

# INTRODUCTION

## The Rise and Reform of Welfare

IN THE FIRST half of the twentieth century, the most economically advanced Latin American countries established extensive welfare institutions for government and industrial workers. By mid-century, social insurance, including extensive pension, health, and workers' compensation programs, protected formal sector workers, or those in the regulated labor market, in most Latin American countries. These welfare institutions are often central to the fabric of political life. The debt crisis of the 1980s ushered in a new economic orthodoxy, however. Most countries began making substantial efforts to reform their social insurance institutions, with varying degrees of success. Public pension reform, including privatization, was the most notable trend, though public health insurance was also targeted for reform. Given the political significance of these welfare institutions, their reform was—and is, where reform efforts are ongoing—highly contentious.

Few studies have systematically examined the political origins and historical development of these welfare institutions, despite their centrality in Latin American politics.<sup>1</sup> This lacuna is conspicuous compared to the extensive comparative literature on similar welfare institutions in the advanced industrialized economies

of Western Europe and North America. Because the political and economic trajectories of Latin American countries differ from those of the advanced industrialized democracies, it is important to understand the ways in which the politics of welfare are similar to and different from the experiences of the developed world. This book begins to fill this gap in our understanding of the dynamics of welfare policy in Latin America through a comparative historical analysis of social insurance institutions in Mexico since the Mexican Revolution (1910–1920).

The study of welfare in Mexico provides a good opportunity to deepen our understanding of the politics of welfare throughout Latin America because the Mexican case suggests a number of interesting theoretical puzzles. For instance, why would a country that was predominantly agrarian in the 1940s opt to invest considerable political and economic resources in welfare institutions that benefited a small, but growing, number of primarily urban industrial workers? If the creation and expansion of welfare in Europe is associated with the expansion of worker suffrage and the consolidation of democracy at the turn of the twentieth century, why were welfare institutions created in Mexico during the consolidation of authoritarianism? If the popular classes were co-opted and controlled from above during the height of Mexican authoritarianism in the 1950s through the 1970s, as is commonly suggested, why did this period see the greatest expansion of welfare coverage and benefits? Finally, if the regime that dominated Mexican politics for most of the twentieth century had so completely established control of organized labor, why was the regime unable to institute all of the pension and health insurance reforms it favored during the 1990s?

The answers to these questions can be found in the cross-class coalitions that provide political support to the state. The role of organized labor is particularly important in those coalitions, as well as in the processes of institutional change. The explanation presented here does not stress Mexican exceptionalism, though Mexican history does reveal certain particularities. Because the explanation is theoretically grounded in the literature on welfare and institutional change, it emphasizes the theoretical affinities between the Mexican experience and those in other countries where an organized working class is active in national politics.

### *Defining Welfare Institutions*

Although much of recent welfare research is framed in terms of welfare regimes, or the “combined, interdependent way in which welfare is produced and allocated between state, market, and family” (Esping-Andersen 1999, 34–35), the

central focus of study in the literature is on the ways in which the state intervenes in the production or allocation of welfare in response to market and family failures, such as unemployment, disability, aging, and widowhood. The level of income support and the range of policies considered appropriate can vary considerably and are often the subject of fierce debate.

Although a wide range of public policies, collectively called welfare, can be used to enhance public welfare, the focus of this book is on policies for social protection. A country's welfare regime is the collective representation of a country's social protection policies.<sup>2</sup> Social protection can be further disaggregated into social insurance and social assistance. Social insurance is usually funded with employer, worker, and state contributions and covers risks associated with participation in the labor market, such as work-related accidents and illness, old age and disability, and unemployment.<sup>3</sup> Social assistance is usually noncontributory and may be either universal or targeted to particular groups, such as the poor. Since an expansive definition of social assistance could include nearly any public good provided by the state, this book defines social assistance as noncontributory, excludable government income subsidies and welfare programs with the primary aim of reducing poverty, such as noncontributory pensions, health care, and targeted income subsidies.<sup>4</sup> This inclusive but not exhaustive definition of welfare encompasses the majority of public policies usually considered welfare and excludes some social policies, such as public health and education, that have important welfare elements. Given the structure of the Mexican labor market and the welfare institutions that have developed, this means that social insurance is mostly restricted to the large minority employed in the formal labor market, while social assistance is intended to protect poor rural producers and urban informal sector workers.

Three organizations have been the primary providers of social protection in Mexico and are the focus of this book: the Mexican Institute of Social Insurance (Instituto Mexicano del Seguro Social, or IMSS), the Government Workers' Social Security and Services Institute (Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado, or ISSSTE), and the Secretariat for Social Development (Secretaría de Desarrollo Social, or SEDESOL). The IMSS has provided old-age and disability pensions, medical and maternity benefits, workers' compensation insurance, and a variety of other benefits for private sector workers since 1943. Since 1959, the ISSSTE has provided similar benefits, and more, for federal public sector workers and some state government workers. Although military personnel and petroleum and railroad workers have had separate social insurance systems, the IMSS and the ISSSTE are the largest organizations providing social

insurance for formal sector workers. Beginning in the early 1970s, an IMSS-run program, the IMSS-COPLAMAR, was responsible for social assistance. In the late 1980s, the government expanded its social assistance programs, and in the early 1990s, SEDESOL was created to administer programs for the poor.

Although previous studies have examined certain social protection policies separately, a fuller understanding and better explanation of the political process that produces social protection requires analyzing the main institutions together.<sup>5</sup> A comparison of the political origins and development of the IMSS and the ISSSTE reveals that organized labor demanded their creation and that political conflict and negotiation between organized labor and the state preceded their creation. Likewise, an explanation of the process of welfare retrenchment in Mexico in the 1990s should consider the variation in retrenchment across these two principal welfare institutions. Although efforts to reform both the IMSS and the ISSSTE gained momentum in the early 1990s, comprehensive reforms to the ISSSTE and some health insurance reforms to the IMSS were delayed by more than a decade due to the public sector unions' ability to block reform efforts.

Targeted social assistance or poverty alleviation programs have also received recent scholarly attention.<sup>6</sup> Most of these studies focus on the proliferation of targeted social spending in the 1990s and assess claims that such spending was politically motivated or manipulated by executives. Nevertheless, these studies often fail to situate targeted social spending in the broader welfare regime and therefore miss an important part of the explanation for its genesis. Targeted social spending is not only a reflection of a new neoliberal economic agenda and of populist tendencies in new democracies with weak accountability but also represents the construction of an alternative welfare model layered alongside decaying traditional social insurance.

### *Explaining Welfare Institution Development*

Evidence suggests that the political mobilization of the organized working class during its incorporation into national politics early in the twentieth century led to the creation of Mexico's welfare institutions. Although organized labor in the most advanced Latin American countries emerged in the early decades of the twentieth century and quickly transformed the political landscape, the way that labor was incorporated into national politics was not uniform across the region (Collier and Collier 1991). Corporatist institutions, or the legal framework that

regulated the labor market and worker organization, provided diverse inducements and constraints for organized labor (Collier and Collier 1979). Unlike some characterizations of political development in Mexico that emphasize labor co-optation and acquiescence, especially after labor's incorporation into national politics (Collier and Collier 1991), this study suggests the incorporation of labor into national politics did not preclude the articulation of organized labor's demands and the mobilization of labor, even within the context of Mexico's constraining labor laws.

Organized labor articulated demands for the creation of public policies to protect workers and their families, and the construction of welfare institutions was the result of a political compromise between labor unions and the state during the establishment of Mexico's authoritarian regime. This political compromise incorporated organized labor, alongside peasants and industrialists favored by import substitution industrialization (ISI), into a cross-class coalition of support for the ruling party. The power of Mexican organized labor derived not from the market but from its centrality to this cross-class coalition that kept the ruling party in power for more than seven decades. Despite the absence of effective democratic competition, organized labor used its position in the ruling coalition to pressure the state periodically for additional worker benefits throughout the period of state-led industrialization.

The demands of labor were influenced not only by the legal institutions of corporatism but also by existing welfare institutions. The early welfare institutions created strong policy legacies, or feedback effects, that shaped future welfare regime development. They did this by creating stratified distinctions among different groups of beneficiaries or potential beneficiaries and by shaping expectations regarding appropriate state benefits and policies. Specifically, institutional change in response to labor demands and shifts in the balance of class power in the cross-class coalition occurred through institutional parametric and structural reform and institutional layering, or the creation of new institutions alongside existing unreformed institutions.<sup>7</sup> These patterns of institutional change characterize not only the expansion of welfare in Mexico through the late 1970s but also the transformation of Mexico's welfare regime in the final decades of the twentieth century. Consequently, the argument presented here combines elements of both the class coalition and the historical institutionalist approaches to explain the development of Mexico's welfare regime in the twentieth century.

The historical institutionalist approach used in this study differs from some of the dominant analytical approaches in the literature on institutions and wel-

fare. Unlike many explanations of institutional development, which view change *either* as dramatic and short-lived during critical junctures or as marginal and constant, the present approach argues that the development of welfare institutions in Mexico reflects characteristics of both of these types of change. Mexico's welfare institutions were initially created during a period of industrialization and state-building that caused changes in the relative power of organized interest groups. At that time, welfare institution creation was dramatic and profound, and the institutions that resulted then also shaped the future development of welfare, although change was not entirely pre-determined or path dependent. In contrast to the strong versions of the critical juncture approach (e.g., Collier and Collier 1991; Mahoney 2001), this book argues that institutional change continued to be significant after this critical period ended. Indeed, some of the changes were profound, including the creation in 1959 of an entirely new welfare bureaucracy alongside existing institutions. The evidence makes it clear that large-scale institutional change may occur during both critical junctures and the periods that follow them. In addition, we should not assume that policy legacies, or feedback effects, are automatic or predetermined; actors always play important roles in shaping institutional outcomes.

Although the argument in this book emphasizes class coalition and historical institutionalist approaches, it is not inconsistent with, and indeed often uses, insights from other theoretical approaches. For example, the argument here can clearly be distinguished from functional explanations of welfare based upon either industrialization or organization of the economy. Industrialization may be necessary for welfare state development, but it is rarely sufficient. Actors must mobilize to demand the creation of new institutions, and those demands are often met with resistance by other actors opposed to their creation. Likewise, Mexico's welfare regime was clearly embedded in a particular production regime, made up of the interrelated institutions that regulate labor, commercial, and financial markets. The creation and development of welfare were embedded in state-led industrialization, and the welfare system has recently been affected by the reorganization of the economy along neoliberal lines. There are obvious "institutional complementarities" (Hall and Soskice 2001; Thelen 2003) between the institutions that regulated economic development and those that provided welfare during ISI. Similarly, there are institutional complementarities between the neoliberal economic model adopted in the 1980s and 1990s and the new, emerging model of welfare in Mexico. These institutional complementarities cannot explain the development or reform of welfare institutions. Indeed, the fact that

efforts at wholesale reform of welfare institutions have been unsuccessful belies a functional, conflict-free adjustment of institutions to take advantage of potential complementarities. Chapter 2 provides a more extensive discussion of the relationship between this study's theoretical framework and alternatives found in the literature on welfare states.

### *Contributions to Theoretical and Empirical Understanding*

Research on welfare institutions has been advanced by a question-driven theoretical and methodological pluralism. Scholars regularly engage a range of theoretical perspectives and often synthesize these into compelling explanations. The application of both qualitative and quantitative methods has provided new answers to old questions and raised new theoretical puzzles. Grounded in this research tradition, this study likewise engages existing theory and employs both qualitative and quantitative methods.

The synthesis of class coalition and historical institutionalist approaches is natural, given that class actors are shaped by and shape institutions in a dynamic process, one outcome of which is the development of welfare institutions. Previous applications of class-based approaches acknowledge the importance of political institutions and institutional change (Huber and Stephens 2001), and previous historical institutionalist analyses emphasize the importance of political conflict in explaining the origin of institutions (Thelen 2004). This book intends not only to demonstrate the ways in which the two approaches are complementary but also to show that explanations that give primacy to either class coalitions or institutions are less complete and less theoretically compelling than one that combines the two approaches. Class coalitions play a role both in creating new institutions and in shaping the process of institutional change. Once created, institutions do not take on a life of their own characterized by either institutional stability or marginal change. Class actors, the balance of class power, and shifts in class coalitions are the source of institutional stability and change. Likewise, the strategies of class actors are constrained by a complex web of related economic and political institutions, including existing welfare institutions.

By situating Mexico's welfare institutions in a comparative theoretical framework, this book provides a theoretical explanation of those institutions and demonstrates the usefulness of class coalition and historical institutionalist approaches beyond the domain in which they originally developed. Though class-

based approaches are most often used to explain the development of welfare in the European context (Stephens 1979; Korpi 1983; Esping-Anderson 1990, 1999), they have also been used to explain democratization in Europe, North and South America, and the Caribbean (Rueschemeyer, Stephens, and Stephens 1992). Historical institutionalism has also been more frequently applied to explain political outcomes in advanced industrialized democracies (Immergut 1992; Schickler 2001; Thelen 2004). In Latin America, historical institutionalism has been used to explain the legacies of labor incorporation (Collier and Collier 1991), democratization in Central America (Mahoney 2001), business fragmentation (Schneider 1997), and party organization (Wuhs 2008). This study demonstrates the usefulness of combining class coalition and historical institutionalist approaches for understanding the politics of welfare in Mexico.

The historical institutionalist aspect of this study also contributes to our understanding of both institutional stability and change. Much of the existing historical institutionalist literature implies a nearly deterministic form of path dependency in which institutional stability is punctuated by exogenous shocks that produce significant institutional change. This characterization of institutional development as institutional stability punctuated by dramatic change during critical junctures underestimates the amount of institutional continuity during critical junctures and of institutional change during other periods. This study moves beyond a punctuated equilibrium model of change to focus instead on the mechanisms and processes that contribute to institutional change and stability. Like other efforts to clarify the processes that produce institutional reproduction and change, this approach focuses on institutional legacies, or feedback effects, and does not imply that institutions suggest outcomes automatically.<sup>8</sup> Rather, it emphasizes that institutional legacies are the result of the institutions' effects on the political capacity and power of social actors.

In addition, studying the various institutions for social protection together, rather than certain policies in isolation, is critical, especially if the goal is to understand the political and economic circumstances that gave rise to such institutions. Unlike counterpart studies on welfare in advanced industrialized democracies, studies on Latin American welfare seldom address the complex array of institutions that states use to provide social protection. Instead, they often focus on one particular type of policy, pensions being a prime example (e.g., Madrid 2003; Brooks 2009) or social assistance (e.g., Cornelius, Craig, and Fox 1994; Magaloni 2006; Díaz-Cayeros, Estévez, and Magaloni 2007). Although these studies tell important stories, their omissions may distort the overall picture. Comparisons

across functional policy areas can also help eliminate rival hypotheses and circumscribe theoretical explanations. For example, pension studies may discount the role of organized labor and emphasize instead executive control of the legislature and centralization of decision making as key factors contributing to more extensive pension privatization (Madrid 2002).<sup>9</sup> However, these factors were not enough to privatize IMSS health care services in 1995, as proposed at the time of the pension reform. Only a comparison of simultaneous reform proposals in both the pension and health-care contexts highlights the role of the IMSS workers' union in blocking the privatization of health care.

Perhaps more importantly, a narrow focus on one welfare institution, such as the IMSS, or one functional policy, such as pensions or targeted spending, fails to explain adequately the political process that shapes the overall welfare regime and misses the important dynamics of institutional change. The historical comparison of the IMSS and the ISSSTE underscores the policy legacies created by the IMSS and their impact on the creation of the ISSSTE. It also illustrates that institutional change occurs during periods of relative institutional stability and explains how such change is likely to occur (in this case by layering). Similarly, the comparison of the partial retrenchment of social insurance in the 1980s and 1990s to the expansion of targeted social assistance provides a more complete picture of the transformation of Mexico's welfare regime. A narrow focus on pensions or social assistance overlooks how institutional layering was producing an important transformation of welfare in Mexico; comparing the expansion of new forms of social protection with the retrenchment of traditional insurance underscores the ways in which welfare is being redefined in the region and highlights more nuanced forms of institutional change.

This study also provides a window into Mexican politics since the Revolution, particularly the important role of the Mexican labor movement in national politics. Much of the political decision making after the Mexican Revolution has been understood to be an attempt by political elites to prevent or co-opt popular mobilization for democracy or progressive reforms. In particular, many of the most important studies of Mexican politics in the 1970s emphasized the formal relationships that the ruling Institutional Revolutionary Party (Partido Revolucionario Institucional, or PRI) maintained with labor unions, the top-down or state-dominated character of the political process, and, above all, the political stability of the Mexican regime in comparison with other Latin American countries (Hansen 1971; Purcell 1975; Reyna and Weinert 1977).<sup>10</sup> More recent analyses of the role of organized labor in Mexican politics are more likely to acknowledge

that the PRI-dominated authoritarian regime has not always been monolithic and that many different groups in civil society have played a role in Mexican politics during the twentieth century.<sup>11</sup> The present study also recognizes the dynamism of the Mexican regime and its relationship with subordinate groups but emphasizes and documents the ability of subordinate classes to articulate policy demands and mobilize independently to demand the renegotiation of their support for the ruling party. By addressing this dynamism and the role of subordinate classes, this book goes beyond those studies that seek only to explain labor-state relationships and instead uses an understanding of the role of organized labor within the ruling cross-class coalition to explain both the development and transformation of Mexico's welfare regime in the twentieth century.<sup>12</sup>

Given the effects of the debt crisis and shift toward neoliberalism on Latin American labor markets, several recent studies have revisited Latin American corporatism and labor organization (Murillo 2001; Levitsky 2003; Burgess 2004; and Cook 2007). These studies tend to focus on the ways that corporatist institutions structure the incentives of union leaders to either respond to rank-and-file demands or maintain alliances with political parties engaged in neoliberal reforms (see Murillo 2001; Burgess 2004). While corporatist institutions and internal union and party organization are important in explaining why many Mexican unions stood by the ruling party despite the neoliberal reforms of the 1980s and 1990s, this study illustrates the uneven effects of economic liberalization on the ability of organized labor to assert its independence, a factor that has been neglected in previous studies. Union strategies and the intensity of opposition to social protection reforms have varied across tradable and nontradable sectors, despite similar corporatist institutions and internal forms of organization. Unlike the weakly institutionalized party-union relationship in Argentina (Levitsky 2003), the relationship between the ruling party in Mexico and official labor unions was well institutionalized and clearly defined. Despite this institutionalization of the relationship, however, it underwent an important change in the early 1990s that reflected the declining influence of official labor unions within the ruling party (Langston 1998). This institutional change within the ruling party was subsequently reflected in the party's new reform proposals and emphasis on welfare. In these ways, this study goes beyond recent studies of Latin American corporatism in the context of globalized markets by demonstrating how the decline of corporatism affects welfare institutions.

Aside from being one of only a handful of studies that examine the historical development of welfare in Latin America (Malloy 1979; Mesa-Lago 1978;

Borzutzky 2002), this work is distinguished by its use of comparative historical analysis. According to James Mahoney and Dietrich Rueschemeyer, comparative historical analysis has three core attributes: (1) a focus on causal explanation, (2) a study of processes over time, and (3) the “use of systematic and contextualized comparison” (Mahoney and Rueschemeyer 2003, 6, 10). Comparative historical analyses, like that presented here, are fundamentally about using historical comparisons to evaluate competing theoretical explanations of temporal processes. The competing theoretical explanations are, in this instance, derived from the rich literature on welfare regime development in advanced industrialized economies, which implicitly, if not explicitly, serves to situate the Mexican experience in a broader theoretical landscape. Comparative historical analysis employs both qualitative and quantitative methodologies and also includes the treatment of periods of time or several policies within one country, provided the analysis serves the end of causal explanation of a temporal process (Mahoney and Rueschemeyer 2003, 14).

The present analysis of Mexican welfare embodies these characteristics of comparative historical work. It explicitly compares different periods of time or different policies during one period of time in order to draw causal inferences. For instance, chapter 3 combines two paired comparisons: the fate of private and public sector pension proposals in the 1920s and the fate of two private sector pension proposals in 1938 and 1943. Similarly, chapter 5 contrasts the outcomes of reform proposals for pensions and health-care services for private sector workers versus pensions for public sector workers to illustrate the uneven effect of globalization and economic factors on the ability of labor unions in different sectors to protect welfare from retrenchment proposals. Such comparisons, using John Stuart Mill’s indirect method of difference, help eliminate alternative hypotheses and enhance causal inference.<sup>13</sup> Although qualitative studies dominate comparative historical analyses, some studies combine qualitative and quantitative data and methods, as this one does.<sup>14</sup> In this study, chapter 6 supplements the qualitative historical comparisons of the first few chapters with a quantitative analysis of welfare coverage to demonstrate the robustness and internal validity of the qualitative historical analysis. In the final chapter, a comparison of Mexico’s experiences to those of Chile, Argentina, and Brazil serves to illustrate the external validity of the argument.

Chapter 2 further elaborates the theoretical argument, including concepts of class and class coalitions, and describes how class coalitions influence policy outcomes. It also explains the theoretical conception of institutional change and

distinguishes it from existing tendencies to suggest that change is either dramatic and rare or marginal and ongoing. The chapter also addresses alternative theories and hypotheses, with a particular focus on their usefulness for explaining the development of Mexico's welfare regime. Chapters 3 through 6 explain the creation, expansion, and reform of Mexico's welfare regime during the period of authoritarian rule. Chapter 3 discusses the antecedents of social insurance in Mexico and the adoption of pensions for central government workers in 1925. The core of this chapter is a comparison of two attempts to establish national social insurance for private sector workers: one that failed during the progressive administration of President Lázaro Cárdenas del Río (1934–1940) and one that succeeded in creating the IMSS during the conservative administration of President Manuel Ávila Camacho (1940–1946). This comparison situates the bargain between labor and the state within the broader economic and political institutional context that shaped labor-state relations. The chapter concludes with an overview of Mexican welfare institutions at the end of the 1940s, since these shaped future institutional changes.

Chapter 4 examines the creation of the ISSSTE in 1959 as an instance where labor mobilization and policy legacies led to the creation of a new social insurance bureaucracy alongside the existing IMSS. The expansion of IMSS coverage and the reform of IMSS in 1973 also highlight the role of organized labor and ongoing institutional change. Chapter 5 explains how the sequencing of economic and political liberalization led to only partial retrenchment of welfare and why organized labor in tradable sectors was better able to protect the benefits and livelihoods of its members. This chapter, in particular, highlights the poverty of studying only one type of policy reform, such as pensions, in isolation. Chapter 6 provides statistical evidence to further support the theoretical argument. The statistical analysis confirms that welfare expansion prior to the 1980s followed labor mobilization and protest, but it also points out that labor protests have had little effect since the 1980s. In fact, the pace of social insurance coverage expansion has slowed since the 1980s, despite significant labor protest.

The final three chapters extend the theoretical argument to social insurance reforms during the Vicente Fox Quesada (2000–2006) and Felipe Calderón Hinojosa (2006–2012) administrations (chapter 7), the creation of new targeted, means-tested welfare institutions since the Carlos Salinas de Gortari administration (1988–1994) (chapter 8), and the cases of Chile, Argentina, and Brazil (chapter 9). The Fox administration sought to further privatize the public pension system, for both IMSS workers and those pensioned by ISSSTE. The former reform was

adopted, but the latter was abandoned in the final year of the administration in the face of significant labor opposition. President Calderón privatized the ISSSTE pension system, a reform pending since Salinas's presidency, within the first four months of his administration. Presidents Fox and Calderón, like presidents Salinas and Ernesto Zedillo Ponce de León (1994–2000), also expanded means-tested poverty alleviation programs for the urban and rural poor. I argue that the expansion of targeted poverty alleviation programs is consistent with changes in the labor market due to globalization and neoliberal reforms and with increasing political competition due to democratization. Politicians have abandoned traditional social insurance in favor of targeted poverty spending, which is more consistent with the new economic and political context. The layering of these new welfare institutions alongside partly reformed social insurance institutions also highlights the strength of policy legacies, even during periods of extensive economic and political transformation. The comparisons with Chile, Argentina, and Brazil in the final chapter suggest that the welfare regimes in these countries can also be understood using a theoretical framework that combines a focus on the mobilization and incorporation of organized labor with an understanding of policy legacies and the process of institutional change.