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# Labouring against Neoliberalism: Unions and Patterns of Reform in Latin America\*

RAÚL L. MADRID

*Abstract.* In recent years Latin American countries have enacted sweeping privatisation measures and major trade, financial and tax reforms, but they have moved much more slowly to reform their pension systems and labour laws. This pattern of reform partly reflects differences in the intensity of organised labour's opposition to the reforms. Organised labour has undertaken greater efforts to block labour law reforms and, to a lesser extent, pension reforms, because these measures impose severe losses on more unions than other types of reforms. These greater efforts, moreover, have had significant effects on policy outcomes. The article shows how organised labour reacted quite differently to various types of market-oriented reforms in Argentina and Mexico in the 1990s, and describes how the reaction of the unions helped shape the fate of the reform proposals.

In the last decade and a half Latin American countries have experienced a dramatic wave of market-oriented reforms, but these reforms have progressed much further in some policy areas than others. Throughout the region governments have opened up their economies to foreign trade. Average tariff levels dropped from 41.6 per cent in 1986 to 13.7 per cent in 1996, and by the mid-1990s non-tariff restrictions covered just 13.6 per cent of goods, as opposed to 37.6 per cent in the mid 1980s.<sup>1</sup> The privatisation of state-owned corporations has proceeded at a similarly rapid pace. Between 1990 and 1994, Latin American countries sold off 694 state-owned companies, earning more than \$59.1 billion from the sales, easily more than any other region.<sup>2</sup> Major reform has also taken place in the areas of tax and financial policy. The

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<sup>1</sup> Inter-American Development Bank, *Latin America after a Decade of Reforms – 1997 Report* (Washington, DC, 1997), pp. 42–3.

<sup>2</sup> Inter-American Development Bank, *Economic and Social Progress in Latin America – 1996 Report* (Washington, DC, 1996), p. 171.

maximum corporate and personal income tax rates have been reduced sharply in most Latin American countries, and broad consumption taxes, such as the value-added tax, have been adopted.<sup>3</sup> In the area of financial policy Latin American governments have created more autonomous central banks, eliminated targeted credit programmes, floated interest rates for deposits and loans, and eliminated controls on the cross-border flow of capital.

Labour reform has proceeded much more slowly, however. Whereas 24 Latin American and Caribbean nations (of the 26 countries under study) enacted major financial reforms, 23 countries implemented major trade reforms and 14 countries privatised a substantial number of state assets, only five countries reformed their labour laws between 1985 and 1995.<sup>4</sup> The labour reforms that have been implemented, moreover, have been quite modest in nature and have included protectionist as well as market-oriented measures.<sup>5</sup> An Inter-American Development Bank index of the progress of reform registers almost no change in the area of labour policy between 1985 and 1995, in marked contrast to the high levels of reform in other policy areas.<sup>6</sup> This index rated the flexibility of labour legislation with regard to hiring, dismissal after one year and ten years of employment, overtime pay and social security contributions.

Latin American countries have had a mixed record on social security reform. Between 1992 and 2000 nine Latin American governments overhauled their pension systems, tightening pension eligibility requirements and partially or fully privatising their pension systems along the lines of the Chilean model. Many countries in the region have yet to adopt any pension reforms at all, however, while other Latin American countries have implemented only modest changes to their existing public pension systems. Moreover, some of the pension privatisation schemes that were implemented fell well short of the governments' original proposals.

This article sets out to explain this pattern of reform and considers the factors which explain why Latin American countries have adopted sweeping reforms in some policy areas, but not in others.

### *Explaining patterns of reform*

Most existing theories of economic reform in developing countries offer relatively little insight into these questions. The prominent explanations for

<sup>3</sup> Inter-American Development Bank, *Latin America*, p. 144.

<sup>4</sup> Eduardo Lora and Carmen Pagés, 'La legislación laboral en el proceso de reformas estructurales de América Latina y el Caribe,' (Washington, DC, 1996), p. 7.

<sup>5</sup> *Ibid.*, p. 8; and Arturo Bronstein, 'Labour law reform in Latin America: Between state protection and flexibility,' *International Labour Review*, vol. 136, no. 1 (Spring 1997), p. 12.

<sup>6</sup> Inter-American Development Bank, *Latin America*, p. 49.

the recent wave of market-oriented reforms focus on variables such as the severity of the economic crisis affecting the countries, the degree of polarisation and fragmentation of their party systems, and the identity and degree of insulation of policymakers.<sup>7</sup> These theories all offer plausible accounts for why some countries have adopted neoliberal reforms and others have not. They do not, however, help us understand why countries have implemented some reforms and not others, since these variables typically remain constant within each country.

A few scholars have offered potential explanations for this puzzle, however. Naím and Nelson, for example, suggest that countries have proceeded most rapidly with those reforms that helped them cope with the severe current account deficits and the inflationary crises that they faced in the 1980s and early 1990s.<sup>8</sup> According to Naím, the initial reforms focused on reducing inflation and restoring growth by 'changing the rules that determined macro-economic behaviour'.<sup>9</sup> This is useful for explaining why countries adopted stabilisation policies more quickly and easily than structural reforms, but it is less useful for distinguishing between different types of structural reforms.<sup>10</sup> Many of the financial, trade and tax reforms that have been implemented in the last decade as well as the privatisation of state-owned companies have little to do with economic stabilisation. Indeed, some of the reforms (notably trade reforms) will typically worsen the current account and fiscal deficits in the near term. Labour and pension reforms, in contrast, will typically facilitate economic stabilisation by reducing labour costs and, in some cases, cutting government spending as well. Thus, it is not clear how macroeconomic factors could explain why Latin American nations have privatised state-owned corporations and implemented trade, financial and tax reforms at a much faster rate than they have carried out reforms of their pension systems and labour codes.<sup>11</sup>

<sup>7</sup> See, for example, Stephan Haggard and Robert R. Kaufman, *The Political Economy of Democratic Transitions* (Princeton, 1995); and Kurt Weyland, 'The Political Fate of Market Reform in Latin America, Africa and Eastern Europe,' *International Studies Quarterly*, no. 42 (1998), pp. 645–74.

<sup>8</sup> Moisés Naím, 'Latin America: The Second Stage of Reform,' in Larry Diamond and Marc F. Plattner (eds.), *Economic Reform and Democracy* (Baltimore, 1995), pp. 28–44; and Joan Nelson, 'Linkages Between Politics and Economics,' in Diamond and Plattner (eds.), *Economic Reform*, pp. 45–58.

<sup>9</sup> Naím, 'Latin America,' p. 30.

<sup>10</sup> As one anonymous reviewer pointed out, many of these stabilisation policies imposed major costs on the labour unions. Nevertheless, in some cases, unions supported them because they believed that the costs of stabilisation would be short term, and they viewed the stabilisation policies as necessary to overcome the economic crises that had also imposed serious, and potentially longer-lasting, costs.

<sup>11</sup> In many cases Latin American governments proposed major pension and labour reforms at the same time as other structural reforms, but the pension and labour reform proposals were defeated or substantially altered by opponents.

Naím also suggests that ‘the institutional and legal steps needed to launch a radical macroeconomic overhaul tended to be relatively simple and often fell under the authority of the executive branch’, whereas institutional reform measures, such as pension or labour law reform, are much more complex and typically require legislative approval.<sup>12</sup> Distinguishing between the different types of structural reforms on these grounds is also problematic, however. Latin American governments have frequently obtained legislative approval for the privatisation of state-owned companies and other so-called first stage reforms, while they have, on occasion, implemented labour law or pension reforms by decree. The Menem administration in Argentina, for example, obtained the approval of the legislature for the privatisation of numerous state-owned companies, while it approved some changes in the labour law by decree and threatened to do so with the pension reform as well. Executive decree authority, moreover, varies substantially from country to country.<sup>13</sup> In some cases, executives can enact only very limited reforms by decree, while in other cases, the scope of decree authority is unclear, which permits executives to justify the advancement of almost any type of reform by such methods.

I will argue here that the variance in the implementation of reforms partly reflects differences in the intensity of labour’s opposition to the reforms. The labour movement has typically opposed most of the recent reform measures, but it has not opposed them with equal vigour. Organised labour has undertaken greater efforts to block labour law reforms and, to a lesser extent, pension reforms than the other measures because they impose major losses on more unions and union members than the other reforms. These greater efforts, moreover, have had significant effects on policy outcomes. Where the unions have mounted vigorous and broadly-based campaigns against reforms, they have sometimes been able to defeat them or, at least, obtain significant policy concessions.

Organised labour was originally considered to be one of the major obstacles to the enactment of market-oriented reform, but much of the recent literature on reform in developing countries has downplayed the threat represented by trade unions. Geddes, for example, argues that ‘popular-sector and union opposition has been less severe and less effective than expected’.<sup>14</sup> Bates and Krueger, meanwhile, ‘find little evidence of labour crippling attempts at policy

<sup>12</sup> Naím, ‘Latin America,’ p. 31. See also Nelson, ‘Linkages between Politics and Economics,’ p. 50.

<sup>13</sup> Matthew Soberg Shugart and John M. Carey, *Presidents and Assemblies* (Cambridge, 1992); John M. Carey and Matthew Soberg Shugart (eds.), *Executive Decree Authority* (Cambridge, 1998).

<sup>14</sup> Barbara Geddes, ‘The Politics of Economic Liberalization,’ *Latin American Research Review*, vol. 30, no. 2 (1995), p. 204.

change'.<sup>15</sup> Nelson similarly concludes 'there are very few instances where union pressure alone derailed adjustment efforts, although labour combined with other elements of the urban popular sectors has done so in a few instances'.<sup>16</sup> These studies suffer from several methodological problems, however. First, they tend to focus on reforms that were formally proposed by the executive, which creates a form of selection bias since some groups may be effective at keeping issues off the agenda. Second, they tend to treat reform as a single policy rather than a collection of many different policies. The underlying assumption is that different types of reforms have similar causes. This is a highly questionable assumption, however, given that the reforms have sharply varying distributions of costs and benefits. It seems much more plausible to assume that the political determinants of each type of reform might vary depending on the winners and losers that it creates.

In this article I intend to avoid the first methodological shortcoming by assessing not only whether the unions were able to block government reform proposals, but also whether they were able to prevent certain reforms from being formally proposed. Equally importantly, I disaggregate the concept of reform by examining the political fate of a variety of different types of policy reforms. As I show here, different types of reforms have affected the labour unions in very different ways, and these effects conditioned their reactions to those reforms. In some instances, the unions were able to defeat or alter those that had the most negative effects on the unions, their leaders and their members, even though they could not prevent the bulk of the reform packages from being approved.

The article is structured as follows. The first section discusses the existing theoretical literature on the influence of organised labour on public policy. It is argued that this literature focuses excessively on the political strength of the labour movement and ignores the intensity of labour's support for or opposition to particular policies. The second section identifies some of the main determinants of the intensity of labour's position and discusses the manner in which these variables have helped shape labour's reaction to different types of market-oriented reforms. The third section tests these hypotheses by examining how the Argentine and Mexican labour movements reacted to proposed reforms in a number of different policy areas and how these reactions helped determine the fate of the reform proposals. A concluding section discusses the broader implications of my arguments and directions for future research.

<sup>15</sup> Robert H. Bates and Anne O. Krueger, 'Generalizations Arising from the Country Studies,' in Bates and Krueger (eds.), *Political and Economic Interactions in Economic Policy Reform* (Oxford, 1993), p. 455.

<sup>16</sup> Joan Nelson, 'Poverty, Equity and the Politics of Adjustment,' in Stephan Haggard and Robert Kaufman (eds.), *The Politics of Economic Adjustment* (Princeton, 1992), p. 245.

*Understanding labour's influence on public policy*

In many analyses the degree of influence that organised labour exercises on public policy issues is determined largely by the strength of the labour movement. Labour power is measured in several different ways. Quantitative analyses, and some case studies, typically use unionisation rates (that is, the number of union members as a percentage of the labour force) as, at least, one measure of labour power.<sup>17</sup> Where union density is high, organised labour usually has more financial resources and a greater capacity to disrupt the economy, which provides it with greater political influence.<sup>18</sup> The percentage of workers covered by a collective contract is also, at times, used as a measure of labour strength, since unions have an easier time mobilising workers who have collective contracts whether or not they are union members.<sup>19</sup> Another oft-cited determinant of labour power is the degree of unity and centralisation of the labour movement.<sup>20</sup> Unified and centralised labour movements tend to have greater policy influence not only because they can act more easily as a single voice in negotiating policy with the government, but also because they can usually mobilise more financial resources and a larger number of workers than divided and decentralised labour movements.

A final key determinant of organised labour's political strength is the nature of its relationship with key political parties, especially the ruling party. Labour movements with close ties to powerful political parties typically have more policy influence because these parties tend to be more responsive to the wishes of the unions.<sup>21</sup> This is true for ideological and material reasons.

<sup>17</sup> Alexander Hicks and Duane Swank, 'On the Political Economy of Welfare Expansion,' *Comparative Political Studies*, vol. 17, no. 1 (April 1984), pp. 81–119; Michael J. Wallerstein, 'Union Organization in Advanced Industrial Democracies,' *American Political Science Review*, vol. 83, no. 2 (June 1989), pp. 481–501; Sven Steinmo and Caroline Tolbert, 'Do Institutions Really Matter? Taxation in Industrialised Democracies,' *Comparative Political Studies*, vol. 31, no. 2 (April 1998), pp. 165–87.

<sup>18</sup> Hicks and Swank, 'On the Political Economy,' and James W. McGuire, 'Union Strength and Human Development in East Asia and Latin America.' A paper prepared for the 92nd Annual Meeting of the American Political Science Association, 28 Aug.–1 Sept. 1996.

<sup>19</sup> James W. McGuire, 'Labour Strength'; and Michael Wallerstein, Miriam Golden and Peter Lange, 'Unions, Employers' Associations, and Wage-Setting Institutions in Northern and Central Europe, 1950–1992,' *Industrial and Labour Relations Review*, vol. 50, no. 3 (April 1997), pp. 379–401.

<sup>20</sup> J. Samuel Valenzuela, 'Labour Movements in Transitions to Democracy: A Framework for Analysis,' *Comparative Politics*, vol. 21, no. 4 (July 1989), pp. 445–72; and R. Michael Alvarez, Geoffrey Garrett and Peter Lange, 'Government Partisanship, Labour Organization, and Macroeconomic Performance,' *American Political Science Review*, vol. 85, no. 2 (June 1991), pp. 539–56; M. Victoria Murillo, 'From Populism to Neoliberalism: Labour Unions and Market Reforms in Latin America,' *World Politics*, vol. 52, no. 2 (January 2000), pp. 135–74.

<sup>21</sup> Walter Korpi, *The Democratic Class Struggle* (London, 1983); Gøsta Esping-Andersen, *Politics against Markets* (Princeton, 1985); María Victoria Murillo, *Labor Unions, Partisan Coalitions and Market Reforms in Latin America* (Cambridge, 2001).

The labour-allied parties often draw some of their leadership from the unions or from labour-sympathisers, and they typically depend on the unions for electoral and organisational support. Union-party ties are a double-edged sword, however. Although close ties with the ruling party may provide the unions with political clout that enables them to resist reforms, they also provide the ruling party with influence over the unions. The ruling party may use this influence to pressure the unions to support reforms, which they may be successful in doing so long as the measures do not impose large costs on numerous unions.<sup>22</sup> In Argentina, for example, the Menem administration used its labour ties successfully to pressure numerous unions to acquiesce in the face of reforms that did not impose large costs on numerous unions. In contrast, the Alfonsín administration, which did not have close ties to labour, was unable to persuade the unions to acquiesce to even minor reforms.<sup>23</sup>

All of these factors can and have shaped the degree of influence that labour has exercised over public policy issues. In focusing almost exclusively on the strength of the labour movement, however, most analyses overlook another key determinant of labour's ability to affect public policy: the *intensity* of its support for or opposition to particular policies. The policy impact of labour hinges not only on the political or economic power of the unions, but also on their willingness to use their political or economic clout. It is not costless for labour to try to exercise policy influence. Unions that are determined to have their way with regard to a particular policy are frequently obliged to use up scarce political capital. They may have to engage in political horse-trading, agreeing to support certain policies in exchange for concessions by the executive or the legislature in their main area of concern. Or they may be required to pledge their support for certain politicians in exchange for policy concessions from these same politicians. Where political leaders choose to ignore the concerns of organised labour, the labour movement must, at times, resort to strikes, demonstrations or political campaigns, all of which can be quite costly for the unions and their members. Even threatening to undertake such actions has costs, since such threats will begin to lose value if they are not consistently carried out by the labour unions.

Because seeking to influence policy has costs, we would not expect the labour movement always to be willing to use its influence to the same degree.

<sup>22</sup> Murillo argues that labour-based parties may use their ties with the unions to gain their acquiescence for most types of market reforms, but in exchange for foregoing labour reforms. See María Victoria Murillo, 'Labor Parties and Partisan Labor: Labor Reform in Latin America.' A paper presented at the annual meeting of the Latin American Studies Association, Miami, March 16–18, 2000.

<sup>23</sup> See Murillo, *Labor Unions*; and Steven Levitsky and Lucan A. Way, 'Between a Shock and a Hard Place: The Dynamics of Labour-Backed Adjustment in Poland and Argentina,' *Comparative Politics*, vol. 30, no. 2 (1998), pp. 171–92.

Where the labour movement does not intensely oppose a particular policy, it is unlikely to take dramatic measures to block it. On the contrary, the labour movement is much more likely to be willing to strike a deal with the government, agreeing to support the reform in exchange for government concessions on other issues. Moreover, even if union leaders do announce their opposition to such policies, they are unlikely to call a strike or use up scarce political resources in efforts to have their way on such issues. Furthermore, if union members do not feel strongly about a particular issue, they are unlikely to participate widely in such strikes or political campaigns even if their leaders do announce them. Finally, policymakers are unlikely to believe that the union leaders will go through with their threats to carry out strikes or political campaigns if they know that the issue is not one of the priorities of labour leaders. Moreover, if they know that union members lack enthusiasm for a particular issue, policymakers may believe that strikes or political campaigns are likely to fail even if the union leaders do call them. For these reasons, policymakers are unlikely to grant concessions to the unions unless they know that the union leaders and their members feel quite strongly about an issue. Where labour leaders and the rank-and-file do feel strongly about an issue, however, they are much more likely to have policy influence. Union leaders are more likely to call strikes or launch political campaigns, union members are more likely to participate in these campaigns, and policymakers are more likely to believe that labour will effectively follow through on its threats.

Thus, in order to predict whether labour will have influence over a particular policy it is not enough to know how strong the labour movement is (although this factor clearly matters). Nor is it sufficient to know whether labour supports or opposes a particular policy. We must also ascertain the degree of its support or opposition.

### *Explaining organised labour's reaction to reforms*

The intensity of labour's opposition to (or support for) a given reform depends on a variety of factors. The reaction of organised labour to a given reform is partly shaped by the likelihood that such dissent will be successful, which is largely a function of labour's political clout. Labour is more likely actively to resist a reform that it has a strong chance of blocking or altering, rather than expend political capital on a futile effort.<sup>24</sup> Labour is also more likely to resist reforms vigorously where the costs of dissent are relatively low,

<sup>24</sup> Labour unions may sometimes feel obliged to mount futile efforts to block reforms simply in order to retain their popularity among the rank-and-file, assist their political allies or deter future reforms.

which is also shaped by labour's relative political strength. Some unions can ill afford to vigorously oppose reforms because they depend heavily on the state or the ruling party, the economic climate is poor, or the government is willing to repress the unions.

Perhaps the most important determinant of labour's reaction to reforms is the impact of those reform on the unions themselves. This, in turn, is largely a function of the breadth and depth of the reform – that is, the number of unions affected by the reform and the severity with which they are affected. Measuring the number of unions affected by a reform is relatively straightforward, but measuring how deeply they are affected is more complex. To assess the severity of the impact of a reform on a given union, it is crucial to examine the effect of the reform on: (1) the union's members; (2) the union's leaders; and (3) the organisational resources of the union. Reforms will often have very different effects on each of these actors. In some cases, reforms will seriously hurt the members of a union without affecting the union's leaders or vice versa. Similarly, some reforms will hurt union members and/or their leaders without undermining the organisational resources of the unions. Clearly, reforms that have a negative impact on the members, leaders and organisational resources of a union will tend to have a more severe impact on that union (and thus beget stronger resistance) than reforms that only affect one or two of these categories. How deeply the reform affects the members, leaders and the organisational resources of a given union also matters, however. In most cases it is difficult to calculate a precise measurement of the magnitude of a reform's impact on each of these categories, but it is possible to provide a rough ordinal estimate. Reforms that cause widespread job losses, for example, will typically have a more severe impact on union members than reforms that lead to wage cuts or that reduce benefits, since the foremost concern of union members is the maintenance of their jobs. For similar reasons, reforms that jeopardise labour leaders' hold on power can be deemed to have a more severe impact on union leaders than reforms that simply reduce the perks available to these leaders.

The response or organised labour to reforms will also be determined by several factors that shape how their impact is perceived. Unions, for example, are more likely to oppose reforms that have a direct negative impact since they may not be fully aware of the impact of reforms that only affect them indirectly. Similarly, they are more likely to oppose reforms that have an immediate impact than measures that will only be felt in the distant future. Many union members and leaders may heavily discount the future, particularly since some of them may be nearing retirement. Finally, unions will be more likely to object to reforms that concentrate their costs on the unions rather than diffusing the costs on society as a whole. Union members and leaders may feel that they should not be obliged to bear the brunt of the costs of economic

		Number of unions and union members affected	
		Many	Few
Severity of Impact	Severe	Staunch resistance <i>Labour law reforms</i> <i>Pension reforms</i>	Fragmented resistance <i>Privatisation of state-owned companies</i> <i>Trade liberalisation</i>
	Minor	Minimal resistance <i>General tax reforms</i> <i>General financial reforms</i>	Minimal resistance <i>Sectoral tax reforms</i> <i>Sectoral financial reforms</i>

Fig. 1. *The determinants of organised labour's reaction to reforms.*

adjustment even if they feel that some form of adjustment is necessary. In the tables that accompany the discussion of the reforms in Argentina and Mexico, I evaluate the impact of reforms with regard to each of these factors to come up with an overall assessment of the costs of the reforms.

As the lower quadrants of Figure 1 indicate, reforms that do not impose major losses on any single union are likely to meet only minimal resistance from the labour movement, regardless of the number of unions that they affect. Under these circumstances, the unions face considerable obstacles to collective action since no unions are likely to be affected significantly enough to warrant assuming the costs of vigorously opposing the reforms. Unions have incentives to oppose a reform as long as the cost of opposing the reform is less than the benefits gained from defeating (or modifying) the reform multiplied by the probability that the reform will be defeated (or modified).<sup>25</sup> But if a reform has only a minor impact on a union, that union will gain relatively few benefits from defeating or modifying it. As a result, the union is likely to present only symbolic resistance to the reform rather than expend considerable political or economic resources on an issue that is not of great importance to it.

By contrast, reforms that impose severe losses on unions are likely to engender much more vigorous opposition from the labour movement. As the upper right hand quadrant of Figure 1 indicates, however, reforms that only seriously hurt a few unions or only a sector of organised labour will typically encounter more fragmented and ineffective opposition than reforms that affect the labour movement as a whole. Where reforms only affect a few

<sup>25</sup> That is, as long as  $c < p \cdot b$  where  $c$  = the cost of opposing the reform through strikes or other measures;  $p$  = the probability that the reform will be defeated; and  $b$  = the benefits gained from defeating the reform. Of course, other factors may also affect this calculus, including the possibility of modifying rather than defeating the reform.

unions, it is much easier to compensate the losers, which can mitigate their opposition to reforms. Compensation may involve rewarding the leaders of the unions with government posts or providing the unions with some sort of financial compensation (such as a stake in the privatised enterprise), which can typically only be doled out to a limited number of unions or union leaders. Governments typically prefer to grant side payments rather than policy concessions under these circumstances because the costs of policy concessions will often exceed the cost of side payments where the unions that must be compensated are few in number.

Even if compensation fails to persuade the affected unions to support the reform, they typically will not be able to block it on their own,<sup>26</sup> but will usually need the active support of other unions, which will be difficult to obtain. Unions that are not affected by a reform have few incentives to resist the reform, since resistance requires the expenditure of valuable political or economic resources. As a result, unaffected unions will often provide only token resistance to the reform, which increases the probability that it will be enacted. If the unions were able to coordinate their actions so that they all opposed any reform that hurt a sector of the labour movement, they might stand a good chance of blocking, or at least scaling back, the reforms, which would be to the benefit of them all. The unions are locked in a prisoner's dilemma, however. A union that is not affected by a reform will be reluctant to oppose it vigorously because it cannot be sure that other unions would do the same for it in the future. This problem will be aggravated in decentralised labour movements where no authority exists to compel unions to cooperate with each other. Even where the labour movement is centralised, however, the labour confederation may have a difficult time ensuring widespread participation in strikes or other efforts to block reforms if the reform measures only affect a small proportion of the unions. Individual unions may also face difficulties in convincing the labour confederation to initiate a major campaign against reforms if the measures only affect a few unions, unless, of course, those unions are disproportionately powerful.

As the upper left hand quadrant of Figure 1 indicates, reforms that impose severe losses on large numbers of unions are likely to encounter broader and more vigorous opposition from the labour movement. Unions will find it easier to cooperate under these circumstances because they have common short-term interests. The government, meanwhile, will have a much more difficult time defusing the opposition of the unions by making side payments

<sup>26</sup> Unions that suffer major losses from reforms will frequently oppose those reforms vigorously, even where the probability of blocking the reforms is low, in order to retain the support of the rank-and-file who will be very critical of the measures. See Miriam Golden, *Heroic Defeats: The Politics of Job Loss* (Cambridge, 1997).

since a larger number of parties must be compensated.<sup>27</sup> Under these circumstances, negotiations over the reforms are more likely to include real policy concessions, which the government may find more cost effective than side payments.<sup>28</sup> Where the labour movement is particularly powerful, governments may even be obliged to withdraw their reform proposals altogether.

Neoliberal labour reforms typically hurt a large number of unions, and they often hurt them severely. Labour reforms usually apply across different sectors of the economy, although at times certain categories of workers, such as public sector workers, are exempted from them. Although non-union members may actually benefit from some of these measures (such as reforms that make it easier for firms to hire non-union members or temporary or part-time workers), union members are typically hurt by these reforms. Some place the jobs of union members in jeopardy by making it easier for employers to hire and fire workers, others make it easier for union members to change their leaders. Still other labour reforms undermine the institutional resources of the unions by making it more difficult for them to organise, to carry out strikes or to bargain collectively. Some of these reforms may even undermine the financial resources of the unions, or place their long-term survival – or that of their leaders – in jeopardy. For all of these reasons, we would expect broad and vigorous resistance from the labour movement to these reforms.

Pension reforms will also typically affect most union members since in most Latin American countries the vast majority of union members (unlike workers in general) are eligible for pension benefits. Recent pension reforms in Latin America have imposed significant losses on union members in that they have tightened pension eligibility requirements and eliminated the privileged pension schemes that some powerful unions have long enjoyed. Perhaps more significantly, they have shifted risk from the state to workers by moving from a publicly-managed pension system to a privately-managed system based on individual retirement accounts.<sup>29</sup> This has created a great deal of uncertainty as to the pension benefits that workers will receive. Thus, broad and vigorous resistance from the labour movement to pension reforms should also be

<sup>27</sup> The government may try to reduce the number of side payments by only compensating the labour leaders or the most powerful of the affected unions.

<sup>28</sup> The government may also agree to compensate the unions by making policy concessions in an area unrelated to the reform, but these agreements are difficult to reach where they involve a large number of unions, particularly since the government may have a difficult time credibly committing to abide by the terms of such agreements.

<sup>29</sup> See María Amparo Cruz-Saco and Carmelo Mesa-Lago, *Do Options Exist? The Reform of Pensions and Health Care Systems in Latin America* (Pittsburgh, 1999); Raúl L. Madrid, *Retiring the State: The Politics of Pension Privatization in Latin America and Beyond* (Stanford, 2003); Jaime Ensigna and Rolando Díaz, *La seguridad social en América Latina: ¿reforma o liquidación?* (Caracas, 1997); and Stephen J. Kay, 'Unexpected Privatizations: Politics and Social Security Reform in the Southern Cone,' *Comparative Politics* (July 1999), pp. 403–22.

expected. In most cases, however, pension reforms do not endanger the institutional resources of the unions, nor do they have major effects on labour leaders.<sup>30</sup> Moreover, pension reforms are typically phased in, which means that they often do not affect older workers or current pensioners, and they only affect other workers in the long-term (i.e. when they retire). As a result, we might expect pension reform to encounter less opposition than labour reform.

Trade liberalisation and the privatisation of state-owned companies tend to hurt a much more limited number of union members, although they do hurt them severely. Trade liberalisation, for example, mainly hurts those union members who work in sectors of the economy that cannot compete with foreign imports. These workers may lose their jobs or suffer cuts in wages or benefits. Union members who work in competitive sectors of the economy or in areas that are not subject to import competition, such as the service industry or the public sector, are not usually hurt by the removal of tariff barriers or other trade liberalisation measures. Indeed, they may even benefit from these reforms if they make it easier to export or decrease the costs of consumer products or intermediate goods. The privatisation of state-owned industries, meanwhile, mainly hurts those union members who work for the companies that are being privatised. Union members who work for these companies may lose their jobs or have to accept reductions in wages or benefits. Other union members, in contrast, may benefit from the reforms if they improve the efficiency of the privatised companies or help restore the state's financial health. As a result, we would expect the labour movement to present more fragmented and less effective resistance to privatisation and trade liberalisation. Moreover, as noted previously, we would predict that the government might try to reduce labour opposition to such measures by compensating some of the unions that are negatively affected.

Reforms of the tax and financial systems, on the other hand, will tend to affect a large number of union members, but they will not typically impose major costs upon them.<sup>31</sup> The burden of these reforms tends to fall on the population as a whole rather than on union members in particular. Union members, for example, may have to pay higher taxes as a result of the shift from high personal income or corporate taxation to a value-added tax, but the increase in their tax burden tends not to be too large and is only indirectly felt

<sup>30</sup> In some countries the unions played a role in the management of the public pension funds and, as a result, the recent pension reforms in these countries have typically undermined the patronage resources of the unions.

<sup>31</sup> In some cases, these reforms are only aimed at a certain sector, in which case they affect a much smaller proportion of union members. Tax reforms, for example, may eliminate the tax breaks available in a particular region or sector, and financial reforms may reduce the amount of credit targeted for a certain industry or region.

through their purchases. Financial reforms may also affect large numbers of union members by leading to interest rate increases or reducing the amount of targeted credit available, but again the impact of these reforms on the unions tends not to be too large, is not concentrated on organised labour, and is only indirectly perceived. As a result, we would not expect the labour movement to vigorously oppose these reforms.

The degree of labour opposition to reforms does not alone determine their fate. As previous studies have argued, the strength of the labour movement also plays an important role in shaping the outcome of reform efforts. Where the labour movement is quite weak, even vigorous opposition from the unions may not be sufficient to block the reforms, although the government may make some minor concessions in an effort to appease the unions. Where the labour movement is powerful, however, we should expect intense opposition to result in the obstruction of reform efforts or, at least, in major concessions. As we have seen, the political strength of the labour movement is determined by characteristics such as union density, the degree of labour unity and the nature of party-labour ties.<sup>32</sup> The strength of labour, however, must be weighed relative to other groups, such as business and the state itself, since powerful states or business sectors may be able to resist or override labour demands.<sup>33</sup>

### *The cases*

In the following section the reaction of organised labour to different types of market-oriented reforms during the administration of Carlos Menem in Argentina and during the administrations of Carlos Salinas and Ernesto Zedillo in Mexico is considered. I seek to assess how vigorously the labour movement opposed each reform and what role, if any, the reaction of the unions played in shaping the fate of the reform proposals. The degree of opposition of the labour movement to each reform is measured not only by the number of strikes and protests, but also by the position labour takes in internal negotiations, and, where relevant, by how labour-affiliated legislators vote in the legislature. The degree of union influence in shaping the reform outcomes is assessed by tracing the negotiations over the reforms inside and outside the legislature.

The focus here is on efforts to overhaul the pension system and labour laws, privatise state-owned companies, liberalise trade and, to a lesser extent, reform

<sup>32</sup> The labour movement has little political clout in some regimes, especially exclusionary authoritarian regimes.

<sup>33</sup> As one anonymous reviewer pointed out, the Pinochet regime in Chile and the Fujimori administration in Peru both had the political strength necessary to ignore or repress the opposition of organised labour, which facilitated the implementation of sweeping labour reforms in those countries.

the tax code and financial sector. The principal aim is to explain the similar pattern in the types of reforms approved within each country rather than any differences that might exist between them. Indeed, my central argument is that countries that have reasonably strong labour movements will tend to have similar patterns of reform, owing in part to the fact that organised labour opposes some reforms more than others. Of course, some countries will eschew market-oriented reforms altogether, in part, no doubt, because they lack the conditions that facilitate reform identified by various scholars (such as a serious economic crisis, institutionalised party systems, policymakers committed to neoliberal ideas, and so forth).<sup>34</sup> These countries, however, lie outside the scope of this analysis.

These two cases have been chosen partly to control for the factors that prompt governments to enact sweeping market-oriented reforms. Argentina and Mexico both suffered serious economic crises in the 1980s, which led them to embark upon wide-ranging programmes of neoliberal reforms in the 1990s. Neoliberal economists came to dominate the highest economic policy-making positions in both countries and promoted sweeping market-oriented reforms. In both cases, the country's party systems had a relatively low degree of fragmentation, which facilitated the reform efforts. I have also deliberately chosen two countries in which the labour movement has a reasonable degree of political clout owing to its relatively high (by Latin American standards) rates of unionisation and close ties to the ruling party. As noted above, in some countries, the labour movement may be so politically weak that the intensity of union opposition to reform will be largely irrelevant. Thus, the arguments made here cannot be applied to all countries, but only those countries, such as Argentina and Mexico, in which labour wields some political clout.

Although the Argentine and Mexican labour movements have some important similarities, they also differ substantially in some ways. While the Argentine labour movement has traditionally been highly militant, the Mexican labour movement has been relatively quiescent. It will thus be interesting to examine if the patterns of union opposition to the reforms are similar in spite of these different traditions of activism. As we shall see, the labour movements in both countries failed to present significant opposition to tax, financial and, more surprisingly, trade reforms. Unions of state enterprise workers did aggressively oppose the privatisation of state-owned companies, but they failed to gain the support of the labour movement as a whole. Moreover, many of the affected unions dropped their opposition to the reforms when they were provided with shares in the newly-privatised enterprises or with other forms of compensation. The Argentine and Mexican

<sup>34</sup> For analyses of the role that these other variables play in market-oriented reform see Haggard and Kaufman, *The Political Economy*.

labour movements have presented broader and more vigorous opposition to pension and labour reform, however. The main labour federations in both countries initially blocked pension reforms, and only agreed to support them reforms after receiving significant policy concessions from the government. Labour reform, meanwhile, has encountered even greater obstacles. To date, the Argentine labour movement has permitted only minor labour reforms or measures that actually increase the privileges enjoyed by labourers and their unions, while the Mexican labour movement has succeeded in blocking labour reform altogether.

### *Labour and reform in Argentina*

Argentina has traditionally had a powerful labour movement with the highest unionisation levels in Latin America.<sup>35</sup> The country's unionisation rate declined in the 1980s, dropping from approximately 40 per cent of the labour force in the mid-1980s to between 25 and 30 per cent in the early 1990s, but Argentina remains one of most unionised countries in the region.<sup>36</sup> The strength of the Argentine labour movement stems not only from the country's relatively high level of unionisation, but also from the unions' traditionally close ties to the Justicialist Party (PJ). These ties have provided labour leaders with formal representation in the Argentine legislature as well as on the governing council of the party. Although the number of labour leaders in the Chamber of Deputies has declined in recent years, dropping from 35 members in 1983–85 to 10 members in 1993–1995, the labour movement has continued to control a large proportion of the seats on some key committees.<sup>37</sup> Indeed, during the Menem administration's first term, labour affiliated legislators on average accounted for more than 40 per cent of the seats on the Committee on Labour Legislation.<sup>38</sup>

The Argentine labour movement has not hesitated to use its power to block policies that it has opposed. During the Alfonsín government, the labour movement carried out 13 general strikes and used its votes in the legislature to help defeat a variety of policy proposals. The close ties between the Justicialist party and the main labour federation, the Confederación General del Trabajo

<sup>35</sup> Alejandro Lamadrid and Alvaro Orsatti, 'Una revisión de las medidas sobre la tasa de sindicalización en Argentina,' *Estudios de Trabajo* (julio–diciembre 1991), pp. 135–59; Ruth Berins Collier and David Collier, *Shaping the Political Arena* (Princeton, 1991); James W. McGuire, *Peronism without Perón: Unions, Parties and Democracy in Argentina* (Stanford, 1997).

<sup>36</sup> Claudio Lozano, *Los niveles de sindicalización y la propuesta del CTA* (Buenos Aires, 1995); International Labour Office (ILO), *World Labour Report 1997–98: Industrial Relations, Democracy and Social Stability* (Geneva, 1997); and McGuire, *Peronism without Perón*.

<sup>37</sup> Sebastián Etchemendy and Vicente Palermo, 'Conflicto y concertación: gobierno, congreso y organizaciones de interés en la reforma laboral del primer gobierno de Menem (1989–1995),' *Desarrollo Económico*, vol. 37, no. 148 (1998), p. 577. <sup>38</sup> *Ibid.*, p. 577.

(CGT), served to reduce labour opposition to market-oriented policies during the Menem administration, however.<sup>39</sup> Most labour leaders did not want to risk a rupture with the ruling party, which had historically provided it with numerous benefits. Moreover, the close personal relationships that existed between labour leaders and some officials of the Menem administration allowed deals to be negotiated on a variety of policy issues since the two parties enjoyed numerous channels of communication and trusted each other to comply with the terms of agreements.<sup>40</sup> The high unemployment that persisted throughout the Menem administration and Menem's willingness to use autocratic measures, such as decrees, to enact policy measures also softened labour's opposition to reforms and provided the unions with incentives to compromise. Nevertheless, there were noticeable differences in the way labour reacted to policy proposals during the Menem administration and these differences affected the final outcome of the proposed reforms.

The Menem administration took office in July 1989 in the midst of a profound economic crisis and immediately embarked upon major structural reforms of the economy. Within two years, tariff barriers were reduced from an average of 39 per cent to an average of 10 per cent and quantitative restrictions on imports were practically eliminated.<sup>41</sup> The Menem administration also privatised numerous state-owned companies – between 1990 and 1995, a total of 123 state-owned companies were sold for more than \$18.4 billion<sup>42</sup> – and implemented major tax and financial reforms during this period. In the early 1990s the Argentine government introduced a broad-based value-added tax, reduced the corporate income tax, eliminated some industrial and regional tax exemptions and strengthened measures designed to combat tax evasion.<sup>43</sup> At the same time, it privatised some state-owned banks, made the Argentine central bank more autonomous, and modernised the regulations governing commercial banking and the capital markets. Perhaps most importantly, when Domingo Cavallo became minister of economy, the Menem administration introduced a currency board, under which the Central Bank guaranteed the exchange of pesos to dollars at a ratio of one-to-one.

As Table 1 indicates, the financial and tax reforms imposed only modest costs on the unions, although these varied somewhat depending on the measure. The introduction of a value-added tax, for example, modestly

<sup>39</sup> Levitsky and Way, 'Between a Shock and a Hard Place'; Murillo, *Labor Unions*.

<sup>40</sup> Levitsky and Way, 'Between a Shock and a Hard Place'; and Madrid, *Retiring the State*.

<sup>41</sup> Murillo, *Labor Unions*; and Pablo Gerchunoff and Juan Carlos Torre, 'La política de liberalización económica en la administración de Menem,' *Desarrollo Económico*, vol. 36, no. 143 (1996), p. 733–68.

<sup>42</sup> IDB, *Economic and Social Progress*, p. 171.

<sup>43</sup> Richard M. Bird, 'Tax Reform in Latin America: A Review of some Recent Experiences,' *Latin American Research Review*, vol. 27, no. 1 (1992), pp. 7–36; Gerchunoff and Torre, 'La Política'.

Table 1. *The Impact of Reforms on Organised Labour in Argentina*

	Financial reforms	Tax reforms	Trade reforms	Privatisation	Pension reform	Labour reforms
<b>Number of unions affected</b>	Many	Many	Few	Few	Many	Many
Costs for union members	Low	Low	High	High	Medium-High	High
Costs for union leaders	Low	Low	Low	Low	Low	Medium
Costs for union organisations	Low	Low	Medium	Medium	Low	High
Directness of impact	Low	Low	Medium	High	High	High
Immediacy of impact	High	High	High	High	Medium	High
Concentration of impact	Low	Low	Medium	High	Medium	High
<b>Severity of impact</b>	Low	Low	Medium	Medium-High	Medium	High
<b>Outcome of reform proposals</b>	Approved	Approved	Approved	Approved	Approved with major concessions	Most proposals blocked

N.B. Each cell refers to the net impact of a variety of actual or proposed measures that fall under that category of reform.

increased the prices of consumer goods, but it affected the unions indirectly and the costs of this reform were paid by society as a whole, rather than by organised labour in particular. The introduction of a currency board arguably had a much more important impact on union members by reducing inflation, but the impact of this reform, at least in the short-term, was largely positive. Other financial reforms, such as the tax reforms, did not concentrate their costs on organised labour and their effect was perceived only indirectly.

By contrast, trade liberalisation and privatisation in Argentina imposed much more severe costs on organised labour, although these were limited to a small number of unions. The unions of state employees were hit hard by the privatisation process – the state oil workers union lost 80 per cent of its members, while the steelworkers lost 70 per cent, the railway workers 60 per cent and the energy enterprises lost 50 per cent. The overall number of employees in state-owned companies declined from 347,240 in 1989 to 66,731 in 1993.<sup>44</sup> Trade liberalisation also imposed heavy costs on organised labour, although these tended to be somewhat less direct and less concentrated. Many private sector firms that could not compete with foreign imports closed down and others laid-off workers in an attempt to make themselves more competitive. Neither privatisation, nor trade liberalisation affected a majority of unions, however. The costs of privatisation were borne by a few public-sector unions, whereas the costs of trade liberalisation were borne by a few private-sector unions, such as the Union of Metalworkers (UOM) and the autoworkers union (SMATA), that worked in industries that were not internationally competitive.

Labour and pension reform in Argentina imposed the broadest and deepest costs. These reforms concentrated their costs on organised labour, and typically affected the vast majority of both private and public sector unions. The various labour reform proposals would have made it easier to hire and fire workers, which threatened the jobs of union members. Some proposals would have also undermined the unions' collective bargaining position by allowing more firm-level, as opposed to industry wide bargaining. They also would have undermined union membership by making it easier to hire short-term and temporary workers, which are notoriously difficult to organise. The pension reform bill, meanwhile, eliminated many of the pension guarantees that union members (and other formal sector workers) had traditionally enjoyed. The initial bill, moreover, failed to compensate workers under 45 years of age for the contributions that they had made to the public system. Nevertheless, the pension reform bill, unlike many of the labour reform bills, did not affect the

<sup>44</sup> See Dora Orlansky, 'Reforma del Estado, restructuración laboral y reconversión sindical: Argentina, 1989–1995,' *Estudios Sociológicos*, vol. 15, no. 45 (1997), pp. 623–37; and McGuire, *Peronism without Perón*.

organisational resources of the unions, nor did it threaten the jobs of union members. In addition, its effects would only be felt in the long-run.

The proposed structural reforms, with the exception of the pension reform and the labour reform, typically met feeble or fragmented opposition from the labour movement. The labour unions did little to prevent the implementation of most of the tax and financial reforms, and trade liberalisation met only isolated resistance from unions in traditionally protected sectors, such as the automobile and electrical industry.<sup>45</sup> The Menem administration, however, overcame their resistance by agreeing to maintain special tariffs in these sectors.<sup>46</sup> The privatisation of state-owned industries met more substantial resistance from certain sectors of the labour movement, but even this issue failed to generate a broad labour coalition in opposition to the reforms. Indeed, most of the labour-affiliated legislators voted in favour of the State Reform Law and other legislation that enabled the companies to be privatised.

The privatisation measures did help provoke a split in the CGT, however. As Manzetti observes, 'the unions that joined [the dissident faction] were primarily concentrated in the state sector which was the main target of Menem's restructuring programme, whereas membership in the [loyal faction] came primarily from unions in the private sector, which were largely unaffected by the privatisation policy.'<sup>47</sup> Some of the unions that were most hurt by the privatisation measures, such as the railway, telephone and oil workers, called strikes to try to block the reforms, but these failed to gather widespread support or impede the privatisation process. A general strike called by the leader of the dissident unions, Saúl Ubaldini, for March 1990 to protest the Menem administration's economic policies similarly failed to obtain the support of the bulk of the labour movement or deter the government in any way.

The Menem administration, meanwhile, used a variety of measures to undercut or co-opt the dissident unions. Strikes in the state telephone, railway and oil industries were declared illegal and striking workers were dismissed for the first time.<sup>48</sup> At the same time, the government offered considerable benefits to those unions and union leaders that toed the line. The Menem administration, for example, gave the unions of oil workers, railway workers and the electrical workers shares or concessions in the privatised industries and offered government posts to their leaders in order to end

<sup>45</sup> Murillo, *Labor Unions*.

<sup>46</sup> Murillo, *Labor Unions*; and Sebastián Etchemendy, 'Constructing Reform Coalitions: The Politics of Compensation on the Argentine Path to Economic Liberalization,' in *Latin American Politics and Society*, vol. 43, no. 3, Fall 2001, pp. 1–36.

<sup>47</sup> Luigi Manzetti, 'The Political Economy of Privatization through Divestiture in Lesser Developed Economies,' *Comparative Politics*, vol. 25, no. 4 (1993), p. 442.

<sup>48</sup> Manzetti, 'The Political Economy.'

their opposition to the privatisation policies.<sup>49</sup> Menem also used the restructuring of the union-dominated health care industry to cajole labour support for his policies. In order to persuade the powerful Metalworkers' Union to defect from the dissident coalition, the government forgave \$25 million in debts owed by the union's health plan.<sup>50</sup> These efforts were largely successful, enabling the government to marginalise the dissident unions.

### *The pension reform compromise*

In 1992 the main Argentine labour confederation, the CGT, reunited, partly in response to the threats posed by the social security, health care and labour reforms that the government was then contemplating.<sup>51</sup> The confederation's official policy was to support or, at least, tolerate the privatisation process as well as trade liberalisation and the new financial regime, but it took a more combative stance vis-à-vis the proposed social security, health care and labour reforms.<sup>52</sup> The proposed pension reform, for example, met with an aggressive response when it was first submitted to the legislature in June 1992.<sup>53</sup> In the weeks after the reform was presented to the legislature, the CGT announced its opposition to the reform and called for a 24-hour general strike to be held on July 28 to protest this and other measures. It opposed the reform in large part because it obliged workers to begin to contribute to a new privately-managed pension system, from which they would draw part of their future pensions. They also objected to the fact that the reform did not compensate workers for those contributions that they had already made to the public pension system.<sup>54</sup> Appearing before the legislative committee that was evaluating

<sup>49</sup> Levitsky and Way, 'Between a Shock'; McGuire, *Peronism without Perón*.

<sup>50</sup> Levitsky and Way, 'Between a Shock'; McGuire, *Peronism without Perón*.

<sup>51</sup> The most combative unions, led by the unions of teachers and state employees, declined to rejoin the CGT, but these unions represented only ten per cent of all organised workers. These unions formed a separate organisation, initially called the Congreso de Trabajadores Argentinos, which continued to oppose the vast majority of Menem's economic and social policies.

<sup>52</sup> Murillo, *Labor Unions*.

<sup>53</sup> The pension reform sought to partially privatise the Argentine pension system, increase the minimum retirement age and eliminate some of the privileged pension systems enjoyed by powerful interest groups. For detailed analyses of the reform, see Ernesto A. Isuani and Jorge San Martino, 'Las jubilaciones del siglo XXI,' *Boletín Informativo Techint*, no. 286 (abril-junio 1996), pp. 79-104; Madrid, *Retiring the State*; and Guillermo V. Alonso, 'Democracia y reformas: las tensiones entre decretismo y deliberación - el caso de la reforma previsional Argentina,' *Desarrollo Económico*, vol. 38, no. 150 (julio-setiembre 1998), pp. 595-626.

<sup>54</sup> Interviews with Gustavo Demarco, former adviser to the Secretary of Social Security, Buenos Aires, October 25, 1996, and Carlos Sueiro, Former Federal Deputy from the Justicialist Party and Secretary-General of the Custom Workers' Union, Buenos Aires, Nov. 15, 1996.

the proposed reform, Carlos West Ocampo, a representative of the CGT, stated that 'there were aspects of unconstitutionality' in the reform and that the CGT did not like the idea that 'future pensioners would be obliged to contribute to a system of private capitalisation'.<sup>55</sup>

The leadership of the CGT began to negotiate with the Menem administration immediately, however, and on July 17, after extensive discussions, the labour confederation reached an agreement with the government. In exchange for the unions calling off the strike, which would have been the first general strike during the Menem administration, the government agreed to undertake a series of measures including a revision of the pension reform legislation.<sup>56</sup> The following month, the government submitted a revised pension reform bill to the legislature, which took into account some of the concerns expressed by the labour unions and others.<sup>57</sup> The most important change was the elimination of the differential treatment of workers depending on their age and the creation of an additional pension benefit to compensate workers for their past contributions to the public pension system.

The new pension reform bill failed to satisfy the labour leaders, however. A spokesman for the CGT denounced the proposed changes as 'merely cosmetic' and insisted that 'what is behind this proposal is a big business; 150 million dollars monthly that will be turned over at the stroke of a pen to private companies, so that they can use them and make deals'.<sup>58</sup> The continued disagreements over the pension reform bill, the proposed reform of the labour law and other government policies led the CGT to call a general strike in November. Shortly afterwards the Menem administration called on representatives of business and labour to take part in a government-sponsored commission, dubbed the National Council for Production, Investment and Growth, in order to iron out their differences over the pension reform. After a series of meetings of this commission, the government managed to reach an agreement with the CGT. Its main concession was to specify that non-profit organisations, such as the unions themselves, would be allowed to establish pension funds (AFJPs) in order to manage the workers' individual retirement accounts.<sup>59</sup>

<sup>55</sup> 'Intensas gestiones para evitar el paro,' *La Nación*, July 15, 1992, p. 6.

<sup>56</sup> Rubén Furman and Guillermo Alfieri, 'El Gran Acuerdo,' *Página 12*, 18 July, p. 3; and 'Para el Gobierno, la decisión cegetista es un adelanto político,' *La Nación*, 18 July, p. 5.

<sup>57</sup> Cámara de Diputados de la Nación (República Argentina), *Trámite Parlamentario*, no. 82 (27 de agosto 1992).

<sup>58</sup> 'La CGT sigue en contra,' *Clarín*, 10 Aug. 1992, p. 5.

<sup>59</sup> Ernesto A. Isuani and Jorge San Martino, *La reforma previsional argentina: opciones y riesgos* (Buenos Aires, 1993); 'Un proyecto consensuado va camino del Congreso,' *La Nación*, 27 Nov. 1992, p. B1.

Although these modifications were enough to garner the support of the official leadership of the CGT, which was dominated by unions that were particularly close to Menem, labour-affiliated deputies continued to block the enactment of the reform in the legislature. The dissidents were led by Lorenzo Miguel, the head of the Metalworkers' Union (UOM) and the leader of the 62 Organisations, a federation of powerful and often militant unions within the CGT. They argued that 'in spite of the improvements introduced to the original pension project, it does not maintain the guarantees necessary that our pensioners require'.<sup>60</sup> In order to advance the reform, Menem was obliged to make a further series of concessions to the unions and other critics of the proposed reform. The government agreed, for example, to establish a state-owned pension fund, which would offer workers a guaranteed return on their pension contributions in both dollars and Argentine pesos.<sup>61</sup> Menem also ultimately agreed to make membership in the new private pension system optional for future as well as current workers. As a result of these changes, the 62 Organisations gave their grudging support to the reform, although the CTA continued to oppose it.<sup>62</sup>

### *The struggle for labour reform in Argentina*

The various labour reforms proposed by the Menem administration met even greater and more unified resistance from the labour movement in large part because they imposed severe costs on more unions and union members than the other reforms.<sup>63</sup> The resistance of the labour movement was sufficient to derail or substantially modify most of the Menem administration's proposals. Between 1989 and 1995 the executive submitted 20 labour reforms to the legislature, of which only eight were enacted – in contrast nine of the ten privatisation bills that were submitted to the legislature were passed.<sup>64</sup> Moreover, most of the labour reforms that were enacted suffered major revisions in negotiations with the unions and labour-affiliated legislators.

<sup>60</sup> 'Crítica de las 62 Organizaciones,' *La Nación*, 25 Feb. 1993, p. 5.

<sup>61</sup> To the chagrin of the unions, Menem subsequently issued a decree that eliminated the dollar guarantee offered by the state-owned pension fund.

<sup>62</sup> The de la Rúa administration tried to enact further cuts in the public pension system, but met fierce opposition in the labour movement and other quarters.

<sup>63</sup> Organised labour has provided equally vigorous resistance to reforms of the *obras sociales*, the union-run health and recreation programmes, because these programmes provide a major source of revenues and patronage for the unions. For an analysis of the attempts to reform the *obras sociales*, see Guillermo Alonso, 'Vida, pasión y muerte? del seguro social de salud argentino,' *Perfiles Latinoamericanos*, año 6, no. 11 (diciembre 1997).

<sup>64</sup> Etchemendy and Palermo, 'Conflicto y Concertación'; Mariana Llanos, 'Understanding Presidential Power in Argentina: A Study of the Policy of Privatization in the 1990s,' *Journal of Latin American Studies*, vol. 33, no. 1 (Feb. 2001), pp. 67–99.

The first labour reform proposal formulated by the Menem administration, the Employment Law, was submitted to the legislature in late 1989.<sup>65</sup> This sought to make it easier for employers to hire temporary workers, an idea that the unions strenuously opposed.<sup>66</sup> Owing to the opposition of the unions and labour-affiliated legislators, the bill quickly became bogged down in congress.<sup>67</sup> After lengthy negotiations with the unions and employer associations, the executive managed to gain approval of the bill in November 1991. In order to do so, Menem had to make a number of concessions to organised labour, including the stipulation that the new contracts would require the approval of the unions.<sup>68</sup> The final bill ended up satisfying no one, with employers complaining that it would do little to flexibilise hiring. Indeed, in the years following the enactment of the law, the number of workers hired under the new form of contracts was relatively small.<sup>69</sup>

Partly in response to these criticisms, the minister of economy formulated a plan in 1992 to flexibilise hiring and firing by small and medium sized enterprises, but this encountered opposition from the Ministry of Labour as well as the unions and was withdrawn.<sup>70</sup> The following year the new Labour Minister Enrique Rodriguez formulated an even more sweeping reform, which proposed to eliminate some special collective contracts that favoured workers and flexibilise hiring and firing and work schedules. This met with staunch resistance from the CGT – indeed<sup>71</sup> as mentioned previously, it was during this period that the CGT launched the first general strike of the Menem administration partly in response to the proposed labour reform. The opposition of organised labour ultimately torpedoed the bill in the legislature in spite of the efforts of the Menem administration to make the bill more acceptable to the unions. In order to facilitate the passage of the bill through the legislature, the Menem administration toyed with the idea of reducing the number of labour-affiliated legislators on the Committee on Labour Legislation in the Chamber of Deputies, but this was abandoned

<sup>65</sup> The next three paragraphs draw extensively on the excellent account provided by Etchemendy and Palermo of the labour reform process during the first Menem administration. See Etchemendy and Palermo, 'Conflicto y concertación'.

<sup>66</sup> The reform also contained measures that the unions supported including the creation of a fund for unemployed workers financed partially by the employers and measures to reduce illegal forms of employment.

<sup>67</sup> Edward C. Epstein, 'Labour-State Conflict in the New Argentine Democracy: Parties, Union Factions, and Power Maximizing,' in Epstein (ed.), *The New Argentine Democracy: The Search for a Successful Formula* (Westport, CT, 1992).

<sup>68</sup> In exchange for the unions' support for the bill, the government also agreed to take over some union debts related to the obras sociales. See Etchemendy and Palermo, 'Conflicto y concertación,' p. 567.

<sup>69</sup> Bronstein, 'Labour law,' p. 15.

<sup>70</sup> Etchemendy and Palermo, 'Conflicto y concertación,' p. 567.

in the face of opposition from the leadership of the Justicialist Party in the legislature.<sup>71</sup>

Efforts to reform the labour laws registered a greater amount of success after the appointment of Armando Caro Figueroa as Minister of Labour at the end of 1993.<sup>72</sup> Caro Figueroa sought to negotiate the labour reforms with both the CGT and the employers' associations under the rubric of the Framework Agreement for Employment, Production and Social Equity, signed in July 1994 by the government, the CGT and one of the most important employers' associations. This established a technical committee composed of experts from the three sectors, which would draft the proposed reforms. Under this framework, the Menem administration was able to enact measures that flexibilised employment contracts, reduced employment-related lawsuits and reformed the laws governing bankruptcy, work accidents and small and medium-sized business. In order to gain the approval of the unions for each of these initiatives, the Menem administration was obliged to make substantial concessions, however, which left the employers' associations profoundly dissatisfied.<sup>73</sup>

Under pressure from the business community and the IMF and seeking to bring down stubbornly high unemployment rates, Menem proposed another broad reform of the labour laws during his second term. The CGT, however, was again successful in modifying the government's reform proposals to the point that the reforms were termed a step backward by the IMF<sup>74</sup> as well as the business community, which argued that the reforms 'would lead to more dismissals, not more hirings, and make companies less competitive.'<sup>75</sup> No sooner had this reform been passed in September 1998 than Menem announced plans to freeze the legislation and revive a more sweeping reform bill that he had abandoned in the face of opposition from the unions.<sup>76</sup> This latter bill was not implemented.

The election of the Radical Party leader, Fernando de la Rúa, as president in late 1999 led to another, apparently more successful, push for labour reform. The de la Rúa administration's reform proposal sought to allow more collective bargaining at the company level rather than the nationwide level,

<sup>71</sup> Etchemendy and Palermo, 'Gobierno, sindicatos, empresarios y la cuestión de la reforma laboral en Argentina (1989–1995),' unpubl. manuscript, Universidad Torcuato Di Tella, 1996.

<sup>72</sup> Etchemendy and Palermo, 'Conflicto y concertación.'

<sup>73</sup> Etchemendy and Palermo, 'Conflicto y concertación'; and Murillo, *Labor Unions*.

<sup>74</sup> 'IMF Report Heightens Pressure for Real Labour Reform,' *Lagniappe Letter*, April 17, 1998, p. 2.

<sup>75</sup> 'Congress approves new labour rules,' *Latin American Weekly Report*, Sept. 8, 1998, p. 410.

<sup>76</sup> 'Joblessness Rises, Prompting New Version of Labour Reform,' *Lagniappe Letter*, Oct. 2, 1998, p. 2.

extend temporary work contracts and decrease employers' payroll tax contributions. The CGT vehemently opposed this proposal and threatened a nationwide strike in February 2000. After negotiations with the government, however, the outgoing leadership of the CGT agreed to call off the strike in exchange for the government agreeing to maintain compulsory contributions to the union-run health care funds. A more militant faction of the CGT led by Hugo Moyano, the head of the truckdrivers' union, refused to abide by the accord, however, and pushed on with the strike. The unions had only limited influence in the de la Rúa administration and they were not able to deter the government from submitting the reform proposal to the legislature where, to the surprise of many observers, it was approved. Although most Peronist party legislators voted against the reform, de la Rúa obtained sufficient support from the members of his own Radical party and some smaller parties to ensure the bill's passage through the chamber of deputies. In order to gain approval of the reform in the senate, which was dominated by the Peronist party, de la Rúa was forced to agree to protect workers from wage cuts during the first two years after the new law took effect.<sup>77</sup> This reform constituted the most significant change in Argentine labour law in recent years, but its approval has been tainted by emerging evidence that seven Peronist senators and one Radical senator were bribed in order to gain their votes for support. This latter development led to divisions within the ruling coalition and, ultimately, the resignations of de la Rúa's vice president, labour minister and intelligence chief (the latter two figures were implicated in the scandal).

### *Labour and reform in Mexico*

The Mexican labour movement, like its Argentine counterpart, has close ties to the ruling party, but it is somewhat weaker and more divided. The Confederación de Trabajadores de México (CTM) is by far the largest labour confederation, but several other important labour confederations also exist. Although data on union membership in Mexico is notoriously scarce and unreliable, most analysts suggest that the unionisation rate has dropped considerably in recent years.<sup>78</sup> A recent estimate by the Ministry of Labour and Social Welfare and the Mexican Social Security Institute estimated that

<sup>77</sup> Moyano's faction of the CGT remained opposed to the reform in spite of these concessions, and carried out a general strike in the wake of its approval.

<sup>78</sup> ILO, *World Labour Report*; Kevin Middlebrook, 'State-Labour Relations in Mexico,' in Middlebrook (ed.), *Unions, Workers and the State in Mexico* (La Jolla, 1991); Enrique de la Garza, 'The Restructuring of State-Labour Relations in Mexico,' in María Lorena Cook et al. (eds.), *The Politics of Economic Restructuring* (La Jolla, 1994), pp. 195-217; Francisco Zapata, *El sindicalismo mexicano frente a la restructuración* (Mexico City, 1995).

union members represented roughly 12 per cent of the total workforce in 1993, down from approximately 16.3 per cent in 1978.<sup>79</sup>

The main Mexican labour federations do not have the same tradition of militance as the Argentine unions. The CTM has never held a general strike, preferring to resolve conflicts through negotiations with the ruling party, the Partido Revolucionario Institucional (PRI), with which it has long maintained close ties.<sup>80</sup> The relative quiescence of the Mexican labour movement is partly a result of the dependence of the unions on the state. The unions have relied on the government for financial subsidies – traditionally only ten per cent of union dues came from their members – as well as for preferential access to a variety of government services, ranging from health care to housing.<sup>81</sup> The Mexican government also has the power to determine when strikes are permissible and it has helped set wages and settle labour conflicts with employers, which has given it additional leverage over the unions.<sup>82</sup> During the twentieth century the leadership of the labour movement has depended particularly heavily on the PRI, since labour leaders have directly benefited from political appointments and a variety of other perks. Labour leaders, for example, typically accounted for a relatively large percentage of the party's candidates for the chamber of deputies. Labour leaders also relied on the governing party to help maintain themselves in power, by barring challenges from independent labour unions or dissident leaders as well as by aiding in the efforts of allied unions to organise new workers.<sup>83</sup>

The high dependence of labour on the state in Mexico, along with its declining economic and political strength, has helped maintain labour quiescence in spite of the dramatic market-oriented reforms that the government has enacted in recent years. Economic difficulties, such as rising unemployment, have also reduced union opposition to the reforms. Nevertheless, as in Argentina, the degree of labour opposition, as well as the efficacy of this

<sup>79</sup> See Gregory Greenway and John Tuman, 'Restructuring State-Labour Relations in Contemporary Mexico: Implications for Democratization in the Era of Neoliberalism,' unpub. manuscript, Stanford, 1996; and César Zazueta and Ricardo de la Peña, *La estructura del Congreso del Trabajo* (Mexico City, 1984). Some estimates place the unionisation rate considerably higher, however. The International Labour Organisation estimated that 31 per cent of the non-agricultural workforce in Mexico was unionised in 1991, down from 54.1 per cent in 1989. See ILO, *World Labour Report*.

<sup>80</sup> Kevin J. Middlebrook, *The Paradox of Revolution: Labor, the State and Authoritarianism in Mexico* (Baltimore, 1995).

<sup>81</sup> Michael J. Coppedge, 'Parties and Society in Mexico and Venezuela,' *Comparative Politics* (April 1993), p. 255; Dale Story, *The Mexican Ruling Party: Stability and Authority* (New York, 1996), pp. 87–8.

<sup>82</sup> Zapata, *El sindicalismo mexicano*; James G. Samstad, 'Labor and Corporatism under Mexican Neoliberalism,' unpublished manuscript, UC Berkeley, 1995.

<sup>83</sup> Dan La Botz, *Mask of Democracy* (Boston, 1992); Greenway and Tuman, 'Restructuring State-Labour Relations'.

resistance, has varied considerably. Labour has accepted privatisation, trade liberalisation and most of the other structural reforms relatively docilely, but it rebelled against pension reform, forcing substantial changes in the government's reform proposals. Most significantly, the labour movement has blocked a reform of the labour law altogether.

The economic reform process in Mexico began during the administration of President Miguel de la Madrid, which took office shortly after the outbreak of the debt crisis in 1982. De la Madrid implemented fairly orthodox stabilisation policies, cutting public sector spending and borrowing. He also began to privatise some state-owned companies and gradually opened up the Mexican economy to foreign trade. The number of state-owned or partially state-owned enterprises declined from 1,155 in 1982 to 412 in 1988.<sup>84</sup> Average tariff levels, meanwhile, dropped from 23.5 per cent to 11.0 per cent between 1985 and 1988, while the proportion of domestically-manufactured products that were protected by import licenses declined from 92.2 per cent to 23.2 per cent during this period.<sup>85</sup> The reform process accelerated when Carlos Salinas took office in 1988. Between 1990 and 1995 the Mexican government privatised the state-owned banks and numerous other corporations, earning \$27 billion in revenues from the sale of state-owned enterprises, more than any other Latin American country.<sup>86</sup> The Salinas administration also took steps to further deregulate the economy and open it up to foreign trade and investment, negotiating the North American Free Trade Agreement with the United States and Canada as well as bilateral agreements with a number of Latin American countries. Salinas also carried out substantial financial policy reforms such as increasing the autonomy of the Central Bank, as well as more modest tax reforms.

As Table 2 indicates, structural financial and tax reforms, which were on the whole more modest in Mexico than Argentina, did not have a major impact on Mexican unions. As in Argentina, the costs of these reforms were only indirectly felt and were borne by society as a whole, rather than by organised labour in particular. Trade liberalisation and the privatisation of state-owned companies imposed more severe costs on organised labour, but affected fewer unions than the tax and financial reforms. The trade reforms hurt unions in protected industries that could not compete with foreign imports, many of which went bankrupt or cut workers in an effort to become more competitive. Nevertheless, it benefited those unions in export-oriented sectors, and it had no serious effects on unions in the public sector (and other non-tradeable sectors) or unions in internationally competitive industries. The privatisation

<sup>84</sup> Francisco Valdés Ugalde, 'From Bank Nationalization to State Reform: Business and the New Mexican Order,' in Cook et al. (eds.), *The Politics of Economic Restructuring*, p. 226.

<sup>85</sup> Nora Lustig, *Mexico: The Remaking of an Economy* (Washington, DC, 1992), p. 120.

<sup>86</sup> Inter-American Development Bank, *Latin America*, p. 46.

of state-owned industries, meanwhile, badly hurt unions of state enterprise employees, which typically suffered losses of jobs. The privatisation of the Cananea copper mine, for example, led to a 23 per cent cut in personnel.<sup>87</sup> Privatisation had little effect on private sector unions or on those public sector unions, such as the teachers' unions, that represented public employees outside of the state enterprises.

Labour and pension reform proposals sought to impose more sweeping costs on Mexican unions. The pension privatisation plan eliminated some of the guarantees that had traditionally been provided to Mexican workers. The pension reform also sought to make it more difficult for workers to qualify for pensions by increasing the minimum retirement age and the minimum number of contributions. In addition, it tightened the eligibility requirements for disability and survivor's pensions and reduced the benefits available for widows. The pension reform applied to all private and public sector workers who received their benefits from the Mexican Social Security Institute (IMSS), which included the majority of organised workers in the country. It did not apply to the teachers and civil servants, who received pensions from the Institute for Services and Social Security for State Workers (ISSSTE), however. Moreover, many of the changes were phased in or would not be felt until retirement. The proposed labour reforms would have imposed even more severe costs on the unions. Some of the proposals would have undermined the organisational resources of the unions by placing limits on their right to strike, abolishing closed shops, individualising wage bargaining and reducing subsidies for unions. In addition, in contrast to Argentina some of the labour reform proposals in Mexico would have imposed costs on labour leaders as well as union members since they sought to democratise union elections as well as to flexibilise the hiring and firing of workers. The proposed labour reforms, unlike privatisation and trade liberalisation, would have imposed costs on the vast majority of union members, and, unlike the pension reform, would have affected them almost immediately.

Although leaders of the Mexican labour movement grumbled about the market-oriented reforms implemented during the de la Madrid and Salinas administrations, the main labour federations in Mexico did not actively resist most of these policies. The unions, for example, docilely accepted trade liberalisation and the reforms of tax and financial policy. Indeed, the CTM campaigned on behalf of the North American Free Trade Agreement that was negotiated in 1992.<sup>88</sup> As in Argentina, the privatisation of state-owned enterprises (as well as some of the stabilisation policies) provoked more open

<sup>87</sup> Murillo, *Labor Unions*.

<sup>88</sup> Murillo, *Labor Unions*; and Graciela Bensusán, 'Los sindicatos mexicanos y la legalidad laboral,' *Revista Mexicana de Sociología* (enero 1994).

Table 2. *The Impact of Reforms on Organised Labour in Mexico*

	Financial reforms	Tax reforms	Trade reforms	Privatisation	Pension reform	Labour reforms
<b>Number of unions affected</b>	Many	Many	Few	Few	Many	Many
Costs for union members	Low	Low	High	High	Medium-High	Medium-High
Costs for union leaders	Low	Low	Low	Low	Low	High
Costs for union organizations	Low	Low	Medium	Medium	Low	High
Directness of impact	Low	Low	Medium	High	High	High
Immediacy of impact	High	High	High	High	Medium	High
Concentration of impact	Low	Low	Medium	High	Medium	High
<b>Net severity of impact</b>	Low	Low	Medium	Medium-High	Medium	High
<b>Outcome of reform proposals</b>	Approved	Approved	Approved	Approved	Approved with some concessions	Aborted

N.B. Each cell refers to the net impact of a variety of actual or proposed measures that fall under that category of reform.

dissent, but these policies, too, were ultimately accepted by the vast majority of unions. Some of the unions that represented public enterprise workers threatened to strike to block the privatisation of the state-owned companies, but they failed to receive support from the main labour federations. The Mexican government, meanwhile, pitted the labour federations against each other to ensure that they remained quiescent. The ruling party, for example, sought to rein in the CTM, which was more critical of government policies, by openly favouring its main rival, the Confederación Revolucionaria de Obreros y Campesinos (CROC).<sup>89</sup>

The failure of the main labour federations to oppose the government's privatisation policies and other neoliberal reforms did lead some of the public enterprise unions, led by the Telephone Workers' Union, to form a more independent labour federation, the Federation of Unions of Goods and Services Enterprises (FESEBES), in 1989.<sup>90</sup> The Salinas administration, however, managed to defuse the opposition of some of these unions to the reforms through side payments. In order to gain its support for the privatisation of the state telephone company, the government granted financial assistance to the Telephone Workers' Union, which enabled it to purchase a share of the privatised company.<sup>91</sup> Other unions of public sector workers, such as the Electrical Workers' Union, remained vigorously opposed to privatisation, however.

### *Pension reform in Mexico*

Pension reform met considerably broader and more vigorous opposition from the Mexican labour movement. In 1990 the Salinas administration formulated a plan that called for the gradual phasing out of the existing public pension system and its replacement with a private social security system based on individual retirement accounts.<sup>92</sup> This proposal was vigorously opposed by the labour unions as well as by the staff of the Mexican Social Security Institute (IMSS). After extended negotiations with the unions, the Salinas administration agreed to substantially reduce the scope of the reform in return for labour's support for the initiative.<sup>93</sup> The main concession by the government

<sup>89</sup> Murillo, *Labor Unions*; Middlebrook, *The Paradox of Revolution*; and Judith A. Teichman, *Privatization and Political Change in Mexico* (Pittsburgh, 1995).

<sup>90</sup> Teichman, *Privatization and Political Change*. <sup>91</sup> Samstad, 'Labour and Corporatism'.

<sup>92</sup> Miguel Rivera Ríos, 'La práctica del liberalismo social,' *Economía Informa* (julio 1992), pp. 22-4; and Julián F. Bertranou, 'La política de la reforma a la seguridad social en México: análisis de la formulación del Sistema de Ahorro para el Retiro,' *Estudios Sociológicos* XIII, 37 (1995), pp. 3-23.

<sup>93</sup> Bertranou, 'La política de la reforma a la seguridad social en México'; Bertranou, 'Decisiones públicas y formulación de políticas en el México contemporáneo: análisis de la formulación del sistema de ahorro para el retiro,' unpubl. Master's thesis, FLACSO, Mexico

was to eliminate the gradual phasing out of the IMSS. The new proposal, which was easily approved by the legislature in early 1992, called for the creation of a small, private system that was intended to function alongside the public system.<sup>94</sup> The final reform therefore did not actually involve privatisation, nor did it address any of the financial problems of the IMSS, which was to be left untouched. Moreover, the new private system, which was called the Retirement Savings System (SAR), was to be financed with an increase in the employers' social security contributions.

When the Zedillo administration took office, it immediately moved to revive the pension privatisation initiative. In early 1995 the executive initiated an intense lobbying campaign to gain the support of the top union leaders for its pension reform plans, which they had repeatedly denounced.<sup>95</sup> Over the course of the year, government representatives held numerous meetings with business and labour leaders to seek their approval for the planned reform. This campaign paid off in the late 1995 when business and labour issued a joint declaration on the general principles that should govern the reform, which was consistent with the government's own privatisation proposal.<sup>96</sup> The government then presented the reform to Congress as the product of the demands of the two sectors.

The proposal went beyond those of the previous administration in that it aimed to immediately replace the existing main public pension system (IMSS) with a private system based on individual retirement accounts. It also sought to increase the minimum retirement age and the number of weeks required for workers to qualify for a pension. The Zedillo administration deliberately omitted state employees from the reform, however, in order to avoid antagonising the powerful public sector unions.<sup>97</sup> To reduce organised labour's resistance to the reform, the government also refrained from including the state housing fund, INFONAVIT, which had traditionally been a major source of patronage for the unions. The government's failure to include INFONAVIT in the privatisation scheme meant that the private pension

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City (1994); interview with Ricardo García Sainz, former Director-General of the Mexican Social Security Institute (IMSS), Mexico City, May 23, 1997.

<sup>94</sup> Cámara de Diputados de los Estados Unidos Mexicanos, *Diario de los Debates*, Comisión Permanente, Año 1, no. 8, 10 de febrero 1992.

<sup>95</sup> Interviews with Gerardo Cajiga, Director of Affiliation and Collection of the Mexican Social Security Institute (IMSS), Mexico City, June 2, 1997; and Gabriel Martínez, Director of Planning, Mexican Social Security Institute (IMSS), Mexico City, June 10, 1997.

<sup>96</sup> 'Propuesta obrero-empresarial de alianza para el fortalecimiento y modernización de la seguridad social,' published in *Proceso*, no. 992, Nov. 6, 1995, pp. 40-3.

<sup>97</sup> Author interviews with Cajiga 1997; Luis Cerda, Adviser to the Secretary of Finance, Mexico City, May 7, 1997; and Enrique Dávila, Coordinator of Advisers of the Sub-secretariat of Expenditures, Secretariat of Finance and Public Credit (SHCP), Mexico City, June 13, 1997.

funds did not gain access to the five per cent of worker's wages that traditionally were paid to the housing fund, which jeopardised the viability of the new private pension system. The reform proposal did, however, include substantial modifications to the state-run health care system as well as to the childcare and life and disability insurance programmes.<sup>98</sup>

When the reform was officially announced a sector of the labour movement led by the union of IMSS employees, the National Social Security Workers Union (SNTSS) – which had 300,000 members, making it one of the largest unions in the country – rebelled against it.<sup>99</sup> More than a dozen other unions, including many unions that, like the SNTSS, traditionally had close ties to the ruling party, also opposed the reform. Together, these unions constituted the Front in Defence of Social Security and in the weeks following the presentation of the bill to Congress they carried out a large number of marches and demonstrations.<sup>100</sup> The main labour federations did not join these protests, but some of their leaders criticised aspects of the reform proposal. The head of the CTM, Fidel Velasquez, for example, warned labour-affiliated congressmen that he had already promised Zedillo that they would vote in favour of the reform, but he also told them that he would look favourably upon certain modifications to the bill.<sup>101</sup> In contrast, Alberto Juárez Blancas, the General Secretary of the CROC, expressed his 'full backing of the initiative' and described opponents of the reform as a 'group of mafiosos who take care of their particularistic interests, like the workers of IMSS'.<sup>102</sup>

The Zedillo administration, however, put a great deal of pressure on the rebellious unions to end their opposition to the reform. After extended negotiations with the leadership of the PRI, they reached a settlement with the government, agreeing to support the reform in exchange for a number of concessions. The main concession by the Zedillo administration was to excise from the reform the provision that allowed employers to withhold their health care contributions to the IMSS if they contracted their own health insurance for their employees. The government also agreed to eliminate some, but not all, of the provisions that involved losses of pension privileges, including the

<sup>98</sup> Instituto Mexicano de la Seguridad Social (IMSS). *Diagnóstico* (Mexico City, 1995).

<sup>99</sup> A leader of the SNTSS, Alejandro Audry, was the chair of the Commission on Social Security in the Chamber of Deputies, and he used this position to oppose the reform. Interview with Alejandro Audry, Federal Deputy from the Partido Revolucionario Institucional (PRI), Mexico City, April 29, 1997.

<sup>100</sup> This split ultimately led to the formation of a new labour federation, the National Union of Workers, which adopted a more independent posture vis-à-vis the government and the main labour federations.

<sup>101</sup> Ismael Romero and Elena Gallegos, 'La iniciativa de reformas a la Ley del IMSS divide a diputados,' *La Jornada*, 23 de noviembre, 1995, p. 3.

<sup>102</sup> Andrea Becerril, 'Las cúpulas obrera y empresarial lanzaron duras críticas al SNTSS,' *La Jornada*, 25 de noviembre, 1995, p. 11.

gradual increase in the minimum retirement age. Finally, it agreed to allow the IMSS to manage a pension fund that would compete with the private pension funds in the new system. However, the executive refused the request of the rebellious unions and the CTM to eliminate the role of private pension fund administrators in the new pension system, which would have allowed the Mexican Social Security Institute to be the sole manager of the individual retirement accounts. Although the leaders of the rebellious labour unions were not pleased with the final reform, they viewed it as the best deal they could achieve under the circumstances. In the face of a great deal of criticism from more militant members of his union, the head of the SNTSS could only say: 'sincerely I believe that it was not possible to extract anything more from the government.'<sup>103</sup>

### *Aborted labour reform in Mexico*

The proposed reform of the labour law met even stronger and more unified resistance from the labour movement. As a presidential candidate, Salinas had announced that during his mandate he would enact a new labour law for the twenty-first century, but this project failed in the face of stiff opposition from the labour movement.<sup>104</sup> Shortly after Salinas took office, the Ministry of Labour and Social Security established a tripartite commission to begin discussion of labour reform, and in August 1989, the Chamber of Deputies held hearings on the issue.<sup>105</sup> The CTM, which had initially favoured a reform of the labour law and had initiated discussions on this issue in 1987–88 in order to obtain stronger protections for workers, quickly turned against the reform.<sup>106</sup> The leader of the CTM, Fidel Velásquez, declared that in the present environment it would be 'suicide' to open up the issue since 'those who are against workers' rights would take advantage of it to impose injustices and to eliminate sacred rights.'<sup>107</sup> With the labour movement firmly united against the possibility of change, the Salinas administration decided to back away from the issue. In January 1992, the Ministry of Labour suspended formal discussions on the topic.<sup>108</sup>

A renewed push for reform of the labour law took place under the Zedillo administration, but it too failed to generate substantive results. In 1995 the rival National Action Party formulated a labour reform proposal that sought

<sup>103</sup> Andrea Becerril, 'Salvados, puntos medulares de la seguridad social: Rosado,' *La Jornada*, 9 de diciembre, 1995, p. 10.

<sup>104</sup> Graciela Bensusán and Marisa von Bulow, 'La reforma institucional del corporativismo sindical: las experiencias de Brasil y México,' *Perfiles Latinoamericanos*, año 6, no. 11 (diciembre 1997), p. 207. <sup>105</sup> Middlebrook, *The Paradox of Revolution*, p. 298. <sup>106</sup> *Ibid.*

<sup>107</sup> Bensusán, 'Los sindicatos mexicanos,' p. 62; and Zapata, *El sindicalismo mexicano*, p. 128.

<sup>108</sup> Middlebrook, *The Paradox of Revolution*, p. 298.

to eliminate closed shops and create more transparent election procedures and non-union committees of workers that would have a greater role in the management of enterprises.<sup>109</sup> This proposal met with substantial opposition from the labour unions and was tabled in the Senate, however. In 1998 the Partido de la Revolución Democrática formulated its own labour law proposal, which also sought to democratise the unions and reduce government involvement in union affairs.<sup>110</sup> This also met strong opposition from the main labour federations. Indeed, even the independent labour federation, the UNT, which had helped formulate the PRD's proposal, subsequently distanced itself from the proposal.<sup>111</sup> Subsequently, several of the main labour confederations, the CTM, the UNT and the CROC initiated discussions to come up with a common position on labour law reform.

The Zedillo administration did not present a proposal for labour law reform, arguing instead that any such measures must be based upon a consensus between business, labour and the government.<sup>112</sup> Zedillo's National Development Plan did call for the creation of 'a new labour culture', however, and the government tried to facilitate discussions between business and labour organisations. With the encouragement of the government, one of the main employers' organisations and the CTM initiated talks on the labour law reform in 1995, which led to a preliminary agreement on the general principles behind the 'new labour culture' the following year.<sup>113</sup> This agreement met considerable criticism within the Labour Congress, however, and was never translated into a concrete policy proposal.<sup>114</sup> Although the Zedillo administration did not carry out a reform of the labour law, it did interpret the existing labour code relatively loosely, which permitted some de facto labour flexibilisation.

### *Conclusion*

An examination of the Argentine and Mexican cases suggests that the labour movement has opposed some kinds of market-oriented reforms more vigorously than others and that this reaction has, in turn, influenced the fate of the reforms. The Argentine and Mexican labour movements provided relatively little resistance to tax, financial and, more surprisingly, trade policy reforms.

<sup>109</sup> For a discussion of the PAN proposal, see Javier Aguilar García et al., *Legislación laboral: el debate de una propuesta* (Mexico City, 1996).

<sup>110</sup> Maria Lorena Cook, 'The Politics of Labour Law Reform: Comparative Perspectives on the Mexican Case,' a paper presented at the Latin American Studies Association International Congress, Chicago, IL, Sept. 24–6, 1998.

<sup>111</sup> *Ibid.*

<sup>112</sup> Cook, 'The Politics of Labour'; Bensusán and von Bulow, 'La reforma institucional'; 'The likely shape of the new labour code,' *Mexico & NAFTA Report*, July 20, 1995, p. 5.

<sup>113</sup> Cook, 'The Politics of Labour Law Reform'; Bensusán and von Bulow, 'La reforma institucional'.

<sup>114</sup> Cook, 'The Politics of Labour,' p. 13.

Some unions of state workers did resist the privatisation of state-owned companies more vigorously, but this opposition was fragmented and, in both cases, was largely defused by compensating the affected unions. By contrast, the main labour confederations in Argentina and Mexico presented much more vigorous and broadly-based opposition to the pension and labour reforms that were proposed in each country, and this resistance helped persuade the government to withdraw or substantially modify their proposals.

Further research is needed to evaluate to what extent, if any, the opposition of labour has shaped patterns of reform in other Latin American countries.<sup>115</sup> Two questions, in particular, must be addressed. First, we need to ascertain whether labour movements in other countries have struggled more vigorously against pension and labour reforms than other economic policy changes. Second, we need to evaluate whether the opposition of the labour movement has shaped policy outcomes in other countries as it did in Argentina and Mexico. As discussed earlier, we would not expect the labour movement to shape reform outcomes where it is politically weak, but further research is needed to establish how strong labour must be in order to influence reforms. Further research is also needed to ascertain what is the most effective form of political influence. It is not clear, for example, whether the size of the labour movement is more important than party-labour ties in terms of granting policy influence. This study of Argentina and Mexico, however, makes it clear that the intensity of labour's resistance to reforms, and not just the labour movement's political strength, matters and can play an important role in shaping their fate. Organised labour in Latin America, as elsewhere, may be down, but it cannot be counted out, particularly when the stakes are high.

<sup>115</sup> Murillo argues that organised labour in Venezuela has played an important role in blocking a reform of the labour code in that country. See Murillo, 'Labor Parties'.