

Social Public Spending in the Countries That Comprise the Andean Community of Nations (CAN)

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Abstract The Andean Community of Nations (CAN) is a South American economic and trade block that includes four countries: Colombia, Ecuador, Peru, and Bolivia. At the beginning of the 1990s, these countries made a bet for a higher economic growth through international trade. At the end of the decade, goals were prioritized and were oriented to improve the quality of life. It is in this last scenario that social policy takes a protagonist role in an environment of integration. According to that context, the aim of this work is to develop the following research question: Is social spending reflected in the improvement of quality of life conditions?

Results show a social spending growing tendency that has helped to reduce poverty levels, but an inadequate quality of life persists allowing to argue for a promising future. For example, analphabetism has been eradicated, but the education cycle is incomplete; mortality has decreased, but there are morbidities since two centuries ago (tuberculosis).

Keywords Public spending • Social spending • Social investment

1 Introduction

This research, developed by the authors within the research group (*Grupo de Investigación Economía y Desarrollo*, GIED), intends to draw a radiography, under an analytical and descriptive perspective, about the public spending and the social situation, especially in health and education, of the population from the CAN and its countries (see Fig. 1), from 1990 to 2010. It also compares decades which allows it to envision the changes in international paradigms that allowed guiding the improvements in the population quality of life. From that moment on, poverty is understood as a gap that requires a good economic dynamic in order to be

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Fig. 1 Andean Community of Nations (Reproduced from www.wikipedia.org)

eradicated; however, it is necessary to establish social policy goals so that the social spending takes a protagonist role in the policy actions to achieve welfare.

Results show the average behavior from the CAN in terms of social investment, not making exhaustive comparisons among countries due to the lack of disaggregated information, seeing the relative goodness from one another.

This document comprises five sections, including introduction and bibliography. The second section covers the theoretical context of social policy; the third section analyzes the macroeconomic priority indicator of social spending in the CAN countries with some social outcomes; the last section consists of concluding remarks.

2 Social Policy

During the mid-twentieth century at the London School of Economics and Political Science, Richard Titmuss stands out as the first professor who took an academic position about social policy, where social democratic ideas supported his theory that states that the government should take responsibility for the social welfare (Reisman 1997). However, there are multiple definitions of social policy (Donati 1985), among these are the following.

Montoro (1997) conceptualizes that social policy must be understood in a context of design and structured and planned implementation of all initiatives taken to address a series of needs considered basic for the population. In the same context, Quispe (1997) suggests that such policies should be directed toward overcoming poverty.

It could be said that, in a more precise way, Ortiz (2007) observes social policy as an instrument used by governments to regulate and supplement the market institutions and the social structures. In this respect, Midgley and Livermore (2009) state that policies adopted by governments meant to improve citizens' welfare are those so-called social, essentially those associated to health, education, housing, and income.

In this way, social policy is founded on the figure of the rule of law that contains a political, legal, and fiscal disposition to carry out programs intended to generate conditions for welfare. Nevertheless, it is not enough with these intentions; in addition, it requires some minimum conditions of society, like social cohesion (Midgley and Livermore 2009); the key part of this process is to motivate people for their performance in the society and the economy (International Monetary Fund, IMF 1998).

Social policies are a fundamental part of the set of public policies to organize a regulation that complements market institutions and social structures, ensuring redistribution of wealth, protection, cohesion, and social justice (United Nations Research Institute for Social Development, UNRISD 2011).

Social policy is divided in equity policies and social efficiency and compensation social programs. The first ones are addressed with integrity to motivate individuals (it comprises direct action plans in health and education for the entire population); the second ones develop explicit actions on the most needy and cover closing gaps on health and education, as well as housing, safety, and environment (Aponte 2008).

Likewise, these policies can be directed to specific groups or to the total population. Social policies should not be seen as a set of measures that apply in all cases, in all countries, and at all times; there are different circumstances that make each region to obtain different outcomes to the same social policies.

In this regard, in order to implement the social policy, Ortiz (2007) specifies that the environment variables are relevant to understand communities and achieve acceptance of such actions; in that sense, building a social diagnostic allows policy makers to understand and know what needs, obstacles, and risks are present.

In this sense, the importance of the size of national development is highlighted in order to make the most among the feasible with the available resources and avoid creating unachievable expectations that lead to macroeconomic imbalances (Ocampo 2010). These are the features of the concept of basic universalism (Molina 2006) or goods of social value (merit good).

In addition, Ocampo (2008) emphasizes that focalization should be seen not as a substitute but as a complement to universalization; in that sense, in a broad way, the best focalization is the universal social policy.

Therefore, social spending philosophy as a social policy instrument should be understood like the one who intends to close social gaps and scope welfare, which

result from exclusion and rivalry market in the distribution and access of goods and services that meet the basic needs of the population. Hence, the budget allocated to social spending is considered as *social investment*, to the extent that in the medium and long run, they have an impact on improvements in the society quality of life in the quest for equity, poverty reduction, and welfare (Cardona 2011).

3 Social Spending in the CAN Countries

This section shows the results in social spending of the countries that comprise the CAN during 1990–2010. In this regard, it is pointed out that despite the effort made by the *Comisión Económica para América Latina y el Caribe* (CEPAL) in order to consolidate this information in a more uniform way, some discrepancies persist in terms of aggregation by type of spending and government basis which refers to central national government, nonfinancial public sector, and consolidated government; likewise, not all countries have data for the period studied; in this sight, it is not relevant to venture into deep comparative analysis within countries.

Social investment in the CAN sums just over 40 billion dollars (2005) in 2010. The formation of this expense through the years shows the following general characteristics: According to CEPAL data, Colombia is the country with the highest relative weight within the CAN countries (around 66%); education is a very important social spending (around 33%) that is losing relevance during the 2000s as social security spending defines a notable and increasing trend in its participation (around 40%). In terms of countries, the general logic tends to be followed with some particularities: in the case of Peru, through the years, spending on housing acquires a very positive dynamic, while spending on social security, although it is important, is losing dynamic; in the case of countries like Ecuador and Bolivia, spending on education is always the predominant.

The total social spending trend as a proportion of gross domestic product (GDP) is growing strongly in the CAN until the end of the 1990s; from there, even though a higher peak is reached, it softens, increasing 2.70 percentage points compared to the previous decade (Table 1). Social spending per capita behaves similarly, following spending track as a proportion of GDP, but slightly higher than the last phase of the latter. This indicator increased on average 117 dollars during the analyzed decades, ranking in 318 dollars (2005) in this century, equivalent to a 60% increase, approximately.

In terms of countries, in the early 2000s, Bolivia stands out by making a major social effort that allows it to achieve higher percentages (around 18%) than the others: Colombia (around 12%), Peru (around 9%), and Ecuador (around 6%).

Since the category of social security (the most important group in the whole CAN) is complex and given that education and health potentiate personal and productive development of the population, the main achievements are summarized involving the adequacy of housing as a variable that affects population's health.

Table 1 Social spending in the CAN

Indicator decade	Total social spending – millions of dollars 2005	Total population – millions of people	Total GDP – millions of dollars 2005	Social spending per capita – dollars 2005	% social spending – GDP
1990–1999 (average)	16,055	79	198,177	201	7.87
2000–2010 (average)	29,851	93	279,698	318	10.57
Difference	13,796	15	81,521	117	2.7

Source: GIED elaboration based on Cepalstat data, CEPAL in <http://www.cepal.org/estadísticas>

Table 2 Life expectancy at birth

Country/year	1990–1995	1995–2000	2000–2005	2005–2010
Bolivia	60.1	62.1	63.9	65.4
Colombia	68.7	70.3	71.7	72.9
Ecuador	70.1	72.3	74.2	74.9
Perú	66.8	69.3	71.6	73.1

Source: GIED elaboration based on Cepalstat data, CEPAL in <http://www.cepal.org/estadísticas>

About health, life expectancy in the countries of the CAN has increased over the period, being higher for women, led by Ecuador, while Bolivia is the country with the lowest rate; however, Peru is the country that has gained more years of life (6.3 years between 1990 and 2010) (Table 2).

Consequently, the mortality rate has decreased between 1990 and 2010 for all countries in different age groups of children and adults of both sexes, with Bolivia showing rates well above other countries. The main causes of death among children under 5 in recent years are prematurity and other diseases, while deaths from congenital anomalies are increasing. Meanwhile, conditions that lead to adult deaths are mainly cardiovascular (especially in Bolivia) and cancer (mainly in Peru) (Organización Mundial de la Salud, OMS 2012).

Other morbidities that require specialized care are human immunodeficiency virus (HIV) and tuberculosis; likewise, tropical diseases persist: malaria and mumps. In this panorama, Colombia stands out in all cases except tuberculosis, morbidity that has affected the most Peru and Bolivia (OMS 2012).

Now, housing characteristics are related to the issue of health. The percentage of the population living in slums (however, about 90 % of the urban population of the CAN has access to improved water sources), even though it is decreasing, is still high, especially for Bolivia and Peru, although the latter has been making a major effort in its reduction.

Regarding the satisfaction of education, some facts are detailed in subsequent paragraphs.

Through the period of analysis, illiteracy has declined considerably in the CAN. Particularly, Colombia has the lowest rate (6.6 % equivalent to approximately three

million people), and Ecuador is the country that at the end of the period has the highest level for this indicator (17 % of the population, corresponding to 2.5 million people). Still, it is important to notice that even though in percentage Colombia has almost a third of Ecuador's illiteracy, Colombia exceeds by 500,000 in the number of illiterate people of Ecuador when expressing illiteracy in absolute values.

The characteristics of this indicator show that, in general, in rural areas illiteracy is more emphatic. Considering sex, Colombia is the only country where women have a lower percentage of illiteracy than men, whereas the difference in points by sex in Peru and Bolivia is large. In general, according to CEPAL data, illiteracy rate (it refers to the population over 15 years) in 2009–2010, arranged from the biggest to the lowest, is around 17 % (Ecuador), 10 % (Peru), 9 % (Bolivia), and 7 % (Colombia).

On the other hand, the situation is not as positive when the population in the four countries of the CAN does not cover secondary education, even though the coverage has improved vividly (over 80 %), which generates a dysfunction to potentiate access to higher education and technical preparation for the job market. In this sense, the average years of schooling for the population over 15 years old show that Ecuador has obtained better results in this indicator (9.2), followed by Peru (9.1); at a disaggregated level by areas, in the urban area, the order is inverted, leaving Peru in first place with 10.9 and Ecuador with 10.7, while in the rural area, Ecuador is again in the first position (6.3), followed by Peru (5.8). It is emphasized that Colombia is the country with the greatest deficiencies in this topic (8.6), while Bolivia outstands by its good progress (8.7 in 2009).

Lastly, although poverty has been reduced, it has not been the same so with inequality gaps: The Lorenz curve shows signs that overall inequality is high, stressing that Colombia has as much inequality as Bolivia, whereas Peru and Ecuador are less unequal (Fig. 2).

In that sense, the priority evolution in social spending for the CAN countries follows the implementation of policies intended to similar objectives, somehow influenced by the international environment that has been sheltering policies and strategies in order to eradicate extreme poverty, accompanied by specific social development policies promoted by the governing members of the CAN (see CEPAL-ILPES 2011 and General Secretariat Andean Community 2011).

Nevertheless, the implementation of the social policy in general follows the dynamic of the economy, fiscal priority of spending, and public finance conditions of the countries. During the 1990s, social spending had a pro-cyclical trend, while in 2000, in the upcoming Millennium Development Goal (MDG) policy, in general, this spending became countercyclical, supporting the fight against poverty and strengthening social protection, existing particularities according to the economic and social policy that frames each government in each economy (see CEPAL 2010, 2012).

Therefore, most of the national development plans (during the period of study) assign importance to goals about quality of life and accomplishments of equity and welfare, where the generation of productive employment, the provision of more and better social infrastructure, the access to education and health, and the substantial

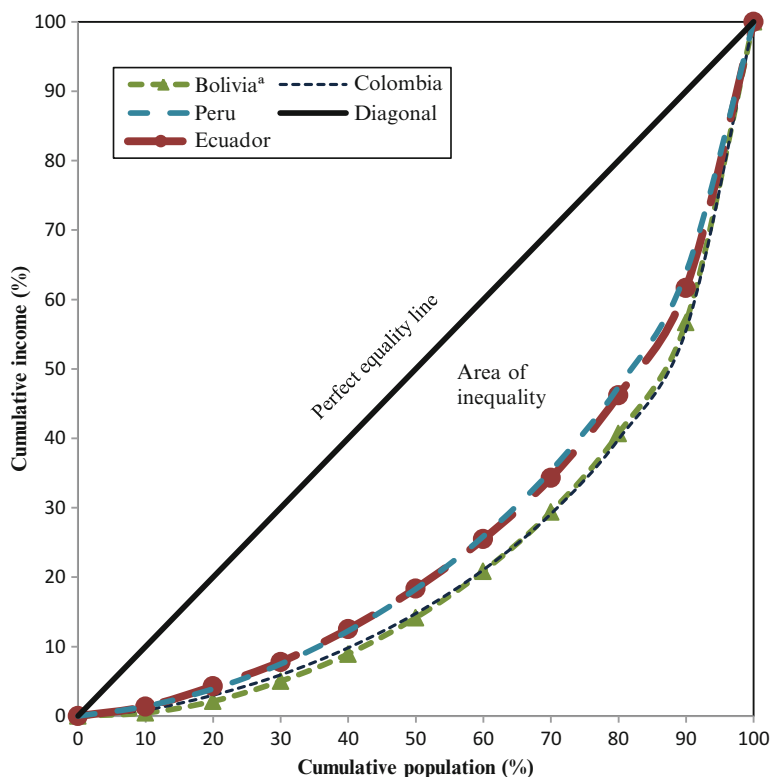


Fig. 2 Lorenz curve of the CAN countries 2010 (Source: according to <http://www.cepal.org/estadísticas>)

shrinking of poverty, among others, constitute pillars of public managements of governments.

Similarly, common plans and programs (not necessarily identical) are intended as a strategy for social development of the Andean population, contained mainly in the following topics, which acquire specific priorities at different times: democracy and human rights; social integration and poverty eradication; woman, child, and family; health and nutrition; environment and basic housing needs; education, science, and culture; productive employment and the economics of solidarity; and social security (General Secretariat of the CAN 2011). Though it should be noticed that this has been a long process of discussions and agreements, which the specification of a single canon was not possible in the period 2000–2010, it has let to start the design of themes for social integration.

On this matter, the second version of the Andean Social Agreement (1999) defined the following themes: youth, childhood, and adolescence; seniors; and indigenous people and Andean blacks and African people. As shown, the clarification of the themes is taking the way to vulnerable focus groups, later synchronized

with the MDGs and the emphasis on climate change, biodiversity, and food security, committing each of the country members' government and their communities, especially through the Andean Social Agreement.

In these terms, social policy of the governments of the CAN is guided on the criterion of relatively boosting policies that maximize social impact referring to help existing gaps, but not necessarily to prevent the formation of these gaps, leaving this to the market, as space to generate opportunities for inclusion. In this way, for example, the analysis by CEPAL-ILPES (2011) on development plans in Latin America in this century states that although a common denominator is the exposure of inequalities reduction, decreasing poverty, and better standards of quality of life, it is also true that in their diagnostics, it is present the persistency of structural poverty, which parts of the endowment of public services and quality employment for all people, facts that are true paths, since as you go about its solution, the spending becomes.

4 Concluding Remarks

A relevant finding in this study is the fact that the fiscal effort in the CAN countries has been important, tracing an increasing tendency of total social spending as a share of GDP, as well as per capita social spending, especially to the late 1990s.

The per capita GDP of the CAN shows an increase among the decades, going from US\$1,996 in 1990 to US\$3,036 in 2010. By country, Colombia has the highest (US\$3,955 in 2010), while Bolivia is the opposite case (US\$1,191). By 2013, the per capita GDP of the CAN stays below 4,000 dollars.

In addition to the increase in the per capita GDP, social spending has allowed to improve living conditions, but still not enough to close social gaps, resulting in keeping poverty, though the indicator tends to decrease; for example, currently (2011–2013), the country that shows the greatest improvement in the Gini index is Bolivia with 0.472, and the level of education required, in order to potentiate the population as human capital, is still very weak (in any country, the achieved number of years of schooling has increased more than 0.4 point, getting a maximum of 3 or 4 years of secondary education).

As a result, long-term social conditions are not so clear, and, therefore, the possibility of reaching ideal states of inequality and welfare is limited; this will be the trend if policies continue being essentially directed to specific groups. It must generate a complementarity between the types of policy, which seems to have been abandoned during recent years in the CAN.

However, it is important to mention that within the context of integration, it has begun to establish pillars for social integration and this has allowed to talk the same international language of social character that results in consistent development plans among the governments of the four countries and respecting their specificities.

A policy recommendation for the best life, without the need of innovation in thought, just requests to put the symbiosis economy-society into practice. To break

inequalities at the level of populations with all its characteristics, as well as between the territories, is an imperative act since there are disparities, and the most developed economies end up absorbing the problems of other countries, the fact that in the long run is counterproductive inside this big region and for its neighbors. In other words, positive convergences are important.

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