

# Third time's the charm?

Analyzing the effects of welfare regimes over inequality in  
Social-Democratic and informal welfare regimes

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# Abstract

The effects of welfare regimes over inequality have been studied through several approaches, but perhaps the most notorious contributions in this field has been Korpi and Palme's "Paradox of Redistribution", which argues that the most equalizing welfare regimes are the ones that employ earnings-related, as opposed to flat-rate, benefits in the design of their welfare institutions. Scandinavian states have employed this strategy with considerable success. In comparison, most Latin American countries have applied social policies more similar to what Esping-Andersen called "conservative" and "liberal" and remain the most unequal region in the world. Through a comparative-normative analysis, this thesis argues that the unfortunate war against insecurity that is presently taking place in Mexico could represent an opportunity to trigger the reinforcing mechanism observed between encompassing welfare institutions and inter-class solidarity.

*Key words:* inequality, welfare regimes, paradox of redistribution, Mexico, Sweden.

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# 1 Introduction

## 1.1 Research questions and outline

Mainstream economic theory argues that, to maximize efficiency, a society with equity as a goal will be better off by allowing competitive markets to distribute income in order to obtain a larger pool of resources from which the poorest individuals can be compensated through direct transfers.

Based on that principle, in the last decades welfare regimes around the world have followed relatively homogeneous tendencies. Among others, this includes increased targeting of social policies to lower-income groups and the adoption of social insurance systems which award flat-rate benefits to provide the most needy sectors of society with a basic level of security. However, global inequality not only remains a problem, but appears to have been aggravated in several instances, many of which have been subjected to the effects of the trends described above. Still, given the inherent complexity of evaluating inequality and its sources, the actual outcomes of such policies remain contested.

The “Paradox of Redistribution” (PR) (Korpi, 1999) is a theory created as a response to those efficiency-concerned arguments. It seeks to uncover the theoretical failures of the corresponding universal social policy trends regarding its results on poverty and inequality. It argues that certain features of modern welfare regimes, more specifically, the targeting of benefits to the poor and attempting to create equality via equal public transfers to all, are actually counterproductive in the fight against poverty and inequality (Korpi, 1999). The theory was originally developed for a specific set of countries with fairly similar characteristics. However, its applicability under different circumstances has not been thoroughly explored, which calls for critical attention especially in those regions where inequality remains an aggravated problem. Therefore, the study’s main research questions will be:

- a) Do the findings of the paradox of redistribution hold in developing contexts where there are high levels of inequality? Assuming that we find enough evidence to prove so,
- b) What can those countries learn from the history of encompassing welfare regimes?

In contrast to most comparative studies of welfare regimes, this study uses a more constructivist approach to answer those questions. Its goal is to apply the equality-promoting principle contained in the PR theory to make a normative statement. Based on that theory’s inter-class coalition formation idea, it argues that the

current social and political situation of Mexico represents a key moment in the history of the country's welfare regime to learn from the encompassing principles that have historically characterized Scandinavian welfare states.

Although these principles have been adopted in different stages and degrees by several countries, to provide a better empirical base for comparison, this study uses the example of the Swedish welfare regime to illustrate the principles contained in the ideal type of the encompassing model. Since the focus of the study is the current opportunity provided by the Mexican case, priority is given to its analysis. The Swedish experience is only broadly analyzed with the objective of providing a contrast and example from which developing regimes can draw general conclusions. Such a comparison might result complicated in practice, due to the significant differences between the cases. But the study will show that there is great value in making this kind of comparisons, especially given certain similarities in structural conditions between contemporary Latin American countries and OECD member states during the so called Golden Age.

To analyze the effects of targeting vs. universalism and of flat-rate vs. earnings-related benefits over equality, the institutional design of each regime, as well as the principles it embodies, will be examined and contrasted to the changes in income inequality. To do this, a theoretical framework which is adequate to analyze both cases is required. This need will be addressed on the following chapter, which will make a general review of the existing literature on different types of welfare regimes, focusing on their potential effects over inequality.

The third chapter describes the research's design, which combines a comparative-empirical analysis based on the framework mentioned above, with a conjuncture analysis of the social and political situation in Mexico to make a normative statement. With that, it aims to be a contribution for the constructive state theory of the welfare state (Rothstein, 1998). It also discusses the main advantages and limitations of the selected methodology. Since comparisons between such different cases are not particularly common and are considered impossible or useless by many, that chapter aims to show why this kind of analysis can be not only possible but fruitful in certain contexts. To do it, it makes use of what previous research has pointed out to be the main lessons Latin American countries can learn from the Nordic model as well as the principal obstacles that such a policy paradigm change would face.

The fourth chapter undertakes the comparative analysis. The next one discusses why this is a key moment for Mexico to promote inter-class solidarity through the institutional design of its welfare regime. The last chapter draws some general conclusions

## 1.2 Relevance of the study

This study will help expand the existing theory about the stratifying capacity of different welfare regimes by analyzing the main principles that have guided the creation and development of the Mexican and Swedish welfare regimes. Instead

of statistically testing the existing theories, it aims to study the mechanisms behind them. It will use cross-time comparisons of the same country to analyze trends and changes.

Korpi and Palme's study focused on several states in a fixed moment in time, while this one will analyze longer periods in only two countries. By doing this, it can trace changes in inequality and welfare institutions, which can help strengthen or refute the existence of the proposed links between them in each country. And given the differences between both cases, similar results would be highly significant. It is important to try to establish the applicability of these results if we wish to expand the theory's reach and validity.

On the other hand, although Esping-Andersen's typology has been applied to broader contexts, Korpi's was developed and tested only for a set of 18 countries belonging to the OECD in 1985 (Korpi, 1997: 10). Given its utility, there is a need to know whether it holds for other countries, especially for those with higher inequality and poverty rates which seem to be following the trends they studied (increased targeting and flat-rate benefit awarding).

By testing it under different circumstances, we are testing its universality and, to a certain point, the extents to which institutions are not only determined by society's structure, but determine societies' structure itself. So far, the theory has only been tested in countries with relatively low levels of inequality, so its applicability in a country with very high ones is a critical matter: Are these institutional characteristics so powerful that they can influence inequality in a significant manner even in countries where it is very high? Or is their power restricted to a certain context? This study aims to help answer those questions. If equality in encompassing countries is not related to the design of welfare institutions, but determined by other characteristics, then there should not be significant variations after welfare institutions are reformed. And if inequality is not related to these institutions, it should not change in countries with high levels either.

In sum, the present study articulates welfare regime theories together and aims to reconcile and expand their findings to create a more holistic constructive theory of the welfare state. It has been pointed out how strikingly seldom are cross-references to empirical research on the longstanding welfare democracies made in analyses of developing countries, considering how appropriate for our understanding of social policy reform in low- and middle-income societies they are (Esser, 2009: 96). This project is also an answer to the lack of that kind of research and can hopefully provide some further guidance for the comparative analysis of welfare regimes between developed and developing countries.

This thesis also aims to be an inter-disciplinary contribution. Most of the research about welfare provision and inequality is done separately by researchers from different social sciences, such as economists and political scientists. This has created a barrier between each other's findings, as well as a lot of unnecessary work for both. But for this research area to move forward, communication and joint research between them is necessary.

Overall, the main contribution of this thesis lies in its normative character. As researchers, we need to find new ways to do social science that have a more direct



impact on social issues. By pointing out certain key aspects of two very different welfare regimes, Mexico and Sweden, it aims to make clear why the first one can and should find inspiration in the encompassing welfare regime of the second, especially at this point in time. The main argument is that policies that aim to create inter-class solidarity in the system, by paying special attention to the necessities of the middle classes, are not only desirable but crucial in that context.

Opinions are still divided on whether there are lessons that developing countries can learn, in terms of social policy design, from developed ones. A reason for this is that although previous research has proved the undeniable importance of welfare state institutions in certain countries, many remain sceptical on their influence and importance in other cases, such as the Latin American one. It is commonly assumed that formal welfare institutions in developing contexts have not had the same importance they have had in countries like Sweden. This thesis aims to show that welfare institutions in developing contexts, exemplified with Mexico in this case, have had much more important consequences in terms of stratification outcomes than is typically assumed. Therefore, one of this project's goals is to show the value of this type of research design. The aim is not to support a linear conception of development but to explain why this kind of comparisons is both possible and potentially useful, under the right circumstances.

As will be shown in the following chapters, this kind of approach is already receiving increased attention in academic circles, but also in international organizations and even by policy-makers in Latin America. However, Mexico has not yet embraced it, at least at a national level. For that reason, it is extremely important to analyze the possibilities that each countries' socio-political situation presents.

## 2 Theoretical overview of the comparative analysis of welfare regimes

The purpose of this chapter is to construct an adequate theoretical framework to analyze the effects of different types of social policies over inequality in Sweden and Mexico and to make a normative statement for the second one. To do it, the concept of welfare regimes is defined first. Then the chapter makes a theoretical overview of the existing literature on comparative welfare regime studies. The review explains the different angles from which the topic has been approached, as well the ways in which they have been adapted to different contexts. By doing this, it introduces the theoretical mechanisms relevant to the present research project.

Several researchers tried to define the welfare state, with the result that definitions were so general that the welfare state's functions seemed to be in conflict with the wide variety of concrete cases (Messina, 2010: 2935). A fairly simple yet comprehensive definition states that welfare regimes are "repeated systemic arrangements through which people seek livelihood security for their own lives and for those of their children, descendants, and elders" (Wood, 2006; 1700).

Comparative social policy gained academic status after the Second World War, with the expansion of welfare provision in industrialized countries (Hantrais, 2009: 33). Reformers were interested in learning from foreign experiences. Based on signs of convergence and diffusion, and through the use of quantitative aggregate data and ideal-type taxonomies, attempts were made to classify welfare systems. Detailed comparative studies of welfare states' developments were another tool for this (Hantrais, 2009: 33). There was a renewed interest in large-scale analysis of Western European welfare states that combined configuration analysis of institutional variations, where countries were considered cases, with empirical data analysis aimed to test specific hypothesis. The purpose of testing was to increase robustness of theoretical propositions (Hantrais, 2009: 34).

To interpret the variability of definitions, and leaving behind the modernizing theses that predicted universal welfare state convergence towards a unique ideal type, the idea that it is possible to organize the analysis of welfare states according to ideal types emerged and settled. Titmuss was the pioneer of this type of work, but Esping-Andersen's *Three Worlds of Welfare Capitalism* was the most influential one (Messina, 2010: 2935).

When welfare states started being analyzed, most studies were almost exclusively concerned with expenditures (Esping-Andersen, 1990: 20-1). Afterwards, a new variety which took into account more than that emerged. Many

of them were based on Titmuss's, which extended welfare commitments to all areas of distribution that are vital for societal welfare (Esping-Andersen, 1990: 20). The new approaches considered dimensions such as the targeting of social policies, their eligibility conditions, the quality of the benefits and services provided and the extent to which employment and working life were encompassed in the state's extension of citizen's rights, to create typologies (Esping-Andersen, 1990: 20-1).

Esping-Andersen's 1990 empirical investigation of the similarities and differences in a number of industrialized societies around the world is both the most widely cited and most critiqued of these studies (Hantrais, 2009: 33; ESS, 2011: 3). The study sorted industrial and post-industrial societies into three regimes based on their different institutional and ideological characteristics. These worked as ideal types and countries were classified depending on which one they resembled most.

Although Esping-Andersen's typology has been subjected to extensive criticism, its utility is undeniable. In fact, much of the comparative social policy literature since 1990 can be seen as a "settling of accounts" with Esping-Andersen that led to the creation of alternative typologies which intended to reflect what Esping-Andersen overlooked in his (Bambra, 2007: 1098)<sup>1</sup>.

A first group of critics argued that many countries did not fit into Esping-Andersen's typology. For that reason, they suggested that it should be extended, highlighted the limits of the methodological approach, and proposed clear criteria to discriminate between what a welfare state is and what it is not. Others criticized his emphasis on income protecting policies and labour market practices, and highlighted the role of social programs in health, education and housing. They also proposed to include the analysis of developing countries (Messina, 2010: 2937). Some studies have aimed to replicate Esping-Andersen's typology and have obtained different results. By using a similar methodology, others (Scruggs, 2008) aimed to do that as well as to evaluate change in welfare stratification over time. The results offer only limited support for distinctive regimes of welfare stratification, which calls into question the utility of the *Three Worlds* typology (Scruggs, 2008: 644). Esping-Andersen himself has revised his own work to correct and clarify many of these issues (2003). Given its character, for this study it is enough to review the bases of his theory.

## 2.1 Targeting and benefit levels: the two central debates among equality strategies

Since the 1980s, support for targeted social policies among policy makers and researchers in the Western world has increased, even though many social scientists have been markedly critical of them. In the late 1990s, Western policy makers were renewing the old stress on the targeting of social policies while

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<sup>1</sup> For a more detailed account on this critiques and alternative typologies, see Bambro (2007).

social scientists disagreed on which was the best strategy for reducing poverty and inequality (Korpi, 1997: 5). Efficiency-centred economic arguments, in combination with increasing pressures to reduce budget deficits and the public sector, have inclined the balance towards targeting and flat-rate benefits.

Governments and international organisations have advocated for pursuing efficiency and attacking poverty through well-targeted transfers and safety nets (Korpi, 1997: 3). The design of anti-poverty programs has been guided by the question of what its effects are for the poor, and the main criterion social scientists have used to judge their success has been the degree of target efficiency defined in terms of the proportion of program expenditures that goes exclusively to the poor below the poverty line (Korpi, 1997: 1). Academics have also been supportive of those ideals. Economists, political scientists, and sociologists like Tullock (1938), Le Grand (1982), Barry (1990), and Marshall (1950), have shared the belief that targeted programs are the most efficient tool for reducing poverty and inequality, while agreeing that earnings-related social insurance reinforces or increases the second one (Korpi, 1997: 1-2). Their position has been challenged by some of their contemporaries as well as by researchers from other disciplines, like Tawney (1952; in Korpi, 1997: 2), Korpi (1997), and Esping-Andersen (1990).

The same is true of the debate regarding universalism. Goodin and Le Grand (1987), as well as Castles and Mitchell (1992: 4), have argued that earnings-related benefits have less equalizing effects than flat-rate benefits because they include provision for the wealthier sectors (Korpi, 1997: 4). But other empirical studies have found an association between universalistic welfare states and greater equality and redistribution, when compared to marginalistic ones. Still, other empirical studies suggest that universalistic and earnings-related pension systems tend to produce a lower degree of inequality by crowding out even more unequal income sources (Korpi, 1997: 4; Esping-Andersen, 1990).

Several theorists, among them Esping-Andersen, have noticed this mechanism, in which the shape of societal institutions is affected by the actions of different interest groups, but where institutional structures also affect how citizens define their interests and preferences, and hence, form coalitions (Korpi, 1997: 3). Korpi's conclusion resembles Esping-Andersen's when he argues that while targeted programs may have greater redistributive effects per unit of money spent than institutional types of programs, they also create barriers to coalition formation between classes (Korpi, 1997: 2). The resemblance goes further when he argues that, since all households will benefit directly from institutional models of social policy, these encourage coalition formation between the working and middle classes in support for continued welfare state policies (Korpi, 1980: 305; in Korpi, 1997: 3).

In the same publication, Korpi pointed out that, although institutional literature had addressed the macro-micro links between institutions and the formation of interests and coalitions before (Korpi, 1997: 27), its empirical testing was still a major challenge to social scientists. The main reason of that was the lack of comparative micro-data necessary for "opening up that micro-macro black-box" (Korpi, 1997: 27).

## 2.2 Stratification: the unintended consequence of welfare regimes?

Esping-Andersen's theory is of central importance to this study because it brought to light a formerly neglected issue in the research on welfare regimes: the role of the welfare state as a stratifying institution. It argues that the welfare state is "not just a mechanism that intervenes in, and possibly corrects, the structure of inequality; it is, in its own right, a system of stratification" (Esping-Andersen, 1990: 23). In other words, even though it is supposed to address problems of stratification, in practice it is able to enhance or diminish existing status or class differences to create dualisms, individualisms, or broad social solidarity (Esping-Andersen, 1990).

Others have also recognized the importance of stratification effects as a feedback device through which welfare outcomes reinforce the welfare mix. In fact, it has been argued that these effects reproduce the welfare mix and therefore help explain the persistence of the welfare regime itself (Barrientos, 2004: 152). Moreover, according to Esping-Andersen's theory, class coalitions are the most decisive cause of welfare variations. Historically, they determined the emergence and development of welfare-statism in industrially developed countries (Esping-Andersen, 1990).

Through a historical overview, Esping-Andersen shows that not only have welfare states always worked as stratification systems, but they have even been designed for this purpose since they originated (Esping-Andersen, 1990: 24, 59). In the same line, the theory states that experience does not show that welfare states develop necessarily when more democratic rights are extended to citizens (Esping-Andersen, 1990: 16). In fact, it suggests that not only were the first major initiatives of this type enacted before democracy was, but they were actually motivated by certain groups' desire to contain them; the emergence of welfare states as such was actually retarded in cases in which democracy arrived early (Esping-Andersen, 1990: 16).

## 2.3 Liberal, Conservative and Social-Democratic welfare states

Esping-Andersen studied the production of welfare, which can be understood as the articulation of welfare programmes and institutions insuring households against social risks, through a broad set of indicators referring to outcomes as well as to institutions (Korpi, 1999; Palme, 2006; Barrientos, 2004: 121). His typology is based three principles: de-commodification, social stratification, and the private-public (or welfare) mix. The first one refers to the extent to which an individual's welfare is reliant upon the market, especially regarding pensions, unemployment benefits and sickness insurance. The second one is the role of

welfare states in maintaining or breaking down social stratification and the last one is its relative role, along with the market, voluntary sector and family's ones in providing welfare (Bambra, 2007: 1098).

His three worlds are characterized by three different social expenditure principles: necessity, contribution and citizenship (Messina, 2010: 2935). For his empirical analysis, he employed the following indicators to cluster national regimes: corporatism, etatism, means tested poor relief, private pensions, private health spending, average universalism, and average benefit equality (Esping-Andersen 1990) and clustered regimes in liberal, corporatist, and social-democratic. These types represent three models of stratification and solidarity of social policy. They can produce hierarchy and status, dualisms or universalism, respectively, even though most of the time these effects were unintended (Esping-Andersen, 1990: 58, 65). The following table explains how those variables were measured in Esping-Andersen's original study:

<b>Table 1. The Three Worlds</b>		
<i>Social policy</i>	<i>Index of...</i>	<i>Measured through...</i>
<b>Liberal</b>	Poor relief	Importance of means-tested benefits
	Private pension share	Importance of private pensions for securing individual income in old age
		Importance of private health spending in total health expenditure
<b>Conservative</b>	Corporatism	Segmentation of public pension programs based upon major occupational categories
	Etatism	Extent of pension expenditure on government employees as a percentage of GDP
<b>Social Democratic</b>	Program universalism	Portion of the workforce eligible for benefits in three social insurance programs: unemployment, sickness, and old age pensions
	Equality of benefits	Ratio of basic benefit to maximum allowable benefit averaged over the above programs

\* Table by author with information from Scruggs (2008) and Esping-Andersen (1990)

In this typology, social democratic welfare states are the most de-commodifying ones because, initially, they offered equal benefits to all, independently of contributions or performance (Esping-Andersen, 1990: 22-3). They are based on the principle that social policy is not only emancipatory, but it is also a precondition for economic efficiency; it helps to promote capitalist forces while empowering citizens at the same time (Myrdal and Myrdal, 1936; in Esping-Andersen, 1990: 12). To adapt to the rising demands of the new middle-classes, social democrats extended universalism and de-commodification of social rights. While other regimes tolerated the dualisms between states and markets, and working classes and middle classes, social democratic ones aimed to crowd out the market (Esping-Andersen, 1990: 27-8). To eliminate class differences by creating solidarity and to attract sufficient electoral support, they promoted an equality of the highest standards instead of one of minimal needs (Scruggs, 2008:

645). The quality of benefits was upgraded to satisfy the new middle classes and equality was expected from guaranteeing workers the same quality of rights enjoyed by the better off. This was to create a system in which “all benefit; all are dependent; and all will presumably feel obliged to pay” (Esping-Andersen, 1990: 27-8).

They also aimed to maximize individual independence (mixing the liberal and socialist traditions), so they encouraged freedom of choice for working women, granted transfers directly to individuals, and took direct responsibility of caring for the helpless. Esping-Andersen also emphasizes the commitment of social democratic regimes to guarantee and depend on full-employment, which was not a feature of the other types (Esping-Andersen, 1990: 28).

If we think of the typology as having a linear de-commodification axis, on the other extreme we find the liberal welfare states, which are the least-de-commodifying ones in theory and are traditionally identified as the Anglo-Saxon nations like the United Kingdom, the United States, Canada, and Australia (Esping-Andersen, 1990). They are based on the traditional, liberal work-ethics principle of limiting welfare to the point where it equals marginal propensity to opt for welfare instead of work (Esping-Andersen, 1990: 26).

Liberal regimes seek to do the opposite from conservative ones in terms of social stratification because classical liberals believed that traditional social patterns constrained individual freedom and that a free market afforded individuals to realize their potential unfettered by pre-existing social hierarchies of both church and state (Scruggs, 2008: 645). They execute this through their strict entitlement rules (or means-tested assistance), which are often associated with stigma, and through their modest level of benefits, which can be translated into low universal transfers or modest social-insurance plans. This results into a limited use of the mentioned benefits, mainly by a clientele of low-income, usually working-class, state dependents. The government encourages the market by keeping benefits low or even by subsidizing private welfare schemes (Esping-Andersen, 1990: 26-7).

A third cluster is characterized by compulsory state social insurance with fairly strong entitlements, and is known as the corporatist or conservative welfare state (or logic) (Esping-Andersen, 1990). Austria, France, Germany, and Italy were classified in this category. Since they had a conservative heritage, the liberal ideal of maximizing efficiency and commodification was never as important as it was in the liberal regimes, which meant that their level of de-commodification was never as low as that of the liberal model. However, it never became as high as in social democratic regimes either because it relies heavily on its eligibility and benefit rules, which prioritize the preservation of status differentials through the attachment of rights to class and status (Esping-Andersen, 1990: 22, 27). Because of the Church’s influence, family remained an important element of corporatist regimes. This means that the state acted as a subsidiary only when the family’s capacity to provide welfare to its members was exhausted. The role of women as mothers and housewives was encouraged by excluding them from social insurance and restricting benefits for working mothers (such as day care and other family services) (Esping-Andersen, 1990: 27).

Esping-Andersen's analysis showed that the corporatist model is best identified by the extent to which social insurance is differentiated and segmented into occupational and status based schemes. Etatism, which also belongs to the conservative tradition, is identifiable through the relative privileges accorded to civil servants. Liberal principles are reflected in state's residualism and means-testing, the relative financial responsibility accorded to the insured individual, and the relative weight of voluntary, private sector welfare. Finally, socialist policies are measured through their degree of universalism, meaning that a social-democratic regime should show low levels of benefit differentials (Esping-Andersen, 1990: 69).

Esping-Andersen argues that liberal welfare regimes minimize de-commodification effects and create a stratification order that combines relative equality of poverty among state-welfare recipients with market-differentiated welfare among the majorities and a class-political dualism between them (Esping-Andersen, 1990: 27). He argued that welfare states cluster, but recognized that there are no single pure cases; every regime has elements from different ideal types, although there is usually one that predominates in them (Esping-Andersen, 1990: 28). His framework was originally developed based on a very specific set of countries, mainly those with very formal welfare regimes, but has been applied and extended to other countries too.

It has been argued that *The Three Worlds* classification corresponds to a certain priori about national welfare state types, and that as a result, the development indicators were biased towards finding larger differences than otherwise existed as well as exaggerated distinctiveness in each regime's policies. As a result of that, certain countries could have been said to be favoured by Esping-Andersen's study (Scruggs, 2008: 661). However, when these criticisms have been looked into, Sweden remains the clearest example of social-democratic and encompassing values.

In a later publication, Esping-Andersen (1999) included a new type of welfare state to his typology: the Mediterranean or Southern type, which was based on Greece, Spain, Italy and Portugal. In these regimes, social security institutions resemble the conservative model but reach very high levels of generosity for some privileged groups and leave a large amount of people uncovered. Some of these people are partially covered by subsidies, which were distributed in a strongly clientelist way. Secondly, health and education systems tend to be public and universal but the state's level of penetration in welfare is generally low and its role is only subsidiary. State institutions are weak; bureaucracy has a low level of professionalism and autonomy and clientelist relationships predominate (Esping-Andersen, 1999: 88).

Another addition of Esping-Andersen's work was the deeper analysis of the antipodes, where before neo-liberalism, equality was pursued through full employment and real-wage increase policies, instead of through redistributive social policy, thanks to commercial protectionism and the managing of migration policy (Messina, 2010: 2938).



## 2.4 Institutional welfare regimes and inequality

*The Three Worlds of Welfare Capitalism* and its later revision emphasized the stratifying role of institutions but did not incorporate the measuring of inequality in different welfare regime types as such. In that regard, the most important contribution to the theory has probably been Korpi and Palme's *Paradox of Redistribution* (1999) and the body of literature that developed from it.

Palme pointed out that since the 1960s, research on the determinants of inequality has not only grown but has also generated intensive debates. The discussion about the role of welfare states over inequality evolved from a broader one that examined cross-national variation in inequality and attributed it to economic development, economic dependency, democracy, or partisan politics (Palme, 2006: 387). Still, few attempts have been made to specify the mechanisms through which the independent variables are expected to affect income inequality; when specified at all, they have not been studied empirically (Palme, 2006: 388). He distinguished six diverging hypotheses about how welfare states can affect income distribution:

- a) *The size hypothesis*: predicts that higher welfare state spending as such will reduce inequalities. It was the predominant logic of industrialism.
- b) *The inequality hypothesis*: inequalities will tend to increase over time as a result of two contradictory mechanisms. On the one hand, intensified capital accumulation will increase inequalities and, on the other, expanded transfer programs to the poorest grow to legitimize that accumulation.
- c) *The redistribution hypothesis*: as a result of the same two mechanisms, we can expect that efforts to reduce inequalities will increase over time, which will only partially balance the increasing trend of inequalities.
- d) *The politics matter hypothesis*: sees partisan politics as having an important potential for expanding the role of tax-transfer systems in order to reduce inequalities.
- e) *The sceptical hypothesis*: questions optimistic assumptions and emphasizes the role of specific groups who benefit from welfare state programs, predicting that the welfare state will actually increase inequalities.
- f) *The institutional hypothesis*: Palme (2006), Palme and Korpi (1998), and Kangas and Palme (2000) can be included under these category. Following from the partisan hypothesis and calling for more precise definitions in terms of program characteristics, their approach focuses on how institutional differences between welfare states are potentially relevant for redistributive effects, in addition to various structural variables (Palme, 2006: 188-189).

Korpi and Palme's (1998) social policy typology, which is based on different redistributive strategies, belongs to the last group. It distinguishes between the following four models (although they point out that most countries apply

combinations of different kinds of programs and that the relevance of their principles varies among sectors):

1. Targeted: it follows the means-tested principle of only taking from the rich to give to the poor (Robin Hood principle) by financing these benefits payments from taxation.
2. Basic security: follows a simple egalitarian strategy by paying flat-rate benefits to both rich and poor.
3. State corporatist: redistributes resources primarily within different corporations.
4. Encompassing: relies on universal earning-related social insurance benefits and gives more to those who already have more (Matthew principle) (Palme, 2006: 389).

By focusing on insurance institutions the study found important differences in income inequality between countries belonging to different institutional regimes<sup>2</sup>. Encompassing regimes have the lowest levels, while targeted and basic security regimes have the highest ones (although it is important to point out that among basic security ones, variations are very large), and corporatists are in between (Korpi 1997: 19). They argue that this might come as a surprise to many and that by focusing on these institutional elements, their typology was able to capture the present state of the regimes, as well as their change over time (Korpi 1997: 13).

There are important trade-offs between different provisions of benefits, and the theory states that the more the middle class is involved in the welfare state, the better the situation will be for vulnerable groups and the more social inequalities will actually be reduced by tax/transfer programs, due to the way in which interests are organized. There also seems to be a correlation between the distributive profile and the size of sums for redistribution: the more benefits are targeted, the smaller the sums will become, which in return gives rise to a strong correlation between the size of sums and the size of inequality reduction. (Palme, 2006: 389-90). Regimes with the most unequal public pensions have the lowest inequality in total gross income (Korpi 1997: 23). Their explanation for this is that encompassing regimes generate the lowest level of private insurance and crowd out other sources of income which are likely to be even more unequal than public pensions, as opposed to what happens in targeted or basic security regimes (Korpi 1997: 24-5).

Palme's 2006 study, which focused on the poverty alleviating characteristics of welfare insurance programs, also found out that programs with earnings-related designs do an important job, while flat-rate ones are less efficient and often alleviate poverty only when complemented with means-tested benefits. (Palme, 2006: 397).

Although this approach emphasizes the role of institutions, it embraces the need to consider other aspects of welfare state variation, especially since systems of social protection have other goals than just fighting poverty. That is the reason

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<sup>2</sup> Which is why their approach is known as an Institutional Regime Approach (Esser, 2009: 93).

why it does not focus on redistribution as such but rather on the result of the redistributive effort in the tax/transfer system (Palme, 2006: 390).

Admittedly, we have to be careful when drawing implications from this kind of analysis, but as Palme pointed out, in the examined cases the evidence is enough to reject the *sceptical-hypothesis* and to offer some support for the *size-hypothesis*. What can be said with more security is that cross-national variation in institutions and the distribution of social rights is key for explaining variations in poverty levels in different population groups (Palme, 2006: 400). The most important thing to remember from this theory is that, contrary to what some might expect, poverty and inequality rates among the most vulnerable groups are lowest in countries where state support is not exclusively directed towards these groups (Palme, 2006: 290).

Insurance institutions affect redistributive processes through the role they award to markets and politics. Targeted schemes have the lowest level of political interference within the market distribution, followed by voluntary-state subsidized, and basic security models, which create a base for market functioning. Next is the corporatist model, because it restricts market distribution to a larger extent than the previous ones, but without being the most encompassing one because of the occupational segmentation and exclusion it produces (Korpi 1997: 14).

Insurance institutions also influence redistribution by encouraging or discouraging the homogeneous formation of risk-pools in terms of socio-economically structured distributions of risks and resources, which can be direct or indirect (Korpi 1997: 13-4). Regarding the first ones, Korpi and Palme argue that in Western countries, economic risks and resources are unequally distributed according to socio-economic structures. In return, this offers the possibility of delineating risk pools by emphasizing the differences in those two elements (risks and resources), or by down-playing them through the pooling of heterogeneous categories (Korpi 1997: 14).

Corporatist models pool risks and resources directly according to socio-economic lines, which tends to institutionalize interest differences, and through the exclusion of top-earners and the economically non-active (Korpi 1997: 14). Voluntary ones are structured to reflect socio-economic differences, and have tended to be dominated by middle-class groups while leaving low-earners uncovered. Therefore, they tend to discourage coalition formation between the most and least favoured groups, and to create segmentation in the socio-economic structure (Korpi 1997: 15).

According to Korpi and Palme, these paradoxical results had been overlooked because three elements were ignored for a long time. First, the size of redistributive budgets is not fixed; it depends on the type of national welfare institutions. Second, there tends to be a trade-off between that size and low-income targeting. And third, large sectors of the population will not be able to or willing to acquire private earnings-related insurance, triggering a socioeconomic selection process that will result in a market-dominated distribution even more unequal than the one found in earnings-related programs (Korpi 1997: 26).

The importance of applying this kind of analysis to countries in developing regions of the world lies in its utility to attack poverty and inequality through the design of welfare institutions. Latin American countries have traditionally had higher levels of inequality than other regions of the world due to the concentration of land ownership, unequal distribution of human capital, political instability and poor governance (Barrientos, 2004: 149). In fact, for the majority of these countries inequality increased in the 1990s, which coincides with a welfare regime shift in the region (Barrientos, 2004). However, to apply the framework to Latin America it is necessary to analyze other elements, highlighted by the theories described in the following sub-section.

## 2.5 Expanding *The Three Worlds*

There is a considerable amount of work that aims to create a global typology of welfare regimes. Since the focus of this study is Mexico, this section focuses on the most relevant contributions that include developing and Latin American countries in the analysis. Cluster analysis has been the preferred tool of those who have aimed to create a global typology of welfare regimes. This section briefly describes the most relevant contributions for this study.

Gough and Wood distinguished at least three types: proto-welfare regimes, informal security regimes (in which most Latin-American countries are categorized), and insecurity ones (2004, 2006; Abu Sharkh, 2010). Rudra (2007) used cluster analysis to analyze the least developed countries, and distinguished between:

1. Promoting welfare states: their main objective is to favour competitiveness of national enterprises. It emphasizes salary cost contention and the commodification of the labour force but also investment in human capital (education and health).
2. Protective welfare states: social policies focus on social security, housing, and labour market regulation and public employment, but they still leave a large part of the population uncovered.
3. Dual welfare states: A third group emerges from the empirical analysis and has characteristics from both types. It includes the Latin American countries with the most developed public policies, such as Argentina, Brazil, Mexico, and Uruguay (Messina, 2010: 2946).

### 2.5.1 Focusing on Latin America

Researchers have approached the study of Latin American welfare regimes from two perspectives. One assumes that the region's regimes are similar enough to be analyzed as a whole, while others emphasize particular characteristics to develop typologies within the region.

Mesa-Lago's contribution (1998) can be categorized in the first group. He argued that around the 1980s Latin American regimes were converging towards a same model and cross-country differences were only a matter of degree (Messina, 2010: 2943). Social security systems in the region had evolved according to a model of occupational category aggregation and progressive risk coverage, as a result of the pressure and interests of the most powerful groups in society, which resulted in a pyramidal model where informal workers were left unprotected. Then he categorizes countries as pioneers, intermediate, and late according to the time period when they introduced their social security systems, the amount of social programs and the coverage they provide (Messina, 2010: 2944).

Wood argues that, unlike in South Asia, Latin American countries have a tradition of extensive state induced social policy to refer back to, which offers better opportunities for the creation of more inclusive social programs (Wood, 2006: 1705). Some authors argued that there were important similarities between Esping-Andersen's Mediterranean model (1994), and the Latin American countries that developed their welfare states during the era of developmentalism (Messina, 2010: 2938).

According to Wood (2006), Latin America shows important patterns of informalized security, but in the more developed countries, there is also a more extensive sector of state welfare. A reason for this is the much earlier decolonization and political independence together with the subsequent emergence of export economies and partial industrialization, which fostered a capitalist class and urban proletariat alongside the land-owning class and the oppressed peasantry (Wood, 2006: 1705).

The inter-war depression brought about a switch from export economies to import substitution strategies which fostered the emergence of social insurance and employment protection schemes in some countries for formal workers. An alliance between industry, public sector workers and urban industrial workers emerged to protect these groups (who enjoyed substantial protection along with their dependents), significantly resembling the welfare regimes of southern Europe. There were aspirations for universal health and education but the remaining groups remained unprotected and reliant on their own means as well as on unregulated markets and residual public assistance programs. For that reason, Barrientos described Latin American regimes as combined conservative-informal welfare state regimes (Wood, 2006: 1705).

But after the 1970s and 1980s, when import substitution was replaced as a response to debt crises and structural adjustment impositions, corporatist and syndicalist politics gave way to authoritarian political regimes. The former alliance crumbled and around the 1990s, Latin American regimes started to shift towards a liberal-informal type where employment protection decreased as a result of labour market deregulation. Individual saving and market provision started replacing social insurance and private financing and health and education were encouraged as the states origins of protection weakened (Wood, 2006: 1705).

Filgueira (1997, 2009) was the first to adapt Esping-Andersen's framework to the region and considers that Latin American welfare regime history is more

heterogeneous than usually thought. If we wish to analyze the principles that structure social expenditure, it is necessary to use ideal type analysis, but Filgueira argues that Latin American countries are still too heterogeneous in this respect, so we need to emphasize that as well as their level of coverage. Although he points out that Latin-American systems have multiple holes for which the improvement of benefits is necessary (Traversa, 2010: 21), he identified three regime clusters:

- a) Stratified universalism regimes: Argentina, Chile and Uruguay. They developed early and relatively widely extended welfare systems on a contributive base, but have always left an important sector of the population unprotected (mainly those involved with informal activities). Also, benefits, access conditions, and risks were strongly stratified. Inequality after transferences was progressive.
- b) Dual protection systems: Brazil and Mexico developed systems with universal access to many services, but with even more restricted and stratified rights than in pioneer countries. Inequality was reinforced by major segmentation of social security programs, which left important parts of the population unprotected.
- c) Exclusionary regimes: The last cluster comprises the Dominican Republic, Guatemala, Honduras, El Salvador, Nicaragua, Bolivia and Ecuador. These countries developed highly elitist health and social security systems. They also failed in making access to education universal (Traversa, 2010: 5). Their social, health, and educational policies favour privileged classes (Messina, 2010: 29465; Traversa, 2010: 5).

According to Filgueira, in recent years these social exclusion processes have increased in the entire region and structural reforms have had a strong impact in labour markets and the weakening of public services. The required macroeconomic stabilization reinforced the tendency to reduce fiscal deficits through privatizations and social spending cuts. The neoliberal perspective considered the welfare system as a source of distortions and inefficiency, which justified the new policies' rationale. These were organized around a new principle that identified social risks in a very restricted manner and emphasized the market's dominance to prevent contingencies. The slow way of labour market reforms was explained by the growth of work scarcity and of the informal sector (Messina, 2010: 2945-6).

Martínez Franzoni (2008) introduced the gender perspective to this part of the analysis to highlight that non-remunerated work in the nuclear family is fundamental since the traditional work division by genders is still predominant in the region. As Gough and Wood, she analyzes not only de-commodification but also de-familiarization (Messina, 2010: 2947). Based on that, she distinguishes three models:

- a) Protectionist: found in Brazil, Costa Rica, Mexico, Panama, and Uruguay. It has the most extended system of universal services, as well as socialized protection systems.
- b) Productivist: Chile and Argentina. Focalized services predominate and a larger part of the population satisfies its needs by purchasing security from the market.

These two clusters have a high degree of de-familialization in comparison to the third one.

- c) Familiarist: the remaining countries. In the entire region, the part of the population without access to public services or without the possibility of satisfying its necessities through the market has to turn to the family or community in a larger degree. Many women have to combine taking care of their families (even extended ones) with their participation in informal and non-regulated labour markets (Messina, 2010: 2947).

Riesco's approach (2007, 2009) is somehow different because it categorizes countries according to demographic characteristics first, and then according to their history. Also, it is the only one that suggests a new trend of development for welfare regimes in Latin America. It identifies three stages of welfare regime development in the region. The first one is state developmentalism (between the 1920s and 1980s), which assumed the twin challenges of bringing economic and social progress to mostly agrarian societies. The second one (in the final decades of the past century) is characterized by the adoption of policies from the Washington consensus, which emphasized the importance of business in the framework of globalization, benefiting the affluent. Riesco argues that since the 1997 economic crisis there has been an unambiguous shift in the region's policies, and suggests that it could be the beginning of a new developmental welfare state model (Riesco, 2009).

According to him, in Latin America the vast masses of salaried workers and industrial entrepreneurs, who had powered the process in the industrially developed world, were absent and the state had to replace them. That way, by the 1980s many states had built basic institutions, infrastructure and industries and were changing their social structures. Social policies had an important role in that transition, although they are frequently ignored. The block in power came from the middle classes, and was supported by the nascent bourgeoisie and workers, as well as by the urban poor and the peasants in later stages (Riesco, 2009: S26-7).

Developmentalism took several forms. In many countries, it started with military coups. In others it did not begin until the 1960s or later. In most of them, the military played an important role whether directing or supporting the strategy. But in the "remarkable case of Mexico" (Riesco, 2009: S27), a civil bureaucracy, consolidated after the revolution and civil war, presided throughout developmentalism in a lasting alliance with entrepreneurs, peasants and workers, which also led the way into the Washington consensus era (Riesco, 2009: S27).

The so called Washington consensus found support in neoliberal theory. In practice, its rules were applied unilaterally for the benefit of emergent capitalists, and especially foreign investors, and often entailed severe dismantling of state institutions as privatization and tariff-reduction frenzy seemed to take hold of national elites. Some profited considerably from it, but most of the population did not, especially those who lost their jobs and companies when tariffs were precipitously lowered. It was then when inequalities polarized and around 10% of the population secured for themselves around 40% of national income. Notably, the dismantling of social policy affected the middle sectors the most. They were

left largely unprotected as their jobs became precarious and their livelihoods insecure in the face of globalization, while public social spending targeted the extreme poor (Riesco, 2009: S27). In the 1990s there was a second wave led by democratic governments, which had replaced dictatorships almost everywhere. The social transformation that started with developmentalism continued during the neoliberal period (Riesco, 2009: S28).

There are several theories that aim to explain the shift towards the Washington consensus.<sup>3</sup> But according to Riesco, the success of developmentalism in modernizing social structures created its own ruin by being an obstruction to its own objectives and creating its own gravediggers. Although it is certainly market based today, in the neoliberal period it was unilateral and allowed the concentration of resources in a few hands (Riesco, 2009: S 29).

Although he accepts that neoliberal thinking is still dominating among academics and government cadres, he suggests that it has been pushed into defensive by a new development strategy which repositions the state as a leading actor and may rely on modern civil society actors who came of age during the two previous periods. It once again puts social policy in the centre stage, bringing reminiscences of a Rooseveltian New Deal (Riesco, 2009: S30). Draibe and Riesco (2007) argue that the notion of the developmental welfare state can capture the emerging arrangement of economic and social policy in Latin America (Riesco, 2009: S30).

He points out that, unlike before, the new developmentalism is based on the models of Western Europe and other advanced regions in the 20<sup>th</sup> century, and assumes a strategic and regulatory role, relying on emergent private enterprise for most economic matters. However, he accepts that the strategies designed to achieve a certain minimal level of autonomy in science and technology, energy provision, fast communication networks, and complex industries, are not possible within the current dimensions of most Latin American countries (Riesco, 2009: S 32).

The argument about a new developmentalism might be true in the Brazilian and Argentinean cases (among several others), but does not describe the Mexican one so adequately. Riesco writes that:

“In Mexico- the other heavyweight, apart from Brazil... the Partido de la Revolución Democrática (PRD), led by Andrés Manuel López Obrador, was on the brink of winning in the recent elections. The PRD also explicitly proposes the replacement of the neoliberal model by a modern state-led strategy” (Riesco, 2009: S31)

But although it is undeniable that López Obrador was on the brink of winning the election, the final result favoured the Partido Acción Nacional, which is typically seen as having a completely opposite political orientation from PRD. Still, it is important to keep in mind that several countries in the region can be said to be moving in this direction.

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<sup>3</sup> Riesco mentions and rejects problems resulting from stagnant growth, big government, populist monetary irresponsibility, and conspiracy theories critical of Bretton Woods institutions.



There are two sub-variants within the new developmentalism. Although they both share the ideal of changing the neoliberal model, they are different in nature and in socioeconomic foundations. The difference derives mostly from the presence or absence of a specific group: the peasants. On the other hand, it will be less easy to convince salaried workers of a change if this move is not associated with their rights and with more concrete measures of regional social policy for their direct benefit. In the case of Latin America, it seems that not only the middle sectors need to be convinced; the peasants and urban poor also need to be motivated (Riesco, 2009: S34). Riesco classified the region's countries into four categories of demographic transition and overall socioeconomic development: early, moderate, full (in which Mexico is categorized), and advanced transition (2009-S22-3).

He also argued that the Latin American bureaucracy has, for over a century, been by far the largest, most structured and with the most stable employment in any region for over a century and therefore, has been a primary actor in the region's welfare policy development. Still, integration will not be possible unless they are able to convince the region's new massive social force: the emerging urban salaried middle classes, especially in countries in the more advanced phases of transition (Riesco, 2009: S33).

## 3 Research design

This section describes the research design of the study and justifies the choice of methods used for the analysis. It discusses the advantages and disadvantages of each in order to show why they were considered the best option available, as well as the strategies used to overcome obstacles in the way.

The research design of the study has two main elements: a comparative and a normative one. In the first one, by using a framework created with elements from the theoretical overview, it analyzes the equality-promoting principles that underpin the Swedish welfare regime. Then it uses the framework to analyze the evolution of the Mexican welfare regime and considers whether there are lessons from Sweden, treated as the best empirical representation of an ideal type, that developing countries with high levels of inequality and informal welfare regimes should pay attention to. It analyzes the current socio-political situation of Mexico and points out the reasons why the Swedish example should be a source of inspiration for social policy in that country.

The study's two most important difficulties are that the normative character of the study might appear controversial to some and that the value in the case selection might be difficult to understand. These concerns are addressed in the following sub-sections. The use of the comparative approach is also described here.

### 3.1 Constructive policy analysis

Regardless of method or approach, theories have traditionally been divided between normative and empirical. In a fairly simplified way, normative theory says how things ought to be in society given a desired set of outcomes and philosophical position, while empirical theory aims to establish causal relationships between two or more concepts in an effort to explain the occurrence of observed phenomena. Nonetheless, the dividing line between them has become fuzzier and comparisons can be used in both cases to either confirm or contest generalizations (Hantrais, 2009: 59).

From a pluralist perspective, normative theory does not need to be removed from the scientific scope if it is treated adequately. This kind of research must explicitly be acknowledged and address the strongest objections against it, which will enable it to avoid common inconsistencies (Della Porta, 2008: 59). The dilemma of normative theory, as explained by Max Weber, should not be remedied by abandoning normative theory altogether or by confining it to an arcane academic discourse; the solution is to expose it to the full force of critique

from explanatory theory and empirically grounded research that analyse the application context for normative ideas (Della Porta, 2008: 59).

This design aims to be a normative-empirical contribution to constructive political theory (Rothstein, 1998). Constructive political theory employs a combination of normative and empirical analysis and is based on the idea that social sciences should be useful to real-life problems and not just abstract debates which are frequently ignored by citizens and policy-makers. Hence, normative state theory is what the moral framework for collective political action should be (Rothstein, 1998: 7).

Rothstein argues that the normative and empirical branches of political science have been separated in practice, which is unfortunate because it is meaningless to discuss what the state should do separately from what it can in fact do, as well as to try to answer what it can do without reflecting on what it should do (Rothstein 1998, 9). He attempts to formulate a constructive political theory by confronting the normative discourse with concrete studies of public policy, instead of reflecting on hypothetical examples the way most political philosophers do when trying to handle the need for concreteness. This is the only way in which the discussion of democracy amounts to no more than an endless debate (Rothstein, 1998: 9). To move from normative to constructive theory it is necessary to go through an intermediate empirical stage (Rothstein, 1998: 14).

In contrast to most social scientific research undertaken nowadays, this method attempts to combine empirical and normative concerns in one and the same theory. It describes characteristic features of the universal welfare state and submits arguments of how it should be framed. Based on Ricci's critique of contemporary political science studies, which states that classical political science was dominated by normatively charged concepts that were tragically replaced by more empirically manageable and politically useful ones, sacrificing its political relevance and urgency for empirical precision and statistical generalization, he argues that the discussion of welfare policy must always remain incomplete until the normative problems raised by the question of social justice are confronted (Rothstein, 1998: 1-2).

Current scientific specialization is a natural research choice that broadens our knowledge but also entails the risk of making it impossible to say anything of interest about the urgent questions that society faces. The analysis of welfare policy, as well as welfare programs, has underlying normative premises and cannot be understood without them being laid bare. Holistic discussions are necessary to do this (Rothstein, 1998: 2-3).

The comparative method will be employed to analyze regimes and characterize them. From a constructivist perspective, the results from that part of the study provide a good base for recommendations that go in accordance with the criteria described above. It allows for an informed selection of the results that each policy entails, which may be more or less desirable depending on the perspective we adopt. In this case, we assume that stratification is an undesirable outcome and that the creation of social solidarity should be a current priority of the state. With that in mind, it is possible to suggest which institutional designs are better to attain those goals.

The best way to link those two areas of analysis is by studying established institutions. The importance in politics of institutional conditions, which he defines as “various formal systems of rules, such as constitutions, systems of taxation, and –critically for this analysis- social welfare programs” (Rothstein, 1998: 16) lies on their double character. On the one hand, they are rules that determine rational strategies of action, but on the other they affect what values are established in a society (Rothstein, 1998: 17). He agrees with Rawls in that normative discourse should not be regarded as metaphysical postulates because in that universe, any viewpoint is as good as another. But by analyzing institutions it is possible to come to general normative principles for the framing of social policy, through an analogous reasoning (Rothstein, 1998: 17-8). Since institutions are both empirical and normative orders, it is possible to reason certain rules which should govern the concrete design of our political institutions (Rothstein, 1998: 216). For that reason, we cannot rely on ideal types only; our discussion needs to be based on empirical examples.

## 3.2 Comparative method

The comparative method has been described as a basic research strategy for discovering empirical relationships among variables (Hantrais, 2009: 32). The principal aim of using comparative methods in political science is to control and limit sources of variation for the studied phenomena by classifying units (Hantrais, 2009: 50). Esping-Andersen’s purpose by doing a comparative empirical research was to disclose the fundamental properties that unite or divide modern welfare states. He argues that the dream of social science is to formulate laws of societal motion, and laws are not supposed to have deviant cases (Esping-Andersen, 1990: 3). This study’s idea is to analyze cases through a comparative framework, which might not necessarily prove or disprove a theory, but can certainly confirm or contest its wider applicability (Hantrais, 2009: 50). With this information, I will be able to conclude whether my results support the theory or not and what they add to it.

Comparative studies in political science have been classified in different manners, which differ in some respects (Hantrais, 2009), but most of them seem to be based on a trade-off principle between number of cases and focus in them. So on one side of the scale, case studies tend to be seen as the detailed analysis of only one case, while on the opposite side, there are statistical analysis based on large numbers of cases without looking at any of them in such a detailed manner (as the case study does). The present study can be located somewhere between those two extremes because it will focus on only two countries at different periods of time. The aim of this is to take advantage of the comparative perspective applied to two very different cases without overlooking any of the most important variables, but at the same time, making use of previous research and different temporal scenarios in order to avoid overestimating the importance of any them.

Esping-Andersen argued that using a broad approach means not being able to focus much on the details of various social programs. But he also points out that by doing large-scale comparisons we cannot make detailed treatments of individual countries, which might be perceived as superficial or misrepresentative (Esping-Andersen, 1990: 2). This study aims to overcome those obstacles by analyzing two contrasting cases and giving priority to one. That way, it should be possible to go into more detail without focusing on only too restricted aspects.

Previous studies on social protection in developing countries are typically based on clearly demarcated policy programmes in individual countries, which add knowledge depth but make policy evaluations more troublesome. Large-scale comparative analyses are one viable alternative if we wish to reveal the strength and weakness of different principles in the design of social protection (Esser, 2009: 92). Case studies are useful but fail to identify common factors that account for institutional variation among the developing countries and among all countries in a more global manner (Esser, 2009: 110).

The most apparent obstacle of this type of design is that the number of cases it involves might be too small to allow systematic control by means of partial correlations (Hantrais, 2009: 32). This will further restrict the studies' ability to derive causality, but even large-N statistical studies are unable to accomplish that goal and it is important to keep in mind that one purpose of this study is to add converging or diverging observations to the existing literature, with the aim of providing support or refining existing theories. Also, by focusing on a small number of cases it will be possible to suggest and analyze mechanisms that might support or refute causality.

Abu Sharkh and Gough (2010) argued that, in terms of policy implications, social programs must be adapted to welfare regimes instead of exporting one-size fits all policies and that greater scope for policy learning can be found within regime clusters (Shark, 2010: 50). The normative statement of this thesis embraces the first part of their conclusion: while liberalization of proto-welfare state regimes might pose new advantages for those countries, most developing nations had not reached the same outcomes as western countries had when they started their liberalization. However, I believe that there is greater scope for policy-learning among clusters. Since any good research design should follow the principles of validity, reliability, replicability, and plausibility, which are usually more difficult to attain in comparative studies (Hantrais, 2009: 50), explaining the case selection is of crucial importance.

### 3.3 Case selection and the use of ideal types

Ideal types work as parameters for typologies, which are seen as a middle-range approach between the two extremes (case studies and macro-variable approaches), since they aim to generalize systemic regularities that permit the grouping of social systems and to contrast them to others under the assumption that variations inside their group are smaller than the ones they have with other groups. The

approach treats countries as holistic entities that cannot be reduced to a finite set of variables (ESS, 2011: 3). The groups are based on ideal types, which are analytical constructions; abstractions formed from the elements of a given phenomenon but without corresponding perfectly to a real or concrete case (ESS, 2011: 3). They can be useful for comparative studies because cases can be positioned in relation to them (ESS, 2011: 3).

In this study, ideal types will be useful to describe how national regime has moved closer or further from them. Previous research has pointed out the dangers of making inferences about stratification effects based on misclassified cases (Scruggs, 2008: 663), which could seem as a problem for this analysis but the fact that its aim is to contrast a specific case (Mexico) to an ideal type, changes the nature of the comparison. Scruggs replication and alternative typologies have showed a considerably different ranking of countries than Esping-Andersen's analysis, and even then, Sweden's regime is always categorized in the most encompassing and de-commodifying end of the typology, as opposed to other countries.

Since the purpose of this study is to analyze precisely that ideal type, Sweden is the best case available if we need an empirical base for comparisons. The case is used as the empirical representation of an ideal type under the clear assumption that it is different from Mexico and that ideal types are social constructions. The analysis focuses on the development and principles that have guided Swedish social policy since the last century, and not as much in its present state.

The case selection is based on the differences observed in the two main variables of interest (national inequality and redistributive institutions), but also on an important similarity: the existence of long-standing welfare institutions<sup>4</sup>. Furthermore, among Latin American countries Mexico was one of the first ones to establish the bases of what is now its welfare regime, which also developed in a more stable manner than those of other countries in the region.<sup>5</sup> This and other structural conditions provide a base for comparability without inferring that these two cases belong to the same type.

Regarding inequality, Gini-coefficients of 136 countries indicate that Sweden (and other Scandinavian countries) has the lowest level of inequality in the world, while Mexico (and Latin American countries) has one of the highest (27<sup>th</sup> in the list)<sup>6</sup> compared to other OECD countries. On the other hand, Scandinavian states have long been considered the most encompassing welfare regimes in the world, while contemporary Latin American ones can be categorized as a mix between conservative and liberal-informal. This suggests a possible correlation between the two variables mentioned above, which supports Korpi and Palme's theory.

The selection might seem problematic given that there are other important differences between the proposed cases that might also influence inequality. Comparing the cases' evolution and changes in inequality might be the best viable alternative to control for those national differences. It could be said that each

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<sup>4</sup> As mentioned in the theoretical overview, Barrientos identified this as an important point of departure to apply Esping-Andersen's framework to Latin American regimes.

<sup>5</sup> As a result of the 60-year rule of a dominant party.

<sup>6</sup> Taken from the CIA's World Factbook. Figures do not correspond to the same year for all countries.

country will be compared to itself in different moments in time, while the normative analysis will argue that since equality should be a priority, encompassing regimes are the best example to follow. Since the existing literature has made important contributions on this respect, and given that the study will analyze each case in a fairly detailed manner, there should be no danger of inferring fallacious causality as long as the limitations of the study's findings are acknowledged. That will also be useful when attempting to extend the analysis to other cases with similar socio-politic structures.

Sweden is a good point of comparison because it is considered the best representation of the ideal type in the inclusive end of the de-commodifying types, as well as one of the more coherent approaches across both social transfers and welfare services (Bambra, 2007: 1101). On the other hand, it has been suggested that the differences between countries belonging to the same category can be so significant that the best alternative to study specific policy aspects is to compare countries that are the most similar in terms of welfare provision. By identifying areas of difference and exploring how these may contribute to cross-national differences in welfare outcomes, banal generalizations could be overcome to provide opportunities for better advice to policy-makers on specific interventions (Bambra, 2007: 1101). Given that no country is completely identical to any other, comparing how certain key aspects in the same country have developed over time might be the best way to do this. And it can be argued that since all Latin-American countries have high levels of inequality, there is more potential for learning there than in other regions.

Differences should not be exaggerated. The reason why I argue that Latin American countries could learn from the Swedish experience is based on the argument that countries in this region show certain structural pre-conditions for social reform similar, and in some cases even more promising, to the ones observed during the inter-war period of developed regions. This does not mean that all necessary conditions, if there are such, are present in the region, but it does open an important path. Esser divides the conditions that are likely to shape the expansion of social protection arrangements in demographic, economic and state structures (Esser, 2009: 99).

Regarding demographic and health characteristics<sup>7</sup> there are marked structural differences between the average for OECD countries (in 2005) and developing countries. But there are resemblances between the current situation in Latin America and the OECD average half a century ago. In some respects, rates are even more promising (Esser, 2009: 99). The same happens with economic indicators.<sup>8</sup> But the pattern does not repeat itself in the set of state capacity to administer social protection, measured through democracy, corruption, expenditure on social benefits and tax revenue (Esser, 2009: 101).

Although democracy in Latin America is judged to be of reasonable quality in most cases, corruption is decidedly higher in developing countries (compared to

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<sup>7</sup> Measured with the following indicators: birth, death, and fertility rates, median age, population age distribution, life expectancy, infant mortality and HIV presence (Esser, 2009: 100).

<sup>8</sup> The four dimensions included are: GDP per capita, rural population, population in paid work, and female labour force participation. Expenditure on social benefits and tax revenue level do not follow the pattern.

the OECD average) and there is no historical data available to compare it with earlier phases of welfare state development in OECD countries (Esser, 2009: 103). Improved democracy does not inherently prevent corruption, so even if democracy has come further in Latin America than in other developing regions, several countries still struggle with extensive corruption, which may bear important implications for the future development of social policy (Esser, 2009: 103).

The limited fund-raising capacity of developing countries is another important obstacle for the expansion of social protection. This is partly a result of economic structure, but also of a lack of administrative capacity: average tax revenue in Latin America was only slightly higher than half of the OECD countries' average in 2005 (Esser, 2009: 103). The composition of tax revenue also shows important differences: indirect taxes on consumption and trade are more important in low-income countries, while taxes on income and payrolls are more significant in industrialized welfare states (Esser, 2009: 103).

In conclusion, there are constraints and positive signs among the structural characteristics analyzed: economy and demography in Latin America resembles OECD countries' average in the 1950s. But the analogy is more complex than the one revealed by this analysis and we must be careful not to make statements based on linear conceptions of development. Another obstacle is that the global context has changed dramatically in the last 50 years and now there are other important circumstances than influence social reform processes, such as increased exposure to international trade and labour markets. Social policy institutions may take other forms than the ones conventionally used, and the extensive involvement of NGO and financing sourced from foreign governmental aid can influence local practises (Esser, 2009: 104). But for this study's purposes, this small structural analysis serves to establish bases for comparability.

### 3.4 Data collection

The empirical analysis only uses indicators from recognized and reliable primary and secondary sources such as the Luxembourg Income Study (LIS), the Mexican National Institute of Geography and Statistics (INEGI), the United Nations Development Programme (UNDP), and the Institute for Future Studies (IF). It also relies on other primary and secondary sources such as newspaper articles, historical reviews, and previous data analyses. But even though the analysis only uses reliable sources, there are some complications derived from the data collection that need to be acknowledged.

This kind of comparative analysis requires comparable data, which are rare due to the difficulty of assembling them (Palme, 2006: 401). Also, operationalizing variables in developing contexts is often exceptionally difficult, not least because of the lack of data (Abu Sharkh, 2010: 32), which has indeed restricted this study's potential.



As previous studies on the topic have pointed out, the absence of reliable and comparable data on income inequality, as well as on social rights and their institutional structure, restrains our possibilities of obtaining a more accurate understanding of contemporary welfare states and their distributive consequences (Palme, 2006: 390). Still, the analysis will try to capture the diverse intentions of different models of social policy as well as their final outcomes. Another issue is the difficulty of measuring inequality. So far, the Gini coefficient remains the most used indicator. Furthermore, since the research design entails analyzing a long time period, it is necessary to use data that goes back relatively very far in time, and the Gini coefficient is by far the best indicator to do this, due to its availability. Inequality would ideally be measured by complementing the Gini-coefficient's variation with the descriptive analysis of changes in income distribution per population deciles. Since the historical evolution of these indicators is not always publicly available, the analysis will have to be restricted to analyzing the part that is.

This means that rigorous statistical inquiry for correlations will not be possible. But it will be possible to point out certain trends through the use of descriptive statistics. The analysis will attempt to relate those trends to institutional regime shifts. As with any other kind of study, it is important to point out that correlation does not imply causality, but it is enough to suggest it.

As Korpi and Palme noted, a common problem in comparative research is the lack of good quantitative indicators for some hypothesized variables of relevance, which results in having to use available proxies (Korpi 1997: 17). Analyzing social protection in developing countries can be a greater challenge due to the lack of comparable and high quality data as well as to the existence of a broad range of social institutions and relationships that must be taken into account (Esser, 2009: 97). This kind of problems makes generalizations difficult but should not make the analysis unworthy. The lack of publicly available data also means that some potentially useful indicators will not be included in the analysis, but their potential effects will be acknowledged.

At this point, it is important to make clear that the empirical analysis excludes the direct study of poverty levels. The reason is that including this element would bring about further complications that cannot be addressed here due to the scope of the study. And given that the study's most important goal is to analyze the mechanisms behind inequality, this element has been prioritized.

On the other hand, comparing such diverse cases has another advantage. Certain aspects are so clearly different that there is no need to go deeper into them in this study. Therefore, they are only acknowledged in order to not overestimate the importance of the study's main variables.

Finally, it is important to have in mind that although the employed indicators are imperfect and several objections can be made to the use of each, they are the most reliable options available and probably the best available tools for this analysis. Furthermore, they will be used together to attempt to complement each other.

### 3.5 Analytical framework

With all that in mind, it is possible now to describe the framework used in the rest of the analysis, which has been created with help from the existing research on the topic. The most important element of the framework is the way in which welfare regimes create solidarity and inter-class coalitions through their institutions. The typology created by Korpi (1999) and Palme (2006) is the base to study those mechanisms, but given the need to analyze aspects of the regime which that typology does not content, Esping-Andersen’s typology will be used as a base to characterize the social policy paradigms and principles behind each of the analyzed welfare regimes. His work should not be overlooked here because those ideal types are useful to compare institutional configurations of social policy as well as to characterize the ideological principles behind welfare regimes. Since developing regions have historically adopted development and social security models based on the paradigms developed by industrial countries, they remain useful to characterize the basic competing paradigms that shape social policy all over the world. The following table reminds us the most important characteristics of each type:

Table 2. The Three Worlds of Welfare Capitalism

<i>Welfare regime type</i>	<i>Social stratification objectives</i>	<i>State’s role</i>	<i>Other societal characteristics</i>
Liberal	To allow individuals to realize their full potential unfettered by pre-existing social hierarchies	- Tendency to favour private remedies for social risks	
Conservative	- To preserve traditional status differences and state’s privileged position	- Paternalistic - Significant social expenditure	- Corporatist order - Significant role of Church and family
Social Democratic	- To construct social solidarity - Broader equality through non-market mechanisms	- Emphasize cross-class universalism - Link state policies to social citizenship	

\* Table by author with information from Esping-Andersen (1990)

Studies that have focused on Latin America provide two very important elements to the study. One is the consensus of them all regarding the social policy paradigm shift that took place in the region around the 1980s. The other one is the characteristics that each of them attributes to the Mexican welfare regime. Among those approaches, Riesco’s (2007) suggestion of a new policy shift in the region is

also incorporated to the framework, but mainly for purposes of the normative analysis. The global cluster-analyses also provide important insight on the particular characteristics of the regime.

I borrow the concept of welfare outcomes and, as the studies that analyze inequality do, I will use the Gini-coefficient to measure them. When possible, this will be complemented with the use of other income distribution statistics. To make a better inquiry of welfare outcomes as such, I will also use the Human Development Index, although we must remember that its availability does not allow us to analyze many points in time.

I employ Esping-Andersen's political-economy approach (1990), which contains several elements proposed by Esping-Andersen, and adapted by others. Three of them are the extended welfare mix (Abu Sharkh, 2010), welfare outcomes and social stratification concepts, through which we can characterize welfare regimes and policy programs. The importance of using this approach is that it embeds welfare institutions in the deep structures of social reproduction and forces us to analyze social policy in terms of power.

From Abu Sharkh and Gough's framework (2010) I also borrow the idea of an empirical research design that does not extend the analysis to include structural and cultural aspects of societies, but does consider the extent to which certain structural factors are correlated with the patterns they proposed. But while they used cluster analysis to test their hypothesis, this study relies on a more constructivist approach.

Last but not least, I use Korpi (1999) and Palme's (2006) conclusion that earnings-related benefits have more equalizing results than flat-rated ones because of their class-coalition properties, for the normative part of the study. This means that the role of the middle-sectors of society will be emphasized. From that theory, the most important elements for the present study are: 1) the link between social policy institutions and their impact on the distribution of economic welfare, which indicates that there is scope for policy making as a strategy of equality, as has been shown for most industrially developed capitalist democracies (Palme, 2006: 400); and 2) the focus on how to create and maintain social solidarity in society (Palme, 2006: 401).

## 4 Sweden: the base of an ideal type?

### 4.1 Overview of the regime's development and principles

Although Sweden was a late industrializer in the European context, it caught up fast and steadily (Schön 1997, 2007). Industrialization gave impetus to the emergence of an industrial working class, the peculiarly Nordic tripolar class structure (capitalists, workers, and farmers). When it began to take shape, the Nordic countries began to legislate national insurance that covered the whole population. Sweden was the first one to introduce a pension reform in 1913, which combined fully funded contributory pensions with means-tested supplements (Kangas, 2009: S63).

World War II was a turning point for social policy. In the middle of the 1950s, the other Nordic countries followed Sweden's example and changed their national pension schemes. They began with the agrarian principle of "little but to everybody" and abolished means-testing in the basic pensions system, creating the broadest possible political base for combating poverty among the elderly. In the 1960s the levels of compensation were still low in comparison to international standards. But Scandinavian countries rapidly industrialized during the Golden Age, which meant a growing need to compensate the working population for loss of earned income in case of incapacity to work due to social risks. The percentage of agricultural workers declined and the Nordic countries proposed earnings-related benefits in the pension and health insurance systems. Voluntary state-subsidized social insurance institutions, particularly for the sick and unemployed, were another development in welfare cooperation between states and social movements (Kangas, 2009: S64). Korpi points out that full-employment policies were a fundamental part of the welfare state, and if we consider that unemployment has weakened the contractual force of working classes, the middle sector's position against public services and transferences appears to be determinant (Messina, 2010: 2940).

In the 1990s recession, Sweden pushed the public deficit and unemployment to record levels but experienced a strong recovery without having to sacrifice its welfare state; its growth rates have been on the same level as the USA's and considerably better than those of the European Union's average. Since then, Sweden has remained in the regime of floating exchange rates with explicit inflation targets, but in the same fashion as the other Nordic countries, it adopted the policy of low inflation and central bank independence. Although the adjustment was initially painful, it subsequently functioned very well (Kangas, 2009: S68-9).

The recovery strategy was actually based on the raise of taxes and the restriction public expenditure growth. Nowadays the Nordic welfare states are characterized by high public employment, universal benefit systems, extensive publicly provided welfare services, high taxes, low poverty, and corporatist labour-market structures. They have responded to tax competition by lowering corporate tax rates and taxes on capital income, which were compensated by other tax increases in labour and private consumption. The state's exceptionally good position was an important support for those measures. (Kangas, 2009: S69).

Some have emphasized the role of the so called information age, which some believe will necessarily increase social inequality and exclusion. However, the dominant trend in the world indicates otherwise. He argues that Sweden has prioritized this area which, among other things, has helped create a special culture of innovation – the open source culture- that has been the basis of key technological creations (Kangas, 2009: S70).

Eero argues that only gradually were the goals of universalism and full coverage attained in health care and other related social protection systems through the use of labour force in one unified program. This was importantly supported by concentration and full formal employment (Eero, 2006: 54). The state has subsidized job search with increasingly generous benefits when the unemployed have been unable to find a job, while at the same time encouraged the search through a variety of active employment measures which may entail working for the public sector. There have also been other services for job seekers, such as “matching assessment” and publicly organized or subsidized labour market training. Employment services have also prevented the need for targeting and although anti-poverty cash programs exist, they also include those working for very low incomes and have remained a last-resort program (Eero, 2006: 54).

In addition to formal employment, low formal unemployment, and low shares of labour force nonparticipation, labour union policies of decreasing the share of low-wage and low-productivity work have limited the costs of such last resort programs (Eero, 2006: 54). All of these institutions have taken time to develop and consensus was hardly there to begin with (Eero, 2006: 54).

## 4.2 Welfare outcomes

Despite not being a very large country in relative size or population, Sweden's economy is one of the most important ones in the world. In 2009 the World Bank ranked its GDP as the 22<sup>nd</sup> largest one in the world (WB, 2009). This might not come as a surprise but it will be interesting when contrasted to the Mexican case. In terms of income distribution equality, Sweden consistently occupies the first spots of the same institutions' rankings. The following table shows the income distribution by percentiles for Sweden in 2000:

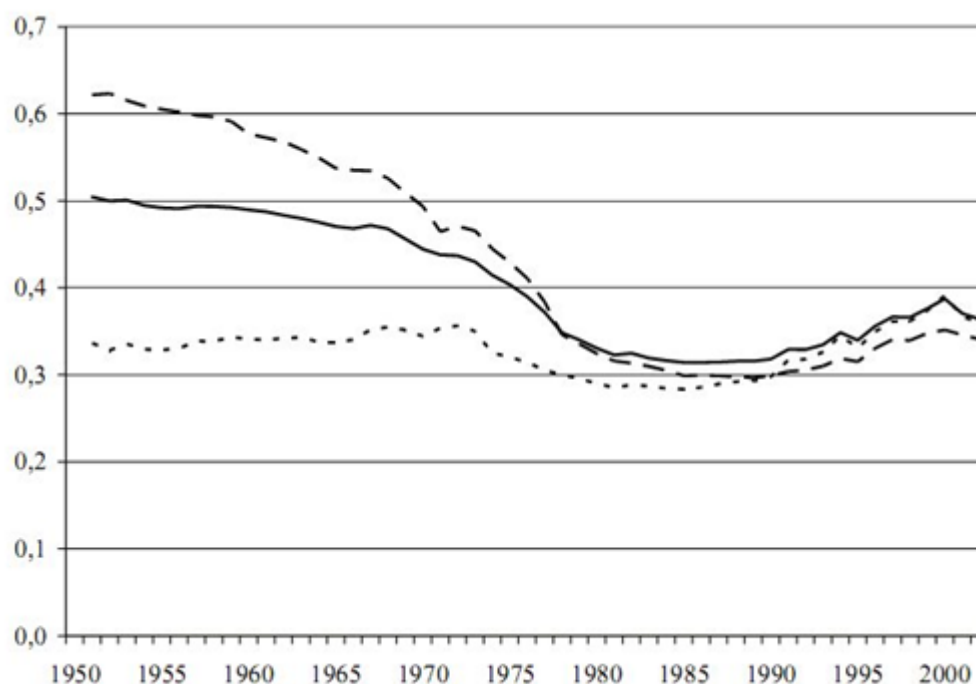
**Table 3. Income distribution by percentiles in Sweden (2000)**

Income share held by...	2000
... highest 10%	22
... highest 20%	37
... fourth 20%	23
... third 20%	18
... second 20%	14
... lowest 20%	9
... lowest 10%	4

\*Table by author with data from Luxembourg Income Study (April, 2011)

Without being perfectly egalitarian, this distribution shows few striking contrasts. The largest income shares belong to the highest 20%, but from that percentage, only 22% belongs to the highest decile. The middle deciles concentrate an important share of the income, while the lowest ones concentrate 14% and 9%. The next graph shows the evolution of the Gini-coefficient for Sweden between 1951 and 2002.

**Graph 1. Gini-coefficient for the population over 20 years-old in Sweden by gender (1951-2002)**



\*Graph by Mats Johansson (2006)

The dotted-line represents the Gini-coefficient only for men, while the dashed-one represents women and the complete one the aggregate population. Judging by this indicator it seems that around the 1950s inequality in Sweden was at least as high as it is in Mexico today. For more than 25 years, it seems to have decreased steadily until its minimum in the 1980s. It stayed constant for around a decade but

slowly started increasing, without ever getting nearly close to the levels it had around 1950. Following international trends, inequality seems to have started rising around the time that liberal social policies started taking more importance. Still, the Swedish regime remains mostly encompassing and social-democratic, and most importantly, with very low levels of inequality. Another interesting fact is that the gender indicators show that inequality estimators decreased almost only due to the decrease in women's inequality, since the coefficient did not change much for men in around 50 years. This suggests that policies aimed to encourage women to enter the job market (characteristic of Social-Democratic regimes) had a strong effect on the decrease of inequality.

# 5 The Mexican welfare regime: is the third time the charm?

## 5.1 A general overview of the regime's development

Mexico's welfare regime is, to a large extent, a product of the process of formation of the post-independent state, and subsequently the consolidation and eventual transformation of the state that was born with the 1910 Revolution (Brachet-Márquez, 2007:118). Brachet-Márquez identified four historical periods in its development: the Independence, Reforma and Restored Republic (1822-76), the Porfiriato (1877-1910), the Post-revolutionary rising welfare regime<sup>9</sup> (1917-82), and the Retrenched post-revolutionary welfare regime (1982-2003) (Brachet-Márquez, 2007: 118). This section explains the most important ways in which those four stages marked the development of the contemporary Mexican welfare regime, but gives priority to the last two.

After the revolution, public welfare was used by the dominant party to deal with issues of legitimacy and public support (Brachet-Márquez, 2007; Dion, 2006: 8; Kurtz, 2002; Singer, 2007). The Revolutionary winners were not those more closely related to the rural masses, but since these had been important allies, their needs could not be completely overlooked. Therefore, the post-revolutionary period witnessed the establishment of most of the social institutions of the country throughout six decades. A dominant party emerged and used welfare provision as a mechanism to maintain stability.

The period between 1940 and 1982 has been called the ascending phase of the welfare state in Mexico because the workforce kept being incorporated into social insurance and there were advances respecting other social matters such as public education and land distribution (Brachet-Márquez, 2007: 125-130). Given the precarious situation in which the population was, bad management of the funds, corruption of the administrators, continual social segmentation and social isolation of the rural communities were largely allowed and overlooked (Brachet-Márquez, 2007: 126).

In 1972 the government introduced a shared development program of reforms that aimed to help economic growth and social conditions of the masses, but was cancelled after what has been called a "violent confrontation with business leaders" (Brachet-Márquez, 2007: 128). Inequality remained, but there were considerable advances in social policy and the government kept on providing the middle and lower sectors with modest aids such as food subsidies and price

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<sup>9</sup> Brachet-Márquez uses the term "welfare state". But given the distinction previously explained between that term and the one of "welfare regimes", its use has been adapted without modifying the substance of her work.



controls (Brachet-Márquez, 2007: 128-130), while unions retained the biggest bargain power (Brachet-Márquez, 2007: 129). From 1979 to 1982, the income produced by the oil boom allowed the government to create a new anti-poverty program that, with certain modifications, subsists until today (Brachet-Márquez, 2007: 130). There were also more ambitious attempts that even dared to seek securing the country's food independence by starting a network that connected small producers with consumers, but they were forgotten in 1982, when liberal trends took over the principle of food autonomy (Brachet-Márquez, 2007: 130-131).

The year of 1982 was a departure point for the influence of international organizations. It has been called "the onset of decline in Mexico's welfare state" (Brachet-Márquez, 2007: 131). Although Mexico has never been free from the influence of other states and organizations, it was then when, for the first time, its commitment to the International Monetary Fund (IMF) forced the government to make some drastic reductions on social expenditure, while its neoliberal agenda promoted the decentralization of health and education, making it more expensive for users (Brachet-Márquez, 2007: 131). These moves were justified by the pressures created by the ongoing crisis.

In the following decades, Mexico's welfare regime experienced a series of changes that include the retrenchment of social insurance and expansion of targeted, non-contributory social assistance (Dion, 2006: 2). By 1988, when Carlos Salinas became president, the opposition was backed with popular dissatisfaction and the new administration had to find a way to conciliate conflicting demands, which it did by using a combination of economic neo-liberalism and populist welfarism (Brachet-Márquez, 2007: 132; Kurtz, 2002: 304). The pact involved, on the economic side, the strengthening of the alliance with business (which had made inflation control possible until then), the renegotiation of external debt, and the establishment of the North American Free Trade Area treaty (NAFTA) (Brachet-Márquez, 2007: 133).

On the social aspect, one of the biggest moves was to replace the COPLAMAR program with PRONASOL, a new and expanded social program designed to attack poverty (Brachet-Márquez, 2007: 133). The program's funds, which came from the sale of state enterprises, eventually disappeared without eliminating poverty (Brachet-Márquez, 2007: 134). The Salinas's administration not only further-developed the previous administration's economic reforms and established social assistance programs as a clientelistic tool; it also privatized many state industries (Singer, 2007: 11). PRONASOL was also different in favour of enterprises, because unlike others, it didn't involve price control or direct competition with the private sector (Kurtz 2002, 305), a characteristic that these programs have until today.

In the 1990s, Ernesto Zedillo's administration had to deal with a financial crisis that required the help of a billionaire rescue package which at the same time imposed pressures to cut many health benefits and reduce antipoverty expenditures through stricter targeting (Brachet-Márquez, 2007: 134). Through the FOBAPROA, the government had to absorb the bank's debts. A big part of the population was then isolated from health care, so mobile units were created and

financed with another loan from the World Bank (Brachet-Márquez, 2007: 135). The pension system was reformed into a privatized capital system retaining some redistributive features, in which employers were the only winners, since their contributions lowered from 95% to 74% (Brachet-Márquez, 2007: 136).

The new millennium brought a democratic change with the presidential triumph of the Partido Acción Nacional (PAN), an opposition party traditionally related to the Catholic Church as well as to entrepreneurial elites. The new government continued to use a strictly targeted anti-poverty program. Several attempts to privatize more state companies and to allow bigger private participations in them took place. Some of these initiatives succeeded, but a lot of them were defeated by opposition parties in the Congress. Fox's administration created the Popular Insurance programme, directed to the segment of the population that was still excluded from health benefits. The program was supposed to provide health coverage for the large mass of yet uncovered citizens. However, even today the positive results of this program remain unclear, as there are few reliable evaluations on its effects and several popular claims about its inefficiency.

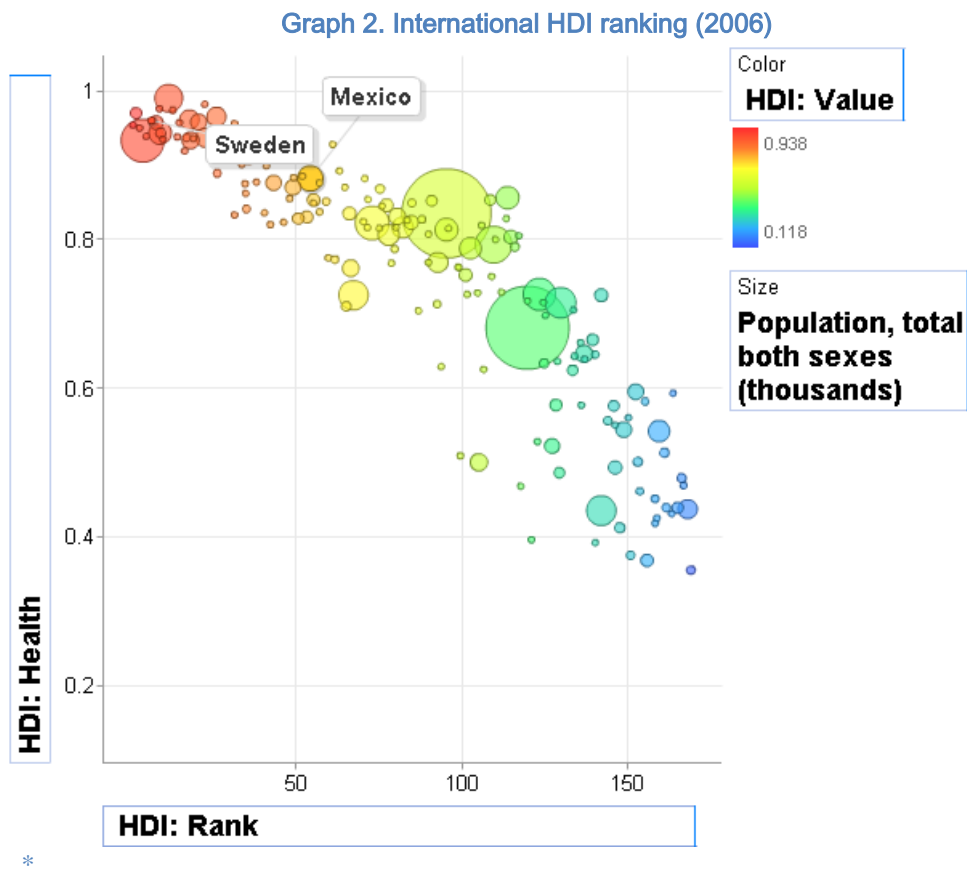
Another important development in the health sector was the retrenchment of the Mexican Institute for Social Security (IMSS), the biggest social security institution in the country, greatly because of its former dependence on the pension system, which had been privatized (Brachet-Márquez, 2007: 137). Felipe Calderon's government, from the same extraction as Fox, has pursued a similar policy line. However, he has had an easier way than his predecessor, who had to deal with much more with the opposition in Congress (Dion, 2006: 2).

International and national private sector pressures shaped the new era of antipoverty strategies. The popular sectors did not have powerful means to keep their needs strongly present in the government's agenda (Kurtz, 2002: 306). Therefore, it has been suggested that the lack of empowerment to the rural population can help explain the changes in the antipoverty strategy (Kurtz, 2002), and it is here where third sector organizations, such as drug dealing cartels, have made an appearance by providing the rural population with certain goods and services. The retrenchment of welfare regimes in cases like this one, depend largely on the ability of those who bear the costs to appeal to this reform efforts (Dion, 2006: 10). For that reason, the rural population and the middle classes (who are increasingly been affected by this retrenchment) sometimes opt for informal, and even illicit, activities to obtain welfare.

## 5.2 Welfare outcomes

Judging by aggregate indicators, Mexico is one of the largest economies not only in Latin America, but in the world. In terms of GDP, in 2009 it was ranked the 15<sup>th</sup> largest economy of the world by the World Bank (World Bank, 2009). In terms of human development, its position is also quite high. The UNDP classifies countries into four categories (according to that indicator): very high, high,

medium, and low, and Mexico is classified in the second highest category (UNDP, 2010). The following graph shows the clustering of countries according to their HDI and HDI adjusted by health in 2006.



Graph by author with data from the UNDP

The next table compares Sweden and Mexico's Human Development Index since the 1980s. Although both indexes have increased over time, the Mexican one has grown more in comparison (although this might be related to its larger growth potential in the 1980s). Overall, the Mexican outcomes do not appear so bad when compared like this.

<i>Year</i>	<b>1980</b>	<b>1990</b>	<b>2000</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
<b>Mexico</b>	0.581	0.635	0.698	0.727	0.735	0.742	0.745	0.745	0.75
<b>Sweden</b>	0.773	0.804	0.889	0.883	0.885	0.885	0.885	0.884	0.885
<b>Low human development</b>	0.271	0.31	0.332	0.366	0.373	0.379	0.382	0.388	0.393
<b>Medium human development</b>	0.361	0.44	0.51	0.555	0.563	0.573	0.58	0.586	0.592
<b>High human development</b>	0.556	0.633	0.659	0.692	0.699	0.706	0.711	0.712	0.717
<b>Very high human development</b>	0.753	0.797	0.851	0.867	0.87	0.873	0.875	0.875	0.878

\* Table by author with data from UNDP

Despite that, the country has been historically characterized by an unequal and inegalitarian income distribution. According to GEA's analysis of INEGI's data, between 1963 and 1996, 20% of households concentrated 55% of the total disposable income of households, while the remaining 45% was distributed among 80% of the population (GEA, 1998: 1). We can identify three periods between 1963 and 1996 with similar tendencies and characteristics regarding income distribution:

- a) 1963 to 1975: during this period, income concentrated around the highest 10% of the population with higher incomes (from 41.9% to 43.6%). In contrast, 30% of the population with lower incomes reduced their share by 7 points. The Gini coefficient increased in 5.7%; in 1975 it reached its highest point in the last 35 years.
- b) 1975 to 1984: during this period, the eight first income deciles increased their income share. That percentage was taken from the 20% with the highest incomes. These last ones reduced their income share from 60.5% of the total in 1975 to 49.0% in 1984. Since 1975, the tendency to concentrate income was largely reversed until 1984, when Mexico reached its lowest inequality level. The Gini coefficient decreased 23.6% since 1975.
- c) 1984 to 1996: after the income distribution favoured the middle and lower deciles of the population in 1984, the tendency was reversed again and income concentrated around the 10% of the population with the highest income levels. That decile's income share increased in 4.2 points. In 1996, the Gini coefficient was 7.2% higher than in 1984, but 4.4% lower than in 1994 (GEA, 1998: 1).

In fact, it seems that in 1996 the income distribution improved in comparison to 1994 (the year before the crisis) and to 1992. That year, the 8 lowest deciles of the population increased their income share. The other two deciles (the highest ones)

saw their share decreased from 54.2% in 1992 and 54.5% in 1994 to 52% in 1996. It seems paradoxical that the years in which the income distribution was the least unequal came after severe economic crisis: 1977, 1984, and 1996. This could be attributed to the fact that the contraction of income derived from salaries affected the entire population. If we take into account the average income per household in each decile, and calculate in multiples of the minimum salary, we will see that in 1996 the population as a whole grew poorer since income was reduced for all deciles, although the relative decrease was larger among the higher-income deciles (GEA, 1998: 1).

That means that the income contraction for the highest deciles was determined by the contraction in salaries, which was of 36.8% in real terms. In contrast, the reduction for the lowest deciles was only of 2.8%. That is because the highest decile includes not only people who receive business profits, but also households with incomes above eight minimum salaries (which is a large percentage of the total number of employees in the economy). GEA argues that, based on the analysis of other indicators, in 1996 income distribution was less unequal than in 1994 and 1992 mainly because the informal economy expanded, because a large number of people started being economically active, and because in the two deciles with highest income we count employees who receive more than 8 minimum salaries (GEA, 1998: 3).

After that, according to the LIS data, inequality increased again in the next two years and then gradually decreased almost to the same level it had in 1984. According to WB's data, inequality rose again since 1998 and reached its former maximum around 2000. Throughout the next four years it decreased again until it reached its previous minimum from 1984. From there it rose again to its maximum in 2008.

In contrast, by analyzing the shareholding percentages of income in Mexico from 1984 to 2008, it appears that there have not been significant changes in income distribution. It is evident that income is far from equally distributed, since around half of it is concentrated in the highest 20% of the population. Another important thing is that from that percentage, half of the population has concentrated the most important fraction through the entire period. It is interesting to see too that in 1984 35% of total income was concentrated in the highest 10%, which means that the remaining half of the highest 20% only concentrated 17% of the income (almost half of what was concentrated in the highest 10%). By 2008, that income concentration had grown 6 points.

**Table 6. Income distribution by percentiles in Mexico (1984-2008)**

Income share held by...	1984	1992	1994	1996	1998	2000	2002	2004	2006	2008
... highest 10%	35	40	41	38	38	41	39	35	38	41
... highest 20%	52	56	57	53	54	56	55	51	53	56
... fourth 20%	21	20	20	21	21	20	20	21	20	19
... third 20%	14	13	12	13	13	12	13	14	13	13
... second 20%	9	8	8	8	8	8	8	9	9	8
... lowest 20%	5	4	4	4	4	4	4	4	5	4
... lowest 10%	2	2	2	2	1	1	2	2	2	1

\*Table by author with data from Luxembourg Income Study (April, 2011)

Unfortunately, it is not possible to analyze changes in inequality before the 1960s, but the analysis presented above shows clear patterns. Although the country has always been marked by inequality, the developmentalist model seemed to have gradually and marginally decreased it. After the mid-1980s, around the time when there was an allegedly social policy shift, inequality seems to have fluctuated in cycles without ever reaching better results than it did under the conservative-informal model. However, it did reach a new maximum.

These trends suggest that none of the previous social policy paradigms has had truly strong equalizing results, although the liberal-informal model does seem to have less equalizing ones. On the other hand, some considerations must be made before passing judgement. Apart from the potential effects of other structural factors not analyzed here, a particularly important fact is that the developmentalist model was benefited by the nearly total dominance of the governing party, while the last governments of the country (at least those under Vicente Fox' and Felipe Calderon's incumbency), have had to deal with a much larger share of political opposition, which has undoubtedly affected their reform capacity. Still, this observation is not out of line with the class-coalition element of Korpi and Palme's (1999) theory: while the conservative regime could rely on broader social and political support by providing certain outcomes, the liberal one seems to have had a much more difficult time obtaining solidarity and the broad electoral support of the former party. Indeed, since the last years of PRI governments, the neo-liberal social policy paradigm started being adopted, which might have had to do (along with several other variables not analyzed here) with the decrease in support that eventually led PAN to power.

## 6 Normative discussion

### 6.1 Lessons from the Swedish experience for developing countries

Developing countries should pay attention to different strategies to enhance welfare provision, and the Swedish case is indeed a good example. But there are reasons for which this particular example is especially adequate for Mexico. The reason is that inequality is a much more important issue in this country than in most others that resemble it in terms of structure and institutions, as Abu Sharkh and Gough's analysis (2010) suggests. The objectives of the Nordic model have been, broadly described, equality, poverty reduction, and full employment (Eero, 2006: 8) and it is hardly questionable whether they have been achieved better in Sweden than in countries with other types of regimes. This section points out what previous studies have identified as key lessons that Latin American countries can learn from the Nordic experience.

Kangas points out four concrete areas that have distinguished the Nordic model which hold potential lessons for the developing world. Regarding the universal welfare state, Nordic countries have actively favoured women-friendly solutions in care and family policies by promoting women's labour market participation. This has entailed constant shifting of boundaries and the emergence of social actors dedicated to caring (Kangas, 2009: S65).

Another concrete area is the relationship between child poverty and the dual-earner model. Kangas distinguishes three models of family policy: the dual earner model, the general family support model and the market-oriented one. In recent decades the Nordic countries have favoured the first one, and comparative analyses show that this model is most effective at reducing poverty among families with children. Not surprisingly, the Paradox of Redistribution is also observed in this area (Kangas, 2009: S66).

A third one is education. Kangas argues that the study of education is urgent in post-industrialized countries because knowledge-intensive economies push up skills premiums and therefore, the less skilled are in danger of falling behind in the earnings distribution. Secondly, the large share of low-skilled jobs that coexist with service economy growth would appear to negate the argument that low-skilled workers are at risk, except for the fact that there is strong likelihood that such jobs become dead-end, low-paid career traps. In addition, mobility programs are ineffective unless participants already have strong cognitive and motivational abilities (Kangas, 2009: S66).

The design of school systems can reinforce stratification through early segmentation. But equal opportunities do not come solely by education. One

lesson from the Nordic model is that the eradication of child poverty yields very positive results indeed, both in terms of alleviating material hardship in childhood but also because economic security is a vital precondition for later achievement. Also, money is a necessary but not exclusive precondition for good life chances. Cognitive inequalities are substantially lower in the Nordic countries, indicating that life-long learning must begin right from the start. If the goal is to exclusively fill the care vacuum, the USA is a good example of how the market is enough to achieve it, but if the aim is to create equal opportunities, the Nordic experience is key (Kangas, 2009: S67).

Finally, Kangas argues that health is perhaps the most important element of individual welfare, and somehow surprisingly, inequalities in health persist in the Nordic countries. However, their infant and child mortality rates perform extremely well, and the association between income and health is curvilinear, which implies that reducing income inequalities leads to improvements in the health of the population. Health cannot be redistributed in the same way as income and what really matters is to improve living conditions and lessen inequalities (Kangas, 2009: S67-8).

When justifying the comparison between Latin American and Scandinavian regimes, Eero (2006) argues that the Nordic model developed gradually, from mainly voluntarist origins, not least in sickness and unemployment insurance. It has been greatly supported by its labour market context, where universalism was possible thanks to full employment. Also, regarding policy transfer, the differences between both regions are major but not insurmountable. In addition, GDP per capita levels in Nordic countries were low when the universalist model was established. Latin American levels actually favour them in comparison. Finally, Nordic social policy programs are compatible with the best-practices of globalization discourse that predicates openness to the global economy (Eero, 2006: 5).

Eero recommends where to possibly start with a change of his kind and writes that if the overall aim of policymakers is to reconcile freedom of individual choice with broader societal equality, reasonable levels of cost control and political concertation, rather than to favour any one of these goals exclusively, at least the following principles may be important to keep in mind (Eero, 2006: 56).

First, regarding financing issues, most Latin American countries have much to gain, also in beginning to formalize labour markets more- by scaling back contributory financing in favour of tax financing also on personal and corporate income. Another promising measure is bringing informal workers in by the use of the so called notionally defined contributions (NDCs), whereby the state can combine aspects of contributory and non-contributory financing logic within existing systems of provision (Eero, 2006: 56).

System unification over prior occupational scheme divisions can also be legitimated as a method of cost control, and also does not need to exclude a role for the private sector. The administrative costs incurred can also be kept low through various methods, as in the reformed Swedish pension system, where the individual premium pension accounts could be administered in a less costly fashion.



In third place, targeting should probably be viewed much more critically than what is the case in much international development debate today when Latin American social security systems are being redesigned. The dominating policy dogma in the region emphasizes high implementation costs, uncoordinated gaps in coverage and take-up, vertical and political segregation of poor service and benefit recipients into other programs than those for the middle class should not be regarded as institutional design features which inflate overall costs on the margins, and also hurt the poor. Still, Eero reminds us that universalist benefits, particularly of the basic security variety, cost very little to administer or to implement even when they may cost more in terms of overall budget (Eero, 2006: 57).

In Mexico, middle and upper classes find private solutions not least for their needs of education and health care, which might be the most crucial kinds of social services where segregated access and provision quickly becomes an issue. More comprehensive and universalist solutions imply overall costs that are far higher than those in Latin American public budgets of today. But the levels of taxation necessary for this may not be easy to legitimate (Eero, 2006: 57).

A fourth principle is that existing levels of inequality and poverty are important to consider when deciding how more progressive policies are to be legitimated and justified. A key question, he argues, is whether broader constituencies, in what are often extremely unequal Latin American societies, can be convinced of the idea that publicly produced or financed services could be supplied which would be of a quality also attractive to the middle and upper middle classes. Although the Nordic countries may have had more equal distributions of goods and incomes, the pros and cons of universalist social security have had to be managed to be legitimated (Eero, 2006: 58).

The fifth principle is that to strengthen the labour markets' base of more inclusive social and labour market policy, not all tools have been possible to use in all combinations during Nordic history. Pro-active labour market policies were thus designed to promote employment and mobility, rather than to subsidize early labour market exit or to conserve ailing industries. In the Nordic countries, state-regulated minimum wages were also largely not pursued; minimum wages have usually been pursued through collective agreements rather than by way of state legislation. When contesting such decisions, the state has not been turned to; the unions are often tended to trust their own resources. This might be difficult to reconcile with more longstanding Latin American union traditions of state-involving corporatism and direct statist labour market regulations. Hence, greater equality by Nordic methods may actually entail setting the unions and employers more free rather than controlling them more (Eero, 2006: 58).

The last principle is that the expansion and reform of existing social policies may be desirable and can be grounded in a broader set of related reforms, and actually in both reinterpreting and limiting conclusions on what the substance of "foreign examples" actually is (Eero, 2006: 56). Eero argues that no single social model for the Nordic countries has ever really existed, much less in Latin America. And there is also no single element in social protection, so policymakers should not focus on only one kind of measure, or be discouraged by failures to

move forward only on one front. The Nordic model has also recognized the importance of a fairly limited labour market policy, the market, and of wage claims (Eers, 2006: 56).

Two things are necessary prerequisites for these kind of reforms: strong unions and strong employers' federations. Elements of potential policy consensus may also be of use (Eers, 2006). Overall, the Nordic experience provides evidence that social solidarity and individual autonomy can be enhanced through legislation, and that it is possible to realize the idea of universal social citizenship (Kangas, 2009: S65).

## 6.2 Why is this a key moment for welfare regime change in Mexico?

The social conjuncture in Mexico is the reason why this moment is key for a change in social policy. The country is facing a war universally considered a matter of life or death against organized crime. Statistics are frightening: more than 16,000 deaths between 2006 and 2010 for a population of more than 100 million (Bastenier, 2011).

In 2006, President Felipe Calderón announced the need of attacking drug cartels without quarrel. He accused these organizations of threatening even the state's authority; of initiating a radical increase of violence in the country and of doing the same for drug consumption (Bastenier, 2011). His strategy has been criticized since the beginning by human rights' organizations, analysts, and some opposition parties (González, 2011).

The reasons behind his strategy, as well as his motivations, are not the topic of this thesis. What cannot be denied is that inside the country, and outside of it too, criminal organizations were seen as a "sleeping lion", which only dealt with its own issues and that had co-existed for a long time without causing the chaos it causes today (Bastenier, 2011).

Somehow ironically, this opens the possibility of creating the social solidarity and class-coalitions that have been absent in Mexico throughout its history and that could mean the start of a more egalitarian society. While before the high and middle-sectors of society had few incentives to cooperate with the poorest, today it seems this option could be the best even for them. In the past, social policies did not benefit these sectors of the population, but today everyone has something to win from them and something to lose from the growing inequality and power that this represents for criminal organizations.

Despite what some critics have said about the President's strategy, it is undeniable that organized crime could have never become this powerful if it lacked the necessary work-force and incentives to profit from illegal activities. It is in the lowest classes where these organizations recruit most of their work-force and that is not something new. What is new is that today they also directly affect the middle and highest classes. Several towns in the country are now dominated

by criminal organizations that “sell” security and “welfare”, on a mandatory basis, to business owners and even white and blue-collar employees. In other words, the dangers that criminal organizations create have increasingly reached the wealthiest sectors of the population. Although there is no measureable evidence on the matter, besides the now very common popular protests and the raise of illegal activities, it seems that Mexican society, especially the most educated and empowered sectors of the population, increasingly grows worried.

I do not argue that social policy would, by itself, stop the growing insecurity in the short term. What I argue is that it has opened the possibility for the poorest sectors to finally form an alliance with the most empowered. A shift in social policy towards more encompassing institutions will not magically solve the problem but it will contribute to it and would ideally set in motion the encompassing-institutions-social-solidarity mechanism identified by welfare regime theory. In this sense, the benefits from cooperating are best described with what economic theory calls the *public goods paradox* because even though the rich prefer to accumulate capital and not cooperate, insecurity might escalate to a point in which they start valuing security and social peace more than capital accumulation.

## 7 Final discussion and conclusions

Mexican governments have based their institutional designs on European and Anglo Saxon Models, but they have never applied a truly encompassing strategy since the necessary incentives for inter-class cooperation were never there. By incorporating the interests of the middle sectors of the population into the design of social policy institutions, Social Democrats achieved broad electoral support for policies that helped eradicate poverty and decrease economic inequality. At the same time, these institutions favoured structural conditions necessary for economic development. Financing universal policies required solidarity from the middle classes, which could only be achieved by offering benefits that they deemed worth paying for. In Mexico, in contrast, the meagre quality of welfare provision has diminished support from the middle and high income classes, who have recur to second and third sector alternatives instead.

A shift towards encompassing models is taking place in several other Latin American countries, and international organizations have also started showing interest in it. The fact that the encompassing model requires high taxes, and generates large social security transfers, has often been described as an unnecessary burden and has generated major concern among social scientists and policy makers, who often fear that universalistic earnings-related welfare state programs will be unsustainable due to the economic inefficiencies, the corresponding budget deficits, and tax revolts they are likely to generate (Korpi, 1997: 28). But the Swedish experience, as well several empirical studies, indicate that there are no major negative labour supply effects nor effects of any slowdowns of economic growth which can be assumed to be caused by this type of welfare regime (Korpi, 1997: 28). In fact, the same evidence suggests that encompassing models encourage incentives to work and are a good strategy to avoid poverty traps because when people perceive that their taxes are being used wisely and produce good results, they are less likely to consider their net salary as their only incentive to work. Therefore, according to the PR theory, the fear of citizens balking at the tax levels required to sustain them, which would lead to considerable budget deficits, does not seem to be empirically supported (Korpi, 1997: 28). And in contrast, countries with less encompassing regimes appear to be more affected by tax avoidance.

Mexico has already experienced the effects of conservative and liberal social policy models, with at best, neutral results. I do not argue that a change of such nature would be easy to achieve, given the importance of other structural, socio-politic and foreign influence variables in the matter. Or that this is some kind of magic solution to the country's problems. But for the most unfortunate reasons, the growing insecurity has at least half-opened the door for solidarity, which has remained closes since the beginning of the independent Mexican state.

## 8 Executive summary

Mainstream economic theory argues that, to maximize efficiency, a society with equity as a goal will be better off by allowing competitive markets to distribute income in order to obtain a larger pool of resources from which the poorest individuals can be compensated through direct transfers. Based on that principle, several countries around the world have re-designed their welfare institutions to broaden their reliance on two elements: increasingly targeted (as opposed to universal) and flat-rate (as opposed to earnings-related) benefits. These types of policies characterize what some authors have called “liberal” and “targeted” welfare states. Through an empirical analysis, this thesis aims to show how the cases of Sweden and Mexico exemplify what Korpi and Palme (1999) referred to as “The Paradox of Redistribution”. According to them, the more benefits are targeted and the more the system relies on flat-rate benefits, the worse the results will be in terms of economic equality.

This thesis relies on that argument but incorporates the use of other theories from comparative welfare regime literature. The second chapter makes an overview of the topic. It starts by analyzing Esping-Andersen's *Three Worlds of Welfare Capitalism*, which has been the most influential work on how to classify welfare regimes. It proposed a typology with three categories of welfare states: liberal (the least de-commodifying), corporative (in the middle in terms of de-commodification), and Social-Democratic (the most de-commodifying one). Each of them used particular policies to achieve specific stratification results.

The liberal type works on the principle that the market is the most efficient tool to allocate goods among individuals, including welfare provision. Without letting the market do all the work, in this kind of regimes the market plays a much more central role than in the other two. It aims to individualize welfare provision to allow citizens freedom of choice regarding the levels of welfare they provide and receive from and to others.

The corporative or conservative one aims to preserve traditional socio-economic status differences and provides welfare differently on a corporative base. Certain corporations (like, but not exclusively, public-sector workers) receive generous welfare benefits. These benefits are typically provided on a household base, assuming that the head of the household is responsible of the other member's well-being. The influence of the Church is very important in this kind of societies, and hence the family scheme is reinforced.

The social-democratic type relies on universal provision of welfare services by the state, which prioritize full employment policies and provide generous and high quality benefits. For that reason, the system is also characterized by higher taxes than the other two.

Esping-Andersen's 1990 typology has been largely criticized but is still the most influential work of its kind. Debate on the empirical and theoretical adequacy of this classification goes on until today, but it remains useful to characterize policy models through ideal types, especially among developing countries, which have historically and specifically tried to adapt these Western social-policy formulas to their systems. Several other typologies have been developed, especially to try to adapt the typology so it fits regions and countries in the world that do not fit perfectly in it. This thesis goes deeper into Korpi and Palme's "Paradox of Redistribution" (PR), and reviews the most salient theories of this kind that focus on global and Latin American regimes.

The Paradox of Redistribution focuses on the institutional design of welfare policies to distinguish four country-clusters: targeted, basic security, and encompassing. Targeted regimes follow the means-tested principle of only taking from the rich to give to the poor by financing these benefits through taxation. Basic security regimes follow a simple egalitarian strategy by paying flat-rate benefits to both rich and poor. State corporatist ones redistribute resources primarily within different corporations and encompassing ones rely on universal earning-related social insurance benefits, giving more to those who already have more. Paradoxically, it is the last type that has the most equalizing effects, while targeted ones have the opposite results.

The reason behind this apparent contradiction is that flat-rate benefit systems do not encourage the middle classes to contribute to the system, while encompassing ones are able to provide high quality benefits for the entire population by precisely attracting the middle classes and crowding out the market from welfare provision.

This thesis analyzes the Swedish case as an ideal type of the social-democratic and encompassing types described before. Through a more constructivist (as opposed to a rigorous statistical test) analysis, it studies the changes in income inequality through the evolution of the system and finds considerable support for the PR, although it acknowledges the importance of several other structural and political factors in the mix. It then uses those elements to make a normative statement.

The comparative analysis reviews the development of the Mexican welfare regime and argues that although in the beginning the system resembled the corporatist model, after the 1980s it progressively evolved into a much more liberal direction, which was detrimental for income inequality in the country. The thesis argues that although Mexico is an economically powerful country in the aggregate level, inequality is so important to its inside that it should be considered one of its top-list priorities. An analysis of the regime's development makes it clear that solidarity and inter-class coalition building has never been encouraged as it could be through the use of a more encompassing system, but it has employed the other two strategies: conservative and liberal, without good results (although it is possible to see a difference between the results of these two). It has not only been an issue of lack of will among policy-makers: the incentives for the highest classes of the population to accept such a deal were also never there. However, the Swedish case suggests that formal institutions need not to be

established once the pieces are already in place; consensus was hardly there in the beginning and it gradually settled in. The analysis of inequality in that country shows a clear and constant decrease during the formation and predominance of the Social-Democratic model, which started changing around the time when the system started acquiring more liberal tones.

The thesis argues that, as a result of the war against insecurity that started in 2006 in Mexico, violence and insecurity have progressively increased to a degree where even the middle and high-classes have incentives to create an alliance with the poorest. While before it was only the last ones who were afraid of the influence from criminal organizations, nowadays it is not an exclusive problem anymore. Middle and high-classes are progressively more affected by the risk that criminal organizations represent. The speed in which that risk has grown makes the need for a change more pressing. Without disregarding the importance of other factors, it is undeniable that the growth of criminal organizations is a result of growing inequality and lack of social mobility possibilities for those who need them the most. The thesis argues that the growth in insecurity, unfortunate as it is, has opened the door to the possibility of triggering the encompassing-institutions-inter-class-solidarity mechanism described in the PR, which could represent a new era for the Mexican welfare regime.

## 9 References

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# 10 Appendix

## Additional comparative indicators of welfare outcomes and social expenditures

\* All tables in this section were made by the author with information from the UNDP, 2011.

<i>GDP per capita (2008 PPP US\$)</i>									
Year	1980	1990	2000	2005	2006	2007	2008	2009	2010
<b>Mexico</b>	11,304	10,977	13,119	13,653	14,155	14,462	14,570	13,667 8	14,192 8
<b>Sweden</b>	22,361	26,978	31,726	35,375	36,648	37,308	36,961	35,606 8	36,139 8

<i>Combined gross enrolment ratio in education (both sexes) (%)</i>									
Year	1980	1990	2000	2005	2006	2007	2008	2009	2010
<b>Mexico</b>	71.5	65.3	71.8	79	80.2	80.2 6	80.2 6	80.2 6	80.2 6
<b>Sweden</b>	74.6	74.1	112.3 1	95.6	94.3	94.3	94.3	94.3	94.3

<i>Expenditure on health, public (% of GDP)</i>			
Year	2005	2006	2007
<b>Mexico</b>	2.7	2.6	2.7
<b>Sweden</b>	7.5	7.4	7.4

<i>Expected Years of schooling (of children) (years)</i>									
Year	1980	1990	2000	2005	2006	2007	2008	2009	2010
<b>Mexico</b>	10.4	10.9	12.1	13	13.2	13.4	13.4 7	13.4 7	13.4 7
<b>Sweden</b>	12.8	12.9	18.9	15.8	15.7	15.6	15.6 7	15.6 7	15.6 7

<i>Expenditure on education (% of GDP) (%)</i>							
Year	1970	1980	1990	2000	2005	2006	2007
<b>Mexico</b>	2.4	4.6	3.6	4.9	5	4.8	4.8
<b>Sweden</b>	7.2	8.5	6.7	7.2	7	6.9	6.7