

**LAYERING VERSUS DISPLACEMENT:**  
**Theories of Gradual Institutional Changes and Welfare Regime  
Transformation in Brazil and Mexico, 1980-2010**

**SOBREPOSIÇÃO VERSUS DESLOCAMENTO:**  
**Teorias das Mudanças Institucionais Graduais e Transformação dos Regimes  
de Bem-Estar no Brasil e no México, 1980-2010**

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**Abstract**

The aim of this article is to analyze institutional similarities between social policies and broader welfare regimes across Brazil and Mexico. Specifically, the article examines trends and events of an approximately three-decade period (from around 1980 through 2010). Therefore, it assesses developments in Brazil through the bulk of Lula's first two terms of office (2003-2010) and through the first two-thirds of the Felipe Calderón presidency (2006-2012). Departing from "gradual institutional change" (GIC) theories, I first argue that similarities across anti-poverty and other social policy arenas mask deeper long-range *divergence across welfare regimes*. Second, to identify such divergence, I recast the problem from one of "social policy reform" to a perspective of institutional change in broader welfare regimes from a longer-term perspective. The results show a dominant mode of "institutional change by layering" in Brazil – addition and expansion of new rules layered onto old ones, as well as new rules introduced on top of and alongside old ones without the destruction or dismantling of existing public institutions - versus a dominant "institutional change by displacement" in Mexico – a logic of substitution whereby pre-existing rules of corporatist citizenship are displaced by new ones of market provision, individualism, and safety nets. Therefore, in Brazil the *public role* for social protection is heightened and the system of social protection expands in Brazil, while the state's role is retrenched and diminished in Mexico, along with a greater reliance on market provision and forces across social policy arenas.

**Keywords:** Gradual Institutional Change theory. Welfare regimes. Brazil. Mexico.

**Resumo**

O objetivo deste artigo é analisar as similaridades institucionais entre o Brasil e o México. Especificamente, a pesquisa examina padrões e eventos de aproximadamente três décadas (1980-2010). Portanto, o artigo avalia os desenvolvimentos no Brasil no grosso dos primeiros dois governos Lula (2003-2010) e nos 2/3 da presidência de Felipe Calderón (2006-2012). A partir das teorias de "mudança institucional gradual – "gradual institutional change" (GIC) theories – argumento que, primeiramente, similaridades através de áreas de combate à pobreza e outras arenas políticas mascaram **divergências** mais profundas e de longo prazo entre **regimes de bem-estar social**. Em segundo lugar, para identificar tal divergência, eu reformulo o problema de uma "reforma de política social" para uma perspectiva mais abrangente de mudança institucional em regimes de bem-estar social a longo prazo. Os resultados demonstram um modo dominante de "**mudança institucional por sobreposição**" no Brasil – adição e expansão de novas regras sobrepostas a velhas propostas, assim como novas regras sobrepostas às antigas sem a destruição ou desmantelamento das instituições – versus uma "**mudança institucional por deslocamento**" preponderante no México – uma lógica de substituição de regras pré-existentes de cidadania corporativista é mudada por novas de provisão de mercado, individualismo e redes de segurança. Portanto, no Brasil o **papel público** de proteção social é reforçado e o sistema de proteção social expande-se, enquanto o papel do Estado é retraído e diminuído no México, junto com uma maior confiança nas provisões e forças de mercado nas arenas políticas.

**Palavras-chave:** Teoria da Mudança Institucional Gradual. Regimes de bem-estar social. Brasil. México.

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## Introduction

In the historical era of state-led development, the institutional similarities between social policies and broader welfare regimes across Brazil and Mexico were pronounced. Both were highly segmented across included and excluded groups and linked to corporatist systems of labor organization and regulation, meriting the apt label of “dual regimes” in which they were grouped together explicitly in larger typologies of Latin American national welfare regimes (FILGUEIRA; FILGUEIRA, 2002). As the two countries underwent parallel political and economic transformations in the late twentieth century - from import- substitution industrialization to market reforms, from authoritarianism to democracy - they also seemed to follow parallel tracks in social policy reform. Strong efforts were made from the 1990s onward to expand primary and secondary school enrollment, to rationalize public health systems and expand services to the poor, to reform expensive public pension systems, and to extend conditional cash transfers (CCTs) to traditionally excluded poor people in the urban and rural sectors. In the two countries, market-reforming governments had also tried to enact wide-ranging legal reforms of corporatist labor institutions on repeated occasions from the 1980s on, though comprehensive reforms proved elusive during this time frame.

At first blush, it would thus seem, as much literature from the late 20<sup>th</sup> and early 21<sup>st</sup> century suggested, that the reform of welfare regimes across Latin America's two giants - and indeed the course of social policy reform in the region as a whole - over the crucial period of *inflection points in welfare regimes* discussed here (approximately 1980 to 2010)<sup>1</sup> indeed followed broadly parallel cross-national tracks; that is, expansion of modest, targeted, time-limited, and means-tested benefits to the traditionally excluded while the scope, depth, and generosity of coverage for the traditionally well organized and well-connected is pared back, all under a more limited “safety nets” or “residualist” approach to social provision by the state. Indeed, while some specific differences are acknowledged across this or that policy sphere, both countries are often seen as part of a broader Latin American convergence around a “modal pattern’ of social policy” consisting of “reforms of core social-insurance programs, efforts to expand social services, and the adoption of antipoverty programs” (HAGGARD; KAUFMAN, p. 2008, p. 265) or, in the efforts of Barrientos (2004) to adapt and update the Esping-Andersen (1990) welfare regime research tradition for the developing world, convergence toward a “liberal-informal welfare regime;” the latter would be characterized by “scaling down employment protection, replacing social insurance with insurance schemes based on individual savings...., decentralizing education and health provision, and encouraging private provision and private financing.” More generally, the expansive and institutionally oriented notion of welfare regimes points to the *interconnections across spheres of*

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<sup>1</sup> See Huber and Stephens (2012), particularly Chapter 7. The authors use the similarly broad framework of “social policy regimes,” adding to the Esping-Andersen Global North welfare regime construct (1990) an additional focus on health and education policy.

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*social policy* – pensions and social insurance, anti-poverty/social assistance policy, transfers related to labor markets (training, unemployment insurance), health insurance and health provisions – often treated separately in policy analysis-oriented discussions of social policy.

What is more, in policy discussions about anti-poverty policy and the growing comparative literature on the political economy of CCTs – which unlike this study were not informed by a holistic perspective on social policy models such as the welfare regime framework – Mexico’s Progres/Oportunidades is frequently lumped together with Brazil’s Bolsa Escola/Família given their similar focus on targeting, means testing, and conditioning of cash transfers on behavioral modifications designed to lift the poor out of poverty.<sup>2</sup> Some minor cross-national differences are noted in many of these analyses, to be sure, but strong similarities tend to be a much more dominant theme as the studies emphasize how much different the program designs are from traditional social policies in the respective countries.

This paper is a retrospective view of trends and events over an approximately three-decade period from around 1980 through 2010. It thus assesses developments in Brazil through the bulk of Lula’s first two terms of office (2003-2010) and through the first two-thirds of the Felipe Calderón presidency (2006-2012). Subsequent dynamics of both countries opened up shifts in national trajectories to which brief allusion is made in the concluding section. In this paper I will argue, first, that superficial similarities across anti-poverty and other social policy arenas mask deeper long-range *divergence across welfare regimes* (conceived of broadly to also include what I call labor regimes) in Brazil and Mexico. This divergence was in evidence from the 1990s and grew over time. An important step toward identifying these differences is, second, to recast the problem from one of “social policy reform” – emphasizing policy enactments and legal changes as well as resistance to and modification thereof – to one of institutional change in broader welfare regimes understood from a longer-term perspective. Of particular utility in this regard is re-casting these issues as a *problématique* best captured by and analyzed within the conceptual apparatus of “*gradual institutional change*” (*GIC*) theories, as developed insightfully in work by Thelen and Streeck (2005a, 2005b) and Mahoney and Thelen eds. (2010a, 2010b).

Within this variant of institutional analysis, particular attention is paid to instances of *cumulative* change within institutions that is initiated, intentionally or not, by actors operating within them as well the dynamics by which institutions may well exhibit their own propensities for change quite independent from exogenous “environmental” shifts. There thus tended to be an important, longer-range emphasis that extends beyond the typically more time-limited focus in comparative social policy reform studies on “reform episodes” followed by long periods of stasis or implementation; this focus was informed theoretically by a path-dependent/critical juncture view of institutional change that is called into question by the GIC literature

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<sup>2</sup> The literature on CCTs is voluminous, and an annotated bibliography published in 2009 by the World Bank provides a prime example of the policy-oriented literature, including critiques (MILAZZO, 2009). For studies offering comparisons of Bolsa Família and Oportunidades (to each other and to other CCTs in the region), offering both praise and criticism, see in particular p. 21-24.

as one among several possible modes of institutional change, but by no means the exclusive or dominant mode. GIC theory provides, I argue, an analytical language that helps us build on the empirical insights of works such as Kaufman and Nelson eds. (2004) that noted that, at least in areas such as health care and education, piecemeal and incremental change tended to prevail over more fundamental reform. We can re-cast these findings of limited reform if we expand our time horizon but above all our understandings of institutions, the complex roles played by institutional incumbents and challengers (beyond just embracing or resisting the reform proposals of policymakers as conventionally portrayed), and the *various* modes by which social welfare and other types of institutions linking state and society may change. Seemingly minor or limited change can often cumulate into deeper, lasting reform and the GIC literature provides a typology of modes of institutional change (including more rapid or discontinuous change) and a language and analytical apparatus to explain change *within* institutions that over time can lead to change *of* institutions.

Following alternative modes of institutional change identified in GIC theory, third, I identify a dominant mode of “*institutional change by layering*” in Brazil versus “*institutional change by displacement*” in Mexico evident in their respective social welfare regime evolution from the 1980s through 2010. In Brazil this meant what I call a logic of addition and of expansion whereby new rules, including new entitlements, are layered onto old ones and new rules introduced on top of and alongside old ones; this occurs, I argue, without the wholesale destruction or dismantling of existing public institutions, and instead often with an effect of reinvigorating them. In Mexico, by way of contrast, what I will call a “logic of substitution” instead prevailed, whereby pre-existing rules of corporatist citizenship are displaced by new ones (much closer to the dominant images of Latin American social policy reform discussed earlier) of market provision, individualism, and safety nets; for their part, institutions of corporatist labor protection are converted toward the promotion of labor flexibility and employer workplace control (institutional *conversion* is another path of institutional change posited by GIC theory).

The net result – in my fourth argument – is one which the *public role* in the provision of social protection is heightened and the system of social protection is expanded well beyond historical bounds in Brazil, while the state’s role is diminished and retrenched with greater reliance on market provision and market forces across social policy arenas and relatively more restrictive policy toward the poor in Mexico. In failing to contemplate gradual institutional change seen over a longer-range perspective and in shying away from a more holistic and expansive view of institutions that shield or subject citizens to market forces, I conclude, much comparative analysis from the first decade of this century missed or underplayed what are often fundamentally different and even divergent cross-national patterns of change in historical welfare regimes from the populist and ISI era.

### Mexico: Institutional Displacement of Established Welfare Regime Rules

Displacement: the removal of existing rules and the introduction of new ones.... This kind of change may well be abrupt, and it may entail [a] radical shift...[y]et displacement can also be a slow-moving process. This may occur when institutions are introduced and directly compete with (rather than supplement) an older set of institutions...often by actors who were 'losers' under the old system. If institutional supporters of the old system prove unable to prevent defection to the new rules, then gradual displacement may occur (MAHONEY; THELEN, 2010b, p. 15-16).

"Last in, first out" seemed to be the initial order of the day in the restructuring of the Mexican welfare state. Market reformers who populated key ministries and were propelled by economic crisis from the eruption of the debt crisis in 1982 took on first the programs that had the least political support and had been created the most recently, by the populist-leaning Echeverría and López Portillo administrations (1970-1982). Thus, COPLAMAR,<sup>3</sup> an umbrella organization founded in 1976 to coordinate the provision of health care, education, and basic infrastructure in poor rural zones, was ended as a separate institution in 1983 (though some of its activities were carried on under the Instituto Mexicano del Seguro Social-IMSS, first as IMSS-COPLAMAR and then as IMSS-Solidaridad); CONASUPO<sup>4</sup>, which operated thousands of stores that sold basic products to low-income families in urban and rural areas at subsidized prices, was scaled back and then eliminated; the Sistema Alimentario Mexicano (SAM), which sought food self-sufficiency for Mexico in basic grains and was founded in 1980, was discontinued. In addition, overall health and education spending plummeted. Overall, social expenditures were slashed in the 1980s, beginning a slight recovery only in 1989, the first full year of the Salinas government.

By the end of the 1980s, with improved macroeconomic conditions and Salinas seeking to regain the ruling party's hegemony after the contested 1988 election marred by massive fraud, the political focus shifted to securing political support for deepening of market reforms (including privatization of the *ejido* system and NAFTA entry) and continued one-party dominance. The National Solidarity Program (PRONASOL) was borne as a multi-faceted scheme of public works, education, and other social services and infrastructure created outside the line ministries and directly under presidential control, but with decentralized administration through local solidarity committees (CORNELIUS; CRAIG; FOX, 1994). From a GIC perspective, it is important to underline that PRONASOL stepped into the institutional and policy *vacuum* created by the displacement of former programs and program logics serving similar social service (and political) constituencies – namely, the poorly organized or unorganized urban and rural poor, not encapsulated within the corporatist structure of the PRI through its urban labor,

<sup>3</sup> Coordinación General del Plan Nacional de Zonas Deprimidas y Grupos Marginales

<sup>4</sup> Compañía Nacional de Subsistencias Populares.

peasant, and urban-popular “sectors” and historically excluded from or badly served by Mexico’s dual welfare regime of (relatively) protected insiders. Institutionally, PRONASOL would serve as somewhat of a transition between the “populist” welfare programs of old and the market-oriented ones that would follow it – combining targeting and selectivity (new elements that its successors would draw upon) with political clientelism (a historically entrenched practice) in terms of the focal groups and “conditionality” for assistance. Even though Salinas’s (second-choice) handpicked successor succeeded him after the 1994 presidential election, a combination of the peso crisis, Salinas’ rapid fall from grace once he was out of office and PRONASOL’s close identification with the figure of Salinas combined to make the institutional continuity of the program unviable.

The other major welfare regime shift initiated under the Salinas government (1988-1994) was *education* decentralization. Through a top-down reform pact with the national union (SNTE) leadership it had helped bring to power by ousting the old guard former leadership – and acting against the true organized grassroots opposition within the union grouped in the CNTE which had long struggled against that entrenched leadership (COOK, 1996) – the Salinas administration secured an historic decentralization of decision-making to the states regarding staffing, pay, and budgets (GRINDLE, 2004; HAGGARD; KAUFMAN, 2008, p. 271). This displacement of the institutional rule of centralized decision-making through deal-making and substitution of the principle of decentralized decision-making by governors and decentralized bargaining with local union sections (some loyal to the national boss and some in opposition) set into motion longer-term, gradual substantive changes in education sought by neoliberal reformers, like seeking to link pay to performance, increasing teacher workloads, and altering curricula. Later, under the Calderón government (2006-2012), there were around 2010-11 mass teacher protests in several states and the capital by the strong dissident current (CNTE) within the National Teachers Union (SNTE) regarding the punitive nature of the system of teacher evaluations, examinations, and performance reviews that the union leadership negotiated with the federal and state government and imposed on its membership.

By 1997, under the Zedillo administration (1994-2000), aspects of targeted assistance to the poor from PRONASOL had been repackaged and reoriented by technocrats at SEDESOL, the Ministry of Social Development, into a *CCT program*. The elements of explicit political clientelism and conditionality were eliminated or lessened. At the same time, the program operated under an implicit self-imposed budget constraint and without ever setting explicit coverage targets (as Bolsa Família set periodically) – such that expansion was relatively slow and cautious by comparison. As of 2011, the program was reaching 5.8 million families ([www.oportunidades.gob.mx/](http://www.oportunidades.gob.mx/)), expanding from 2.6m in 1999 (as PROGRESA) and 5 million in 2005 (HAGGARD; KAUFMAN, 2008). From a longer-term perspective, a new institutional modality of CCTs, as it was consolidated and expanded, gradually displaced the amalgam of transfers of goods and services to the poor through the Salinas-era PRONASOL and, before it, a more extensive set

of programs originating in the 1970s that were dismantled or phased out in the 1980s or by the early 1990s. However, Oportunidades (originally called Progresá) maintained a system of centralized federal administration that had strong historic roots in Mexican social policy, with no role for municipal or state governments (unlike the strong role of this level of government in Bolsa Família's origins and certification of conditions fulfillment by recipients) and little effective role for civil society organizations or organized recipients (unlike PRONASOL's emphasis on bottom-up participation thorough "solidarity committees"); it contrasted somewhat, at least with promotion of decentralization, with reforms in the health and education systems. In addition, Oportunidades (later renamed in 2014 as Prospera) employed a stricter form of means-testing (Bolsa uses income self-reporting) and had a more rigid monitoring system of conditions fulfillment (SOARES, 2012; SOARES; RIBAS; OSÓRIO, 2010). The nature of the targeting mechanism and slow roll-out of the program meant under Oportunidades considerable errors of "undercoverage" (eligible beneficiaries who are not reached), while any bias in Brazil was in the opposite direction and more recently the principle of "at risk for poverty in the next two years" and of minimum two-year eligibility was instituted. One can see in Oportunidades then a heavy guiding focus on behavioral modification of the poor, stronger implicit emphasis on limiting the program to the "deserving poor," and strong commitment to the theory of breaking the inter-generational transmission of poverty through greater investments in the "human capital" of children; in the eyes of critics who conducted or reviewed in-depth qualitative research with female beneficiaries (e.g., MOLYNEUX, 2007; RAVAZI, 2007), maintaining eligibility in a program with such elaborate conditionalities as Oportunidades required considerable time and even resource expenditure in meeting requirements and verifying compliance with conditions.

In sum, there was an institutional *displacement* of the programs, principles, and policies of emerging social protection for the poorest segments of the Mexican populace emerging in the 1970s in favor of a new set of norms embodied in Oportunidades (and its sister program Procampo). Programs from the earlier era relied on such non-market "populist" principles as subsidized consumption and state assistance for small producers as well as subsistence production (all under what was still a model of state-led development); in practice many if not all of these programs exhibited considerable use of clientelistic exchanges between state and party elites on one hand and actual and potential beneficiaries in terms of which individuals, communities, and organizations gained access to state resources and on what terms (and this frequently distorted the ability to reach the poorest segments adequately). Other exchanges involved more across the board subsidies in which it was difficult to exclude those who wished to take advantage of, say, tortilla subsidies or Conasupo stores open to the general public. In keeping with the radical shift in the economic model toward openness, competition, and promotion of exports that took place from the early to mid-1980s, the principles of social provision for the poor guiding what would become Oportunidades were oriented instead toward a combination of (1) short-term poverty alleviation (through carefully means-tested benefit checks) and (2) long-term poverty reduction

or eradication through incentivized household self-investments and behavioral changes that would enable the children of poor households to “bootstrap” their way to higher living standards based on improved insertion into more competitive and less regulated labor markets. In contrast to the heavy and explicit political “mediation” through state and party institutions of populist-era anti-poverty programs, Oportunidades entailed fewer bureaucratic mediations and the new program – to the extent one could so it took steps toward institutionalization in the period in question – did so largely based on a more impersonal and diffuse political exchange mediated through (real or perceived) electoral support engendered for state incumbents.

In the *pension system*, Mexico experienced perhaps its most abrupt and sweeping change in established norms of social protection for “insiders,” though the new system was phased in and was extended to public servants outside the social security administration late in the period under study. In 1997 and still under the outgoing authoritarian regime, the Zedillo government won congressional approval for a reform whereby individual savings through private fund administrators gradually came to displace the pay-as-you-go system of defined benefits with its principles of inter-generational solidarity. This was the most radical, neoliberal pension reform in the region along with that of Pinochet’s Chile. In order to forestall resistance from powerful veto players connected to the ruling PRI, the major public-sector unions representing the social security system and its hospital network (Instituto Mexicano del Seguro Social-IMSS) and public servants (Instituto Seguridad y Servicios Sociales de los Trabajadores del Estado-SSSTE), were treated differentially as the initial reform instituted a total privatization for “only” the private-sector workforce.

The IMSS was reformed that same year under a deal reached with its union such that the IMSS would operate its own AFORE (a clear political “side payment” to union leaders), existing workers or retirees could transfer their savings from the Sistema de Ahorra para el Retiro created in 1992 to individual accounts there with a top-up from the federal government or continue in the existing system, and all newly hired workers would henceforth enter the individual account system. Having thus instituted abrupt privatization in the private sector and creeping privatization with buy-in by a major veto player for the IMSS, and set into motion the creation of a politically and economically potent funds administration industry (Administradoras de Fondos para el Retiro-AFORES), politicians technocrats running key economic ministries across both PRI and then PAN governments subsequently bided their time for a political opening until 2007 before striking the last blow to the traditional public, paygo system. In 2007, the Calderón administration extended the AFORE system to the SSSTE (civil servants), despite strong resistance from the public servants’ union and from the PRD legislative minority, cutting a deal with segments of the opposition PRI to secure passage.

The net results of changes that occurred in the 1990s and 2000s was to create an almost entirely privately administered, market-driven system of old age insurance – under basic regulations set by the state – whereby returns and income replacement rates are variable across



plans and individuals (with their different lifetime earnings profiles) and subject to market vicissitudes. Under the system, pension fund administrators were steadily allowed to invest in increasingly riskier asset classes, such as most recently (from about 2009) private equity, real estate, and infrastructure funds. Meanwhile, more modest and piecemeal efforts were made to expand parallel, modest, non-contributory old-age “stipends,” with federal efforts to some extent seeking to copy a popular program in the Federal District initiated by the opposition-run PRD governments.

In *health care*, changes in Mexico’s highly fragmented system of payers, providers, and beneficiary populations were less fundamental, but still substantial, taking a piecemeal, incremental form with cumulative impacts over time. An effort at decentralization of the health system was made in the 1980s under the De la Madrid administration, involving greater administrative autonomy of Ministry of Health facilities, merger of them with those of IMSS-Solidaridad, and creation of autonomous state health systems. Yet effective resistance by the IMSS union and its PRI allies helped undercut the reform and restore de facto centralization (GONZÁLEZ ROSSETTI, 2004). Shelving a more comprehensive reform given the higher political priority placed on pension reform and the opposition of the IMSS union, the Zedillo government was content to reform the system of financing, replacing the payroll tax with general treasury revenues.

In 2002-03, under the Fox government, the Ministry of Health created the Seguro Popular, a voluntary benefit with an annual fee based on a sliding income scale (free for the lower income deciles); it targeted poor households not eligible for existing public health institutions and made up of the unemployed or self-employed, and in practice there is considerable beneficiary overlap with Oportunidades. While the program no doubt extended health coverage to many uninsured Mexicans, it fell far short of achieving universal, high-quality access to care, as was its original stated objective. Moreover, it did nothing to overcome the fragmentation of Mexico’s mixed public-private health system and taken inadequate steps toward eliminating the disparity of access to care and especially quality care based on income. It should be noted, however, that the health conditionalities of Oportunidades were found in randomized control trials to increase various indicators of maternal and child wellbeing (in parallel with the demonstrated benefits in educational attainment with its schooling conditionalities).

Mexico’s system of corporatist *labor relations* and of partially regulated *labor markets* stems back to the 1930 Ley Federal del Trabajo in the Cárdenas era, as well as the linkages between monopolistic unions, ruling party, and state forged in the 1930s and 1940s, which tied the labor movement in subordinate fashion into the post-revolutionary governing alliance. It is important to bring labor regulation into the discussion of the welfare regime for a country such as Mexico on several counts, as Dione (2010) and Bizberg and Martin (2012) note. First, many social benefits for workers and their families (in housing, pensions, and health care) were specifically tied to union membership and above all to employment. Second, labor unions were important

actors in terms of shaping social policy across the various spheres discussed above, and there was an important element of discretionality, involving political exchanges among union leaders, rank and file workers, government officials, and party members, that shaped the precise terms of access; these were not truly universal social benefits tied to citizenship but rather a corporatist variant of citizenship. Third, additional social protections for employment flowed out of labor market regulations embodied in the LFT and its various subsequent amendments, as well as its (discretionary) enforcement and implementation across *sexenios* and by national- and local-level labor boards (*juntas de conciliación y arbitraje*). Specifics are discussed below but suffice to say that some of these protections were specified statutorily while other institutional norms emerged in practice in the decades of ISI and populism based on business-labor bargaining and three-way labor-state-business “political bargaining.” In both cases, the combination of the norm-setting and –enforcing yet discretionary power of national labor authorities with the contractually specified form taken by many norms meant that they were thus vulnerable to shifts in the economic and political context, a key point to emphasize in the context of theories of gradual institutional change. The element of discretionality and flexibility in norms made it possible to achieve substantial evolutionary change from the early 1980s onward *within* existing institutional (formal-legal) parameters without having to enact (de jure) changes of institutions. Analyses that would focus only on the failure of repeated attempts, from the Salinas administration on through the latter stages of the Calderón government, to enact changes in the LFT and interpret that as evidence of institutional continuity or stability are thus missing the forest for the trees, and are lacking in a more subtle understanding of institutional change and particularly how it tends to unfold (where it does at all) in historically entrenched systems of labor relations.

In short, the institutions of the established labor relations system were now “strategically redeployed” (following Mahoney and Thelen’s language) on behalf of a new set of goals of privatization, wage controls (*topes salariales*), conversion of the contracts of privatizing or newly privatized state-owned enterprises, flexibility in private labor contracts, and isolation, dispersal, or marginalization of those unionists who would challenge the new economic model at the macro or micro level.

### Brazil: Institutional Change in Welfare and Labor Regimes Through Layering<sup>5</sup>

Layering: the introduction of new rules on top of or alongside existing ones...Layering occurs when new rules are attached to existing ones, thereby changing the way in which the original rules structure behavior...[It] involves amendments, revisions, or addition to existing [rules]...Such layering can... bring about substantial change if amendments alter the logic of the institution or compromise the stable reproduction of the existing 'core'...Processes of layering often take place when institutional challengers lack the capacity to actually change existing rules...[and] instead work within the existing system by adding new rules on top of or alongside old ones (MAHONEY; THELEN, 2010b, p. 16-17).

In an insightful study of the Brazilian *health system*, Faletti (2010) analyzes a process the author characterizes as institutional change through layering, dating back to the 1970s, and which directly informs and shapes the 1988 constitutional changes mandating a unified universal health system under Ministry of Health supervision and with decentralized state and municipal administration. In this longer-term process, the *sanitarista* movement of health care professionals responded to the military regime's efforts to solidify political control by extending health reforms to the countryside by infiltrating the system's bureaucracy and institutions and pushing forward its own agenda of decentralization and universalization from *within* the system. Well before the constitutional reforms of 1988, and the subsequent adoption in 1990 of a key reform implementing decentralization and universalization, a process of incremental, cumulative change of a transformative nature for Brazil's health care system was thus set into motion. That process continued subsequently as the effort to fully implement these principles and develop strong local health institutions continued, pushed forward by a combination of health officials and health care professionals. From being a fragmented system with separate care and administration under the social security apparatus for formal-sector workers and a poorer-quality, underfunded system for informal workers, the public health system thus became universal in coverage and became notably more equitable in the quality of care.

The notion of layering, first conceptualized by Streeck and Thelen (2005b) as a distinctive mode of gradual institutional change and developed insightfully in analyzing health system reform by Faletti, is in fact, I argue, an apt characterization as well of the *overall* evolution of Brazil's welfare regime beginning in the 1970s extending beyond just health care – a transformation in a generally more expansive and inclusive direction through an accretion of new principles, rules and programs alongside, around, and within existing ones. And since some important

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<sup>5</sup> “Layering: the introduction of new rules on top of or alongside existing ones...Layering occurs when new rules are attached to existing ones, thereby changing the way in which the original rules structure behavior... [It] involves amendments, revisions, or addition to existing [rules]...Such layering can... bring about substantial change if amendments alter the logic of the institution or compromise the stable reproduction of the existing 'core'...Processes of layering often take place when institutional challengers lack the capacity to actually change existing rules...[and] instead work within the existing system by adding new rules on top of or alongside old ones. (MAHONEY; THELEN, 2010b, p. 16-17)

social and labor reforms were initiated in the 1970s under the military regime given its efforts to shore up urban and rural political control through controlled co-optation, it is important to include that period as a starting point in an examination of the gradual transformation of Brazil's dual welfare regime in a more expansive direction. The closest analogue to the health sector dynamic of "centralized reform followed by reaction from below and within" resulting in the genesis of new institutional norms that would steadily transform the existing system, across the various spheres of social protection considered in this essay, is in *labor relations*. Here the new unionist movement emerging in the 1970s initiated a more overt institutional challenge to state control than the sanitarias did in the health sector, through strikes and mobilization with a significant political connotation. Yet there was a broad similarity in the sense that it similarly responded to state initiatives (in this case to reinvigorate paternalism and member service provision in corporatist labor unions whose progressive leadership had been ousted after the 1964 coup) by trying to work actively *within* these institutions rather than seeking to form alternative organizations.

As a new generation of militant young workers took control of the leadership of formerly docile, Labor Ministry-dominated unions and used these organizations' resources to mobilize against employers and the military state, dissident elements within corporatist business *sindicatos* also took issue with corporatist business *sindicatos* as well as aspects of corporatist labor relations (KINGSTONE, 1999; PAYNE, 1994). While each group had a different agenda, and business's retreat from corporatist principles was more partial and tactical (much like that of a more centrist union current represented by first the CGT and then the Força Sindical), the net result was a pincer-link movement that undermined the legitimacy of the system of Labor Ministry control and supervision of labor and business organizations as well as of state tutelage of labor relations through the labor courts; this process of erosion of existing norms and emergence of new ones in practice began during the late 1970s and continued on through the latter years of the military regime and then after the 2005 transition to civilian rule. Collective bargaining without (or with much less) state interference emerged as a vibrant new institutional norm whereby well organized unions and employers found it more convenient to negotiate directly with them than through corporatist employers organizations or through heavy reliance on compulsory labor court settlements in the event of disputes, as was customary in the past.

These developments *within* corporatively structured organizations and corporatist institutions of labor relations helped inform the agenda for constitutional reforms during the 1997-1998 constituent assembly. The labor movement and its political allies had partial success in rolling back aspects of the corporatist labor control system as it had operated under the military regime – the right to strike was restored and the Labor Ministry power to intervene administratively within unions and oust their leaders was removed along with its power to recognize unions. There were also some substantive gains in labor protections--also in part prefigured by practical developments in everyday labor relations in dynamic sectors such as

metalworking-- such as the reduction of the workweek to 44 hours, the extension of maternity leave, creation of paternity leave, and regulation of shift work (*turnos de revezamento*). Yet successes were only partial, as business mobilized political support to limit democratizing reforms in labor relations – in particular efforts to end the union tax by which worker and employer organizations were financed and the principle of *unicidade* or monopoly of union representation by territorial unit; moreover, some advances in labor rights were dependent on implementing legislation and regulations that were not forthcoming and/or were watered down in subsequent measures.

Labor market reforms were pursued and partially enacted (legislatively or by decree) by the Cardoso government, most notably temporary and part-time contracts, "hours banks" allowing for flexible scheduling by employers to adjust weekly work hours to demand needs without affecting pay and overall time worked over set periods, and provisions permitting temporary suspension of labor contracts, foremost among them. Yet it in the sphere of labor organization and relations per se, most changes subsequent to the Constitution in the institutional workings of labor relations and labor and business organization were incremental and in many ways built on and deepened the de facto trends that constitutional norms helped legitimate and consolidate de jure. The impact of shifts in the larger policy environment – and particularly wage and incomes policy – was clearly felt at various junctures; in that connection the indexation of wages was weakened and then eliminated under the Real Plan and a longer-term decline in the purchasing power of the minimum wage began to take hold, both under the Collor Plan. However, a more aggressive push to raise real minimum wages and a generally laxer attitude toward distributional conflict were evident under Lula (2002-10) – in the context of buoyant growth and tighter labor markets – made possible gains in real median wages through collective bargaining over the course of the mid – to late-2000s. However, a process of formal tripartite national and local dialogue that produced proposals to democratize labor and business organizations and labor relations was shelved in 2004 under the first Lula government and never re-visited, an historic missed opportunity reflecting failures to achieve a political consensus within the governing coalition and the progressive labor movement and facing business opposition.

Incremental changes of a partially transformative nature and a process of institutional change through layering were also evident in the evolution of the social security system. In the 1970s, the military first created non-contributory pensions and thus added another layer to a paygo system still dominated by contributory principles. In a context of fiscal crisis, the Cardoso government briefly contemplated what would have been a major *conversion* à la Mexico or Chile of an established paygo system via privatization, but quickly focused instead on a "parametric" reform—shifting the terms of existing rules regarding norms regarding eligibility, retirement age, and special pension categories without fundamentally altering the underlying principles (HAGGARD; KAUFMAN, 2008). More draconian proposals for deeper cuts were resisted, and reforms were aimed at the private sector given difficult political hurdles with the

public sector. In the process the fiscal health of the system improved substantially. What stood out about Brazil was that, at a time when pension privatization was diffusing widely through Latin America and across post-socialist and developing countries under considerable outside influence from international financial institutions (MADRID, 2003; WEYLAND, 2004, 2007), there was by contrast a cross-party political consensus in Brazil even at the height of market reforms to shore up a *public* system.

A second phase of social security reform took place under the Lula government, which somewhat surprisingly took on an important core constituency – and endured consequent defections from the Workers Party and in particular the CUT labor confederation from public-sector unionists—in enacting a reform in its first year in office in 2002. The reform equalized benefits across the public and private sectors, raised the retirement age, and eliminated abuses whereby some public servants were able to retire with full wages or even earn double pensions. This further strengthened the fiscal solvency of the system, though critics again argued it did not go far enough. What those critiques fail to appreciate are the political costs that had to be paid within the governing coalition, and the near certainty that going for more would have generated even more resistance and perhaps torn apart the governing alliance, and the fact that there were never serious political proposals or inclinations to “blow up” the existing public system and re-write it from scratch as Mexico did in 1997 or the Pinochet regime in Chile earlier.

These reforms, together with more active efforts to enroll eligible beneficiaries and substantial formal-sector job creation in the last decade, made possible a steady expansion in social security coverage, which grew from 54.4% of the economically active population in 2002 to 59.6% in 2008. Most of the percentage growth is accounted for by an increase in contributory pensions, together with continued urbanization and, later, net formalization of the labor force. At the same time, growth occurred from the 1990s and through the period in question in absolute terms in the coverage of the rural sector, including through expansion of eligibility for non-contributory pensions in the subsistence agriculture sector (a benefit first created under the military regime) as well as the 1993 creation of a new social assistance benefit (*benefício de prestação continuada*, BPC) for the elderly and handicapped living in extreme poverty (less than one quarter of the minimum wage), which began disbursing benefits in 2006. Both types of benefits had substantial equity-enhancing benefits in reducing poverty that increased over time as the level of the minimum wage increased, according to an analysis by the Ministry of Social Welfare.<sup>6</sup>

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<sup>6</sup> The incidence of poverty was calculated based on the national household survey, PNAD, for 2009, and it revealed a reduction in the rate that would have prevailed without social security benefits in the rural sector of 4.1 points in 1992, 8.9 in 2001, and 14.6 in 2008. For extreme poverty, the reduction was even larger, of 8.6, 13.5, and 15.1 points, respectively. Barbosa (2010), Gráfico, p. 3. Reductions of a similar order of magnitude were reported for urban areas (pp. 3-4). In rural areas, 4 million people were kept above the poverty line by social security benefits in 2009.

*Education reform* shares with social security reform and anti-poverty policy a similar trajectory of cumulative change with significant transformation across the 1990s and 2000s and between the Cardoso and Lula governments: Gradual and partial reforms initiated or undertaken in the former period were consolidated, extended, and to varying degrees (across the three policy spheres) expanded in the latter. After backing off efforts to cut spending on higher education based on student and union opposition, Cardoso's Ministry of Education reorganized federal oversight of the decentralized system and reallocated federal transfers toward primary education, teachers' salaries, and subsidies to poor states through the *Fundo de Manutenção e Desenvolvimento do Ensino Fundamental* (FUNDEF), established by Congress in 1996 and implemented from 1998.

As with social security and health reform, education reforms that were given initial legal authority under Cardoso were continued and consolidated under Lula. In 2007, after several false starts, the Lula government transformed the FUNDEF into FUNDEB, with the addition of the terms “*e Valorização dos Profissionais da Educação*” suggesting an additional emphasis on strengthening the role of education professionals in education reform.

Given that education reforms entailed adding new policy goals (decreasing repetition, universalizing primary education, increasing attendance, expanding years of schooling) and instruments (e.g., mandates for states to meet particular targets on spending per pupil and on teachers) to an existing structure of decentralized operation of schools, they are best understood through an institutional lens as instances of layering. These reforms cumulated over time with additional resources and the steady addition of services designed to strengthen and reorganize provision of school lunches, textbook, transportation of children to school, school management, and teacher training. Moreover, these reforms also built, in a longer-range view, on local experiences with education reform in previous years as well as federal programs to support primary and secondary education “hesitantly begun by the Sarney government (1985-1990) and intensified by the Itamar Franco administration (1992-1994)...” (DRAIBE, 2004, p. 389).

Incremental changes that cumulate over time into institutional transformation characterized not only education but also *anti-poverty policy* over the 1990s and first decade of the 2000s in Brazil. Municipal-level experiments in PT-governed cities such as Brasília (the Federal District) and Campinas from the mid-1990s (as well in Belo Horizonte, Vitória, and Recife among others) helped shape political debate about and proposals for a federal anti-poverty program; in 2001 the federal government launched the Bolsa Escola as a nationwide program.<sup>7</sup> Another program directed against child labor (*Programa de Erradicação do Trabalho Infantil*) was established in 1996, with subsequent accumulation of evidence of successes.

Under the Lula government, the Bolsa Escola was expanded, funding increased, and PETI and other existing programs were folded administratively and institutionally into the newly renamed Bolsa Família under a reorganized bureaucracy and new ministry. While 4.5 million

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<sup>7</sup> CEPAL, s.d.

families benefitted from the program by 2002, 11 million did by about 2006. Over time, the conditions expanded to include also medical check-ups and the amount of stipends increased. Through the successful if broad targeting (based on self-reporting rather than means testing, as in the case with the triennial review of the income eligibility of Oportunidades beneficiaries) of the family at poor and extremely poor households – and from 2011 at all households considered based on income to be at risk of falling into poverty within two years – and a system of monitoring fulfillment of conditions with a strong role for municipal government, the program was notable in the clientelistic Brazilian context for its lack of “resource leakage.” It was hailed for contributing to (together with other factors discussed below) a major drop in poverty and a reduction in inequality from the 1990s (BARROS *et al.*; 2010; SOARES *et al.*, 2009), and was also seen as key to Lula’s re-election (HUNTER; POWER, 2007) as well as the PT’s subsequent hold on power after his second term ended, under Dilma (who governed until her impeachment in 2016).

From the perspective of this paper’s focus on welfare regime dynamics, what is key to underline about Bolsa Família is that it constituted for Brazil a novel policy instrument of targeted cash transfers tied to new or at least more clearly and narrowed defined set of goals, namely poverty reduction and school attendance. It developed gradually, based on consensus-building among political actors as well as learning from initial experiences, and expanded in the period under study as its success became evident and documented and its political constituency grew. There was also a synergy with education reform, whereas such integration across social policy spheres had often been historically lacking in Brazil. What is more, the growth and success of Bolsa Escola-cum-Família also helped diffuse the principle of targeting, which one finds also in other programs such as the family allowance (*salário-família*) latter benefitting some four million households under the Ministry of Social Welfare. But the Brazilian approach to targeting was much more expansive and with looser fiscal constraints than is the case with Oportunidades in Mexico. Finally, it is important to mention that equity-enhancing reforms in health, education, and social security and new initiatives in anti-poverty policy were also accompanied by developments in labor market policy and institutions, including incomes policy, that helped reinforce them. These included real increase in the minimum wage under the Lula and then Dilma administrations (through the 2016 impeachment of the latter) after many years of deterioration, a small unemployment insurance program that was extended, and formal-sector job creation and increased funding for training and vocational education. Such supportive equity-enhancing labor market measures were weaker or absent in Mexico. Including both social security and social assistance, social expenditures by the Brazilian federal government as a share of GDP increased from 9.3% in 1995 to 12.9% in 2009 (BARBOSA, 2010, p. 4).



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### **Conclusion: Divergent Processes of Welfare Regime Transformation**

What is striking from a longer-term and cross-national perspective is threefold – first, just how much changed in the welfare regimes of Brazil and Mexico over roughly three decades; second, just how divergent trends were across the two historic “dual” regimes in substantive terms despite broadly similar political opportunity structures and economic constraints and pressures; and third the extent to which change in welfare and labor regime institutions took place through dynamics that are not well captured by dominant theories from the late 20<sup>th</sup> and early 21<sup>st</sup> century about how institutions change (or do not) both in general and in the specific case of social policy and social welfare regimes in these countries.

Tying these issues together is a critical stance I have taken here, following the lead of GIC theory, of a certain standard framework for understanding, evaluating and understanding change that appears in the study of reform of established welfare institutions; this framework is heavily rooted in path-dependent, critical juncture-focused conceptions of institutional change and continuity and related notions of “punctuated equilibrium.” These concepts portray long periods of stasis interrupted by major external disruptions in the political or economic environment that occasion significant reform episodes, the reactions and fallout from which congeal into largely intact, partially altered, or significantly altered institutions, which then enter into a protracted period of continuity as the “new normal.”

This dominant approach is particularly well embodied in Haggard and Kaufman (2008), a work rightly influential for its scope, rigor, and focus on long-term change in the twentieth century. In their account, it is the “liberal welfare agenda” embraced by technocrats and their political allies that dominates reform initiatives and the reform agenda, driven by fiscal and competitive pressures. Standing in opposition are the forces embodying the “welfare legacy” of entrenched stakeholders and policy commitments tied to the import-substitution-era welfare regime. Such forces are empowered by democratization as are as well historically excluded groups pressing for social inclusion. Elite/technocratic initiative with “insider stakeholder” response thus constitutes the essence of reform struggles in the authors’ influential account (though there is a complex and nuanced account of factors influencing the terms of engagement and conflict). The extent of reform is measured by the extent to which the neoliberal agenda prevails, as outcomes short of it are characterized as limited, mixed, partial, or piecemeal—thus not leaving space for a *process of substantial evolutionary, cumulative changes over time*.

The Brazilian welfare regime trajectory in the period in question illustrates that actors other than technocrats – groups in civil society, left political parties and movements – can shape reform debates and struggles. It also shows that the term technocrats may be overly rigid, insofar as those political forces and policymakers most approximating it had less adherence to fashionable market-oriented policy reforms and a greater interest than in countries such as Mexico in strengthening public institutions as well as promoting social equity more broadly.

Moreover, this comparative study suggests, a narrow short-term focus on major reform episodes overall flattens and compresses our understanding and evaluations of longer-term *processes* of change, which typically span administrations and often alternations in parties in power and governing coalitions. Furthermore, analysis of welfare regime trajectories of change can also obscure “below the radar screen” reinterpretations and even “subversions” of existing rules by either dominant powerholders (turning state corporatist labor institutions into an apparatus to support flexible labor market *de facto* reforms in Mexico through what GIC theory calls “conversion”) or those engaged, from “below” and “outside,” in trying to turn broad, vague progressive principles into robust institutional norms and concrete policy reforms, such as was true of post-1988 Constitution political and legal struggles on the health and labor fronts in Brazil.

A divergent direction of change from “dual regimes” across Mexico and Brazil is also evident in this study, and very important to underline and further explore. Institutional layering was associated with a dynamic of expansion of coverage and strengthening of social protection in Brazil, together with a re-capturing and restructuring of a public role in social provision. This is not to suggest a fully coordinated, rationally organized system by any means, of course, as layering is not entirely or always a smooth process, and a “unified command” of social policy clearly does not exist as it is spread among multiple ministries and agencies. Thus, we can say that, in contemporary Brazil, a majority and growing portion of the population became “covered” to some degree by a now more unified and still public social security system, while access to primary care as well as primary education were expanded to the point of near universality and secondary school enrollment significantly enhanced. In addition, a range of nominally means-tested, targeted benefits centering on the Bolsa Familia but also including a family allowance and other smaller benefits came to cover greater than a quarter and closer to a third of the population in the period in question.

In Mexico, by contrast, the dual regime was transformed in the direction of a “residualist” and “disarticulated” welfare regime or, also following Bizberg (2012) and in Spanish, a system of “*asistencialismo*” (“welfarism”). Traditionally, institutional principles of provision of social security and health care and of labor protections were anchored in a corporatist conception of rights for the organized segments of the populace and labor force, linked to the Mexican revolution and the legitimacy of the post-revolutionary regime. The former principles were displaced by liberal principles of individualism and market provision and the latter converted through new norms emphasizing flexibility and competition; meanwhile, targeted and means-tested benefits for a segment of the poor and near-poor were granted, following a logic of safety nets, “not as rights” but as “favours by the government” (BIZBERG, 2012). It should be noted that this evolution was despite the fact that Mexico had experienced a formal transition to electoral democracy in 2000, and the consequent end of the one-party-dominant authoritarian regime dating from the 1920s; it was this distinctive political regime characteristic of the longer sweep

of the 1980s to early 2000s – along with the absence of left-labor strength and mobilization – that justified Huber and Stephens' (2012) exclusion of that otherwise socio-economically similar (“advanced”) country from the set of (five) comparative case studies from Central and South America that formed part of their influential analysis of evolving social policy regimes in Latin America (and Iberia). Mexico was not seen in that analysis – which also included region-wide cross-national data analysis including it and other countries not among the five – as embodying the move, or as the case may be convergence, toward “basic universalism” in their social policy regimes that the authors found to characterize not only Brazil but also Chile, Argentina, Uruguay, and Costa Rica. While the present analysis is congruent with that of Huber and Stephens on the contrasting trajectories of change across Brazil and Mexico, the GIC lens directs us toward the way in which partisanship and class power were refracted not just through political institutions but also through the norms, procedures, and organizations embodying what they treat as social policy legacies and are conceptualized here as distinctive trajectories of institutional change. Mexican corporatism was not dismantled by neoliberalism as one might have predicted – it was repurposed to new ends and around new goals by elites but also with the connivance of weakened but still consequential labor, peasant and other actors who vied for survival within these institutions in processes of increasingly asymmetric exchange with capital and the state.

The smaller relative size and rate of growth of Oportunidades relative to Bolsa Família in terms of coverage mirrored the contrast between Mexico's emphasis on flexible labor market and wage norms and Brazil's (Lula and post-Lula era) focus on real wage growth and maintenance of institutions that enable workers to share in the benefits of growth such as collective bargaining. Facing much tighter and self-imposed fiscal constraints than their Brazilian counterparts, the targeted Mexican programs Oportunidades and Seguro Popular were notably *not* increasingly bound up with a political project based around social inclusion within an activist state--as Bolsa Família and reforms in mainline social programs increasingly came to be in the first decade of the 2000s in Brazil. Instead, these targeted Mexican programs appeared as much more limited efforts designed to combat the worst dislocations of markets but without seeking to foster larger social inclusion – or perhaps, better put, based on a naïve premise that improved human capital alone would enable households to rise permanently out of poverty even in harsh labor markets with little state support for skill formation or effective union voice in the workplace. All the while, the extensive fabric of programs that bound together the Mexican polity and society in a stable, partially inclusive order for half a century were steadily unraveled over decades under a narrowly market-centric welfare and labor reform agenda.

Overall, from the contemporary vantage point, it does seem that the range of variation or movement in either direction of the respective national welfare regimes has somewhat narrowed, with the longer arc of expansion in Brazil from the 1990s through early 2010s now left behind though not entirely or decisively reversed, as well as the longer arc of retrenchment and reorientation toward residualism ended in Mexico without there being a clear, unambiguous

trend toward expansion, generosity, and inclusion to replace it. A muddled, middle-ground situation, where pendular swings are narrower and institutional inertia considerable, seems to be in evidence if we look across recent governments in both countries and project forward to plausible scenarios based on recent developments. More broadly, within the Latin American region, a research agenda is opening up with shifts in partisanship from either left toward right (Uruguay for instance), back and forth (Argentina), or from center-right to left (Colombia and Chile) – to what extent is that shift in rhetorical direction of social policy neatly reflected in the dynamics of their welfare regimes, and to what extent conditioned by ongoing and cumulative institutional dynamics that alter the reform prospects and options of governments that would seek deeper, longer-lasting change? A complex mix of continuity and change, reflecting in large measure particular national institutional trajectories shaping current reform struggles, seems like the most likely broad-brush scenario.

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