

Redefining who's "in" and who's "out":  
Explaining Preferences for Redistribution in Bolivia

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How does welfare state expansion reconfigure political coalitions? Traditional accounts of the welfare state in advanced industrial economies emphasize the tendency for policy "insiders" -- those already incorporated in social insurance systems -- to resist further expansions since this would dilute their share of benefits, while "outsiders" support increases in social insurance coverage. However, this paper argues that preferences regarding social insurance are instead the product of two other coalition-forming factors, and that these can produce broad-based support for policy expansion in developing and middle-income countries. First, where the informal economy dominates the labor market, formal "insiders" may be particularly sensitive to the risk of job loss or temporary unemployment or informal employment; they thus have less confidence in their long-term ability to find security in contributory insurance schemes, and they are willing to make common cause with policy outsiders in supporting expansion. Second, given the complexity of social insurance schemes, especially in low-information environments, political partisanship provides strong cues to individual citizens about how to evaluate competing policy options. Parties can use these cues to swing opinion toward new redistributive policies that would expand their political base.

This paper tests these hypotheses in two ways in the context of Bolivia. First, it examines three key social insurance configurations in Bolivia over the last thirty years, analyzing the preferences and coalitions that supported each system. Second it uses an original survey carried out in Bolivia following that nation's 2007 extension of a noncontributory national minimum pension. It shows that citizens formed their preferences in favor of expansion based on their perception of labor market risk, particularly as they compared the current state of the economy to that of a year before. To the extent that insiders opposed the expanded pensions, they were most sensitive to the issue of how inclusion of the outsiders would affect their benefit stream. Finally, the paper shows that partisanship -- proxied by support for Evo Morales' MAS party and his government -- was strongly related with support for the introduction of the national minimum pension.

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In recent years, Latin America has seen remarkable changes in its social insurance landscape. From the 1990s wave of full or partial privatizations of old-age insurance and health insurance (Chile was the pioneer in 1981), to recent renationalizations of pension funds in two countries, to the introduction of a host of noncontributory basic minimum pension programs in many countries, the region has experienced whipsaw reformulations of the basic economic commitments of the state and the life-cycle expectations of citizens. An earlier generation of scholarship noted how social insurance and social policy helped cement crucial blocs of the population into the “political arena,” investing them with rights and opportunities while implicitly excluding other groups. How has the political arena – and the coalitions that make democratic governance possible – been reshaped in the face of Latin America’s evolving social insurance systems?

This paper argues that the recent social insurance reforms have fundamentally reshaped political coalitions in response to the changing economic terrain in the region. In particular, the relatively narrow groups that had previously been “insiders” – who enjoyed access to existing social insurance benefits – have been joined, in distinct ways in various countries, by several groups of earlier “outsiders.” The former group, which had consisted mainly of formal sector, unionized workers, complemented by public sector workers, has thus lost some of its centrality in the political arena. The latter group has included primarily workers in the “informal” sector, whose employment spans from off-the-books piecework to services; it also includes the self-employed, rural workers and indigenous groups. These groups have been targeted in a particular way by the latest rounds of social insurance reform, and in some sense can be considered a new group of “insiders” at the start of the new millennium.

Further, we hold that the individual-level dynamics that have driven this expansion are significantly more complex than previous analysis has indicated. On the one hand, traditional insiders have not always opposed the expansion of social insurance coverage in the way that accounts derived from advanced economies would have suggested. However, at other times and in other settings, they have come to see themselves as outsiders, threatened by the focus on formerly unincorporated citizens. And on the other hand, newly included groups have had a more complex understanding of the various policy measures than is generally appreciated. They have seen the latest wave of noncontributory social insurance as particularly suited to their labor market risks, and they have also seized upon it as a way to cement their political status within parties and the state.

In this paper, we examine a single case – Bolivia – in order to show how individual-level dynamics have contributed to the formation of new political coalitions regarding social insurance. We show that preferences regarding social insurance are the product of two critical coalition-forming factors, and that these can produce broad-based support for policy expansion in developing and middle-income countries. First, where the informal economy dominates the labor market, formal “insiders” may be particularly sensitive to the risk of job loss or temporary unemployment or informal employment, as well as to low returns on contributory insurance. They thus have less confidence in their long-term ability to find security in contributory insurance schemes, and they are willing to make common cause with policy outsiders in supporting expansion, especially of noncontributory policies. Second, given the complexity of social insurance schemes, especially in low-information environments, political partisanship provides strong cues to individual citizens about how to evaluate competing policy options. Parties can use these cues to swing opinion toward new redistributive policies that would expand

their political base. Likewise, individuals find institutional and political status through their incorporation into social insurance plans, thus allowing them to make further demands of the state or political parties in subsequent years.

Bolivia is a particularly apt case for examination. It has undergone a series of social insurance reforms since the 1990s that strongly correspond to the changing coalitional dynamics we highlight. Indeed, perhaps more so than any other country, Bolivia encompasses the full range of possible policy changes observed throughout the region. It has transitioned from an exceedingly narrow insider-focused policy milieu, centered on unionized workers in traditional sectors of the economy (particularly mining), to a broadly drawn outsider-driven universalistic system. At the same time, a privatized set of pension accounts was established that caters to the interests of high income individuals. Thus, each major group has become an insider in some way: the traditional formal sector workers with contributory policies; the emerging informal economy workers with a universalistic benefit called *Bonosol* and later *Renta Dignidad*; and the wealthy with private capitalization accounts. Nevertheless, the political contestation among these groups remains particularly fierce.

The paper proceeds as follows. First, it draws on a significant body of emerging research to develop a theory regarding the individual level preferences at work during social insurance reforms in Latin America and beyond (Carnes and Mares 2013, 2014; Mares and Carnes 2009; Alesina and Giuliano 2009; Alesina and La Ferrara 2005). It links this microfoundational account to other work about the macropolitical factors that influence policy adoption (Huber and Stephens 2012; Collier and Collier 2002). Next, it tests these hypotheses in the context of Bolivia's social insurance developments since the 1990s. First, a close historical analysis shows how each major policy reform responded to, and affected, the interests of the key social groups

in society. This allows us to observe directly the new policy coalitions as they form in each context. Second, we employ evidence from an original survey conducted in 2012 in Bolivia in order to examine individual-level preferences for social insurance. This permits us to see first-hand the relative levels of support of various groups, defined by their economic status and political alignments, for various policy measures. Taken together, this micro-foundational and macro-historical evidence provide strong support for our contention that social insurance insiders and outsiders have been reshuffled in the new and emerging political coalitions in Latin America. The final section of the paper concludes by suggesting the significant implications of this shift both for social insurance and for political alignments in the region.

### **Theory: Evolving Preferences and the Coalitional Bases and Support for Redistribution**

Latin America's social insurance systems are remarkable for their significant reorientations and reformulations over the last quarter century. Rather than succumbing to "policy immobilism," as work on the advanced industrial countries might have expected (Esping-Andersen 1999), the region has seen near-constant change and evolution in its social insurance landscape. In this section, we develop an explanation for the patterns of change observed in the hemisphere. We argue that two principal factors have shaped social insurance change and the evolving structure of preferences of citizens and policymakers in the region. First, labor markets have not achieved the level of formalization observed in advanced industrial economies. Rather, informal employment has remained the norm for broad swaths of workers. And even formal sector workers have experienced regular job turnover and periods of intermittent unemployment. New policies have been designed to respond to both of these trends. Second, labor-allied parties and politicians have adjusted their approach to the economy.

Constrained by limited fiscal resources and pushed by the market-oriented emphases of the Washington Consensus, they moderated their calls for large-scale redistribution, directed primarily at unionized workers, and proposed less generous but more extensive social insurance measures that targeted the informal and vulnerably formal sectors.

In making our argument, we seek to unite two levels of analysis from the existing literature on social insurance that too often do not speak meaningfully to each other. The first and older tradition has examined the macro-political level of partisan politics. In this account, social insurance is a top-down affair, orchestrated by shrewd politicians to bolster the electoral support of their core voters and to attract the votes of potential swing constituencies. Expansions of policy commitments thus come primarily from the political left (Huber and Stephens 2012), given its ideological orientation and its ties to organized labor. A second strand of analysis examines the micro-foundational level of individual demands for social insurance. Here, policy reform is a bottom-up phenomenon, in which individuals form preferences based on their economic position, including their income level, employment profile, and perceived economic risks, and make demands based on those preferences (Carnes and Mares 2013, 2014; Alesina and Giuliano 2009).

We believe that both traditions can benefit from being united more closely, so that the link between bottom-up demands and top-down policy design can be better observed. For ease of understanding, we present our theoretical insights by examining how social insurance fits into the calculations of three groups in turn: the formal sector proletariat, economic elites, and the informal sector proletariat. Subsequently, we highlight how political parties and politicians interact with these groups and their preferences.

*The Preferences of the Formal Sector Proletariat*

A large and influential literature has documented how the formal sector proletariat was incorporated into the political arena, and how social insurance functioned as one of the inducements to unionized workers to ally with political parties or particular politicians (Huber and Stephens 2012; Haggard and Kaufman 2008; Collier and Collier 2002; Mesa-Lago 1978). Because of this group's foundational place in the Latin American social insurance landscape, we examine it first.

Importantly, the political incorporation argument relies on an implicit understanding of the preferences of the industrial proletariat in the middle of the twentieth century. It assumes that they have a shared concern about the risks of poverty in old age, and that they therefore have an interest in pooling resources to provide for some level of income security in their old age.<sup>1</sup> In the view of these authors, the design of the contributory policy which came to predominate in the region was tailored to protect their income as it rose (with a relatively high replacement rate), while also limiting redistribution to only those who had made regular contributions over a sufficient number of years in their active working career. In other words, this view sets up the formal sector proletariat – mainly concentrated in urban centers and in the new sectors focused on manufacturing and the transport of goods – over against unincorporated, informal sector workers. These formal workers became “insiders” in a system that was “narrow but deep.” (Haggard and Kaufman 2008).

Indeed, recent research has confirmed the narrow class basis of this group of insiders, further highlighting the relatively small segment of the workforce that it constituted. Estimates

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<sup>1</sup> Prior to the establishment of state-run social insurance, some workers had already established benevolent societies and social funds to provide for the old-age needs of workers in their firm or industry (Carnes 2014).

suggest that the manual formal proletariat constituted only 23.8 percent of Latin American labor forces by 2000 (Portes and Hoffman 2003). Even when complemented by the non-manual formal proletariat (12.7 percent) and the petty bourgeoisie (7.4 percent), these groups are significantly less than the majority of workers.<sup>2</sup>

Accounts drawn from advanced economies expect such insiders to jealously guard their status, protecting the policies through which they benefit against expansion which would broaden their base and dilute benefit levels (Pierson 1990). The main prediction is that resistance of these insiders can stifle policy change and result in policy immobilism (Esping-Andersen 1999). However, we believe that the preferences of insiders are actually more complex, and in fact they may come to support policy change under several circumstances.

First, formal sector workers are particularly sensitive to their prospects for ongoing job stability. Because their incorporation in contributory insurance is dependent on ongoing, regular contributions to the social security system, they recognize that interruptions to their employment pose a significant threat to their status. This has been particularly salient during the 1980s and 1990s, as formerly state-owned firms were privatized and significant reductions in their workforces were made. In addition, over the same time period, many Latin American countries introduced hiring modalities that did not guarantee long-term job stability, but that facilitated laying off workers and job turnover, and that did not mandate employer contributions to social insurance funds (at least for a probationary period). Thus, many former insiders saw their job stability undercut, and found themselves in less stable and reliable positions. This is true even though unemployment did not surge, and in fact the overall level of formal sector employment improved at the start of the twenty-first century. Nevertheless, the likelihood of a formal sector

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<sup>2</sup> Throughout the paper, for ease of presentation and understanding, we employ the terminology of Portes and Hoffman (2003) to distinguish among social classes.

worker undergoing at least a period of interrupted social insurance contributions did increase. We hold that this shifted the preferences of these workers toward alternative, noncontributory schemes that are drawn from general tax revenues.

Second, these workers are sensitive to the security and performance of state-run pension funds. This became particularly important during the debt crises in the 1980s; popular confidence in social security agencies plummeted, and the individuals who invested in them increasingly looked for outside options. During this period, diminishing the state's role looked particularly attractive for higher-income formal sector workers. They thus became increasingly open to private management of pension funds, even though this reduced the solidarity of the system and decreased risk pooling. Later, after the introduction of private funds, they displayed similar sensitivity to the returns on the funds' investments, and withdrew their support when these underperformed (Carnes and Mares 2013; Brooks 2008).

Third, some individuals in the insider group adjusted their preferences as their incomes rose vis-à-vis the median in the formal sector. Where in an earlier era a more compressed income distribution (among the formal, unionized sectors) made redistribution attractive, the growing incomes of better-off workers and the petty bourgeoisie made them realize that they would likely end up subsidizing the less-well-off in the system. Thus, they came to increasingly prefer private insurance, which would not require redistribution to lower-income members of the formal proletariat. In addition, they resisted calls for greater incorporation of low-income, informal sector workers who had traditionally been outsiders. Far from displaying solidarity with a broad working class, inclusive of informal workers, they sought to retain their insider status in the contributory state plans or move to private plans.

And finally, these formal sector insiders were particularly sensitive to party cues. In most cases, they had longstanding ties to leftist or labor-allied parties that dated to the incorporation period of the mid-twentieth century. They thus tended to be more likely to accept arguments about the necessity of changes to social security systems, and they were more forgiving of their party allies from the left when they cut spending for social welfare. And because they tended to be more organized and centralized in unions and union federations, they presented a largely united front in support of the region's recent transitions – both toward the adoption of private pension accounts and, at least initially, toward the adoption of more inclusive noncontributory insurance measures. As noted above, these policy options were not inconsistent with their economic interests, but partisan alliances made them more likely to show support for them in the public arena.

In short, then, the formal sector proletariat's preferences can be understood as a function of (a) their expectations regarding job stability, (b) their appraisals of the viability of state-run pension funds, (c) their income level vis-à-vis the median in the sector, and (d) their partisan ties.

### *The Preferences of Economic Elites*

The policies designed for the formal proletariat also applied, in large measure, to economic elites – who Portes and Hoffman (2003) identify as capitalists, executives, and elite professional workers (and who, in their estimation, make up 6.2 percent of the labor force). They were expected to make contributions to social security funds, in the same way as other formal sector workers. This was not inconsistent with their own needs, as contributory insurance, especially when it included a high replacement rate for retirement pensions, offered these individuals significant income protection in old age. However, these policies were also

somewhat ill-adapted to the needs of these higher income individuals, and indeed the preferences of members diverged from those of the formal sector proletariat and petty bourgeoisie in several important ways.

First, given their higher income levels and capital holdings, these elites may prefer to self-insure rather than pool their funds with lower-income citizens. They can do this either through private savings, investments, or through capitalized retirement accounts. As the gap between their incomes and those of the formal proletariat grows, we expect these individuals to prefer that pooled contributory insurance be eliminated or made optional, and they seek to save in non-solidaristic private accounts.

In addition, since they have many options for investing their funds, the wealthier individuals in this group are very sensitive to the benefit levels promised by social insurance plans. Low replacement rates or caps on maximum benefits are likely to lead them to exit or evade the system as much as possible, or to call for a private insurance alternative. Likewise, if the social insurance funds seem to be threatened by high national debt levels or by a perceived predatory political leadership, these individuals will withdraw from the system.

And finally, since many elites are also capital holders and thus employers in their own right, they are very sensitive to the costs that social insurance imply for their wage bill. They are likely to prefer lower contribution rates where these are mandated by law, and instead prefer that individual workers have responsibility for insuring against their own old age. However, if their sector of production entails particular workplace risks for employees, or provides for an early retirement age, then they may prefer a contributory framework in which they pool contributions with other employers.

To summarize: the preferences of economic elites regarding social insurance can be understood as a function of their (a) income level and ability to self-insure, (b) benefit levels and caps (c) the level of mandated employer's contributions.

### *The Preferences of the Informal Proletariat*

Finally, the large remainder of the workforce falls into what Portes and Hoffman (2003) call the informal proletariat; they estimate it at 45.9 percent of the labor force in the region. This group has been a persistent outsider to social insurance until the most recent years. It consists of a heterogeneous mix of individuals whose labor – whether independent, irregular, or dependent – is not registered with the state. These individuals have significantly different preferences from the groups we have analyzed above regarding both contributory and noncontributory social insurance.

First, individuals in this informal workforce are very sensitive to their income level. Because the group is so heterogeneous, some members may have relatively high incomes (such as entrepreneurs who simply evade registration of their employment), so they seek private insurance. More commonly, though, this informal proletariat is extremely low income, and prefers noncontributory insurance that can meet minimal needs even if they are unable to make regular contributions. Finally, some may have incomes which are high enough and regular enough that they are willing to make contributions to contributory programs (even if their employers do not or they could easily evade). In general, we expect the informal proletariat to be of the second type, but both other subsets certainly exist in almost every country.

Second, the informal proletariat is likely to consider eligibility requirements and benefit levels when evaluating social insurance measures. They are particularly aware of the conditions

under which they would become eligible for inclusion in the social security system. If they will not be able to make the necessary contributions, or the replacement rate or guaranteed minimum pension is too low, they will forego contributory programs and demand noncontributory programs.

Third, individuals in the informal proletariat are sensitive to the relative likelihood that they might transition into the formal sector. As this likelihood increases, their evaluation of contributory insurance rises, as well. And to the extent that they see contributory insurance as beyond their reach and interests, they prefer noncontributory programs.

In short, then, the preferences of the informal proletariat can be understood as a function of (a) their income level, (b) the requirements for eligibility and the structure of benefits, and (c) their perception of the likelihood that they will secure stable employment in the formal sector.

#### *The Strategic Perspective of Political Parties and Politicians Regarding New Coalitions*

Political parties and politicians follow two general orientations in their development of social insurance policies. First, as the literature has highlighted, they follow their ideological orientations, which frequently provide a natural attachment to particular social groups. In this vein, parties on the left have ascribed a redistributive role to the state, and in Latin America they have been linked with formal, unionized labor. In contrast, parties on the right have favored an expanded role for the market, and they have had connections to economic elites.

Second, political actors in democratic settings are attentive to the electoral implications of their policy choices. They seek to attract votes by designing social insurance policies that fit with the perceived preferences of groups of voters. In a particular way, they endeavor to win the votes of coalitions of voters by finding ways that groups' interests overlap. For instance, under

stable employment, both the economic elites and formal sector workers have an interest in well-functioning contributory plans, and as incomes rise they may both support a greater share of their insurance in the form of private funds. In contrast, formal sectors may depart from their alignment with the elites if employment seems less stable and the likelihood that they can make regular contributions is threatened. They are likely to turn to supporting workers from the informal sector in preferring noncontributory social insurance. The middle, formal proletariat thus functions as the political pivot. Political parties and leaders seek to create policies in tune with these alignments.

A third coalitional alignment is also possible, uniting the elites with the informal proletariat; although less common, it has entered into the calculations of partisan actors in some countries. In this alliance, the contributory social insurance system – once the mainstay of the system – is allowed to decay, and policies are instead targeted to the interests of the distinct needs of the elites and the informal sector. As we will see below, this is largely what happened in Bolivia in recent years, when private accounts were introduced at the same time as the Bonosol, which provided a minimum guaranteed level of support for previously unincorporated sectors. A recent set of presidents has been adept at catering to this unlikely social insurance coalition.

To better understand these dynamics, we turn now to an examination of the historical development of social insurance in Bolivia and its coalitional bases.

### **Reforms to Social Insurance in Bolivia**

Bolivia's social insurance development over the last quarter century reflects these evolving coalitions and the preferences of the actors within them. Three main social insurance arrangements have predominated through the last sixty years: a contributory insurance scheme

targeted on unionized labor, a move to private accounts and a universal pension guarantee in the late 1990s, and a creative combination of policies that focused on the informal proletariat while also providing private insurance for economic elites in the 2000s. We examine each in turn, noting how the insiders and outsiders have largely been reversed through time.

*1956-1990: Contributory Insurance Focused on a Narrow Formal Proletariat*

The organized labor movement in Bolivia emerged largely out of the mining sector and related industries, and the Trade Union Federation of Bolivian Mineworkers (*Federación Sindical de Trabajadores Mineros de Bolivia* – FSTMB) stood as its backbone from the mid-1940s onward. After the 1952 revolution, the Revolutionary Nationalist Movement (*Movimiento Nacionalista Revolucionario* -- MNR) took power, and founded the *Central Obrera Boliviana* (COB, Bolivian Workers Center) as its labor arm. It immediately sought to incorporate the FSTMB into the COB, and used labor regulation and social insurance as means to win the support of the miners and their allies.

Thus, in 1956, following a nationalization of the mining industry, the MNR government enacted Bolivia's first Social Security Code. It was administered in two distinct layers, with the *fondo de pensiones basicas* (FOPEBA) providing a replacement rate of approximately 30 percent, and occupational funds (*fondos complementarios*) providing additional benefits based on contributions from both workers and their employers. These latter complementary funds were marked by a very high level of occupational fragmentation, which hindered an effective pooling of risks. Indeed, the largest fund had only 30,000 members, and many of the smaller ones had less than 1,000 members (Grandi Gomez and Mollinedo 2000: 44). More broadly, even as the program matured, coverage reached only twenty percent of the workforce.

This arrangement closely follows existing accounts of the “incorporation” period, in which organized labor was brought into the political arena through labor and social policy (Collier and Collier 2002). It preserved status differentials – both between the organized COB-affiliated formal sector workers and the rural informal workers, on the one hand, and between occupational groups within the formal sector. As such, it fits our expectations regarding the formal proletariat’s preferences: it assured a minimal income through the state-underwritten basic funds, while also engaging in focused risk-pooling that would most benefit policy insiders. Unregistered workers remained outside the system, limiting redistribution to members of the formal sector.

The segmenting effects of the social security system were most pronounced at the time of its inception, investing the COB and the sectors within it with a privileged status. But the close relationship between the MNR and COB was not long-lived. After 1956, the COB became increasingly autonomous, and sought to assert an independent voice for traditional labor over against the larger political projects of the MNR (Arze Vargas 2010). In its efforts, it jealously guarded the social security law against proposals for expansion to include outsiders.

#### *1996-2007: The Introduction of Mandatory Individual Accounts*

The contributory social security system functioned, more or less intact despite efforts to diminish contribution levels and costs by military governments (Arze Vargas 2010), through the early 1980s. However, with the advent of the reformist, neoliberal government of Victor Paz Estenssoro, measures were introduced to reduce the state’s role in underwriting pension incomes. This was accomplished by incrementally reducing the state’s contribution to the basic old-age insurance funds, until the point that it contributed an amount equal to only 1.7 percent of the

worker's salary (down from 21 percent) (Arze Vargas 2010: 18). It culminated with Bolivia joining the privatizing trend that had been set in motion by Chile some 16 years earlier. The nation adopted a system of private capitalization accounts for old age insurance. These accounts were mandatory for all salaried workers, the military, and apprentices, and were voluntary for self-employed persons (SSA 2013). All active members of the earlier social insurance system were transferred to the system of managed savings accounts.

Several important factors made this privatizing reform attractive to various groups of workers. First, insiders had seen their benefit levels decrease significantly through time. Most of the funds had an extremely low ratio of contributors to pensioners (in some cases approaching 1:1), and this quickly depleted their financial resources. This was true in even the largest funds for miners, metalworking, and textiles (Grandi Gomez and Mollinedo 2001: 44). In addition, benefits were particularly undermined by the country's rampant hyperinflation (Valdez 1999). Thus, they were eager for change, but consistently resisted expanding the system to include outsiders.

Second, the labor movement had been changing dramatically. The FTSMB had decreased in importance, as the tin mining which had been its mainstay had declined significantly in importance as world tin prices fell and production costs rose (Klein 1992). Simultaneously, the labor movement had been increasing its ties to the peasant sector, and by the end of the Paz administration, the Unified Syndical Confederation of Peasant Workers in Bolivia (CSUTCB) had become the most important movement within the COB (Klein 1992: 276). Thus, the traditional insiders no longer controlled the COB, and the peasant leadership began to make calls for universalism in order to reach the 80 percent of the workforce that was left out of existing social security programs. The administration of Jaime Paz Zamora organized a commission to

reform the pension system, but it produced a plan modeled on Chile that failed to address the needs of outsiders; so the issue was tabled (Gray Molina et al).

The breakthrough came in the government of Gonzalo Sánchez de Lozada, who seized on the opportunity to reform Bolivia's state-owned enterprises, offering capitalization shares in these firms and generating a significant fiscal surplus for the state. These funds were then used to underwrite the BONOSOL, a universal benefit for all citizens at the time of retirement. In other words, Sánchez de Lozada shrewdly provided a benefit to meet the needs of the strongest opponents of privatization, the outsiders clamoring for inclusion and current retirees who were concerned about their diminishing benefits. All citizens would now be guaranteed a universal benefit payment from age 65 onward, regardless of income level, previous contributions, or history of employment (Larrazabal Antezana and De La Barra Muñoz 1997: 39).

This new arrangement marked a massive reorientation of the political coalitions in Bolivia. Former insiders were the most weakened, but they still benefitted from the BONOSOL guarantee and the transfer of their previous contributions into private accounts. The economic elites gained since they would no longer have to pool their resources, and they would now have the private accounts that are their preferred policy measure. And the biggest gainers were the former outsiders – the rural peasants and informal proletariat – who now receive retirement benefits for the first time. Thus, a new coalition was forged that united the elites with the informal workers, providing each with a policy measure particularly suited to its needs.

#### *2007-Present: A Universal Pension and an Integrated Pension System*

The reversal of insiders and outsiders has continued in the reforms carried out by President Evo Morales in 1997. Hailing from the Movement Toward Socialism (*Movimiento al*

*Socialismo* – MAS) party, which gathers rural and nontraditional workers mainly drawn from the informal sector, he has sought to target social policy particularly toward their needs. He has thus built on the BONOSOL, but has sought to make it his own by rebranding it and reorganizing its financing.

The BONOSOL capitalization fund, which had largely financed its benefits through its first five years, was running low when Morales assumed office, and the program was in serious financial jeopardy. Morales thus chose to close the program, and open it anew as *Renta Dignidad*, his signature social insurance program. This noncontributory policy would be funded through a hydrocarbon tax (and later through profits from the hydrocarbon industry when it was nationalized), and it would be even broader and more generous than the BONOSOL. Benefits began at age 60, and the annual benefit was increased by 25 percent. In addition, *Renta Dignidad* introduced differential benefit levels, such that workers in the private accounts would receive only 75 percent of the *Renta Dignidad* benefit (since presumably they have other retirement income from their private accounts) (Muller 2009: 167).

Morales thus continued the development of the new social insurance constituency that he inherited from Sánchez de Lozada, but he gave it a stamp all his own. And in doing so, he sharpened the conflict between the former insider formal sector workers and the rural informal sector. The COB initially offered support of his presidency, but it took exception to his adjustments to *Renta Dignidad* through its differential benefits and the later establishment of the so-called *Fondo Solidario*. This ongoing conflict was on full display recently in May 2013 when members of the COB, who had formerly been insiders and supporters of Morales, took to the streets to oppose the functioning of the *Fondo Solidario* enacted in 2010. They argued that it “leveled down” their pensions in order to solidaristically provide basic incomes to low-income

workers who had not made sufficient old age insurance contributions over their careers (Azcuí 2013). But the former outsiders, made up of rural workers and coca leaf producers, who largely make up the beneficiaries of the Fondo, rushed to the streets in Morales' defense. Analysts noted that contributors to the funds numbered only 1.5 million, of whom only 550,000 made regular contributions. With such limited numbers, the pendulum had clearly swung to the former outsiders, and the nature of social insurance had been transformed as a result. No longer a means of protecting against risk or ensuring incomes in old age, it had become – both tacitly and officially – a means of poverty alleviation. Morales' vice president, Alvaro García Linera, accused the COB of having lost its “proletarian spirit,” and turned his full attention to the new foundation of the MAS political movement.

In short, over the last 25 years, Bolivia displays a transformation and renegotiation of social insurance, which has resulted in a vastly reconfigured political arena. The small, miner-led formal sector worker movement which had been the focal point of contributory social insurance measures has seen two transitions. First, it welcomed changes to contributory insurance when these funds were underfinanced and underperforming. Later, however, the traditional insiders came to oppose further policy expansion and universalization, concerned about how this might dilute their benefits. The outsiders, on the other hand, moved from largely opposing contributory social insurance systems in which they had little hope of seeing benefits to occupying a central place in the design of noncontributory and universalistic insurance. This development reflected both the long-standing centrality of informal and interrupted employment in the Bolivian economy, as well as the emergency of political entrepreneurs who were able to tailor new

policies to these groups. Informality, economic risk, and political links to these new actors characterized the country's new base of "insiders."

### **Modeling Individual-Level Preferences for Redistribution in Bolivia**

The previous section has argued that policymakers from 1950s into the 2000s, as well as political parties and traditional insiders from the unionized sectors, believed that their reforms to social insurance would meet the preferences of those incorporated into them. But to what extent can these preferences be documented independently? Which policy features are preferred by which individuals? In this section, we employ survey evidence as an additional test of our hypotheses, drawn from a public opinion survey of 1,606 persons in Bolivia between April 11 and 25, 2012.<sup>3</sup> Ipsos-APOYO, one of the most respected survey firms in Latin America, carried out the household survey as part of a larger omnibus survey, drawing on geographically and socioeconomically representative sample.<sup>4</sup>

Admittedly, our survey evidence comes from a period later than the earlier policy innovations documented above. Nevertheless, the timing of the survey followed fairly closely on high-profile reforms to social insurance by President Evo Morales which renationalized funds from the private pension accounts and which pooled contributions from both dependents (who represent traditional insiders) and independents (traditionally outsiders to social insurance). These features had received considerable attention in both the press and political communication, so we believe that respondents were likely to have at least some familiarity with the social

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<sup>3</sup> All survey questions and methodology were approved by the Georgetown University Institutional Review Board (ID Pro00000119).

<sup>4</sup> Respondents ranged from 18 to 70 years of age; 799 of which were men and 807 of which were women. 437 were age 18-24; 637 were age 24-39, and 496 were aged 40-70 years. Both urban and rural populations were surveyed.

insurance landscape in the country as well as the potential advantages and disadvantages each would entail.

### *Dependent Variable*

To test our hypotheses, we examine four different dependent variables, each of which measures the respondent's level of approval for a particular reform or policy design. First, we examine two general questions about pension fund design, without reference to the reforms undertaken by Morales. The first asks respondents "Do you believe that retirement pensions should be mainly in the hands of the state or mainly in the hands of private firms?" This is a question frequently asked on international surveys, and we consider it a baseline evaluation of preferences regarding the role of the state and the private sector in old-age insurance provision. Respondents were asked simply to agree or disagree, and were permitted to respond that they were unsure or had no answer. Fifty-one percent of respondents supported state management of pensions, while 30 percent preferred private pensions, and 19 percent offered no opinion. The second question asked respondents to compare two hypothetical pension systems, one that pools the contributions of dependent workers separately from those of independent workers, and another that pools the contributions of all workers in a single fund. A visual aid was provided to help respondents understand this difference in policy design (see Figure 1 below). Again, respondents were free to choose one or the other option, or provide no response. Respondents proved to be very evenly divided between the two options, with 40 percent preferring a pooled system and 38 percent opting for segmenting pension funds by group. A relatively high number, 22 percent, reported no opinion.

Second, we examine support for two specific features of the reforms undertaken by Morales – (a) the nationalization of the private old-age funds, and (b) the inclusion of all citizens in the public-old age fund. The reform itself was quite popular: forty-seven percent of respondents supported the pension reform overall, and 29 percent opposed it; the remaining 23 percent were either neutral (19 percent) or had no opinion. But there is significant variation in the approval of the two features we have highlighted. In order to make these policy design features accessible to the respondents, we included the names of the most-well known private old-age funds in the question we asked, and we presented the respondents with a visual aid to depict the pooling involved in including all citizens in the public fund (which was very similar to Figure 1). In both cases, respondents were asked to register their level of approval or disapproval on a 5-point Likert scale or offer no answer. For the pension nationalization, 36 percent approved, while 22 percent were opposed. An additional 21 percent were neutral and 21 percent had no opinion. Likewise, 39 percent supported the pooling of pension funds, while 18 percent were opposed; 21 percent were neutral and 22 percent had no opinion.

### *Explanatory Variables*

Our main explanatory variables of interest concerned the employment status and previous insurance experience of the survey respondents; we take these as likely markers of status as an insider or outsider. In addition, we include controls for whether or not the respondent was employed in the past week and their employment status (with a indefinite contract or for a defined time period, with no contract, or other). Sixty-one percent of respondents reported being employed in the past week, while 39 percent reported no job during that period (11 percent of these said they had a job to which they would be returning, however). We also collected more

fine-grained data on the individual's principal occupation (spontaneously offered by the respondent), as well as other activities, both remunerated and not. Our hypotheses suggest that workers in dependent employment with indefinite contracts are more likely to be invested in the traditional, pooled contributory old-age insurance, and to oppose the inclusion of additional citizens since these might dilute the benefit levels. In the sample, only 14 percent of all workers had indefinite contracts; 58 percent had no contract, while 16 percent were independent business operators, and 9 percent had fixed-term contracts. In addition, we asked respondents about whether or not they had (or have) a private pension savings account. Since the nationalization carried out by Morales took these funds from the banks and insurance companies and put them in the hands of the state, we suspect that those respondents who had private accounts might be particularly opposed to the reforms. In the sample, 17 percent reported having private pension savings, while 77 reported not having such accounts, and 6 percent did not answer or were unsure.

Finally, we controlled for a host of potential alternative hypotheses and potentially confounding variables. Because social insurance, and the reforms undertaken, are complex policies, we controlled for the respondent's self-reported familiarity with the reforms. Next we controlled for the respondents' partisanship, proxied by their level of support for the government and for Morales, as well as their subjective assessment of whether or not Morales' tenure in office had improved well-being in Bolivia. We also included responses to questions regarding their expectations for their family and the economy for the coming year, which help control for underlying optimism or pessimism. Finally, we controlled for demographic factors, including socio-economic status, the gender of the respondent, and the size of the household.

## *Results*

Table 1 below presents our findings regarding the first dependent variable, belief that old-age pensions should mainly be in the hands of the state. It is important to recall that this is a hypothetical question, and was not made in reference to Morales' reforms (and indeed it appeared in the survey prior to any mention of Morales' reforms). Nevertheless, Models 1 to 3 show that partisan leanings play a strong role in explaining support for state pension management; respondents who approve of the sitting government, and of Morales in particular, and who believe he has improved the economy, all display positive, significant effects on approval of the state's role. Higher socio-economic status, on the other hand, has a negative, significant effect on support of state pension provision. Model 2 adds the employment status to the equation, but neither being a dependent worker nor an independent worker has a significant effect. Finally, Model 3 adds a subjective appraisal of three aspects of current economic status as compared with that of a year ago. Of these, a positive perception of the economy compared to a year ago increases support for the state's role in the pension sector.

Table 2 similarly examines the determinants of preferences for the inclusion of all workers in a pooled old-age insurance fund. Again, this was presented as a hypothetical proposition, rather than in reference to Morales' reforms. Interestingly, none of the modeled variables displays a significant effect. This may suggest that respondents had difficulty in interpreting the question or forming consistent responses to it, even when offered the visual aid designed by the researchers.

Next, Table 3 turns to the specific reforms undertaken by Morales, presenting the determinants of approval for the nationalization of the private pension funds. The findings from Table 1 are consistently upheld here: approval of the government and Morales and his

management of the economy, as well as a positive assessment of the economy compared to a year ago, are all positively and significantly associated with approval of the nationalization. In addition, individuals with higher socio-economic status, and who previously had a private pension, have a negative appraisal of the reform (as expected by the theory). Awareness of the reform seems to increase approval. Less consistently, but importantly, when the breadwinner is employed in an independent job, support for the nationalization increases. Finally, a positive appraisal of the economy in the future increases support for the measure, while a positive appraisal of job prospects diminishes support.

Finally, Table 4 presents models of the determinants of preferences regarding the pooling of funds among dependent and dependent workers which was undertaken as part of the Morales reforms. As can be seen, the results are largely consistent with the previous findings, but a few interesting findings stand out. For example, awareness of the reform lowers support for pooling in Models 11 and 12; this may reflect concern about how benefits could come to be diluted. More forcefully, breadwinners in dependent jobs now show a negative, significant effect; these insiders to existing social insurance seem to react to the dilution they expect will occur through the inclusion of more beneficiaries in the pension system.

### *Summary*

Taken together, our results highlight the conflicting views between insiders and outsiders regarding the reform carried out by Morales and the design of old-age insurance more generally. Most notably, the nationalization was opposed by insiders, especially those whose job as breadwinner was in dependent employment. Similarly, higher-income respondents opposed the nationalization, as well as the inclusion of all citizens in shared funds. In addition, these higher-

income individuals oppose the state management of pension funds. In contrast, reforms were supported by those who have traditionally had outsider status. Breadwinners with independent jobs strongly supported the nationalization. All of these findings are consistent with our hypotheses above.

In addition, the pooling of pension funds received greatest and most consistent support among those respondents who have a more positive appraisal of the economy and expectations for its future improvement. This may reflect their expectation that a brighter future for the economy is likely to provide more wealth to share among all those invested in the funds. And importantly, partisan cues also exhibit consistent, significant effects. These likely reflect the willingness of co-partisans to trust Morales, as well as their greater receptivity to the political communication efforts launched by him.

In short, the effects on approval for Morales' reform as a whole, as well as its nationalization of pension funds and the inclusion of all citizens, as well as for the state to play the principal role in old-age insurance, are the most consistent and significant in our analysis. These results seem to be driven by the direct interest of previous outsiders, who benefit from each of the measures. In addition, because they also form much of Morales' political base, they display significant support for these policies. In contrast, the findings regarding the pooling of pension funds (in a general, hypothetical sense; not in the case of the Morales reforms) displays less consistent results. This may be because the question posed was simply too complex or abstract for respondents to have well-formed opinions.

## Conclusion

Social insurance has undergone important transformations in Latin America – and a host of other middle-income countries – in recent years. This paper has argued that the policy reforms reflect, and interact with, a coalitional realignment that is reshaping the region. Traditional insiders have lost their status, or have seen it greatly jeopardized, while outsiders, who had previously been considered the hardest to organize and assist, have become increasingly placed at the center of policymaking. We have documented these trends in single case over more than two decades, and we have examined the historical progression of social insurance schemes and their coalitional implications.

This paper makes several significant contributions to our understanding of social insurance design and reform. First, it provides a framework for understanding various, and in some cases conflicting, social policy developments in Latin America. It traces the arc from narrow, insider-protective policies to more universalistic, noncontributory plans. And it In addition, it examines an understudied case, Bolivia. Too often, analysis has focused on first-reforming countries, and has not examined the creative, path-departing reforms undertaken by later reformers. In particular, Bolivia stands out for the coalition it has built between elites who favor private accounts and the informal sector who favor non-contributory programs.

Second, it helps us better understand the microfoundations through which political realignments occur. Through an analysis of individual level survey data, it has shown that citizens form their preferences in favor of expansion based on their perception of labor market risk, particularly as they compared the current state of the economy to that of a year before. To the extent that insiders opposed the expanded pensions, they were most sensitive to the issue of how inclusion of the outsiders would affect their benefit stream. In addition, the survey evidence

shows that partisanship -- proxied by support for Evo Morales' MAS party and his government -- was strongly related with support for the introduction of the national minimum pension.

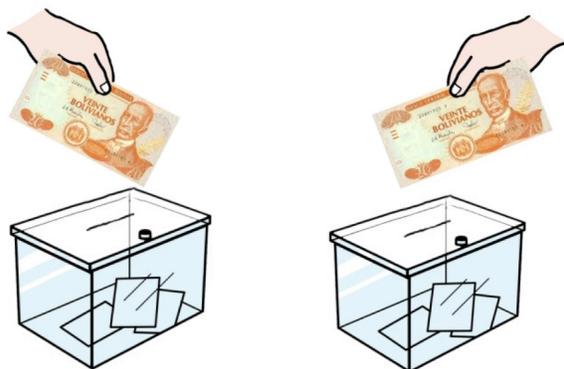
Finally, the paper suggests that the social policy landscape of Latin America, famously described as "narrow but deep," has broadened in a way that fundamentally reshapes the political arena. Traditional insiders are greatly weakened, but not vanquished; they retain significant political clout and continue to enjoy at least some of the benefits of the contributory system that was designed around them (Etchemendy and Collier 2008). Yet they are now complemented by the former outsiders, who in some situations -- as in Bolivia -- are finding new means of organizing and participating in new party configurations. The ongoing prominence of informal employment in the region, and the significant turnover in formal employment due to new modalities of the working relationship, thus play a central role in policy design in a way that was absent in previous generations.

As policymakers pursue continued efforts at economic development, poverty alleviation, and social insurance in the region, they will need to pay attention to the evolving preferences of their citizens. New and surprising coalitions are emerging, and they hold the promise of ushering new governments into office (or toppling existing ones). Indeed, they are likely to be the foundation of the next era of Latin America's economic and political development.

Figure 1: Card used to illustrate “pooling” of pension savings

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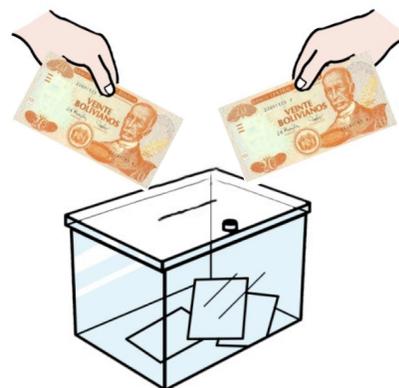
1) Un sistema de seguros para la jubilación donde los trabajadores dependientes aporten a un fondo separado de los trabajadores independientes, y cada grupo recibe beneficios de su propio fondo



Dependientes

Independientes

2) Un sistema de seguros para la jubilación donde trabajadores dependientes e independientes aporten a un mismo fondo, y los dos grupos reciben beneficios del mismo fondo



Dependientes e Independientes

Table 1: Determinants of Support for Public Management of Old-Age Insurance

VARIABLES	(1) supportpublicpension	(2) supportpublicpension	(3) supportpublicpension
approve_govt	0.357*** (0.129)	0.359*** (0.129)	0.321** (0.133)
approve_morales	0.362*** (0.134)	0.353*** (0.135)	0.272* (0.139)
evo_improved	0.358*** (0.111)	0.360*** (0.111)	0.300*** (0.114)
soc_econ_level	-0.265*** (0.0517)	-0.251*** (0.0525)	-0.242*** (0.0533)
female	-0.0286 (0.0797)	-0.0256 (0.0798)	-0.00594 (0.0816)
household_size	0.0213 (0.0212)	0.0188 (0.0213)	0.0202 (0.0217)
fam_status_vs_yearago			-0.00688 (0.0554)
economy_vs_yearago			0.226*** (0.0547)
jobs_vs_yearago			-0.0152 (0.0508)
breadwinner_dependent_job		-0.120 (0.191)	
breadwinner_independent_job		0.00699 (0.186)	
Constant	0.418** (0.189)	0.437* (0.247)	-0.140 (0.250)
Observations	1,132	1,132	1,095

Logit models. Standard errors in parentheses

\*\*\* p&lt;0.01, \*\* p&lt;0.05, \* p&lt;0.1

Table 2: Determinants of Support for Pooling of Contributions

VARIABLES	(4)	(5)
approve_govt	0.128 (0.118)	0.127 (0.118)
approve_morales	-0.0343 (0.124)	-0.0475 (0.124)
evo_improved	0.0948 (0.0942)	0.0953 (0.0943)
soc_econ_level	0.00917 (0.0436)	0.0259 (0.0443)
female	-0.0836 (0.0685)	-0.0814 (0.0686)
household_size	-0.000345 (0.0179)	-0.00229 (0.0180)
breadwinner_dependent_job		-0.0899 (0.169)
breadwinner_independent_job		0.0809 (0.164)
Constant	-0.329** (0.158)	-0.373* (0.215)
Observations	1,387	1,387

Logit models. Standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Table 3: Determinants of Support for Nationalization of Private Pension Funds by Morales

VARIABLES	(6)	(7)	(8)	(9)
hadprivatepension	-0.150** (0.0733)	-0.0998 (0.0746)	-0.128* (0.0751)	-0.0864 (0.0796)
awareofreform	0.115* (0.0654)	0.114* (0.0653)	0.138** (0.0656)	0.190*** (0.0698)
approve_govt	0.188** (0.0945)	0.192** (0.0942)	0.147 (0.0956)	0.220** (0.0980)
approve_morales	0.416*** (0.0995)	0.392*** (0.0994)	0.316*** (0.101)	0.308*** (0.105)
evo_improved	0.235*** (0.0765)	0.240*** (0.0763)	0.194** (0.0781)	0.235*** (0.0817)
soc_econ_level	-0.176*** (0.0373)	-0.166*** (0.0376)	-0.153*** (0.0378)	-0.164*** (0.0407)
female	-0.160*** (0.0565)	-0.150*** (0.0564)	-0.136** (0.0568)	-0.157*** (0.0599)
household_size	0.0243* (0.0146)	0.0209 (0.0146)	0.0162 (0.0147)	0.0183 (0.0157)
breadwinner_dependent_job		0.0357 (0.130)	0.0199 (0.133)	0.121 (0.146)
breadwinner_independent_job		0.223* (0.127)	0.201 (0.131)	0.297** (0.143)
economy_vs_yearago			0.157*** (0.0373)	
jobs_vs_yearago			0.00212 (0.0350)	
fam_status_vs_yearago			0.00721 (0.0383)	
fam_expect_nextyear				0.0429 (0.0373)
econ_expect_nextyear				0.0970** (0.0404)
jobs_expect_nextyear				-0.0577* (0.0336)
Constant	3.235*** (0.135)	3.075*** (0.174)	2.674*** (0.206)	2.743*** (0.221)
Observations	1,088	1,088	1,057	947
R-squared	0.194	0.202	0.218	0.224

OLS models. Standard errors in parentheses

\*\*\* p&lt;0.01, \*\* p&lt;0.05, \* p&lt;0.1

Table 4: Determinants of Approval of Pooling of Pension Funds in Morales' Reform

VARIABLES	(10)	(11)	(12)
hadprivatepension	-0.139* (0.0746)	-0.124 (0.0761)	-0.110 (0.0824)
awareofreform	-0.107 (0.0671)	-0.118* (0.0672)	-0.122* (0.0681)
approve_govt	0.231** (0.0975)	0.230** (0.0973)	0.212** (0.0994)
approve_morales	0.142 (0.102)	0.138 (0.102)	0.139 (0.105)
evo_improved	0.192** (0.0781)	0.186** (0.0780)	0.156* (0.0805)
soc_econ_level	-0.110*** (0.0383)	-0.0961** (0.0386)	-0.0873** (0.0394)
female	-0.0515 (0.0580)	-0.0463 (0.0579)	-0.0383 (0.0595)
household_size	-0.00532 (0.0149)	-0.00749 (0.0149)	-0.0114 (0.0151)
breadwinner_dependent_job		-0.290** (0.136)	-0.249* (0.143)
breadwinner_independent_job		-0.170 (0.133)	-0.130 (0.138)
permanentcontract			0.0154 (0.108)
fixedtermcontract			-0.0371 (0.118)
nocontract			0.0286 (0.0655)
fam_status_vs_yearago			-0.0458 (0.0398)
economy_vs_yearago			0.0885** (0.0385)
jobs_vs_yearago			0.0108 (0.0364)
Constant	3.438*** (0.138)	3.617*** (0.181)	3.438*** (0.215)
Observations	1,067	1,067	1,041
R-squared	0.093	0.098	0.105

OLS models. Standard errors in parentheses

\*\*\* p&lt;0.01, \*\* p&lt;0.05, \* p&lt;0.1

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