HOW REGIONS DIFFER

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Beginning in the 1980s, transitions from authoritarian rule fundamentally altered the political context for the making of social policy in the middle-income countries of Latin America and Central and Eastern Europe (CEE).[1] Electoral competition and greater political freedom exposed governments to new social demands, and in each region, political entrepreneurs and newly organized social groups sought to defend existing entitlements and expand social insurance and services.

These democracies emerged just as the advanced industrial welfare states were finding themselves faced with significant economic and ideological challenges. These challenges stemmed in part from slower growth, tighter fiscal constraints, and increasing economic openness—factors that were making themselves felt even more intensely in the post-communist and developing worlds. By the early 1990s, a new, market-oriented liberal framework had come to influence debates over social policy. Spread in part by international financial institutions, this liberal approach to social policy sought to shift more of the costs of insurance and services onto individuals, to expand private provision, to increase competition and accountability within the public sector, and to target social spending more narrowly.

How have recently established democratic governments in Latin America and Eastern Europe coped with the cross-cutting pressures bred by increased political demands for social insurance and services in the

context of tighter economic, international, and ideological constraints on the latitude of governments to respond? Answers to this question have varied within regions as well as between them. Nevertheless, important cross-regional differences in welfare strategies are apparent.

In Central and Eastern Europe, socialist states had included broad segments of the population in a system of entitlements. Even though postcommunist governments faced economic pressures at least as severe as those that had weighed on Latin America in the 1980s, this history of broad coverage had created strong electoral and interest-group dynamics that limited the feasibility of approaches based on liberalization and retrenchment.

In the middle-income countries of Latin America, by contrast, pre-1980s welfare systems favored the middle class and organized labor while marginalizing the rural poor and urban informal workers. When the debt crisis hit, these systems were more open to restructuring and outright retrenchment than was the case in Eastern Europe. Although democratization created incentives to expand coverage to marginalized sectors, severe fiscal constraints encouraged an emphasis on targeted social-assistance programs rather than universal entitlements.

Regional Welfare Legacies

We trace these cross-regional differences to historical legacies stemming from differences in how prior governments had organized implicit social contracts in the early and middle decades of the twentieth century. These legacies, in turn, can be traced to two historical factors: 1) differences in major political realignments that occurred in the early and middle decades of the twentieth century; and 2) differences in development strategies—namely, the contrast between the import-substitution development strategy favored in the middle-income countries of Latin America and the state-socialist model imposed in Central and Eastern Europe after 1945.

In Latin America, reformist challenges to oligarchic states in the first half of the twentieth century resulted in important changes in the composition of the ruling elite and the political incorporation of some segments of organized labor. Unlike in the CEE countries, these fundamental political changes occurred prior to the onset of the Cold War, which meant that none of the major contenders for power could count on sustained or decisive support from external patrons, as was the case for example in East Asia in the early postwar period. Instead, new political elites forged cross-class coalitions that generally included both white- and blue-collar workers as well as dissident factions of the oligarchy itself. Despite major intraregional differences,[2] blue-collar and middle-sector unions gained legal status, political influence, and new social protections. But landowners continued to control large portions

of the peasantry through patron-client relations and resort to local coercion. As a result, Latin America's peasants remained marginalized from national political developments and had less access to social insurance and services.

The cross-class coalitions formed during these realignments were also conducive to import-substitution industrialization (ISI), which contributed to labor-market dualism among urban workers and to well-known biases against agriculture. Moreover, the structural characteristics of import-substituting economies tended to sharpen income inequalities while reducing incentives for governments, firms, and workers to invest in education and other means of improving the quality of human capital.

The welfare systems that developed in Latin America both reflected and reinforced these biases. Occupationally based social-insurance systems did expand along with the growth of employment in the industrial and state sectors. Social-insurance coverage was relatively extensive in Argentina's industrialized economy and in the longstanding democracies of Chile, Costa Rica, and Uruguay. Even in these countries, however, coverage was far from universal, and it did not reach more than 50 percent of the population in any of the other countries in the region. The lopsided provision of basic social services reinforced rather than eased longstanding patterns of inequality. Middle-class influence was also reflected in the priority attached to higher education, and to weak and uneven investments in primary and secondary education.

In the CEE countries, political realignments reflected Cold War politics and the absorption of the region into the Soviet sphere of influence. Prior to the communist seizures of power, the trajectory of social-welfare policy in Central and Eastern Europe had borne a striking resemblance to the highly stratified systems emerging in Latin America. But the imposition of communism brought the destruction of independent unions and social-democratic and peasants' parties that had flourished briefly after liberation from Nazi rule. Equally if not more important, the imposition of a command economy changed the region's political economy in fundamental ways.

The imposition of state socialism was followed by heavy investment in basic industry, financed through the coercive mobilization of labor and a squeeze on the countryside. The mobilization of rural labor into the industrial sector pulled large segments of the peasantry into cities and factories, provided a path for upward mobility, and was accompanied by a dramatic narrowing of intersectoral wage differences. Pay was low, in line with the general objective of squeezing wages and consumption in order to maximize capital investment.

But even as the brutal repression of the Stalinist years eased in subsequent decades, the evolution of social policy continued to be shaped by the organizational logic of the centrally planned economy. A core

feature of the socialist system was the employment guarantee. Planning, and therefore administrative rather than market decisions, determined all job placements and wages. Workers were viewed as instruments of the socialist planning process and the workplace became the central locus for the provision of housing, basic foodstuffs, and other social services.

In addition to the CEE states' commitment to full employment and provision of housing and other basic consumer goods, the absence of private markets for social insurance and services meant that responsibility for furnishing pensions, health care, and other social services fell directly on the state. At the outset of the socialist era, some occupationally based differentiation existed in the industrial sector, and agriculture was excluded from some social entitlements, including pensions. But the seeds of socialist universalism were sewn by the economic strategy itself. Benefits extended to urban workers necessarily covered a larger and larger share of the population as the industrial sector grew. Just as important, the collectivization of agriculture effectively brought the peasantry into the socialist welfare state, a marked contrast with the marginalization of the countryside that persisted in Latin America.

Needless to say, the socialist "social contract" was by no means the result of democratic politics, or even bargaining with affected interests; in fact, it is far from clear whether the Central and East European countries under communism can even be called "welfare states" in the traditional meaning of the term. Moreover, as growth began to decline during the 1970s and 1980s, these systems became increasingly unable to make good on their promises, and the value of entitlements declined in real terms. Nevertheless, social policy gave post-Stalinist elites a tool that they could use to pursue political acquiescence if not support, and in turn generated relatively stable expectations about the benefits that the state would provide. These expectations strongly affected the political battles over social policy that would unfold in the new democracies which emerged after 1989.

Social Contracts and Slowing Growth, 1980–2005

From the end of World War II through most the 1970s, relatively strong economic growth provided permissive conditions for the expansion of welfare benefits across most of the developing and socialist worlds. Beginning in the 1980s, however, both Latin American and CEE regimes had to cope with deep and recurrent economic shocks and severe fiscal constraints.

A devastating debt crisis battered Latin America during the first half of the 1980s; outside Chile, growth remained flat or highly volatile for the rest of the decade. The 1990s saw some recovery, at least until the East Asian and Russian financial crises late in that decade caused lend-

ing to dry up. Argentina, Brazil, Mexico, and Peru faced the most severe problems over this period, including not only deep recessions but also high inflation and repeated efforts at stabilization. Venezuela also experienced severe economic decline and fiscal constraints following the collapse of oil prices in the 1980s. Economic performance in Colombia, Costa Rica, and Uruguay was more stable, but all three experienced serious difficulties as well. The commodities boom after 2003 brought several years of high growth, but the global financial crisis that began in 2008 ended it.

The CEE countries experienced marked slowdowns in growth even before the collapse of communist rule in 1989. They then underwent deep "transitional" recessions in the first half of the 1990s, followed by varying rates of recovery since. In Hungary, Poland, and Slovakia, these transitional slumps had bottomed out by 1992. But Bulgaria and Romania experienced "relapses" later in the decade, while growth slowed substantially in the Czech Republic as well. Like Latin America, the CEE region was hit hard by fallout from the East Asian and Russian crises at the end of the 1990s, and the global recession that began in 2008 has also disrupted progress toward steadier growth. In addition to uneven growth and (in some cases) high inflation, CEE governments have had to reckon with the massive movement of resources from state to private hands that is inherent in the shift from a command to a market-based economy.

Shocks and Social Policies

What have been the implications of these economic shocks for social policy in the two regions? Crises and the market-based reforms that came in response to them were socially disruptive and provided the basis for voters and interest groups to mobilize around new social-policy demands. Yet throughout the 1980s and 1990s, fiscal constraints left governments hard-pressed to deliver on existing commitments—which were very large in both Central and Eastern Europe and Latin America—much less make credible promises of new entitlements. Politically, the economic crises strengthened the hand of technocrats, international financial institutions, and domestic-policy networks that pressed not only for market reforms but also (and increasingly) for retrenchment and liberalization of existing welfare systems.

Although economic constraints generated parallel pressures for social-policy reform across the two regions, the legacies of existing entitlements and services contributed to different outcomes. In Latin America, new democracies faced demands from stakeholders seeking to defend their prerogatives as well as electoral pressures to address the "social deficit" by reducing longstanding inequities in the distribution of social insurance and services. Yet fiscal pressures and concerns about macroeconomic stability placed severe constraints on the capacity of democracies (and

authoritarian regimes) to maintain or expand entitlements. Social spending dropped sharply during the 1980s in most Latin American countries, regardless of regime type. During the 1990s, following a convulsive period of restructuring, economic circumstances improved and governments increased social spending. But outside Chile, recoveries were fragile and the specter (or in Argentina, the reality) of renewed crisis severely limited politicians' willingness to expand entitlements.

Given these constraints, many politicians and technocrats viewed the "liberal agenda" as a way to reconcile competing demands for 1) stricter fiscal discipline, and 2) closer attention to the needs of previously excluded groups. Decision makers hoped that changes in costly social-insurance programs—particularly pensions and the health entitlements linked to them—would stabilize public finances over the long run. The goal of reaching once-marginalized groups would be achieved not by expanding these costly programs, but via targeted antipoverty efforts that would be relatively cheap and often funded by international donors in any case. In the 1990s and early 2000s, reforms of core social-insurance programs, efforts to expand basic social services, and the adoption of targeted antipoverty programs formed the "modal" social-policy pattern in Latin America.

This pattern was quite distinct from what occurred in Central and Eastern Europe. As in Latin America, crisis and the broader transition to the market allowed liberal reformers, technocrats, and international financial institutions to gain influence in the policy process.[3] Despite its shortcomings and the underfunding of entitlements, however, the inherited system of social protection and services had a profound impact on public expectations. These expectations, in turn, shaped the policy positions of parties across the ideological spectrum. The socialist welfare state had also given rise to groups of well-organized stakeholders with an interest in preserving the existing system of entitlements and services.

One significant consequence of these political constraints was that new democratic governments devoted more resources to the establishment of social safety nets to help formal-sector workers displaced by economic reform. These programs were by no means uniform in their design or generosity. Unlike in Latin America, however, spending on unemployment compensation, pensions, and social security actually increased during the severe recessions of the early 1990s. Although sustaining such spending proved increasingly difficult, this pattern of compensating the losers created by market-oriented reform marks a contrast with what happened in Latin America.

A second and more striking cross-regional difference had to do with how the task of reforming social insurance and services was approached. In most Latin American countries, narrow coverage made social insurance vulnerable to crisis-induced reforms. In Central and Eastern Europe,

by contrast, the movement toward more liberal welfare systems—while not insignificant—was far more limited. Publics expected governments to maintain an array of protections on a universal basis, albeit at low direct cost. When governments shifted from direct public financing and provision to social-insurance models, they nonetheless maintained de facto if not de jure commitments to universalism. Initial reforms, such as shifting from direct state financing to social insurance, were even cast as ways of increasing aggregate social expenditures. Where proposals for retrenchment did emerge, as in Hungary during the mid-1990s, they were scaled back or reversed, either by political oppositions in the wake of elections or in some cases by incumbents themselves. Central and Eastern Europe thus emerged from the 1990s with welfare systems that sought to maintain the principle, if not always the reality, of universal coverage for a number of life-cycle risks. These differences can be seen by considering the course of social policy in somewhat more detail.

How Safe Is the Safety Net?

The influence of history—in the form of policy legacies—is evident in the more specific issue areas of pensions, health care, and the creation of social safety nets and antipoverty programs. Each issue posed its own particular set of policy challenges, and there were important differences within as well as between regions. Still, one can discern the larger pattern of greater movement toward liberal reforms in Latin America and its contrast with the greater emphasis on the preservation of existing entitlements seen in Central and Eastern Europe.

Those seeking to reform social policy often focus on pension commitments as one of the costlier items. In both Latin America and the CEE region, technocratic reformers pressed for dramatic changes in existing pay-as-you-go systems, including either full privatization, as in Chile, or less radical approaches that combined guaranteed public benefits with personal, defined contribution accounts (whether mandatory, voluntary, or both). Among the key goals of these reforms was to leave the state with fewer contingent liabilities and thus a stronger long-term fiscal position. Although most CEE countries did not have to cope with the rapidly aging populations visible in a number of advanced industrial states, all suffered from declining contributions associated with shrinking formal-sector employment and outright evasion. Most of the larger systems were running current deficits and faced substantial unfunded liabilities in the future. Reformers were aware of the transition costs associated with shifting taxes out of the pay-as-you-go system. But they hoped to address these problems by trimming entitlements (raising the retirement age; changing benefit formulas) and shifting from primary reliance on social insurance toward a greater role for fully or partly funded defined contributions.

During the 1990s, most Latin American and CEE governments instituted some reforms along these lines. In both regions, liberalizing initiatives were invariably modified by compromises between technocratic reformers and elected politicians representing various stakeholder groups. In general, however, as we would expect from our earlier analysis, these political constraints on reform were more binding in Central and Eastern Europe than in Latin America.

Chile and Mexico instituted the only fully privatized systems in Latin America; not coincidentally, both undertook this reform under authoritarian rule. Democracies in both regions, by contrast, established parallel or mixed systems. There were, however, important differences among democracies themselves in terms of the emphasis placed on social solidarity, as measured by the defined-benefit component of the pension system, and the degree of reliance on private accounts. Private systems in Latin America generally enrolled a larger number of workers and received a larger share of payroll taxes than was the case in the CEE countries. The main exception was Uruguay, which like the CEE countries, had developed a highly broad-based and popular public system. Workers who were partially enrolled in the private system could also expect a higher payout from that source in Latin America than could their counterparts in those CEE countries for which data is available (Bulgaria, Hungary, and Poland). Again, the main exceptions were Latin America's two large public pension systems, one of which is in Uruguay and the other of which is in Costa Rica.[4] Except for Uruguay, coverage also remained substantially more limited in Latin America than in the CEE cases.

Although a variety of economic and political factors account for these differences, variations in the extent of the reform can be attributed in part to contrasting welfare legacies. Central and East European democracies inherited pension systems that encompassed most older people and promised a measure of retirement security for nearly all those still working. Although younger workers favored reform, pressure to provide guarantees to older workers and existing beneficiaries was strong. Compromises with stakeholders also characterized pension reforms in Latin America, but narrower and less equal coverage weakened the capacity of unions, pensioners, and other stakeholders to exert political influence.

The reform of the healthcare system is not only administratively complex, but poses additional challenges because of the political role of providers, both public and private. Nonetheless, we find a number of important parallels to the pattern of reform visible in the pension area, with inherited legacies playing an important causal role.

In Latin America, fiscally-constrained governments placed a high priority on financial and administrative reforms aimed at increasing the cost-effectiveness of service delivery. Although opposition from

healthcare workers and public-sector unions often slowed such steps, the way in which most Latin American healthcare systems were organized changed gradually over time. Financial reforms sought to untangle the complex cross-subsidies between the pension and health funds, increase the financial viability of the latter, and put in place greater cost controls. In a number of countries, financial responsibilities were shifted to lower levels of government. Administrative reforms of the public delivery system also included decentralization and cost-control measures such as per capita budgeting for hospitals. In several countries, governments encouraged or at least acquiesced in a substantial expansion of the role of private insurance and providers.

The most distinctive aspect of health-care policy in the post-socialist cases was the continuing commitment of the state to finance and even provide curative and basic services on a universal basis.

Steps toward rationalization came in tandem with efforts to improve the delivery of basic health care to large, underserved populations. Two features of this expansion are striking when compared with the more universal approaches favored in Central and Eastern Europe. First, we see few efforts to create a comprehensive and unified system of social insurance or public provision. The most notable exceptions are Colombia, which faced relatively limited fiscal constraints in the early 1990s, and (to a lesser extent) Brazil. Elsewhere, efforts to improve public services tended to be more incremental, taking the form of pilot projects or targeted human-development programs aimed at specific regions within a country or subsets of its population.

Second, these efforts were highly contingent on fiscal opportunity. When financial constraints eased, democratic governments expanded entitlements (as did executives in semidemocratic settings, including Alberto Fujimori in Peru, Hugo Chávez in Venezuela, and presidents from the long-ruling PRI regime in Mexico). Residual and ad hoc approaches to the expansion of health care remained highly vulnerable to fiscal circumstances, however.

In Central and Eastern Europe, unlike Latin America, both the financing and provision of health care had been dominated by the public sector and organized through national ministries of health. Following the transitions away from communism, pressures for a more decentralized approach immediately began to make themselves felt. Doctors formed professional associations that lobbied for a greater private-sector role in provision, and control over hospitals and clinics typically devolved to municipal governments. Throughout the early transition period, all the new democracies grappled with competing health-reform proposals.

Yet the most distinctive aspect of health-care policy in the postsocialist cases was the continuing commitment of the state to finance and even provide curative and basic services on a universal basis. Most governments chose to go "back to Bismarck" by shifting financing from the central treasury to payroll taxes and social-insurance funds.[5] Yet in all cases, reformers had to contend not only with public expectations regarding coverage, but also with administrators, hospital officials, doctors, and other health-care providers who effectively controlled the public health-care system. Both the public and organized stakeholders supported the creation of separate social-insurance schemes not for the efficiency reasons championed by liberalizing reformers, but to increase spending and improve the quality of services. As a result, health-care spending increased throughout the transition and remained high when compared to Latin America.

Data on public and private expenditure from the World Health Organization provide an indication of the differences between the two regions. Between 1996 and 2005, public-health spending's share of total health expenditures averaged around 55 percent in Latin America. This average masks substantial intraregional variation, but in many respects the variation goes in directions consistent with our general argument. The share of public spending declined over the decade in Argentina, Peru, and Venezuela, all countries that had experienced especially severe fiscal pressures. It also remained quite low in the years following the adoption of privatization reforms under Augusto Pinochet in Chile. In Colombia, by contrast, the public sector grew substantially amid favorable fiscal circumstances in the early 1990s, and public-health spending remained high in Costa Rica, a longstanding democracy with a history of public financing and provision. Increases in public-sector financing in Brazil and Mexico, both countries with substantial fiscal constraints, ran counter to expectations. But spending in both countries remained below the regional average and well below the levels seen in Central and Eastern Europe.

In Central and Eastern Europe, the share of public expenditures in total health spending averaged about 78 percent in 1996 and declined to just over 71 percent by 2005. Yet despite this decline, the public sector in every CEE country played a far larger role than it did in any of the Latin American countries except Costa Rica and Colombia. Thus, although the financing of the public sector shifted formally from the general treasury to social-insurance funds, principles of broad public responsibility remained intact. However, it does bear noting that the rise in private spending in the CEE cases came almost exclusively from households rather than from private insurance markets, suggesting a gap between de jure and de facto health-care coverage.

In addition to the reform of existing pension and health systems, the transition to democratic rule also generated political pressures to provide assistance to the poor and to those dislocated by the crisis and eco-

nomic reform. Policy responses to the "social question" are of particular interest because they may speak to how countries in the two regions address the current global financial crisis.

Reaching the Poor and Vulnerable

Classifying such efforts is difficult, since governments can provide safety nets through a variety of means. Much of the literature on social protection nonetheless distinguishes between social-insurance programs designed to mitigate risk for broad sectors of the population and social assistance targeted at particular groups that for various reasons fall outside the ambit of traditional social-insurance systems. The former approach includes both passive and active labor-market policies, disability insurance, family and maternity benefits, and child-support programs with broad eligibility criteria. Social assistance and targeted antipoverty programs include most public-employment programs, income supplements for poor families, subsidies for basic necessities or in-kind transfers such as food programs, social funds, and conditional cash-transfer (CCT) programs.

As compared to the CEE countries that we studied, the Latin American countries in our sample placed a greater emphasis on targeted antipoverty programs. Early responses to the crises of the 1980s, such as those in Bolivia and Augusto Pinochet's Chile, took the form of temporary and small-scale public-works programs. Over time, however, targeted antipoverty programs evolved into more institutionalized forms of assistance. An important but controversial innovation of the crisis years was the establishment of social funds. These new institutions operated outside existing social-policy ministries, often with financing from international financial institutions. In poor communities, social funds financed quick-disbursing public-works programs that were designed to furnish local public goods as well as jobs. By the mid-1990s, such funds had appeared in Argentina, Chile, Colombia, Mexico, Peru, Uruguay, and Venezuela.

Several features of these early Latin American safety nets are germane to our arguments. First, the targeted approach to poverty reduction reflected the views of the World Bank, other international financial institutions, and domestic social-policy reformers about the need for greater efficiency in the use of scarce resources.

Second, although leakage of funds and clientelistic practices were common problems in these programs, benefits did appear to flow disproportionately to families and individuals in the poorest 40 percent of the population, and often comprised a significant share of their income. However, even the most extensive programs reallocated only small amounts of total social spending and thus fell far short of redressing profound inequities in the distribution of social insurance and services.[6]

In six of the countries for which comparable data are available (Argentina, Brazil, Chile, Colombia, Mexico, and Peru) expenditures on social-assistance programs amounted to only about 5 to 7 percent of all social spending in the early 2000s, and between 0.5 and 1.5 percent of GDP. Benefits were also inversely related to coverage: The larger the share of the populace that a program covered, the lower was its level of spending per person. Thus, although these programs have sometimes had a measurable and positive effect on family income and human development, their overall impact on poverty has been relatively modest. Moreover, as with social spending in Latin America more generally, they remained vulnerable to the recurrence of fiscal constraints.

In the late 1990s and early 2000s, a number of Latin American governments pioneered CCTs as a new targeted approach designed to increase income while also improving human capital by encouraging the uptake of basic educational and health services. Mexico's Programa de Educación, Salud y Alimentación (or Progresa, later renamed Oportunidades), launched in 1997, was the first large-scale program of this sort anywhere in the world. On its heels came Brazil's Bolsa Escola (later Bolsa Familia), Colombia's Familias en Acción (FA), Chile's Subsidio Unitario Familiar, and a number of others. These programs gave poor households cash, but only on the condition that they met requirements with respect to school attendance or health maintenance, either for children or for the whole family.

CCT programs are widely viewed as a substantial improvement over earlier social-fund programs and most other forms of social assistance to the poor. Although their share of national budgets remains relatively small, these programs have contributed to a reduction in poverty and have increased rates of school and health-clinic attendance. Because of the size of the transfers to the average recipient household, moreover, they have proven popular, providing significant electoral payoffs for governments of both the left and right. The international financial institutions have also supported these efforts.

Like other targeted programs, however, CCTs have their critics. Some complain that CCTs leave the welfare system segmented and correspondingly vulnerable to recurrent fiscal constraints. Equally important, although CCTs give families immediate incentives to invest in their children's education and health, the programs are only as good as the schooling and health care to which they give access. In too many countries, these services have lagged behind the CCTs themselves.

Democratic governments in the CEE countries tended to rely more heavily on universalistic or broadly targeted programs than did their counterparts in Latin America. Governments used existing tools such as family allowances and disability pensions in order to aid workers dislocated by the transitional recessions of the early 1990s. All the CEE countries that we studied adopted or substantially expanded unemploy-

ment-compensation programs and moved swiftly to implement active labor-market policies as well. In Latin America, by contrast, only four countries (Argentina, Chile, Uruguay, and Venezuela) provided any unemployment compensation, and in every case it was very limited in scope and duration.

Arguably, the social-security systems that the CEE countries inherited from the socialist era—combined with new governments' rapid action in providing unemployment insurance and social assistance—helped to dampen social and political pressures from the economically disenfranchised that might otherwise have threatened the consolidation of democratic rule. Coverage was generally so broad, however, that the distributional effects of programs were either neutral or even moderately regressive; family allowances, which were distributed across the income spectrum, are a particularly striking example. Conversely, a relatively modest share of poor families received targeted social assistance, which played a more limited role in making up the social safety net.

It is important to underscore that Central and Eastern Europe's new safety-net programs were by no means able to prevent substantial downward mobility on the part of some displaced workers, particularly those lacking in skills demanded by the new market economy. Moreover, many of these transitional programs have not been sustained. Nonetheless, the CEE approach to providing a safety net was more solidaristic than the one that was in evidence across Latin America. In the 2000s, Poland, Romania, and Slovakia even experimented with minimum-income schemes in order to counter the social exclusion of the poor.

Does democracy lead to more inclusive and equitable social contracts? Our answer is a qualified yes. Across both Latin America and Eastern Europe, democratization was accompanied by new electoral incentives to respond to the social question as well as the mobilization of new organizations representing the poor. Political transitions raised the significance that governments attached to the provision of social insurance and services. This remained true, moreover, even in the face of the tremendous headwinds that governments encountered when the storms of economic and fiscal crisis began to blow.

Yet not all democracies were created equal. Differences in welfare legacies led to wide variations in the way in which new democratic governments responded. As a result, we should not assume that democracy per se will lead to convergent welfare outcomes, whether measured in terms of policy or achievements such as poverty reduction, greater socioeconomic equality, or improved mobility.

It is difficult to untangle the complex causal connections between particular welfare policies and social outcomes, but the "Latin American" and "East European" approaches that we have traced in the preceding pages embody quite different tradeoffs. Liberalizing reforms in Latin America constituted a frontal assault on existing privileges; although

arguably equalizing, these changes nonetheless appeared to disenfranchise workers in the formal sector and some portions of the middle class. Targeted social programs may have contributed to poverty reduction, although the boom of the early 2000s was an important precondition for recent expansion of such efforts. But these reforms involved a certain segmentation of the poor, and did not necessarily provide either the incentives or the means to bring them into productive forms of employment.

Efforts to maintain or construct more solidaristic programs in Central and Eastern Europe avoided at least some of the de jure segmentation characteristic of Latin American welfare systems. As a result, however, the CEE programs replicated some of the deficiencies of the socialist welfare state, including underfunding, inefficiency, and de facto rationing. Partly as a result, there is evidence of a gap—sometimes substantial—between de jure and de facto coverage and entitlements.

The Economic Crisis and the Welfare State

What are the implications of our findings for an understanding of likely responses to the economic crisis that broke in 2008? Will it lead to a resurgence of pressures for reform or even retrenchment of social insurance and services? And should we expect that, as in the past two decades, countries with legacies of expansive rather than narrow social policies will be more likely to resist such pressures?

The answer will depend heavily on the depth of the crisis. Is the global financial crisis a new critical juncture that will reshape thinking about the role of the state in the economy, including with respect to social policy? Or will recovery ultimately reveal it to have been more akin to a standard business-cycle oscillation, without profound long-term consequences? There are signs that we are witnessing a critical juncture that will lead to novel political alignments and ways of thinking about the role of government. In some Latin American countries, the meltdown has discredited the market-oriented assumptions that inspired earlier social-policy reforms. The build-up of reserves during the boom period may, for a time at least, allow governments to resist the historical tendency of procyclical public spending, with social spending going up and down with the business cycle rather than serving to smooth it.[7] As in Central and Eastern Europe, governments in Latin America are now likely to find it difficult to cut back on politically popular policies that were implemented during the flush times of the mid-2000s. Thus, while the legacies from the early and middle years of the twentieth century matter, so do more recent experiences of countries in both regions.

Whatever ups and downs the next several years may bring, sustaining and deepening welfare systems in both regions will depend crucially on

improving the ability of democratic states to collect taxes. Like much of the literature on advanced welfare states, our study has focused primarily on spending and on the organizational reforms of social provision. But social-policy initiatives depend ultimately on the ability to raise the taxes necessary to sustain such initiatives over time. The current crisis is likely to test that capacity.

There are clearly alternative routes to the fiscal bargain that is needed to sustain the welfare state. Whatever its particular nature, however, such a bargain is more likely to be struck when social insurance and services are understood not simply as mechanisms of redistribution, but also as public goods or solutions to genuine market or behavioral failures.[8] For example, public health and education clearly have positive effects on society as a whole. A number of forms of social insurance address problems—such as unemployment or deficiencies in retirement savings and health insurance—that private markets and individual decision making solve only imperfectly. Such a reformulation of the meaning of the welfare state could well be an outcome of the current financial crisis, not only in the new democracies of Latin America and Central and Eastern Europe, but in the advanced industrial states as well.

NOTES

1. For Latin America: Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, Peru, Uruguay, and Venezuela. For CEE: Bulgaria, Czech Republic, Hungary, Poland, Romania, and Slovakia.

2. Ruth Berins Collier and David Collier, *Shaping the Political Arena: Critical Junctures, the Labor Movement, and Regime Dynamics in Latin America* (Princeton: Princeton University Press, 1991).

3. For example, Mitchell Orenstein, *Privatizing Pensions: The Transnational Campaign for Social Security Reform* (Princeton: Princeton University Press, 2008).

4. Raúl L. Madrid, *Retiring the State: The Politics of Pension Privatization in Latin America and Beyond* (Stanford: Stanford University Press, 2003), and Sarah M. Brooks, *Social Protection and the Market: The Transformation of Social Security Institutions in Latin America* (Cambridge: Cambridge University Press, 2008).

5. Jörgen Marée and Peter P. Groenewegen, *Back to Bismarck: Eastern European Health Care Systems in Transition* (Aldershot: Avebury, 1997).

6. For a more detailed discussion and references for the data cited here, see Stephan Haggard and Robert R. Kaufman, *Development, Democracy, and Welfare States* (Princeton: Princeton University Press, 2008), 216–18 and 262–304.

7. Erik Wibbels, "Dependency Revisited: International Markets, Business Cycles, and Social Spending in the Developing World," *International Organization* 60 (April 2006): 433–68.

8. Nicholas Barr, *The Welfare State as Piggy Bank* (New York: Oxford University Press, 2001); Richard Thaler and Cass Sunstein, *Nudge: Improving Decisions About Health, Wealth, and Happiness* (New Haven: Yale University Press, 2008).