INCOME TRANSFER DURING CRISIS: LESSONS FOR EUROPE FROM THE LATIN AMERICAN EXPERIENCE

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Abstract

Many scholars have looked for similarities between the crisis in the Eurozone and those registered in the past in developing countries and particularly in Latin America. Problems of balance of payments, public debt, overvaluation of the exchange rate and unregulated capital inflows are frequently mentioned to compare common features of different crisis events. Also, Continental European countries are following similar austerity policies and processes of welfare state retrenchment and labour market segmentation than Latin America in the past, but under different institutional context and levels of economic development. The paper will discuss common features of the Latin American past crises and current crisis in the Eurozone in order to situate the role of income transfers programs in these processes. In particular, I will argue that giving the increasing power of international organizations and the growing division among workers and citizens, during crisis time there is more room for conditional cash transfer programs than for Basic Income schemes.

Keywords: Crisis, austerity, monetary policy, welfare retrenchment, financial cycle.

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1. Latin American and Eurozone crises: similarities and differences

Many scholars have looked for similarities between the crisis in the Eurozone and past crises in developing countries and particularly in Latin America (some of them now labelled as "emerging market economies")[2]. Problems of balance of payments, public debt, overvaluation of the exchange rate, unregulated capital inflows and social policies adjustments are frequently mentioned as common features of several crises events. Less mentioned are similarities on austerity policies promoted by international organizations and social policy adjustments.

The use of the term "periphery" for some of the less developed Eurozone countries signals the presence of some comparable features[3]. After denying at the beginning the very existence of the crisis in the Eurozone and then arguing that it could be solved easily since there were no risk of contagion from smaller countries to the rest, governments and European authorities (including the ECB) moved to the centre-periphery explanation for the crisis. Using this rhetoric, they blame some less-developed Eurozone countries for the crisis given their monetary and financial dependency on the most developed Eurozone partners (Légé and Marques Pereira, 2013).

The advice for the Eurozone peripheral countries, as in past Latin American crisis, is to apply healthy fiscal adjustment and austerity measures in order to convince financial markets that they have the power to pay their debts. Indeed, many of the policies required by the Troika to the European peripheral countries are well-known in Latin America: the institutionalization of rules for fiscal policy which restricts the room for counter-cyclical macroeconomic policy manoeuvre, the adoption of structural reforms such as privatization of public enterprises, de-regulation of the labour market, retrenchment of social policies, etc.

However, in spite of these common features, current institutional framework and international position of Eurozone countries are not the same as those in Latin American countries. For instance, in past Latin American crises the absence of a lender of last resort in international currency raised the exchange rate risk as well as the risk of default on debts in international currency (both private and public). In contrast, in the

[2] Emerging market economies could be seen as developing countries that have inserted into the expanding international financial system after implementing policies of deregulation and liberalization of their financial is systems and capital accounts.

[3] It is worth recalling that Latin American structuralism school has popularized this dichotomy in order to stress the heterogeneity and dependence relations of capitalist development (Prebisch, 1981).

Eurozone there is no exchange rate risk[4]. The main source of negative financial feedback effects in the Eurozone countries seems to be the risk of default of public debts due to an “internal” political problem: the reluctance or inability of the European Central Bank (ECB) to play a credible role of lender of last resort for member countries.

Also, many differences can be found on social protection systems. Even when social rights are legally established for most of Latin American citizens, in practice only a few groups enjoyed the benefits and the insider-outsider conflict appeared as a structural problem in the region (Lo Vuolo, 2012).The informal economy explains an important part of these results constraining the possibilities for “de-commodification” and limiting coverage for a large proportion of the population which remains outside the reach of social insurance systems. The informal economy works as low-cost manpower provider (and fiscal credit) for employers trying to avoid paying the “political” increase in wages and the costs of the social wage.

Taking into account these similarities and differences, Latin American experience can teach some lessons for current processes in the Eurozone. The first one is that austerity measures are not effective to seduce financial markets, resume growth and alleviate debt burden. Secondly, these policies directly affect the central supporting pillars of the welfare capitalist system, meaning employment and fiscal expansion. As a result, increasing heterogeneity in the labour market is created, making more difficult to apply policies like Basic Income (BI); instead, this scenario creates a favourable environment for a growing divide between those “deserving” social security and those “assisted” with conditional cash transfer policies.

Some scholars argue that there is a sort of convergence among countries in Latin America and Europe around the key objectives of a “social investment” perspective (Jenson, 2010, 2012). Policies under the social investment label could range from workfare to promoting early childhood education, in –work benefits, extended public services, etc. In the case of Latin American countries, this convergence is identified with the tendency toward the expansion of Conditional Cash Transfer programs (CCT). This is a confusing way of looking at these programs which, in some countries, have generated substantial improvement in coverage for income transfer policies.

[4] At least until a country member decides to quit the monetary zone

A confusion of the same sort can be identified when some people argue that these programs could be seen as a first step towards the implementation of BI in the region. As I argued elsewhere (Lo Vuolo, 2012a, 2012b), there are no solid foundations to believe neither that BI is gaining legitimacy in the region as a result of CCT's expansion. Indeed, CCT appear as competitors of the BI proposal insofar as they present themselves as directed toward similar objectives, but are organized under opposing principles: focalization versus universalization, conditionality versus inconditionality, fiscal disintegration versus fiscal integration.

CCT programs are a common component of many logical results of the crisis and the increasing power of international financial organizations. Crisis and austerity pro-cyclical policies nurture a scenario of increasing heterogeneity in the labour market, income distribution and the whole society. This scenario undermines the legitimacy of universal and homogeneous policies reaching the whole population. In a time of severe economic hardship, "insiders" protected under welfare state policies feel that their living standards are declining while the number of "outsider" rises, and their lives depend more than ever on sometimes discretional social transfers.

Accordingly, since crisis and austerity policies under the international financial organizations advices (the so-called *Troika*) are nowadays advancing in some Eurozone countries, what can be expected is a growing divide between "deserving" and "non-deserving" citizen. In this scenario, more population will fall out of traditional welfare state coverage and will look to receive an increasing number of assistance cash transfer programs.

The debt burden and the pressure to obtain support in the financial markets is an effective tool to impose more "residual" components in the welfare state regimes. Latin America shows that the development of conditional assistance schemes is the logical consequence of this scenario because they can get legitimacy both from insiders and outsiders. They are cheap in fiscal resources, they create the perception that the problem of exclusion is already attended and they pay good dividends in political terms. In this way they have more chances to be legitimized than the BI proposal.

2. Latin America: financial cycle, austerity policies and social policy adjustments

2.1. The financial cycle in peripheral Latin American economies

Since the beginning of the financial globalization, and until the first two years of the 2000s, Latin American countries experienced two big waves of crises (Frenkel, 2013)[5]. With the exception of Argentina in 1995, under the currency board exchange regime, these crises ended up in devaluations and in some cases, some type of bail out and restructuring of the domestic financial systems was also applied, including the refinancing of private debts (supporting significant fiscal costs).

Each wave of these past crises was preceded by booms of capital inflows expanding liquidity and credit and feeding bubbles in financial and real assets thanks to the implementation of macroeconomic policies imposed by international organizations under the pressure to obtain their support in financial markets (Frenkel 2012). These policies typically included the liberalization of the capital account of the balance of payments, the liberalization of the local financial market and some sort of exchange rate fixation (pegs or active crawling-pegs).

At the beginning, the resulting expansion of aggregate demand led to output and employment growth, along with non-tradable price increases. In general, these price increases provoked an appreciation of the real exchange rate which reinforced capital inflows seeking to obtain quick rent given the financial arbitrage between domestic and foreign assets. This in turn fed back into the real economy, accelerating the expansion of credit and output growth.

In Latin American countries, the contracting phase usually began by a stop of capital flows combined with the persistent increase in the current account deficit and the narrowing trend in international reserves. These processes threatened the exchange rate management and increased the probability of default of the foreign debt issued in international currency. This is because the sustainability of that type of debt has a specific default risk associated to the potential lack of liquidity in foreign currency. This shortage can force debt default even when the government has resources in domestic currency, due to the lack of a lender of last resort in foreign currency. In brief, in financial-led growth the crises emerged as the culmination of the same processes that

[5] The first one was in the early 1980s and the second one began in 1995 with the Mexican and Argentine crises, followed by the Brazilian currency crisis in 1998. The last ones were Argentina and Uruguay financial and currency crises in 2001-2002.

caused a growing optimism and encouraged greater risk-taking in the boom phase (Aglietta, 2012; Boyer, 2000).

This contracting phase reinforces itself because higher risk premiums and higher interest rates are needed to attract foreign capital. Thus, the economic activity shrinks even more, further illiquidity and insolvency reduces the credibility of the exchange rate policy and increases the default risk. In this scenario, even after adjustments have been made in the external sector, a large proportion of the financing needs must be covered from capital markets. In Latin American countries the contracting phase ends in a financial and exchange rate crisis because the fall of foreign currency reserves in the Central Bank leads to changes in the exchange rate regime and commonly a bail out or some type of debt restructuring.

Paradoxically, financial crisis reinforces the power of financial organizations and the State has to rescue all economic agents, including banks in the first place. Here enters the IMF, the World Bank and other international institutions which appear as lenders of some money but mainly as the guarantors that countries will apply the "healthy" policies needed to gain the financial market confidence. But the growing power of financial organizations and international institutions is not only for "financial" reasons, but to push for "structural" change of the whole society. This includes in the first place the labour market and the social protection systems.

2.2. Austerity pro-cyclical policies and the Welfare State

Past economic and social crisis in Latin American countries teach that the alleged expansionary effects of low wages and austerity measures have been no more than short-lived episodes. Pro-cyclical fiscal policies and welfare state retrenchment have proved powerless to overcome the strong depressive tendencies at work during financial crises. Experience teach that following these policies the crisis became systemic, affecting every part of the economy: banks, firms, households, states. The lesson is clear: the longer you apply austerity measures, the worse it can be[6].

[6] The long recession makes the Argentine case particularly relevant in the analysis of the implementation and effects of the pro-cyclical fiscal policies during crisis periods. At the end of austerity measures Argentina not only defaulted its external debt but also suspended debt payments to private creditors for about four years. Also, the crisis resolution involved a huge devaluation and the bail out and restructuring of the domestic financial system, favouring the refinancing of private debts in the country.

During the 1980s and 1990s most countries in Latin America were used as a kind of laboratory for austerity policies and social policies retrenchment (Lo Vuolo, 2005). The prescriptions included a joint impact of strongly pro-market rhetoric, passive monetary policy and restraints to fiscal policy, openness to international flows of trade and capital, and several deregulatory measures in the markets of goods, finance, and labour. Deregulation of labour relations was a key element of these prescriptions and an increasing number of people started to fall out of protected work patterns, while wages and labour costs decreased sharply.

The results were outrageous. The distribution of income worsened all over the region (Cepal, 2010). During the 1990s the Gini index increased in almost every Latin American country (except for Colombia and Uruguay). At the beginning of 2000s open unemployment averaged 9 per cent, showing a marked growing tendency, with peaks of 20 per cent in Argentina and 16 per cent in Uruguay, Colombia and Venezuela. Public employment dropped and employment in low productivity services increased. Far from the sustainable growth promises, the economic and social situation worsened and the second wave of crises affected many countries first around 1995-1997 and then in 2001-2002.

Also, structural economic heterogeneity has intensified during this period in the region nurturing more labour market segmentation, lowering labour security measures and reducing labour costs (and purchasing power). Subcontracting, part-time work or jobs without contract, reduction of public employment, the expansion of jobs in microenterprises, domestic service and self-employment, excessive working hours for some groups, were all part of the reconfiguration of labour markets, which do not lead to the results preached, but to a downward flexibility of wages in the formal and informal labour market (Lo Vuolo, 2009). More people fell out of “normal” work patterns and we see no decline in the size of the informal economy across the region.

More insecure labour relations and a closer connection between contributions and benefits in social security (including privatization) were some of the recipes to boost financial markets, growth, workers’ effort and employment. The universalistic aim of social policies was confronted with the argument that it did not serve in the best interest of the poorest groups. Thus, social policymakers were advised to set aside such universalistic aims and boost private social insurance. The “over-protection” that certain categories of workers enjoyed within the social security system helped legitimize policies to reduce benefits and foster selectivity, despite the social insurance legacy. The poorest groups would receive residual subsidies by means of social assistance programmes when they prove need trough a means test.

Austerity measures are not a wise road to follow during crisis, even if one seeks to seduce financial markets because the risk perception depends mostly on conjectures about the behaviour of the rest of the financial market and of international institutions (including the ECB). Debt sustainability becomes then a self-fulfilling prophecy of the average opinion of the market. It can change for many “exogenous” reasons and contagion effects are important sources of volatility.

Indeed, the economic recovery of the region in the last decade does not come from austerity policies but sprang from domestic demand policies in a very favourable international context: a growing global economy, low interest rates, capital flows, high commodity prices, migrant remittances, etc. In this international context, some countries rise domestic demand by means of minimum wage, public expenses, credit, etc. Thus, since the end of the economic crises of 2001-02, most Latin American countries (the remarkable exception is Mexico) have experienced an important recovery in GDP levels, which was particularly strong until the global crisis of 2008-09. In most cases, redistribution from public policies returns to the agenda as a result of economic growth and new social programs[7].

In brief, the Latin American experience shows that the most probable effect of austerity policies is neither growth nor debt burden reduction, but the increase of distributional conflicts. These conflicts emerge fostering a dangerous social political climate of winners and losers and making it more difficult to sustain the old welfare state’s social pacts.

This scenario feed a generalized practice searching to make inventories and catalogues of different “populations in risk,” after which a set of appropriate techniques to cover them are discussed and applied. From here derives the widespread adherence to a strategy of combining transfers targeting children with obligations to be fulfilled by parents, which allegedly augment the individual capacities of future generations to

[7] While the definition of “left-leaning” governments can be controversial, many scholars consider the centrality of redistribution as an evidence of the resurgence of the Latin American left (Levitsky and Roberts 2011).

overcome poverty. The growing importance of assistance focalized and conditional cash transfers policies are the logical result of this scenario.

2.3. Crisis and income transfer programs in Latin America

Since the 1990s the region witnessed a general tendency to set up focalized poverty alleviation schemes with separate administration and mainly related to some test of poverty. From here comes the generalized spread in the region of the so-called Conditional Cash Transfer programs (CCT)[8]. These programs have been implemented by most governments, whether they are right-leaning or left-leaning, pro-market or pro-State.

Even when every country accounts for its own antecedents and trajectories, the operating rules of these programs show common features: (i) monetary transfers (in some cases complemented with in-kind transfers); (ii) targeting of poor and/or extremely poor households with children and adolescents (some programs do permit household categories without children); (iii) punitive conditionalities linked to school assistance and health checks of both children and adolescents, and for pregnant women; (iv) a preference for transferring the benefit to mothers; (v) the selection of beneficiaries according to geographic priority zones, self-identification, means and/or needs tests, etc. The most striking issue about CCT programs is that they transfer incomes to that part of the population that is economically dependent, instead of the portion that is economically active.

CCTs attempt to attain two formally declared objectives. In the short term, they aim to decrease families' income poverty; in the long run they aspire to increase human capital formation in younger generations to improve future employability and break the cycle of inherited income poverty. Such a scheme supposes that the rate of return of fiscal expenditures on conditional income transfer programs would be higher with the transfer directed to the children, and compliance with conditionalities vouched for by their parents (World Bank 2009). These declared objectives are indicated in order to include these programs within the so-called "social investment" strategy.

[8]In 2010, the ECLAC databases recognized CCT programs in 18 countries in the region, covering over 25 million households (roughly 113 million people), with an average cost of 0.4% of GDP (Cechini and Madariaga 2011).

However, critical evaluations of CCTs point to numerous problems which are far from the social investment strategy goals (Lo Vuolo, 2012): the arbitrary selection of beneficiaries, interference in people's lives, political clientelism, the stigmatization of recipients, an inability to achieve universal coverage or act preventively in terms of income poverty, the fomentation of poverty traps and of informality, etc. Moreover, CCTs receive criticism since both the means test applied and the benefit level consider the whole family, while compliance with conditionalities in practice becomes the exclusive responsibility of women (Rodríguez Enríquez, 2012). Targeting also ends up reducing the demand, through access cost (self-targeting), multiplying horizontal inefficiencies (i.e., part of the target population is covered, while part is not) and vertical inefficiencies, allowing for evasion (i.e. some families are included as poor without actually being poor).

In practice, the potential to increase human capital formation is uncertain. Conditions for access to cash transfers appear more appropriate for the containment of public spending, especially given that the state falls far short of providing a broad and diversified set of decommodified services in adequate quality and quantity. Conditional cash transfers to the poor remain, in many ways, too close to the poor law traditions (Aguirre and Lo Vuolo, 2010).

Past and recent experience of the region shows that the potential to achieve universal inclusion through separate, targeted, and contribution-based schemes is inherently limited. Indeed, the spread of CCTs cannot overcome the formal–informal divide prevailing in the region, and its impacts on the levels of social protection and income inequality.

Moreover, CCTs do not imply a major change in the expenditure structure, insofar as their spread has been correlated to country size and they represent a minor proportion of social expenditure. In practice, with CCTs social policies continue to focus on a short and medium-term distributive conflict rather than on broad-based capacity-building and institutional change.

3. The Eurozone: financial cycle, austerity policies and social policy adjustments

3.1. Financial crisis in the Eurozone "periphery"

Crises in the Eurozone countries were also preceded by capital inflows. In contrast to the US and similar to Latin America experience, these capital inflows resulted from a change in a major “non-national” macroeconomic policy: the creation of the Monetary Union operated as a strong incentive for arbitraging between core and peripheral Eurozone countries’ assets since it reduced the interest rates spreads and promoted a sort of risk convergence[9]. The lowered cost of credit produced huge capital inflows in countries where high interest rates had long made credit scarce and capital inflows accelerated because risk convergence took place when global credits have expanded by new financial engineering all over the world.

Similar to the Latin American economies, countries in the Eurozone issue debt nominated in a currency they do not emit. In this aspect the Euro works as a foreign currency for every Eurozone economy. Thus, financial markets also speculate about the capability of some European countries to pay their debts in Euros, as in the past they speculated about the capability of Latin American economies to pay their debt in foreign currencies.

It can be rightly argued that in the Eurozone the economic cycle is different than in Latin America because –in principle- the exchange rate risk plays no role in the portfolio decisions leading to capital outflows neither have capital flows been directly influenced by the evolution of external accounts; indeed, Eurozone countries do not carry stocks of international reserves and do not have risks of devaluation. But, on the other hand and for many reasons, the ECB has not eradicated the possibility of default on public debts (at least for the financial operators) and, as in past Latin American crises. Thus, public debts in the Eurozone do have a specific liquidity risk of default similar to that of public debts issued in foreign currency in Latin America and a large proportion of the financing needs of the debtor Eurozone countries must be covered with funds from the financial markets.

This financial dependence is behind the the centre-periphery explanation for the Eurozone crisis (Légé and Marques Pereira, 2013). For governments and the Troika, the crisis is a problem of financially dependent Eurozone peripheral countries and will not last if they applied healthy fiscal adjustment and austerity measures in order to convince

[9] Interestingly, after the European Council ratified the list of countries eligible for admission (May 1998) in few months the spread between the 10-year interest rate on public debt in Spain and the German rate fell from 5 per cent to zero (Aglietta, 2012).

financial markets that they have the power to pay their debts. For the IMF and its partners, all crises look similar since all indebted countries need a loan, and all need to make big changes in order to pay the debt and live within their means after a period of excess expenditure.

In this way they do not consider that the crisis is mainly the result of a faulty institutional design root embedded in the Maastricht Treaty of 1992. The main problem is that the Euro is incomplete as a currency, for its sovereign guarantor has not been realized. Each Eurozone state is responsible for the capital it has invested in the ECB, but not for its overall solvency. Briefly, "the Eurozone has a central bank without a government, governments without central banks and banks without an effective lender of last of resort" (Toporowski, 2013). Instead of adjusting this faulty institutional design, political authorities insist to push those austerity measures and fiscal adjustments that did not work in past Latin American crises.

As the Washington Consensus in developing economies, the rhetoric of the Troika spreads the idea that these austerity measures will have a net expansionary effect on output due to the positive effects on private expenditures. These positive effects would result from the impact of these measures on expectations and credibility of the financial markets. However, in practice this rhetoric hides the main objective of austerity policies: debt payments.

In the absence of the possibility of devaluation, due to membership of the monetary union, austerity policies seek to force what is called an "internal devaluation" of domestic prices (labour costs in the first place). Competitiveness should be obtained by low wages and from here came the belief that austerity policies and wage reduction will lead in the future to growth and more employment.

In this way governments in the Eurozone, as in the past Latin American crisis, choose to confront domestic social and political conflicts arising from austerity policies, worsening the economic performance, in order to send conventional "positive" signals to financial markets. But, as the Latin American experience shows, even this narrow objective is difficult to attain.

The most probable effect of austerity policies is neither growth nor debt burden reduction, but the increase of distributional conflicts. The growing divide between winners and losers erodes the pillars of the old welfare state's institutional arrangements and social pacts. In particular, what can be expected is the growing importance of assistance focalized programs.

3.2. Austerity policies and welfare state retrenchment in the Eurozone

Continental European countries are currently following similar processes than Latin America in the past, but under different institutional and economic development. Since the early 2000s, a wave of reforms has been developing showing new trends in social protection: *Activation of the unemployed, the limitation of early exit, measures for increasing the participation of women, older workers and unskilled workers are amongst the biggest innovations. Important pension reforms have also been adopted, aimed at further reducing the cost of public pensions and at favouring the development of private fully funded complements. In health care, in the countries with a health insurance system, more regulatory power has been given to the state, and more competition between health insurances is being introduced.”* (Palier, 2010, 356).

In this context, austerity policies are accompanied by a rising debate about the alleged inequality impact of the welfare state itself. The argument is that some of the core institutions of the traditional welfare state itself are effectively responsible for the economic divergence between low and high skilled workers. For instance, minimum wages are said to be particularly harmful to the employment chances and hence (relative) living standards of less-skilled workers. Meanwhile, and even when labour markets have not been deregulated wholesale in Europe, the number of “atypical” or “nonstandard” employment relationships has risen sharply, as has the number of working poor (Palier and Thelen, 2010). The emergence of a secondary labour market made of (and for) various nonstandard employment relationships resembles what is a structural feature in Latin America.

Crisis and austerity policies in the Eurozone are accentuating these processes and widening differences in earnings between low and high skilled workers. Unemployment risk and gender inequality is an additional dividing line in the insider-outsider conflict in the labour market emerging from austerity policies. In many parts of Europe, women unemployment risk is considerably higher than that of men and this divide is exacerbated by the cutbacks in public sector jobs, where women make up the majority of the workforce. Meanwhile, in the private sector, where women tend to have reduced paid opportunities across the board, low-wage jobs are growing.

Overall, as in Latin American countries, these processes have reinforced the distinction between workers who are still linked to the core labour market (even if temporarily unemployed) and those who are moving away from it. Thus, pressures for the development of a secondary type of welfare protection emerge (Palier and Thelen, 2010).

As was the case in Latin America (Lo Vuolo, 2002), pensions are in the centre of the welfare state retrenchment in Europe. The crisis reinforced cost-containment reforms tightening eligibility conditions, strengthening the link between contributions and benefits, increasing retirement ages, changing indexation rules from wages to prices, etc. (Kohli and Arza, 2010). Recent reforms in Europe have strengthened the link between the amount of contribution and the volume of the benefits (through a change in the calculation formula and/or stricter entitlement rules) and usually meant a shift away from redistributive (horizontal and vertical) toward actuarial principles and a potential reduction in the coverage of social insurance.

Similar to the Latin American experience, but in a different context, in Europe many of social and labour policy changes are been framed as part of a distinction between what type of social benefits and who should remain in the world of occupational social protection (and be financed through contributions) and what type of social benefits and who should be transferred to the world of social assistance, aimed at those with atypical employment situations (and financed through taxation). As in Latin America, retrenchment in social insurance programs thus reinforces dualism and fragmentation in social benefits to the extent that it is accompanied by a clarification of responsibility, and a shift in funding as the welfare system has come to rely more heavily on taxation to support the (non-contributing) working poor.

While unemployment insurance benefits are generally limited in time, unemployment in Europe is becoming to a large extent structural in nature. Moreover, many of the structurally unemployed are not even entitled to unemployment insurance benefits, since they have earned no or insufficient social entitlements.

In this scenario, social assistance schemes that in the past were implemented as a residual and temporary social safety net for very small population groups in Europe have now become a quasi-permanent source of income to large sections of the population (Palier, 2012). As a result, most European countries have either created or expanded and generalized minimum income guarantees, either as a general safety net, or as specific minimum incomes.

The expansion of assistance focalized programs show preferences for a meritocracy that allegedly expresses itself in terms of success in s more heterogeneous labour market, in the punitive conditions that the counterparts demand beneficiaries to comply with, and through the institutional separation between contributive and non-contributive policies are some strong elements among them. These preferences vary between countries, as do institutional configurations of their welfare regimes, but generally they are present in most cases.

The assistance cash transfer programs is the easiest and cheapest way to preserve traditional conceptions of meritocratic social protection system adding the perception that the outsiders are “being attended”. This scenario increases the dilemma of horizontal solidarity in countries where labor ethics have always been the prevailing value, which share the social insurance ethos.

In the Eurozone the priorities seem to be debt payments, the rescue of financial institutions, and the preservation of the core structure of social security regimes. Under these priorities the legacies of the meritocratic structures become relevant in the construction of a system of preferences on the basis of which alternative policies are accepted or dismissed. BI finds many obstacles to be accepted in this scenario of a more heterogeneous society with a legacy of meritocratic social protection ideology.

4. Final remarks for the BI debate during crisis time

Latin America experience can give some elements to analyse the crisis in the Eurozone, austerity policies and the role of BI in this scenario. Some important things had changed quite fundamentally in the Eurozone societies or are in the process of doing so, and these changes are consistent with a growing divide between winners and losers as in Latin America during the Washington Consensus hegemony and its current legacy.

Austerity policies are a comparable element of how governments act during crisis time following recommendations and pressures from international organizations.

As in past Latin American crises, indebted Eurozone governments are taught that the way out of the current crisis is either through the reduction of wages or the social wage to recover competitiveness. In both cases governments chose to face domestic social and political conflicts in order to gain financial markets confidence about debt payments. However, Latin American past experiences suggest that the longer you apply austerity measures, the worse it can be even for debt payments.

In spite of the rhetoric searching to seduce financial markets in order to restore growth, austerity measures do not result in long-lasting recovery but they are the practical form to impose insecurity in labour markets, to cut social security coverage benefits and to advance more regressive income distribution. In this way the very nature of the welfare state institutions and social pacts are gradually and structurally changed.

As a result, Eurozone countries are facing more structural labour market exclusion, more low-paid employment, high levels of involuntary unemployment, and benefit dependency among those of working age. These are not transitory features of or a transitional economy but are becoming permanent elements of Eurozone countries. Instead of a temporary cyclical change on the labour market, the increasing number of atypical workers, the development of long-term unemployment and the growing numbers of outsiders is becoming a durable phenomenon in Europe that necessitates a permanent answer. In this way, the Eurozone seems to be institutionalizing a new type of fragmented social protection system, resembling what has been the case for a long time in Latin America.

As in the case of Latin American countries, this could feed a tendency to make inventories and catalogues of different “populations in risk”, paving the way for the expansion of different assistance schemes to cover some selected vulnerable population groups. Crisis and the need of income compensation do not necessarily mean that people and governments would support the universal and unconditional organizing principles of the BI proposal.

On the contrary, Latin America shows that during crisis time the most probable outcome are conditional targeted programs to be verified bureaucratically. This outcome is consistent with a more stratified society that favours administrative control over subordinate population groups. People tend to support redistribution but conditionally on what are viewed as admissible causes of fortunes and misfortunes, and on the perceived behavior of potential beneficiaries (.

By contrast, a social protection system based on the universalization of coverage with unconditional and homogeneous benefits, as is the BI proposal, is more consistent with a scarcely stratified society that stimulates increased autonomy in people's exercise of their rights. BI aims at achieving universality in coverage, preventing actual or future poverty, and constructing a base on top of which people can accumulate any additional income, reducing thereby the space for selectivity and discrimination. This grants a greater potential for strengthening personal autonomy as well as economic and political independence of the individual. This is not a purely technical issue; rather, it expresses profound differences in the conception of the way public policies should be organized.

However, most of the merits of BI can be overshadowed during crisis mainly because the society became more heterogeneous. During crisis time, for BI defenders the tricky question is how to persuade governments and people to shift perspective from a technology to struggle against poverty to an approach of (re)constructing the whole system of social protection under universal and unconditional principles. In this aspect, this seems to be the central lesson for Europe from the Latin American experience.

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