

**Including Outsiders:**  
**Social Policy Expansion in Latin America**

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## CHAPTER 1. PROTECTING OUTSIDERS IN LATIN AMERICA

### 1.1. Introduction

Throughout the twentieth century, much of the population of Latin America lacked access to health services, stable income, and pensions. Although states provided social protection to 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 quarter of the twentieth century, outsiders represented between forty and eighty percent of the population in middle-income countries of the region.<sup>1</sup>

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 capacity of Latin American states to extend social protections to outsiders. Democracies institutionalized political 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 dramatic state shrinkage, marked by the remarkable spread of pension privatization in the 1990s and the extension of targeted, often clientelistic, benefits to the very poor. In light of these changes, a broad academic consensus maintained that despite the widespread adoption

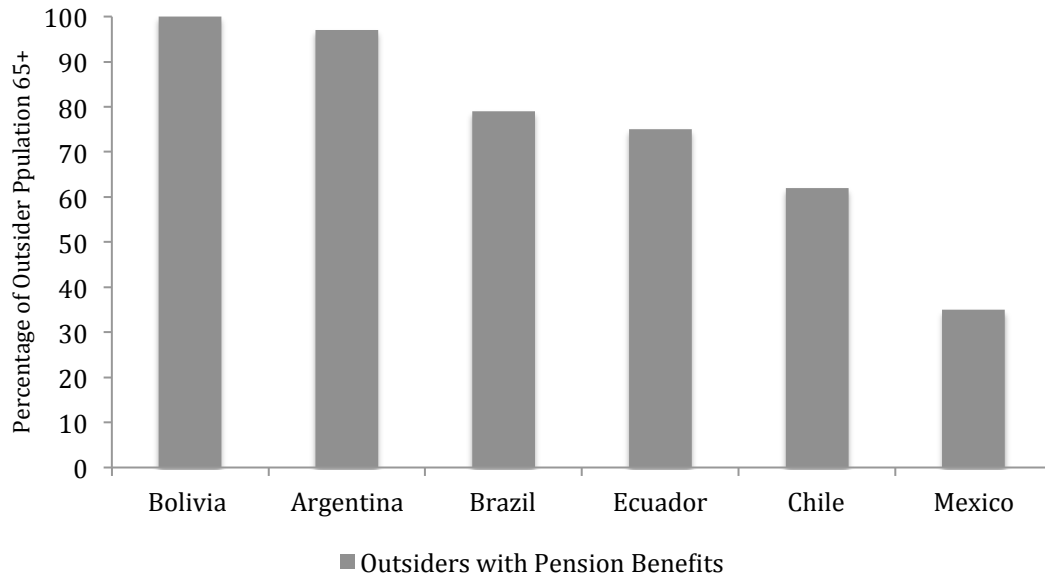
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<sup>1</sup> Estimates with government data (see Appendix 1 and 4). Portes and Hoffman (2003: 49, 53) suggest that the urban informal sector reached 45.9 percent of the workforce in Latin America around the year 2000.

of democracy, Latin America had entered a new era of market expansion and limited state involvement in social protection.<sup>2</sup>

Contrary to these expectations, this study documents a dramatic expansion of social policy for outsiders in the middle-income countries of Latin America. During the 1990s and 2000s, several governments began to extend old-age pensions, income transfers, and health services to previously unprotected outsiders. The magnitude of social policy change is striking, as demonstrated in Figure 1.1 below, with pensions in selected countries extended to between 35 and 100 percent of outsiders aged 65 and older.<sup>3</sup> Around the same time, governments extended cash transfers for school-aged children and improved access to health services, benefitting millions of outsiders.

**Figure 1.1 Outsiders 65+ Receiving Pension Benefits, Selected Countries, c.2010 (percentage)**



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

<sup>3</sup> Author's estimate with data from social transfers and population data; for more information, see Appendix 1.

Sources: Author's Calculations with government sources (See Appendices 1 & 4).

These social policy innovations are puzzling for a number of reasons. First, not only did social policy expansion begin 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 a large comparative scholarship that specifically downplays outsiders' capacity to exert political influence and attain meaningful policy responses in Latin America's nascent democracies. According to this literature, outsiders face formidable obstacles to collective action, including scarce resources and weak organizational infrastructure.<sup>4</sup> At the same time, they have heterogeneous interests, which preclude their ability to coordinate around common goals and demands (Kurtz 2004; Cross 1998). Furthermore, scholars argue that in the context of scarcity produced by market reforms, powerful insiders protected their own benefits—and even blocked extension benefits for outsiders—instead of forging broader insider-outsider coalitions that would have improved outsiders' political efficacy (see Weyland 1996a, Oxfhorn 1998, Etchemendy 2004).

Social policy innovations are also intriguing because they involve non-discretionary benefits. Existing research often characterizes the middle-income countries of Latin America as having patronage bureaucracies and clientelistic parties, both of which hinder the creation of programmatic, non-discretionary policies, especially for the most vulnerable sectors of the population (Kitschelt & Wilkinson 2007; Rothstein 2010).<sup>5</sup> Non-discretionary benefits are expected to loosen voters from clientelistic arrangements, and thus undermine rather than strengthen the power of

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<sup>4</sup> Se Arce and Bellinger (2007); essays in Collier and Handlin (2009).

<sup>5</sup> Levitsky (2003); for the recent period, see Etchemendy and Garay (2011).

political 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 non-discretionary social policy innovations for millions of low-income outsiders, revealing more complex relationships between political parties and poor voters.

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 and usually segmented benefits to a more limited pool of outsiders and are implemented in a state-centric, non-participatory 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, non-discretionary social policies for outsiders, the most vulnerable and disempowered sector of the population, and why we observe different policy models taking shape in different countries. More specifically, why have some incumbents embarked on the expansion of social policies for outsiders while others have not? Why have some extended non-discretionary, large-scale, stable benefits, instead of selective and temporary provisions? Why have some governments created more generous, broad-reaching policies than others? Why do some allow groups to participate in policy implementation while others reach outsiders in more unmediated

ways? Finally, why have incumbents in some countries, such as Peru or Venezuela, not expanded large-scale, non-discretionary benefits for outsiders?

To answer these questions, this study draws on a comparative historical analysis of social policy development in three areas—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 along different social policy models, it examines different administrations, some of which embarked on the inclusion of outsiders along different models of social policy and others that failed to extend benefits. Furthermore, it assesses the leverage of the analytical argument through a broader comparison with six additional middle-income countries in Latin America and beyond: Peru and Venezuela, which did not launch broad reaching, non-discretionary social policy throughout the period under investigation; and Bolivia, Ecuador, Uruguay, and South Africa, which embarked on expansion along different models of social policy.

## **1.2. The Academic Debate: Obstacles to Social Policy Expansion in Latin America**

The comparative literature on Latin American politics provides few clues to understanding these recent processes of social policy expansion. Scholars initially overlooked the social policy initiatives for outsiders created in the early 1990s, and focused attention on the transformation of formal workers' benefits. In understanding the politics of social policy, comparative scholars typically employed analytical

frameworks drawn from the European literature on the welfare state, which emphasizes the power resources of labor unions and left-wing parties in social policy development. In recent years, and in line with this approach, most studies on social policy have focused primarily on pension privatization affecting insiders and on the negative effects of economic liberalization on aggregate levels of social expenditures. Studies of pension privatization pay little attention to the creation of benefits for outsiders, despite the fact that in some cases pension protections for outsiders were introduced during market reforms.<sup>6</sup> In a similar vein, the literature on social expenditure does not account for whether the negative effects of pro-market reforms on social expenditure documented in those studies affected insiders, outsiders, or both.<sup>7</sup>

Based on this growing body of research, a broad consensus emerged that in the more open economies of Latin America, expansion of benefits for the poor faced significant obstacles (Kaufman and Segura-Ubiergo 2001; Rudra 2003; Segura-Ubiergo 2007). In particular, scholars emphasized economic constraints to social policy expansion. Analyzing the effects of regime type and fiscal restrictions on incumbents' ability to expand social policy to the unprotected, Haggard and Kaufman's (2008) cross-regional study of East Asia, Eastern Europe, and Latin America found little evidence of social policy expansion in the middle-income countries of Latin America, attributing this outcome to the preeminence of fiscal constraints over democratic politics in the region.

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<sup>6</sup> See Alonso (2000); Brooks (2001, 2009); Kay (1998); Huber and Stephens (2000); Madrid (2002, 2003); Coelho (2003).

<sup>7</sup> Huber, Mustillo and Stephens (2008); Haggard and Kaufman (2008); Rudra (2002); Rudra and Haggard (2005); Segura-Ubiergo (2007).



A substantial body of research also highlighted political obstacles to expansion. Scholars of party politics and social movements have argued that outsiders face collective action problems that undermine their ability to aggregate interests and form organizations (Oxhorn 1998, Weyland 1996a). The heterogeneity of informal workers and the unemployed is seen as raising barriers to the establishment of common demands. Kurt Weyland's classic study of Brazil's social policy making, for example, presented the early years of the country's new democracy as a critical example of how the segmentation of interests among the excluded and the existence of powerful vested interests hindered social policy expansion, despite efforts by progressive policymakers to establish new protections in the late 1980s and the early 1990s (1996a). Focusing on the political effects of market reforms, Kurtz (2004) suggests that state shrinkage generates social atomization in new democracies. By removing social issues from state purview, market reforms limit the capacity of the poor to act collectively and influence public policy formation.<sup>8</sup>

As argued by party scholars, collective action problems not only affect outsiders' ability to organize and press for their interests, they also shape the linkages political parties extend to outsiders. A broad literature has argued that political parties, including traditional labor-based parties, extended clientelistic linkages and patronage networks to outsiders in order to mobilize their support in new democracies (see Levitsky 2003; Roberts 1995; Luna 2010). Despite the fact that outsiders represent a large and economically vulnerable sector of the electorate and have been often the main electoral constituency of governing parties since democratization, incumbents have tended to

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<sup>8</sup> See Arce and Bellinger (2007); Silva (2009) for different interpretations on collective action after market reforms.

launch selective benefits and extend provisions through distributional networks in order to gain or retain their support, rather than employing more generous benefits to improve their welfare. In fact, these patronage linkages are widely understood to hinder the creation of broad-based non-discretionary policy for outsiders. Understanding why incumbents decided to extend large-scale non-discretionary policies, and especially why incumbents who belonged to patronage machines embraced—under particular circumstances—social policy expansion, will help us place these interpretations of outsiders’ collective action and the effects of clientelistic party linkages in sharper relief.

The literature on the early development of social policy for insiders also offers little insight on processes of social policy expansion for outsiders. In the first half of the 20<sup>th</sup> century, social policy was extended to powerful sectors in the workforce on a group-by group basis, first reaching unionized workers in critical economic activities.<sup>9</sup> Social policy expansion for insiders thus followed a sequential process, in which groups of workers were granted social benefits according to their capacity to pressure the state. Resulting social policy systems were highly segmented and provided different workers with different policy provisions. Political parties and electoral competition were found to play a limited role in this process of expansion. In his seminal work on social security in Latin America, Carmelo Mesa-Lago summarized the causes behind the origins and shape of social security systems as follows, “without denying the importance that the state, political parties, and the bureaucracy may have had in certain countries and historical periods, I consider pressure groups as the most significant force, the one that can systematically and best explain the inception and stratification of social security

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<sup>9</sup> See Mesa Lago (1989); Isuani (1978); Malloy (1979); Feldman et al (1988); Borzutzky (2002).

throughout Latin American history (Mesa-Lago 1978:9). By contrast, the expansion of social policies for outsiders involves incumbents under the pressure of high electoral competition for these voters or social mobilization by broad social movements, instead of the narrow pressure groups described by Mesa-Lago. Current policies for outsiders moreover tend to be more uniform, provide similar benefits to broad groups of outsiders, and their expansion has not followed the highly segmented logic as that for insiders.

This comparative literature on the early development of social policy also paid much less attention to the important innovations for outsiders that took place earlier in the 20<sup>th</sup> century and thus these policy changes remain poorly understood. James McGuire's study on the evolution of infant mortality rates in Latin America is one of the few comparative politics books that focuses on the large-scale health care innovations for outsiders established in Argentina in the 1940s and in Chile in the 1960s (McGuire 2010). Why were state programs for outsiders created in Argentina and Chile but not in Mexico, Brazil, Uruguay, and Peru, during a time in which insiders were the primary recipients of social protection? A narrow focus on formal sector programs and on pressure groups has overshadowed important aspects of the historical evolution of social policy in the region. The political relevance of outsiders and their influence on social policy making requires examination in order to understand incumbents' incentives towards expansion in the current period and to explore similarities and differences with past episodes of social policy innovation.

Unexpected and overlooked in the literature, the expansion of massive benefits for outsiders is thus a puzzling phenomenon. It challenges the typical ways in which we

have looked at social policy and requires new analytical lenses, beyond those of traditional social policy categories and the welfare state literature. Likewise, it requires that we move beyond a focus on labor unions, and left parties, as the main proponents and actors involved in policymaking, and include more loose coalitions of social movements and labor unions (especially public-sector workers' unions) to understand when social programs are extended to the excluded. Finally, it necessitates analysis of the incentives and strategies of political parties—not only of left parties but also patronage, conservative, and clientelistic parties—in order to understand when and why incumbents launched massive non-discretionary social programs for outsiders. The key political question, then, is why outsiders are so important today. Why do outsiders matter in some countries, to the point of becoming targets of new large-scale policy innovations?

### **3. Potential Explanations for Social Policy Expansion**

Three different arguments have emerged within popular discourse and in the academic debate as potential explanations for incumbents' decisions to launch social policy for outsiders. The first account focuses on economic change and emphasizes the abundance of agricultural and mineral revenues in the 2000s to explain social policy decisions. The second highlights the diffusion of policy models to explain the increased popularity of social programs for outsiders, while the final argument generally referenced is the arrival of left-wing parties and coalitions to office within the region, or their power in Congress.

### **The Commodity Boom: Economic Abundance and Redistribution**

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 21st century has fueled their adoption. According to this argument, increased revenue provided reform-minded politicians with the resources needed for social policy expansion.<sup>10</sup>

Yet a closer examination reveals that the timing of episodes of social policy expansion did not coincide neatly with that of the boom. Decisions to expand social benefits on a large scale were taken at times of both economic strain and abundance since the late 1980s. For example, under a severe economic crisis in 1998, Ecuadoran president Jamil Mahuad (1997-2000) established a massive transfer program reaching one million outsiders to contain the political and social backlash of his harsh 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—40 percent of the country’s households were already receiving income transfers on a stable 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 started at a time of economic instability and inflation that preceded successful economic stabilization accomplished by Fernando Henrique Cardoso, Itamar Franco’s finance minister, in the mid-1990s.

Other episodes of expansion coincide with buoyant international markets and expansive macroeconomic conditions, such as the extension of pension benefits in

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<sup>10</sup> Contrasts in average regional rates of economic growth are not particularly marked between the 1990s, when Latin America grew on average 2.75%, and the 2000s, when the region’s average growth rate was 3.1% (GDP rates of growth from ECLAC, CEPALSTAT).

Argentina in 2005. Still other policy innovations, such as Mexico's policy expansion between 2001 and 2008, took shape at a time of modest growth and in the absence of agricultural exports or mineral revenue windfalls. Finally, decisions to expand social policy benefits did not take shape in Peru or Venezuela. Even though Peru benefited from a massive increase in resources from exports, it failed to expand social policy in large-scale throughout the first decade of the 21<sup>st</sup> century (see Cameron 2011). In Venezuela under Hugo Chávez (1998-2012), social policy expansion did not feature broad reaching, non-discretionary transfers and institutionalized health services despite massive oil revenue under state control. Social policy benefits in that case took on a more politicized, non-institutionalized shape during most of Chavez's governments. It was only at the time of the incumbent's last reelection campaign in 2012 that pensions and income transfers for children were adopted, but these reached few beneficiaries.

The commodity boom undoubtedly expanded state revenue and helped ease the weight of foreign debt payments, giving states that benefited from export-driven growth more room to maneuver financially. Yet it also empowered economic actors and raised competing demands for funding. The export boom increased the influence of concentrated interests that had historically played a less supportive role towards income redistribution (e.g., business interests in Chile and agricultural producers in Bolivia and Argentina). Through different avenues, these sectors strove to reduce the scope of government revenue (see Fairfield 2010). In addition, export-driven economic growth occurred in countries with longstanding needs and grievances, in which investment projects for critical sectors such as infrastructure, transportation, and energy vied for funding with labor demands for better salaries and pension benefits for insiders, which

had deteriorated since the implementation of market reforms in most countries. Finally, even if they were willing to reach out to outsiders, governments could choose to allocate resources in different ways, such as prioritizing social infrastructure or energy and food subsidies, or employment policy instead of social policy.

The agro-export and mining boom siphoned valuable resources into several Latin American economies, but new resources in and of themselves do not provide a straightforward explanation for expansion. The boom did not coincide chronologically with social policy expansion within and across cases, and it does not explain why incumbents decided to prioritize outsiders and social policy over other investments. This book argues that specific political factors are fundamental to understanding governments' social policy decisions and the incentives that led incumbents—both those with and without windfall revenue—to embark on expansion.

### **Diffusion of Policy Models**

The apparent wavelike adoption of social policy expansion in several countries of Latin America suggests that diffusion mechanisms may have triggered such expansion. The scholarly literature on market reforms does emphasize diffusion as an important factor contributing to the adoption of social policy change, particularly privatization, in Latin America's nascent democracies. As discussed by Weyland (2006, 2004), theories of diffusion argue that policy change results from the spread of policy *principles* (such as universality) or policy *models* (such as social security) in temporal waves across geographically proximate countries (see Weyland 2006: 19-21). Despite background differences, governments subject to diffusion adopt similar policies, producing policy

convergence. Models typically spread through two mechanisms: a) a strong international actor that pressures governments to adopt a particular policy blueprint; or b) policymakers' decisions to emulate policy models they find prestigious, appropriate, or legitimate to solve a specific problem.<sup>11</sup>

As subsequent chapters show in greater detail, diffusion provides an inadequate account for social policy expansion in the cases under investigation for three main reasons: the absence of policy convergence, the lack of evidence that the mechanisms of diffusion—imposition by a powerful actor and emulation—play a significant role in policy adoption, and the challenge posed to the diffusion argument by cases of no adoption. Although several countries created new benefits for outsiders, this study found no evidence of convergence around a common model of expansion. States did not adopt similar models of social policy; there is remarkable variation in the scope of coverage, benefit levels, and the form of implementation of different social programs. Funding mechanisms also diverge sharply across countries, with tax-financed programs and others funded by cross-subsidies from social security benefits. New income support programs, which have become highly visible interventions cross-nationally, are a good example; they generally employ similar tools in the form of cash transfers. Yet these cash transfer programs also vary significantly across critical features of social policy. Some transfers are conditional on school attendance while others are not; some are temporary while others are permanent; and, as detailed in subsequent chapters, these programs vary in scope, benefit level, and funding mechanism. Aside from the specific tool that is used, these programmatic features are important definitional elements of

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<sup>11</sup> On these mechanisms, see the classic literature on diffusion, Hass (1992); Heclo (1974); Meyer and Rowan (1977).



social policy models, and they imply different welfare and political effects. The absence of convergence on these key policy features undermines the explanatory power of theories based on diffusion. With respect to policy principles, it is difficult to attribute expansionary decisions to the spread of a particular principle such as universality or fairness. In the cases analyzed in this book, debates and consensuses about fairness, universality, and the need to provide social policy benefits to the excluded existed among policy experts and policymakers long before expansion of social policies occurred in recent years without resulting in policy adoption.<sup>12</sup>

Powerful international actors with the capacity to influence or impose policy models or principles did not play key roles in the processes of expansion. The World Bank (and associated agencies such as the IADB), were key players in pension privatization and social development debates in the region (Madrid 2003; Brooks 2009, 2001; Weyland 2004, 2006), yet multilateral agencies have not been visible actors behind recent expansions in Argentina, Brazil, Mexico, Uruguay, Venezuela, and Chile. The more limited role played by the World Bank compared to its influence in the spread of pension privatization is both supported by the absence of consistent models of social policy for outsiders and the declining influence multilateral agencies possessed at the time of policy adoption. Regarding the policy model, scholars have often suggested that diffusion is facilitated by the existence of a coherent, simple model (see Weyland 2004). In the 1990s, there was no consistent model of health care services (Nelson and Kaufman 2004), pensions, or even cash transfers for outsiders that multilateral institutions promoted or imposed on developing countries, or that could easily be emulated by policymakers. In fact, in the 1990s, the World Bank and the IADB often

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<sup>12</sup> Chapter 3 refers to some attempts to expand social policy to outsiders in earlier periods.

recommended small, temporary programs for the extreme poor, rather than the large-scale social schemes that several of these countries eventually adopted. Regarding transfers, multilateral agencies promoted schemes inspired by *Bolsa Escola*, the acclaimed program developed by the Workers' Party in Brasilia in 1995. Acknowledging that countries such as Brazil and Mexico, rather than international agencies, were the first movers in the creation of large-scale cash transfers for outsiders, a World Bank official suggested that the agency "has trailed behind governments in the region."<sup>13</sup>

Together with the absence of a clearly identifiable policy blueprint for the protection of outsiders, the influence of multilateral agencies on the governments of Latin America has varied across cases and over time. At the time of expansion, the multilateral agencies were not at the peak of their influence. World Bank officials in Argentina admitted to a diminished influence in the country in the 2000s relative to the 1990s. One official noted that the indifference of the government was pronounced, with the agency having to "knock on the government's door" to offer both its policy recommendations and loans. Likewise, since the 1980s the agency's influence has been relatively small in Brazil.<sup>14</sup> In fact, according to interviews with officials, government indifference led the World Bank to search for new clients among subnational governments in federal systems such as Mexico and Argentina.<sup>15</sup>

Finally, theories of diffusion have a hard time explaining instances of no adoption. Why did Venezuela not adopt institutionalized social policies (such as broad reaching transfers and pensions), despite political rhetoric favoring the poor and available

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<sup>13</sup> Personal interview, World Bank office, Buenos Aires.

<sup>14</sup> Interview World Bank Official, Brasilia.

<sup>15</sup> Interviews World Bank Officials Mexico City and Buenos Aires.

economic resources to launch large-scale policies? Given that technocrats constitute important “carriers” of best practices and models lauded by epistemic (knowledge-based) communities and are critical sources of expertise and advice for governments and parties (Murillo 2009: 35-36; Weyland 2006: 46-7),<sup>16</sup> why did Peru not launch large-scale social policy expansion in the 21<sup>st</sup> century despite the power of technocrats within the national government (Dargent 2011; Vergara and Encinas 2012)?

More broadly, ideas do matter for policy making. Several studies have addressed the way in which ideas favoring innovation influence the policy process (Weir 1992; Hall 1992, 1997). Yet ideas may circulate in networks, in the public arena, and within government agencies long before the programs they inspire are adopted. Empirical cases in this book demonstrate that the shape of social programs is greatly informed by ideas advocated by social movements or technocrats linked to political parties. In several cases, these ideas are influenced by existing policy arrangements for insiders, which inspire the demands of social movements who often press for benefits similar to those received by insiders. Ideas may also be imported from abroad, through technical assistance, technocrats’ training, or emulation. However, these factors, though they are important, have not driven policymakers to embark on costly policy innovations.

### **Partisan Politics: The Left Turn**

A final potential explanation for social policy adoption emphasizes the ascension of left-wing governments in the region. The simultaneous waves of policy expansion and rising left-wing governments in Latin America seem to lend credence to a theory of

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<sup>16</sup> On the classic literature on diffusion and emulation, see Hecló (1974); Meyer and Rowan (1977); on the sociological institutionalism, see Thelen (1999). For diffusion in Latin America, see Collier and Messik (1975).

expansion based on left-party power.<sup>17</sup> Since the early 2000s, several Latin American countries have elected left-wing governments, and by the end of the decade, “nearly two-thirds of Latin Americans lived under some form of left-leaning national government” (Levitsky and Roberts 2011:1).

Scholarship and popular discourse often attribute social policy transformations to this left turn. In their most recent book, Huber and Stephens argue that in 21<sup>st</sup>-century Latin America, “the longevity of democracy and the strength of parties to the left of center” have produced a departure from the historic trend of poverty and inequality and help explain differences in redistributive outcomes across countries (2012: 240). Although this book shares the view that incumbent party preferences and parties’ social bases do shape social policies, it challenges the centrality of left-party strength in Congress or in the Executive in accounting for *why* large-scale social policies for outsiders were adopted, that is, why expansion has occurred. First, political parties in Latin America face a highly divided social structure in which left and left-populist parties have historically tended to prioritize the interests of labor union allies over those of outsiders (see for example, Levitsky 2003; Collier and Collier 1991). This approach of left parties towards labor unions is found in the welfare states of Western Europe (see Rueda 2007), where unionized workers are more numerous, as well as in developing countries, where the informal workers comprise a large majority of the workforce (see Agarwala 2013). In Latin America, elected left and left-populist governments only launched policies for outsiders under specific circumstances. The goal of this book is to identify these circumstances and explain when and why left parties embarked on this large-scale expansion.

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<sup>17</sup> See Levitsky and Roberts (2011); Weyland, Madrid and Hunter (2010).

Second, the episodes of expansion analyzed herein demonstrate that incumbents on both the left and the right of the political spectrum launched significant policy innovations for outsiders. A focus on the left as the driver of social policy change leaves unanswered the question of why right-wing incumbents pursued expansion as well. For example, the creation of massive income transfers, health insurance, and pensions occurred under the right-leaning presidency of Vicente Fox (2000-2006) of Mexico's National Action Party (PAN), at a time when the left held only a small share of seats in Congress. Likewise, some episodes of expansion in Brazil took place under the administrations of José Sarney (1985-1990) and Itamar Franco (1992-1994), neither of whom belonged to a popular-based party or faced more than a minor left-wing party presence in Congress and the Constituent Assembly, the bodies that passed some of these innovations into law.

Third, considering the share of left-party seats in Congress does not provide sufficient leverage to explain decisions to expand social policy. As shown in subsequent chapters, the share of left seats does help account for variation in policy models, as left or center-left politicians typically favor broader benefits, and center-right or conservative parties prefer more modest ones, and try to influence policy design accordingly. However, the share of left seats provides less analytical leverage to understanding initial decisions to prioritize and create large-scale social programs to include outsiders. In Latin America's highly presidentialist systems, Congresses have less power than European parliaments to initiate legislation. Empirically, as discussed in the cases, the presence of powerful left-parties, or populist parties with a left agenda, is not a good predictor of whether initiatives to expand social policy were adopted. In

some congresses, left parties were very small at the time expansion was approved (e.g., Brazil in the 1988s, Mexico 2000-2004). In short, left-party strength, understood as the ascendancy of left parties in the executive or the growth of the share of seats in Congress, does not in and of itself explain the timing of expansion of social policy for outsiders in the cases under investigation.

#### **1.4. Outsiders: Political Relevance and Policy Neglect**

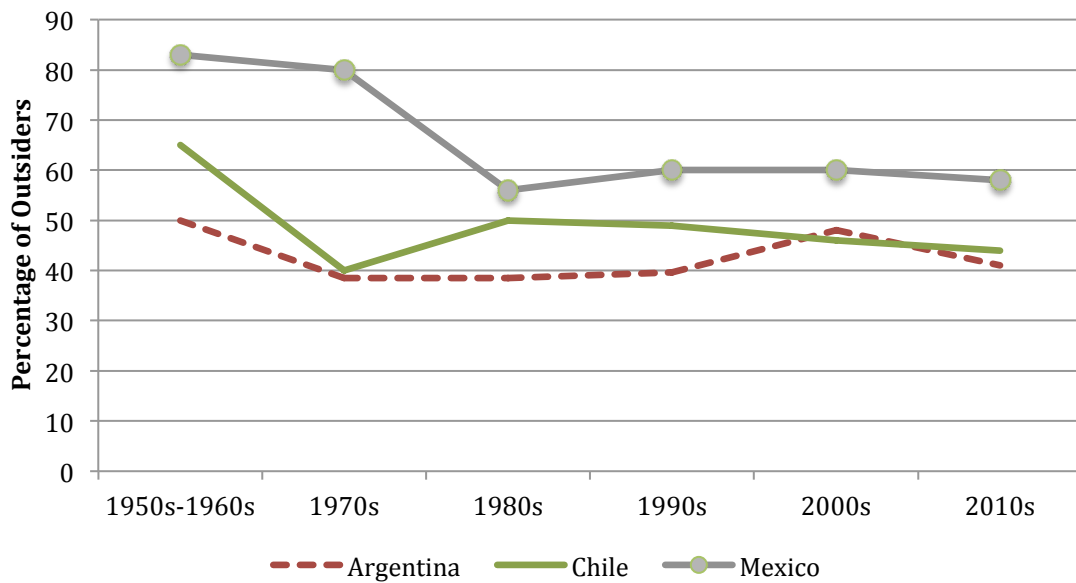
Outsiders constitute a broad population in Latin America that disproportionately face precarious living conditions. The comparative political economy literature on Western Europe defines outsiders as workers without secure employment and insiders as protected and often unionized workers (Esping Andersen 1999; Rueda 2007:20). In Latin America, outsiders are doubly excluded from secure employment and from social policy protections historically and systematically extended to formal workers only.

The size and composition of the outsider population has changed since the structuring of the formal labor market during the first half of the 20<sup>th</sup> century. As Chapter 3 shows, formalization and access to social benefits began in the 1930 and 1940s with the creation of labor regulations and social-security (or social insurance) systems funded largely with payroll contributions by employers and employees. The share of the workforce initially formalized was small and subsequently expanded at different rates with industrialization and the growth of public sector employment.

By the early 1980s and 1990, the size of the outsider population reached a plateau, making up between 40 and 60 percent of the total population—including both workers and their dependents—in the cases under investigation (Figure 1.2). While economic

crises in the last quarter of the 20<sup>th</sup> century did not permanently expand the size of the outsider population, they did intensify unemployment and poverty. Although all social groups have been vulnerable to dramatic economic transformations, informal sector workers were often overrepresented among the jobless during periods of recession and high inflation.<sup>18</sup>

**Figure 1.2 Evolution of Outsider Population Relative to Total Population, Selected Countries (Estimates).**



Source: Author’s estimates with government sources and secondary literature (Appendix 1).

At the same time that the size of the outsider population stabilized, the political relevance of outsiders grew significantly. In the 1980s and 1990s, Latin America joined the “third wave” of democracy, the broadest and deepest wave of adoption of democratic institutions in the region. In these new democracies, outsiders became

<sup>18</sup> On the informal economy, see Portes and Hoffman (2003); Itzigsohn (2000); Damill, Frenkel and Maurizio (2002); Beccaria and Maurizio (2003); Schijman and Dorna (2011).

politically more relevant than in previous episodes of democratization due to their often unprecedented access to the vote, made possible by the elimination of previous restrictions on suffrage in some countries—such as literacy requirements. Democratic politics also created a more favorable environment for participation in protests and political organization, and raised the costs for incumbents to repress emerging social movements.<sup>19</sup> These two conditions made the outsider population politically more attractive for party leaders, and activism more likely than in previous periods of authoritarianism.

Following these democratic transitions, the outsider population reached a rather large stable size in each country, and displayed two fundamental features that incentivized governments to reach out to this group with large-scale social policies: *political relevance* and *policy neglect*. The argument introduced below, and fully developed in Chapter 2, briefly explains why, when, and how incumbents decided to “include outsiders,” that is, to target large-scale social policy benefits to outsiders within this regional context of a relative absence of social policy provisions for these sectors and presence of political openness, which made the votes of the poor politically relevant.

### **1.5. The Argument in Brief**

In explaining the two questions of why, after decades of neglect, some incumbents expanded non-discretionary provisions to outsiders while others did not, and why there is remarkable variation in the shape of social policies adopted, this study provides an analytical framework that emphasizes the role of factors likely to emerge within democratic politics. I argue that incumbents expanded social policy when faced with

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<sup>19</sup> See for example, Houtzager (1998); Novaes (1991); Hunneus (2000) and references in Chapter 3.



high levels of electoral competition for the vote of outsiders and/or with large-scale social mobilization by coalitions of social movements and labor unions that pushed for social policy expansion through the use of contention, institutional channels, or alliances with the governing party. In the face of these pressures, incumbents considered social policy expansion to be (a) a powerful instrument to elicit outsiders' electoral support when a credible challenger threatened to defeat the incumbent party by courting outsider voters, and (b) necessary to mitigate intense organized pressure that threatened to seriously undermine the incumbent's popularity and/or destabilize the government if demands remained unmet. Social policy expansion thus allowed incumbents to address both of these threats to their (or their parties') continuity in office: high electoral competition for outsiders and/or intense mobilization from below. When democracies lack the incentives created by these two conditions, incumbents are less likely to embark on the expansion of large-scale non-discretionary social policy benefits.

These dynamics of expansion therefore feature two politically-driven processes: one "from above," motivated by high electoral competition for outsider voters that credibly threatens incumbents' continuity, as exemplified by the episodes of expansion in Chile and Mexico in the late 1990s and 2000s and Brazil in the 2000s; and one "from below," propelled by social mobilization, characteristic of Argentina in the 2000s as well as most episodes of policy expansion in Brazil in the late 1980s and early 1990s. Absent these pressures, large-scale non-discretionary social policy expansion is less likely to take place, despite the fact that outsiders make up a large electorate and are relatively neglected by the social policies of many new democracies.

Regarding the question of why there is striking variation in the policy models adopted (considering the scope of coverage, benefit levels and the presence of participatory or state centric implementation) , I argue that participants in negotiations over policy design, their preferences and institutional power yielded distinct models of social policy. Schematically, incumbents may negotiate policy design either a) exclusively with the parties in Congress, or b) with social movements in addition to or instead of parties in congress . When expansion is negotiated among parties in Congress, those negotiations are likely to produce policy outcomes that accommodate the preferences of different parties regarding social policy. Parties' influence in turn is shaped by their institutional power. When conservative and center right parties are strong (that is, parties that represent higher income sectors as discussed in Chapter 2), resultant policies are generally restrictive: in consonance with the preferences of elites, they provide relatively small or moderate coverage through direct state implementation and generally do not extend protect the full outsider population. In Mexico and Chile the process of policy design occurred in the context of high electoral competition (without social mobilization from below); it included negotiations among congressional parties, and was shaped by the balance of partisan power. Given the power of conservative parties in both cases, these negotiations resulted in restrictive policies

When incumbents negotiate expansion with social movements or respond strategically to movement demands, policy outcomes tend to result in inclusive benefits, with broad coverage and participatory implementation. Large-scale coalitions of social movements and union allies, which as discussed ahead, were the coalitions driving incumbents to launch expansion, generally demand both broad benefits similar to those

received by low-income insiders and participation in policy implementation and press incumbents to adopt such inclusive programs

Across cases, incumbents responded to movement demands and often negotiated with social movements and union allies when mobilization was large-scale. Social movements generally gain access to the policy design process when they have catalyzed expansion through protest or pressure in institutional arenas (e.g., via lobbying, public opinion campaigns), or when they are allied to the governing coalition and exercise influence over policy choices from within the government (even if they did not propel the initial decision to launch massive benefits). As long as powerful social movements that push for expansion are involved in the process of design, resultant policies are more likely to take on inclusive features. In Argentina social movements have engaged in social policy making primarily pushing their social-policy proposals through contention and negotiating under the threat of social conflict, and in Brazil movements primarily used institutional channels to advance their social policy agenda and/or to influence policy design. As a result, inclusive policies were adopted in these cases.

### **1.6. Research Design, Cases, and Data**

This study provides the first comprehensive analysis of social policy expansion in four of the largest and most industrialized economies of Latin America—Argentina, Brazil, Mexico, and Chile—in three policy areas, pensions, health care and income support. The study’s empirical analysis is based on original measures of social benefits and outsiders, and new datasets of electoral dynamics and social mobilization constructed for this project. Through process-tracing of social policymaking based on archival

research and extensive interviews with key informants such as political elites and social movement leaders, this study analyzes instances of successful social policy expansion as well as failed attempts to create large-scale non-discretionary benefits for outsiders with the goal to identify the factors and mechanisms driving social policy change.

### **Comparative Approach Process-Tracing and Cases**

Recent comparative studies of social policy in Latin America have focused on a single policy across countries, on the evolution of social policy in a single country, or on large-N cross-national comparisons of aggregate spending.<sup>20</sup> To better address the questions raised in this book, I conducted a small-N comparative study of four countries, across several administrations, and three policy areas in each country. Given the absence of substantial research on this topic, this cross-country perspective critically enables a more comprehensive assessment of theoretical insights emerging from individual case studies. Within each country-case, careful analysis of the policy making process for each episode of policy expansion or unsuccessful social policy innovation permits identification of the causal mechanisms shaping expansion, and produces credible and detailed information on social policy, which is notably absent within large-N studies of social spending in Latin America.<sup>21</sup> At the same time, this study focuses on an extended period of time in each of the cases under study. This longitudinal design, involving cross-country and within-country comparisons across different

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<sup>20</sup> On single-country studies, see Díaz Cayeros, Magaloni, Estévez (2007, 2009).

<sup>21</sup> Several studies of social expenditure use IMF expenditure data that only captures direct national-level expenditure (and thus severely underestimates social service expenditure in federal systems), and groups spending by theme into two categories, social services, and social security and welfare, which prevents students from observing variations across individual policy areas. See for example Kaufman and Segura Ubiergo (2001); Haggard and Kaufman (2008); Segura Ubiergo (2007); Carnes and Mares (2009).

administrations and policy areas, allows exploration of the effects of alternative national-level and policy-specific conditions that may be driving observed outcomes. Moreover, it explicitly takes into account temporal disjunctures between policy adoption and implementation, and thereby avoids “excessive causal proximity” in the analysis of processes that may unfold over longer periods of time (Grzymala-Busse 2004:17).

### ***Main Cases: Argentina, Brazil, Chile and Mexico***

The case selection maximizes variation in potential explanatory factors while holding constant certain background conditions. In terms of similarities, Argentina, Brazil, Chile, and Mexico are among the most industrialized countries in Latin America, and together with Uruguay, Venezuela and Colombia, they have the highest income per capita in the region.<sup>22</sup> In the 1990s, all four countries underwent market-oriented reforms that promoted neoliberal ideas of social protection (Brooks 2001; Madrid 2003; Weyland 2004). These four countries, moreover, experienced extensive periods of authoritarianism and limited democratic competition. Finally, at points since the creation of labor market regulations and social benefits for insiders, labor movements in all four countries were among the most powerful in the region.

Despite these similarities, there is theoretically relevant variation in potential explanatory factors across cases and over time. First, the cases differ in terms of the presence of coalitions of outsiders and labor unions demanding social policy for

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<sup>22</sup> The most industrialized countries in the region are Argentina, Brazil, Chile, Mexico, Venezuela, and Uruguay. These are also the countries with the highest GDP per capita, and the ones that have developed systems of social protection for insiders since the mid-20<sup>th</sup> century. At the same time, they comprise close to 75 percent of the population in the region (See CEPAL 2009).

outsiders in the areas under investigation, which arose in Brazil and Argentina but not in Chile and Mexico. Second, the structure and level of institutionalization of the party system varies across countries and over time. For example, in Argentina and Mexico party systems possess strong populist parties while Brazil and Chile have more relevant left-wing parties. The political representation of conservatives also differs across cases, with strong conservative parties in Chile and Mexico and no electorally viable right party in Argentina. Furthermore, since the third wave the party systems in Mexico, Chile and increasingly in Brazil have become more institutionalized, whereas the party system in Argentina experienced a partial collapse in the early 2000s (see Roberts 2012). Third, the emergence and level of partisan competition for the votes of outsiders differs across cases, with such competition intensifying in Chile, Mexico, and Brazil in the late 1990s and in occurring Argentina only in 1999. Finally, economic indicators, such as financial stability, unemployment, and the existence of a major economic crisis also vary across cases and over time.

Furthermore, the size of the outsider population across the four cases provides a two-pair comparison displaying relatively lower and higher levels of exclusion. Between 1990 and 2010, Argentina and Chile had outsider populations of similar—and relatively smaller—sizes, ranging from 40 to less than 50 percent of the population. Mexico and Brazil, by contrast, had a relatively larger outsider population, comprising between 50 and 60 percent of the population, with a greater share of this group residing in rural areas. This two-pair comparison permits assessment of the effect of structural conditions on social policy change. Did the countries with smaller outsider populations build more generous and broad-reaching benefits? As we see in the following chapters,

resulting social policy models do not map onto preexisting structural and socio-economic characteristics, with Argentina and Brazil building similar systems, and Mexico and Chile following a similar model of expansion.

### ***Broader Comparisons***

The main findings of this book are further assessed against two additional comparison sets of cases: (a) a longitudinal analysis of the four cases under investigation since the establishment of benefits for insiders in the 1930s and 1940s, and (b) a broader cross-country comparison within and beyond Latin America.

***Longitudinal Comparison.*** I first examine the period during which benefits for insiders were first created, in the 1930s and 1940s, to the recent adoption of large policies for outsiders, in order to assess the relative explanatory power of this study's framework within a longer period of social policy making. This longitudinal comparison also permits analysis of variation in social policy provisions granted to outsiders under different political and economic circumstances. This analysis addresses the question of why incumbents in some authoritarian regimes provide some benefits to outsiders while others do not introduce innovations. Under what circumstances did authoritarian regimes in the region create relatively larger social policy provisions (though none comparable to the expansion that constitutes the focus of this book)? What were the features of those provisions? Why did some democratic regimes launch no meaningful provisions to protect outsiders in this earlier period?

***Cross-country comparison.*** The second broader comparison involves five middle-income countries in the region—Bolivia, Ecuador, Peru, Venezuela, and Uruguay—as

well as South Africa, a late-developing middle-income country with high levels of economic inequality, which has been included in comparative studies on political economy and public policy within the middle-income countries of Latin America (see Seidman 1994; Lieberman 2003; 2009). These cases display broad variation across both explanatory variables and outcomes. While incumbents in Venezuela and Peru did not expand large-scale non-discretionary transfers and services throughout the period under investigation, the remaining cases engaged in expansion propelled by different factors (mobilization from below, and electoral competition for outsiders) showing variation in the models of social protection adopted across and within cases over time.

### **Data Sources**

This book's comparative analysis of the process of social policy expansion relied on original data gathered for this project. I collected social policy data from policy documents and public archives in all four of the main country cases, and use them to create new measures of social policy. Interviews with approximately 260 key informants were conducted. These included leaders of social movements, labor-unions and rural organizations, policymakers who were directly involved in policy expansion (including secretaries, ministers, and former presidents), legislators, party leaders, politicians involved in presidential campaigns, representatives of employers' associations, pension funds, and private providers in the health sector. These interviews helped to reconstruct the process of policy expansion and policy design, its underlying motivations, and the goals and policy preferences of the different actors and incumbents involved. Transcripts of congressional sessions, party documents and campaign



platforms, as well as petitions and documents produced by social movements and congresses of labor confederations, further contributed to understanding the motivations, demands, and expectations regarding expansion, the coalitions or alliances they formed to achieve or oppose expansion, and the negotiations over the shape of social programs.

In addition, I constructed a database of episodes of social policy making based on a content analysis of newspaper articles referring to policies for outsiders from 1987 until 2006 in Brazil, from 1989 through 2011 in Argentina, 1988 and 2007 in Mexico, and from 2002 through 2007 in Chile. For each country, I surveyed at least one national newspaper: *La Jornada* in Mexico, *Clarín* in Argentina, *Folha de São Paulo* in Brazil, and *El Mercurio* in Chile. For Brazil, I worked with an index built by the Library of the Brazilian Senate with seven national newspapers.<sup>23</sup> For the cases of Mexico and Argentina, I also consulted *Reforma* and *La Nación* for Mexico and Argentina, respectively, for parts of the period under investigation.<sup>24</sup> Finally, I created a Dataset of Protest for Argentina that maps the evolution of social mobilization for social benefits, led primarily by unemployed workers and their labor union allies from 1996 through 2010. This dataset includes close to 2,000 protest events, as well as information on these events concerning their duration, participants, demands, state responses, and violence.

To characterize the evolution of electoral competition for outsiders, I used available quantitative data, especially electoral surveys (provided by survey firms and academic institutions), as well as ecological data. With poll data I identified outsider and insider voters and mapped their voting choices in Brazil, Chile and Mexico since

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<sup>23</sup> *Folha de São Paulo*, *O Estado de São Paulo*, *Jornal do Brasil*, *Jornal da Tarde*, *Jornal de Brasília*, *Correio Brasiliense*, and *O Globo*. Some articles from other newspapers have also been used.

<sup>24</sup> Years for which newspapers are available in digital archives.

the first democratic election (comparable national data were not available for Argentina). To complement these measures, I constructed a Dataset of Electoral Competition for Outsiders for each selected country since the first democratic presidential elections until about 2010–2011, identifying districts in which outsiders are the majority of the population, and measuring levels of competition in presidential elections in those districts (see Appendix 3 for further information on these datasets).

### **1.7. Structure of the Book**

This book is organized into eight chapters. Chapter 2 presents the book’s analytical argument to account for the expansion of social policy for outsiders and characterizes different social policy models. It introduces the factors shaping policy design along restrictive and inclusive models, the circumstances leading incumbents to adopt non-discretionary policies, and strategies to overcome opponents (including vested interests) and to obtain funding for new programs. Chapter 3 adopts a longer historical perspective, drawing on the analytical framework to understand why large-scale, non-discretionary social programs were not expanded to outsiders in the past. It further analyzes the kinds of policies created for outsiders in previous decades and identifies the conditions under which governments: (a) did not expand any benefits for outsiders, (b) expanded large, discretionary (often temporary) benefits, or (c) created small, often discretionary benefits. The time period begins with the creation of the first large-scale social programs for the formal workforce in the 1930s and 1940s through the 1980s or 1990s, depending on when large-scale expansion began in each country. The chapter demonstrates that governments provided little social protection for outsiders during this

period because few democracies faced mobilization from below or electoral competition for outsider votes. The two cases in which social protection was extended to outsiders, the inauguration of health services in Argentina in the late 1940s and in Chile in the 1960s, occurred in the context of electoral competition for outsiders.

Chapters 4 through 7 draw on this analytical framework to explain the expansion of inclusive social policy for outsiders in Argentina and Brazil, and restrictive social policy in Mexico and Chile. Through an in-depth analysis of social policymaking in each administration since democratization, I show that incumbents, irrespective of partisan affiliation, were likely to respond to high electoral competition for outsiders and/or mobilization from below pressing for social benefits, with social policy expansion. I further show that governments adopted different models of social policy depending on whether incumbents negotiated policy design with the congressional opposition or whether they (also) responded to social mobilization and granted social movements access to the process of policy design. The concluding chapter extends the argument to a broader comparison of middle-income countries and assesses the social and political effects and theoretical implications of these social policy transformations.