Welfare and redistribution in Latin America: Toward a New Model?

Michelle Dion
Department of Political Science
McMaster University
Hamilton, ON L8S 4M4

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Comments welcome:
dionm@mcmaster.ca

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Michelle Dion, McMaster University

In the last decade, research on social policy in Latin America has multiplied tenfold. However, few clear patterns have emerged despite the large number of new studies, especially on social policy since the 1980s. For example, several quantitative studies examining the relationship between economic globalization, particularly trade and financial liberalization, cannot seem to agree on under what circumstances and to what extent economic liberalization contributes to either the contraction or expansion of spending on public social security, health and education.[1] Similarly, qualitative studies have documented both retrenchment and expansion of social protection policies, including public pensions and social assistance.[2]

This paper contends that the apparent contradictions and ambiguity in social policy change since the 1980s reflect an overall shift in public welfare policy away from social insurance toward maintaining minimum benefit floors and expanding targeted social assistance or means-tested noncontributory benefits. The paper also suggests that this pattern of change can be best understood as a product of economic liberalization, political liberalization, and social policy legacies. These three factors intersected in ways that shaped both efforts to retrench or privatize social insurance and expand social assistance or insurance coverage and benefits for low-income groups.

To illustrate this pattern of change and the role of these factors, the paper compares social protection policies in Argentina, Brazil, Chile, and Mexico since the 1980s. These countries were chosen for several reasons. First, these countries reflect a variety of corporatist arrangements in Latin America. Collier and Collier (1991) characterize Chile and Brazil as cases of state incorporation of labor into national politics with little labor mobilization and Argentina and Mexico as cases of party incorporation where labor was mobilized for political support. Second, the countries vary with regard to their labor endowments and social homogeneity. Chile and Argentina are relatively smaller, with more limited indigenous populations and less abundant labor, and Brazil and Mexico are large countries with abundant sources of labor available from large rural or indigenous populations. Third, the countries also exhibit variation in the sequencing of economic and political liberalization since the 1980s and their party systems post-democratic transition. Finally, these countries exhibit variations in the existing welfare institutions, and thus policy legacies, at the beginning of the debt crisis. Despite these variations, this paper suggests that in these cases economic and political liberalization of the 1980s and 1990s, through its impact on labor markets and the political influence of organized labor, have contributed to the partial retrenchment of social insurance and expansion of social assistance or non-contributory benefits. Cumulatively, this shift,

1 See for instance Brown and Hunter (1999); Kaufman and Segura-Ubiergo (2001); Rudra (2002); Avelino, Brown, and Hunter (2005); Wibbels (2005); Segura-Ubiergo (2007); and Rudra (2008).

2 On pensions, see Kay 1999; Madrid 2003; Brooks 2008. On social assistance, see Cornelius, Craig, and Fox 1994; Bruhn 1996; Graham 1997; Schady 2000.

to the extent that it has occurred in these countries, suggests a shift away from a commitment to universalizing social insurance toward universalizing residual or minimum benefits.

Theoretical argument: globalization, democratic institutions, and policy legacies

Current and capital account liberalization in Latin America accompanied economic globalization in the 1980s and 1990s. In the 1980s, trade integration often occurred earlier than financial integration. In comparison, foreign direct investment and gross private capital flows changed little prior to 1990, but grew significantly throughout the 1990s. Economic globalization can have two contradictory *direct* effects on welfare regimes: creating retrenchment pressures or expanding compensation for labor market dislocations (Garrett 2001; Kaufman and Segura-Ubiergo 2001; Rodrik 1998; Brown and Hunter 1999; Rudra 2002; Avelino, Brown, and Hunter 2005; and Wibbles 2006). In the simplest version of the retrenchment argument, international economic integration heightens economic competition, forcing states to compete and reduce functions and expenditures (Strange 1996). Trade integration and FDI create incentives to reduce costs, particularly labor taxes that fund social insurance, to maintain international competitiveness (Tanzi 2002). Similarly, portfolio investment, largely in government debt, pressures governments to minimize social spending, or at least shift toward “efficient” expenditures, such as targeted social assistance (Mosley 2000). Consequently, governments are inclined to maintain social assistance programs while retrenching social insurance. Meanwhile, current account openness is also hypothesized to lead to greater compensation for market risks via social insurance (Cameron 1978; Garrett 2001; Kaufman and Segura-Ubiergo 2001; Rudra 2002). However, in Latin America increased openness has coincided with social insurance retrenchment (Kaufman and Segura-Ubiergo 2001; Wibbels 2005; Brooks 2008). While compensation is usually understood in terms of social insurance, it can take the form of noncontributory social assistance that develops human capital and promotes global competitiveness (Kaufman and Segura-Ubiergo 2001).

Additionally, in Latin America economic integration *indirectly* impacts welfare policy by way of changes in the domestic labor market. First, economic integration usually coincided with flexibilization of the domestic labor market, an expansion of low productivity sector or informal sector employment, and high levels of unemployment (Kurtz 2004). Changes in the labor market reduced the proportion of workers eligible for social insurance due to growth of the informal sector while increasing the need for social assistance due to high levels of unemployment and poverty. Second, the changing structure of the domestic labor market eroded the organizational base and mobilizing capacity of labor unions and their political claims that they represented a large proportion of the labor force, especially in the tradable sectors most affected by economic liberalization (Kurtz 2004; Burgess 1999). In this way, economic liberalization did not have uniform effects across all types of formal sector or unionized workers (cf. Murrillo 2000). Meanwhile, employers, especially in tradable sectors, augmented their political capacity due to their central role in the new development model. These shifts in the political capacity of domestic actors suggest that social insurance retrenchment is most likely to occur for tradable sectors but may be blocked by nontradable sectors, and that social policy emphasis shifts toward the preferences of local employers.

To the extent that globalization studies predict welfare regime transformation, the politics of retrenchment are different from that of welfare expansion (Pierson 1996). The costs of social insurance retrenchment are often concentrated among beneficiaries, while the potential macroeconomic benefits are dispersed. The costs of social insurance reform can also be concentrated among public health care workers, whose positions may be threatened by privatization or retrenchment efforts. These beneficiaries and workers are likely to be better organized than informal and rural sector workers, who are usually covered or organized. In contrast, the costs of social assistance expansion are often dispersed because general government revenues fund targeted social assistance, and the benefits are concentrated among new beneficiaries in the growing population of unorganized urban and rural poor outside the formal labor market. In short, while the costs of social insurance retrenchment are narrowly concentrated among highly organized sectors and the potential benefits are dispersed, the costs of expansion of non-contributory social assistance are widely distributed and the benefits are concentrated among unorganized rural and poor sectors.

Democratic institutions also shape the relative capacity of domestic actors to influence policy outcomes. These four countries experienced some form of political liberalization or process of democratization during or after the debt crisis. Democratization produces electoral competition and often an increase in the number of political parties represented in the legislature. Electoral competition changes politicians' incentive to provide social welfare by creating opportunities to garner voter support with the promise of expanded welfare (cf. Skocpol 1992). Competition may also create incentives for politicians to diversify the types of benefits they provide voters (Magaloni, Diaz-Cayeros, and Estévez 2007). On the one hand, selective or excludable benefits targeted to voters may be more common at low levels of electoral competition, whereby parties with monopolies or near monopolies use clientelism to deter defection.[18] On the other hand, higher levels of competition may reduce clientelism in favor of providing nonexcludable goods, either universal or geographically concentrated "pork," especially when such goods are distributed by a centralized authority. This is because competition makes targeting and enforcing the clientelistic exchange more costly and increases pressures for transparency from opposition parties and their supporters.[3] With the combination of democratization and informalization of the labor market, social assistance—even without clientelism or explicit exchanges of benefits for political support—proves more adaptable for generating political support than social insurance.

Increased political competition multiplies the number of partisan veto players, or ideologically diverse parties in governing bodies, and increases the importance of institutional veto points, or the formal division of decision-making powers among branches of government (Tsebelis 2002). The effects of partisan veto players and institutional veto points can be different for retrenchment when compared to expansion of welfare. For instance, social insurance retrenchment is likely to be more difficult given the concentration of costs among a highly organized group that can block reform efforts when no single party controls Congress. Divided government may also make it more difficult for the executive to

3 Whereas clientelism hinges on excludability and particularistic benefits, nonclientelistic provision of benefits to generate political support are nonexcludable and uniformly provided according to criteria universally applied to all potential beneficiaries (Kitschelt 2000).

retrench social insurance significantly (Kay 1999; Haggard and Kaufman 2001; Madrid 2003; Huber 2005). In contrast, multiple partisan veto players and the lack of a single party congressional majority may contribute to the expansion of social assistance because, as recent studies suggest, social spending increases as the number of political parties increases (Swank 2002; Crepaz and Moser 2004). The logic of this argument suggests that partisan veto players in the legislature contribute to logrolling and higher social expenditures. This is especially likely for noncontributory, means-tested social assistance, for which parties can claim credit in subnational elections. In sum, the effects of globalization will be refracted through domestic political institutions. The likelihood of retrenchment depends on the ability of those who bear the costs to appeal to partisan veto players or to use institutional veto points to block reforms, while political parties seeking electoral support at the local and state levels may find social assistance both more useful in the context of competitive elections and easier to support in a divided Congress.

Existing welfare institutions also create strong policy legacies, or feedback effects, that shape future welfare change by creating stratification among different actual or potential beneficiaries and shaping expectations regarding benefits and policies (Skocpol 1992; Pierson 2000; Thelen 2004). Institutional change is especially likely to take the form of layering new institutions alongside existing institutions when beneficiaries of particular institutions block changes, and collective actors seek to create new institutions alongside old to serve their interests (Schickler 2001). The transformation of welfare in these four countries since the 1980s, which has occurred through partial retrenchment of social insurance and the creation of new social assistance or expansion of noncontributory benefits, reflects these tendencies. New welfare institutions were created to meet the needs of new political constituents and a new economic development model and as an alternative to reforms of ailing social insurance blocked by interest groups.

Comparing country experiences

Chile

Chile developed a complex set of social protection institutions during the first half of the twentieth century. Despite several efforts to consolidate and reform the social insurance system in the 1960s and first years of the 1970s, the system was still highly fragmented and stratified when the military took power in September 1973 (cf. Borzutzky 2002). Efforts as early as proposals in 1974 to privatize the pension system were blocked by Generals in the Junta opposed to neoliberal reforms. By 1978, General Pinochet had removed the more progressive military leaders, paving the way for the adoption of more neoliberal reform proposals, including pension privatization (Kurtz 1999; Borzutzky 2002; Castiglioni 2005). Social security reforms adopted in 1979 accomplished many of the goals that were politically untenable under President Frei: equalizing benefits, eliminating some of the most costly and privileged benefits, and increasing minimum retirement ages and contributions (Borzutzky 2002: 209). The more dramatic reform was privatization of the public pension system for all workers, except the military. The reform, implemented in 1981, replaced the defined-benefit, pay-as-you-go, public collective system with a defined-contribution, individual account, fully funded pension system administered by private pension fund administrators. Contributions for employers were eliminated, and the state guaranteed a minimum spension for workers making the required minimum contributions.

In contrast to the pension reform, the military government's health care reform proposal was delayed and diluted not only by resistance within the Junta prior to 1978 but also by the national organization of doctors, the Colegio de Médicos (CM). In 1979, the military merged the two largest public health providers—the SNS and the SERMENA—and regionally reorganized and decentralized health care (Castiglioni 2005). Faced with continued resistance from the CM, in February 1981 the regime decreed changes to the legislation regulating professional associations, such as the CM. The changes eliminated mandatory membership and the CM's prerogatives to participate in the health care policy making (Castiglioni 2005). Having significantly wounded the primary opposition to the regime's health care reform, the regime adopted a sweeping reform of health care later that year. The reform unified the health care system and allowed workers to use their contributions to receive benefits either from the public health care system or from private health care funds (ISAPRE). Most low income workers remained in the public system, while higher income workers would use their contributions and additional funds to buy better coverage from the private system.

The Pinochet pension and health care reforms were some of the most extensive reforms throughout Latin America. To some extent, the reforms illustrate the refrain that authoritarian regimes are able to adopt more extensive reforms because they are unhampered by veto players common in democratic systems (cf. Tsebelis 2002). At the same time, the comparison of pension and health care reforms under Pinochet demonstrates that even authoritarian regimes may face veto players, including members of the Junta (as in pensions prior to 1978) and societal organizations (as in health care). The comparison of pension and health care reforms also highlights the ways in which the two policy areas differ. As in Mexico, the health care reforms in Chile were diluted by resistance from organized doctors, and therefore, the reforms were less neoliberal or extensive than the pension reforms. Even in the context of the highly centralized and repressive Chilean military regime, doctors were able to act as a veto player and demand some concessions on health care reforms (Castiglioni 2005).

The policy reforms of the Pinochet regime also highlight the regime's understanding of the ways in which welfare institutions can create policy legacies or feedback that become the focus of state-directed action. Not only did the regime adopt reforms to the labor code in 1979 and the professional association code in 1981 in an effort to diffuse civil society organizations, but the regime also viewed privatization of social security and decentralization of health care as means to insulate the state from social demands. Quite explicitly, the pension reform was designed to remove the state as a target for social benefits and atomize workers' demands for pensions. Likewise, by decentralizing public health care services to municipalities, constituencies would be fragmented and the central state would no longer be a target of mobilization (Borzutzky 2002; Castiglioni 2005)

Since the democratic transition in Chile, successive Concertación governments have done little to abandon or change the basic welfare institutions inherited from the military regime. In the pension system, Concertación administrations in the 1990s and early 2000s increased the minimum pension guarantee and reformed the regulations on the investment options of private pension fund administrators (Castiglioni 2005; Taylor 2006; Oppenheim 2007). In March 2008, the Bachelet administration (2006-) succeeded in adopting a pension reform package that would increase minimum pensions, provide non-contributory pensions to those over 65 with incomes in the bottom four deciles (increasing to bottom six in 2009), allow women to provide survivor's benefits to male companions under certain circumstances, and give women contributions to their pension accounts for each child born or adopted (Rodríguez 2008).

In health care, Presidents Aylwin and Frei both continued the decentralization of services begun by the military regime (Castiglioni 2005). President Lagos (2000-2006) sought an extensive reform that would have required the private ISAPREs and public system to provide coverage for a uniform group of ailments and medicines, created a solidarity fund to subsidize low income workers, women, the sick, and elderly, and an increase in the VAT to cover some proposal costs (Borzutzky 2006). ISAPREs opposed the solidarity fund, while the CM wanted more wholesale reform with greater state provision and fewer regulations on treatment. The Plan AUGE approved in early 2005 was diluted from original proposal, and notably the solidarity fund was not included in the final version (Borzutzky 2006: 156-7). Though it is an ambitious program that, like Popular Insurance in Mexico, is designed to provide universal health insurance to all, including those not covered by social insurance, it also leaves a gap by not providing coverage to informal sector workers whose incomes exceed the means testing for coverage (Huber, Pribble, and Stephens 2008, 11). In 2002, a new unemployment insurance (UI) program was created. The program is based on an individual account model with a solidarity fund, and benefits decrease rapidly over time. The entire system is administered by a private insurance company (Borzutzky 2006). Employers supported the UI program because they believed it would eventually replace severance pay and enable them to more easily dismiss workers (Haagh with Bravo 2004). Therefore, even when the Concertación governments have expanded benefits, they have done so within the framework established by the military regime.

While democratically elected governments have sought to somewhat reverse the retrenchment of the Pinochet regime, their success has been hampered by opposition from powerful private welfare institutions, including the private pension fund and health insurance administrators. Furthermore, democratic governments have not fully overturned the Pinochet reforms that weakened the political capacity of labor unions and the CM (Castiglioni 2005; Taylor 2006). Thus, workers and doctors have not regained the welfare policy influence they held prior to the military regime and have been unable to effectively support Concertación government reform efforts.

Though Presidents Frei and Allende had both used targeted social spending, its use greatly expanded under the Pinochet regime. The regime used a politically motivated and highly restrictive definition of poverty, and eliminated many general subsidies to replace them with targeted ones (Taylor 2006, Chapter 4). Pinochet also cut social expenditures dramatically, such that the expansion of spending during the first Concertación governments was largely a restoration of spending cut by the military regime. Concertación governments have also continued the military regime's emphasis on targeting mean-tested social assistance. For instance, the Aylwin administration created the Solidarity and Social Investment Fund (FOSIS), which was funded through tax reforms and provided targeted anti-poverty benefits (Oppenheim 2007: 191). The program was not aimed at eliminating income poverty but instead at indigence and “those marginalized by the labor market” (Taylor 2006, chapter 8). New targeted social programs proliferated in the 1990s, with an estimated 125 different programs in 1996, of which most were created after 1990 and two-thirds were targeted (Raczynski 1999). For example, the Frei administration (1994-2000) created the National Plan to Overcome Poverty, which had a territorial, rather than sectoral, organization. The program was discontinued due to low political legitimacy in 1996 (Raczynski 1999). In 2004, Chile Solidario was adopted as a targeted poverty alleviation program to address the needs of the extreme poor. Though the program has had some success in reducing extreme poverty, the program’s overall budget and impact have remained small (Huber, Pribble, and Stephens 2008, 11).

The net result has been a transformation of Chile’s welfare regime that privatized and retrenched benefits exist alongside an expansion of non-contributory benefits for the poor. That is, not only has retrenchment and privatization of social insurance functions occurred alongside a growing emphasis on non-contributory benefits and targeted social assistance, but this shift has coincided with the disarticulation of organized labor as an effective advocate for welfare policies. At the same time, however, there has been a much more sustained effort to introduce equity enhancing reforms into the social insurance system in Chile, particularly due to the reforms of the Bachelet administration. The Bachelet administration’s pension reform sought to address inequities created by the private pension system but ultimately mostly took the form of expanding the safety net for those who would not otherwise be eligible for a minimum pension(Ewig and Kay 2008). While powerful private interests prevented more extensive reforms, the result was layering of new protections for those vulnerable or likely to be excluded from the existing system (Ewig and Kay 2008).

Argentina

By the 1980s, Argentina had an extensive social insurance system that provided legal coverage to all workers, though coverage was lower in certain sectors and regions (Golbert and Lo Vuolo 1989: 129-131). Following the 1983 transition to democracy, social security reforms remained on the national political agenda, including reforms to the both the public pension system and the Obras Sociales. In the mid-1980s, the government sought an integral health insurance reform that was resisted by unions, which sought to maintain control of Obras Sociales and higher contributions. The reforms adopted in mid-1987 reflected compromises between the government and the CGT. The unions maintained control of the Obras Sociales, contributions were raised, and the government managed a solidarity fund to redistribute among Obras Sociales (Pérez Irigoyen 1989: 179-180). In the early 1990s, reforms increased the latitude of Obras Sociales to negotiate contracts with private healthcare providers (Barrientos and Lloyd-Sherlock 2000: 418-419). At the same time, while negotiating the public pension reform (see below), the Menem government repeatedly threatened to deregulate the Obras Sociales in order to win union acquiescence to the government’s pension reform and labor reform proposals (Godio 2000b; Alonso 2000; Lloyd-Sherlock 2004).

In 1996, the Argentine government began requiring all Obras Sociales to offer a basic package of benefits and health care coverage (Barrientos and Lloyd-Sherlock 2000: 418-419). The following year, the government adopted a plan to allow workers to choose freely among Obras Sociales and private insurance companies. Implementation was resisted fiercely by unions—despite Obras Sociales subsidies funded with World Bank loans—which argued that they were not yet competitive enough to face a liberalized health insurance market. At the same time, private insurance companies have been reluctant to enter the market, preferring to contract with Obras Sociales rather than with workers directly (Barrientos and Lloyd-Sherlock 2000). The result was a delayed or incomplete implementation of the reform (Lloyd-Sherlock 2004; Nelson 2004: 45-55). In May 2000, the de la Rúa administration (1999-2001) again tried to introduce competition and private insurance into the health insurance or Obras Sociales market, but the reform was later repealed in March 2002 by the Duhalde administration (Lloyd-Sherlock 2004: 107). Not surprisingly, unions resist liberalization of the health care market because Obras Sociales have long been a source of union resources and power (Lloyd-Sherlock 2004: 103; Etchemendy 2005: 75). Like in Mexico (discussed below), health insurance has undergone a de facto privatization process. Though efforts to formally require unions to compete with private insurance and health care providers have been blocked by unions, liberalization of the health insurance market and Obras Sociales regulations have encouraged Obras Sociales to contract with private insurers and health care providers. According to some, this enables private insurers to enter the social insurance sector without being regulated by the state and may become the dominant form of health care insurance if recent trends continue (Barrientos and Lloyd-Sherlock 2000: 419).4

Meanwhile, the public pension system required a number of parametric reforms to its financial basis to keep it afloat during the 1980s. However, these various efforts failed to stymie the financial crisis facing the pension system, leading to defaults on pension payments and lawsuits by pensioners (Golbert and Lo Vuolo 1989; Isuani and San Martino 19993: 41-43; Golbert 2000; Demarco 2004). The financial crisis of the pension system prompted a proliferation of reform proposals in the mid to late-1980s, including proposals from the Secretary of Social Security, the Association of Argentine Banks (ADEBA), the Foundation of Latin American Economic Research (FIEL), legislators and members of Congress (for review of proposals, see Isuani and San Martino 1993: 41-68). In 1991, most unions, pensioners, and Peronists in Congress preferred parametric to a structural reform, while retirement insurance companies, employers, and Radicals in Congress preferred a more comprehensive reform, including a mixed system (Isuani and San Martino 1993: 66-71).5 In mid-1992, the Menem administration (1989-1999) submitted a structural pension reform proposal to Congress. The proposal met resistance from various actors, including union leaders affiliated with the Peronist party. After several rounds of

4 For an additional comparison of the health sector reform processes in Mexico and Argentina, see Lloyd-Sherlock (2006).

5 A reform during the Alfonsín administration had paved the way for private retirement insurance. Though some unions included such insurance in their labor contract demands, there was little growth in the private retirement insurance market (Isuani and San Martino 1993: 79-80).

negotiations and concessions to labor organizations, the Congress adopted a structural pension reform package in 1993 that established a mixed public-private system.6

The new system provides a universal basic pension (PBU) for all workers with at least 30 years of contributions at age 65 for men and 60 for women. Pensioners also receive a supplementary pension from a second pillar, which comes from either a privately managed, defined-contribution individual account or from a defined-benefit public pillar (PAP). There are compensatory pensions (PC) for transition workers, and a reduced universal basic pension for workers over 70 with at least 10 years of contributions. The original law also included a state guarantee that pensions from all sources would equal at least 40% of the average covered wage. Though unions were not able to block the structural reform, they were able to negotiate several concessions, including the calculation of benefits for transition workers, restrictions on pension fund administrators' investment instruments, tighter penalties for pension fund administrator malfeasance, worker choice of pension fund administrator, the public option for the second pillar, and tripartite representation of the board of the regulatory agency of the pension fund administrators. Unions also negotiated the right to form non-profit pension fund administrators to compete with the private administrators (Isuani and San Martino 1993: 116-120; Vittas 1997; Golbert 2000: 232; Demarco 2004: 95). Follow-up reforms in 1994 and 1995 lowered employer contributions, adjusted contribution calculations, eliminated the state minimum guarantee, limited maximum public pensions, ended the automatic indexing of public pensions to inflation, and changed coverage rules (Vittas 1997; Golbert 2000: 233-4; Demarco 2004: 99). In December 2000, a reform by decree changed the flat basic pension and gave a means-tested basic pension even to those with insufficient contributions to be eligible for a basic pension (Demarco 2004: 99-100). The net effect is a reformed system with increased market provision and higher contribution requirements that has done little to reduce evasion or increase coverage.

Like both Chile and Mexico, retrenchment and reforms were more extensive for the Argentine pension than health insurance systems. In Argentina, however, the unions that blocked more extensive health care reforms were not medical unions but the unions representing workers that manage the Obras Sociales. In another example of institutional conversion, over time the unions grew to see the Obras Sociales not only as providing health care to their workers but also as central to the survival of the unions themselves. As such, unions were much more defensive of the Obras Sociales than the pension system and were willing to trade pension privatization for continued operation of the Obras Sociales (Godio 2000b: 1199, 1219; Lloyd-Sherlock 2004: 103; Etchemendy 2005: 75; Lloyd Sherlock 2006). The Menem administration understood the importance of the Obras Sociales to the unions and repeatedly threatened to reform the sector in order to gain union acquiescence for other reform proposals (cf. Alonso 2000). In addition, economic liberalization and deindustrialization that began during the military regime had eroded union membership through less industrial employment and growing unemployment and informal and low productivity employment (Godio 2000b: 1218; Levitsky 2005). Therefore, when the democratic governments sought pension and health insurance reforms to protect Argentina's global

6 See Alonso (2000) for a detailed discussion of the negotiation process and changes throughout the reform process.

competitiveness,7 unions had already weathered a repressive military regime and economic liberalization and had to choose their battles carefully.

Meanwhile, not only had changes in the labor market and economic policy eroded labor influence, but reorganization of the Peronist party led to diminished union influence and representation in Congress (Godio 2000b: 1217; Levitsky 2005). Further, when the CGT tried to assert its independence in the mid-1990s by leading strike actions, the Menem government responded with harsher labor or health insurance reforms (Godio 2000b: 1213-19). The reorganization of the Peronist party included a new focus on forming clientelistic networks to distribute assistance to the poor and informal sectors not through national government policy or unions but through "neighborhood brokers (punteros) and local party bosses who could deliver votes" (Levitsky 2005: 193). This reorganization along territorial rather than sectoral lines was not unlike the internal reorganization of the PRI in the early 1990s. The Peronist Party used these clientelistic networks to distribute compensation to the informal sector, the unemployed, and poor in exchange for political support and in lieu of targeted poverty alleviation or social investment funds, like those implemented in Mexico and Chile (Etchemendy 2005). For example, the National Nutrition Program (PAN) of the Radical government of the 1980s was replaced by the National Emergency Solidarity Bonds (BNSE) at the start of the Menem administration. Shortly after the bonds began being distributed by unions to unemployed members, the program was criticized, decentralized to provinces, and abandoned (Midre 1992; Lloyd-Sherlock 1997b). According to Etchemendy (2005), it was the side payments to political insiders like unions and the failure to provide sufficient policies for the growing under and unemployed that led to the growth of urban protest and union organizations unaffiliated with the Peronist Party, such as the Congress of Argentine Workers (CTA), during the 1990s.

The Argentine government did not national social assistance programs throughout the 1980s and 1990s comparable to those in other countries. From 1992-95, the Fondo de Reparación Histórica del Conurbano Bonaerense (FRHCB) as a large infrastructure project targeted to serve the poorest regions of Buenos Aires, in part to bolster the popularity of then Governor Eduardo Duhalde. The program entailed a large transfer of national tax funds to the Greater Buenos Aires area to address poverty and poor infrastructure through public works (Acuña, Kessler, and Repetto 2002). In 2002, the government adopted the Plan Jefes and Jefas—a cash transfer program for those unemployed due to the Argentine financial crisis of 2001-2002. In practice, about one third of recipients did not meet the formal criteria to receive benefits and about three-quarters of those eligible for benefits did not receive them. Ninety percent of the program's beneficiaries had incomes below the poverty line, however. The program added conditions to receive transfers, but overall the program was difficult to implement efficiently due to the high levels of informal market employment (Galasso and Ravallion 2004).

The Argentine case illustrates the ways in which labor organizations played a role in the development of welfare institutions, especially prior to the 1976-1983 military regime. Existing welfare institutions,

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7 On competitiveness concerns and health reforms, see Lloyd-Sherlock (2004). On reductions in social security taxes due to worries about competitiveness of the tradable sector, see Etchemendy (2005).

particularly the segmentation of the pension system and the participation of unions in the management of health insurance, created incentives for unions to mobilize in defense of their benefits or access to resources, creating impediments to reform efforts. Following the economic and political liberalization of the 1980s, unions faced tough choices about which welfare institutions to defend given their waning numbers and political resources. Like in Mexico and Chile, pension retrenchment was much more extensive than reforms to health insurance, in part because of the role of unions in defending the Obras Sociales at the expense of other reforms. Unlike Mexico and Chile, however, Argentina adopted no large scale social assistance programs prior to the 2001-2002 economic crisis, and instead, clientelistic benefits and compensation for the poor and under and unemployed were distributed through the Peronist party. The strategy was the same—compensating losers for the costs of economic liberalization—though the institutional delivery was different.

Brazil

During and following the democratic transition, several political actors, including representatives of the Brazilian Democratic Movement Party (PMDB) and organizations representing rural workers and business interests, sought pension reforms. Rural workers sought an equalization of their benefits to those of urban workers, while business representatives proposed privatization of public pensions. Meanwhile, bureaucratic reformers sought to universalize the pension system and de-link contributions and benefits in an effort to increase equity. None of these proposals gained traction. The focus of those reform impulses were soon centered on the National Constituent Assembly, which produced the 1988 Constitution. Rather than significantly reforming existing pension institutions, the 1988 Constitution enshrined some of the most pernicious aspects of the system, such as the contribution structure, generous pension benefits for government employees, and time of service pensions (Weyland 1996; Medici 2004). The constitutional provisions would create additional barriers to reform by requiring super majorities to make statutory changes to the social insurance system.

Neoliberal pension reform efforts surfaced in 1990 in Brazil. The Collor administration (1990-1992) established a commission to develop a pension privatization proposal, but despite the support of business and powerful economic interests, it was not actively pursued (Pinheiro 2004: 124; Melo 2004). In the mid-1990s, under President Cardoso (1995-2003) a new reform effort began, but this time it initially focused on a constitutional reform that would facilitate pension reform through normal legislation. Even this took several years of negotiation in Congress, but in late 1998 the constitutional reform was approved. This paved the way for reform through legislation, though many of the privileges for government employees remained (Pinheiro 2004: 125-6). Meanwhile, since at least 1997, the Cardoso government had a special commission working on a reform proposal. The options considered ranged from a three pillar World Bank style reform to parametric reform with defined notional accounts (Pinheiro 2004: 129-30; Melo 2004: 334; Weyland 2006). While business groups preferred some degree of privatization, unions, pensioners, and leftist political parties advocated parametric reforms (Pinheiro 2004; Melo 2004).

The result was reform legislation that looked a lot like a parametric reform, leaving a collective account and the state's role in administration, but that introduced a "factor previdenciario," that links future pensions to contributions, creating notional defined accounts. One observer described it as reform "by stealth" because the enabling legislation, compared to the constitutional reform effort, was "largely invisible politically" due to its technical nature (Melo 2004: 332). In part, the reform options were limited by the spread of the East Asian financial crisis to Brazil and concerns about financing more radical reform proposals given Brazil's relatively high implicit pension debt (Pinheiro 2004; Melo 2004).

Reforming the pension system for government workers faced more formidable political obstacles. The pension system for government workers was left largely untouched by the 1998 reform aside from raising the minimum retirement age (Medici 2004). Civil servants continued to have a defined benefit system in which many workers received pensions equal to 100% of their last wage with as few as ten years of contributions (Medici 2004). Shortly after taking office, President Luiz Inácio Lula da Silva (2003-) argued that reform of the civil servant pension system was central to his social justice agenda and avoiding a budget crisis. His administration introduced a reform proposal in April 2003 that ultimately would have homogenized the civil servant system with that of private sector workers (Melo 2004: 332). The compromise version approved in December 2003 increased the contribution rates, increased retirement age, left unchanged the minimum length of service for retirement, reduced benefits for early retirement, increased contribution requirements, and required new civil servants to enter a modified notional defined contribution system (Medici 2004). The reform included a second voluntary public pillar in which the state providing matching funds for workers' voluntary contributions as an inducement for savings (Melo 2004). While Brazil did not privatize its public pension system for private and public sector workers, the delay and dilution of the reforms for government employees compared to private sector workers parallels the pattern of reforms in Mexico.

While the Cardoso and Lula administrations both sought pension reforms that would limit worker benefits and government liabilities, they also expanded national social assistance programs (Hall 2006). For example, a scholarship program to promote school attendance among children in low-income families, Bolsa Escola, originated in the Federal District in the 1980s, and it was expanded into a national program in 2001 (Hall 2006). In 2001, Bolsa Alimentação began providing conditional cash transfers to low-income families with young children and pregnant or nursing mothers. The various national social assistance programs received their biggest boost after the election of President Lula. In the first year, Lula brought the government's poverty alleviation policies under an umbrella called Zero Hunger (Fome Zero). The program sought to create an alternative distribution network to bypass the traditional clientelism. However, the program was abandoned by the end of Lula's first year in office due to criticisms regarding political manipulation of the program, inefficiency and poor coordination (Hall 2006).

The government then unified the social assistance programs into Bolsa Familia and created of a new Ministry of Social Development and Fight Against Hunger (MDS) to eliminate duplications, increase efficiency, and improve targeting of benefits to the poor (Andrews 2004; Hall 2006). Spending on Bolsa Familia expanded rapidly under Lula, increasing from 1.1% to 2.5% of total government spending and from 0.2% to 0.5% of GDP (Hall 2006). National spending on Bolsa Familia is now comparable to that of Oportunidades in Mexico. Bolsa Familia is estimated to benefit about 75% of families living below the poverty line, and by the end of 2005, it was estimated that 25% of Brazil's population received benefits

(Hall 2006; Hunter and Power 2007). Like Oportunidades, the program has received generous support and international promotion by both the World Bank and the Inter-American Development Bank (Hall 2006). Politically, Bolsa Familia was central to Lula's re-election in October 2006. Bolsa Familia was central to the consolidation of new electoral support for Lula in less developed regions, which have become more important for Lula since 2002 (Hunter and Power 2007). The design and expansion of Bolsa Familia parallels that of Progresa/Oportunidades, despite being adopted by different types of candidates or political parties. In both cases, political leaders expanded social assistance in order to reach voters and potential supporters beyond the formal labor market and the reach of traditional social insurance institutions.

In sum, the historical development of welfare institutions in Brazil shares some parallels with that of Mexico. For instance, social insurance institutions emerged as a response to labor demands and conflict in the context of the incorporation of organized labor into national politics. Once created, welfare institutions, even though they were quite different in their organizational form, were then shaped and driven by demands of organized labor and the participation of unions in social insurance management in both countries. Reform efforts were blocked by labor organizations, particularly reforms in pensions for government workers and health insurance. The role of intra-bureaucratic rivalries and competition were more important in Brazil than in Mexico, where competition between the social insurance institutes and the health ministry were less pronounced. Both countries sought social insurance reforms that retrench entitlements but also eliminate some stratification among covered workers In both Brazil and Mexico non-contributory, means-tested conditional cash transfer programs have become not only important for compensating those beyond the reach of formal labor markets and social insurance but also for generating political support among that growing constituency.

Mexico

Since the end of the 1980s, successive Mexican governments have sought to privatize and retrench benefits provided by the primary social insurance institutions—the IMSS and the ISSSTE. Privatization of pensions was initially raised in the economic cabinet of President Salinas (1988-2004), of the PRI, as part of the administration's neoliberal economic reform agenda. The administration believed privatization would enable the state in the long term to address the financial disequilibrium in the public pension systems of the IMSS and the ISSSTE, which originated in the use of pension funds to develop the Institutes' medical infrastructure and was exacerbated by inflation and high unemployment that eroded reserves during the 1980s. Policy makers worried that increasing the contribution rates to bring the systems into equilibrium would hurt Mexico's ability to attract foreign investment and maintain export competitiveness (Salinas 2000).

Early in the reform process, the administration considered a Chilean-style privatization of both the IMSS and the ISSSTE pension systems. However, reform of the ISSSTE pension system was dropped from the reform agenda because the administration feared that the powerful government employees' unions representing ISSSTE beneficiaries, particularly the national teacher union, would use their political weight to derail the reform process. Opposition to privatization of the IMSS pensions was also expected from the largest unions representing private sector workers, many of which were formally affiliated with the President's party. The administration was also seeking the support of these same unions for the North American Free Trade Agreement, and ultimately, the administration shelved its privatization plans in order to secure union support for the free trade agreement (Madrid 2003). Rather than abandoning the pension reform effort entirely, the Mexican government adopted a new law in 1992 that created a mandatory private, individual account defined-contribution pension supplement for both private and public sector workers.

When pension privatization resurfaced during the presidency of Ernesto Zedillo (1994-2000), also of the PRI, the administration decided early in the process to focus on privatizing the IMSS pension system rather than that of the ISSSTE due to the strength of government employee unions. In December 1995, the administration and the Congress dominated by the executive's political party passed an extensive reform to the IMSS that included a shift from a pay-as-you-go, collective public pension system to a defined-contribution, individual account system to be managed by private pension fund administrators. Concessions to organized labor included a flat rate contribution to all workers' accounts and a minimum pension guarantee (MPG). The 1995 IMSS reform also increased eligibility requirements for the minimum pension and made pension benefits less secure. Increasing the contribution requirements restricts the ability of workers, and female workers in particular, to claim a guaranteed pension (Dion 2006).

The privatization of the ISSSTE pension system resurfaced during the administration of President Vicente Fox (2000-2006), of the PAN (National Action Party). The Fox administration engaged in prolonged discussions and negotiations with various union leaders representing government employees throughout the second half of the president's term, but the reform proposal was withdrawn due to union opposition and concerns regarding the national elections scheduled for July 2006. Within months of taking office, President Felipe Calderón, also of the PAN, and his administration engineered a coalition in Congress between his party's representatives and those of the PRI to adopt an extensive overhaul of the ISSSTE social insurance system. The reform package included the privatization of the ISSSTE pension system, though with important deviations from the IMSS system in response to demands from organized labor, including higher minimum pension guarantee, and a public pension fund administrator, *Pensionissste*, with significant labor union participation in the fund's management board.

While the privatization of the IMSS and ISSSTE pension systems represents the most significant retrenchment of social insurance in Mexico during the last two decades, workers in a handful of state-owned enterprises still enjoy generous defined-benefit pensions with minimal contribution requirements. These pension plans have become the target of additional retrenchment efforts (see Dion 2009). Though the reform outcomes have been uneven across types of insurance—privatization of pensions has been extensive, while the state maintains a presence in the provision of health care—the trend has clearly been toward reducing the state's long term liabilities for old-age income and health care services and introducing more market provision of benefits or services. The reforms have also reduced capacity of workers to claim pension benefits and will likely lead to lower pension replacement rates.

Though much emphasis has been placed on the pension privatization in the 1995 IMSS and the 2007 ISSSTE reform laws, both laws also incorporated significant changes to the organization of health insurance provided by these institutions. The Zedillo government initially sought two changes to IMSS health insurance: a change in the contribution structure toward a flat rate fee and the privatization of medical and support services (CEDESS 1995). Ultimately, the 1995 reform did phase in a flat rate contribution structure for health insurance, but the privatization of health care and support services was blocked by the union of IMSS workers. In the second half of the 1990s the IMSS administration began to increase the use of private service providers informally, without a change to the IMSS legislation. The extent of subcontracting of services by the IMSS accelerated after 2001 and particularly after 2004 when the conflict between IMSS management and the union intensified. Such practices have increased the private provision of IMSS health care services without a formal privatization, thereby avoiding a direct conflict with the union. Like the 1995 IMSS reform, the March 2007 ISSSTE law reform included provisions to move toward a flat rate contribution structure identical to that of the IMSS and to increase contracting of services. In response to union opposition, the final bill required that whenever possible contracts be awarded to other public health care institutions, such as the IMSS or Secretary of Health.

In sum, both the IMSS and the ISSSTE were targeted for privatization, and though formal privatization of health care and support services was blocked by unions representing health care workers (IMSS) and beneficiaries (ISSSTE), both Institutes have increasingly taken advantage of provisions that allow them to subcontract services to either other public health care providers or the private sector. The homogenization of health insurance financing across the two Institutes can also be understood as a step toward the end goal of unifying and developing a comprehensive, universal health insurance—a goal outlined in the influential study directed by Julio Frenk (1994) and funded by Funsalud, a private Mexican foundation largely supported by large corporations, pharmaceutical companies, private health care providers, and private donors.

The formal and informal retrenchment of social insurance over the last two decades can be contrasted with the expansion of social assistance during the same period. During the 1980s social spending contracted markedly, despite the increases in unemployment and poverty. Since the late 1980s, however, targeted or means-tested social assistance programs have gradually expanded, largely to provide social welfare benefits, often including health care, to those beyond the reach of the social insurance institutes. The creation of PRONASOL (or National Solidarity Program) during the Salinas administration marked the first significant expansion of poverty alleviation spending since the debt crisis began. PRONASOL funds were officially targeted to provide infrastructure in the poorest regions and human capital investment to the poorest families. The program was notable because it provided targeted benefits rather than general subsidies, which previously had been the dominant poverty alleviation strategy of the ruling party. The program was funded by revenues from the privatization of state-owned enterprises, with additional funds from the World Bank for implementation in the poorest states (Salinas 2001: 407-8; World Bank 2001: 5). Though funds were to be targeted to marginal areas most affected by economic liberalization, evidence suggests that in practice the distribution of expenditures followed a political logic designed to bolster support for the President and his party (Molinar Horcasitas and Weldon 1994; Bruhn 1996; Dion 2000; Diaz-Cayeros and Magaloni 2003).

Though PRONASOL rebuilt support for the PRI in the 1991 midterm and 1994 presidential elections, President Zedillo did not embrace the program. Shortly after the PRI lost its Congressional majority following the 1997 midterm elections, President Zedillo created a new targeted poverty alleviation program, PROGRESA (or Program of Education, Health and Nutrition) through the annual appropriations budget. Given the legacies of PRONASOL, the administration sought to distinguish PROGRESA from the former program, in part by limiting the program to individual benefits and transfers for human capital development for the rural poor (Pardinas 2004; Laurell 2003). In part, health care benefits were included in PROGRESA to expand health care to the rural poor despite blocked integral reforms to the entire public health care sector (González Rossetti 2004: 85-6). By the end of 1999, 2.3 million families received benefits (Laurell 2003: 342-3).

Shortly after taking office, President Fox rechristened PROGRESA Oportunidades (Opportunities), made modest adjustments and worked to enhance transparency. Given the tendency of most new presidents to abandon their predecessor's social policies, the transformation of PROGRESA into Oportunidades reflects the positive legacy and perceived effectiveness of the program. From 2000 to 2005, the number of families receiving benefits doubled to five million and the program was expanded to cover the urban poor (Oportunidades 2006). The program was also modified to increase the use of transfers rather than direct provision of some goods, a move consistent with the administration's market orientation. President Calderón has continued Oportunidades.

In addition to its departure from the political bias in previous anti-poverty policy, other aspects of PROGRESA/Oportunidades differ from prior policies. For example, in addition to meeting means tests to receive benefits, PROGRESA/Oportunidades beneficiaries must also meet certain conditions, such as children maintaining a certain school attendance rate or mothers attending health or nutrition workshops. The conditions for benefits used in conditional cash transfer (CCT) programs, like PROGRESA/Oportunidades, run counter to notions of social citizenship rights and instead view the poor as having to earn their citizenship rights through fulfilling program conditions. Further, much has been made of policies that give family subsidies directly to the female head of household and that provide larger scholarships to encourage families to keep female children in school longer. While the Mexican government has emphasized the gendered dimensions of PROGRESA/Oportunidades to signal its commitment to empowering women, critics have demonstrated that the policies may actually reinforce traditional gender roles within the family and that some program requirements, such as attending health workshops, may increase women's work burdens (Molyneux 2006).

The Fox administration also sought to expand access to healthcare for those not covered by social insurance. Though the extensive reorganization of the public health care infrastructure and services envisioned by Fox's Secretary of Health, Julio Frenk, was politically improbable due to resistance from beneficiaries and the unionized workers of the social insurance institutes, Frenk and the Fox administration did launch a new voluntary national health insurance program, Seguro Popular (Popular Insurance). The program had multi-partisan support, and passed in Congress with a large majority (Centro de Estudios Sociales y de Opinion Pública 2005). Opposition to the program came from leftist legislators who opposed the co-payment required of families to enroll in the program (Alonso Raya 2003). Seguro Popular was made non-contributory for families in the lowest two income deciles, with a progressive premium scale for higher-wage workers. In December 2005, the administration eliminated contributions for families in the third lowest income decile if the family has at least one child less than 5 years old.

In the first half of 2007, the program enrolled almost half (46%) of those estimated to lack health insurance but still fell short of ensuring universal health insurance coverage. More than a third (38%) of the program's beneficiaries is also beneficiaries of Oportunidades. Of the families enrolled in Seguro Popular, 61% are urban and 35% are rural residents. The program largely covers the healthcare needs of the poor. In 2007 67.6% of families were in the bottom income decile, 28.9% in the second, and 2.4% in the third (CNPSS 2007). Relatively few families ineligible for free enrollment have joined the program, which is consistent with the social assistance rather than insurance functions of the program. President Calderón, after taking office, announced nominal changes to the operating rules of Seguro Popular and a new initiative called Medical Insurance for a New Generation, promoting it as an indication of the government's commitment to provide health insurance to all. Benefits are still open only to those families not covered by existing social insurance, and families who exceed the income levels of the lowest three deciles must pay premiums to receive the insurance.

Since the early 1990s, anti-poverty spending, especially for targeted or means-tested programs, has steadily grown and become a key source of income support for the poor in Mexico. In 1990, all anti-poverty spending (not including basic health and education) was equal to 0.7% of GDP and represented 4.7% of the government's programmable spending. By 2000, these figures had increased to 1.1% of GDP and 7.1% of government spending. By the end of the Fox administration in 2006, these figures reached 1.7% of GDP and 10.4% of programmable government spending (Fox 2006). Within this sector, the largest single programs were PRONASOL and later PROGRESA/Oportunidades. Though the program budget as a proportion of GDP is relatively modest for a social program, the program reaches a relatively large proportion of the poor in Mexico. Unfortunately, because the program is limited to areas with sufficient public educational and health infrastructure, approximately four percent of the most marginalized communities are excluded from the program (Boltvinik 2004). The extension of non-contributory health insurance through Seguro Popular will contribute to additional growth in government spending on non-contributory social benefits. Given its predominantly non-contributory nature, Seguro Popular functions more like social assistance than insurance. Ultimately, the expansion of means-tested, residual CCT programs should be understood as an alternative to addressing the informalization and instability of the domestic labor market.

Toward a new model of Latin American welfare?

The comparison of Chile, Argentina, Brazil, and Mexico is not intended to claim that all four countries have similar welfare institutions but that globalization pressures, including its effects on organized labor in tradable sectors; democratization; and institutional legacies interact and shape welfare change. By the late 1970s, all these countries had institutions that provided legal coverage to nearly all workers. In practice, however, coverage was often lower in less developed regions or among workers in informal or low-productivity sectors. The institutions fell far short of providing universal and equal access to social insurance protections. Mostly, equity enhancing reforms prior to the 1990s, even under military regimes, were achieved not by curtailing the benefits of privileged workers but by expanding benefits and coverage for low-income, informal sector, or rural workers. This process reflects the tendency for institutional layering when powerful groups, such as labor unions, block more integral reform efforts.

In these countries, economic and political liberalization of the 1980s or 1990s shaped reform of social insurance and led to the creation or expansion of non-contributory social assistance. Economic and political reforms often eroded formal sector employment most associated with unionization while simultaneously challenging organized labor's claims to insider status in ruling and democratic coalitions. The relative weakening of unions' capacity for political influence converged with competitiveness concerns, economic crises, and budget deficits to launch social insurance reform onto the national political agenda. Meanwhile, the informalization of the labor market and periodic economic crises generated new demand for compensation. Non-contributory, targeted social assistance proved more effective at reaching the growing numbers of workers and poor beyond the reach of social insurance institutions. Further, democratization, and often fierce national electoral competition, created political incentives for parties and candidates to reach out to these potential voters.

Changes in these countries and others in Latin America suggest that the region is experiencing a fundamental shift in its approach to public welfare provision. In particular, governments throughout Latin America seem less committed to institutional reform that would strengthen formal labor markets and incorporate all wage workers into national social insurance schemes, with the possible exception of Chile. Instead, governments seem to have accepted or even promoted informalization of labor markets as a means to pursue elusive economic growth. Governments' inability to eliminate corruption, evasion, and the expansion of low-productivity employment is only reinforced by a globally competitive economic market in which developing countries hope to compete through lower priced goods. In light of these changes, and changes in the political incentives facing politicians in competitive democratic politics, governments have turned to non-contributory and means-tested social assistance programs to fill gaps created by market risks. While such programs may be more progressive and have the potential to be equity enhancing, the benefits and funding are often relatively meager and may be insufficient for eliminating structural poverty. The trend is toward a dual pattern of welfare in the region: retrenched and minimal social insurance for the formal sector and means-tested benefits for the poor (see also Barrientos 2004; Rudra 2008; Martinez Franzoni 2008). Perhaps also problematic for the long term is that the organization and implementation of these social assistance programs fails to establish organized constituencies among the poor who can mobilize and support their continuation through economic downturns. Thus, the long term commitment to these targeted poverty alleviation and means-tested benefit programs remains uncertain.

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