Postretrenchment Politics: Policy Feedback in Chile's Health and Pension Reforms

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ABSTRACT

Through a comparison of three periods of health and pension reform in Chile, this article develops an explanation for the incremental form of social policy change that some Latin American nations have witnessed in recent years, despite the dramatic rise of left governments. It describes "postretrenchment politics," which constitutes a realignment in the way politics plays out in countries that have undergone social policy retrenchment. In postretrenchment politics, the strengthened position of private business interests, combined with political learning legacies and lock-in effects generated by reforms, results in incremental political change, despite renewed efforts by left parties to address inequality. Global capital also plays an important contextual role, and may influence postretrenchment politics. In postretrenchment politics, newly reformed systems may achieve greater equity, but they do so in fragmented form.

During the 1980s and 1990s, many Latin American states made significant changes to their social policy structures. This was in contrast to Europe, the United States, and Australia, where, according to some observers, retrenchment was "modest" (Huber and Stephens 2001, 2; Pierson 1994). In Latin America, pensions and health systems were the major targets of these market-oriented reforms. Yet by the early 2000s, dissatisfaction was widespread; retrenchment did not produce greater social and economic equity, nor did it bring promised efficiency returns. Public discontent, combined with factors such as the reduced influence of international financial institutions, improved economies, and the political "turn to the left," facilitated movements to expand Latin American welfare states. But the politics of rebuilding the welfare state after retrenchment were not the same as those of building these social policies. Instead, policy feedback effects from the retrenchment period led to a new "postretrenchment" political dynamic in social policy reform. This article uses the term *postretrenchment politics* to refer to new political configurations generated by the retrenchment period.[1]

Postretrenchment politics constitutes a realignment in how politics play out in countries that have undergone social policy retrenchment. In postretrenchment politics, the strengthened position of private business interests as a result of retrenchment, combined with political learning legacies and lock-in effects generated by retrenchment reforms, results in a distinct political dynamic of incremental political change and ultimately more fragmented social policy systems, which may or may not improve equity. Global capital markets, moreover, can play an important contextual role in this type of politics. Understanding the politics of postretrenchment is essential for explaining the factors that affect how governments navigate between market-oriented and state-led solidarity-oriented social policy models.

This article defines postretrenchment politics, the factors that lead to it, and how it is distinct from the welfare development and retrenchment periods. The article develops a framework of postretrenchment politics through a comparison of three periods of social policy change in Chile: social policy development beginning in the 1920s; retrenchment of the 1980s, and the postretrenchment reforms of the 2000s.[2] It compares health and pensions, two policy areas that, along with poverty reduction, are the most significant social policy areas in Latin American welfare states.

Chile offers a fascinating empirical and theoretical puzzle: why did the basic parameters of the retrenchment of the 1980s—in which the private sector was given a predominant role in both pension and health policy and the state's role was diminished—remain intact despite significant expansionary and equity-enhancing initiatives in the 2000s? Moreover, why did the politics of postretrenchment differ from previous political periods? These questions are perplexing, considering that the reforms of the 2000s were proposed in a context of significant public support for state-oriented reform, more than ten years of coalition center-left government, economic expansion, and political institutions that favored passage of presidential initiatives. Theories of welfare state development that emphasize the importance of left party power and political institutions with few veto points might suggest that these factors would facilitate thoroughgoing welfare state expansion.

Yet in Chile, expansionary and equity-enhancing health and pension reform initiatives came only to partial fruition; some important equity-enhancing reforms were introduced, but in an incremental and fragmented manner. Part of the explanation for this more incremental reform includes institutional configurations particular to the Chilean political system and the preponderance of the right wing in Chilean politics. While acknowledging these institutional and political constraints, this article also points to the important role of feedback in the policy reform process, feedback that can be attributed to the retrenchment period.

Chile can also provide lessons for understanding changes in welfare politics elsewhere. Along with Argentina, Uruguay, Cuba, and Brazil, Chile's was a pioneer welfare state, predating the U.S. New Deal (Mesa-Lago 1989). The politics of its development were similar to Argentina and Brazil, and it has been compared to the Bismarckian-style formation of the German welfare state (Huber 1996). Chile initiated significant retrenchment of its health and pension programs in the early 1980s. Although the political context of Chile's retrenchment was particular (it took place under a dictatorship, while other Latin American countries pursued retrenchment under democracy), as the first country to institute market-oriented reforms to a largely statist social policy system, Chile subsequently served as a model for market-oriented pension and health reforms elsewhere.

In Latin America, Argentina, Bolivia, Colombia, El Salvador, Peru, and Uruguay all modeled their reforms of the 1990s to varying degrees on Chile's. Chile was also the first in the region to initiate a major re-reform in the 2000s that attempted to reverse some of the retrenchment of the 1980s, a trend other countries are beginning to follow. In sum, Chile has often served as a bellwether for regional social policy trends. A comparison of three periods of Chile's social policy history therefore can provide a rich basis for theoretical understanding of contemporary welfare politics in Chile and beyond.

The periods of welfare development, retrenchment, and postretrenchment are distinct in their objectives. The development period created new welfare state institutions, many of them state-led; the retrenchment period sought to contain costs and recommodify and recalibrate welfare systems, partly by contracting public welfare provision and increasing private social policy provision (Pierson 2001). The postretrenchment period seeks to address new social risks through an expanded state role. Because retrenchment radically changed the political logic of social policy reform, postretrenchment politics are also different. Private business and capital interests have emerged more powerful in the domain of social policy. In some cases, their economic power has led to "lock-in" effects, making it economically and politically problematic to reverse earlier reforms.

Policy learning among elites has also shifted toward acceptance of market-based solutions to social welfare needs. The result is both a new form of politics—one of incremental rather than wholesale reform—and greater fragmentation and stratification of welfare policy. Still, we expect that not all countries will have the same postretrenchment dynamic. Postretrenchment politics applies only to those countries and those social policy domains that previously experienced retrenchment. Moreover, the character of postretrenchment politics will vary depending on a country's linkages with global capital markets.

THE DISTINCT DYNAMICS OF DEVELOPMENT, RETRENCHMENT, AND POSTRETRENCHMENT

Scholars of welfare states note that the political dynamics of welfare state development and retrenchment were distinct (Pierson 1994; Huber and Stephens 2001; Hacker 2004). This article will show that the postretrenchment period also has been different, and will develop a general approach for understanding postretrenchment politics. This approach combines the lessons of path dependency that have dominated theories of retrenchment (Pierson 1994) and theories of incremental political change (Thelen 2003; Hacker 2004; Streeck and Thelen 2005; Mahoney and Thelen 2010) to explain why and how the politics of postretrenchment differ (see table 1).

The dominant theories of welfare state development include the state-centric and power resources approaches. The state-centric approach focuses on the political power of state bureaucrats and the importance of state institutions (see, e.g., Heclo 1974; Skocpol 1988). State-centric scholars also emphasize the role of "veto points" in blocking or paving the way for welfare state development (Immergut 1992; Crepaz and Moser 2004). The power resources approach to welfare state development emphasizes the power of left parties and organized labor in pushing such development forward (Stephens 1979; Korpi 1983; Esping-Andersen 1990). A subset of power resources scholars explore the role of Christian Democratic parties in expanding welfare policies but note that such policies have had less redistributive impact (Esping-Andersen 1990; Huber et al. 1993; Bradley et al. 2003).

Two variables have been shown to be crucial to welfare state development: consecutive left governments (supported by organized labor) will lead to welfare expansion; and competitive veto points will slow welfare state expansion. Because the postretrenchment period in Latin America is similar to the welfare state development phase in that at both times, policymakers sought expansion of the role of the state in welfare provision, one might assume that a straightforward application of theories of welfare state development would be in order. We do expect that a lack of competitive veto points will make it easier for expansionary policy changes to succeed. It will also be in the interest of left governments to pass policies that favor their constituencies, such as labor, the working classes, and the poor; and it will be easier for these governments to do so with the strong backing of civil society organizations, such as unions and professional associations. Yet a straightforward application of welfare state development theories overlooks key changes in political context as a result of retrenchment, including changes in the power of different interest groups, policies passed in the interim, and political institutions that may reinforce these policies.

Table 1. Development, Retrenchment, and Postretrenchment Politics Compared

	Welfare Development and Expansion	Retrenchment	Postretrenchment
Object	Create and expand basic welfare policies	Cut expenditures and reform to conform to the residual welfare model	Expand social policies to cover new risks and address inequalities
Independent variables	Consecutive left governments Lack of competitive veto points	Policy feedback from welfare development phase resists retrenchment: a) Interest group feedback; especially unions and associations of retirees b) Learning legacies c) Lock-in effects Globalization: debated, though moderate effect on advanced industrial welfare regimes Important effect of lower spending in Latin America at least following the debt crisis	Consecutive left governments Lack of competitive veto points Policy feedback from retrenchment will resist expansion: a) Interest group feedback; especially private business interests b) Learning legacies c) Lock-in effects Globalization: relationship to global capital markets explains divergent choices
Dependent variables	Establishment of welfare regimes	Little retrenchment in advanced industrialized states Policy feedback less powerful in much of Latin America resulting in retrenchment	Incremental politics of layering and conversion Segmented welfare regimes that address new risks but maintain stratification

Theories of welfare state retrenchment are useful for understanding postretrenchment because of their emphasis on "policy feedback" effects. The study of policy feedback treats the policies created in previous political periods as independent variables that may affect political outcomes in later iterations of policy change. Paul Pierson categorizes policy feedback into three major types: that which provides resources and incentives to new interest groups; that which informs policy elites of possible policy options through "policy learning"; and policy effects on mass publics that may lead to particular forms of information flows to the public, thus encouraging or subduing an active political response to retrenchment. One important policy effect on mass publics is "the emergence of elaborate social and economic networks" that "lock in" or prevent a shift from a particular policy course (Pierson 1994, 39–45). Policy feedback effects were crucial to retrenchment politics in that they prevented the advanced industrial welfare states from moving in a residual direction (Pierson 1994; Huber and Stephens 2001). Policy feedback was also important in Latin American retrenchment, yet it had more variable influence, because economic crisis, weak political institutions, or authoritarianism (in the case of Chile) facilitated reform in some cases despite that feedback (Kay 1999; Kaufman and Nelson 2004; Castiglioni 2005; Haggard and Kaufman 2008; Weyland 2006).

Policy feedback is central to understanding postretrenchment, with a few key differences. The crucial policy feedback for postretrenchment will be that which emerges from the retrenchment phase, not the welfare state development phase. Moreover, instead of seeking to stem welfare state contraction, these new interests will work to actively prevent welfare state expansion that would threaten the resources these interests gained from the retrenchment process. In addition, whereas the major interest group feedback in the retrenchment period came from unions or associations of retired persons, which defended the gains of the welfare state development period, in the postretrenchment phase, the private interests that gained from the market-oriented reforms that characterized retrenchment will be among the most powerful. This is the situation because business interests tended to benefit from retrenchment policies, while unions were often hurt by policies in that period. In this regard, lessons from the United States are useful.

Scholars of the U.S. welfare state have argued that due to the high degree of private sector involvement in the financing and provision of welfare benefits, private benefits and the private interests that back these benefits must be included in any analysis of the U.S. welfare state (Gottschalk 2000; Hacker 2002; Howard 1997). Private benefits develop their own form of policy feedback in the form of private sector interests, policy preferences for private sector social policy solutions, and even the shaping of public perceptions regarding the proper roles for the state and the private sector in social policy (Hacker 2002, 23).

The opposition tactics employed by private interests often lead to what Streeck and Thelen (2005) term "incremental" political change, such as institutional "layering," "conversion," or policy "drift." Thelen describes the process of layering, in which new institutions arise alongside older ones (2003, 227). The layering strategy does not directly challenge the existing system, and thus is more politically feasible than wholesale institutional change. In conversion, institutions change character over time, serving different ends than those for which they were initially established. Hacker points to yet another subtle change, the process of policy "drift," in which new risks arise but opponents of welfare state expansion block efforts to address them (2004, 246).

In contrast to retrenchment, which focuses mainly on cost containment and recommodification and avoids addressing new risks, recalibrating policies to address "drift" is one objective of postretrenchment; for example, expanding coverage to large uncovered sectors of the population or addressing new demographic trends. Yet layering and conversion are the strategies of choice because wholesale reform is often blocked by policy feedback from the retrenchment period, such as private business interests that benefit from the market-oriented reforms, economic investments in these reforms that produce lock-in effects, and elite policy learning, as well as public acceptance of a role for the market in social policy delivery. Moreover, many of the legacies of the welfare development period, especially unions, were weakened by the retrenchment reforms, and are less capable of effectively promoting expansion efforts. This feedback increases the transaction costs of policy reversal, resulting in a new political dynamic.

There is also significant debate over whether globalization has pushed welfare states in a more market-oriented direction. Some scholars of OECD countries demonstrate that globalization has had only minor impact (e.g., Rodrik 1998; Mosley 2000, 761; Huber and Stephens 2001), while others argue that welfare spending increases have diminished as a result of global pressures (Garrett 2001; Kurzer 1993). In Latin America, there is little dispute that the debt crisis of the 1980s and economic adjustment of the 1990s led to significant cutbacks in state social welfare spending and, in many instances, to fundamental market-focused reorientations of Latin American social policies. Findings of longer-term statistical studies of globalization and social policy are mixed, however. Some authors have found that globalization has negative effects on social policy spending, due to trade integration (Kaufman and Segura-Ubiergo 2001) and greater economic volatility (Wibbels 2006). Others have found that globalization (measured by trade integration and capital mobility) does not necessarily restrain government spending in Latin America and, in combination with democracy, may even stimulate spending (Avelino et al. 2005).

We find global capital markets to be crucial because those countries in good standing with global capital markets are more likely to seek social policy outcomes consistent with the exigencies of domestic and foreign markets. By contrast, those countries viewed as high risk by global capital markets (and thus without access to these markets) are less likely to feel constrained by market demands, and may seek more statist social policies (Brooks 2009; Dion 2010, 188).

Chilean Health and Pension Policy Development

When compared to that of Europe, welfare state development in Chile follows the conservative and corporatist pattern identified by Esping-Andersen (Huber 1996). Successive centrist Christian Democrat and center-left governments used social benefits to command the political support of the middle class and workers, the latter having become a new and important political constituency (Borzutzky 2002, 45). Chile had the second-highest social policy coverage in the region in the 1970s, reaching more than 70 percent of the population, and almost universal coverage when health and welfare pensions were included (Mesa-Lago 1989, 105). The distribution of benefits in exchange for political support, however, also resulted in a segmented system of social legislation devoted to the protection of specific groups, with benefits skewed toward well-organized, urban, middle-class constituencies, excluding much of the rural sector (Borzutzky 2002, 41).

Although comprehensive, Chile's state health and pension systems in the 1970s were also stratified. The health sector before the retrenchment of 1979 was divided into two main insurance institutions: the Employee Medical Service (*Servicio Médico Nacional para Empleados*, SERMENA) for white collar workers and civil servants and the National Health Service (*Servicio Nacional de Salud*, SNS), serving blue collar workers and the poor. These were financed with employee, employer, and state contributions, with the exception of state-subsidized coverage for the poor. In the 1970s, SERMENA covered 25 percent of the population, SNS covered 60 percent, private providers exclusively served 10 percent, and the remaining 5 percent was covered by separate health insurance programs for the military and police (Cartin 1998; Viveros-Long 1986). With regard to pensions, of the 160 social insurance schemes in the early 1970s, 90 of them were devoted to pensions (Mesa-Lago 2008, 15). Pension programs were highly unequal with respect to qualifying for benefits, benefit levels, and financing.

Attempts to streamline this labyrinth of benefit programs under the administration of Christian Democratic President Eduardo Frei (1964–70) were stymied in a politics typical of those described in the retrenchment literature. Interest groups, particularly labor, vociferously opposed any change to their benefits (Borzutzky 2002, 119). The private sector played a minimal role in health provision, and still fewer of these private providers operated for profit. There were no private pension firms. By the early 1970s, the pension system was in financial crisis, exacerbated by the policy of granting employers exemptions from paying their contributions (Borzutzky 2002, 147). Increases in overall social spending were accompanied by growing fiscal deficits, which had reached 30 percent of GDP by 1973, when Socialist president Salvador Allende was overthrown.

Chilean Health and Pension Retrenchment

The dramatic retrenchment in the 1980s was politically possible because of the centralized power of General Augusto Pinochet's dictatorship (1973–90) (Castiglioni 2005). Chile's retrenchment fits with theories that highlight the importance of a conservative government and a lack of veto points (Huber and Stephens 2001). Moreover, policy feedback effects, especially labor interests, were quelled, and thus did not play the stalling role they did in democracies attempting reform.

The military government brought an end to a model that, although fragmented and stratified, had expanded coverage to near-universal levels. The military government instead emphasized reduced public spending, privatization of social services, demand-driven subsidies, and decentralization. Economic growth was viewed as the best form of social policy, and social spending itself was considered an obstacle to growth (Raczynski 2000). Unlike other Latin American countries, which were often pressured by international financial institutions (such as the International Monetary Fund or the World Bank) or by macroeconomic crises to introduce market-based reforms, Chile's reforms were domestically driven by a network of technocrats and business conglomerate interests close to Pinochet (Teichman 2001). The latter were guided by a group of University of Chicago–trained economists, whose influence peaked at the time of the major health and pension reforms (Kurtz 1999; Borzutzky 2002).

Health sector retrenchment entailed separating the financing and provision aspects of health care, combining existing state health systems, and creating a new role for private health insurance and provision. In 1979 the government separated the health policy, insurance, and provision functions of the white and blue collar systems. Health policy and oversight remained in the hands of the Ministry of Health. Financing and insurance functions were managed by a new entity, the National Health Fund (*Fondo Nacional de Salud,* FONASA). The health provision infrastructures of the white and blue collar systems were combined and renamed the National Health Services System (*Sistema Nacional de Servicios de Salud*, SNSS).

Separation of the financing and provision aspects of health coverage made possible increased participation by the private sector. In 1981 the state legalized for-profit private health insurers and providers, called Health Provider Institutions (*Instituciones de Salud Previsional*, ISAPREs). Individual workers could choose health care coverage from the state or buy coverage through an ISAPRE at a cost determined by the market. The reforms resulted in a significant decline in public health expenditures and a rise in private expenditures (Viveros-Long 1986).

The entry of the private sector into health insurance and provision had important consequences for equity. After reforms, 11 percent of state health care beneficiaries moved to the ISAPREs. Since these tended to be the best-paid employees with the lowest health risks, 48 percent of overall health insurance contributions moved to the private sector, provoking a financial crisis in the public system (Titelman 2000). Adverse selection meant that populations with greater health risks were concentrated in the public system, partly due to high fees and the rejection of high-risk beneficiaries by private insurers (Blackburn et al. 2004). The ISAPREs also led to a new private class of health facilities of better quality for those who could afford it: in 1990, the spending per beneficiary in the private system was close to four times higher than the spending per beneficiary in the public system (Oyarzo 1994).

Although subsequent democratic governments significantly increased investment in the public health sector, by 1999 (just before postretrenchment reforms), spending per beneficiary in the private sector was still twice that of the public sector (MINSAL 2005). Moreover, the system allowed for overt discrimination based on gender and age (Law 19.381 of May 1995). ISAPRE premiums for women in the early 2000s were 3.2 times more expensive than men's for the same health care coverage (Pollack 2002). For the elderly, higher fees caused them to return to the public system at precisely the time that their earnings disappeared or decreased due to retirement. The Pinochet health reforms also generated new inefficiencies: the ISAPREs' administrative costs represented 20 percent of their expenditures, compared to just 4 to 5 percent in the public sector (MINSAL 2005).

With respect to pensions, the state maintained a regulatory role, provided welfare pensions, and remained (whether de facto or de jure) the ultimate guarantor of pensions, but the administration and investment of pension funds was increasingly left to the private sector. An individual savings scheme began operation in 1981. Under the retrenched pension system, which was compulsory for new workers and optional for those already in the workforce, workers paid 10 percent of their monthly salary to a private pension fund administrator, and the funds were invested in domestic and international capital markets. An additional 2.3 percent of salary went toward a commission fee and disability and survivors' insurance (FIAP 2007). Workers received an 11 percent net salary bonus for switching to the private system, and a recognition bond representing accrued rights under the old system. On retirement, workers could use their accumulated funds to purchase an annuity or to schedule programmed withdrawals (or a combination of the two). Workers who contributed for at least 20 years and had not accumulated enough capital to purchase an annuity equivalent to a minimum pension were entitled to a government subsidy. The armed forces and police retained their state-sponsored programs.

At the turn of the century, challenges with regard to efficiency and equity remained. Fees had declined but remained high, at around 10 percent of total contributions. Competition was limited, as the market was dominated by three firms. Contribution density levels were also far below expectations: the original reform had forecast that 85 percent of affiliated workers would contribute regularly; the actual total was 52 percent (Consejo Asesor 2006). Low density of contributions and a large informal sector meant that nearly half of the workforce would not earn enough to receive a minimum pension, with projected levels lower for women than for men (Berstein et al. 2006). Replacement rates were forecast at 44 percent, compared to the 70 to 80 percent originally projected (Consejo Asesor 2006). Furthermore, only about 5 percent of self-employed workers, who were not required to join the system, were enrolled in a pension fund. While the old systems did not differentiate benefits by gender, the strict actuarial logic of the new private system meant that women received lower benefits than men because they earned less than men, accumulated less capital, and lived longer (Arenas de Mesa and Montecinos 1999; Bertranou 2001).

The pension and health retrenchments generated specific policy feedback that shaped later efforts to correct problems of efficiency and equity. Big business became politically influential in this period, much more so than in previous periods; as Schamis observes, distributional coalitions that emerged in Chile under the military government continued to dominate after the return to democracy (1999, 250). Not only were big business conglomerates involved in the shaping of these health and pension reforms (Silva 1996; Teichman 2001), but the reforms themselves generated new private business and capital interests vested in the retrenched social policy system, specifically private health insurers and pension funds (Fairfield 2010; Silva 2000, 1998, 1996). The reforms also created an important lock-in effect: due to pension funds' role in domestic capital markets, reversing the private pension systems would become economically impossible. The retrenchment period created a policy-learning legacy in which policy elites came to accept market-oriented approaches to social policy as a result of the Pinochet reaction to Allende's failed economic policies (Illanes and Riesco 2007).

Chilean Postretrenchment Politics

From the transition to democracy in 1990 until 2010, Chile was ruled by the center-left Coalition of Parties for Democracy (*Concertación de Partidos por la Democracia*, CPD). President Ricardo Lagos (2000–2006), the first president from the Socialist Party to lead the Concertación, oversaw a period of robust economic growth and enjoyed a near–60 percent popularity rating toward the end of his term (Cooperativa.cl 2004). Similar conditions held for President Michelle Bachelet, the second Socialist president to represent the Concertación, who took office in 2006 and left office in 2010 with an 84 percent approval rating (*El Mercurio* 2010).

Lagos spearheaded health reforms, and Bachelet took on pension reforms, both in a context of great public sentiment in favor of reform. According to government polls, 90 percent of the population in 2002 favored reforming the health system (*El Mercurio* 2002c). Surveys revealed that half of the workers belonging to pension funds stated that the system was "bad" or "very bad" (Consejo Asesor 2006, 85), while a majority of workers were unfamiliar with basic facets of how the system functioned (Arenas de Mesa et al. 2008). Moreover, polls showed that Chileans preferred statist solutions; a 2008 poll indicated that two-thirds of Chileans supported the creation of a state-run pension fund (Morales et al. 2008). Robust growth in the Chilean economy meant that the state was in a good fiscal position for expanding social welfare benefits (Dow Jones 2008).

According to general theories of welfare state expansion, the strong powers of the presidency in the Chilean system, combined with a leftist president and center-left congressional majority, should have constituted ideal political conditions to expand state welfare benefits. Yet in Chile, postretrenchment health and pension reform initiatives came only to partial fruition; some important equity-enhancing reforms were introduced, but in an incremental and fragmented manner.

Some explanations for incremental policy change, in Chile and elsewhere, have pointed to institutional constraints. In Chile, it could be argued, the failure of full-fledged expansionary reforms was a product of political institutions inherited from authoritarianism that favored the right. The right was designated nine nonelected seats in the Senate, and the open-list electoral system was replaced with a binomial system that has favored minority right-wing party candidates (Couso and Coddou 2009, 11). The result was a preponderance of right-wing political power in the first ten years of democracy and robust defense of Pinochet-era reforms.

Moreover, the Concertación practiced *democracia de los acuerdos* (democracy by agreement), in which it negotiated informally with the opposition and powerful social actors over controversial and potentially destabilizing issues (Siavelis 2006). An additional obstacle to some reforms was special majorities. *Leyes orgánicas-constitucionales* (laws related to the 1980 Constitution) required a supermajority of four-sevenths of the congress, while a number of different policy areas, including social security, required a *quórum calificado*, an absolute majority.

These laws served as a "shadow constitution," and the difficulty of modifying them tended to uphold the reforms of the military period (Couso and Coddou 2009, 8–10).

By 2001, however, the power of the right began to wane as the dominant center-left political coalition regularly won national elections and began to gain institutional advantage. Since 1989, the 1980 Constitution, which enshrined the above-named authoritarian enclaves, has been amended 17 times (Montes and Vial 2005, 20–21). Many of those functions began to benefit the left as Concertación presidents appointed new designated senators. By 1998, three of the nine designated seats were held by left or center-left appointees, and in 2000, one former Concertación president, Frei, held a lifetime Senate seat. The right wing agreed to forgo some aspects of the constitution in 2005, when the lifetime seats were eliminated and the military and police were placed under civilian control (Montes and Vial 2005, 20–21). Designated senators were eliminated in 2006.

Other aspects of Chilean institutions might lead one to expect more sweeping change. Another institutional vestige of the authoritarian period is a preponderance of executive power, in which legislative proposals emanating from the president are very likely to pass and Congress tends to be weak (Siavelis 2000; Blofield and Haas 2005). Chilean presidents have important powers over Congress, including the ability to introduce legislation directly, control the congressional agenda, assign leadership posts in Congress, and channel public sentiment from a position of greater leadership than congress members possess. Thus, although institutions are important, "even the most carefully crafted institutional design" would not be sufficient to explain the "maintenance of the neoliberal model" (Illanes and Riesco 2007).

This study argues that the central reason for the incremental nature of reforms during the postretrenchment period is that policy feedback from the retrenchment phase—including the establishment of private sector health insurers and pension providers as new political interest groups, policy learning by elites from the retrenchment period, and broader lock-in effects leading to economic investment in the previous market-based reforms—made the politics of postretrenchment quite different, and thus stymied those reform measures that threatened private sector interests or the broader institutions that depended on those interests.

This argument does not discount the particularities of the Chilean political system. Building on previous work, this argument posits that in Chile's postretrenchment period, this feedback worked through institutional mechanisms (Castiglioni 2005, 2006; Dávila 2005) and capitalized on the slim congressional majorities of the Concertación and tensions within the Concertación (Huber et al. 2008). It also contends that *democracia de los acuerdos* was relevant (Siavelis 2006) and that electoral structures in Chile concentrated power among a small group of elites with market-friendly views (Castiglioni 2006; Pribble 2008, 131), views that we argue are a result of policy learning. Policy feedback arguably played a role throughout postretrenchment Chilean social policy reform.

Postretrenchment Health Sector Reform

Postretrenchment health reform was prompted by the equity concerns described previously and by Chile's changing demographic and epidemiological profile, which had introduced new risks, such as an aging population and the related rise in chronic disease. Changing demographics meant that the public system faced even greater pressures serving the aged and chronically ill. The reforms of the 2000s sought to reverse low levels of state investment, long waiting periods for health care, and low quality of care in the public sector, which had existed since 1979. Moreover, they sought to pool costs between the public and private sectors and to make private insurers more accountable.

The Lagos government sent a full reform package to the congress in 2002 that included five major reforms of the health sector. The Plan for Universal Access with Explicit Guarantees (*Plan de Acceso Universal con Garantías Explícitas*, Plan AUGE) would create a universal mandate of services that every health insurer would be obliged to provide each client. The Plan AUGE would provide care for specific medical interventions, selected on the basis of their cost-effectiveness in preventing death and disability. New benefits would be added only when it was fiscally possible to pay for additional pathologies (Biblioteca del Congreso Nacional 2002). The universality of the Plan AUGE meant that even the ISAPREs would have to provide all of the listed services—stopping the ISAPREs' practice of offering plans that omitted key services, such as reproductive health care for women (Ewig 2008). To reduce long waits for care, the Plan AUGE guaranteed explicit timelines (Comisión de Salud 2002).

Another proposed reform (known as Article 22) would create a Solidarity Compensation Fund (*Fondo de Compensación Solidario*), which was intended to make financing of the health system more solidaristic. Initially, President Lagos advocated that 3 percent of the standard 7 percent salary deduction go to the fund (Mensaje Presidencial 2001). In a concession to early opposition, the bill sent to Congress instead contained a formula in which the contribution would be equivalent to the average cost of health care per person multiplied by the number of beneficiaries the insurer had under contract, and paid by insurers. The fund, in turn, would pay back the insurers according to the risk profiles of their beneficiaries. For those too poor to pay for health insurance, the state would pay insurers the average contribution per beneficiary. While the final financing option was considered regressive by associations of health professionals, it was meant to serve as a cross-subsidy between the high and low risk and between the private and public sectors (Biblioteca 2004).

In addition to the AUGE bill (which eventually passed as Ley 19.996 of September 2004), three other bills were introduced: two would provide more regulation over the ISAPREs, and a third, the Sanitation Authority Law (*Ley de Autoridad Sanitaria*), would give hospitals greater autonomy. All of these proposed reforms were passed except the Solidarity Compensation Fund, which was amended, partly due to lobbying by the ISAPREs. In the end, the fund, created in a separate law, was reduced to only a compensatory fund among the ISAPREs, rather than a fund that would bridge risk between the public and private sectors (Ley 20.015 of May 2005).

Institutional factors meant that the Lagos administration faced important constraints, which allowed private sector health interests greater latitude. Cabinet positions were almost evenly divided between Christian Democrats and the three main socialist parties; however, the powerful minister of finance (*ministro de hacienda*) was a Socialist. The 2001 Chamber of Deputies was majority Concertación, with 59 members from the Concertación, 52 from the Alianza por Chile right-wing alliance, and 9 independents. In the Senate, the split was much closer. The Concertación held 20 seats and the Alianza held 16 seats. Three senators were independents; 2 of them voted with the right-wing alliance and 1 was a "swing" voter. There were still 9 designated senators, of whom 2 supported the Concertación, 3 supported the right, and 4 were swing voters (Dávila 2005, 27). This combination meant that the Lagos government could count on the support of only 22 of a total of 48 senators. The health reforms, however, did not affect the *leyes orgánicas-constitucionales*, nor did they require a *quórum calificado*, so only a simple majority was required for their passage (Biblioteca 2004, 45, 2005, 25).

In addition to these institutional factors, policy interest group feedback from both the welfare development and retrenchment periods played significant roles, each displaying distinct approaches. Policy interests born of the welfare development period protested the reforms using traditional, public tactics. The Chilean Medical Association (*Colegio Médico*) and professional health care unions, such as the National Confederation of Healthcare Workers (*Confederación Nacional de Trabajadores de Salud*, CONFENATS) and the National Confederation of Municipal Healthcare Workers (*Confederación Nacional de Funcionarios de la Salud Municipalizada*, CONFUSAM), loudly criticized the reforms, urging more sweeping reforms that would promote greater financial solidarity and access to a broader range of health services from the state. Doctors also wanted consumers to have free choice of health providers within the AUGE.

These organizations proposed alternative reforms, testified to Congress, voiced their opposition in the press, held strikes, and demonstrated in the streets. But they managed to gain only one concession: slower implementation of the AUGE program (Anonymous C02 2005; *El Mercurio* 2002a, c, 2003b; *Diario Financiero* 2003; *El Diario* 2002c, 2003b; *La Tercera* 2002c, d). These groups' inability to gain much traction resulted partly from a process that began in the retrenchment period, in which the military government weakened organizations in civil society, and unions in particular. Deunionization has continued in Chile under democracy (Palacios-Valladares 2010).

On the other side of the debate were the ISAPREs, a new interest group and a product of the retrenchment period, which lobbied politicians quietly. Although far from a majority of the population, the ISAPREs represented the wealthiest sector: 46.7 percent of ISAPRE beneficiaries were earning more than six hundred thousand Chilean pesos per year, and 31.7 percent were earning more than nine hundred thousand pesos. This was the top income bracket. Among public system beneficiaries, only 4.9 percent and 1.1 percent, respectively, were in those same upper-income brackets (Superintendencia 2008; FONASA 2009).[3] But the economic role of the ISAPREs is even clearer considering health care spending. In 2009, the ISAPREs' gross income of nearly 2.2 billion U.S. dollars represented a formidable 1.3 percent of Chile's GDP.

Between 2002 and 2005, the ISAPREs appeared less frequently in the press than the health worker unions, and when they did, their position was mixed. Early statements opposed the AUGE for its lack of financing (*El Mercurio* 2002d) and the fixing of costs for procedures (*El Diario* 2002a) but never opposed the basic idea of a mandate of services. In later statements, the ISAPRES declared their "total support and collaboration" with the AUGE initiative (*La Nación* 2002), and in an interview following passage of the reforms, former ISAPRE association president René Merino expressed no opposition to the AUGE (Merino 2005). According to one news report (*El Mercurio* 2002b), President Lagos accused the ISAPREs of purposely not publicly opposing the measure (as the administration had expected they would) and of financing the right-wing UDI (*Unión Demócrata Independiente*) Party in order to ensure that it supported the ISAPREs' position.

The ISAPREs by this time not only had institutionalized themselves as individual business interests, they had also established a peak organization that lobbied the congress on their behalf. They opposed the creation of the Solidarity Fund and succeeded in reducing it to the inter-ISAPRE fund. In coordination with the right-wing think tank Institute for

Liberty and Development (*Instituto Libertad y Desarrollo*), the ISAPREs declared that the fund would cause the flight of their clients to the public sector and would create a crisis of the private sector (*El Mercurio* 2002a), although polls showed that 60.6 percent of ISAPRE clients approved of an increase in their payroll deduction for health and 74.4 percent approved that part of their deduction go to a solidarity fund (*La Tercera* 2001). According to René Merino, the ISAPREs developed a very positive, close relationship with the government and political party members in the Chamber of Deputies and the Senate—especially those on the health commissions. Their success in defeating the original fund proposal was due to their close tracking of the legislative process, the presentation of their own research reports, and because, as he put it, "we had senators who understood very well what we were saying" (Merino 2005).

The ISAPREs defeated the Solidarity Fund principally by gaining support of the right-wing parties and dividing the Concertación itself. The right-wing UDI and RN (*Renovación Nacional*) supported the ISAPREs' position, arguing for a time that the Solidarity Fund, because it was to be funded partly through the 7 percent payroll tax, represented a hidden tax and therefore counteracted the constitutional right to free choice in health care.[4] Two influential Christian Democratic senators, Alejandro Foxley and Edgardo Boeninger, announced their opposition to several aspects of the reform, including the Solidarity Fund (*La Tercera* 2002a, b). Members of the Concertación also disagreed on several key points of the AUGE, especially on questions of its financing, with Christian Democrats generally taking more market-oriented positions (Anonymous C01 2005; *El Mercurio* 2003a; *El Diario* 2002b, 2003b). In a political environment in which the Concertación had a very slim majority, dissent from Concertación members was critical. According to comments before Congress of then–minister of health Osvaldo Artaza, the ISAPREs strongly objected to the Solidarity Fund while it was debated in the Health Commission, and left-wing senators testified as to the influence of these interests over commission members (Biblioteca 2004, 295–98, 932–35).

Ultimately, it was four leftist representatives from the center-left government coalition on the Health Commission in the Chamber of Deputies who proposed the change from a public-private Solidarity Fund to a solely private inter-ISAPRE fund, a change passed by a majority of the Health Commission (Commisión de Salud 2002; Biblioteca 2004, 153–58). The president subsequently successfully reintroduced the public-private Solidarity Fund when the bill passed to the Chamber of Deputies, but due to political opposition from the right in the Senate—which threatened to derail the legislation altogether by taking it to the Constitutional Tribunal—the president withdrew the fund proposal by the time the bill reached the second constitutional vote (Biblioteca 2004, 295–98, 618, 632). Only the inter-ISAPRE fund passed into law.

Thus business interests from the retrenchment period, the ISAPREs, played the crucial role in the politics of postretrenchment health reform. By watering down the Solidarity Fund proposal, the ISAPREs averted a reform that would have struck a major blow to ISAPRE interests. The Solidarity Fund was a clear threat to profits, market share, and long-term viability.

The role of business interest group legacies was the most crucial factor in shaping the postretrenchment politics of Chile's health reform. But secondary feedback effects facilitated the influence of these powerful interest groups: policy-learning legacies and lock-in effects. While "policy learning" is hard to measure, the support of Christian Democrat and even Socialist senators on the Health Commission for more market-based versions of health reform can be attributed to policy-learning effects. The violent backlash against the Socialist Allende government in 1973 and the subsequent promotion of market over state solutions maintains significant resonance in Chile. The Chilean left of 2001 was unlike the left of 1973; it had "learned" significantly from both the backlash against Allende and the retrenchment period and had become a reformed left that largely accepted market-based policy approaches (Illanes and Riesco 2007; Pribble 2008; P. Silva 2009, 174). As Schamis (1999, 250) puts it, "the alliances forged during the long economic experiment were built to last." Given this new left character, slim majorities and intracoalition tensions allowed private sector interests to have greater influence over the reform process than they would have had in previous periods.

Lock-in effects, meanwhile, can be discerned by observing what was not on the reform agenda. At no point was there a suggestion to eliminate the role of the private sector in health care; such a move would have been politically and economically untenable—it would have been objectionable to the upper-income sectors of the population that were the primary clients, and it would have threatened the survival of a significant economic actor.

Feedback from retrenchment, combined with attempts to address new risks, resulted in both a new kind of politics and a fragmented health system. The new politics was one of incremental rather than structural change, due to the ability of private insurance interests, policy-learning legacies, and lock-in effects to thwart a major health reform. The AUGE addressed new risks and enhanced equity, but it did so by "layering" state-financed broader and better coverage for the poor next to the existing private system. This layering strategy, combined with the conversion of the original solidarity proposal to an inter-ISAPRE fund, perpetuated a fragmented health system.

Postretrenchment Pension Reform

In 2006, widespread dissatisfaction with the pension system was a key campaign issue, with both presidential candidates pledging to make major reforms. Party members on the left held high expectations that after 16 years of center-left government, this vestige of the Pinochet legacy would finally be addressed (Valdés-Prieto 2009). Within six months of taking office, President Bachelet's Advisory Council for Pension Reform (the "Marcel Commission") held numerous public hearings, consulted with interest groups and international experts, and issued recommendations that led to the January 2008 reform.

The reform (Ley 20.255) had two distinct components: it maintained the basic model of private individual accounts as the central locus of the pension system, while at the same time it introduced a new redistributive benefit program, a Basic Solidarity Pension (*Pensión Básica Solidaria*). The basic pension had a maximum value of about US$160 per month, with the government subsidy gradually decreasing as workers' self-financed pension levels increased (the gradual drop-off provided workers an incentive to continue to contribute in order to maximize their benefits). With the new Basic Solidarity Pension, the lower 60 percent of households on the income scale would receive a subsidy. The reform included several measures designed to ameliorate gender inequality, such as paying a bonus for each live birth in recognition of time spent out of the labor force to care for children.[5]

It is significant that the most important element of the reform was the expansion of a major public benefit intended to address policy "drift," or previously unaddressed needs; it attempted to address the inequities and inefficiencies discussed above. The new reform was expected to have an immediate impact on poverty, which the government forecast to drop 16.8 percent after the first year of the solidarity benefit (*La Tercera* 2008). In pursuing its aim to "transform social security into an economic and social right" (Consejo Asesor 2006, 29) by guaranteeing universal coverage and to improve benefit adequacy and equity, the government also assumed a more central role in the financing and provision of pensions. According to the Marcel Commission, under the new reform, projected annual government spending on pensions would rise to 2.5 percent of GDP from 1.6 percent by 2025 (Consejo Asesor 2006).

While the reform introduced important modifications, it reflected continuity rather than reinvention. The stated goal of the legislation that President Bachelet sent to Congress was to "perfect" the system of individual accounts and to "complement it with a system of solidarity pensions for those who, for a variety of reasons, fail to accumulate sufficient funds to finance a dignified pension" (Mensaje 2006, 1).

As with health care, interests formed in the retrenchment period played a prominent role in the politics of this reform. The pension fund industry supported measures that improved overall contributions and reduced restrictions on investment, but objected to measures that would set new regulatory precedents or foster competition from a pension fund controlled by a state-owned bank. The private pension funds did not oppose the introduction of the Basic Solidarity Pension, which did not directly affect the system of individual accounts. The industry also welcomed measures that would permit the creation of voluntary 401(k)-type plans, lift the 30 percent ceiling on foreign investment, and establish government contributions to pension funds of younger low-income workers. However, the pension funds objected to the provision (ultimately included in the law) whereby cohorts of new workers would be assigned to the pension fund with the lowest commission cost. The pension funds argued that such a measure would restrict freedom of choice, legally guarantee market share, and emphasize consumer costs over profitability, which it deemed more relevant (*Diario Financiero* 2006). The industry also argued that the drive to lower costs would lower returns if firms hired second-rate investment managers (*Diario Financiero* 2007). The pension funds also opposed the efforts to pass legislation that would permit a state-owned bank to operate a pension fund, arguing that rather than compete with the private sector, the government's role was to assist those who were not being reached by the private pension funds (*El Mercurio* 2008). Those efforts were ultimately unsuccessful.

In the end, the administration opted for a layering process, which added a new solidarity benefit to the system. There were a number of key political reasons for pursuing this strategy. Given the Concertación's narrow majority over the right-wing opposition in the Chamber of Deputies and Senate (a two-vote majority in each) and its desire to fulfill its campaign pledge to achieve rapid passage, it was strategic for the Bachelet government to come to a broad consensus before introducing the bill. In soliciting input from a broad range of actors, from pension funds to labor unions, the Marcel Commission crafted a politically viable reform that was speedily introduced in the legislature.

Unlike the health care reform bill, however, a portion of the pension reform ultimately needed a *quórum calificado* for passage. Article 81 of the proposed legislation, which would have allowed banks (including state banks) to open pension funds, was first debated in the legislature as to whether or not it required a *quórum calificado*, and the Senate voted that it did indeed require it. This was followed by a vote on that article that failed to obtain the necessary majority. Ultimately, the institutional rules of *quórum calificado* helped the pension industry to gain the necessary votes from the right and right-leaning Concertación members to block what it considered to be the most objectionable aspect of the pension proposal (Biblioteca 2008, 1671, 2504–511, 2592, 2672). But the slim congressional majority and institutional rules were not the cause of the incremental reform; rather, they were leveraged by policy interest feedback.

A key to understanding the powerful role of policy interest feedback is to recognize how much the pension fund industry influenced the reform process well before it ever came to Congress. One-third of the Marcel Commission's membership had strong links to the pension fund industry, while the left had smaller representation on the commission, despite the center-left government. In the words of one economist who sat on the commission, "the main reform of 2008 was to rename, expand and redesign Pinochet's Assistance Pension" (Valdés-Prieto 2009, 9).

In addition to the role of pension funds as an interest group legacy of the retrenchment period, the same policy-learning legacy of the retrenchment period applies in this case. As with the health care reform, the Bachelet left of 2008 was not the same left of 1973; it was a moderate left that had embraced a strong role for the market.

But perhaps most critical, the financial centrality of the private pension system served as a lock-in effect. Because the pension system controls assets equivalent to more than 60 percent of GDP and is a pillar of the financial system, changing its basic structure was beyond the pale of policy debate, even for the Chilean left, which has staked its post-transition reputation on maintaining economic stability. Given the significant amount of capital that is invested in pension funds, pension policies have significant implications for domestic and global investors. Because of Chile's close ties with global capital markets, any fundamental reform of the basic structure of the pension system was simply not on the agenda.

Comparative Reflections

With retrenchment in 1979, Chilean health and pension policies shifted from largely public to significantly private provision. This transformation was accompanied by important changes in political dynamics. While reforms in the 2000s emphasized greater control over the market and broader guarantees to address new risks, policy feedback effects from retrenchment prevented the pendulum from swinging back entirely; more equity was achieved, but in a fragmented and incremental fashion.

One of the most significant of these feedback effects was the emergence of more powerful private sector interests vested in social policy domains as a result of the retrenchment period. Despite the left's control of the powerful executive branch, the private sector ISAPREs were able to capitalize on political differences within the Concertación to modify significantly the health sector reform proposal. The resulting modifications protected the ISAPREs' economic and political dominance in the health sector. In pensions, not only did the private pension firms serve as an interest group; their central role in the Chilean economy created a lock-in effect, making any change that would disrupt their economic position untenable. While the solidarity pension would have a major impact on poverty reduction, the reform protected and affirmed the role of the private pension firms and the system of individual accounts more generally. In addition to interest group feedback and lock-in effects, we can also point to a broader shift in the "left" in Chile, where policy elites, through political learning effects from the retrenchment period, came to accept a greater role for the market in social policy provision.

This comparison of three phases of social policy change in Chile, compared across two social policy domains, points to the development of a new politics of "postretrenchment." In postretrenchment, policy feedback from the retrenchment period results in incremental rather than structural reform, with private interests often shaping policy before it reaches the more public stages of congressional consideration. Because of the economic and political influence of these interest group actors supporting privatization, reforms themselves take on "layering" and "conversion" forms rather than wholesale change. Furthermore, while both the health and pension reforms in Chile represented significant advances in addressing policy "drift," by utilizing layering and conversion, they did so in a manner that cemented, rather than sought to change, a fragmented social policy system.

The pattern of postretrenchment politics is not unique to post-Pinochet Chile; it applies to other countries that seek to expand state-led social policies following significant retrenchment. Prerequisite to expansionary efforts is a significant period of left political power, limited competitive veto points in the political system, and strong economic growth; but these factors are not sufficient in the postretrenchment period. Liberalization of social policies generates new interests vested in private social policy provision, learning effects that may support private provision and lock-in effects. This feedback, though constrained by institutions, plays important roles in postretrenchment welfare politics. Differentiation in the form of postretrenchment politics may vary, however, depending on a country's access to global capital markets.

Uruguay, Bolivia, and Argentina

Although space does not allow a full comparison, evidence from Uruguay, Bolivia, and Argentina suggests similar patterns of postretrenchment politics and helps to clarify the conditions that may foster postretrenchment politics elsewhere. Uruguay and Bolivia both undertook significant retrenchment of their pension policies in the 1990s. In 1996, Uruguay introduced a mixed system that allowed retirees to choose between a public "pay as you go" scheme and a private, individual capital account (Castiglioni 2005, 65). This more moderate path is partly explained in that civil society organizations, and labor organizations in particular, had the organizing power to prevent a major retrenchment. Uruguay's pension retrenchment was more moderate than Chile's, but constituted retrenchment nonetheless. More radically, in Bolivia, the government of Gonzalo Sánchez de Lozada (1993–97) privatized the state pension system, explicitly following the Chilean model (Weyland 2005).

In the case of health care, the reforms that ensued did not constitute retrenchment. In Uruguay, health reform initiatives did not succeed (Castiglioni 2005, 68), and recent left governments have continued to expand state health care provision. In Bolivia, the reforms implemented in the 1990s were expansionary in nature (Weyland 2006, 163–68). Thus, in pensions but not in health, both Uruguay and Bolivia experienced significant retrenchment in the 1990s.

In the 2000s, both Uruguay and Bolivia elected leftist governments that went on to govern in economic contexts of expansion and growth. In 2004, Uruguayans elected Taberé Vázquez of the leftist Frente Amplio Party as president, followed by José Mújica in 2009, also of the Frente Amplio. Bolivia in 2005 and again in 2009 elected the leftist Evo Morales of the Movimiento al Socialismo (MAS). As a result, both countries now have had significant periods of leftist government. The left parties in these two countries are considered by most observers to be quite distinct, though analysts differ on the reasons behind their differences (Schamis 2006; Luna and Filguera 2009; Weyland 2009). According to one influential typology, the Frente Amplio is considered more similar to the Chilean left in its "social democratic" approach, while the MAS has been termed "populist" or "radical" for its more personalistic bent (Castañeda 2006). While there is much that distinguishes the lefts of Uruguay and Chile from that of Bolivia, despite these differences, the politics of postretrenchment served to make the politics of social policy reform in those sectors that previously underwent retrenchment more similar than one might expect.

In Uruguay, the leftist Frente Amplio government made it clear on taking office that it would preserve the system of individual accounts, and in 2009 it initiated a "reform of the reform" that expanded access to public benefits while keeping the defined contribution system of individual pension fund accounts intact. The reform lowered the age when workers could receive an advanced age pension, lowered the number of years of contribution, and made the formula for determining pension levels more generous. The reform also gave women credit toward retirement for time spent raising children. As in Chile, these reforms addressed previous inequities, and in doing so, served to consolidate Uruguay's system of individual accounts. Also as in Chile, these measures layered the new equity-enhancing reforms onto the public system rather than changing the fundamental two-pillar system design. When José Mújica took office in 2010, his administration also pledged continuity.

By 2009, Uruguay's pension system had become a critical component of the financial system, with assets equal to 15 percent of GDP, and the state-owned bank's República pension fund was the dominant player, controlling more than half of all assets. Undoing this reform would have been extraordinarily costly in both political and financial terms, and was never on the policy agenda; the ties between the pension system and the Uruguayan economy had created a lock-in effect.

In Bolivia's pension sector, President Morales's administration renamed the old Bonasol universal pension program Renta Dignidad, expanded it to reach a broader swath of Bolivians, and increased the monthly benefit by 25 percent (Müller 2009). In December 2010, Bolivia's government announced additional reform measures that included a state takeover of management of individual pension fund accounts, solidarity pensions for lower-income workers, a retirement age of 58 (down from 65 for men and 60 for women), and measures to ameliorate gender inequality (*La Razón* 2010). While the ultimate reform included an expanded role for the state, the system of individual accounts was maintained.

Uruguay and Bolivia appear to be following the postretrenchment pattern quite closely: left governments operating in propitious economic contexts have "layered" more equitable policies next to previously retrenched policies, but due to economic lock-in effects, have not radically altered the retrenched system. While the lock-in effects are clear, more careful political process tracing would need to be done to determine if interest group legacies and learning legacies played roles in the politics of these recent reforms; we suspect that they did.

Argentina's break from the postretrenchment pattern illustrates the importance of the relationship with global capital markets. Like Uruguay and Bolivia, Argentina never retrenched its health system (Lloyd-Sherlock 2004). In pensions, however, Argentina introduced individual, privately managed pension accounts in 1994. Similar to Uruguay's reform, the Argentine reform also maintained a reformed public system. Through 2007, the pension system went through a postretrenchment phase as the role of the public sector expanded, first when the leftist administration of Néstor Kirchner assigned all unaffiliated new workers to the public system rather than a private plan, raised the replacement rate of the public system, allowed workers to switch back to the public system, and transferred funds belonging to teachers, judiciary workers, and some scientists back to the state system. Also, older workers with fewer than 20,000 pesos in their accounts had their account balances automatically transferred to the public system unless they opted out (this applied to men over 55 and women over 50). These latter two moves set an important precedent of transferring funds accumulated in private pension accounts back to state coffers. Had this been the sum total of reform, it would have probably resulted in a smaller private system that would have provided benefits to a smaller population of middle- and high-income workers (Rofman 2008, 400).

However, in October 2008, Argentina broke from the postretrenchment model when President Cristina Fernández de Kirchner announced the government's intention to end the individual account system and fold it into the public "pay as you go" system. The Senate approved the move one month later, in a climate of growing concern over whether Argentina would default on its sovereign debt for the second time in less than a decade.

Why did this happen in Argentina and not in Chile (or Uruguay or Bolivia)? While space does not allow a detailed analysis, two reasons are apparent. First, facing the prospect of default, Argentine pension funds were an irresistible source of financing to a desperate government in need of capital. (By contrast, Chile's government became a net creditor in 2007.) More important, however, were Argentina's ties to global capital markets. As a result of its 2002 debt default, followed by Néstor Kirchner's cutting of ties with the IMF, Argentina was, by 2009, unconstrained by global markets because it was already viewed as "high risk," even a pariah. This gave the government more room in the domestic sphere to challenge investors' interests and disregard property rights. By contrast, Chile's linkages to the global financial system and its commitment to market-led growth contributed to a reform path that strengthened and consolidated the private system.

In other words, only when governments no longer can depend on global capital markets, as in the Argentine situation, will they take desperate action and radically change retrenched policies—and pension funds then make particularly vulnerable targets, since they can be an important financial resource in times of crisis (Kay 2009). These comparisons show some of the possible mechanisms behind Wibbels's (2006) contention that greater vulnerability to macroeconomic instability as a result of globalization may lead to more restrained social policies unless a country steps outside the constraints of global capital markets, as Argentina did.

Understanding the politics of postretrenchment is critical because it has important implications for social policy and the prospects for reducing inequality. Perhaps most important, the layering and conversion politics of postretrenchment allow for the maintenance of a dual social policy system that divides along economic, gender, and age lines. The politics of postretrenchment does not exclude the possibility of improved equity and greater social solidarity (indeed, in Chile we do see marked improvements in equity), but it points to a future of social policy systems that are more stratified in the form in which they provide social protection.

Notes

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1. We use the term *retrenchment* as it is used by scholars of European welfare regimes, "includ[ing] policy changes that either cut social expenditure, restructure welfare state programs to conform more closely to the residual welfare state model, or alter the political environment in ways that enhance the probability of such outcomes in the future" (Pierson 1994, 17).

2. Due to space constraints, the discussion of the welfare state development period is only schematic.

3. The number of ISAPRE beneficiaries as a proportion of total health beneficiaries reached a high of 26.1 percent in 1997, declining to 16.5 percent in 2010 (FONASA 2011).

4. Reported by major Chilean newspapers, April and May 2004.

5. In addition, assets in an individual retirement account could now be divided between spouses in case of divorce or annulment, and women would get part of their survivor and disability insurance premium refunded to their retirement accounts (women had been paying the same rates as men even though costs were lower given greater expected longevity).

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