Deindustrialization and the rise of non-contributory social programs in Latin America

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Abstract: The effects of deindustrialization on the design of social protection institutions has been a central theme in the literature on comparative welfare states in advanced industrialized countries over the last decade. This growing body of research has attempted to map out the consequences of a new, post-industrial economic context – characterized by high rates of unemployment, high levels of atypical and part-time employment, and growing family instability – for existing policies of social protection that were established during the "industrial" age. In this paper, we propose a new coalitional explanation linking the changes in employment status produced by deindustrialization with changes in preferences over the design of policies of social protection. Empirically, we test the relative explanatory power of competing theories with data from Latin America, a region that has experienced a contraction in agricultural and manufacturing employment that equals in magnitude the deindustrialization experienced by advanced industrialized economies. Our paper examines the impact of this structural change on two measures of social policy change: (1) levels of social spending, and (2) policy design, as measured by the policy mix between Bismarckian contributory programs, financed by payroll taxes, and Beveridgean programs, financed by general tax revenues. We find little support for the existing literature's expectation of a positive relationship between de-industrialization and social spending, but robust support for our hypothesis linking de-industrialization and the introduction of non-contributory health and old-age insurance policies. For research assistance, we are grateful to Boliang Zhu. We are grateful to Timothy Frye and Victoria Murillo for comments on the paper.

The effects of deindustrialization on the design of social protection institutions has been a central theme in the literature on comparative welfare states in advanced industrialized countries over the last decade.[1] This growing body of research has attempted to map out the consequences of a new, post-industrial economic context – characterized by high rates of unemployment, high levels of atypical and part-time employment, and growing family instability – for existing policies of social protection that were established during the "industrial" age.

Two theoretical perspectives dominate existing research on the consequences of deindustrialization. Structuralist scholars regard de-industrialization as a decisive transformation that has spurred the *expansion* of social programs. Iversen and Cusack are the strongest proponents of this structuralist explanation, predicting a linear and positive relationship between the magnitude of deindustrialization and the size of social spending.[2] Institutionalist scholars, by contrast, anticipate a more muted effect. They argue that de-industrialization creates a "mismatch" between existing institutional structures of welfare programs and the "new social needs" that emerge from the economic transition. But since the existing institutions of the welfare state are defended by powerful incumbents, status quo bias is likely to prevail.[3] As Esping-Andersen has succinctly formulated the implications of this line of research, "the real crisis of contemporary welfare regimes lies in the disjuncture between the existing institutional construction and exogenous change. Contemporary welfare regimes and labour market regulations have their origins in and mirror a society that no longer obtains: an economy dominated by industrial production with strong demand for low-skilled workers; a relatively homogenous and undifferentiated, predominantly male, labour force (the standard production workers). […] [T]he new political economy presents trade-offs that make it exceedingly difficult to harmonize some egalitarian goals with a return to full employment. Existing welfare regimes

tend to be captive in their own institutional logic and, hence, the ways in which they respond to and manage emerging dilemmas will yield different outcomes and produce varying 'postindustrial' scenarios."[4]

Yet de-industrialization – the simultaneous reduction in employment in the industrial and agricultural sectors – is a transformation that is not unique to advanced industrialized economies alone. Rather, it is a much broader phenomenon that is common to both developed and developing countries. In recent decades, the service sector became the engine accounting for employment growth in over one hundred countries. Between 1980 and 1997, employment in the service sector increased from 19.4% to 26% in Africa, from 46% to 55.1% in Latin America, from 34.6% to 43% in Asia and from 42.9% to 55.6% in Europe.[5] In Latin American countries alone, over 90% of the new jobs that were created during this period were located in the tertiary sector.[6] Yet despite the importance of this phenomenon, no study has explored the consequences of deindustrialization for social policies outside the OECD.

This paper has two goals. Theoretically, we propose a new coalitional explanation linking the economic changes produced by deindustrialization with changes in policies of social protection. We identify a number of theoretical gaps in the structural explanation (proposed by Iversen and Cusack) and suggest that the expectation that deindustrialization should lead to higher social spending is problematic. The explanation advanced in this paper complements institutionalist explanations (advanced by Esping-Andersen and Pierson), but argues that these over-predict policy immobilism and fail to account for political outcomes in which far-reaching policy change is possible.

Our theoretical explanation relies on a micro-logic which emphasizes the links between employment status and social policy preferences. We hold that the decisive shift caused by

deindustrialization has been from stable, contracted employment in relatively large firms to more diffuse, independent employment relationships (self-employment), largely in the highly heterogenous service sector. The former employment context was conducive to the formulation of occupation-related social insurance programs, financed by employee and employer contributions. De-industrialization has dislodged this stable, contracted coalition, casting many workers into unstable, transitory, and even un-contracted jobs, in which they must function as labor market "independents." These labor market changes have increased the size of a political coalition favoring social policies that are universalistic in scope, non-contributory in financing, and that are not tied to existing occupations. In other words, we hypothesize that de-industrialization has increased the membership of a political coalition which demands far-reaching changes in policy design from Bismarckian to Beveridgean programs.

Our second contribution is an empirical one. To test the relative explanatory power of these theories, we turn outside the OECD to Latin America. Latin American economies are an ideal laboratory to explore the political consequences of deindustrialization. Over the last five decades, the countries in the region have experienced a contraction in agricultural and manufacturing employment that equals in magnitude (and by some accounts exceeds) the deindustrialization experienced by advanced industrialized economies. Our paper examines the impact of this structural change on two measures of social policy change. First, it studies the levels of social spending in the region –as previous work on OECD countries has done. But it also goes further by examining the design of various programs, in particular the policy mix between Bismarckian contributory programs, financed by payroll taxes, and Beveridgean programs financed by general tax revenues. To our knowledge, this represents the first effort to

explore the consequences of de-industrialization outside the context of OECD countries, as well as to trace deindustrialization's connection to distinct policy designs.

The paper will be organized as follows. A first section will present and critique existing theoretical perspectives assessing the consequences of de-industrialization for social spending. We will also present our alternative theoretical account that allows for a range of political equilibria that are not explained adequately by existing theories. In a second section we will present qualitative evidence on the consequences of deindustrialization for the design of Latin American welfare states. This section seeks to illustrate the existence of distinct policy outcomes that are conditioned by existing social policy arrangements and by differences in economic development. In the third section of the paper, we will present a quantitative test of our explanation, which explores the role of deindustrialization in the introduction of non-contributory programs. The concluding section will discuss further theoretical and empirical implications of our argument.

The consequences of deindustrialization for institutions of social protection

Deindustrialization – the simultaneous reduction of the share of the population employed in industry and agriculture – has had far-reaching implications for the economies of advanced industrialized societies. In 1960, about sixty percent of the labor force across OECD economies was employed in industry or agriculture; by 1990, that number declined to thirty percent. This massive economic dislocation was caused by technological changes, which have transformed both agriculture and industry, and by a combination of market saturation and decreasing income

and price elasticity for manufacturing goods. Across OECD economies, the magnitude of these structural dislocations was weaker among early industrializers and stronger among countries that industrialized later. In the US, an early industrializer, the percentage of the adult population employed in industry declined only by 3 percent; in Sweden, by contrast, this percentage was 13 percent.[7]

In a recent set of prominent papers, Iversen and Cusack have advanced a structural argument which attributes to deindustrialization a key causal role in shaping the development of welfare states across OECD economies. In Iversen's formulation, de-industrialization, "the secular and simultaneous reduction of employment in agriculture and industry beginning in the early 1960's […] turns out to be a very strong predictor of welfare state expansion."[8] The theoretical argument formulated by Iversen and Cusack emphasizes two related causes: labor market dislocation and the low transferability of skills. In combination, these two variables are hypothesized to shift the demand for social protection of the median voter in the economy and to increase aggregate demand for more spending. Furthermore, Iversen and Cusack hypothesize that partisanship and electoral turnout mediate the effect of deindustrialization on spending, increasing the political demand for new programs.

For Iversen and Cusack, the variable that links economic insecurity to a change in the nature of support for spending is the poor transferability of skills across sectors. As structuralist scholars present this logic, "most skills acquired in manufacturing (and agricultural) occupations travel very poorly to service occupations. Even low-skilled blue collar workers find it hard to adjust to similarly low-skilled service sector jobs because they lack something that, for want of a better word, is sometimes referred to as 'social skills'. In other words, the distinction between services and the traditional sectors represents a particularly 'thick' skill boundary in the

economy. […] To the extent that the transferability of private benefits is limited by occupational proximity, forced movement from manufacturing to services is a particularly impenetrable barrier to benefit transfers. Employers in these sectors are usually organized in different associations and do not cooperate in the provision of training or benefits. Frequently a shift in employment across the two sectors also requires workers to change their membership in unions and unemployment insurance funds. Thus, the low transferability of skills coupled with a low transferability of benefits from the manufacturing to service sector is expected to lead to a change in the demand and to an increase in demand for social programs."[9]

The causal logic presented by structuralist theories exhibits several theoretical shortcomings. The first is a conceptual confusion of risk and its impact on the demand for social protection. These studies equate 'riskiness' with a combination of employment loss and the absence of 'social skills' of workers previously employed in manufacturing. They assume that workers dislocated by the process of deindustrialization are particularly risky because they lack the necessary "social skills" needed to find a job in the tertiary sector. The service sector is characterized, however, by tremendous heterogeneity with vastly different skill needs. It includes professional and financial services, personal services, self-employment and piece work. These jobs are more different than they are alike; to suppose that they all share some "social skills" as their determinative feature seems naïve.

In addition, social policies cover a variety of different risks – such as old-age, sickness, or disability. We have no clear theoretical reason to assume that, at the individual level, loss of work brought about by deindustrialization is correlated with these other labor market risks. Nor do we have any reason to expect that these risks have a similar cumulative distribution. This consideration limits significantly the scope of the structural explanation. Even if

deindustrialization increases economic risk (the probability of unemployment), we still cannot predict how this will change individual demand for social protection unless we specify the relationship between economic insecurity and the salient social risks covered by various programs – which varies both across individuals *and* across risks.

A second conceptual misunderstanding in the structural approach is a confusion between *absolute* and *relative* risk profiles. As argued elsewhere, what matters for the individual preferences of workers (and also employers) is not the absolute, but the relative, incidence of a labor market risk. To the extent that social insurance policies distribute not only along income lines, but also across risk categories, high-risk sectors will support the expansion of insurance coverage. In contrast, low risk sectors will oppose the expansion of coverage, fearing that the latter will turn them into subsidizers of high-risk individuals. Risk is thus, in itself, the source of an important policy cleavage over the design of new social policies. The structuralist explanation which hypothesizes that de-industrialization increases aggregate risk exposure (and hence results in larger social policy spending) lacks a proper account of the *distributional* conflict over the design of new social policies.

Finally, the empirical analyses of structuralist scholars do not account for changes in social policy legislation across OECD countries.[10] The key empirical prediction of their model is that de-industrialization will lead to the replacement of occupationally-based insurance policies (which are not transferrable across sectors) with policy benefits that are transferrable (presumably contributory insurance or universalistic programs). But, in advanced industrialized economies, the introduction of these transferrable programs preceded the onset of deindustrialization. By 1960 (a date which in Iversen and Cusack's study is the date marking the onset of deindustrialization), a large majority of OECD economies already had social insurance

programs which provided mandatory protection either to all citizens (universalistic) or to all formal sector employees. For example, the UK enacted Beveridgean reforms in 1948, Sweden enacted its universalistic social insurance programs between 1948 and 1957 and Germany enacted its major pension reform in 1957.

In contrast to the structuralists, institutional scholars have argued that the process of de-industrialization poses significant fiscal constraints on the financing of social policy programs. In Paul Pierson's formulation, over the last three decades, welfare states in advanced industrialized countries have faced an environment of "permanent fiscal austerity."[11] The slowdown of growth in the manufacturing sector, and the increase in the importance of the service sector (which is characterized by lower levels of productivity), have lowered the fiscal resources available to finance existing social policy commitments. Policy-makers have chosen to respond to this budget contraction by raising the level of mandated insurance contributions. The result has been an increase in non-wage labor costs across all advanced industrialized economies, further contributing to employment declines and setting in motion a spiral of "welfare without work."[12]

Neo-institutionalist accounts of the consequences of de-industrialization have argued that structural economic changes have not brought about far-reaching institutional changes in the design of social policy programs across advanced industrialized countries. This argument has been pioneered by Paul Pierson, who has argued that "new politics" of the welfare state is characterized by policy immobilism. Inertia prevails, Pierson holds, because beneficiaries of existing programs favor the policy status quo and are likely to oppose any change in legislation reducing their benefits.[13] Esping-Andersen suggests that status-quo bias is likely to be more pronounced in "conservative" or Christian-Democratic welfare states, due to their reliance on contribution-based financing which establishes a strong relationship between previous insurance

contributions and social policy benefits.[14] Neo-institutionalist scholars have further refined Pierson's insight, by suggesting that welfare states in advanced industrialized countries have experienced only a "gradual institutional change," characterized by institutional "layering," rather than by outright institutional replacement.[15]

Despite its initial success in accounting for policy continuity, the institutional explanation has encountered difficulties in accounting for the magnitude of social policy change experienced by welfare states in advanced industrialized countries in recent years.[16] Policy change has been ubiquitous and substantial, rather than rare and small in scope. In contrast to Pierson's predictions, policy change has not been confined to the residual programs with their small, restricted constituencies, but has instead affected the core programs of the welfare state, such as old-age and sickness insurance. For example, in Germany, the Schröder government enacted a series of far-reaching social policy changes which have significantly reduced existing levels of social policy benefits.[17] Other countries with conservative welfare states – such as France, Switzerland or Italy – also enacted similar reforms that undercut the interests of social policy insiders.[18] This latter result directly challenges Esping-Andersen's proposition that Christian Democratic welfare state are less vulnerable to change

Our account of the impact of deindustrialization seeks to remedy the shortcomings of both structuralist and institutional explanations. Based on the impact of de-industrialization on individual social preferences and on distributional conflict over the design of different social policies, we formulate an explanation that is quite different from that of structural scholars. Our study also complements existing institutionalist explanations, by providing an account of the "shifting coalitional base"[19] that can explain both policy continuity and change, including far-reaching institutional transformation and not just incremental policy adjustment and layering.

Preferences and distributional conflict

To understand the impact of de-industrialization on individual preferences, we employ a stylized view of employment activity consisting of three possible labor market participation statuses. We call the first status "contracted." Here the terms of employment are defined by a written labor market contract which legally protects the individual against "unfair" dismissal by employers and gives the worker a reasonable expectation of job stability, typically with a single employer.[20] We refer to a second labor market status as "independent." Here the terms of employment are not subject to an indefinite contractual agreement between employer and employee; workers may have multiple part-time jobs with multiple employers or undertake piece work or their own entrepreneurial activity – all without a clear mechanism guaranteeing job stability or the assumption of legal and tax responsibilities by the employer.[21] We refer to a third labor market state as "inactive." In this state, the worker is not employed, whether by choice or the inability to find job or due to age (either youth or old age). At each distinct point in time, individuals find themselves in one of these three employment states. Their employment history is the sum of the three different states weighted by the amount of time spent in each state.[22]

In this stylized universe, we can also distinguish between three types of social insurance programs: "contributory policies" financed by contributions from contracted workers (and their employers) and "non-contributory" programs financed by general tax revenues, and voluntary "private" insurance. Among contributory insurance policies, we can distinguish, in turn, between contributory social insurance and private social policies. The former link the level of contributions to the wages of the individual (ensuring that people with higher salaries contribute more than people with low salaries), but not to the risk facing the individual.[23] This method of

financing ensures that higher income and lower risk individuals generate an "actuarial surplus" to subsidize the benefits of lower-income, higher-risk individuals.[24] Contracted employees share the payroll tax burden that finances contributory insurance policies with their employers. Independents, by contrast, pay their entire tax burden themselves, if they choose to invest in contributory policies; however, many independents fail to make contributions (either due to low wages or evasion). Private insurance policies link contributions to both the income and the risk profile of the individual.

Non-contributory policies, by contrast, take a very different route to financing social insurance. The fiscal resources for the policy do not come from contributions from income and work, but rather from general tax revenues; these policies also offer a lower level of benefits than contributory programs. Individuals in all three types of employment status – contracted, independent, and inactive – can access non-contributory programs. Empirically, the burden of tax-based non-contributory insurance can vary significantly across countries. Where income taxes and business taxes are the main source of government revenue (as in many OECD countries), the tax is borne more by wealthy citizens; in contrast, where value-added and sales taxes are central to government finance (as in many developing countries), the burden falls more heavily on the poor, who must pay a larger percentage of their income in their purchase of basic goods.

Employment in each economic sector is a mix of formal and independent jobs. This mix is determined by a number of additional factors, such as product market regulations (which affects the level of industrial concentration), the availability of finance, and labor market regulations. It is well-established empirically that the share of "independent" jobs as a percentage of the total number of jobs is much higher in services than in manufacturing, due to the higher

capital requirements of jobs in the manufacturing sector. Deindustrialization, thus, changes the mix between contracted and independent jobs in an economy. While in an industrial economy, the modal type of job is a contracted job, in a post-industrial economy modal employment is independent.

Our account of what de-industrialization actually means thus differs from structuralist understandings. For us, its most salient implication is the difference in the modal employment type (from contracted to independent). For Iversen and Cusack, manufacturing and services differ primarily in their skills; however, this distinction is not about skill *level* but about skill *content* – they hold that service sector jobs depend more on social skills than manufacturing jobs. We hold that neither skill level nor skill content fundamentally shape the social insurance design preferences of individuals in a post-industrial economy. The crucial political cleavage is not based on skills at all, but on employment status: individuals base their preferences on whether contributory or non-contributory policies are better able to address the risks they face in their particular employment situation.

We thus hypothesize that differences in employment status affect differences in social policy preferences. Workers in contracted jobs will show a greater support for contributory insurance policies, since the latter provide benefits that stand in a relationship to their contributions. They also restrict benefits to contributors, ensuring a higher level of payments. The support for contributory insurance is also expected to increase with the level of income and with the particular risk profile of the individual (since contributory insurance favors higher-risk individuals). By contrast, independents are more likely to support non-contributory social policies which give minimal access to social policy benefits. Recognizing the difficulty they face

in making regular insurance contributions out of their wages or informal income, they prefer more bare-bones programs that are financed through general tax revenues.

In this account, de-industrialization is likely to change the mix between formal and independent jobs. As an economy undergoes a transition from an industrial to a service-based economy, the social policy mix desired by individuals also changes. All things equal, an increase in the proportion of independents in the economy will increase the size of the political coalition supporting non-contributory programs. But de-industrialization is also likely to increase a distributional conflict between contracted workers and independents. The intensity of this distributional conflict and the resulting policy outcome depends on pre-existing policies. Deindustrialization is thus not expected to lead to an unambiguous increase in the demand for spending (as is predicted by the Iversen and Cusack model), but to a change in the type of spending demanded. The overall effect on spending depends on the relative magnitude and benefits provided by contributory and non-contributory programs, respectively.

Impact of pre-existing policies

Consistent with the hypothesis of institutional scholars, we also hypothesize that the design of pre-existing social policies influences the intensity and the outcome of this distributional conflict. In a first outcome, if social insurance coverage prior to the onset of the process of deindustrialization is low, groups that already have access to coverage – "social policy insiders" – will only support the extension of social insurance coverage if they expect that contracted employment will increase in the future. But if insiders fear that future employment increases will be located among independents, they will oppose the expansion of social insurance to new sectors, fearing the low contributory capacity of the latter. The ability of these social

policy insiders to block access to coverage will depend on additional political and institutional factors – such as links to political parties and the number of institutional veto points.

By contrast, in a second outcome, a policy environment characterized by broad levels of social insurance coverage at the onset of the process of deindustrialization may generate an actuarial surplus that is sufficiently large to allow employees in different sectors covered by the contributory insurance policy to negotiate policy compromises within the existing Bismarckian institutions of social insurance. Examples of these policy compromises are changes in the level of social policy benefits, changes in the formula calculating the relationship between the contribution history and wages, or changes in the allocation of the resources of the social insurance policy across occupations with different contributory capacities. While the specific redistribution across sectors depends on the relative bargaining power of different groups, the negotiation of this policy compromise preempts a more dramatic change in policy.

Finally, in a third outcome, we expect deindustrialization to bring about a dramatic shift in policy, which results in the introduction of non-contributory social programs that complement or replace the existing insurance policy. Two underlying factors are likely to increase the probability of introduction of a non-contributory policy. The first is the magnitude of deindustrialization, which affects the overall employment mix between contracted workers and independents and, hence, the resulting political coalition supporting a change in policy. At high levels of deindustrialization, we expect to see a change in policy and the introduction of non-contributory programs. Secondly, we expect that the design of existing policies will also affect the probability of the introduction of non-contributory policies. Non-contributory programs are more likely to arise in policy contexts where existing contributory insurance policies experience high deficits, which causes deep policy dissatisfaction with the policy status quo even among

formal sector employees and increases their willingness to support a dramatic change in policy from contributory to non-contributory insurance.

This stylized account of the consequences of deindustrialization differs in important respects from existing explanations. First, we suggest that the main factor accounting for differences in social policy preferences are not skills (i.e. absence of "social skills"), but the labor market status of individuals (contracted versus independent employment). We hypothesize that these different employment statuses affect social policy preferences along the mix of contributory and non-contributory policies. Secondly, our explanation differs from institutional explanations, by arguing that the pressures of de-industrialization can lead to far-reaching institutional change even among Bismarckian welfare states (outcome 3 above).

The effects of deindustrialization in Latin American welfare states

Between 1960 and 2007 Latin America countries experienced a sharp change in their economic structure. Employment levels in the primary sector (such as agriculture and mining) experienced a severe contraction, generating a large dislocation and migration to the cities.[25] The manufacturing sector throughout the region has been unable to absorb this labor surplus, and has also contracted. Table 1 presents descriptive information on the relative shares of employment in agriculture, industry, and services in six regions of the world. Strikingly, Latin American countries display dislocations from deindustrialization which closely resemble those of the advanced industrial economies; by the 2000s, the two regions display nearly identical shares of their labor force in services and manufacturing. Africa and Asia, on the other hand, still have the

majority of their workforce in agriculture and industry, and deindustrialization's effects have been less pronounced.

Due to the simultaneous contraction of the importance of both agriculture and manufacturing, the service sector became the engine of employment growth in the region. As can be seen in Table 2, in 1960, the average level of service sector employment throughout Latin America stood at 36 percent; by 1980 it increased to 56 percent, and by 2005 to 60 percent. (In 2006, when Latin America's service sector employment figure stood at 62 percent, OECD countries saw 65 percent service sector employment, and Asia and Africa, 36 and 45 percent respectively.) These average figures obscure the significant variation within the region, where Argentina and Paraguay had 75 percent of their workforce in services, and Costa Rica only 39 percent. In fact, Latin American economies exhibit unusually high levels of the tertiarization of their economic structure when compared to countries at similar levels of economic development. Figure 1 presents a correlation between per capita GDP and the share of service employment as a percentage of economic activity.[26] At similar levels of economic development, Latin American economies show a higher proportion of service employment when compared to countries in other regions, such as Africa or Asia.

The service sector is characterized by high internal heterogeneity.[27] It comprises sectors with relatively high productivity (financial services, insurance), basic social services (electricity, water, transportation), social and personal services (education and health) as well as the lower productivity sectors (including commerce, restaurants and hotels). While the aggregate size of the service sector is largely comparable between European and Latin American countries, the composition of service sector employment differs across these two regions. Table 3 contrasts the sectoral distribution of service sector employment in OECD economies and Latin American

economies.[28] In both Latin American and OECD economies, social services – such as health and education – make up a roughly similar share of the total service employment (29.6 % of employment in OECD economies versus 35.7 percent in Latin America).[29] The most important cross-regional difference consists in the relative importance of the high-wage and low-productivity service sectors. Finance, insurance and other high wage sectors constitute 33.2 percent of service employment in OECD, but only 11.1 percent of service employment in Latin America. By contrast, commerce, restaurants and other low productivity/low skill services makes up 33.8 percentage of employment in Latin America, yet only 25.8 percent of service sector employment in OECD economies. Due to its low barriers to entry, commercial activities (such as street-vending) have been the sectors that have experienced the fastest employment expansion over the last decade in Latin America.[30] This suggests that the "Baumol problem" of cost disease is much more pronounced in Latin America than it is in OECD economies.[31]

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At the onset of these labor market dislocations, Latin American countries had established only "truncated welfare states."[32] While a large number of countries in the region had established some insurance legislation, these programs covered only limited occupational groups and left large sectors without coverage. Two complementary explanations have been formulated to account for this policy truncation. The first explanation has emphasized the consequence of differential bargaining power of workers vis-à-vis their employers and the ability of workers in industries with high fixed costs to use their hold-up power to obtain generous policy benefits.[33] This explanation accounts for the composition of a political coalition of early winners from social policy transfers, which includes workers in industries such as railroads, mining, and transportation. A second explanation for this policy truncation has emphasized electoral factors.

These studies have argued that decisions to expand social insurance coverage have taken place during periods of enhanced electoral competition between parties representing agrarian oligarchies and those representing the interests of rising industrial sectors.[34]

As emphasized by historical institutionalist scholars, groups enjoying early access to social policy benefits are reluctant to share similar benefits with social policy outsiders.[35] Yet the opposition of these "early winners" to the broadening of coverage has been much more pronounced in Latin America than in Europe, as proposals to broaden access to coverage have taken place in an economic context characterized by a slowdown of formal sector employment. To illustrate this dynamic, consider policy developments in Argentina's health insurance policy. Legislation providing health insurance benefits were established by the first Peronist government in 1948. The legislation cemented the privileged position of sectors of the labor movement tied to the Peronist party by granting unions the prerogative to administer health insurance funds (the *obras* sociales) and benefits to their members.[36] During the second Peronist government of the 1970s, health minister Domingo Liotta formulated a proposal to establish a national health system (Sistema Nacional Integrado de Salud). Liotta's proposal intended to coordinate the activities of the *obras sociales*, private health insurance funds, and the publicly provided policies of health assistance, in an effort to reduce regional and occupational inequalities in the provision of health protection. However, this proposed policy change met with political opposition from the Argentine labor movement, who voiced strong support for the policy status quo.[37] This opposition led to the defeat of the proposal in the Argentine legislature.[38]

A similar proposal to expand health insurance coverage was formulated by the Alfonsín government in 1983. Alfonsín's legislative initative attempted to grant health insurance coverage to occupations lacking coverage, by establishing a National Health Service (Seguro Nacional de

Salud). The proposal faced similar opposition from the Argentine labor movement – who feared the dilution of the political control by labor insiders over the administration of health insurance funds – and thus met with the same political fate as Liotta's proposal did in the 1970s.

We expect, however, that the deepening of deindustrialization will change the distributive coalition supporting the pre-existing social policies. Declining shares of contracted employment have accentuated the fiscal problems experienced by social insurance programs in the region and have lowered the relative attractiveness of the policy status quo to insiders. As a result, deindustrialization is expected to create a window of opportunity for the introduction of non-contributory programs that do not rely on payroll taxes for their financing. This change in the mode of financing and allocation of social policy benefits reflects the needs of independents and inactive workers, whose frequent labor market status transitions make them a poor match for contributory social insurance programs. Indeed, as more workers move from being contracted (typically with a single employer and a clear mechanism for contributory finance of social insurance) to independence (either in the service sector or through part-time work with multiple employers or as an entrepreneur – but in all cases without incorporation into a specified contributory plan), they will prefer non-contributory alternatives that better fit their employment status. Thus, former contracted insiders who now find themselves to be independents move away from a preference for the policy status quo of truncated, contributory-based welfare provisions, and instead prefer non-contributory ones. This effect is even more pronounced for former contracted workers who become inactive – unemployed or prematurely retired – and find whatever contributory-based benefits to which they are entitled insufficient for their needs.

Reforms of the Peruvian health care system illustrate these developments. Between 1970 and 1990, Peru experienced far-reaching changes in its economic structure that mirror the

broader economic pattern of the region. The share of service sector employment in the composition of total employment rose from 29 percent in 1960 to 69 percent in 2005. The implication of this process was a change in the mix between contracted and independent employment. By the 1990s, only 18 percent of the economically active population was covered by labor market contracts.[39] These economic developments caused a severe deficit in the financing of existing health insurance policies.[40] As independents largely evaded the payment of insurance contributions, only 30 percent of the economically active population contributed to the financing of the health insurance policy.[41] This brought about a structural fiscal crisis of the insurance system.

Beginning in the 1990s, Peruvian policy-makers implemented a series of health reforms that changed the mode of financing and access to health insurance benefits. As summarized in a policy document drafted by the Peruvian ministry in 1993 (Lineamientos Básicos de la Política Social), the new health policy orientation consisted of an increase of resources financed by general tax revenues coupled with the creation of a "basic health package."[42] In 1994, the Peruvian congress approved legislation that provided financing for this program destined to improve the institutional infrastructure of health centers and provide basic health services.[43] The 1994 budget introduced a new category (financed by general tax revenues), marking a 20 percent increase in public health expenditures.[44] In addition, a new program administering health expenditures, entitled the Program of Basic Universal Health, was introduced.

EMPIRICAL SETTING, DATA AND METHODS

To test the above hypotheses about the effects of deindustrialization on the transformation of social programs, we have constructed a dataset covering nineteen Latin American countries for the period between 1980 and 2007. The choice of the time-frame is dictated by the availability of yearly data on the levels of de-industrialization for the countries in the sample. During this period, sixteen out of nineteen countries considered in our analysis have experienced a simultaneous decline in manufacturing and agricultural employment and a rise in the level of employment in the tertiary sectors. Bolivia constitutes an exception to this regional pattern. In two other countries, Colombia and El Salvador, de-industrialization sets in only after 1995.

Our main independent variable is the level of deindustrialization. Following Iversen and Cusack, we measure deindustrialization as 100 minus the sum of manufacturing and agricultural employment as a percentage of the working age population. While data comes primarily from the World Development Indicators, we use national-level sources (compiled from census data) and the Oxford Latin American History Database to check for the reliability of these measures.[45] We hypothesize that:

a) Deindustrialization will have an ambiguous and insignificant effect on spending. As noted above, we are suspect of the positive association that structuralists such as Iversen and Cusack hypothesize between deindustrialization and social insurance expenditure.

b) Deindustrialization will be positively associated with the probability of the introduction of a non-contributory program. Again, as noted above, we expect that growth in size of the share of the population in independent employment will increase the coalition supporting non-contributory programs.

Dependent variable

To assess the consequences of de-industrialization, our study employs two distinct types of outcomes. First, we replicate Iversen and Cusack's analyses and estimate the impact of deindustrialization on social spending in Latin America. To evaluate their theory in the Latin American context, we employ a measure of social spending as a percentage of GDP. Data comes from the Government Finance Statistics Series of the IMF.[46]

The second dependent variable is the adoption of a non-contributory social policy. Tables 3 and 4 present descriptive information on the timing of the adoption of non-contributory program in Latin American countries. We have derived data on the introduction of non-contributory policies from multiple secondary sources, including the Pan-American Health Organization (PAHO), national ministries, press reports and third party analyses. We find both temporal variation in the timing of the adoption of these reforms and also variation across policy areas. The adoption of non-contributory social policies has proceeded much faster in the area of health care than in the area of pensions. By 2005, fifteen out of nineteen countries in the region had adopted non-contributory health programs. These include, for example, Brazil's "basic health plan" introduced in 1998, Peru's "integral health system" introduced in 1993 and modified in 1998, and the Chilean "AUGE" program providing explicit health guarantees, enacted in 2004.[47] To date, only nine countries in the region have adopted non-contributory old-age insurance policies.

INSERT TABLES 4 AND 5 AROUND HERE

We hypothesize that the impact of deindustrialization on the adoption of a new policy is mediated by the design of existing policies of social insurance. We use a battery of controls to test for the impact of the design of pre-existing policies on the probability of the adoption of

noncontributory programs. First, we include estimates of the level of social insurance coverage of health and pension policies, which has been compiled using statistical information from national statistical sources with information from individual household surveys (that has become available in recent years). A second measure codes whether the country has adopted reforms that have privatized existing social insurance policies, by removing the requirement of a mandatory affiliation of formal employees with the public insurance subsystem. We construct the variables 'pension privatization' and 'health insurance privatization' that take the value 0 prior to the privatization of old-age insurance and 1 after the introduction of these policies.

To subject our hypotheses to a rigorous test, we control for a range of additional variables that have been identified in previous research as determinants of cross-national differences in spending. Our political controls include measures of partisan ideology, the number of veto players, trade union density, the policy capabilities of legislators and length of democracy. Additional controls include the level of economic development, levels of growth, openess, economic inequality and ethnic fractionalization.

Partisanship: Partisanship has figured as an important variable in cross-national research on the adoption of social policies among advanced industrialized economies and, more recently, in the Latin American context.[48] The recent changes in the design of Latin American social policies could be the result of the "leftward shift" experienced by many countries in the region in recent years.[49] To test for the effect of partisanship ideology, we employ a recent measure of the ideological orientation of democratically elected Latin American presidents developed by Murillo, Oliveros and Vaishnav.[50] The latter measure codes the policies adopted by Latin American presidents, based on surveys and consultation with country experts. The variable takes the value of 1 for left presidents (such as Uruguay's Vasquez, Chile's Bachelet or Bolivia's

Morales), 2 for center-left presidents (such as Argentina's Nestor Kirchner), 3 for center (such as Chile's Aylwin), 4 for center right (such as Argentina's Menem) and 5 for right-wing presidents (Bolivia's Banzer or Ecuador's Duran). As this list of examples points out, the coding is based on the economic policies pursued by these presidents and not on the past histories of the parties or the promises made by the candidates during the campaigns.

Veto players. A long-standing proposition of the institutional literature is that the numbers of veto points of an economy affects the levels of social policy spending.[51] More specifically, this literature has hypothesized that a high number of institutional veto points (such as constitutional review, bicameralism, etc.) establish additional obstacles to policy change because groups favorable to a change in existing policies need to overcome additional institutional hurdles. Birchfield and Crepaz have argued that an increase in the number of veto points tends to favor actors that support the policy status quo *both* during periods of welfare state expansion and periods of welfare state retrenchment.[52] This hypothesis suggests that high institutional fragmentation should slow down the capacity of adjustment to de-industrialization and be negatively associated with the introduction of non-contributory programs. To test for this explanation, we use the measure of number of veto points developed (and recently updated) by Henisz.[53]

Trade union density: This variable seeks to capture the political strength of policy insiders formerly affiliated with the insurance policy and the magnitude of the political opposition to the adoption of noncontributory programs. Union density data is extremely difficult to compile, especially across time periods, and some researchers have eschewed its use (Huber and Stephens, in particular, are wary of its use).[54] Unions have incentives to overstate their membership numbers, and governments or employers may wish to understate

them. Further, carrying out comprehensive worker surveys in a consistent way across different administrations and time periods has been beyond the capacity of most countries in the region.

The measure of union density used in this paper has been constructed by Carnes using three different sources.[55] The first is the one generally reliable cross-country comparison of union density figures – the World Labor Report of the International Labor Organization (ILO) from 1997-1998, which reports figures from the mid-1990s – as a benchmark for other studies that provide data for previous or later periods.[56] The second is a dataset compiled by Artecona and Rama using a variety of other sources which are consistent with the ILO data.[57] Carnes also uses country-level studies to complete the dataset (and update it to the mid 1990s), in each case examining it for consistency with the ILO figures and cross-referencing with other sources wherever possible.

Age of democracy. In recent research on social policy in Latin America, the length of democratic experience has figured as an important variable in accounting for differences in the type of social programs across the region.[58] To control for these effects, we have constructed a variable (Age of democracy) which sums up the years since democratic rule was reestablished in each country.

Congressional capacities: An additional political control variable measures variation in policy and technical expertise of the legislative bodies in the region. We are taking advantage of a new cross-national dataset on institutional differences in policy capabilities among Latin American countries that has been put together by Berkman, Scartascini, Stein and Tomassi.[59] This variable (CONGRESS) measures the "effectiveness and technical capabilities of legislative bodies for discussing and overseeing policies" using a combination of surveys conducted by the

IADB and expert surveys.[60] High values of this variable denote "highly effective congressional bodies".

Federalism: Building on the insights of the literature on the determinants of social spending in federal countries, we hypothesize that the distribution of political authorities among central, regional and provincial governments can mediate the consequences of de-industrialization. In federal countries an important share of the overall fiscal revenues are subject to political bargaining between the central government and the regions. This affects the availability of fiscal resources to finance existing non-contributory programs and can affect the supply of these policies in response to rising structural demands. To test for the effect of the design of federal institutions on social policy spending, we use a variable measuring the proportion of total government expenditures controlled by provincial and local governments constructed by Rodden.[61]

Openness: Openness to trade, measured as the share of imports and exports as a percentage of GDP, is a standard control measure in any cross-national study on the welfare state. We use data from the World Development Indicators to construct this measure.[62] A vast literature going back to a pioneering study by Cameron has identified a positive relationship between openness and the size of the public sector.[63] Previous research on the determinants of social spending in Latin America, however, show a different pattern. Segura-Ubiero found "a strong and consistently negative effect on social security expenditures and a positive (although not statistically significant effect) on health and education."[64]

Economic Development: We include GDP per capita (logged) to test for the effect of the socio-economic development of a country on its level of spending and its ability to introduce non-contributory social policies. Our variable -- Gross Domestic Product per capita PPP constant

2005 international $ -- comes from the World Development Indicators. As early as 1880, German political economist Adolph Wagner hypothesized a positive relationship between the level of economic development and the size of the public sector, but existing studies testing for this relationship have produced mixed results.

Growth. We use this control variable to test for the possible causal effect of growth on the ability of a country to adopt a non-contributory social program. As the region has experienced an unprecedented economic boom over the last decade, this variable allows us to control for the independent effect of economic growth on the probability of the adoption of non-contributory programs. Our specifications include growth lagged by one year.[65] Finally, we include controls for the ethnic heterogeneity (using data constructed by Fearon) and the level of inequality.

Estimation and results

In our empirical analysis, we begin by replicating the procedure followed by Iversen and Cusack, in order to test the relationship between deindustrialization and government social spending.[66] We follow their example and employ an error-correction model examining the consequences of deindustrialization. Following Beck, Iversen and Cusack regard an error-correction model as "the most satisfactory [specification] from the perspective of being able to disentangle short and long-term effects . . . [because it uses] changes in spending as the dependent variable. This model is also preferable on technical grounds when there is high co-variation between dependent and independent variables over time (co-integration)."[67] The model has the following form:

$$\Delta \text{ spending} = \beta_1 * \text{spending}_{t-1} + \beta_2 * \text{ deindustrialization}_{t-1} + \beta_3 * \Delta\text{deindustrialization} + \beta_4 * \Delta\text{economic development(ln)} + \beta_4 * \text{ trade openness}_{t-1} + \beta_5 * \Delta \text{ openness} + \beta_6 * \text{GDPgrowth}_{t-1} + \gamma * \text{controls} + \varepsilon$$

where γ is a vector of coefficients on various economic and political control variables and ε is the error term.

In Table 6, we report a series of model examining the impact of deindustrialization on social spending. The dependent variable is the level of change in social spending as a percentage of total government spending. All models fail to support the structuralist hypothesis, according to which increased deindustrialization will be associated with higher levels of change of government spending. Model 1 replicates the results presented by Iversen and Cusack and examines the impact of changes and past levels of deindustrialization (lagged by one year) on social spending, while controlling for changes and past levels of openness, economic development and growth. The only variable that reaches statistical significance at conventional levels is the variable measuring past levels of spending. In Models 2-4, we introduce, successively, political controls for the partisan ideology of the president, the level of trade union density and the number of veto players. Model 5 includes the entire set of political controls. The measure of partisanship has the predicted theoretical sign: more right wing presidents preside over reductions in spending. The variable is statistically significant in only one model that includes also a political control for trade union density (Model 3) and the effect is not robust to the inclusion of additional controls. The measure of trade union strength also has a positive effect on spending, but the statistical significance declines once additional controls are introduced. While the number of veto players has no effect on spending, the institutional capabilities of

congress has a positive effect. In contrast to the predictions of the Melzer-Richard model, but consistent with the empirical findings on advanced industrialized democracies, inequality is negatively associated with spending. Finally, social spending is higher in those economies where sub-national actors control higher levels of expenditures.

INSERT TABLE 6 ABOUT HERE

We test our alternative explanation of the effects of deindustrialization by examining its relationship to the introduction of non-contributory health and pension policies. As described above, these programs do not represent a simple expansion of spending, but change the mode of financing and eligibility to the benefits, weakening the link between a steady history of contributions and access to benefits. We use survival analysis to explore the factors that affect the probability of a country to introduce a non-contributory policy, given that it has not done so up to that point in time.[68] We employ Cox proportional hazard models, which make no assumptions about the underlying hazard rate but instead allow the data to dictate the functional form.[69] Positive coefficients indicate a hazard ratio greater than one; in this case this indicates an increased likelihood of the passage of the reform. Negative coefficients indicate a hazard rate less than one or a decreased likelihood of the passage of the reform.[70] The model has the following form:

Pr (adoption of a non-contributory program) = β_1*deindustrialization $_{t-1}$ + β_2* Δeconomic development(ln) + β_3*GDPgrowth$_{t-1}$ + β_4* trade openness + β_5*(dummy for policy privatization) + β_4*(policy coverage)+ + γ * controls + ε

Table 7 presents various models examining the consequences of deindustrialization for the adoption of non contributory old-age pensions. The results confirm the hypothesis advanced in the paper that deindustrialization has a positive impact on the adoption of non-contributory

programs. The effect of this variable is robust in all specifications and not affected by the introduction of additional economic and political controls. The design of old-age insurance policies also affects the probability of the adoption of non-contributory policies. These private programs are adopted by countries that have policies with broader levels of coverage, but that have previously privatized their old-age insurance (allowing higher income employees to disaffiliate themselves with contributory social insurance). The sign on the variable measuring partisan ideology is positive – suggesting that right-wing, rather than left-wing parties are more likely to adopt these programs, but the variable is not robust across models. In contrast to the previous equations estimating the effect of deindustrialization on social spending, the variable measuring policy capabilities of the legislature is negatively associated with the introduction of a noncontributory pension. While the sign on the measure of trade union density is positive, the variable does not reach statistical significance at conventional levels.

INSERT TABLE 7 HERE

In Table 8, we present a range of models that examine the determinants of the adoption of non-contributory health policies. Deindustrialization has, again, a positive and significant effect on the adoption of these programs. The effect is also higher in economies with higher levels of health insurance coverage. In contrast to the analysis of the determinants of the introduction of non-contributory pension policies, partisan ideology has a negative sign. Left-wing parties are more likely to adopt non-contributory health insurance than right wing parties. However, the partisanship variable is not robust to the introduction of additional control variables (Model 15). Trade union density has a negative sign on the adoption of non-contributory pensions. These results indicate that in the case of the adoption of non-contributory health programs, unions have perceived a stronger distributional conflict between insiders and outsiders and have opposed

these policies. Among political controls, the number of veto players, the age of democracy and the measure of congressional effectiveness have no effect on the probability of adoption of these policies. Ethnic fractionalization and federal decentralization exert a positive and negative effect, respectively, on the adoption of these programs.

INSERT TABLE 8 HERE

In short, our empirical analysis casts doubt on the structuralist expectation that deindustrialization leads to larger social spending. Testing these arguments out-of-sample, we find that they cannot account for variation in spending in Latin America. Consistent with the predictions of our model, which has hypothesized that deindustrialization will increase the size of the political coalition demanding non-contributory social policy programs, we find that a positive relationship between deindustrialization and the adoption of non-contributory health and pension policies.

Conclusion

We believe that this paper advances the literature on social welfare institutions – in Latin America specifically, and more generally – in several important ways. First, while recent research has had considerable success in explaining the political *origin* of social insurance programs in Latin America, it has failed to present a compelling account of *recent changes* in the design of social policies in the region. These changes remedy the "truncation" of welfare states in the region and introduce a degree of universality hitherto unseen. In fact, these recent changes promise to be at least as transformative as the wave of privatizations that previously generated so

much scholarly activity.[71] Our paper seeks to provide a theoretical framework accounting for the adoption of these programs.

Further, our approach represents a significant advance in theorizing about the effects of de-industrialization. We construct a micro-logic to account for changing political coalitions in support of differing social policy designs and modes of finance, based on individual-level preferences drawn from their labor market status. Building on our previous work on the determinants of individual preferences for various social programs, our study hypothesizes that individuals evaluate rationally a range of policy trade-offs when considering policy reform, and they are especially attentive to the finance scheme and benefit structure of competing programs. We find confirmation for our argument, in that changing labor market status – perhaps the chief and most pronounced effect of deindustrialization – is consistently correlated with the adoption of non-contributory health and pension policies.

The findings reported in our paper have important implications for the literature on social policy reform that extends to other regions. The process of social policy reform identified in our study is not unique to Latin American welfare states, but exemplifies a more general pattern of change in policies of social protection that is common to both developed and developing countries. For example, in recent years, Thailand has changed its contributory health insurance and enacted a universalistic program.[72] Similarly, policy-makers in both Korea and Taiwan are currently contemplating policy changes that are shifting the financing of their social programs away from payroll taxes towards general tax revenues.[73] Recent social policy reforms enacted in advanced industrial economies have enhanced the policy benefits of groups with fragmented employment histories. These dramatic changes in policy pose important challenges to the

comparative literature on welfare states, which generally predicts policy immobilism due to the resistance of labor market insiders.

In short, we contend that the decisive political cleavage for social policy design that emerges from de-industrialization is not based on the kind of skills it requires of workers, but on employment status. Deindustrialization has dislodged the "insider social policy" coalition of contracted workers, whose status was underwritten by stable contracts with their employers and ongoing contributions to existing, occupation-based social policy programs, replacing it with a coalition of independents, who demand non-contributory programs. The rise of independent employment – whether as an entrepreneurial choice, or a default option to cope with layoffs, or an effort to make ends meet in uncertain labor markets – is the defining characteristic of de-industrialization; it ought also to be at the center of theorizing about deindustrialization's impact on social policy design.

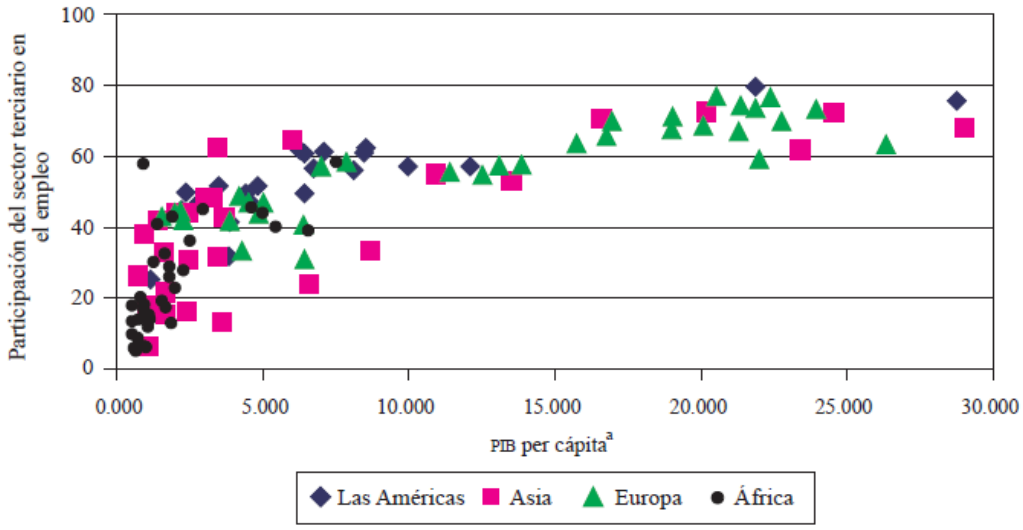
Table 1:
Employment in Agriculture, Industries, and Services as a Percentage of Total Employment; Regional Averages for the 1980s, 1990s, and 2000s (through 2006)

Agriculture			
Region	1980s	1990s	2000s
Africa	45	41	36
Asia	46	49	39
Industrial Nations	9	8	8
Latin America	21	16	15
Caribbean	7	18	16
Industry			
Region	1980s	1990s	2000s
Africa	18	18	19
Asia	21	19	20
Industrial Nations	31	28	26
Latin America	25	24	22
Caribbean	27	24	21
Services			
Region	1980s	1990s	2000s
Africa	35	41	45
Asia	31	21	36
Industrial Nations	58	61	65
Latin America	52	60	62
Caribbean	66	58	63

Source: WDI 2009

Figure 1:

Economic development and service sector employment: Latin American exceptionalism?



Source: Weller 2001: page 165

Table 2:

Changes in the Employment Structure of Latin American Economies

Country	Employment Loss in Manufacturing and agriculture (as a percentage of working age population) 1960- 2005	Service sector Employment 2005 (as percentage of Working age Population)
Argentina	-19	75
Brazil		58
Bolivia	-17.5	41 (2002)
Chile	-3	63
Columbia	-12	59
Costa Rica	-16.6	39
Dominican Rep.	-25.3	63
El Salvador	-34.1	57
Ecuador	-30.9	70
Guatemala	-31.6	41
Honduras	-50.7	41
Mexico	-21.9	59
Panama	-30.2	67
Paraguay	-25.1	75
Peru	-42	73
Uruguay	-10.4	52
Venezuela	-13.5	69
Average Latin America	-22.15	60
Average OECD [Data reported in Iversen and Cusack]	-16.2	

Table 3
Distribution of Service Sector Employment, Latin American and OECD Countries, 1990s averages

	Latin America		OECD	
	Growth	Share	Growth	Share
Commerce, restaurants and hotels	5.7	33.8	2.0	25.9
Basic services (electricity, water and gas, transportation)	4.2	8.9	0.4	6.3
Financial Services, insurance, real estate	5.6	11.1	3.7	33.2
Communal, social and personal services	3.0	35.7	1.3	29.6

Source: Weller 2004.

Table 4

Adoption of non-contributory policies of old-age insurance in Latin America

Country	Year of adoption of first legislation	Name of program	Subsequent legislation
Argentina	1995	Ley 292/95	
Bolivia	1995	Bonosol	
Brazil	1995	Ley 8742 (ley de Asistencia Social)	
Chile	1975	DL 869/1975	2006 Chile Solidario
Colombia			
Costa Rica	2003		
Dominican Republic	2004		
Ecuador	2002		
El Salvador			
Guatemala			
Honduras			
Mexico	2006		
Nicaragua			
Panama			
Paraguay			
Peru			
Uruguay	1986		
Venezuela			

Source: (Betranou, Solorio et al. 2002; Mares 2009)

Table 5:

Adoption of non-contributory health policies

Country	Year of adoption of non-contributory health benefits	Name of program	Subsequent legislation
Argentina			
Bolivia	1996	SUMI (Seguro Universal Materno Infantil)	1998, 2003
Brazil	1998	PAB (Piso da Atencao Basica)	2001
Chile	2004	AUGE (Garantias Explicitas en salud)	
Colombia	1993	PAB (Plan de Atencion Basica)	
Costa Rica			
Dominican Republic	2001	PBS (Plan basico de salud)	
Ecuador	2001		
El Salvador	No program		
Guatemala	2003	Sistema integrado de atencion a la salud	
Honduras			
Mexico	1997	Basic health package	
Nicaragua			
Panama	No program		
Paraguay		PCSB (Programa de Cuidados Sanitarios Basicos)	
Peru	1997	Sistema integral de Salud	2006
Uruguay	2006	Basic health package providing minimal benefits and covering catastrophic illnesses	
Venezuela	No program		

Source: (Maceira 2001)

Table 6

The effects of deindustrialization on social spending

	Model 1	Model 2	Model 3	Model 4	Model 5
Social expenditures$_{t-1}$	-0.04** (0.02)	-0.03 0.28	-0.02 0.02	-0.04 0.03	0.02*** 0.06
Deindustrialization$_{t-1}$	0.004 0.006	0.00 0.00	0.00 0.00	0.00 0.00	0.01 0.01
Δ Deindustrialization	0.009 0.006	0.01 0.02	0.00 0.00	0.00 0.02	0.00 0.02
Ec. Development (ln)	0.16 0.28	0.23 0.35	-0.03 0.36	0.09 0.39	-0.36 0.69
Openess$_{t-1}$	-0.00 0.00	-0.00* 0.00	-0.00 0.00	-0.00 0.00	0.00 0.00
Δ Openness	-0.00 0.01	-0.02** 0.01	-0.02 0.01	-0.02 0.01	-0.01 0.01
GDP growth$_{t-1}$	-0.01 0.01	0.02 0.02	0.02 0.02	0.02 0.02	0.01 0.02
Partisanship		-0.13 0.10	-0.18* 0.10	-0.18 0.11	0.19 0.14
Trade Union Density			0.05** 0.01	0.04** 0.02	0.05 0.03
Veto Players				0.42 0.85	1.57 0.99
Inequality					-0.08* 0.03
Ethnicfractionalization					-1.99 1.45
Congress					2.84*** 0.79
Federalism					3.66** 1.99
Age of democracy					0.01 0.01
Constant	-1.37 2.51	-1.27 3.09	0.27 3.12	-0.85 3.34	-0.06 5.07
Observations	173	124	120	112	110
R-Squared	0.03	0.04	0.15	0.16	0.30

Table 7
The effect of deindustrialization on the introduction of non-contributory pension programs

	Model 6	Model 7	Model 8	Model 9	Model 10
$Deindustrializ_{t-1}$	0.07*** 0.01	0.08*** 0.01	0.09*** 0.19	0.08*** 0.02	0.10*** 0.02
Ec. Development (ln)	-7.08*** 0.76	-6.42*** 0.89	-6.57*** 1.05	-6.99*** 1.09	-8.74*** 1.30
$GDP\ growth_{t-1}$	0.06*** 0.02	0.04 0.02	0.03 0.03	0.04 0.31	0.03 0.04
Openness	-0.06** 0.02	-0.06*** 0.00	-0.04*** 0.01	-0.03*** 0.01	-0.09*** 0.03
Pensionprivatiz	2.17*** 0.351	1.20*** 0.36	1.28*** 0.44	1.71*** 0.55	1.74** 0.69
Pensioninsurance coverage	0.148*** 0.01	0.14*** 0.01	0.14*** 0.17	0.15*** 0.01	0.29*** 0.06
Partisanship		0.28* 0.17	0.15 0.24	0.27 0.25	0.02 0.32
Veto Players			6.77*** 1.91	5.66*** 2.14	2.78 2.00
Trade Union Density				0.07 0.04	0.02 0.06
Congress					-5.46*** 2.01
Federalism					-5.72 5.62
Age of democracy					-0.43*** 0.08
Inequality					0.00 0.08
Ethnic Fractionalization					9.69*** 3.58
Number of observations	311	261	231	226	206

Table 8
The effects of deindustrialization on the introduction of noncontributory health programs

	Model11	Model 12	Model 13	Model 14	Model 15
Deindustrializ$_{t-1}$	0.09*** 0.02	0.07*** 0.02	0.07*** 0.04	0.09*** 0.02	0.11** 0.05
Ec. Development (ln)	-8.16*** 1.35	-8.15*** 1.26	-7.18*** 1.42	-7.37*** 1.50	11.18 10.53
GDP growth$_{t-1}$	-0.01 0.05	-0.01 0.05	0.03 0.05	0.04 0.07	-0.04 0.10
Openness	-0.09*** 0.01	-0.10*** 0.05	-0.11*** 0.02	-0.10*** 0.02	-0.39*** 0.08
Healthinsurance coverage	0.07*** 0.02	0.05*** 0.02	0.05** 0.02	0.04 0.02	1.00*** 0.00
Partisanship		-0.62** 0.26	-0.65** 0.03	-0.72** 0.34	-0.42 0.72
Veto Players			-0.03 0.25	2.70 2.04	3.13 2.88
Trade Union Density				-0.14** 0.06	-0.08 0.13
Congress					-27.32 12.93
Federalism					-94.55*** 23.36
Age of democracy					-1.05 0.24
Inequality					0.12 0.15
Ethnic Fractionalization					185.69* 78.54
Number of observations	310	266	236	231	206

Notes

1 Esping-Andersen 1990.

2 Iversen and Cusack 2000.; Iversen, 2001.

3 Pierson, Ed. 2001.

4 Esping-Andersen 1999, 5.

5 Weller 2004.

6 Weller 2004.

7 Iversen 2001.

8 Iversen 2001, 47.

9 Iversen and Cusack 2001, 54

10 In general, structural scholars do not test their model with data on social policy legislation, but with data on social spending.

11 Pierson 2001.

12 On the dilemma of welfare without work, see Esping-Andersen 1996. On the effect of the rise on non-wage labor costs on the wage bargaining strategies pursued by trade unions and on the equilibrium level of employment, see Mares 2006.

13 Esping Andersen 1999.

14 Esping Andersen 1999

15 Thelen, K. and Streeck, W. 2005. ; Hacker 2005. , 40- 82; Palier 2005. .

16 This institutionalist literature also has significant theoretical limitations. It presents a typology of variation in policy change with no account of the individual level variables that produce these different kinds of changes. While Thelen and Streeck acknowledge that "institutional change results from coalitional change," it is left unclear what factors change the underlying preferences (and underlying coalitions) supporting policies leading to "layering", "drift" or "substitution". Absent a proper micro-theory of individual preferences, they fail to present a compelling account of coalitions and of institutional change On this point see also Hauserman 2006.

17 Bleses and Seeleib-Kaiser 2004.

18 For policy change in Switzerland see Hauserman 2006.; for France see Palier 2005 .; Italy: Ferrera and Gualmini 2004

19 Mares 2003.

20 The supply of formal sector jobs is given exogenously by the available capital stock. Employers have an incentive to offer formal labor market contracts to their employees to make the best use of the capital stock available.

21 Nearly all countries have adopted some sort of legal provision for "fixed-term" employment that exempts employers from paying social insurance contributions for part-time or short-term workers.

22 At this stage of the analysis, we treat selection into employment status as exogenous. Intuitively, this makes sense as we are examining the effect of deindustrialization – which is by definition a shift in the labor market conditions – on social policy preferences. However, deindustrialization may have differential effects across employment sectors or skill sets, and may thus shape the choices of individuals as they enter the workforce or change occupations in it. We acknowledge that further research is needed to better explain endogenous change in labor market status.

23 Mares

24 Baeza and Packard 2007.

25 On patterns of development in agricultural employment see Figueroa 1991.

26 Weller 2001, 25.

27 Browning and Singelmann 1985. ; Esping-Andersen 1999; Weller 2001, 69-84

28 We use information reported in Weller 2004 for this comparison.

29 Social services have experienced however the slowest rate of growth during the most recent period (3 percent growth in Latin America and only 1.3 percent growth in OECD countries during the 1990s).

30 In countries such as Brazil and Mexico, this sector accounts for one sixth of the total number of new jobs generated during the decade of the 1990's. See Weller 2001, 56- 64

31 Baumol 1967; Esping-Andersen 1999.

32 de Ferranti, Perry et al. 2004

33 Carnes 2008, based on Artecona and Rama 1998

34 Haggard and Kaufman 2008.

35 Pierson 2000.

36 Thompson 1984; Katz and Muñoz 1988; Levitsky 2003.

37 Belmartino 2005.

38 Belmartino 2005.

39 Minsa 2003b.

40 Carbajal and Francke 2000, 18.

41 Verdera 1997.

42 Portocarrero S. and Romero 1994.

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48 Huber, Mustillo, and Stephens 2008.

49 On this leftward shift in Latin America, see Castañeda 2006; Levitsky and Roberts 2008.

50 Murillo, Oliveros and Vaishnav forthcoming.

51 Immergut 1992, Huber, Ragin and Stephens 1993.

52 Birchfield and Crepaz 1998.

53 Henisz 2002.

54 On the difficulty of compiling data for trade union density, see Roberts and Wibbels 1999. See also Huber, Mustillo and Stephens.

55 Carnes 2008.

56 ILO 1998.

57 Rama and Artecona 2002

58 See Haggard and Kaufman 2009; Huber, Mustillo and Stephens 2008

59 Berkman, Scartascini, and Tomassi 2008.

60 Berkman, Scartascini, and Tomassi 2008.

61 Rodden 2006.

62 WORLD BANK 2009.

63 Cameron 1978.

64 Segura-Ubiergo 2007.

65 World Bank 2009.

66 See Iversen and Cusack 2000.

67 Iversen and Cusack 2000. On the error correction model Beck 2002.

68 Other studies exploring the adoption of other policies by countries in the region use a similar estimation strategy. For the adoption of market reforms in telecommunication and electricity, see Murillo and Martinez-Gallardo 2007.

69 Box-Steffensmeier and Zorn 2001.

70 We have performed several tests of the robustness of the results, by estimating models with a Weibull hazard distribution, which assumes an increased hazard rate over time, the results were unchanged.

71 Müller 2003; Mesa-Lago 2004; Weyland 2006; Haggard and Kaufman 2008; Brooks 2009.

72 Shmuthkalin 2006.

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