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Governments in Chile and Uruguay**

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**Social Policy and Redistribution under Left Governments in Chile and
Uruguay**

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The rise of the left in Chile and Uruguay, in 2000 and 2005 respectively, initiated a period of significant social policy reform. Indeed, Chile's Socialist Party (PS) governments of Ricardo Lagos and Michelle Bachelet and Uruguay's Frente Amplio (FA) administration headed by Tabaré Vázquez enacted more significant changes in education, healthcare, transfer, wage, and tax policy than the other left governments in Latin America. During this same period Chile and Uruguay also witnessed an impressive reduction in poverty and income inequality (ECLAC 2006: online excel sheet #4; Amarante and Vigorito 2006:4). The extent to which this progress can be tied to the social policy initiatives pursued by the left governments is difficult to establish, but careful analysis of the policy reforms reveals that these governments have restructured social policies so as to increase the level of protection available to the poorest sectors of society.

In this chapter we ask two questions: First, we ask whether these governments, exemplifying best-case scenarios in Latin America, have embarked on a viable path towards a sustainable social democratic welfare state. Second, we ask whether and why they differ in their approaches and progress on this path, paying close attention to how the parties' organizational characteristics influence this variation. In their introduction, Levitsky and Roberts classify the left parties in Chile and Uruguay as an "institutionalized partisan left," distinguishing between a "professional-electoral" left and a "mass-organic" left. Uruguay's FA is an example of a mass-organic left party, while Chile's PS is an example of an electoral-professional left party. We contend that this difference in organizational character has important consequences for the types of social policy reform adopted.

Social democratic welfare states are built on the principles of universalistic citizenship or residency-based benefits, in contrast to Bismarckian or conservative welfare states that are built on the principles of employment-based benefits and liberal welfare states that are built on the principles of residual support for those unable to provide for themselves through the market (Esping-Andersen 1990). Social democratic welfare states provide a wide range of public services, whereas conservative and liberal welfare states rely on the family or private organizations for provision of these services. In practice, of course, all existing welfare states have a mixture of programs; basic universalistic programs in social democratic welfare states have been supplemented with employment-based programs, Bismarckian welfare states have social assistance programs of varying generosity for those outside the labor market, and liberal welfare states may have some universalistic programs (Huber and Stephens 2001). Empirically, social democratic parties in Europe have constructed welfare states that are more generous and reduce poverty and inequality to a greater extent than welfare states constructed by any other political forces (Bradley et al. 2003; Moller et al. 2003). Thus, in assessing the trajectory of social policy under the left governments in Chile and Uruguay, it makes sense to use movement towards well-financed universalistic citizenship or residency-based programs as a yardstick.

Here one needs to deal with the issue of means or income-testing, or targeting of social programs. In advanced industrial societies, heavy reliance on means-testing is associated with liberal welfare state regimes and seen as charity-like assistance, and universalistic programs are seen as fundamentally different as they are a social right. This view makes sense in a context where a small minority of the population qualifies for

these programs and where there is considerable discretion on the part of the welfare bureaucracy. However, in developing societies, where inequality is extreme and resource constraints are severe, it may make sense to have some kind of a means test, as long as the coverage of the programs is very wide and established as a citizenship/ residency right, with a minimum of discretion.

We, therefore, focus on the question of whether and how left governments in Chile and Uruguay have altered expenditure levels *and* the coverage of social services and transfers. The issue of expenditure is important because we want to know whether the recent “left turn” has resulted in a heavier emphasis on the „social question“ and considering only coverage could mask state efforts to increase the funding of social programs. Similarly, however, analyzing only expenditure is misleading if programs are not restructured so as to reach the poorest sectors of society.

As noted by Levitsky and Roberts in the introduction to this volume, left governments in Latin America have distinguished themselves by increasing the coverage and generosity of transfer payments as well as making improvements in the quality of social services. We analyze this movement in Chile and Uruguay, concentrating on social programs, tax policy and wage setting. In order to assess progress towards a social democratic model of political economy, we would have to take into account other labor market policies, economic policies, and general political management as well, which would go way beyond the confines of this chapter.¹ Whereas it is true that the left in both Chile and Uruguay did not depart much from neoliberalism in trade, financial, and investment policy, it is also true that macro-economic stability is an essential element of

¹ We have taken such a larger view in our analysis of Chile elsewhere (Huber, Pribble and Stephens forthcoming).

social democratic projects. Moreover, our main focus is on social policy, wage setting, and taxation, so that we think it is useful to conceptualize the political projects of the left in these two countries as social democratic, as does Lanzaro.

Our argument in short is that the left governments in both countries have made important steps towards a social democratic restructuring of their welfare states, more so in Uruguay than in Chile. Both of them inherited welfare states originally built on Bismarckian principles, with the Chilean one having been reconstructed on the basis of liberal principles under Pinochet. Both of them made progress towards basic universalism, Chile in pensions and Uruguay in pensions and family allowances, as well as in access to health care. Education reform proved more difficult in both countries.

There are four sets of reasons for the greater progress made in Uruguay than in Chile; ideology of the leadership, organizational characteristics of the left parties, strength of the opposition, and policy legacies. Faith in the market – or skepticism with regard to state intervention – and support for private provision of welfare state transfers and services is stronger among the Chilean than the Uruguayan leadership of all the governing parties. Moreover, the political coalition in Chile includes Christian democrats along with left parties, whereas the FA is made up of leftist factions only. The parties in Chile are electoral-professional parties, that is, leadership-dominated parties with extremely weak ties to the rank and file and no ties to civil society organizations, whereas the FA is a mass-organic organization, with strong ties to the rank and file as well as to civil society organizations. These characteristics are largely a result of the historical evolution of these parties. The Concertación faces a very strong and militantly right-wing opposition with close ties to a well-organized business community, whereas the FA faces

two traditional parties with weaker bases and cohesion, weaker ties to business, and a less militantly right-wing orientation. Finally, the Pinochet reforms greatly strengthened the role of private providers in pensions, health, and education, and thus forces of resistance against social democratic reforms.

Chilean and Uruguayan Social Policy Reform: 2000-2007

Transfer Policies

Important reforms in transfer policy, began with the creation of a new social assistance program, Chile Solidario, in 2004, by the Lagos administration. Chile Solidario provides income support to families living in extreme poverty as well as counseling and guidance from state social workers to access a variety of programs (Serrano and Raczynski 2004; Ruz and Palma 2004). The program emerged because of President Lagos' desire to address the lingering problem of extreme poverty (Personal Interviews #1, 2, 3, 4, 5, 6, 7: 2005 & 2006). Between 1996 and 2000 the share of individuals living in extreme poverty in Chile had remained constant, while overall poverty levels continued to decline. Participating households must fulfill several commitments outlined in a social contract (Rodriguez 2003). The cash benefit paid to families is quite small, totaling US\$21 for the first six months, US\$16 for months 7-12, and US\$ 11 for months 13-18 (Mideplan, 2004; Government of Chile 2007: www.chilesolidario.gov.cl/publico/que_es.php?art=4).² More recently, President Bachelet called for the incorporation of new groups into Chile Solidario, most notably the homeless, and for the creation of a broad social protection system.

In June of 2007, President Bachelet submitted an ambitious pension reform bill that was passed by the Congress and took effect in July 2008. Chile's privatized pension

² This and subsequent values are based on an exchange rate of 500 pesos to the dollar.

system, which was established during the military dictatorship in 1981 and relies on individual savings, has failed to provide universal coverage. Estimates are that at most 60 percent of the labor force contribute regularly to the system of private funds (Consejo Reforma Previsional 2006: 3). Labor market characteristics, such as long periods of unemployment, informality, and/or withdrawal from the market due to family obligations, translate into a situation in which a large share of workers do not accumulate sufficient funds in their private account to sustain a pension payment. Since benefits are directly tied to one's individual contributions, this generates both a lack of coverage and large inequalities in the size of retirement income. Previous to the Bachelet reform, access to the state-guaranteed minimum pension required 240 months of contributions during one's working life, which is beyond the reach of many Chileans. The social assistance pension (PASIS) was also unobtainable for some individuals because they did not qualify according to the country's means-test (Consejo Reforma Previsional 2006: 17-18).

Bachelet's pension reform introduced a solidaristic pillar into the privatized system. This pillar funds old-age, disability, and survivor benefits to uncovered individuals and replaces the previous system of the minimum pension and PASIS. The new benefit will be provided as a "basic universal pension" and will be available to the bottom 60 percent of the income distribution. In this new system, individuals who did not contribute to a private fund and have no other source of pension income will be granted a US\$150 per month benefit (El Mercurio 2008). For those individuals who did contribute to a fund during their working life, but who have accumulated very little, the state will

subsidize their pension benefit up to a maximum of US\$510 per month (El Mercurio 2008).³

Bachelet's pension reform also eliminated the distinction between formal and informal sector workers, requiring both groups to contribute toward individual savings and allowing informal sector workers access to family allowances and work injury protection. The reform also includes provisions to decrease gendered sources of inequality. Not only will the universal pension provide coverage to women, but the state will make a contribution worth 10 percent of 18 minimum wages for the first two children born to each woman (Government of Chile: http://www.gobiernodechile.cl/reforma_previsional/cobertura_jovenes.html). Finally, the reform included efforts to increase competition among the pension fund administrators (AFPs) and the profitability of such funds by permitting greater international investments. The reform proposal also provided for the creation of a state-run AFP (directed by the Banco del Estado), which however failed to pass, and it set up tax incentives for individuals to create supplemental retirement savings (similar to the U.S. system of individual retirement accounts) (Consejo de Reforma Previsional 2006).

In Uruguay, one of the first laws passed by the new FA government in March of 2005 established a social emergency plan (PANES) for indigent families.⁴ In addition to income support, which totaled nearly US\$60,⁵ PANES involved the administration of a national nutrition program, an emergency healthcare program, education in critical contexts, a transitory employment program, assistance for squatters and others living in

³ The two benefits will be implemented gradually (Government of Chile: http://www.gobiernodechile.cl/reforma_previsional/sistema.html).

⁴ Defined as a household with an income lower than the value of the basic nutritional basket as of March 1, 2005 (Government of Uruguay: <http://www.mides.gub.uy/panes/junio-05.htm>).

⁵ This and all subsequent values are based on an exchange rate of 23 Uruguayan Pesos to the dollar.

precarious homes, and a placement program for the homeless (Courtoisie and Da Costa 2005: 31). PANES was established by law to exist for only two years, until a long-term system of social protection could be established (Personal Interviews #8, 9: 2006). During 2006, PANES grew to cover 400,000 individuals in 91,000 households and enjoyed significant success and support (Chasquetti 2007).

In 2007 the Vázquez government introduced a new program called the Equity Plan to replace PANES, with an increase in the value of the family allowance and a decrease in the age requirement for the non-contributory social assistance pension. The new law increased the value of the family allowance from US\$11.30 per child to US\$30 for children up until 12 years of age, and from US\$11.30 to US\$43.50 for children aged 13 to 18 (El Observador 2007: online). Uruguay's family allowance system provides the benefit to all families that qualify with regard to their household income. Payment of the allowance is conditional upon children's attendance in school. The new program also lowered the age for the non-contributory social assistance pensions for low-income individuals from 70 to 65 and above (Campodónico 2007). The Equity Plan calls for further expansion of preschool and incentives to boost secondary attendance and retention. It provides subsidies to private firms that contract unemployed members of poor households, expands the use of nutrition cards, and subsidizes electricity and water costs (Cuenca 2007; El Observador 2007b). The plan is available to all low-income households and it has come to serve around 1 million citizens, about one-third of the country's population (Compodónico 2007).

Education

Education was identified as a priority of the left governments in both Chile and Uruguay (Personal Interviews #10, 11: 2006). Neither Uruguay's FA nor the Socialist governments in Chile, though, have done much to change structural aspects of the education system. President Bachelet negotiated a new education bill that creates a differential system of funding with higher levels of financing to schools with high risk populations (Santoni 2007). She also passed a law that makes kindergarten education mandatory and significantly expanded pre-school education through the new program "Chile crece contigo," which guarantees access to daycare and preschool for all children in the bottom 60 percent of the income distribution (Mideplan 2010). President Lagos had secured passage of a law that mandates 12 years of education for all Chilean children.

The Chilean and Uruguayan education systems are significantly different and thus the challenges they face vary widely. Chile's system bears the imprint of the Pinochet military regime. Under Pinochet, education was decentralized to the country's 325 municipal governments (Cox 2003; Mizala and Romaguera 2000). The state administers a per pupil subsidy to public and private educational establishments (Castiglioni 2005), allocated on the basis of the average number of days attended by each pupil. There are three types of schools: (1) those that are strictly public and financed completely by the state (per pupil) transfer and municipal resources, (2) state-subsidized private schools (funded by the government per-pupil subsidy and private resources), and (3) strictly private schools financed exclusively through fees paid by parents.

The subsidized private schools can charge a co-payment and establish admissions criteria, while municipal schools cannot turn down any pupil (Cox 2006). The Chilean education system is characterized by high levels of inequality generated by the fact that

the central government per-pupil payment is often not sufficient to sustain small municipal public schools in poor areas where there are no alternative sources of financing available (Pribble 2008).

The first two governments of the Concertación, both Christian Democratic in their political orientation, did little to alter the basic structure of the education system, but did increase funding significantly. Only President Bachelet attempted to deal with some of the inequalities through several different legislative proposals.

In the wake of violent student protests that overwhelmed national authorities in April and May of 2006 the Bachelet government initiated a reform of the constitutional law that governs education (the Ley Orgánica Constitucional de Enseñanza [LOCE]). However, in light of growing tension, Bachelet decided in late 2007 to negotiate an agreement between the country's primary political parties, and she was unable to secure the elimination of the co-financing system and the elimination of admissions criteria (Government of Chile 2007b). The expansion of pre-school education helps prepare underprivileged children for their educational experience, improving their long-term development (Anep 2005) and it has positive gendered effects, as it provides a de-facto system of daycare for women who would otherwise be unable to enter the labor market.⁶

In Uruguay, the Vázquez government also did very little to alter the structural organization of the education sector, though it increased funding significantly, reaching the stated goal of 4.5 percent of GDP by the end of the left party's first term in office (Besada 2009). Still, no legislation or program has been introduced to address the challenges of school abandonment and over-crowding that plague the Uruguayan system.

⁶ Chile has the lowest female labor force participation rate in Latin America. Uruguay already has a universal system of preschool education, which was established by the 1995 education reform enacted during the Sanguinetti government and has broad coverage.

In Uruguay the majority of students continue to receive their education from public facilities, but because of funding cut-backs and simultaneous growth in enrollment, the state schools have deteriorated significantly. Moreover, the issue of school abandonment has become an enormous challenge with an estimated global drop-out rate of 34 percent in 1999 (compared to 17 percent in Chile) (Anep 2005: 124). During 2007, the government worked to draft a new education law, but the project stalled and no structural changes have been adopted in the education system (Besada 2009).

Healthcare

The left governments in both Chile and Uruguay made impressive progress in health care, improving access and quality for underprivileged groups and promoting the idea of healthcare as a guaranteed right of citizenship. In Chile the healthcare reform, known as „Universal Access to Guaranteed Rights“ (AUGE), was created by the Lagos administration and expanded by President Bachelet. In Uruguay, the FA government reformulated the healthcare system to form an integrated national healthcare service (SNIS).

The Chilean health care system was reformed by Pinochet into an underfunded public system (FONASA) and a private for-profit system (ISAPRES) to which wage and salary earners could direct their mandatory contributions. ISAPRES could charge additional payments and discriminate on the basis of risk. The previous Concertación governments had increased expenditures in the public system but not attempted any structural changes.

Lagos“ AUGE healthcare reform involved a laborious process of negotiation both among sectors of the Concertación parties and between the center-left coalition and the

opposition, lasting from 2002 to 2004. The original version of the reform proposed the creation of a set of illnesses that the state would guarantee to cover in a timely manner. The guarantees were valid for both public sector and private sector healthcare users. The bill specified exact timelines for the treatment process. The AUGE reform also sought to change the way in which healthcare was financed so as to remedy the process of “risk skimming” that prevailed in the private sector. Private insurance companies discriminate against high risk individuals, thereby reducing their liabilities and passing the elderly, sick, and poor to the public sector. AUGE sought to address this issue by requiring that a proportion of all workers’ healthcare contributions to both FONASA and the ISAPREs be directed to a national solidarity fund that would subsidize coverage for individuals with a higher-risk profile. In this way, the national fund would off-set the disproportionate cost incurred by the Chilean state for covering predominantly high-risk individuals (Letelier and Morales 2002; Boeninger 2005; Dávila 2005).⁷ The “solidarity” fund, however, was rejected and replaced with an inter-ISAPRE solidarity fund. The original proposal also called for the creation of a maternity solidarity fund, but that too was rejected.

The final version of the reform guaranteed universal coverage of 56 illnesses on a gradual basis, with 25 being covered by 2005, 40 by 2006, and the full 56 by 2007 (Dávila 2005: 26).⁸ The reform commits the state to covering the cost of treatment in the private sector if public providers are unable to provide care as stipulated by the law.

Financing the new system proved contentious and after turning down initiatives to

⁷ Risk skimming is costly for the state because high income-earners tend to use private coverage during their working lives and their contributions are channeled directly to the private sector. When these individuals reach an older age, and present a greater risk, the cost of private coverage is often so high that they turn to the public sector for care. The private providers, therefore, receive funds during the productive period of an individual’s life, but typically do not incur the health costs as that individual grows older.

⁸ In its original form, the guaranteed coverage of all 56 illnesses would have gone effective immediately (Dávila 2005).

impose an alcohol and cigarette tax, the final law called for the new system to be funded through a one percentage point increase of the value added tax,⁹ increased efficiency in the use of health funds, increases in government revenue tied to economic growth, and by new co-payments (Espinosa, Tokman and Rodriguez 2005).

Several elements of the AUGE healthcare reform have improved the level of social protection enjoyed by low-income sectors of the population. Specifically, the fact that AUGE guarantees treatment in a timely manner for the illnesses that account for a large share of deaths in Chile means that low-income families relying on public healthcare will receive the care they need (Pribble 2008). AUGE created a regulatory agency (the Superintendencia de Salud), which is responsible for enforcing these guarantees and constitutes an important step toward making the rhetorical commitment to universalism a practical reality (Pribble 2008). Finally, while AUGE does not eliminate co-payments and actually introduces new co-pays in some cases, it does place a cap on the total amount that a family can be required to pay for any given AUGE illness in any given year. These caps were formulated in a progressive manner and afford financial protection to low-income groups (Pribble 2008).

Still, the elimination of the AUGE solidarity and maternity funds means that the low and middle-income users of the public sector bear a greater burden in covering risks than the private sector (Pribble 2008). Moreover, the elimination of these two funds pushed the government to enact larger co-payments, which weigh heavily on lower income groups. President Bachelet extended AUGE, incorporating ten new illnesses into the plan, bringing total coverage to 66 ailments in 2010 (Government of Chile 2010).

⁹ This increase was also levied to fund Chile Solidario.

Uruguay's FA government also engaged in an ambitious healthcare reform. Under Uruguay's previous healthcare system, citizens gained access to healthcare through a payroll tax, but workers did not have the option of using the public system. Instead, they were required to affiliate with a private company and payments were allocated directly to a not-for-profit private insurance company (IAMC). The public system, by contrast, was financed through general revenue and existed to provide service to the poor. This division created high levels of inequality with regard to the quality of care available in the public and private sector. The new system aims to strengthen the public sector, improve the financial sustainability of private providers, and shift the focus of care from its expensive curative character toward a preventive system with a strong network of primary care clinics (Pribble 2008).

The most notable changes resulting from the FA reform relate to healthcare financing and the extension of coverage to children. Under the new system, Uruguayans employed in the formal sector will contribute a share of their income to a national healthcare fund administered by a committee comprised of government, citizen, and medical sector representatives.¹⁰ This fund will then allocate a per-capita payment to the healthcare provider that the worker chooses to use. Citizens will have the option to choose between the public and private sector and among distinct IAMCs.¹¹ The per capita payment that is transferred from the national healthcare fund to the provider will vary based on the risk profile of the individual being covered. In this way, the new FA reform

¹⁰ Under Uruguayan law, employers contribute 5 percent toward healthcare. This differs from Chile where employers bear no cost.

¹¹ This choice is available to individuals registering for the first time (including the children joining the system). For individuals who had already chosen a healthcare provider at the time of the reform, the government has established certain periods during which individuals can change providers. Citizens also have the option of obtaining service with for-profit private insurance companies. The cost of affiliating with such firms is not regulated by the state and the individual citizen must cover the difference between the state's subsidy and the cost of the coverage.

pools income and risk and avoids the issue of “risk skimming” that plagues the Chilean system.¹² The new financing system will also help reduce the disparity between per-capita spending in the public and private healthcare systems since public and private providers will receive the same per capita subsidy.

Under the new system, the state will continue to subsidize healthcare for the poor in the public sector, but workers too will have the option of using public care. Since the public sector has historically had lower co-payments, and because the network of public healthcare is stronger than the private sector in some remote areas of the interior of the country, it is possible that certain workers will in fact opt to use the public system.

Another weakness with Uruguay’s previous healthcare system was that it only provided coverage to the individual worker. In practice, this meant that many children did not have full healthcare, but relied instead on partial “emergency” insurance or on the public sector. Under the new system, workers will contribute based on their income level and the age of their children, from a low of 3 percent to a high of 6 percent (Republic of Uruguay, law #18.211: article 61), and children obtain access to care through their parents. In the first two days of the reform’s implementation (January 2 and 3, 2008), nearly 70,000 children were enrolled in the system. Of these children, 18,000 had previously had no healthcare coverage whatsoever, while others had partial coverage (El Observador 2008).

The FA government also reformed rules regulating the cost of private sector co-payments for healthcare procedures, which according to one study had more than doubled between 1991 and 1998 (Portillo, Buglioli, and Lazarov 2001: 18). The new system

¹² The law prohibits private insurance companies from denying coverage and from providing partial coverage, ensuring that individuals with pre-existing conditions and/or a high-risk profile will not be discriminated against.

reduces the value of co-payments and increases regulations on the services IAMCs must provide free of co-pay to children, the elderly, and pregnant women (Campodónico 2007). Additionally, there are deadlines for the length of time that any individual will wait for services (Campodónico 2007).

The FA healthcare reform has its shortcomings as well. Critics note that the reform does not address the financial health of private insurance firms, which may not be prepared to deal with the new influx of users. Another weakness is the fact that access to care is still tied to one's position in the labor market or status as poor. Informal sector workers who are not poor, however, will not have coverage through this reform.¹³ Finally, it is unclear whether the reform will truly promote a shift away from Uruguay's heavy reliance on costly curative care toward a system that focuses on preventive primary care. Despite these negative points, the FA reform goes further than its Chilean counterpart in restructuring the healthcare system to benefit low-income individuals by regulating the private sector and promoting risk and income pooling.

Minimum Wage and Salary Negotiations

In addition to transfers and social services, wage policy, particularly the minimum wage, is a crucial component of social democratic policy, since it is an expression of solidarity and a central determinant of the ability of families to escape poverty. In the case of both Chile and Uruguay, left governments have used wage policy as an important tool in the fight against poverty and inequality.

The center-left Concertación government increased the minimum wage annually since the transition, nearly doubling its value (in real purchasing power) (Marinakis and Velasco 2006: 171). The Lagos administration, like previous Concertación governments

¹³ The same is true in Chile.

enacted annual increases to the minimum wage, raising its value from US\$200 to US\$255 between 2001 and 2005 (Government of Chile 2001 and 2005). President Bachelet continued the policy of annual increases and as of 2009 the wage had reached US\$330 (El Mercurio 2009)).

The value of Uruguay's minimum wage declined precipitously beginning in the 1970s and by the late 1990s was worth only about one-quarter of its original value (Furtado 2006: 263). As a result, the minimum wage became increasingly unimportant as a tool for regulating the labor market and in 2003 it was estimated that less than 3 percent of the workforce earned the equivalent of one minimum wage, down from 30 percent of workers in 1986.

The situation of wages was further worsened following a decision by National Party President Lacalle in 1992 to withdraw the state from salary councils. These tripartite councils were first established in 1943, suspended during the authoritarian government that ruled the country between 1973 and 1984, and reestablished by the first democratic government in 1985. As a result of state withdrawal, collective wage agreements at the sector-level declined significantly, covering far fewer workers. While collective agreements represented 94 percent of all wage accords during the 1985-1989 period, they represented a mere 7 percent of agreements in 2003 (Furtado 2006: 276).

The FA government moved quickly to re-establish the practice of tripartite salary councils and introduced collective negotiations for two sectors that had previously been excluded from the practice: rural and public-sector workers (Uruguayan Ministry of Labor 2006). The government also attempted to include domestic workers, but failed because of the lack of "employer" representation (Personal Interview #12: 2007). The

return to collective negotiations was part of the FA's overall commitment to re-valuing salaries in the private sector, which had fallen as a result of economic decline and the crisis of 2002. The salary councils have largely been a success, with wage increases accounting for not only inflation, but also including a 2-4 percent salary recovery in 2005 and a 1.5-5.5 percent recovery in 2006 (Personal Interview #12: 2007). The sectors experiencing the most significant growth are precisely those where wage decline had been most severe (Personal Interview #12: 2007).

The re-instatement of collective tri-partite negotiation sought to achieve more than wage growth. A Minister of the Vázquez government indicated that the FA hoped the wage councils would pave the way for a more coordinated relationship between the state, employers, and workers (Personal Interview #12: 2007). As Lanzaro makes clear in his chapter on Uruguay, the reinstatement of the salary councils also led to growth of unionization in the private sector. Thus, the reinvigoration of the wage councils constitutes a step in the direction of social democratic corporatism, a strong institutional underpinning of social democratic welfare states (Swank 2002).

Tax Policy

Tax policy is also important for understanding the movement towards a social democratic welfare state. The tax capacity of a state directly affects its ability to sustain a broad network of social protection.¹⁴ In the case of Chile, the most significant tax reform since the return to democracy was carried out in 1990 by the Christian Democratic administration of President Aylwin. The reform increased the VAT from 16 to 18 percent;

¹⁴ Latin American states tend to under-tax their populations (Gómez-Sabaini 2006; Inter-American Development Bank 1996). Specifically, states in the region imposed an average tax burden of just 15 percent of GDP during the 1990-2005 period (Gómez-Sabaini 2006: 16). This differs significantly from the average tax burden in OECD countries, which was equal to 36.3 percent of GDP in 2000 (Gómez-Sabaini 2006: 20).

increased some income tax rates and readjusted the brackets; and increased the corporate tax rate from 10 to 15 percent (Government of Chile 1990: law 18.985, transitory article 2).¹⁵ Originally, the government had sought to increase the corporate tax from 10 to 20 percent, but after lengthy negotiations with the right-wing National Renovation (RN) party and the business sector, the Aylwin administration settled for the compromise of 15 percent. Another condition of the agreement between the government and the right-wing party was that the tax increases were temporary; valid only until 1994 (Government of Chile 1990: law 18.985). When the law was re-negotiated in 1993, the government was able to maintain the 15 percent corporate tax and the 18 percent VAT, but it was agreed that the VAT would be reduced to 17 percent in 1996.¹⁶ The individual income tax rate on the highest tax bracket was, however, reduced in the 1993 version of the law (Government of Chile 1993: law 19.247).

Upon taking office in 2000, President Lagos initiated a reform aimed at increasing tax revenue by clamping down on evasion and upping the corporate tax rate to 20 percent. However, he had to settle for 17 percent (Fairfield 2007: 13). Later he raised the value of the VAT by one percentage point to finance Chile Solidario and AUGE. The VAT increase was approved through 2006, and President Bachelet was successful in extending the increase, thereby providing additional support to Chile Solidario and AUGE for her term in office.

Uruguay's FA government faced quite a different situation from that of the Lagos administration when it came to office in 2005. Unlike Chile, Uruguay did not have a progressive income tax, but relied instead on a complicated system of taxes that drew

¹⁵ The law (#18.985) created five tax brackets that paid 5, 15, 25, 35, and 50 percent respectively (Government of Chile 1990).

¹⁶ In 1996 the VAT was maintained and the funds were earmarked for President Frei's education reform.

heavily on indirect forms of collection (Amarante, Arim and Salas 2007). One of the first projects of the new left government was to reform the regressive and complicated tax system. In 2005, President Vázquez introduced a bill that created an individual income tax and streamlined several other taxes into a simplified system that rests on three main sources of revenue: the corporate income tax, the individual income tax, and the VAT. The reform aimed to slowly reduce the country's VAT, which stood at 23 percent, while introducing an individual income tax for the first time in Uruguay's history. The proposed reform did not seek to generate new revenue, but to create a more effective and equitable system. The legislation received fierce opposition from the country's traditional parties, but ultimately took effect in June, 2007. Opposition to the tax reform continued to be quite strong and in October of 2007 a group of pensioners challenged the constitutionality of the law and the Supreme Court ruled that it was unconstitutional to tax pensions as regular income. In response to this, the government passed a new tax that applies specifically to pensions (Government of Uruguay 2008).¹⁷

Early analyses of the new tax system suggest that, despite resistance, it is functioning well and is significantly more progressive than the previous system (Amarante, Arim, and Salas 2007: 60). The VAT was decreased from 23 to 22 percent in June 2007. Additionally, Finance Minister Danilo Astori announced that the government would increase the income level below which households are exempted from the individual income tax by mid-year 2008 (Cuenca 2007c).

Different outcomes: ideology, left party organization, the strength of the opposition, and policy legacies

¹⁷ This law sets the threshold above which pensions will be taxed slightly higher than the original income tax.

Whereas left governments in both Chile and Uruguay have made important reforms to transfer, education, healthcare, wage, and tax policies, they vary with regard to the scope of their reforms. Overall, with the exception of education policy, the FA has been more ambitious in its policy-making than the Socialist Party-led governments in Chile. These differences are the result of a combination of elite ideology, party structure, the nature of the opposition, and policy legacies.

Ideology

We use the concept of ideology to denote a vision of the deficiencies of the present social order, of the contours of a desirable social order, and of the strategy to get there from here. The core leaderships of the left in Chile and Uruguay differ above all in their visions of strategy, which in turn were shaped by their historical experience. The Chilean leadership of the renovated PS, formed by the experience of the Allende years and exile (Roberts 1998), holds a deep aversion to popular mobilization, which they see as generating pressures for populist policies and as potentially destabilizing. In contrast, the leadership of the FA during their long years in opposition learned to rely on popular mobilization to pressure for reforms or oppose reform attempts of the incumbents. Accordingly, they formed very different relationships to civil society, with the Chilean leadership keeping organized popular groups at arm's length and the Uruguayan leadership forging close ties to them.

A further crucial difference to keep in mind is that the *Frente* is an alliance of left groups, whereas the *Concertación* is a coalition of center and left groups. Although the main ideological divide at Chile's mass and the elite levels since the beginning of the transition has been between the pro-democracy and the pro-Pinochet camp, rather than

between a neoliberal and a state interventionist camp (Fuentes 1999, Luna 2006, Luna and Zechmeister 2005, Ruiz 2006), there are consistent differences at the level of political elites between the *Concertación* and the *Alianza* as well as within the *Concertación* parties between those embracing the market and those preferring a stronger role of the state. Data from three waves of interviews with members of parliament show that Chile's political elites place parties and themselves on a left-right scale, with the PDC located in a centrist position and the PS and the PPD further to the left. Both party placement and self-placement correlate with preferences regarding the relative weights of state and market (Luna 2006; Ruiz 2006). The differences between the *Concertación* and the *Alianza* are not large, but are consistent over the three periods (1993-97; 1997-2001; 2001-05). Another factor that divides the *Concertación* parties is religiosity and moral conservatism, where members of the PDC indicate a higher degree of religiosity than all other parties except the UDI (Ruiz 2006: 93). This fact has important implications for social policy, particularly in the area of gender equality.

Pribble (2008) finds clear evidence of the existence of a "market-friendly" and "statist" sector within the PS and other *Concertación* parties. In 20 of 25 interviews with *Concertación* elites in which the question about internal divisions was asked, the respondent identified the "liberal" and "statist" cleavage as the primary fissure within the coalition. Moreover, Pribble (2008) finds that the market-friendly sector of the *Concertación* enjoyed special access to positions of power during the Aylwin, Frei, and Lagos governments.

The market-friendly sector of the PS favors policies that prioritize cost-containment and macroeconomic stability, while pursuing equity as a secondary goal.

This does not mean that this sector disregards the goal of equity; to the contrary, this sector of the PS is highly committed to poverty reduction and increasing equality, but their approach to resolving these problems is rooted in market-based solutions and thus they place cost-containment and macroeconomic goals first.

The different political experience of the FA leadership and its long period in opposition meant that the party did not pass through a process of „renovation“ similar to that experienced by the Chilean PS. While some sectors of the FA have moderated their positions and adopted a more market-friendly position since the early 1970s, others continue to uphold a strong statist position. This is not to say that these fractions of the FA have not become more moderate with the passing of time. As noted by Lanzaro (2004) and Luna (2006), the groups have moved toward the center, but we contend that this movement is minor compared to the PS in Chile.

Party Structure

The left parties in Chile and Uruguay are both programmatic in their orientation, appealing to voters on the basis of ideology and issue positions.¹⁸ However, Uruguay's FA is organic in its structure, with semi-institutionalized systems for consultation and coordination between base organizations and the party elite. This structure was strengthened during its time in opposition, when it relied on relationships with the labor movement specifically, and with civil society organizations more generally. The party promotes participation and the relationship between elites and voters is maintained in non-election years. This consultation is carried out by means of direct democracy

¹⁸ As Luna (2006) shows, this is becoming less true at the grassroots level in poorer areas. The left has been constrained to compete with the UDI in providing particularistic benefits. The UDI is providing services funded by private money and party volunteers, and the left is relying on a combination of volunteer efforts and access to municipal governments. At the national level and in districts with higher socio-economic composition, the parties remain programmatic.

mechanisms, small territorial committees, a national „plenario,“ and the „mesa politica“ (Frente Amplio 2007). These committees meet regularly to debate proposals and government plans, carry out decisions made during the party congress, and set party objectives and strategy (Pribble 2008). The fractionalized character of the FA further strengthens the tie between voters and party elites, as different lists within the party are in constant competition over leadership roles.¹⁹

In contrast to the FA’s organic structure, the Chilean PS has much weaker ties to its voting base and fewer practices aimed at promoting participation and consultation. Because of this weak link, the PS elite enjoys greater autonomy from militants and organized interests when formulating policy. The policy outputs, therefore, more directly represent the interests and preferences of the elite. Indeed, the society-party tie emerges as important during electoral periods, but tends to fade between elections. Collier and Handlin’s data nicely underline this contrast, showing the importance of direct contacts through meetings and other party work and linkages with unions of left party activists in Uruguay, and their absence or weakness in Chile.

The electoral-professional character of the PS empowers the market-friendly (renovated) sector of the party, while limiting the clout of the more traditional statist sector. This is because the source of the statist sector’s power rests in its connection to base organizations and its ability to mobilize citizens. The AUGE reform, for instance, was heavily influenced by the electoral-professional structure of the PS. The primary

¹⁹ All of Uruguay’s political parties are comprised of competing fractions or lists, which vie for party leadership. This tendency is fostered by the country’s double-simultaneous-vote for Congressional elections and the system of proportional representation. Although the 1996 electoral reform required parties to select one Presidential candidate per party (through primary elections), the change had little effect for the FA, which had already institutionalized such a practice. To date, leadership within the FA has been fluid (Piñeiro & Yaffe 2004).

impetus cited by politicians involved in the formation of the new system was the economic inefficiency generated by „risk skimming“ and concern among Concertación economists about the state continuing to cover the risk passed on from the private sector (Pribble 2008). While economic concerns helped prompt the reform, they also imposed limits on the scope of AUGE. Indeed, one Health Ministry official reported that he and other bureaucrats had pushed for a broader project and an accompanying tax to fund a universal system, but because of the cost and the need for a tax increase, the Finance Ministry resisted, citing potential downfalls for economic performance (Personal Interview #21: 2006).

Unlike the PS, the FA’s mass-organic structure does not concentrate power, but rather disperses it among the party’s distinct sectors. Since the FA relies on mobilization as an electoral tool, the role of unions and other organized interests is of particular importance and such groups enjoy a special level of representation. Many of these organized interest groups prefer a state-led model of development and thus strengthen the more traditional sector of the left vis-à-vis market-friendly forces within the party.

The fact that the FA’s structure empowers sectors of the party that favor a more statist approach to development helps explain aspects of the country’s healthcare reform. Specifically, it sheds light on why the party was able to create a national health fund that pools public and private sector users, while the Lagos administration was unable to accomplish that goal. It also explains why economic and fiscal concerns were not the primary motivation for the reform (Personal Interviews #22, 23, 24, 25: 2006 & 2007). Indeed, when asked about the impetus for the reform, no FA policy-makers cited cost-

containment, but rather participants in the policy debate pointed to issues of equality and poverty (Personal Interviews #22, 23, 24, 25: 2006 & 2007).²⁰

While the FA achieved an equity-enhancing reform in the healthcare arena, where there were many stake-holders with dispersed interests, the party's close ties to unions, in particular the teachers' unions, has influenced education policy in a different manner. As noted previously, apart from a significant increase in state expenditure, Uruguay's left government has done nothing to reform the education sector. The teachers' unions occupy a pivotal position in this sector, and their goal is to reduce the oversight of the state and increase the autonomy of teachers in the administration of education. Other sectors of the FA, however, argue for the need to re-organize the curriculum, alter the system for appointing teachers to schools, re-work teacher training, and generate pay incentives for educators in high-risk schools. As a result, significant internal divisions have emerged and reform initiatives have stalled. Thus, education reveals how a mass-organic base that empowers organized interests can inhibit reform by empowering „veto“ actors (Personal Interviews #24, 27, 28: 2006).

The education policy reforms engaged by the Bachelet government in Chile again exhibit the imprint of the Concertación parties' electoral-professional organizational structure. While the differential subsidy payment and the bill to reform LOCE both mark important progress in the area of education, other elements of the reforms reflect the market-friendly priorities of the party elite. The differentiated voucher payment for low-income students is a case in point. The more traditional-statist sectors of the party as well as teachers' unions and student organizations favored a reform that explicitly supported

²⁰ All members of the AUGE reform team in Chile made reference to the impetus generated by economic inefficiencies built into the system (Pribble 2008).

the public municipal schools, but this was rejected for a system that funds poor students regardless of the school they attend. As a result, the reform will provide funds to private subsidized schools as well as strictly public municipal schools. Indeed, while a portion of the PS party base is committed to reversing the system of municipalized public education, the Concertación party elites have removed the issue from the agenda (Dalgarrando 2007).

The distinct organizational characters of the PS and the FA also explain the variation in the recent non-contributory social assistance programs. As mentioned previously, the Lagos administration created Chile Solidario, a program that aims specifically to address the challenges and needs of indigent families. The policy was drawn up by a group of 21 technocrats and involved no consultation with base organizations (Personal Interview #5: 2005). One of President Lagos' advisors explained that the process sought to avoid political influences from parties: "that's the exact logic that we wanted to get rid of; the idea that whoever shouts the loudest gets what he wants is a bad idea... no president can govern above parties, but he [Lagos] definitely wanted to maintain autonomy. He didn't want to be reliant on them" (Personal Interview #1: 2006).

Uruguay's FA created a system of targeted assistance to families living in extreme poverty that was similar to Chile Solidario except that it was set-up as an "emergency" program that was eventually phased out, as needy families were integrated into a universal program called the Equity Plan. The fact that Uruguay's FA opted to address the issue of poverty by creating a universal network of protection available to all individuals, rather than continue with a small targeted program, reflects the breadth and power of the party's base in shaping policy choices.

A representative from Uruguay's Social Development Ministry offered evidence of the importance of party consultation and debate in formulating the Equity Plan.

“There is a strong belief in the party [base] in an ideology that emphasizes universalism and so we [party elites] knew that we had to set an end-point for PANES... Our end goal is clearly to revive the neediest groups and provide them with a level of well-being so that they can use universal services” (Personal Interview #8: 2006).

Strength of the Opposition and Policy Legacies

The nature of the right-wing opposition parties in Chile and Uruguay further helps to explain variation in social policy outputs. While Chile's PS (and *Concertación* more broadly) face a very strong rightist block of parties, the Uruguayan FA faces two greatly weakened opposition parties (the Blancos and the Colorados). In addition to their poor electoral performance in recent elections, Uruguay's traditional parties are more ideologically moderate than the Chilean right, as they are internally fragmented by fractions with divergent ideological tendencies. Moreover, Chile's business community is highly organized and tightly aligned with the country's right-wing parties, thus strengthening their power. In Uruguay, by contrast, the business sector is divided between different organizations that have ties to distinct party fractions.

Political institutional factors strengthen the right in Chile. Until the end of the Lagos government, designated senators inflated the parliamentary strength of the right, and the binomial electoral system continues to inflate its seat allocation. On the other hand, the FA also faces a potential institutional constraint, the referendum. Referenda bias policy outcomes towards the status quo, as they can be (and are) used by opponents to block change.

Chile's two right-wing parties, overrepresented due to the institutional legacies of the dictatorship and with institutionalized ties to a unified business sector, have imposed significant limitations on the PS governments of Presidents Lagos and Bachelet. One policy area where the constraining effect of the right-wing coalition is particularly apparent is in tax policy. As mentioned earlier, the Lagos government attempted to increase the corporate income tax in 2001 with limited success. Although the rate was raised from 15 to 17 percent, this number remained well below what the President and his Finance Minister preferred (Fairfield 2007). In an analysis of the reform, Fairfield (2007: 18) notes that in negotiations over the proposal, the right and business organizations were able to reduce the proposed rate from 18 to 17 percent. She further argues that the united opposition from the right and business also moved the debate "significantly toward business and the right's end of the spectrum, removing important reforms from the agenda that government leaders may otherwise have sought to enact." (Fairfield 2007: 18)

The power of Chile's rightist opposition parties also had clear effects on the country's AUGE healthcare reform (Dávila 2005). In this instance, the rightist alliance, in partnership with private insurance companies, was able to strip the bill of its strongest equity-enhancing feature, the solidarity fund, which would have pooled income and risk between the public and private sectors. The maternity fund was also removed, as were proposed tax increases on alcohol and tobacco.

The power of the opposition parties in Chile appears to be strongest when the issue in question promotes the involvement of the country's business sector (as was the case in both the tax reform and AUGE). By contrast, for matters where the business sector is not directly affected, as was the case with opposition to Chile Solidario, the

conservative parties appear to be less successful at altering policy. This pattern is confirmed in the case of Bachelet's pension reform. The only major change that the rightist parties enacted in this bill was the elimination of an article that would have provided for a government-run AFP. That article was arguably the issue that most directly affected the business community (pension fund administrators in particular). In Uruguay, the opposition parties were vocal opponents to both the tax and healthcare reform, but they were unable to mobilize resistance to the measures among the general population and they lack strong ties to business.

Finally, the left governments in the two countries have faced different legacies in social policy. In general, as a result of the Pinochet reforms, private providers have assumed a strong presence in health, education, and pension provision in Chile. Moreover, the ISAPRES and AFPs are for-profit businesses, a fact which fosters a resolute opposition to an expansion of the state's role, particularly in redistributing costs and thus reducing their profits. This also enables them to mobilize the business community to protect their interests by appealing to business interests in protection of contracts and investor confidence. In Uruguay, the private health companies also play a very large role, but the firms are non-profit organizations and thus do not enjoy protection from powerful business allies.

Conclusion

The left governments in both Chile and Uruguay have undertaken important reforms in healthcare and transfer systems that bear the traits of universalistic, citizenship-based, social democratic welfare states. The reforms of healthcare in both countries and of pensions in Chile and family allowances in Uruguay are designed to

benefit a majority of the population, and it is safe to assume that they will generate their own support bases and thus become politically sustainable. If the experience of well-developed welfare states is any guide, it will be very difficult for right-wing governments to cut back these programs in a democratic context.

The critical sector where reform has fallen short is education, and this has negative implications for inequality and thus further progress towards a social democratic model in the medium and long run. Drop-out rates among the poorer sectors remain very high in Uruguay, and in Chile the chances for a student from municipal schools to make it to university remain virtually nil. In both countries, serious efforts are under way to expand and improve pre-school education, but public primary and secondary schools themselves need to be improved as well. To the extent that transfer policies and support for women's employment (in the form of day care and pre-school education) reduce poverty among the parents' generation, children are more likely to be able to take advantage of improved schools and acquire the human capital necessary to escape the poverty trap.

In comparative perspective we can say that the left governments in Chile and Uruguay broke more clearly with the neoliberal residualism in social policy by extending social protection and health care to larger sectors than left governments in other Latin American countries, and/or by putting these programs on a more solid financial basis. For instance, Bolsa Familia, the flagship program of the PT in Brazil, reached about one quarter of the population, compared to one third by Plan Equidad. Chile's solidarity pensions are available to the lowest 60% of income earners. The misiones in Venezuela reportedly reached a large proportion of the population also, but they were financed by

oil revenue and thus highly vulnerable to cut-backs with the economic crisis. In both Chile and Uruguay the left governments tapped revenue sources from taxation or from reserves in a stabilization fund to finance their reforms.

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