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Welfare and Democracy in Latin America: The Development, Crises and Aftermath of Universal, Dual and Exclusionary Social States

Fernando Filgueira
Acadaemic Coordinator, IPES, Universidad Católica del Uruguay

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UNRISD, Palais des Nations
1211 Geneva 10, Switzerland

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Fax: (41 22) 9170650
E-mail: info@unrisd.org
Web: http://www.unrisd.org

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Introduction

Citizenship in Latin America, be it civil, political or social has been elusive and fragile throughout its 20th century history. Coerced and semi coerced labor along racial lines in the late 19th and early 20th century, extreme levels of inequality, a centralist and patrimonialistic institutional and cultural tradition and elites that regarded themselves as subjects of privilege rather than citizens with equal rights and duties, conspired to create states that rarely considered the fate of the people. Only when the oligarchic states broke down and gave way to the need for a modern bureaucracy and a modern state and then to a new development model and to something approximating mass politics (not necessarily neither usually mass democracies) did a social dimension of the state emerge. Among the three processes mentioned –the development of modern states and bureaucracies, the emergence of a new development model and mass politics with democratic interludes- the first two processes were, in this early stage, definitely more important in defining and shaping the social states of Latin America than the latter, especially if we require of the latter the connotation not merely of mass politics but also a resemblance to democratic mass politics.

Indeed, the history of the Latin American developmental social state is the history of Statecraft and of the Import Substitution Model and its political manifestations, mostly authoritarian and corporatist, but rarely democratic. It is more the history of elite accommodation, elite's state building and elite's attempts to co-opt and control non-elite sectors than a history of popular achievements and shaping from below. This does not mean that social and labor organizations, parties, and popular struggles played no role in the building and especially in the expansion of the region social states, but rarely were popular based political and social actors seated at the driver's seat. They were, yes, in some cases central coalitional partners of the populist regimes of the 30s, 40s and 50s, but under diverse forms of cooptation, clientelism and patrimonialism, and they entered the system rarely as a unified grass roots movement, but rather as fragmented narrow lobbying forces.

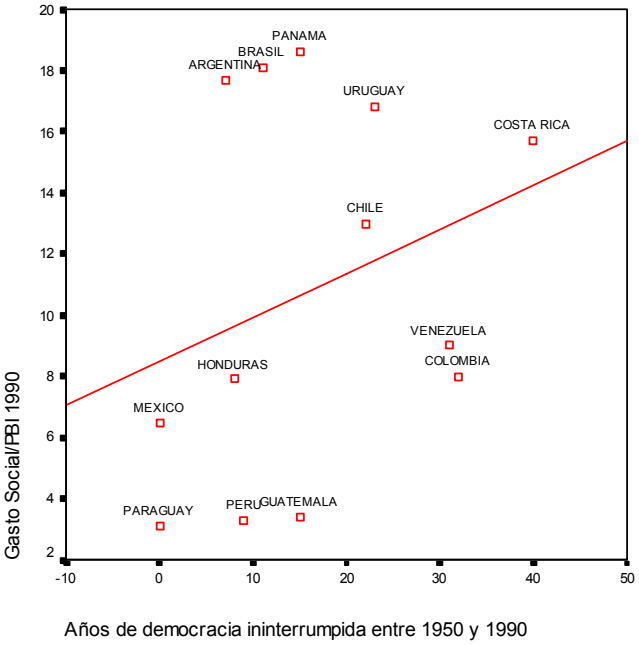
In this paper I will first go over some basic quantitative data with the single purpose of suggesting the relevance of the democracy-welfare hypothesis regarding social policy effort. Secondly I delve in depth into the development of the Social States, linking such development to the characteristics of their Import Substitution models and the politics of specific countries. I propose a typology that defines three different groups of social states in Latin America and try to unveil de political and developmental determinants of their emergence and expansion until the 1970s, when the ISI model broke down and the political regimes of the most advanced social state changed drastically. Finally I undertake the analyses of the social state transformation in the last two decades and a half, looking at the era of neglect in the eighties and the

liberal turn of the nineties with an emphasis o social security reform. In that section I attempt to show how democratic policies had both a positive effect (moderating the liberal character of reform) and a negative effect (allowing for the persistence of privileged groups within the system).

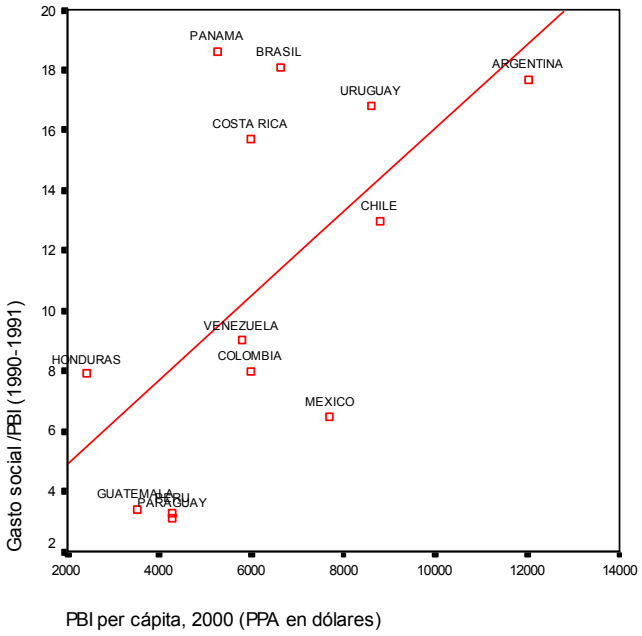
SOME SUGGESTIVE DATA ON SOCIAL POLICY EFFORTS AND DEMOCRACY

To claim that democracy and democratic struggles have been, empirically, a rare building block of the region's welfare regimes, 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. I will consider the country specific models of developments and their politics further ahead, but before, it is worth to delve into some very basic evidence regarding democracy and social state effort at the cross-national level with the support of some simple quantitative data. 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



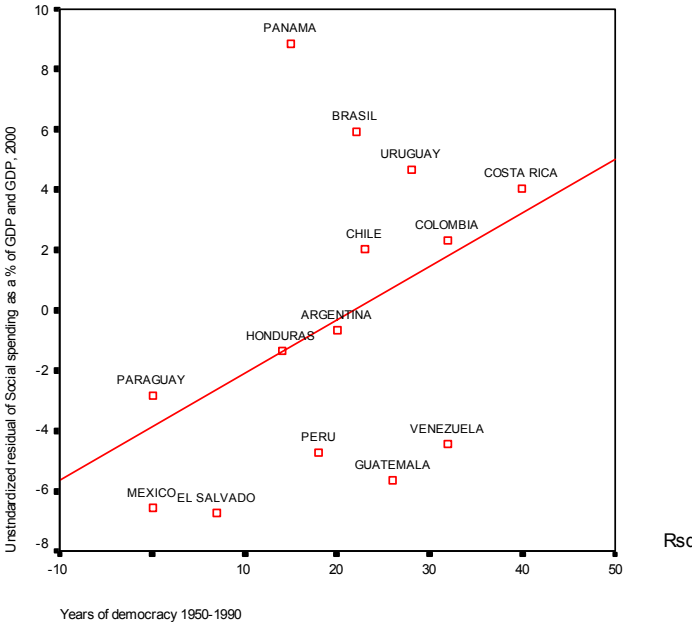
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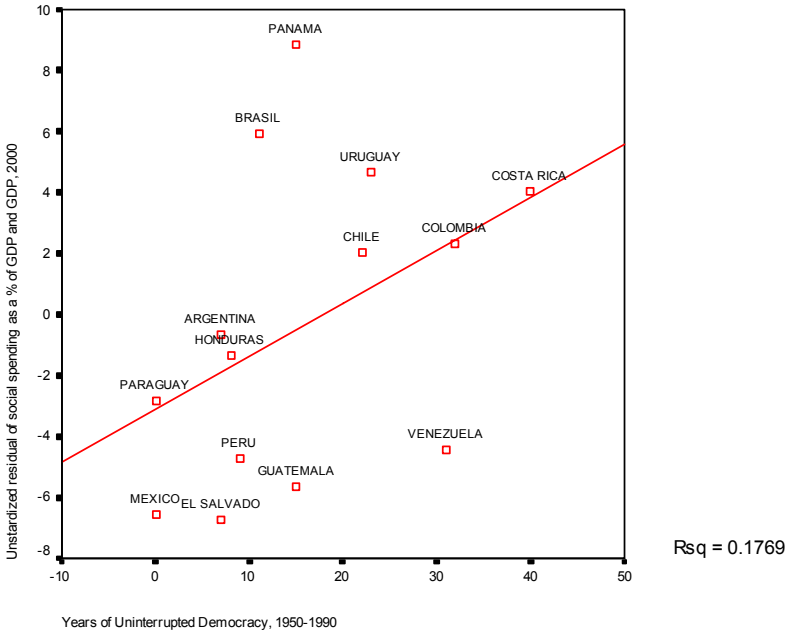
Source: Author on the basis of data from Przeworski et all, 2000, UNDP Human Development Reports, and CEPAL, Panorama Social de América Latina, 2000, 2001, 2002.

This evidence would strengthen the argument that claims that social state's basic engine is not politics but economics. Indeed the relationship between GDP and percentage of GDP destined to social spending, presents a far more robust relationship than that of democracy and social spending as a percentage GDP. Of course, GDP per capita alone leaves much unexplained. Costa Rica and Mexico are two cases were it is evident how little GDP helps us explain social spending. Yet when we consider, not social expenditure as a percentage of GDP, but the unstandardized residual of such social spending as a percentage of GDP on GDP per capita, the hypothesis of the effect of democracy in general and of stable democracy in particular seems, at least to barely hold its ground.

GRAPH 3



GRAPH 4



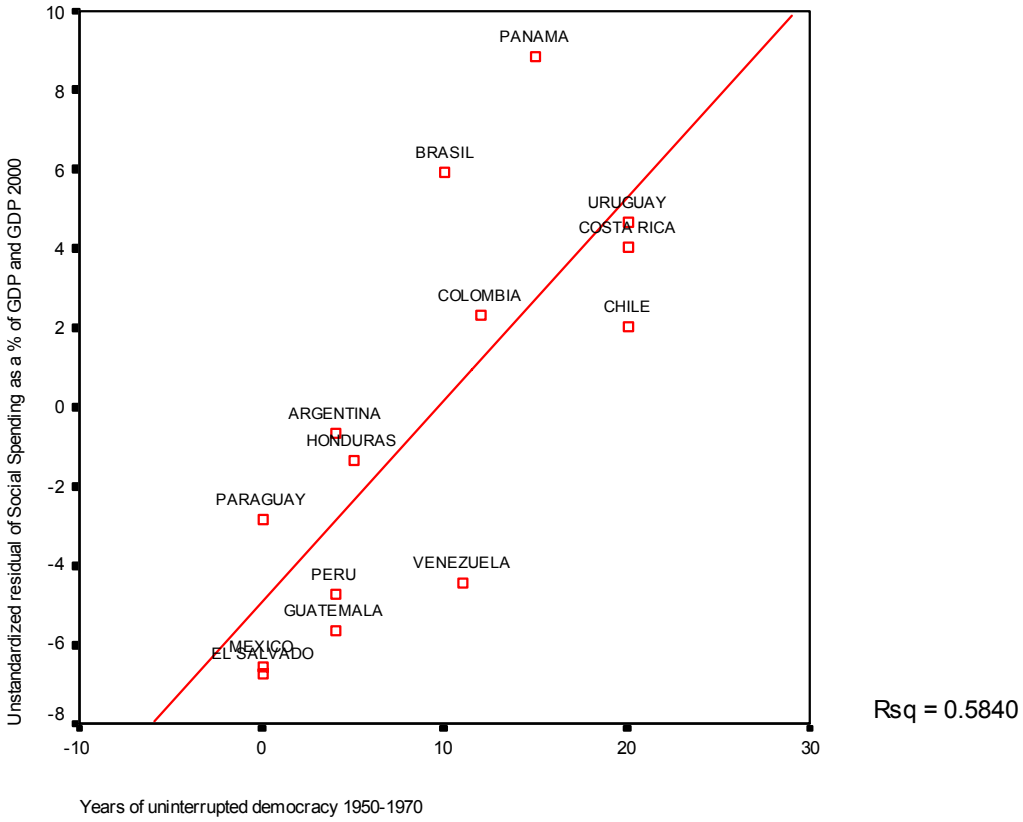
Source: Author on the basis of data from Przeworski et all, 2000, UNDP Human Development Reports, and CEPAL, Panorama Social de América Latina, 2000, 2001, 2002.

Yet this is indeed not a very strong relationship, but only one that suggests that democracy and social policy effort are not altogether unrelated. 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 an 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 were 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 5

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 all, 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, render any strong assertion unwarranted. 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 or relatively stable democratic rule, a social policy effort above and beyond the

mean expected social effort given a country GDP should be expected to emerge and to be sustained despite regime changes in the future. 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. As I will also discuss later it might also help, not merely to increase social spending, but also provide a new architecture to the Latin-American Social State. One that is less stratified and more universalistic.

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 were 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. 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 perception of threat felt by domestic elites, 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.

Still as I will try to show there is room for moderate optimism. Latin American social states stand at the eve of a major transformation. I will claim that 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), thus undermining the very notion of nation-state. 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. Yet as I will try to show, 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 ISI MODEL OF DEVELOPMENT, POLITICAL REGIMES AND ACTORS: THREE TYPES OF SOCIAL STATES

1. Historical roots and divergent paths.

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[1], 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.

Such social state was mostly inexistent by the turn of the 20th century and well into its first twenty years. What did exist were the embryos of the future social state in the pioneer countries in the form of insurance schemes for state employees, public health concerns that translated into some sanitary measures and primary education expansion as a means to discipline and homogenize the rural migrants and the European immigration. As a region we can only properly refer to a social state starting roughly in the 1930s and then maturing and expanding throughout the 20th century. The four key sectors or areas that express the beginnings and expansion of the Latin American Social State and its different shapes and models were and still are: education, health-care, pensions and transfers, and price controls and subsidies.

When considering the evolution of the social states until the 70s I will consider education, social security and health care. For the analyses of recent transformation, between the 1970s and 1990s, I will focus on pension reform with lateral comments to health care reform. 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 and small propertied classes.

[1] As we shall see later Uruguay and Argentina in the 1960s and early 1970s, and Costa Rica more recently might be the only countries were it might be appropriate to speak of welfare regimes.

I have argued before -and will attempt to build upon my earlier typology- that three distinct forms of social state developed in Latin America until the 1970s: stratified universalistic, dual and exclusionary. I also sketched a structural and political explanation that directly linked these types to how economically inclusionary were their ISI models and to the organization and response elite's gave to the political pressures of subordinate sectors. In this paper I shall attempt to go deeper into the political basis of these models, especially the universal stratified and the dual regimes, and I will also consider their crises and further evolution. Indeed I will try to show how after the 1970s these three models went into a critical phase and into a critical juncture giving birth in the early nineties to two new possible models, one already tested leaning on the neo-liberal creed, the other still struggling to take shape: an egalitarian exclusionary basic protection social state, or if we are to take risks, what could be labeled an embryonic Social Democratic Latin-American State. 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 both democracy and the social state in Latin America.

2. A Typology of Social Policy Systems in Latin America until the 1970s[2]

A particular form of "Keynesian" politics informed a big part of the development models in Latin America between the 1930s and the 1970s. Theoretically, the Import Substitution Model was articulated into the "Cepal" paradigm and owed its basic tenets to Raul Prebisch. In such a model, the State assumed a central role in the process of economic and social development. By extracting taxes from the export of staples the import of manufactured and capital goods, large property holdings and some consumption taxes, the state apparatus of the region protected and financed the growth of the industries oriented to the domestic production through subsidies and diverse protectionist means. In addition, the State had the role of absorbing the "redundant" work force and of providing the capital for basic works of economic and social infrastructure. This model allowed an important process of social and economic modernization. However, it did so with systematic bias in the distribution of benefits of this development; specifically in welfare policies. Such policies presented a limited development that was strongly biased to the urban sectors and with preferential coverage for those incorporated into the formal labor market. The rural workers and those employed in informal and secondary markets were excluded from protection. In addition, the sectors actually protected clearly showed a marked stratification regarding access, coverage and quality of the benefits (Mesa-Lago, 1991). State and key services workers had early access to

[2] This section draws largely on a previous work of mine, but elaborates further on the political economy of social state building and considers two new cases that usually appear as outliers in this and other typologies of social states: Costa Rica and Peru.

programs of comprehensive coverage, while “blue collar” workers received protection both later and of lower quality.

Besides this very rough outline, it is necessary to point out enormous variations in social state have always existed in Latin America. The development of social policies must be understood in the frame of the peculiar economic and political development of the region and of the specific nations. Thus, diverse degrees of expansion of the Import Substitution Model, different export economies, and the political power of capital, labor, and the middle classes must be considered (Huber, 1995).

Which elements or dimensions promise to offer substantive guidelines of classification of the social policies systems in the region? The first challenge that every social policy scholar faces in Latin America is the enormous variety of models and degrees of development of the welfare systems in the region. This variety is evident when we look at the fiscal efforts allocated to the social services, the population coverage, the variety of services and transfers, its quality and the distribution of social expenditure among sectors.

Carmelo Mesa-Lago (1991) offered a first approximation to this problem, introducing a simple key of classification; its maturity. It allows him to differentiate between pioneer countries, intermediate countries, and latecomers.

The pioneer countries are characterized today by having a universal, or almost universal, coverage in basic social protection services, a marked stratification in the quality and conditions of access to them and a situation of creeping structural deficit in the matter of resources and expenditures.

On the other extreme, the latecomer countries present a low population coverage, a very limited menu of options in services, and a disproportionate quality and quantity of benefits given to the small protected sectors.

Within the intermediate countries there are, in his view, two different types that can be distinguished. Those countries that had advanced toward a mature stratified model, can be distinguished from those - especially Costa Rica, and to a lesser extent one could argue Panama - that have advanced forward in levels of coverage and supply and quality of services without falling into the errors of stratification of the pioneer systems.

The Mesa-Lago’s classification is simple and tries to situate the countries in a continuous development of the social policies rather than in a typological classification of the social states. This kind of classification of the welfare systems, which relies heavily on indicators of coverage and expenditure, has been increasingly criticized based on the literature oriented to the analysis of the Welfare States in advanced industrial countries (Tittmus, 1958, Korpi,1993, Esping Andersen, 1990, 1994). According to these authors, a central problem of the analysis of the welfare states is not how much is spent but how it is

spent. The role of welfare states in "decommodification", redistribution and in the shaping of labor markets, promises, in this perspective, to produce hypothesis and substantive finding that the research concentrated on the levels of expenditure and coverage has not produced.

This new literature has been undoubtedly successful and, to a great extent, redefined the academic debate for the industrialized countries. Nevertheless, there is a warning to be made about the application of these models of analysis to the Latin-American realities. The industrialized countries present universal coverage and in all cases important levels of expenditure - even though there are important variations. In Latin America the differences are still far more significant and should remain a basic classifying criteria. An analyst cannot concentrate on the "how" is spent as a typological guide and ignore the "how much" is spent, when some countries present expenditures that come up to 18% of the GDP while others barely reach 8%. Likewise, when the analyst faces population coverage that vary in a rank from 20% to 90% of the population, she should seriously look into this point, incorporate it as a discriminate criteria and try to explain it.

Now, this does not imply that the Esping-Andersen's critique has no application to the Latin-American realities and to the academic production surrounding it. On the contrary, the methodological and theoretical warning that the author imparts has full validity.

In order to understand and compare welfare regimes, a typological classification is required rather than one of continuum. Likewise, the explanation for differential national development 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. Thus, although the central indicators for the building of typologies are, in the region, coverage, expenditure and, less so, the "how is spent", does not imply that we have to give up the attempt to understand the "types" of social states rather than understand "levels" of social states development. For this reason, the conceptualization and historical explanation of their development will be a typological one and will emphasize different variables than the maturity reached by the different systems.

The fundamental indicators to be considered, then, 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 interest is on "how" as an issue of sector distribution and population coverage and, on a second level, as it relates to decommodification.

These indicators will be presented together with dimensions concerning social development levels. These levels, although dependent only partly on transfers and social services, allow us to have a broader image of the societies in question.

The second challenge is to link these patterns of coverage to de development models (shapes and depths of the ISI model), to their political regimes and to the political actors and dynamics (both elite and non-elite) that were present between the 1930s and 1970s in the different countries of Latin America.

i. Stratified Universalism based on contending elites seeking popular support (Uruguay, Argentina, Chile[3])

According to Mesa-Lago's definition, these three countries are included in the pioneer countries category. According to his criterion, Brazil should also be included in this group but, as I am going to argue in the following pages, this country actually belongs until the 1970s, to another category.

The first central dimension that characterized this group is the fact that, by about 1970 all of them protected (in one way or another) the vast majority of the population by means of a social security system and basic health services; they had also achieved universal access to primary education and broadened access to early secondary education to more than half of the population and to upper high school to a large part of the population. In other words, all these countries offered extended levels of decommodification in what concerns both the provision of services out of the market and the provision of monetary benefits to the elderly and those unable to work.

TABLE 1

Selected variables on social policy effort for countries of stratified universalism, 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	% enrolled in primary education of age group	% enrolled in secondary education of age group
Argentina	78.9	68.0	16.2	93	105	44
Uruguay	95.4	68.5	17.0	97	112	59
Chile	75.6	67.3	13.7	98	107	39

[3] The Costa Rican case is treated below as a particular for of Universalism.

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

The other central characteristic of these systems is the strong stratification of benefits, access conditions and ranks of protection concerning social security and, to a similar extent, health. State workers, professionals, urban services workers and urban manufacturing workers accessed protection and benefits in this order. The quality and access was also stratified following this order. The self-employed, workers of the informal sector, longstanding unemployed and rural workers had a later access to benefits. In other words, the decommodification degrees in these countries are directly stratified. However, it is important to point out that the stratification of social services moderated rather than increased pure labor market stratification. In simpler terms, if we calculate Gini's coefficient for primary income/wage and compare it with the coefficient for income/wage after taxes and transfers, we will find out that the last one will be more equal than the first one (CEPAL, 2002).

There is another important point to be made. The development of the different systems of social protection had an important impact over variables relating to social welfare. These advances cannot be simply attributed to the level of economic development. Indeed while Brazil and Mexico were in the seventies poorer than Argentina or Uruguay, their levels of social development were far worse than those of the countries with stratified universalism.

TABLE 2

Selected social development indicators for countries of stratified universalism, circa 1970

	% of Households below the Poverty line	% of Households below the indigence line	Illiteracy rate	Infant Mortality	Life Expectancy at birth
Argentina	8	1	7.4	41	68.4
Uruguay	10	4	10.2	47	68.6
Chile	17	6	11.0	62	64.2

(a) Only urban areas

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

The explanation of the peculiar development of these social systems should be sought, not especially in the countries early development of their social policies, but more emphatically in the political economy of their national development and in its political administration. In Argentina and Uruguay, the Import Substitution Model 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. Indeed between 1912 and 1930 in the case of Argentina and 1917 and 1931 in the case of Uruguay, the radical party and the Colorado party respectively mounted a vigorous push for social and political modernization.

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. Uruguay and Argentina both benefited from an export economy that rested on a low intensity labor demand, making the tolerance of elites to both democracy and urban social protection quite high. The case of Chile is quite complex. A pioneer, as Argentina and Uruguay were, 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 détat, the one that would be responsible for setting the basis of Chile's social state. While Alessandri in the 1920s would be the first one to push for social security schemes, public works, labor laws and the expansion of public health and education, it would finally be his ally in the military that would see his proposal through after the coup of 1927 until 1931. Yet the Chilean military were far more that a simple expression of the oligarchy as it had happened in other countries. They were a major player of a previously limited but nonetheless relevant party system that had through parliamentary debates and struggles shaped the way to modern social legislation.

Even though Argentina's experiment with democracy closed in the thirties, only to become a stable democracy again in the eighties Argentina was already and never seized to be a nation of mass politics. Despite almost 15 odd years of authoritarianism after the Uriburu coup d'etat of 1930 and the Justo governments 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. Indeed Peronismo between 1946 and 1955 would capitalize and definitely co-opt what were already important and powerful trade unions. With this alliance and the return to electoral mass politics (the jury is still out on the democratic nature of Peronismo) Peron and its movement would reform the labor code, grant family allowances, establish a minimum wage, provide accident insurance and restrict 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. At the same time that this golden age of social and labor legislation took hold the autonomy of trade unions diminished. The single most important effect of the authoritarian period of the thirties and 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 during Yrigoyenismo 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 the early forties and remained as such until 1973. Again the Colorado party would lead the expansion of the social state verging on universal coverage already by the late sixties. Yet it is important to note the mild character of the authoritarian period of the thirties and early forties. Congress, though with the absence of important parts of both the Colorado and Blanco party remained in full function, trade unions grew and were not co-opted and repression was moderate, gaining the Terra regime the term "dictablanda". The small Socialist Party and the also small Catholic leaning Union Civica were represented in this congress, and as the transition of the 1940s took place (the good coup of Alfredo Baldomir) these would be the two parties that pushed and got passed, with the support of the batllista Colorado's and part of the Blanco party two bills that would become major building blocks of Uruguay's social state and democracy. Indeed, before the Catholic leaning parties in Europe did it, the Union Civica in Uruguay proposed and got passed noncontributory universal family allowances. Also before de socialists and social democrats of Europe succeeded, the Socialist Party in Uruguay would propose and also be able to approve tripartite wage councils, that granted state recognition of public status and the virtual monopoly of workers' representation to the left wing trade unions. 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 strong migration toward urban centers resulted in the creation of pressure for the incorporation of subordinated sectors. The State supported this incorporation by means of expanding public employment and by supporting the domestic industry. The power of the State over domestic capital, in addition to the early labor organization and unionization of the subordinated sectors had, allowed the negotiation and implementation of extended programs of social protection which had a tripartite financing in the case of social security, and State financing in the case of education and, for some areas, health too. Both the informal and rural population saw only parts of the benefits of this model. But some factors help us understand why these two countries despite such neglect are in the 70s the closest we can have to welfare regimes.

First and foremost is the fact that the size of both the rural population and of the informal urban sector was small. The modern sector of the economy and the State achieved something very close to a full formal employment between the 50s and early 70s. Indeed, by 1970, close to 80% of the economically active population was formal. An additional 10% was informal, but this informal sector was a far cry from subsistence and survival strategies predominant in other countries in Latin America. They were the petty bourgeoisie of immigrant origin and with family based enterprises (groceries, bars, retail and other personal services) . These same sectors together with the middle and working classes help also explain an additional key to the expansion of welfare policies, especially in health and education. Even if the blueprint of the social state was in these two countries insurance based and stratified, the quality of public health care and public education was quite high, given the strength of urban popular sectors and petty bourgeoisie that did not benefit or use insurance based schemes but demanded public non-contributory social services.

The Chilean case is more complicated. It is also a country that had an important Import Substitution Model development. Its Import Substitution Model 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, help understand the expansion of the Chilean Social State.

Though it is true that Ibañez is the first architect of the Chilean modern social state, the continuing strength of the miners, some urban trade unions, the ubiquity of the socialist and communist parties in the congressional alliances and governments between 1940s and 1970s and the peculiar ideological and programmatic views of the Chilean Christian Democrats, makes Chile something that resembles European continental politics more than any other Latin America country. Yet this resemblance, is in some ways illusory. 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. Already in the fifties the Chilean executive had undertaken a study that showed disparities in access, cost and benefits that made the system unsustainable. Yet the strong pluralist parliamentary and clientelistically based political Chilean logic made it impossible to reform the system. A mere indication of the pork for barrel politics in Chile can be seen in the standard duration of electoral coalitions, cabinet members and ministerial postings. According to Valenzuela (1985) coalitions lasted a few months after elections, cabinets less than year and individual cabinets posts many times less than a few months. Yet 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.

These three cases represent, as Huber (1995) pointed out for Chile and Argentina, the corporative-conservative model that is identified by Esping-Andersen, for the industrialized countries because of its level of coverage and because of the form assumed by the expenditure. Yet to truly be compared to the conservative welfare state of continental Europe they should have developed strong unemployment insurance schemes. While Uruguay did develop some degree of unemployment insurance, and Chile also did it in a highly fragmented fashion, Argentina lacked one. This weakness brings back the issue of what kind of social state these were. They 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. 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. In the three cases marginal elites and the middle classes formed a reformist alliance meant to end the oligarchic order (in Uruguay there never was a true oligarchic order, rather a disorder) and discipline and quiet the increasing vocal trade unions and emerging middle classes. Thus, the early origins of social policies. After the 30s in Uruguay and Chile these same political professionals, and in Argentina after the forties a new breed of politicians, be them democratic or not, would carry out the developmental shift to an import substitution model and would become the shapers of the modern social states. In the three cases the urban working and middle classes were the majority of the population (less so in Chile) and played a central role in the process of social state development: co-opted under peronism and in opposition when the military came to power, and autonomous from state and dominant parties in Chile and Uruguay.

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.

All in all, what are the relationships that can be posed between democracy and social state in these stratified universalistic countries.

First and foremost 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.

Yet 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.

Finally a relatively clear pattern regarding the effects of social state on democracy. These three countries presented a stratified almost universal social state, yet while between the 1940s and 1970s one was fully democratic (Uruguay), another was a stable institutionalized but only increasingly democratic regime (Chile) and, still another, mobilized, inclusionary but rarely stable or democratic (Argentina). Well then, is there no effect of social states size, form and coverage on democracy, and especially on democratic stability? No, at least not in our cases. But there is between the political genetic code of the social states and the stability and characteristics of their democracies. The argument is thus, once again, path dependent. 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 per capita and last but not least its social state. Indeed for many analysts (Huber, 1996; Fleury, 2001) Costa Rica belongs to a class on itself[4]: 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 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

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

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 week, 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 is 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, Mexico[5])

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

[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 analysis. The case of Peru is analyzed below as a peculiar form of dualism.

accentuated the stratified aspects that characterized mature systems without presenting the universalized coverage of the stratified universalism regimes.

In these countries the problem of territorial heterogeneity is clearer. In some provinces and regions, there is an important development of the formal market, the state and social protection while, in other provinces, there is a virtual exclusionary system with very low incorporation of the vast majority of the population (either through the market or through the State).

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 Mexico and Varguismo in Peru 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 Mexico 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.

TABLE 3

Selected variables on social policy effort for dual welfare countries, circa 1970

	% covered by Social Security in EAP	% covered by Social Security in total population	Social expenditure as % GDP, 1980	% of children under one year vaccinated against tuberculosis	% enrolled in primary education of age group	% enrolled in secondary education of age group
Brazil	27.0	47.0	9.3	66	82	26
Mexico	28.1	53.4	8.0	80	104	22

Sources: Mesa-Lago, 1979, 1991; World Bank-World Development Report-, 1994, Miranda, 1994, Cominetti, 1994; .

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 patrimonialistic forms while, in more developed areas, they have assumed the shape of vertical corporativism, articulating trade unions, parties and state**.** In Brazil during the Varguismo 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 Mexico 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 Mexico was a new form of control a postrevolutionary model, which had its autonomy and power 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 were 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.

TABLE 4

Selected social development indicators for dual welfare countries, circa 1970

	% of Households below the Poverty line	% of Households below the indigence line	Illiteracy rate	Infant Mortality	Life Expectancy at birth
Brazil	49	25	33.6	95	59.8
Mexico	34	12	25.8	60	62.7

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

The data on social indicators in Mexico and Brazil, present, despite their commonalities, important differences. Mexico, clearly, out performs Brazil in all social aspects considered here. 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 Mexico did. Three differences do help us understand dissimilar social outcomes. First the overall pattern of inequality, much more entrenched in Brazil than in Mexico, 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 Mexico 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 Mexico, even though as a weaker partner, the rural population and it corporatist organizations were a part of the populist pact, and indeed a major building block of the PRI structures. As Brachet (2004) points out, Mexico 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:

"Since the 1920s, once the country had returned to peace and a new regime had been established under solid constitutional grounds, the most innovative (as a matter of fact revolutionary) initiative regarding

the social issue was the transformation of the poor and indigenous peasant into a visible subject with rights, first to land and education and afterwards with Cardenas to health."[6]

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. In her words:

> "The same "industry bias" seems to have magnified the place of social security policy in the Brazilian Welfare State, leaving small or marginal room for all other social policies. Although the reformist wave of 1930 had affected practically all social areas, through new national codes and a copious legislation, evidences show that social policies such as education and still more the health policy, have not occupied a central place in the governmental social agenda, nor in the successive development plans from 1930 until 1964"

Despite this very important differences, Mexico and Brazil, remain more alike than different, and the major reason once again has to do with the capacity of the modern economy and the state to incorporate people into "economic citizenry", or to formal protected labor-capital relations. Indeed by 1970 Brazil had 52% of it economically active population in the formal sector, while Mexico had 57% of it in the formal sector (Isuani, 1984). Thus, roughly half of the country was "in" while the other half was "out". The main difference here is that while the half that was out in Brazil was excluded not only of the formal sector, but also of social security and health (and almost 20% out of primary education), in Mexico, primary health care and basic education (although of a very low quality compared to those in the formal sectors) had in one way or another reached most of the population. 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 Varguismo and the "limited space" but

[6] Own translation; *A partir de los 1920s,una vez pacificado el país y establecido el nuevo regimen sobre una sólida base constitucional, lo más innovador (y para la época realmente revolucionario) en materia social fue la transformación del campesino pobre y/o indígena en un sujeto visible y con derechos: primero a la tierra y a la educación, y posteriormente (bajo Cárdenas) a la salud"*

space nevertheless for rural oriented social policies, especially in health and education in the Mexican case.

In any case the interaction of democracy and social protection in these countries and to a certain extent in Argentina was weak, based more on narrow lobbying, cooptation and result based legitimacy rather than procedure based legitimacy.

The worst effect on democratic culture and values that these regimes had were not only the limits they imposed on social incorporation, but the effect they had especially in the urban highly mobilized population in the creation of an extended belief system based on the idea of corporatist rights rather than citizenship rights, and a tendency to legitimize governments and even regimes based more on their results than on their procedural respect of formal democratic rules.

The case of Peru: from dual to exclusionary?

The case of Peru deserves special attention for it is a country that had developed a format of political incorporation and indeed a party that represented such format (APRA) that could have well led to a dual model of incorporation and eventually to a more integrated type of regime. Yet somewhere along the path, Peru started to show signs of becoming increasingly exclusionary. The ethnic and regional cleavages, the role of the Lima and rural elites and the failure, first of APRA and then of the military experiment to gather and structure a stable alliance between industrial labor and middle classes with elites tolerance helps us understand the outcome as we enter the early 80s.

Indeed between the late 1930s and the late 1940s Peru walked the path of other dualist regimes. While only asystematic measures (such as the health campaign vaccination of the Rockefeller foundation and the education expansion in rural areas doomed to failure because of linguistic barriers) were taken for the rural population, at the urban centers and in the mining and intensive labor agricultural enclaves organizational capacities developed and the APRA emerged as a powerful articulating force. The Prado and Bustamante governments of the late thirties to late forties were receptive to the new party and to the new social forces expanding social security benefits to the middle and working classes[7] and developing

[7] Between 1936 and 1948 benefits on Old Age Disability and Survival were passed for Public employees, port workers, sickness and maternity benefits for industrial workers and private employees. Even taking into consideration that only 30% of the population was urban and only a part could benefit from these new systems, the basis were being laid for a dualist type of regime. Yet between 1950 and 1961 neither one new benefit nor one new group was incorporated into the system with the exception of additional benefits for the armed forces in 1950 (Mesa Lago, 1985).

wide ranging price controls. In one decade state spending grew almost 5 times and export taxes more than tripled to meet these fiscal demands (Sagasti, Prada y Bazan, 2004).

Yet this incipient road to urban stratified protection was cut short by the coup of general Odría, who backed by the economic elites both national and foreign who feared the APRA, moved away from an interventionist state to a liberal one. Thus one of the major peculiarities of Peru´s trajectory is that while most of Latin America was embracing in the 1950s import substitution, Peru was in an open strategy based on laissez faire principles. These had two devastating effects on the chances of Peru´s social state. The single most important effect is that Peru did not have the ISI push to expand in a dual economy the "modern" part of it especially in terms of employment creation. This does not mean that modern economies did not develop, but the dual character was intensified. As Sagasti, Prada and Bazán (2004) point out:

"While most Latin American countries succeeded in strengthening their industrial base and internal markets as a response to the economic crisis of the 1930s, Peru enjoyed a limited success due to the structure of the economy, which was composed mainly of mining and agricultural foreign enclaves; and the political domination of a landowning elite. Unlike many Latin American countries, where the 1930s and onward was characterized by the emergence of a developmental state, this did not fully materialize in Peru until two decades later..."

The social state, thus also was restrained. Most social policies from that time are restricted, though these by no means implies they were irrelevant, to urban infrastructure, housing and education. Income maintenance schemes and Bismarckian type protection had little if any space both in the Odría regime and the second Prado administration. By 1961 only 8.6 % of the total population were covered by any form of social security. In the 1960s a new government now headed by Bealunde would launch an aggressive shift in development joining, thus, Peru, its Latin American peers in Import Substitution Industrialization. But this was not accompanied by a drastic increase in social security coverage. Indeed only by the 1980s would social security in Peru reach 17% of the total population and slightly more than 30% of the economically active population.

Thus the case of Peru highlights the interdependence of the lack of stable political regimes and cumulative advances in social protection. While Mexico and Brazil faced the problem of corporate incorporation, Peru faced the challenge of truncated corporatist incorporation. The weakness of democracy and indeed of inclusionary mass politics in Peru, is to a large extent the mirror image of its weakness in developing stable, even if limited, social protection systems.

iii. Exclusionary Regimes based on predatory elites. (Guatemala, Honduras, El Salvador, Nicaragua, Bolivia)

The Central American countries and, probably Bolivia and Ecuador, have elitist systems in what concerns social security and health and a dual system referring to education. In these countries, poverty, measured according to income, exceeded in all cases 50% of the population . Toward 1970, less than 20% of the population was covered under basic programs of protection and social security, except Guatemala that had 27% of its population covered. Concerning health, the reality was similar. However, in what refers to education, primary education was expanded, with strong quality inequalities, reaching more than half of the population and, in some cases, reaching almost universal coverage.

TABLE 5

Selected variables on social policy effort for exclusionary welfare countries, circa 1970

	% covered by Social Security in EAP	% covered by Social Security in total population	Social expenditure as % GDP, 1980	% of children under one year vaccinated against tuberculosis	% enrolled in primary education of age group	% enrolled in secondary education of age group
Bolivia	25.4	9.0	5.9	70	76	24
Ecuador	14.8	9.4	9.3	61	97	22
Nicaragua	14.8	9.1	2.3/s/d(a)	90	80	18
El Salvador	11.6	6.2	1.3/1.7(a)	s/d	85	22
Guatemala	27.0	14.2	1.6/3.7(a)	--(b)	57	8
Honduras	4.2	7.3	0.9/12.2(a)	75	87	14

(a) Social security expenditure/Health care expenditure; (b) vaccine is not given.

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

These cases are quite close to what Peter Evans (1992) denominates Predator States. In such countries, elites appropriate themselves of the State apparatus and, supported on the export of primary goods in enclave economies, use the fiscal capacity of the State for the extraction of rents, without providing the counterpart collective goods neither in infrastructure nor in regulation or social services. Protection and social security systems of this kind consist, in great extent, in elitist policies that add additional privileges to a group population that already enjoys a privileged situation. Professionals, a very reduced number of formal workers and public officers are those that, typically, benefit under these models. The vast majority of the population (represented by the informal sector workers, agriculture and secondary labor force) is excluded.

It should be pointed out that these countries are characterized by a high heterogeneity in what refers to social structure. This heterogeneity is reflected in the differences of distribution of the national wealth between urban and rural sectors, between different rural areas and between urban centers and their periphery . In other words, the degree in which the market itself operated, generated the creation of "clusters" of negative and positive social configurations. From the State side, the degree of intervention as "risk pooling" has been minimum.

Likewise, the State bureaucracies reflect the same situation. They also have a marked differential, in what concerns efficiency and productivity, between privileged areas of the State at the central level and sub-national dependencies of less importance. In some cases, we face the lack of state bureaucracies at regional levels.

Finally, at the political and social level, the organized participation of subordinate sectors in the decision making, has been historically low due to the predominant repressive character of the political regimes and the low organizational capital of these sectors. The control and co-optation of the subaltern social sectors have been reached at best by forms of clientelism and patrimonialism and in its worst versions by sui-generis forms of repressive and authoritarian semi military actions and structures. Consistent with this realities, in these type of countries, the social indicators systematically have the worst figures as well as the highest differentials between regions of diverse degrees of development.

TABLE 6

Selected social development indicators for exclusionary welfare countries, circa 1970

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

	Poverty line	indigence line			
Bolivia	50(a)	22(a)(b)	37.3	157	46.7
Ecuador	s/d	s/d	25.8	100	57.1
Nicaragua	s/d	s/d	42.1	109	52.9
El Salvador	s/d	s/d	42.9	92	59.1
Guatemala	65(c)	33(c)	53.8	104	54.6
Honduras	65	45	40.5	110	54.1

(a) 1981; (b) Only urban areas; (c) 1980.

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

The rural population and most of the urban population is essentially unprotected in these systems. Only education making some inroads into the predatory logic. The history of at least some of these countries has changed dramatically, though not yet their social realities. Revolutionary rural based and urban led guerrillas in Nicaragua and El Salvador brought down or drastically changed the nature of the regimes. While still patrimonial, clientelistic and indeed many times repressive, the governments of these two countries do have some accountability and these changes might in the future have a positive impact on social policies. If dualist countries advanced in a peculiar form of conservative modernization regimes that while not democratic were at least inclusionary of urban working and middle classes, the democratic struggle, at least in some of the exclusionary countries took the form of revolutionary armed movements, for no other avenue of change was open to them.

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. His views as well as additional contributions in the volume breathe a sense of accomplishment and celebration, though not without notes of caution. Williamson sees a region that ten years earlier had oversized and inefficient states and an inward oriented development strategy radically changed, and changed for the better. While he recognizes the 80s as the lost decade for Latin America in terms of growth, he argued that major transformations in the role of state and markets promised a significantly better decade.

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). In effect, import substitution is widely regarded today as Latin America's wrong turn in development. 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 anti-Schumpeterian triangle were 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. This was, then, a zero sum game, which in the long run would turn into a lose-lose situation. The country as a whole would pay the price of decreased productivity in the non-tradable sector (thus never developing an internationally competitive industry) and increasing added costs to the tradable sector, deterring investment further and placing incentives on rentist strategies.

The complement of the economic critique is the widely held notion that Latin America's abominable pattern of inequality and dismal record of social development are also due, at least in part, to this import substitution model. The argument is somewhat more complex and more shaky than the economic critique of Import Substitution Model. The social critique can also be framed in what Evans termed the "anti-Schumpeterian triangle" of State, Urban Labor and Industrial Elites. The Import Substitution Model redistributes income within this triangle but in the process deprived three groups or 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. Consider first the case of medium and small proprietors who sell their product to larger export conglomerates. They are the weaker link and the ones who will carry most of the weight 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 a third group: 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. Based on this diagnosis, MLA and market oriented analysts claimed that the system of social policies and labor protection in Latin America had a large responsibility not only in curtailing the region's economic growth, but also in undermining its social development. In order to both improve

economic performance and better social development, a new social policy paradigm emerged for Latin America.

b. The regional social policy agenda: structural forces, political dynamics and crossroads for the Latin America Social State.

The "Washington Consensus" avoided the debate on social issues and social sector reform as issues that were beyond the scope of structural economic reform (Williamson, 1990). After the Washington consensus we have witnessed the attempt by MLAs, the US governments and part of Latin American domestic elites, to develop a new Washington consensus regarding social policies. If the original consensus concerned itself with economic reform of the liberal kind, social sector reform chooses similar paths and contents, and is basically supported by the same doctrines and theories that underpinned the economic market revolution that Latin America has undergone in the last twenty years.

These turn of events and renewed interest in social development and social policies responds to a number of reasons. Social development has stagnated or critically slowed down in most of Latin America in the last decade and a half. Consistently, social protests and turmoil have increased significantly. Also, there is a widespread perception of the inadequacy of the traditional model of social policy in Latin America, and thus the need to reform it. Thirdly, social policy has achieved a new status, one that fits better the dominant economic ideology and the economists' hegemony over the social sciences and the issues of development in general: certain social policies have become forms of investment, rather than simply expenditure. We now make social investment in human capital instead of simply providing services to those in need or redistributing income. In any case, this new found interest of the international community in social development and people's welfare should be welcome after too many years of a narrow economic focus regarding development strategies.

With this renewed interest in the social question came the critique of the old model of social protection. Traditional social policies (those associated with the import substitution model) have been criticized as inefficient, expensive, unfair and rigid. This critique pointed out that the supposedly universal system of social services never reached those truly in need. It also highlighted the excessive administrative costs of state run social provision, its centralized nature with its effect on incorrect resource allocation, and its clear-cut stratified nature in the coverage, range and quality of social services and transfers.

Structural forces at play further exposed the inadequacy and costs of previous traditional systems and made them both more acute and visible. In the first place, economic openness placed new strains on

entrepreneurs' need for competitiveness and increasing costs on economies that run fiscal deficits, high and unstable rates of inflation, and overall macroeconomic instability. These factors in turn pressed towards lowering the fiscal burden of exporters and at the same time keeping the strictest possible fiscal discipline in a time of few state resources. This implied among other things controlling social expenditure, and prioritizing fiscal discipline and lower taxes over social needs.

Secondly, and especially in the most "modern social structures", the mature social security systems had to cope with the aging of the population which meant that less people were working to sustain the lives of more older people that were not. At the same time health costs skyrocketed as older people required longer and more expensive treatments for cancer and cardiovascular diseases. Also, the educational system had almost complete primary level coverage, pushing for the expansion of secondary and later tertiary education at the same time that it increasingly presented wide disparity in quality even within the public systems.

Finally, and may be most importantly, both unemployment, and informal employment grew in almost all countries of the region.

TABLE 7
Open Unemployment in Latin American Countries, 1990-1999.

	1990	1994	1997	1999
Argentina[a]	5.9	13	14.3	14.7
Bolivia	9.4	3.2	3.7	7.1
Brasil	4.5	7.4	8	11.4
Chile	8.7	6.8	6	10.1
Colombia	9.3	8	11.8	19.2
Costa Rica	5.3	4.2	5.8	6.1
Ecuador	6.1	7.1	9.2	14.2
El Salvador	9.9	6.8	7.3	6.9
Honduras	6.9	4.1	5.2	5.3
Mexico	3.3	4.5	5.1	3.2
Nicaragua	.	14.1	13.1	13.8
Panama	18.6	15.7	15.4	13.1
Paraguay	6.3	4.4	8.4	10.1
Uruguay[a]	8.9	9.7	11.4	11.2
Venezuela	10.2	8.9	10.6	14.5

Source: CEPAL, Panorama Social de América Latina, 2001-2002. [a]. Only urban areas

A social security and health care system based on wage contributions proved to be, again, as it have proved for most countries before, extremely limited as a means of providing social protection to wide

sectors of the population, especially the poor. In short for the new reformers the Latin American Social State of the past created rather than fought poverty and inequality and did so while at the same time spending too much and doing it inefficiently.

As we have shown this diagnosis lumps together very different realities.

Indeed, 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 anti-Schumpeterian 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 neo-liberal solutions or what Sonia Fleury (1994) has termed the liberal/productive model. Why this was the preferred choice in most countries responds not mainly to technical criteria, nor just to the declared intentions of equitable and sustainable growth of some of its proponents, as honest as they might have been. The reasons are sadly more endemic to Latin America

policy making and 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.

Yet the road to liberal reform has also opened up technical and eventually political possibilities for a new type of social state: one geared at universal coverage of basic rent, education and health. In a way this is not surprising. Esping-Anderson had already documented that liberal and social democratic states where historically related, while corporative conservative, Bismarckian type welfare regimes tended to stand alone.

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 policies (or in other words from financing supply to financing demand).

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.

a. The late 1970s and 1980s: A pure pioneer, parametric reforms and social state erosion.

i. Fiscal bankruptcy, democratization, social emergency funds and the fall in social spending.

The 1980s has been labeled the lost decade for Latin America. It was preceded in the 1970s by the increasing awareness of the ISI model exhaustion. In most Latin American countries the late seventies and a good part of the eighties were also times of dictatorship . A simple map shows the rather gloomy political realities of Latin American Countries between 1975 and 1980.

FIGURE 1



Combined with the crises of the ISI model came the debt crises of the eighties and authoritarian regimes. The major impact of this configuration of forces was a radical neglect of social policy. The neo-liberal agenda of the eighties is not particularly centered on social policies. While there was, from the multilateral agencies a recognition of the need for what were called "emergency funds" meant to deal with the harshest social costs of adjustment, not much was done regarding the old structures of the developmental social state. Emergency funds are a direct result of the social costs of adjustment and also

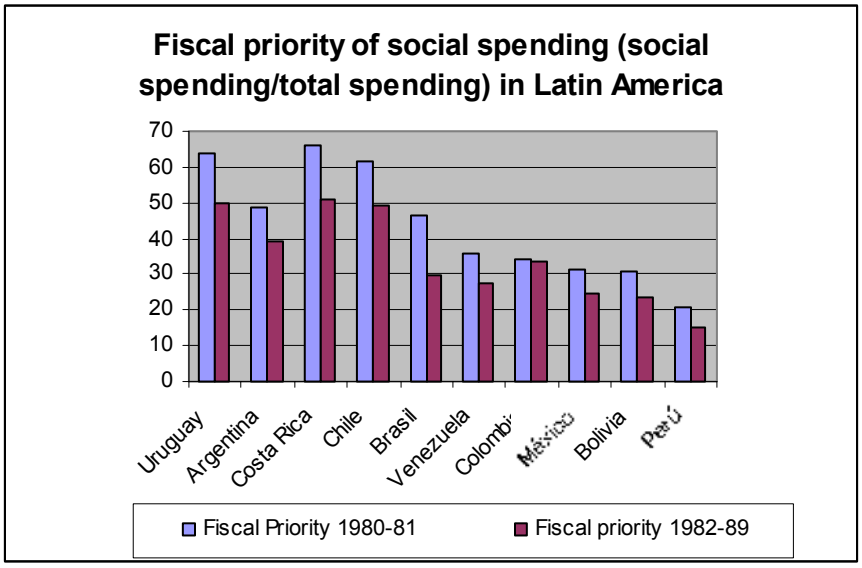
a response to the democratization processes of the eighties in a context of fiscal bankruptcy. For many these emergency funds were meant to help democratic governments advance adjustment and structural reform at the same time that they would be seeking support in the poorest sectors of society.

Also these emergency funds were already based on a basic tenet of what would later be a more articulated neo-liberal view on social policies: the role of the state and of social policies should be kept to a minimum, ideally it should also be temporary and only targeted to those sectors of the population that were poor. Given the levels of poverty in dual and especially exclusionary countries, the expression inevitably became "to the poorest of the poor".

There is a telling pattern regarding the emergence of these social emergency funds: the least developed the social state of the past the more and more fragmented effort in terms of emergency funds. Indeed while Guatemala had 6 emergency funds in the eighties, Ecuador had thirteen, Honduras had five and Peru had seven, Costa Rica , Uruguay, Chile and Argentina had one or two at the most (Filgueira, 1997).

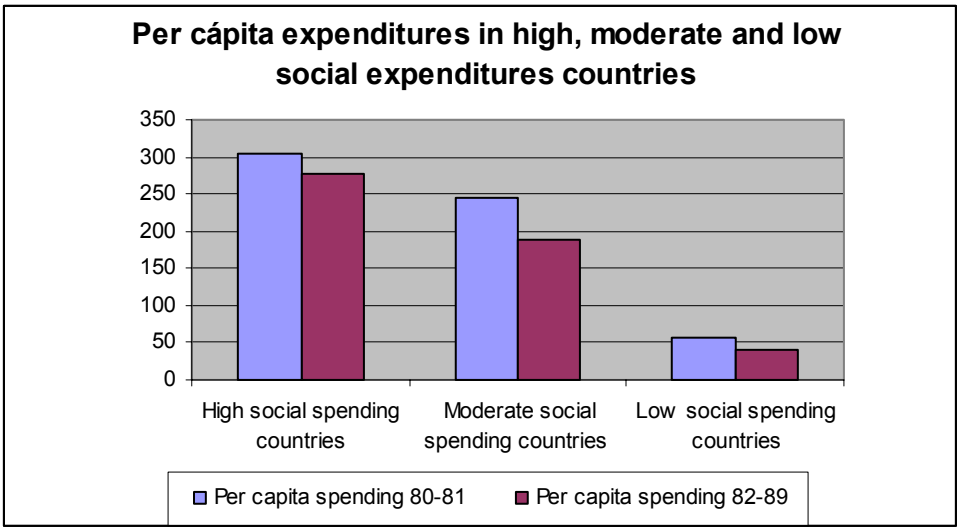
The case of Mexico with Pronasol is also an interesting example of the problems this approach presented. A study by Heredia (1990) showed that Pronasol invested most heavily not following poverty but following areas where the PRI was facing electoral hardship. The highly discretionary character of these funds, while limited the old complex corporative access to them, allowed for an even more pure form of clientelism and co-optation.

As adjustment and emergency funds developed, the old social state was neglected. Indeed, the first impact of the crises and the neo-liberal agenda on Latin America social states was not structural reform, but reform by default. That is reform by deterioration. If we consider the average per capita expenditure and the fiscal priority of all Latin American Social States at the start of the eighties and compare it with the mean of the period from 1982 to 1989 we will clearly see this pattern.



Source: ECLAC, 2000, 2001, 2002

In all countries to a larger or lesser extent the proportion of social spending as a percentage of total spending fell. If we divide countries by their previous levels of social spending into high, moderate and low spenders[8], we can see that in per capita terms the realities of the eighties were equally distressing. Even those countries with a more robust social state saw their spending fall, in some cases dramatically[9].



Source: ECLAC, 2000, 2001, 2002

When an analyses is performed on the impact that democracy and democratic transitions had during the eighties on social spending seen both as fiscal priority and as total percapita spending the answer is straightforward: "democratization and democracy did not lead during the eighties to a protection of social spending" (Avelino, 1997).

ii. Parametric and homogenization[10] reforms in the universalistic stratified models and the pioneer market oriented case of Chile.

[8] High social spending countries include in the 1980s Argentina, Uruguay, Chile, Costa Rica, and Brazil. Moderate are Colombia, Venezuela and Mexico and low are Peru, Paraguay and Bolivia.
[9] Argentina saw its per capita social spending go down from 569 dollar to 470 and Mexico from 224 to 163.
[10] Parametric reforms refer to changes in the parameters of social security benefits (age of retirement, replacement criteria for defining benefits, time of work for eligibility, etc). Homogenization reforms refer to parametric changes that sought to unify parameters across a wide range of differentiated social security schemes in each country.

By 1970 Uruguay had more than a 100 “cajas” or pension systems, and Chile was close to sixty, Argentina presented a similarly fragmented model. The authoritarian regimes of the 70s attempted, based on their new gained autonomy from social and political groups, to unify and simplify these systems. As a matter of fact, technocrats inspired in the ILO principles, from the social security administrations thought that it was possible, now that corporations were at least partially out of the picture or had less leverage with the executive, to start grounding the principles of uniform treatment and solidarity long forgotten in the southern cone systems. Both Uruguay and Chile were able to drastically modify the system within its own logic. Retirement ages and replacement criteria were unified and a large part of the old “cajas” were brought under unified authority and administration. Still many segmentations remained, and in the case of Argentina little advances were made. At the same time these movements towards homogenization were accompanied by less generous parameters across the board, regarding eligibility criteria, replacement rates and range of protection.

Yet the increasing influence of ILO technocrats within the state, gave way in Chile to another group of technocrats seated in the areas of finance and economy: the Chicago boys. They had a more radical idea of how to deal at the same time with heterogeneity of parameters and generosity of parameters, and thus with deficit in the long run. The capacity of these technopol elite to transform the Chilean state knows little precedents in Latin America. Under their advise, in 1981, Chile would become the first experiment in a new breed of social security systems: mandatory individual capitalization funds administered by for profit private organizations. The law was passed without consultation and the administration of these funds was given to alliances of the big Chilean financial conglomerates and international capital.

For many such a drastic reform of the basis of the social state was only possible because of the authoritarian regime. Its effects implied the destruction of a dormant but nevertheless existent old network of influences and relations between trade unions, party leaders, and state officials. As we shall see the prediction that such reforms would not be possible under a democratic regime proved wrong. Even though Chile remains as the purest example of a market based social security system most Latin American countries in the nineties would introduce mandatory individual capitalization funds.

There is though and important lesson to be learned from Chile as it advanced towards democracy. The “Concertación” government despite their opposition to Pinochet did not want to change a model that seemed to be working on the economic side, yet they recognized the importance of addressing the social question after years of neglect. And they needed resources for that. The engineering of a pact between the political elites and the economic elites after the transition to democracy, in order to increase taxes to finance expansionary social policies remains an example that with few other suggest the mutually

reinforcing character of social policy investment and democracy. Once again a liberal stage and the disarticulation of historical corporation paved the way to a broad ranging agreement regarding taxes and social protection.

b. The 1990s: A peculiar liberal route of reform: social spending and social security.

i. Recovering social spending

If the 1980s were characterized by low 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. On average for 17 Latin American countries, public social spending went from 350 dollars percápita to 550 dollars percapita.

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 asocial 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 percapita expenditures, even in amplified form, since 1990-1997 was a period of GDP growth in Latin America.

TABLE 9
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%
Brasil	-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%

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, though towards the end of the decade already showed signs of slowing down. 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, especially education, a 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. To those transformations and the interplay of democracy and reform we now turn.

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 entities[11]. 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

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

reform. A play where on the one hand 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 were 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 Mexico 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. Peru under the "constitutional dictatorship" Fujimori, an 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, Peru 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 that 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 10

	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
Mexico	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
Peru	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 an 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 redistributional 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 movements, 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 Peru, 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 Peru 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 Mexico 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 year 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 (today only the rural and semi rural 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 coverage of 4.6 million poor households. Once again despite the dual characteristic of the Mexican social state, the space for rural pro-poor policies remains.

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 entrepreneur's contributions either disappeared or were clearly diminished as a basis for financing social security.
- With the exception of Mexico, were 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, rather than came up with alternatives.
- The non-contributory social assistance pensions were rarely a major issue in the reform proposals. The case of Bolivia with Bonosol and the case of Costa Rica might be the only exceptions. Clearly no party and no social movement pushed forward or at least were 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 MLA´s 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 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. True, much of the poor performance in terms of coverage this systems confront are not of their own making but rather depend on the interactions of their eligibility criteria and the development of the labor market and of formal employment in the last decade and a half.

TABLE 11

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
Mexico	37	72	30
Colombia	32	59	24

Bolivia	12	23	11
El Salvador	26	40	19
Perçu	31	28	11

Source: Mesa Lago, 2004

A question remains: will the state honor its pledge to guarantee a minimum pension and eventually extend such pledge in the form of a flat rate non contributory social assistance pension for all those that seem to be in the future non protected population. The fact that today most of these regimes are democracies, and if they remain so for the next years, suggest that this might well be a possibility, since almost 50% in most of these countries 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, even though its fiscal cost might be unbearable for many of these countries. 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 (Mexicos´s Oportunidades also has developed such a system) and in the case of Argentina they have also developed a sui-generis 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 neo-liberal 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 sanitarista 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 times 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). The passing of the Organic Law of Social Assistance and the creation and recent unification under the name "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 goals.

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.

IN CLOSING
THE TURN OF THE CENTURY: 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.

Mexico 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.

As for the exclusionary countries the expansion of social expenditure has helped them increase coverage, especially in what relates to education and health, yet regarding their social security systems, little if any advances have been made. Those that chose or are choosing the liberal privatized model choose a system that even in more advanced countries has been unable to deal with the problems of

coverage. A flat rate general tax based means tested or universal benefit remains for most of Latin America the best promise of an inclusionary social state.

Both the practical, technical and institutional side of such an options are available after the downsizing and destruction of the old corporatist models. The political will, though will not only be needed at the domestic level, with parties that address broad interests rather than narrow lobbies, 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 in regards to the social state. Neither social emergency funds, nor fiscally restrictive budgets 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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