



# SOCIAL DEVELOPMENT IN LATIN AMERICA

The Politics of Reform

edited by Joseph S. Tulchin & Allison M. Garland



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# Social Development in Latin America

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## The Politics of Reform

edited by

Joseph S. Tulchin  
Allison M. Garland



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# The Politics and Administration of Social Development in Latin America

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*Allison M. Garland*

In response to the debt crisis of the 1980s, countries throughout Latin America instituted sweeping monetary, fiscal, and financial reforms, adopting neoliberal policies to reduce the size of the state and liberalize trade in order to participate more competitively in the global economy. These programs stabilized macroeconomic indicators, brought low rates of inflation, restored economic growth, and allowed countries in the region to return to international capital markets. In spite of these advances, rates of poverty and indigence, which rose dramatically during the “lost decade” of the 1980s, only recently regained the levels held in 1980. While the percentage of poor households in Latin America decreased from 41 percent (200 million) to 36 percent (204 million) between 1990 and 1997, levels remained nearly the same as those attained in 1980, 35 percent (136 million).<sup>1</sup>

Even more disturbing, income inequality in the region did not improve during the 1990s and remains as high today as it was two decades ago. On average, the Latin American and Caribbean region is the most unequal region in the world in terms of income disparities. The poorest 30 percent of the population receive 7.5 percent of all national income, while the wealthiest 10 percent receive 40 percent.<sup>2</sup>

Economic restructuring and reform programs that have allowed countries to compete in international markets have also resulted in greater disparity between the beneficiaries of globalization and those left behind. Widening income differentials between skilled and unskilled workers contribute further to inequality. Countries that successfully tackled serious inflation problems continue to be plagued by joblessness and an erosion of real wages. Unemployment, which dropped from the mid-1980s to the early 1990s, began to rise in the mid-1990s as a result of the 1995 Mexican peso crisis, and again in



1997 in response to the Asian financial crisis.<sup>3</sup> A survey of regional economic performance found that unemployment in Greater Buenos Aires reached 20 percent in 1995.<sup>4</sup> Another report issued in the same year found that real wages in Argentina, Mexico, and Costa Rica had not recovered to their 1980 value and that average real wages in Peru were down to just 47 percent of their 1980 value.<sup>5</sup> The hardest hit by these trends in the labor market are women, young people, and the poor.<sup>6</sup>

Changing socioeconomic conditions have created a tremendous sense of instability and uncertainty among the citizens of Latin America. Unequal growth and development have further polarized the region, eroding social cohesion. Difficulties in gaining access to health care, education, and employment generate perceptions of social defenselessness in a world that is increasingly competitive and challenging. In this context, crime and violence have found fertile ground for growth.

Throughout the region, social issues—unemployment, income distribution, poverty, and insecurity—have risen to the top of the political agenda and have come to pose a serious threat to the consolidation of democracy. The inability of governments to respond to social problems threatens to undermine public confidence in democratic institutions. There is a growing sense in the region that growth alone cannot address these problems without a powerful political commitment to poverty alleviation and redistribution of the nation's resources. Many observers have asked why it has been so easy to conceptualize and implement a new economic model for the region while social sectors remain untouched. Why has the social question been so difficult to deal with in Latin America?

There is a growing realization within the hemisphere, and in financial centers of industrialized nations, that social reform is a condition upon which economic and political stability rests—that the still tenuous economic and political successes in the region over the past decade may be undermined by poverty and inequality. An increasing sense of social exclusion threatens the consolidation of democracy in Latin America. Old patterns of distribution created a system based on patronage and clientelism, relying on massive welfare bureaucracies to manage social demands channeled in a highly centralized fashion through political parties and labor unions. That system has been rendered anachronistic by the dual transition to a market economy and to political democracy. It is no longer a viable system: It is corrupt, inflexible, and inefficient. Now, welfare reforms must carefully be devised to improve access to and the quality of social services, while at the same time contributing to the strengthening

of democratic institutions. As the region's governments redefine their role, the state's relationship with citizens is being transformed. Ultimately, success hinges on the ability of governments to restructure social-sector agencies, overhauling and modernizing organizational processes; to reallocate ability of governments' duties; and to safeguard reforms from political interference.<sup>7</sup>

### The Challenge of Institutional Reform

weak public-sector institutions. In fact, social spending in Latin America compares favorably with other regions of the world.<sup>8</sup> However, most analysts agree on the poor performance of social programs due to not the amount of resources allocated to social-sector expenditure, but the distribution and poor performance of social programs due to weak public-sector institutions. In fact, social spending in Latin America compares favorably with other regions of the world.<sup>8</sup> Pouring additional funds into the current system will not improve social conditions because of structural flaws within government institutions and because of public-spending policies that favor the wealthy and the politically powerful.

Much of the literature about social policy and public-sector reform in Latin America emphasizes the need to look first and foremost at large, ineffective social ministries as obstacles to progress. In many countries, efforts to implement more-constructive approaches to the delivery of essential public goods and services pale in comparison with the central role played by national systems. For example, Venezuela's Ministry of Education is by far the country's largest single employer, followed by the Ministry of Health and the social security system.<sup>9</sup>

As the sole providers of social services, ministries administer public goods in a highly centralized structure that rarely consults beneficiaries or bodies responsible for program implementation at the local level. As a result, the central monopoly over social services has had a crowding-out effect on local government and other actors. Organizational processes have yet to be modernized and are plagued by strong institutional inflexibilities. The administrative structure lends itself to excessive influence and interference of interest groups. Ministry units dealing with services for the poor are "less sophisticated and well connected than units responsible for higher education or for hospitals." Doctors usually control policy choices in health ministries, which are "virtually an agent of the profession in some countries."<sup>10</sup> Social ministries do not enjoy high status and those chosen

to head them are not strong leaders nor do they have political clout. High turnover at the top translates to both a lack of continuity in leadership and increased influence of bureaucratic interests.<sup>11</sup>

Health and education ministries in particular are often deeply divided internally and have failed to tackle the challenges of sectoral integration and coordination of policies. Most countries in Latin America offer a wide range of social services and programs, often with overlapping objectives. Rarely do those involved in the design and delivery of services come together to organize efforts in a clearly defined set of national priorities for an overall strategy toward poverty alleviation and social equity.

Problems rated in this lack of integration and coordination are compounded by failures in program design and evaluation. Uncertain objectives and ambiguity in criteria for selection of program beneficiaries can often be attributed to an absence of specific diagnostics of the population's needs. A 1995 assessment of antipoverty strategies employed throughout the region finds that "there are no in-depth evaluations of the programs' impact on the living conditions of their beneficiaries, nor studies to determine the actual coverage of the target group or to identify sectors that are excluded."<sup>12</sup> Unlike economic progress, it is very difficult to measure and monitor input and output of social services; it is impossible to assess the impact of policies without sufficient data. "Countries spend a great deal to measure inflation, the fiscal deficit, output, and the balance of payments accurately. Poverty, income distribution, and social indicators are never measured with equal care," concludes Nora Lustig in another comprehensive study of social policies.<sup>13</sup>

Without accurate data collection or sophisticated program design and coordination, deep-rooted patterns of social exclusion, clientelism, and corruption continue to pervade state services, reflecting a system ruled by corporate interests and political patronage. In spite of stated policies of universalism, large segments of the population are excluded from social services, particularly rural workers and urban poor employed in the informal sector. Social policies formulated in this context have had a regressive effect on income distribution in Latin America. Reforms to address equity in the distribution of public goods will invariably challenge vested interests and traditional patterns of political power.

In spite of powerful interests to protect policies that have been biased toward Latin America's elite and the middle class, there is widespread consensus today for the need to tackle institutional and structural obstacles to equitable growth. Reform of the state now means much more than downsizing or policies of liberalization, privatization,

and deregulation. Political leaders, with the encouragement of international lending institutions, have shifted beyond efforts to reverse policies founded on populism and import substitution to pursue a course toward institutional development.<sup>14</sup> Focus on social-welfare issues has brought public attention away from mediating the costs of adjustment to deeper concerns about the quality of and access to social services, particularly health and education. However, the region lacks a model for addressing more difficult second-generation reforms.

This volume addresses the challenges of implementing second-stage, deeper reforms that consolidate democracy by changing institutions. The authors reflect upon the ways in which social reform in particular has been politically and technically more complex than the introduction of radical changes in economic policy. While macroeconomic reform was rapidly implemented in the context of crisis, often in a top-down technocratic or autocratic manner, social reform has proven to require a lengthy process involving ongoing monitoring and adjustment that can open opportunities for opponents to block change. Democratization in Latin America has made it difficult for political leaders to institute reform by decree or other executive measures, requiring greater public participation, consensus building, and compromise around reform. Success has been achieved with the creation of stakeholders and the mobilization of new constituencies through greater involvement of civil society.

### Strategies for Change

Many policymakers, with enthusiastic support from multilateral development banks, have embraced decentralization as a tool both to improve services and strengthen democracy by bringing decision-making closer to the citizen. In response to political and fiscal decentralization, local governments have assumed greater responsibility and are held more accountable for service provision. A 1996 World Bank study details how innovations at the local level can be harnessed to drive the next stage of reform. The report illustrates decentralization efforts that brought improvements in administrative performance and the quality of public services; strengthened fiscal management; enhanced private-sector development; and increased participation in local and regional decisionmaking.<sup>15</sup>

While there is uniform eagerness to increase the involvement of civil society at the local level, decentralization is not a panacea. Studies that trace the effects of decentralization show mixed results. Decentralization has given rise to conflict in the allocation of

responsibility and finance among the federal, state, and municipal governments. In some cases, municipalities shoulder increasing responsibilities for social development without an increase in transfers from the central government. In others, states have received sizable revenues for social services, but their efforts to deliver services have been rife with inefficiencies and financial disarray. At issue here is the ability of municipalities to build capacity as well as an independent tax base to support locally delivered social services. Inefficiencies and weaknesses encountered in the central government similarly appear in local-level public institutions with the same implications for quality, productivity, and effectiveness of social services. Finally, decentralization can "create problems of equity within countries, in the absence of central quality monitoring and financial and technical aid for poorer districts."<sup>16</sup>

In the same vein, there is a need for more empirical evidence to support the current enthusiasm for privatization. Advocates argue that the contracting-out of social services has introduced competition, providing users with choice as a tool to leverage quality and responsiveness. Yet evidence from ten years of privatized schools in Chile suggests little improvement in test scores.<sup>17</sup>

In spite of concerns about scale, capacity, quality control, and administration, decentralization and privatization have opened up opportunities for nongovernmental organizations (NGOs) to join local governments and the private sector as growing providers of social services. As national governments scale back to accommodate international rules of finance, local actors have increased their influence over the design and implementation of social policies. Furthermore, NGOs and community-based organizations are playing an expanded role in channeling the demands of civil society as they become more actively involved in articulating the political interests of the poor. Shifts in administrative patterns inevitably precipitate changes in political forces. As new actors are empowered in administrative terms, new political players are created.

Social policy research suggests that significant reforms in addressing poverty and inequality are possible only when issues of political economy are tackled. While traditional actors such as political parties, bureaucracies, and labor unions still play a crucial role in the fate of social reforms, their influence has waned with the rise of new political players.

The costs and benefits of adjustment have by no means been distributed equally among Latin America's social classes. Many of the social reforms proposed today pit working-class interests, traditionally represented by labor unions, against the interests of the poor. While

labor unions have played a significant role in corporatist urban Latin America, their response to the reconstruction of a centralized state is uncertain. Financial constraints imposed by the global economy have further reduced the room for maneuver of labor unions and workers.

Social service sectors employ large numbers of people who are organized in strong unions and enjoy civil service rules that offer broad protections and benefits. In many cases, single unions bargain with national ministries charged with wide-ranging powers to make personnel decisions, creating a strong stake in the old system. Labor laws seriously compromise the possibility of restructuring the public sector, particularly social-sector agencies. Often, labor unions representing social sectors are affiliated with political parties, contributing further to a system of patronage.<sup>18</sup>

Latin America's political parties have similarly served as a vehicle for the expression of middle-class demands. Yet, democratic institutions, particularly political parties and legislative bodies, are increasingly perceived as corrupt, ineffective, unresponsive, and ultimately to be discredited. Research surrounding the administration of social policies and the political expression of social demands raises serious questions about the implications of social reform for the consolidation of democracy. The failure of traditional forms of representation to channel social demands, and the inability of the state to address the basic problems of poverty and inequality, erode citizen faith in the democratic process and threaten stability in the region.

Recent episodes of social unrest in Latin America, such as in Chiapas, Mexico, offer insight into the frustrations of the poor. Without basic standards of social equity, the fabric of Latin American society is beginning to unravel, manifest in political protest and violence, ultimately threatening the consolidation of democracy in the region.<sup>19</sup> Successful economic and social policies have created new stakeholders who serve as powerful advocates for reform, but absent among the participants in the policy process are the poor, whose voice remains diffuse and poorly organized. Opportunities for the formation of citizenship and creation of connections between vulnerable social groups and the state or its intermediaries remain limited.

In a drive to prove their ability, some governments have implemented social-welfare reforms in a very undemocratic fashion. The most successful social programs, such as social-emergency or investment funds, have been created outside of social ministries and are administered by small, highly skilled technical groups. Institutional bypassing undermines efforts to strengthen national governments and their democratic institutions. This is a particularly sensitive concern for a region with a legacy of authoritarian rule.

Social reforms, like economic reforms, are easier to implement when they are safeguarded against interference from partisan politics and political clientelism. However, these protections may increase efficiency at the cost of transparency, accountability, and ultimately, public participation. In order to be successful, social reforms require the support and involvement of a wide range of actors within the government, across ministries, and within various levels of state and local governments. More importantly, these government actors must, in turn, gain the support of the citizenry for policy proposals.

Political leaders must learn how to communicate clearly the policies they advocate and persuade the public of their value. The media, NGOs, and citizen-based organizations share in this responsibility to inform the public, mediate demands, shape reforms, and help make connections between the state and society. Only in this way will citizens, particularly the poor and the marginalized, become empowered to participate meaningfully in the policy process.

As federal governments in Latin America redefine their role, some analysts have expressed concern that the collapse of the overcommitted state threatens to result in the “under-engaged state.”<sup>20</sup> Central governments have a critical role to play in providing coordination, technical support, and information as well as in ensuring equity.

### **The Structure of This Volume**

Analysis of public-sector reform efforts in Latin America has primarily focused on strategies to redefine the role of the state in the economy. This volume examines social reform as a facet of larger public-sector reform efforts currently underway in the region. These changes will significantly alter the relationship between the state and its citizens; yet, there has been little serious consideration of the political, social, and economic consequences of the trends. Better understanding of these issues in governance is at the top of the research agenda for Latin America.

The chapters in this volume explore the issues that make the social question so difficult to solve, identifying lessons learned or “best practices” from research and analysis in comparative perspective. Examining the political economy of social reform, chapter contributors explore how the costs and benefits of economic adjustment and growth can be more equitably shared.

This book is organized into two parts. Part 1 offers a broad perspective of the challenges facing social reform in the region. Addressing deeply held beliefs and traditions concerning entitlements,

the role of government, and its responsibilities to citizens, the contributors consider the dynamics that aid or impede the implementation of effective reform strategies.

Part 2 looks beyond general conclusions about the politics and administration of social policies in the region to explore more critically specific country studies. The cases of Chile, Venezuela, Argentina, and Mexico are by no means intended to provide a comprehensive review of welfare reform in Latin America, but rather were selected to highlight some of the major issues facing the region as it approaches the issues of poverty and inequality.

### *Part 1*

In Chapter 2, Merilee Grindle outlines a social agenda that emerged by the mid-1990s in response to more than a decade of disturbing trends in poverty and inequality in Latin America. A broad consensus from a variety of perspectives developed around the need to reform social-sector policies, programs, and delivery systems. In this context, the capacity of traditional interest groups, such as public-sector bureaucracies and unions, to obstruct reform has been overstated, according to Grindle. The real challenge to reform, she argues, can be found in the inherent problems of second-generation institutional and administrative reforms. She concludes that organizational design and management that vex the agenda-setting and implementation phases of the policy process deserve much greater attention in the analysis of the political economy of social-sector reform.

In Chapter 3, Joan Nelson concurs with Grindle that there is remarkable convergence in the recognition that social-sector reform is imperative to the consolidation of economic adjustment and democratic opening in Latin America. Why then, she asks, has systematic reform in social sectors been so difficult? In contrast with macroeconomic reforms that were implemented by a small group of technical experts in a context of crisis, social reform entails the involvement of a number and variety of actors in a gradual, participatory approach. Progress has been most visible in pension system reform, Nelson argues, because the Chilean model offers a sound alternative around which debate in the rest of the region could be shaped. In contrast, the absence of a clear model has slowed efforts to introduce systemic reform in the health and education sectors.

A popular way to evade formidable opposition to institutional change and shifts in resources is to set up programs outside of main-line ministries. Safety net programs and social funds offer flexible, rapid, and highly visible means to deliver social services in a less



politically charged environment. In chapter 4, Carol Graham considers the lessons learned from social safety net programs for reform of social-sector institutions over the longer term. The effectiveness of safety nets illuminates the need to target social policies to the truly disadvantaged rather than the politically powerful and vocal. Experience also demonstrates the importance of incorporating the participation of beneficiaries and local institutions to create new stakeholders, improve local capacity, and ultimately enhance the sustainability of poverty reduction efforts. Safety nets, Graham warns, must not divert attention from necessary public-sector reform, but should be implemented within a sound macroeconomic policy framework designed to generate growth over the long term.

Judith Tendler shares Graham's concern that resources and attention are directed toward social funds rather than the larger task of public-sector reform and institution building. In Chapter 5, Tendler raises questions about the current enthusiasm for social funds, suggesting that the international development community and national governments should consider other models for permanently organizing and providing services for poor communities. Tendler challenges assumptions about the superiority of the features of social funds—decentralization, partial privatization, and demand-driven approaches to service delivery. Research finds little evidence that social funds have achieved stated goals of creating sustainability and ownership, or of reducing unemployment and poverty. Remedies such as increased monitoring and supervision, transparency, training, and public information would drive social-fund programs into a more costly, supply-driven direction, leaving little to distinguish them from traditional government programs. The more successful social funds, such as the Chilean FOSIS, Tendler points out, are integrated into line ministries and receive the majority of their funds from national governments instead of international donors.

## *Part 2*

In Chapter 6, Dagmar Raczyński details the case of Chile, which leads the way in human development in Latin America and is often referred to as a model for integrating a far-reaching and sophisticated social policy system with economic growth strategies. Raczyński follows the development and impact of social policies in Chile as they were shaped by seventeen years of military rule and then, beginning in 1990, by the Concertación governments of Presidents Patricio Aylwin and Eduardo Frei. While the neoliberal policies of the military regime left the country with macroeconomic stability, poverty levels