

# The reform of the social sector: statism, inequality and privatisation by default

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The Uruguayan case shows the benefits of state perseverance and public assets and the adverse effects of privatisation by default. Although an attempt has been made to attribute the crisis to this statist emphasis, the present collapse of the economy and its social effects are basically the result of a financial system that lacks adequate monitoring, a marked deterioration of industry, a foreign exchange rate that damages the country's competitiveness, and the vision of a country regarded as a financial and service market.

## Social security: the costly defence of the old system and subsequent turn to privatisation

In 1995, Uruguay reformed its social security system. It changed from a system of state allocation to a mixed system including private agents and obligatory levels defined by individual contributions. The rights and benefits of pensioners in the previous system were not affected, and from 1985 to date, the quality of the benefits has improved.<sup>2</sup> The first pillar of the new regime is not a system of capitalisation but of allocation; everybody has to contribute with part of their income and the system remains a state monopoly. While the social security law enables the administration of capitalisation funds through the Social Security Investment Fund Administrations (or AFAPs) to be in the hands of private agents, the State is also present with its own AFAP and presently holds over 50% of market participation. Furthermore, 80% of AFAP capital must be invested for a certain length of time in state treasury bonds. Finally, this reform includes retirement, disability and pension benefits alone. The Social Security system also includes unemployment benefits, family allowances, and non-contribution pensions that remain within the state administration, financed as before. Although this reform shows a clear departure from the old system, it remains statist and committed to some objectives abandoned by some other countries, where governments have abdicated their social responsibilities.

## Education: the stubbornness of public assets

On the return to democracy, state education, once the pride of the nation, was rightly seen to be faltering. Meagre salaries for teachers, unsuitable facilities, large classes, curricula not adapted to the needs of the market, and a considerable number of parents who had chosen to take their children out of the system and seek private alternatives—these were some of the most salient symptoms of a sweeping crisis.<sup>3</sup> In 1995, one year after the last election, the most ambitious reform project was launched. The main features of this reform were:

- The attempt to extend universal coverage to five-year-old children and progress towards universal coverage for four-year-olds;

- Drastic changes in secondary school curricula, removing emphasis from humanities and arts and increasing practical content, to prepare students for the labour market rather than for university;
- The expansion of the number of full-time schools in socially deprived areas;
- The recovery of an institutional dimension for middle-level state education (grades 7 to 9), lost for over 25 years due to many factors (including the shrinking of timetable modules, mass enrolment, and the frequent rotation of teachers).

## Health: privatisation reform by default

The Uruguayan health system is a complex linking of public and private agencies. Historically, one may distinguish the private system (mutual medical benefit funds) that provided health care to the middle and upper classes, and with time, to part of the working class; and a public system, covering those who could not afford the mutual medical benefit funds. During the 1960s and the 1970s, through bilateral agreements between state agencies and mutual benefit funds, a system was created whereby civil servants could become members of a private healthcare system by means of a small salary deduction. In this way, the state started subsidising the mutual benefit funds and the healthcare costs of its employees. During the 1970s, some laws and agreements opened the door for the first category of private workers to enter a similar agreement.

In 1984, the mechanism became universal when the last category of workers in the formal sector (rural and domestic workers) acquired the right to subscribe to a mutual benefit fund. This obligatory health insurance was managed by a new state office, the Board of Social Security for the Sick (DISSE), which played the role of mediator between the worker and the chosen fund. By 1988, according to the Minister of Public Health, 1,400,000 people were members of the mutual system. The public system continued to attend to approximately one million people and with the addition of some private or public institutions (the military hospital, medical services of state companies) coverage of the Uruguayan population was practically complete.

The implementation of agreements between the state and the mutual benefit funds and the establishment of DISSE increased healthcare coverage, with a strong redistributive inclination: the amount of money paid out from the salary to belong to a mutual benefit fund is proportional to that salary. However, given the increase in costs for the user in the co-payment established to control consumer use, it is less clear what proportion of the lower-income sectors incorporated in the system were able to make use of it.

Moreover, this process of incorporation of new sectors introduced tension in the mutual benefit funds. These funds were already suffering from financial problems before the system was implemented and the mass incorporation of new members through DISSE exacerbated them. The solution was a strong

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2 A social movement made up of pensioners was able to gain citizen support and in 1989, by means of a plebiscite, achieved an amendment to the constitution whereby in future pensions would be adjusted in accordance with the salary increments of state employees and would be increased in the same proportion as the mean salary index.

3 During the first administration, no attempts were made at structural reforms beyond increasing attention to schools in poor neighbourhoods. The Lacalle administration (1990-1995) followed this trend and developed a system whereby some schools in neighbourhoods where basic needs were not satisfied were defined as «priority attention» schools and the teachers' salaries were increased as an incentive.

state subsidy to sustain the operation of the mutual fund system. Although coverage in the better quality services increased, their quality dropped on increased enrolment and loss of resources. Some costs were passed on to the members of the mutual benefit funds in terms of increases in medical fees.

During the 1980s, a third form of medical service appeared on the scene: the private medical emergency units. These services used a pre-paid monthly fee, enabling them to have very low registration costs while redistributing costs and risks. A large proportion of the middle classes and practically all the upper-middle and upper classes became members of these services.<sup>4</sup>

The final result is a stratified system of three layers: those who cannot pay health care or who can pay very little and end up in a stagnant or declining public system; those who only pay for a mutual benefit fund system that is in clear deterioration; and those who are members of a mutual benefit fund but can also afford the new emergency and medical assistance services. The continuous deterioration in the quality of the public health system and in the mutual benefit fund system has recently generated a fourth layer of care: private insurance and purely private health care.

### Achievements and constraints of social reforms

The three models of reform in these sectors show three different results. Education chose a statist and redistributive model. Social security was ambiguous: defending the public system in 1989 and then partially accepting the privatisation model in 1994. Health chose no reform or more strictly, a privatisation reform by default. Uruguay as a whole was a rebellious reformer. Achievements are positive in the state model (education), ambiguous in the mixed model (social security) and clearly negative in the model of reform by default (health).

In terms of education, enrolment in early education rose from 30% at the beginning of the 1990s to 80% at the end of the decade. Those who most benefited from this expansion were the poorest 40% of the population. The learning levels in full-time primary schools in the most underprivileged social contexts improved significantly above the national average, and the degree of repetition in all the grades dropped. Finally, the most criticised point of this reform, the change in secondary education, shows a 10% lower drop-out rate than the old model, achieving a greater degree of retention of young people from the most underprivileged social sectors.

Regarding social security, the adoption of the constitutional amendment of 1989, made it possible for the real value of pensions to double in a decade, taking almost 35% of the people of 65 years of age and over out of a situation of poverty and reducing poverty among older people to a minimum level.<sup>5</sup> However, this increase in pensions was given to all the sectors in equal proportions, making it an enormous drain on public expenditure and limiting other types of spending, in particular programmes geared for children. Finally, the 1994 reform with the system of allocation and capitalisation will further increase inequality and cause serious problems in covering the lower income sector, informal or part-time employment and women. Although the reform that defends the old system, shows problems of inefficiency, inequality and negative effects on the treasury, the major risks for the social future of pensioners are to be found in the second reform wave, where the greatest risks to social integration and protection of the most vulnerable sectors are appearing.

Finally, health shows the worst results. The system ended up by being subsidised by the State in its private dimension, without this implying an improvement in the quality of service. The medical corps and the laboratories are those who have most benefited from the considerable expansion of public and private expenditure on health. In the meantime, the poor sectors have seen the deterioration in the quality of their public service, while the middle and upper sectors buy a new range of stratified health services on the market.

4 The mutual benefit funds were particularly slow and inefficient in terms of minor emergencies and treatment and in general with services unrelated to hospitalisation. In fact, all those who could afford it, paid double health care (or were subsidised in one system and paid for the other): the mutual benefit fund and the mobile emergency service.

5 Between 4% and 6% according to the Economic Commission for Latin America and the Caribbean (ECLAC).

The evidence available over a decade shows a widening gap between expenditure on public health and subsidising of the mutual benefit fund system, more disparity between the salary of a public system doctor and one in the mutual benefit fund system, a significant increase in private health expenditure, a mass exodus from the mutual system due to the loss of formal employment that had previously generated the membership benefit and an increase in the cost and use of the fee system (for check-ups, appointments and drugs) whereby the mutual benefit funds limit the use of the system and finance their chronic deficit.

The absence of a basic national health insurance for the whole population, debated but never implemented, has led to an increase in expenditure, with no improvement in quality but with an increase in inequity. Recent events support this diagnosis. Recently, a measure was approved whereby those who are members of a mutual benefit fund through DISSE cannot receive care in the public health hospitals. In many of these cases, the beneficiaries cannot afford the price of the fees in the mutual system; thus, the system leaves them without a real right to any health coverage. Furthermore, the mutual benefit funds have entered a spiral of increasing indebtedness and have threatened bankruptcy, demanding more money from the system, which despite its own indebtedness, has been cannibalised by other state treasury requirements.

### Conclusion

Defence of public assets and of the state as guarantor of these assets has shown itself to be socially more effective than privatisation alternatives. In a context of economic collapse, the fault is placed on the old welfare state and privatisation winds are again blowing, as observed in the privatisation of basic services such as water in some sectors of the country. However, the reform of the social sector, particularly through statist and non-privatising options, is the only buffer remaining to help the humblest people face the economic collapse of the past two years (see box). If a market option had been chosen for the social sector, the abandonment of the lower income sectors would have been much more dramatic. ■

#### The financial crisis

In the year 2002, the neo-liberal model promoted by the conservative governments of the past decades seemed to be in its death throes in Uruguay. The Argentine debacle and the contraction of the Brazilian market were the final blows to this weak structure. The financial system, the only sector of the economy to achieve positive results throughout the process, was unable to stand up to the combination of serious errors in the leadership of the Central Bank, episodes of corruption and the unvarnished theft of funds perpetrated by the bank owners. Uncertainty and lack of confidence led to a bank run that no one knew how to halt, and to a massive system-wide crisis; four banks suspended operations, thousands of investors were swindled, the state bank operations decreased, the chain of payments was interrupted, bankruptcies multiplied, savings and credit vanished and unemployment drifted out of control towards a historic 20% rate. Tax collection has shrunk; the economy has become more informal and, as of the last quarter, well-founded doubts about the state's capacity to meet its foreign and domestic obligations have become general. The ghost of default is floating over to the other side of the Rio de la Plata.

The IMF and the World Bank, pressed by the Bush administration in the United States, rushed to resolve the situation. Their assistance was over USD 3 billion, an amazing amount given the small size of the Uruguayan economy. Devaluation arrived, reaching 80% in two months; the GDP fell swiftly and the debt/product ratio reached an impossible 90%.

Civil society reacted calmly and with maturity, contributing solutions that no one had thought of. The seriousness of the bank trade union (AEBU) and the amazing response by investors who rapidly organised themselves and proposed and consented to the capitalisation of part of their savings to save the banks in crisis, contrasted sharply with the improvisations and vacillations of the government and its allies.

Despair is rife and Uruguayans once again are taking the path of emigration. Surveys report on the continued growth of the left wing, now comprising over 50% of prospective voters. This crisis calls for an essential political agreement to provide leadership by consensus for the two years remaining to the present government.

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