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

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ABSTRACT:

Since the 1980s, Mexico transformed its social protection system through the partial retrenchment of contributory social insurance and the expansion of non-contributory social assistance. By comparing both social insurance and social assistance policies under presidents Salinas (1988-94), Zedillo (1994-2000), and Fox (2000-6), this article explains these apparently contradictory patterns of welfare change. Economic and political liberalization created pressure for policy change and shifted the political capacity of domestic political actors, while existing welfare institutions shaped the politics of welfare. As a result, new social assistance institutions were layered alongside reformed social insurance institutions, which reflected recent changes in the economic and political context.

Bio sketch

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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. For these reasons, Mexico has been central in comparative and qualitative studies of pension privatization and targeted social assistance and included in cross-national, quantitative studies of social spending in Latin America, though no study has combined an explicit analysis of both social insurance and social assistance. While studies may explain either pension privatization[2] 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 spending to isolate the opposite trends of social insurance retrenchment and social insurance expansion, leading to contradictory results in this literature.[4]

This article explains change in both social insurance *and* social assistance in Mexico over the last two decades, elucidating some apparent contradictions in the existing literature on globalization, democracy, and welfare in Latin America. A comparison of social insurance and social assistance policy outcomes during the Salinas (1988-1994), Zedillo (1994-2000), and Fox (2000-2006) administrations 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. Further, political liberalization changes incentives for politicians to supply welfare, while existing welfare institutions create policy legacies that influence the interests of domestic political actors. In Mexico, the overall pattern is one of partial retrenchment of social insurance and the expansion of targeted social assistance, a pattern explained in light of economic liberalization, democratization, and policy legacies. 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 helps isolate the influence of economic and political factors and highlights their influence on the pattern of welfare policy outcomes. As the Mexican experience illustrates, partial retrenchment may be accompanied by expansion or layering of new institutions.

Globalization, democratic institutions, policy legacies, and welfare change

Direct and indirect effects of globalization on government welfare provision

Current and capital account liberalization in Latin America accompanied economic globalization in the 1980s and 1990s. In the 1980s, trade integration often occurred earlier than financial integration. In Mexico, trade openness doubled between 1980 and 1995 and only increased modestly through the end of the decade. In comparison, foreign direct investment and gross private capital flows changed little prior to 1990, but grew significantly throughout the 1990s.[5] Economic globalization is hypothesized to have two contradictory *direct* effects on welfare regimes: creating retrenchment pressures or expanding compensation for labor market dislocations.[6] In the simplest version of the retrenchment argument, international economic integration heightens economic competition , forcing states to compete and reduce functions and expenditures.[7] Trade integration and FDI create incentives to reduce costs, particularly labor taxes that fund social insurance, to maintain international competitiveness.[8] Similarly, portfolio investment, largely in government debt, pressures governments to minimize social spending, or at least shift toward "efficient" expenditures, such as targeted social assistance.[9] Consequently, governments are inclined to maintain social assistance programs while retrenching social insurance. Meanwhile, current account openness is also hypothesized to lead to greater compensation for market risks via social insurance.[10] However, in Latin America increased openness has coincided with social insurance retrenchment.[11] While compensation is usually understood in terms of social insurance, it can take the form of non-contributory social assistance that develops human capital and promotes global competitiveness.[12]

Additionally, in Latin America economic integration *indirectly* impacts welfare policy by way of changes in the domestic labor market. First, economic integration usually coincided with flexibilization of the domestic labor market; an expansion of low productivity-, or informal-, sector employment; and high levels of unemployment.[13] Changes in the labor market reduced the proportion of workers eligible for social insurance due to growth of the informal sector while increasing the need for social assistance due to high levels of unemployment and poverty. Second, the changing structure of the domestic labor market eroded the organizational base and mobilizing capacity of labor unions and their political claims that they represented a large proportion of the labor force, especially in the tradable sectors most affected by economic liberalization.[14] In this way, economic liberalization did not have uniform effects across all types of formal sector or unionized workers.[15] Meanwhile, employers, especially in tradable sectors, augmented their political capacity due to their central role in the new development model. These shifts in the political capacity of domestic actors 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, the politics of retrenchment are different from that of welfare expansion. [16] The costs of social *insurance* retrenchment are often concentrated among beneficiaries, while the potential macroeconomic benefits are dispersed. 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. In contrast, the costs of social *assistance* expansion are often dispersed because general government revenues fund targeted social assistance, and the benefits are concentrated among new beneficiaries in the growing population of unorganized urban and rural poor outside the formal labor market. In short, while the costs of social insurance retrenchment are narrowly concentrated among highly organized sectors and the potential benefits are dispersed, the costs of expansion of non-contributory social assistance are widely distributed and the benefits are concentrated among unorganized rural and poor sectors.

Democratic institutions also shape the relative capacity of domestic actors to influence policy outcomes. 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 likely affects the political capacity of domestic actors and policy outcomes.

Electoral competition changes politicians' incentive to provide social welfare, by creating opportunities to garner voter support with the promise of expanded welfare.[17] Competition may also create incentives for politicians to "diversify" the types of benefits they provide voters.[18] On the one hand, selective or excludable benefits targeted to voters may be more common at low levels of electoral competition, whereby parties with monopolies or near monopolies use clientelism to deter defection.[19] On the other hand, higher levels of competition may 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. This is because competition makes targeting and enforcement of the clientelistic exchange more costly[20] and increases pressures for transparency from opposition parties and their supporters. 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,[21] and are more likely to shift allocation of resources from core constituents to swing voters.[22] With growing political competition and informalization of the labor market, social assistance, even without clientelism or explicit exchanges of benefits for political support, proves more adaptable for generating political support than social insurance.

Increased political competition multiplies the number of partisan veto players, or ideologically diverse parties in governing bodies, and increases the importance of institutional veto points, or the formal division of decision-making powers among branches of government.[23] The effects of partisan veto players and institutional veto points can be different for retrenchment when compared to expansion of welfare. 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. Divided government may also make it more difficult for the executive to significantly retrench social insurance.[24] In contrast, multiple partisan veto players and the lack of a single party Congressional majority may contribute to the expansion of social assistance because studies suggest that social spending increases as the number of political parties increases.[25] The logic of this argument suggests partisan veto players in the legislature contribute to logrolling and higher social expenditures. This is especially likely for non-contributory, means-tested social assistance, for which parties can claim credit in sub-national elections. In sum, the effects of globalization will be refracted through domestic political institutions. The likelihood of retrenchment depends on the ability of those who bear the costs to appeal to partisan veto players or use institutional veto points to block reforms, while 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 divided Congress.

Welfare institutions, policy legacies, and institutional layering

Finally, existing welfare institutions also create strong policy legacies, or feedback effects, that shape future welfare change by creating stratification among different actual or potential beneficiaries and shaping expectations regarding benefits and policies.[26] Institutional change is especially likely to take the form of layering new institutions alongside existing institutions when beneficiaries of particular institutions block changes, and collective actors seek to create new institutions alongside old to serve their interests.[27] 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. New welfare institutions were 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 1 summarizes the hypothesized effects of globalization, democratic institutions, and policy legacies on social insurance and assistance.

TABLE 1 HERE

Changes in the economic, political, and institutional context of Mexican welfare

In Mexico, two institutions provide the majority of public social insurance: the Mexican Institute for Social Security (IMSS), serving private sector workers, and Social Security Institute for Civil Servants (ISSSTE). These institutions provide worker's compensation insurance, old-age and disability pensions, health insurance, and other benefits to approximately half the Mexican population.[28] Benefits are funded by contributions by workers, employers, and the state. The Institutional Revolutionary Party (PRI) regime also provided non-contributory social assistance benefits, including pensions and healthcare, for the rural poor through a separate program administered by the IMSS, created in 1973.[29] 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.

In 1982, the Mexican government defaulted on its debt, sparking a regional debt crisis and the beginning of the "lost decade." In response to the crisis and to stabilize prices and begin the process of a structural adjustment, government social spending declined, both as a share of total programmable government spending and as a percentage of GDP. The crisis also worsened the fiscal position of both the IMSS and ISSSTE as inflation eroded existing reserves and the value of new contributions. 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.[30]

In the short term, the economic crisis generated unemployment and stimulated growth of informal employment,[31] reducing social insurance coverage and increasing the pool of urban and rural poor in need of social assistance.[32] In the medium term, structural adjustment policies, including privatization and trade liberalization, institutionalized these shifts in the labor market. By the end of President Salinas's (1988-1994) administration, Mexico had liberalized its market for goods and services and begun to open its capital account to foreign direct and portfolio investment. Salinas also weakened labor contract and regulation enforcement, creating a de facto liberalization of the labor market.[33] These reforms all eroded the organizational and mobilizing capacity of formal sector labor unions, especially in tradable sectors.[34]

The 1980s crisis and liberalization policies also undermined popular support for the PRI and the ability of sectoral organizations (i.e., peasant and labor confederations) to guarantee electoral support for the party. The PRI's declining legitimacy and hegemony became evident first in local and state elections, where opposition parties gained ground in the mid-1980s. Dissatisfaction with the PRI also resulted in the defection of a large segment in 1987 and the hotly contested and fiercely questioned election of President Salinas in 1988. In response, 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.[35] Sectoral organizations, particularly labor, also held fewer nominations on PRI Congressional candidate lists since the 1980s.[36] 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.

The importance of partisan veto players in the national legislature has grown steadily since the 1980s, culminating in the loss of the PRI's majority in Congress in 1997. Since then, no single party has commanded a simple majority in either chamber of Congress, increasing opportunities for veto players to block welfare retrenchment and enhancing potential for expanding popular targeted welfare. The lack of a single-party majority also increased Congress's capacity to act as an institutional veto point. The power of Congress as an institutional veto point was especially pronounced following the 2000 election of President Fox (2000-06) because the National Action Party (PAN) did not command a plurality of the seats in either Congressional chamber. As a result, political bargaining within Congress and between the president and Congress should hinder retrenchment efforts and facilitate the expansion of social assistance through logrolling and political bargaining.

In Mexico, economic liberalization occurred before complete democratization. This sequence created incentives for social insurance retrenchment and the targeting of social assistance while the ruling party still controlled important decision-making institutions. While the ruling party enacted some social insurance reforms that reshaped Mexico's welfare regime, key political actors blocked important reforms. Expanded political competition prevented additional social insurance reform efforts. In addition, economic reforms created demand for non-contributory social assistance for the growing urban and rural poor while political competition created incentives for politicians to provide such benefits. Table 2 summarizes the main policy reforms and proposals of the three administrations explained in the following sections.

TABLE 2 HERE

Explaining partial social insurance retrenchment (1988-2006)

Salinas (1988-1994)

In response to the financial problems facing social insurance, 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 reform not increase labor taxes, which would compromise Mexico's international competitiveness.[37] To protect competitiveness, reforms had to maintain or reduce existing contribution rates while seeking to ensure the system's viability.[38] Policymakers considered a complete overhaul, including extensive privatization, of the public pension systems of both public (ISSSTE) and private (IMSS) sector workers. Because the administration needed labor support for the North American Free Trade Agreement, or NAFTA, it settled for a partial reform in 1992 of only the IMSS pension system.[39] The reform created a mandatory private pillar funded by a 2 percent employer contribution on workers' salaries. The reform was promoted as an additional benefit for workers paid for by employers as a means to solidify labor support, but it was actually considered the starting point for full privatization of public pensions.[40] 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 initially shaped social insurance reform. Policymakers believed competitiveness precluded reforms that would significantly increase contribution rates, so they looked for other models. 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 facilitate 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 PRI 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, a peso devaluation, and subsequent economic crisis. The 1995 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. Because Mexico's 1992 reform was never considered a permanent solution to the public pension system problems, social insurance reform moved back up the reform agenda. The result was a detailed study by the Zedillo administration of the entire IMSS system and 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.[41] The PRI also abandoned a reform of the housing fund to avoid union resistance.[42] As during the Salinas administration, employer organization and government reform proposals rejected merely reducing pensions or increasing the retirement age or contribution rates due to global competition concerns.[43] The government's initial proposal not only included privatization of IMSS pensions, but also envisioned flat rate health contributions and the privatization of healthcare services.[44]

In 1995, policymakers accomplished only the privatization of IMSS pensions. Privatizing IMSS's healthcare services would have reduced by 20% the size of the powerful National Union of Social Security Workers (SNTSS), so the government abandoned this proposal to avoid direct conflict with the union. Likewise, the Federation of Government Workers' Unions (FSTSE), which includes the powerful teachers' union, blocked ISSSTE pension privatization.[45] In these 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 privatizations requires considering the effects of economic and political factors on the capacity of domestic actors. By 1995, structural reforms, including trade liberalization and privatization, had weakened the size, strength, and mobilizing capacity of labor unions, especially in tradable sectors.[46] Labor contracts had become more flexible, despite no formal labor code reform. At the same time, democratization and internal reforms within the PRI marginalized the importance of the official unions. For these reasons, the PRI privatized 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 labor contracts or ISSSTE.[47] Because the PRI still controlled the executive and a majority in 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 of government employees that were employed by the IMSS or received benefits from ISSSTE in these non-tradable sectors. Nor could government officials use competitiveness pressures as an excuse to privatize medical services or to reduce government employee pensions. Further, unions in these sectors were more politically independent and able to mobilize workers, so the possibility of strikes was enough to preclude reform.[48] 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 ISSSTE reforms remained on the agenda.

Fox (2000-2006)

The Fox administration enacted a handful of reforms to the IMSS pension system, including a reform of pension benefits for IMSS workers. While the 2001 and 2002 reforms were largely technical,[49] the August 2004 reform of IMSS worker (SNTSS) pensions was highly politicized and triggered an intense clash among the SNTSS, the IMSS administration, unions representing IMSS beneficiaries, and political parties. This reform froze creation of new positions, discontinued use of IMSS reserves to pay SNTSS pensions, and required that new IMSS workers receive benefits through the privatized pension system rather than their labor contract. Though the SNTSS challenged the law in the courts, the courts upheld it. The reform resulted from 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 in its labor contract, offering pensions often exceeding 100% of salaries and an early retirement age. In late 2003 and early 2004, the SNTSS leadership failed to secure rank-and-file support for a new labor contract, which included significant increases in workers' pension contributions and the retirement age.

In response to the SNTSS's failure to approve the new contract, 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 scheme. The reform was proposed by PRI representatives with links to the official labor unions that represented workers receiving IMSS services and benefits; the reform also had the support of the PAN.[50] These unions publicly supported the reform because they believed the SNTSS benefits were negatively affecting those their workers receive from IMSS. Moreover, it is possible that they wanted to deal a blow to the SNTSS, one of the most important national independent labor unions.[51] Overall, the reform's immediate impact on Mexico's welfare regime is negligible. It has 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.[52]

During the Fox administration, the Finance Ministry and ISSSTE also formulated a reform proposal to privatize government workers' ISSSTE pensions and incorporate them into the system of private accounts created in 1995-1997. Though the government began discussions with unions,[53] the 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, the adopted reforms were mainly technical or did not directly challenge the interests of well-organized interest groups. The pattern of policy outcomes suggests that unions in non-tradable sectors continued to be a significant barrier to social insurance privatization efforts. The pluralization of Congress also made policymaking more difficult, as the power of veto players and the importance of Congress as a veto point both increased. Political actors, including unions, increasingly targeted their efforts to stop reforms, such as the 2006 ISSSTE proposal, in Congress, which is now recognized as the entity that determines laws.

The reform pattern also reflected globalization pressures. While benefits and employment for 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 moved social insurance reforms for government employees (both IMSS workers and ISSSTE beneficiaries) higher on the agenda. As the costs of benefits for government employment became the main expenditures in a state that has otherwise cut back, these costs continued to be targeted for reductions. In March 2007, President Calderón (2006-2012) attained a reform of the ISSSTE system similar to the 1995 IMSS reform, though with significant deviations to mitigate labor opposition.[54] The PAN sought to co-opt union leadership in ways not unlike those used in the PRI's heyday by offering selective benefits to union leaders, including union oversight of the public pension fund administrator created by the reform, to secure support from teachers' union leadership. This strategy was possible due to the fragmentation of government employee unions during the Fox administration. Legal challenges to the law by rank-and-file workers and dissident unions are on-going (as of late 2008), but the reform's central provisions are likely to be upheld by the courts.

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

Salinas (1988-1994)

Shortly after assuming office, President Salinas implemented the National Solidarity Program (PRONASOL), a targeted poverty-alleviation program. 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 debt crisis. It was largely funded by the revenues generated by the privatization of state enterprises and did not require new legislation.[55] The World Bank, which participated in the program's development, provided additional funding for its implementation in the poorest states.[56] 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.[57]

PRONASOL was notable also for the mechanisms used to target spending and for its widespread political manipulation. Officially, funds were to be targeted to marginal areas most affected by economic liberalization. In practice, however, funds went to areas where the PRI had historically enjoyed widespread political support or had recently faced significant electoral competition.[58] Furthermore, resource distribution bypassed elected state and local opposition leaders, creating new parallel institutions for the distribution of clientelistic benefits to individuals and "pork" in the form of infrastructure projects.[59]

In many ways, PRONASOL was a product of its economic and political environment. 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 compensation for liberalization, and the proceeds of privatization were central to financing the program. According to President Salinas, using privatization funds to increase social spending was "how the political consensus in favor of the [new economic] strategy was constructed."[60] In addition, targeting spending to alleviate poverty in marginal areas was consistent with globalization pressures to minimize government expenditures and with policy recommendations of international financial institutions that had actively promoted such targeted social policies.[61]

PRONASOL also reflected the increased electoral competition faced by the PRI. The program's pattern of targeted spending was 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.[62] Many studies have documented how PRONASOL expenditures were manipulated, showing that political rather than poverty criteria best explain resource distribution.[63] Furthermore, PRONASOL spending was concentrated on winning new voters in competitive areas rather than rewarding supporters concentrated in PRI strongholds.[64] Within the broader context of state welfare provision, 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 questioned its effectiveness at reducing poverty, the program was nevertheless effective at rebuilding support for the ruling party in both the 1991 mid-term and 1994 presidential elections.[65]

Finally, 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 or informal sector 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.[66]

Zedillo (1994-2000)

Though to some extent Zedillo owed his election to the popularity of PRONASOL, he did not support it after taking office. Initially, Zedillo significantly cut spending and transferred responsibility for infrastructure programs to state governments.[67] Shortly after losing its Congressional majority in the 1997 elections, the Zedillo administration christened a new targeted poverty alleviation program, Program of Education, Health, and Nutrition (PROGRESA). As part of the president’s budget, it did not require separate legislation. PROGRESA was self-consciously distinct from PRONASOL; its focus was on individual benefits and transfers for human capital development for the rural poor.[68] Benefits included healthcare, scholarships, income transfers, and health and nutrition education for low-income families in marginal rural areas. By the end of 1999, 2.3 million families were benefiting.[69]

Whereas PRONASOL expenditures were politically manipulated with little relationship to poverty levels, PROGRESA was hailed for its efficiency and more objective targeting of resources.[70] 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. Thanks to lobbying by local officials, municipalities supporting the PRI but technically ineligible to participate received benefits.[71] PROGRESA expenditures may have generated higher levels of support for the ruling party in communities receiving benefits.[72]

As with PRONASOL, PROGRESA’s timing and characteristics are consistent with both increased electoral competition and the effects of economic liberalization on the 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 transparency and implementation are to be expected given the increase in mid-term political competition.[73] Consistent with expectations that electoral competition leads political parties to provide benefits for swing voters rather than rewarding core supporters, PROGRESA reflects the PRI’s shift from providing benefits to the unorganized, rural poor rather than its core corporatist constituents.

Meanwhile, economic liberalization and the 1995 crisis expanded under- and unemployment, creating demand for compensatory social spending. Rather than rely 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 design consistent with recommendations for efficient social spending in a globalized economy because of its emphasis on cost-containment and human capital.

PROGRESA is also 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 later created to direct PRONASOL. The ministry became a counterweight to both the IMSS and the Health Ministry, where targeted social policy or healthcare provision was concentrated before the Salinas administration. The increased transparency of PROGRESA 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.[74] This illustrates how reforms blocked by powerful veto actors contribute to the creation of new institutions, or institutional layering.

Fox (2000-2006)

In his administration's first year, Fox rechristened PROGRESA Opportunities (Oportunidades), made modest adjustments, and enhanced transparency. The changes did not require new legislation, just approval of the president's budget. From 2000 to 2005, the number of covered families doubled to five million, and included the semi-urban and urban poor.[75] Opportunities also began providing transfers rather than goods and services to beneficiaries, a move consistent with the administration's market orientation. The program continues to be cited as a model poverty alleviation program.[76]

The Fox administration also sought to expand access to healthcare for those not covered by social insurance. Technically, those not covered by one of the social insurance institutions have access to Ministry of Health services. Historically, however, the Ministry has had insufficient resources to meet the needs of the uninsured, especially in rural areas, which is why PRONASOL, PROGRESA, and Oportunidades provided healthcare through IMSS clinics. Prior to his appointment as Minister of Health, Julio Frenk advocated comprehensive health sector reform to extend coverage,[77] but reorganization of the health services provided by IMSS, ISSSTE, and Ministry of Health proved politically problematic. Instead, the administration created a new program, Popular Insurance (Seguro Popular), to expand coverage among the uninsured. The program's proposal was submitted to Congress in November 2002 and approved in April 2003, just before the mid-term Congressional election. The initiative passed when the Fox administration was otherwise facing resistance to its legislative agenda, especially tax reform. As might be expected for such a program, Popular Insurance enjoyed multi-partisan support, passing in Congress with a large majority.[78] Opposition to the program came from leftist legislators who opposed the required contribution for enrollment.[79] In response, regulations exempt families in the lowest two, and families with children under five in the lowest three, income deciles from contribution requirements. By mid-2004, nearly 800,000 families, or roughly 2.5% of the national population, had enrolled.[80] More than 95% of those enrolled receive non-contributory benefits.

The expansion of Opportunities and creation of Popular Insurance 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 social insurance. Rather than promoting formal sector employment and universal social insurance, the government provides targeted human capital investment and benefits to informal sector workers and the poor. This welfare strategy is largely consistent with expected effects of economic liberalization. Further, 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 Party of the Democratic Revolution (PRD)—which would prefer universal social insurance. Additionally, Opportunities and Popular Insurance illustrate how policy legacies result in institutional layering and ad hoc welfare transformation. Because systematic reform of existing welfare institutions was politically infeasible and blocked by vested interests, new institutions were created to address rising demand for benefits and services for those not covered by social insurance.

Discussion and conclusions

The partial retrenchment of social insurance and the expansion of social assistance described above illustrate the effects of economic liberalization, democratization, and policy legacies on welfare regime change in Mexico. Economic liberalization 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 the findings of many studies are contradictory.[81] 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 also indirectly affected social protection outcomes by undermining the capacity of formal sector workers in tradable sectors to defend social insurance benefits, including pensions, from retrenchment pressures. The uneven effects of economic liberalization across tradable and non-tradable sectors are evident in the delayed reforms that threatened the benefits or livelihoods of organized workers in non-tradable industries, such as education and healthcare. This contrast between reforms in policy areas affecting tradable and non-tradable industries suggests 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 claims that institutional and partisan veto players lead to both more and less extensive welfare states.[82] The dynamic of veto players blocking social insurance retrenchment and facilitating social assistance expansion is also consistent with arguments that the politics of welfare retrenchment differ from those of expansion.

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.[83] 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 some studies explain 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 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, or the creation of new welfare institutions alongside old to meet new demands or political goals. Such institutional change may be incremental, but can ultimately transform 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 today's liberal welfare regime.[84] 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.[85] The Mexican case and argument developed here provides theoretical insight into these shifts. 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 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: Hypothesized effects of globalization and democratization on welfare institutions

	Contributory social insurance	**Non-contributory social assistance**
	Formal labor market	Informal labor market and the poor
	Globalization	
Indirect effects	Weakens organized workers in tradable sectors, social insurance beneficiaries	Expands demand among poor & informal sectors, social assistance beneficiaries
Direct effects	Creates retrenchment pressure via concerns about competitiveness	Increases emphasis on human capital investment and "efficient" spending
	Democratic competition	
Indirect effects via PRI support	Reduces support from formal sector social insurance beneficiaries	Increases importance of territorial support, diversification of goods provision
Indirect effects via decision-making	Partisan allies block retrenchment for non-tradable sector workers	Partisan fragmentation facilitates logrolling and expansion of targeted policies
	Policy legacies	
Existing welfare institutions	IMSS (private sector) and ISSSTE (public sector)	IMSS-COPLAMAR (1973-1988) (rural poor)

Table 2: Effects of globalization and democratic competition on welfare policy outcomes

Changes		**Welfare outcomes**	
Globalization	**Democratization**	**Contributory social insurance**	**Non-contributory social assistance**
Salinas (1988-1994)			
Trade and some financial liberalization	Local and state competition; change in PRI structure; PRI controls Congress	Failure to privatize public pensions; creation of mandatory private pension pillar	PRONASOL
Zedillo (1994-2000)			
More trade and financial liberalization	Local and state competition, PRI loses Congressional majority	IMSS (private sector workers) pension privatization; failure to privatize ISSSTE pensions and IMSS health services	PROGRESA
Fox (2000-2006)			
Culmination of economic liberalization	Competition at all levels; divided government; no Congressional majority	Pension privatization for future IMSS (public sector) workers; failure to privatize ISSSTE pensions	Opportunities and Popular Insurance

Endnotes

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[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.

[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* (New York: Cambridge University Press, 2008).

[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 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 use IMF *Government Finance Statistics* data on "Social Security and Welfare" spending, which combine social insurance and social assistance expenditures. Most studies treat these data as if they measure only social insurance or pensions, when in fact they do not.

[5] Average trade openness, net foreign direct investment, and gross private capital flows in relation to the size of the economy in Latin America and the Caribbean were relatively constant throughout the 1980s, but all three expanded types of economic integration grew in the 1990s, with capital account openness nearly doubling over the decade. See World Bank, *World Development Indicators CD-ROM* (Washington, D.C.: World Bank, 2001).

[6] Garrett 2001; Kaufman and Segura-Ubiergo 2001. See also, 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. Beyond the OECD, see Garrett 2001; Kaufman and Segura-Ubiergo 2001; Rudra 2002.

[11] Kaufman and Segura-Ubiergo 2001; Wibbels 2006; Brooks 2008. Few Latin American countries provide unemployment insurance as compensation.

[12] Kaufman and Segura-Ubiergo 2001; R. Douglas Hecock, "Electoral Competition, Globalization, and Subnational Education Spending in Mexico, 1999-2004," *American Journal of Political Science*, 50 (October, 2006), 950-61.On human capital and development, see 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).

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

[14] 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.

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

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

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

[18] Beatriz Magaloni, Alberto Diaz-Cayeros, and Federico Estévez, 2007.

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

[20] 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. 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 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.

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

[22] Diaz-Cayeros and Magaloni, "The Politics of Public Spending. Part I."

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

[24] 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; 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.

[25] 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.

[26] 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).

[27] For example, new members in the United States Congress in 1974 layered new committee institutions upon existing ones because they were unwilling or unable to change the existing institutions in which other members of Congress were invested. Eric Schickler, *Disjointed Pluralism: Institutional Innovation and the Development of the U.S. Congress* (Princeton: Princeton University Press, 2001).

[28] Further, coverage tends to track closely with economic growth, but since the 1980s, expansion of social insurance coverage has lagged behind economic growth.

[29] Rose J. Spalding, "State Power and its Limits: Corporatism in Mexico," *Comparative Political Studies*, 14 (July 1981), 139-61. The focus here is on national social protection providing in-kind benefits and transfers lasting more than one presidential administration. Mexico has also periodically provided universal subsidies for food (e.g., milk or tortillas) and other basic needs (e.g., electricity) and programs for rural agricultural development. 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.

[30] 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.

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

[32] Mexico does not have public unemployment insurance, though the national labor law requires firms to provide severance pay for unjustified dismissals. In practice, however, enforcement has been weak due to significant costs associated with pursuing disputed benefits in labor courts.

[33] The Federal Labor Law has not been reformed since 1973. On labor policy under Salinas, see Francisco Zapata, *El sindicalismo mexicano frente a la estructuración* (Mexico City: El Colegio de México, 1995) and Francisco Zapata, Tiempos neoliberales en México (Mexico City: El Colegio de México, 2005).

[34] Kurtz 2004.

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

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

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

[38] Contribution rates for the IMSS were raised in 1993, but the increases were insufficient to sustain the system and thought to threaten Mexico's competitiveness.

[39] Interviews with reform team member and first president of regulatory agency of the privatized pension system, 2001.

[40] Interviews with three members of original government reform team, 2001.

[41] Interviews with PRI deputy, former SNTSS leader, and five government officials who participated in the reform process, 2001; Brooks 2008.

[42] Madrid 2003.

[43] 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.

[44] CEDESS 1995; González Rossetti 2004.

[45] On pensions, see Madrid 2003, Brooks 2008, and Dion 2002. On health, see Dion 2002 and González Rossetti 2004.

[46] Unionization data are notoriously unreliable or unavailable in Mexico. IMSS coverage data, which the government uses to estimate the size of the formal private sector or workers that could potentially be organized, indicate that in 1989-94, an average of 280,000 workers were covered, while this dropped to an average of 190,700 workers for 2001-2006. Over this same period, the ratio of IMSS-covered workers with permanent positions declined relative to those with seasonal or temporary positions. See Felipe Calderón, *Primer Informe de Gobierno: Anexo*, Presidencia: Mexico City, 2007.

[47] Interview with SNTSS leader, 2001.

[48] 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 reforms.

[49] In 2001 the Congress approved a largely technical reform that did not directly challenge any of the rights or benefits of workers but 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 system, allowing investment abroad. Neither reform was very politically contentious. Though some political actors oppose investing pension funds abroad, most agree that rates of return need to improve and that the domestic market cannot supply sufficient safe investment opportunities.

[50] Interviews with member of the IMSS Technical Council, representative of the employer sector, and representative of the Union Nacional de Trabajadores (National Union of Workers, UNT), 2005.

[51] 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 a founding member of the UNT, the SNTSS has historically held at least one deputy seat in the national Congress on the PRI proportional representation list.

[52] Because the 2004 reform applies only to new workers, its financial impact will not be felt for decades. However, court precedent may facilitate similar legislation in sectors, such as electricity and petroleum, singled out as having “privileged” labor contracts. In the new SNTSS-IMSS labor contract of October 2005, new workers will be required to work longer for retirement benefits capped at 100 percent of the last salary, while benefits of current and retired workers will not change,.

[53] Interview with ISSSTE official, 2004.

[54] These concession include a higher guaranteed minimum pension, a public, non-profit pension fund administrator for government workers with significant union oversight, and changes in the calculation of contribution credits for current workers.

[55] Non-contributory social assistance is included in the President’s proposed budget and does not require separate legislation. Only during the Fox administration did opposition legislators add provisions to ensure transparency.

[56] Salinas 2001, pp. 407-8; World Bank, “Mexico: Country Assistance Evaluation,” Operations Evaluation Department, World Bank, Washington, D.C., 2001, p. 5.

[57] Magaloni, Diaz-Cayeros, and Estévez 2007, p. 40.

[58] 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 Sociologicos* (mayo-agosto 2000), 329-62; 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.

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

[60] Salinas 2000, p. 409. Translation by author.

[61] Santiago Levy, “Poverty Alleviation in Mexico,” Policy Research Working Paper Series from The World Bank, no. 679, May 31, 1991; Graham 1994; Laurell 2003.

[62] Magaloni, Diaz-Cayeros, and Estévez 2007.

[63] Molinar Horcasitas and Weldon 1994; Bruhn 1996; Dion 2000; Magaloni, Diaz-Cayeros. and Estévez 2007; Magaloni, 2006, ch. 4.

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

[65] Magaloni, 2006, ch. 4.

[66] Though PRONASOL led to the creation of a new ministry, some services, including healthcare, were subcontracted from the IMSS.

[67] Laurell 2003, pp. 94-5.

[68] Juan Pardinas, “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.

[69] Laurell 2003, pp. 342-3.

[70] John Scott, “Progresa: 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 Progresa, Mexico’s Latest Federal Poverty-Alleviation Programme, under the Zedillo Administration,” *Journal of Latin American Studies*, 33 (August 2001), 513-38.

[71] 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.

[72] 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.

[73] Pardinas 2004, p. 67; Alina Rocha Menocal, “Less Political and More Pro-Poor? The Evolution of Social Welfare Spending in Mexico in a Context of Democratisation and Decentralization,” *Nord-Sud aktuell*, 3/4 (Quartal 2005), 346-59.

[74] González Rossetti 2004, pp. 85-6.

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

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

[77] 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).

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

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

[80] Centro de Estudios Sociales y de Opinion Pública 2005.

[81] See note 4.

[82] 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.

[83] Rocha Menocal 2005.

[84] 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.

[85] 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.