

# SOCIAL SECURITY AND HEALTH POLICIES IN LATIN AMERICA: The Changing Roles of the State and the Private Sector

*Silvia Borzutzky*  
*University of Pittsburgh*

- SALUD Y CRISIS EN MEXICO: TEXTOS PARA UN DEBATE.* Coordinated by Ignacio Almada Bay. (Mexico City: Siglo Veintiuno, 1990. Pp. 393.)
- SOCIAL POLICY FROM THE GRASSROOTS: NON-GOVERNMENTAL ORGANIZATIONS IN CHILE.* Edited by Charles Down, Giorgio Solimano, Carlos Vergara, and Luis Zúñiga. (Boulder, Colo.: Westview, 1989. Pp. 219. \$32.00.)
- ESTADO DEMOCRATICO Y POLITICA SOCIAL.* Edited by Ernesto Isuani, Emilio Tenti, Susana Lumi, Laura Golbert, Rubén Lo Vuolo, and Claudio Pérez I. (Buenos Aires: Editorial Universitaria, 1989. Pp. 261.)
- SOCIAL SECURITY IN LATIN AMERICA: ISSUES AND OPTIONS FOR THE WORLD BANK.* By William P. McGreevey. World Bank Discussion Paper Number 110. (World Bank: Washington, D.C., 1990. Pp. 100. \$7.95.)
- ASCENT TO BANKRUPTCY: FINANCING SOCIAL SECURITY IN LATIN AMERICA.* By Carmelo Mesa-Lago. (Pittsburgh, Pa.: University of Pittsburgh Press, 1989. Pp. 290. \$49.95.)
- PRIMARY MEDICAL CARE IN CHILE: ACCESSIBILITY UNDER MILITARY RULE.* By Joseph L. Scarpaci. (Pittsburgh, Pa.: University of Pittsburgh Press, 1988. Pp. 192. \$24.95.)
- HEALTH SERVICES PRIVATIZATION IN INDUSTRIAL SOCIETIES.* Edited by Joseph L. Scarpaci. (New Brunswick, N.J.: Rutgers University Press, 1988. Pp. 321. \$37.00 cloth, \$15.00 paper.)
- HEALTH CARE IN PERU: RESOURCES AND POLICY.* By Dieter K. Zschock. (Boulder, Colo.: Westview, 1988. Pp. 301. \$24.85.)

The history of social security policies in Latin America, Europe, and the United States is intimately linked to the nature and functions of the state and the pattern of economic development, particularly the dual processes of urbanization and industrialization. Thus in Latin America, adoption and expansion of social security programs has depended on the pace of social, political, and economic processes.<sup>1</sup>

1. For an overall analysis, see Carmelo Mesa-Lago, *Social Security in Latin America: Pressure Groups, Stratification, and Inequality* (Pittsburgh, Pa.: University of Pittsburgh Press, 1976).

Although the first large programs appeared in the Southern Cone as early as the 1910s and 1920s, most of the preliminary literature on social security emphasized the legal aspects of the programs while ignoring the political and economic components. Only in the 1970s did analysts begin to focus on crucial political and economic issues like the role of the state, the role of pressure groups, and the economic impact of these programs on the state, beneficiaries, and the rest of the society.<sup>2</sup>

The eight books under review focus on the economic and political dimensions of current social security and health policies in several Latin American countries. The critical issues today are the role of the state (more specifically the overall reduction of state functions in many Latin American countries) as well as the role and performance of the private sector, which is emerging as a major economic actor as a result of neoliberal economic policies. Another central issue is the high cost of social security and health. The cost problem is particularly acute given the serious economic crisis afflicting Latin America over the last decade and its impact on the poorest sectors of Latin American societies. Yet during the 1980s, Latin America experienced a democratization and reactivation of political organizations, and now these new democratic governments are having to fulfill at least some of the more pressing demands for health and other forms of social protection being made by grass-roots organizations. The works under review also discuss the impact of democratization in the region on these policies.

### *Industrialization, Populism, and the Development of Social Security*

In terms of social security and health programs, Latin American countries can be classified into three groups: the pioneers (Argentina, Brazil, Chile, Cuba, and Uruguay), which adopted fragmented programs in the 1920s; the countries that developed programs in the 1940s (Colombia, Costa Rica, Mexico, Peru, and Venezuela); and the countries in which social security did not appear until the 1950s or 1960s (most of Central America and the Caribbean countries).

The establishment of social security systems in the pioneering countries was closely connected with the development of a small industrial sector and the end of the outward-oriented export model of economic development following the massive economic dislocations produced by the Great Depression. As in Europe, the industrialization process created in Latin America a working-class movement concerned mainly with bread and butter issues, working conditions, workmen's compensation, and old-age pensions. To the extent that Latin American governments responded,

2. *Ibid.*; and James M. Malloy, *The Politics of Social Security in Brazil* (Pittsburgh, Pa.: University of Pittsburgh Press, 1978).

what resulted was a piecemeal approach to social policy that granted old-age pensions to workers in key economic activities.

The economic dislocations created by the depression and the ensuing political crises reflected the incapacity of oligarchic governments to react to the new social and political problems. As a result, new or drastically reformed political systems were established in Argentina and Uruguay by the 1910s, in Chile in the 1920s, and in Brazil in the 1930s. The founding of large social security programs occurred simultaneously. Since their inception, clear connections have been evident between the appearance of a new form of state (the populist state), the expansion of political rights, and the emergence of fairly comprehensive programs of social insurance. The populist state emphasized the state's socioeconomic functions in response to a set of perceived public needs.<sup>3</sup> In Latin America, the new needs had been occasioned by the impact of industrialization on societies that were characterized by profound and widespread social and economic inequalities.

The new populist regimes arose out of broad multiclass coalitions and involved a process of state-sponsored industrialization as well as expansion of the functions of the state, which included establishing socioeconomic benefits for the most important sectors of the urban working class, usually miners and petroleum workers. Thus social security policies did not result from a universal or coherent approach but were developed in a piecemeal fashion as special benefits for certain sectors of the working class. The beneficiaries were organized urban workers, civil servants, and the military—that is, the key political and social actors. Political power and connections with state structures thus determined both the extent of coverage and the quality of the benefits received. Moreover, in such a context, social security benefits were perceived as economic rights that supplemented insufficient wages by providing special allowances, subsidies, and benefits.

Because of the close connections between the larger political and economic processes and the evolution of social security policies, the decline of populist coalitions and exhaustion of the import-substitution model were bound to have a devastating effect on social security. By the 1960s, the countries that had adopted such policies early on were experiencing financial crises as social security costs rose to more than 12 percent of the gross national product (GNP) in countries like Chile and Uruguay.<sup>4</sup> These systems were also being scrutinized from the standpoint of equity and administrative efficiency. Attempts to reform the system encountered strong opposition, however, and in the long run, systems have been reformed only as a result of large-scale political changes.

3. Leon Duguít, *Law in the Modern State* (New York: B. W. Heusch, 1919), p. xx.

4. Mesa-Lago, *Social Security in Latin America*, 284.

The Latin American countries adopting programs early did so in the piecemeal fashion described above, while the countries that adopted social security systems after the 1940s established more uniform and standardized systems of benefits. In this group of countries (Colombia, Costa Rica, Mexico, Peru, and Venezuela), the Beveridge Report and the recommendations of the International Labor Office (both issued in the early 1940s) were highly influential. As Mesa-Lago observes in *Ascent to Bankruptcy*, "even though a certain degree of social security stratification is evident in several of these countries, it has never approximated the level apparent in the first group. The late appearance of social security in this second group, as well as its relative unity and standardization and its lower risk and population coverage, has generally kept these systems from encountering the administrative and financial problems experienced by the first group" (p. 5).

Finally, in Central America and the Caribbean (with the exception of Cuba), social security programs did not appear until the 1950s and 1960s. Social security coverage in these countries remains scarce, usually limited to urban areas. These countries' main difficulty comes in expanding coverage. Here again one finds a clear connection between the delayed process of political and economic development and the delayed appearance of social security programs.

The distinction between the three groups of countries—early, middle, and late adopters—is essential for understanding the evolution of the programs in the 1960s and 1970s and the nature of the problems they are facing today. The early adopters were able to develop extensive but fragmented systems in terms of coverage and the quantity of benefits, but they now have to deal with extremely high costs and inequities in the benefits. For example, Argentina, Brazil, and Chile made several attempts in the 1950s and early 1960s to reform their systems, but all such efforts were defeated by labor unions, political parties, and other interest groups. In the final analysis, reform was possible only after populist or democratic governments were replaced by bureaucratic-authoritarian regimes.

### *The Bureaucratic-Authoritarian Regimes and Social Security Reform*

The most comprehensive social security reform took place in Brazil in 1967 and Chile in 1981. In Brazil the reform under General Humberto Castelo Branco unified the administration of the system, eliminated the role played by organized labor, and expanded coverage to employers and the self-employed. In 1971 coverage was expanded to the rural population through a special program financed by taxes on agricultural products and the payrolls of urban enterprises. James Malloy's analysis of Brazil characterizes this reform as another dimension of the patrimonial nature of the

Brazilian state and the desire to disarticulate the populist state.<sup>5</sup> The Brazilian experience highlights three important issues. First, only an authoritarian regime could have wielded the muscle required to reform the system and impose some minimum standards of equity and administrative rationality. Second, during the reform process, the military and the social security technocrats relied on well-established forms of interest aggregation. Third, they viewed this reform as an essential part of the economic and political model being developed by the regime.

In Chile in the 1960s, the importance of the issue and its impact on society were effectively described by President Eduardo Frei during his term of office: "The multiplicity, disparity, privileges, omissions, and injustices of the present social security laws constitute not only a permanent source of insecurity and unrest but also a paralyzing obstacle to the implementation of the plans of economic development and social reform on which we are embarked."<sup>6</sup> Despite President Frei's commitment to reforming the social security system, his attempts encountered the opposition of political parties, unions, and workers' associations. Both Frei and his successor Salvador Allende expanded coverage: the Frei administration carried out a "de facto" expansion to the rural sector, and the Allende administration expanded coverage to self-employed urban workers. By 1970 the Chilean system was covering 71.9 percent of the population but was also experiencing serious financial crisis. Shortly after the coup in 1973, the regime of General Augusto Pinochet began to focus on the need for social security reform. It enacted a partial reform of the pension system in 1978 and a full reform in 1981.

Massive repression and the elimination of Chile's political system were the hallmarks of the Pinochet regime between 1973 and 1975. The years from 1978 to 1980 witnessed the establishment of a new institutionality under the Constitution of 1980 and consolidation of the power of neoliberal economists. Known as the Chicago Boys, they totally transformed the Chilean economy and the roles played by the private and public sectors in the economy. From the beginning, reform of the social security system was considered essential to this process, and under the direction of Minister of Labor José Piñera, the Pinochet regime implemented the most thorough social security reform in the hemisphere.<sup>7</sup>

This reform involved reducing the role of the state, transforming social security into a compulsory private insurance system, and privatizing administration of the system. According to Piñera, the reform was a

5. Malloy, *Politics of Social Security in Brazil*, 132.

6. Eduardo Frei, *Mensaje presidencial*, 21 May 1965.

7. Silvia Borzutzky, "The Chicago Boys, Social Security, and Welfare in Chile," in *The Radical Right and the Welfare State: An International Assessment*, edited by Howard Glennerster and James Midgley (Hertfordshire, Engl.: Harvester Wheatsheaf, 1991), 79-99.

key regime step that would help change the economic and political culture of all Chileans.<sup>8</sup> In fact, the impact of the reform has been felt in the rest of Latin America as well because it set new parameters for discussing social security and health policies throughout the region and challenged the assumptions that had guided social security policies since the beginning of the twentieth century.

The Chilean reforms stressed the concept of individualism and replaced the common fund system with a system of individual capitalization. Now individual accounts are administered by private corporations, Administradoras de Fondos de Pensiones (AFPs), which were created solely for the purpose of managing pension funds. Thus the size of an individual's pension depends on the amount of capital accumulated in his or her fund. The retiree has the option of obtaining the pension directly from an AFP or buying a life or temporary annuity from an insurance company. This private insurance system is complemented by a system of minimum pensions partially supported by the state. As I have argued elsewhere, two aspects of the new system are noteworthy. First, the military and the police maintained their old systems. Second, the reform involved establishing a state-enforced private insurance system that is compulsory for all who began working after 1980. Older workers who decide to switch plans must stay in the private system.<sup>9</sup>

In the area of health, the central issues in Chile have been reducing the role of the state and introducing the Institutos de Salud Previsional (ISAPREs), which provide an optional type of private health insurance modeled on the U.S. Blue Cross and Blue Shield systems. Simultaneously, the functions of the central government have been reduced and responsibilities transferred to the local governments or municipalities. Joseph Scarpaci's *Primary Medical Care in Chile* provides an excellent analysis of the reforms undertaken by the Pinochet administration. It also contains extensive data on all the essential aspects of medical care as well as a forceful critique of the nature and impact of these policies. Scarpaci argues that the Pinochet regime was operating "under the premise that a minimum level of medical care should exist for the poor and the working class . . . while encouraging investment in high technology curative medical care. . . . This is a free-market approach in its early stages: consumers are free to choose providers according to their preferences and purchasing power" (p. 136). As with social security, the health reform carried out by the Pinochet regime went beyond providing and financing specific social welfare benefits. It involved a major redefining of the roles played by the public and private sectors and the adoption of free-market models

8. José Piñera, speech presented to the Seminario sobre Reforma Previsional y Evaluación del Plan Laboral, Santiago, 29 June 1980.

9. Borzutzky, "The Chicago Boys," 95.

based on an individualistic approach to social policy. In this context, the role of the state has been reduced to a minimum.

From a political standpoint, it is important to note that the Chilean reforms were the actions of a highly authoritarian regime and were implemented at a time when the regime dominated the entire political arena. In the Chilean case at least, a clear connection exists between neoliberal reforms and dominance by an authoritarian regime.

### *The Current Issues*

Over the years, Carmelo Mesa-Lago has made invaluable contributions to analysis of the nature and evolution of social security and health care policies in Latin America. His latest book, *Ascent to Bankruptcy: Financing Social Security in Latin America*, compares the systems in Costa Rica, Cuba, Chile, Mexico, Peru, and Uruguay. This study emphasizes the performance of each system, the major problems facing each country, and recommendations for reforms based on social security principles like unity, standardization, universality, and solidarity. Like Mesa-Lago's other works on this subject, *Ascent to Bankruptcy* will become an essential source of information and an indispensable tool for future research on the topic. It contains basic data on coverage extension, nature of the benefits, and cost of social security and health care programs. The data collected has been rigorously compared and carefully analyzed. Mesa-Lago also provides suggestions for policy reforms that should be seriously considered by the social security agencies in each country and by international organizations providing assistance to Latin American countries in the area of social security and health care reform.

Dieter Zschock's edited collection, *Health Care in Peru: Resources and Policies*, complements both Mesa-Lago's and Scarpaci's contributions with an assiduous analysis of the Peruvian health care system. What is striking about the Peruvian situation is the enormity of the country's medical problems, which include a low life expectancy (fifty-nine years) and the second-highest infant mortality rate in Latin America—more than ninety deaths per thousand live births, 50 percent higher than the Latin American average of sixty-three infant deaths per thousand (p. 3). The Zschock volume analyzes the extent of the health problems in Peru and the policies pursued by the government. *Health Care in Peru* concludes with suggestions emphasizing three major necessities: to improve the quality of care provided by the existing services (particularly the primary health systems), to improve hospital services, and to develop more efficient personnel and administrative policies.

*Salud y crisis en México: textos para un debate*, edited by Ignacio Almada Bay, is the weakest of the books under review here. Its goal is to provide an inventory of the major health problems of the general population, and

specifically the working class, in Mexico and to present theoretical and practical responses to address that damage (p. 13). This collection of essays exhibits two major problems: it fails to produce a comprehensive catalog of the problems, and even more important, it lacks intellectual and analytical coherence.

Scarpaci's *Primary Medical Care in Chile*, Mesa-Lago's *Ascent to Bankruptcy*, and editor Zschock's *Health Care in Peru* all highlight the value of case studies in this field. Such studies fulfill at least two significant goals. First, they provide basic data on a country or a group of countries that provide the basis for a comprehensive overview of the problems and the policies. Second, case studies become essential components of the larger endeavor to understand and analyze these policies at the regional level, their connections to the broader issues of economic development, and the nature and impact of the different types of political regimes.

Covering the middle ground between a theoretical discussion of relevant political and economic issues and a policy analysis is the collective work *Estado democrático y política social*, edited by Ernesto Isuani et al. It combines a historical interpretation of the development of Argentine social policy with an analysis of specific policies like housing, social security, and health. Although the chapters were written by different contributors, all of them emphasize the nature of the current problems in each area and propose specific answers to those problems.

The theoretical chapter by Ernesto Isuani and Emilio Tenti is the strongest in the volume. The authors analyze a set of controversial but essential issues: the fragmented nature of the Argentine state and its equally fragmented policies; the contradiction between the need to accumulate capital and the need to maintain legitimacy; and the state's basic obligations to the society in terms of well-being (*bienestar*) and equity. *Estado democrático y política social* is weaker in the specific policy areas because the contributors find it difficult to translate these complex theoretical concerns into specific recommendations.

Several issues have emerged from this brief overview of the literature thus far. In the area of social security, Latin American countries must deal with high costs and lack of equity in the case of the early adopters or with expansion of coverage in the case of the latecomers. Countries in both categories, however, are experiencing a serious financial crisis that can be solved only by increasing revenues or reducing expenditures or both.<sup>10</sup> In the area of health, the problems in Latin America are clearly reflected in high infant-mortality rates, high rates of mortality from infectious diseases, and relatively low life expectancy. In this region, the general health problems associated with underdevelopment have been com-

10. Special section, "Social Security in Latin America," in *Economic and Social Progress in Latin America: 1991 Report* (Washington, D.C.: Inter-American Development Bank, 1991).

pounded by elitist health-care systems that have served mainly those who live in the urban areas. The need to expand primary services into the countryside and marginal urban areas has been highlighted by numerous studies.

Among them, William McGreevey's *Social Security in Latin America: Issues and Options for the World Bank* provides a comprehensive summary of the issues affecting social security and health policies in Latin America, including social security costs and efficiency, provision of social security to the poor, health care under social security, and macroeconomic problems produced by the social security program. McGreevey's monograph also presents comprehensive tables and data on each of these topics. *Social Security in Latin America* concludes with a series of policy options for the World Bank stressing that its policy is to reduce the role of the government and enhance the role of the private sector. The last section discusses the changing roles of the public and private sectors.

### *The Dilemmas for the 1990s*

In socioeconomic terms, the 1980s in Latin America have been dubbed "the lost decade." This period was characterized by a dual phenomenon with the effect of a one-two punch: first, unprecedented financial and economic dislocations produced by international conditions and then the harsh impact of the subsequent adjustment programs on low-income groups. Both trends have exacerbated existing structural economic problems and the pronounced inequities in income distribution. Consequently, levels of real per capita income have declined sharply over the last decade, in some cases reaching pre-1970s levels. Real wages also declined by about 25 percent for the region as a whole, while unemployment remained high.<sup>11</sup> According to one report, the compounded effect of the decline in real wages, unemployment, and underemployment has expanded the number of Latin Americans living in extreme poverty to 164 million (38 percent of all households).<sup>12</sup> Initial expectations that social security could ameliorate these inequities have turned out to be unrealistic because most analyses show that such programs either reinforce existing inequities or, at best, have no impact on income distribution. From the standpoint of health, although basic statistics have improved, general levels remain far below desirable targets, particularly in rural areas.

Yet despite adverse economic conditions, Latin America has witnessed the end of virtually all of its military regimes and the reappearance of elected civilian governments. One would expect that as democratic

11. *Economic and Social Progress in Latin America: 1990 Report* (Washington, D.C.: Inter-American Development Bank, 1990), 26–29.

12. *Ibid.*, 27.

structures and channels for political participation are reestablished in many of these countries, the pressures for social programs on the new governments will increase. To what extent will these new regimes be able to satisfy growing demands for policies geared toward ameliorating the consequences of extreme poverty? And to what extent will the regimes manage to continue to apply the neoliberal economic policies of the 1980s?

These issues are dealt with in the last two books under review, both edited collections. *Social Policy from the Grassroots: Nongovernmental Organization in Chile*, edited by Charles Down, Giorgio Solimano, Carlos Vergara, and Luis Zúñiga, discusses the emergence in Chile of a large number of grass-roots organizations concerned with solving various social problems. The appearance of these organizations coincides with the decline of the Pinochet regime and the revitalization of civil society. Clearly, these organizations can be instrumental in defining problems, proposing solutions, and supervising the implementation of policies. They can also provide an effective new channel of communication between the state and sectors of civil society. Moreover, if the democratic regimes prove to be fairly stable, it is not difficult to imagine that grass-roots organizations in the 1990s may play a major role in formulating and implementing social policies. *Social Policy from the Grassroots* represents an initial attempt to examine these organizations and their role. Although this volume lacks a cohesive structure and is uneven in quality, it nevertheless enhances understanding of the new political context in which future policies are likely to be formulated.

Finally, one comes to the question of privatization and the new roles assumed by the state and the private sector in social and health policies in Latin America and the rest of the world. As Joseph Scarpaci argues in his introduction to *Health Services Privatization*, "on the eve of the 1990s . . . , privatization stands high on the agendas of national, state, and local governments. It is one response to the global economic downturn of the late 1970s and 1980s. . . . Such sentiment about privatization represents a backlash against liberal welfare policies. Its great popular appeal is that it proposes to curtail public spending, increase cash reserves, and reduce taxes." The scope of this volume and the quality of all its articles are impressive in addressing the most critical issues in health care in the United States, Western Europe, and Latin America.

*Health Services Privatization* discusses the changing role of the state, labor, consumers, and practitioners as well as the impact that privatization is likely to have on society—the central issues affecting social security and health policies in the 1990s everywhere. The basic assumptions underlying the welfare state have been challenged, and the private sector has acquired or is acquiring a major role in many countries in the area of social policy. But as recent demands for national health insurance in the United States indicate, there are definite limits to the role of the private sector in

the context of declining economic conditions. Some functions will always have to be performed by the state.

In Latin America, the reduction of state functions in some areas and attempts in some countries to expand the role of the private sector can already be seen. For instance, a reform package recently approved in Peru is almost a carbon copy of the Chilean reform. Such policies appeal to the ruling political elite because they allow a temporary reduction of the state functions in this area. But the decline in living standards and socio-economic conditions throughout Latin America will force the state to remain involved in the process. As James Malloy has observed, "public policies give form and substance to the phenomenon of citizenship,"<sup>13</sup> and to the extent that democratization continues, expansion of the concept of citizenship and the demands for policies that fulfill that concept can be expected. Thus despite the wave of privatization taking place today, the pressures for expanding and improving social security and health policies and services are likely to increase as democratization continues.

13. James M. Malloy, "Statecraft, Social Policy, and Governance," in *The State and Public Policy*, edited by James F. Hollifield and Guy Peters (Boulder, Colo.: Westview, forthcoming).