Latin America
A New Developmental Welfare State Model in the Making?

Sonia M. Draibe - Manuel Riesco
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## Acronyms

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<th>Acronym</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>BWI</td>
<td>Breton Woods Institutions</td>
</tr>
<tr>
<td>CELADE</td>
<td>UN Latin American Demographics Centre (Centro Latino Americano de Demografía)</td>
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<tr>
<td>EAP</td>
<td>Economically Active Population</td>
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<tr>
<td>ECLAC</td>
<td>Economic Commission for Latin America and the Caribbean</td>
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<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>FTA</td>
<td>Free trade agreement, agreements</td>
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<tr>
<td>FTAA</td>
<td>Free Trade Agreement of the Americas announced by President George H. Bush in 1994, which seeks to create a free trade zone from Alaska to Tierra del Fuego by 2005.</td>
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<tr>
<td>ISI</td>
<td>Import Substitution Industrialization</td>
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<td>LA</td>
<td>Latin America, Latin American</td>
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<tr>
<td>LAD</td>
<td>Latin American Developmentalism</td>
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<td>LADWS</td>
<td>Latin American Developmental Welfare State</td>
</tr>
<tr>
<td>MERCOSUR</td>
<td>Southern Common Market (Mercado Común del Sur) conformed by Brazil Argentina, Uruguay, and Paraguay. Chile and Bolivia hold a special associate status.</td>
</tr>
<tr>
<td>PRI</td>
<td>Partido Revolucionario Institucionalizado, which governed Mexico during most of the 20th century.</td>
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<tr>
<td>SPS</td>
<td>Social Policy System. Social Protection or Social Policies System, usually meaning all such policies, including education, health, pensions, unemployment protection, poverty alleviation, etc. Social Policies include labour legislation as well.</td>
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<tr>
<td>TNC</td>
<td>Trans National Corporations</td>
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<td>UNDP</td>
<td>United Nations Development Program</td>
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<td>UNRISD</td>
<td>United Nations Research Institute for Social Development</td>
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<tr>
<td>US</td>
<td>United States</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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Out of the Fog of History. Editor’s Preface.

The editor would like to express his acknowledgements to his fellow authors of this book, and to the authors and research coordinators of the other books on the same subject matter that are simultaneously being produced in other regions of the world, within the same UNRISD project. In addition, to Huck-Ju Kwon, our General Research Coordinator at UNRISD who has put everything together, and Thandika Mkandawire, UNRISD Director, who created the project altogether. These acknowledgements are made extensive to the staff at UNRISD and each of the countries involved, who have made this book possible. It has been a rare privilege to work with all of you within the UNRISD project Social Policy in a Development Context.

This work is a clear call upon history for help, to try to better understand the present state and future paths of LA social policies, in a development context. However, may history be expected to say something on the matter? Rubens Ricupero tried to answer this question in a recent dissertation about the history of UNCTAD, delivered when he forwarded the command post of this UN organization. He recalled the apparent accuracy of Chesterton, who once said “History teaches us that History teaches us nothing.” Certainly, the world has evolved in a direction that seems amazingly different from what was expected four decades ago. Unexpected, paramount, historical events have completely changed our perception of then, regarding where the world is heading during this epoch.

Should this acknowledgement make us forget history as a useful guideline for action? Ricupero recalled what is possibly the most careful planned of all human engagements, which is non other than war – and the example is brought to our attention daily, as it is also the most damaging, uncivilized, and cruel, of human engagements, but sadly still recurrent. Commanders before battle, as Ricupero recalled, try to consider every possible element, aspect, and outcome. They count terrain and climate, international and local political environment, down to the mood and state of mind of enemy forces and their own. Nevertheless, every general knows that always, in the midst battle, out of the fog of war, will emerge the unexpected, which will completely change all of their planning. Moreover, they know that true commanding capabilities will be tested on how they will adapt to the unexpected emerging out of the fog of war.

It is the same with history, said Ricupero, we should carefully try to understand and take into account for its quite definitive and momentous patterns. Nevertheless, at the same time, we should always be aware that out of the fog of history would emerge the unexpected, that will both change and determine it future paths. The new directions, on the other hand, will always follow the course of historical patterns in one way or another. Moreover, he said, without ever abandoning our best purposes or surrendering our most enlightened inspirations, we should always be prepared to change the way we view and act upon things, quite radically and promptly, in order to take account of a reality that is always both predictable and unpredictable, at the same time.

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Introduction

Sonia M. Draibe – Manuel Riesco

This book is about the Latin American Developmental Welfare State (LADWS), its origins, raise, pinnacle and decline, also its recent Neoliberal form, and present perspectives. Drawing on long time series of empirical data, comparative literature, and deep case studies, it examines, its century-old history, the changing conditions, and institutional configurations, of the regional social policies systems. In Latin America in general terms, and in eight selected countries, Brazil, Argentina, Uruguay, México, Peru, Costa Rica, Cuba, and Chile.

Its core argument is that LADWS was the original historical form that led social and economic development in the particular conditions of the region during the 20th century. Approximately from the 1930s and up to the 1980s, under a peculiar form of developmental welfare state, late industrializing LA countries managed to transform their social and productive structures, in the backdrop of masses of peasants becoming salaried workers, incorporated to the dynamics and structures of urban market economies.

Since the 1980s, in the framework of globalization and promotion of pro-market reforms, the structural transformation of LA economies entered a new phase. As is well known, Neoliberal leadership has introduced severe instability to growth, employment, and social protection. Nevertheless, it has also promoted substantial alterations in economic and State structures in the region, including the decline of LADWS and the kind of socio-economic development they had favoured.

It may be asserted that the second policy prevails up to the present, with minor modifications, in most countries of the region. Nevertheless, the first years of the new century already register changes and movements that, affecting economies, political life, and ways of thinking, seem to be pointing, if not towards the end, at least to a significant inflexion of Neoliberal ideology and orientations. It is not by chance that retaking the path of development has regained the centre of attention of the new governments, some of them elected perhaps precisely because of that. Likewise, and in this case way over the LA borders, academic debate has again conferred legitimacy and importance to theories of economic development. Will these changes lead to new alternatives of economic development for LA? If that were the case, what would the role assigned to social policies in a new expansive cycle in the region?

New LADWS in the Making? has put together a set of LA scholars in the framework of the project Social Policy in Late Industrializers: A Comparative Study of Latin America, coordinated by Manuel Riesco (Riesco 2003). It is part of a wider research program, Social Policy in a Development Context, coordinated by Huck-Ju Kwon, by United Nations Research Institute for Social Development, UNRISD, directed by Thandika Mkandawire (UNRISD, www.unrisd.org). Organised into two strands, thematic and region-centred, comparative researches, this overarching program has
been conducting similar studies in late industrializers in East-Asia, Africa, Middle-East and North Africa, and Northern Europe.

Rooting the various studies in the common ground of the forms and types of welfare states, related to the patterns of modernization and economic development, this line of research has stimulated a productive confrontation of general concepts and typologies on the one hand, and historical circumstances and determinations on the other. The traditional concept of Welfare State has been unfolded into new, middle range, conceptual categories, such as the East Asian Developmental Welfare State (Kwon 1999; Goodman et al 1998) and now the Latin American Developmental Welfare State, advanced in this book.

**Subjects, theories, and methods: Integrated historical perspective**

The theoretical-analytical framework of the overall UNRISD project is oriented by the integrated approach of economic and social policies, and the historical method of analysis. The first positions social policies within their political and economic contexts, with special attention on the links between macroeconomic performance and the fundamental goal of improving human wellbeing. Prospectively, in the countries and regions under study, it tries to explore the possibilities of building a state society nexus that is developmental, democratic, and socially inclusive, as well as the role that social policy can play towards this goal.

The historical perspective suggests that the processes of economic and social transformation should be studied in all their complexity, and long duration cycles. In addition, it stimulates the identification of patterns, or routes of development, that different countries or groups of countries have followed, with the purpose of understanding their specificities. For this purpose, it considers crucial to persistently confront history and theory, historically determined processes and general concepts, and in the intellectual effort to construct new categories and concepts such as the above mentioned middle range welfare state regimes.

The unified approach between economic and social policy is certainly not new. For example, in the 1930s, the “Keynesian virtuous circle” tried to comprehend the peculiar dynamics of social and economic growth achieved by nascent welfare states (Offe 1984). Nevertheless, mainstream economic thought continues to treat these two dimensions quite separately, at most considering social policy under the perspective of factors of production.

Certainly, the UN system and agencies may deserve mayor credit for recovering, re-conceptualizing, and disseminating a unified approach of economic and social policy regarding economic development. Since the 1960s, under the concept of Social Development, UN agencies have asserted the thesis that social policy is a necessary condition for economic development. In addition, it is considered better if this process

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1 - Beyond the Latin American Project, the regional comparative strand encompass the following other projects: Social Policy in Late Industrializers: The Nordic Experience; Social Policy in Late Industrializers: Transforming the Developmental Welfare State en East Asia; Social Policy in Late Industrializers: Outcomes in the Middle East and North Africa; Social Policy in Late Industrializers: Sub-Saharan Africa and the Challenge of Social Policy. The thematic comparative research includes the following four projects: Macroeconomics and Social Policy; Democratization and Social Policy; Commercialization of Health Care: Global and Local Dynamics and Policy Responses; Gender and Social Policy. The literature produced by the projects is already quite voluminous and may be accessed at the UNRISD website (www.unrisd.org).
is oriented by clear ethical and normative principles. That no segment of the population is left out of development and social change, and the process is participative and oriented equally towards goals of equity and efficiency. In addition, it gives priority to the development of human potentials, especially those of children (Kwon 2003:5).

The concept of Social Development evolved successfully during the following decades, adding new contents such as Human Development and Investment in People, and emphasizing the imperatives of Inclusion and Social Cohesion. This concept has managed to become the strategic reference of other agencies and systems in many successive international forums, starting with the Copenhagen Summit on Social Development in 1995, the Millennium Development Declaration in 2000 or the Social Agenda defined at the UE Summit of Lisbon, in 2000 (Midgley 1999, 2003).

More recently, under the unified approach, developmentalist conceptions of economic and social policies have been resumed in the international debate. However, showing many different emphases, such a conception has tended to be strongly committed to sustainable and people-centred development. In addition, these viewpoints value macro-economic policies that promote employment, raise incomes, and attain other "people-centred" economic outcomes. Finally, to prefer social programs that are 'productivist,' and investment oriented, that is, social programs that promote economic participation, and generate positive rates of return to the economy (Midgley 1999; Midgley and Sherraden 2000).

UNRISD integrated approach certainly has advanced further than other currents of the unified approach, as it considers social policy as a starting point, whereas others begin with economic policy (UNRISD 2003 a,b, 2002). In this sense, it suggests a sort of audacious radicalization of the Keynesian argument. Furthermore, from a theoretical point of view, here it registers an additional and significant change of direction, towards a concrete, historical, approach to social policy analysis. Moreover, it moves farther away from all too abstract, one-size-fits-all schemes, which have predominated in the subject during recent decades. In LA, such a new theoretical base seems to support the emergence of a new developmentalist thought, whose main lines are presented in Chapter I.

Is there such a thing as a Latin American Welfare State? Have LA social policy systems managed to meet, in some way, the minimum institutional characteristics that could make them worthy of being understood under the concept of Welfare State? If that were the case, which would be their *differenta specifica, vis a vis* the Welfare

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2 The *productivist* conception, shared by many authors in its different versions of Social and Human Capital Investment, Workfare or Welfare to Work, New Welfarism, Positive Welfare or yet the concept of Active Welfare, seems to be a especial derivation of developmentalism. As a general case, these conceptions consider that in addition to redistributive purposes, social policy should enhance economic participation and make a positive contribution to economic growth. This is achieved through programs that enhance social and human capital and capacities to participate in the productive economy. *Productivist* conception is often associated to 1990’s European social democratic parties, especially the ‘third way’ trend and its prospects of an “active welfare state”, one that emphasizes the reduction of the social risks by means of education and training, aiming to transform citizens from the passive recipient of insurance benefits into independent co-producers of their own security. Well known slogans of this school, used by Blair, Clinton, Giddens, and others, show the different *productivist* trends in social policy: No rights without responsibilities! Making work pay! Work for those who can; security for those who cannot! Ending the welfare as we know! Less to the fathers, more to the sons! (Sen 1999; Taylor-Gooby, 1998, 2001; Holliday 2000; Giddens 2001; Sabel 2004).
States in developed countries, or even in other late industrializers in other regions of the world? Finally, if it were possible to talk about a LA Welfare State, how may that concept comprehend the wide internal diversity in the region, which so sharply distinguishes the different countries and localities, among themselves?

LA studies on social protection, with few exceptions (Mesa-Lago 1978, 1989; Draibe 1989a,b, 1995), have traditionally avoided the concept of Welfare State, and likewise, the concept of System of Social Policies. This has happened in other late developing countries as well, and has been usually founded on the base of the historical specificity of each region and its countries. Nevertheless, recent comparative studies on welfare states seem to offer incentive to break with this tendency.

In effect, historical research on the origins and trajectories of welfare states has advanced significantly since the 1980s, furthered mainly by studies on European Welfare States. In the mid 1980s, the monumental work of Peter Flora, *Growth to Limits* (Flora 1986) was of great significance. Since the beginning of the 1990s, *The Three Worlds of Welfare Capitalism* of Esping-Andersen (Esping-Andersen 1990) has led this fertile current. These new developments have been encouraged as well by two processes, mainly the European union 3 (Théret 1995; MIRE 1990, 1995, 1996, 1997, 1999; Cochrane et al. 1997), and the movement to reform and change the social protection systems (Pierson 1994, 1998, 2001).

The effort to identify different patterns or types of welfare states among widely differing national experiences has been peculiar to this theoretical production, as is well known. Its purpose has been less to classify countries according to “general” scales and variables that may be indicative of the degrees of social and economic development – which were typical in comparative studies during the 1980s. Rather, they have intended to group them according to similarities or typical historical configurations, captured by concepts such as welfare state regimes (Esping-Andersen 1990) and families of nations (Castles 1993).

The widely disseminated distinction made by Esping-Andersen of the three regimes that have configured Western European welfare states – liberal, conservative-corporatist and social-democratic – has defined a fertile methodology for the apprehension of such systemic variations. Among the criteria used, the following may be underlined as especially relevant: the composition of social provision 4, the degrees of autonomy of families and persons in relation to the market (de-commoditization), and the family system (de-familization), the interests and resources of power and the values of different social stratum and categories. In addition, the different political and institutional histories 5, dynamically considered (Esping-Andersen 1990, 1996, 1999; Gough 1999, 2001; Orloff 2003a; Pierson 2004; Sabel and Zietlin 2004).

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3 - This is clearly the case of the extensive program Comparing Social Welfare System in Europe del MIRE - Mission Recherche of the Ministere du Travail et des Affaires Sociaux of the French government, This program has commissioned over one hundred researchers and works presented in four large international colloquiums, the Rencontres de Oxford (1995), Berlin (1996), Florence (1997) y Copenhagen (1999).

4 - That is to say, the different “welfare mix” that result out of variations in the relative participation in social provision of the State, market, families and ONGs.

5 - Coherently with the tradition of historical institutionalism of Esping-Anderson and his followers, they emphasize the path-dependant nature of institutional development of welfare states, affected by their institutional legacy and policy feedback, Likewise, by international dissemination of institutions, and policy learning.
The intellectual trajectory followed by the “welfare regimes approach” (Abrahamson 1999) has been remarkable. One of its merits is to have established contemporary terms of reference for comparative and historical research in the field of welfare states. Such terms are distant from the formalism of pioneering works (Tittmuss 1958; Briggs 1961; Rimlinger 1971; Wilenski 1975), as well as later studies centred in the specificities of national social protection systems (Flora and Heidenheimer 1981; Flora 1986; Orloff 1988; Sckopol 1992).

In addition, middle range type of theorizations has contributed to avoid two frequent biases of historical analysis. On the one hand, mechanical application of concepts under the assumption that all countries should travel the same development stages and, on the other hand, the so called historicist risk, which tends to consider each particular history as a unique case, refractory to fit into any general pattern (Gough 2001).

Nevertheless, typologies are always limited, and the welfare regimes approach has not been exempt from strong criticism (Powell and Barrientos 2004; Gough 2001; Orloff 2003). Frequently, literature underlines the difficulty of applying such categories to countries other than Western Europe. Ironically, the arguments are sometimes contradictory. Some criticize the euro-centred bias of the historical association of the welfare regimes, which supposedly impairs their use outside the region. Others on the contrary, criticize the limited historicity, or inadequate generalization, of the welfare regimes. In this view, the three classic regimes of Esping-Andersen, based on the characteristics of only a small group of countries, would be insufficient to apprehend the characteristics of even other European countries, such as Italy and Spain.

In a certain sense, the concept of families of nations (Castles 1993) tries to amplify and deepen the historical categorization of welfare regimes. In addition to the above-listed features, this concept considers the historical-cultural conditionings, especially variables related to values and traditions shared by groups of countries. Such wider perspective has identified, for example, peculiar features of countries in Southern Europe, through concepts such as Southern Model of Welfare or Mediterranean Welfare State (Ferrera 1996, 1997). This conceptualization, in turn has been accused of considering the cases of Southern Europe only as sub-species of the welfare regimes (Flaquer 2000), and to present their particularities only as expression of the embryonic or insufficiently developed character of their forms.

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6 The typological effort has multiplied in innumerable works, in the midst of an intense an endless intellectual debate, so vivid that it has been provocatively referred to as “the welfare modelling business”

7 The feminist criticism to the male bread-winner model implicit in the welfare regimes has been quite relevant. Esping-Andersen has acknowledged such criticism, and added a gender dimension to his analytical tables, with domestic/family economics as a crucial sphere of social reproduction, together with other institutions of social policy.

8 The widespread thesis of inapplicability of welfare regimes to countries outside of Western Europe is based on the criticism that only that region was considered in the theoretical elaboration of the regimes. Nevertheless, this critique may be reflecting a limited grasp of these concepts, considered as ideal types, disregarding the fact that the effort of authors such as Esping-Andersen and the followers of historical institutionalism precisely try to capture historical characteristics and configurations that establish qualitative differences between groups of countries in Western Europe (Orloff, 2003b).

9 In this case, the criticism points to supposed insufficiencies and gaps in the variables considered to determine the welfare regimes.

10 The argument of “degree of development” is recurrently used in comparative literature about welfare states, to avoid the use of perhaps more clear wording such as “embryonic development”, “incompleteness”, “low coverage and extension of social programs”, “hybridism”, etc.
As an alternative to establishing limits such as above-described, there has been a movement to deepen into the knowledge of the origins and the processes of emergence, development, and consolidation, of the welfare states. This may be viewed as a way to “impregnate” with history, so to say, the categories with which their different welfare configurations are comprehended. A similar path seems to be followed by scholars who look back into the theories of modernization and economic development, in search for concepts and analytical instruments that may be adequate for historical and integrated treatment of the processes of socio-economic transformation, including the welfare state. Research into the origins and types of welfare states in LA as advanced in this book share the basic assumptions of modernization theory, enhanced with the critical revision to which it has been subjected during recent decades.

Since long time, sociological criticism has pointed out the limits which Modernization Theory has found explaining the movement, development, and maturity of societies 11. This critique is addressed not so much to the general direction assumed by this theory, which the real processes that have taken place during the 1990s have tended to confirm dramatically (Riesco 1995). Rather, it aims toward other postulates under which social change was thought about, such as unilateralism, linearity, uniformity of sequences, and convergence of phases and directions, among others 12. Based on such assumptions, it seemed natural to “measure” the different levels of development among countries through a few variables, with the metrics of the traditional-modern, rural-urban, or other, continuum.

Trying to capture the relative level of socio-economic development of a region, a country, or a zone within a country, is certainly very useful. Moreover, there is probably no other single factor that weighs more than this one, when trying to understand a specific society. Nevertheless, in last analysis, it is concrete, historical determined, processes, political outcomes, which configure the nature of societies, institutions and certainly social policy regimes among them. In those processes, myriad other factors, apart from the socio-economic structure, have to be taken into account. These factors are certainly conditioned, act over, and are determined by, the relative development of the underlying socio-economic structure, and its relative level of development. However, such determination seems quite light, and never definitive.

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11 In classical terms, the nucleus of modernization theory is, roughly, the process of transition from one model of society to another, specifically the process by which simple, rural societies, change into modern complex, industrial, types of societies. Modernization theory postulates that this is the unique and only direction of evolution and development of societies. In this sense, through the imperatives of industrialization, societies would converge and turn alike. Social, cultural and political changes move along together in this general process: urbanization, increase in social mobility, and educational levels; substitution of religious and conservative values by laic mentality and permanent innovation; substitution of oligarchic power by mixed political systems, based in the circulation of elites and the mediation of institutions and bureaucracies.

12 Wide and diversified literature – historical, sociological, and economic mainly – has pointed out that modernization theory has not adequately considered the importance of non-structural endogenous factors, as well as exogenous conditioning, in the origin and development of the industrialization process. In addition, it has pointed out the variations of the process in accordance to the different social groups who lead the process, as well as the impact of urbanization, education, and communications in the modernization of societies even in the relative lag in industrialization itself. In addition, the possible overlaying and composition, rather than outright rupture and opposition, between the traditional and modern sectors in the course of modernization, as well as social struggle, contradictions, differences and inequalities, as “normal” characteristics regarding the results of modernization.
In addition, usually events that were completely unaccounted for, which emerge out of the “fog of history,” in the most unexpected moments, in the end determine the concrete outcomes of these processes, which are always uncertain to the greatest extent. Because of this, it is very difficult to predict even the simplest socio-political event, least the course of the most complex outcomes of human activity, such as economic development, the evolution of institutions, the outcome of political events, and certainly, social policy. Socio-economic structures and the degree of development they testify upon, even past historical patterns and the course of current historical processes themselves, may be considered only as guidelines, conditions, historical legacies that may be changed. Nevertheless, no other approach seems to provide a richer insight than these, regarding the comprehension of current socio-economic and political structures, institutions, and events, and the charting of their probable future developments. It seems certainly unnecessary to further argue about the usefulness of this charting.

Incorporating these critiques, recent researches recover the thematic of development and construction of modernity, and bring them forward to the comparative studies on welfare states. Two works, the seminal study of Therborn (1995) and the more recent one by Ian Gough (1999), offer clear examples of this fertile research approach, specifically on its strong potential for elaborating intermediate level, historically circumstanced, categories. These authors try to identify from their origins the diverse paths to modernity (Therborn 1995, 2002) followed by different countries and groups of countries. These studies operate under the basic assumption that advances in terms of modernization of socio-economic structures, which they recover as useful and probably the single most relevant explaining factor, were nevertheless made through richly differing paths, and diverse socio-political, institutional, cultural, and other configurations.

This kind of approach certainly seems fruitful to understand the widely different contemporary societies that have resulted in LA out of an apparently similar origin. Moreover, would it be possible to establish relations between development pattern thus defined, and the characteristics of the social policies later developed in LA states in the north and the south?

13 See editor’s foreword.

14 In his overarching study “European modernity and beyond. The trajectory of European societies 1945-2000” (Therborn 1995), Göran Therborn postulates that the origins of contemporary regional characteristics should be reexamined in terms of four different routes to modernity. The endogenous European path; the settler societies of the New Worlds, including both North and South America; the Colonial Zone of Africa and much of Asia and, finally, the challenged countries of Reactive Modernization or countries with externally-induced modernisation (Therborn 1995; 1999; 2002). Of direct interest to LA thematic is his proposal that certain original marks of colonization have defined the peculiarity of the route observed in countries of the New World and South Africa in their later transit to modernity. This path, argues the author, is characterized by establishing simultaneously against the local indigenous populations and against the traditionalism in the settlers’ mother countries. According to how this variable behaves, this pattern unfolds in others: settler colonialism and genocide societies. This will be considered in Chapter 1, below (Therborn 1995, 2002).

15 This has been the effort of Ian Gough (Gough 1999, 2001), who suggests two types of welfare regimes according to the path to modernity proposed by Therborn. In his characterization, he adds to the criteria of Therborn, the different colonial legacies of Britain, France, Holland, Spain, Portugal, and others in the establishment of different settings for the emergence of the indigenous systems of social protection (Gough 1999:10). Considering such variable, the first step of this author has been to identify two types of welfare regimes, upon the four paths to modernity advanced by Therborn. A first type is formed by the groups Therborn calls the Endogenous but uneven modernisation (including central Europe, Russia, south-eastern Europe) and the Externally-induced modernisation (eg. Japan, China,
This book roughly follows this line of historical investigation, while being conscious of its limitations.

**Worldwide Ideological Sea Change?**

“Something tantamount to a paradigmatic shift” (Mkandawire 2000a: 14) seems to be taking place in the consideration of social policy in relation to economic policy, in a development context. While theoretical critique of Neoliberal ideology turns increasingly comprehensive in the field of economic and social policy, it is also seemingly adopting a stance that is quite on the offensive, thus ending decades on the opposite (Standing 2002). Economists who have been rather on the mainstream for years, will now agree that social policy and economic policy must be blended in a context of increased social spending, to counter globalization-induced inequities and insecurities that affect a majority of citizens in the region and other developing regions (Stallings 2002).

As is well known, during recent decades, the prevailing methodology of economic and social policies, and their interrelationships, as well as many other disciplines in science, seem to have been subject of excessive influence from one particular school of economic thought – so called Neoliberalism. In the case of social and economic policies, this influence has in fact frequently been exerted with outright exclusion of all other points of view. This phenomenon has manifested itself in academic and specialized circles in LA, with the resulting impact over public opinion and governmental policies. As this book will argue, the rise of the referred school of thought up to the hegemonic pedestal it still holds today, may probably be explained mainly because of reasons that root quite deeply into then prevailing needs of the socio-economic structures, and the historical evolution of the different countries that have applied them in lesser or greater extent. Nevertheless, this ascent has not been alien to the enthusiastic backing that such theories have received from powerful patrons. Such a support has been strategically conceived, efficiently organized, and implemented, by the BWI, among other deep-pocketed organizations.

Because of the referred conceptual hegemony, economic and social policies implemented in the region, have managed to advance considerably in those aspects that such a school of thought privileges. Such has been the case of macroeconomic equilibriums, privatization of state enterprises, openings to foreign investment and trade in general. In the field of social policies, this hegemony has resulted in the development of a strong industry of private social services, among other aspects.

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16 Such a theoretical shift has been extensively documented by UNRISD, according to whom, renewed interest in social policy stems from “the rediscovery of poverty in national and international policy discourse. And the realization that it is not a biologically given, but instead a socially constructed capacity or potential resulting from deliberate investment in human capital or institutional arrangements, that determines the participation of individuals from different social groups in labour markets.” Other factors mentioned by UNRISD are “the revival of interest in growth economics and the emergence of so-called ‘new growth theories’, which recognize that social development contains crucial instruments for economic development.” Also, “interest in social equity, both as an instrument for the promotion of growth and as an end in itself; an interest in social security, in light of the greater economic volatility of economies in the context of globalization and the greater vulnerability of ever-larger groups of people.” And, finally “historical lessons of the importance of social policy in the late industrializers.” (Mkandawire 2000a: i).
However, socio-economic analysis has tended to be oversimplified, and reduced to a just few variables. One-size-fits-all kinds of recipes have been recommended and quite forcefully applied everywhere. Meanwhile, little, attention has been paid to the complexities and particularities of each concrete situation, in the least, much less than required. The results of such policies certainly have not always been successful with respect to the objectives pursued. Rather on the contrary, those results have often been negative and quite painful in many a case, at least in the short run, for wide segments of the affected populations. This has occurred especially when the policies have been inspired by extremist versions of this school, as has been the case with fixed exchange rates, for example.

After over two decades of such hegemony over LA social sciences, it seems time to seriously engage a critical evaluation of its limits, at least in the realm of social policies in a development context. The main angle of criticism seems to point towards their excessively abstract character, that is, as mentioned, their tendency to reduce the analysis to a few variables. As is well known, this school is based on the results of mathematical optimizing procedures, applied over axiomatically assumed behaviours of individuals, regardless of their socio-economic environment. The variables considered may sometimes prove to be quite relevant, but in most situations, they do not seem to capture some of the predominant features and determinants of the social objects under study.

In this sense, it seems legitimate to think that an alternative, or rather complementary, methodology should point precisely towards approaching the object under study in all its complexity. Appreciate it in more concrete terms, considering as many determinations and aspects as possible. From this point of view, the essays presented in this book return to the social sciences that try to study total social subjects in their concrete and real movement, and in the interaction among them, in each determined epoch. As has been emphasized, the research has nourished itself from theoretical orientations based on the integrated approach to economics and social policy, on the historical-structural insights of contemporary modernization theories, on the contemporary debate over the patterns of the Welfare State, and especially upon history as a methodology.

Moreover, if history can teach something about the predominance of determined schools of thought, it is that they are never eternal, but rather ephemeral when considered in a longer time span. A cyclical form of movement, quite common in so many a phenomena in nature, seems to apply to the succession of schools of thought as well. It is well known, for example, that the hegemony of classical liberalism in economic theory during the 19th and first part of the 20th century gave way to Keynesianism in the wake of the 1930s world economic crisis. In the case of LA, the school of thought that replaced classic liberalism, and presided over 20th century state-led development, was called precisely LA Developmentalism, and was formalized as a development theory by ECLAC, around mid century (Ricupero 2004). By the end of the century, Neoliberalism and the Washington Consensus had replaced Developmentalism as the theoretical paradigm for LA development. Could then perhaps something like LA Neo-Developmentalism be in the making in LA, as a replacement of Neoliberalism in the wake of the current world economic crisis? The studies undertaken by the project Social Policy in a Development Context, in particular those referring to LA presented here have suggested some of the possible determinations of such a concept. They also suggest, as argued in this book, that such
a possibility may occur, or rather that that the chances for such an occurrence seem to be in the raise.

This theoretical and political “counter-counter revolution” (Mkandawire 2000a: 21), evolves in the backdrop of turmoil that burst over world economy, starting with the Asian crisis, in 1997. Since then, as it is well known, economic turbulence has been in the rise, with still no clear end in sight. Since the Asian crisis, as it has been repeatedly pointed out (Stiglitz 2003) mainstream economic predictions, as well as their recipes, seem no longer accurate, or effective any more. This has been particularly the case with the BWI, as well as local economic authorities throughout LA.\footnote{In LA, for example economic growth virtually stopped since 1997 and up to 2004. GDP growth slowed down from 3.6% a year between 1991 and 1997 to 1.8% from 1998 to 2001. Mean GDP growth of Argentine, Brazil, Mexico, and Chile taken as a whole slowed down from 4.9% to 1.9%, between the same periods, with all four countries experiencing at least one year of null or negative growth during the last period (ECLAC 2002). In Chile, aggregate demand was still 6% lower in 2003, than it was in 1998 (Fazio 2003).}

However, economic crisis of the magnitude of the current one do not only promote the emergence of theoretical and political movements, and currents, that may be considered as wide based, rational, democratic and progressive. While in the end such tendencies seem more likely to prevail, in the short run fear and uncertainty also stimulate the opposite. Extremist tendencies that try to confront crisis through the exacerbation, up to the point of aggressive irrationality sometimes, of the same kind of policies that led to them in the first place. Historical experience as well as dangerous international events that are presently developing, point to this frightening alternative possibility.

**Research questions**

Following the above described theoretical and analytical lines, suggested by the research framework proposed by UNRISD in *Social Policy in a Development Context*, the regional project *Social Policy in Late Industrializers: A Comparative Study of Latin America* (Riesco 2003) tried to focus the general questions of the overall UNRISD framework (Kwon 2002, 2003, MacDermott et al 2003) into the context of Latin America. It identified five groups of questions and hypothesis for LA, to be addressed at a country level.

The first group refers to the kind of relationship that has been established in Latin America, between social policy, economic development, and the underlying social structures. Asserting the hypothesis that a particular form of welfare state appeared since the mid 20th century in many countries of Latin America, it would be legitimate to ask: What was the relationship between State-led industrialization of the time and Welfare State development in LA? What kind of society did this peculiar institution developed in? What were its underlying social structures? What social groups did it address, mainly? How do the different stages of development of social policy in the continent correlate with the underlying social structures that prevailed at the same time? How do different historical patterns present in LA correlate with the evolution of Latin American Welfare State?

A second group of questions refer to the limits and crisis of welfare state and developmentalist experience in LA, during the last decades of the 20\textsuperscript{th} century.
Focusing on the transformations in the social structure and in processes such as globalization, it advances questions such as: What were the main determinants of the crisis and decline of the LA welfare state experience? What can be said now, about the momentous policy shift in the region, away from Developmentalism and toward Neoliberalism, experienced during the latter part of the 20th century?

A third group of questions refer to the Neoliberal experiences in LA during the last two decades of the century. Assuming that Neoliberal experiences have not followed a unique pattern, the key questions in this case are: Which determinants and characteristics distinguish the different kinds of experiences? Which were the characteristics of the social policy reforms in them?

A fourth group of questions refer to the differences in LA countries. Why are the countries and regions in LA so different one to the other? Why is their level of economic development so diverse? Why is it that they present such a wide range of differing social policies? What is the relationship between democracy and social policy in LA? Is it true that LA experienced a sort of Bismarkian period, where welfare states were developed some times by authoritarian regimes? What were those authoritarian regimes like? Were they different in their political constituency? What were the characteristics of those welfare states that may be related to the kind of regimes that implemented them? What was the role of social organizations and movements, and progressive parties, of the recurrent periods of massive political turmoil, in the development of the LA welfare states, regardless of the kind of governments that actually implemented them? In addition, in the Neoliberal experiences, what was the relationship between social policy and democratic representation? What was the effect of democratization over social policy in the different countries? Up to what point did democratization in the 1990s influenced Neoliberal social policy then implemented?

The last set of questions refer to the present situation, and the possibility of building in LA a State-society nexus that, in UNRISD terms, is economically developmental, politically democratic, and socially inclusive; a social policy that may become the heart of a new wave of LA developmental economic policy. May social policy become an answer for some of the current economic problems? Can such a new relationship between social and economic policy, during the present period, open way to a new wave of inclusive developmentalist policy in LA? Could it, in turn, reinforce the continued democratization process in the continent? What are the main economic and SP issues in LA today? Regarding social policies, upon which legacies and institutional capacities may the different countries count, in order to address the economic and political challenges of growth and consolidation of democracy?

The following studies have tried to answer some of these questions, exploring the general regional tendencies, exposed in Part I, and the particularities of each of the eight national cases, presented in Part II.
**PART I – Modernizing LA in the 21st Century**

Part I draws upon ample socio-economic data of all LA countries, to try to capture the primary aspect of the degree of socio-economic development as well as the evolution of social policies, in the region as a whole and among the different countries. In addition, this part advances some initial hypothesis, regarding different historical patterns of development that may explain some of the wide differences among LA countries. The country level studies are later organized according to these patterns. Part I advances in the historical and institutional history of social policies in the region, introducing the main concept of the book, the Latin American Developmental Welfare State. Finally, this part suggests its possible evolution in the coming years.

**Chapter 1 – Latin America, a New Developmental Welfare State in the Making?**

*Sonia M. Draibe – Manuel Riesco*

**Chapter Overview**

As the new century opens, LA seems to be approaching yet another historical crossroads, where a new development strategy could be opening. Far from a nostalgic return to past models, the strategy that today defies the region seems original, at least in three important dimensions: its new contents, the international geometry over which it is projected and, especially, the complexity of the historical inheritance out of where it stems. Social policy acquires renewed importance, integrated together with economic policy, in a way that may become similar to what UNRISD has summarized as socially inclusive, economically developmental, and democratic. The geopolitical dimension of the new strategy seems to be a wider, integrated, multinational LA region.

The new strategy stems from its roots in the successive experience of Developmentalism and Neoliberalism, which most of the region lived through during the 20th century. Such development strategies presided over, and stimulated, the quite radical socio-economic change occurred in the region during that period, certainly an ongoing process, which gave birth to modern social actors. As a result, the new strategy is based on a new public-private alliance, where strong, State-led developmental policy, now relies for its implementation mainly on aggressive, emerging, regional entrepreneurs. In turn, the leadership of political institutions, and the focus of social policies, seem to be addressing increasingly towards the new, widely ranging, massive, popular, mainly salaried, middle classes. Both rather recent newcomers, together with a renewed role for State bureaucracy, which was so important during the 20th century, seem meant to lead the region and its peoples through this awakening process. If they manage to be successful, the region could become a relevant actor in the emerging world of the 21st century.

This opening chapter tries to present evidence in support of this thesis, with abundant data that provides an overview of the present socio-economic condition of the region.
and its evolution. The salient feature is that, while huge advances have been already achieved, enormous differences may be appreciated among the LA countries, as well as among localities within each country, and the region as a whole seems to be still in full socio-economic transition. Possible historical patterns of development are sketched, that may in part explain some of these differences. The argument then gets into the core of the subject, reviewing the history of social policies in a development context in LA during the 20th century. The Latin American Developmental Welfare State (LADWS) is presented as the salient institution that presides over most of the process. LADWS is viewed as the main actor of both economic development and social change. Then it studies the decline and fall of LADWS, and its replacement by the Washington Consensus as a development paradigm towards the end of the century. The suggestion is that maybe the success of LADWS in transforming the socio-economic structure of the continent, somehow created conditions for its own demise, as new social actors created in its foster, were now able to support the new policies.

The Neoliberal phase is seen as a direct consequence of the LADWS period and part of the overall transformation process. This period is viewed as a sort of unilateral and distorted advance of the new times, in the sense that it rushed to create a sort of “dream” short-term economic environment for both local and foreign capital, and to provide high quality goods, including differentiated social services, to the high-income consumers of the emerging middle classes. Nevertheless, it was done mostly at the expense of the population at large, natural resources, and the environment. In many cases, even State institutions created during the previous period were severely dismantled as well.

The chapter ends with reflections regarding the main conceptual determinations of the development paradigm that is postulated as possibly emerging, which is called Neo-LADWS. As summarized in the opening paragraph, these determinations refer to the contents of this strategy where social policy moves centre stage, its wider, regional, geopolitical space, and the complex terrain where it roots, a result of the above-described historical process as a whole.

**LA Ongoing Transition, Different Stages, Varying Speeds**

Don Timoteo Inquiltupa, in his seventies, cares for his Llamas and Alpacas from sunrise to sunset, at the footings of the 6,000 mt high, perfect cone, of Volcán Parinacota. In a beautiful, remote, Andean highland, where other rare species such as Guanacos, Vicuñas, Nandúes, Vizcachas and Andean Flamingos roam at will. His day seems no different from those of his “old ones,” as he calls them, who inhabited that very place centuries ago, long before it became the (disputed) border of Peru, Bolivia, and Chile. He certainly speaks the same language as they did, although his granddaughter will pride herself as she is learning Aymara, Spanish, and English at the same time at the local school. The same day under the sun, will witness how Dr. Fernando Macías, in his thirties, writes some of the best software in the world, in Puebla, Mexico, in the elegant settings of a 17th century seigniorial hacienda building, now recovered with glass and aluminium panes, and decorated with tasty, modern, art and furniture. Dr. Macías studied in neighbouring Austin, Texas, and worked for Intel in computer chip design, before he established his own company that now processes vouchers for Avis rent-a car and other companies in the US.

A cross section of LA today seems able to exemplify almost the entire panorama of societies and development stages that have been recorded throughout history.
Similarly, LA’s present situation regarding both social policies and economic development shows an amazing range of differences, among countries, and among regions within countries. Considered as a whole, LA seems to be a region still in full socio-economic transition\(^\text{18}\).

**Transition in the Mirror of Demography**

Considering a wide set of demographic variables, the UN Latin American Demographics Centre (CELADE) classified the LA population into four categories that show their relative position in a scale of demographic transition. Of 556 million inhabitants in LA and the Caribbean today, 18 million live in Haiti and Bolivia, countries that are considered by CELADE to be in *early transition*. Another 40 million live in Central America and Paraguay, countries that may be considered in *moderate transition*. The bulk of the LA population, around 430 million people, live in countries that are in *full transition*. These include the most populated countries, Brazil, Mexico, and Colombia, as well as Peru and other countries. Finally, 80 million people live in countries that may be considered in *advanced transition*. This group includes the Argentina and Uruguay, as well as Chile, Cuba, and Puerto Rico among other smaller countries (see Table I and Appendix Table 1-1).

In the tables presented in the Appendix to this chapter, all countries in LA and the Caribbean have been ordered according to these demographic categories. Then, a large set of other socio-economic indicators, including many related to social policies, was added alongside population data. For each indicator, weighted averages\(^\text{19}\) were calculated, for each category and the region as a whole. Most socio-economic indicators are remarkably similar within each group, suggesting CELADE categories seem to capture not only the degree of advance of the different LA countries along the demographic transition scale. They seem quite useful as well, perhaps even better, more comprehensive, and accurate, than other individual variables, to be used as a proxy for the degree of overall socio-economic development of different countries.

Certainly, such country averages may be misleading in more than one way. For example, they do not capture the fact that socio-economic development varies widely within each country, especially the largest ones. The regional giants, Brasil and Mexico, represent roughly one third and one fifth of LA, respectively, according

\(^{18}\) The discussion over the concept of socio-economic transition is presented in the introduction of this book. The authors use this concept in the same sense than the theory of modernization, summarized there. That is to say, that there is quite obviously a progression from the traditional agrarian, peasant-latifundia owners, oligarchic, etc. socio-economic and political structures that prevailed in LA a century ago, towards the modern, urban, salaried-entrepreneurial, democratic, etc. socio-economic and political structures, which are beginning to prevail today. In that progress, some LA countries as a whole, and some regions within countries, are clearly ahead of others. As said in the introduction, full reckoning of this fact not only makes sense, furthermore, it seems to be the main aspect to be taken into account, when studying social and economic phenomena, as well as political events and institutions, in developing countries. On the contrary, in developed countries, this aspect seems quite irrelevant, because it refers to processes that topok place and where completed long ago – which may be the reason why many studies tend to overlook this all relevant fact. Nevertheless, at the same time, the authors acknowledge a critical approach to modernization theory, and try to avoid mechanism, structuralism, linearity, using fixed stages, and many other unilateral approaches to this theory, which have proved quite misleading. In particular, the authors try to complement and confront this kind of structural approach, with historical analysis. In this sense, the present section conform a unity with the following sections, where different historical patterns and concepts are introduced, which explain and make up for a more complex approach to the subject.

\(^{19}\) Normally, the averages were calculated by weighting the variables by the population of the countries.
to population and economic output – Brasil represents over 40% of the region’s area as well -, and reproduce the whole of LA within themselves, in many aspects. For example, the most advanced LA industrial zones are located in Brazil and Mexico, however, these countries fall into the intermediate class of full transition according to this classification, which is probably accurate on the average.

Regardless of these and other limitations, the CELADE classification seems useful for the purpose of this investigation and was used as such. It seems quite reasonable to assert that with respect to the evolution of their socio-economic structures, from traditional up to modern, today about 10% of Latin Americans are still in early or moderate transition, 75% are in full transition, and about 15% have already reached a stage of advanced transition. These proportions result of the country groupings described above (see Table 1), but are probably quite accurate as well, if applied to the individual populations of the largest countries, and even some smaller ones.

The relative degree of advance of the different countries and regions along this path seems to explain quite many of the enormous differences that may be appreciated in LA, certainly including those related to social policies. Population growth is twice as fast in the regions still in early or moderate stages of transition than in the more advanced ones, which have reduced theirs considerably. Nevertheless, a fast mean population growth will propel LA to almost a billion inhabitants by mid century. Conversely, economic performance, as measured by per capita GDP, adjusted by purchasing power parity, is five times higher in the latter group. The highest

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20 Population is growing in LA as a whole at a rate of 1.4% a year (2000-2010), and growth is faster in countries on early and moderate transition, where it tops 2% a year, considering both groups as a whole. It diminishes to 1.3% a year in countries in full transition, and drops to 0.9% a year in those in advanced transition. At these rates, the continent will top 595 million inhabitants by 2010, will surpass 698 million in 2025, and will reach 900 million by 2050 (Table 1-1 in appendix). As a reference, the US today has slightly less than 300 million inhabitants, and Europe neared 450 million inhabitants after it was recently enlarged to 25 members. As growth rates of the latter regions are significantly slower, LA will increasingly exceed them in population, as the century advances.

21 Gross Domestic Product (GDP) adjusted by purchasing power parity (ppp) of LA is slightly under 4 trillion dollars. By contrast, US GDP is in the order of 10 trillion dollars (ppp 2002). However, the group of countries in early and moderate transition, taken together, represent only 4.4% of regional GDP. The group of countries in full transition generates about three quarters, and the group of countries in advanced transition taken as a whole, about one fifth, of regional GDP. In relation to their respective populations, the first groups generate far less output than their share of regional population, and the opposite takes place in the latter group, meanwhile the proportion of GDP generated by the middle group is roughly equivalent to its share of the population. Brasil generates about one third of regional GDP by itself, and Mexico about one fifth (see Table 1 and Appendix Table 1-1).

According to per capita GDP, adjusted by purchasing power parity (2001), LA as a whole, as well as the full transition group of countries, occupies place number 73 in the worldwide ranking of 175 countries according to per capita GDP. That is to say, both LA as a whole, and the group of countries in full transition, is slightly above the median country in the world, according to this indicator. Alternatively, the group of countries in early transition belongs to the last quintile worldwide. Conversely, the group of LA countries in advanced transition fall within the second quintile. Regional leaders according to this indicator, Argentina and Chile, occupy places 49 and 57, respectively, meanwhile the regional laggard, Haiti, is in place 153 and The highest GDP per capita in LA are generated in Bahamas (place # 38 worldwide) and Barbados (40). (see Table 1 and Appendix Table 1-1).

22 As is well known, the World Bank calculates a correction to nominal exchange rates, called “purchasing power parity (ppp),” based in the cost of acquiring a comparable set of goods in each country. Originally, this was done by The Economist magazine, which corrected local exchange rates according to the price in each country of a Big Mac hamburguer. The resulting prices are expressed in
economic growth rates, though, during the last four decades, have been attained by the

group in full transition, lead by Brasil, with the fast average rates of 4.5% a year from

1960 to 2002, and 8.5% a year during the 1970s 24. In this way, LA seems to confirm

the well known “S-shaped” pattern of economic development, according to which

slow growth in traditional agrarian countries, becomes very fast during the transition

process, only to slow down again, as the new socio-economic structure becomes

increasingly mature 25 (Table 1, Appendix table 1.1).

“international dollars,” that is, after correcting the exchange rate. All figures in dollars in the

“economic growth” section are expressed in international dollars, that is, dollars corrected by ppp.

23 Per capita GDP (ppp) is one of the proxy variables used to measure per capita productivity. It is a

crude measure of the level of training of the workforce, in addition to both the proportion of

inhabitants, and the proportion of the workday dedicated by each of them, to commodity production.

That is to say, to work on products and services to be sold in the market, and because of that are

reflected in national accounts. By the same reason, this indicator is a good proxy variable to measure

of the predominant social relations, because, as is known, peasant economies dedicate most of the

workday to self-consumption, and less to the productions of commodities. Meanwhile, urban economy

and modern economy in general is predominantly and increasingly oriented towards commodity

production. Business Week magazine has recently calculated that in China, for example, the economy

of a peasant family of five, amounts approximately to 200 dollars a year, roughly the equivalent to the

salary of one of its members who migrates to Shangai, whom is most surely paid a fraction of the actual

value added to his or her produce. This gives testimony of the huge importance of social relations

regarding economic performance. Nevertheless, per-capita GDP in oil producing less developed countries

generating economic activities, particularly in less developed countries, where these industries weight

heavily in overall GDP. Because of this, per-capita GDP in oil producing less developed countries

appear highly inflated, and this is quite entirely due to oil ground rent. In the case of LA, this ground

rent factor significantly increases per-cápita GDP in countries such as Venezuela and Ecuador (oil) and

Chile (copper), for example. In developed countries, ground-rent originating in sky-high urban rent

greatly increases per-capita GDP when measured in current dollar prices (it amounts to around 30% of

prices), but this factor is quite completely corrected when international dollars (ppp adjusted) are

used.

24 The fastest economic growth during the last half-century was experienced by the countries that

belong today to the full transition group, which as a whole grew at a rate of 4.2% a year from 1960 to

2002. The group was pulled by Brazil, which grew at the record average rate of 4.5% a year during the

whole period, and at a record 8.5% a year during the 1970s. The countries in early transition, on their

part, grew at a yearly rate of 1.6% during 1960-2002; meanwhile the moderate transition group grew

3.6% during the same period. The countries in the advanced transition group grew 2.6% a year during the

1960-2002 period. Chile however, grew 4.2% a year during this whole period, similar to the group

in full transition, thanks to an accelerated growth of 6.5% a year during the 1990s (see Appendix Table

1-1).

25 An explanation for this kind of evolution seems quite straightforward, when the relative stages of socio-

economic transition are taken in to account. As commented in note 19, above, traditional peasants add

up very little value to GDP, simply because most of their work is dedicated to self-consumption.

By contrast, when they migrate to cities, most of their work becomes necessarily devoted to produce goods

and services that are sold in the market – the fact that they may be hired as salaried workers or that they

work on their own or informally, are quite irrelevant for this purpose. Once in the cities, they will still

work as before in the countryside, from sunrise to sunset, exhaustedly past the inflexion point of

diminishing returns. Nevertheless, now they seem to have acquired the Midas touch, as the products or

services they deliver turn into gold, and suddenly appear in the national accounts. Alas, very little of

that gold is left for themselves. Therefore, when masses of peasants start to migrate into cities, their

new commodity producing labour adds quite a number of percentage points to national GDP, and

countries experience decades long sprees of very high economic growth, which then slows down when

the migration process slows and ends.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Group I. Early Transition.</td>
<td>18,361 (3.3%)</td>
<td>1.9</td>
<td>34,996 (0.9%)</td>
<td>2,081</td>
<td>145</td>
<td>1.6%</td>
</tr>
<tr>
<td>Group II. Moderate Transition.</td>
<td>39,293 (7.1%)</td>
<td>2.3</td>
<td>138,102 (3.5%)</td>
<td>4,109</td>
<td>112</td>
<td>3.6%</td>
</tr>
<tr>
<td>Group III. Full Transition.</td>
<td>418,623 (75.3%)</td>
<td>1.3</td>
<td>2,968,667 (75.7%)</td>
<td>7,164</td>
<td>73</td>
<td>4.2%</td>
</tr>
<tr>
<td>Group IV. Advanced Transition.</td>
<td>79,926 (14.4%)</td>
<td>0.9</td>
<td>779,478 (19.9%)</td>
<td>10,262</td>
<td>61</td>
<td>2.6%</td>
</tr>
<tr>
<td>Total Latin America and the Caribbean</td>
<td>556,203 (100.0%)</td>
<td>1.4</td>
<td>3,921,243 (100.0%)</td>
<td>7,050</td>
<td>73</td>
<td>3.8%</td>
</tr>
</tbody>
</table>

Source: CELADE, UNDP, ECLAC, Table 1-1, annexe.

Urbanization, Mother of Transition

Urbanization, and the myriad ways it affects how millions live and work, seems to be the main process underlying transition, and the region has been urbanizing fast. In 1960, more than one in every two Latin Americans was a peasant, while today more than three out of four already live in cities and towns. By 2015, four out of every five LA will be city dwellers. Nevertheless, in the early and moderate transition groups, the proportion of urban dwellers is much lower, and similar today to what LA as a whole looked alike four decades ago, as measured by this indicator. Conversely if preferred, the socio-economic picture of LA forty years ago was similar to these countries today, in this aspect. Meanwhile, in the other end, countries in advanced transition had already reached the present urbanization rate of LA in 1960, and are now approaching 90% urbanization, with Argentina and Uruguay being the earliest developers in the region, according to this indicator. However, even as the continent

26 All urbanization figures in this section are based on UN sources (see Appendix Table 1-2). The methodology used by the UN to compile its urbanizations figures is based on the ones accepted by each of the individual countries, which are not necessarily the same. Recently, the World Bank recalculated urbanization data applying to every country the methodology used by the OECD. The resulting urbanization figures are much lower in the case of LA. If according to UN sources only 25% of LA population is still rural, that figure increases to 42% according to the WB study (Woeld Bank 2005).

27 The respective urbanization figures for Chile were 67.8% in 1960, 86.9% today, and 88.5% in 2015. That is to say, in 1960 Chile had the degree of urbanization that LA reached in 1985. Furthermore, in Chile, urban population surpassed peasant population back in 1930 (Chapter 9), meanwhile it was not until 1960 that LA as a whole met this landmark. Argentina and Uruguay had urban populations of 73.6% and 80.1%, respectively, already in 1960; they have 90% and 93% today, respectively; and will reach 92% and 93.9% in 2015, respectively.
advances rapidly towards full urbanization, some decades will still have to go by before LA, as a whole will attain these levels.

The urbanization process has been so fast, that a good part of LA population has migrated from the countryside in the course of the last four decades, or belong to the first urban generation. As immigration from other continents is negligible today, the above figures suggest that between one and two hundred million Latin Americans have lived through this quite traumatic process. The proportion of rural over total inhabitants has decreased over 1% a year during the last four decades, which is amazingly fast, affecting over 5 million people a year. The speed of urbanization slows down sharply as transition advances, and is decreasing in the region as a whole; however, it remains at top speed, and is still increasing in some countries \(^\text{28}\). (See Table 2 below, and Appendix Table 1-2).

Most of LA population have already adopted the forms of life and work that predominate in modern cities. The economic active population (EAP) in agriculture nearly halved from 1970 to 1990, and the reduction has continued since then. Nevertheless, in LA as a whole, still about one quarter of EAP remains in the countryside, and around 40% in countries in early transition. However, in countries in advanced transition, this variable is nearing 10% (Table below and Appendix table 1-3). In the cities, they have become mainly salaried workers for private employers, usually in short term jobs, activity that they frequently alternate with self or informal employment, and periods of unemployment in between \(^\text{29}\) (INP 2004) (see Table 2 below, and Appendix Table 1-4).

\(^{28}\) It has slowed from 1.1% a year in 1960-1985, to 0.7% a year from 1985-2005, and halved in Brazil, Peru and Venezuela but increased Bolivia, Haiti, El Salvador, and Paraguay, among other countries, during the same periods (see Appendix table 1.1).

\(^{29}\) In Chile, for example, at a given moment, private firms of five or more employees, hire 51.2% of the non-farm occupied workforce, and an additional 10.8% are salaried public employees. In addition, 5.9% of the occupied urban workforce is conformed by salaried domestic servants. On the other hand, 12.5% are employed in micro-firms of less than 5 employees, and finally, 19.7% of the urban workforce work on their own, as “self-employed.” This makes up for about two-thirds in salaried jobs and one-third in informal occupations. However, in another moment, these figures may remain the same, but with the exception of State employees and others that hold secure jobs, many of the workers will have shifted from one category to another (Chapter 10, INP 2004). The respective figures for LA as a whole show a higher proportion of non-farm workers in informal jobs, but only in early or moderate transition countries, they make up a majority
Table 2: Urbanization and Salaried Workers in LA and the Caribbean, according to demographic transition groups

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Group I. Early Transition.</td>
<td>26.2</td>
<td>55.2</td>
<td>1.8</td>
<td>63.2 39.3</td>
</tr>
<tr>
<td>Group II. Moderate Transition.</td>
<td>33.4</td>
<td>50.9</td>
<td>1.0</td>
<td>58.2 43.9</td>
</tr>
<tr>
<td>Group III. Full Transition.</td>
<td>47.4</td>
<td>78.4</td>
<td>1.1</td>
<td>43.3 23.1</td>
</tr>
<tr>
<td>Group IV. Advanced Transition.</td>
<td>69.3</td>
<td>86.5</td>
<td>0.6</td>
<td>20.5 12.4</td>
</tr>
<tr>
<td>Total Latin America and The Caribbean</td>
<td>48.9</td>
<td>76.7</td>
<td>1.1</td>
<td>41.8 23.6</td>
</tr>
</tbody>
</table>

Source: CELADE, UNDP, ECLAC, Appendix Tables 1-2, 3, 4. NA Not available.

Social Policies in Transition

Public social policies in the region also show a wide range of variations, which, in general terms, show a high correlation with the previously displayed categories. This may be appreciated viewing public social spending, per capita and in relation of GDP, as a proxy variable to measure the overall evolution of social policies in the different countries.

Countries where transition has reached a more advanced stage are higher public spenders in social policies that those in earlier stages. A lot more indeed, because the group of countries in advanced transition spend over twelve times over in this item than countries in earlier stages of the transition process, expressed in dollars per capita (2000-2001)³⁰. Nevertheless, there are also significant deviations, as some countries that rank median or less, according to other indicators, dedicate great efforts to their social policies.³¹ A similar behaviour is observed in the region regarding education.

³⁰ The group of countries in early and moderate transition are very low spenders in public policies, with less than 100 dollars per capita in the latter case, equivalent to 8% of GDP and about 40% of total public expenditure, on the average. On the other end, the group of countries in advanced transition have a public social expenditure of 1,445 dollars per capita, which is equivalent to 20.2% of GDP, and 65.1% of total public expenditure. The average for the region is 686 dollars per capita, which is equivalent to 14.8% of GDP (2000-2001) (see Appendix Table 1-6).

³¹ It is interesting that Bolivia, for example, which is otherwise classified as a country in early transition, has a total public social expenditure of 183 dollars per capita, which corresponds to 17.9 of GDP and 60% of total public expenditures. This is higher than all countries in moderate transition, and higher than the expenditure of Ecuador, Peru, and Dominican Republic, which may be considered countries in full transition by other concepts. The countries with the highest public social expenditure...
(6.6 times), with other significant deviations as well \(32\), some of them probably originated in different accounting methods \(33\). Public expenditure in health follows a similar pattern as well (12.3 times) \(34\). The largest differences are found in public

in the region are, by far, Uruguay (1454 US$/pc – 23.5% of GDP) and Argentina (1650 US$/pc – 21.6% of GDP). Cuba, which is also classified in the advanced transition group according to other variables, is also a large public social spender (Chapter 9). Another country classified in this group, Chile (936 US$/pc – 16.0% of GDP), is also a relatively high spender in dollars per capita. Nevertheless, it ranks lower than Brazil (936 US$/pc – 18.8% of GDP). Additionally, in relation to GDP, Chile spends less than Panama (25.5% of GDP), Costa Rica (18.2% of GDP), and even Bolivia (17.9%). On the other side, the laggards in the region according to this indicator are Salvador (82 US$/pc – 4.2% of GDP), Guatemala (109 US$/pc – 6.2% of GDP), Honduras (77 US$/pc – 10.0% of GDP), and Nicaragua (61 US$/pc – 13.2% of GDP). In addition, Ecuador (131 US$/pc – 8.8% of GDP), Dominican Republic (170 US$/pc – 7.6% of GDP), Peru (187 US$/pc – 8.0% of GDP), and Colombia (337 US$/pc – 13.6% of GDP) (2000-2001) (see Appendix Table 1-6). (2000-2001) (See Appendix Table 1-6).

\(32\) As mentioned in relation to total public social expenditures, the group of countries in early and moderate transition are very low spenders in education, with the moderate transition group spending 48 dollars per capita, equivalent to 3.9% of GDP. The group of countries in full transition spend 161 dollars per capita, which also corresponds to 3.9% of GDP. On the other end, the group of countries in advanced transition have a public expenditure in education of 335 dollars per capita, which is equivalent to 4.7% of GDP. The largest public spender in education in the region by far is Argentina (385 US$/pc – 5.0% of GDP), followed by Chile (238 US$/pc – 4.1% of GDP) and Uruguay (213 US$/pc – 3.4% of GDP). In addition, Panama (199 US$/pc – 6.0% of GDP), Costa Rica (189 US$/pc – 5.0% of GDP), and Brazil (185 US$/pc – 3.8% of GDP) are also big spenders in education. It is significant that Mexico (190 US$/pc – 4.1% of GDP) appears within the group of countries with the largest expenditures in education (2000-2001). Some countries that appear in lower stages of transition are nevertheless making a larger effort in education than other countries that are more advanced in the transition process overall. Bolivia (66 US$/pc – 6.5% of GDP) is again spending more in education than all the countries in the moderate transition group (48 US$/pc – 3.9% of GDP). Although very low in absolute terms, public expenditure in education as a percentage of GDP in Nicaragua (28 US$/pc – 6.1% of GDP), and Honduras (45 US$/pc – 5.8% of GDP), is higher than the LA average (175 US$/pc – 4.1% of GDP). (2000-2001) (See Appendix Table 1-7). (see Appendix Table 1-7).

\(33\) The figures of public social expenditure for Mexico published by ECLAC appear with some differences in relation to other countries in LA that may be misleading. In public social expenditure as a whole Mexico appears as a very low spender (2000-2001), with 456 dollars per capita and 9.8% of GDP, which are far below LA average (686 US$/pc – 14.8% of GDP). On the contrary, it appears targeting 61.5% of its public expenditure in social policies, above the LA average of 55.1% for this figure. On the other hand, Mexico is a high spender in education (190 US$/pc – 4.1% of GDP), at least above the LA average (175 US$/pc – 4.1% of GDP). The same case for public expenditures in housing and others, where Mexico (50 US$/pc – 1.1% of GDP) appears above the LA average (44 US$/pc – 1.0% of GDP). The contrary may be appreciated in public expenditure in health, where Mexico (86 US$/pc – 1.9% of GDP) appears far below the LA average (130 US$/pc – 2.9% of GDP). This figure does not seem to be coherent with physical health indicators such as medicine doctors per capita or hospital beds per capita, where Mexico appears way over the LA average. The same case for public expenditure in social security, where Mexico (131 US$/pc – 2.8% of GDP) appears far below the LA average (338 US$/pc – 6.8% of GDP) (Tables 1-7,8,9 in Appendix). Could this be a consequence of statistical methodology used in this case? In the case of Mexico, ECLAC confirmed to the authors that it only considers the central government expenditures for some of these figures. This is not the case in other countries, where regional and local governments are considered as well in the expenditure figures published by ECLAC.

\(34\) The group of countries in early and moderate transition are very low spenders in health, with the moderate transition group spending 22 dollars per capita, equivalent to 2.1% of GDP. The group of countries in full transition spend 111 dollars per capita, which corresponds to 2.7% of GDP. On other end, the group of countries in advanced transition have a public expenditure in health of 308 dollars per capita, which is equivalent to 4.3% of GDP. Within this group, Chile (165 US$/pc – 2.8% of GDP), as well as Uruguay (175 US$/pc – 2.8% of GDP), appear with a low public expenditure in health, below Panama (274 US$/pc – 8.2% of GDP), and Costa Rica (199 US$/pc – 5.3% of GDP). The latter two countries are the largest spenders in health in the region, together with Argentina (379 US$/pc – 5.0%
expenditure in social security, where differences among groups reach almost 30 times, and some countries do not spend in this item. Additional differences may be appreciated as well, as countries that privatized their social security are large public spenders in this item 35 (See table 3 and Appendix Tables 1-6, 7, 8).

Table 3: Public social Expenditure in LA and the Caribbean, according to demographic transition groups

<table>
<thead>
<tr>
<th>Demographic Transition Classes</th>
<th>Public Social Expenditure 2000-2001</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td>1997 per-capita dollars</td>
</tr>
<tr>
<td>Groups I - II. Early and Moderate Transition.</td>
<td>114</td>
</tr>
<tr>
<td>Group III. Full Transition.</td>
<td>618</td>
</tr>
<tr>
<td>Group IV. Advanced Transition.</td>
<td>1,445</td>
</tr>
<tr>
<td>Total Latin America and The Caribbean</td>
<td>686</td>
</tr>
</tbody>
</table>

Source ECLAC, Appendix Tables 1-6 to 8.

Human Development in Wanting

As shown, socio-economic in LA indicators seem to vary widely within the region, and most of them roughly follow the logic established by the progress of the transition process. However, most LA countries seem to be equal regarding one particular indicator: the region as a whole, with only a couple of notable exceptions, shares one of the worst income distributions in the world. Furthermore, the elites of three countries in the region enjoy the dubious privilege of belonging to the top group in the world ranking of worst income distribution: Brazil, Chile, and Colombia. On the other hand, only Cuba 36, Uruguay, and Costa Rica, show income distributions that may be of GDP), which in this indicator is again the leader in the region, by far (2000-2001) (see Appendix Table 1-7).

35 The group of countries in early and moderate transition are very low spenders in social security, with the moderate transition group spending 16 dollars per capita, equivalent to 1.0% of GDP. The group of countries in full transition spend 320 dollars per capita, which corresponds to 7.1% of GDP. On other end, the group of countries in advanced transition have a public expenditure in social security of 653 dollars per capita, which is equivalent to 9.2% of GDP. The largest public spenders in social security in the region are Argentina (705 US$/pc – 9.2% of GDP), and Brazil (588 US$/pc – 11.8% of GDP), together with Uruguay (1075 US$/pc – 16.2% of GDP), by far the leader in the region according to this indicator. It is interesting to note that Chile (435 US$/pc – 7.4% of GDP), and Bolivia (47 US$/pc – 4.6% of GDP), which are countries that have fully privatized pension systems, appear as high spenders in this item as well, in relation to GDP (2000-2001) (see Appendix Table 1-8). Some of these data are summarized in the following table.

36 It is well known that Cuba is the country that probably leads the region in this indicator, as is the case with many other social indicators such as health, education, and others (Chapter 9). Pitifully, Cuba is
considered acceptable. In the region as a whole, the richest 10% get 40% of overall income, while the poorest 40% get little over 10% of it. The middle half of the population roughly receives the remaining half of income, but most of it goes the 20% that comes before de richest 10% (see Table 4 and Appendix Table 1-9).

To be fair, and not completely hopeless, there seems to be certain improvement in this indicator as well, as the transition process advances. However, its pattern seems not in the least straightforward, and perhaps, sometimes, this indicator may even tend to get worse before it gets better, as transition advances (see Table 4, Appendix Tables 1-9).

The poorest 40% of the population receives only 13% of overall income in LA as a whole. Nevertheless, this segment seem to slightly increase their share of overall income as countries move along the transition process, but the path is nowhere smooth, and many countries seem to be special cases. One of the worst countries in the region according to this indicator is Bolivia, where the poorest 40% of the population receive only 10.1% of the overall income. In the group of countries in moderate transition as a whole, the poorest 40% of the population receive 13.2% of the income. The group of countries in full transition fares even worse according to this indicator (12.4%), but that is because Brazil (9.9%) pulls the group down. In the other end, in countries in advanced transition the poorest 40% of the population receive 14.7% of overall income (See Table 4, below).

However, there are large deviations within each group. Within the moderate transition group, Paraguay (15.3%), and Salvador (14.5%), allocate a larger part of overall income to this segment of the population than Chile (13.4%), and similar to Argentina (14.7%), both the latter countries in the advanced transition group. Within the group of countries in full transition, in Colombia, the poorest 40% receive 11.7% of income, only slightly more than Brazil (9.9%). On the contrary, in countries such as Ecuador (15.9%), Costa Rica (15.8%), and even Venezuela (15.1%), which also belong to this group, the poorest 40% receive larger portions of overall income than the LA average (13%), and larger than in the advanced transition group taken as a whole (14.7%). Within this last group, Uruguay, the country in the region with the best distribution of income, allocates 21.3% of overall income to this segment of the population. (2000-2001) (See Appendix Table 1-9).

On the other extreme, the richest 10% of the population concentrates 40% of income in LA as a whole. Nevertheless, large deviations may be appreciated in all groups as well, and the overall average is again heavily weigh in by Brazil, where the richest 10% of the population receive 46% of overall income. Chile (40.4%), together with Colombia (40.1%), shares with Brazil the shameful distinction that the richest 10% of the population receive more than 40% of overall income. Furthermore, many other countries in the different transition groups have similar figures. Such is the case of Bolivia (39.3%), Guatemala (38.8%), Honduras (39.2%), and Nicaragua (39.9%), in the early and moderate transition groups. In the full transition group, apart from Brazil (46.0%), and Colombia (40.3%), already mentioned, the Dominican Republic (38.6%) also shows a high-income concentration. Most countries in this group, however, show a better performance in this indicator. Such is the case of Costa Rica (28.1%), already mentioned, but also Ecuador (33.3%), Mexico (35.5%), Panama (34.8%), Peru (34.4%), and Venezuela (31.1%). Within the advanced transition group, in Uruguay the richest 10% receive only 27.8% of overall income, but Argentina (37.4%) together with the already mentioned case of Chile show high-income concentrations (2000-2001) (See Appendix Table 1-9).

In LA as a whole, the richest 10% of the population receives 23 times more income than the poorest 40%, on a per capita basis. In Bolivia this ratio is 25 times, in the moderate transition group as a whole the ratio is 20.1 times. In the full transition group the ratio grows up to 24 times, but mainly because of Brazil (31 times). In the advanced transition group the income ratio between the richest 10% and the poorest 40% of the population again falls to 16.6 times (See Table 4, below).

Nevertheless, deviations within each group are very wide in this indicator as well. Within the moderate transition group, countries such as Salvador (15.1 times) and Paraguay (15.9 times) show much better performance than the LA average in this indicator (23 times), and even the advanced transition group as a whole (16.6 times). Within the full transition group (24 times), again Brazil (31.9 times), as said, and Colombia (23.9 times) weigh heavily into this ratio. Meanwhile, Mexico (16.9 times) Venezuela (14.1 times), Ecuador (14.0 times), and certainly Costa Rica (11.8 times) present ratios that equal or better those in Chile (18.4 times) and Argentina (16.5 times), both the latter countries belonging to the group in advanced transition. In this last group, however, Uruguay again shows the best behaviour in the
and Chapter 9). On the other hand, if all indicators in general certainly seem to be highly dependant on the different historical patterns of development, and on the political institutions and events that each country has built and experienced, this seems especially true regarding income distribution (see next section in this chapter).

All the above-described transition in process in LA socio-economic structure is reflected as well in the Human Development Index (HDI) elaborated by UNDP. According to HDI, LA occupies place 65 among 175 countries considered worldwide, that is to say, LA is over the median country worldwide, but still far from the upper quartile of countries with the highest human development. Moreover, the countries in early transition, are within the fifth of countries with the worst human development, while LA countries in advanced transition, on the other hand belong to the first quartile of countries with the highest human development, worldwide.

Table 4: Human Development and Income Distribution in LA and the Caribbean, according to demographic transition groups

<table>
<thead>
<tr>
<th>Demographic Transition Classes</th>
<th>Human Development Index (HDI) 2001</th>
<th>Share of Total Income (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Relative Position in HDI Ranking of 175 Countries</td>
<td>Life Expectancy at Birth (years)</td>
</tr>
<tr>
<td>Group I. Early Transition.</td>
<td>132</td>
<td>56.2</td>
</tr>
<tr>
<td>Group II. Moderate Transition.</td>
<td>110</td>
<td>68.3</td>
</tr>
<tr>
<td>Group III. Full Transition.</td>
<td>65</td>
<td>70.3</td>
</tr>
<tr>
<td>Group IV. Advanced Transition.</td>
<td>41</td>
<td>74.8</td>
</tr>
<tr>
<td>Total Latin America and The Caribbean</td>
<td>65</td>
<td>70.3</td>
</tr>
</tbody>
</table>

Source UNDP, ECLAC, Appendix tables 1-5 and 1-9.

region, as in this country per capita income of the richest 10% is only 9.1 times that of the poorest 40% of the population (2000-2001) (See Appendix Table 1-9).

39 This index, as is well known, considers other variables in addition to per capita GDP adjusted by purchasing parity (ppp). These variables are life expectancy, literacy rate, and school enrolment.

40 Bolivia and Haiti, rank 132 in this indicator. The LA countries in moderate transition, that is to say, most of Central America and Paraguay, rank 110 according to this indicator, which is just slightly away from the worst quartile of countries worldwide. LA countries in full transition, including the most populated countries, Brazil, Mexico, Colombia, and Peru, among others, rank 65 according to this indicator, the same as LA as a whole. LA countries in advanced transition rank 41 according to this indicator, Argentine, the regional leader by far according to this indicator, occupies place 34, and is the sole LA country that belongs to the upper fifth of countries with the highest human development worldwide (see Appendix Table 1-5).
The Course of Transition

All the above figures, and many others that could be displayed, illustrate the ongoing transition process that has been taking place in LA during the past century. All indicates that the LA transition is due to continue well into the 21st century. This process is rapidly transforming a region where traditional agrarian structures predominated well into the second half of the 20th century in most countries, to one where modern urban social structures are beginning to become widespread.

As is well known, as countries consolidate the latter kind of structure, rural population is reduced to a minimum. On the other hand, most urban population end up working as salaried employees in private firms, and the rest become engaged in commodity production in one way or the other as well. This kind of socio-economic structure consolidated in England since the mid 19th century, and in zones of Western Europe, as well as the US, during the late 19th century and early 20th century. In other parts of Western Europe, and in the so-called “white colonies,” Canada, Australia, and New Zealand, this kind of socio-economic structure had consolidated as well by mid 20th century. In Japan and the so-called Asian “Tigers,” as well as other countries, this same kind of social structure has consolidated during the second half of the 20th century. On the other hand, in large urban centres within many countries, this kind of socio-economic structure evolved long before than the rest of each respective country (Hobsbawm 2000, 1995, 1989, 1988). However, 2005 is a landmark year in this process: according to UN data, for the first time in human history, the number of urban dwellers will equal rural inhabitants, worldwide.

The first half of the 21st century should in all probability be the time when the same kind of socio-economic structure will extend to the most populated regions of the world, including China, India and LA. This should produce momentous changes in the world balance of economic power, as the regions that are emerging to modern social structures rapidly catch up with the present world leaders. Recent publications by leading financial institutions have calculated that the so called BRIC groups of countries, acronym that stands for Brazil, Russia, India and China, which now represent 15% of the G6 economies, will represent half of the economic power of the latter group by 2025, and will surpass them by 2040, in dollar terms (Goldman Sachs 2003).

The historical pattern stamped by the above described transition process over world events that have taken place during the last two centuries seem quite clear by now. Especially after the fall of the communist regimes in the ex-Soviet Union and most socialist countries, and the changes that are taking place in the rest of them (Riesco 1995). Probably, this same pattern will preside over good part of the new century as well, as said. Nevertheless, as will be argued in what follows, the transition from traditional to modern socio-economic structures, however relevant it may be, represents only one dimension of the overall historical process.

41 As is well known, advanced countries have rural populations that are insignificant, in the range of 2%- 5%, as a proportion to overall populations.
42 As mentioned in a note above, recent World Bank data shows that this landmark may still be some years away in the future.
43 US, Japan, Germany, France, UK, Italy
Myriad Colours in the Rich Many Paths Towards Modernity

In the case of the subject matter of this book, certainly this quite evident process lies in the background of the evolution of LA social policies in a development context. However, the sole acknowledgement of general transition, however important, does not explain but a small part of the myriad differences that may be appreciated today in LA countries and their social policy institutions. In order to better understand some of these realities, as well as their probable evolution, additional conceptualization layers, of higher level, historical, more concrete, must be constructed over the backdrop of the above described transition process. A tentative approach to some of these new analytical levels is presented in the following sections, in the field of interest of this book.

Interesting attempts have been made to classify LA countries from the point of view of their social policy systems. Nevertheless, these approaches seem to be still work in progress, and remain at a rather formal level. The intent that follows, which draws from recent theoretical developments in this direction (see Introduction, Therborn 1995, 2002), suggests that taking into account the overall, historically determined, socio-economic evolution of the different countries and regions in LA may well enrich these classification efforts. A relevant question seems to be: Why do LA countries, which apparently share such a common historical background, show differences so wide as shown? The design of adequate and specific development strategies and social policies for the region requires both the full acknowledgement of these differences – as has been argued above –, but also the answer to the question of why they came to be.

There seems to be evidence that suggests that LA countries show these differences today, in part, because the historical processes that have conformed each one of them are themselves of a quite different nature as well. It seems possible to distinguish at least some historical development patterns in LA, which seem foreign from one another. This text advances four patterns that could be labelled tentatively: classical colonial, early developers upon late immigration, slave-based colonial, and early settlers.

It seems important to mention that although these patterns seem to predominate in some countries as a whole, they are quite visible as well, each of them, in zones within individual LA countries. This holds true especially in the largest. However, even small Ecuador, for example, looks like three totally different countries, whether you visit magnificent colonial-rich Quito, up in the Sierra, where Indian population predominates, lively coastal Guayaquil, where African-American population is highly

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44 Draibe (1989b; 1995), for example, has used Esping-Andersen categories to analyze some LA cases, recognizing in many of them some of the characteristics of the corporativist-conservative type. However, it has showed insufficient to capture the strongly historically rooted differences within countries in the region. More recently, Mesa-Lago (1994, 2002) has correlated economic performance of different LA countries with the way they have mixed their economic and social objectives. He distinguishes three groups of such policy combinations, with Chile representing the extreme case of social policy being subordinated to economic development, Cuba the opposite case, and Costa Rica representing a better equilibrium between both policy objectives. His conclusion is that Costa Rica presents a better economic and social performance than the two other cases considered, over the last decades (Mesa-Lago 2002).

45 Draibe has recognized (Draibe 2004) that even though the commented approach seems useful, it remains at a very high level of generality.
visible, or the tropical jungles down on the other side of the Andes, which resembles none of the here described patterns.

**Over Ancient American Empires**

The classical colonial LA development pattern developed over the ancient American empires that flourished along the Andes from Mexico to Peru. This pattern originates in highly developed pre-Columbian social formations, with large, sedentary, native-American populations. Ancient American empires evolved towards colonial societies of great richness in every aspect, which prolonged after independence. The latter coincided with the generalization of latifundia throughout LA, as the protection of the Spanish king over lands occupied by indigenous American was abolished (Lipschutz 1955). In these regions, latifundia-based societies became very rich and powerful as well during the 19th century with important religious and State institutions, as rich architecture from those times proves to any visitor today. Therefore, in many countries and zones within many countries, traditional agrarian social order went on for a long time, long past its prime, well into the second part of the 20th century, causing a serious delay in transition to modern socio-economic organization. This seems quite evident in countries such as Peru, for example.

The region of ancient empires shares a basic historical feature that seems to be common in Europe, as well as in Asia, India, and most certainly in Africa: the fact that mostly anyone in any small town may eventually trace up his ancestors in that same place or nearby tribes, perhaps all the way up to the Neolithic period. A relevant characteristic of societies evolved through this pattern seems to be their highly distinct, complex, structured, and stratified societies. Very large indigenous American populations, and a strong presence of their physical characteristics, remain today, even in the elites sometimes, in these countries. They were based on highly productive crops such as maize, and others, which generated a sequence of highly structured seigniorial societies, ancient empires, since centuries before the Christian era. According to the acute thesis formulated by Alejandro Lipschutz, the Spanish conquest transplanted peninsular feudalism over pre-existing American seigniorialisms. According to Lipschutz, small teams of Spanish conquerors acted like a sort of condotieri that inserted themselves in the wars that Aztec or Inca lordships constantly waged against one another. As a result, the condotieri-conquerors became the new lords themselves, ruling over thousands of indigenous Americans. Lipschutz proves his thesis by opposition, showing Spaniards were only able to conquer those regions where ancient empires had ruled, or their fringes at most. On the contrary, they were fought out from, and never able to submit, those regions of America where original peoples still lived as nomads, or in early tribal organizations. This happened, for example, in the North American Great Plains that are today the US, or in the southern parts of Argentina and Chile, among other regions (Lipschutz 1955)

Independence took place around 1810, and countries throughout LA became republics, with the exception of Brazil that became itself an empire in 1822, and Cuba that remained a Spanish colony until the end of the 19th century.

Latifundium was a unique LA kind of signiorial agrarian formation, which in many aspects resembles similar social relations in many parts of the world. According to this system, roughly, the landowner provided peasants – who were free men according to the law, and usually mestizos or descendants of poor Spanish settlers – with land for them to live in and cultivate for themselves, in exchange for work from the peasant and his family in the hacienda. Latifundia developed in symbiosis, as well, with independent small peasants who concentrated in poor lands in the interstices of the Haciendas, who worked for the landlords in harvest or other labour intensive periods, and in their own plots during the rest of the year. The latifundia or hacienda system as it is usually called had its golden age during the 19th century throughout LA, but endured until the 1960s in some countries, although in a decaying form as it was being slowly transformed into a modern, salaried-based social relation. Agrarian reform accelerated this transformation in many countries.

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show very rich cultural inheritances, including original languages, as well as food, music, dances and many other forms of art. Religion, mainly the Catholic Church, but some indigenous American religions that have been preserved as well, continues to play a very significant role in these regions. As has been highlighted in the case of other continents, because of these deep roots, it seems not at all improbable that in the future, as these societies move on into modernity, it will be in here where the most complex and original LA culture will flourish. It should not come as a surprise that sometime in the future, the zones of ancient American empires would again become the important centres of economic and institutional power they have been secularly. Some features of this future are foreseeable in Mexico today, quite at plain sight.

On another analytical dimension, the complete range of socio-economic development phases may be found among the countries that have followed the classic pattern. Mexico on one end and Bolivia and Peru on the other, stand in opposite extremes, not only of the Andean region, but of the socio-economic development scale as well. The former harbours one of the two main poles of industrial development in LA, and is one of the two giant economies in the region. Meanwhile, Bolivia on the other end, as well as Peru, and Ecuador, or Guatemala in Central America, all in different levels of development within this same historical pattern, are living through the midst of tribulations that characterize the more turbulent periods of transition (see previous section and chapters 1 and 2). Furthermore, as in the case of Mexico, most stages of socio-economic development are present within the countries that follow this historical pattern, in all their rich variety, perhaps more than any other cases It still maintains a large peasant population, and presents enormous differences among different regions within the country - as the Chiapas conflict untapped to the world. The political institutions and their evolution, including social policies, seem highly complex as well in these countries, as is clearly exemplified by Mexico, the most evolved within the pattern 49 (Chapters 2,3).

Early Developers upon Late Immigrants

An opposite historical pattern of development may found in LA early developers, which emerged in Rio de la Plata by the end of the 19th century. This pattern may be recognized as well in distinct zones within many countries in LA, such as Sao Paulo in Brazil, or even in the Chilean Patagonia, for example. The Rio de la Plata region witnessed the earliest modern socio-economic development in LA, following a pattern that shows more resemblances to contemporary developments in the US, and the so-called “white colonies,” than to the rest of LA. Until mid 19th century, this region resembled an important provincial trading and military post, which even suffered periodical attacks from indigenous American tribes whose frontier laid no more than a few hundred km away. In the case of Buenos Aires, it did not even form part of

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49 Mexican history shows great complexity during the 19th century - it even formed a Napoleonic empire at one time, but then, only until they executed the Austrian born emperor, including the evolution of its social policy institutions (Chapter 1). During the 20th century, political transition to modernity has been remarkable in Mexico as well, even by world historical standards. The first great revolution of the 20th century worldwide took place in Mexico in 1912. Moreover, it led to a 70-year period where the State bureaucracy that was the offspring of the triumphant revolutionary process, played the leading role it has only recently, rather unwillingly, relinquished in favour of a more democratic system. The bureaucracy ruled Mexico mostly supported through an intricate and remarkably successful and enduring system of political alliances, mainly with peasants and workers, where social policies and State patronage played a relevant role (Chapter 1).

50 Australia, New Zealand, Canada.
Argentina until the second part of the 19th century. Most of the inhabitants of present day Argentina - 1.1 million by 1850 (Chapter 9) - lived and worked in the interior provinces, which had followed a latifundia-based development pattern that resembled the one above described, or rather that of neighbouring Chile maybe. Cordova, whose economy was oriented in large part towards providing the rich mining-based colonial Bolivia and Peru, led the Argentinean provinces at the time.

Nevertheless, during a few decades in the late 19th and early 20th centuries, the Rio de la Plata region exploded into a huge, bustling, modern metropolis. By itself, it neared two million inhabitants already in 1900, living and working in the twin urban poles of Buenos Aires and Montevideo, at opposite sides of the river mouth. A huge migratory wave, mainly from Europe, that peaked over 500,000 immigrants per year by the turn of the century flowed into this region. The twin cities developed modern social-relations and bustling capitalist economies early on, and exerted determinant influence over Argentina and Uruguay, respectively. They quickly expanded towards the interior, conquering of the pampas humedas for raising cattle, activity that fuelled the economic explosion of the region in return. This was accomplished thanks to the twin advance into the pampas of new railroads and the army, in a pincer movement that practically exterminated indigenous American inhabitants, all the way south to Patagonia. Much in the same way as the U.S. expanded to the west, around the same time.

Nevertheless, the so-called “cow oligarchies” that traditionally dominated the interior provinces of both countries and now dominated the pampas humedas, continued to wield political and economic power during most of the 20th century. Argentinean and Uruguayan politics and institutions, including their early and quite advanced social policies, have resulted mostly out of the interaction, sometimes the violent clash, of these forces, among others (Chapters 4,5).

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51 By 1850, Chile had 1.4 million, and Peru and Colombia 2 million each. Meanwhile, Mexico had 7.6 million inhabitants, and Brazil 7.2 million (PUC 2000).
52 By 1925, Argentina had topped 10 million inhabitants, almost ten times the population it had by mid 19th century. Meanwhile, during the same period, Chile multiplied its population only 2.8 times, up to 4 million inhabitants, Peru 2.5 times up to 5 million inhabitants, Colombia 3.4 times up to 7 million; Mexico only duplicated its population up to 15.8 million, and finally Brazil quadruplicated its population up to 30.3 million. The growth of Rio de la Plata region during this period was unrivalled worldwide. It was even faster than the US, which quintupled its population up to 116 million inhabitants, or Canada, which quadruplicated its own up to 9.5 million. Significantly, the growth of Argentina during this period was surpassed only by countries such as Australia, which multiplied its population 15 times over during this same period, up to 5.9 million inhabitants. Moreover, during the first two decades of the 20th century, Argentina increased its population at a rate of 3.2% a year, even faster than Australia (2.2%) and Canada (2.4%), during that period. The immigration-fuelled high population growth rate of LA early developers maintained full speed until the end of the 1930s, but then started to slow down sharply. Argentina grew at 1.7% a year during the following decades until the 1960s, based now mainly in internal population growth, much slower than Mexico (3.1%), Colombia (2.8%), Brazil (2.7%), Peru (2.5%) and even Chile (2.1%). During the 1970s and 1980s, the population growth of Argentina slowed further, down to 1.5%, meanwhile Mexico (2.6%), Peru (2.5%), Brazil (2.4%), and Colombia (2.1%), continued at peak rates (PUC 2000, Table 1-11 and chart 1-12 in appendix). Presently (2000-2010), population in Argentina is growing 1.1% a year, similar to Chile and slower than all the rest of LA countries except Uruguay (0.7%) and Cuba (0.3%) (See Appendix Table 1-11 and Chart 1-10).
A Giant Empire and a Socialist Revolution Over a Past of Slavery

Brazil represents an original pattern in itself. It includes and combines many of the other patterns but, in addition to the fact it was colonized by Portugal, presents another peculiar and determinant historical form: slavery. In the case of Brazil, the sheer magnitude of the country makes a difference of quality by itself. As shown in the previous section, Brazil represents one third of LA, as measured by surface, population, or GDP, among other possible measures. In this continent-sized country, the internal variety of patterns and levels of development means that the dimensions of each distinct region within Brazil may perfectly be similar to whole other countries, and sometimes larger, even by one order of magnitude. The Sao Paulo region, for example, is not far from Argentina by many measures, including population, and GDP, their levels of development, and even their historical development patterns. In addition, this region generates over ten times the GDP of Bolivia.

The Portuguese conquest and colonization of Brazil, which prolonged until the eve of the 20th century, distinguishes this country significantly from the rest of LA, including a different language. It is relevant, for example, that in 1806, when the French menaced Portugal, the Lusitanian crown and court, established themselves in Brazil for years. Another relevant feature of Lusitanian conquest was that Portugal dominated slave world trade during the 16th century, which was probably decisive to make Brazil a slave based economy during the colony. To make things worse in this sense, the Dutch invaded the Recife region and held it during some decades in the 1730s. This invasion took place during the period when the Dutch were successfully wresting the dominance of world slave trade from the Portuguese. In Brazil, slaves imported from Africa replaced the relative scarcity of a relatively primitive indigenous American population. It was the largest importer of African slaves in the world, by far, with 40% of the total. Even after 1860, when the British had outlawed the slave trade they had dominated for two centuries, and Secession War freed slaves in the US, of 2 million slaves that remained worldwide in 1870, Brazil had 1.4 million, and the rest were mostly in Cuba (Blackburn 1997).

53 I The inheritance of the Portuguese colonization overall, on its part, has been characterized more exploitation-oriented than settler colonies, and conferred a peculiar character to the national formation (Buarque de Holanda 1936) In his masterpiece Raizes Do Brasil, Sergio Buarque de Holanda notes the difference between Spanish and Portuguese colonisations: “If the bricklayer characterizes the long run, rational, implantation of the Spanish settler, the sower better pictures the urgency of the predatory character of the Portuguese colonizer.”

54 The architecture of Recife still shows many traces of Dutch dominion. The Dutch were to be displaced as well from slave trade dominance by the British, who would dominate such market during the 18th and 19th centuries (Blackburn 1996).

55 Of a total of 10.5 million African slaves imported from 1451 to 1860, over 4 million went to Brazil, equivalent to 39% of the total. During the same period, British West Indies imported 1.6 million, and the French West Indies 1.8 million. North America, by contrast, appears importing only around 560,000 African slaves, the Atlantic Islands 115,000, and Europe 50,000 (Blackburn 1997).

56 African slave imports to the US totalled around 560,000 persons according to the latest estimates (Herbert Klein,The Atlantic Slave Trade, Cambridge 1999, p. 211., cited by Blackburn in 2005), which represented around 5% of the total African traffic from 1452 to 1860. Nevertheless, large imports from the West Indies, in addition to better living conditions that made possible a large number of US born slaves, raised their total number to near 4 million in 1860, the largest slave population in the world at that time.

57 Spanish America was a large slave importer as well, as it accounted for 1.6 million African slaves, 15% of the total trafficked from 1541 to 1860, and most of them arrived to Cuba (Blackburn 1997). Nevertheless, many other LA countries received large numbers of African slaves as well, as is quite visible today at plain sight, from LA countries with Caribbean coasts, down to specific regions in
The Brazilian historical trajectory also shows some interesting political-institutional and timing peculiarities. The Brazilian Empire (1822-1879) was established after independence and was only abolished only in 1879. When the new Republic was proclaimed in 1891, solid and exclusive hegemony was attained by liberal-leaning regional agrarian oligarchies, based mainly on coffee exports, and the corresponding merchants and financiers. The acute federalism of what is known as the Oligarchic Republic delayed the consolidation of centralized State structures, process that was completed only after the 1930 revolution.

Over the large differences of structures and social systems, in a country that is known for its heterogeneity, its modern social policies institutions, built along the 20th century, show the patronage, authoritarian, and conservative features that moulded basic social relations in Brazil and remain until today. In the Brazilian case, 20th century State developmentalism reached its maximum expression, as will be argued further on.

Cuba may be presented as outstanding example of how diverse historical development patterns, together with landmark political events, may shape unique outcomes in present political and social policy institutions. It certainly presents a peculiar historical development pattern, where it shares with Brazil the fact that early liquidation of indigenous American population was followed by its replacement by African slaves, upon which the economy was based until the late 19th century. On the other hand, Spain did not relinquish its rule over Cuba until 20th century’s eve. And then, only to be replaced by a US invasion, followed by the overt or covert dominance by this too close and giant power, which lasted throughout large part of the 20th century (Chapter 8). Cuba represents a very peculiar case with respect to the rest of LA, even though it shares many of the regional features in other senses. It has reached an advanced stage of socio-economic transition, according to most indicators presented in the previous section. Its social policies present a high degree of development, and income distribution is very good as well. On the other hand, Cuba has lived through recurrent economic crisis since the 1960s, all its markets are highly distorted, and its social structure notoriously lacks a modern bourgeoisie (Chapter 8).

It seems quite clear that in the case of Cuba, it was a landmark political event, the 1959 socialist revolution led by Fidel Castro, which has shaped its present reality in a decisive manner. In this sense, concrete analysis in a higher level, where even more aspects are considered, seems to be needed in order to understand the main features of present day Cuban socio-economic structure, as well as its political and social policy institutions. This is the case everywhere, of course, but especially in countries that have undergone forceful external interventions, such as Panama or Puerto Rico, for example. This approach is advanced in part in the following section, where Cuba is presented as a border case LA Developmentalism, where the State was forced by purely political events to assume, not some, but all economic functions, during the last half century (see following section and chapters 6, 7).

Poor Settlers in the Fringes of Ancient Empires

Costa Rica, as is well known, has become one of the most advanced countries in LA with respect to social policies, income distribution, and human development. In fact,
as mentioned in the previous section, Costa Rica, which occupies place 42 in the world ranking of UNDP Human Development Index (HDI) (2001), disputes the third place in LA with Chile (43), after Uruguay (40), and Argentina (34), according to this indicator (see Appendix Table 1-5). Costa Rica has achieved this high standard even though is does not rank in the group of countries in advanced socio-economic transition in LA according to most variables. Furthermore, Costa Rica has become a sort of anomaly located in the Central American isthmus, where most countries instead are still struggling through moderate stages of socio-economic transition, with the exception of Panama (Tables 1-1 to 1-9 in Appendix). How can the peculiar evolution of Costa Rica be explained?

It seems probable that, as is usually referred to by Costa Rican analysts 58 (Chapter 8), in part, the exceptional behaviour of Costa Rica may be rooted in its peculiar socio-economic history, where weak seigniorial structures on the one hand, and a notorious relevance of small farmers. This has been a secular presence since pre-Columbian times, but poor Spanish settlers reproduced it since the 16th century. As is usual in other regions of the world, such kind of secular socio-economic structures tended to prevail in zones where agricultural or mining productivity were not very high in the past, and consequently surplus product was never large enough to support powerful seigniorial structures. A similar kind of relation has been mentioned, for example, in the case of the Nordic European countries (Anderson 1974; Therborn 1995). This kind of independent settler-based colonization is a peculiar historical pattern that may be found in many other parts of LA as well, in limited zones within different countries 59. However, in no other LA country this particular kind of development pattern seems to attain the determinant weight it seemingly exerts in Costa Rica.

On the other hand, the peculiar present political institutions – where there is no army, for example - and their seamless democratic workings under wide consensus during half a century, may seem misleading regarding their past evolution. In effect, the present political arrangement of Costa Rica was largely established after a civil war in 1948. It confronted the communist party against the social democrats, both allied to different fractions of the upper classes, and the latter side won. After that civil strife, a new social pact, and a new constitutional arrangement, were established under the “Second Republic,” many of whose main features remain in place until today, under the guidance, mostly, of successive Social democrat and Christian democrat governments (Chapter 8).

Chile may represent another kind of development pattern based in poor early Spanish settlers, who established themselves in the fringes of the Inca Empire during the 16th century. They conformed a closely-knit elite of small seignior 60, which remained

58 Ms. Roxana Víquez Salazar, by then President, of the Costa Rican Institute of Social Aid (IMAS) explained the Costa Rican exception using this argument in UNDP Seminars Social protection in an insecure Era, South South Dialogues. Held in Beirut, Lebanon, in 2001, and in Santiago, Chile in 2002. (See http://videos.cep.cl/sw2002).

59 Many aspects of this pattern may be recognized in Isla Grande de Chiloe, in southern Chile, for example.

60 The Spanish conquerors of the Aztec and Inca empires, became rulers over tens of thousands indigenous americans who lived in large cities with monumental buildings. By contrast, the Spanish conquerors of Chile found relatively small and scattered concentrations of original peoples, who lived in the fringes of the Inca Empire, in the narrow valleys of the north and centre of Chile. In 1557, the Oidor Fernando de Santillan, was sent by the king of Spain to asses the way in which Indians were being treated by their new masters in the valleys of La Serena and Santiago. He reports that less than 5,000 Indians were distributed in about 80 Encomiendas to the Spanish conquerors. Most of them were
throughout the following five centuries, as it successfully co-opted successive settler waves who enriched as merchants, some of them turned into bankers, miners, and finally, during the 20th century, industrialists (Jocelyn-Holt 1999). Even today, and after being shaken by the reforms of the 1960s and the revolution of the early 1970s, this elite has mutated once more, to become the core of the modern entrepreneurial class that was bred by the Pinochet dictatorship 61 (Chapter 9).

**Raise and Pinnacle of the Latin American Developmental Welfare State: Holding the Rudder Through The Great Tectonic Change.**

The course of transition seems to be the general process, which underlies and determines the region’s main socio-economic phenomenon, including its social policies, throughout the 20th century – and the relative degrees of advance well explain many of their differences. On the other hand, varied paths to modernity, deeply rooted in centuries of quite remarkably diverse historical routes of the distinct countries and regions, seems to have stamped many characters in each of them – and exerted decisive influence upon the form and relative degree of advance in their transition process as well. To emphasize the methodological relevance of this quite often disregarded aspect, the country studies in this book have been grouped according to these historical development patterns, instead of their relative positions in the transition process, for example. Nevertheless, as emphasized by social sciences, finally it is events and institutions, social and political actors, and the strategies they adopt, which for the most part concentrate in them the resulting vectors of such

61 After independence from Spain (1810), the Chilean elite consolidated its hold over lands that the Crown had protected for Indian communities, and generalized the peculiar LA form of lordship known as latifundia (Lipschutz 1955). By mid 19th century they had already built a strong, centralized State, which made possible the expansion of Chilean territory 1500 km to the north at the expense of much richer Peru, and Bolivia, which Chile defeated in two wars during the 19th century (1836-39 and 1879-81). After the second war in the north, and without pausing, they re-directed their winning armies, and “pacified” the Mapuche territory to the south of the Bio-Bio river, which had remained unconquered for three centuries. A few years later, in 1891, a civil war confronted different fractions of the elite, in part over the issue of mining property in the nitrate rich-north (Ramirez Necochea 1972). By the end of the 19th century, this settler elite had effectively consolidated its control over the present Chilean territory, which the State had already linked for the most part through an extensive railway network (Jocelyn-Holt 1999).

The ruling of this elite was not effectively questioned until well into the 20th century, and then only quite partially. In 1925, a military coup enforced a new constitution, as well as all the social policy laws that a populist government had been unsuccessfully trying to approve in a parliament dominated by the oligarchy. The basic institutions of what is defined in this book as Latin American Developmentalist Welfare State (LAWDS) (see next section) were laid then. After that, LAWDS bureaucracy, supported by emerging urban middle classes, increasingly by workers, and finally by peasants, became increasingly independent, and even confrontational, with the oligarchic elite. This process climaxed in their revolutionary showdown during the early 1970s. It was not before the Allende government had effectively and irreversibly deprived old oligarchy of most of their land, and all their dependant peasants, that the 1973 military coup put an end to revolutionary agitation. The ensuing military dictatorship was headed this time by a brutal general of conservative convictions, and occurred in the hateful political climate of counter-revolution. Pinochet relied on the younger descendants of the old elite, who had been formed in the ideas of Milton Freedman. As is known, such lessons inspired the well-groomed “Chicago Boys” with fervour, and they put them into practice ruthlessly, with a vengeance (Chapter 9).
general and particular economic, social, and historical forces. In return, in this concrete, complex, and vital sphere, their unique interactions, and the somewhat random outcome of their conflicts, conform the way through which the more general determinations find their course in each country, time, and place. Consequently and in what follows, this text is centred in the study of the latter, highlighting the institution that stands above the rest during the 20th century: the Developmentalist State. Nevertheless, in doing so, it seems to find out that social policies have conformed not a secondary aspect of the process. Instead, they appear as the main instrument through which this institution exerts its decisive direct intervention upon the core of social relations in transition.

During the 20th century, many LA countries coincided in building a peculiar form of welfare state, regardless, to a certain extent, of their quite different levels, and patterns of development. This institution, which was quite original in more than one sense, was to play a leading role in modernizing the region. The building of a welfare State in LA takes place mainly during the middle part of the 20th century, in the wake of the 1930 world economic crisis, and up to the 1980s, coincidentally with the widespread implementation of State-led development strategies, model that was theoretically formulated by ECLAC around the 1950s, and is known as LA Developmentalism (LAD).

This period mostly coincides with the so-called Golden Age (Hobsbawm 1995) of the Welfare State in pioneering industrial countries. Nevertheless, since the 19th century, those regions had consolidated underlying social structures where modern urban bourgeoisie and salariat had become predominant figures. Social landscapes observed in LA looked completely different. With the notorious exception of the Rio de la Plata region, the developmentalist experience took place in the backdrop of widespread traditional agrarian social relations, which were deteriorating rapidly, as masses of peasants migrated into exploding mega cities. Throughout a continent, which received the 20th century mostly in peasant garments, meanwhile no small part of it welcomed the 21st century dressed quite modestly, but rather like modern citizens.

As formulated by UNRISD, “it is often said that ‘late industrializers’ were likely to evolve different institutional forms in order to exploit their ‘lateness’ and to ‘catch up’. More specifically the State, in such a context, was bound to play a more active role in the process of industrialization (through State control of finance as the conduit of industrial policy) than in the ‘pioneer’ countries. This part of the story – the patterns of articulation between State and business – has been well documented and theorized in the literature. What has not been so extensively analysed and theorized is that among the institutions adapted for such ‘late industrialization’ were those dealing with social policy.” (UNRISD 2002:2).

What was the role of social policy in LA developmentalism? To answer this question, this book advances the concept of Latin American Developmental Welfare State (LADWS). It suggests social policies were an integral part of the developmentalist project, which in fact included them as an essential, although not always explicit, part of itself. It will be argued that LADWS was the basic institutional form that the continent developed, as a ‘late industrializer’ in relation to first world, in order to exploit its ‘lateness’ and to ‘catch up’. The basic determinations of this concept are described below.
Building what infant social actors couldn’t

As is well known, where modern salariat cannot be found in massive proportions, neither exists its complement, a modern entrepreneurial class. In a predominantly peasant society, so-called LA “entrepreneurs” of the 19th and a good part of the 20th century, were rather traditional LA landowners, masters of export crop plantations and mining outposts. In addition, they were merchants, some turned into bankers, among others. They exerted hegemony over LA societies during the 19th and well into the 20th century, just as their ancestors had done for centuries, they dominated the political scene, built seigniorial hacienda houses and city palaces for themselves, which they filled up with arts and crafts bought during their spendthrift tours of Europe, which could last years. They erected quite imposing public buildings and even some public libraries, indulging in a few “enlightened” enterprises, such as short railways, irrigation canals, and small electricity plants. Mostly, they run servitude-based haciendas and other ventures, not modern industrial complexes, at least none based on then almost inexistent, or very rare, free salaried labour. Rather, traditional agrarian servitude relations, and even slavery, predominated throughout LA until the end of the 19th century, decaying slowly during good part of the 20th century.

Some of the largest worker concentrations in the early 20th century were export-oriented enclaves, such as ingenios and cafetales in Brazil or Cuba, or nitrate oficinas in Chile. The former had recently freed the slaves who had provided their labour force since the 17th century and up to 1879, and replaced them with a kind of servitude system sometimes called colonato. The latter operated with enganchados, that is, peasants who were drafted out of their traditional haciendas and villages, and into the heart of the Atacama Desert 2000 km to the north, where they landed into mining oficinas or campamentos. There, the hacienda regime to which they were used was more or less reproduced. Everything was provided by the oficina, from housing up to salary payment in tokens interchangeable by food and wares in the pulpería or store. Such transitional labour relations predominated also in enclaves owned by foreign capitalist firms, many of them listed in the London, Paris, or Amsterdam stock exchange (Chapters 6, 9).

The above notwithstanding, labour unions, leftist political parties, and the LA workers movement, who would play a significant role in the modernization of the continent, were born there as well. Ingenios and cafetales, mining oficinas and campamentos, as well as railroads and other early State run enterprises, were the hub out of which the modern LA salaried working class developed. Early welfare institutions were born as well out of these large early worker concentrations.

Since the mid 19th century, merchants, miners, and financiers, as well as other “liberal” members of traditional LA elites, disputed leadership to the more conservative landowners, in many countries. The conflict was quite violent and included civil wars.

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62 On the other hand, modern urban worker concentrations in industry also became important at the beginning of the century in the Rio de la Plata region, as said, as well as other early developing LA zones such as Sao Paulo in Brazil. European immigrants flowed into these new industries, and brought with them the new revolutionary ideas, such as anarchism, and they led the first general strike in Brazil, in 1917, for example. Nevertheless, in the case of Brazil, these urban industries grew as a part of the export complex, which was based on traditional, based plantation products, mainly coffee. In 1920, for example, 38% of urban industrial workers were in food related industries, while 25% were in textiles and 9% in minerals, metallurgy chemicals, and others.

63 With the exception of Río de la Plata and other early developing regions, as said, where modern salariat and social policy institutions is of predominantly immigrant-urban origins.
in no few cases. From Mexico’s Positivistas down to Chilean Liberales, governments headed by these fractions confronted the conservative Catholic Church, and in many cases managed to separate it from the State, and engaged in educational and sanitary campaigns. Public works were initiated as well, some of them of sanitary inspiration, such as running water and sewerages in the main capital cities, which were built around the turn of the century in many countries. Remarkably, as has been mentioned, long railroad networks were built during this period by the State, in most LA countries. Many of them covered the whole territory, and in some cases were built surmounting amazingly difficult landscapes, thousands of meters high through the Peruvian Andes or across the rugged deserts of northern Chile. Sometimes, these networks, which included telegraph networks alongside, even introduced variant development patterns, as when railroads spearheaded the fast army and cattle expansion over the pampas. Railroads were a notorious early expression of developmentalism (Chapters 2, 6, 9).

Social policy was assumed as well by traditional LA elites, come what may, including limited public educational systems and sanitary campaigns stemming from colonial or early independence times. Beneficiencias Públicas (public welfares) for the poor, Gotas de Leche (drops of milk) for the infant-poor, or the likes, hospitals, and other private charity institutions, developed everywhere. Later on, by the mid 1920s, many of the new public social services were to be born consolidating many of these originally private institutions (Chapter 9). The Catholic Church played a significant role as well in these early social protection initiatives. Towards the end of the 19th century, liberal-republican leaning elites conferred large importance to basic education and, in the other end, to universities (Chapters 2, 6, 9).

This development pattern continued into the 1920s, when the last export boom of the traditional LA economic structure took place (Chapters 4 to 7, 9). During the 1920s, both a new kind of State and a new set of social policies and institutions took form in some LA countries. In no few cases, Argentine, Brazil, and Chile, among them, the birth of a new kind of State was under the guidance of the military. In other countries such as Uruguay and Costa Rica, elected governments guided the process. Furthermore, in early developing Argentina and Uruguay, quite comprehensive social protection institutions were in place already by the first decades of the century. In Mexico, in turn, the modern State consolidated in the 1920s, following the long revolutionary struggle that burst out in 1912. The new State engaged immediately in ambitious educational, health, and other social programs (Chapters 2 to 9).

Thus, the infancy or pre-history of LADWS may be traced back in late 19th and early 20th century. However, it came of age in the wake of the 1929 world economic crisis. The impact of the crisis over traditional exports was lethal. Just to mention one example, by 1932 Chilean overall export income had collapsed to 8% of their 1929

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64 In Brazil, after the Portuguese crown and court were transferred to Rio de Janeiro in 1806, a few innovations in social policy matters were initiated, including the creation of the first university, for example. A limited primary educational system was organized later on by the Empire, and then developed autonomously by the provincial states of the old republic in a quite fragmentary manner. Towards the 1930s, municipalities implemented modest social assistance and public health programs, especially in regions around ports through which exports flowed.

65 As has been mentioned, Uruguay and Argentina, the continent’s early developers, experienced booming growth and expansion by at the end of the 19th century and during the first decades of the century. Something similar took place in Chile, and in Cuba, for example, the sugar industry re-duplicated its output during that decade (Chapters 4 to 7, 9).
levels (Chapter 9). The new economic situation forced States to change their export-oriented, liberal-inspired, economic policies, and replace them with protectionist measures, and stimulus of internal production. LA states had been quite moderate or restrictive in their expenditures during past decades and even during the crisis itself, with aggravating results over the same. Now, on the contrary, they adopted quite expansive fiscal and monetary policies, including generous credit policies offered to nascent local industrialists.

During this period and up to the 1980s, throughout LA, governments built electric power generating and national transmission networks, thousands of km of roads and highways, telephone and telecommunications networks, steel works and agro-industrial complexes, oil exploration and extraction. They enlarged existing universities, created new ones, and promoted science and technology. Towards the peak of the developmentalist period, the most advanced LA States, had developed complex industries, including aerospace. State run business accounted for a substantial part of overall production and employment, although its significance varied widely among countries. Early developers Argentina and Uruguay, or regions such as Sao Paulo, on the one hand, showed the strongest private sectors. Meanwhile, on the other end, socialist Cuba concentrated all economic activities in the State. Other LA countries rested in between (Chapters 2 to 9).

Social Policy, an integral part of LADWS

Social policy was a key component of the LAWDS project from its very beginning. It developed during the period, as public social expenditure increased year after year. Most social policy institutions were created during this period as well. Social legislation, regulating aspects such as working hours and others, which had been first enacted around the 1920s in some countries, expanded considerably, especially since the mid 1960s, and by the 1980s, most LA countries had quite comprehensive labour legislations in place (Chapters 2 to 9).

Public schools and universities, which had been created almost everywhere during the 19th century, expanded rapidly, especially since the 1960s, and accounted for most of the enrolment. Nevertheless, educational coverage remained quite low everywhere up to the 1980s, even for basic education, with the exception of Argentina and Uruguay, and a few other countries such as Chile, Costa Rica, and Cuba (Table 1.5 in appendix). Health care networks were created everywhere as well, although they were not based on large public infrastructure in all countries (Chapters 2 to 9).

66 They adopted such Keynesian economic policies so enthusiastically in fact, that high inflation would become almost a trademark of LA economics during many decades, including a few hyperinflation episodes in some countries. All these processes have been extensively documented, and Neoliberal critics of the LAWDS experience have vastly exaggerated the latter.

67 Including Itaipú, giant hydroelectric complex built in the triple frontera of Brasil Argentina and Paraguay, where the iguazu waterfall is located, which was the largest such plant in the world until the Three Gore Dam in China replaced it in 2004.

68 Such as the sugar beat and cellulose industries in Chile, for example, built during the 1950s, 1960s and 1970s, which had a huge impact in agriculture as well, where they generated demand, financing and technological change.

69 In Chile, for example, public social expenditure, which was not significant before 1930, expanded quite fast since then, and by the beginning of the 1970s, had reached levels that even today seem quite substantial (Chart 10-3 in appendix to chapter 9).

70 Argentina and Uruguay based their health care systems mainly in Obras Sociales, and other union-administered health plans, financed by payroll discounts (Chapters 2, 3). These countries also
Pension systems were created almost everywhere, with Argentina and Uruguay leading the continent in this matter as well. By mid century, both countries had developed comprehensive schemes, based on union-administered funds, which covered most of the economically active population (EAP) (Chapters 2, 3). Other countries combined social security funds, sometimes called Cajas de Previsión, for each relevant worker group, with a centralized, State run, social security system, usually called Servicio de Seguro Social, mainly for blue-collar workers. The first kind of system started at the beginning of the century, with members of the military, high-level government officials, and teachers, and expanded successively to include increasingly large workers groups, and even the whole of the EAP, as in the aforementioned cases of Argentina and Uruguay. In other countries, the centralized, State run Servicio de Seguro Social extended faster. Later on, both kinds of systems were to be unified in some countries (Chapters 4, 5, 6, 9).

Housing and poverty alleviation policies, such as family allowances and limited unemployment subsidies, were also developed in most countries. In many cases, housing programs were a side effect of the Cajas type of pension funds, as the huge surpluses that they produced during the initial decades of their functioning were invested in such programs for their beneficiaries (Chapters 2 to 9).

Nevertheless, social policy during LADWS was mainly available for urban workers, meanwhile peasants, who conformed the bulk of the population in most LA countries, were mostly excluded, at least until the 1960s. In Chile, for example, social legislation such as the right to form labour unions, and others, which had developed all along the century covering most of the urban and mining workers, was not extended to peasants until the mid 1960s. With the exception of the more advanced countries, illiteracy remained high throughout LA, as educational coverage remained low, even in the primary levels, still by the end of the century. Health indicators remained quite poor until the 1980s, with high levels of malnutrition, poor sanitary conditions, and epidemics (Chapters 2 to 9).

In addition, even as LADWS reached its peak in the 1980s, poverty remained high throughout the continent, and as a rule, income distribution was among the worst in the world. Again, only the continent’s early developers Argentina and Uruguay, as well as Cuba and Costa Rica for different historical reasons, showed better performances in most social indicators by the end of the period, and other countries such as Chile followed closely behind. Meanwhile, most countries showed very poor social results. Including giant Brazil, which nevertheless, at the same time, had been able to develop considerably in economic terms (Chapters 2 to 9).

Nevertheless, regardless of its varied result and coverage, social policy was an integral part of this strategy because it was one of its main instruments to promote.

devolved a complementary public system, as a first tier, universal access system. Chile on the other hand, starting on the 1950s, built a centralized national public health system. This system, called Servicio Nacional de Salud built a network of hospitals, emergency wards, and primary level Consultorios, which by the early 1970s had encompassed the whole territory of the country, and even now cares for over 80% of the population (Chapter 9). Only by the end of the 1980s, Brazil built a national health service that is public, and free at all levels. Nevertheless, the private sector continues to participate widely within this system (Chapter 6).

71 According to their lack of public expenditure in this item, some countries such as Salvador, Guatemala, Honduras and Nicaragua still don’t seem to have serious pensiones systems (Table 1-8 in Appendix).
social change, which increasingly became a central objective as the project advanced towards its climax.

A Mayor Actor of Social Change

In the wake of the 1930s economic crisis, new, progressive, political forces appeared, and in many cases assumed governments throughout LA\textsuperscript{72}, while in other cases they exerted decisive influence from the opposition\textsuperscript{73}. As said, some of them sprung out of military movements. The new governments fostered LADWS as their explicit program, throughout the continent. The new political alliances marked, for the first time, the accent to power of nascent LA middle classes, as social change and mobility began to remove an up to then unyielding social landscape. Furthermore, the State became a mayor actor of social change in the continent throughout the century (Chapters 2 to 9).

The 1930 economic crisis by itself had played a huge role in accelerating social change in the continent, as it closed many export enclaves and sent hundreds of thousands of workers back to the countryside from where they had been evicted years before, or into expanding cities. In Chile, for example, 5 out of 6 nitrate workers suffered this plight (Chapter 9). Ever accelerating internal migration surrounded LA capitals with vast popular constituencies - the renowned favelas, villas miseria, poblaciones callampas of the 1950s and 1960s -, which provided support for the new strategy and became its clients as well. By the 1960s and before, social policies had by themselves engendered another noisy and highly restive social actor, in the thousands of students that frequently took to the streets in political protests, coming mainly from public supported universities, secondary and even primary schools, became a familiar scene in LA cities.

Modern entrepreneurial classes were formed and grew up during this period. As mentioned, such process started at the turn of the century in Río de la Plata and other regions within LA countries that received massive immigration. In the rest of the continent, this process run parallel to urbanization, which as said, accelerated greatly during the 1930 crisis and its aftermath. Starting out with small family shops and workshops, usually in their immigrant homes, small enterprises grew up, manufacturing and distributing textiles, shoes, furniture, food, and other products, mostly consumer-oriented. In the wake of the crisis, these nascent industries got a big push from the ISI inspired policies. At the same time, they found generous supply of free salaried workers, out of the ever-increasing migration into the cities, of peasants, and workers expelled from export enclaves ruined by the crisis, whom many times landed in the same neighbourhoods where immigrants set shop. By the 1960s, and under the protection and stimulus of developmentalism, the new entrepreneurial classes had become quite powerful, especially in the early developing regions, but elsewhere as well, as in Mexico, in Chile, and other countries throughout the continent.

\textsuperscript{72}In Mexico, the revolutionary government took a new spin after the election of President Lázaro Cárdenas, who engaged in land reform, nationalized oil, and initiated wide social protection programs. In other countries, such as Argentina and Brazil, progressive authoritarian governments came to power, headed by military leaders in the likes of Juan Domingo Perón\textsuperscript{72} (1943-1955) and Getulio Vargas\textsuperscript{72} (1930 - 1945). In some cases such as Chile, popular fronts won elections (1938). In Costa Rica the Figueres governments led this process after the 1948 civil war (Chapters 2 to 9).

\textsuperscript{73}This is the case of Víctor Raúl Haya de la Torre’s APRA, in Peru (Chapter 3).
Traditional LA landowning elites tried to envolve nascent industrialists in their secular expertise in the art of successively co-opting all those who got rich. In this way, as mentioned, their kin by now included merchants, financers, miners, and others. Such procedures seemed to be successful to a certain extent as well regarding 20th century entrepreneurs, up to the point that the mere existence of a LA bourgeoisie, capable of genuine independence from the traditional oligarchies, was a major controversy in LA social science during the 1960s. Nevertheless, nascent modern LA bourgeoisie seems to have played a rather independent role, and centrist political parties and military regimes that built upon the new strategy drew strong support from these classes, which were nurtured in return.

State employment shot up since the 1930s, both in traditional State bureaucracy, as well as in new State companies. As has been mentioned, the first large enterprises by the turn of the 20th century were precisely State owned railroads. State firms and public social services, such as education and health, were also among the largest worker concentrations, in many countries. They inaugurated a new kind of salaried workers, massively employed by the State for producing goods or services. Not quite modern proletariat, but no longer traditional State bureaucrats either, this peculiar labour relation would play a relevant role throughout the 20th century. As the strategy reached its zenith in the 1970s and 1980s, the State accounted for over one fifth of the overall occupied workforce in most countries, and even now, it remains in the 15%-20% range in most countries, including a vast social protection sector (Tables 1-4, 6 in appendix).

New bureaucratic elites – both civil and military - were nurtured by LADWS. Mostly, they came from the nascent middle classes and not from the traditional oligarchies. Most of the bureaucratic cadres were formed in the best public schools and universities, and made lifelong careers. Public service at its best in terms of professionalism became a distinctive part of the LA elites. In addition, the new elites included politicians from progressive and even leftist parties, who accessed to power through elections, or who belonged to rather progressive military movements.

The old oligarchies do not seem to have been quite successful either, in co-opting these bureaucratic newcomers. Rather on the contrary, they became increasingly independent, and even defiant, as they grew and became more powerful. In alliances with other emerging classes, such as nascent industrial bourgeoisies and working

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74 Marriages played not a minor role in this game; quite conveniently, as it was common that newcomers happened to be more affluent, especially in cash terms.
75 *Theory of Underdevelopment* in fact seemed to deny even the possibility of such outcome.
76 In Chile State employment has been lowered to around 10%, meanwhile in Cuba, it accounts for most formal employment in the country.
77 Although the latter employed one or two sons – usually not very bright ones - in Foreign Ministries or other privileged bureaucratic niches.
78 These included the Military, Foreign Service, Central Banks, and other services, together with the executive and professional echelons of State enterprises, and public services such as education, including public universities, health services, and others. In Brazil for example, it has been noted that state enterprises occupied dynamic spaces and positions within society. Even the idea of a “cosmopolitan” State bourgeoisie has been advanced by some authors such as Lucian Martins, which have also underlined that together with the military, they were able to look beyond the walls of their factories where private entrepreneurs were, by contrast, confined.
classes, as well as peasants later on, increasingly they were to confront the oligarchies\textsuperscript{79} (Chapters 2 to 9).

Land reform became a keyword in LA politics during the 1960s, early 1970s, and even into the 1980s in regions such as Central America\textsuperscript{80}. Still today, agrarian reform is a relevant term in many countries’ politics\textsuperscript{81}. Land reform touched the backbone of traditional LA oligarchies, and was furiously resisted by them everywhere, even recurring to military coups and civil war\textsuperscript{82}. Nevertheless, it proved irreversible wherever it was applied, because nowhere the old servitude-based agrarian system was reinstated\textsuperscript{83}. Proportionally to its radicalism, Agrarian Reform proved the most effective intervention of LADWS, in terms of changing traditional LA social structure, thus becoming one of its paramount modernizing legacies (Chapter 9).

A wave of nationalizations also swept through LA, as States took over natural resources and the largest private industrial complexes that exploited them. Until then, many if not most of them were in foreign, mainly US, hands\textsuperscript{84}. State companies also

\textsuperscript{79} In some countries as Brazil, such confrontation was mostly muted, as conservative military headed LADWS during long periods. Nevertheless, they confronted traditional elites all the same, as General Vargas – who was led to suicide by a conservative coup - and the Brazilian developmentalist military cadres of the 1960s demonstrate. In Argentina, Perón confronted oligarchies, which finally ousted and sent him to exile. In other countries, such as Cuba and Chile during the 1960s and early 1970s, this confrontation assumed the character of full-blown popular revolutions, which ended up wiping out the traditional elites altogether, with a brutal retaliation in the case of Chile, which led President Allende to suicide. Mexico seems to follow almost a classic path in this matter, as a peasant revolution that erupted in 1912, followed by years of war, opened the way to the 70-year dominance of bureaucratic based Partido Revolucionario Institucionalizado (PRI). PRI presided the rise, decline, and fall of the Mexican LADWS experience, and over Neoliberal reforms as well. Irrespective of its revolutionary origins and self proclaimed ideology, PRI seems to have presided over Mexican social and economic development in a remarkably consensual way, holding both traditional classes such as peasants, as well as new emerging entrepreneurs and workers, within its constituency (Chapters 2 to 9).

\textsuperscript{80} Following the Cuban revolution, the US Kennedy Administration fostered land reform throughout the region, as part of its Alliance for Progress response to the Cuban challenge. LADWS had assumed land reform since its origins, as in the 1930s Lázaro Cárdenas practiced in Mexico, and the programs of APRA and Frente Popular proposed for Peru and Chile, among others. However, little or nothing had in fact been achieved in the matter in most countries until the late 1960s. Then, under the bizarre twin impulse of the Cuban revolution and Alliance for Progress, land reform programs were put into practice almost everywhere throughout LA. Chilean Parliament approved a strong agrarian reform law in the mid 1960s, and Salvador Allende put it into practice at the beginning of the 1970s, drastically expropriating most of country’s cultivated land in less than two years. In Peru, progressive Velasco Alvarado military government carried out a significant agrarian reform as well, during the same years. Cuba, of course, had nationalized all land back in the early 1960s. In Brazil, the military dictatorship that took power in 1964 extended labour rights to the peasants, stimulating the modernization of rural social relations all the same, but without agrarian reform. In this sense, Brazil followed a conservative way out of the agrarian problem that is characteristic of transitions to modernity.

\textsuperscript{81} Notably, Venezuela, Colombia – where the land problem underlies the secular civil war -, som countries in Central America, Bolivia and Paraguay, but even in Brazil is remains important, as the “Sin Tierra” movement highlights.

\textsuperscript{82} From Chile in 1973, to El Salvador, after the Duarte government tried to implemented agrarian reform there in the 1980s.

\textsuperscript{83} Even the murderous Pinochet regime could not recreate latifundia after the coup, as much as it would have desired to. Rather, even though it did not show much respect for Chilean laws at large, it did comply with the Agrarian Reform law quite to the letter.

\textsuperscript{84} Cuba started in the 1960s, when it nationalized US property in 1962, following the Bahía de Cochinos failed US invasion, and followed suit with the property of traditional Cuban elites, as they confronted the revolution in bulk, and ended in exile in Miami. Much earlier, Mexico had nationalized oil companies during the Cárdenas government. Costa-Rica had nationalized the banking system and the Instituto de Defensa del Café or Institute for Coffee Advocacy, in the wake of the 1948 civil war.
developed natural resources from the beginning in many countries (Chapters 2 to 9). LADWS initiatives regarding the national appropriation of ground rent associated with natural resources constitutes another one of the most relevant legacies of the period. Many survived the privatization wave of the Neoliberal period, and are still in place. Nevertheless, as the result of this, significant natural resources have been privatized again, and no few are once more in foreign hands. This seems to be one of the main challenges facing the continent at present, as will be mentioned below.

The State did not become an actor of social change in isolation, or exclusively thanks to the progressive stance of the bureaucratic elites. The fast social changes it set in movement led to widespread social unrest, reformist movements, and even revolutions, during the sixties and early seventies. Mostly since the Cuban revolution, although in some of the main countries, such as Mexico, and in a certain way in Argentina, these processes took place decades earlier. Reformist and revolutionary political processes consolidated the ongoing social transformations, accomplishing agrarian reform, and nationalization of natural resources and important industrial complexes. These transformations proved irreversible, even in the wake of quite brutal rightist military regimes that took over most of the continent during the 1970s and 1980s, and earlier in Brazil. Moreover, social transformations achieved by reformist and revolutionary regimes of the 1960s and 1970s seem to have laid, in no small part, the foundations for the rapid development of capitalism during the following decades. Although social actors in the background of reform and social change seem to be roughly the same throughout LA, their protagonist roles in the resulting political processes vary widely (Chapters 2 to 9).

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85 In Brazil, this started after the 1930 military coup headed by general Vargas, but especially during the 1964-1985 military dictatorship, where military planners assigned great importance to this aspect. During this period, huge firms such as Petrobras, Vale do Rio Doce (steel), and others, were formed. In Chile, State firms pioneered electricity generation, oil, sugar, cellulose, iron, and steel industries, among others related to natural resources (Chapters 6, 9).

86 Even Pinochet’s regime in Chile complied mostly not only with the agrarian reform law, as mentioned, but with copper nationalization as well.

87 Much in the same way as massive land reform that took place in South East Asian countries during the 1950s, in the wake of war, was decisive for their latter economic performance.

88 As mentioned, it was mainly the Brazilian and Argentinean military who created LADWS in those countries in the first place, widely supported by rising entrepreneurs as well as urban workers, particularly in the Argentinean case. Authoritarian governments pushed the concept to its peak as well in those countries, while the democratically elected governments that replaced them led Neoliberal reforms. In Chile, LADWS may trace its origins to a military regime as well during the 1920s, but grew of age during Frente Popular democratic governments during the 1930s, and reached its peak during the reformist Presidency of Frei Montalva and especially during the revolutionary government of President Salvador Allende, both of them widely supported by uprising workers and peasants. Pinochet, the military dictator that assassinated him, in turn inaugurated Neoliberal reforms in LA. It seems ironical that the Chilean experience of LAWDS started with a military coup on 9/11/1924, and ended brutally in the 9/11/1973 coup. In Mexico, as said, PRI governments presided over both processes, as democratic governments did on Costa Rica and other counties. In Cuba the limit case of LADWS, this peculiar LA form of State is still in place, a result of popular uprising, revolution, and reaction against US intervention, and business friendly market reforms have not been yet implemented as in the rest of LA.
All the above has been extensively documented. Nevertheless, the way the social policy component inherent of LADWS played an all-important role in promoting social change and economic development perhaps has not been highlighted enough. Education and health policies, as well as labour legislation, among others, were basic in transforming LA peasantry into modern citizens. An inclusive strand of thinking in social policy, which placed equal emphasis on economic development and social protection, became widespread in LA, especially during the sixties, at the peak of reformist-revolutionary activity. During this period, universal welfare, mainly State provided, was regarded as good economic policy, according to the demand sideline of economic argumentation that is well described in developmental economics.

Important social policy objectives were attained during this period, among them, drastic reduction of malnutrition, massive alphabetization programs, rapid expansion of high-level education, and others. Unlike their peasant parents, popular masses in LA today see few of their newborn die at birth, or their mothers. They live considerably longer lives and have increasing access to better health services, including better sanitary conditions such as running water. Quite many, if not most of them in some countries, live in houses they own. Mostly they know how to read, write, and have completed primary education, with no few having finished secondary level. Some have even managed to complete university (Tables 1-9 in appendix). Even if they do not read much in fact, they do listen to radios all day long and watch a lot of TV. Unlike their peasant fathers, they are quite free to move around and take many jobs throughout their lifetime, much as some perhaps have better remembrances of the more secure jobs enjoyed by some of their parents during LADWS. That seems to hold true, however poor, precarious, and insecure their lifestyle may still be. No matter how much hunger or cold they might still suffer at times, perhaps sometimes even more than their peasant parents did. No matter how insulting the enormous differences in riches and incomes may result. Most of these social achievements were attained during this period, and have been maintained and developed upon, during the following decades.

LADWS seems to have been the decisive political institution of socio-economic change, which by the end of the century had generated a completely new social, economic, and political landscape throughout the continent. At its best in this aspect, it managed to lead reforms and revolutionary changes that drastically transformed the traditional LA social structure. Nevertheless, even in its most conservative versions, it achieved social and economic changes that provided lasting and solid bases for subsequent economic and social modernization throughout the continent. Moreover, the social policy component of this strategy is much to be credited for it.

Decline and fall of LADWS: Victim of its Own Success?

The above notwithstanding, strong criticism of LADWS grew and had become widespread as it peaked, by the end of the 1960s and early 1970s. Criticisms sprung from left and right, the former emphasizing its more radical aspect of promotion of social change, while the other recommended what would later be known as the Neoliberal model. The former formulated the Theory of Underdevelopment, which signalled insufficiencies and deformities of LA development, and its great social inequalities. This theory attributed problems mainly to the persistence of an obsolete social structure, dominated by traditional oligarchies and foreign capital. It postulated independent national development, even faster social change, and greater
lines of criticism had their chance to put their policies into practice. Its fall did not arrive before it was effectively tested to the limit in many countries, and gave out of itself what it possibly could. In the end, though, the latter strategy prevailed.

The intervention of BWI and other powerful and deep-pocketed, institutions, in order to stimulate, and in cases enforce, such policy change has been extensively documented. Nevertheless, by the end of the 20th century, such deliberate sowing efforts seem to have found fertile and well prepared soil in LA.

The fall of LADWS has been attributed to economic stagnation. Nonetheless, regarding economic growth, the period in fact holds a record that has not yet been equalled in most LA countries, nor in the continent as a whole. On the other hand, its fall certainly unfolded in the wake of the world economic recession of the early 1980s, which hit LA especially hard, as many of the countries in the region, including giants Brazil and Mexico, were still under this paradigm. Nevertheless, the crisis was quite evidently of foreign origins. Moreover, the most seriously affected country was Chile, which had of course initiated Neoliberal reforms almost a decade before, while the least affected countries, such as Costa Rica, were those who resisted the emerging model most effectively. Therefore, it is not clear that LAWDS replacement may have been induced by reasons related to economic stagnation. If it were, anyway, the ensuing period may well be accused of a far more disappointing record in this matter, certainly worse, and in fact the worst in the whole of the 20th century in most countries.

Neoliberal policies were justified sometimes, as well, as a reaction against what has been labelled macroeconomic populism in LA (Dornbusch and Edwards 1991).

State intervention, including an enhanced universal social protection system (Furtado 1964, 1965; Cardoso and Falleto 1973). In a certain sense, this line of thought postulated testing LADWS to its limit, modelled after socialist Cuba (Dos Santos 1972). On the contrary, opposition to LADWS coming from the right attributed problems to an exaggerated State presence in the economy, both for its widespread economic regulations as its direct involvement in production, as well as to high, protectionist, trade barriers. On the other hand, rightist criticism emphasized labour legislation and social security as additional culprits for economic problems. It postulated State reduction, privatization, and market economy based on private enterprise, open to the world competition, together with deregulation of labour markets and reform of social security. Growth rates between 1930s and the beginning of the 1980s were very high in most countries, and tended to accelerate during the 1960s and early 1980s. Some countries such as Brazil attained record growth rates during that period – 6.1% a year from 1960 to 1970 and 8.5% a year from 1970 to 1980 - that only resemble what countries such as China is experiencing nowadays. Many countries, including big players Brazil, Mexico, and Argentina, have not achieved those growth rates ever since. In the case of Chile, they were only surpassed during the booming 1990s (Table 1-2 in appendix, and charts 10-4,5,6 in appendix to chapter 9).

Unemployment in Chile surpassed one third of the workforce during the worst years of the 1980s crisis, including over 10% of the workforce that was hired by the empleo mínimo or minimum employment programs. In contrast, in Costa Rica, where LAWDS institutions and policies were maintained far more than other countries in the region, unemployment never exceeded 10% of the workforce during the same period (Chapters 9,10).

Even today, policymakers in LA seem over cautious in fiscal matters, and over willing to subordinate social spending to anti-inflationary restrictions, in good part, because they are still afraid of being pinned by Wall Street analysts with the populist label.
Nevertheless, were mounting fiscal deficits and debt, as well as hyperinflationary episodes, some of which, but not the worst ones, occurred during this period, really caused by excessive social or State expenditure? At least from one point of view, such phenomenon seems to have little to do with social policy or social spending: Even at its pinnacle, social expenditure, and state expenditure as a whole, rarely reached levels that could be considered excessive in LA. Quite the opposite, both items achieved magnitudes that seem distant even from present levels of public expenditure in most LA countries (Tables 1-7,8,9 in the appendix, and chart 10-3 in appendix to chapter 9). Moreover, they were certainly very far away, from what countries in the first world would consider reasonable public spending. The above notwithstanding, public deficit management did seem rather too expansive throughout LADWS experience as a whole, and outright freewheeling in some late periods, in many countries, as inflation rates suggest. Nevertheless, this does not seem to explain but some LA hyperinflations periods. Other hyperinflation episodes seem to relate more with high-tension political periods during which opposition parties approved government expenditures while denying financing at the same time (Haslam 2004). In most cases, these episodes originated in debt liquefying schemes. Moreover, in some countries, the worst hyperinflation episodes occurred under under governments already influenced by Neoliberalism.

Rather, the severe limitations of economic, social, and human development seem to be more relevant in creating widespread dissatisfaction with developmentalism that led to its replacement. Nevertheless, such limitations had always been there, and indeed LAWDS may surely be credited for making quite an inroad towards their improvement.

Something else must have happened in order to generate a change. Sober overall reassessment of 20th century LA developmentalism should provide new insights for alternative approaches to explain its decline. It can be argued that decline may be due to its own success in changing the underlying social structure. The above-mentioned limitations, for example, only became political problems after LA masses began to awake from their secular peasant siesta, because of processes that were strongly stimulated by State policies. At the same time, modern LA entrepreneurs and high-income middle classes were coming of age, and becoming increasingly assertive, in large part, as said, bred and nurtured by developmentalism. They provided the possibility, and the political support in the case of the former, for privatizations and market policies. Affluent LA middle classes were quite satisfied with the opening of borders to globalization, because they could obtain better quality goods at cheaper prices than ISI protected local industries could provide. They were receptive to Neoliberal discourse, in part, because it offered them differentiated, good quality, social services, sooner than universal public social policies could deliver. Perhaps, later on, the Neoliberal period will be seen as a unilateral initial moment, when these

94 Peru under President Alan Garcia (1985-90) may be one example.
95 Notorious schemes were as the ones implemented by Minister Cavallo in Argentine.
96 Argentine and Chile, among others.
97 In the case of Brazil, for example, by the end of the period, exclusion remained quite high, coverage of the educational system was low even in the basic level, and the operation of the enormous social protection machinery was crossed by clientage, resource appropriation, and other bad practices. The authoritarian governments had also accentuated the conservative-corporate features that Brazilian experience had evidenced since the beginning. As a result, the model was subject of widespread criticism on the part of democratic and social movements at the onset of the liberalization and democratization period in the mid 1980s (Draibe 1989; 2002).
privileged minorities anticipated long sought and hard fought LA modernity, for their exclusive benefit, passing over the vast majority of the population.

**The Legacy of Neoliberalism**

Following the demise of LADWS, and building over the new realities that were its legacy, a new set of policies were put into practice throughout the continent, in lesser or greater extent, which would be called *Washington Consensus*. Starting with the Chilean “Chicago boys” experiment in the mid 1970s, one LA country after another, abandoned developmentalist concepts and initiated liberal reforms. Some were undertaken under the authoritarian regimes that seemed to plague LA during the 1970s and 1980s. However, most of them occurred under democratic governments that replaced the former, during the late 1980s and 1990s. In the case of Mexico, as mentioned, these reforms were implemented as well by PRI governments. During the last two decades of the century, Neoliberal inspired policy was put in place everywhere in LA, both as a new development strategy and a new social policy paradigm.

In short, the new model promoted the establishment of the best possible short-term environment for private business, in a framework of openness to foreign trade and investment, in an international economic environment then dominated by a booming globalization process. However, it was characteristically extreme in pursuing these purposes, due to its Neoliberal theoretical support as well as its political and socially excluding practices. Nevertheless, the degree of unilateralism with which the model was adopted varied widely from one country to another (Chapters 2 to 9).

The above notwithstanding, the *Washington Consensus* policies has exerted hegemonic influence over LA policymaking over the last decades and, although seemingly on the decline, continues to do so up to the present day. Such policies in effect improved the general climate for private business significantly in the region. Particularly for foreign investors, as LA economies were effectively opened to overseas commerce and investment, although in varying degrees. At the same time, the cyclical behaviour of LA economies was severely accentuated. In the course of acute cycles, financial and economic crisis occurred during this period, of a violence

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98 It was in effect put in place quite by force.
99 Everywhere, though in a more or less comprehensive manner, neo liberal reforms promoted fiscal restraint, privatization and market oriented policies, as well as more or less full openness and integration to the trends of globalization, together with deregulation of labour markets and social policy reform, as a way for both economic development and social policies.
100 Chile represented one extreme, pioneering the experience, and applying the model with extreme unilateralism. This may be explained, in part, by the particular historical origins of the Chilean elite and the characteristics of the Pinochet dictatorship. Brazil may represent the opposite face of the Neoliberal experience in LA. In this giant country, out of particular historical circumstances as well, democratic governments did not buy the *Washington Consensus* wholesale and neither did the elite, which never became too enthusiastic with Neoliberalism. In the Argentinean case, a Peronista government, democratically elected and re-elected during the 1990s, made frequent and strident allegiances to the *Washington Consensus*, and reforms inspired in this paradigm were certainly enforced to a certain extent, in this country as well as Uruguay, which culminated in a cataclysmic crisis in 2002. Nevertheless, the significantly better overall condition of this region regarding social policies could not be entirely disregarded by Neoliberal reformists, and in practical terms, such policies were applied in lesser degree than in the Chilean case. Costa Rica on its part, applied a very moderate version of the new model, meanwhile Cuba has skipped it altogether (see previous section and chapters 3 to 10 and tables 1-7 to 9 in appendix).
that had not been experienced since the 1930s. This resulted in high unemployment and a significant slowdown in average economic growth. LA GDP growth fell from 5.5% and 6% a year during 1960s and 1970s, respectively, to 1.4% during the 1980s and 3.2% during the 1990s, the worst performance in the region since the 1930s (Table 1-2 in appendix to this chapter and chart 10-2 in appendix to chapter 9).

On the other hand, the unilateral emphasis of Washington Consensus policies had general negative implications, although up to different extent in different countries, depending perhaps, in part, on the advance of their respective socio economic transition processes. The most extreme policies proved harmful everywhere, such as weakening State regulatory systems, particularly those regarding financial flows, or fixed exchange rate schemes, or “structural adjustments” that resulted in pro-cyclical fiscal and monetary policies (Ffrench-Davies 2002, 2003). In addition, orthodox ground rent economic theory was overlooked, and natural resources were handed out again to private, mostly foreign, firms at no charge (Fazio 2000). Negative effects were felt as well out of Neoliberal dismantling of the LA public bureaucracies that had been formed with sustained effort along a century (Fukuyama 2004; Suleiman 2004). Then again, transferring State firms to the private sector may have made sense where the latter had already attained the age and size required to manage these enterprises themselves, and become stronger in the process. Additionally, success required relatively strong States, enabled to impose reasonable regulations and avoid corruption in the process. However, in countries where this had not happened yet, States were simply weakened, corruption was an extended practice during privatization processes, which resulted in severe market distortions. In addition, privatizations resulted in no significant gain for national entrepreneurs, because firms ended up mostly in foreign hands. Even the contrary may have happened, because foreign ownership has proved sub optimum in areas such as banking, with regard to local business, particularly small and medium sized (Ffrench-Davies 2003).

At the same time, socio-economic changes in the region were accelerated during this period, as the main modern social actors consolidated their presence in some countries in the region, and the socio-economic transition process was accelerated everywhere by globalization, in a remarkably painful manner. The general legacy of Neoliberalism is highly disputed and its results mixed, but its huge impulse to the transition process in this structural level may hardly be denied. In this classic sense of primitive accumulation, the Washington Consensus certainly meant a huge boost to capitalist development in LA, even though generally it did not show in faster economic growth.

Regarding social policies, Neoliberal policies placed unilateral emphasis on privatization of public social services, and protecting the private social services industry. In parallel, such policies targeted constrained public spending into creating social “safety nets” for the extremely poor. These policies ended up providing differentiated private social services for the affluent few. Meanwhile, an insufficient amount of public social spending was only enough to slightly alleviating the living conditions of the extremely poor. The vast majority of the population, meanwhile, including the majority of the emerging LA salaried classes, saw their social protection seriously deteriorate, and become more expensive, at the same time their job insecurity augmented due to globalization. Nevertheless, as said, these kinds of policies were applied to different degrees in the different countries and in different periods. In the case of Brazil, for example, the social policies applied during the 1990s...
rather perfected the universal oriented, public services based, and social policies of the previous period.

During the 1990s, on the other hand, unilateral emphasis of “structural reforms” on short-term business-friendly policies resulted in great deterioration of the already shameful income distribution of the region (Table 1-9 in appendix), when targeted and other public social expenditure are not taken into account. Nevertheless, when social expenditure is considered, income distribution maintained more or less the same inequality that most countries in LA had attained by the 1980s. Furthermore, in some exceptional LA countries such as Uruguay, increased expenditure in pensions during the 1990s further improved an already fair income distribution, as it managed to balance the deterioration experienced by autonomous incomes.

**Successive Waves of Neoliberal Reforms**

Neoliberal economic experiments were first implemented in Chile during the 1970s by the dictatorship that put an end to the revolutionary agitation of the previous period. Neoliberal social policies were pioneered in Chile, as well, during the 1980s, as this country seems to have adhered to the Washington Consensus long before it became consensual. In the rest of LA, Neoliberal economic reforms started during the 1980s in some countries, in the wake of the debt crisis. However, Neoliberal social policies were generally implemented in most countries not until the 1990s.

There are at least two significant differences between the pioneering reforms of the 1970s and 1980s, and those implemented later. While the former were implemented by dictatorships, in conditions of economic crisis or stagnation, the latter were implemented mostly by democratic regimes, and in the case of social policies, during the generally expansive 1990s. As a result, there are significant variants in the outcomes, both in the general economic structure and social policies, as in the degree of subordination of the latter to the former. In the end, each country has its own story to tell, and there seem to be historical patterns for different regions as well, as commented above. However, the differences between pioneering Neoliberal reforms and those who came later seem to prove the relevance of democratic environments in this respect\(^1\).

During the pioneering wave of Neoliberalism, Chile introduced “the most radical example of the Neoliberal market model, particularly under the Pinochet regime (1973-1989)” \(\text{(Mesa-Lago 2002:3)}\). Under the first generation of Neoliberal social policy reforms, implemented in Chile during the 1980s, pensions were almost completely privatized, under a widely known scheme, which most of the workforce was forced to join since 1981. Public education was privatized almost in half. In addition, a national, private, health insurance scheme was instituted. On the other hand, a social “safety net,” non-contributory, welfare scheme, was put in place for the poorest (Chapter 9). Less well known, though, is the fact Pinochet had previously slashed public social spending by more than half during the 1970s, in the midst of a massive State reduction and stabilization program, with the resulting serious deterioration of the public SP network (Chapter 9).

\(^1\) Even in pioneering Chile, the transitional democratic governments that succeeded the military dictatorship during the 1990s, were responsible themselves for a good part of Neoliberal implementations. Nevertheless, they certainly marked strong differences with their predecessor, especially regarding social policies.
Neoliberal reforms of SP during the 1990s followed a quite diverse path than in the 1970s and 1980s, and the differences seem to stem greatly from the fact that, as said, such reforms were introduced not under dictatorships but the ensuing democratic governments. There was an increased awareness during the 1990s of the importance of social policy, not just as a moral issue but also as contribution to the economic and political future of the countries (Stallings 2002). Expansive overall economic conditions during the 1990s certainly contribute their part as well. As a result, the second wave of reforms rode over rapidly increasing social spending, which added up to about 50% along the decade, on the average, on a per-capita basis (See tables 1-7 to 9 in appendix). Such spending was reflected in important increases in school enrolment in all levels, reaching full coverage in basic and near full coverage in medium levels, while university enrolment increased quite dramatically. Poverty reduction was also significant in the decade, although most of it may be attributable to economic growth, which, as said, was important up to 1997 (Tables 1-6,10 in appendix).

The impact of the Neoliberal social policy in overall economic development during this period should not be minimized, as the Chilean experience seems to illustrate. In a negative way, it has already been mentioned how the drastic reduction of social spending was significant in the stabilization programs of the 1970s. It has been noted as well that the privatization of pensions, although not significant in increasing overall savings rate, due to the accompanying public pension deficit, has nonetheless helped capital markets, a no small economic objective (Mkandawire 2000a). In addition, the reforms drastically reduced the employers’ contributions, transferring them almost completely to the employees. Even though this reform is probably minor in relation to overall salary-related costs, because salaries were raised more or less in the same proportion, it nonetheless may have had an important psychological impact regarding general investment conditions. Last, but not least, Neoliberal reforms have resulted in the rise of an important private social protection industry, which sells services previously provided by the government at no charge. Because of this, the same activities now appear adding value to the national accounts, as part of an increased services sector.

Brazil has experienced two reform cycles of its own regarding social policies, but with significant differences from the ones described above. The first, in the 1980s, was highly influenced by the democratization process, while the second occurred in the late half of the 1990s, when economic adjustment takes place. The newly elected democratic governments of the 1980s opened a wide reform agenda, oriented by goals of universal coverage, strengthening of public provision, and decentralization of management. In a certain sense, it tried to revert the strong authoritarian centralization experienced during the military regime. On the other hand, it reversed the market driven tendencies towards the development of private SP systems, experienced in this country during the booming 1970s, that were geared to satisfy the demand of the high income segments of the burgeoning new urban middle classes.

The second reform cycle in Brazil was implemented during the 1990s. Although it was done within the framework of a fiscal adjustment process and market-oriented institutional reforms, the social policy reform goals aimed, on the contrary, to reinforce the public social systems. The reforms tried to correct some of the mistakes incurred during the implementation of previous policies, without changing their basic orientations of universal coverage and public provision of services. A good example of the former is the health policy. The 1988 democratic constitution created a Swedish
style free public health system whose target population numbered 170 million people. This system continued to be implemented during the 1990s, and fiscal resources earmarked for health have increased systematically, at the same time some reforms made it more equitable and redistributive. Other areas reflect these tendencies as well. For example, Brazil did not privatize its public pension, educational, and health services, during the 1990s, in spite of the Neoliberal model. Previous public-private combination was maintained. Maybe, even a return to the public schools by children of the middle class took place in some degree during the 1990s, due to impoverishment of the these sectors. Obviously, governmental orientations have influenced the direction of reforms, as well as the general support for the maintenance of the democratic orientation of the first wave of reforms, coming from actors who benefited out of the same. In other words, there was no power, liberal, or conservative, capable of retrenching these systems; instead, they perfected them (Chapter 7).

During the 1990s, the Argentinean welfare state was severely retrenched, ironically, by an elected and re-elected government of the same Peronista party that had originally established the welfare state in this country. Universal programs, such as public health, were decentralized almost entirely to provincial governments. Wage contributions were drastically reduced, from over 33% to fewer than 18%. On the other hand, an important part of wage contributions were redirected to the new AFJP private pension system. On the other hand, VAT tax was generalized and significantly increased, whereas a greater proportion of it was redirected to the central government. Thus, a high burden was tossed to the provinces, which bear most of the cost of universal programs and lost much of the contributions to finance them. Other result has been a deterioration of union dependent Obras Sociales (social works), as employment contributions decreased due to increase in informality and decrease in employer contributions, and thus a growing number of workers drifted to the public hospitals. Even though public social expenditure increased significantly during the decade, it has not been enough to absorb the additional pressure on the public system. In part, the resulting deficit was covered directly by contributions from the families to education and health, which increased significantly (Chapter 3).

As a rule, the objectives of Neoliberal reforms in the 1990s were tilted towards objectives of greater efficiency through partial privatization, and heavily towards fiscal moderation in those countries that had not implemented fiscal adjustments earlier. These objectives prevailed over outright dismantling and privatization of public social services, which had prevailed during the first wave of Neoliberal reforms. Nevertheless, the latter objectives were present and relevant as well during the 1990s in many cases (UNDP 2002a,b). However, deterioration and dismantling of public services – exception made for the effects of the catastrophic Argentinean crisis of 2001, which was overcome in a short time –, and privatization of social policy institutions, were everywhere and almost in every case lesser than in the Chilean 1980s reform. In other countries, these effects were rather slight or virtually inexistent, as in Uruguay or Costa Rica (Chapters 5 and 9). The newly created SP institutions, such as private pension schemes, were in most cases complimentary to the old public ones. In many cases, the new institutions were public as well, as in the case of the largest Uruguay, Bolivian, and Mexican, pension administrators. The old public systems, as a general case, remained fully or at least partially in place (Mesa-Lago 2002). Even in Chile, during the last decade, the previous “imbalance has been gradually corrected since 1990, by democratic administrations that, although
maintaining the essence of the previous economic model, have placed a stronger accent on social policy under the more balanced approach” (Mesa-Lago 2002:3).

A substantial effort was made during the 1990s regarding the recovery of undermined and under funded welfare institutions. However, and despite the above-mentioned efforts, public spending remains very low in LA – as per capita, or related to GDP (Tables 1-7 to 9 in appendix). In some countries such as Chile, it has not yet recovered the levels reached during the LADWS period (Chapter 9). This probably remains to be the main problem of the sector and its workers, even considering the urgent need for rebuilding and modernizing public social protection institutions.

Continued Social Change Under Neoliberal Reforms

Why was the anti-State aspect of Neoliberal discourse assumed, to a lesser or greater extent, by the LA elites? This particular aspect of Neoliberalism seems quite obviously inadequate in LA, considering the State is the main, and sometimes the only, cohesive national institution in many LA countries. Moreover, its size and influence are everywhere minimal in relation to first world countries, and evidently inadequate relative to general requirements in most areas, as said. In addition, a strong backlash against this extreme aspect of Neoliberalism is occurring at present in advanced countries, as it is accused of dismantling democratic states (Suleiman 2003) and even fomenting terrorism (Fukuyama 2004). Furthermore, LADWS was originally, and mostly a project created and sustained by LA elites. Nevertheless, by the end of the 20th century, this bourgeois-anarchist (Hobsbawm 1995) feature of Neoliberalism fell into willing ears of those same elites, especially in some countries.

Maybe the emerging LA elites turned against the State they had originally formed, because LADWS bureaucracies had ended up confronting their ancestors, the traditional LA elites? In Chile, this seems to be the case. As said, LADWS exerted a leading role in the revolution that expropriated traditional landowners. Small wonder then, their brethren, now turned modern entrepreneurs, have been the most fervent and true believers in Neoliberalism in LA. This phenomenon is receding in this country, but then only very slow, and seems bound to persist long past the time of this ideology102. Moreover, in all LA countries, this particularly damaging aspect of Neoliberal ideology may have been adopted by opportunist reasons as well. Namely, because of the succulent enrichment opportunities privatizations offered, both for those who acquired State firms as for state functionaries who privatized them.

Because, it is a fact that LA elites were greatly empowered by privatizations. It is true that many of the largest privatized firms and services ended up in the hands of foreign capital, mainly Spanish this time. Nevertheless, other privatized companies and banks went to LA entrepreneurs, and multiplied the assets of the main private economic conglomerates throughout the continent. In some cases, State functionaries in charge of privatizations built these conglomerates up from nothing, as they kept the firms they privatized for themselves (Fazio 2002, 2003). This seems to have happened elsewhere as well, as the conformation of new entrepreneurial elites in the ex-socialist countries seems to show. However, regardless of them being benefited or not by direct transferral of State property, modern LA entrepreneurial elites have mostly come of

102 Perhaps this may explain why Chile became the only LA country where Neoliberal reforms implied a quite brutal reduction of the State during the Pinochet dictatorship. Particularly within the realm of social policy, where public spending was slashed in the wake of the coup, as said, and public social policy institutions have yet to recover their pre-coup level (Chart 10-3 in appendix to chapter 9).
age, in no small part due to the myriad stimulus offered to them by Neoliberal reforms. If LADWS was instrumental in weakening or even liquidating the traditional elites, Neoliberal reforms have been decisive in consolidating the new entrepreneurial elite. This is but one of the relevant social changes occurred during the Neoliberal period.

Peasant migration and urbanization accelerated almost everywhere, reaching breakneck speed towards the millennium, as has been mentioned, although it now seems that secondary cities growing even faster than capitals in many countries (Tables 1-3 in appendix to this chapter, and charts 10-1,2,4,5,6 in appendix to chapter 9). This was not only the result of purely economic forces. In many countries, it was in part the result of violent expulsion of peasants out of their traditional dwellings.103

Powerful forces have further changed the character of the urban workforce as well, during recent decades. Neoliberal reforms, including tariff reductions and free trade agreements, strongly promoted competitiveness. This in turn generated massive relocations of the workforce, among different industrial sectors and from manufacturing towards services (Table 1-4,5 in appendix). Usually, new jobs are far less stable than the former. In fact, lifelong employment, which had been the norm during LADWS, has become quite a rarity today. Meanwhile, most of the modern urban workforce seems to be constantly shifting from short-term, low pay, salaried jobs, to informal occupations or outright unemployment (INP 2004). Generalized stagnation, and even reduction of overall state employment in some countries, both in privatized industries and services, as in the bureaucracy at large, has taken its toll on the urban workforce as well (Tables 1-5 in appendix, and chapter 9). These processes have resulted in a much higher unemployment rates than was the norm. This tendency has seriously affected social protection systems that were built on the assumption of full, stable, employment, especially in the early developers Argentina and Uruguay, but has turned the new pension systems based in individual savings quite ineffectual for the vast majority as well (Tables 1-4,5 in appendix, and chapters 3, 4 and 9).

Nevertheless, greater job instability should not be confused with reduction of salaried jobs. Countries such as Chile, for example, where the quality of jobs today is noted for it precariousness, has at the same time more than doubled its salaried and overall employment over the last three decades (Tables 1-4,5 in appendix, and chapter 9). Even some statistics that point towards a reduction, such as the increase of self-employment as a proportion of the occupied workforce that occurs in determined periods of the economic cycle, are usually compensated in other periods of the same cycle. Self-employment itself seems to be more a result of job rotation between salaried and independent employment, rather than a stable condition in itself, as the book shows, at least in some countries (Chapter 9). As a whole, the proportion of the workforce employed in private firms with over five employees seems to have increased significantly in LA, during the Neoliberal period, as mentioned before (Tables 1-4,5 in appendix).

103 In Chile, for example, Pinochet’s ruthless manner of complying with the Chilean agrarian reform law, threw peasants out to the roads by the hundreds of thousands in the wake of the 1973 coup, meanwhile other “loyal” peasants and the old landowners’ sons were assigned the small farms that they were entitled by the law (Chapter 9). Civil wars that raged through Central America and Peru during recent decades, and that still go on in countries like Colombia, have provoked the same kind of forceful expulsion of peasants.
As in aforementioned case of peasant migration, these changes have not occurred only because of economic tendencies, but as forced results of Neoliberal reforms as well. State reduction, as said, but privatization of social services as well, have resulted in massive job changes, in some countries. In the case of Chile, for example, no fewer than half of the teachers, as well as an important proportion of doctors\textsuperscript{104}, and other health personnel, social security administrators and clerical personnel, etc. that were public servants 20 years ago, are presently employed in the bourgeoning private social services industry (Chapter 9). The same has occurred massively in privatized firms. As mentioned before, the labour relation that prevailed in State owned companies, and modern private LA employment, even in the same firms, is clearly not the same thing.

In addition to the above, as said, there has been continued reduction of illiteracy, and fast and significant heightening of the educational level of LA population, as well as its general health indicators and life expectancy (Table 1-6 in appendix). These processes, as said, had been evolving during the LADWS period, and in some countries suffered during the first wave of Neoliberal reforms. Nevertheless, they continued in force during the 1990s even during the second wave of reforms. When weighted by the population, the average increase in total LA per capita public social expenditure was 40% during the 1990s, which was equivalent to 2.7 percentage GDP points. The equivalent figure for increase in per capita education expenditures was 49% (1.0 GDP percentage point). In the case of health, per capita expenditures increased 15% during the decade (0.1 GDP percentage points), and 59% in social security (2.0 GDP percentage points) (Tables 1-6, 7,8,9 in appendix).

It is worthwhile noting that although “structural adjustments” of overall public expenditure played a negative role in LA (Ffrench-Davies 2002, 2003), public social expenditure showed a moderate anti-cyclical behaviour even after the 1997 crisis started, as it continued to grow in LA by 1.4 GDP percentage points\textsuperscript{105} (Tables 1-7,8,9 in appendix).

All the above changes had a strong impact over LA workforce, but more so on their overall productivity, which has increased significantly, and less in their general living conditions, which continue to be destitute in the general case, and miserable for tens of millions (Table 1-2 in appendix).

**Better Times for the Modern LA Affluent Few**

Under the hegemony of this way of thinking, a strong shift of mentalities has taken place in the LA masses, away from traditional, agrarian based, communitarian ideas, and towards liberal, individualistic, kind of thinking. In addition, the *Washington Consensus* has introduced modern living standards in LA, including differentiated social services, for the affluent few that can afford them. Afford they may, because as said, the richest 10% of LA population seize over 40% of total LA income, and even more in three countries. Sadly, these feats were attained mostly at the expense of the poorest 40%, of the LA population, as well as the middle 50% that lie in between. The latter experience increased job insecurity and has been largely left aside by newly

\textsuperscript{104} In Brazil it has been estimated that due to these changes, the personal income of medical doctors, for example, has been reduced by as far as 20%, which may introduce some ambiguity in their demands, no longer for differentiated market provided social services but for universal high quality public services as well.

\textsuperscript{105} The only LA country that lowered its public social expenditure during the crisis was Colombia (-1.7 GDP percentage points), while Ecuador stagnated it own.
privatized social services. Meanwhile, the former have to survive with only 13% of overall income, and even less than 10% in Brazil, and continue living everywhere in conditions of horrendous poverty (Table 1-9 in appendix).

As the century came to its end, LA population had certainly advanced a long way from the generalized idiocy, word that etymologically means ignorant isolation (Hobsbawm 1998), of peasant life at the dawn of the 20th century. At that time, the overwhelming majority of LA population shared this fate, with the sole exception of the land-based oligarchies and their small entourage of high state functionaries and politicians, liberal professionals, and other privileged members of the traditional LA elite. Even for the latter, though, life had been quite hard and unimposing as well in most of LA, except in the lands of ancient LA empires or former slavers, where truly rich elites could be found in the old times, as contemporary architecture witnesses. 106 LA middle classes, including the nascent salariat, began to emerge as relevant actors by mid 20th century. During the LADWS period, they improved their lot and differentiated themselves from the peasants, which remained as always during a good part of the century, while traditional oligarchies slowly declined. Only as developmentalism approached its climax, during the second part of the century, did overall living conditions improve significantly for the mass of LA population, while the old oligarchies definitively phased out, or were forcefully liquidated by revolutionary processes. At the same time, entrepreneurs emerged in command of the new elite in LA societies, together with their relatively wider entourage of very high-income, upper middle classes. During the Neoliberal period in LA, the latter groups asserted their general well being, and that of business in the first place, disregarding the rest of society for the most part.

Neo-LADWS in the Making?

Washington Consensus policies began to show signs of exhaustion in LA as the 20th century ended, as has been argued. However, as said, Neoliberal ideas are still largely hegemonic in several areas of LA policymaking, and this tendency could advance very slowly. Nevertheless, any sober assessment of the matter will conclude that the Neoliberalism is no longer consensual in LA, and long past its heyday.

Moreover, Neoliberal pretence of being the only true development paradigm – it has been widely referred to as the only way of thinking - is today under severe assault in LA, as serious alternative policies begin to surface, and gain public acceptance, and even attention from LA governments, in increasingly wide areas. Many elements seem to point towards the emergence of a new development strategy in LA, which looks increasingly coherent. The emergent development strategy suggests a new relation between economic development and an inclusive, universal, kind of social policies, as well as a new relation between public policies and private business, all within the framework of constructing a wider regional economic space.

In what follows, some of these new approaches are summarized, emphasizing alternative social policy. Even though a new development strategy is still in the making, and far from completion, drawing from the historical approach, such

106 Maria Graham, a friend of Charles Darwin who lived in Chile during a few years in the 1850s, was a keen observer of the life styles of the Chilean “upper” classes at the time. She wrote that more comforts could be found in a fisherman’s hut in Scotland, that in the “mansions” of the Chilean elite, at the time.
emerging strategy may perhaps begin to look as something resembling a Neo Latin American Developmental Welfare State, or Neo-LADWS.

**New Deal for LA?**

Assessing Lula’s election as President of Brazil, *The Economist* magazine concluded that it marked an “unambiguous shift of direction,” away from the centre-right trend that has dominated Latin American (LA) politics over the last two decades (The Economist 2002:1). A few months later, the same shift of direction resulted out of the apocalyptic events that marked the collapse of the political system in Argentine, soon to be followed by the election of President Kirchner, closely identified, as well, with Lula’s discourse. Both Presidents have run through a good part of their mandates enjoying huge public support, and in the case of Lula, his figure has become a symbol throughout the region and even around the world, of new set of policies that allow for a bit of compassion. Tabaré Vasquez, the leader of the leftist Frente Amplio, was elected President of Uruguay with over 50% of the vote. As will be underlined below in the case of Lula’s PT, Frente Amplio is no latecomer either into Uruguayan politics, as it endured a long march up to power, which started back in 1971, which included resisting a cruel dictatorship and later, exercising the local government of Montevideo for a number of periods.

A good part of the continent seems to be riding a wave of political agitation. In Venezuela, President Chavez, who comes from the military, was deposed by a widespread, US supported, middle class revolt against his reform-oriented policies, only to be put back in office two days later, by a popular upheaval, supported by the military. Recently, a plebiscite confirmed that a wide majority of citizens support his reform-oriented policies. Popular revolts in Bolivia forced the resignation of President Sanchez de Losada, and later on his successor, President Mesa, and a plebiscite and successive legislation regarding natural resources confirmed that the overwhelming majority of Bolivians support moving away from Neoliberal policies. The situation is not stable either in bordering Peru, where President Toledo, a social democrat who replaced authoritarian President Fujimori, has nonetheless been accused of continuing some of the Neoliberal policies and corrupt practices of his predecessor. His current approval ratings are very low, even though the economic performance of his government has been rather good. Colombia’s decades-long civil war does not seem to abide under a rightist government, as the country undergoes increased US military presence, justified on the war against terrorism and drug trafficking.

Nevertheless, turmoil is certainly not generalized, and most countries in LA enjoy quite stable situations. Even countries that are surmounting severe crisis, or undergoing significant political shifts, have managed to do so in a remarkably peaceful and democratic way, such as the aforementioned Brazil and Argentina. Mexico, the other regional giant together with Brazil, just a few years ago put an end to the 70 year dominance of the *Partido Revolucionario Institucionalizado* (PRI), a paramount event for this country, with a certain parallel to the end of the Communist Party’s rule over Russia. Nevertheless, it was achieved without a breakdown of the Mexican political system, and has proceeded in an outstandingly peaceful way. Chile has undergone sixteen years of transition out of the Pinochet dictatorship, and in 2005 will hold its fourth successive democratic presidential election during this period. Many may feel frustrated by the slow pace of democratic transition, but no one can dispute its stability. Economic perspectives that point for the better, coming as good
news after six years of recession and crisis that started in 1998, should further reinforce political stability in LA.

Everybody is aware of the paramount difficulties which Presidents Lula and Kirchner must surmount to implement the kind of policies they promote – corruption included. Not least, the resistance of the Bretton Woods Institutions (BWI). Dissident voices within Lula’s own Partido dos Trabalhadores, and other opposition figures in Brazil, even question his willingness to put alternative policies into practice, pointing to the continuity of economic policies during his first years in office. In Chile, socialist Ricardo Lagos was elected President in 1999, in an election that reflected a deep desire for change among voters. President Lagos’ government has been very effective in developing transport infrastructure all along Chile, and the country has finally approved its first divorce law. Nevertheless, a balance of Lagos’ administration suggests no serious attempt to change the prevailing policy model, even if timid reforms have been initiated, regarding social protection, mining policy, and other issues, as new presidential elections approach.

Nevertheless, the above-cited assertion by The Economist in relation to Brazil may hold true in a wider sense throughout the continent. The proposal of a “New Deal,” explicitly inspired in Franklin D. Roosevelt, where increased social protection (SP) is considered a basic component of new economic policies, is central in President Lula’s program. The PT program calls for “the implantation of an alternative model of development, with the social issue as its axis… accompanied by the democratization of the State and social relations…” (PT 2002:1). Similar propositions may be found in the discourse of Presidents Kirchner and Vasquez, as well as in alternative government proposals across the continent. Such proposals may be heard in assemblies such as Forum Social Mundial de Porto Alegre and other alternative regional assemblies, which are becoming increasingly representative, as leaders of political parties now in power in the main countries in LA continue to participate in them.

The same kind of propositions may be heard coming from institutions such as UNDP and other UN agencies and leaders (Ocampo 2002). Voices that promote significant policy changes are becoming increasingly authorized within organizations such as ECLAC (Ffrench-Davis 2001, 2002, 2003). Even flagship institutions of Neoliberal policies, such as the Inter American Development Bank (IDB) and even the World Bank (WB), have recently insinuated timid exploratory openings to the possibility of a different kind of policies (Gill et al 2004).

Most important, the emerging, progressive, reform agenda, of an increasingly wide assortment of political, academic, and social actors, may be now resting quite solidly over the current moment of the historical development of LA, as this book will argue quite extensively.

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107 In fact, “change” was the central campaign motto of Joaquin Lavin, the rightist candidate Lagos narrowly defeated. Lavin rarely, if ever, mentioned traditional Neoliberal slogans, such as privatization or reduction of the State, during his campaign, quite aware of the their unpopularity.

108 Public social expenditure indeed slowed the fast growth pace experienced during the previous democratic governments, and Lagos’ Finance Minister remained quite deaf to calls from ECLAC to increase public expenditure and deficit to overcome the long recession (Ffrench-Davis 2001, 2002, 2003). Free Trade Agreements (FTA) continue to being signed all around, including with the US and the EU, meanwhile relations with bordering countries show worrying strains that had not been experienced in decades.
A Young Giant in the Making

In a longer historical perspective, interesting options seem to open for LA. There is growing conscience that by mid 21st century, and even long before that, the present balance of economic power in the world will have changed quite dramatically. As mentioned before, when assessing the course of LA transition process, the region is considered as one of the emerging economic powers of the 21st century (Goldman Sachs 2003).

The building of such an economic LA giant, how it will look like, what its main features will be regarding economic and social policy, are questions that largely depend in the development strategies of the continent’s largest countries, Brazil, Mexico, and Argentina. The development strategies of the other LA countries will exert some influence, but this encompassing process will largely determine them. The strategy of the US concerning the region will certainly play an all-relevant role as well. However, its influence will be offset, at least in part, by the increasing presence in the region of the EU and other large international powers.

Up to now, the Brazilian development strategy has privileged creating a wider economic space, jointly with Argentina who has corresponded in such path. Together with Uruguay and Paraguay they have conformed Mercosur, as is well known. Mercosur has been developing already for over a decade, and has recently proven capable of surviving quite severe economic and political crisis in its main partners. Mexico in turn has privileged integrating itself into the US market through NAFTA, together with Canada. Nevertheless, at the same time, Mexico has been pursuing an independent path, which includes FTA with the EU and rapprochement to the south (Fazio 2004), including the possibility of fully joining Mercosur as well (CENDA 2004a; 04/04).

On the contrary, smaller Chile has privileged unilateral opening of its economy since the 1970s, while trying to pursue rapprochement on the one side to Mercosur, as a special associate that keeps arms-length distance, and to the US on the other, while at the same time actively seeking openings both to the EU and Asia. Chile has signed FTA with the EU, the US, and Korea during 2003, before that with Canada, Mexico and other LA countries, and is presently negotiating FTA with Japan, China, and India, among several other countries. Nevertheless, such a strategy seems to be overstretching itself, as its neighbours show increasingly hard feelings about it. Recent problems with natural gas provision from its neighbours on which Chile depends for 30% of its overall energy needs, seems to prove the limits of such unilateral approach (Fazio 2004; CENDA 2004b).

The Andean countries, including Colombia, and Venezuela, which are the continent’s fourth and fifth economies (Table 1-1 in appendix), together with Ecuador, Peru, and Bolivia, have conformed a regional Andean Pact since the 1960s where Chile belonged as well until the mid 1970s. All these countries are living through fast and difficult social and economic transitions, as well as violent political struggles. Even though their future strategy does not seem clearly defined yet, they seem to privilege rapprochement with Mercosur, particularly the Chavez government in Venezuela, and Bolivia, who has already achieved a special associate status.

Central America and the Caribbean is a region where civil wars in many countries during the 1980s underline how fast they are presently undergoing the social and economic changes that have marked LA as a whole throughout the past century. US
influence has always been and remains determinant in this region, more than elsewhere in LA. Many of these countries have recently signed FTA with the US. Nevertheless, as the remarkable example of Cuba has proven throughout almost half a century, an independent development path is possible even so close up to the US, whichever hardships it may carry. The Costa Rican experience supports this as well. Recently, for example, Costa Rica refrained from signing a FTA that was offered to them by the US. Difficult as it seems, some countries in this region may choose to seek rapprochement with the southern block led by Brazil, as Cuba has been doing for a long time. It is possible that some of them will achieve this purpose, overcoming pressures against it from the US.

The US has been following a strategy for LA that was defined by George H. Bush in 1994, when he announced the Free Trade Agreement of the Americas (FTAA), a free trade region that by 2005 would encompass America from Alaska to Tierra del Fuego. The FTA recently signed by Chile and three Central American countries underline the main points pursued by the US through FTAA. These FTA have established a rather slow calendar for free trade itself, with long adjustment periods for those goods that are sensitive to specific US constituencies. Sensitive trade items for the US are not included in the FTA pacts, such as reducing farm-subsidies and limiting anti-dumping legislation. Quite the opposite, the minor partners have accepted to include non-trade matters that interest the US, such as government purchases, investments, and intellectual property rights (Fazio 2004). Meanwhile, the US military Southern Command has been pursuing a less outspoken though no less clearly defined strategy for LA, which includes securing US military presence in Paraguay, Bolivia, and Colombia, under the cover of war against drug traffic and terrorism.

Nevertheless, AL seems to have been asserting its independence progressively. Mercosur, headed by Brazil, has resisted imbalances, such as the ones accepted by LA countries who have signed FTA with the US, from being included in FTAA as well. Mercosur has stated that they will accept to include non-trade matters of interest to the US, only of this country will in turn accept including trade related issues as the ones mentioned above. As the US has refused to do so, FTAA talks are quite stalled and its original timetable seems to have been abandoned. Over the same argument, Brazil together with India and China, led a group of countries including Chile, which walked out of the WTO meeting in Miami in 2003 (Fazio 2004).

It seems clear that the new LA strategy here outlined, though drawing heavily on 20th century LAWDS experience, has essential differences with it as well. Mainly, the new strategy may probably only happen in an enlarged, multinational, LA space, if it indeed is meant to happen at all. The sub regional re-definition of the international economic insertion of LA countries, which has been referred to above, point to the kind of space and actors where such international definitions are being shaped.

The magnitude of the developmentalist programs facing Neo-LADWS seems to exceed both the capacity and the space of individual countries, even the continental giants, Brazil and Mexico. National security in fields such as energy may only be achieved in optimal conditions within an increasingly solid integrated environment. On the other hand, the economic advantages of solving such problems with LA resources are so huge that they constitute a significant incentive towards economic integration. In the above cited example, the provision of over one third of Chilean energy requirements with cheap LA gas generates economic benefits that exceed by far those that may be obtained by the sum of all marginal trade benefits rendered by
all the FTA agreements recently signed by this country, including those with the US and the EU (CENDA 2004b). Other developmentalist programs facing LA countries in coming decades include such huge engagements as building a science and technology base that may be able to compete with the other large international players such as the US, EU, China, India, and Russia. Full development of aerospace industry is another engagement to be mentioned. A continental network of superhighways and modern railway connections such as already available in EU and the US should certainly be built in LA. Finally, yet importantly, the building of a competitive defence industry could be added as well. Many more areas could be mentioned that by sheer size require a larger space than individual countries may provide.

When Chile signed FTA with the US recently, its fans hailed it as the moment when the country joined the “big leagues.” Similar expressions were used in Honduras, Guatemala, and El Salvador, when those small countries signed their own FTA with the US shortly afterwards. The above-mentioned list of challenges facing the alternative Neo-LAWDS project may perhaps closer resemble what really playing the “big leagues” is all about in LA during the 21st century.

The shape of the continent in the future seems to be strongly in dependence of the fate of the sub regional integration efforts now in course. Unlike similar intents that have been successively frustrated in the past, this time chances seem to be that what was the dream of Simon Bolivar may prevail in the near future.

A New Developmental Relation between State and Business

In addition, and perhaps more relevant from a factual point of view, economic integration in LA simply seems to be happening, engaged by LA entrepreneurs, following purely economic forces. Horst Paulman, owner of the Chilean Jumbo supermarket chain, who holds a significant market share in both Chile and Argentina, has recently declared, “Entrepreneurs who do not take advantage of investing in Argentina are simply being foolish” (CENDA 2004a; 04/04). Argentina concentrates over half of Chilean foreign direct investment since 1990, with Brazil and Peru coming in second place. In addition to the gas connection, which has been mentioned, all these previously unthinkable over-the-border private ventures have occurred during the last decade.

A recent invitation by Mexican Carlos Slim, LA biggest entrepreneur, to his kin in the rest of LA countries, to a meeting that took place in Mexico in 2004 and lasted for several days, seem to point in this strategic direction (CENDA 2004a).

The new strategy points towards a State-Business relation that is quite different to the one established under the old developmentalism. Unlike its ancestor, the State is now able to rely mainly on the new LA entrepreneurial class, which simply did not exist but in infant form during the old times, and the new strategy seems oriented towards further strengthening such an actor.

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109 Following a pattern that has been the usual during the last decade, the main destiny for Chilean direct investment abroad during the first quarter of 2004 was Argentina, country that concentrated 70% of operations. Countries that followed were Peru (5,4%), Colombia (3,8%) y Ecuador (3,8%). Accumulated figures show Argentina concentrates slightly over half of foreign direct investment by Chilean entrepreneurs between 1990 and 2004, with operations for over US$ 14.000 millions. Brazil, even though less active during the last quarter, retains the second place, with 14,5% of the overall total, closely followed by Peru (13,8%) (CENDA 2004; 04/04).
The Neo-LAWSD project seems rooted not only in the 20th century experience, from which it will probably draw inspiration, but over the inheritance of Neoliberalism in LA as well. The emerging paradigm implies a radical change of direction away from Washington Consensus kind of policies, and in fact, it is being conceived over the criticism of that model. Nevertheless, the new project seems to inherit quite a lot from the Neoliberal period as well. It should rely on new LA entrepreneurial classes, as said, which in their present form are certainly part of Neoliberal inheritance, as much as the latter model inherited them from the old developmentalism as well, at least in infant form. Complementary, the new strategy is to be built upon the new salaried middle classes, both over their productive power, as well as their present demands of wider and better SP as will be mentioned below. Such new salariat has also sprung up from both the Neoliberal period, as well as from developmentalism before that.

Many other inheritances from the Neoliberal period will probably be built into the conceptualization of the new development paradigm that seems to be emerging. For example, strong voices are demanding more active monetary and fiscal policies than those accepted under Washington Consensus policies, especially under recession. Nevertheless, few would support any kind of fiscal irresponsibility, and fear of hyperinflation remains high, perhaps too high as has been said, across every level of LA elites. In addition, governments throughout LA have started looking to put in place stronger regulations on business practices, to ensure competitiveness, transparency, and tax compliance. Nevertheless, maintaining an economic and regulatory environment that looks attractive to business seems to gather wide consensus as well. Regarding social policies, a new relation between the public and private sectors seems to be in the making as well, as will be argued below, in which both sectors play complementary roles.

Nevertheless, the main shift in direction in this relation seems to point towards the need of rebuilding and reinforcing the public sector. After decades of unilateral emphasis on creating optimal conditions for business, a change seems to be in the making in LA, towards emphasizing the public sphere. This is not viewed as a way of constraining entrepreneurial initiative, but quite on the contrary, as a way of reinforcing it through better regulatory frameworks and a strong complimentary public sector. The rebuilding of strong, well trained, efficient, and non-corrupt professional civil services seems to be one of the main points in this shift away from decades of trying to transform the public sector into the image of private business. This seems to be an international current as well (Suleiman 2003; Fukuyama 2003).

Recovering Ground-Rent of Natural Resources

Regulations over natural resource exploitation, including conservationist and ecological concerns, as well as royalty charges for minerals and other resources, are now getting due attention from LA governments, as such policies enjoy high support among their public opinions.

As is well known, a good part of national income in developing countries, including LA countries, comes from exploitation of natural resources, which have high ground rents associated with them. The high labour productivity, and the comparative advantages of these industries, derives not only from up-to-date technology, and workforce qualification, which are normally present as well in these sectors at least relative to other industries in the same countries. Most of these advantages really arise out of the high ground rent associated with the valuable natural resources in which
these industries are based upon. That is the case in industries such as mining, export-oriented plantations, fisheries, etc., among others.

On the other hand, it is also well known that during the last decades, under the inspiration of Washington Consensus economic policies, LA countries have lured foreign investment by adopting highly generous and permissive taxing systems, which in fact allow foreign investors to avoid paying any relevant taxes to the governments of their host countries. In addition, in the case of industries that are natural resources-based, the taxing systems currently in use in developing countries have generally abandoned the orthodox economic policy recommendation of charging royalties, and using other instruments of State appropriation of the significant ground rent associated with these resources. In addition, State companies that in some cases exploited these resources themselves have been privatized in some countries (UNRISD 2005, Riesco 2004; CENDA 2004d).

The ground rent of natural resources in developing countries is thus appropriated by the private investors in these industries, and becomes the equivalent of a high subsidy to investors in these areas – none less than enjoying free raw materials in many cases. As a result, there is significant over-investment in natural resources-based industries in developing countries, which result in over exploitation of these resources in the short run, with severe consequences for the environment. Over-investment and over-production of natural resource-based industries in developing countries has resulted as well in periodic gluts in world markets for some of these products, with severe price falls. Even the theoretical border case of “inmiserizing growth,” where an expanded output is sold for a lower overall price, has been experienced in determined natural resources-based markets during certain periods (UNRISD 2005, Riesco 2004; CENDA 2004d).

The above-described situation has been thoroughly studied in the case of mining companies operating in certain developing countries, where a strong movement is in the making, to reform taxing schemes in natural resources-based industries, introducing royalties and other ground rent appropriation mechanisms by the State (UNRISD 2005, Riesco 2004; CENDA 2004d).

In brief, the disregard of ground rent-related policies in taxing schemes currently prevailing in developing countries has resulted in severe reduction of State revenues in developing countries, as well as negative impact over employment and environment, among other negative consequences. All these consequences have had a severe negative impact over social policies and social development. This process has resulted in a serious loss of the capabilities for ground rent appropriation acquired by developing nations during the nationalization wave of the 1960s and 1970s.

Nevertheless, and although prosecuting the same goals, the present movement is based mainly in defining sound and effective ground rent appropriation taxing schemes, instead of having the State directly assuming all production in these industries, as was the general case in the previous wave of nationalizations. In this way, appropriation of ground rent may cohabitate in harmony with emerging local entrepreneurs, who desire to participate in the business together with foreign capital. Nonetheless, State enterprises continue to play an important role in the new schemes, as long-term regulators in these industries.

Strictly speaking, from a theoretical point of view, ground rent appropriation by host States in developing countries is the equivalent of a transfer of value from developed
countries towards developing countries. Consumers in developed countries usually make the bulk of the demand for products of natural resources-based industries, and thus pay most of the higher price that results from the scarcity of these resources, which in turn originates ground rent. In this sense, promoting the reintroduction of orthodox ground rent appropriation policies in developing countries, is the equivalent of redirecting part of the income of the developed world to developing nations, only in this case this transferral takes place by the action of purely economic forces.

All the above, of course in addition to the overall gain in economic efficiency that results from re-establishing sound economic policies in natural resources-based markets, of which non the least are those related to the rational protection of environment.

**New, Enhanced, Inclusive, Social Policies: Binding for Neo-LADWS**

Regarding social policies, criticism and dissatisfaction over private social protection schemes applied during the Neoliberal period runs high across public opinion, and governments are taking charge of them as well throughout LA (UNDP 2002a,b; Riesco 2002a,b; Gill et al 2004). Nevertheless, few would support going back to the old schemes. Rather, alternative SP proposals suggest multiple tiered schemes, where reinforced and better public systems will attend the needs of the majority of the population, and private schemes will be kept in place whether as complements of the latter, or as differentiated SP alternatives for higher income groups (CENDA 2004c; Chapters 2 to 9 below). Thus seems the new project to be taking its shape in this critical area.

Rivalries, border conflicts, and even armed skirmishes between neighbouring countries are quite frequent in LA. Recent conflicts for example have confronted Chile against Bolivia, Peru, and Argentina, and serious problems aroused between Argentina and Brazil when the latter depreciated its currency a few years ago. Serious tensions leading to border skirmishes have occurred in recent decades between Ecuador and Peru, Chile and Argentina, and Venezuela and Colobia. In effect, strong chauvinist sentiments that are deeply rooted within populations of bordering countries easily erupt, poising one against the other. Obviously, apart from all other ethical considerations, this kind of incidents result in border closures and other problems that are very bad business, and may seriously hamper or delay the integration project. They underline the need of building up public support for the integration project.

There seems no better way of securing public support for the integration project than embedding it into the Neo-LADWS project itself. In this sense, the social policy component of LA integration has been present since its conception, at least in Mercosur. Following the EU model, Mercosur has devised three party commissions, where workers are represented, together with employers and governments. Even though advances in this area have not been great up to now, inroads have been made in many matters, and some common ground is already in place. Presently Mercosur is discussing many subjects related to social policies, among them, cross-border retirement and health benefits, educational equivalences between university degrees, labour legislation, etc., among others.

On other aspect of social policies, the liberal reforms have resulted, as said, in the rise of an important private social protection industry. This industry mostly cares for needs in the referred areas of families mostly belonging to the upper income brackets,
financed in an important part directly by them. Nevertheless, as mentioned, serious deficiencies may be found in the regulatory framework of the private systems and in their relation with the public system. Important market distortions, high costs for the users and relevant global inefficiencies stem from these problems. However, there seems to be enough accumulated evidence over which a different approach may be built, regarding the coexistence of the public and private systems. These new approaches consider not only overcoming the imperfections of the traditional public system, but also the serious failures of the private sector in the funding and the provision of the welfare benefits. The idea that prevailed during the past decades, that privatization is the master key to solve all problems has seemingly proven inaccurate. Growing voices suggest advancing now towards a more regulated and harmonic development of both the public and private sectors, with a continued strong recovery and improvement of the public sector, aiming to develop a universal, more equitable and good quality social protection system for all (UNDP 2002 a,b; CENDA 2004c; Gill 2004).

It seems inevitable to attend the issue of the size of public spending dedicated to social protection, of which a major part goes to financing the deficit resulted from the privatization of pension schemes in several countries. This discussion, in the longer term, leads inevitably towards revising the level of public spending as a whole, because social spending already absorbs the larger part of government budgets. This in turn points towards a revision of the taxation systems in place. As asserted recently by the Chilean Minister of Finance: “With the current tax rate it is only possible to provide a social policy for the poorest quintile, yet the second quintile is also horribly poor...also middle class has to be satisfied [in their needs], but that is impossible with the current tax rates. For full university grants, adequate pension retiring schemes, a different tax rate is needed” (Riesco 2002 a:3). It has been suggested to this respect that it would be nice if translational corporations operating in LA would pay their taxes, among other progressive taxation proposals (UNDP 2002a, b).

In the short term, another quite pressing issue relates social spending to economic policy. An increased social spending has been argued strongly as a way to provide an efficient and just way of reactivating LA economy, which remained stagnated or recessive from 1998 up to 2003 (Stiglitz 2003, Ffrench-Davis 2003). Of course, the historical precedent is well known, since many of the main SP programs were initiated in the US in the wake of the 1930s crisis. The East Asian experiences reviewed in the present project show that countries like Korea and Taiwan, for example, increased their public social expenditure from around 16% in the 1980s up to 30% today, while they extended health care and pensions universally, and created comprehensive unemployment protection systems. Many of these changes were implemented during the Asian crisis started in 1997, and financed in part through significant though temporary fiscal deficits they played a strong role in economic recovery (Wong 2003). In the long term, such an eventual new relationship between social policy and economic policy opens way for a renewed interest in developmental economic policy.

These developments notwithstanding, and drawing again from the historical method of this book, the main challenge confronting Neo LADWS project, seems to be addressing the same kind of improvements in their SP systems which other regions succeeded in implementing, when those regions went through to the development moment that LA is presently confronting. That would suggest looking now to the SP systems that Europe, the US, and white colonies such as Australia, or New Zealand,
managed to build during the 20th century. A more recent and nearby example for LA may be drawn from the East Asian experience mentioned before.

Removing Impediments

The question over the possibility of taking advantage of the present window of opportunity brings the debate back to the impediments confronting the possibility that these insights translate into policy measures. According to UNRISD’s Thandika Mkandawire, such impediments are threefold: a) “the persistence of economic policy making based on a “leader/follower” model, where macroeconomic policy (stability and growth) is determined first and social policy is left to address the social consequences” b) “the complexity and ambiguity of the policy implications” of renewed developmental economics and, c) recalcitrant political and ideological impediments, being “social policy is a highly political process, touching upon power relations, access to resources and ideological predilections about the role of State and markets” (Mkandawire 2000: 23).

Academic research and debate seems to be able to accomplish a lot in LA, in the direction of partially removing at least the first two of these impediments and, through this, aspiring to be modestly influential in regard to the third one. The simple review of old and new theories and insights in developmental economics, in the light of studying social policy in relation to social and economic history in LA, may prove to be, by itself, not in the least unimportant. Certainly, the consideration of social policy in conjunction with economic policy in a development context seems especially fruitful,

Systematic dialogue and interchange between researchers and studies of these matters in the different LA countries, under a critical perspective and with the sponsorship of UN institutions, may prove fruitful as well, beyond the specific thematic involved. One of the main questions to be addressed is how social (and economic) policy measures are in fact decided as of now, in the LA countries. What are the implications and ramifications of the BWIs and other translational entities into this process? How do they accomplish such a high degree of influence? Such processes need to be countered, starting from the theoretical background and through the preparation and grooming of elite technocrats and up to the ramifications of their closely-knit community with government, academy, media, and business. How can this decision making process may be made more transparent and accountable to democratic institutions?

Addressing the former in the background of the political trends that seem to be emerging in LA may reasonably support a not overly pessimistic stance regarding the possible outcomes.
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