

Michèle Amacker
Monica Budowski
Sebastian Schief

Financial Crisis and Precariousness

Perceptions and Changes in Households in Precarious Prosperity in Chile and Costa Rica



PHILOSOPHISCHE FAKULTÄT

philosophische



Structure

1. Introduction
2. Latin America and the crisis
3. The institutional background
4. Institutional responses to the crises
5. Concepts and theses
6. Empirical analyses
7. Conclusion

Introduction

- Latin America coped relatively well with the financial crisis (when compared with other regions of the world)
- Nonetheless, economic crisis was destabilizing
- Economic, political and social outcomes are uncertain
- **Focus of research: how do households in positions considered prone to risk perceive and face this crisis in Chile and Costa Rica?**

Introduction

- Chile and Costa Rica
 - ^ Comparatively developed welfare regimes according to coverage rates, degree of institutionalisation of social assistance, size of social expenditure
 - ^ Differ in terms of welfare regimes
 - ^ *Chile*: productive liberal-informal regime;
 - ^ *Costa Rica*: protective social-democratic-informal regime

Introduction

- *Protective welfare states* have roots in a political economy that has eschewed emphasis on international markets and focused government efforts on decommodification.
- *Productive welfare states*, place high priority on commodification and are located in systems where states have actively encouraged international participation.
- Put simply, the welfare state will either support a workforce that meets efficient production goals or it will prioritise the system of (re)distribution

(Rudra, 2007, 17–18).

Introduction

- Assumption: Perception of the crisis and attribution of household's situation or events vary both
 - ^ by the economic situation of each country and
 - ^ by the differing type of welfare regime and its institutional reactions to the financial crisis based on the different regime types, i.e. to what extent households are buffered in times of crisis (decommodification)
- To what extent do households adjacent or above the poverty line (not in secure prosperity) perceive the financial crisis? Do they relate their actual situation to the financial crisis?

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Latin America and the crisis

- Latin America has experienced several economic crises in previous years
- Latin America and the two countries, Chile and Costa Rica, were struck harder by former crises than by the actual one
- Chile has the strongest economy in terms of macro economic figures
- Costa Rica resembles a welfare state, where retrenchment is being experienced due to privatisation endeavours

Latin America and the crisis

- Main effects of actual crisis (Klein 2009):
 - ^ risks in each country and the refinancing costs increased during the crisis, but decreased again to the level of 2006/07 in 2009.
 - ^ the stock prices fell rapidly in 2008 and have not recuperated
 - ^ food prices increased in the beginning of the crisis. The rise of prices was stopped, but they tend to be more volatile now.
 - ^ low growth rates and rising unemployment have aggravated poverty
- Specific effects and risks of the crisis in Chile and Costa Rica were classified as 'medium'

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Institutional background

■ Chile

- ^ Neoliberal reforms in the past three decades
- ^ Some social reforms without changing the general structure
- ^ Productive welfare regime
- ^ increased risk and insecurity in times of crisis for middle class
- ^ Successful economy

Institutional background

■ Costa Rica

- ^ No radical neoliberal reforms
- ^ Protective welfare regime
- ^ Less successful economy
- ^ Decline in quality of social services (health, education)

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Institutional responses

- A variety of counter cyclical economic and social measures possible:
 - ^ Monetary and financial policy
 - ^ Fiscal policy
 - ^ Exchange-rate and foreign-trade policies
 - ^ Sectoral policies
 - ^ Labour and social policies
 - ^ Multilateral financing

Institutional responses

■ Chile...

- ^ has taken action in four out of six areas
- ^ Main aim was to stimulate the economy
- ^ only social policy established in Chile was a single payment of 70 US\$ per child in March 2009 (*bono marzo*).

Institutional responses

■ Costa Rica...

- ^ action in all six areas
- ^ CR' social policies were slightly more extensive than those of Chile.
 - E.g. CR increased the spending on social affairs (food, transport, education and housing).
- ^ Non-contributory pensions of the social security fund rose by 15%.
- ^ In the 37 poorest districts,
 - Children's meals were offered on weekends.
 - Extension of the *Avancemos* program that offers educational grants to young people.

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Concepts and thesis

- ‘precarious prosperity’ / ‘vulnerability to poverty’
 - ^ Socio-economic positions adjacent/above the poverty line (4th/5th/6th decile) (Solimano)
- ‘household strategies’:
 - ^ household is first resort for help
 - ^ Household strategies’ options are framed by opportunity structures (welfare-regimes)
 - ^ Options further depend on household’s resources, assets and risks

Concepts and thesis

- Perception of crisis visible in household changes and their preception:
 - ^ narratives of change, e.g. about loss or change of employment, lower income, not risking a change in employment,
 - ^ Reference to public discourse about crisis
 - ^ increase of feelings of insecurity from t1 (before) to t2 (after the crisis).

Concepts and thesis

- Previous presented information:
 - ^ Chile's economy was less affected than Costa Rica's
 - ^ the countries vary with regard to their welfare regimes
- Perception depends upon opportunity structures:
 - ^ Perception of the state: Chile (non-reliance) vs. Costa Rica (retrenchment)
 - ^ Importance of labour market: high in both cases, but more optimistic in Chile than in Costa Rica
- Two different thesis to interpret perception:
 - ^ welfare regime difference (CR less threatened by the crisis than CL) versus
 - ^ economic development of the country (CR more threatened than CL)

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Empirical Analysis: the Data

- 21 households (identified through random-walk screening) in each country
 - ^ 1st interview before the crisis: May to July in 2008
 - ^ 2nd interview: October to December in 2009
- Same socio-economic position: around/adjacent to the poverty line (precarious but not poor)
- Qualitative interview (60-120 minutes, transcribed, analysed by thematic frame analysis)
- Retrospective and prospective data

Chile and Costa Rica

This empirical analysis is based on
52 Interviews

From each country:

- Qualitative interviews (n=21) 2009
- Qualitative interviews (n=6) 2008, 2009

Empirical Analysis: Chile (21 cases)

Was crisis mentioned at t2?

- Few referred to the crisis on their own; approx. half of the 21 households do so when asked about it
- How do they tell us about the crisis? Narrations of
 - ^ *direct experiences*
 - ^ *indirect experiences*
 - ^ *different observations of actors, interests or (unexpected) consequences of crisis*

Empirical Analysis: Chile (21 cases)

■ Examples: Perceptions based on *direct experiences*:

- ^ Well, ... **they closed a branch location** and this led to **moving the employees who had worked there longest to another location and all the others were laid off**. It was, more than anything, **the crisis that the whole country is experiencing presently**. Well this has not affected only us, but many more people ... **this year has been a very bad year** ... (CL23, 2009)
- ^ **We used to go out every month to eat, to let the children play**; this year we didn't do this. You need money to go eat and use the games. **So you feel restrictions in these things**, ... (CL11, 2009)
- ^ Well, **I just adjusted** ... bought cheaper merchandise so that the people can afford it (CL15, 2009)

Empirical Analysis: Chile (21 cases)

Examples: Perceptions based on *indirect experiences*:

- ^ Regarding economic issues, **nothing happened**, but from time to time work became less and they began to become frightened, ... (CL01, 2009).
- ^ Where I work, **it was worst last year in December** ... they dismissed many many people. And they let everyone go on vacation in January, February, ... and very few people remained working. ... **I left [due to pregnancy] and my colleagues tell me that nothing much has changed since** ... (CL08, 2009).

Empirical Analysis: Chile (21 cases)

- Perceptions based on *observations of actors, interests or (unexpected) consequences of crisis*:
 - ^ Everything has remained as always, and **thinking more towards the future**, we would like to build a **union** to defend ourselves, because we don't have one yet (CL16, 2009)
 - ^ Yes, **supposedly we are in crisis**: The people say 'oh, we are in crisis', but there are clients and clients (CL11, 2009)
 - ^ Interestingly, **as long as I have been working in this trade, we have most work in periods of crisis** ... because then the people don't have the money to buy new things and have their old things repaired (CL20, 2009).
 - ^ **I have not felt anything, neither crisis nor any improvement, nothing**. We have always lived in the same way. Well, this might be because we, I don't work, so I don't depend on this; **I depend on the income from the insurance** (CL15, 2009).

Empirical Analysis: Chile (6 cases)

- Indepth analysis situates the previous quotes somewhat differently. It suggests:
 - ^ Many actual problems and felt insecurities in the household are not due to crisis; many are already present in 2008: e.g. political situations; long-term debt problems; health problems, familial situation; non-crisis related job insecurity etc.
 - ^ In some cases in 2008 existing 'feelings of insecurity' received the label 'crisis' in 2009.
 - ^ If not asked, little direct reference is made to the crisis in 2009

Empirical Analysis: Chile (6 cases)

Example, 2008 precarious; 2009 more precarious:

- ^ The stability of my job it is very bad. Where I work they dismissed 250 people **when the mayor changed. The mayor was from the Concertation party and the new one belongs to the Alliance party.** Well the mayor said he did not dismiss anybody, but **he just didn't prolong the existing contracts**, it is just a different way to see it ... But thanks to God, I could keep my job **but with an incredible insecurity, because they even committed illegal things with our contracts** ... (CL06, 2009).

Empirical Analysis: Costa Rica (21)

Was crisis mentioned at t2?

- approx. one third of the 21 households do so when asked about it, yet mostly entangling food and gasoline crisis with financial crisis
- We find the same types of narrations, yet lacking those on indirect experiences
 - ^ *direct experiences*
 - ^ *different observations of actors, interests or (unexpected) consequences of crisis*

Empirical Analysis: Costa Rica (21)

Examples for perceptions based on *direct experiences*:

- ^ Well, I would say [my enterprise] didn't go well ..., I am loosing about 500'000 Colones or more, and for such a small enterprise ... it is a lot ... **because quite a few people have not paid because their situation is not good, or because they don't have the money, or for this or for that** (CR07, 2009).
- ^ ... and those that paid me 10'000 Colones [formerly] now pay me 5'000 and those who paid me 5'000 now pay me 3'000, so all the returns on debts turn out to be low and the good people pay, but imagine those who it is difficult to get to pay ...(CR13, 2009)

Empirical Analysis: Costa Rica (21)

Perceptions based on *direct experiences*:

- ^ ... it is difficult, **now with the crisis it is difficult, because he has tried to find another job, but as the labour market is difficult,** so he hasn't been successful yet, **we will wait,** but meanwhile **he will have to stay where he is as long as we need the money** (CR13, 2009)

Empirical Analysis: Costa Rica (21)

Perceptions based on *observations of actors, interests or (unexpected) consequences of crisis*:

- ^ **they [the government] is already thinking about a day when you are not allowed to use the car on a Wednesday**, but then you can work a Monday or on a Saturday ... **I will be able to work on a Sunday**. But the crisis will really affect us, and the economy ... (CR20, 2008).
- ^ The problem was that the company was participating in the bid, but another company came and offered everything much cheaper, so **due to the famous crisis, [the company] decided to reduce costs and contracted the new company** (CR16, 2009).

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Empirical Analysis: Costa Rica (21)

Perceptions based on *observations of actors, interests or (unexpected) consequences of crisis*:

- ^ I heard there was **much help for micro enterprises** as a result of the crisis, much **help for** example for lone mothers. I myself am handicapped, but I have not heard of a programme that says ‘well, because you are handicapped, we will help you’, **but I have heard of banks saying ‘well, if you want a credit, here we will lend you money for your micro enterprise ... but please prove that your micro enterprise is good for the country**. If the project is good for the country then we will lend you money, if not, then not, so this is really a very subjective criteria: ‘what is good for the country?’ (CR20, 2009).

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Empirical Analysis: Costa Rica (6)

- The indepth analysis of narratives in t1 and t2 contain
 - ^ information of rising costs, the difficulties to obtain a stable contract with decent pay, various layoffs yet
 - ^ In most narratives, this perception is not restricted to the year of crisis, nor is the crisis explicitly mentioned.
- We also find :
 - ^ Various situations that have been stabilised (formal work and private entrepreneurs)
 - ^ Perception of economical decline in CR
 - ^ Criticism towards the 'protective' state

Empirical Analysis: Costa Rica (6)

- Example
 - ^ **The economic situation has deteriorated substantially**, really, ... and **the basic food basket's prices are going up and up**, ... (he was dismissed after 25 years of service), no, he postulated in the newspapers **and many people called him and offered him more money, but this one was the most stable job, stable**, and he is very happy there, we hope they will give him a raise ... (CR01, 2009).
 - ^ Well at least **my income has decreased substantially, substantially**, I earned much more years back, **but the situation has changed** and my husband has started a new job, because he left the other one, so he is starting and is earning like those who enter a new job (CR09, 2009).

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Conclusion

Question:

- How is the crisis perceived in Chile and Costa Rica and to what are the perceptions more related: the general economic situation or the welfare regime?

Conclusion: CL

- CL: narratives of large layoffs in factories, narratives of restrictions (both appear ‘temporary’)
- CL: Long-term debts (with credit cards) are a recurring problem (much less in CR) and lead to situations that are aggravated during the year of crisis (e.g. bankruptcy of a newly opened business).
- CL: Some trades benefit “because then the people don’t have the money to buy new things and have their old things repaired” (CL20, 2009).

In the narratives yet not quoted here:

- CL: Problems are related to school and health costs
- CL: The state is not considered for help

Conclusion

- CR: households allude more relevantly to the food and gasoline crisis than to the financial crisis
- CR: Many narratives containing layoffs are not associated to the crisis; stability of jobs and accommodation is valued; various households were able to improve their situation
- CR: Many narratives refer to a deteriorating economic situation
- CR: Criticism is heard in CR towards the state’s protective stance for formal workers (yet not in CL).

Conclusion

- CL and CR talk about crisis only when asked
- CL and CR: **formal stable jobs are strongly valued**, even if less is earned: because it makes possible. In CR it enables social and health insurance.
- CL: deteriorating economic situation is strongly present in CR narratives; in CL narratives the economic situation is less salient and references to the crisis are more focused, e.g. on large factory layoffs, on constraining everyday life (leisure).
- CL: labour market and income related events that could be attributed to the crisis are not; others that appear to be long term problems (e.g. debts) are attributed to the crisis; i.e. long-term problems or feelings of insecurity receive the label 'crisis'.

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Conclusion

- To what are the **perceptions of crisis** more related: the general economic situation or the welfare regime and its reactions?
- The answer: **the economic situation.**
 - ^ CL households perceive the economy as temporarily struck by the crisis;
 - ^ CR households perceive economy as deteriorating in the long term

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Conclusion

However: other problems were at the forefront of the interviews:

The **welfare regime reflects indirectly** in the problems:

- ^ Visible in CL in encompassing narratives of payments for private health and school, and in not being able to rely on the state for help; complaints about low quality state services
- ^ Visible in CR in wanting at least one person of the household to have a formal job (ensuring social assistance coverage for the household members); complaints about waiting lines for health services due to Nicaraguan immigrants.

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■ Thank you for your attention!

■ Contact:

Michèle Amacker

Monica Budowski

Sebastian Schief

Division of Sociology, Social Work and Social Policy

University of Fribourg, Switzerland

E-Mail: [michele.amacker \(at\) unifr.ch](mailto:michele.amacker@unifr.ch)

[**monica.budowski \(at\) unifr.ch**](mailto:monica.budowski@unifr.ch)

[sebastian.schief \(at\) unifr.ch](mailto:sebastian.schief@unifr.ch)

Website: <http://lettres.unifr.ch/sopa>