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WELFARE STATES IN TRANSITION

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PART TWO
EMERGING NEW WELFARE STATES?

6

Options for Social Policy in Latin America: Neoliberal versus Social Democratic Models

Evelyne Huber

Social policy in Latin America today stands at the crossroads between market-determined, private, individualistic and inegalitarian models on the one hand, and market-correcting, public, solidaristic, and egalitarian models on the other hand. The hegemony of neoliberalism in business and banking circles, in international financial institutions, and among governments in core countries and ruling technocrats in many Latin American countries during the 1980s seemed to tilt the balance towards the former models. Yet, as the social costs of economic neoliberalism and of state abdication of social responsibilities have become all too visible and questions of governability of new democracies have come to the forefront, the latter models are getting a serious second look both in international institutions and among the governments in the region. The main obstacle to the pursuit of these latter models in the 1990s is the balance of social and political power that has shifted squarely towards capital and away from organizations representing mass interests, most importantly unions, in the course of the structural adjustment policies. This chapter explores the costs and benefits of attempts to pursue these alternative models, focusing on the cases of Chile and Brazil, with secondary comparisons with Argentina and Costa Rica. Additional comments on general trajectories are used to situate these cases in the larger Latin American context.

The economic crisis of the 1980s had a profound impact on social policy, leading to an increase in poverty and at the same time to a reduction in social expenditure, a deterioration of public services, and severe fiscal imbalances in social insurance schemes. The reactions to these problems have ranged from the neoliberal solutions of individualization and privatization to the social democratic solutions of universalization and consolidation of public schemes. Chile followed the neoliberal route and Costa Rica the social democratic route; Argentina has adopted some elements of privatization and Brazil has *de jure* (though not *de facto*!) virtually universalized coverage and improved the benefits of the poorest sectors.

Background

The three most important areas of social policy in Latin America have been pensions, health care, and price subsidies and controls.[1] Social assistance has traditionally been underdeveloped (Tamburi, 1985: 76). Expenditures for pensions and health care have accounted for between two-thirds and virtually all of total social benefits expenditures (Table 6.7). Price subsidies and controls, of course, are captured neither by data on social expenditures nor by any other comparable data. Their importance only becomes clear if one takes account of the proportion of income spent by poor people on basic foods and transport and of the extent to which basic foods and transport used to be subsidized and/or sold at controlled prices before the austerity and structural adjustment policies of the 1980s. Only 7 out of 34 Latin American and Caribbean countries have family allowances and unemployment compensation (Mesa-Lago, 1994: 16). Compared with welfare states in advanced industrial societies, unemployment insurance, like social assistance, is sorely underdeveloped. Given the persistently high levels of unemployment in most Latin American countries, such an insurance has been considered prohibitively expensive; where it exists, the benefits are extremely limited.

The two central problems in the development of social insurance in virtually all countries have been the *de facto* limitation of coverage by the existence of a large informal sector and the high degree of fragmentation and of inequality of entitlements (Tables 6.1–6.4). In most Latin American countries, the right to transfer payments and services is based mainly on the insurance principle and linked to paid employment, which means that large sectors of rural and urban poor remain excluded. Only in six Latin American countries (excluding the non-Spanish-speaking Caribbean) are more than 60 per cent of the population covered by social security (in Argentina, Brazil, Chile, Costa Rica, Uruguay, and Cuba); in another six countries between 30 and 60 per cent are covered (in Colombia, Guatemala, Mexico, Panama, Peru, and Venezuela); and in the remaining countries an even smaller percentage enjoys coverage (in Bolivia, the Dominican Republic, Ecuador, El Salvador, Honduras, Nicaragua, and Paraguay).[2] The figures on total social security benefits expenditures as a percentage of GDP confirm this picture. Only Argentina, Brazil, Costa Rica, Cuba, Chile, Panama, and Uruguay spend 4.6 per cent or more on

Table 6.1 *Percentage of economically active population covered by social security programmes (including health)*

	Argentina	Brazil	Chile	Costa Rica
1970	68	27	69	38
1979–80	52	49	64	49

Source: Isuani, 1985: 95

Table 6.2 *Distribution of total economically active population by sector (per cent)*

	Year	Urban informal	Rural traditional	Total non-formal
Argentina	1950	15	8	23
	1980	19	6	26
Brazil	1950	11	38	48
	1980	17	28	44
Chile	1950	22	9	31
	1980	20	9	29
Costa Rica	1950	12	20	33
	1980	12	15	27

Source: Isuani, 1985: 93

Table 6.3 *Distribution of nonagricultural economically active population (per cent)*

	Year	Self-empl./domestic serv./unpaid fam.	Small enterprise	Total
Argentina	1980	25.6	13.0	38.6
	1985	30.4	13.3	43.7
	1990	30.8	14.9	45.7
Brazil	1980	24.0	9.9	33.7
	1985	30.2	14.5	44.7
	1990	28.6	23.9	52.5
Chile	1980	36.1	14.3	50.4
	1985	34.2	19.1	53.3
	1990	31.7	18.3	50.0

Source: Schoepfle and Pérez-Lopez, 1993: 251, 256

social security benefits; the next highest spender is Bolivia with 2.3 per cent, half the Brazilian level (Table 6.4). The problem of fragmentation and inequality was most pronounced in the countries that had established their programmes early and then expanded them to ever larger groups. The gradual expansion of insurance schemes resulted in a multitude of schemes for different employment categories with different contribution requirements and different benefits. On the whole, these schemes did more than reproduce the inequality in the labour market; they aggravated inequality

Table 6.4 *Total social security benefits as a percentage of GDP*

For Latin America				For several OECD nations	
Argentina	8.9	Guyana	0.9	Austria	21
Barbados	2.1	Honduras	0.7	Spain	15
Belize	1.0	Jamaica	1.2	France	25
Bolivia	2.3	Mexico	2.0	Germany	23
Brazil	4.6	Nicaragua	2.0	Greece	12
Colombia	2.2	Panama	5.3	Italy	20
Costa Rica	6.3	Peru	2.0	Norway	20
Cuba	11.3	St Lucia	0.2	Switzerland	13
Chile	9.9	Surinam	2.1	Sweden	31
Dominica	0.4	Trinidad and Tobago	0.6	UK	16
Ecuador	2.1	Uruguay	7.0		
El Salvador	1.4	Venezuela	1.1		
Grenada	1.7				
Guatemala	1.0	USA	12.1		

Source: The Cost of Social Security 1981–1983, OECD

by imposing some of the burden of financing on groups not covered, mainly through indirect taxes and through the passing on of employer contributions to prices in protected markets (Mesa-Lago, 1983: 89–91). Though these problems had long been recognized by international and domestic experts and politicians alike, attempts to bring about unification and standardization of social insurance failed repeatedly because of the determined resistance of privileged groups. Only the military regimes of the 1960s and 1970s were able to effect some degree of unification and standardization in Argentina, Chile, Brazil, Uruguay, and Peru.

The development of social policy in Latin America has to be understood in the context of the political economy of import substitution industrialization (ISI). ISI created urban constituencies for social insurance, that is, employed middle and working classes with an interest in protection from loss of earnings due to accidents, illness, and old age. Typically, these groups were better organized than the self-employed, the unemployed, and the workforce in the rural sector and thus had their needs met to a much greater extent. Politically, passage of social insurance schemes with relatively generous benefits for those covered was facilitated by the fact that employers did not really have to absorb the costs of their contributions but rather could pass them on to consumers because they were operating in protected markets. Therefore, the crisis of ISI and the subsequent opening of markets was bound to lead to conflicts over the financing of social insurance. However, the financial problems in the social security systems predated the opening of markets.

In the countries with the older and more developed social insurance programmes, the maturing of the pension programmes, increasing life expectancies, rising costs for curative health care, widespread evasion of contributions, and very poor investment returns on the reserves contributed

to severe financial strains and crises even before the economic crisis of the 1980s. The debt crisis and the general fiscal crisis of the state in the 1980s then also brought less developed systems into severe financial difficulties. Social insurance revenues declined as a result of rising unemployment in the formal sector, falling real wages, growing evasion, and the inability of the state to live up to its financial obligations towards social security. Runaway inflation eroded the value of pension benefits and forced adjustments that, despite their delay and inadequacy from the point of view of the recipients, imposed a heavy financial burden on the systems.

The stabilization policies imposed by the International Monetary Fund (IMF) to deal with the balance-of-payments crises entailed not only reductions in expenditures for social services and transfer payments but also reductions of subsidies of basic foodstuffs and public transport. These reductions, combined with rising unemployment and falling real wages, caused increased poverty. The combination of the financial crisis of the existing systems and their glaring inability to deal with the intensifying problem of poverty opened the door for reforms of existing systems, ranging from the radical overhaul and privatization of the Chilean system to efforts to move further towards universalistic public provision of pensions and health care in Brazil. Other countries pursued a mix of reshaping of some programmes, an increase in contributions, and the addition of some new programmes, particularly programmes targeted at the very poor.

Chile and Brazil span the spectrum from a radical neoliberal response to the problems of a highly developed but very fragmented, inegalitarian, and expensive system in Chile, to the gradual move toward a universalistic system of coverage in the context of the legacy of a fragmented and inegalitarian system in Brazil. The Chilean system of social policy is headed in the direction of a two-class system and a residual welfare state, where those who can insure themselves through the market enjoy good protection, whereas the state helps the poorest sectors only. Brazil has created the legal foundations for a universalistic welfare state, aiming to provide basic income security to all citizens, but the implementation of these policies has been hampered by the inadequate extractive capacity of the state and the inability of the political system to pass reforms that would reduce social spending for privileged groups. Argentina and Costa Rica fall near these opposites. Argentina adopted a pension reform with part of the new system modelled after the Chilean one but maintaining a universalistic public system, and Costa Rica has advanced further than any other Latin American country in the extension and reform of a welfare state inspired by the social democratic principles of universality and equity.

These four countries also followed different paths of adjustment to the debt crisis and the crisis of ISI, and they developed different export strategies. Chile has come to compete successfully in the international market on the basis of raw materials and cheap labour, a strategy facilitated by the Pinochet government's anti-labour policies. Brazil has maintained higher levels of protection and is competing in the international market also on the basis of more sophisticated manufactured products. Other Latin American countries are looking to the Chilean and Brazilian models. In the present conjuncture of immediate-past but still lingering neoliberal hegemony, the former model appears more attractive and has been followed, for instance, in Argentina and Peru. However, in the longer run the Brazilian/Costa Rican model of gradual economic reform combined with a socially interventionist state may well come to look more attractive, particularly under democratic rules of the game and the need for political leaders to consolidate democratic regimes.

The development of social policy after the Second World War

The key to understanding the differences in social policy patterns between advanced industrial societies and Latin America is the nature of late and dependent development and its effect on the occupational and class structure. The growth of the export economies based on agrarian products or minerals generated urbanization and growth of the state before any significant industrialization. The exceptions are Argentina and Uruguay whose meat and wool exports created subsidiary industry. This meant that the urban middle classes became larger compared with the industrial working class than at comparable stages of development in advanced industrial societies. The number of state employees, private sector white-collar employees, intellectuals and professionals, artisans, shopkeepers, and small entrepreneurs grew, and as they organized they acquired some political influence. The same was true for those workers in sectors crucial to the export economy, such as railroad, port, and maritime workers, as well as miners and oil workers. From the 1930s on, ISI did enlarge the working class, but again not to the same degree as at comparable stages of development in advanced industrial societies. Moreover, in the industrial as well as in the tertiary sector there was a predominance of small enterprises. These small enterprises tended to be characterized by paternalistic labour relations, and many of them operated in the informal sector, that is, outside the coverage of labour laws, social security legislation, and contractual labour relations with regular money wages.[3] This situation made labour organization outside the strategic sectors very difficult, and the weakness of labour organization meant that there were no strong working-class pressures for the establishment of universalistic and egalitarian systems of social insurance. Land tenure patterns, with the exception of Costa Rica and a few regions in some other countries, were dominated by large holdings. Large landholders exercised local domination and significant political influence at the national level, such that rural workers remained largely unmobilized and disenfranchised until the 1960s or 1970s. Thus, there was no potential to form worker–peasant alliances in support of universalistic social policy.

The process of state building and consolidating state power was a difficult one in most Latin American countries. The independence wars and later border wars and armed confrontations among different elite groups thrust the military into a prominent position in national politics. Consolidation of state power in the sense of the successful establishment of a monopoly of organized force by the central state was generally achieved by the beginning of the twentieth century, but the military in most cases retained a politically influential position. Brazil constitutes an important exception to these generalizations, as the easy achievement of independence perpetuated the presence of a well consolidated state apparatus. Nevertheless, the military remained an important part of this apparatus as well and played a crucial role in politics, supporting or opposing presidents and candidates until 1964, when it seized power to rule in its own right until 1985.

The development of social insurance in Latin America reflected this constellation of forces. Virtually uniformly, it began with the military, civil servants and the judiciary. Then followed coverage for the best organized and strategically located sectors of the middle and working classes, such as journalists, bank workers, teachers, railroad and port workers and the merchant marine, and only then for larger sectors of the working class such as in mining, public services, and manufacturing.[4] Voluntary or compulsory extension of the system to self-employed workers was a next step. However, many of the self-employed and most of those employed in the informal sector either remained formally excluded from the social insurance system or were self-excluding by evading contributions. Extension of coverage to the rural sector also came very late, if at all, in accordance with the lack of political power of the rural lower classes. In the rural sector, though, only a small percentage of the labour force is in relatively stable dependent employment, and even where coverage was extended to the urban and rural self-employed, contributions from the self-employed generally require the equivalent of employer plus employee portions and thus are too high for the vast majority of the rural poor.

Whereas the constellation of forces outlined above shaped the general sequence of social security expansion, the timing and the particular types of policy patterns were shaped by the political histories of the different countries, which in turn reflect the interaction of state building with the class structures and class alliances shaped by the particular pattern of economic development. The group with the highest coverage includes the countries that had comparatively long histories of democratic rule (Chile, Uruguay, and Costa Rica, along with the English-speaking countries of the Caribbean)[5] and two countries that had regimes making strong incorporation attempts towards the urban working classes (Vargas in Brazil and Perón in Argentina).[6] In the second group, only Colombia and Venezuela had substantial periods of democracy, but in both cases these democracies were initiated by pacts among elites. These pacts deliberately reduced the saliency of electoral competition and excluded autonomous popular movements and potential challengers to the status quo, such that political pressures for social policy reforms remained weak. Finally, the group with the lowest coverage is made up of countries at much lower levels of industrialization that had only brief experiences with democracy or none at all before the 1980s.

To point out that the countries with the most democratic histories or the most extensive labour incorporation attempts also had the earliest and most developed welfare state programmes is not to argue that these programmes were elaborated and pushed through by political alliances of middle and working classes. Rather, their introduction was a response of political elites to middle-class pressures for particularistic benefits and to labour militancy, a response that was frequently inspired by the European example (see e.g. Malloy, 1979). Where pressures from middle and working classes had been able to effect a democratic opening of the political system, such as in Uruguay and Argentina, the electoral constraint induced elites to grant benefits like pension programmes to the best organized groups. But even in countries that retained oligarchic systems with elections or outright authoritarian rule, such as Brazil, concerns about the disruptive potential of labour prompted elites to use social security legislation selectively to coopt and control militant groups. Accordingly, the social policy patterns developed akin to the European Catholic/conservative/corporatist patterns identified by Esping-Andersen (1990).

Chile

The Chilean system of social protection developed along the lines of the general sequence outlined above, but with more parliamentary input after 1932 than in most other countries. As a result, it came to offer wide coverage for all social risks, but it also became probably the most fragmented system in Latin America. This fragmentation was a result of clientelistic links between different groups of employees and political parties or individual politicians. It reflected the combination of a decentralized and politically diverse labour movement with parliamentary representation of left-wing parties that were in competition with centre and right-wing parties for popular electoral support.

By the early 1970s, Chilean social protection was very comprehensive as to social risks and offered coverage to between 60 and 70 per cent of the population (Mesa-Lago, 1978: 41; Tamburi, 1985: 77; Raczynski, 1994: 72). It was very costly in comparison with other Latin American countries as well, a result of a gradual and clientelistic expansion of benefits to ever larger groups. In 1971 social security expenditure reached 17 per cent of GDP (Mesa-Lago, 1989: 105), a figure that was brought down to 11 per cent by 1980 and compared with a range of 9–11 per cent among the highest spenders in Latin America in 1980 (1989: 40). However, it was rather inegalitarian in financing and benefits.[7] For instance, the average pension for the military was eight times higher than the average pension for

blue-collar workers, and the pension fund for bank employees was five to seven times higher (Mesa-Lago, 1989: 130). Finally, the system was truly chaotic administratively, with 35 withholding funds, 150 different programmes, and some 2000 legal texts that had remained uncompiled and uncoordinated (Raczynski, 1994: 17). Several reform attempts directed towards gradual standardization and unification failed because of determined resistance from privileged groups. The Allende government had a comprehensive reform project to create a universalistic welfare state, but all it could accomplish was the extension of coverage to the self-employed and greater accessibility of welfare assistance (Borzutzky, 1983: 212–13).

It was only the military government under Pinochet (1973–89) that made reform possible through ruthless repression of any popular political organization and dissent. The systems covering the military and the police, though, were exempt from the reforms. In the period 1974–9 the reforms eliminated the most glaring and costly privileges, standardized eligibility rules and cost-of-living adjustments for pensions, introduced uniform benefits for unemployment, uniform payments and a common fund for family allowances, a uniform minimum pension and expanded welfare pensions, and uniform entitlement conditions for health care. They also eliminated employer contributions to the pension funds (Mesa-Lago, 1989: 109–10). The most dramatic reform came in 1981, with the privatization of the pension and health systems. Though this reform predated the general Latin American debt crisis of 1983, it has to be seen as part and parcel of the Chilean neoliberal structural adjustment programme and thus will be discussed in the context of the changes of the 1980s.

Brazil

In Brazil President Vargas (1930–45) used social security as a tool in his pursuit of an explicitly corporatist system in which the state promoted labour organization and control through a system of official recognition of unions by the Ministry of Labour. He extended protection to all organized sectors of the urban working class and changed the system from a company-based one to one based on occupational categories, enshrined in the 1934 constitution (Malloy, 1979: 68). The administration of the various social security institutes, many of which also began to offer health care and housing loans, was headed by a chairman appointed by the President of the Republic and an administrative council with equal representation of employers and employees, the latter elected through officially recognized unions. In the period of restricted democracy from 1945 to 1964 the electoral imperative turned this provision into a source of power for organized labour and thus of resistance against unification of the system. Also, the social security institutes became prime sources for patronage employment.

As in Chile, significant reform was only implemented under the bureaucratic-authoritarian regime that seized power in 1964 and linked the reform effort to its primary goal of weakening organized labour. Labour representation in the administration of social insurance was abolished and six major social security institutes were merged into one. Again, the military and civil servants kept their own privileged funds. Whereas the bureaucratic-authoritarian regime's main approach to urban labour was repressive, it embarked upon an inclusionary corporatist project *vis-à-vis* the newly mobilizing rural workforce. In 1971 it established a system for the entire rural sector that did not require contributions and granted flat rate benefits of one-half of the highest national minimum salary and free access to health care. This scheme was financed by a combination of a payroll tax on urban employers and a tax on the value of agricultural products paid by wholesalers. Both the cash and health care benefits were administered by officially recognized rural syndicates of workers or employers (Malloy, 1979: 133). In 1972 domestic workers were granted social security protection as well, and in 1974 those urban elderly or invalids who had at one point made contributions to the system (Weyland, 1991: 245).

By the late 1970s, then, the Brazilian system of social security legally covered some 70–80 per cent of the urban economically active population (EAP) and in theory the entire rural one. Official government figures gave a coverage rate of 93 per cent of the population (Malloy, 1979: 134). Notably excluded was the urban informal sector, some 17–34 per cent of the EAP (Tables 6.2 and 6.3), depending on the measurement (Isuani, 1985: 93; Schoepfle and Pérez-Lopez, 1993), except for those who had made contributions at some point. However, rural benefits were extremely low, and disbursement was tied to patronage. Moreover, medical facilities were highly unequally distributed and entirely insufficient in rural areas. The heavy reliance on curative rather than preventive medicine and on contracting private providers aggravated this situation. Before the elections coming up in 1978 a major effort was made to bring sanitary and basic medical facilities to the underdeveloped north-east, and despite many problems they managed to reach several million people by 1979 (Weyland, 1991: 275). In the urban sector, efforts were made to reach the poor through social assistance programmes, but resource constraints kept the effects minimal (Weyland, 1991: 248). In terms of total benefits expenditures as a percentage of GDP, Brazil with 4.6 per cent was the lowest of those countries with the most developed welfare states in Latin America (Table 6.4).

Argentina

In Argentina, Juan Perón, Minister of Labour in the military government that seized power in 1943, and then President from 1946 to 1955, established the foundations of a comprehensive system of social security. His quest for power was based on mobilizing, incorporating and controlling labour, and social security formed part of this strategy. He first established

pension funds for different categories of police, then for commercial and industrial workers (1944–6), and in 1954 for permanent workers in agriculture and for self-employed, professionals, and entrepreneurs (Mesa-Lago, 1978: 164–5). He also extended health care to some of the categories that already had pension coverage: he built military and public hospitals, the latter to supplement the mutual health care insurance funds established by unions and the charity hospitals established by the Eva Perón Foundation to provide free medical care to the whole population. Thus, Perón's legacy was a social security system with very wide coverage for pensions and health care, but great heterogeneity and inequality, and with significant influence by the unions in the administration of welfare funds, the *obras sociales*, whose main responsibility was the management of health care schemes. In this period, the Argentine economy had essentially full employment, and thus the employment-based insurance schemes formed the basis of a welfare state, albeit of a highly corporatist, segmented, and inegalitarian variety. The bureaucratic-authoritarian government of Onganía (1966–70), then, effected some unification. Existing pension funds, except those for the military and the police, were merged into three funds, one for blue- and white-collar workers in the private sector, one for public employees, and one for the self-employed. The first two are governed by the same legislation. Health insurance continued in its fragmented form.

As of the early 1980s, then, whereas the pension system was relatively unified and had wide legal coverage, the health system was still very complex, with many different public funds coexisting with public health programmes at the national and provincial levels, resulting in unequal access to care even for those who were covered. Reliable coverage figures for health care are virtually impossible to obtain because of the possibility of multiple affiliations. Pension coverage by this point was restricted by the decline of industrial and public employment in the period 1976–80. Isuani (1985), basing his figures on the percentage of the EAP paying contributions, estimates that in 1970 68 per cent of the EAP were covered but in 1979–80 only 52 per cent.[8] Coverage for unemployment was extremely restricted, as only construction workers were covered. Family allowances covered all employed persons (except for domestic employees), as well as pensioners and recipients of means-tested benefits who had dependents. Within the Latin American context, Argentina had one of the most generous welfare states, with total social security benefits expenditures of 8.9 per cent in 1980 (Table 6.4).

Costa Rica

Compared with Argentina, Brazil and Chile, Costa Rica had a very low level of industrialization and thus a much weaker labour movement, such that the initiation of a social security system for workers came some 20 years later, despite the existence of a more democratic political system. Costa Rica's economy was based on coffee and banana exports, the latter entirely under the control of United Fruit. In 1941 a reformist government instituted a pension and health/maternity insurance programme (Rosenberg, 1979: 122). This programme was compulsory for all employees below a certain income limit, in the public and private sectors. Thus, unlike in the other cases discussed here, the Costa Rican system of social insurance started out as a unified one, under the Costa Rican Social Insurance Institute (CCSS), and it remained essentially so, except for some small separate funds being added (Mesa-Lago, 1989: 45). Implementation of the programmes, though, was very slow, reaching only a quarter of the economically active population by 1960 (Rosenberg, 1979: 124).

The next significant reform was initiated and passed in 1961 by a legislature dominated by the National Liberation Party (PLN), a party with social democratic leanings. The reform took the form of a constitutional amendment stipulating that the Social Insurance Institute was to universalize coverage within a decade. Though this goal was not nearly achieved, with only 43 per cent of the population having coverage by 1971 (Rosenberg, 1979: 124), the amendment was a strong impetus pushing the system towards universalistic and standardized coverage. An integrated national health service was established in 1973, with the transfer of all hospitals to the Social Insurance Institute. By 1980, 95 per cent of physicians had salaried positions in the social security system, and though about one-third of physicians had some form of private practice, only 14 per cent of consultations were made by private physicians (Casas and Vargas, 1980: 268). The Ministry of Health retained responsibility for preventive and primary care, particularly through a community and rural health programme, which was very important because of insufficient accessibility of social insurance health facilities in rural areas.

By 1980, some 75 per cent of the population had social security coverage for health care and roughly 50 per cent for pensions (Tamburi, 1985: 77; Isuani, 1985: 95); those who did not were either self-employed or employed workers whose employers evaded registration and contributions. Uninsured workers whose employers evaded registration and contributions. Uninsured people with a low income could receive health care as indigents or for a small fee (Casas and Vargas, 1980: 273; Mesa-Lago, 1989: 53). Whereas the great majority of the insured belonged to one single fund, there remained in existence 18 special pension funds for different categories of public employees with more flexible conditions and higher pensions (Mesa-Lago, 1985: 337). In terms of total social security benefits expenditure, Costa Rica ranked third among our four cases with 6.3 per cent of GDP (Table 6.4).

Comparative perspectives

As of 1980, then, the four cases discussed exemplified the most developed Latin American welfare states (Table 6.4).[9] They also illustrate the different paths to welfare state expansion (Tables 6.5–6.7). In Argentina and Brazil the first legislation was passed by conservative elites in response to labour militancy and later corporatist regimes used social security programmes in

Table 6.5 *Total social security expenditure and benefits as a percentage of GDP*

	Argentina		Brazil		Chile		Costa Rica	
	Expenditure	Benefits	Expenditure	Benefits	Expenditure	Benefits	Expenditure	Benefits
1965	–	–	4.3	3.4	12.1	9.8	2.3	1.9
1975	6.8	6.6	5.7	4.9	11.0	10.1	5.1	4.6
1980	9.3	8.9	4.8	4.6	10.7	9.9	7.1	6.3
1981	8.8	8.0	5.8	5.2	10.0	9.5	7.2	6.5
1982	6.8	6.3	6.1	5.6	15.6	14.3	5.9	5.2
1983	7.3	6.8	5.6	5.2	14.3	13.0	6.3	5.6
1984	7.3	6.8	5.1	4.6	14.7	13.4	7.0	5.6
1985	5.9	5.8	4.8	4.5	13.5	12.3	7.4	6.1
1986	6.1	5.9	5.0	4.6	13.1	12.0	7.3	6.0

Source: The Cost of Social Security 1981–1983, 1984–1986, OECD

Table 6.6 *Social security receipts by origin (per cent)*

	Argentina			Brazil			Chile			Costa Rica		
	Insured	Employer	State	Insured	Employer	State	Insured	Employer	State	Insured	Employer	State
1965							19.6	42.0	33.8	25.1	37.7	26.0
1975	22.8	70.3	5.0				16.3	46.5	32.2	23.8	47.8	20.1
1980	38.3	49.3	10.2				20.5	38.3	34.2	27.6	45.9	20.4
1981	33.6	25.3	37.4	4.9	83.0	9.3	40.0	11.8	39.5	23.5	38.7	31.7
1982	34.1	25.9	37.2	17.3	75.5	4.5	32.2	2.6	52.7	23.3	38.8	31.9
1983	34.5	27.2	36.0	15.2	74.7	8.0	31.1	2.1	48.9	28.4	47.0	18.6
1984	33.0	31.9	28.9	21.2	65.0	10.9	31.8	2.1	52.6	25.0	52.5	4.3
1985	30.6	41.4	19.6	17.2	72.6	4.3	29.1	2.0	48.6	24.2	52.1	2.9
1986	31.3	45.6	19.5	38.5	53.5	3.8	30.1	2.0	48.9	25.5	49.2	2.6

Source: The Cost of Social Security 1981–1983, 1984–1986, OECD

Table 6.7 *Distribution of benefit expenditures (per cent)*

	Argentina			Brazil			Chile			Costa Rica		
	Sickness/ maternity	Pensions	Unem- ployment	Sickness/ maternity	Pensions	Unem- ployment	Sickness/ maternity	Pensions	Unem- ployment	Sickness/ maternity	Pensions	Unem- ployment
1975	14	58	–	47	51	–	25	34	1.8	77	15	–
1980	24	58	–	38	54	–	24	44	4.3	80	15	–
1981	23	60	–	37	58	–	4	57	6.1	67	29	–
1982	25	61	–	36	60	–	18	64	3.9	68	28	–
1983	27	59	–	34	62	–	15	68	3.6	70	27	–
1984	26	59	–	32	63	–	15	70	2.6	67	25	–
1985		81	0.7	35	60	–	16	71	1.8	66	26	–
1986		77	0.8	32	63	–	17	71	1.1	66	27	–

Source: The Cost of Social Security 1981–1983, 1984–1986, OECD

their efforts to build up and control the labour movement. In Chile and Costa Rica the welfare state was shaped under democratic auspices but with a different political centre of gravity, with conservatism being stronger in Chile and social democracy stronger in Costa Rica. Accordingly, the Costa Rican welfare state was the only one to develop in a relatively unified and solidaristic way; the other three developed into highly fragmented and inegalitarian structures.[10] Military regimes in the 1960s and 1970s then effected some degree of unification, but great inequalities continued to exist. Coverage remained far from universal; about a third and more of the population remained *de facto* without coverage. Among those covered, income maintenance and health care benefits still varied by category of previous employment. Even for those people for whom medical benefits were supposed to be available through public institutions or publically financed providers, access varied greatly by geographical location because of differential availability of health care institutions.

In general, those insured for pensions were also insured for sickness/maternity, both for cash payments and for medical care. There were some provisions for those without or with insufficient social insurance coverage, but benefits were very low. All four countries had legally guaranteed minimum pensions and provisions for means-tested pensions (called family allowances in Costa Rica but available only for people over 65).[11] In addition, Chile had a special programme of family allowances for the needy, and Costa Rica and Brazil had social assistance programmes; but in Brazil, for instance, this accounted for less than 1 per cent of total social security expenditure. Unemployment insurance did not exist at all in Costa Rica and only for construction workers in Argentina, though Argentina had legislation that required employers to pay severance pay. In Brazil unemployment insurance covered only workers with 120 days of employment in the same large enterprise; over 50 workers had to be laid off in a period of 2 months for coverage to become effective; and in Chile only those with 52 weeks of coverage during the previous 2 years and registered for employment and able and willing to work were covered.

The financing structure of social security varied among the four countries (Table 6.8).[12] In Argentina, after a 1980 reform that abolished employer contributions to the pension system, employers and workers contributed roughly equal percentages of earnings to social security; in Brazil and Costa Rica, employers paid the lion's share; whereas Chile had eliminated employers' contributions altogether by 1981.[13] The difference in the changes in employer contributions at that point reflected the differences in the strength of the neoliberal impulses in the four countries. Chile had gone furthest in opening its markets and reducing the role of the state in the economy, followed by Argentina, whereas Brazil and Costa Rica still maintained more protected markets.

Since the informal sector is defined as those income-earning activities that are carried on outside the reach of labour and social security legislation and other forms of state regulation, in a social environment

Table 6.8 *Sources of contributions to social security as a percentage of earnings*

	1981			1991		
	Insured	Employer	Government	Insured	Employer	Government
Argentina						
Pensions	11	–	139% contribution of insured and means-tested federal pensions	10	11	90% of contribution + means-tested subsidies for non-contributors
Sickness/maternity	4	4.5	–	3	5.4	–
Work injury	–	All	–	–	All	–
Unemployment	–	4 Construction only	–	–	4 Construction only	–
Family allowances	–	12	All for pensioners and means tested	–	9	All for pensioners and means tested
Total	15	20.5		13	29.4	
Brazil						
Pensions	8	11	Various taxes	8–10	21.5	Special taxes
Sickness/maternity		(included in above)			(included in above)	
Work injury	–	0.5–2.5	0.5% of value of agricultural products	–	2	–
Unemployment	Union dues	–	–	–	–	All
Family allowances	–	4	–	–	4	–
Total	8	15.5–17.5		8–10	27.5	

Table 6.8 *(continued)*

	1981			1991		
	Insured	Employer	Government	Insured	Employer	Government
Chile						
Pensions	Old/new 19/13	–	Special subsidies	Old/new 19/13.5	–	Special subsidies
Sickness/maternity	4/4	–	Partial subsidy	6/7	–	Partial subsidy for public system
Work injury	–	1–4	Subsidies	–	4–8	Subsidies
Unemployment	–	–	Subsidies	–	–	All
Family allowances	–	–	Subsidies	–	–	All
Total	23/17	1–4		25/20.5	4–8	
Costa Rica						
Pensions	2.5	4.75	0.25% of covered earnings	2.5	4.75	0.25% of covered earnings
Sickness/maternity	4	6.75	0.25% of covered earnings	5.5	9.25	0.25% of covered earnings
Work injury	–	All	–	–	All	–
Unemployment	–	–	–	–	–	–
Family allowances	–	5	Sales tax	–	–	3% of sales tax
Total	6.5	16.5+		8	14+	

Source: *USDHHS*, 1982, 1992

where similar activities are regulated (Castells and Portes, 1989: 12),[14] by definition employers in the informal sector evade the payment of social security contributions. Tables 6.1–6.3 show different measures of the percentage of the economically active population in the urban informal sector and in the rural traditional (and thus informal) sector, and the percentage covered by social security. Argentina, Chile, and Costa Rica (along with Uruguay) were the Latin American countries with the traditionally smallest total informal sectors and the highest degrees of social security coverage. Nevertheless, even in these countries between a quarter and a half of the labour force (depending on the measures used) remained outside the formal sector and thus outside the social security system by 1980. From 1980 to 1990, then, informality in the nonagricultural sector increased even further.[15]

If we look at the distribution of the labour force by sector, we find a low percentage in industry compared with Europe. In 1980, Argentina with 34 per cent had the highest percentage of the labour force in industry of any Latin American country; in Brazil 27 per cent were in industry, in Chile 25 per cent and in Costa Rica 23 per cent. This put the Latin American countries clearly at the lower end of the range of 25–35 per cent in continental Europe. If the continental European experience suggests that a welfare state model built around stable industrial employment simply does not work well under such conditions (Esping-Andersen, Chapter 3 in this volume), this is even more true for Latin America. It is further important to note that even in the formal industrial sector employment conditions became increasingly precarious in the late 1970s and 1980s, particularly in Chile and Argentina as a result of changes in labour legislation. Workers employed in the formal sector under a short-term contract or without any contract at all did not come under social security coverage.

The majority of self-employed remained without coverage, even where there were schemes that formally included them.[16] Partly this is due to the fact that contributions for self-employed were much higher than for employees and therefore the self-employed evaded payment, and partly it is due to the high proportion of self-employed who operate in the informal sector, avoiding any contact with public authorities. Given that the size of the informal sector is a lasting structural problem, the only way significantly to expand social security coverage would be to break with the employment nexus and establish a non-contributory scheme where entitlement is based on citizenship. Brazil is the only one of the countries discussed here that established a non-contributory social insurance system for the rural sector, but given that the system was administered by official syndicates of rural workers and employers, it also had a strong bias towards the formal sector. Financing such schemes on a large scale and with benefit levels to eliminate destitution would require a significant strengthening of the extractive capacity of Latin American states. This also applies for a potential expansion of social assistance, i.e. income-support programmes for those in need and without any social insurance coverage.

Chile and Argentina, and to a lesser extent Brazil, then, strongly resembled the conservative, corporatist welfare state regime identified by Esping-Andersen (1990; and Chapter 3 in this volume) as typical of the continental European welfare states. The basis of the welfare state was the social insurance principle, not citizenship rights; there were virtually no services outside health care; and social assistance programmes were of minimal impact. The family remained crucial in providing a safety net for the sick and the old. Female labour force participation rates were comparatively low: under 30 per cent of the female population over 15 years of age in Argentina, Chile, and Costa Rica, and somewhat above it in Brazil. The big difference between the European and Latin American variants of these welfare states was the much more restricted coverage of the latter, owing to the structural differences in the labour markets, with the much larger informal sectors in Latin America. Thus, despite very extensive formal legal inclusion, the Chilean and Argentine systems reached at best some 70 per cent of their population.

For the covered parts of the population, pension benefits were relatively generous if unequal, probably most unequal in Brazil, followed by Chile and then Argentina. The exception to this generosity was the non-contributory scheme for the rural sector in Brazil, with benefits equal to one-half the minimum wage only. These welfare states reinforced class and status distinctions and made the nexus to the labour market pivotal. There was no adequate safety net for those outside the formal labour market. Accordingly, poverty rates in 1980 ranged from 10 per cent in Argentina to 45 per cent in Brazil (CEPAL, 1990).[17]

In contrast, Costa Rica was more like an embryonic social democratic welfare state, conforming to the principles of universal coverage (in health only), standardization of benefits, unification of administration, and some aspects of solidaristic financing. Except for different categories of civil servants, all those insured belonged to the same pension scheme, with the same conditions and benefits, and there was a safety net for the uninsured in the form of means-tested pensions. However, pensions were earnings-related and the social assistance pensions were only about one-fifth of the average pension. The health care system was the same for everybody: those insured in the general and the special funds, as well as the uninsured who were entitled to virtually free medical care. In addition, Costa Rica had a strong community and rural health programme, for preventive and primary care for urban and rural poor communities, run mainly by the Ministry of Health but in coordination with the Social Security Institute. The principle of solidarity operated in the form of state financing of the programmes for the indigent. After the abolition of income ceilings, the pension benefits structure had a progressive character, but given the relatively large percentage of the population that had no pension coverage, the overall incidence of the pension system was probably at best distributively neutral. As of 1980, one of the glaring lacunae in the Costa Rican system from a social democratic point of view was unemployment insurance. Nevertheless, in consideration of Costa Rica's level of income per capita, which was significantly lower than those of Brazil and Chile, its poverty rate of 24 per cent in 1980 compared favourably with that of these two countries. This is even more so for life expectancy, which in 1984 was 73 years for Costa Rica, compared with 70 years for Chile and 64 years for Brazil (IBRD, 1986).

The impact of social security on the labour market is complex. Certainly, the fact that coverage is tied to participation in the formal sector enhances the attractiveness of this sector. But it is far from clear that this influences the behaviour of labour maket participants, as for them formal sector work is much more attractive anyway because of higher wages, other protective labour legislation, and greater stability of employment. Wilson (1985: 263) argues that the financing of social security through payroll taxes reduces formal sector employment because it creates a cycle whereby these taxes are passed on to consumers in the form of higher prices, informal sector workers have limited capacity to absorb these prices, demand for products from the formal sector is reduced, which in turn means restricted employment in the formal sector. This argument is plausible in principle, though its importance is limited because of the range of goods for which a decrease in price would substantially increase demand from the informal sector. One certainly could accept the argument, though, that high social security contributions imposed on payrolls increase the incentives for employers to carry on at least part of their operations in the informal sector. Wilson further argues that payroll taxes increase the incentive to substitute capital for labour, though he recognizes that this effect is confounded by the favourable credit policies and subsidies for capital goods typical of ISI promotion policies. The main point to be made with regard to payroll taxes is their effect on labour markets via the competitiveness of domestic products in protected versus open markets. The levels of payroll taxes that were compatible with production for protected markets did not remain so with production for open and internationally competitive markets.

The economic crisis of the 1980s and its impact on social policy

In the 1980s Latin America underwent the most severe economic crisis since the Depression. Chronic balance-of-payments deficits linked to the exhaustion of the ISI model of growth had been aggravated for the non-oil producers by the two oil shocks and dealt with in the 1970s by heavy borrowing from international commercial banks. When international interest rates rose in the early 1980s, and at the same time recession in the developed world and changing terms of trade reduced the export earnings of Latin American countries, many of them became unable to service their debt burdens. The reaction of the banks in the form of an abrupt halt to lending to Latin American countries forced severe adjustment measures. Latin America became a net exporter of capital in the 1980s.[18]

The crisis forced a critical examination of all aspects of the post-war development model. The conclusions reached in this critical examination centred around the exhaustion of ISI and the role of the state in promoting ISI. The chronic balance-of-payments problems suggested that a shift in emphasis from ISI to export-led industrialization was necessary. Since the state had played the major role in promoting ISI, the state's role in the economy would have to be modified. Moreover, the external deficits were accompanied by internal deficits and strong inflationary pressures, and an improvement in economic performance would also require a reduction of public sector deficits and thus of inefficiency and waste in the state apparatus.[19] There was virtually general acceptance of this diagnosis. However, this diagnosis could potentially lead to a range of corrective measures. What happened in practice was that the crisis gave enormous leverage to international financial institutions, particularly the International Monetary Fund (IMF), private banks, and creditor governments, where a neoliberal view of the economic world was dominant. These agents, with the support of domestic groups who for economic or political reasons favoured the reorientation, imposed, under the label of 'structural adjustment', harsh austerity policies, measures to reorient production towards exports, and a general programme of state shrinking on the Latin American countries. Initially, with a few exceptions such as Pinochet in Chile and the junta in post-1976 Argentina, most governments resisted these impositions. However, in the course of the 1980s, two developments favoured the pursuit of both austerity and liberalization policies. First, episodes of runaway inflation made the imposition of harsh austerity policies more urgent and also made the population more willing to accept them. Second, the liberalization measures that were taken created their own internal support constituencies among their beneficiaries in the financial and export-oriented sectors which, combined with the intensity of the pressures, slowly made the 'Washington consensus'[20] hegemonic in many Latin American countries.

In the neoliberal view the state came to be qualified almost by definition as bloated and inefficient. Moreover, since the state had played such a prominent role in ISI, it was falsely concluded that a turn towards export-oriented industrialization would require a radical withdrawal of the state from its economic roles. Despite evidence to the contrary from the successful East Asian industrializers and small states in Europe, indiscriminate state shrinking became a cornerstone of the radical neoliberal agenda.[21] In addition to austerity, the dominant theme in prescriptions for reinvigorating the Latin American economies came to be liberalization. Liberalization was to include deregulation of trade (lowering of tariffs and elimination of import controls), financial flows (removing foreign exchange controls and relaxing restrictions on private financial institutions and on foreign investment), and prices (elimination of price controls and subsidies), as well as privatization of state enterprises. Such deregulation and privatization would shrink the bloated state and make the market the supreme guiding force in economic decisions, and the market would dictate a reorientation from ISI to export-led growth.

The combination of austerity and liberalization policies induced or reinforced a severe contraction of economic activity, a shrinking of employment in the formal sector, particularly in the public sector, falling real incomes, and a decline in social services. Budget cuts necessitated layoffs in the public sector, cutbacks in social expenditures, and cutbacks of subsidies for basic foods, public transport, and utilities. The reduction or elimination of such subsidies, along with massive devaluation (prescribed by the IMF), led to astronomical price increases for these goods and services, in many cases virtually overnight. Given the high percentage of their income spent on these goods and on public transport by the poor, these price increases hit them particularly hard.[22]

Declines in social expenditures are only partly reflected in the ILO figures for social security expenditure as a percentage of GDP: in Argentina these expenditures declined from 9.3 per cent in 1980 to 6.1 per cent in 1986; in Brazil they remained virtually stagnant in the period, at 4.8 and 5.0 per cent; in Chile they even increased from 10.7 to 13.1 per cent, though this has to be seen in the light of the drastic contraction between 1974 and 1980, when Chile pursued a radical neoliberal economic course, and of the costs of the privatization of the pension system (see below); and in Costa Rica they also remained relatively constant at 7.1 and 7.3 per cent (Table 6.5). If we look at total social expenditures, by central and provincial governments, and including education, health, housing, pensions, and others, we find significant declines during the 1980s and slow recoveries by 1990 to levels still below those of 1980 (Carciofi and Beccaria, 1993).[23] There was a pronounced difference in magnitude of the decline between Chile, where the most radical neoliberal model was implemented, and the other countries. Typically, what suffered most in these declines were investments in facilities and supplies, such as for schools and hospitals, and salaries for teachers, nurses, and in many cases administrative employees. Over the course of the decade, then, this affected delivery of services.

Declining real wages of public and private sector employees and the loss of formal sector employment meant that more people were pushed into poverty. Privatization of state enterprises in Chile and Argentina was preceded or accompanied by layoffs, and import liberalization in Chile, Argentina, and Costa Rica caused contraction or bankruptcy of private industrial firms. A CEPAL study (1990: 42) showed increases in the percentage of the population below the poverty line from 1980 to 1986 of the following magnitude: Argentina from 10 to 16 per cent; Brazil stagnant at 45 per cent;[24] Costa Rica from 24 to 27 per cent; Peru from 53 to 60 per cent; Venezuela from 25 to 32 per cent. A study prepared for UNICEF/CEPAL by Carciofi and Beccaria (1993: 56) showed similar increases, though somewhat lower levels overall owing to a different calculation of the poverty line; this study showed a poverty rate for Chile of 38 per cent in 1986, compared with 17 per cent in 1970 (no data available for 1980).

Problems of social security programmes

The existing social security programmes in Latin America, even in the most advanced cases, were poorly equipped to deal with the social costs of the structural adjustment policies. They had some pre-existing problems resulting from structural weaknesses, and these problems were compounded by the impact of the economic crisis. As of 1980, the pension programmes in Argentina, Brazil, and Chile had some common problems that endangered their financial stability already. Given that they had been in existence for roughly half a century, they had matured and the ratio of active to passive insured had deteriorated significantly. Particularly in Chile and Brazil, benefits in the privileged systems and time-for-service pensions[25] were expensive. Investment yields from pension reserves were extremely low, as these reserves were partly used for investment in the health systems or for government securities, and during highly inflationary periods there was actual decapitalization. Other problems affected both the pension and health systems, such as evasion of payments by employers and the self-employed, or long delays of such payments, particularly under high inflation. The state on its part accumulated large debts to the systems because it postponed its payment obligations as third-party contributor. Moreover, administrative expenditures were excessively high owing to multiplicity of institutions and the use of social security agencies for patronage employment. Finally, the rising international costs of medical technology were driving up the costs of health care.

The economic crisis of the 1980s caused greater deficits because of declining revenue due to falling real wages, declining formal sector employment, and a greater burden put on public health facilities due to the greater levels of poverty. Also, the state debt to the systems increased.[26] Inflation played havoc with the pension systems and put the issue of adjustments into the centre of the political struggle. The authoritarian governments used various methods to understate the extent of inflation and thus reduce pressures for adjustments of wages and pensions. The result was a deterioration in the real value of pensions. The structural adjustment programmes also brought the issue of employer contributions to the top of the political agenda. The slashing of tariffs and other import restrictions and the emphasis on export diversification meant that employers could no longer simply pass on payroll taxes to the consumers. Thus, the material self-interests of employers combined with the ideological bent of proponents of neoliberal policy to reduce employer contributions. The magnitude of these reductions, of course, depended on the nature of the adjustment process and the relative political strength of these actors.

Approaches to reform

Attempts to deal with the financial problems of the social security systems on the one hand and with the social costs of structural adjustment policies on the other hand were part and parcel of the different countries' general approaches to the reshaping of their political economies. There were a few obvious measures that most countries took, such as the elimination of particularly costly privileges, some administrative coordination, and reduction of investments in facilities. However, beyond these basic measures, the various governments chose different combinations of available options, such as (1) increases/decreases in contributions from the insured, employers, and the government, and imposition of user fees; (2) reduction of benefits across the board or for specific groups; (3) reduction of administrative expenditures, e.g. for personnel; (4) a shift in emphasis from expensive curative health care to more cost-efficient public health measures and primary care with ambulatories and paramedics; (5) the establishment of new programmes outside the traditional social security programmes, targeted at particularly vulnerable groups; and (6) structural changes responding to a radical redefinition of the responsibilities of the state and the market with regard to social security. The combinations chosen reflected the different governments' visions of an appropriate model of the relationship between state and market, and state and civil society, as well as the realities of the new position of these countries in the international economy.

Chile

The military government under Pinochet in Chile (1973–89) pursued the most radical neoliberal restructuring of economy and society in Latin America.[27] Its shock programme of austerity and adjustment measures in 1975–6 went even further than the IMF demanded. The reason for this radicalness was that the economic policies formed an integral part of Pinochet's political project which included not just physical repression of pre-existing political organizations but also a critical weakening of labour and the left through a destruction of their social bases. The government sought to construct an atomized, depoliticized society where there would be no basis for collective action and the state would no longer be at the centre of the issue of distribution. Instead, the market was to determine the allocation of resources, though with a little help for capital in the form of legal restrictions on the formation of unions and collective bargaining.

In the period up to 1981 the government slashed total state expenditures from some 40 to 30 per cent of GDP (Vergara, 1986: 89), reduced the state bureaucracy by some 5 per cent per year (Foxley, 1986: 31), sold off all but 24 of the 479 state enterprises (Vergara, 1986: 90), slashed tariffs from an average of 94 per cent to an average of 10 per cent (Borzutzky, 1983: 247), deregulated the financial sector, and guaranteed foreign investment the same treatment as domestic investment. The results of these policies were partial deindustrialization, as weaker enterprises in traditional sectors such as textiles, shoes and leather, and garments, faced by import competition and high interest rates, were forced out of business (Foxley, 1986: 40–1). At the same time, the late 1970s saw a consumption boom spurred by foreign borrowing and imports, and a concentration of assets in the economy in the hands of a few major groups based on financial institutions. By late 1981 the boom turned to bust, as the financial system got into crisis and the government began to take over banks and other financial institutions to save them from bankruptcy. The halt of foreign loans in the wake of the regional debt crisis further aggravated the decline of the Chilean economy. By 1983, close to a third of the labour force was unemployed. The response of the government was twofold: on the one hand, it concluded an orthodox stabilization agreement with the IMF, and on the other hand it continued to take over failing banks and the enterprises controlled by these banks, and it assumed the external debt of the banks. However, these takeovers were emergency measures and did not signify a change in the economic policy course; rather, after the economic crisis was over, the banks and enterprises were reprivatized.

The same emphasis on reduction of the state's role and expenditures and reliance on the market also characterized the regime's social policy. Though social expenditures as a percentage of total public expenditures recovered to previous levels after a steep decline in 1974, this meant lower real expenditures as total public expenditures were reduced drastically. Moreover, two new programmes absorbed a large part of expenditure: an emergency employment programme and a subsidy paid to employers for the hiring of new workers. Overall per capita social spending in 1979 was at 83 per cent of the level of 1970, with major declines in housing, social security, and health, and large increases in public assistance and employment. The decline in social security spending reflected largely the decline in the average amount paid for pensions and family allowances (Vergara, 1986: 97–102). By 1989, the index of per capita public social expenditure (in 1985 pesos) was still below the base year 1970, standing at 92 (Raczynski, 1994: 71).

Comprehensive social security reform was delayed for quite some time owing to internal bureaucratic disagreements between more corporatist-oriented technocrats and the radical neoliberals, before the latter won decisively. Between 1974 and 1979, though, employer contributions were greatly reduced, unemployment compensation and family allowances were made uniform, and the real value of pensions and family allowances was greatly reduced through lags in adjustment to inflation. In 1979, reforms eliminated the most costly pension privileges, such as time-for-service pensions, unified the retirement age at 65 for males and 60 for females, and unified the system of pension adjustment and tied it to the consumer price index (Borzutzky, 1983: 298).

A 1980 law established a new pension system based on compulsory private insurance for wage and salary earners, with full capitalization; participation by the self-employed is voluntary. Every individual has to pay his/her own contribution into an individual account administered by a private for-profit pension fund (*administradora de fondos de pensiones*, AFP), and the contributor's pension will be determined by these contributions plus the returns on the investments of the pension funds, minus the charges for administration. Thus, the adequacy of pensions will depend entirely on the general performance of the Chilean economy, particularly the level of real wages and the relationship between inflation and interest rates. Employers make no contributions to the new system; nor does the government, except for the guarantee of a minimum pension to those with 20 years of contributions, and obligations resulting from the transition.[28] Every new entrant into the labour force is required to join the new system. Those previously insured had 5 years to choose between the old and the new system, but once they left the old system, they could not return to it. The attractiveness of the new system was enhanced by a massive advertising campaign and by lower contributions of the insured than under the old system, 19.5 to 20.7 per cent in the new system versus 25.6 to 27.7 per cent in the old system. In order to motivate people to switch to the private system, the government issued recognition bonds to the new system for the contributions that each insured had made to the old system; these bonds will become effective in full at the time of retirement.

The AFPs are regulated by the government with regard to their investments, but not the amount they can charge in the form of commissions and fees. Presumably, competition would take care of this aspect. However, the new system became rapidly highly concentrated, with three AFPs controlling 68 per cent of all deposits by 1991. The commissions typically consist of a flat fee and a percentage of the contributions, which means that they have a regressive impact (Diamond and Valdés-Prieto, 1994).[29] Ironically, the administrative expenses associated with the new system probably exceed those of the old system, even though the old system was criticized as inefficient and too expensive (Diamond and Valdés-Prieto, 1994: 309). By 1991, 90 per cent of the insured were registered in the new private scheme; those remaining in the old system were mainly people close to retirement. In 1988, about one-fifth of the labour force was not covered by social security, most of them self-employed. However, only 56 per cent of the labour force was both registered for social security and contributing, whereas 24 per cent was registered but not contributing. There are multiple reasons for this state of affairs. Some of those registered but not contributing were temporary workers, or workers without contracts, or unemployed; for others their employers deducted the contributions but delayed forwarding them to the AFPs. In addition, there was considerable underreporting of earnings, as many with low incomes only made contributions to get a minimum pension. The minimum pension guaranteed to those insured, though at the equivalent of US $75 per month in 1991 not sufficient to meet basic needs, was more than twice the public assistance pension which amounted to the equivalent of US $36 in 1992 (Mesa-Lago, 1994: 117–21).

The transition, then, imposed considerable costs on the government, given that it had to cover deficits in the old system where contributions declined radically compared with pension obligations, and that it had to

transfer funds into the new system. These costs amounted to 4–5 per cent of GDP per year in the 1980s and early 1990s (Diamond and Valdés-Prieto, 1994: 279–80). The entire reform amounted to a massive transfer of assets from the public to the private sector. By 1991 AFPs controlled funds equivalent to 34.5 per cent of GDP, and estimates are that they will control assets equal to 50 per cent of GDP by the year 2000 (cited in Mesa-Lago, 1994: 124). This costly process of privatization could be carried out without macro-economic disruptions only because the government had built up a fiscal surplus before undertaking the reforms and because it continued to keep other expenditures extremely low.

In health care, the public system was reorganized and in addition a private system of health insurance was created for middle- and upper-income earners. In 1979, the government unified the blue- and white-collar health systems and decentralized the new public health system into regional systems, to be reimbursed by the central government on a services rendered basis (Borzutzky, 1983: 337–8). Those insured in the private pension system are eligible to join private health plans (*institutos de salud previsional*, ISAPRES), which offer a variety of benefits and may construct their own facilities or contract with private providers. Even for most middle-income earners the premiums charged by ISAPRES in addition to the mandatory health insurance contribution are too high. Accordingly, by 1990 only 16 per cent of the population were affiliated with ISAPRES, but their contributions amounted to more than 50 per cent of mandatory contributions for health insurance (Carciofi and Beccaria, 1993). ISAPRES spend four times the amount that the public sector spends per capita, and in addition they make substantial profits (Vergara, 1994: 257, n.10). Thus, the lower-income/lower-contribution people remained with the public system, which also serves indigents. Investments and salaries greatly decreased in the public system during the 1970s and 1980s, which means that developments were headed in the direction of a two-class system of health care.

In the 1970s, at the same time as it reduced overall social expenditure, the government created or reactivated a number of programmes targeted at the very poor. Of particular importance were the emergency employment programme, which in 1983 provided temporary employment to 13.5 per cent of the labour force, as well as health and nutritional programmes for poor mothers and infants before and after birth, a means-tested school lunch programme, and pre-school day care centres for poor children with nutritional and other health problems. As a result, there was not only no deterioration but actually an improvement in some basic social indicators like infant mortality despite the impact of the economic crisis and austerity programmes.[30] One should note, though, that the effectiveness of these health and nutrition programmes was in large part due to the structure and coverage that the public health service had achieved under the old system (Raczynski, 1994: 80). In the early 1980s, total social expenditures increased from 17 per cent of GDP in 1980 to an average of 22.3 per cent in 1982–4, reflecting the costs of the pension reform and of the unemployment and emergency employment programmes, before declining again to 14 per cent in 1990 (Carciofi and Beccaria, 1993). While most of these reduced expenditures continued to be targeted at the poorest groups, they were simply inadequate to ameliorate poverty in a meaningful way.

The new Chilean model of integration into the world economy is heavily based on exports of raw materials – agricultural goods, minerals, and forestry products – increasingly complemented by light manufacturing. For most of these manufacturing and particularly agricultural activities to be profitable, cheap labour is essential. Accordingly, social security contributions based on the payroll, except for work injury, were eliminated by the military government and not reimposed by the democratic government. In contrast, contributions from the insured as a percentage of their income are the highest among our four cases (Table 6.8). The economic transformation has brought about a significant change in the Chilean labour market in the past decade, a change that keeps large sectors of the employed labour force in precarious and poorly paid employment. Whereas unemployment had fallen to 5.7 per cent in 1990, average and minimum wages had not returned to their 1981 levels (Díaz, 1993: 21). In 1987, 54 per cent of workers and employees in the formal sector earned below 2.5 times the value of the per capita poverty line, the minimum for satisfying the needs of a basic nuclear family (León, 1994: 41). Labour's position was so weak that growth of productivity was consistently higher than growth of wages. A very large proportion of waged workers are employed on the basis of informal labour relations, even in firms that are operating in the formal sector. They are hired on an individual basis, with or without temporary contract, as unions and collective bargaining are kept out of these enterprises – a situation that is possible because of the labour code's emphasis on flexibility in labour markets. Large firms take advantage of this situation by subcontracting with medium and small firms, with the result that the proportion of core workers with stable employment under formal labour relations is small compared with the large proportion of part-time and temporary workers (Díaz, 1993: 13). This has clear implications for social security coverage in that the latter groups of workers either are not covered at all or only make sporadic contributions that might at best be sufficient to entitle them to a minimum pension.

The weakness of labour and other mass organizations has also meant that there were no effective pressures pushing the democratic governments to change course in social policy. Whereas the Aylwin government did make some important progress by raising taxes in order to increase social spending and by increasing the legal minimum wage, it continued the safety net approach to social policy and did not even put a change in the institutional parameters of the two-class system of social protection on the political agenda. As a result of the increases in social spending and in the minimum wage, combined with rising average wages due to decreasing inflation and a certain tightening of the labour market, poverty was reduced from 40 per cent in 1990 to 34 per cent in 1992 (Díaz, 1993: 22).

Still, social policy for the poor retains the character of charity and remains focused on immediate consumption (Vergara, 1994: 251–5). One innovation has been the Fund for Solidarity and Social Investment aimed at improving community-based social welfare infrastructure and increasing productivity of micro-enterprises and the informal sector. The fund, though, receives 1 per cent of public social expenditure only (Graham, 1994: 42–5). Moreover, even at higher levels of funding it would have a limited impact, given that a large proportion of the poor are in precarious waged employment connected to the formal sector (Díaz, 1993: 25).

Brazil

In contrast to Chile, the neoliberal impulse was much weaker in Brazil and the entire approach to economic policy under the military and then the new democratic governments remained much more statist. The post-1964 military government's entire development project had been based on extensive state involvement coupled with disregard for popular and labour interests. Unlike the Chilean military government, though, which ruled unencumbered by electoral considerations until 1988, the Brazilian military government had begun a process of liberalization and democratization in the 1970s and thus came to face demands from within the ranks of its own supporters as well as from the opposition for distributive policies. Throughout the 1980s, then, pressures from the IMF and from domestic technocrats favouring orthodox adjustment measures faced opposition from a combination of traditional politicians concerned with the maintenance of their power bases through patronage and left-wing politicians who favoured a social democratic approach to economic and social policy. However, whereas the general approach remained statist under the New Republic inaugurated in 1985, the very patronage basis of Brazilian politics obstructed the efforts by reformist forces to implement significant redistributive policies.

In late 1982 Brazil was forced to turn to the IMF and implement several rounds of severe austerity policies, which plunged the country into a deep recession. As growth recovered in 1984 and 1985, so did inflation, reaching a 300 per cent annual rate by early 1986 (Baer et al., 1989: 34–5). The new democratic government of President Sarney launched a heterodox stabilization plan to bring inflation under control without sacrificing growth.[31] The Plan Cruzado among other measures contained a price freeze and a partial wage freeze, limits to indexation, and the creation of a new currency. The plan was successful temporarily, but price freezes were maintained for too long and the budget deficit was not brought under control, such that inflation returned with great force by early 1987 (Baer et al., 1989: 37–9; Pang, 1989: 132–6). A moratorium on the commercial bank debt provoked highly negative reactions from the international financial community and the US government and consequently was of short duration, as was another attempt at heterodox stabilization (Pang, 1989: 137–9). The repeated failures to bring inflation and the budget deficit under control opened the way for President Collor after his election in 1990 to embark on a neoliberal offensive with rapid liberalization and privatization in conjunction with orthodox austerity measures. However, this project was cut short by Collor's impeachment in 1992, as his successor took a more statist position again. The main economic problems remained inflation and the budget deficit, both of which called for reforms to increase state revenue.

Total social expenditures of the federal government as a percentage of GDP stood at 9.25 per cent in 1980, increased in 1981 and 1982, fell in 1983 and 1984, and then increased steadily again, reaching 10.78 per cent in 1989.[32] Broken down by area, expenditures declined after 1982 for pensions and social assistance and remained slightly below the 1981 level by 1989, whereas they increased for health and education (Azeredo, 1992). In the early 1980s the social security system underwent a severe fiscal crisis, in part for the same reasons it did in other countries, such as increasing unemployment and declining real wages during the recession, but another important part was the escalation of health costs due to the system of private delivery of services where increasingly decisions were driven by the medico-pharmaceutical complex. The government responded to this crisis by decree, circumventing opposition in Congress even from within its own party, imposing increases in the payroll tax of 2 per cent for employers and a sliding scale for the insured, an increase in the wage base from 15 to 20 minimum wages, taxes on pensions, and a 2 per cent tax on luxury goods earmarked for the social security system.

Under the new democratic government of Sarney, the Ministry of Social Security and Social Assistance (MPAS) was given to the progressive wing of the opposition PMDB.[33] From these positions, progressive technocrats pushed for truly universalizing reforms and improvements of benefits for the poorer sectors. In the mid 1980s, at least some 30 per cent of the urban population was *de facto* without coverage, despite their legal inclusion in the system, and the bulk of the rural population received minimal benefits. The reformers attempted to reduce the contribution for the lowest paid to induce more of the marginal population to join the system. To compensate for these low contributions and increases in benefits for the poorest, they advocated an elimination of costly privileges like time-for-service and special pensions, controls on charges by private health care providers, and a correction of the privatizing and curative tendencies in the health system. Urban labour and pensioners organized by urban labour supported only parts of these reforms, not universalization for fear of losing benefits they enjoyed, and added demands for a recalculation of pensions that would benefit pensions of higher value. The MPAS accepted some of these demands, with the result that the reform package required additional resources and met with the stern opposition of the Ministry of Finance. The entire project then went to the Constituent Assembly, where politicians accepted demands for the preservation of higher benefits, including time-

for-service pensions, along with an extension of welfare pensions equal to one minimum wage to anybody over 65, and the stipulation that any income-replacing benefit had to be at least equal to one minimum wage. They also imposed new taxes on sales and profits of firms to increase social security revenues (Melo, 1992). These measures did help the urban and rural poor in principle, but they made only minimal progress toward solving the problem of financing and thwarted the redistributive thrust of the reforms.[34] Accordingly, the conflict between the MPAS and the Ministry of Finance continued, the latter's position being strengthened by imposition of severe IMF austerity conditions.[35] Finally, a measure was passed to strengthen the financial base of the pension system by raising the minimum years of contributions to qualify for a regular pension from 5 years by 6 months every year, beginning in 1992, until the minimum reaches 15 years (US Department of Health and Human Services, 1992).

In health care some progress towards universalization was made in 1987 with provisions that entitled anybody to free health care, not just in emergencies, and eliminated the need to produce social security records. Still, the realization of this universal right remained highly deficient owing to the insufficient availability of facilities, particularly in poorer regions. In 1987 the reformers launched a project for unified and decentralized health systems (SUDS) which entailed a significant transfer of resources and responsibilities to the state level to bring about a better coordination of the health care activities of the social security system and the Ministry of Health and thus improve health care for the poor. However, these initiatives did not have the desired results as the transfers were taken advantage of by many state governments to pursue their own goals, such as increasing the pay for medical personnel or reducing their own health expenditures. Moreover, the reformers failed in their efforts to strengthen state controls over private providers of health care and thus reduce expenditures driven by the latters' interests.

In sum, whereas by the late 1980s the Brazilian pattern of social policy approximated a universalistic welfare state on paper, in reality it fell far short of this ideal, both at the level of absolute provision of income replacements and services and in the dimension of equity. Legally, every Brazilian had the right to free health care based on his/her citizenship, over 90 per cent of the population was covered by social security, and the needy were entitled to social assistance pensions no lower than one minimum wage. However, access to health care was sorely lacking in many poor areas, non-payment of contributions left many low-income earners without coverage, and the requirements for documenting a social security pension or social assistance claim were beyond the record-keeping abilities of most low-income people. This situation perpetuated the tradition of patronage in Brazilian politics, as low-income claimants needed an intermediary to deal with the social security and social assistance bureaucracies. Accordingly, control over social security agencies remained a coveted political prize for parties and individual politicians at all levels of government, and the tendency to overstaff such agencies with political supporters remained strong. The strength of the patronage tradition in Brazilian politics, in turn, has made it extremely difficult to form cohesive parties and legislative majorities for truly redistributive and solidaristic social policies.

Newly elected President Fernando Henrique Cardoso has clearly recognized these institutional deficiences and has made the strengthening of parties and the construction of party coalitions in Congress, along with reforms to improve the capacities of the state, his strategic priorities. He emphasized assumption of the social debt as a key goal of his administration. Two early suggestions were the establishment of a community solidarity programme to combat hunger and poverty in cooperation with NGOs, and a longer-term plan to provide a basic income to some 7 million poor families without visible means of support (*Latin America Weekly Report*, 20 October 1994). Thus, the thrust of Brazilian social policy reforms will remain directed towards a universalistic basic security system.

Argentina

Compared with Chile, Argentina had weaker and shorter-lived neoliberal impulses, though they were much stronger than in Brazil and Costa Rica. The first push of neoliberalism ended in an economic disaster and the transition to democracy, the second one is still ongoing and tempered in the area of social policy by opposition articulated through democratic channels. The Argentine welfare state up to the late 1970s had been constructed around the assumption of virtually full employment of an essentially urban labour force. Therefore, it was poorly equipped to handle the changes in the labour market resulting from the economic policies of the late 1970s and the economic crisis of the 1980s. It could not stem the 'Latinamericanization' of Argentina, that is, the increase in poverty rates resulting from the growth of the informal sector and of open unemployment.

The military government that seized power in 1976 embarked upon a neoliberal project similar to that of its Chilean counterpart. It imposed extremely harsh orthodox austerity policies, import liberalization and deregulation of the financial system. The result was an extremely rapid accumulation of foreign debt and a flood of imports, leading to deindustrialization, a financial crash, and subsequently a severe economic crisis and fiscal crisis of the state. The military government's statization of the private foreign debt saddled its democratic successor governments with huge debt service obligations. The new democratic government of Alfonsín was inaugurated in December 1983, in the midst of this economic crisis. Alfonsín resisted IMF austerity pressures and opted for a heterodox approach instead, hoping to bring inflation under control without plunging the country deeper into recession. He imposed the Plan Austral in 1985, but neither this plan nor subsequent more orthodox policies were successful in bringing inflation under control.

The repeated failures of stabilization attempts opened the way for a turn to neoliberalism. Menem, the candidate of the Perónist party, won the 1989 elections in the context of a severe recession and hyperinflation of over 3600 per cent per year. He began to turn away from his campaign promises immediately and imposed an orthodox stabilization package; later he embarked on a rapid liberalization of trade, reduction of public sector employment, and privatization of state enterprises, and in 1991 he introduced free convertibility of the currency. In the area of social policy, he attempted to emulate the Chilean pension reform, but widespread opposition and in particular congressional reluctance forced many modifications and maintained strong state involvement.

The post-1976 adjustment measures and the economic crisis of the 1980s had drastic consequences for the Argentine labour market, particularly for domestic industry and wage earners.[36] Industrial output declined, and the proportion of blue-collar workers engaged in manufacturing declined 40 per cent in the first period and an additional 12 per cent in the second one. Average real wages in the industrial sector in 1991 were only one-third of what they had been in 1974 (Smith, 1991: 66). Open unemployment and visible underemployment increased to a combined total of 19 per cent in 1993 in the Greater Buenos Aires area (Lo Vuolo and Barbeito, 1993: 134); roughly another quarter of the labour force worked in the informal sector (1993: 134). Accordingly, poverty rates increased to 39 per cent of households in the metropolitan region by 1987 (Golbert and Fanfani, 1994: 19).[37] The provision of social services was increasingly delegated to provincial and municipal authorities, so that by the early 1990s the federal government had only a significant role in the pension system and universities. Real social expenditures per capita only surpassed the level of the beginning of the decade in 1987 and declined by 27 per cent from 1980 to 1990 (Carciofi and Beccaria, 1993).

The pension system entered the 1980s in financial crisis already because of its maturation, high life expectancy, low retirement ages, and repeated bouts of very high inflation, and the declining levels of employment and real wages further aggravated the financial problems.[38] The value of real pensions declined by 25 per cent from 1981 to 1988 and another 30 per cent from 1988 to 1991 (Mesa-Lago, 1994: 149), and the system accumulated a large debt to pensioners. This gave rise to numerous lawsuits against the pension system for non-compliance with its obligations, and in 1986 the system was declared in a state of emergency. Subsequently, a number of measures were taken to pay the debt according to a schedule of priorities, and in 1993 revenues from the privatization of the state oil company were allocated to the pension system, but the basic problem remained unresolved and the debt kept on accumulating (Isuani and San Martino, 1993: 34–9).

In June 1992 the government submitted a reform project for the entire pension system to Congress which was finally passed, after many modifications, in October 1993. Despite the government's neoliberal economic offensive, the pension system emerging from Congress was a mixed one, combining universalistic, basic security, and statist aspects with individualistic and private features. Coverage under the new system remains compulsory, including for the self-employed; the three main existing funds were unified; and retirement age will gradually be raised for all to 65 years. The public system will continue on a pay-as-you-go basis and provide a basic pension for all insured that varies only with the time of contribution; it will be financed by the 16 per cent employers' contribution and the equivalent from the self-employed, as well as special earmarked taxes and the proceeds from the sale of the state oil company (Mesa-Lago, 1994: 152–5). For a supplementary pension, based on their 11 per cent contributions, employees and the self-employed can choose between remaining in the public system and joining the new private system. If they choose the private system, their contributions will go into individual accounts administered by private pension funds, and as in the Chilean system, the eventual portion of the pension coming from this account will be determined by the amount of contributions plus the investment returns and minus commissions. In addition, individuals who contributed to the old public system will be compensated for those past contributions at the time of their retirement. The private accounts can be administered not only by private corporations but also by non-profit organizations, including unions or cooperatives. The new private funds began operating in mid 1994, and in just a few months the shortfall in contributions to the public system contributed to a deficit of crisis proportions in that system.

On the face of it, this reform maintains the aspirations of a universalistic welfare state. However, the characteristics of the Argentine labour market will keep these aspirations from being realized. Coverage remains based on participation in the formal labour market, which excludes a substantial part of the population. Moreover, the total contribution of the self-employed will amount to 27 per cent of their earnings, which will certainly perpetuate the high evasion rate even among formal sector self-employed and thus result in far from universal coverage. Finally, the non-pension components of the welfare state do not conform to a universalistic pattern. In the area of unemployment, coverage is highly limited; by mid 1993, when there were some one million unemployed, only 84,000 received unemployment benefits (Lo Vuolo and Barbeito, 1993: 44–5). Family allowances are also tied to status of dependent employment. Social assistance is of minimal impact in relation to need, with less than 1 per cent of GDP allocated to a variety of programmes (Lo Vuolo and Barbeito, 1993: 50–1). The health care system is not a universalistic one either, though everyone is entitled to receive free medical care from public institutions, the majority of which are financed by provincial governments. Employees and their dependants are covered by health insurance through the *obras sociales*, financed by employer and employee contributions and administered by unions. Supervision and coordination of the health care system are highly deficient, resulting not only in quality differences between different *obras sociales*, between them and the public system, and within the public system by region, but also in excessive expenditures driven by the interests of private providers (Lo Vuolo and Barbeito, 1993: 39–42) and blatant corruption.

Costa Rica

Costa Rica deserves attention because it is the only Latin American country that had built a pattern of social policy with social democratic aspirations, and because it is a rare case of a small country that could resist pressures for a move to a neoliberal model and instead could protect this pattern. The country benefited from its strategic location with regard to the Reagan administration's policy towards Nicaragua; it received significant US aid and was not exposed to the same pressures from international financial institutions for neoliberal structural adjustment policies as other countries with similarly massive foreign debts. Thus, it was able to resist orthodoxy and protect the poorer sectors from bearing disproportionate costs of austerity and adjustment. By the 1990s, when the Nicaraguan conflict had lost its saliency and thus its utility for Costa Rica, there was a much more widespread recognition of the social costs of orthodox adjustment policies and thus less pressure from international financial institutions and from the US government for radical neoliberal approaches.

Costa Rica was hit early by the debt crisis and was the first country to put a moratorium on its debt payments. The newly elected Monge government had to impose a stabilization programme from mid 1982 to the end of 1983 (Nelson, 1989: 144–5). Monge as the PLN candidate had a long-standing social democratic commitment and close relations to labour, and he insisted on a gradual approach to stabilization and a mix of orthodox measures such as steep cuts in the government deficit and wage restraint with decidedly non-orthodox ones such as strict foreign exchange controls and an incomes policy favouring the lower paid. The same basic orientation also shaped the post-1983 structural adjustment programme. General austerity policies continued, but they were accompanied by a social compensation plan and resistance to drastic state shrinking. Business had to share in the costs of adjustment through tax increases and increases in utility rates, and the costs of declining real wages and formal sector employment were countered with temporary public employment programmes, unemployment assistance, food aid, and an increase in the minimum wage. The state was also relatively successful in promoting non-traditional exports (Nelson, 1989: 148–9).

Overall, there were no dramatic changes in social policy in the 1980s.[39] Rather, the government took a step-by-step approach to improve the financial situation of the Social Insurance Institute (CCSS), and it instituted special assistance programmes to cushion the effects of austerity policies on the poor. The CCSS increased contributions from employers, employees, and the government for health care, and contributions from the government to the pension system. Moreover, the retirement ages were increased to 60.5 years for females and 62.5 years for males, and new entries into the costly civil servants' system[40] were closed, such that all new civil servants will be incorporated in the CCSS under standardized conditions.

The efforts to preserve universalistic social policies in health care and to use social assistance programmes to mitigate the impact of the economic crisis and of the austerity policies on the weaker social sectors were successful in the sense of continuing progress in basic social indicators *and* reducing poverty rates.[41] Zuvekas (1992) presents figures from eight different studies of poverty that show different levels of poverty due to different methodologies, but a consistent pattern of increases in the early 1980s and then a decrease to slightly below the 1980 level by the end of the decade. Whereas programmes targeted at the poorest sectors also prevented a deterioration of social indicators in Chile, the great increases in the poverty rates in Chile and Argentina stand in stark contrast to the slight decline achieved in Costa Rica.

Interpretation of present trends and future options

In the 1970s and 1980s the fiscal crisis of the state forced adaptations in the social policy patterns of all four countries, but these adaptations took very different forms in accordance with the changes in the countries' political economies and the governments' larger political agendas. Chile has pursued the most radical programme of economic liberalization. Much of domestic industry was destroyed and primary emphasis was put on diversification of exports. However, the new insertion in international markets is based heavily on exports of primary and light manufactured goods relying on cheap labour and a highly flexible labour market. In accordance with its pro-capital and anti-labour policies, the Pinochet government transformed the Chilean welfare state in the direction of a two-class system. It created a publicly supported private scheme, whereby the state guarantees basic minima for those whose private pension accounts do not yield a sufficient income but leaves the profits from the administration of the funds in the hands of the private companies. Given that the high levels of economic growth needed to generate returns sufficient to accumulate large individual pension accounts are unlikely to prevail, a large proportion of pensioners is likely to require public subsidies to arrive at a minimum pension. Insufficient accumulation will be a particular problem for low-income earners because their contributions get penalized by a regressive structure of fees and commissions. Moreover, the precarious employment conditions of a majority of waged workers will make it difficult for them even to accumulate the 20 years of contributions required to receive a minimum pension and will make them dependent on the low social assistance pension. It is mainly for this reason and because even the minimum pension is insufficient to meet basic needs that one cannot look at the Chilean model as a basic income security model, despite the state guarantee of a minimum pension. The responsibility of employers for the welfare of their employees has reverted to the state of the early twentieth century, limited to work injury. This entire pattern fits with Chile's new integration into the world economy outlined above.[42] The only positive development in Chilean social policy has been the strengthening of the unemployment scheme, though in order to make a real difference it would require a stronger financial base founded upon an enlarged tax base, a problem to which I shall return.

Proponents of the Chilean model point to the beneficial effect of the privatization of the pension scheme on the capital market. It is certainly true that the Chilean capital market has grown greatly since the 1980s. However, the primary goal of social policy should be to improve human welfare and combat poverty, not to strengthen capital markets. Furthermore, whereas the stronger capital market has helped spur economic growth, it has not generated a development model that provides secure and adequately paying jobs significantly to reduce mass poverty. Without large-scale governmental efforts to upgrade the skills of the labour force and promote higher-skill/higher-wage manufacturing for export, accompanied by greater protection for union organization to ensure better distribution of the benefits from increases in productivity, continued economic growth is unlikely to solve the problem of poverty.[43] Such efforts would require rebuilding state capacity to pursue an industrial policy, as well as a deliberate decision to strengthen labour *vis-à-vis* capital. Such a reordering of relations between the state and the private sector and between labour and capital is made extremely difficult by the hegemonic position of large capital in the Chilean political economy. The position of large capital has been strengthened by the economic concentration generated by the Pinochet government's policies of liberalization and privatization on the one hand, and by its drastic weakening of labour and the grass-roots organizations of left-wing parties on the other hand.[44]

Brazil exhibits an entirely different pattern of participation in the world economy. Aside from subregional integration with Argentina, Uruguay, and Paraguay through Mercosur, it has maintained a more protectionist stance, and it also has a much larger internal market and a much more industrially based export structure than Chile. Collor's programme of privatization and liberalization was both gradual and selective, lifting tariffs primarily on consumer goods (Sola, 1994: 155–9). As a result, Brazil did not suffer from deindustrialization; rather, the index of industrial production, set at 100 in 1981, stood at 124 by mid 1994. By far the largest proportion of exports are manufactures, with a strong participation of transport and mechanical equipment and chemicals, i.e. comparatively high skill branches (ECLAC, 1994). Accordingly, along with Argentina, Uruguay and Costa Rica, Brazil has one of the highest levels of employer contributions to the social security system in the region.[45] Brazil's major unresolved economic problem, which has serious effects on social policy, is the fiscal crisis of the state and the attendant strong inflationary pressures.[46]

The stabilization attempt undertaken under Cardoso's direction in 1994 showed promising early results and undoubtedly contributed heavily to his victory in the presidential elections. Should he be able to forge the political coalitions necessary to solve the fiscal crisis, Brazil could become an example of a country undertaking successful adjustment measures that did not correspond to the neoliberal blueprint, while continuing to move towards increased state responsibilities for the welfare of the majority of the population.

Given its large rural sector, Brazil has achieved impressively large legal coverage. Brazil is the only country that adopted a non-contributory scheme of social insurance for part of its poor population, the rural sector, as early as the 1970s. This scheme entitles its members now to pension benefits of one minimum wage and to health care. The question is, of course, why this solution was chosen rather than the simple extension of free medical care (as in Costa Rica) and a minimal universalistic citizenship pension to the rural sector. In fact, one could argue that non-contributory social insurance is a contradiction in terms. The answer lies, of course, in the politics of social policy. The rural scheme was designed to give power to officially recognized syndicates as they were entrusted with the administration of benefits. A universalistic scheme would neither encourage membership in such syndicates nor give much discretionary power and thus the means to build clienteles to local political leaders. It also might lead to larger numbers of claims in the absence of the filter function performed by the rural syndicates. Lastly, it would require provision of health services through a national health system instead of private providers contracted by the syndicates. The Brazilian system, then, demonstrates the problem of transforming a *de jure* universalistic welfare state into a *de facto* one in the context of legacies of a segmented and inegalitarian pattern of social policy based on private provision of services and a political system characterized by clientelism and weak political parties.

Costa Rica implemented severe austerity policies but not according to the neoliberal blueprint and sustained its direction towards a universalistic welfare state in the 1980s. It came closer to reaching this goal in health care than any of the other countries, and it initiated an important reform which will facilitate progress towards this goal in the pension system in the future. In contrast to Brazil, the health care system is based on the predominance of public provision of services and the rural sector is included in the general contributory system, on a mandatory basis for employees and a voluntary basis for the self-employed. Contribution requirements are minimal, amounting to contributions in the month preceding the onset of illness only. Moreover, contributions to sickness insurance for the low-income self-employed are kept low, at 5 per cent of their earnings, and their costs are supplemented by the state.

Costa Rica heavily supported the development of non-traditional exports in agriculture and assembly-type manufacturing with a variety of tax incentives and subsidies, but did not reduce employer contributions to social security. The end of the special treatment for Costa Rica because of the Nicaraguan conflict has put new urgency on the need to increase exports to bring the trade deficit down and will keep the issue of labour costs and thus employer contributions to social security highly salient throughout the 1990s. The outcome, of course, will be shaped not just by the pressures of international economic competition, but also by the political power distribution. The Chilean option is not the only one available. If employer contributions need to be reduced for reasons of international competition, financing of the public health and pension system can be put to a greater extent on a tax basis.

In addition to the requirements of the new political economies, changes in social policy have also responded to the attempts of governments and opposition to use social policy for political ends, both to promote their ideological visions of a desirable social order and to build, or destroy, support bases. The Pinochet government in Chile privatized social security with the intent of supporting the atomization, individualization, and thus depoliticization of civil society. It did so with a complete disregard for any opposition from popular and even middle class groups, as well as for the distributional consequences of its policies for the poorer sectors. The only exception were a few special programmes targeting the poorest and most vulnerable groups. Under the two democratic governments in Chile, the new power distribution has heavily favoured capital. The process of economic concentration and the dependence on foreign capital, combined with the emasculation of union strength through physical repression and the drastic shrinking of traditional bases of union organization, have produced a situation where pressures from capital against significant labour and social policy reforms easily outweigh pressures in support of such reforms from labour and other popular groups.[47] In contrast, in Argentina civil society and particularly the labour movement had remained stronger than in Chile, despite repression of unions under the 1976–83 military government and a serious weakening of their base through deindustrialization. Accordingly, they were capable of defending the existing health care system and the principle of public responsibility for a major part of the pension system. Thus, despite Menem's rapid moves in a neoliberal direction, his government's pension reform programme only emulated the Chilean model in its supplementary part.

In Brazil, the military government also pursued a development project that was anti-labour and pro-capital. Nevertheless, in contrast to Chile, it attempted to build organized support bases in the rural sector and thus created the non-contributory scheme to be administered by the officially recognized syndicates. Electoral considerations during the long period of transition from authoritarian rule further promoted the allocation of resources to social policy on a patronage basis. After the return to democracy, the former opposition gained a foothold in important bureaucratic positions and used those as well as their influence in Congress to promote universalistic and egalitarian reforms. However, the very patronage bases of Brazilian politics that had facilitated the introduction of social policy programmes now obstructed the reform of these programmes in a more universalistic and redistributive direction. The political organization of popular movements and unions was simply not strong enough to overcome these obstacles, in particular due to the lack of links to disciplined parties. In contrast, in Costa Rica the strength of the social democratic PLN and of civil society, in the form of labour unions, cooperatives, and peasant associations, facilitated the government's continued pursuit of a comparatively egalitarian pattern of social policy. Even during the most severe period of austerity the government managed to protect the social achievements, and the PLN as well as the opposition parties remained responsive to popular interests.

The prospects for future developments in all four countries, but particularly in Brazil and Costa Rica, have a similar bottom line: to transform legal mandates into reality, specifically those with universalistic aspirations, significant additional resources will have to be allocated to social policy. Since the constraints of international competition will militate against increasing employer contributions and thus labour costs, more of these resources will need to come out of general revenue. Accordingly, governments will have to increase state revenue. At 1990–1 levels of revenue of 15 per cent of GDP in Argentina and Costa Rica, 24 per cent in Brazil, and 27 per cent in Chile (IDB, 1993) there is certainly room for increase. The need to increase state revenue has been recognized and tax reform has been high on the political agenda of the governments in these countries. Whether governments will be able to increase revenue depends first on the political coalitions that can be formed in support of tax reform, second on the capacity of the state apparatus to enforce tax legislation, and third on a rate of economic growth that enlarges the tax base.[48] Improvement of state capacity is crucial not only for enforcement of tax legislation but also for managing social policy. Duplication, inefficiency, and corruption have led to disproportionate administrative expenditures in the social security systems of Latin American countries. Accordingly, administrative reform should enjoy a high priority in efforts to make the welfare state more universalistic.

What are the lessons to be drawn from the preceding analysis for Latin American countries with social policy patterns at still lower levels of development? The central problems in Latin America are poverty and un- or underemployment. Poverty is not concentrated among the elderly and the sick but affects a large proportion of people of working age and their children as well. Therefore, traditional employment-based welfare state schemes are inappropriate solutions. They perpetuate poverty among those without access to more or less stable employment in the formal sector and their families. To address the problem of poverty in old age and sickness for the entire population, non-contributory schemes, or schemes with minimal contribution requirements, for those in the informal sector are needed. A system of basic flat rate pensions, financed out of general revenue and with entitlement based on citizenship, would meet these needs. This system should be complemented by a public system of contributory, non-subsidized, capitalized pensions.[49]

Health care is arguably the most important welfare state programme in the Latin American context. The entire population needs it and, as the Costa Rican example demonstrates, it is within the technical (if not political) capabilities of most Latin American countries to establish an effective and close to universalistic system. Again, a combination of contributory and non-contributory coverage is needed, but the facilities for both categories should be the same, lest the facilities of the non-contributory scheme be underfunded and inadequate. Of particular importance is an emphasis on preventive and primary health care for poor areas. It is difficult to imagine how such a system could be constructed on the basis of other than public provision of services; private providers are likely to impose their own preferences for expensive curative care in major urban areas and they are more likely to overtreat patients and overcharge the public purse.

Other important programmes for the welfare of Latin American populations are nutritional programmes for poor children and mothers, as well as subsidies for basic foodstuffs. The argument that such subsidies also benefit middle- and upper-income earners is true, but they do so to a much lesser extent because of the lower percentage of their income that these groups spend on basic foodstuffs. Moreover, such subsidies are much cheaper to implement than alternatives like the means-tested distribution of food or food stamps, and they are not subject to the abuses for patronage purposes typical of the latter type of programmes.

The 'social funds' approach, or the targeted emergency programmes currently advocated and partly financed by international financial institutions, can make important contributions to alleviating poverty, but caution has to be exercised lest they become mere palliatives. Such programmes can be very helpful, as long as they do not detract from the basic task of building permanent universalistic programmes and institutions. The danger is that such programmes lead to a diversion of resources and to duplication because of the creation of new institutions to administer them. They can be of greater long-term benefit if they are tied to a reform of and integrated into existing institutions and programmes to better serve the most vulnerable groups. A second danger is that such programmes, by virtue of being targeted, increase the discretion of political leaders and bureaucrats with regard to the allocation of resources and thus the incentives for patronage and corruption.

Five basic points emerge from these reflections that policy-makers in Latin American countries at lower levels of welfare state development should learn from the experience of countries with relatively advanced welfare state programmes. First, the initial design of the social policy model is of great importance. If a model is set up with segmented and unequal programmes, it will be very difficult to change it in a universalistic and egalitarian direction later, because the privileged groups will resist such changes and they tend to be politically more influential than the potential beneficiaries of reforms. This is a matter of concern not just for policy-makers with egalitarian values but also for those concerned with the financial solvency of welfare state schemes; entitlements of relatively small groups can put a heavy financial strain on the entire system. Second, if health care programmes are to contribute to national development by improving the health of the mass of the population and thus of the future labour force, the health care system has to be set up on the basis of public facilities. Private providers will claim large amounts of resources for curative medicine and resist an allocation of resources to preventive and primary care in poor areas. Like privileged groups of beneficiaries, private doctors, hospitals, and drug companies are generally in politically strong positions to defend their interests, once they have been allowed to assume an important role in the health care system of a country. In the case of many states, the establishment of an effective public health system would require previous administrative reform of the state apparatus. Third, given the new more open economic environment, traditional financing methods based heavily on employer contributions will have to be changed. Financing from general revenue does not increase labour costs and thus does not reduce the competitiveness of national production. Fourth, welfare state policies have to be conceived broadly and not confined to social insurance. To reach the quarter or more of the economically active population outside the formal sector, non-contributory schemes have to be developed for pensions and health care. In addition, nutritional programmes need to be integrated with other welfare state policies as they directly affect levels of health and poverty. Fifth, in all welfare state programmes the discretionary power of bureaucrats and politicians should be kept to a minimum in order to minimize opportunities for corruption and for the building of patronage bases. Universalistic rules, then, are desirable not only from the point of view of equity but also from the point of view of efficiency, as corruption and patronage inevitably result in a waste of scarce resources in Latin American welfare state programmes.

Notes

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1 Education and, depending on the country, housing have been additional important components of social policy. Given the orientation of this volume, though, this chapter will

concentrate on traditional social security aspects of social policy, primarily pensions and health care.

2 The figures on coverage in this section are all drawn from Mesa-Lago (1994: 21–2). Getting accurate figures on coverage is extremely difficult, and accordingly estimates of coverage rates vary rather widely among different sources. Mesa-Lago has been working on this subject for 30 years and is generally recognized as a leading authority. Thus, for the purposes of this section, which are simply classificatory, his figures can be accepted as good approximations. For the discussion of the cases, a variety of figures will be considered. Mesa-Lago's (1989; 1994) figures are generally higher than those from other sources (e.g. Isuani, 1985: 95; Tamburi, 1985: 77). The most difficult country is Brazil: Mesa-Lago gives a figure of 96 per cent of the economically active population for 1980, Isuani gives 49 per cent, and Tamburi gives 25 per cent in 1970 and indicates missing information for 1981. Isuani's figure is clearly too low, because it is very close to the figure for the percentage of the workforce paying social security taxes (Weyland, 1991: 581) and thus excludes all those covered under the non-contributory rural scheme. Mesa-Lago's figure is close to official government figures and represents legal entitlements, which of course are much higher than the proportion of those having a social security record, data for which are lacking. Coverage of the population at large through health insurance more or less parallels that of pension coverage (Mesa-Lago, 1994: 21–2).

3 Portes and Walton (1981: 67–106) develop this conceptualization of the informal sector, and Portes (1985) discusses the development of the informal sector in Latin America and shows that it remained larger than at comparable stages of development in the United States.

4 Historically, the first programmes established were typically for occupational risks, followed by maternity and sickness insurance and pensions for invalidity, old age, and survivors. By 1980, virtually all countries in Latin America and the Caribbean had these three types of coverage (Mesa-Lago, 1994: 16).

5 For an analysis of the relationship between economic development and democracy, see Rueschemeyer et al. (1992). Chile was a restricted democracy until 1970, as illiterates and thus a large proportion of the rural population were excluded. However, in the urban sector electoral competition led to an extension of benefits to all sectors of the working class. In the late 1960s, when the Christian Democrats competed with the left in the mobilization of the rural sector, benefits were extended to that sector as well.

6 To some extent, the countries with the highest coverage are also the most developed ones, and at the other end those with lowest coverage the least developed ones. However, there are important exceptions that demonstrate the importance of political dynamics in shaping social policy. Costa Rica's GNP per capita in 1980 was lower than that of the other members of the first group, but its particular political history had produced a social policy pattern that came closer to a social democratic welfare state than any other in Latin America. Jamaica's GNP per capita was slightly lower even than Costa Rica's, but the political constellation with two highly competitive parties based on coalitions between middle and working classes had led to an expansion of social policy. On the other hand, Mexico's GNP per capita in that year was higher than that of Brazil and Chile, but the growth orientation of successive Mexican governments had led to a relative neglect of social policy and the hegemonic position of the PRI had shielded policy-making elites from popular pressures in that area.

7 The report on the system ordered by President Alessandri (1958–64) estimated that the uninsured paid 41 per cent of the social security costs through taxes and the transfer of employer contributions to the costs of goods and services. Moreover, only 42 per cent of uninsured contributions went to the blue-collar fund that served 70 per cent of all insured (Borzutzky, 1983: 98–113). On the other hand, looking mainly at public social spending on different income brackets and citing figures from Foxley et al. (1979), Raczynski argues that in 1969 the social security system had a mildly progressive impact (1994: 24–5, 43). However, she does not take into account the fact that employers in protected markets passed on their social security contributions to prices, which affected uncovered groups along with covered ones. Looking just at those covered, another study for the early 1970s in Chile showed that social

security had a slightly progressive effect from the highest to the lowest of the insured (cited in Mesa-Lago, 1985; 329).

8 His figures for the percentage of the population of pension age receiving pension benefits are 58 per cent in 1980 and 61 per cent in 1990; for the population over 70 it is 72 per cent at the end of the 1980s (Isuani and San Martino, 1993: 18–25).

9 Chile and Argentina as the highest spenders were at roughly 70–80 per cent of the lowest spenders among the advanced industrial countries, such as the US with 12 per cent in 1980, but way below the medium and high spenders, such as Austria with 21 per cent and Sweden with 31 per cent. In Argentina, Brazil, and Chile, where pension systems had been introduced comparatively early and therefore had matured, the bulk of social security spending went to pensions; in 1986 Argentina spent 77 per cent on pensions, Brazil 63 per cent, and Chile 71 per cent. In Costa Rica, with a much younger pension system, only 27 per cent of social security spending went to pensions, and 66 per cent went to sickness/maternity insurance and health care (Table 6.7).

10 For instance, only the Costa Rican pension system had a redistributive component, with a replacement rate based on the average of the highest 48 monthly salaries during the last 10 years of coverage and structured as follows: 70 per cent of the first 300 colones, 50 per cent of the next 300, 40 per cent of the next 300, 35 per cent of the next 2400, and 40 per cent above 3300 colones, plus an increment of 0.125 per cent for each month of contributions (USDHHS, 1982). The qualification for retirement was 57 and 408 months of contributions or 65 and 120 months. There are no good comparative studies of the distributive impact of Latin America social insurance (see e.g. Musgrove, 1985: 187–208). Most case studies point to a regressive or neutral impact (Mesa-Lago, 1983: 95), particularly where coverage is very restricted. The potentially most progressive part is health care; Mesa-Lago (1991: 106) cites figures for Brazil and Chile (under the old system) that show that lower-income groups paid a lower percentage of the total contributions to the health care system but received a higher proportion of health benefits, and in Costa Rica the health benefits increased the percentage of total income of the poorer 60 per cent, and mostly of the poorest 20 per cent of the population. Raczynski (1994: 25) confirms the redistributive impact of public health spending under the old system in Chile.

11 All the information on characteristics of social security programmes presented in this section is drawn from US Department of Health and Human Services (1982).

12 All the percentage totals refer to contributions for pensions, sickness/maternity and medical care, and family allowances. They are calculated from USDHHS (1982).

13 In Argentina the contributions were 16.5 per cent for the employers and 15 per cent for the workers; the government theoretically paid 139 per cent of the contributions of the insured to the pension system. Before the reform, employers had paid over 30 per cent for all social security contributions. Employers paid 15.5–17.5 per cent in Brazil and 16.5 per cent in Costa Rica, compared with 8 per cent for employees in the former and 6.5 per cent in the latter country. In Costa Rica, the government was to contribute 0.5 per cent of total covered earnings as well as yields of a sales tax; in Brazil the government was to contribute various taxes. In Chile, blue-collar workers' contributions were 23 per cent of their earnings, with the government contributing special subsidies to various funds. Prior to the 1974–9 reforms, the employers' contribution had reached 38 per cent or more of the payroll (Mesa-Lago, 1985: 344), and it was brought down to 27 per cent before being eliminated altogether.

14 For a discussion of the origins and changes of the concept of informality, see Portes and Schauffler (1993: 3–8).

15 The estimates for self-employed and employees in small enterprises do not distinguish between high- and low-income earners, and the total does not include workers hired informally by larger enterprises.

16 For instance, in Brazil in 1977, 75 per cent of the self-employed working population was without coverage, particularly the very low-income self-employed, with over 90 per cent, and still 29 per cent of the high-income self-employed (Isuani, 1985: 96; see also Lopes, 1994: 15).

17 CEPAL defines the poverty line as two times the cost of a nutritionally balanced basic food basket for metropolitan/urban areas, and 1.75 times the cost of a basic food basket in rural areas. Chile was not included in this CEPAL report, but León (1994: 4) cites CEPAL figures for 1987 of 38 per cent. The Chilean government's own figures were 24 per cent for 1978 and 26 per cent for 1988, which appears grossly understated given that in 1982 almost one-third of the labour force was unemployed and a survey under the new democratic government in 1990 showed a poverty rate of 40 per cent (Díaz, 1993: 21–2).

18 According to PREALC (1988: 10) estimates, the average annual transfer abroad (net capital transfers plus the variation in the terms of trade) for 10 Latin American countries amounted to 6.9 per cent of GDP in 1983, 7.5 per cent in 1985, and 5.3 per cent in the period 1985–90.

19 The literature on the debt crisis, the exhaustion of the ISI model, and structural adjustment is voluminous. See e.g. Nelson (1989); Feinberg and Kallab (1984); Handelman and Baer (1989); Canak (1989); Haggard and Kaufman (1992).

20 The 'Washington consensus' became a convenient label for the neoliberal adjustment policies pushed particularly hard by the Reagan administration and the IMF (Williamson, 1990). However, Feinberg (1990: 21) points out that even in the Washington of the 1980s, e.g. in parts of the US Congress, the Brookings Institution, and the World Bank, there was considerable opposition to the radical neoliberal model.

21 The defenders of neoliberalism object to the validity of these models on the grounds that the East Asian and small European states are efficient whereas most Latin American states are not because of patronage and corruption. To a large extent, this characterization of Latin American states is correct. However, virtually all states have had efficient parts, and the implication for action is that the remainder of the state apparatuses should be reformed rather than demolished. There are simply no historical precedents of late developers that were successful in generating sustained growth, not to speak of equity, without state intervention.

22 The dramatic impact of such price increases led to many cases of spontaneous riots, looting of food stores, strikes, and other forms of protest (see Walton, 1989: 299–328).

23 In Argentina, total social expenditures fluctuated in the 1980s, beginning at 22 per cent of GDP in 1980 and ending at 20.8 per cent in 1990; in Chile there were similar fluctuations during the decade, beginning at 17 per cent in 1980 and declining to 14 per cent in 1990, after an increase to 22 per cent in 1982, the same level as in 1970; in Costa Rica they began the decade at 23 per cent and, after a steep decline to a low of 14 per cent in 1982, recovered to 21.5 per cent in 1989. If we look at the index of real social expenditures, with the index set at 100 in 1980, we see a decline to 85.5 in 1990 in Argentina; in Costa Rica we see a decline to 71 in 1982 and then a gradual recovery to 107 in 1989; comparable data for Chile were not given in that study, and Brazil was not included (Carciofi and Beccaria, 1993). Figures for Brazil from a separate CEPAL study (Azeredo, 1992) show fluctuations for total social expenditures for the federal government for the 1980s, beginning at 9.25 per cent of GDP and ending at 10.78 per cent in 1989. The same study offers a breakdown of expenditures for the federal and state governments for 1986, where the two levels of government are responsible for roughly equal proportions of the total, such that the figure comparable with those for the other countries in the Carciofi and Beccaria (1993) study above would be roughly 18.5 per cent in 1980 and 21.5 per cent in 1989.

24 Brazil was one of the countries that resisted radical neoliberal austerity and liberalization measures to a significant extent and instead sought other, more heterodox paths to adjustment.

25 Time-for-service pensions are pensions to which an employee acquires the right after a certain number of years of contributions, regardless of his/her age. The existence of such pensions leads to retirements well below the general pension age and thus, in pay-as-you-go systems, to high expenditures for long periods of retirement for their beneficiaries.

26 Argentina ran deficits in its social security system every year from 1980 to 1986, reaching a high of –3 per cent of GDP in 1981; the same is true for Chile, with a high of –7.7 per cent in 1982; Brazil ran deficits in its social security system of under –1 per cent of GDP in 3 years and broke even in the other three years between 1981 and 1986; only Costa Rica ran consistent surpluses in this entire period, ranging from 0.8 per cent in 1981 and 1982 to 2.6 per cent in 1985 (Mesa-Lago, 1994: 83).

27 For a discussion of its economic policies and their political underpinnings, see e.g. Foxley (1986).

28 The minimum pension in 1991 amounted to the equivalent of US$75 per month.

29 For instance, Mesa-Lago (1994: 123–4) estimates that in 1987 the commission represented an 18 per cent reduction in the deposit of an insured individual in the 10,000 pesos per month bracket, but only a 0.9 per cent reduction for someone with ten times that income; the commission burden for an average insured was some 9 per cent in 1991.

30 See Graham (1994: 21–53) for a discussion of anti-poverty programmes of the Pinochet and Aylwin governments.

31 Orthodox stabilization plans, as prescribed by the IMF, emphasize devaluation and a reduction or elimination of foreign exchange controls, cuts in the government deficit through reduction of expenditures and increase in revenue, wage controls, and lifting of price controls. Heterodox stabilization plans, generally frowned upon by the IMF, include more controls, for instance on prices, the operation of financial institutions, and foreign exchange.

32 As mentioned above, the federal government accounted for just slightly over half of total social expenditures in 1986, the other half being carried by state and municipal governments. Thus, to compare these figures to other countries, they should be doubled. The federal government accounted for two-thirds of social security and social assistance spending, slightly over one-third of spending on education, 71 per cent of health expenditures, but only 11 per cent of spending for housing (Azeredo, 1992).

33 This entire discussion of the reform attempts since 1985 is based on Weyland's (1991) extremely well researched study, unless otherwise noted.

34 The constitution did enshrine the principle of a universalistic and redistributive welfare system, despite specific decisions to the contrary by the constituent assembly. Subsequently, no effective reform programme was implemented to give substance to the social rights established in the constitution (Faria, 1994: 8).

35 This conflict had an additional dimension because the Ministry of Finance increasingly resorted to the use of social security funds to cover budget deficits (Melo, 1992).

36 Industrial output declined by 11.9 per cent from 1974 to 1983 and another 11.2 per cent from 1983 to 1990 (Smith, 1991: 66). As to wages, just looking at the 1980s, average real wages in 1993 were at 81 per cent of their 1980 level, and the minimum urban salary was at 49 per cent (ECLAC preliminary figures, cited in Powers, 1994). Open unemployment increased from 2.6 per cent in 1975 to 10.6 per cent in 1993 in the Greater Buenos Aires area, and from 6.4 to 8.8 per cent during this period in agglomerations in the interior; visible underemployment increased from 4.8 to 8.2 per cent and from 6.6 to 9.9 per cent in the two areas in the same period (Lo Vuolo and Barbeito, 1993: 134). Roughly another quarter of the labour force worked in the informal sector, including household help, the informal urban sector, migrant rural workers, and very small farmers (Lo Vuolo and Barbeito, 1993: 134). According to a major study of poverty by the National Institute of Statistics and Censuses, 37 per cent of households in the Greater Buenos Aires area fell below the poverty line in 1988, and the percentage in other urban areas was even higher (Powers, 1994).

37 On the one hand, between 1974 and 1987 there was a significant reduction of structural poverty as indicated by unsatisfied basic needs, mainly in shelter and access to sanitation and basic education, from 26 to 16 per cent of households in the metropolitan region; but on the other hand there was a great increase in impoverishment in this period, that is, in the proportion of households whose basic needs are met but that have income levels below the poverty line as indicated by the cost of a basic basket of goods and services, from 3 to 23 per cent (Golbert and Fanfani, 1994: 18–19).

38 These problems persisted despite a reimposition of the employer contribution to the pension system in 1984 and its increase to 16 per cent by 1991. The employee contribution was lowered from 11 to 10 per cent in 1987. Evasion of contributions reached 42 per cent among the employed in 1990 and 70 per cent among the self-employed (Lo Vuolo and Barbeito, 1993: 34–5).

39 Total government expenditures as a percentage of GDP fell drastically from 25 per cent in 1980 to 18 per cent in 1982, but recovered to 26 per cent by 1989. Total social expenditures

also declined from 16 per cent of GDP in 1980 to 13 per cent in 1982, but reached 16 per cent again in 1986 and remained at that level up to 1989. The area with the clearest decline was education, down from 6.1 per cent of GDP in 1980 to 4.5 per cent in 1989. Health expenditures declined as well, from 7.2 per cent in 1980 to a low of 5 per cent in 1985, and they did not recover to the 1980 level until 1989. Some analysts argue that expenditure cuts were particularly detrimental in preventive health care and thus affected the poorer sectors disproportionately (Chalker, 1994). In contrast, expenditures for social security and social assistance increased markedly, from 1.8 per cent in 1980 to 3.5 per cent in 1989.

40 In 1987, 42 per cent of pension expenditures went to only 20 per cent of pensioners in these special independent programmes (Mesa-Lago, 1994: 98–9).

41 The illiteracy rate declined from 10 per cent in 1980 to 7 per cent in 1990, infant mortality declined from 19.1 children under one year old per 1000 live births to 15.3, and life expectancy increased from 73 to 75 years.

42 In fact, when the open unemployment rate came down to 6 per cent in 1992, Chilean employers began to complain to the government about the danger this posed to wage levels and exports. In response, the Chilean government relaxed the controls on the borders to Bolivia, which meant that a large number of Bolivians could come into Chile as seasonal agricultural workers. I am indebted to Sergio Berensztein for bringing this point to my attention.

43 For a similar view, which sees the problem of poverty rooted in the income concentration and the extreme power imbalance in capital–labour relations that the military regime's policies brought about, see León (1994).

44 See e.g. Garretón (1994) for an argument about the weakness of social actors and the marginalization of vast sectors from the sociopolitical arena.

45 Argentina has gone further in economic liberalization than Brazil and suffered significant deindustrialization. Argentina's export base combines its traditional agricultural exports of beef and grain with manufactured exports. Compared with Chile's agricultural exports, beef, grain, and manufactured exports are less dependent on cheap labour, and thus there is less of a downward pressure on employer contributions. Accordingly, Argentina reimposed the employer contributions that had been abolished by the military government and raised them in the 1980s to deal with the fiscal crisis. However, employers are pushing hard for labour market flexibilization, particularly the reduction or abolition of severance pay. Argentina, Brazil, and Chile all have achieved consistent trade surpluses for the past ten years; the only exception being Argentina since 1992, in the wake of the appreciation of the exchange rate.

46 See Bresser Pereira (1993) and Sola (1994) for explanations of the sources and effects of the fiscal crisis. Sola argues that the 1988 constitution presents major institutional obstacles to a solution of this crisis, because it greatly strengthened the position of states and municipalities *vis-à-vis* the federal government.

47 Whereas business had agreed to slight tax increases in 1990 to boost social spending, by 1994 they already pressured the government to lower taxes again, despite the comparatively very low level of Chilean taxes.

48 The same arguments about coalitions and the balance of power as made for social policy reform apply here. The overwhelming strength of capital in Chile and the weakness of political parties in Brazil are serious obstacles to an increase in the tax burden on those who are most able to pay.

49 Mesa-Lago's (1991: 118) recommendations go in part along the same lines; he suggests a basic pension, maybe means tested, and in addition a supplementary programme tied to contributions, administered by public or private organizations. My reason for arguing for public over private supplementary pensions is that in practice public supplementary pension schemes are less unequal than private ones. Public mandates for privately administered supplementary pensions could theoretically neutralize this difference, but they would still leave the profits from the administration of the pension funds in private hands. As noted above, a prerequisite for making such a public system work well in Latin America is administrative reform.

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