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Las naciones presentan diferentes niveles de desarrollo social, diferentes estructuras de oportunidades así como diversos grados y tipos de pobreza y exclusión. A su vez enfrentan estos desafíos de manera diversa. Esta serie pretende ofrecer panoramas comparados de desarrollo social y extraer lecciones de dichas comparaciones que permitan a la comunidad académica y a los tomadores de decisión conocer mejor las realidades nacionales, sus niveles relativos de desarrollo y las causas detrás de logros y problemas del desarrollo humano.

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Past, Present and Future of the Latin American Social State: Critical junctures and critical choices

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¹ Senior researcher at CIESU. This is a revised and edited version of a previous paper commissioned by UNRISD. I wish to thank the insightful comments of Yusuf Bangura, Jorge Papadópulos and Federico Tobar. I also wish to acknowledge, beyond the appropriate references and quotes, the inspiration, analyses and data that came from the studies of Carmelo Mesa Lago and Evelyne Huber. Errors, remain, of course, my responsibility.

Abstract

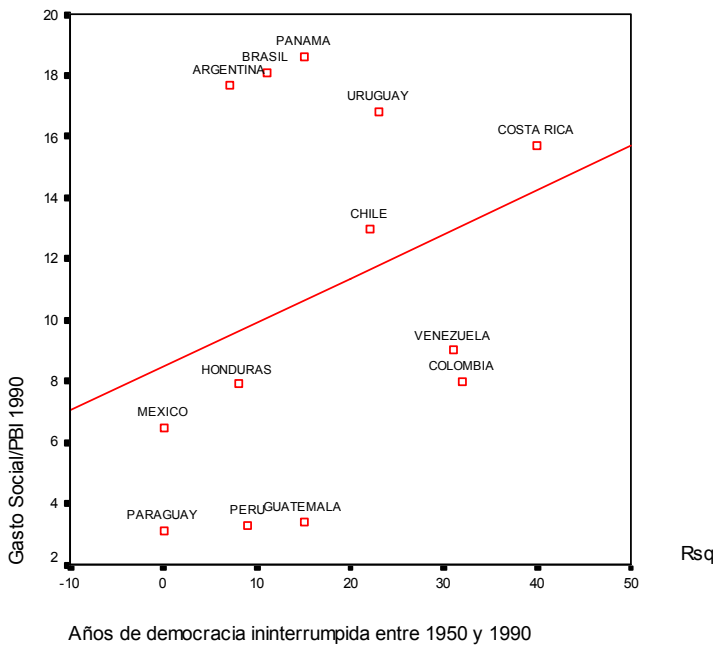
This chapter maps the relationship between politics, democracy and Welfare State origins and transformations in Latin America. I have argued before that three distinct forms of social state developed in Latin America until the 1970s: stratified universalistic, dual and exclusionary. I will in this work review and deepen my analyses of these trajectories. When considering the evolution of the social states until the 70s I will consider education, social security and health care. The mayor issues to be considered when analyzing the evolution of the social state are expenditure, coverage, stratification and quality of social services. On the causal forces driving this evolution the critical factors are: the depth and shape of the ISI model, the political regimes and actors administering such models and the organizational and political characteristics assumed by the non-elite sectors –middle classes, formal working classes, urban informal workers and rural workers small propertied classes. I will also show how after the 1970s these three models went into a critical phase and into a critical juncture choosing a peculiar liberal route of reform. For the analyses of these recent transformations, between the 1970s and 1990s, I will focus on pension reform with lateral comments to health care reform. The role of democracy and politics on social expenditure and on social security reform after the crises of the old models will be the basis for evaluating the prospects and future of the social state in Latin America. My final claim is that evidence stemming both from the politics of such reforms, the present political reality in the region and the social and technical problems left by the liberal wave of reform has created a new critical juncture with two alternatives, a peculiar mix of corporatist and neoliberal principles with ill effects on social cohesion, political stability and inequality, and another option still struggling to take shape: an egalitarian inclusionary basic protection social state, or if we are to take risks, what could be labeled an embryonic Social Democratic Latin-American State.

Introduction

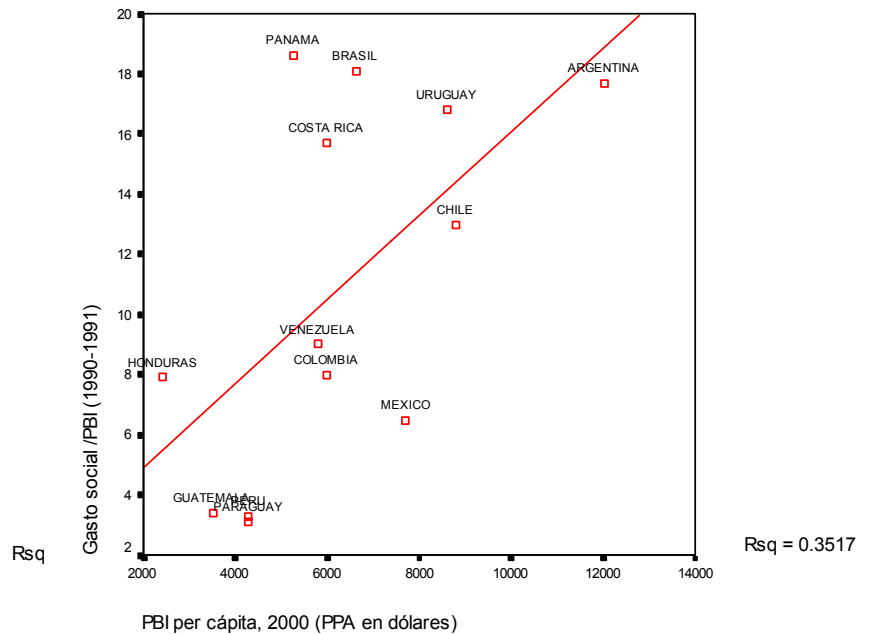
Citizenship in Latin America, be it civil, political or social has been elusive and fragile throughout its 20th century history. The social state is inextricably linked in Latin America to the development of modern states and bureaucracies, the emergence of a new development model and mass politics with democratic interludes.

While democracy and democratic struggles have been a weaker building block of the region's welfare regimes than state expansion and Import Substitution Industrialization, this does not mean in any way that democracy or the lack of it is irrelevant or has been irrelevant regarding social states. Both country specific analyses and cross-national evidence suggest that both the formal rules of democracy and the quality and level of political incorporation that the Latin-American political regimes achieved have played and may even more play in the future a most important role. When we consider the effect of stable democratic rules (that is years of uninterrupted democratic rule) between the 1950s and 1990s on social state size, considered as social expenditure over GDP, we can see that there is no relation whatsoever.

Graph 1



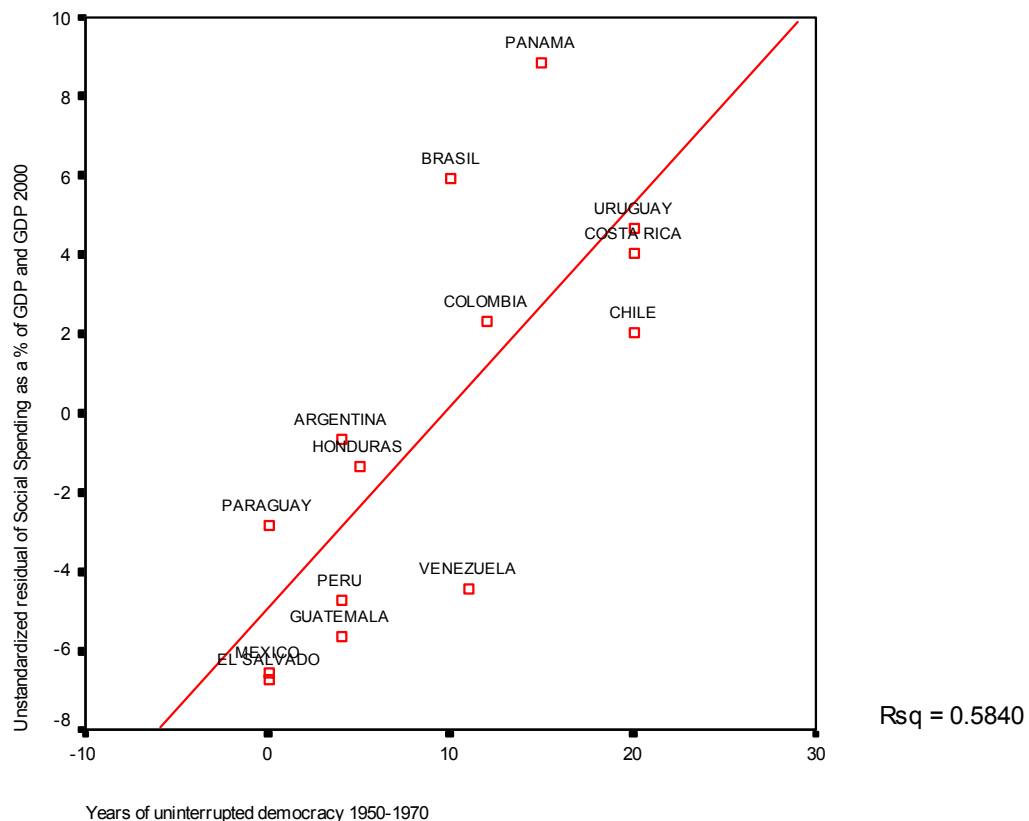
Graph 2



The finding that really contributes to take the democracy-welfare hypothesis seriously in Latin America, is a peculiar one, and one that surprisingly would reclaim a major role for democracy between the 1950s and 1970s, a period when, while corporatist and authoritarian rule were extended in the region, democracy of some sort had taken hold in a number of countries. Where democracy took hold and even more where it survived for relatively large periods, social spending 30 years later clearly goes beyond what would be expected given its GDP. In contrast where democracy was weak or non-existent between the 50s and 70s, social spending under performs, again 30 years later, what should be expected given its GDP.

GRAPH 3

Relation between years of uninterrupted democracy between 1950 and 1970 and the unstandardized residual of social spending over GDP and GDP per capita, 2000



Source: Author on the basis of data from Przeworski et al, 2000, UNDP Human Development Reports, and CEPAL, Panorama Social de América Latina, 2000, 2001, 2002.

Such finding is no proof of a relationship between democracy and social state development. Both the data and the number cases, not to mention the number of fallacies that

any conclusion implies given the chronological miss-match between the data, suggest caution. Yet this is indeed a curious pattern, and no easy alternative explanation seems obvious. The hypothesis that best fits the data pattern here, is that the relationship between democracy and welfare expansion is strongly path dependent. When major developmental surges under a given developmental model (the ISI model) were combined with stable democratic rule, a long term social policy effort above and beyond the mean expected social effort given a country GDP should be expected. If this hypothesis is plausible, then the present day democratic hegemony in the region, might well be the basis for a new push regarding social policy efforts. It might also help, not merely to increase social spending, but also to provide a more egalitarian architecture to the Latin-American Social State².

A Typology of Social States in Latin America until the 1970s.

In order to understand and compare the latin American Social State, a typological classification is required rather than one of continuum. Likewise, the explanation for differential national development of the social state will not be of lineal and evolutionary character, but of a “path dependent” and structural type. In other words, the explanation of the nature of the welfare systems in the region has its main keys in structural variables and in historical sequences rather than in singular temporal starting points and its correspondent degrees of maturity. The fundamental indicators to be considered will be: coverage (i.e., to some extent the “how it is spent”), the expenditure (i.e. the “how much is spent”) and its sector distribution and levels of services given (i.e. an additional approximation of “how it is spent”). We therefore analyze inclusiveness as well as expenditure. Our interests is on “how” as an issue of sector distribution and population coverage and, on a second level, as it relates to decommodification. Once we consider some basic variables regarding social state effort and coverage, three distinct types of social state can clearly identified. Argentina, Uruguay, and Chile (and only in the eighties, Costa Rica) offered universal or near universal coverage regarding social security for the economically active population, full incorporation into primary education, and basic health services to all or almost all of its population. With the exception of education the southern cone countries

² Latin America does not have a welfare state. This assertion is true on two counts. First, no social policy system in Latin America can truly be considered a welfare state, secondly, if, we would consider their social policy systems as something resembling a welfare state, we would have to speak about at least three different types of welfare states. Since I choose not to label them as welfare states I will refer to the system of social policies and social protection as Social States. Latin America, has, indeed, social states, if by such we understand those aspects and actions that the state develops in the form of a group of policies concerned with transfers, subsidies and services that resemble a social safety net and a set of redistributive transfers and services.

presented a strong pattern of stratification in all other areas of the social state. Brazil and Mexico (together with countries such as Venezuela, Panama, and to a lesser extent Colombia) represent the cases of dual social states, where a large portion of the population was covered by social services and income maintenance schemes, also in a strongly stratified manner, and another very large part of the population remained outside the state protection system. Finally countries such as El Salvador, Honduras, Bolivia, Ecuador and Guatemala (though this last one to a lesser extent) can be properly termed exclusionary social state, where a small privileged part of the population had access to social protection.

Selected variables on social policy effort types of social states, circa 1970*

	% covered by Social Security in EAP	% covered by Social Security in total population	Social expenditure as % GDP,	% of children under one year vaccinated against tuberculosis	Primary Education Gross enrollment rates	Secondary Education gross enrollment rates
Stratified Universalism	83.3	67.93	15.63	96	108	47.33
Dual	50.2	27.55	8.65	73	93	24
Exclusionary	16.3	9.2	2.75	37.5	80.33	18

Sources: Mesa-Lago, 1991; World Bank-World Development Report-, 1994, Miranda, 1994, Cominetti, 1994. * Unweighted averages

The development of these different systems of social protection had an important impact over variables relating to social welfare as can be seen in table 2. The argument that these differences can be explained away by their GDP percapita level, does not withstand a simple empirical test. As can be seen in graph, the unstandardized residuals between GDP and social development (measured through households below the poverty line) shows a clear pattern where universalistic, dual and exclusionary countries present an almost perfect fit with the hypothesis presented above.

TABLE 2

Selected social development indicators for types of social states, circa 1970*

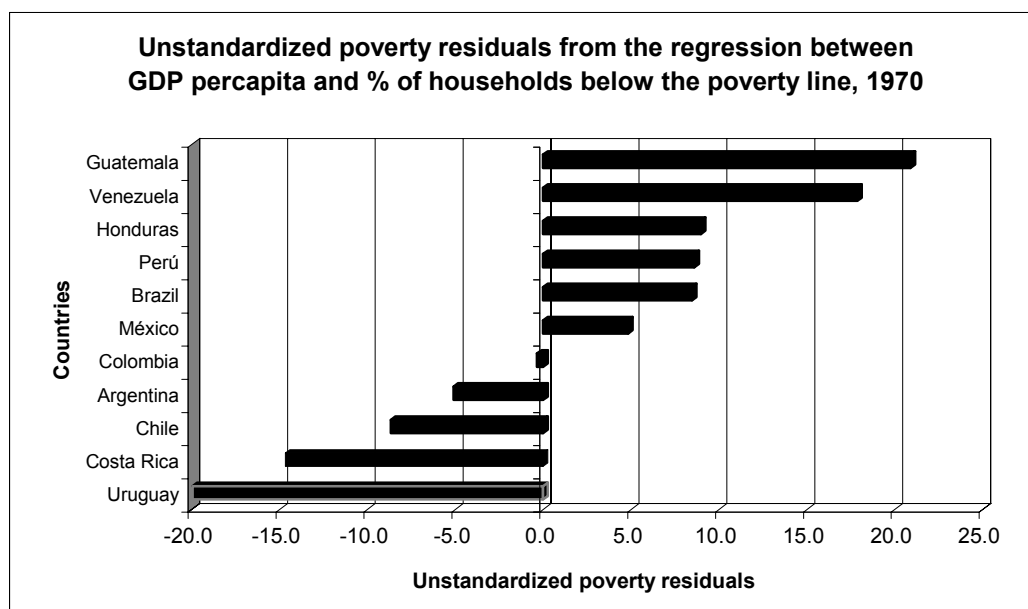
	% of Households below the Poverty line	% of Households below the indigence line	Illiteracy rate	Infant Mortality	Life Expectancy at birth

Stratified Universalism	11.67	3.67	9.53	50	67.07
Dual	41.5	18.5	29.7	77.5	61.25
Exclusionary	62.5	31.33	40.4	112	54.08

Sources: ECLAC -Panorama Social de América Latina- 1995; ECLAC, Anuario Estadístico de América Latina- 1980. *

Unweighted averages

Graph 3



Source: ECLAC, 1994

The differences in the paths to social state formation lay in the political economy and politics of the different group of countries. I will leave aside for the purpose of this analyses the exclusionary cases. This is due both to reasons of space and to the fact that most of these countries, do not in truth have a social state or a state for that matter until the 1970s, but rather

a “coercive apparatus servicing the privileged”³ . To a better understanding of the dynamics of universal and dual regimes we now turn.

The political economy and the politics of social states in Latin America

In Argentina and Uruguay ISI was based on export of primary goods, especially cattle, which had a low labor force demand and a high international profitability. Both countries were the first ones to experiment not just mass politics, but also mass democracy. Regarding the relationship between regimes and social state expansion it is worth noting that early social state formation is highly correlated with early democratic experiments. The first countries to develop mass systems of basic education and some attempts at public health as well as the first social security schemes are Argentina and Uruguay, both countries that knew a democratic experiment as early as the 1910s and 1920s. Indeed the Yrigoyenista and Batllista years of the 1920s would see not only an important expansion of vote and an increasing mobilization of middle and working classes, but also the first clear cut pro labor bills, and the expansion of public education, already started in the late 19th century. Chile had to build its social state on much tougher structural basis than Argentina and Uruguay. It may seem a paradox, that in Chile it was Ibañez, a military leader through a coup d'état, the one that would be responsible for setting the basis of Chile's social state.

Even though Argentina's experiment with democracy closed in the thirties, only to become a stable democracy again in the eighties Argentina never ceased to be a nation of mass politics. Despite almost 15 odd years of authoritarianism the trade unions remained important actors and due to the industrialization process grew even more. It was in the early 1940s that strong and ultimately successful attempts at co-opting the trade union movement were made from the government. The ministry of labor of the military regime that started in 1943, Peron, would be the creator of a corporatist alliance between the workers, a new movement/party and the state. Between 1946 and 1955 Peronismo co-opted what were already important and powerful trade unions. With this alliance and the return to electoral mass politics Peron and its movement reformed the labor code, granted family allowances, established a minimum wage, provided accident insurance and restricted the dismissal of workers, as well as later on finance the health programs known as Obras Sociales, expand markedly public health and expand social security. The single most important effect of the authoritarian period of the thirties and

³ For an overview of this cases see Filgueira (1998) and Filgueira (2004).

early forties in Argentina would not be to end the process of social state expansion, even though it did bring a parenthesis to it. It would be to shift what seemed a pluralist route to a modern social state with left wing autonomous trade unions into a corporatist route.

Uruguay, with a short period of semi authoritarianism in the thirties returned to mass democracy in 1938 and remained democratic until 1973. Again the Colorados led the expansion of the social state verging on universal coverage already by the late sixties. In the early 40s two bills would become major building blocks of Uruguay's social state and democracy. Before the Catholic leaning parties in Europe did it, the Union Civica in Uruguay proposed and got passed a flat rate universal family allowances. Also before the socialists and social democrats of Europe succeeded, the Socialist Party in was able to pass a law creating tripartite wage councils, that granted state recognition of public status and the virtual monopoly of workers' representation to the left wing trade unions. Both bills counted with the support and encouragement of the Colorado government.

The answer to the paradox of Argentina and Uruguay radically distinct political trajectories after the 30s, having had such similar previous trajectories in the early 20th century, might rest at least partially, on the logics driving their social state and their products in the late thirties and in their forties. Uruguay never seized to construct its social state based on parliamentary debate and the pressure of left leaning trade unions; Argentina adopted a verticalist, corporatist arrangement in the expansion of its social state.

Yet either through corporatist arrangements and pushes and pulls of electoral and military interludes as in the case of Argentina or through stable democracy as in the case of Uruguay, the social state of these countries continued to expand. The Chilean case is more complicated. While It is also a country that had an important Import Substitution Model, it was based on mining and on an export agrarian economy, which was more diversified and had a higher labor force demand. Yet mining allowed under a modern form of labor capital relation for the emergence of a strong left wing trade union.

Chile also had, like the other cases, an important rural-urban migration, though it occurred later. yet already by the 1900s important trade unions from Santiago and Valparaiso developed and struggled through strikes and social mobilization. The first groups to be incorporated to the social protection system were, like in Uruguay and Argentina, the professionals and public employees. The State elites, using the resources of foreign trade, developed the first programs of social services provision, (education and, to lesser extent, health) and social security. On the other hand, mining workers that were strongly unionized and

urban workers articulated to left wing political parties in the urban centers, were capable of exerting enough political pressure and, while not a central banner of the union's themselves, their pressure contributed to their incorporation to the systems of social protection and services.

The importance of left wing political parties, of the Christian Democratic Party and of the central role of congress in Chilean politics cannot be overstated regarding the expansion of the social state. While formally the right wing parties governed for much of the period between the 1940s and early 60s, the importance of center catholic leaning parties and left wing populist and programmatic parties, and especially their behavior, flexible to say the least, regarding their parliamentary and coalitional alliances, helps us understand the expansion of the Chilean Social State.

Parliamentary alliances reflected less ideological positions than immediate power seeking elites articulated to clientelistic pluralist, yet organized exchange systems between the parties and employers and workers categories and groups. Thus the Chilean system would grow and expand through layers and layers of social security schemes. Towards 1970 the Chilean social security system had more than 100 institutions and programs that covered for different sectors old age, disability, death, unemployment (only some), sickness and health. This same coalitional maze and the very pluralist and institutionalized nature of the game reflected a vibrant democracy by any standard in Latin America. One in which parties also came together to provide a robust universal educational system, and bargained and cajoled to expand a stratified but also rather universal and by many standards generous social security and health care system.

Yet, for all their their advances these countries were not welfare states, and they were not, to a large extent because they lacked the idea and political basis to construct some form of social citizenship beyond equalizing opportunities and providing insurance based schemes for sickness, old age and disability, while at the same time they lacked the structural economic and labour market development that would allow the corporatist continental europe to become true welfare regimes. At cradle they looked pretty much like a welfare state, close to the grave too, but between cradle and grave, only economic citizenship, and its link to political citizenship guaranteed some form of stratified social citizenship.

In any case, and despite these caveats Chile, Argentina and Uruguay represent the closest cases that resembled in the seventies the welfare regimes of continental Europe in the sixties. Elites that did not require coercive control of the labor force and that early on had developed a political professional class, partly autonomous from the landowning elites are

critical to understand the early appearance of education, primary health care and the geologic creation of stratified yet close to universal social security schemes. Mass politics and especially inclusionary mass politics (democratic in the case of Uruguay, limited democracy in the case of Chile, populist and corporatist in the case of Argentina) were as nowhere in the rest of Latin America keys to the expansion in expenditures and coverage of the early southern cone social states.

The form of the social states thus varied but not the depth of such social states. Chile and Uruguay advanced their social agenda and the social incorporation of the popular sectors combining clientelism and broader agendas fueled by electoral competition, Argentina advanced it through vertical corporatism and broad policies that were enacted as power changed hands between the military, the radical party and builder of the social state; the peronist movement.

These cases show that early democratic experiments, even when restricted, are critical in order to predict early social state origins. Yet, these three countries became in the thirties authoritarian, the effects of these regimes was radically distinct. In Uruguay it did not alter dramatically the game of politics and of social state building, in Argentina it brought it to a halt and then allowed for the creation of an unstable but critical corporatist arrangement that would push for the expansion of its social state, in Chile the dictatorship of the thirties would actually break the impasse that the conservative elites were placing the country in, limiting the role of congress and the expansion of vote, and would open the way for the real origins of the Chilean social state and also open the road for an expanded democratic and still vibrant parliamentary kind of presidentialism.

The return to democracy, or at least to mass electoral politics would become the building block in all three countries for the expansion of benefits, services and protections, and in some cases for the “massification of privilege”. In no country was an organized and articulated labor party with a trade union constituency the leader of the social state building process. Rarely a major coalitional partner. But while in Uruguay the space for trade union influence was granted through parliamentary representation and wage councils at the sector level, in Chile it was through political coalitions and lobbying within parties, and in Argentina a popular and populist movement either co-opted or repressed the trade unions to build a verticalist corporatist arrangement. In all three cases democracy and elections increased the power of these sectors between the 40s and 70s and helped fuel and finance social states.

Where the origins of the social state was the product of congressional debates, autonomous trade unions and non ideological catch all parties as in Uruguay, democracy was

most stable; when the genetic code was that of an electorally restrictive political system with an institutionalized congress, lobbying type trade unions and wide ranging coalitional politics on the left and center, democracy was slow in expanding but stable. Finally when the political genetic code was the result of an aborted pluralist route recreated and rechanneled in a tense pact between the military, a populist movement, the organized workers and the elites, where mostly the second and third actors built social states, while the first and last controlled its limits, the result was a very unstable political system with many but also short periods of attempted democracy.

As we approach the 1970s these three countries, pioneers in the Import Substitution Model and in the Latin American social state confronted systemic crises that affected their economy, their societies and their political regimes. Chile and Uruguay in 1973 and Argentina in 1976 would see their democratic regimes destroyed. The military regimes that emerged would this time attempt to reshape the developmental model from the state centered approach to market oriented economies. Regarding their social states only Chile would radically move in the market oriented direction, Argentina and Uruguay would financially neglect and at the same time try to put some order into the old social states. Later they would move more moderately than Chile to the new liberal creed on social policies.

The case of Costa Rica as a particular marriage of democracy and universalism?

Costa Rica stands out amongst Central American countries because of its democratic stability, relative egalitarianism, GDP percapita and last but not least its social state. Indeed for many analysts (Huber, 1996; Fleury, 2001) Costa Rica belongs to a class on itself⁴: the closest case to a universalistic egalitarian social state or even more an embryonic social democratic welfare state. It is also a country that has remained export oriented in combination with Import Substitution, and that based its rural production not on coerced and semi coerced labor, not on militaristic oligarchic regimes, but on a pattern of land distribution and a form of economic relation that was closer to the farmer model than to the traditional landed elite model in Latin America (yet for many this last farmer type feature is largely exaggerated, making the Costa Rican case even more exceptional in terms of its democratic stability and robust social state).

With the Figueras revolution in the 1940s and the suppression of the Armed Forces, Costa Rica would initiate a path unique in Latin America. Between 1950 and 1980 Costa Rica

⁴ Fleury pairs it with Cuba, which is not considered in my analyses.

would know uninterrupted democracy, stable growth rates, and increasing social performance. The social protection system established in Costa Rica in this period was not at first sight so different from those of universalistic stratification as can be documented by the 19 different special and privileged regimes of social protection. Yet a closer look would shed a completely different picture on the Costa Rican social state. First, and maybe most importantly, the Costa Rican state made as axis of its social policy the expansion of education and primary health care. While the other universalistic countries chose to cover from top to bottom and tended to add vertically more privileges to the already covered population, Costa Rica, while also attending this population, rapidly expanded health and education to most of the population. The fact that trade unions have always been weak, and that for a long time two catch all parties dominated the electoral arena might help understand these broad based policy options. It is also true that state unionization was always higher than private trade unions. The advantages in protection for state employees are in some way a direct consequence of this. Costa Ricans like to think of themselves as a middle class country. Truly, the bureaucracy and independent professionals are “middle class”, truly also, the old bananero (mostly foreign) and cafetalero elites also exist. But there is indeed a wide group of people that are neither poor nor middle class and it includes not just urban workers but also small propertied classes and even workers of the rural areas. They are the backbone of something resembling though not completely meeting the standards of an egalitarian universalistic social state of basic protection.

Regarding pensions, once again a closer look shows a remarkable pattern. In Costa Rica between 25% and 30% of the population receives non-contributory social assistance pensions. The 1970s saw the most important push for social state expansion, and once again coverage of basic income and health care, as well as education access were the major aims of the governments. Costa Rican society is not a mobilized society in the sense that Argentina, Chile and Uruguay were. Largely rural and weakly organized along capital-labor lines, social based solidarity organizations of workers tend to interact with political parties and political leaders. The absence of strong lobbies articulated to the state (with the exception maybe of teachers and doctors) has left room for elites that had to gain popular support to move towards more universalistic goals right from the start. Closely contested elections and wide electoral participation combined with a relatively autonomous professional state and political elite are the backbone of the Costa Rican social state.

As Costa Rica's development model faces the crises of the eighties, a trend towards targeted liberal type social policies dominated the 1980s governments, yet by 1994, the

Figueres administration would revamp universal social services and attempt to articulate the new small targeted programs with the fundamental institutions of social protection of the Costa Rican social state. By 1997, health care was covering close to 90% of the population, and pensions, including noncontributory social assistance pensions reached almost 82% of the elderly (Mesa lago, 1999). Yet as defined by contributions of the working population, coverage in 1997 was around 50% (Muller, 2003). The positive gap between coverage of the population and contributions, highlights the importance of non-contributory social protection in Costa Rica.

A catch all party system in a stable democratic environment and the absence of powerful lobbies entrenched on the state and the parties, combined with thirty odd years of relative economic growth contributed to the creation of maybe the rarest jewel in our Latin American social states. Costa Rica stands today as one of the most socially advanced countries in the continent, and does so with a GDP per capita that is still quite far from Chile, Argentina and Uruguay. It is also true that Costa Rica lacked any form of unemployment insurance and that non contributory social pensions only amounted to half the basic insurance pension (Mesa Lago, 1999). Still for a country that in the forties was overwhelmingly agrarian and lacked almost any form of social protection and services (with the exception of education) what has been achieved is no small feat. It is also unthinkable to speak of the Costa Rican democracy without considering the role that the social state has played. Through education first and through health care and social security later the Costa Rican state rests on the solid grounds of basic social citizenship. The allegiance of Costa Ricans to democracy is not naive, it is based on the proven conviction that elites, elections and society can find middle grounds in the construction of a mixed economy with social protection as one of its main building blocks.

Maybe in no other case, is as clear as it is in Costa Rica, the relevance of democracy as an independent variable pushing social state expansion. While this country is a relative latecomer to modern social policy, it is between the 1940s and the 1970s, a period of unprecedented democratic stability that it develops and institutionalizes its social state. Costa Rica, a coffee based and fruit based, export economy in the 1930s, had few structural factors that would predict a robust social state. Without the Figueres revolution, the suppression of the armed forces, and the creation of a stable two party system that had to compete for the popular vote, it is hard to even imagine how this small central american country, could boast today, of what some define, as the only egalitarian Latin American Social State.

ii. Dual Regimes based on elites statecraft and cooptation and repression of the popular sectors (Brazil, Mexico⁵)

These regimes had, until 1970, nearly universal development of primary education and an important, though stratified, degree of health coverage. Concerning social security, the coverage accentuated the stratified aspects that characterized mature systems without presenting the universalized coverage of the stratified universalism regimes.

These countries have been characterized by having an Import Substitution Model development supported based on rents coming from primary economies of high labor force intensity and with an important regional heterogeneity in what refers to levels of economic and social development.

Both countries developed and matured their social states under what has traditionally been considered as a populist model of development and political administration. Cardenismo in México and Vargasismo in Perú represent this particular form of political and social incorporation. Mass movements and mass politics was indeed a characteristic of these models. In the case of México the roots of mass mobilizations and politics lie early in the Mexican Revolution and have a peasant based as well as urban based constituency, while in Brazil the impulse from below comes essentially from the modern working and middle classes of the great urban centers, and even then would be rapidly controlled and co-opted from above.

From the political point of view, the control and incorporation of popular sectors have rested, in areas of lower economic and social development, on a combination of coercion and local elite's patrimonialist forms while, in more developed areas, they have assumed the shape of vertical corporativism, articulating trade unions, parties and state. In Brazil during the Vargasismo era this assumed two distinct political forms: the so called social democratic party (PSDB) that at the rural areas operated as a form of state-local elites-party control closely resembling the old patrimonial politics, and the Worker's party of Brazil, oriented towards the control of labor, through trade union, party and state articulation (Draibe, 1985). In the case of México the revolutionary party with and after Cardenismo would include within the same party the "Confederación Nacional Campesina" and the "Confederación de Trabajadores de Mexico". Yet while in Brazil the PSB was mostly a new name for old forms of control the CNC in México was a new form of control, a posrevolutionary model, that had its autonomy and power

⁵ The cases of Colombia, Venezuela y Panama could also be classified under the dual types yet I lack systematic historical and statistical evidence for a proper analyses. The case of Peru is analyzed in my previous paper as a peculiar form of dualism.

especially during the early Cardenismo. After the 1940s many of the institutions and leaders of the CNC would be relegated to the more urgent concerns and vocal capacity of the CTM (Brachet, 2004).

Yet in both cases, the frailty, short duration and lack of intensity of electoral competitive democratic regimes allowed for the development of this dual form of incorporation, where we could witness increasing differences between the power of rural and urban sectors, backward and advanced areas, and formal and informal labor. Unlike stratified universalism countries, the social state moderates (yet, having a stratified nature) the social segmentation only in those sectors that are incorporated into modern formats of protection. However, the protection systems accentuate social differences between urban advanced sectors and the non-protected rural traditional and urban informal sectors. Furthermore, one of the main features and future challenges of these systems is a direct legacy from peculiar form of statecraft (Malloy, 1998) that these countries pursued.

The state, in these regimes, became the building block of the restricted populist coalition that was in the basis of the labor incorporation period. The state was not merely, as it was in the universalistic countries a source of resources that contending elites used as a basis of competition for popular support and market regulation. The state was the realm where a previously patrimonial, traditional and status based political and social order found its ultimate expression and refuge from the more meritocratic logic of modern markets, thus creating a state apparatus less bent towards redistributing for popular support and more oriented towards redistributing for elite accommodation and popular control. The wages and pensions of state officials are indeed extremely high in these regimes, far higher than those of Chile, Argentina and Uruguay, when compared to the private sector. Still today, in Brazil, approximately 1.000.000 pension beneficiaries from the state take up a similar amount of money as 14.000.000 pension beneficiaries from the private sector. Still today, too, as Heredia (2002) points out the Mexican State is unique not so much because of its size but because of how much the state employees wages represent of total state expenditure, almost 45% of it, the highest by far in Latin America, while in terms of percentage of state employees over total working population Mexico ranks about average in Latin America.

The data on social indicators in México and Brazil, present, despite their commonalities, important differences. México, clearly, out performs Brazil in the seventies in all social aspects considered above. The most important reason behind such differences cannot be placed on social policy spending. As a matter of fact Brazil spent more by the late seventies and early

eighties than México did. Three differences do help us understand dissimilar social outcomes. First the overall pattern of inequality, much more entrenched in Brazil than in México, especially in the rural areas, where the latter had an agrarian reform based on a revolutionary movement and on armed peasant struggle. Secondly the fact that social spending in México concentrated more on health care and education than it did in Brazil, where the emphasis was on the pension system. Finally the fact that in México, even though as a weaker partner, the rural population and its corporatist organizations were a part of the populist pact, and indeed a major building block of the PRI structures. As Brachet (2004) points out, México starting in the 20s and thereafter with Cardenismo incorporated to a larger extent than other dualist social states the peasantry and poor rural population as not merely “issues” but also as subjects.

In contrast, Brazil was as Draibe (2004) puts it, maybe the quintessential “industrially biased” developmental social state. By such she means a social state that centered on regulating industrial relations between labor and capital and providing protection only for labor that was engaged in such modern labor-capital relations (and of course public employees). This industrial bias anchored in labor-capital relations also helps explain why Brazil had such emphasis on social security leaving education and health-care neglected for a long time.

Thus mass politics and institutions help us explain a major variation within similars: they were essentially dual regimes, yet in Mexico a urban-peasant revolution and a party that explicitly and really integrated the peasant’s organizations into the populist party, stands in stark contrast with the almost cosmetic creation of a national party in Brazil (the PSB) that was essentially a new name for the traditional “coronelismo” practices of the landed elites. The effects of such differences were the “industrialist bias” of Vargasismo and the “limited space” but space nevertheless for rural oriented social policies, especially in health and education in the Mexican case.

CRISIS OF THE OLD MODELS AND THE NEOLIBERAL TURN

a. The economic and social critique of Import Substitution Industrialization

In January 1990 the Institute for International Economics published Williamson’s “The Progress of Policy Reform in Latin America”. In it, the author put forward the idea of the “Washington Consensus”, a set of policy prescriptions advocated by multilateral institutions and US authorities regarding the development process in Latin America.

Williamson's contribution does not ask why reform took place nor why reform followed certain recipes. He is neither a sociologist nor a political scientist. His concern is simpler: Did reforms take place? Yet, behind such a narrow concern rests a formidable faith, namely, that those were the right reforms. The "Washington consensus" is not merely an agreement, it is the right one. Part of this faith is based on an additional belief: the absolute conviction regarding the ills of the previous development model, (i.e., import substitution industrialization). From an economic point of view, critics insist on the detrimental effect of trade barriers on Latin America's natural comparative advantages. As for the role of the state, it is argued that internal regulations and oversized and inefficient bureaucracies inhibited the role of the market in allocating resources efficiently, and contributed to the region's chronic fiscal deficits and inflation prone economies.

In addition to this critique, more sophisticated versions based on a political economy approach argued that the model in and of itself favored the creation of a rentier behavior on all parts involved in economic activities, thus inhibiting capitalist development. The argument is relatively straightforward in its most stylized fashion. The state subsidized the import substitution elites from rents it extracted from international trade taxes. Trade unions asked for increasing benefits and wages that were promptly granted for political reasons as well as a strategy to minimize labor conflicts. In turn, these increases were passed along to the consumer in the form of higher prices, which was possible given the fact that the state protected their market space and share through the granting of tariffs, legal monopolies, tax exemptions and credits and subsidies. Capitalists, labor and labor unions had no incentive to favor strategies that increased productivity and shared the costs and benefits of innovations since they had an easier way to maintain profits and gain wage increases. This state of affairs was defined by Evans (1988) as the creation of an antishupetterian triangle where protected workers, protected entrepreneurs and the state elites and employees engaged in rentist games fueled by a political logic and not by the driving force of competition and innovation.

The complement of the economic critique is the widely held notion that Latin America's abominable pattern of inequality are also due, at least in part, to this import substitution model. The social critique can also be framed in what Evans termed the "antischumpeterian triangle" of State, Urban Labor and Industrial Elites. The Import Substitution Model redistributes income within this triangle but in the process deprived other social sectors of protection and benefits.

In the first place, it clearly hurts landed elites that have to part with some of their profits in order to finance subsidies and also have to accept an exchange rate that diminishes the

competitiveness of their products. This group, in contrast to the industrial elites protected from outside competition by the Import Substitution Model is a price taker in the market and thus cannot pass its losses to the consumer or buyer.

Secondly, rural labor and small agrarian propertied classes lose. The burden of countries' development rests in this model within the tradable sector that in most of the region was based on a couple of agrarian staples. Medium and small proprietors who sell their product to larger export conglomerates are the weaker link and thus will be passed on part of this burden. Consider now rural labor. Again, elites can only pass onto them their costs in the Import Substitution Model. This happens through the impact that rentist behavior and low investment have on agrarian labor, wages and employment.

Finally, consider informal urban labor. These workers are not protected in the Import Substitution Model. They are indeed the surplus labor the model could not incorporate with their rate of industrial development and state employment. While they do not benefit from the protection and subsidies that both formal labor and entrepreneurs enjoy, they do suffer the increases in prices that this model generates by passing increasing wage costs into commodities prices. The end result is that these societies end up dual, with a small protected domestic modern sector and a large unprotected rural and informal urban popular sector.

Yet, a central error of the overall critique of the social aspects of the Import Substitution Model is that it does not take into consideration the important variations it presented throughout the region. In effect, not all countries developed the social side of the Import Substitution Model equally. In other words, the size of the antishumpeterian triangle varied widely within Latin America. While the Import Substitution Model critique might very well be valid for cases in which the triangle reached less than a third of the population, it is less so in cases in which it reached more than half of it, and clearly without merit as we move to the few cases in which most of the population benefited from transfers from the landed elites and the export sector to the urban protected sectors. While dual social realities represent the end result of a good part of Latin America, Central America ended up not dual but exclusionary, precisely because the ISI model was weakly advanced, not because of its strength. Finally the southern cone countries did not end up dual but rather universalistic, though they did end up highly stratified in their system of social benefits and protection. Both cases of dualism and universalistic stratification played a central role not simply in protecting their population but also in building democratic and semi democratic regimes. The political process of incorporation of the popular sectors and the middle

classes is to a large extent the social process of incorporation of these sectors, into education first and social security and health care later.

Yet a part of the social critique of ISI makes perfect sense. Overall our social states were inefficient in giving basic protection to its citizens. Inefficient, but some of them not necessarily ineffective. Highly stratified social insurance schemes based on contributions from wages, health care for the middle classes also based on stratified differentiated systems of compulsory and voluntary insurance, and the absence of a strong tax base to support non-contributory health care and education made for inefficient, deficit prone and quality stratified social protection systems. Yet, while this is true, the road open for reform is not self evident. Latin America opted both in its new economic model as well as in its new social protection system overwhelmingly for neoliberal solutions. The reasons for such a choice place a big interrogation sign on the quality and sustainability of our regional democratic processes: fiscal stress, national and international elites narrowly understood self interest, avoidance of immediate domestic political costs by parties and party leaders, and weakness of a broad based political movement from below.

AGENDA, REALITY AND POLITICS OF SOCIAL SECTOR REFORM AFTER THE 1980s

Both the diagnosis and the international and internal forces pushed for social policy reform. The content of such a reform should, in the eyes of those who criticized the old model, be able to avoid the problems and inefficiencies of traditional social policies. In order to do so, certain basic features of what the new social policy system should look like slowly took shape in the minds and documents of market oriented social reformers: targeted social policies, decentralized administration and decision making, private providers both for profit and non for profit, and a shift from supply based social policies to demand based social.

The menu for reforms is today a matter of debate, but it truly represented a new Washington consensus in the 1980s and especially in the early to late 1990s. Such agenda was different in its liberal stress and accomplishments depending on countries realities and politics as well as policy sector specific configurations. For reasons of space and because they carry the basic blueprints of broader social state reform I will concentrate my analyses on social security reforms in the 1990s⁶.

⁶ For a discussion of the 1980s social policy reforms see my previous paper, basis of this chapter.

b. A peculiar liberal route of reform: social spending and social security.

i. Recovering social spending

If the 1980s were characterized by an impasse and a process of restructuring by default with decreasing social spending, absence of structural social state reform and emergency funds strategies, the 1990s would imply a definite structural shift with an articulated liberal agenda. On the other hand the 1990s were also times of expanding social spending and of persistent corporatism. Let us unravel the paradox.

On average for 17 Latin American countries, public social spending went from 350 dollars per capita to 550 dollars per capita. The analyses performed by ECLAC on the evolution of social spending shows that the reasons behind this important increase are not due solely to GDP growth or to an overall expansion of state spending. A large part of the new dollars for social policy came from an increased fiscal priority of social policies. What may even be more important, after 1997 when growth slowed down and so did total state expenditures, social spending continued to crawl upwards until 1999. The deepening of the regional economic crises brought social spending to a halt in some countries, but remained moving slowly upwards in others. All in all as a percentage of GDP the 1990s showed a robust recovery of social spending. This also translated into better per capita expenditures, even in amplified form, since 1990-1997 was a period of GDP growth in Latin America.

TABLE 3
Social expenditure variations as a percentage of GDP for Latin American countries.

	1990-1992	1992-1994	1994-1997	1997-1999
Argentina	8.0%	9.0%	-6.0%	4.0%
Brazil	-2.0%	13.0%	-2.0%	7.0%
Chile	5.0%	0.0%	6.0%	11.0%
Colombia	18.0%	22.0%	33.0%	-2.0%
Costa Rica	-3.0%	5.0%	6.0%	-1.0%
Honduras	8.0%	-9.0%	-6.0%	3.0%
Mexico	25.0%	9.0%	-3.0%	7.0%
Nicaragua	-2.0%	19.0%	-13.0%	15.0%
Panama	5.0%	2.0%	6.0%	-7.0%
Paraguay	10.0%	13.0%	14.0%	-7.0%
Peru	45.0%	21.0%	5.0%	11.0%
Uruguay	12.0%	7.0%	3.0%	9.0%
Venezuela	-1.0%	-15.0%	9.0%	4.0%

Non weighted average	16.8%	7.4%	4.0%	4.2%
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Source: CEPAL, Panorama Social de América Latina, 2000-2001.

If democracy had been unable in the eighties to stop the fall of social spending, in the nineties, partially helped by the economy, social spending recovered vigorously. A large part of this increases went to health care and education, allowing for an important expansion of these services. Yet for reasons of space and time I will not concentrate on education and health care reforms. They are indeed relevant but they require paper on and of itself. Health care will be considered but as a close sibling of social security reform. In many countries the share of the lion in this rapid increase in social spending went precisely there, and did so, not just to finance old obligations, but also to cover the costs of structural transformations.

ii. Relevant nuances and their political keys in the liberal trajectories in social security.

The 1990s placed Latin American as a definite world laboratory on pension reform. After the pioneering reform of 1981 in Chile, little had happened for the rest of the decade besides some relevant parametric reforms in Uruguay and Argentina. Yet in the 1990s the liberal agenda came with a vengeance in the region. If we count Nicaragua and the Dominican Republic who have legislated though not yet implemented reform, eleven countries introduced compulsory individual capitalization funds administered by private firms or by private and parastate entities⁷. There are three central new and powerful actors to be considered when we analyze the causes behind social security reform in Latin America in the late eighties and throughout the nineties: local and international financial interests, multilateral agencies, and democratically appointed techno-political elites with a strong representation of economists. In addition there are traditional actors that operate and interact with these new players: trade unions and beneficiaries from the old programs of the social state. And there is a stage where these players made their moves: with the exception of Chile (and to a certain extent Peru) major reforms were carried out in democratizing or democratic and fiscally constrained yet not fiscally bankrupt contexts and with credit lines for certain types of reforms and social policy innovations. Such stage and such players led to a peculiar mix of reform. A play where on the one hand

⁷ Chile did it as we said in 1981, Perú in 1993, Argentina in 1994, Uruguay in 1996, Mexico, El Salvador and Bolivia in 1997 and Costa Rica in 2001.

previous privileges were partly maintained, while future beneficiaries entered a more market-based, rather than occupationally and status-based social security systems. Privatization along the lines of liberal regimes combined with the persistence of bismarckian and many times dualist models were sought as the predominant routes of reform. In the cases where structural reforms did not take place two major strategies were considered with dissimilar results depending on the countries: parametric reforms and homogenization reforms.

Among the countries that sought liberal lines of reform we find countries that belong to the three different types of social states that had developed between the 1930s and 1970s. Indeed what is most surprising in these trends of reform is that countries facing widely different challenges in their social protection systems leaned toward the private solution (Mesa Lago, 2002, 2004; Muller, 2003). Yet it is also true, that with the exception of Chile, the two other universalistic stratified countries and also Costa Rica, all under a democratic regime assumed the mildest form of privatization of social security. Among the dualist countries only México moved to a private system and did so much more radically than the universalistic countries, closing down the old system, and did it still under the PRI administration. Brazil under a democracy and with the constitutionalist movement of 1988 did not seriously consider at any point privatization. Perú under the “constitutional dictatorship” Fujimori, and with a legacy of peculiar truncated case of dualism, moved to the private system but maintained the old system, with minor parametric reforms as a competitor. Yet by increasing contributions in the old public tier, Perú provided central incentives for people to move to the private option. Furthermore, all new contributors enter directly into the private system. In short the public system today is being closed down with less than 5% of all contributors. Finally those exclusionary countries that moved towards privatized social security systems, Bolivia and El Salvador, did so radically, closing down or phasing out the previous pay as you go systems.

Yet this transformation of social security systems was less liberal than one could assume at first sight. The main reason, is that most countries did not include in these reforms some special privileged groups from the past. The following table based on Mesa Lago’s thorough and keen evaluation of the reforms combines information of the shift to liberal systems in Latin America and the remaining legacies that each system kept from the times of privilege.

A second reason is that many countries did not incorporate what is today a standard instrument of liberal regimes for dealing with those that do not reach the qualifications to be granted a pension: a non-contributory means tested social assistance pension. Some of the countries that adopted liberal models do offer a state guarantee that if the contributor does not

reach an adequate contribution and thus pension value, the state will provide the difference up to a basic pension. Yet this is different than the social assistance non-contributory pensions, since for eligibility some years of work and contributions are still required. No democracy, with the exception of Costa Rica and Uruguay, dealt with the issue of non-contributory protection as a major issue of the reform, yet all the democratizing or democratic regimes honored old time beneficiaries and lobbies leaving them out of the reform or buying with additional privileges their non-opposition.

TABLE 4

	PAYG Tier	Role of private tier	Remaining privileged systems	Social Assistance
Uruguay	Remains	Second tier	Armed Forces, Bank employees, Notaries, State University.	Yes
Argentina	Remains	Second tier	Elected officials, judiciary, diplomats, provincial civil servants, independent professionals.	Yes
Costa Rica	Remains	Second tier	Judiciary and Teachers	Yes
Chile	Closed down	Substitutive	Armed Forces	Yes
México	Closed down	Substitutive*	Civil servants (federal, state and municipal), oil company workers.	No
Colombia	Competes	Competes	Most of the Public Sector, elected officials, oil company workers, teachers.	No
Perú	Competes	Competes	State employees (phasing out)	No
El Salvador	Phased out	Substitutive	Armed Forces	No
Bolivia	Closed down	Substitutive	Armed Forces go to new system but with privileges	No

Sources: Mesa Lago, 1999; Mesa Lago 2004, Muller, 2003

* Protection for Sickness and Death was not privatized.

The first questions that naturally comes to mind is: why didn't the liberal reform hailed as a better deal for future beneficiaries include those who control, run and or have the coercive means of control of the state? The question is of course rhetorical. Under the liberal regimes they would loose part or all of their previous privileges. These privileges include in most cases better replacement rates, earlier ages of retirement and broader coverage of personal and family risks that are covered by state resources beyond contributions or by private state endowed tariffs for services (independent professionals).

Another question that is relevant to pose and that might give us some clue as to what were the politics of social security reform is why under such different previous regimes did all countries incorporate, albeit, to differing degrees private capitalization funds. Part of the answer rests on the major political force behind these processes of privatization: the multilateral lending agencies.

It is indeed true that the universalistic countries shared a common problem of chronic deficit and a active population to pensioners population ratio that made it hard to sustain a pay as you go system into the future. It is also true that this situation had led the universalistic countries to finance social security only partly from contributions. In Argentina and Uruguay previous to the reform almost half of all social security revenues came from general taxes, not from contributions. Technically this allowed for three basic solutions: individual capitalization funds, collective capitalization funds or a shift to a general tax based financed social security system.. Both the second and third choice allows for intragenerational distribution of rent and risks, the former does not (Huber, 1996). The choice was always for the former. Only the universalistic countries with the exception of Chile allowed for a redistributive dimension in the form of PAYG systems. Besides the MLAs, the reasons for such a choice lays additionally in three major players: domestic and international financial capital, old privileged groups in the previous social security system and neoclassic trained economist in the Ministries of Finance, Central Banks and Economics.

The influence of the Chilean example and of the World Bank publication "Averting the Old Age Crises" cannot be sufficiently stated. But there were also concrete pressures from the MLA for countries to push this type of reform. For political elites this allowed for an easy way out of their social security crises. Loans would help cover the costs of transition, which is simply another way to say, that they would subsidized the phasing out of the old systems, while the promise of better pensions could be made with a time frame for contrasting such claim well ahead of their periods in office (Kay, 1999). In Argentina and Uruguay the increasing organization and actions of the retired people's movement placed mounting fiscal pressure on an already bankrupt system. The defense of the old system by these constituencies tended to struggle for better pensions within the old stratified social security system. The left usually aligned themselves with these movement as did the trade unions. Government on the other hand and their political parties increasingly looked at MLA's both for financial support and technical support.

While in most countries either the crises of social security or fiscal and economic crises helped set the stage for reform, the driving force behind such reforms came from domestic economic elites and international financial agencies.

The Bank Association of Argentina had made a proposal for privatization as early as 1992, and the IADB and the World Bank had also explicitly pushed for privatization Chilean style. In the agreement of 1992 with the IMF it was explicitly stated the need and commitment of the Argentinean government for privatization (Muller, 2003). In Uruguay a consultancy from the IADB drafted in 1993 a document indicating that parametric reforms would not be sufficient to deal with the crises of social security. Increasingly the political arena in Uruguay became divided with one side composed of the left, the trade union movement and the retired people's movement defending the old system, and the governments trying to find a way out of the crises (Filgueira y Moraes, 1999). In 1995 a team of experts that came with 3.8 million dollars loan promise from the IADB and a team of government experts worked for three month, isolated from the political process, coming out with the proposal that would finally be approved.

Democracy helped moderate and at the same time keep the privileges of old beneficiaries in the systems of Argentina and Uruguay. The case of Costa Rica shows a different pattern. Thought as a needed reform and also with definite assistance of the MLAs, Costa Rica also developed a wide ranging negotiation with social and political actors at the same time that it pushed for a reform that would increase coverage. The end result is a liberal reform with egalitarian undertones (Martinez and Mesa Lago, 2003). Of the 19 privileged systems for pensions of the past only two remain: teachers and the judiciary, and the non contributory pensions remain as a major pillar of the system (Mesa Lago, 2004).

In the case of Perú, the need to gain the recognition of the MLAs made Fujimori a staunch defender of structural reforms, where social security was one of them. Once again the economists, the MLAs and the political need of the executive guaranteed a rapid reform, the first to be carried out in Latin America after the Chilean reform. After the coup of Fujimori in 1992 the stage was set for reform. Yet after publishing the draft of the reform law serious opposition from the beneficiaries of the old models and from the trade unions limited the reform proposal and ended up maintaining the old system parallel to the new one. Yet a number of incentives implied that by 2001 the public system was bankrupt and small. As of today Perú is steadily moving towards a purely private system (Muller, 2003). Bolivia's path to reform was marked by the open opposition of trade unions and left wing parties and by the support of the business and financial community. The program of reform was also linked to a broader privatization plan (capitalization

plan in the words of the reformers) and once again relayed on the financial and technical support of the world bank and the technical support of Chilean experts. Once again this reform met with the opposition of trade unions and retired people. In its Capitalization Program Adjustment Credit the World Bank made future loans conditional on pension structural reform. In 1997 the law was passed and despite constitutional complaints by beneficiaries has so long stayed in place (Muller, 2003).

In México the crises of 1994 open the road for wide ranging attempts at structural reform. The idea behind pension privatization was not simply to deal with a system that was approaching fiscal problems, but more to open opportunities for investment and capital markets. The proposal by the Zedillo government of 1994 did not face the opposition of the workers confederation, but did have to confront both opposition parties and the very vocal trade union of the Mexican Institute of Social Security. Yet the support of the entrepreneurs that saw their contributions diminished and the support of the MLA's tilted the balance and allowed for the law to be approved. Besides capitalization this was an important parametric reform that made eligibility much more harder by drastically increasing the needed years of contribution. Finally, it must also be noted that in the case of Mexico, together with this privatization reforms, the old emergency fund strategies of the 80s persisted and enhanced their aims and population coverage. Pronasol, would turn into Progresa and then into the Fox government program Oportunidades. This program targets the poor and transfers rents in exchange for school attendance and health check ups for mothers and children in this population. At present it is one of the most important social programs in the country with a coverage of 4.6 million poor households.

Given this very scant description of the politics and major features of social security reform in the countries that introduced liberal reforms, some patterns are worth mentioning.

- All reforms counted with the technical and financial support of MLAs. In some conditionality was a major instrument pushing reforms.
- All countries faced fiscal or economic crises, some located within the social security system, some beyond it.
- In all countries the business community was either an open supporter or a sympathizer of the reforms. Consistently in most countries entrepreneurs contributions either disappeared or were clearly diminished as a basis for financing social security.
- With the exception of México, where there is not a clear opposition from trade unions, labor opposed these reforms, as did old beneficiaries. Most beneficiaries from the old

models were able to see their entitlements honored and in some cases kept their old systems squarely in place.

- No alternative proposal to the liberal model was either made or gained adequate visibility. The left, trade unions and beneficiaries, defended the old model and pressured for increased resources.
- The non contributory social assistance pensions were rarely a major issue in the reform proposals. Clearly no party and no social movement pushed forward or at least was able to place that area of reform in the center of the agenda.
- Indeed, the mottos of reform were about fiscal, economic, efficiency and equity concerns (understood as getting out what you put in), not about coverage and equality.

Democracy and politics played a definite role in these reforms, but did so in a rather perverse fashion. The old state constituencies of the ISI model were usually able to hang on to a large part of their privileges especially where they were either a part of the powerful old lobbies or a large electoral constituency, while private workers were moved to the capitalization funds. The absence of representative parties and of ideologies that looked at social policy as a matter of social inclusion rather than poverty alleviation, left the historically and newly excluded sectors without institutionalized forms of protection or very weak forms of protection. On the other hand the need of democratic governments to balance their budgets and have a positive credit line with MLAs led them to support structural adjustment packages that included the newly privatized creed on social security. By shifting from PAYG system to private capitalization systems and by getting financial backup in the form of credit to finance the old deficit prone system, political elites with debt bought time well beyond their times in office (Kay, 2002). Both fiscal costs of present days reforms will only be known in the future when countries have to pay their debts with MLAs and when the new capitalization private system start to pay their pensions. These costs have indeed been pushed well into the future.

Regarding social costs, most models built to predict the effect of these reforms on future social situations of the elderly suggest that both coverage and inequality will suffer. A simple table on the percentage of population covered by one or two tiered models clearly points to the deficit in coverage that these systems will have to face in the future.

TABLE 6

Coverage before and after structural social security reforms measured by percentage of the
population making contributions to social security

	Coverage by actual contributions before reform	Affiliates considering all tiers after reform (2002)	Coverage by actual contribution considering all tiers after reform (2002)
Chile	64	111	58
Argentina	50	69	24
Uruguay	73	77	60
Costa Rica	53	65	48
México	37	72	30
Colombia	32	59	24
Bolivia	12	23	11
El Salvador	26	40	19
Perú	31	28	11

Source: Mesa Lago, 2004

Will the state eventually confront this incoming crises with some form of a flat rate non contributory social assistance pension for all. The fact that today most of these regimes are democracies suggests that this might well be a possibility, since many will reach old age without adequate social security protection. If this happens, then the road open for a more egalitarian and inclusionary social security system might be in the wings. The cases of Uruguay, Costa Rica and to a lesser extent Argentina are best positioned to attempt such shift. They kept their PAYG systems and they all have some form of social assistance non-contributory pensions. If such becomes the first integrated pillar with collective capitalization funds or with flat rate benefits (be them means tested or universal) financed out of general taxes then basic universal income protection might be closer than what the last twenty years of reform might lead us to expect. Oddly, Chile, the most liberal of all regimes might also be moving in that direction. The fact that only 50% of the population is currently contributing to the private system leaves and immense amount of people with no protection in their old age. In addition Chile, Brazil, Uruguay, Argentina and Costa Rica also have some form of rent guarantee for the working population with children (México's Oportunidades also has developed such a system) and in the case of

Argentina they have also developed a *suigeneris* form of unemployment insurance with the plan “Jefes y Jefas”.

The case of Brazil: averting the private utopia crash and in the road from dual to basic inclusionary universalism?

The Brazilian dictatorship of 1964 inherited a stratified dual regime based on the ISI model. In contrast with the later authoritarian regimes of the southern cone, the Brazilian government did not pursue neoliberal reforms, but rather deepened the ISI model. In doing so, and doing so with a certain degree of success, Brazil continued to modernize its social structure, and with it diminish its dual, though by not means, stratified nature. Yet by 1970 almost thirty percent of the urban population and most of the rural population had no form of protection in the Brazilian system. But the military regime, besides pushing the ISI agenda, did two things that would start to redefine the spirit if not the reality of its social state. First between 1966 and 1976 the state unified and standardized a good part of the social security system under the authority of the Ministry of Social Insurance and Social Assistance. While this did not imply a suppression of benefits it did take the old corporations out of the management of the system. Secondly it pushed for the expansion of coverage of the non organized population, especially the rural worker, by creating the rural pensions fund (FUNRURAL) with no contributory base on the side of the rural worker and by also expanding health care to the previously uninsured urban population and part of the rural sectors (Fleury, 2001). Despite the fact that resources were not enough to turn these initiatives and translate them immediately into major transformations in terms of coverage, they generated three positive developments: they set the stage for the democratic governments to come, they fueled the health movement (*sanitarista* movement) with doctors and medical personnel that entered as civil servants into these new social protection systems, and they also contributed, later, even in the authoritarian regime to an important expansion in coverage of the rural population contributing to the process of politization and mobilization of the rural base (Dos Santos, 1979). Maybe the most important aspect of FUNRURAL is that it veers away from the notion of social citizenship based on formal wage citizenship. In doing so, Brazil had made a major leap towards the possibility of a basic inclusionary universalistic system.

The democratic transition of Brazil brought with it an effervescence of participation and organizations, some from the old ISI model, but many from the new constituencies and the

historically excluded. The constitution of 1988 would for the first time recognize social rights as inherent citizenship rights, and such result is indeed the direct product of a broad alliance between opposition parties to the regime and new social movements that emerged with democratization. Yet together with it came new democratic pressures from the powerful old beneficiaries of the social security system. While the social security law defined three universal pillars based on health, social insurance and social assistance, a large part of the social protection system was still going to cover the 1.000.000 plus retirees of the privileged state structures in an altogether differentiated system. Also the very letter of the law recognized two different principles, one of citizenship and one of insurance. Most of the income transfers remained in the area of social security while social assistance would grow but at a moderate rate. It was in the area of health care that the most radical transformation took place, creating the Unified Health System (Sistema Unico de Saude) granting free, universal access to all the Brazilian population. The sanitaria movement started in academia and with a part of the medical corporation became the leaders of a wide political movement pushing to turn the letter of the constitution into policy and resources.

Yet Brazil tends to write its laws ahead of its resource base and resource commitments, and thus real access and quality many time suffers the consequences. The popular phrase “paper citizenship” that many Brazilians use, illustrates the point. Still, coming from a dual and stratified system, Brazil has made important progress towards a more egalitarian basic inclusionary system (Draibe, 2002)⁸.

Only after the old corporations that were in the base of the ISI model of social protection had been attacked by the military, and only after a new set of parties, one with technocratic social democratic leanings oriented politicians (PMDB) and another that combined constituencies from the old workers of the ISI model and the historically excluded (PT) did the politics of social protection shift from narrow corporatism, not to liberal privatization, but to embryonic basic inclusionary universalism.

⁸ The passing of the Organic Law of Social Assistance and the creation of “bolsa familia” of a pension for poor families that joins the old age social assistance pensions are also steps in the same direction. The recent reform of social security, limiting and in some cases suppressing the privileges of the old state insurance systems advances towards the same goal.

REALITY AND PROSPECTS OF SOCIAL POLICY AND DEMOCRACY IN LATIN AMERICA

Universalistic, dualist and exclusionary countries no longer fit their 1970s molds. New models have emerged in Latin America. Chile stands alone as a universalistic liberal residual regime that has attempted steps towards a less inegalitarian social protection system. Costa Rica and Brazil seem to be making strides towards a basic protection inclusionary regime with stratification at the top, but are still a long way to go, given previous privileges and the scarcity of quality broad coverage in non contributory social services and social pensions. Uruguay and Argentina after their liberal turn, and because they retained both the PAYG systems and the social assistance pensions might also move in that direction.

México stands at the crossroads with a model that seems to have two purposes: efficiency and fiscal responsibility with limited coverage for present population, and targeted integrated programs for the poor, aiming more at breaking the intergenerational transfer of poverty than at combating poverty in present days (Brachet, 2004). Yet in the case of Mexico, Argentina and Uruguay there is also the need to address the issue of special privileges from the old systems.

The future of the social state in Latin America will, hopefully be, the history of its future democratic struggles. Never as before, has the region known such an hegemony of democracy and such an expansion of basic political incorporation measured in terms of clean, regular and free elections where all or most of the adult population can and does vote. In this single fact rests, maybe, the biggest hope for social citizenship in Latin America. Also, the recent backlash to neoliberal reforms and the electoral victory of left leaning political parties in a good part of the region, also suggest that there is new room for manoeuvre. But as the last 20 to 30 years of social policy crises and reforms have shown (1970s-1990s), such future might well be impaired, by the constraints posed by global capitalism, the beliefs and interests of its financial gatekeepers, the defense of patrimonial privileges of the middle classes, and by the frailty of Latin America's tax systems and their political basis of support.

Yet there is room for moderate optimism. After almost two decades of the wrong medicine for the old social states, political realities and technical possibilities are coming together and might shape a renewed and better road for the creation of true welfare regimes. There is, of course a distinct more pessimistic outcome: the increasing disappearance of the state not just as provider of social protections, but its disappearance as a basic provider of

public goods in general (security, basic services, justice systems, public infrastructure, etc). In its place a sort of neofeudal order might remerge with market solutions for the rich, retreating but still regressive corporatism for a shrinking middle class, and a large excluded mass of population orphan of any form of basic quality state protection.

Structural conditions and political actors both national and transnational will be key in defining the future routes of the Latin American States. For the first optimistic road to triumph, it is necessary that elite based and popular based political parties reach a historical compromise. Such compromise can only be reached if previously both elite parties and popular based parties are capable of redefining their leadership regarding their old and new constituencies. Indeed one of the major problems facing the political systems of Latin America is that parties leaning left and parties leaning right tend to privilege the representation of the constituencies from the old developmental model, rather than the new real constituencies that emerged from the breakdown of the Import Substitution Model and the emergence of the new export oriented model.

The political will, though, will not only be needed at the domestic level, with parties that address broad interests rather than narrow lobbies and financial interests, but also at the transnational level, requiring a more drastic humbling of the MLAs as to their responsibility and future action regarding twenty years of misguided developmental turns of the social state. Neither social emergency funds, nor fiscally restrictive budgets, nor defensive and regressive corporatism and even less private and market oriented solutions to social protection have proven adequate for the immense challenge of incorporation that lays ahead for the Latin American states and people.

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