

## The foundation of the Mexican welfare state and social security reform in the 1990s

権利	Copyrights 日本貿易振興機構（ジェトロ）アジア 経済研究所 / Institute of Developing Economies, Japan External Trade Organization (IDE-JETRO) <a href="http://www.ide.go.jp">http://www.ide.go.jp</a>
journal or publication title	The Developing Economies
volume	42
number	2
page range	262-287
year	2004-06
出版者	Institute of Developing Economies (IDE-JETRO)
URL	<a href="http://hdl.handle.net/2344/106">http://hdl.handle.net/2344/106</a>

## THE FOUNDATION OF THE MEXICAN WELFARE STATE AND SOCIAL SECURITY REFORM IN THE 1990s

TOMOKO MURAI

Before 1982 Mexico's welfare state regime was a limited conservative one that put priority on the social security of organized labor. But following the country's debt crisis in 1982, this regime changed to a hybrid liberal model. The Ernest Zedillo government (1995–2000) in particular pushed ahead with liberal reform of the social security system. This paper examines the characteristics and the policy making of the social security reforms in the 1990s. The results suggest that underlying these reforms was the restructuring of the economy and the need to cope with the cost of this restructuring. The paper also points out that one of the main factors making possible the rapid execution of the reforms were the weakened political clout of the officialist labor unions due to their steady breakdown during the 1990s and the increase in the monopolistic power of the state vis-à-vis the position of labor during the negotiations on social security reforms.

### I. INTRODUCTION

**D**URING the 1990s Mexico promoted economic policies based on neoliberal economic principles and their emphasis on the importance of market functions. As part of the rapid economic restructuring during that decade, the governments of Carlos Salinas (1989–94) and Ernest Zedillo (1995–2000), whose Institutional Revolutionary Party (PRI) had held power from 1920 until 2000, introduced a new policy to deal with poverty and carried out the reform of the pension system and restructuring of social security. This study will look at the background to social security reform during the 1990s and examine the characteristics and the policy making of the reforms.

Among the studies that have examined the formative period of the social security

---

The author is indebted to Professors Carlos Barba Solano and Enrique Valencia Lomelí of the University of Guadalajara, and many other Mexican researchers for their valuable suggestions on Mexican social policy. The author is also grateful to Koichi Usami of the Institute of Developing Economies and the anonymous referees for their helpful comments. Needless to say, any remaining errors and omissions are solely my own.

The views expressed in the article are solely those of the author and should not be taken as representing the views of any of the Board of Editors, the Institute of Developing Economies, or the Japan External Trade Organization.

system, there is the research by Spalding (1978, 1981) that analyzed the initiative of the state and its limitations in laying down the system; there is also the research by Mesa-Lago (1978) and Brachet-Márquez (1994) which focused on the influence of the labor class on state policy making during the formation of the social security system. Regarding research on the reforms of the 1990s, there have been many studies that have taken a functionalist approach in examining them in relation to Mexico's neoliberal economic reforms and change of economic model. But there has been little research on the political factors in the reforms, with the exception of the poverty alleviation program (National Solidarity Program, PRONASOL) of the Salinas period, about which there is a large amount of research which has focused on how it was used politically (Dresser 1994; Cornelius, Craig, and Fox 1994; and others).

The present study also deals with the reform of the social security system as a part of Mexico's economic restructuring during the 1990s, and it adopts a functionalist approach to analyze the role that social security reform played in the rapid restructuring of the economy. This study will also examine the importance of the officialist labor unions which had been central political actors during the formative period of Mexico's social security system and which were also major partners with the state in negotiations over the reforms of the 1990s. At the same time it will examine the impact that transformation of the relationship between the officialist labor unions and state corporatism had on the 1990s reforms.

To carry out this examination, the study will begin with a survey, in Section II, of the period from 1920 to 1970, looking at the formative process of Mexico's social security system and the factors involved in this process. Section III will provide a summary of the social security reforms in the 1990s and will examine their characteristics. Section IV will analyze the political and economic basis for reforming the social security system. The conclusion will examine the transformation of Mexico as a welfare state.

## II. THE FORMATION OF MEXICO'S SOCIAL SECURITY SYSTEM

This section will give an overview of the formative process of the social security system from the 1920s to the 1970s. It will then examine the characteristics of the system and the factors important in its formation and development.

The ideological and legal basis for Mexico's social security system was Article 123 of the 1917 Constitution enacted after the revolution. This article expressed the labor rights of workers and indicated the need for enacting a comprehensive law to provide them with social security. However, the development of social security services in the postrevolutionary period took place in a very limited and fragmented way because only a few strong occupational groups were able to enjoy the benefits of the social insurance programs that were set up. It was not until 1943 that a more

comprehensive social insurance law was enacted. At that time under the influence of the International Labour Organization, there was an international trend toward establishing social security systems. In line with this trend, the Manuel Avila Camacho government, which intended to modernize the state by promoting import substituting industrialization, enacted the Social Insurance Law of 1943. As Spalding (1978) pointed out, behind this decision was the state's intention to provide comprehensive social security to urban labor which underpinned the state-led industrialization plan (p. 151). The enacted social insurance system consisted of old age, survivors, and disability pensions, health insurance, and occupational accident compensation. Payment into the system was obligatory for all those insured. The rate of contribution into the pension and health portion was 12 per cent of a worker's base wages with the ratio of contribution being 3 per cent paid in by the government, 3 per cent by the worker, and 6 per cent by the employer; payment for the occupational accident compensation portion was borne entirely by the employer (Spalding 1978, p. 145). On the basis of the 1943 law, the Mexican Institute of Social Security (IMSS), a government agency in charge of social insurance operations for employees in the private sector and their families, was set up in 1944. This was followed in 1959 by the establishment of the Institute of Social Security and Services for State Workers (ISSSTE). The social insurance operations of these two institutes were central to Mexico's social security system as it gradually developed from the 1950s through the 1970s.

One characteristic of the social security system during its formative period was the linkage of social insurance to occupations in the formal sector. In an effort to consolidate the revolutionary government during the period of disorder following the revolution, the Plutarco Elías Calles government (1924–28) started to provide social insurance to federal government employees in 1925, followed by military personnel in 1926, then school teachers in 1928. This first step was followed in the 1930s by the expansion of social insurance coverage to workers in key industries like the Petroleum Workers' Union of Mexico (STPRM) in 1935 and from 1936–38 to the Railroad Workers' Union of Mexico (TFRM). The expansion of coverage in the 1930s was the work of the Lázaro Cárdenas government (1934–38) which sought to make labor unions the base of its support by facilitating and encouraging the conclusion of collective agreements that included social security benefits for employees in these big unions (Mesa-Lago 1978, pp. 212–15).<sup>1</sup>

When the government decided to enact the Social Insurance Law of 1943 to consolidate the social security systems covering the private sector, most of the large, powerful unions expressed opposition to or dissatisfaction with the IMSS social insurance system because of its low benefits. The petroleum and railway unions

<sup>1</sup> In return the labor unions of these two industries gave total support to the government when it nationalized the petroleum industry in 1937 then the railroads in 1938.

were among them; both refused to become affiliated with the IMSS and chose to maintain their own independent coverage systems (Spalding 1978, p. 157). This development led to the fragmentation of Mexico's social security system which still remains a characteristic of the system.<sup>2</sup>

A second characteristic of Mexico's social security system was the strong influence of state corporatism which has been a very important factor for the PRI government's long-standing rule. The formation of this characteristic goes back to the time when legislation of the social insurance law was proposed and implemented. At that time, in contrast to the opposition expressed by the strong labor unions, the Confederation of Mexican Workers (CTM), principally made up of union organizations in small and medium-sized companies, totally supported the government's efforts to reorganize the social security system. The CTM sent representatives to the Technical Drafting Committee right from the drafting stage of the bill, and it took an active part in enacting the social insurance system. Then it carried out a vigorous information and publicity campaign for the social insurance system, urging its acceptance among affiliates and attempting to restrain the opposition of constituent organizations (Spalding 1978, pp. 139–59). Because of its high profile participation in setting up the social insurance system, the CTM was able to secure 50 per cent of the representation that labor had to the IMSS, and this gave the CTM a strong voice in the operations of the system which were worked out through tripartite deliberation between the government, labor, and employers.

The CTM was born when the Committee of the Proletarian Defense convened the Congress for the Unification of Workers in 1936, one of its purposes being to support the Cárdenas government against Calles' political dominance. The Cárdenas government brought the CTM along with the National Confederation of Peasants (CNC) and the Federation of State Workers' Unions (FSTSE) into the support base of his ruling Mexican Revolutionary Party (PRM) (which was later renamed the Institutional Revolutionary Party, PRI). This gave those organizations representation in the party which gave them a voice in political affairs. In so doing however, they helped build a corporatist system that was based on a politically compliant relationship subordinate to the political decisions of the state. This corporatist relationship established between the state and the CTM played a very important role in the implementation and administration of the IMSS social insurance system.

A third characteristic of Mexico's social security system was the limited extent of its coverage. From the 1950s through the 1970s the number of workers in occupations in the formal sector increased because of the expansion of the public sector and the stable growth of the manufacturing sector due to the government's promo-

<sup>2</sup> The Mexican social security system is actually made up of various different social insurance programs, such as those for the IMSS, for the ISSSTE, for the petroleum workers, and for the military, and the disparity in the level of benefits among the programs can be substantial.

tion of import substituting industrialization. This in turn brought about the expansion of the social insurance system in urban areas. Coverage gradually rose from 4.3 per cent in 1950, to 11.5 per cent in 1960, 25.3 per cent in 1970, and 46.0 per cent in 1980,<sup>3</sup> but even as of 1980 more than half of the population were not covered by social insurance. Among the factors that prevented the universalization of the social insurance system, being a late-developing industrial country, Mexico's manufacturing sector was capital intensive and did not absorb a sufficient amount of the country's large labor pool (Guillén Romo 1984, pp. 88–89). Along with this, the country's import substituting industrialization stalled during the 1970s. Also the indigenous communities concentrated in the south of the country and other rural poor living in traditional villages were left outside of the government's strategies for modernization; therefore the expansion of the social insurance system in the wake of economic growth took place only among urban area residents and did not extend to the rural poor. In short, the limitations in Mexico's development strategy of import substituting industrialization, and problems peculiar to the country's social structure lay behind the low level of diffusion of social insurance.

Another factor explaining the dual structure of the social security system was that the IMSS social insurance system was of a Bismarkian type which made contributing to the system obligatory, and right from the planning stage the urban and rural poor were left out because they did not have the economic wherewithal to contribute to the system on a regular basis (Spalding 1978, pp. 139–52). It has also been pointed out by Gordon that a factor for excluding the peasantry from the provisions of the social security system was that after the revolution, the Mexican government promoted the sectorial intermediation of interests for constituent social groups of state corporatism (Gordon 1997, p. 12). In other words, the peasantry did not enjoy the benefits of expanding social security services because the revolutionary government's sectorial intermediation of interests for the peasantry was primarily intended to be the redistribution of land through land reform. The CNC, the nationwide peasant organization that the Cárdenas government made central in rural society for dealing with the demands of rural organizations, had the task of intermediating in the redistribution of *ejido* (communal land for agriculture, forestry, and livestock) and the allocation of funding for production; but as pointed out by Yokoyama (1996), the actual authority for allocating resources was in the hands of the state governors and the local bodies and offices of the federal government, and the heads of the *ejido* committees, who were the direct negotiators of applications for agricultural land, in many cases maintained a relationship of coexistence with the caciques and other local authorities and powerholders (pp. 35–41). In other words, the political function of the CNC was to co-opt the peasants and bring them into the PRI's ruling system, and it would seem that within this power structure

<sup>3</sup> Calculated by the author from INEGI (1999).

there was no route available for the mini-landholders and landless peasants in the traditional villages to express their own interests.

A fourth characteristic of the social security system was the stratification of social security services and the residual character of public social assistance services. In the 1970s Mexico began a policy of poverty alleviation for the rural poor who until then had been left out of government social policies. However, although comparatively large-scale social investment was undertaken for social assistance services directed at the poor, these largely failed to reach their intended beneficiaries.

One factor for this was that the government gave first priority to expanding social security services for urban organized labor which was a principal constituent of state corporatism. In 1972, during the Luis Echeverría government, when state finances were strained, the Institute of the National Housing Fund for Workers (INFONAVIT) and the Housing Fund of the Institute of Social Security and Services for State Workers (FOVISSSTE) were set up, the former for the purpose of providing low-cost housing and financing to urban workers in the private sector, the latter to do the same for public workers. In 1978 the CTM took over all jurisdiction of INFONAVIT (Brachet-Márquez 1994, p. 144). This move by the CTM was an event that truly bespoke of the political clientelism of the then incumbent José López Portillo government toward the CTM. The political circumstances behind the priority of the governments were the growth of social movements since the end of the 1960s that were against the authoritarian rule of the PRI, the growth of unions which had broke away from membership in the CTM in search of a more democratic unionism, and the increasing fragility of state corporatism established since the Cárdenas government (Brachet-Márquez 1994). In this situation, the expansion of the social security system came to play a more important role in placating organized labor in order to maintain PRI's long-standing rule.

In contrast to the priority given to urban labor, the public social assistance services for the poor were carried out in a residual manner. For example, following amendment of the Social Insurance Law in 1973, a plan to expand the medical assistance service for rural areas was inaugurated in 1974, but after a few years its budget was sharply reduced. One of the reasons behind this was that part of the finances for the plan came from the accounts of the IMSS pensions for old age, survivors, and disability.<sup>4</sup> Therefore, some of the technocrats and employees of the IMSS were opposed to the plan because they feared that the future growth of the rural population would lead to the financial deterioration of the social insurance system (Spalding 1981, pp. 149–52). Then came the oil boom swelling state revenues, and the federal government's abundance of funds also spread to the social

<sup>4</sup> Sixty per cent of the funds for the rural medical assistance service were provided by the federal government with the IMSS supplying the other 40 per cent; most of the funds for this 40 per cent came from the IMSS pension accounts for old age, survivors, and disability (Spalding 1981, p. 150).

assistance programs of the poor. But not long afterwards, this period of expanding services was brought to an end by the country's debt crisis that broke out in 1982. Thus the social assistance services aimed at the poor lacked any firm institutional support and stable financial backing by the state.

Finally it needs to be pointed out that poverty alleviation policy was assigned a supplementary role in the government's politico-economic strategy of the time. The programs were implemented because the production of basic grains had stagnated leading to the rapid rise of food imports in the 1970s (Sanderson 1984, p. 120). Thus the poverty alleviation program was part of the government's policy to increase food production in order to curb Mexico's trade deficit and to keep supplying cheap food to the urban population. This was one of the reasons why the primal objective of the poverty alleviation programs in the 1970s was to raise the income of the poor peasants by providing direct assistance to small-scale agricultural production and expanding subsidies and public investment in this sector. Improving basic social infrastructure and expanding social services in rural areas were secondary considerations.<sup>5</sup> In other words, poverty alleviation programs were not designed in accordance with the social rights of the poor and their demands for expanding social security (Murai 2001).

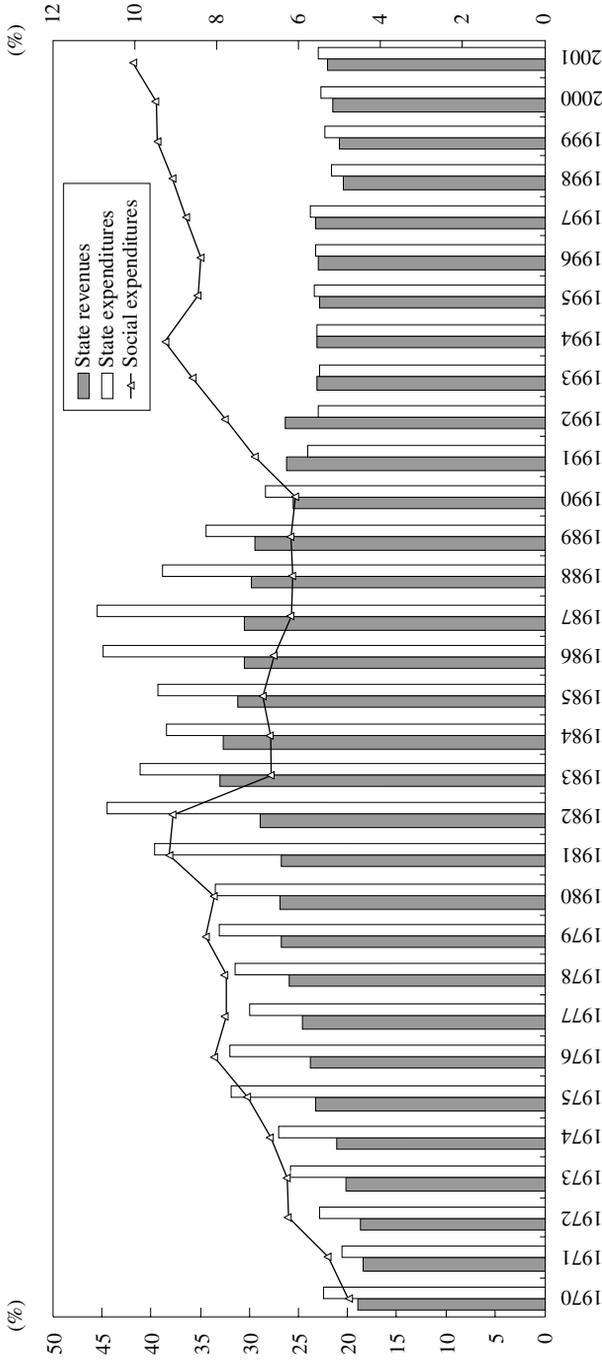
Another intention of the state for implementing the programs was to mitigate the rising social discontent in rural areas at that time (Sanderson 1984, p. 117). From the late 1960s peasants movements and illegal land occupation were becoming more frequent. However, by that time the state-led land reform plan had stalled. The government's policy to alleviate rural poverty could be interpreted as a new sectorial intermediation of interests for the poor peasantry.

Despite being encumbered by the various problems discussed above, Mexico's social security system continued to expand right up to the outbreak of the debt crisis in 1982. The growth of the welfare state continued during the 1970s despite the country's steadily worsening financial condition (see Figure 1), and this was possible because of the expanding social security system, rising wages to cope with inflation,<sup>6</sup> as well as the expansionist development policy pursued by the state. This growing welfare state embodied the populism of the governments at the time, but it relied heavily on external borrowing, and clearly it could not be sustained financially.

<sup>5</sup> This was clearly evident in the allocation of investment by the Program of Public Investment for Rural Development (PIDER) for the purpose of alleviating rural poverty. Between 1973 and 1983, about 60–70 per cent of the total investment by PIDER went to supporting agricultural production; only about 10–12 per cent was used for rural clinics, installing drinking water, and other basic infrastructure (Cernea 1983, pp. 101–4).

<sup>6</sup> The Luis Echeverría government made income redistribution one of its important policy goals, and carried out wage increases to cope with inflation. The following José López Portillo government inherited a serious economic crisis from the Echeverría regime, and early in its term, the new government undertook financial retrenchment which included a policy of wage restraints. This was strongly opposed by the unions and was eased following the onset of the oil boom.

Fig. 1. State Revenues, Expenditures, and Social Expenditures (% of GDP), 1970–2001



Sources: State revenues/expenditures to GDP: for 1970–88, Bazdresch and Levy (1991, p. 234); for 1989, calculated by the author from INEGI (1993, pp. 214, 450); for 1990–2001, Presidencia de la República (2002). Social expenditures to GDP: for 1970–89, Instituto Nacional de Solidaridad (1996, p. 45); for 1990–2001, calculated by the author from Presidencia de la República (2002).

Notes: 1. The ratio of state revenues/expenditures to GDP is shown on the left vertical axis; the ratio of social expenditures to GDP is shown on the right vertical axis.

2. Social expenditures are the expenditures by the federal government on social insurance, labor, health, education, food assistance, social assistance, and urban/regional development.

### III. NEOLIBERAL REFORM OF THE SOCIAL SECURITY SYSTEM IN THE 1990s

The debt crisis of 1982 became a watershed for Mexico's mode of economic development, largely because the IMF and the World Bank were demanding that debtor countries introduce restructuring policies that shifted them away from their long-standing mixed economy systems based on state intervention and import substituting industrialization and move them toward a neoliberal economic system based on the principle of market competition. Pressed by the urgent need to reschedule the payments on Mexico's huge mass of accumulated debts, the Miguel de la Madrid government (1983–88) had no other choice than to accept restructuring of the economy which commenced soon after the debt crisis broke out. The government undertook stringent financial retrenchment, and during de la Madrid's term in office, Mexico abandoned its long-held policy of state-interventionist economic development. The next two governments, that of Salinas then Zedillo, accelerated liberalization of the economy which included laying out a reform of the social security system. This section will focus on the reform of the IMSS pension system and the poverty alleviation policies carried out by these two governments during the 1990s.

#### A. *IMSS Pension Reform*

As in other Latin American countries during the 1980s, the financial condition of Mexico's pension system continued to deteriorate due to such factors as economic crises, high inflation, growth of the informal economy, the increased nonpayment of insurance premiums, and the aging of the working population as a result of rapid change in the country's demographic composition. Late in 1990 a team of experts made up of officials from the Bank of Mexico and the Secretariat for Finance and Public Credit (SHCP) drafted a reform plan that applied the Chili model which the World Bank was advocating for Mexico. This would gradually convert the IMSS pension scheme into a mandatory savings scheme (System of Retirement Savings, SAR) to be privately managed and financed by employers' contributions. The new system would be run by private financial companies which was intended to increase domestic savings. The plan was accepted by the employers' association (Social Union of Mexican Employers, USEM) on the condition that contributions would not be increased, but it was opposed by the IMSS administrators. The CTM also partially opposed it because the plan did not include union representation in the SAR management (Murillo 2001, pp. 102–3; Mesa-Lago and Müller 2002, pp. 697–99). After a political compromise between a tripartite of government, employer, and labor representatives, the plan was revised (Mesa-Lago and Müller 2002, pp. 697–99). Under the legislation approved in February 1992, employers would

pay an additional pension premium (equal to 2 per cent of a worker's base wage)<sup>7</sup> which would go into the SAR funds kept at the Bank of Mexico and accumulated as an individual capitalization "retirement savings" separate from the existing IMSS pension account (Mesa-Lago and Müller 2002, pp. 697–99).<sup>8</sup> But there were no further developments, and pension system reform remained stalled for the remainder of the Salinas presidency.

In December 1995, a year after the Zedillo government took office, the Social Insurance Law was amended, and from July 1997, the IMSS pension program shifted from the existing pay-as-you-go system to a private capitalization system. Behind this rapid pace of pension reform during Zedillo's term was the outbreak of a second financial crisis (in December 1994) which further worsened the financial state of the pension system. From 1991 insurance rates had gradually risen for old age, survivors, and disability pensions, but an audit by the IMSS showed that were the system left unchanged and the present level of benefits maintained, the government would have to raise the rate of insurance premium payments to 23.3 per cent of a worker's base wage by 2020. Such a raise in payments, however, would increase the burden on employers which would adversely affect their competitiveness. It would also lead to more nonaffiliation in the existing pension system, more underreporting of wages, and more nonpayment of social insurance premiums. Relying on the expediency of using public funds to cover the pension system deficit would increase the burden on government finances which in turn would put a heavier burden on the macroeconomy. With the pension system in such dire straits, the Zedillo government concluded that over the mid to long term it would be impossible to sustain the pay-as-you-go system, and there was no other choice than to move to a private capitalization pension system (Solís Soberón and Villagómez 1999, pp. 125–32; Tani 2001, pp. 192–93). But there was another factor behind the shift to a pension system based on private capitalization. One of the causes for Mexico's financial crisis in late 1994 was the shortage of long-term capital in domestic capital markets, and a top priority of the Zedillo government was to develop Mexican capital markets by expanding domestic savings. The move to the new pension system coincided with this government macroeconomic objective (Poder Ejecutivo Federal 1995, pp. 139–44).

An examination of the political developments propelling this whirlwind revision of the Social Insurance Law will be left to the next section. The remainder of this section will look at the essential changes that reform brought to the IMSS pension system. The reforms first subdivided the operations of the social insurance system into five sections: (1) occupational accident protection insurance, (2) health insur-

<sup>7</sup> Employers accepted an increase in contributions in exchange for a lower wage increase (Mesa-Lago and Müller 2002, p. 698).

<sup>8</sup> In March 1992, a SAR for federal government employees was also established (Corta 2002, p. 5).

ance, (3) disability and survivors pensions, (4) retirement/old-age pensions, and (5) child daycare. This clarified premium payments by separating them into the financial accounts of each section. Within the sections for retirement/old-age, and disability and survivors pensions, operations were separated into those for the existing pay-as-you-go disability and survivors pensions and those for the retirement/old-age pensions which was based entirely on the private capitalization system. In this way the latter pension operations were converted from the pay-as-you-go system to a totally individual capitalization and defined contribution pension system. A worker insured by the IMSS chose one from among thirteen pension fund administrators known as *afores*, companies administrating pension accounts, with whom the worker opened a private capitalization pension account. The funds deposited in this account were managed by a pension fund investment specialist called a *siefore*, a company specializing in the investment of funds deposited with the *afores*. In this way the IMSS old-age pension accounts were reorganized into individual investment-type pensions connected to the domestic financial markets which in effect introduced the market principle into the social security system. The reforms left intact the pension system for public officials and other non-IMSS pension programs. But with IMSS covering 80 per cent of all workers participating in pension programs, the shift of the system over to a private capitalization pension system was a drastic reform of Mexico's pension system.

It can be seen from the foregoing discussion that social insurance reform was carried out as part of financial strategy and the need to reform state finances. It was not meant to improve the quality of social security services or promote universalization of the system. For example, after the 1982 economic crisis, the health insurance operations of the IMSS social insurance system fell into chronic deficit because of the decline in income from premium payments due to the continual fall in workers' wages. This led to a fall in the quality of the health services covered by social insurance. Surplus funds from the pension operations were used to ease the chronic shortfall in the health insurance operations, but the 1995 revision of the Social Insurance Law shut off the path for shifting funds from the pension surplus over to the health insurance section which caused health services to deteriorate further (Trejo and Jones 1998, pp. 83–84; Laurell 2001, p. 91).<sup>9</sup>

Reform of the social insurance system also included setting up a new family health insurance program as part of the health insurance system. This was open on a voluntary affiliation basis to workers in the urban informal sector and the self-

<sup>9</sup> A revision of the Social Insurance Law in 1992 had already prohibited the use of surplus pension funds to make up for the shortfall in the health insurance account. But the subdivision of the social insurance system into five sections effected by the 1995 revision also subdivided the sources of funds, and each section had to become self-profit making. This made the relationship between the income from premium payments and the outgo for the provision of each section more transparent and strict.

employed as well as to their families. These were people who previously had been left out of the IMSS social insurance system. Despite this expansion of eligibility, however, results of the 2000 census showed that 57.8 per cent<sup>10</sup> of the total population was still not making use of social health insurance services (INEGI 2001, p. 653), indicating that the expansion of this new voluntary insurance had not progressed as well as the government had hoped. Factors for this included the high premium rate of 22.4 per cent of the official minimum wage set for all those voluntarily insured, and the passive attitude of the IMSS in promoting participation in the new health program (Dávila and Guijarro 2000, p. 37).<sup>11</sup>

The IMSS social insurance system, even after reforms, remained fundamentally a social insurance for employees of the formal sector, and expansion of the system's coverage was tied to economic growth and job creation. However, the coverage failed to expand because of growing employment instability, the expansion of the informal economy, and the stagnation of the manufacturing industry in recent years. The actual pension participation rate of Mexico's population over sixty years old (in 1997) was 23 per cent in urban areas and a mere 7 per cent in rural areas, far lower than Brazil's (in 1997) 62 per cent and 75 per cent respectively (ECLAC 2000, p. 136). Meanwhile, Mexico's total expenditures on health care per capita during 1999 were between U.S.\$180 and U.S.\$225, but the portion that went to health services for the poor was only U.S.\$19 to U.S.\$28 (Cercone and St. Antoine 2001, p. 414), indicating that a large discrepancy in health services still exists. This means that the long-standing problems of a dual structure and social stratification that have been part of the social security system since its formation remain unresolved. Also the percentage of the population as of 1998 that lived below the poverty line stood at 47 per cent (ECLAC 2000, p. 40), showing that poverty alleviation in Mexico with its huge population of poor continues to be an urgent task confronting the state.

#### B. *Transformation of Poverty Alleviation Policy in the 1990s*

The rising social costs and worsening poverty during the 1990s in countries that carried out economic restructuring compelled governments to reconsider the problems of poverty and brought renewed international recognition of the importance of poverty alleviation. In Mexico expenditures for poverty alleviation rose gradually in the 1990s, and during that decade of rapid economic restructuring, the Salinas

<sup>10</sup> The figure of around 57.8 per cent of the population that did not make use of social health insurance services is based on INEGI (2001, p. 653). But another figure often reported in Mexican statistical sources is a nonaffiliation rate of around 43 per cent. From the difference between the two figures, it can be inferred that a sizable number of companies and individuals are not making their insurance premium payments.

<sup>11</sup> From a January 18, 2002 interview with Maite Guijarro, researcher of health economics at the Centro de Investigación y Docencia Económica (CIDE), Mexico City.

and Zedillo regimes undertook large-scale poverty alleviation programs. These possessed the following characteristics.

Firstly, the programs were compensatory as well as supplementary in character to counter the changes taking place in the structure of the economy. The original objective of the PRONASOL, introduced during Salinas' presidency, was to cope with urban and rural poverty by providing direct support in order to improve living conditions in poor communities where poverty had been exacerbated by economic restructuring. Another poverty alleviation effort, the Program for Direct Assistance to Agriculture (PROCAMPO), was aimed specifically at the rural areas. With the accelerating liberalization of trade in agricultural products, producers of basic grains were expected to suffer severely, and PROCAMPO was introduced as a long-term fixed period program (1993–2008) to give direct income support to producers while facilitating the changeover to crops with greater market competitiveness.

The Zedillo government introduced the Education, Health, and Nutrition Program (PROGRESA) to help the extremely impoverished in rural areas. Running from 1997 to 2001,<sup>12</sup> the program invested in human capital by providing basic social services, the primary objective being to equip children from extremely impoverished rural households with a minimum of capabilities needed for entering into economically productive activities (Poder Ejecutivo Federal 1997, p. 20). In 1997 when the Zedillo government announced a new policy approach to poverty alleviation, it declared that the "equality of opportunity" though investment in human capital was to be the central element in combating poverty; the government's objective was not "equality of results" through income redistribution (Poder Ejecutivo Federal 1997, p. 20). With the state promoting free trade, this announcement meant that Mexico's long-standing policy of income redistribution by supporting the agricultural production of poor farmers was no longer regarded as the government's principal approach to poverty alleviation. Evidence of this change was reflected in the financial expenditures related to poverty alleviation in 2000; 48.8 per cent of these expenditures were for "investing in human capital for the poor," while another 35.5 per cent went to costs for "improving the physical and social infrastructure in poor areas." By comparison, only 16.2 per cent of expenditures went for "promoting income opportunities for the poor" (INEGI 2003, p. 614). About half of the operating costs of the latter policy went into expenditures for the Temporary Employment Program (PET) set up in response to the financial crisis of 1995 and which creates temporary jobs for the extremely impoverished rural working population to lessen the risk of having no source of income when rural jobs grew scarce during the agricultural slack season.

<sup>12</sup> In 2002 PROGRESA was renamed the Program of Human Development (OPORTUNIDADES) which still continues to function. The presently ruling Vicente Fox government has expanded its operations to include the urban poor.

Thus by moving to an economic model based on markets principles, Mexico carried out a major transformation in its approach to poverty alleviation. Central to this was investing in human capital to promote participation of the poor in market competition and constructing a safety net for those left behind by the free market and market principles.

A second characteristic of poverty alleviation in the 1990s was the application of a new financial discipline and the targeting of poverty programs. Unlike poverty policy during the decades of import substituting industrialization based on fiscal expansionism, poverty alleviation policy in the 1990s was carried out in conjunction with economic restructuring and agricultural trade liberalization that gradually did away with agricultural protectionist policy. During this process the Salinas and Zedillo governments both cut back greatly on state subsidies supporting the producer and consumer prices of basic foods and turned instead to a policy of targeting poverty alleviation which used the funds made available by the cutbacks to give selected assistance to the poor (Consejo Consultivo del Programa Nacional de Solidaridad 1994, pp. 15–22; Poder Ejecutivo Federal 1997, p. 54).

This targeting was made more rigorous during Zedillo's presidency. In 1997 his government brought out new guidelines that would exclude the moderately poor (those not categorized as among the extremely impoverished) from eligibility in the poverty alleviation program and regard them as part of the populace subject to general social services, while PROGRESA would target only the extremely impoverished in rural areas (Poder Ejecutivo Federal 1997, pp. 15–19, 57–65). The new guidelines were the work of technocrats with neoliberal ideas about social development that encouraged free competition based on market principles and targeted for public support only those people who could not break free from absolute poverty through their own efforts.<sup>13</sup> However, as previously pointed out, extension of the social security system, even to the urban poor, has not made progress, and implementing the new guidelines could dilute the level of services provided to the huge general population in Mexico that is not extremely impoverished.

A third characteristic was the introduction of a formula for technical resource allocation to poverty alleviation policy which was begun during Zedillo's term in office. This increased the objectivity and transparency of poverty alleviation policy. The long-ruling PRI used the poverty policy budget as a political resource for recovering its legitimacy, and the Salinas government's PRONASOL became a breeding ground for political clientelism linked directly to strong presidential authority (Dresser 1994) which was criticized not only within Mexico but also by international organizations. After infighting within the government at the start of the Zedillo

<sup>13</sup> The technocrat who took the initiative in drawing up new guidelines for poverty alleviation policy in the Zedillo government was Santiago Levy, Sub-Secretary to the SHCP during that period. His basic ideas about social development and poverty alleviation policy can be found in Levy (1994).

regime, technocrats in the SHCP, which held the real reins of power over administering social development (Valencia Lomelí and Aguirre Riveles 1998, pp. 82–85; Torres 1996, pp. 70–73), began the decentralization of poverty alleviation policy<sup>14</sup> and introduced a technical formula for resource allocation to the program of targeted poverty alleviation through which they likely sought to rectify the problems that had been criticized in the previous regime. But decentralizing the allocation of resources failed to overcome the chronic insufficiency of funding sources that plagued poor cities, towns, and villages. Meanwhile the strict means test for categorizing household finances, which was an important part of the government's new PROGRESA, divided households in poor communities into those eligible for assistance and those not eligible. This created a new social gap based on public assistance which in turn caused new problems.<sup>15</sup>

As PROGRESA was starting up 1997, the IMSS pension reforms were carried out which shifted pensions from the pay-as-you-go system to the private capitalization system and thereby individualized pension accounts. This brought an end to social security as a system based on the principle of the economically active population supporting those living on pensions. At the same time, by clarifying the relationship between contributions and benefits, the surplus in the pension account could no longer be diverted for augmenting the infrastructure and services in other sectors of the social insurance system. It was no coincidence that pension accounts were put on a private, individual basis at the same time that poverty alleviation policy came to be based on more selective and individualized principles. Underlying both were ideas about the liberal welfare state that conformed to neoliberal economic development strategy. These reforms brought basic social services to the extremely impoverished, and there were many aspects of improvement in the system such as increased transparency and cost-efficiency. However, even if the potential productive capabilities and employability of extremely impoverished youths can be upgraded through this investment in human resources, with the accelerating pace of free trade, the future remains bleak for poor peasants and their traditional uncompetitive methods of farming. In urban areas the growing informal economy and increasing employment instability for workers means that a majority of Mexico's population will continue to be left out of the social insurance system. The next section will examine these issues more closely.

<sup>14</sup> From 1996 through 1997 the Zedillo government carried out the decentralization of health services and the building of basic infrastructure in impoverished areas. This was undertaken as part of decentralizing state finances that was promoted under the name of a "new federalism." Resources were allocated to areas on the basis of poverty indices and social indicators.

<sup>15</sup> Augustin Escobar, a researcher at the Research and Superior Studies Center in Social Anthropology (CIESAS), who led a project to qualitatively evaluate PROGRESA in six communities located in the states of Guanajuato, San Luis Potosí, and Michoacán, pointed out the existing social problems caused by the disparity of social services between beneficiaries and non-beneficiaries in the same poor communities (In an interview with the author, May 3, 1998, at CIESAS, Guadalajara).

#### IV. ECONOMIC AND POLITICAL CONDITIONS AFFECTING SOCIAL SECURITY REFORM

##### A. *Economic Conditions*

The biggest economic factor for social security reform in the 1990s was the 1982 debt crisis and the ensuing rapid shift in Mexico's economic development model. In an effort to rejuvenate the slumping economy after the 1982 debt crisis, the Salinas government aggressively promoted trade liberalization and the attracting of foreign direct investment. The switch to this new economic strategy brought the economy back to overall growth in the early 1990s, but in December 1994, soon after the start of the Zedillo government, Mexico was hit once again by a financial crisis. The severe recession that followed two economic crises along with the privatization of public corporations and the accelerated promotion of economic liberalization which wrought greater labor market flexibility brought on the bankruptcy of many small and medium-sized companies and a rise in the number of unemployed and underemployed. However, despite the difficult economic conditions, the ratio of unemployment remained low during the time.<sup>16</sup> One reason for this was that workers who had lost jobs in the formal sector were absorbed into the informal sector with its many tertiary industries. According to the estimates of the ILO, the ratio of employment in Mexico's urban informal sector increased rapidly from 24.7 per cent in 1980 to 39.9 per cent in 1985 and 48.0 per cent in 1990 (Hernández Laos 2000, p. 865).

During the period of developmentalist state policies and import substituting industrialization, workers in the urban formal sector enjoyed the preferential benefits of stable employment with its concomitant social security services, as well as wage raises that compensated for inflation and the availability of daily necessities at low subsidized prices. But with the implementation (from 1983) of policies to restrain official minimum wage hikes with the aim of curbing inflation and large-scale reductions in subsidies as part of economic restructuring, these preferential benefits were lost.

In the agricultural sector, the economic restructuring of the 1980s reduced the subsidies being provided to food production. As trade liberalization accelerated in the 1990s, tariffs on imported agricultural products were reduced in stages. Kelly

<sup>16</sup> The ratio of unemployment in Mexico during the 1990s was: 1990/2.6%, 1991/2.6%, 1993/3.4%, 1994/3.7%, 1995/6.2%, 1996/5.5%, 1997/3.7%, 1998/3.2%, 1999/2.5%, and 2000/2.2% (Labor Ministry homepage and INEGI homepage). Reasons for this low unemployment rate were such factors as the definition of unemployment used in Mexico's employment statistics: if a person has worked at least one hour during the survey month and expects to return to work within a month, the person is regarded as employed; also because many workers are not covered by unemployment insurance, they quickly move into the informal sector in order to find work.

(2001) pointed out that the large-scale reductions in state subsidies to support the producer price of agricultural products, the consequent fall in these prices and rapid trade liberalization caused a substantial fall in the real income of farmers in the 1990s and brought further rural impoverishment.

The previous examination of the 1990s reform of social security shows that reform was undertaken in response to the rapid economic and social restructuring that followed the introduction of the market economy model and was an effort by the government to cope with rising social costs. As shown in Table I, federal expenditures on the social insurance system and poverty alleviation continued to expand, with the exception of some years which followed the financial crisis at the end of 1994. Regarding the IMSS, possible factors for the rising level of state outlays for this social insurance system included the increases in premium rates and in the minimum level of pension payments that took place during the first half of the 1990s,<sup>17</sup> payments on the debt of the pay-as-you-go pension system which the gov-

TABLE I  
FEDERAL GOVERNMENT EXPENDITURES FOR PUBLIC SOCIAL INSURANCE AND  
POVERTY ALLEVIATION PROGRAMS, 1990–2000

(At 1995 costs/in million pesos)

Year	Whole Social Insurance System		IMSS		ISSSTE		Poverty Alleviation Programs	
	Cost	% of GDP	Cost	% of GDP	Cost	% of GDP	Cost	% of GDP
1990	12,862.2	0.85	8,205.8	0.54	2,079.8	0.14	12,000.2	0.79
1991	15,889.6	1.00	9,998.7	0.63	3,285.9	0.21	14,862.6	0.93
1992	18,403.5	1.13	11,234.5	0.69	4,186.8	0.26	17,948.0	1.10
1993	21,202.5	1.27	12,935.6	0.78	4,458.2	0.27	18,409.4	1.10
1994	24,053.7	1.36	14,577.9	0.83	5,174.0	0.29	19,329.6	1.10
1995	23,595.9	1.41	13,959.2	0.83	5,065.5	0.30	17,933.0	1.07
1996	23,382.0	1.37	13,572.5	0.79	4,849.6	0.28	17,848.7	1.04
1997	26,355.0	1.49	14,502.6	0.82	5,374.2	0.30	17,190.8	0.97
1998	34,183.2	1.83	19,095.6	1.02	5,945.3	0.32	18,457.6	0.99
1999	37,006.9	1.80	20,016.3	0.97	6,516.6	0.32	19,706.1	0.96
2000	40,143.8	1.94	21,624.1	1.04	7,199.7	0.35	21,479.3	1.04

Sources: Presidencia de la República (2001, 2002). Calculation of the 1995 cost was by the author. The 1995 cost was deflated by the IMF (2002, p. 728) consumer price index.

- Notes: 1. Whole social insurance system includes federal expenditures on the social insurance system in addition to those on the IMSS and ISSSTE.  
2. Federal expenditures on the IMSS are only those covering the state's contributions as stipulated by the Social Insurance Law.  
3. Poverty alleviation programs include federal expenditures on PRONASOL, PROGRESA, IMSS-SOLIDARIDAD, the food assistance program, infrastructure building in impoverished areas, and employment/income support programs for the poor.

<sup>17</sup> In cases where the accumulated pension savings of insured workers who had made premium payments for 1,250 weeks or longer did not reach the level for the minimum pension, the federal

ernment incurred as transition costs in the shift to the private capitalization pension system, and the costs of setting up the new voluntary participation health program. The increase in the minimum pension payment and the establishment of voluntary participation health services can be regarded as measures to cope with the destabilization of employment, the fall in real worker wages, the growth of the informal sector, and other rising social costs brought on by economic liberalization. For the same reason expenditures rose during the 1990s on targeted programs aimed at alleviating poverty, but as can be seen from Table I, the rate of increase stayed below that of expenditures on the social insurance system, indicating that even with the reform of social security in the 1990s, the Mexican government continued to give priority to maintaining the social insurance system. Moreover, although IMSS pension reform was carried out as part of restructuring the social security system in order to rebuild state finances, even after the reforms, state expenditures on social security services continued to expand, indicating that these reforms were not a short- to midterm financial retrenchment, rather they were aimed at the long-term sustainability of financing the social insurance system.

Looking at these reforms within the context of the rapid restructuring of federal expenditures after the 1982 debt crisis, during the 1980s federal government finances remained in the red due to Mexico's debt excess and to economic stagnation; but during the 1990s both situations improved, and as the state's finances grew sounder, expenditures on social services began to expand again (see Figure 1). Expenditures on these services as a ratio of total federal expenditures were: 1975/27.8%, 1980/31.0%, 1985/31.1%, 1990/38.2%, 1995/53.5%, and 2000/60.7%, showing that they expanded rapidly in the 1990s.<sup>18</sup> This growth indicates that the process of restructuring greatly reduced economic intervention by the state, scaled down state expenditures, and part of the funds made available by this downsizing of the state's role were used to increase expenditures on social services. With the social security reforms of the 1990s and the rapid restructuring of federal expenditures, the proportion of resources allocated to social expenditures rose, making it possible to gradually expand these expenditures. However, in spite of this recent trend, Mexico's social expenditures still remain low in comparison with other Latin American countries which have achieved a similar level of economic development.<sup>19</sup> The main factors for this are the dual structure of Mexico's social security system and the limited amount of social services provided to the poor.

---

government made up the shortfall. During the Salinas government, the level of the minimum pension was raised in stages from 40 per cent up to 100 per cent of the official minimum wage.

<sup>18</sup> Calculated by the author based on Instituto Nacional de Solidaridad (1996, p. 44) and Presidencia de la República (2002).

<sup>19</sup> As a ratio of GDP, public expenditures on social services during the 1998–99 period were 9.1% for Mexico compared with 22.0% for Venezuela, 21.0% for Brazil, 20.5% for Argentina, 16.8% for Costa Rica, and 16.0% for Chile (ECLAC 2001, p. 24).

### B. *Political Conditions*

The 1988 presidential election was a cliffhanger with the PRI candidate, Carlos Salinas, winning by the unprecedentedly narrow vote margin of 50.35 per cent, as suspicions of improprieties raised questions about his victory over the opposition candidate, Cuauhtémoc Cárdenas, who had broken away from the PRI and was supported by the small opposition parties. The narrowness of Salinas' victory was clear evidence that the vote-gathering ability of the PRI had dropped substantially. Economic restructuring was eroding the PRI's vote-gathering base founded on state corporatism; at the same time, Mexico's growing democratization had enabled the opposition parties to increase their influence. The Salinas government made strenuous efforts to regain its legitimacy and to broaden its popular support base. This was one of the reasons why a modernist Salinas resorted to the PRI's traditional populist method of carrying out an aggressive advertising campaign that impressed upon the people the idea of realizing a new social justice through PRONASOL and making politicized allocations of resources through this program. As many researchers have pointed out, this effort to mobilize the masses was clearly the Salinas government's attempt to reverse the PRI's slipping political legitimacy (Dresser 1994; Pardo López 1996; and others).

Aside from PRONASOL and seeking to make Mexico's lower classes a new base of support for the PRI, the Salinas government also intended to undertake a partial reexamination of the long-standing corporatist relations with the officialist labor unions. Part of this was the government's support for the formation (in 1990) of the Federation of Goods and Services Unions (FESEBES), a national organization of four unions that staunchly supported the government's modernization policy, two of which were the Telephone Workers' Union of Mexico (STRM) and the Electricity Workers' Union of Mexico (SME). Behind this government support was the clear intention of creating a new counterweight to the CTM inside the National Labor Congress (CT), the largest federation of officialist labor unions (Samstad 2002, p. 11).<sup>20</sup> The Salinas government suppressed unions, even those affiliated with the CTM, that opposed its modernization policy; but for unions like the STRM that supported the government's privatization plans, the government worked out a policy of preferential treatment that included generous compensation to workers after privatization had been implemented. This intermediation of interests built between FESEBES's unions and the Salinas government was different from that based on the corporatist relationship built between traditional officialist labor and the state, in that the former was based on informal, personalistic ties between the leaders of the unions and the officeholders of the Salinas government (Samstad 2002, p. 5).

Bowing to government pressure, the CTM accepted the new policy including the

<sup>20</sup> The FESEBES retained their own membership in the CT.

decisions to liberalize trade and privatize public enterprises. It was also compelled to make big compromises on the reform of social security. For example, in 1992 when the government's bill creating SAR was passed by the federal congress, the union-controlled management of the individual accounts in INFONAVIT was replaced, and the management and administration of these funds was transferred to SAR. This also ended INFONAVIT's direct involvement in housing construction. The CTM had strongly opposed this plan because it would lose the vested interests it had acquired in using INFONAVIT to mediate in housing and financing for union members. However some member unions of the CT, including those of FESEBES, supported the government's plan and opposed the CTM, and the Salinas government turned a deaf ear to the CTM's protests. Ultimately the latter was compelled to accept the government's draft (Murillo 2001, pp. 95–106).

With the coming of the Zedillo presidency the breakup of the CT grew all the more imminent. Under the slogan of "Democratize the CT and down with corporatism," FESEBES together with the National Union of Education Workers (SNTE), the National Union of Social Security Workers (SNTSS) and other unions formed the Forum on Unionism Facing the Nation (FORO) in February 1995 (Samstad 2002, p. 12). When the bill revising the IMSS Social Insurance Law was announced, only one-month prior to the national assembly's deliberation on the revisions, the newly organized FORO came out strongly against the Zedillo government's drafted revisions of the law, and it called for a united movement of pensions in a strike to protest the government's reforms and its economic policy (Correa 1995b, p. 30). Although the FESEBES affiliated unions had supported the modernization policy of the previous Salinas regime, they now had made a complete about-face and stood in opposition to the policy drafted by the Zedillo government. This caused a split within the CT between the unions centered on the CTM that supported the government's reforms and those centering on the unions that belonged to FORO which opposed the reforms. Leading the opposition side was the chairman of the STRM, Hernández Juárez. In an interview with the weekly magazine, *Proceso*, he strongly denounced the chairman of the CT, Rafael Rivapalacio, who as representative of labor had, along with the representative of the employers' association (USEM), supported the government's policy while ignoring the views of the unions in the CT that opposed the reforms. Juárez called for the removal of the CTM leadership who he said had become the undemocratic ringleaders of the CT (Correa 1995a, pp. 20–24).

In the end, FORO, the Party of the Democratic Revolution (PRD) which strongly opposed the PRI's reform plan, and other opposing social groups could not unite in a strong force to stop the government's decision, and in December 1995 the bill revising the IMSS law was passed. The Zedillo government had skillfully employed the still existing corporatist relationships of the PRI. By negotiating with the CT and CTM which supported the IMSS pension reform bill, the government success-

fully outmaneuvered the forces of the opposition labor unions. This was possible because at that time, 1995, the CT had not yet completely split and was still functioning as the representative organization of the officialist unions.<sup>21</sup>

Another factor accounting for the speedy passage of IMSS reform was that in 1995 when the government presented its reform bill, the legislature was still controlled by the PRI. In the 1997 midterm elections the party lost its majority in the lower house, and in the 2000 presidential election the National Action Party (PAN) took over control of the government. But in 1995 the PRI still held a one-party majority in the lower and upper houses, and the passage of the social security law was literally a matter of the PRI members bulldozing the bill through the federal congress (*El Financiero*, December 13, 1995).

## V. FINAL REMARKS

IMSS pension reform in the 1990s shifted Mexico's pension system from a pay-as-you-go to a private capitalization system. At the same time, neoliberal reform of the social security system was carried out with greater rigor on the targeting of poverty alleviation policy which was linked to the step-by-step reduction of subsidies and other forms of direct state intervention in the economy. The reforms were implemented through the initiative of technocrats in the SHCP and the Bank of Mexico with the primary aim of increasing the conformity and the supplementary character of the social security system to an economic model based on market principles. The reform of the IMSS pension system carried out in 1997 was a drastic one that reorganized the pension accounts of 80 per cent of all Mexican workers participating in pension programs into individual investment-type pension accounts.

The political development behind these market-friendly reforms of social security was the greater political monopoly on policy making that the state came to have during the period of the reforms. One of the main factors which made possible the state's rapid and unilateral policy making was that the framework of the state corporatism built up during the long period of PRI one-party rule remained essentially intact and the CT's authority to represent labor in negotiations with the state continued to function until the mid-1990s. However, a steady breakdown of the CT during the 1990s weakened the political clout of the officialist labor unions. By taking advantage of these political circumstances, the state was able to increase its monopolistic power vis-à-vis the position of labor in the negotiations on social security reforms, and it was able to outmaneuver the veto power of the dissident unions among the officialist labor unions.

<sup>21</sup> Thereafter it proved impossible to heal the split within the CT over IMSS pension reform, and in November 1997 the STRM, SNTSS, and other unions withdrew from the CT to set up the National Union of Workers (UNT).

Using Esping-Andersen's definition of a welfare state regime to define Mexico during the formation of its social security system, it was a limited conservative regime that linked social security with employment in the formal sector while social assistance to the poor followed as a residual component. Mexico's social security system gradually developed from the 1950s through the 1970s, but the peasantry and the urban poor were excluded from this development, and the social assistance that these groups received was strongly residual in character. One reason for the exclusiveness and dual structure of the country's social security system was economic: to keep a stable, secure labor force that was needed to maintain economic development. Another reason was the high priority that the developmentalist state put on expanding social security to workers in the urban formal sector as a result of the political strategy employed by the Cárdenas government which sought to co-opt and gain the support of organized labor by drawing it into the state corporatist framework. Although encumbered by numerous problems, the welfare state in Mexico continued to expand until the debt crisis in 1982. This expansion, however, particularly during the 1970s, was interlinked with developmentalist state intervention that was carried out by the populist regimes of the time. But the steadily worsening deficit in state finances meant that the expansion could not be sustained financially.

Social security reform during the 1990s along with economic restructuring brought a soundness back to state finances, but the reverse side of this was the retrogression of Mexico's welfare state which led to a deterioration in urban employment conditions and an increase in rural poverty. The reforms provided the extremely impoverished in rural areas with access to basic social services; they also increased the transparency and cost-efficiency of the social security system. However, the reforms were based on the concept of a liberal welfare state, and from the reform-planning stage an economic and social disparity in social services was taken as a premise along with the individualization and rigorous categorization of the social security system. As a result, Mexico's welfare state regime shifted from being a limited conservative one to a hybrid-type liberal welfare regime.

As the reforms were implemented, the state's expenditures on the social security system gradually rose, but these remained low when compared with other Latin American countries. One of the main factors of this problem was the social security system's dual structure and social stratification, which continues to be an unresolved problem plaguing the system. With the market playing an ever greater role in the economy, but the country still retaining its fragmented, stratified social security system, Mexico will have to undertake more fundamental social security reforms; otherwise it will continue to face difficulties in achieving an expanded welfare state in the true sense of that term.

## REFERENCES

- Bazdresch, Carlos, and Santiago Levy. 1991. "Populism and Economic Policy in Mexico, 1970–1982." In *The Macroeconomics of Populism in Latin America*, ed. Rudiger Dornbusch and Sebastian Edwards. Chicago and London: University of Chicago Press.
- Brachet-Márquez, Viviane. 1994. *The Dynamics of Domination: State, Class, and Social Reform in Mexico, 1910–1990*. Pittsburgh, Pa.: University of Pittsburgh Press.
- Cercone, James, and Jean-Jacques de St. Antoine. 2001. "Reform of the Mexican Healthcare System." In *Mexico: A Comprehensive Development Agenda for the New Era*, eds. Marcelo M. Giugale, Olivier Lafourcade, and Vinh H. Nguyen. Washington, D.C.: World Bank.
- Cernea, Michael M. 1983. "A Social Methodology for Community Participation in Local Investments: The Experience of Mexico's PIDER Program." World Bank Staff Working Papers no. 598. Washington, D.C.: World Bank.
- Consejo Consultivo del Programa Nacional de Solidaridad. 1994. *El Programa Nacional de Solidaridad*. México, D.F.: Fondo de Cultura Económica.
- Cornelius, Wayne A; Ann L. Craig; and Jonathan Fox, eds. 1994. *Transforming State-Society Relations in Mexico: The National Solidarity Strategy*. San Diego: Center for U.S.-Mexican Studies, University of California.
- Correa, Guillermo. 1995a. "Las reformas a la Ley del IMSS profundizan la división del movimiento obrero oficial." *Proceso* 995: 20–24.
- . 1995b. "Marchas, mítines, plantones, gritos y paros contra la austeridad y las privatizaciones." *Proceso* 994: 30–35.
- Corta, Vicente. 2002. "El sistema de pensiones Mexicano a cuatro años de la reforma de la seguridad social." *Mercado de valores* 62, no. 5: 3–17.
- Dávila, Enrique, and Maite Guijarro. 2000. *Evolución y reforma del sistema de salud en México*. Santiago: ECLAC.
- Dresser, Denise. 1994. "Salinastroika without Prinsnost: Institutions, Coalition-Building, and Economic Reform in Mexico." Ph.D. diss., Princeton University.
- Economic Commission for Latin America and the Caribbean (ECLAC). 2000. *Social Panorama of Latin America, 1999–2000*. Santiago: ECLAC.
- . 2001. *Panorama social de América Latina, 2000–2001*. Santiago: ECLAC.
- Gordon, Sara. 1997. "Poverty and Social Exclusion in Mexico." ILO Discussion Papers no. DP/93/1997. Geneva: International Institute for Labour Studies.
- Guillén Romo, Héctor. 1984. *Orígenes de la crisis en México: Inflación y endeudamiento externo (1940–1982)*. México, D.F.: Ediciones Era.
- Hernández Laos, Enrique. 2000. "Crecimiento económico, distribución del ingreso y pobreza en México." *Comercio exterior* 50, no. 10: 863–73.
- Instituto Nacional de Estadística Geografía e Informática (INEGI). 1993. *Anuario estadístico de los Estados Unidos Mexicanos edición 1992*. Aguascalientes: INEGI.
- . 1999. *Estadísticas históricas de México, tomo I, 4ta ed.* Aguascalientes: INEGI.
- . 2001. *Tabulados básicos, Estados Unidos Mexicanos: XII Censo General de Población y Vivienda 2000*. Aguascalientes: INEGI.
- . 2003. *Anuario estadístico de los Estados Unidos Mexicanos, 2002*. Aguascalientes: INEGI.
- Instituto Nacional de Solidaridad. 1996. *Gráficas de la política social*. México, D.F.: Instituto Nacional de Solidaridad.

- International Monetary Fund (IMF). 2002. *International Financial Statistics Yearbook 2002*. Washington, D.C.: IMF.
- Kelly, Thomas J. 2001. "Neoliberal Reforms and Rural Poverty." *Latin American Perspectives* 28, no. 3: 84–103.
- Laurell, Asa Cristina. 2001. *Mexicanos en defensa de la salud y la seguridad social: Cómo garantizar y ampliar tus conquistas históricas*. México, D.F.: Editorial Planeta Mexicana.
- Levy, Santiago. 1994. "La pobreza en México." In *La pobreza en México: Causas y políticas para combatirla*, ed. Félix Vélez. México, D.F.: Instituto Tecnológico Autónomo de México/Fondo de Cultura Económica.
- Mesa-Lago, Carmelo. 1978. *Social Security in Latin America: Pressure Groups, Stratification, and Inequity*. Pittsburgh, Pa.: University of Pittsburgh Press.
- Mesa-Lago, Carmelo, and Katharina Müller. 2002. "The Politics of Pension Reform in Latin America." *Journal of Latin American Studies* 34, part 3: 687–715.
- Murai, Tomoko. 2001. "Las políticas de desarrollo social y el problema de la pobreza: El caso de México (1973–1999)." Master's thesis, Universidad de Guadalajara.
- Murillo, María Victoria. 2001. *Labor Unions, Partisan Coalitions, and Market Reforms in Latin America*. Cambridge: Cambridge University Press.
- Pardo López, María del Carmen. 1996. "La política social como dádiva del presidente." *Foro internacional* 36, no. 1–2: 295–320.
- Poder Ejecutivo Federal. 1995. *Poder Ejecutivo Federal: Plan nacional de desarrollo 1995–2000*. México, D.F.: Secretaría de Hacienda y Crédito Público.
- . 1997. *Programa para superar la pobreza 1995–2000*. México, D.F.: Secretaría de Desarrollo Social.
- Presidencia de la República. 2001. "El Primer informe de Gobierno del Presidente de los Estados Unidos Mexicanos, Lic. Vicente Fox Quezada." <http://nt.presidencia.gob.mx/Informes/2001Fox1/cfm/index.cfm> (accessed September 10, 2001).
- . 2002. "El Segundo informe de Gobierno del Presidente de los Estados Unidos Mexicanos, Lic. Vicente Fox Quezada." <http://nt.presidencia.gob.mx/Informes/2002Fox2/website/cfm/index.cfm> (accessed September 10, 2002).
- Samstad, James G. 2002. "Corporatism and Democratic Transition: State and Labor during the Salinas and Zedillo Administrations." *Latin American Politics and Society* 44, no. 4: 1–28.
- Sanderson, Susan R. Walsh. 1984. *Land Reform in Mexico: 1910–1980*. Orlando, Fla.: Academic Press.
- Solís Soberón, Fernando, and F. Alejandro Villagómez. 1999. "Las pensiones." In *La seguridad social en México*, comp. Fernando Solís Soberón and F. Alejandro Villagómez. México, D.F.: Comisión Nacional del Sistema de Ahorros para el Retiro/Centro de Investigación y Docencia Económicas/Fondo de Cultura Económica.
- Spalding, Rose J. 1978. "Social Security Policy Making: The Formation and Evolution of the Mexican Social Security Institute." Ph.D. diss., University of North Carolina.
- . 1981. "State Power and Its Limits: Corporatism in Mexico." *Comparative Political Studies* 14, no. 2: 139–61.
- Tani, Hiroyuki. 2001. "Mekishiko shakai hoken kōsha (IMSS) kaikaku: Nenkin seido wo chūshin ni" [Reform to the Mexican IMSS pension system]. In *Raten-Amerika fukushi kokka-ron josetsu* [The welfare state in Latin America], ed. Koichi Usami. Chiba: Institute of Developing Economies, Japan External Trade Organization.
- Torres, Gabriel. 1996. "La redefinición de la política social entre la política de Estado y la política desde la sociedad." In *¿Devaluación de la política social?* ed. Enrique Valencia Lomelí. Guadalajara: Red Observatorio Social.

- Trejo, Guillermo, and Claudio Jones. 1998. "Political Dilemmas of Welfare Reform: Poverty and Inequality in Mexico." In *Mexico under Zedillo*, eds. Susan Kaufman Purcell and Luis Rubio. Boulder, Colo.: Lynne Rienner Publishers.
- Valencia Lomelí, Enrique, and Rodolfo Aguirre Riveles. 1998. "Discursos, acciones y controversias de la política gubernamental frente a la pobreza." In *Los rostros de la pobreza: El debate, Tomo I*, coordinated by Rigoberto Gallardo and Joaquín Osorio. Guadalajara: Instituto Tecnológico y de Estudios Superiores de Occidente/Universidad Iberoamericana.
- Yokoyama, Isao. 1996. "Kyōchō seiji to kokka-nōmin kankei: Mekishiko ni okeru kōporatizumu no henyō bunseki" [Cooperative politics, the state and the peasantry: Analyzing the transformation of corporatism in Mexico]. *Iberoamerica kenkyū* 18, no. 2: 35–55.

APPENDIX TABLE  
 CHRONOLOGY OF MEXICO'S SOCIAL SECURITY SYSTEM

Years	Major Events
1917	Constitution of 1917 enacted; Article 123 makes reference to the rights of workers
1925	Establishment of a limited social insurance system for federal government employees
1926	Establishment of a limited social insurance system for armed forces personnel
1928	Establishment of a limited social insurance system for teachers
1935	Establishment of a social insurance system for oil workers
1936–38	Establishment of a social insurance system for railroad workers
1941	Establishment of a social insurance system for electric power workers
1943	Enactment of the Social Insurance Law
1944	Creation of the Mexican Institute of Social Security (IMSS)
1959	Creation of the Institute of Social Security and Services for State Workers (ISSSTE)
1972	Establishment of the Institute of the National Housing Fund for Workers (INFONAVIT) and the Housing Fund of the Institute of Social Security and Service for State Workers (FOVISSSTE)
1973	Revision of the Social Insurance Law; The revised law mandated the provision of social security services to urban the self-employed and to residents in rural areas
1973–83	Implementation of the Program of Public Investment for Rural Development (PIDER) for the purpose of alleviating rural poverty
1974	Start of the National Program for Social Solidarity aimed at expanding health services into rural areas
1977–82	Implementation of the General Coordinator of the National Plan for Depressed Zones and Marginalized Groups (COPLAMAR)
1980–82	Implementation of the Mexican Food System (SAM) for the purpose of increasing the production of basic foods
1989–94	Implementation of the National Solidarity Program (PRONASOL)
1992	Revision of the Social Insurance Law; Establishment of the Saving for Retirement System (SAR)
1995	Revision of the Social Insurance Law; The decision to reform the IMSS pension system
1995	Revision of the General Health Law; The decentralization of health services
1997	Implementation of IMSS pension system reforms
1997–2001	Implementation of the Education, Health, and Nutrition Program (PROGRESA)
2002–	PROGRESA renamed the Program of Human Development (OPORTUNIDADES)

Source: By the author based on Brachet-Márquez (1994).