

Globalization, democracy, and Mexican welfare, 1988-2006*

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Like many Latin American countries, Mexico not only underwent significant economic and political liberalization over the last two decades, but also transformed its welfare regime. This transformation included extensive reforms and seemingly contradictory trends. While social insurance underwent retrenchment, social assistance was expanded.¹ Mexico's privatization of its public pension system is recognized as one of the most extensive in the region, and its social assistance program has been cited as an exemplar of poverty alleviation policy for the developing world.

While some studies explain either pension privatization² or the expansion of targeted social assistance,³ social insurance and social assistance have different funding mechanisms and serve different constituencies. These differences limit the theoretical purview of studies that address only social insurance or only social assistance. Likewise, recent quantitative research on welfare in Latin America, which often uses combined social insurance and social assistance expenditure data, does not sufficiently disaggregate welfare spending in order to isolate the opposite trends of social insurance retrenchment and social insurance expansion. This oversight has led to contradictory results in this literature.⁴

This paper develops a theoretical argument that explains the patterns of change in both social insurance *and* social assistance in Mexico over the last two decades and explains some of the apparent contradictions in the existing literature on globalization, democratic institutions, and welfare in Latin America. By comparing multiple social insurance and social assistance policy outcomes during the Salinas (1988-1994), Zedillo (1994-2000), and Fox (2000-2006) administrations, the paper demonstrates that though globalization may constrain welfare policy options, its impact is often indirect, through its effect on the relative political capacity of domestic actors. Furthermore, political liberalization changes the incentives for politicians to

supply welfare. In addition, existing welfare institutions create powerful policy legacies that influence the interests of some domestic political actors. The overall pattern that emerges in Mexico is one of partial retrenchment of social insurance and the expansion of targeted social assistance, a pattern that can be explained in light of economic liberalization, democratization, and policy legacies.

Comparison across multiple policy areas over the three administrations demonstrates that the effects of globalization and democratic institutions on welfare policy are not uniform across policy areas or over time, nor are they overdetermined. Significant economic liberalization preceded significant political liberalization, which isolates the influence of economic and political factors on policy outcomes and explains why some welfare policy reforms were adopted while others languished. As the Mexican experience illustrates, partial retrenchment in some functional policy areas may be accompanied by expansion or layering of new welfare institutions in other policy areas.

Globalization, democratic institutions, policy legacies, and welfare change

Direct effects of globalization on government welfare provision

Current and capital account liberalization in Latin America accompanied economic globalization in the 1980s and 1990s. Trade integration occurred earlier and faster than did financial integration, beginning in many countries in the 1980s (see Table 1). Financial liberalization, including the elimination of restrictions on foreign direct investment (FDI) and capital controls, began in earnest in many countries in the 1990s.⁵ In very general terms, economic globalization may have two contradictory *direct* effects on welfare regimes: creating retrenchment pressures or expanding compensation for labor market risks.⁶

TABLE 1 HERE

In the simplest version of the retrenchment argument, increased international economic integration heightens economic competition, and forces states to compete and reduce unnecessary functions and expenditures, including their welfare commitments.⁷ More elaborate versions suggest that trade integration and net FDI create incentives for domestic producers to reduce costs to maintain international competitiveness. Consequently, governments reduce labor taxes, or social insurance contributions,⁸ which in turn creates pressure for social insurance retrenchment. Similarly, portfolio investment also puts cost-cutting pressure on domestic governments in Latin America, especially because a large proportion is in government debt. This constraint implies that governments try to minimize all social spending, or at least shift expenditures into those the market deems “efficient.”⁹ Targeted social assistance is considered more efficient than social insurance because it often entails lower costs and provides a minimum safety net for marginal groups. Consequently, governments are more inclined to maintain social assistance programs even while retrenching social insurance. Based on these arguments, economic integration may directly contribute to welfare retrenchment as governments reduce social spending commitments or shift their priorities toward more cost-effective forms of social spending, such as social assistance.

The second, and opposing, hypothesized direct effect of economic integration on welfare is that current account openness leads to greater compensation due to labor dislocations. This argument is largely based on the experience of small, developed countries throughout the post-WWII era,¹⁰ though it has recently been applied to developing countries.¹¹ Support for this theory in Latin America, however, has been weak. Qualitative and quantitative studies of social insurance in the region have emphasized the tendency toward welfare retrenchment in economies with the greatest economic openness.¹² In addition, many social insurance systems have not

provided unemployment insurance nor did they automatically increase benefits during the 1980s and 1990s to keep up with inflation.

While the compensation thesis is usually framed in terms of social insurance, economic integration may also lead to an expansion of social spending that develops human capital.¹³ Theoretically, globalization leads governments to invest in human capital to promote global competitiveness.¹⁴ Some empirical evidence suggests that economic liberalization correlates with greater education and healthcare spending in Latin America.¹⁵ Furthermore, Latin American social assistance programs since the 1980s have often included investments in human capital, such as educational scholarships or subsidized healthcare. In Mexico, too, targeted social assistance programs since the late 1980s have usually incorporated extensive educational or health components, which is consistent with the human capital argument.

Indirect effects of globalization on government welfare provision

Economic integration *indirectly* impacts welfare policy in two ways. First, economic liberalization and integration in Latin America usually coincide with important changes in the domestic labor market, which in turn affect the demand for social protection. In the 1980s and early 1990s, economic globalization contributed to the flexibilization of the domestic labor market; an expansion of low productivity-, or informal-, sector employment; and high levels of unemployment.¹⁶ Because contributory social insurance covers only formal sector workers, these changes eroded the constituents for social insurance and reduced its effectiveness as protection against social risks. Meanwhile, the growing informal sector and high levels of unemployment and poverty increased demand on social assistance.

Second, economic integration affects the capacity of domestic actors to influence the policy process. The changing structure of the domestic labor market eroded the organizational

base of labor unions and their political claims that they represented a large proportion of the labor force. Shrinking formal sector and unionized employment due to flexibilization of labor practices also eroded the mobilizing capacity of organized labor, especially in the tradable sectors most affected by economic liberalization.¹⁷ In this way, economic liberalization did not have uniform effects across all types of formal sector or unionized workers. Those in tradable sectors were more likely to have their capacity for political action and mobilization adversely affected by liberalization, while formal, non-tradable sector workers, largely employed in the public sector, maintained their capacity for collective action and mobilization.¹⁸ Meanwhile, employers, especially in tradable sectors, augmented their political capacity due to their central role in the export-oriented model of development and the added voice they earned due to their more credible threat of exit. These shifts in the capacity of domestic actors to influence social policy suggest that social insurance retrenchment is most likely to occur for tradable sectors but may be blocked by non-tradable sectors, and that social policy emphasis shifts toward the preferences of local employers.

Democratic institutions and welfare transformation

To the extent that the globalization literature predicts welfare regime transformation, including social insurance retrenchment and a shift toward means-tested targeted social assistance, the politics of retrenchment are fundamentally different from that of welfare expansion. The costs of retrenchment are often concentrated among beneficiaries, while the benefits, such as economic efficiency and growth, are dispersed.¹⁹ In contrast, the costs of social assistance expansion are often dispersed, and the benefits are concentrated among new beneficiaries. Cost and benefit concentration or dispersion is important because it affects collective action costs of domestic interest groups.

In Mexico, the costs of social insurance retrenchment are concentrated among the workers of social security institutes who face privatization and the formal private and public sector workers covered by these benefits. These beneficiaries are better organized than informal and rural sector workers, who are not covered. The potential benefits of retrenchment include increased economic efficiency, improved services, economic growth, and reduced budget deficits. Not only are these benefits highly uncertain (from the workers' point of view), but, if realized, they are distributed among a broader, unorganized segment of society. In contrast, the expansion of means-tested, non-contributory social assistance benefits the growing population of unorganized urban and rural poor, particularly those not in the formal labor market. The costs, too, are distributed widely because general government revenues fund targeted social assistance. In short, while the costs of social insurance retrenchment are narrowly concentrated among highly organized sectors and the benefits are dispersed, the costs of expansion of non-contributory social assistance are widely distributed across society and the benefits are concentrated among unorganized rural and poor sectors.

In addition to the collective action costs associated with retrenchment and expansion, democracy and democratic institutions also shape collective action costs and the relative capacity of domestic actors to influence policy outcomes. Generally, increases in political participation and competition are associated with democratization.²⁰ However, contrary to the experience of advanced industrialized democracies, democratization in Mexico entailed an increase in political competition rather than participation, which was reflected in two processes: *increased electoral competition* and *increased influence of veto players* in the policymaking process. Each of these processes is likely to affect the political capacity of domestic actors and the policy process, and thereby affect welfare reform outcomes.

Electoral competition changes politicians' incentive to provide social welfare, by creating the potential for them to garner voter support with the promise of expanded welfare benefits.²¹ Competition may also create incentives for politicians to "diversify" the types of benefits they provide voters.²² On the one hand, clientelistic benefits, or selective or excludable benefits targeted to voters, are likely to be more common at low levels of electoral competition, whereby parties with monopolies or near monopolies use clientelism to deter defection.²³ On the other hand, higher levels of competition are likely to reduce clientelism in favor of providing non-excludable goods, either universal or geographically concentrated "pork," especially when such goods are distributed by a centralized authority.²⁴ When the intensity of electoral competition varies geographically, as it does in Mexico, politicians are likely to provide more geographically distributed public goods, especially to areas where they face increased competition,²⁵ and are more likely to shift allocation of resources from core constituents to swing voters.²⁶

Increased political competition multiplies the number of partisan veto players and increases the importance of institutional veto points. Partisan veto players are the number and ideological diversity of the political parties represented in the executive or legislative branches. Institutional veto points are the formal division of decision-making powers among branches of government.²⁷ The effects of partisan veto players and institutional veto points can be different for retrenchment versus expansion of welfare policies. For instance, social insurance retrenchment is likely to be more difficult given the concentration of costs among a highly organized group that can block reform efforts when no single party controls Congress. This division of powers and the creation of an effective veto point between the Congress and executive also make it more difficult for the executive to ensure adoption of a significant social insurance retrenchment.²⁸ Studies of pension and healthcare reform in Latin America and Eastern

Europe over the last decade suggest that where decision-making authority in democracies is dispersed among more veto players or institutional veto points, retrenchment is less likely.²⁹

In contrast, multiple partisan veto players and the lack of a single party majority in Congress may actually contribute to the expansion of social assistance. Recent studies suggest that as the number of political parties increases, the likelihood of higher social and redistributive spending also increases.³⁰ In Mexico, the effective number of political parties in the state legislatures is positively associated with higher levels of state-level education spending.³¹ The logic of this argument suggests that as the number of parties increases, policymaking necessarily entails a degree of logrolling that leads to higher expenditures on social programs. This is especially likely to be true for non-contributory, means-tested social assistance, for which political parties can claim credit in local and state elections.

Together, these arguments suggest that the effects of globalization on welfare regimes will be refracted through domestic political institutions before producing policy outcomes. In particular, the likelihood of welfare retrenchment depends on the ability of those who bear the costs of reform to appeal to partisan veto players or use institutional veto points to block reform efforts. Political parties seeking electoral support at the local and state levels may find social assistance both more useful in the context of competitive elections and easier to support in a Congress with many partisan veto players.

Welfare institutions, policy legacies, and institutional layering

Existing welfare institutions also create strong policy legacies, or feedback effects, that shape future welfare change by creating stratified distinctions among different groups of beneficiaries or potential beneficiaries and shaping expectations regarding appropriate state benefits and policies.³² Institutional change is especially likely to take the form of layering new

institutions alongside existing institutions.³³ Layering is most likely to occur when beneficiaries of particular institutions block changes, and collective actors seek to create new institutions alongside old to serve their interests. For example, new members in the United States Congress in 1974 layered new appropriation and budget committee institutions upon existing institutions because they were unwilling or unable to change completely the existing institutions in which other members of Congress were invested.³⁴ The transformation of Mexico's welfare regime since the 1990s, which has occurred through partial retrenchment of social insurance and the creation of new social assistance, reflects these tendencies. In particular, new welfare institutions have been created to meet the needs of new political constituents and a new economic development model and as an alternative to reforms of ailing social insurance blocked by interest groups.

Table 2 summarizes the hypothesized effects of globalization, democratic institutions, and policy legacies on contributory social insurance and non-contributory social assistance.

TABLE 2 HERE

The economic, political, and institutional context of Mexican welfare

In Mexico, two institutions provide the majority of public social insurance: the Instituto Mexicano del Seguro Social (the Mexican Institute for Social Security, or IMSS), created in 1943 for private sector workers, and Instituto de Seguridad y Servicios Sociales para los Trabajadores del Estado (Social Security Institute for Civil Servants, or ISSSTE), created in 1960.³⁵ Together, these institutions provide worker's compensation insurance, old-age and disability pensions, health insurance, and other benefits to nearly half the Mexican population. The ruling Partido Revolucionario Institucional (Institutional Revolutionary Party, or PRI) regime also provided non-contributory social assistance benefits, including pensions and

healthcare, for the rural poor through IMSS-COPLAMAR (Coordinación General del Plan Nacional de Zonas Deprimadas y Grupos Marginados, or the National Program for Depressed Areas and Marginal Groups), created in 1973.³⁶ IMSS-COPLAMAR was nominally funded by general government revenue, but government contributions were irregular and IMSS pension reserves subsidized the program.³⁷ Together, these welfare institutions reflected an exchange of material welfare services and benefits for urban and rural workers for regime support throughout the period of ruling party hegemony and import substitution industrialization (ISI) development.³⁸

In 1982 economic recession, which accompanied a drop in oil prices and an increase in interest rates, led the Mexican government to default on its debt, sparking a regional debt crisis and the beginning of the “lost decade.”³⁹ In response to the crisis and to stabilize prices and begin the process of a structural adjustment, government social spending declined. In particular, social spending as a share of total programmable government spending declined from 31 percent in 1980 to a low of 27 percent in 1984. Similarly, public health spending as a percentage of GDP declined significantly during the 1980s and by the end of the decade had not returned to its 1981 level. The economic crisis also worsened the fiscal position of both the IMSS and ISSSTE as inflation eroded existing reserves and reduced new contributions to the system. The financial situation was exacerbated by rising healthcare costs, increased longevity of workers, increased chronic health problems, and relatively low retirement ages. By all accounts, the financial situations of the IMSS and ISSSTE were precarious by the end of the 1980s.⁴⁰

The economic crisis also had an immediate effect on the domestic labor market and prompted the government to begin significant structural reforms, dismantling ISI and liberalizing the economy. In the short term, the economic crisis generated significant unemployment and

stimulated the growth of informal employment,⁴¹ which reduced the demand for social insurance and increased the pool of urban and rural poor in need of social assistance.⁴² In the medium term, the structural adjustment policies, including privatization and trade liberalization, institutionalized these shifts in the labor market. President de la Madrid (1982-1988) began economic liberalization toward the end of his term; President Salinas (1988-1994) accelerated and deepened the adjustment process.⁴³ By the end of Salinas's administration, Mexico had liberalized its market for goods and services and begun to open its capital account to further facilitate foreign direct and portfolio investment. (See Table 1 for measures of average Mexican and Latin American economic openness since the 1970s.) In addition to these formal institutional reforms, Salinas facilitated the de facto liberalization of the labor market by weakening enforcement of existing labor contracts.⁴⁴ Thus, privatization, trade liberalization, and de facto labor market liberalization all eroded the capacity of labor unions representing formal sector workers, especially in tradable industries, to maintain their organizational and mobilizing capacity.⁴⁵

The 1980s economic crisis and subsequent economic liberalization policies also undermined popular support for the PRI regime and the ability of sectoral organizations (i.e., peasant and labor confederations) to guarantee electoral support for the ruling party. The debt crisis and neoliberal economic reforms challenged the PRI's claim to legitimacy and help explain the declining hegemony of the party.⁴⁶ This decline became evident first in local and state elections, when opposition parties began gaining ground in the mid-1980s. In 1989, for the first time since the Revolution, an opposition party candidate won a governorship.⁴⁷ Popular dissatisfaction with the PRI was also reflected in the defection of a large segment in 1987 and the hotly contested and fiercely questioned election of President Salinas in 1988.

In response to this heightened political competition, the PRI reorganized its internal structure along territorial, rather than sectoral, lines and began de-emphasizing its corporatist relationships in favor of appealing directly to citizens.⁴⁸ The decline of the sectoral organizations, particularly labor, has also been reflected in the decline of their share of nominations to fill PRI candidate lists for the Congress since the 1980s.⁴⁹ Whereas the buildup of the PRI's authoritarian regime during the 1940s and 1950s enabled labor organizations to exert significant influence over state policy (including the expansion of social insurance benefits and coverage), the process of democratization directly threatened the inside influence of official labor organizations and shifted the PRI's electoral focus toward the growing unorganized informal sectors and rural poor. Furthermore, because electoral competition was fiercest for local, state, and Congressional offices, the PRI had an added incentive to offer welfare benefits to attract swing voters in competitive elections. These patterns of electoral competition had important implications for social insurance and social assistance, explained below.

Increased political competition also steadily increased both partisan and institutional veto players. The number of partisan veto players in the national legislature has grown steadily since the 1980s, culminating in the loss of the ruling party's majority in Congress following the 1997 mid-term elections. Since then, no single party has been able to command a simple majority in either chamber of Congress, which has increased opportunities for veto players to block welfare retrenchment and enhanced the potential for expanding popular targeted welfare benefits. The lack of a single-party majority has also increased Congress's capacity to act as an institutional veto point for welfare policy. Though the Mexican Constitution of 1917 stipulates statutory division of powers between the Congress and presidency, the PRI hegemony meant there was little de facto division.

The power of Congress as an institutional veto point was especially pronounced following the 2000 election of President Fox (2000-06) because the Partido de Acción Nacional (National Action Party, or PAN) did not command a plurality of the seats in either chamber of Congress. Together, these changes suggest that political bargaining within Congress and between the president and Congress may make retrenchment efforts difficult and facilitate the expansion of welfare through logrolling and political bargaining.

The process of economic liberalization and opening of the market to globalization pressures occurred before complete democratization. This sequence was important because it created incentives for social insurance retrenchment and the targeting of social assistance while the ruling party still controlled the important decision-making institutions in the country. At the same time that the ruling party enacted some social insurance reforms that reshaped Mexico's welfare regime, key political actors blocked important reforms. Further expansion of political competition essentially paralyzed any additional social insurance reform efforts. In addition, the economic reforms created demand for non-contributory social assistance to the urban and rural poor while political competition created incentives for politicians to provide such benefits. Table 3 summarizes the main social insurance and social assistance policies explained in the following sections.

TABLE 3 HERE

Explaining partial social insurance retrenchment (1988-2006)

Salinas (1988-1994)

In response to the financial problems of the social insurance system, policymakers began discussing reform options during the Salinas administration. When proposals for pension reform were broached in the President's economic cabinet, the Secretary of Commerce insisted that any

reform not increase labor taxes, which would have compromised Mexico's international competitiveness.⁵⁰ To protect this competitiveness, reforms had to maintain or reduce existing contribution rates and employ other ways to ensure the viability of social insurance.⁵¹ Policymakers considered a complete overhaul, including extensive privatization, of the public pension systems of both public (ISSSTE) and private (IMSS) sector workers. Because of political contingencies and the need to seek labor support for the North American Free Trade Agreement, or NAFTA, the administration settled for a partial reform in 1992 of only the IMSS pension system.⁵² The partial reform created a mandatory private pillar funded by a 2 percent employer contribution on workers' salaries. While the reform was promoted as an additional benefit for workers paid for by employers, as a means to solidify labor support, it was actually considered only temporary and a starting point for a more fundamental privatization of public pensions.⁵³ The reform was passed without much opposition because unions viewed it as a new benefit and employers viewed it as the first step toward privatization.

The experience of the Salinas administration highlights how globalization and competitiveness concerns shaped social insurance reform from the beginning. In the eyes of policymakers, competitiveness precluded reforms that would significantly increase contribution rates to keep the existing system financially solvent, so they looked for other models. At the time, Salinas's economic cabinet rejected full pension privatization because it needed labor support for NAFTA. Knowing that even official unions would resist privatization, the administration adopted a partial reform that would be acceptable to unions and open the door to a deeper reform later. The decision not to pursue full privatization reflects the ability of organized labor, even in tradable sectors, to block reform efforts from within the ruling party despite the lack of significant partisan or institutional veto players. Though the PRI still controlled a

majority in Congress, the unions that would be most hurt by privatization and who had the capacity to mobilize public opinion against reform used their influence to block full privatization, in part because economic and political liberalization had not yet significantly eroded their influence.

Zedillo (1994-2000)

From its beginning, the Zedillo administration faced tough economic decisions and a peso devaluation that created an enduring economic crisis. The 1995 tequila crisis clarified the potential risks of capital account openness and boosted policymaker claims that Mexico needed to find ways to encourage domestic savings. For many, Chile's 1981 pension privatization was promising.⁵⁴ Because Mexico's 1992 reform had never been considered a permanent solution to the public pension system problems, social insurance reform moved back up the reform agenda.

Shortly after taking office, the Zedillo administration carried out a detailed study of the entire IMSS system and drafted reform proposals not only to privatize IMSS pensions, but also to reform IMSS healthcare. Policymakers early on decided to avoid reforming ISSSTE for fear of a direct conflict with the powerful teachers' unions.⁵⁵ As during the Salinas administration, globalization and competitiveness concerns influenced the range of reform options considered. Employer organization proposals and the government's reform proposal rejected parametric reforms and increasing contribution rates due to global competition concerns.⁵⁶ The government's initial proposal not only included privatization of private sector workers' pensions, but also envisioned a shift toward flat rate health contributions and the privatization of healthcare services.⁵⁷

In the end, policymakers were able to negotiate only the privatization of IMSS pensions in the mid-1990s. Privatizing IMSS's healthcare services would have resulted in a 20 percent

reduction in the size of the powerful Sindicato Nacional de Trabajadores del Seguro Social (National Union of Social Security Workers, or SNTSS), so the government abandoned its efforts in this arena to avoid a direct conflict with the union. Likewise, the Federación de Sindicatos de Trabajadores al Servicio del Estado (Federation of Government Workers' Unions, or FSTSE), which includes the powerful teachers' union, blocked ISSSTE pension privatization.⁵⁸ Thus, in the non-tradable enclaves, where organized labor had maintained its political independence, militancy, or organizational strength, labor effectively stymied efforts to privatize pensions and healthcare.

Understanding the IMSS pension privatization and failed IMSS healthcare and ISSSTE pension reforms during the Zedillo administration requires considering the effects of economic and political factors on the capacity of domestic actors. By the time of the reform proposals, many of the structural reforms, including trade liberalization and privatization, had weakened the size, strength, and mobilizing capacity of labor unions, especially in tradable sectors. Many labor contracts had become more flexible, despite the lack of a formal reform to the labor code.⁵⁹ At the same time, democratization and internal reforms within the PRI had marginalized the importance of the official unions.⁶⁰ For these reasons, the ruling PRI could privatize IMSS pensions with little concern for opposition from official unions representing shrinking formal, tradable sectors. The largest and most concentrated unions in non-tradable sectors—the SNTSS and the FSTSE—were less resistant to IMSS pension privatization because they had their own pension provisions through their labor contracts or the ISSSTE.⁶¹ Because the PRI still controlled the executive and a majority in the Congress, it could pass the revised pension privatization bill without significant concessions to minority parties.

In contrast, the proposals to privatize IMSS medical services or ISSSTE pensions failed partly because economic liberalization had not affected unions in the non-tradable sectors. Government officials could not use competitiveness pressures as an excuse to privatize medical services or to reduce government employee pensions. Furthermore, unions in these sectors are more politically independent and can easily mobilize workers; even the possibility of strikes was enough to preclude reform.⁶² In these areas, globalization has had little effect; the failure to reform IMSS healthcare and the ISSSTE system reflects the uneven effects of globalization on the political capacity of organized workers to block retrenchment. However, healthcare and government worker reforms remain on the agenda.

Fox (2000-2006)

The Fox administration enacted a handful of reforms to the IMSS pension system, including an important reform to the pension system of the SNTSS. While the 2001 and 2002 reforms were largely technical,⁶³ the August 2004 IMSS reform was highly politicized and triggered an intense clash between the SNTSS and the IMSS administration, other unions representing IMSS beneficiaries, and political parties. This reform froze the creation of new positions, discontinued the use of IMSS reserves to pay SNTSS pensions, and required that new IMSS workers receive benefits through the privatized pension system rather than at the level of the current labor contract. Though the SNTSS challenged the law in the courts, the court system upheld it.⁶⁴ In this way, the reform was the result of failed labor contract negotiations between the SNTSS and the IMSS administration. As one of the largest unified unions in a non-tradable sector in the country, the SNTSS historically had negotiated generous benefits for its workers in its labor contract, offering pensions that often exceeded 100 percent of workers' salaries and an early retirement age. In fall 2003, the SNTSS leadership presented to Congress a labor contract

proposal for reformed retirement benefits that included significant increases in workers' contributions and the retirement age. The rank-and-file narrowly rejected the proposal on two separate occasions.

In response to the SNTSS's failure to secure approval for the contractual reform, the IMSS administration, supported by the employer organizations and labor unions representing IMSS beneficiaries, sought a legislative reform in early 2004 to the IMSS workers' retirement schemes.⁶⁵ The reform law was proposed by PRI representatives with links to the official labor unions that represented primarily formal sector workers receiving IMSS services and benefits; the reform also had the support of PAN representatives.⁶⁶ These unions publicly supported the reform because they believed the SNTSS union benefits were negatively affecting the benefits their workers were likely to receive from IMSS. Alternatively, it is possible that they wanted to deal a blow to the SNTSS, one of the most important national independent labor unions.⁶⁷ Overall, the reform's immediate impact on Mexico's welfare regime is negligible. It has had the symbolic effect of retrenching future welfare benefits and may facilitate breaking union opposition to future IMSS reforms, especially the privatization of healthcare and non-medical services.⁶⁸

During the Fox administration, the Finance Ministry and ISSSTE formulated a reform proposal that would privatize government workers' pensions provided by ISSSTE and incorporate them into the system of private accounts created in 1995-1997. Though the government began discussions with worker's unions in December 2004,⁶⁹ talks and negotiations ultimately derailed the reform process. The Fox administration withdrew its reform proposal from the Senate in March 2006, when it realized it would face intense labor opposition prior to the upcoming presidential elections.

In general, social insurance reforms that passed were mainly technical or did not directly challenge the interests of well-organized or concentrated interest groups, such as the government employees' unions. The pattern of these reforms and reform efforts suggests that unions in non-tradable sectors continued to be a significant barrier to social insurance privatization efforts. The pluralization of the Congress also made policymaking more difficult, as the power of veto players and the importance of Congress as a veto point have both increased. Congress is now recognized as the entity that determines laws, and political actors, including the unions, are increasingly targeting their actions to stop reforms, such as the 2006 proposal to privatize ISSSTE pensions, in the Congress.

The reforms and reform proposals also reflect the increasing pressure of globalization. While benefits and employment for the non-tradable sector of government employees were not the focus of the first round of social reforms, increasing concerns about the government's fiscal deficit and size of its budget in a global economy have moved social insurance reform for government employees (both IMSS workers and ISSSTE beneficiaries) higher on the reform agenda. As the costs of benefits for government employment become the main expenditures in a state that has otherwise cut back, these costs will increasingly be targeted for future reductions. Though the SNTSS and teachers' unions have resisted reforms so far, it is unclear how much longer these unions can block significant reforms. Conflict over government employment (including the privatization of medical services) and the cost of benefits is likely to continue. President Calderón (2006-2012) renewed efforts to privatize ISSSTE pensions within the first months of his administration.

Explaining expansion of non-contributory social assistance (1988-2006)

Salinas (1988-1994)

Following the highly contested 1988 presidential election and shortly after assuming office, President Salinas implemented the Programa Nacional de Solidaridad (National Solidarity Program, or PRONASOL), a targeted poverty-alleviation program overseen by the president's office. Unlike earlier social development programs, PRONASOL replaced universal or broad-based benefits with targeting only to the poorest regions and citizens. PRONASOL was notable in part because it signaled the first significant increase in social welfare spending since the onset of the debt crisis. It was largely funded by the revenues generated by the privatization of state enterprises. The World Bank, which participated in the program's development, provided additional funding for its implementation in the poorest states.⁷⁰ Officially, PRONASOL supplied both infrastructure and human capital investment for rural and urban marginal areas. About one-third of the funding went to individuals and the rest to local infrastructure projects.⁷¹

PRONASOL was notable also for the official mechanisms it used to target spending and for the widespread political manipulation of program spending. Officially, funds were to be targeted to marginal areas most affected by economic liberalization. Within individual communities, new organizations formed to determine the best use of program resources. In practice, however, funds went to areas where the PRI had historically enjoyed widespread political support or had recently faced significant electoral competition.⁷² Furthermore, the distribution of resources bypassed elected state and local opposition leaders and created a new parallel institution for the distribution of clientelistic benefits to individuals and "pork" in the form of infrastructure projects.⁷³

In many ways, PRONASOL was a product of the economic and political environment of the 1980s. For example, the debt crisis and economic liberalization policies contributed to rising unemployment and poverty and the expansion of the informal labor market, which in turn created demand for the creation of a social safety net to compensate for liberalization, and the proceeds of privatization were central to financing the program. According to President Salinas, this strategy of using privatization funds to increase social spending was “how the political consensus in favor of the [new economic] strategy was constructed.”⁷⁴ In addition, targeting spending to alleviating poverty in marginal areas was consistent with globalization pressures on the government to minimize expenditures and with policy recommendations from international financial institutions that had actively promoted such targeted social policies.⁷⁵

PRONASOL also reflected the increased electoral competition that the ruling PRI faced at the end of the 1980s. Interestingly, the program’s pattern of targeted spending is consistent with increasing electoral competition and efforts by the ruling party to deter support for opposition parties and cultivate support in areas of high competition.⁷⁶ Many studies have documented how PRONASOL expenditures were manipulated, showing that political rather than poverty criteria best explain resource distribution.⁷⁷ Furthermore, PRONASOL spending was concentrated on winning new voters in competitive areas rather than rewarding supporters concentrated in PRI strongholds.⁷⁸ If one views PRONASOL within the broader context of state welfare provision, it becomes clear that the program sought to generate support on a territorial basis among voters beyond the reach of the PRI’s corporatist organizations. It also highlights a strategy of shifting spending priorities away from core supporters (i.e., those in the corporatist organizations) covered by social insurance toward swing voters, who were more likely to be concentrated among the poor and informal sector workers. Though critics have questioned its

effectiveness at reducing poverty, the program was nevertheless very effective at rebuilding support for the ruling party in both the 1991 mid-term elections and the 1994 presidential elections.⁷⁹

Finally, the creation of PRONASOL is an example of institutional change through layering of new institutions alongside old. Rather than adopt an integral reform to social insurance to meet the needs of unemployed workers or incorporate social assistance into existing welfare institutions, President Salinas chose to create a new welfare institution to meet the economic and political contingencies faced by his administration.⁸⁰

Zedillo (1994-2000)

Though to some extent Zedillo owed his election to the popularity of PRONASOL, he did not embrace it after taking office. In the first few years of his administration, Zedillo transformed PRONASOL into the Programa para Superar la Pobreza (Program to Overcome Poverty), a transformation that included significant cuts in spending and transfers of responsibility for infrastructure programs to state governments.⁸¹ Shortly after losing its Congressional majority for the first time in its history in the 1997 mid-term elections, the Zedillo administration christened a new targeted poverty alleviation program, Programa de Educación, Salud, y Alimentación (Program of Education, Health, and Nutrition, or PROGRESA). PROGRESA was self-consciously distinct from PRONASOL.⁸² Its focus was limited to individual benefits and transfers for human capital development for the rural poor. Benefits included healthcare, school scholarships, income transfers, and health and nutrition education for low-income families in marginal rural areas. Targeting occurred in two stages: first, identifying marginal communities with sufficient infrastructure to support the program, and, second,

identifying low-income families within the communities to participate in the program. By the end of 1999, 2.3 million families were benefiting.⁸³

Whereas PRONASOL expenditures were politically manipulated and bore little relationship to poverty levels, PROGRESA has been hailed for its efficiency and more objective targeting of resources.⁸⁴ However, recent studies have raised suspicions that even PROGRESA expenditures, with their careful formulas for choosing municipalities and beneficiary families, have been manipulated for partisan purposes. For instance, municipalities supporting the PRI but technically ineligible to participate received benefits, thanks to lobbying by local officials.⁸⁵ Some evidence suggests that PROGRESA expenditures generated higher levels of support for the ruling party in communities receiving benefits.⁸⁶

As with PRONASOL, PROGRESA's timing and characteristics are consistent with both increased electoral competition and the effects of economic liberalization on the changing domestic environment. The creation of PROGRESA near the mid-term surge in electoral support for the opposition reflects the Zedillo administration's effort to regain support. At the same time, PROGRESA did not include the same "pork" infrastructure programs nor did it have widespread problems of corruption and clientelism. In part, these improvements in the transparency and implementation of targeted poverty alleviation are to be expected given the increase in political competition at mid-term.⁸⁷ PROGRESA reflects the PRI's shift from providing benefits for its core corporatist constituents to providing benefits for the unorganized, rural poor, which is also consistent with expectations that electoral competition leads political parties to provide benefits for swing voters (the unorganized poor) rather than rewarding core supporters (organized formal sector workers).

Meanwhile, economic liberalization and the subsequent 1995 peso crisis expanded unemployment and eroded wages,⁸⁸ creating demand for more social spending. Rather than relying on traditional social insurance or universal income support programs, the Zedillo administration emphasized targeting of benefits and investment to health and education through PROGRESA, a program design consistent with recommendations for efficient social spending in a globalized economy because of its emphasis on cost-containment and human capital. The World Bank has promoted PROGRESA as an example of effective targeting of social policy to promote development.⁸⁹

PROGRESA is in many ways a product of the institutional legacies of existing welfare institutions and another example of institutional layering. It was shaped by PRONASOL's legacy, inheriting some of its demand-based programs and growing from within the Social Development Ministry that was created to direct PRONASOL in its final years. The ministry became a counterweight to both the IMSS and the Health Ministry, where targeted social policy or healthcare provision had been concentrated before the Salinas administration.

The increased transparency of PROGRESA targeting and budget allocations can be understood not only as a function of increased electoral competition and Congressional oversight but also as a response to criticisms of PRONASOL; PROGRESA's legitimacy hinged on building an apolitical reputation. Finally, PROGRESA expanded healthcare for the rural poor because powerful veto actors within the IMSS union and the Ministry of Health blocked comprehensive health sector reform.⁹⁰ This illustrates how reforms blocked by powerful veto actors contribute to the creation of new institutions, or institutional layering, to meet policy goals.

Fox (2000-2006)

Within the first year of his administration, Fox rechristened PROGRESA Oportunidades, made modest adjustments, and worked to enhance transparency. From 2000 to 2005, the number of covered families doubled to five million, and included the semi-urban and urban poor.⁹¹ Oportunidades also began providing income transfers to beneficiaries to buy goods and services directly from the market rather than receiving government distributions, a move consistent with the administration's greater market orientation. The program continues to be widely cited by international financial institutions as a model poverty alleviation program.⁹²

The Fox administration also sought to expand access to healthcare for those not covered by social insurance. Technically, all those not covered by one of the social insurance institutions have access to healthcare through the Ministry of Health. Historically, however, the Ministry has had insufficient resources to meet the needs of the uninsured, especially in rural areas, which explains why programs like PRONASOL, PROGRESA, and Oportunidades have provided healthcare through IMSS clinics. Prior to his appointment as Minister of Health, Julio Frenk advocated comprehensive health sector reform to extend coverage,⁹³ but such a reorganization of the health services provided by the IMSS, the ISSSTE, and the Ministry of Health proved politically problematic during the Fox administration. Instead, the administration created a new program, Seguro Popular (Popular Insurance), to expand healthcare to the uninsured. The proposal for the new program was submitted to Congress in November 2002 and approved in April 2003, just before the mid-term Congressional election. The initiative was passed during a time when the Fox administration was otherwise facing significant resistance to its legislative agenda, especially with regard to tax reform. As might be expected for such a program, Seguro Popular enjoyed multi-partisan support, passing in Congress with a large majority.⁹⁴ Opposition

to the program came from leftist legislators who opposed the co-payment required of families to enroll in the program.⁹⁵ Though program rules require this modest contribution, the Minister of Health has insisted that families unable to pay not be prevented from enrolling.⁹⁶ By mid-2004, nearly 800,000 families, representing roughly 2.5 percent of the national population, had enrolled.⁹⁷

The expansion of Oportunidades and creation of Seguro Popular during the Fox administration illustrate Mexico's ongoing transformation of welfare. Both programs target benefits to the rural and urban poor, most of whom are excluded from traditional social insurance due to their work in low-productivity or informal sectors. Rather than promoting formal sector employment and the development of universal social insurance, the government provides benefits for informal sector workers and the poor through the creation of targeted human capital investment. This welfare strategy is largely consistent with expected effects of economic liberalization. Furthermore, the expansion of these targeted welfare programs is popular among politicians who want to cultivate political support among the unorganized urban and rural poor. Interestingly, the most vocal opposition to this expansion has been from the left—particularly the Partido de la Revolución Democrática (Party of the Democratic Revolution, or PRD)—which would prefer universal social insurance.

Oportunidades and Seguro Popular are additional examples of how policy legacies result in institutional layering and ad hoc welfare transformation. As before, because systematic reform of existing welfare institutions is politically infeasible and blocked by vested interests, new institutions have been created to address rising demand for benefits and services for those not covered by traditional social insurance.

Discussion and conclusions

The partial retrenchment of social insurance and expansion of social assistance described above illustrate the effects of economic liberalization, democratization, and policy legacies on welfare regime change in Mexico. Economic liberalization has contributed to the shrinkage of formal labor market employment and of social insurance beneficiaries, and to the expansion of poverty, informal sector employment, and social assistance beneficiaries. Given these contradictory pressures on social insurance and social assistance, quantitative studies of welfare expenditures that do not disaggregate social insurance and social assistance suffer from invalid measurements and are likely to produce faulty inferences. These measurement problems may also explain why many studies are contradictory.⁹⁸ In contrast, this study elucidates the source of these contradictions and provides a consistent theoretical explanation for welfare regime change in a global economy.

Economic liberalization has also indirectly affected social protection outcomes by undermining the capacity of formal sector workers in tradable industries to defend social insurance benefits, including pensions, from retrenchment pressures. The uneven effects of economic liberalization across tradable and non-tradable sectors is evident because so far organized workers in non-tradable industries, such as education and healthcare, have managed to block reform efforts that would undermine employment in their sector or reduce their benefits. This contrast between reforms in policy areas affecting tradable and non-tradable industries demonstrates that the effects of economic liberalization on retrenchment are more complex than many studies of pension privatization in Latin America convey.

The comparison of changes in social insurance and social assistance policies across three administrations also illustrates the ways in which democratization and democratic institutions

shape welfare outcomes. While the addition of new partisan veto points and veto players provides opportunities for vested interests to block social insurance retrenchment efforts, the multiplication of political actors creates incentives for politicians to support the expansion of social assistance for unorganized marginal voters. In this way, the Mexican case helps resolve an apparent contradiction in the literature on political institutions and welfare, which has claimed that diffusion of decision-making and multiple veto players lead to both more and less extensive welfare states.⁹⁹ Furthermore, the dynamic of veto players blocking social insurance retrenchment and facilitating social assistance expansion is consistent with arguments that the politics of welfare retrenchment differ from those of expansion.¹⁰⁰

The Mexican case also illustrates how increasing electoral competition contributes to welfare transformation. Heightened electoral competition led to the shift in emphasis from social insurance benefits for core supporters of the declining authoritarian regime toward new constituencies to be served by non-contributory social assistance, which has become less clientelistic and more transparent over time.¹⁰¹ While studies of pension privatization or targeted poverty alleviation have considered political determinants of policy outcomes, they often fail to relate the effects of political liberalization and politics to a broader transformation of welfare regimes in the region. For instance, though many studies have explained the political origin and manipulation of targeted social assistance as a reflection of populist tendencies in new democracies with weak accountability in Latin America, few studies appreciate that targeted social assistance represents the construction of an alternative welfare model layered alongside decaying or partially retrenched social insurance.

While economic and political liberalization have transformed Mexico's welfare policy, both directly and indirectly—through the capacity of domestic actors to influence policy—the

transformation has been ad hoc and piecemeal due to the policy legacies of existing welfare institutions. This pattern of reform becomes evident only when one compares changes across multiple distinct but related areas of social protection policy. Because of these existing welfare institutions and the ability of powerful actors to prevent wholesale reform, welfare change occurs by means of institutional layering. When reforms are blocked, policymakers create new welfare institutions alongside old to meet new demands or political goals. Such institutional change may be incremental, but layering can ultimately lead to significant changes in the overall makeup of welfare.

These incremental changes and institutional layering over the last three administrations in Mexico have cumulatively shifted the configuration of welfare from an underdeveloped conservative (or Christian democratic) welfare regime at the end of the 1970s toward the liberal welfare regime of today.¹⁰² Others have noted the Christian democratic characteristics of many Latin American welfare regimes before the debt crisis and the subsequent shift toward a liberal welfare model, but they have not provided a detailed examination of how and why such reform has occurred.¹⁰³ Since many of the more economically developed Latin American countries have experienced patterns of partial retrenchment of social insurance and expansion of social assistance similar to Mexico's, the argument developed here provides theoretical insight. In this regard, the Mexican case sheds light on the ways in which economic liberalization, democracy, and policy legacies contribute to welfare regime change through partial retrenchment and layering of new institutions alongside old. The argument outlined here goes beyond simple characterizations of globalization in terms of efficiency or compensation and of democracy in terms of retrenchment or expansion. Rather, it examines social insurance and social assistance change over two decades, thereby illuminating the complex interaction of economic and political

liberalization with the capacity of domestic actors to influence policy and the legacies of existing welfare institutions.

Table 1: Globalization indicators for Mexico and Latin America and the Caribbean, 1975-1999

Year	Trade		Net FDI		Gross private capital flows	
	Mexico	LA&C	Mexico	LA&C	Mexico	LA&C
1975	16.51	23.95	0.69	0.89	--	2.49
1980	23.68	26.60	0.96	0.80	4.39	4.74
1985	25.75	26.54	0.27	0.62	4.16	2.88
1990	38.31	26.14	1.00	0.75	4.55	3.90
1995	58.17	30.94	3.33	1.78	6.01	5.18
1999	62.80	34.16	2.44	4.55	4.55	7.31

Source: World Bank, *World Development Indicators CD-ROM* (Washington, D.C.: World Bank, 2001). All calculations are given as a percentage of GDP.

Table 2: Globalization, democratization, and welfare in Mexico

	Contributory social insurance	Non-contributory social assistance
	Formal labor market (40-50% of EAP)	Informal labor market and the poor
Globalization		
<i>Indirect effects via effects on the domestic labor market</i>	Weakens organized formal sector workers in tradable sectors, beneficiaries of social insurance	Expands demand among growing poor & informal sectors, beneficiaries of social assistance
<i>Direct effects on policy</i>	Retrenchment pressure via concerns about labor costs and economic competition	Emphasis on investment in human capital and “efficient” targeted social spending
Democratic competition		
<i>Indirect effects via effects on support base of PRI</i>	Declining effectiveness of support from formal sector social insurance beneficiaries	Increased importance of territorial support, diversification of goods provision
<i>Indirect effects via changes in decision-making structure</i>	Partisan allies block retrenchment for non-tradable sector workers	Partisan fragmentation facilitates logrolling and expansion of popular policies targeted to win marginal votes
Policy legacies		
<i>Major welfare institutions at beginning of the 1980s</i>	IMSS for formal, private sector and ISSSTE for public sector	COPLAMAR (1973-1988) for rural poor

Table 3: The effects of globalization and democratic competition on welfare policy outcomes

Globalization	Changes	Welfare outcomes	
	Democratic competition and institutions	Contributory social insurance	Non-contributory social assistance
<i>Salinas (1988-1994)</i>			
Trade liberalization, accelerating after 1992; financial liberalization	Local and state competition; change in PRI structure in 1991; PRI controls Congress	Failure to privatize public pensions, 1991 Creation of mandatory private pension pillar, 1992	Creation of PRONASOL for urban and rural poor, 1989-1994
<i>Zedillo (1994-2000)</i>			
More trade liberalization and financial liberalization	Local and state electoral competition Ruling party loses simple majority in Congress in 1997	Privatization of public pensions for private (mostly tradable) sector workers, 1995 Failure to privatize public pensions for public sector workers, 1995 Failure to privatize health services of IMSS, 1995	Transformation of PRONASOL into PROGRESA for urban and rural poor at mid-term, August 1997
<i>Fox (2000-2006)</i>			
Culmination of trade and financial liberalization	Electoral competition at all levels of government Divided government and no single majority in Congress	Failure to privatize pensions for public sector workers, 2003-2006 Privatization of pensions for future IMSS workers, 2004-06	Transformation & expansion of PROGRESA into Oportunidades for urban and rural poor, 2001 Creation of Seguro Popular at mid-term, April 2003

Endnotes

¹ Contributory social insurance includes public pensions, health insurance, worker's compensation, and, less commonly in Latin America, family allowances and unemployment insurance. Social assistance is often non-contributory and means-tested, and provides income transfers, subsidies, or other benefits to recipients. Together, social insurance and social assistance constitute social protection. For detailed definitions, see International Monetary Fund (IMF), *Government Finance Statistics Manual 2001* (Washington, D.C.: IMF, 2001).

² Stephen J. Kay, "Unexpected Privatizations," *Comparative Politics* 31 (July 1999), 403-23; Raúl Madrid, *Retiring the State: The Politics of Pension Privatization in Latin America and Beyond* (Stanford: Stanford University Press, 2003); Sarah M. Brooks, *Social Protection and the Market: The Transformation of Social Security Institutions in Latin America*, unpublished book manuscript, Ohio State University, 2007.

³ Wayne A. Cornelius, Ann L. Craig, and Jonathan Fox, eds., *Transforming State-Society Relations in Mexico: The National Solidarity Strategy* (La Jolla, CA: Center for U.S.-Mexican Studies, University of California, San Diego, 1994); Kathleen Bruhn, "Social Spending and Political Support: The 'Lessons' of the National Solidarity Program in Mexico," *Comparative Politics*, 28 (January 1996), 151-77; Carol Graham, *Safety Nets, Politics and the Poor: Transitions to Market Economies* (Washington, D.C.: Brookings Institution Press, 1994); Norbert R. Schady, "The Political Economy of Expenditures by the Peruvian Social Fund (FONCODES), 1991-1995," *American Political Science Review*, 94 (June 2000), 289-304; Beatriz Magaloni, *Voting for Autocracy: Hegemonic Party Survival and its Demise in Mexico* (New York: Cambridge University Press, 2006), ch. 4; Beatriz Magaloni, Alberto Diaz-Cayeros, and Federico Estévez, "Clientelism and Portfolio Diversification: A Model of Electoral Investment with Applications to Mexico," in Herbert Kitschelt and Steve Wilkinson, eds., *Patrons, Clients and Policies: Patterns of Democratic Accountability and Political Competition* (Cambridge: Cambridge University Press, 2007), pp. 182-205.

⁴ See for instance, Robert R. Kaufman and Segura-Ubiergo, "Globalization, Domestic Politics, and Social Spending in Latin America," *World Politics*, 53 (July 2001): 553-88; Nita Rudra, "Globalization and the Decline of the Welfare State in Less-Developed Countries," *International Organization*, 56 (Spring 2002): 411-45; Geoffrey Garrett, "Globalization and Government Spending around the World," *Studies in Comparative International Development*, 35 (Winter 2001): 3-29; Erik Wibbels, "Dependency Revisited: International Markets, Business Cycles, and Social Spending in the Developing World," *International Organization*, 60 (April 2006), pp. 433-68. These studies all use IMF *Government Finance Statistics* data on government spending on "Social Security and Welfare" to measure social security or welfare effort. These data combine expenditures on social insurance with expenditures on social assistance despite the important differences in these two programs. Most studies treat these data as if they measure only social insurance or pensions, when in fact they do not. Invalid measurement can contribute to faulty inferences. Gary King, Robert O. Keohane, and Sidney Verba, *Designing Social Inquiry: Scientific Inference in Qualitative Research* (Princeton: Princeton, 1994); Robert Adcock and David Collier, "Measurement Validity: A Shared Standard for Qualitative and Quantitative Research," *American Political Science Review*, 95 (September 2001), 529-46. Furthermore, the findings of studies using the IMF data (e.g., Kaufman and

Segura-Ubiergo 2001 and Wibbels 2006) have not been replicated by studies using data from the United Nations Economic Commission on Latin America and the Caribbean (ECLAC). George Avelino, David S. Brown, and Wendy Hunter, “The Effects of Capital Mobility, Trade Openness, and Democracy on Social Spending in Latin America, 1980-1999,” *American Journal of Political Science*, 49 (July 2005), 625-41.

⁵ Samuel A. Morley, Roberto Machado, and Stefano Pettinato, “Indexes of Structural Reform in Latin America,” *ECLAC Economic Development Division*, LC/L.1166. Serie Reformas Económicas 12. January 1999.

⁶ Garrett 2001; Kaufman and Segura-Ubiergo 2001. These direct effects of globalization on welfare are the subject of an ever-expanding quantitative literature, including Dani Rodrik, “Why Do More Open Economies Have Bigger Governments?,” *Journal of Political Economy*, 106 (October 1998), 997-1032; David S. Brown and Wendy Hunter, “Democracy and Social Spending in Latin America, 1980-1992,” *American Political Science Review*, 93 (December 1999), 779-90; Rudra 2002; George Avelino, David S. Brown, and Wendy Hunter, “The Effects of Capital Mobility, Trade Openness, and Democracy on Social Spending in Latin America, 1980–1999,” *American Journal of Political Science*, 49, no. 3 (July 2005), 625-41; and Wibbles 2006.

⁷ Susan Strange, *The Retreat of the State: The Diffusion of Power in the World Economy* (New York: Cambridge University Press, 1996).

⁸ Vito Tanzi, “Globalization and the Future of Social Protection,” *Scottish Journal of Political Economy*, 49 (February 2002), 116-27.

⁹ Layna Mosley, “Room to Move: International Financial Markets and National Welfare States,” *International Organization*, 54 (October, 2000), 737-73.

¹⁰ David Cameron, “The Expansion of the Public Economy: A Comparative Analysis,” *American Political Science Review*, 72 (December 1978), 1243-61; Peter J. Katzenstein, *Small States in World Markets: Industrial Policy in Europe* (Ithaca, NY: Cornell University Press, 1985); Garrett 2001.

¹¹ Rodrik 1998; Garrett 2001; Kaufman and Segura-Ubiergo 2001; Rudra 2002.

¹² Kaufman and Segura-Ubiergo 2001; Wibbels 2006; Brooks 2007.

¹³ Kaufman and Segura-Ubiergo 2001; Wibbels 2006; R. Douglas Hecock, “Electoral Competition, Globalization, and Subnational Education Spending in Mexico, 1999-2004,” *American Journal of Political Science*, 50 (October, 2006), 950-61.

¹⁴ World Bank, *World Development Report 1990: Poverty* (Washington, D.C.: World Bank, 1990); World Bank, *World Development Report 1993: Investing in Health* (Washington, D.C.: World Bank, 1993).

¹⁵ One should interpret the healthcare findings in studies that use the IMF GFS data cautiously because the spending figures include spending that is formally part of social insurance (which theoretically should be constrained by globalization), not just public health. See IMF 2001 for data definitions.

¹⁶ Marcus J. Kurtz, “The Dilemmas of Democracy in the Open Economy: Lessons from Latin America,” *World Politics*, 56 (January 2004), 262-302.

¹⁷ Kurtz 2004; Katrina Burgess, “Loyalty Dilemmas and Market Reform: Party-Union Alliances under Stress in Mexico, Spain and Venezuela,” *World Politics*, 52 (January 1999), 105-34.

¹⁸ M. Victoria Murillo, "From Populism to Neoliberalism: Labor Unions and Market Reforms in Latin America." *World Politics*, 52 (January 2000), 135-74.

¹⁹ Paul Pierson, "The New Politics of the Welfare State," *World Politics*, 48 (July 1996), 143-79.

²⁰ Robert A. Dahl, *Polyarchy: Participation and Opposition* (New Haven: Yale University Press, 1971).

²¹ Theda Skocpol, *Protecting Mothers and Soldiers: The Political Origins of Social Policy in the United States* (Cambridge, MA: Harvard University Press, 1992).

²² Beatriz Magaloni, Alberto Diaz-Cayeros, and Federico Estévez, 2007.

²³ Alberto Diaz-Cayeros, Beatriz Magaloni, and Barry R. Weingast, "Tragic Brilliance: Equilibrium Hegemony and Democratization in Mexico," unpublished manuscript, Stanford University, April 2003.

²⁴ Whereas clientelism hinges on excludability and particularistic benefits, non-clientelistic provision of benefits to generate political support are non-excludable and uniformly provided according to criteria universally applied to all potential beneficiaries of the benefits. Herbert Kitschelt, "Linkages between Citizens and Politicians in Democratic Polities," *Comparative Political Studies*, 33 (August/September 2000), 845-79. Alberto Diaz-Cayeros and Beatriz Magaloni also emphasize the potential for changes in patterns of clientelism when policies are centralized ("The Politics of Public Spending. Part I—The Logic of Vote Buying," Background Paper for the World Bank World Development Report 2004, April 25, 2003). Though national strategies for the distribution of geographically concentrated or public goods may be shaped by electoral competition, Matthew Cleary finds little support for claims that electoral competition improves the provision of public goods by local governments in Mexico ("Electoral Competition, Participation, and Government Responsiveness in Mexico," *American Journal of Political Science*, 51 (April 2007), 283-99.

²⁵ Diaz-Cayeros and Magaloni, "The Politics of Public Spending. Part I"; Hecock 2006.

²⁶ Diaz-Cayeros and Magaloni, "The Politics of Public Spending. Part I."

²⁷ George Tsebelis, *Veto Players: How Political Institutions Work* (Princeton: Princeton UP and Russell Sage Foundation, 2002).

²⁸ Federalism is another important institutional veto point. Although Mexico's democratization has increased the role of (opposition) governors, social insurance and assistance policy is still largely determined at the national level.

²⁹ Kay 1999; Stephan Haggard and Robert R. Kaufman, "Introduction," in János Kornai, Stephan Haggard, and Robert R. Kaufman, eds., *Reforming the State: Fiscal and Welfare Reform in Post-Socialist Countries* (New York: Cambridge University Press, 2001), pp. 1-24; Madrid 2003; Mitchell Orenstein, "How Politics and Institutions Affect Pension Reform in Three Postcommunist Countries," World Bank Policy Research Working Paper, Washington, D.C.: World Bank, n.d.; Evelyne Huber, "Globalization and Social Policy Developments in Latin America," in Miguel Glatzer and Dietrich Rueschemeyer, eds., *Globalization and the Future of the Welfare State* (Pittsburgh: University of Pittsburgh Press, 2005), pp. 75-105.

³⁰ Vicki Birchfield and Markus M.L. Crepaz, "The Impact of Constitutional Structures and Collective and Competitive Veto Points on Income Inequality in Industrialized Democracies," *European Journal of Political*

Research, 34 (October 1998), 175-200; Duane Swank, *Global Capital, Political Institutions, and Policy Change in Developed Welfare States* (New York: Cambridge, 2002); Markus M.L. Crepaz and Ann W. Moser, "The Impact of Collective and Competitive Veto Points on Public Expenditures in the Global Age," *Comparative Political Studies*, 37 (2004), 259-85. An alternative interpretation of the relationship can be based on the argument that the income of the median voter in a multi-party system will be lower, resulting in more redistribution. For a formal proof, see David Austen-Smith, "Redistributing Income under Proportional Representation," *The Journal of Political Economy*, 108, no. 6 (December 2000), 1235-69.

³¹ Hecock 2006.

³² Skocpol 1992; Paul Pierson, "Three Worlds of Welfare State Research," *Comparative Political Studies*, 33 (August/September 2000), 791-821; Kathleen Ann Thelen, *How Institutions Evolve: The Political Economy of Skills in Germany, Britain, the United States, and Japan* (New York: Cambridge University Press, 2004).

³³ Eric Schickler, *Disjointed Pluralism: Institutional Innovation and the Development of the U.S. Congress* (Princeton: Princeton University Press, 2001); Thelen 2004.

³⁴ Schickler, ch. 5.

³⁵ A handful of other sectors had separate social insurance institutions, including segments of the military, railroad workers until 1982, and those in some national industries, including Pemex.

³⁶ Rose J. Spalding, "State Power and its Limits: Corporatism in Mexico," *Comparative Political Studies*, 14 (July 1981), 139-61.

³⁷ The focus here is on national social protection programs providing in-kind benefits and transfers that have persisted beyond one presidential administration. The Mexican state has also periodically provided universal subsidies for food (e.g., milk or tortillas) and other basic needs (e.g., electricity) and specific programs to support rural agricultural development (e.g., the Mexican Food System of the late 1970s and PROCAMPO [Programa de apoyos directos al Campo, or Program for Direct Support to Agriculture] of the late 1990s). See Jonathan Fox, *The Politics of Food* (Ithaca, NY: Cornell University Press, 1993); Guillermo Trejo and Claudio Jones, "The Political Dilemmas of Welfare Reform: Poverty and Inequality in Mexico," in Susan Kaufman Purcell and Luis Rubio, eds., *Mexico Under Zedillo* (Boulder: Lynne Rienner, 1998), pp. 67-100.

³⁸ The exchange of worker benefits for regime support had certain synergies with the ISI development model as well. See James G. Samstad and Ruth Berins Collier, "Mexican Labor and Structural Reform under Salinas: New Unionism or Old Stalemate?" in Riordan Roett, ed., *The Challenge of Institutional Reform in Mexico* (Boulder, CO: Lynne Rienner, 1995), pp. 9-38; Dion 2002. See also Michelle Dion, *The Progress of Revolution? Mexico's Welfare Regime in Comparative and Historical Perspective*, Ph.D. Dissertation, University of North Carolina at Chapel Hill, 2002; Alejandra González Rossetti, "Change Teams and Vested Interests: Social Security Health Reform in Mexico," in Robert R. Kaufman and Joan M. Nelson, eds., *Crucial Needs, Weak Incentives* (Washington, D.C.: Woodrow Wilson Center Press, 2004), pp. 67, 72; Michelle Dion, "The Origins of Mexican Social Security Policy during the Cárdenas and Avila Camacho Administrations," *Mexican Studies*, 21 (Winter 2005), 59-96.

³⁹ For a discussion of the causes and consequences of the debt crisis, see Nora Lustig, *Mexico: The Remaking of an Economy* (Washington, D.C.: The Brookings Institution, 1998).

⁴⁰ Asa Cristina Laurell, "The Transformation of Social Policy in Mexico," in Kevin J. Middlebrook and Eduardo Zepeda, eds., *Confronting Development: Assessing Mexico's Economic and Social Policy Challenges* (Stanford, CA: Stanford University Press, 2003), pp. 320-49.

⁴¹ Lustig 1988; Diana Alarcón, "Income Distribution and Poverty Alleviation in Mexico: A Comparative Analysis," in Middlebrook and Zepeda 2003, pp. 447-86.

⁴² Mexico does not have public unemployment insurance, though the Federal Labor Law does require firms to provide severance pay for unjustified dismissals. In practice, however, enforcement has been weak partly because workers must incur significant costs to pursue disputed benefits in labor courts.

⁴³ Kurtz 2004.

⁴⁴ The Federal Labor Law has not been formally reformed since 1973. On labor policies during the Salinas administration, see Francisco Zapata, *El sindicalismo mexicano frente a la estructuración* (Mexico City: El Colegio de México, 1995).

⁴⁵ Kurtz 2004.

⁴⁶ Cornelius, Craig, and Fox, 1994; Diaz-Cayeros, Magaloni, and Weingast 2003.

⁴⁷ Victoria Rodríguez, *Decentralization in Mexico* (Boulder, CO: Westview Press, 1997).

⁴⁸ Confederación de Trabajadores de México (CTM), *Informe al 113o Congreso de la Confederación de Trabajadores de México* (Mexico City: CTM, 1991), pp. 34, 38.

⁴⁹ Joy Langston, "Los efectos de la competencia electoral en la selección de candidatos del PRI a la Cámara de Diputados," *Política y Gobierno*, V (August 1998), 459-500.

⁵⁰ Carlos Salinas De Gortari, *Mexico: Un Paso Difícil a la Modernidad* (Barcelona: Plaza and Janes Editores, S.A., 2000), pp. 382-83.

⁵¹ Contribution rates for the IMSS were raised in 1993, but these increases were considered the last increases possible before Mexico's competitiveness was affected.

⁵² Interviews with reform team member and first president of the regulatory agency created for the privatized pension system, 2001.

⁵³ Interviews with three members of the original government reform team, 2001.

⁵⁴ Although subsequent studies questioned the extent to which Chile's increase in domestic savings was due to the new pension system, at the time of the Mexican reform, most policymakers still believed that privatization would boost domestic savings (Madrid 2003).

⁵⁵ Interviews with PRI deputy, former SNTSS leader, and five government officials who participated in the reform process, 2001; Brooks 2007.

⁵⁶ Comisión para la Modernización de la Seguridad Social del Consejo Coordinador Empresarial (CCE), "Propuesta para la modernización del Instituto Mexicano del Seguro Social," unpublished document, Mexico City,

1995; Centro de Desarrollo Estratégico para la Seguridad Social (CEDESS), “Proyecto Aguila,” unpublished document, Mexico City, 1995.

⁵⁷ CEDESS 1995; González Rossetti 2004.

⁵⁸ On pension privatization, see Madrid 2003, Brooks 2007, and Dion 2002. On health reform proposals, see Dion 2002 and González Rossetti 2004.

⁵⁹ Zapata 1995; Francisco Zapata, *Tiempos neoliberales en México* (Mexico City: El Colegio de México, 2005).

⁶⁰ Langston 1998.

⁶¹ Interview with representative of SNTSS, 2001.

⁶² Though the FSTSE leadership was not politically independent from the PRI, segments of the teachers’ union within the FSTSE have been independent and vocal critics of reform efforts.

⁶³ In December 2001 and December 2002, largely uncontested reforms to the IMSS law were adopted. In 2001 the Congress approved a reform that was mostly viewed as a technical law; it did not directly challenge any of the rights or benefits of workers. Rather, the law increased the capacity of the IMSS to penalize employers who evade contributions and stipulated that reserves of different insurance funds be kept separate. The 2002 reform addressed the investment regime of the private pension system, allowing investment abroad. Neither of these reforms was very politically contentious. Though some political actors oppose investing pension funds abroad, most agree that the rates of returns on the private pension funds need to be improved and that the domestic market cannot supply the amount of safe debt for investment.

⁶⁴ *La Jornada*, September 1, 2005.

⁶⁵ A June 2004 IMSS report singled out the retirement benefits of IMSS workers as a source of financial weakness.

⁶⁶ Interviews with member of the IMSS Consejo Técnico, representative of the employer sector, and representative of the Union Nacional de Trabajadores (National Union of Workers, UNT), 2005.

⁶⁷ Interviews with leaders of the SNTSS, other member unions of the UNT, and a federal deputy, May and June 2005. Though SNTSS is formally independent and one of the three founding members of the UNT, the SNTSS has historically held at least one deputy seat in the national Congress on the PRI proportional representation list.

⁶⁸ Because the 2004 reform applies only to new workers, the financial impact of the reform will not be felt for several decades. However, court precedent may open the way for similar legislation to be considered in sectors, such as electricity and petroleum, singled out as having “privileged” labor contracts. The SNTSS and the IMSS renegotiated the full labor contract in October 2005 and, though the retirement benefits of current and retired workers will not change, new workers will be required to work longer for retirement benefits capped at 100 percent of the last salary. The contract also provides for 65,000–70,000 new positions in the next five to six years. *La Jornada*, October 15, 2005; SNTSS (Sindicato Nacional de Trabajadores del Seguro Social), “A los trabajadores del IMSS, 19 de octubre 2005,” 2005, http://www.sntss.org.mx/comunicados_vega/boletin_informativo_19_10_05.htm.

⁶⁹ Interview with ISSSTE official, 2004.

⁷⁰ Salinas 2001, pp. 407-8; Cornelius, Craig, and Fox 1994; World Bank, “Mexico: Country Assistance Evaluation,” Operations Evaluation Department, World Bank, Washington, D.C., 2001, p. 5.

⁷¹ Magaloni, Diaz-Cayeros, and Estévez 2007, p. 40.

⁷² Juan Molinar Horcasitas and Jeff Weldon, “Electoral Determinants and Consequences of National Solidarity,” in Cornelius, Craig, and Fox, *Transforming State-Society Relations in Mexico*, pp. 123-41; Bruhn 1996; Michelle Dion, “La economía política del gasto social: El Programa Nacional de Solidaridad, 1988-1994,” *Estudios Sociológicos* (mayo-agosto 2000), 329-62; Laurell 2003; Alarcón 2004; Alberto Diaz-Cayeros and Beatriz Magaloni, “The Politics of Public Spending. Part II—The Programa Nacional de Solidaridad (PRONASOL) in Mexico,” Background Paper for the World Bank World Development Report 2004, May 26, 2003.

⁷³ Diaz-Cayeros and Magaloni, “The Politics of Public Spending. Part II”; Robert R. Kaufman and Guillermo Trejo, “Regionalismo, Transformación del Régimen y PRONASOL: La política del Programa de Solidaridad en Cuatro Estados Mexicanos,” *Política y Gobierno*, 3, no. 2 (September 1996), 245-80.

⁷⁴ Salinas 2000, p. 409. Translation by author.

⁷⁵ Santiago Levy, “Poverty Alleviation in Mexico,” Policy Research Working Paper Series from The World Bank, no. 679, May 31, 1991; Graham 1994; Nora Claudia Lustig, ed., *Coping with Austerity: Poverty and Inequality in Latin America* (Washington, D.C.: Brookings Institution, 1995); Laurell 2003.

⁷⁶ Magaloni, Diaz-Cayeros, and Estévez 2007; Diaz-Cayeros and Magaloni, “The Politics of Public Spending. Part II.”

⁷⁷ Molinar Horcasitas and Weldon 1994; Bruhn 1996; Dion 2000; Magaloni, Diaz-Cayeros, and Estévez 2007; Diaz-Cayeros and Magaloni, “The Politics of Public Spending. Part II”; Magaloni, 2006, ch. 4.

⁷⁸ Diaz-Cayeros and Magaloni, “The Politics of Public Spending. Part II.”

⁷⁹ Magaloni, 2006, ch. 4.

⁸⁰ Though PRONASOL led to the creation of a new ministry (the Secretary of Social Development), some services, such as healthcare, were subcontracted from the IMSS.

⁸¹ Guillermo Trejo and Claudio Jones, “Political Dilemmas of Welfare Reform: Poverty and Inequality in Mexico,” in Susan Kaufman Purcell and Luis Rubio, eds., *Mexico Under Zedillo* (Boulder, CO: Lynne Rienner, 1998), pp. 67-100; Laurell 2003, pp. 94-5.

⁸² Juan Pardinás, “Fighting Poverty in Mexico: Policy Challenges,” in Luis Rubio and Susan Kaufman Purcell, eds., *Mexico under Fox* (Boulder, CO: Lynne Rienner, 2004), pp. 65-86; Laurell 2003; Alarcón 2004. Infrastructure expenditures were decentralized or moved into other programs.

⁸³ Laurell 2003, pp. 342-3.

⁸⁴ John Scott, “Progresá: Una Evaluación Preliminar.” working document, División de Economía, Centro de Investigación y Docencia Económicas: Mexico City, 2000; Alina Rocha Menocal, “Do Old Habits Die Hard? A Statistical Exploration of the Politicisation of Progresá, Mexico’s Latest Federal Poverty-Alleviation Programme, under the Zedillo Administration,” *Journal of Latin American Studies*, 33 (August 2001), 513-38.

⁸⁵ Tina R. Green, “The Political Economy of a Social Transfer Program: Evidence from PROGRESA in Mexico,” paper presented at the 2005 Midwest Political Science Conference, Chicago, IL, April 7–10, 2005; see also Rocha Menocal 2001 for slight evidence of political manipulation.

⁸⁶ Ana Lorena De La O, “Do Poverty Relief Funds Affect Electoral Behavior? Evidence from a Randomized Experiment in Mexico,” unpublished manuscript, Massachusetts Institute of Technology, October 10, 2006.

⁸⁷ Pardini 2004, p. 67; Diaz-Cayeros and Magaloni, “The Politics of Public Spending. Part II”; Alina Rocha Menocal, “Less Political and More Pro-Poor? The Evolution of Social Welfare Spending in Mexico in a Context of Democratization and Decentralization,” *Nord-Sud aktuell*, 3/4 (Quartal 2005), 346-59.

⁸⁸ On the labor market effects of the 1995 crisis, see Carlos Salas and Eduardo Zepeda, “Employment and Wages: Enduring the Costs of Liberalization and Economic Reform,” in Middlebrook and Zepeda 2003, pp. 522-60.

⁸⁹ World Bank, *World Development Report 2006: Equity and Development* (Washington, D.C., and New York: World Bank and Oxford University Press, 2005).

⁹⁰ González Rossetti 2004, pp. 85-6.

⁹¹ Oportunidades, *Oportunidades: Informe de actividades, 2005* (Mexico City: Oportunidades, May 2006).

⁹² World Bank 2005.

⁹³ J. Frenk, R. Lozano, M.A. González-Block, et al., *Economía y salud: Propuestas para el avance del sistema de salud in México* (Mexico City: Funsalud, 1994).

⁹⁴ The initiative passed the lower chamber with 305 for, 115 against, and 80 abstained or absent. Centro de Estudios Sociales y de Opinión Pública, *Programa Seguro Social* (Mexico City: Chamber of Deputies, LIX Legislatura, February 2005).

⁹⁵ Deputy Miguel Alonso Raya (PRD, Chair of the Social Security Commission), “Comentarios sobre el Seguro Popular,” unpublished document, November 2003.

⁹⁶ Centro de Estudios Sociales y de Opinión Pública 2005. For Frenk’s assurance that families will not be excluded, see *Reforma*, February 4, 2005.

⁹⁷ Centro de Estudios Sociales y de Opinión Pública 2005.

⁹⁸ See note 4.

⁹⁹ Contrast Swank 2002 with Evelyne Huber, Charles Ragin, and John D. Stephens, “Social Democracy, Christian Democracy, Constitutional Structure, and the Welfare State,” *American Journal of Sociology*, 99 (November 1993), 711-49.

¹⁰⁰ Pierson 1996.

¹⁰¹ Rocha Menocal 2005.

¹⁰² On welfare regime types, see Gösta Esping-Andersen, *The Three Worlds of Welfare Capitalism* (Cambridge: Polity Press, 1990). See Laurell 2003 for a similar assessment of Mexico.

¹⁰³ Carlos H. Filgueira and Fernando Filgueira, “Models of Welfare and Models of Capitalism: The Limits of Transferability,” in Evelyne Huber, ed., *Models of Capitalism: Lessons for Latin America* (University Park, PA:

Pennsylvania State University Press, 2002), pp. 127-58; Armando Barrientos, "Latin America: Towards a Liberal-
Informal Welfare Regime," in Ian Gough and Geof Wood, eds., *Insecurity and Welfare Regimes in Asia, Africa and
Latin America: Social Policy in Development Contexts* (Cambridge: Cambridge University Press, 2004), pp. 121-
168.