Retrenchment, expansion, and the transformation of Mexican social protection policies

Michelle Dion
Assistant Professor
Sam Nunn School of International Affairs
Georgia Institute of Technology
Atlanta, GA 30332-0610
mdion@gatech.edu

ABSTRACT:

Social protection policies in Mexico have been transformed since 1988 through partial retrenchment of social insurance and significant expansion of targeted or means-tested social assistance. These changes reflect a substantial re-definition of social protection through incremental changes in policy. The changes reflect the abandonment of the goal of developing an employment-based, universal welfare regime, which had been pursued by Mexican governments as late as the 1970s. Instead, recent administrations have moved toward the redefinition of Mexico's welfare regime into a residual, mean-tested model with significant private provision of benefits and services. This shift in social protection is consistent with the change in Mexico's overall economic development strategy and increasing political competition in the process of democratization.

KEYWORDS: social protection, social assistance, social insurance, Mexico

Published in *Social Policy & Administration*, 42, 4 (August 2008): 434 – 450.

Introduction

Throughout Latin America, the more economically advanced countries developed extensive social insurance institutions throughout the twentieth century. Usually, social insurance was an integral part of the import substitution industrialization (ISI) development model pursued by governments. In many countries, including in Mexico, Brazil, and Argentina, social insurance was also used by populist politicians or political parties to secure the support of the organized working class. Rapid economic collapse in the 1980s followed by economic restructuring in the 1990s not only led to the replacement of ISI with economic neoliberalism but also changed the underlying structure of the labor market and brought new pressures to bear on social insurance. In response to changes in the economic and political context, many Latin American governments in the 1990s considered or implemented social insurance reforms and sometimes expanded the use of social assistance as a safety net for those economically displaced by neoliberal reforms. The pattern of social protection provision—meaning both social insurance and social assistance policies—in Mexico reflects, and in some policy areas is an ideal example of, some of the general social protection trends in the region.[1]

As recently as the 1970s, the Mexican state was engaged in a process of expanding existing social insurance institutions with the goal of providing universal coverage to all workers. Since the late 1980s, however, the focus of social protection has shifted away from this goal. Instead, successive governments retrenched social insurance, through formal and informal changes to existing institutions. Meanwhile, governments expanded targeted or means-tested social assistance programs for the poor. This shift reflects a fundamental change in the nature of social protection in Mexico from a welfare model of employment-based social insurance toward one of residual, means-tested social assistance for the poor. This shift also echoes changes in the overall economic development model and the increased informalization of the labor market. Rather than try to incorporate more workers into the formal labor market and universalize social insurance coverage, the new emphasis on social assistance provides residual, means-tested benefits to those at the margins of the formal labor market. Meanwhile, the benefit levels of both the social insurance and social assistance programs are insufficient to adequately replace wages in the formal labor market.

The next section explains the context in which these changes to social protection institutions have occurred. It is followed by sections that explain the retrenchment of social insurance and the expansion of social assistance. The final section suggests that these changes to social protection policies in Mexico should be understood as consequences of economic and political liberalization and a process of incremental institutional change.

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.[2] Together, these institutions provide worker's compensation insurance, old-age and disability pensions, health insurance, and other benefits to nearly half the Mexican population. Though the exclusion of a large segment of the population from social insurance, particularly in rural agriculture and small and informal enterprises, makes the overall system regressive, the contribution and benefit structures of the IMSS and the ISSSTE are generally progressive.

The ruling Institutional Revolutionary Party, or PRI, regime, which controlled government from the 1920s through 2000, also provided non-contributory social assistance benefits, including pensions and healthcare, for the rural poor through IMSS-COPLAMAR (National Program for Depressed Areas and Marginal Groups), created in 1973. IMSS-COPLAMAR was nominally funded by general government revenue, but government contributions were irregular and IMSS pension reserves subsidized the program.[3] Together, social protection 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.

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."[4] In response to the crisis and to stabilize prices and begin the process of a structural adjustment, government social spending, including for non-contributory social programs, declined significantly. The economic crisis also worsened the fiscal position of the social insurance institutes 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. The financial situations of the IMSS and ISSSTE were precarious by the end of the 1980s.

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 (Lustig 1988), which reduced the demand for social insurance and increased the pool of urban and rural poor in need of social assistance.[5] In the medium term, the structural adjustment policies, including privatization and trade liberalization, institutionalized these shifts in the labor market. President Carlos Salinas (1988-1994) accelerated and deepened the adjustment process that began during the prior administration. By the end of Salinas's administration, Mexico had liberalized its market for goods and services and begun to open its capital account. In addition to these formal institutional reforms, Salinas facilitated the de facto liberalization of the labor market by weakening enforcement of existing labor contracts. 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.

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. 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 in 1991 and began de-emphasizing its corporatist relationships in favor of appealing directly to citizens. 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.

In short, prior to the 1980s debt crisis and subsequent economic and political liberalization, the ruling party had placed employment-based social insurance at the center of a social protection strategy in which the state sought to expand employment-based benefits to rural and informal workers and provided non-contributory benefits through the social insurance institutes to those with unstable employment in the countryside. The shift in the economic development model—particularly significant market liberalization—undermined this strategy. At the same time, political liberalization crated incentives for the ruling party to seek support from those voters beyond the reach of existing social protection institutions. These combined changes in the economic and political landscape contributed to a shift in the social protection model that entailed retrenchment of employment-based social insurance and an expansion of non-contributory social assistance.

Social insurance retrenchment

Since the early 1990s, successive Mexican governments have sought to significantly reform, and in particular retrench and privatize, the insurance functions and service provision of the two major social insurance institutions—the IMSS and the ISSSTE. The reform process was halting and uneven, however, due to the opposition of organized labor unions representing both beneficiaries and service providers of the social insurance institutes. This section explains the most significant steps in the reform process, leading to the privatization of the public pension system and laying the groundwork for future privatization of other social insurance services provided by the state.

Pension privatization

Privatization of pensions was initially raised in the economic cabinet of President Salinas (1988-2004), of the PRI, as part of the administration's neoliberal economic reform agenda. The administration believed privatization would enable the state in the long term to address the financial disequilibrium in the public pension systems of the IMSS and the ISSSTE, which originated in the use of pension funds to develop the Institutes' medical infrastructure and was exacerbated by inflation and high unemployment that eroded reserves during the 1980s. Policy makers worried that increasing the contribution rates to bring the systems into equilibrium would hurt Mexico's ability to attract foreign investment and maintain export competitiveness (Salinas 2000).

Early in the reform process, the administration considered a Chilean-style privatization of both the IMSS and the ISSSTE pension systems. However, reform of the ISSSTE pension system was dropped from the reform agenda because the administration feared that the powerful government employees' unions representing ISSSTE beneficiaries, particularly the national teacher union, would use their political weight to derail the reform process. Opposition to privatization of the IMSS pensions was also expected from the largest unions representing private sector workers, many of which were formally affiliated with the President's party. The administration was also seeking the support of these same unions for the North American Free Trade Agreement, and ultimately, the administration shelved its privatization plans in order to secure union support for the free trade agreement (Madrid 2003).

The administration did not abandon its pension reform effort entirely, though. Instead, in 1992, the Mexican government adopted a new law that would create a mandatory private, individual account defined-contribution pension supplement for both private and public sector workers. In order to avoid opposition from organized labor, the SAR Law was promoted by the government as an additional benefit for workers funded entirely by a two percent contribution on wages by employers. In reality, the government had not abandoned the long-term goal of privatizing pensions but instead saw the SAR system as the first step in the privatization process. The SAR would introduce workers to individual accounts and give the government the opportunity to create the institutional infrastructure that would be central to future privatization efforts (Dion 2008).

When pension privatization resurfaced during the presidency of Ernesto Zedillo (1994-2000), also of the PRI, the administration decided early in the process to focus on privatizing the IMSS pension system rather than that of the ISSSTE due to the strength of government employee unions. In December 1995, the administration and the Congress dominated by the executive's political party passed an extensive reform to the IMSS that included a shift from a pay-as-you-go, collective public pension system to a defined-contribution, individual account system to be managed by private pension fund administrators.[6] As a concession to organized labor, the state agreed to contribute 5.5% of the minimum wage into all workers' accounts, effectively doubling the contributions of minimum wage workers. The state also included a minimum pension guarantee (MPG) equal to one minimum wage for those workers who meet the 25 year contribution requirement but do not accumulate enough savings to buy a minimum pension annuity at age 65. According to the MPG, the state will provide the additional funds necessary to purchase a minimum pension for workers who qualify.

In addition to increasing the role of private pension fund administrators and financial markets in pension provision, the 1995 IMSS reform also increased eligibility requirements for the minimum pension and made pension benefits less secure. Prior to the reform, workers had to contribute to the pension system 10 years to be eligible for a pension equal to a progressive percentage of their most recent five years' wages, with modest increases for contributions beyond the 10 year minimum; the minimum pension was equal to the minimum wage, indexed for inflation. Increasing the contribution requirements restricts the ability of workers, and female workers in particular, to claim a guaranteed pension (Dion 2006). Further, the reform is also likely to result in smaller pensions and lower replacement rates for future pensioners.[7] Government reform and planning documents use projected real rates of return in the new private pension system that are equal to or exceed five percent to forecast future pensions (Sinha and de los Angeles Yañez 2008). However, in the private system's first ten years, the average real rate of return has been closer to three percent, due to inflation and high commissions and fees charged by the pension fund administrators. More realistic projections suggest that the real rate of return would need to exceed 14% for a minimum wage worker to earn a pension equal to a minimum pension. Further, it is likely that the government will have to contribute funds for more than half of the workers in the system in order to fulfill the promise of the MPG (Sinha and de los Angeles Yañez 2008).

Though the privatization of the ISSSTE pension system was abandoned during the 1995 reform process, it remained on the political agenda and resurfaced during the administration of President Vicente Fox (2000-2006), of the PAN (National Action Party). While Fox's election to the presidency in 2000 reflected the culmination Mexico's democratic transition, his administration continued many of the neoliberal economic reforms begun by the PRI-dominated regime. Halfway through the Fox *sexenio*, or six-year term, the Secretary of the Treasury and the ISSSTE began circulating and promoting a pension reform proposal that would have homogenized the ISSSTE pension system with that of the privatized IMSS pension system. Given the lower eligibility requirements and more generous replacement rates of the ISSSTE system, the stakes for government employees covered by ISSSTE were very high. The Fox administration engaged in prolonged discussions and negotiations with various union leaders representing government employees throughout the second half of the president's term. Though a reform proposal was introduced into the Senate in March 2006, it was quickly withdrawn due to union opposition and concerns regarding the national elections scheduled for July 2006.

In March 2007, within months of taking office, President Felipe Calderón, also of the PAN, and his administration engineered a coalition in Congress between his party's representatives and those of the PRI to adopt an extensive overhaul of the ISSSTE social insurance system. The reform package included the privatization of the ISSSTE pension system, though with important deviations from the IMSS system in response to demands from organized labor. In particular, while the eligibility requirements were raised for the MPG in the reformed ISSSTE system to match those of the IMSS system, the increases are to be phased in over several years and the MPG will be equal to *twice* the minimum wage. In addition, in order to secure the support of labor unions for the reform, initially all private accounts will be managed by a public pension fund administrator, *Pensionissste*, with significant labor union participation in the fund's management board. Unlike the IMSS reform, nearly all government workers will be required to retire under the rules of the privatized pension system and most will receive government recognition bonds to be deposited into their private accounts as payment for their contributions to the unreformed pension system. The reform law is currently (December 2007) being challenged by unionized workers in the national court system, but it is expected that the central features of the reform will be upheld.

While the privatization of the IMSS and ISSSTE pension systems represents the most significant retrenchment of social insurance in Mexico during the last two decades, workers in a handful of state-owned enterprises still enjoy generous defined-benefit pensions with minimal contribution requirements. These pension plans have become the target of additional retrenchment efforts. During the labor contract negotiations for IMSS workers in 2003, the Fox administration targeted their pension benefits for privatization. A stalemate in the contract negotiations led to the adoption in August 2004 of a reform to the IMSS law that effectively limited the state's ability to sustain generous pension benefits for IMSS workers. Subsequent labor contracts have included adjustments to retirement ages and contribution rates for current IMSS workers and provisions for all new workers to be incorporated into the privatized IMSS pension system for private sector workers. The revisions to the IMSS labor contract suggest that generous benefits in the electricity and petroleum sectors are likely to be targeted for reform in the future.

Health insurance reform

Though much emphasis has been placed on the pension privatization in the 1995 IMSS and the 2007 ISSSTE reform laws, both laws also incorporated significant changes to the organization of health insurance provided by these institutions. The Zedillo government initially sought two changes to IMSS health insurance: a change in the contribution structure toward a flat rate fee and the privatization of medical and support services (CEDESS 1995). The change in the contribution structure was intended to remove incentives for enterprises with highly paid workers to seek exemptions from IMSS health insurance and to facilitate the privatization of services. Ultimately, the 1995 reform did phase in a flat rate contribution structure for health insurance, though it was coupled with a significant increase in the state's contribution per worker. The second goal of the 1995 reform with regard to health insurance—the privatization of health care and support services—was blocked by the union of IMSS workers, which includes the more than 300,000 doctors, nurses, and support staff working in IMSS clinics and hospitals nationwide. The proposed privatization would have reduced the size of the IMSS workforce, and therefore the union, by approximately 20% (CEDESS 1995).

In light of the unity and strength of the IMSS union, in the second half of the 1990s the IMSS administration began to increase the use of private service providers informally, without a change to the IMSS legislation. Since the 1950s, the IMSS law allowed the IMSS administration to enter into contracts with health care and support service providers in areas and instances where the IMSS infrastructure was not sufficient to meet the demand for services. Following the failed health care privatization, the IMSS administration began to exercise this option with greater frequency rather than invest in expanding or improving the existing IMSS infrastructure. The extent of subcontracting of services by the IMSS accelerated after 2001 and particularly after 2004 when the conflict between IMSS management and the union intensified. In particular, the IMSS administration froze hiring during 2004 and 2005 until the status of the 2004 workers' pension reform was clarified in the courts. The hiring freeze coupled with normal attrition through workers leaving IMSS employment enabled the IMSS administration to increase contracting of services in response to diminished IMSS service capacity. Such practices have increased the private provision of IMSS health care services without a formal privatization, thereby avoiding a direct conflict with the union.

Like the 1995 IMSS reform, the March 2007 ISSSTE law reform included provisions to move toward a flat rate contribution structure and to increase contracting of services. In fact, the new health insurance contribution structure of the ISSSTE is now identical to that of the IMSS. The original reform proposal also included reforms to facilitate increases in contracting of health care services to third parties, but in response to union opposition, the final bill requires that whenever possible contracts be awarded to other public health care institutions, such as the IMSS or Secretary of Health. Though historically the ISSSTE medical infrastructure was more developed on a per worker covered basis than the IMSS, underinvestment in infrastructure expansion and maintenance during the last two decades has eroded the Institute's capacity to meet beneficiary demand. This situation increases the likelihood that the ISSSTE will increasingly rely upon subcontracting services.

In sum, both the IMSS and the ISSSTE were targeted for privatization, and though formal privatization of health care and support services was blocked by unions representing health care workers (IMSS) and beneficiaries (ISSSTE), both Institutes have increasingly taken advantage of provisions that allow them to subcontract services to either other public health care providers or the private sector. The homogenization of health insurance financing across the two Institutes can also be understood as a step toward the end goal of unifying and developing a comprehensive, universal health insurance. This goal was outlined in the influential study directed by Julio Frenk (1994) and funded by Funsalud, a private Mexican foundation largely supported by large corporations, pharmaceutical companies, private health care providers, and private donors. As Fox's Secretary of Health, Frenk also promoted a national voluntary health insurance plan in line with the Funsalud goal; this program, providing non-contributory insurance for the poor, will be discussed below.

Two decades of social insurance retrenchment

Since the early 1990s, successive Mexican governments have sought to privatize and retrench benefits provided by the primary social insurance institutions—the IMSS and the ISSSTE. Though the reform outcomes have been uneven across types of insurance—privatization of pensions has been extensive, while the state maintains a presence in the provision of health care—the trend has clearly been toward reducing the state's long term liabilities for old-age income and health care services and introducing more market provision of benefits or services.[8] The reforms have also reduced capacity of workers to claim pension benefits and will likely lead to lower pension replacement rates. Though most workers enrolled in the IMSS earn about three times the minimum wage, their pensions will likely be equal to one minimum wage—a 30% replacement rate for the average worker. Likewise, though the goal may be unification of the public health insurance system, the subcontracting of services is likely to lead to uneven health care availability and provision as the state abdicates its role in developing the national health care infrastructure. These changes in the social insurance system reflect an erosion of access to benefits and an abandonment of government efforts to provide formal labor market protections to all workers.

Expansion of social assistance

The formal and informal retrenchment of social insurance over the last two decades can be contrasted with the expansion of social assistance during the same period. As explained above, during the 1980s social spending contracted markedly, despite the increases in unemployment and poverty. Since the late 1980s, however, targeted or means-tested social assistance programs have gradually expanded, largely to provide social welfare benefits, often including health care, to those beyond the reach of the social insurance institutes.

PRONASOL, 1988-1994

The creation of PRONASOL (or National Solidarity Program) during the Salinas administration marked the first significant expansion of poverty alleviation spending since the debt crisis began. PRONASOL funds were officially targeted to provide infrastructure in the poorest regions and human capital investment to the poorest families. Though the bulk of PRONASOL funding went to public infrastructure investment or local pork barrel projects, about a third of program expenditures went toward benefits and subsidies paid directly to for poor families in poor rural and urban communities (Magaloni, Diaz-Cayeros, and Estévez 2007). The program was notable because it provided targeted benefits rather than general subsidies, which previously had been the dominant poverty alleviation strategy of the ruling party.

The program was funded by revenues from the privatization of state-owned enterprises, with additional funds from the World Bank for implementation in the poorest states (Salinas 2001: 407-8; World Bank 2001: 5). Officially, funds were to be targeted to marginal areas most affected by economic liberalization, but evidence suggests that in practice the distribution of expenditures followed a political logic designed to bolster support for the President and his party (Molinar Horcasitas and Weldon 1994; Bruhn 1996; Dion 2000; Diaz-Cayeros and Magaloni 2003).

Though the resurgence of support for the PRI in the 1991 midterm and 1994 presidential elections can be attributed in part to PRONASOL, President Zedillo did not embrace the program. Instead, the widespread acknowledgement of the political manipulation of the program created a legacy of skepticism and mistrust of targeted poverty programs among the public. It was quietly dismantled in the first years of his administration with many of the infrastructure programs being transferred to state governments and spending on transfers significantly cut (Trejo and Jones 1998; Laurell 2003: 94-5).

PROGRESA (1997-2001) and Oportunidades (2001-)

Shortly after the PRI lost its Congressional majority following the 1997 midterm elections, President Zedillo created a new targeted poverty alleviation program, PROGRESA (or Program of Education, Health and Nutrition). Unlike most new policies, this program and its successor did not require specific legislation to enact the program; instead, the program is included in the annual appropriations budget. Given the legacies of PRONASOL, the administration sought to distinguish PROGRESA from the former program, in part by limiting the program to individual benefits and transfers for human capital development for the rural poor (Pardinas 2004; Laurell 2003). Targeting occurred in two stages: first, indentifying marginal communities with sufficient infrastructure to support the program, and second, identifying low-income families within the communities to receive program benefits. Benefits included healthcare (often provided through IMSS clinics), school scholarships, income transfers, and health and nutrition education for low-income families in marginal rural areas. In part, health care benefits were included in PROGRESA to expand health care to the rural poor despite blocked integral reforms to the entire public health care sector (González Rossetti 2004: 85-6). By the end of 1999, 2.3 million families received benefits (Laurell 2003: 342-3).

Whereas PRONASOL expenditures were politically manipulated and bore little relationship to poverty levels, PROGRESA has been hailed for its efficiency, transparency, and more objective targeting of resources (Scott 2000; Skoufias and McClafferty 2001; Skoufias 2005). At the same time, however, studies have raised suspicions that even PROGRESA spending, with its careful formulas for choosing municipalities and beneficiary families, may have been manipulated at the margin for partisan purposes (Green 2005; Rocha Menocal 2001; de la O 2006). Nearly all observers agree, however, that the Zedillo administration, in its implementation of PROGRESA, tried to avoid the gross abuses of poverty alleviation policy for political ends of the Salinas administration.

Shortly after taking office, President Fox rechristened PROGRESA Oportunidades (Opportunities), made modest adjustments and worked to enhance transparency. Given the tendency of most new presidents to abandon their predecessor's social policies, the transformation of PROGRESA into Oportunidades reflects the positive legacy and perceived effectiveness of the program. From 2000 to 2005, the number of families receiving benefits doubled to five million and the program was expanded to cover the urban poor (Oportunidades 2006). The program was also modified to increase the use of transfers rather than direct provision of some goods, a move consistent with the administration's market orientation. President Calderón has continued Oportunidades.

In addition to its departure from the political bias in previous anti-poverty policy, other aspects of PROGRESA/Oportunidades differ from prior policies. For example, in addition to meeting means tests to receive benefits, PROGRESA/Oportunidades beneficiaries must also meet certain conditions, such as children maintaining a certain school attendance rate or mothers attending health or nutrition workshops. The government frames such conditions in terms of beneficiaries taking co-responsibility for fighting poverty. However, the conditions for benefits used in conditional cash transfer (CCT) programs, like PROGRESA/Oportunidades, run counter to notions of social citizenship rights and instead view the poor as having to earn their citizenship rights through fulfilling program conditions. Further, much has been made of policies that give family subsidies directly to the female head of household and that provide larger scholarships to encourage families to keep female children in school longer. While the Mexican government has emphasized the gendered dimensions of PROGRESA/Oportunidades to signal its commitment to empowering women, critics have demonstrated that the policies may actually reinforce traditional gender roles within the family and that some program requirements, such as attending health workshops, may increase women's work burdens (Molyneux 2006). Despite these criticisms, the program continues to be praised for its efficiency and its effectiveness at promoting development (World Bank 2005).

Seguro Popular, 2003-

The Fox administration also sought to expand access to healthcare for those not covered by social insurance. Though technically those not covered by one of the social insurance institutes have access to healthcare from the Secretary of Health (SSA), the SSA has historically had primary and secondary care infrastructures insufficient to meet the demand from the uninsured population. For this reason, when social assistance programs, like PRONASOL or PROGRESA/Oportunidades, provided medical services, they often were provided directly by IMSS clinics. As mentioned above, Fox's Secretary of Health, Julio Frenk, had advocated significant health sector reforms prior to his appointment to Fox's cabinet. Though the extensive reorganization of the health care infrastructure and services of the IMSS, the ISSSTE, and the SSA envisioned by Frenk was politically improbable due to resistance from beneficiaries and the unionized workers of the social insurance institutes, Frenk and the Fox administration did launch a new voluntary national health insurance program, Seguro Popular (Popular Insurance). The formal proposal for the new program was submitted to Congress in November 2002 and approved in April 2003, prior to the mid-term Congressional elections. The program had multipartisan support, and passed in Congress with a large majority (Centro de Estudios Sociales y de Opinion Pública 2005). Opposition to the program came from leftist legislators who opposed the co-payment required of families to enroll in the program (Alonso Raya 2003).

When program regulations were adopted in April 2005, Seguro Popular was made non-contributory for families in the lowest two income deciles, with a progressive premium scale for higher-wage workers. Because the program is voluntary, families must apply for coverage. When they do apply, program officials assess their income to determine their premium. If a family can provide evidence of enrollment in any of the federal government's targeted poverty alleviation programs, including Oportunidades, they are automatically exempt from any contribution requirement. In December 2005, the administration eliminated contributions for families in the third lowest income decile if the family has at least one child less than 5 years old.

Since its official creation, Seguro Popular has grown significantly. By the end of 2003, the program provided benefits to over 600,000 families in 21 states. In 2004 the number of beneficiaries more than doubled, to 1.5 million (or nearly 5% of the population), and the program operated in all but one state and the Federal District. The following year, the program was expanded to all geographic regions. By the end of the Fox administration, it provided healthcare insurance to over 5 million families (Calderón 2007). In the first half of 2007, the program enrolled almost half (46%) of those estimated to lack health insurance but still fell short of ensuring universal health insurance coverage. More than a third (38%) of the program's beneficiaries is also beneficiaries of Oportunidades. Of the families enrolled in Seguro Popular, 61% are urban and 35% are rural residents. The program largely covers the healthcare needs of the poor. In 2007 67.6% of families were in the bottom income decile, 28.9% in the second, and 2.4% in the third (CNPSS 2007). Relatively few families ineligible for free enrollment have joined the program, which is consistent with the social assistance rather than insurance functions of the program. The number of ailments and medicines covered by the insurance program also grew throughout the Fox administration, with the number of covered illnesses tripling from 2004 to 2006. By 2006 the plan included more than 300 different medicines.

President Calderón, after taking office, announced changes to the operating rules of Seguro Popular and a new initiative called Medical Insurance for a New Generation, promoting it as an indication of the government's commitment to provide health insurance to all those born in Mexico on or after January 1, 2007, who do not have coverage through the IMSS or ISSSTE. Although the program promises an increase in the range of illnesses covered and includes catastrophic care coverage, it does not differ much from Seguro Popular. Benefits are still open only to those families not covered by existing social insurance, and families who exceed the income levels of the lowest three deciles must pay premiums to receive the insurance.

Two decades of social assistance expansion

Since the early 1990s, anti-poverty spending, especially for targeted or means-tested programs, has steadily grown and become a key source of income support for the poor in Mexico. In 1990, all anti-poverty spending (not including basic health and education) was equal to 0.7% of GDP and represented 4.7% of the government's programmable spending. By 2000, these figures had increased to 1.1% of GDP and 7.1% of government spending. By the end of the Fox administration in 2006, these figures reached 1.7% of GDP and 10.4% of programmable government spending (Fox 2006). Within this sector, the largest single programs were PRONASOL and later PROGRESA/Oportunidades. The extension of non-contributory health insurance through Seguro Popular will contribute to additional growth in government spending on non-contributory social benefits. Given its predominantly non-contributory nature, Seguro Popular functions more like social assistance than insurance.

The growth of PROGRESA/Oportunidades has also been significant since 1997. It has grown from a program in 1997 representing 0.01% of GDP, providing average per family benefits equal to $823 pesos (2005 adjusted), and serving 300 thousand rural families to one that represents 0.36% of GDP, provides average family benefits of $6,948 pesos (2005 adjusted), and serves five million families, of which nearly 3.5 million are rural (Fox 2006; Calderón 2007). In Chiapas, Oaxaca, and Guerrero, states with the highest poverty indicators, more than 50% of the population receives Oportunidades benefits (Oportunidades 2007: 9). Though the program budget as a proportion of GDP is relatively modest for a social program, the program reaches a relatively large proportion of the poor in Mexico. Unfortunately, because the program is limited to areas with sufficient public educational and health infrastructure, approximately four percent of the most marginalized communities are excluded from the program (Boltvinik 2004). Ultimately, the expansion of means-tested, residual CCT programs should be understood as an alternative to addressing the informalization and instability of the domestic labor market.

Understanding the transformation of Mexico's social protection institutions

The combined retrenchment and privatization of social insurance and the expansion of social assistance and non-contributory welfare benefits since 1988 reflects a shift in Mexico's social protection institutions toward a residual welfare model. The new residual model provides less income security for and imposes new means-tests and conditions on beneficiaries. The economic crisis of the 1980s created high levels of unemployment and exacerbated existing poverty. The subsequent structural reforms weakened the formal labor market and contributed to the growth of the informal sector, which then led to a reduction in demand for employment-based social insurance and increased demand for non-contributory social assistance. Meanwhile, economic and political liberalization also undermined the ruling party's existing support among formal sector workers—support that derived in part from the provision of social insurance benefits. Economic and political liberalization of the 1980s and 1990s required that the ruling party build support among the growing numbers of unemployed and informal sector voters. Targeted or means-tested non-contributory social programs proved a useful way to reach those potential party supporters. In light of the economic and political changes in Mexico over the last two decades, the shift away from employment-based social insurance toward non-contributory social assistance is not surprising.

This pattern of social insurance retrenchment and social assistance expansion in Mexico also illustrates one of the ways in which globalization pressures may lead to the redefinition of social protection. In particular, competitiveness concerns due to the globalization of markets may indeed create incentives for governments to retrench social protection policies—particularly employment-based social insurance which can increase labor costs. As the same time, the government experiences pressure also to compensate workers for the labor risks and income insecurity that can also accompany liberalized markets, and in Mexico, non-contributory social assistance provides this compensation. In this sense, the changes in Mexican social protection policies over the last two decades support both the *efficiency* and the *compensation* hypotheses (cf. Garrett 2001) regarding the effects of globalization on social welfare policy.[9]

Finally, the process of gradual policy change in Mexico, including incremental reforms and layering of new policies alongside old, can cumulatively transform the character of social protection institutions. That is, a number of seemingly discrete policy reforms to pensions, health insurance, and social assistance over several years and administrations, can lead to a fundamental redefinition of the organization and basis of social policy as has occurred in Mexico over the last two decades. However, understanding the meaning and logic of this transformation requires studying seemingly unrelated policy reforms in different social welfare sectors rather than focusing narrowly on one policy to the exclusion of all others. By considering the overall pattern of reforms and changes in different policy areas, analysts are also likely to make better predictions regarding the likelihood and shape of future reform efforts.

References

Alonso Raya, Diputado. M. (2003), Comentarios sobre el Seguro Popular. Unpublished document, Chamber of Deputies, Mexico City, November.

Avelino, G., D. S. Brown, and W. Hunter, (2005), The Effects of Capital Mobility, Trade Openness, and Democracy on Social Spending in Latin America, 1980-1999, *American Journal of Political Science*, 49: 625-41.

Boltvinik, J. (2004), Políticas focalizadas de combate a la pobreza en México, El PROGRESA/Oportunidades. In J. Boltvinik and A. Damián (eds), *La Pobreza en México y el Mundo: Realidades y Desafíos*, Mexico City: Siglo XXI and the State of Tamaulipas, 315–47.

Bruhn, K. (1996), Social Spending and Political Support: The ‘Lessons’ of the National Solidarity Program in Mexico, *Comparative Politics*, 28: 151-77.

Calderón, F. (2007), *Primer informe de gobierno*, Mexico, D.F.: Presidencia de la Republica.

Centro de Desarrollo Estratégico para la Seguridad Social (CEDESS). (1995), Proyecto Aguila. Unpublished document, Mexico City.

Centro de Estudios Sociales y de Opinion Pública (CESOP). (2005), *Programa Seguro Social*, Mexico City: Chamber of Deputies, LIX Legislatura, February.

Comisión Nacional de Protección Social en Salud (CNPSS). (2007), *Informe de resultados primer semestre 2007*, Mexico City: CNPSS, July.

De La O, A. L. (2006), Do Poverty Relief Funds Affect Electoral Behavior? Evidence from a Randomized Experiment in Mexico. Unpublished manuscript, Massachusetts Institute of Technology, October 10.

Diaz-Cayeros, A. and Magaloni, B. (2003), 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.

Dion, M. (2000), La economía política del gasto social: El Programa Nacional de Solidaridad, 1988-1994, *Estudios Sociologicos* (May-August): 329-62.

Dion, M. (2008), Workers and welfare in Latin America: Mexico’s welfare regime in historical and comparative perspective. Unpublished book manuscript, Sam Nunn School of International Affairs, Georgia Institute of Technology, Atlanta, GA.

Dion, Michelle. (2006), Women’s welfare and social security privatization in Mexico, *Social Politics*, 13, 3: 400-426.

Fox, J. (1993), *The Politics of Food*, Ithaca, NY: Cornell University Press.

Fox, V. (2006), *Sexto informe de gobierno,* Mexico, D.F.: Presidencia de la Republica.

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

Garrett, G. (2001), Globalization and Government Spending around the World, *Studies in Comparative International Development*, 35: 3-29.

González Rossetti, A. (2004), Change Teams and Vested Interests: Social Security Health Reform in Mexico. In R. R. Kaufman and J. M. Nelson (eds), *Crucial Needs, Weak Incentives*, Washington, D.C.: Woodrow Wilson Center Press, pp. 65-92.

Green, T. R. (2005), The political economy of a social transfer program: evidence from PROGRESA in Mexico. Paper given at 2005 Midwest Political Science Conference, Chicago, IL, April 7–10.

Kaufman, R.R. and Segura-Ubiergo, A. (2001), Globalization, Domestic Politics, and Social Spending in Latin America, *World Politics*, 53: 553-88.

Laurell, C. A. (2003), The Transformation of Social Policy in Mexico. In K. J. Middlebrook and E. Zepeda (eds), *Confronting Development: Assessing Mexico's Economic and Social Policy Challenges,* Stanford, CA: Stanford University Press, pp. 320-49.

Lustig, N. (1998), *Mexico: The Remaking of an Economy*, Washington, D.C.: The Brookings Institution.

Madrid, R. (2003), *Retiring the State: The Politics of Pension Privatization in Latin America and Beyond*, Stanford: Stanford University Press.

Magaloni, B., Diaz-Cayeros, A. and Estévez, F. (2007), Clientelism and Portfolio Diversification: A Model of Electoral Investment with Applications to Mexico. In H. Kitschelt and S. Wilkinson (eds), *Patrons, Clients and Policies: Patterns of Democratic Accountability and Political Competition*, Cambridge: Cambridge University Press, pp. 182-205.

Molinar Horcasitas, J. and Weldon, J. (1994), Electoral determinants and consequences of national Solidarity. In W. Cornelius, A. Craig, and J. Fox (eds), *Transforming State-Society Relations in Mexico*, San Diego, CA: Center for U.S.-Mexico Studies, University of California/San Diego, pp. 123-41.

Molyneux, M. (2006), Mothers at the Service of the New Poverty Agenda: Progresa/Oportunidades, Mexico's Conditional Transfer Programme, *Social Policy & Administration*, 40, 4: 425-449.

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

Oportunidades. (2007), *Oportunidades: un programa de resultados*, Mexico City: Oportunidades, May.

Pardinas, J. (2004), Fighting Poverty in Mexico: Policy Challenges. In L. Rubio and S. Kaufman Purcell (eds), *Mexico under Fox*, Boulder, CO: Lynne Rienner, pp. 65-86.

Rocha Menocal, A. (2001), Do Old Habits Die Hard? A Statistical Exploration of the Politicisation of Progresa, Mexico's Latest Federal Poverty-Alleviation Programme, under the Zedillo Administration, *Journal of Latin American Studies*, 33: 513-38.

Salinas De Gortari, C. (2000), *Mexico: Un Paso Dificil a la Modernidad*, Barcelona: Plaza and Janes Editores, S.A.

Scott, J. (2000), Progresa: Una Evaluación Preliminar. Working document, División de Economía, Centro de Investigación y Docencia Económicas, Mexico City.

Sinha, T. and M. de los Angeles Yañez. (2008), A decade of government mandated privately run pensions in Mexico: what have we learned?, In S. J. Kay and T. Sinha (eds), *Lessons from Pension Reform in the Americas*, New York: Oxford University Press.

Skoufias, E. (2005), PROGRESA and its impacts on the welfare of rural households. Research Report 139, International Food Policy Research Institute, Washington, DC.

Skoufias, E. and B. McClafferty. (2001), Is PROGRESA working? Summary of the results of an evaluation by IFPRI. Discussion Paper, Food Consumption and Nutrition Division, International Food Policy Research Institute, no. 118, Washington, DC, July.

Trejo, G. and Jones, C. (1998), The Political Dilemmas of Welfare Reform: Poverty and Inequality in Mexico. In S. Kaufman Purcell and L. Rubio (eds), *Mexico Under Zedillo*, Boulder: Lynne Rienner, pp. 67-100.

Wibbels, E. (2006), Dependency Revisited: International Markets, Business Cycles, and Social Spending in the Developing World, *International Organization*, 60: 433-68.

World Bank. (2001), Mexico: Country Assistance Evaluation. Operations Evaluation Department, World Bank, Washington, D.C.

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

Endnotes

[1] Here social protection is an umbrella term including both social insurance and social assistance. Social insurance is commonly understood to include employment-based, contributory programs protecting workers from social risks, including old-age, disability, work-related illnesses and accidents, other illnesses, unemployment. Social assistance is often non-contributory and provides income subsidies or other benefits for targeted populations.

[2] 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.

[3] 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 [Program for Direct Support to Agriculture] of the late 1990s). See Fox (1993) and Trejo and Jones (1998)

[4] For a discussion of the causes and consequences of the debt crisis, see Lustig (1998)

[5] 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.

[6] The reform did not go into effect until July 1, 1997.

[7] Though all covered workers began contributing to individual accounts in 1997, workers who had contributed to the unreformed system maintain the right to choose whether to retire under the rules of the unreformed system or the new privatized system.

[8] This characterization also applies to other forms of insurance and benefits provided by the IMSS or ISSSTE. For instance, daycare services have been increasingly provided through contracts with private service providers rather than directly by the IMSS, and the 2007 ISSSTE reform introduced market participation in worker's compensation insurance payments.

[9] This pattern of retrenchment in social insurance and expansion of social assistance may also explain the inconclusive or inconsistent findings of many cross-national, quantitative studies of social protection expenditures (e.g., Kaufman and Segura-Ubiergo 2001; Avelino, Brown, and Hunter 2005; and Wibbels 2006) because these studies use social protection spending data in which social insurance and social assistance figures are combined.