, providing social housing and otherwise placing their services at its citizens' disposal – the state now increasingly gives money to the citizens so that they themselves can make provision for their own services on the open market. The predominance of monetary transfers as the bulk of social policy, to the detriment of decommodified services, is a major trait of financialized neoliberalism.
It is in the course of this structural change that finance has attained a central position within the system as a whole. Private insurance companies become more important as public healthcare and the state's old-age provision are downsized. The scaling down of public provision moves people to the financial sector, whose logic is grounded in making profits rather than ensuring rights, entitlements and economic security. Even low-income families and the very poorest have not escaped this trend.
This is often described as financial inclusion. The state supports poor citizens with money instead of public services and thus

gives them credit-worthiness. As a matter of fact it makes people more financially vulnerable. And that is why the central concepts of my research are also the loss of private autonomy, the dependence on loans for meeting needs, and increasing indebtedness. I observe and describe these processes primarily in Brazil not so much because it is my homeland but because Brazil is a particularly good example of processes that are taking place more generally in emerging countries and particularly in Latin America. Interesting in the case of Brazil, moreover, is that this development occurred under the rule of a center-left government. One can therefore observe in Brazil how the structural change in welfare policy is even being carried out in a political environment that should be bringing maximum resistance to it.

RG: In your work you not only open up a certain conceptual field but reconstruct a historical development – the role of social policy and its changing complementarity within the economic system.

LL: It’s for methodological reasons that social and economic policies tend to be analyzed separately. But in substance they are intertwined. Social policy as we know it is a product of capitalism. Poverty was also the object of political measures in the past, but there was no substantive welfare spending until the early twentieth century. Prior to this time the biggest public expenditure was for armaments and warfare. It was with the introduction of welfare spending that citizens were first offered protection against those risks peculiar to the capitalist economy. Seen from another perspective, welfare policy fulfilled the function of ensuring the social reproduction necessary to capitalist production. In the era of financialization, social policy has again been reshaped and redefined so as to support debt-financed spending at the expense of the provision of public goods and services.

RG: You report how in the late twentieth and early twenty-first centuries the social policies facilitated citizens’ access to financial resources – also in the form of loans – so as to boost the domestic markets through consumption. Here you are not only observing the development of contemporary capitalism but you also assess the political measures.

LL: Yes. This is all about policymaking, which reflects the way social and macroeconomic policies are made to complement one another. One can’t evaluate social policies or welfare programs without taking a look at the macroeconomic linkages. Under financialized neoliberalism, regular income streams are essential to sustaining market incorporation as well as boosting and amplifying financial inclusion. Let’s have a look at the case of Brazil as of late. One of the major accomplishments of the Workers’ Party was to incorporate millions of new customers into the market through social benefits (“Bolsa Familia”) and other anti-poverty schemes. Along with improvements in the labor market, i.e. low-paid job creation, this was extremely important to expanding the domestic market. The result was indeed a consumption boom in the 2000s. But this consumption boom did not consolidate a new productive matrix – and the reason was that due to the persistence of our structural problems, with low levels of industrial specialization, Brazilian consumers mainly bought cheap imports from China.

RG: But we do that in Germany as well – buying cheap products from China – without doing our economy any harm.

LL: Germany is among the world’s great exporters. It has a huge trade surplus while bringing onto the market innovative and competitive products for which there is a worldwide demand. In Brazil and other emerging nations the situation is radically different. We are presently in the midst of de-industrializing and falling back into the role of a supplier of raw materials. But we can’t compete on the world market long term by merely producing soy, corn, meat and orange juice. We have become suppliers for China during its tremendous economic boom. But this did not help to counter underdevelopment in Brazil. In other words we haven’t promoted structural shifts so as to foster investment and move toward a long-term and sustainable process of economic growth supported by increases in productivity and greater innovation.

RG: An instrument of social policy in the countries of Latin America, but not only there, is conditional cash transfers (CCTs) – monetary benefits reserved for the poorest segment of the population and received solely by those who keep to certain state guidelines – for instance, regular medical oversight in the case of breastfeeding mothers or monitoring children’s school attendance. The principal argument of advocates of conditional cash transfers is that these measures are an extremely effective way of reducing the proportion of impoverished people. You have concerned yourself extensively with the evaluation of conditional cash transfers – what have your findings been?

LL: CCTs like Brazil’s Bolsa Familia are undoubtedly necessary but they are no panacea, especially in the developing world. They reduce extreme poverty rates, but one should not link poverty solely to money. Those who are impoverished have many deficits – not only in terms of income. Poverty also encompasses such things as the access to decent housing, sanitation, medical care and good quality education. In my view, poverty rates in and of themselves are by no means sufficient evidence for judging the effectiveness of a social scheme. Here one would have to approach the matter with entirely different instruments, such as the Human Development Index, which along with per capita income also takes into consideration such criteria as life expectancy and years of schooling. But even this measure is insufficient in substantively laying out the content of poverty, which is ever-changing.
It is true in the case of Brazil that conditional cash transfer programs have had a positive and unexpected impact. Poor

children tend to perform relatively poorly in school and therefore often drop out. In an evaluation commissioned some years ago by the International Labour Organization and the World Bank, I found that in Brazil the stipends attached to school attendance legitimized the poor performance of low-income children – that is to say, they were allowed to remain in school even when their marks weren't very good. Hence dropout rates were reduced.

RG: Conditional cash transfers are also attractive from the political standpoint because they allow for a very favorable way of giving targeted aid to the poorest segment of the population. This argument that help for the poorest people should take priority over other measures can hardly be ignored. What is your view?

LL: CCTs are incomparably cheap. In Brazil the program accounts for 0.5 percent of the country's gross domestic product I don't think that cash transfers to the poor should be at the expense of other measures which are equally necessary. The main problem I see is that in concentrating on anti-poverty programs it will be impossible to reduce inequality. In Brazil we are a long way from a society in which everyone has the same opportunities.

RG: At the same time you concede in your articles that when CCTs were first introduced to Brazil the Gini coefficient – by which economists measure inequality – had clearly sunk for the country.

LL: The reason the Gini index fell is mainly explained by changes in the labor market and a strong policy of increasing the real value of the national minimum wage beyond simply adjusting for inflation. And added to that, the Gini index does not reflect the extent of discrimination in a society.

RG: An alternative to CCTs would be UCTs – unconditional cash transfers – financial aid that is not linked to certain conditions. Would that be a better option? Wouldn't one then simply forego incentives entirely?

LL: And so we return to our main topic. What is presented as an incentive should instead be regarded as a form of discrimination. Inherent in the CCTs is a notion of what makes the poor worthy of monetary support. Those who fail to meet the conditions attached to receipt of CCTs are judged as someone unworthy of the aid. Unconditional cash transfers have precisely the opposite effect. They create rights. Rights reduce the tension between poor and rich. But even when one looks at the available empirical evidence, the UCTs do not come off any more badly. This can be seen in the childcare allowance that is customary in many European countries. Parents who earn enough to provide for themselves but whose income is unable to finance their children are enabled by virtue of childcare allowances to forego any resort to social benefits – which must first be applied for. Social transfers with conditions attached function in exactly the opposite way – one must first "qualify" as indigent and then apply for assistance to receive support: The main consequence of CCTs is to reduce demand of social benefits in a time of austerity policies. It is therefore manifest that unconditional benefits find their way to a larger number of vulnerable and destitute families than do CCTs.

RG: What are other alternatives to political measures?

LL: It is crucial to preserve the public provision of goods and services such as healthcare, pensions and education from elementary school to the university. Education should not be seen as an investment but as a right. No one should have to obtain it through loans and debt. If you work purposefully to have more women in the job market then this is a measure that also is fast and effective in helping poor households. For this it is urgent to guarantee full-time schooling, care for the elderly, and daycare for infants. The so-called gender friendly policies require huge investments in the social reproduction realm which go in the opposite direction of austerity measures that cut off fiscal spending. A further instrument is a progressive tax reform that relieves the lower-income brackets and moves the burden onto the wealthiest segment of the population. This could be effected through a reduction in value-added tax on certain consumer items that are overrepresented in poor households' consumer baskets and instituting a progressive income tax so that the higher income brackets are more greatly encumbered. And then there would still be the possibility of introducing an unconditional basic income.

RG: How would these last measures rate with respect to the evaluation criteria that you have especially emphasized – the reduction of discrimination and unequal opportunity as well as the elimination of poverty in a more comprehensive sense?

LL: An unconditional basic income would not significantly reduce inequality, for every citizen would receive a transfer of equal amount. But it would foster solidarity and a sense of affiliation. Poverty in the sense of income deficits could also be eradicated. Whether a basic income would likewise effect an improvement in the provision of schooling or medical care depends on the conditions under which the citizen can access these services. If an unconditional basic income is to be provided in the midst of privatizing public services and goods – a current trend in developing countries – then social policy might just serve as a collateral to access the financial market to buy insurances or take out loans, whose modalities and credit lines, by the way, spread every day. One can easily foresee the outcomes: mounting debts will deepen economic vulnerability and lead families to a constant renegotiation of debt as an alternative to marginalization. Social inclusion will be dependent on financial inclusion. Households and individuals will then continue to internalize the notion that financial markets and the dependence on credit could provide a response to their concerns and their needs. Insecurity and continuous crisis will make life a nightmare for large segments of the population. This bleak scenario is not a fatality; it may be prevented if we reinvent welfare capitalism.

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