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**Inter-American Development Bank
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Working Paper 332**

**LATIN AMERICAN UNIONS AND THE REFORM OF SOCIAL SERVICE DELIVERY SYSTEMS:
INSTITUTIONAL CONSTRAINTS AND POLICY CHOICE**

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Abstract:

Recent policy debates on the reform of social service delivery systems focus on the decentralization of services and the introduction of competition in order to improve the quality of services. Despite the common assumption that public sector unions oppose these reforms, their responses were diverse. This variation has an important impact on the passage and the final design of the reforms. This paper argues that the structure of union organization and the environment of party and union competition are fundamental for understanding union policy preferences and strategic choices regarding the reforms of social service delivery systems. The experiences of Mexico and Argentina with education and health reforms in the early 1990s illustrate the influence of these institutional features on the policy preferences and strategic choices of public sector unions.

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Public provision of social services in Latin America, especially health and education, began in the nineteenth century. For much of the twentieth century, social service provision developed rapidly and in a centralized direction, focusing especially on the expansion of infrastructure and personnel. With the economic crisis of the 1970s and 1980s, however, fiscal constraints made the imbalance between costs and quality of services readily apparent. As a result, public policy debates focused on the allocation of resources and performance goals. With that aim two mechanisms started to be introduced in several countries: the decentralization of provision (to increase the 'voice' of the immediate consumers) and the competition for the provision of output (to increase the ability of consumers to 'exit' to other options).

Although the common assumption is that public sector unions opposed these reforms, union responses were diverse. They included resistance, cooperation, negotiation and inaction. This variation in behavior is very important because public sector unions can have a strong impact on the reform of social service delivery systems aimed at increasing both 'exit' and 'voice' opportunities for consumers.

The public sector is highly unionized and unions can play an important role in hindering or easing the passage of the reforms. Their actions can not only sabotage or enhance reforms, but can also have an effect on the opinion of consumers about the ability of the government to deliver these services. Moreover, since many of these reforms affect the central features of union organization, they will also affect the future of public sector labor relations and public sector unions. Therefore, it is important to identify the dimensions that influence the responses of public sector unions to the reforms in order to consider those dimensions for the design and the implementation of reforms.

Without dismissing the importance of economic and political factors in shaping the choices of public sector unions, this paper attempts to understand their behavior by pointing out the institutional incentives and constraints on union responses to policy initiatives. The paper argues that the structure of union organization (i.e. decision-making and authority) and the environment of party and organizational competition are fundamental for understanding union policy preferences and strategies that cannot be explained by economic or sectoral variables alone. The macroeconomic context also has a powerful influence in the strategic capacity of unions (e.g. high unemployment hinders union capacity to strike), although the public sector is more cushioned than the private sector from economic shocks. However, this institutional analysis is aimed at explaining variation under the same macroeconomic context. Furthermore, besides its explanatory power, the institutional focus is important for its policy implications because institutional variables are easier to influence than structural or political variables.

Since the short-term costs of social services reforms are concentrated in public sector personnel while their benefits are distributed across diverse social groups, they introduce conflicts of preferences across different groups of salary-earners. These conflicts make the structures of **decision-making** (preference aggregation) and **authority** (capacity to commit the behavior of members) very relevant for defining union policy preferences that originate in sectorial positions and political identities. At the same time, **party and organizational competition** introduce 'exit' options both for union members and for the government (employer). Therefore, they influence the strategic capacity of public sector unions to deal with the government.

The paper is divided in two parts. In the first part, I analyze the characteristics of public sector unions as agents of collective bargaining. I also present the dimensions of the structure of union organization that influence union policy preferences, and the constraints posed by party and organizational competition on union strategic capacity. Moreover, I analyze the role of unions as direct administrators of social services and its impact on union policy responses, and I review the historical legacies that explain the origin of these institutional dimensions in Latin America. The second part of the paper analyzes the experiences of decentralization of education in Mexico and Argentina, and the attempts to introduce competition in health administration in Argentina. These experiences illustrate the influence of the institutional features described in the first part on the behavior of Latin American public sector unions.

I-Union Structure and Policy Choice

I.1) Public Sector Unions

This section focuses on unions as agents of collective bargaining, that is, as organizations of service

providers aimed at negotiating with their employers. Unions have other roles that can have an impact on social service delivery reforms; their role in the direct administration of social services will be analyzed in the third section.

When referring to the behavior of public sector unions, I am alluding to that of union leaders who are the agents of collective bargaining. I assume that they try to maximize their membership (to avoid coordination problems) and to maintain their authority (to control the behavior of their members). Both goals increase their bargaining power with the government based on the exchange of labor restraint for concessions. Moreover, union leaders also are eager to keep themselves in authority (to remain as the agents of collective bargaining) and for that reason they consider the preferences of union members in order to avoid being replaced by alternative leaders or organizations ('exit' of members).

Public sector unions are different from private sector unions for diverse reasons: their employer is the government and their membership unionization rates are higher. In addition, public sector employment is sheltered from international competition and from the tight budget constraints of the private sector, and is more permeable to patronage for job creation. These points are developed below.

First, since the government is the employer of public sector providers, collective bargaining can cover not only wages and work conditions, but also broader regulations whose impact goes beyond that of the particular governmental agency involved in the bargaining process. This type of bargaining concessions is facilitated by the combination of technical and political concerns that characterize the government as employer.

Second, public sector unionization rates are higher, both in the advanced capitalist countries and in Latin America (Beaumont, 1992, Marquez, 1994). Thus, the impact of public sector militancy is both larger and more visible to public opinion. Among the influences that explain these higher unionization rates are the concentration of employment in a few individual large-sized undertakings, the unionization of managers who do not oppose the unionization of their subordinates, and the need of public sector practices to comply with legislation regarding union organization and recognition (Beaumont, 1992).

Third, while the sectors exposed to international competition have a strong incentive to support policies that reduce costs and increase competitiveness (Frieden, 1991 and Swenson, 1991), public sector unions are sheltered from international competition, and competition from more efficient providers is generally restricted by regulations. Hence, they are not constrained from seeking wage increases above productivity at the expense of other sectors (Garret and Way).

In addition, the wage militancy of public sector unions is encouraged by the soft budget constraints in the public sector that reduce the relation between employment and earnings. Indeed, strikes often serve the dual purpose of demanding higher wages from the government and mobilizing public opinion to call for greater budget allocations for public services.

Moreover, in many countries, public sector personnel are sheltered from lay-offs by legal guarantees of job security created to avoid the politicization of the public administration. Therefore, public sector unions can exploit a monopoly position and they under no pressure to reduce unit costs because they do not risk unemployment if their demands erode profitability (Buchanan, 1973).

Finally, in many countries, job creation on the basis of patronage has resulted in employment expansion at the expense of real salaries. This development is associated with public sector unions that are concerned with expanding their membership in order to increase their bargaining (and political) power, which is based on how much labor they control and how visible their demands are in the society as a whole. Expanding membership can also compensate for the effect of salary erosion on union dues. In most cases the monopolistic position of public sector unions is further encouraged by the administrative centralization of job entrance and wage definition in a single ministry, which provides strong incentives for centralized unionization to unify the voice of employees facing a single employer.

I.2) Preferences and Constraints: Understanding Union Behavior

Latin American public sector unions do not respond homogeneously to the reforms of social service delivery systems. Considering the specific characteristics of public sector unions, I analyze union behavior as a combination of union preferences and the capacities of unions to pursue those preferences.

Unions are complex organizations with a heterogeneous membership whose diverse preferences regarding reforms that have different effects across different groups of union members are based on sectoral concerns and political identities. The aggregation of these preferences (**decision-making**) and the ability of leaders to impose those preferences on the whole membership (**authority**) are mediated by the organizational structure of the union. Thus, the organizational structure (i.e. decision-making and authority structures) influences the ability of members who support or oppose the reforms to have their preferences expressed by the union. Moreover, these reforms can have a strong impact on the structure of authority of the union. Thus, they induce different preferences among the leaders of different units of decision-making.

The other important trait of union organization that influences the response of unions to policy reforms is **competition**. Along with the process of defining its preferences and convincing its members to pursue them, union leaders consider the institutional constraints that affect their capacity to deal with policy-makers. Among these institutional constraints two dimensions are very important: the competition among different organizations trying to unionize the same constituencies and among different political parties attempting to win control over unions. The former are competing 'sellers' of labor cooperation to the latter who are competing 'buyers'. The combination of these two forms of competition provide incentives that influence the strategic capacity of unions to deal with the government.

a) Organizational Structure: Decision-Making and Authority

The preferences of union members originate in their sectoral position (territorial unit or activity) and in their political identities. However, the structure of **decision-making** mediates the aggregation of diverse members' preferences into the preference of the union. Since unions are organized at different levels, any of these levels can act as a decision-making unit and can be the locus of decision-making where authority prerogatives are concentrated. For example, unions are organized in the work places (e.g. teachers within a school), at the occupational or branch level (e.g. national unions or federations of teachers, nurses, etc), at the regional level (e.g. provincial federations of local unions of different activities), and at the peak national level (e.g. national union centrals or confederations of unions of all activities and regions).

The distribution of preferences across these units of decision-making (either concentrated or dispersed) influences their ability to be expressed. If the sectors within the union that agree with a reform are dispersed around diverse units of decision-making it will be more difficult for them to form a coalition to support or negotiate the implementation of the reforms, because their 'voice' will be muffled by the opponents of the reform within every unit of decision-making¹.

However, decision-making not only influences the expression of preferences, but also the formation of preferences that affects the authority of leaders. **Authority** is the capacity to impose those preferences on the whole membership; that is, to control the behavior of members (lower levels of organization) with some degree of autonomy from higher levels of organization.

The structure of authority depends on the mechanisms that allow the leadership to maintain this control.

The impact of the reform has a fundamental influence on who these sectors are. For example, education reforms can have a different impact on teachers of different jurisdictions and on administrators. Health reforms can affect differently nurses, ancillaries and health managers. Reforms can also change the relative position of certain levels of organization in relation to others (e.g. provincial levels at the expense of the national authority).

These mechanisms can be diverse: prerogatives of collective bargaining that are 'imposed' on other levels, sanction powers (either statutory or financial) over lower levels, financial control over lower levels, provision of selective incentives², or loyalties based on patronage or party identity.

Selective incentives are goods that are offered by the organization only to the individuals that are members of the organization to avoid free-riding by others (Olson, 1971).

Authority can either be centralized (at higher levels of organization) or decentralized (at lower levels of organization). Since authority prerogatives influence the capacity of the leadership to impose policy preferences on the whole membership and to negotiate the behavior of members with policy-makers, the more centralized the authority (the higher the level with decision-making power), the lower the number of actors that need to be involved in bargaining to achieve the control of a larger share of members³. Conversely, the more centralized the authority, the less responsive it is to the preferences of members at lower levels of organization.

The following table summarizes these main dimensions of union decision-making (based on territorial rather than activity units) and authority that are relevant to assess union preferences regarding reforms that introduce decentralization and competition:

Table 1: Union Preferences

	DECISION-MAKING UNITS			
AUTHORITY	LOCAL / WORK PLACE	PROVINCIAL	NATIONAL	PEAK
DECENTRALIZED	plant unionism	federation of prov. unions	branch-defined federation of prov. unions	confederation of branch unions
CENTRALIZED	union locals	provincial delegations	national branch or activity unions	national union central

The concentration of preferences and the strength of authority within each unit of decision-making will define different policy preferences according to the effect of the reforms on each group of members and authority patterns. If the potential union reformers are concentrated within a unit of decision-making, it will be easier for them to aggregate their preferences and have the representatives of their unit voice their preferences. They will also be more inclined toward institutional mechanisms that include their input in reform implementation because the incentives to support the reforms for union representatives within a unit of decision-making increase if they can enhance their authority vis-a-vis the other levels. Conversely, the concentration of opponents to the reform will also ease their expression of opposition.

To the contrary, argument is consistent with Calmfors and Driffil (1988) and Garret and Way. They argue that 'encompassing' organizations⁴ (where authority for decision-making of different sectors is centralized at the

I refer not only to officially affiliated members, but also to those that act as if they were members because they respond to the strike and restraint appeals called by the union's leadership.

"Encompassing" organizations are those that "encompass a substantial portion of the societies of which they are part" (Olson, 1982:47). In this case, it refers to cross-sectoral organizations.

national peak level) have strong incentives to internalize the externalities associated with union power in wage negotiation by using self-restraint to improve the material well-being of their whole membership in the future.

By contrast, 'non-encompassing' organizations (i.e. national branch/activity unions in charge of collective bargaining) are said to have strong incentives to push for wage increases, regardless of their effect on growth, because of their inability to coordinate among themselves the distribution of future pay-offs derived from wage restraint. This dynamic is similar to the one described by Garret and Way for public sector unions whose wage demands do not consider the economy as whole⁵. 'Encompassing' organizations can impose wage restraint more easily when the authority is centralized at higher levels.

The role of 'encompassing' organizations is somewhat different in reforms that increase decentralization and competition than it is for wages. These reforms arouse tensions between the structures of decision-making and authority; these tensions can be used by the policy-makers to win allies within the union by advancing representatives of lower units of decision-making at the expense of those at higher levels. This enrollment of union free-riders can assist decentralizing reforms. However, it can also erode the control of centralized leaders of the whole membership, thereby increasing the number of actors that need to be involved in negotiations.

For example, if a public sector union affected by a reform belongs to a national union central, its ability to pursue its self-interest will be mitigated by the 'encompassing' national union central that considers the preferences of all members of the central (e.g. if the reforms benefit them as customers by improving social services). In contrast, if the union belongs to a 'decentralized' confederation, its incentives to pursue its own interests remain high, independent of the position of other sectors⁶.

Since the 1980s the erosion of the 'centralized' authority of peak national union centrals has been a world-wide process. As a result of the crisis of the Fordist economy, national economies experienced a 'double shift' in

This concept of 'encompassingness' implicitly assumes the existence of a leadership or decision-making process that can calculate the long-term interest of a heterogenous membership and its potential long-term gains from societal improvement. At the same time, it implies the authority of this leadership to impose immediate sacrifices on the affected sectors (reducing their self-interested reaction) for the sake of the whole membership.

For example, the Mexican Confederation of Workers (CTM) and other PRI-related national union centrals (with centralized authority) and national industrial unions are united in an umbrella organization, the Congress of Labor. In 1995, the incumbent Institutional Revolutionary Party (PRI) negotiated with the CTM and other centrals belonging to the Congress of Labor a reform that introduced private pension funds as a response to a deep crisis of the social security system. However, the PRI-affiliated union of social security employees does not belong to any central, only to the Congress of Labor that has no sanction power. It opposed the reforms until the government conceded some of its demands. In contrast, under the pressures of the centralized CTM, the CTM-affiliated oil workers' union accepted industrial re-structuring despite its deleterious effects on union privileges and members' job security.

economic policy-making away from the national governments, 'outward' to the international economy and 'downward' to the firm (decentralization of collective bargaining) (Daley and Howell, 1992). These processes reduced the capacity of peak national union centrals both to affect national policies aimed at obtaining nation-wide benefits for their members and to control the behavior of their members.

Similarly, the current processes of social service reforms in Latin America threaten the centralization of collective bargaining and public sector unions. The reforms have aimed at the decentralization of services or the increase of local management autonomy in order to increase responsiveness to clients and to facilitate innovation; but these reforms are also likely to affect the patterns of internal authority of centralized organizations and challenge the central authority in favor of smaller units.

Thus, the impact on authority will generally lead a centralized leadership to oppose the reforms even when they may result in an improvement of services for the society at large. Such reforms are likely to be better received by representatives of lower levels of organization, or by challengers to the central authority who want to increase their own relative authority or to respond to the local members and community concerns⁷. In contrast, the representatives of a decentralized organization are less concerned about decentralization processes that will not affect their organizational structure. In such a case, sectoral, regional or political concerns will be of greater importance.

The reform of social service delivery systems can have a heterogenous impact across unionized providers. Thus, it adds sectoral interest to political and organizational concerns and increases the importance of decision-making and authority patterns on the definition of policy preferences. For that reason, certain conditions that have traditionally induced a preference for centralizing reforms can induce opposition to specific reforms or innovations whose effects are more diverse. In these situations, the preferences of union reformers, free-riding union non-reformers (if allowed by the structures of organization), or the preferences of challengers to the centralized authority can create allies for the reforms.

b) Environmental Constraints: Industrial Competition

Union sectoral preferences cannot always be pursued by union leaders. After preference aggregation has taken place, the capacity of leaders to pursue those preferences varies according to features that affect their strategic capacity vis-a-vis the government (employer). This strategic capacity can be seen within a market framework where the union is 'selling' labor cooperation and political parties are 'buying' it.

In that sense, public sector unions try to maximize membership to have a product of better quality to 'sell' to the incumbent party in order to obtain a better 'price' (concessions that can either be collective goods or selective incentives). However, the characteristics of the 'market' affect the strategic capacity of the unions, that is their capacity to bargain with the government to obtain a good 'price' that keeps their membership within the union (guaranteeing the 'quality of the product').

In a different sector, the reform of industrial relations regulations in Argentina provide an interesting example. The national leadership of the Argentine electricity workers federation opposes the decentralization of collective bargaining to the local level. However, Mar del Plata local union representatives support this decentralization to the local level due to their conflict with the central leadership that uses its power over collective bargaining to sanction the rebellious local union.

Within the same level of organization, this capacity is affected by political and organizational options and their impact on patterns of competition. The main types of **competition** that influence union strategies are those that take place either **among different unions for the same constituency** or **among different political parties** attempting to increase their influence in the industrial arena⁸. That is, whether union leaders fear the 'exit' of members or the transfer of governmental concessions to other competing organizations and whether the incumbent party fears the 'exit' of unions to competing parties in the industrial arena.

The competition among different organizations (at the same level) introduces two elements in the relation between union leaders and the government. First, an 'exit' option for members that introduces the *need to coordinate action* by leaders in order to deal with the government. If coordination fails because unions fear losing members if they do not obtain adequate concessions, both negotiations and resistance can be affected. Second, organizational identity provides the government with the option to favor an organization by choosing it as its counterpart (choose the 'seller').

Hence, the absence of competition makes the negotiations of self-restraint in exchange for long-term benefits more likely because the government does not have access to any alternative organization and members do not have an option to 'exit' that would induce their leaders toward militancy. By contrast, the existence of organizational competition can obstruct negotiations (and self-restraint) and resistance if the alternative course of action seems more successful for members and they choose to follow the leaders proposing it.

The term 'industrial arena' refers to arena of collective bargaining between unions and their employers. It can be applied to service sector unions bargaining with the government as their employer. It is important to distinguish the 'industrial arena' from the electoral arena in matters of party competition because there is no necessary coincidence between the patterns of party competition of each of those arenas.

The competition among different parties in the industrial arena introduces three elements. First, party identity produces a relation of trust that permits an inter-temporal exchange of short-term sacrifices for long-term gains (Przeworski and Wallerstein, 1981). This trust can be seen as 'brand loyalty'. That is, affiliated union leaders share with party leaders long-term views on society and they are concerned with the electoral growth of the party both in the political and industrial arenas. Thus, party affiliation increases the interest of the incumbent party in giving concessions to an affiliated union (to 'buy' from an affiliated union) in order to expand its industrial influence and the interest of the unions to support the policies of affiliated parties (to 'sell' at a lower price to its affiliated party)⁹.

Second, the industrial arena is more important than the electoral arena for union leaders. Party competition at the industrial level introduces 'exit' options to members and, thus, it increases the incentives of affiliated leaders to oppose the reforms if they fear their members will 'exit' towards other leaders. Finally, party competition also provides 'exit' options to union leaders. If their affiliated party does not provide them with adequate concessions and if they fear losing members for that reason, union leaders can 'exit' (or threat to 'exit') to other parties that will reward their current militancy with future benefits (they 'sell' their 'product' to another 'buyer').

Following this line of argument, I will roughly compare unions and parties as 'sellers' and 'buyers' of labor cooperation. While organizational identification provides substitute 'products' for policy-makers, party identification can be seen as 'brand' loyalty that makes the incumbent party prefer to offer concessions to its affiliated unions in order to increase its industrial influence. The following table shows the effect of party and organizational competition (assuming other variables constant) on the strategic capacity of unions to deal with the government:

Table 2: Union Strategies

	POLITICAL PARTIES (buyers of labor cooperation)	
UNIONS (sellers of labor cooperation)	NO COMPETITION	COMPETITION
NO COMPETITION	1-Bilateral Monopoly: negotiated price	2-Monopoly: high price
COMPETITION	3-Monopsony: low price	4-Full competition: demand and supply (uncertainty) or brand loyalty

The first cell (bilateral monopoly) shows no option for either side and increases the likelihood of successful

Even if the union members benefit from the reform, political opposition may induce leaders to obstruct it. For example, the Buenos Aires local union of the Argentinean Federation of Telephone Workers (FOETRA) opposed privatization of telephones only during the period when this local union was controlled by opposition party leaders. At the same time, the national union affiliated with the incumbent party supported the privatization and negotiated workers' participation in the process and other concessions. The opposition party leaders lost the following local union election.

negotiation with affiliated parties in power. If the affiliated party is in the opposition, however, they are likely to negotiate future concessions with it and increase their current militancy. Moreover, the absence of an 'exit' option for members augments the capacity of union leaders to negotiate.

For instance, the Argentinian General Confederation of Labor (CGT) was the only national peak labor organization during the administration of Radical President Raúl Alfonsín (1983-89). Since, the CTG was affiliated with the opposition Peronist party, it increased its militancy during this period, calling fourteen national strikes. When the Peronist party gained power, the CGT shifted towards a more conciliatory position, obtaining some concessions from the government but also supporting policies they had opposed during the previous Radical administration.

The second cell (monopoly) shows party competition without union competition. That is, several parties compete for the same union. In this case, if the incumbent party does not offer a good arrangement (to the only 'seller'), unions can threaten to 'exit' to other parties ('sell' to other 'buyers') in the expectation that current militancy will result in future concessions. Union leaders are also induced in this direction by the fear of losing members to alternative leaders if they are perceived as giving in for a small 'price'. The union has a strong bargaining position and can hold out for a very high 'price'. Militancy is likely if no bargain is reached.

For instance, during the Democratic Action (AD) administration of Carlos Andrés Pérez affiliated union leaders held 65% of leadership positions in the national union central, the Venezuelan Confederation of Workers (CTV). The absence of significant union competition made it harder for the government to selectively provide compensatory payments while the fear of losing members to other parties made AD union leaders increase their militancy. Therefore, it was more 'expensive' to 'buy' labor cooperation. As a result, AD union leaders supported the first general strike of modern Venezuelan history that was not aimed at preserving the democratic regime.

The third cell (monopsony) shows union competition with no party competition. In this case coordination problems among unions limit labor opposition (reduces the 'price' of labor cooperation). If competition among organizations is restricted within the limits of the incumbent party, the party can compensate the organizations that cooperate without fear of enhancing an opposition party in the industrial arena. Even if concessions are few ('low price'), members can 'exit' to the organization that obtains those concessions, encouraging pragmatism over militancy. However, this 'exit' of members from the organization will not be an 'exit' to another party and union leaders will have to reduce their demands ('price') to avoid the loss of members.

Several PRI-related national union centrals, which were all competing for the same constituencies in Mexico, provide an example of organizational competition that hindered resistance. Between 1982 and 1994, the PRI government compensated only those that did not voice opposition with faster union registration and special programs. This induced an 'exit' of member unions toward the favored centrals, at the expense of the less compliant ones, with no change in party loyalties because all the centrals were associated with the PRI. At the end, the latter reduced their opposition to recover state resources and members.

The last cell (full competition) shows both union competition and party competition. This situation is more uncertain and since bargaining is harder to achieve, militancy is more likely. The threat of 'exit' from members and the problems of coordination between different organizations and different political parties produce this outcome. Yet, party loyalties can act as a 'brand loyalty' to discriminate among organizations. The incumbent party will prefer to 'buy' from its affiliated unions (even if paying more) than from opposition unions, hoping that the skewed distribution of concessions will bring more members to affiliated unions embracing pragmatism (and increasing its industrial influence). The outcome will be negotiations with affiliated unions and militancy from the non-affiliated unions. Indeed, organizational competition may provide an incentive to negotiate concessions that can be used to attract new members.

For example, during the first Menem administration, two unions competed for the representation of Argentinean public administration employees. One was affiliated with the incumbent Peronist party and the other with an opposition party. When the Peronist party started the reform of the public administration, it was supported by its affiliated union and opposed by the other. The affiliated union was included in the process of promotion (benefitting its members), was granted the administration of the health-providing welfare fund for public administration employees (a source of selective incentives and patronage) and was given control of the regulatory

agency of union-administered welfare funds.

However, support based on political loyalty does not necessarily coincide with the unions that are more responsive or whose members are the most efficient. In this case, competition could speed reforms but may hinder their efficiency. Besides, if the government cannot pay for labor cooperation (because of lack of discretion in resource distribution), the combination of union and party competition increases the incentives for militancy to avoid the 'exit' of members.

In short, decision-making and authority structures influence union preferences while the different types of competition shape the strategic capacities of unions to negotiate with the government. Since the employer of public sector unions is the government, both policy and political consideration should be analyzed to understand the constraints to collective bargaining because governments are not only concerned with governability, but also with electoral success. For that reason, it is important to consider the structure of union organization and the effects of industrial competition when designing a specific policy reform.

I.3) Unions as Direct Administrators of Social Services

Most of the studies of union politics center on industrial relations and consider unions as organizations of providers of services. However, in many countries, unions also play an important role in the administration of social services or welfare. For example, unemployment insurance is administered by unions or union-funds in Sweden, Denmark, Finland, Iceland and Belgium, labor-based health provision is administered by union funds in Argentina, and labor-based housing credits were administered by unions in Mexico.

As will be shown in the next section, previous political exchanges are likely to have been the source of these institutions, and in Latin America their efficiency has often declined with the change in the economic conditions since their establishment. For that reason, these institutions of direct administration of social services are likely to be affected by attempts to reform social service delivery-systems. Unions administering social services are more likely to oppose reforms that reduce these administrative prerogatives.

This opposition stems from the importance of those administrative prerogatives as a source of selective incentives for members (to fend off competitors) or patronage (to enhance authority patterns within the organization). In particular, the structure of union administration of social services usually reproduces that of unions as agents of collective bargaining since the union leadership used these institutions to reinforce authority patterns.

Centralized union movements are more likely to cooperate with the state in the delivery of services or to establish centralized administrative systems to enhance the centralized authority and avert competition that may erode it. These centralized systems are also more likely to have incorporated large bureaucratic inefficiencies that would make it harder to adapt to competition with other providers. Hence, it would be harder to find supporters of reform within the administration of services, although centralized union movements are more likely to sacrifice these institutional privileges if they trust that the reforms will result in long-term gains for all their members (e.g. improvement of services).

Decentralized union movements have more incentives to promote a decentralized administration of services. This administrative structure is more likely to introduce competition among unions in the delivery of services in the absence of a centralized authority that would control internal competition. Thus, some of these union administrative institutions are also more likely to generate managerial capacity able to transform the patterns of delivery in order to increase efficiency, accept competition and commercialize the provision of services. The managers of the union administrative institutions that adapt more easily to market incentives can be incorporated in the design of the reforms that introduce competition. However, their power to negotiate compensatory pay-offs or restrictions can modify the essence of the reforms.

I.4) Institutional Legacies and Union Organization in Latin America

The dimensions that were analyzed above (union and administrative structures and organizational and party competition) are legacies from a long process linked to two factors: a) the institutionalization of relations between unions and political parties and the consequent development of labor legislation, and b) the role of unions in the expansion of the state and the subsequent constraints suffered by state officials negotiating with public sector unions

due to the combination of management prerogatives for the unions and agency budget constraints.

a) *Unions, Parties and Labor Legislation*: labor legislation has a strong impact on organizational competition (through registration, monopolies of representation, closed shops) and on the patterns of authority and decision-making of the union structure (e.g. definition of domains of collective bargaining and fund collection). Thus, it is one of the main factors explaining both union structure and competition constraints.

Collier and Collier (1979), analyzing Latin American labor codes, highlight the importance of the relation between governing parties and unions when laws were established in order to understand their impact on union structure. Legislators affiliated with unions are more prone toward centralized authority at higher levels that will facilitate their negotiations with unions. They are also more likely to grant direct administration of social services to unions in order to maintain the industrial influence of their party.

In contrast, when unions were controlled by non-affiliated parties, the mutual distrust between unions and governments often resulted in laws that induced a more decentralized labor organization and excluded unions from policy implementation (to avoid concessions that would profit other parties). In the case of public sector unions, the state attempted to create mechanisms to avoid their politicization (that could hamper the functioning of public administration) and usually gave them a different legal status in terms of union organization¹⁰.

The alliance between parties and unions that gave rise to labor legislation is also related to the characteristics of industrial party competition. If the party in government was affiliated with unions when industrial relations were institutionalized, it usually employed its administrative power not only to centralize union authority, but also to restrict party competition (e.g. through registration procedures). Yet, its success in limiting competition must have also been linked to compensatory benefits for unions and members in order to avoid the success of challengers (Zapata, 1993).

The administration of social services is often also a legacy from that 'political exchange' between affiliated parties and unions. For that reason the structure of administration of social services by unions tends to follow the patterns of union organization that prevail at the time of the exchange. Union leaders negotiating administrative prerogatives are likely to demand a structure that reinforces their patterns of authority. If the union movement is decentralized, it is more likely that negotiating unions will divide the administration among themselves in terms of their union membership. Conversely, if the union movement is centralized, it is more likely that the administration of social services will be assigned to a new centralized institution or to the national union central in order to avoid an increase in internal competition that could erode the centralized authority.

b) *Expanding Unions, Growing Constraints*: the expansion of the public sector and the centralization of social services further enhanced the incentives for a centralized union organization in the public sector. Nationalized firms often become centralized and the multiple unions of the previously private sector followed the same path. Moreover, governments expanding the public sector often preferred a centralized organization to facilitate state control of production or social service delivery across the country. When unions were allied with the incumbent parties, they facilitated this centralized policy implementation. In exchange, they were granted management prerogatives and better conditions for their members. Once the public sector was centralized, public authorities of centralized social services faced unions that had gained management power through their political leverage at the time of state expansion.

When the economic crisis imposed budget constraints on the affected agency, negotiating public authorities conceded benefits that would not affect the agency's budget, such as union management prerogatives (e.g. hiring prerogatives) as well as (future) pensions in order to avoid short-term conflicts. As a result, labor peace was bought with the public budget (instead of the agency budget) or paid for with rising inefficiency (Hausmann, 1994). This situation was enhanced by the rapid turnover of ministers, which contrasted with the long-term view of unions

For example, in Mexico, public sector unions were organized monopolistically and strike activity was limited to avert the inter-union conflicts that affected this sector during the years of the Revolution.

leaders. Such solutions were cheaper for the head of the agency than paying with the agency's own budget. At the same time, union leaders could use management prerogatives as a source of patronage and selective incentives that enhance prevailing authority patterns.

II-Education and Health Reform in Latin America: Union Structure and the Reform of Social Service Delivery Systems

The experiences of decentralization of education in Mexico and Argentina and the attempts to introduce competition in the administration of health in Argentina illustrate the importance of the institutional features described above as well as the historical configuration of these institutions.

II.1) Decentralization of Education: Unions as Organizations of Providers

Since education is a labor intensive activity and a large proportion of education budgets is directed to salaries, any salary increase has a strong effect on expenditures. Furthermore, teachers are distributed across the national territory and in close contact with the communities. Thus, their protest has a strong impact on public opinion. Nonetheless, education unions are organized in different manners and face diverse constraints in their relation with policy-makers. These differences should be considered when analyzing the different policy choices of Mexican and Argentinean unions facing the decentralization of education.

The National Union of Education Workers (SNTE) includes Mexican teachers and other employees of the education sector; it is a monopolistic union with a centralized structure and, until 1992, was affiliated with the long-time incumbent PRI. In contrast, the Argentinean Confederation of Education Workers (CTERA) is a federation of teachers' unions from different provinces that do not hold monopolies of representation. The federation has a history of political pluralism and, during this period, the national leadership was associated with a left-wing opposition party. While the SNTE was active in negotiating important concessions to accept the implementation of the 1992 decentralizing reform in Mexico, CTERA did not participate in the design of the 1993 education decentralization in Argentina and remained relatively inactive in its implementation despite its militancy against other policies.

a) The Mexican Experience

The origin of the SNTE as a monopolistic and centralized organization affiliated with the PRI lies in the roots of the party itself. According to the 1917 Constitution, primary education was to be universal, free, secular and under the jurisdiction of municipalities while secondary education and teachers' training were to be under the jurisdiction of the states. However, the Public Education Secretary (SEP), created in 1921, started a fast expansion of the federal education system at every level, consequently increasing the centralization of education. In 1928, the SEP only controlled 20% of the students and the federal government paid only 6.1% of education expenditures. By 1991-92, however, the SEP controlled 65% of students and the federal government paid for 80% of education expenditures (Ornelas, 1995)¹¹.

In 1943, the SNTE was founded as a monopolistic and *centralized national activity union*. Its foundation was deeply influenced by the PRI-controlled SEP and was established with the aim of halting inter-union conflicts among the many education unions and to reduce the influence of communism among some of those unions (Arnaud, 1993). The SNTE contributed to the expansion and centralization of education by allowing centralized collective bargaining (e.g. 1947 General Work Conditions for Education). At the same time, the SNTE served as a political machine for the PRI across the national territory. In exchange, union leaders were rewarded with management

At the primary education level, centralization was even more extreme; in 1992, 71% of students and 73% of teachers were in the federal system while only 22% of students and 21% of teachers were under jurisdiction of the states (SEP).

positions within the educational structure and political positions at the executive and legislative levels.

As a result, collective bargaining often involved union-related people representing both sides. At the same time, the control of education performance became increasingly inefficient since supervisors knew that they owed their position to their union careers, which were more related to the patronage of a non-competitive leadership than to their efficient control of performance (Arnaud, 1992b). In addition, the expansion and centralization of education increased the SNTE membership and strengthened its centralized national authority whose power base was the members under federal jurisdiction. Consequently, the SNTE opposed (with relative success) SEP decentralization efforts in 1969, 1978 and 1982.

After 1982, budget constraints became tighter and the expansion of personnel shifted to management positions that were granted to the SNTE to avoid conflicts produced by the deterioration of teachers' salaries. While in the 1980s teachers salaries fell in real and relative terms¹², administrative expenditures rose (to 16% of education spending by 1984) (Ornelas, 1995). Teacher demands, however, were muffled by a non-democratic leadership that held supervisory positions. Taking advantage of the decentralization efforts, a regionally and politically based dissident movement grew within the union and its protests had a strong impact on public opinion.

In 1989, to calm the protests of the dissidents, President Salinas demanded the resignation of the national leadership of the union. The new leader, although still PRI-related, allowed 'decentralizing' dissidents to enter the national leadership by introducing proportional representation and abolishing the automatic affiliation of the union with the PRI in 1992.

When the Salinas administration proposed a decentralization of education that would transfer all schools to the jurisdiction of states (provinces), the national leadership of the SNTE opposed it, afraid of the shift of its authority from the national level to the state level when a centralized *national activity union* becomes a loose federation of state unions (see Table 1). The dissidents, who had supported decentralization before, joined the opposition to the transfer when they were included in the national leadership and the opportunity to compete for the leadership was open to other parties (Arnaud, 1994).

Hence, to obtain the support of the SNTE for the transfer of more than 500,000 teachers and 100,000 employees to the states in 1992, and for the General Education Law in 1993, the government had to negotiate some provisions. The federal government was to retain centralized control of evaluation, curriculum and funding for training. A teacher career which would uniform work conditions for teachers formerly under state and federal jurisdictions was to be created. Moreover, teachers salaries were raised above the ceilings approved for the whole economy and pay incentives were created (allowing, together with subsidies, the development of various selective incentives with union dues), the budget for state education was to be earmarked by the federal government to guarantee the uniformity of these concessions across states, and guarantees for the representation of members formerly under state and federal jurisdictions in the same units of decision-making were granted.

At the end, much of the decentralized impact was lost and the national leadership was more supportive than the representatives of teachers formerly under state jurisdiction. The latter were afraid of losing their previous authority prerogatives (while teachers were afraid of competing in unified job markets with unequal conditions) under the pressure of the larger number, in every state, of members formerly under federal jurisdiction who were more responsive to the national leadership (Arnaud, 1994).

Why was the SNTE able to negotiate such concessions with the government? The existence of party competition within the union (institutionalized in 1992 with the inclusion of proportional representation and the abolition of compulsory PRI affiliation) influenced the strategic capacity of the SNTE to negotiate with the government. The SNTE was in a position similar to the second cell in Table 2 (*monopoly*) because competition was restricted within the monopolistic organization. The government wanted to enhance the position of its affiliated

The base salary of primary teachers drop from 87% more than the minimum wage in 1982 to only 22% more in 1989 (Arnaud, 1992a).

leaders within the union and spare them the need of increasing their militancy to avoid an 'exit' of members to non-affiliated leaders. Thus, the SNTE was able to obtain important concessions. As a result of this strategic capacity, the implemented project was negotiated with the SNTE and did not threaten its authority patterns, at least in the short-term.

b) The Argentinean Experience

CTERA developed as a decentralized federation of non-monopolistic provincial unions. Argentinean education was more decentralized than Mexican education even before the 1993 law that transferred national (federal) schools to the provinces. In the nineteenth century education was under provincial jurisdiction except in the federalized city of Buenos Aires and the federal territories. In the first half of the century, the federal government extended its controls over provincial and private education and the training of teachers, although most primary schools remained under provincial jurisdiction. At the peak of centralization, in 1952, 42.7% of primary schools, 64.8% of secondary schools and 82.5% of vocational schools were in the national system. In contrast, 48.9% of primary schools, 14.5% of secondary schools and 13.3% of vocational schools were under provincial jurisdiction (Paglianitti, 1991).

In 1968, national primary schools started to be transferred to provincial jurisdiction, although most of the transfer was accomplished between 1976 and 1978, during a military rule that was associated with conservative provincial parties. In the 1980s, when democracy returned, most of primary education was already decentralized although secondary and vocational education remained more centralized. In 1987, 1.9% of primary schools, 44.7% of secondary schools and 32.5% of vocational schools were national. In contrast, 79.2% of primary schools, 26.8% of secondary schools and 37.8% of vocational schools were under provincial jurisdiction (the remainder were private) (Paglianitti, 1991). Thus, the 1993 law of transference to the provinces affected mainly secondary and vocational schools, which were unionized by two national unions that competed with CTERA.

In the context of a more decentralized education system, CTERA was founded in 1973 by 147 unions that in many cases competed in the same districts. Hence, it was organized as a *decentralized federation of provincial unions*. By 1991, its fragmentation was reduced to a union per province in addition to a union of teachers under national jurisdiction. However, in many provinces there were other competing unions that did not belong to CTERA since these unions did not hold monopolies of representation. These provincial unions, together with two unions of national teachers (vocational teachers and national secondary teachers), competed with CTERA's unions. CTERA's competitors, who were more sympathetic to the Peronist party, attempted at various times to organize an umbrella organization, but these efforts lacked institutional durability.

CTERA was more decentralized than the SNTE. Its members experienced a large salary dispersion and heterogenous work conditions across provinces, although all of them suffered a deterioration of salaries in the 1980s. For that reason, most labor conflicts were related to salary demands and were decentralized to the provincial level, even before 1993. This made it hard for the national leadership to control provincial unions.

CTERA did not oppose decentralization per se because the majority of its member unions were provincial and decentralization did not affect the authority of the leaders of a *decentralized federation of provincial unions* (see Table 1). The transfer of the remaining national schools to the provinces enhanced the position of CTERA provincial unions vis-a-vis union competitors that were mainly based on the national jurisdiction and organized in *national activity unions* (secondary and vocational teachers). CTERA suffered less than its national competitors from a transfer of schools to provincial jurisdictions because CTERA's unions were already organized at that level. Thus, its main demand was related to budget, salaries and salary dispersion rather than to the transfer.

However, CTERA was unable to negotiate with the government a reduction of salary dispersion. In terms of strategies, CTERA belong to the fourth cell of Table 2 (*full competition*) because it did not hold a monopoly of representation and different parties competed for union representatives in the education sector. Its national leadership was associated with a center-left coalition that opposed the Peronist administration. Thus, neither the government (that did not want to appear as giving concessions to a union associated with the opposition), nor CTERA (that wanted to enhance opposition to the government) had incentives for negotiation and militancy was the most likely outcome. Moreover, this association made it harder for CTERA to find allies among provincial governors.

The government preferred to negotiate with the competing unions. Yet, they received few concessions because the unions could not guarantee labor cooperation (due to decentralization and the competition of CTERA) and some of them had strong preferences against decentralization (secondary and vocational teachers). However, some provincial competitors of CTERA obtained concessions at the provincial level (e.g. in the provincial welfare funds) and some Peronist provincial unions left CTERA for that reason.

In short, since the two bargaining sides could not find an acceptable 'price', there was no deal. CTERA did not have a major effect on the final plan. Neither did their main (nationally based) opponents, who could have taken advantage of CTERA's opposition to the Peronist government if the reform had not included a decentralization plan which threatened their internal authority structure. When there were negotiations, at the provincial level, they did not have an important effect on the final design of a national policy, either.

II.2) Competing for Health Provision: Unions as Administrators of Social Services

Argentinean unions administer employment-based health provision through welfare funds. As a result, they have been a major player in every health reform debate since the 1970s. They have successfully resisted the inclusion of their union-administered welfare funds in attempts to reform health administration. In 1992, the unions opposed the introduction of private competition for health administration and were able to negotiate with the government a plan which would restrict competition to the pre-existing welfare funds. This modified proposal of restricted competition has divided the unions and has not been implemented yet. The structure of union-administered welfare funds and the strategic choices of unions explain the development of these union preferences and their capacity to influence the design of the second proposal.

In Argentina, union-managed welfare funds administer compulsory health fees (6% of salary paid by the employer and 3% of salary paid by the employee) and are expanded to guarantee the provision of health services to employees and their families. Of the collected funds, 10% is administered by a regulatory agency that should redistribute these monies according to the needs of welfare funds. Instead of a centralized administration by a specific institution or the national union central, each fund is administered by the industrial/activity union to which the Ministry of Labor granted the legal monopoly of collective bargaining for its branch.

The historical origin of these funds explains their decentralized configuration. The first ones originated in the collective bargaining clauses of large firms. In 1944, Perón passed a decree to promote the creation of firm or union-administered social services that followed the prevailing decentralized pattern favored by his union allies. This decree and the following laws, which were restricted to special activities (including public administration), maintained the initial decentralized structure of administration in welfare funds co-administered by representatives of unions and employers¹³.

However, until the 1970s, the national public health system was still predominant in terms of covered population. In 1970, a law negotiated between a group of industrial unions and the military government granted welfare funds the administration of wage taxes for health provision. Following the decentralized pattern, the covered population grew from 15.6% of the total population in 1968 to 67% in 1971.

By 1990, welfare funds covered 55% of the population. This covered population was divided among 202 union-administered welfare funds that covered 40% of the beneficiaries, 12 co-administered welfare funds that

The co-administered welfare funds created by special laws in the 1940s included bank employees, insurance employees, meatworkers, construction workers, commerce employees, glassworker, etc.

covered 50% of the beneficiaries and 15 state welfare funds that covered 5% of the beneficiaries¹⁴ (Grassi, Hintze and Neufeld, 1994).

In 1974 (with a Peronist government) and in 1985 (with a Radical government), union resistance halted health reforms that would have affected welfare funds. The unions resisted the reforms because the welfare funds were important to sustain their patterns of authority. Since the collection of dues was granted to national industrial/activity unions, their leaders could use welfare funds to reinforce their authority over local representatives and to create selective incentives for membership through discretionary treatment in favor of members. Moreover, the administrative apparatus of the health funds was used as a source of patronage, and administration was a source of funding for the unions (and eventually used for Peronist campaigns).

The 1974 and 1985 proposals of health reform based on the expansion of the public health system were resisted by a coalition of unions and private providers. The 1992 proposal divided that coalition. This project proposed a centralized collection of funds and a de-regulation of welfare fund monopolies that would open closed jurisdictions to private competition. Double membership was banned and individuals could choose any provider and change it after 18 months.

Although most of the unions were affiliated with the incumbent Peronist party, they all opposed the opening of competition to private competitors. After negotiations with the main unions, the Peronist government proceeded with centralized fund collection in 1993, but granted unions a restriction of competition among the existing welfare funds. They were also allowed to merge and they were given additional funds to improve their efficiency and bail out their debts. Moreover, deregulation has been delayed to elaborate an adequate registration of beneficiaries and to negotiate its implementation with the unions.

The rest were managerial employees and firm-administered welfare funds. State welfare funds depended on Ministries or state-owned enterprises. Moreover, 19% of the total population was not covered by national but provincial and security forces welfare funds.

The offer to restrict competition divided the unions. By 1995, union leaders whose welfare funds had been undergoing a process of reorganization¹⁵ favored competition (e.g. commerce employees, automobile workers, electricity workers) although they are still negotiating to obtain regulations that would avert the overflow of high-cost patients to the most efficient welfare funds without compensation. Instead, the less efficient welfare funds opposed the reform.

In some cases, implementing different treatments according to different fees even for their members.

The structure of administration and union organization explains these policy preferences. Initially, union leaders were concerned with the impact of the reform on an administrative structure that enhanced their patterns of national branch authority (at the expense of lower levels and a weak national confederation). Since the peak confederation, the General Confederation of Labor (CGT), had no authority to impose the preferences of the majority of unions, a few strong unions took the lead in establishing the central's bargaining position. These unions refused to allow competition from private providers, but were willing to compete with smaller welfare funds. Although this competition would weaken the unity of the union movement, it was a familiar structure since decentralized national organizations had historically provided different health services depending on the union.¹⁶ Hence, the most efficient welfare fund managers became reform-supporters based on market incentives although competition was restricted in the second proposal of reform.

What produced the shift in the nature of reforms? Argentinean unions included in the CGT are in a situation similar to the first cell of Table 2 (bilateral monopoly). They hold monopolies of representation and are mainly affiliated with the Peronist government. Facing few options, this situation encouraged negotiation between both players and a compromise solution that remains in force.

Conclusion

Public sector unions are complex organizations. Their preferences are shaped by the articulation of the heterogeneous preferences of members and by the impact of reforms on the authority patterns across different levels or units of decision-making. Thus, the structures of authority and decision-making have a strong influence in this process of preference definition. Moreover, public sector unions are not always able to follow their chosen preferences. Their capacity to negotiate with the government (their employer) is shaped by the constraints imposed by organizational and party competition. These two types of competition provide 'exit' options for members and for the government and affect the unions' incentives to exchange concessions for labor cooperation.

The current processes of reforms of social services in Latin America are removing the protection enjoyed by the public sector by introducing competition, performance incentives and market considerations even in the non-privatized public sector. These processes may increase the heterogeneity of work conditions across union members, and thereby increase the importance of decision-making and authority structures that define which preferences will become those of the union. They also arouse tensions between the authority and decision-making structures that shape the preferences of union leaders.

However, the effect of the reforms has a strong impact on who the potential reformers are. A centralized structure will increase the incentives for negotiating encompassing benefits at the expense of concentrated sectors. Yet, a decentralized decision-making structure permits the existence of free-riders that can oppose but also support reforms at the expense of the central authority, especially if the reforms increase the authority of lower levels of organization.

At the same time, the shrinking of the state and the consequent reduction of state resources intensifies the competition among unions for the representation of the same constituencies. Moreover, democratization processes throughout the region increase party competition at the industrial level. Competition modifies the choices of unions and parties in a democratic context and can increase the responsiveness of leaders to both members and customers. Party loyalty can speed reforms and control labor unrest, but may hinder their efficiency.

The experiences of Mexico and Argentina with education and health reforms illustrate the influence of institutional features of union organization and administration of social services on policy preferences and strategies. These dimensions should be considered by policy-makers proposing the reform of social services to assess where can they find allies or opponents to their reforms and how effective unions will be in negotiating with incumbent

This reform will reinforce the market-competition patterns among union administered welfare funds. These patterns have already started with the participation of unions in pension funds after the reform of social security.

parties.

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