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1

Including Outsiders in Latin America

1.1 INTRODUCTION

Throughout the twentieth century, much of the population of Latin America lacked access to health care services, stable income, and pensions. Although states introduced social protections for workers in the formal sector (those with labor contracts), workers outside the formal labor market and their dependents, whom I call "outsiders," remained unprotected or underserved by social policy. Outsiders include the urban informal sector – the self-employed, street vendors, and employees hired off the books – as well as rural workers and the unemployed. In the last decade of the twentieth century, outsiders represented between 40 percent and 80 percent of the population in the middle-income countries of the region, and a large share of them lived in poverty.[1]

Two macro-level transformations that occurred in the last decades of the twentieth century – the adoption of democratic regimes and economic liberalization – raised contradictory expectations about the likelihood that Latin American states would extend social protections to outsiders. Democracies institutionalized electoral participation and opened channels for the expression of interests and demands, which seemed to augur well for initiatives to reduce the welfare gap. Yet the debt crisis of the early 1980s and the implementation of market-oriented reforms gave rise to a period of state retrenchment marked by the remarkable spread of pension privatization in the 1990s and the extension of small-scale, targeted, and often clientelistic benefits to the very poor. In light of these

[1] Estimates with government data (see Appendix 1). See also Portes and Hoffman (2003: 49, 53).

changes, a broad academic consensus maintained that despite the widespread adoption of democracy, Latin America had entered a new era of market expansion and limited state involvement in social protection.[2]

Contrary to this picture of state retreat, a dramatic expansion of social policy for outsiders took shape in several middle-income countries of Latin America during the 1990s and 2000s, when governments began to extend pensions, cash transfers, and health care services to millions of previously unprotected outsiders. Consider these examples. Following a constitutional reform in the late 1980s, Brazil adopted a universal health care system as well as broad-reaching pension programs for outsiders, both of which began implementation in the early 1990s. Cash transfers initiated in 2001 reached 11 million low-income households by 2006. In the 2000s, Mexico, which had been historically characterized by modest social expenditures, launched a health insurance system for outsiders, cash transfers for 5 million children, and pensions for outsiders that by 2010 reached a similar share of people 65 and older than the preexisting program for formal workers.[3] With some exceptions, by 2010, several middle-income countries in the region had expanded cash transfers, pensions, and health care services for at least 35 percent of the outsider population.[4]

As demonstrated in Figure 1.1, the magnitude of social policy change is striking. By 2010 pensions in select countries reached between 48 percent and 100 percent of outsiders aged sixty-five and older, and transfers were provided to school-age children on a massive scale.[5] At the same time, these benefits are costly. Although cash transfers are able to reach many individuals with relatively smaller investments, representing between 0.2 percent and about 1 percent of the GDP – comparable to family allowances for formal-sector workers – health care services and some pension programs demand more significant investments.

[2] See, for example, Haggard and Kaufman (2008); Kaufman and Segura-Ubiergo (2001); Rudra (2002); on pension reform, see Brooks (2001; 2009); Huber and Stephens (2000); Kay (1998); Madrid (2002; 2003); Mesa-Lago (1994); on clientelism, see Cornelius et al. (1994); Dresser (1994); Kurtz (2004a); Magaloni (2006); Roberts (1995); Weyland (1996a).

[3] Calculated with data on formal-sector pension coverage for people 65 and older in 2011 and benefits for outsiders in 2010 from SEDESOL.

[4] In South America, exceptions include Paraguay, Peru, and Venezuela. The latter two cases are discussed in Chapter 8. As discussed in Chapter 2, I use the threshold of 35 percent to operationalize expansion.

[5] Author's estimate with government data of pensions, cash transfers and population. For more information and sources, see Appendix 1.

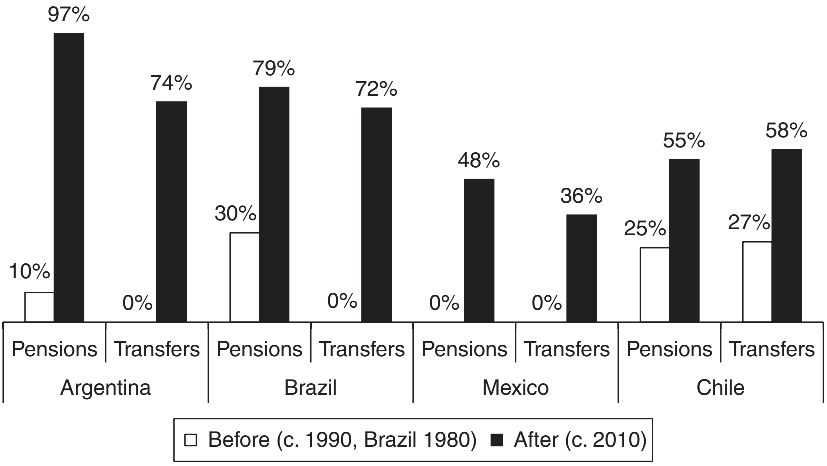

FIGURE 1.1 Share of outsider seniors and children with benefits before and after expansion, selected countries.
Note: Outsider seniors 65+ (60+ Brazil, 1980).
Source: Author's calculations with government sources (see Appendix 1).

These social policy innovations for outsiders are puzzling for a number of reasons. First, not only did social policy expansion take place at a time of state retreat, but these benefits also reached the most vulnerable and disempowered sectors of the population. This outcome runs counter to the widely held assumption that outsiders lack the capacity to exert political influence and attain meaningful policy responses in Latin America's nascent democracies. According to the literature, outsiders face formidable obstacles to collective action because they have heterogeneous interests stemming from their diverse and often individualistic economic activities (e.g., working as street vendors), which limit their ability to coordinate around common goals and demands and develop organizations to represent their interests (see Cross 1998; Kurtz 2004a). At the same time, if organizations form among outsiders, these are seen as having scarce resources. This prevents these organizations from having a meaningful influence on state policy and often leads them to succumb to co-optation and clientelism.[6] Furthermore, scholars argue that in the context of scarcity produced by the debt crisis and market reforms, powerful insiders prioritized the protection of their own benefits over

[6] See particularly Kurtz (2004a). For a critique and discussion of this literature, see Arce and Bellinger (2007); essays in Collier and Handlin (2009); Garay (2007); Holland and Palmer-Rubin (2015).

the establishment of insider–outsider coalitions that could have improved outsiders' political organization (see Etchemendy 2011; Oxhorn 1998; Weyland 1996a).

Social policy expansion is also intriguing because it involves nondiscretionary benefits. Existing research often characterizes most middle-income countries of Latin America as having patronage-based bureaucracies and clientelistic parties,[7] both of which hinder the creation of nondiscretionary policies for the most vulnerable sectors of the population (Kitschelt and Wilkinson 2007; Rothstein 2011), as such benefits are expected to loosen voters from clientelistic arrangements, and thus undermine the power of clientelist machines. Yet, as we see in the following chapters, political parties considered exemplars of clientelism, such as the Peronist or Justicialista Party (PJ) in Argentina, sponsored nondiscretionary social policy innovations for millions of low-income outsiders, revealing more complex relationships between political parties and poor voters.[8]

Finally, new social policies for outsiders display remarkable cross-national variation. Two distinct models of social policy, which I call *inclusive* and *restrictive*, can be identified. Inclusive policies provide relatively generous benefits to all or a large pool of outsiders and tend to involve some level of social participation in policy implementation. Restrictive policies, by contrast, provide smaller benefits to a more limited pool of outsiders and are implemented in a nonparticipatory way. Although there is variation within each of these broad categories, sharp contrasts distinguish the two models.

This book seeks to explain the circumstances under which incumbents in Latin America extended large-scale, nondiscretionary social policies to outsiders, the most vulnerable and disempowered sector of the population, and why we observe remarkable differences in the policy models that have taken shape. More specifically, why have some incumbents embarked on the expansion of nondiscretionary social policies for outsiders while others have not? Why have some governments created more generous, broad-reaching policies than others? Why do some allow social organizations and movements to participate in policy implementation while others reach out to beneficiaries in a top-down manner?

To address these questions, this study draws on a comparative historical analysis of social policy development in three areas that have

[7] On bureaucracies, see Calvo and Murillo (2004) and Luna and Mardones (2014). On party systems, see Hagopian (2014); Kitschelt et al. (2010); Mainwaring (1999); Roberts (2014). On clientelistic linkages, see Luna (2014).

[8] Levitsky (2003); for the recent period, see Etchemendy and Garay (2011).

exhibited a marked social policy divide separating insiders from outsiders – pensions, income support, and health care – in four of the most industrialized countries of Latin America – Argentina, Brazil, Mexico, and Chile – since democratization in the 1980s and 1990s. In an effort to better understand the circumstances under which expansion occurred, this study examines all democratic administrations in these countries within this period, some of which did embark on expanding social policy while others did not. Furthermore, it assesses the leverage of the analytical argument through a longitudinal analysis of these same cases since the establishment of benefits for insiders in the first half of the twentieth century, and conducts a broader comparison with four middle-income countries in Latin America and beyond, discussing the applicability of the argument to Peru, Venezuela, Uruguay, and South Africa.

As presented later in this chapter and laid out in Chapter 2, this study finds that expansion occurred in democratic regimes with (a) high electoral competition for outsiders and/or (b) large-scale social mobilization from below. Each of these two dynamics compelled incumbents to expand nondiscretionary social policy and temper the existing divide separating insiders and outsiders. At the same time, contrasting models of social protection resulted from the negotiations involved in policy design, the preferences of those engaged in the design process, and their institutional power. Restrictive models were built when conservatives had strong institutional power and social movements were not involved in policy design; inclusive models were adopted when social movements demanding policy change participated in negotiations around expansion, either because they had propelled that process in the first place, or because they could influence policy design through an allied party in government. To preview the outcomes documented and analyzed in this book, social policy expansion in Argentina and Brazil produced inclusive social policy, while in Chile and Mexico, a restrictive model took shape.

1.2 WHY STUDY SOCIAL POLICY EXPANSION AND POLICY MODELS?

Mapping and understanding these social policy innovations is critical for comparativists interested in the sources of welfare development and variation in social policy models in developing countries, and in their political and welfare effects. The cases discussed in this book illuminate the challenges of extending benefits in societies with deep insider-outsider divides, where some sectors are protected and others are not.

The adoption of broad-reaching benefits for outsiders has been largely unanticipated and initially overlooked by scholars of social policy in the region. In fact the comparative literature has emphasized obstacles towards expansion, stressing in particular financial impediments to social policy adoption.[9] Yet, as analyzed in this book, financial considerations are not the critical factor determining adoption of social policy innovations in middle-income countries. Governments have embarked on expansion under particular circumstances, and then employed different strategies to raise the necessary resources for implementation. At the same time, even if some programs may seem relatively inexpensive, expansion has often taken place across different policy areas requiring substantial investments.

Understanding these expansions is important because they target outsider populations who have received much less attention within the social policy – and political science – literature despite their numerical relevance in a region characterized by massive labor informality, segmented labor markets, and unemployment. Most of the comparative social policy literature has instead focused on the well-protected labor force and on social programs for insiders. Even the health care initiatives that reached outsiders and were created before the third wave of democracy have remained largely unaddressed by comparativists, with the exception of James McGuire's seminal work on the evolution of infant mortality rates (2010). The focus on formal-sector programs has overshadowed important aspects of the historical evolution of social policy in the region within the comparative literature. Understanding the conditions of social policy expansion for outsiders may shed new light on broader political dynamics that require deeper exploration. This book seeks to contribute to this pursuit.

A focus on the features of the new social programs also helps advance our understanding of social policy dynamics. Unlike the literature on the welfare state in industrial democracies, which has paid significant attention to the characteristics of social programs and explored the political underpinnings of variation in social policy models, research on programs for low-income populations in Latin America (e.g., conditional cash transfers) has tended to treat these programs as a homogenous group, thereby hiding significant variation that remains unexplained. This is particularly the case also in studies of clientelism that have focused primarily

[9] Haggard and Kaufaman's book on Latin America, East Asia, and Eastern Europe reaches this conclusion (2008).

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on the method of distribution of social programs, rather than also examining the different types of benefits that have been extended, and in studies of social expenditure, which do not separate investments across policy areas with precision, identify what kinds of programs are funded, and indicate whether beneficiaries are insiders, outsiders, or both.[10] Knowing the features of different policies, how consistent they are across policy areas, and how they interact with benefits for insiders is fundamental for informing policy making and advancing our understanding of the politics of social policy. More generally, learning more about these benefits for outsiders will allow us to better understand the shape of welfare systems in the region, which include programs for insiders and outsiders, and to comprehend the ways in which these benefits interact. These are fundamental concerns for those seeking to improve welfare and labor markets in developing countries, and they are critical aspects of social policy dynamics that connect with themes of inequality, redistribution, and government responsiveness.

More broadly, the expansion of social programs for outsiders has important political and normative implications. First, these benefits have created new and stronger connections between the state and citizens who previously lacked access to many programs. At least in the language in which social programs are framed, these benefits are presented as linking the fate and prosperity of the larger political community to individual improvement, access to services, and transfers for the most vulnerable – and often marginal – populations. At the same time, some of these initiatives – as discussed in this book – have included participatory arrangements for implementation, which have opened up spaces of interaction between beneficiaries and the state, providing new opportunities for citizens to have a "voice" and participate in policy making. Secondly, the adoption of some of these programs has contributed to reducing inequality, improving infant mortality rates, and increasing school enrollment and completion.[11] These are all historically difficult accomplishments for developing countries. At the same time, these expansions have mainly benefited women, who have been generally less able to access social security protections in the formal labor market, and who now constitute the main beneficiaries of pensions for outsiders and transfers for low-income households in several countries. How this

[10] Haggard and Kaufman (2008); Huber, Mustillo, and Stephens (2008); Rudra (2002); Rudra and Haggard (2005); Segura-Ubiergo (2007).
[11] See Appendix 1 for further reference.

connection between welfare and women unfolds and what its ramifications are across different models of social policy for outsiders constitutes a fundamental topic of research, as gender inequality has been associated with many pernicious social dynamics worldwide.

A key political question, then, is why outsiders matter in some countries, to the point of becoming the target of large-scale policy innovations. The next section discusses alternative explanations for social policy expansion, and the following sections present the argument advanced in this book.

1.3 ALTERNATIVE EXPLANATIONS

Three different arguments have emerged within popular discourse and in academic debates as potential explanations to account for incumbents' decisions to launch social policies for outsiders and for variation in the resulting policies. The first account focuses on economic change and emphasizes the abundance of agricultural and mineral revenues in the 2000s to explain social policy innovations and the amount of benefits distributed. The second highlights the arrival of left-wing coalitions to power, while the final argument references the diffusion of policy models to explain the increased popularity of social programs for outsiders and the models adopted.

Economic Abundance and the Commodity Boom

At first glance, the timing of recent social policy innovations suggests that increased state revenue from the agricultural and mineral commodity boom of the early twenty-first century has provided incumbents with the resources needed for social policy expansion, fueling or making possible the adoption of large-scale social programs across the region.[12] According to this view, fiscal constraints in the 1980s and 1990s precluded politicians from expanding, but in the 2000s the rise in commodity prices and the GDP growth it propelled allowed commodity exporters to extend social policy to the excluded. Expanding the logic of this argument, one should then expect the amount of revenue from the boom or the share of resources controlled by the state to be related to the social

[12] Contrasts in average regional rates of economic growth are not particularly marked between the 1990s, when Latin America grew on average 2.6 percent, and the 2000s, when the region's average growth rate was 3.2 percent (GDP rates of growth from ECLAC; CEPALSTAT).

policy model adopted – restrictive or inclusive – with more generous and broad-reaching benefits made possible by higher export-led growth.

Several studies have argued that export-led growth has allowed left-wing governments in the region to implement their redistributive agendas (see Campello 2015; Levisky and Roberts 2011; Weyland 2011). Without denying the importance of the commodity boom and the broader economic context in which it unfolded, proving its centrality to social policy expansion and the resulting models of social policy adopted faces major empirical and theoretical challenges.

Empirically, a close examination reveals that the occurrence and the timing of expansion – understood as the creation of broad-reaching nondiscretionary programs in selected policy areas – do not coincide neatly with the timing of the boom, as governments adopted new benefits both before and during the boom or did not expand nondiscretionary benefits across selected social policy areas despite growing export-led revenue. At the same time, countries that are not primarily commodity exporters did embark on expansion, as illustrated by Mexico.[13] Second, GDP growth does not explain cross-national variation in the magnitude of new benefits. In other words, incumbents with larger commodity earnings are not necessarily more enthusiastic providers of benefits for outsiders.

With respect to the timing and occurrence of expansion, incumbents adopted new social policies for outsiders at times of both economic strain and abundance since the late 1980s (see Figure 1.2). For example, facing a severe economic crisis in 1998, Ecuadoran president Jamil Mahuad (1998–2000) established a massive transfer program reaching 1 million outsiders to contain the political and social ramifications of his fiscal adjustment program (personal communication, Mahuad; Banco Central de Ecuador 2010). By the time Ecuador achieved economic growth – fueled in part by rising oil prices – after a dramatic drop in GDP in 1999, 40 percent of the country's households were already receiving income transfers on a regular basis. In Brazil, social policy expansion began in the late 1980s, propelled by coalitions of social movements and labor unions that actively mobilized during the democratic transition. Implementation

[13] Data from Cepalstat (www.cepal.org, accessed March, 2015), shows that in 2010, Mexico's primary exports represented 24 percent of total exports while in the middle-income economies of South America, primary exports represented between 62.9 percent and 95.7 percent of total exports. Between 2002 and 2013, the average share of primary exports was 23.4 percent in Mexico and it ranged from 55.3 to 92.5 percent in the countries of South America.

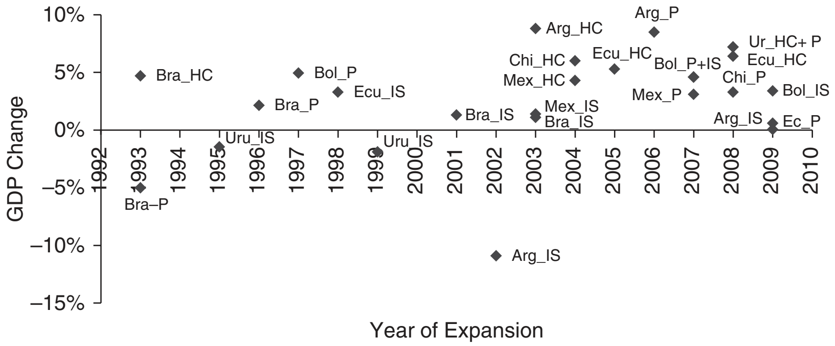

FIGURE 1.2 Timing of expansion and GDP change, selected countries, 1992–2010. *Note*: IS: Income Support (cash transfer programs); P: Pensions; HC (health care). *Sources*: Author's estimates of timing of expansion, GDP from World Bank Development Indicators and ECLAC.

started at a time of economic hardship and inflation in the early 1990s, which anteceded the successful stabilization accomplished by Itamar Franco's finance minister, Fernando Henrique Cardoso, in 1994, well before the commodities boom.

Other episodes of expansion coincide with buoyant international markets and favorable macroeconomic conditions, such as the extension of pension benefits in Argentina beginning in 2006. Still other policy innovations, such as Mexico's policy expansion between 2001 and 2007, took shape at a time of modest growth and in the absence of windfalls from agricultural, oil, or mineral exports.

Finally, the expansion of nondiscretionary, large-scale benefits did not take shape consistently across selected policy areas in Peru, Paraguay, or Venezuela, three countries that benefited from the commodity boom (see Figure 1.3). Even though Peru experienced a massive increase in GDP driven by mineral exports, it only expanded health services gradually, achieving some meaningful coverage by 2010 (see Cameron 2011). In Venezuela under Hugo Chávez (1998–2012), an undeniable case of export boom and state control of oil revenues and social policy innovations did not include broad-reaching, nondiscretionary transfers for children or seniors.[14]

The level of GDP growth is not a good predictor of the model adopted. Focusing on the four countries under examination, we see that Brazil adopted and implemented inclusive health care and pension benefits at

[14] I discuss the cases of Peru and Venezuela in Chapter 8.