

# State capacity and social investment: explaining variation in skills creation reforms in Latin America

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## Abstract

Latin America has been historically characterized by a focus on compensatory social policies, state capacity problems and unstable political coalitions impairing political and policy sustainability. In the 1980s-90s socioeconomic transformations and a new international policy agenda put emphasis on skills creation. Considering skills creation as a key component of a social investment agenda, this chapter sheds light on how Latin American countries have engaged with this agenda and a legacy of low demand for skilled labor and chronic educational coverage and quality problems. We analyze one crucial scope condition for social investment expansion: state capacity. Looking at four countries with different state capacity levels and diverse reform outcomes –Bolivia, Guatemala, Chile and Uruguay–, we argue that state capacity is a necessary but not a sufficient condition for skills creation social investment. State capacity matters at two crucial moments of the policy-making process: first, as a background variable that affects reform efforts, and second, during the policy implementation period. A second necessary but insufficient condition is how partisan coalitions interact with policy legacies. Rather, we show that only the two conditions together allow Latin American countries to advance social investment reforms in a sustainable fashion.

Keywords: Skills, Latin America, Inequality, Capitalism, State, Capacity

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## 1. Introduction<sup>3</sup>

In the final decades of the 20<sup>th</sup> century, the collapse of the model of Import Substitution Industrialization (ISI) and the accompanying socioeconomic transformations, as well as a new international policy agenda compelled Latin American governments to move from compensation-based social policy to a new policy paradigm centered on activation and skills creation.<sup>4</sup> The rationale was that higher skills and training should attract investments in capital and technology leading to higher growth and productivity (IDB, 2003: 108). The outcome was rather, as usually, a combination of compensation-based social policy with well-designed instruments to expand social investment policy to the informal sector and other previously uncovered sectors.

This chapter intends to make sense of the unequal advancement of the Social Investment (SI) agenda in Latin America, by analyzing the politics of skills creation reforms in four countries: Bolivia, Chile, Guatemala and Uruguay. Arguing in favor of including skills creation within the core of research on SI, we show that success in expanding social investment in skills creation reflects the wide variance in state capacity among countries in

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<sup>3</sup> We thank Julian Garritzman, Silja Häusermann, Bruno Palier and participants at the WOPSI conferences in Paris and Florence for their comments and suggestions. We also thank Cecilia Giambruno and Martin Operti for valuable research assistance. The research for this chapter was partly funded by the Center for Social Conflict and Cohesion Studies (COES) (ANID/FONDAP/15130009) and the Clemente Estable Fund (FCE-1-2017-1-135444) awarded by the Uruguayan Agency for Research and Innovation (ANII).

<sup>4</sup> In our previous work, we have used the term ‘skills formation’ following a well-established notion in the literature that takes TVET as the center of analysis (Bogliaccini and Madariaga 2020). In order to differentiate this broader approach to skills from that presented in this chapter, which focuses on the relationship between skills and social investment, we follow the introductory chapter by Garritzmann, Häusermann and Palier and refer instead to ‘skills creation’.

the region. By skills, we refer to the abilities acquired through formal and informal education that provide concrete know-how and allow the performance –and potential improvement– of specific tasks at the workplace (Bogliaccini/Madariaga 2020).<sup>5</sup> These abilities are acquired in, for the most part, standardized educational and training contexts, and comprise both specific and broad knowledge. The analysis of skills creation in Latin America, we argue, needs to consider the narrower definition as technical and vocational upper secondary and tertiary education and training, as well as a broader intake including upper secondary general education in the equation as the average worker in the region will not attain such a level. This means that the policy goals regarding skills creation in Latin America are related to schooling and attainment at the secondary level as much as improving cognitive scores.

Since the emergence of the SI agenda, Chile, the country ranking with the highest state capacity and among social policy frontrunners in the region, excelled the others in universalizing educational coverage, attainment and cognitive scores, and increasing the share of TVET. On the contrary, countries with historical problems in terms of state capacity, institutional building, and construction of welfare institutions like Guatemala, have remained the absolute regional laggards. We thus point at the crucial – but hitherto neglected – role of state capacity in the politics of social investment.

However, we argue and show that state capacity is a necessary, but not a sufficient condition for advancing skills creation in Latin America (Goertz and Mahoney 2012).

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<sup>5</sup> The concept of 'skills' is a contested one between disciplinary boundaries, but also, it acquires different meanings in time and space. For a discussion, see Payne (2017). It is important to note that focusing on the formal dimensions of skills acquisition –like we do here– should not obscure the fact that much of this acquisition occurs through prolonged experience and routinized problem-solving on-the-job.

Uruguay, a country with among the highest state capacity and most advanced welfare states in the region, has remained deadlocked in a conflict between timid reforms and low advancement. Bolivia, on the contrary, managed to build reform coalitions to expand SI and overcome its laggard situation, albeit encountering problems at the moment of implementing SI reforms, mostly because of low levels of state capacity.

We argue, therefore, that successful SI reform strategies depend on two conditions that are necessary but individually not sufficient: (1) state capacity and (2) SI-enhancing reform coalitions interacting with the respective policy legacies. We find that only Chile has had a decided advancement of SI reforms in the education realm, while Bolivia and Uruguay have fell short because of problems associated with either state capacity or the interaction between reform coalitions and policy legacies.

This chapter offers several contributions to research on the politics of SI. First, it highlights skills creation as a key component of the SI agenda, focusing on a region where skills creation has been largely neglected (cf. Busemeyer/Garritzmann in Volume II for an analysis of skills creation in Western Europe). Second, it extends research on the scope conditions for SI studying state capacity as a key prerequisite for SI in less-advanced countries, although one that is not sufficient as the Uruguay case shows. Third, we propose that the interaction between reform coalitions and policy legacies is also a necessary condition for SI reforms, although also in itself insufficient – as the Bolivian case will make clear.

The chapter is structured as follows: first, we develop our understanding of skills creation as social investment and show the shift in the international social policy agenda that affected skills creation during 1980-1990. In turn, we develop our analytical argument about the importance of state capacity for SI reforms alongside the interaction between

policy legacies and reform coalitions. Later, we analyze our four cases under these premises. We conclude by summarizing the contributions to the SI research agenda.

## **2. Skills creation as social investment in Latin America**

Skills creation –i.e. our broader definition comprising general and TVET upper secondary and post-secondary education– has hitherto not elicited the interest it deserves in the SI discussions, both in Latin America but also in other countries around the globe. This is surprising given the fact that SI is all about strengthening people’s skills and capacities to participate fully in employment and social life (Morel, Pallier and Palme, 2012). These volumes define social investments as policies aiming to create, preserve, or mobilize human skills and capabilities (cf. Garritzmann, Häusermann, and Palier in the Introduction to this Volume). We argue that skills creation should lie prominently in the social investment agenda.

Current research on skills creation has focused on TVET (Technical and Vocational Education and Training), highlighting its capacity to foster adaptability, employability, productivity, and the flexibility of the economy to respond to changing demands and technology requirements, generating virtuous complementarities. However, in the case of non-advanced countries, the discussion on effective skills creation is usually part of greater efforts to think of strategies to universalize and increase the quality of education as part of the shift from compensatory to compensatory plus activation policies. In other words, the transformation of the social policy agenda toward a SI one in Latin America necessarily needs to deal with closing basic educational gaps.

In this section we show how the quest for moving from a pure compensatory social policy approach put skills creation at the center of social policy reforms in Latin America. We also show that government's ability to carry this agenda further varied greatly in the region.

## **2.1 Skills creation metamorphosis: from ISI to the Open Market Economy**

In Latin America, the focus on skills creation and training for the job market arrived with the change from ISI (Import Substitution Industrialization) to the open market model. During ISI, social policy followed a direction similar to Southern Europe (Filgueira 2005; Barrientos 2009): a bias toward the urban and male-workforce and a heavy weight of social security benefits, particularly pension schemes, on labor market insiders in social expenditure. In the case of education, the focus was in universalizing primary education but ended up putting significant resources in tertiary academic education (cf. Garritzmann, Häusermann, Kurer, Palier, and Pinggera in this Volume). TVET developed only in a few countries and only as a subsidiary policy under the wing of Education Ministries. Countries like Brazil, Chile, Colombia and Mexico also built vocational training institutions similar to those existent in continental Europe, but with the exception of Brazil, these were established rather late and did not figure prominently in these countries' development strategy (see ECLAC/ILO 2013). At the end of the 1980s, it became clear that the social policy regimes associated with ISI had configured a situation of strong focus on compensatory measures and segmentation between insiders and outsiders. This neglect of education contrasted starkly with the success of the East Asian economic miracles and their human-capital-oriented social policy and industrialization processes (see Haggard and Kaufman 2008, 35-8). This was a key antecedent for the shift in the

international social policy agenda in the 1990s. The new development mainstream dictated that education should be a priority in the reform of the social policy sector. International organizations forcefully put education on the policy agenda, increasing their loan portfolios for education programs and strongly advocating the new approach (Grindle 2004, 40; 47; Hunter, 2000; cf. also Chapter 3 by Jenson/Mahon in this Volume). This agenda highlighted the focus on the quality of education, skills creation, lifelong learning and training, education to work transitions, and active labor market policy (Wolff and Moura de Castro, 2003; Saavedra, 2003; IDB, 2003). TVET programs born from this agenda grew mostly detached from mid-century TVET programs. Rather than generating and promoting new skills, old and new institutions were placed under the radar of Labor Ministries and their mission directed to activating outsiders in the context of structural change and massive unemployment.

## **2.2 Latin America after two decades of SI reforms**

Latin American countries have advanced at diverse speed in reforming their skills creation systems. When we analyze the outcome of SI reforms in the last twenty years in terms of coverage and attainment of general and vocational education (see our definition of skills creation in the introduction), we see two results worth highlighting (see Bogliaccini and Madariaga, forthcoming 2020). First, countries tend to cluster around groups that coincide roughly with the advanced, intermediate and laggard groups of welfare development found in the literature (Figure 7.1; Filgueira 2005; Segura-Ubierno 2007; Bogliaccini/Madariaga 2020; cf. also Huber/Dunn/Stephens in this Volume). This shows that the capacity of states of expanding welfare institutions in general during the twentieth century is a key antecedent

when analyzing their ability to pursue a SI agenda in the new millennium. Second, our data also shows inconsistencies between groups that reflect the uneven success of SI reforms. Our assessment of SI in the 21st century is based on the typology of skills supply profiles elaborated in Bogliaccini and Madariaga (2020), based on a cluster analysis using the variables presented in table 7.2 (below).

### **Figure 7.1: Welfare state development and social investment reforms**

Within the advanced group, Chile is the only country that closed coverage gaps with the OECD countries –although quality and equality remain major concerns. The other advanced welfare states (Argentina, Costa Rica and Uruguay), on the contrary, have been unable to further reduce gaps particularly with respect to the attainment of secondary education among young adults. This implies a cautionary note when analysing the high cognitive test scores of these countries, particularly Costa Rica and Uruguay: higher quality of education here comes at the expense of leaving a substantive share of students behind. Despite the differences, there is a striking commonality with Chile: except for Costa Rica, PISA scores show that quality tends to be lower for TVET than for general education programs (see Table 7.1). In this regard, some studies suggest that TVET is used as an alternative to incorporate poorer populations excluded from the general education system (see Sevilla, 2017).

### **Table 7.1: Average PISA scores for general and TVET programs**



Intermediate welfare states show important advances in their SI agendas but can be further divided in two subgroups. One subgroup composed of Bolivia, Brazil, Colombia, Peru and Venezuela has made an important universalization effort, significantly reducing the share of the population with only primary education and increased the completion of secondary education (see Table 7.2). It has also significantly improved the share of students that attend TVET programs, particularly at the post-secondary level. While still lagging in the reduction of population with only primary schooling, they have reached the regional frontrunners in terms of secondary completion among youngsters. Worthy of recognition are the cases of Peru and Bolivia, previously laggard welfare states and now in the group of higher SI advancement. With the partial exception of Brazil, they have done so at the peril of educational quality, having the lowest cognitive test scores in the region.

The second subgroup composed of El Salvador, Ecuador, Mexico, and Panama has improved skills portfolios, albeit in a more uneven and heterogeneous way. Thus, while showing a similar effort as the former group in terms of reducing the population with only primary education, they have not been able to emulate this success at the secondary level. With the partial exception of Mexico, these countries show very low cognitive test scores, even failing to improve quality for the insiders.

While these two groups have followed different strategies for increasing TVET provision, they share the fact that cognitive test scores for VET are higher than for general education (see Table 7.1). This suggests that secondary TVET might be having a special role in skills creation. Our hypothesis for this pattern is that innovation in curricula and practices has been more likely to occur in novel TVET oriented curricula than in entrenched academic programs where the clash between government and unions tend to produce costly stalemates.

We interpret these data in the following way: in the advanced countries with broader coverage of secondary education and more-equal –for regional standards– access to tertiary education, the quality between general and VET alternatives in secondary tends to be similar (and if anything, biased toward general education). This reflects the fact that as middle-classes increased their opportunities to go to tertiary education, secondary VET became most important for increasing educational opportunities for poorer populations. Data for countries in the advanced group show that the majority of students enrolled in secondary VET comes from the lower socioeconomic strata, in contrast with the post-secondary level where this trend is equilibrated with a similar attendance by higher and lower socioeconomic strata in VET courses (Sevilla, 2017). Contrariwise, in countries of the intermediate group with narrower overall coverage of secondary education –and in particular of secondary VET, higher quality VET appears to be an important alternative –at least until recently– for middle and lower-middle class families in Brazil, Colombia and Mexico, while tertiary education (either general or VET) for the most part continues to be a privilege for the higher classes (Bruns, Evans and Luque, 2012: 87; Jacinto and Fanelli, 2014). As VET alternatives in these countries expand, especially at the secondary level, this becomes more and more an alternative for poorer populations, potentially putting a limit on the capacity of these countries to significantly increase VET coverage while maintaining the high-quality of their secondary VET systems and expanding at the same time coverage of tertiary education for middle-class families (Jacinto and Fanelli 2014). Finally, in the laggard group, VET is mostly conceived as a way to provide a labour market exit in the context of very low attendance rates in secondary education, and high rates of dropout from the general education system.

Finally, the group composed of Guatemala, Honduras and Nicaragua has made negligible advances with the SI agenda. This group combines a low capacity to provide a minimum of education (as shown in the primary and secondary education attainment scores), low quality (as shown in cognitive test scores), but among the highest enrolment rates in secondary TVET of the region (except for Nicaragua). The magnitude of enrolment in secondary TVET *vis-a-vis* academic programs leads us to hypothesize that secondary TVET is being used as a substitute for traditional education to get around the problem of low enrolment, low completion and large dropout, and not as a source of skills creation *per se*.

### **Table 7.2: Advancement in skills creation indicators 1995-2015**

In the next section we analyze the role of state capacity and the interaction between policy legacies and reform coalitions for reforming education and TVET policies in four countries representing four different trajectories described below: Bolivia, Chile, Guatemala and Uruguay.

## **3. Explaining variation in SI reform success**

### **3.1 State capacity: a necessary but insufficient condition for SI reform success**

State capacity is a multidimensional concept related to the ability of state institutions for reaching into society and affecting individual behavior (Kurtz, 2013: 3). Extractive, steering, legitimation, and coercive capacities have been usually recognized as key dimensions of this concept (Centeno, 2002; Giraudy, 2012; Soifer, 2015; Kurtz, 2013). In

the case of public policy, state capacity reflects the overall ability of countries to establish, accomplish, implement and, perhaps most notably, enforce and sustain over time, policy objectives across their entire national territory. In this sense, state capacity is as much about administrative structures capable of delivering, as it is about authoritative power to get individuals or groups to obey commands, and to pursue policy objectives with autonomy from pressure groups (Evans and Heller, 2013; Kurtz, 2013).

Low state capacity imposes severe obstacles for pursuing a (successful and sustainable) SI agenda and affects the choice of policy instruments of reform coalitions. The differential capacities Latin American states have in providing public goods, in this case related to skills creation, act in two moments in our analytical framework: First, as a background variable that affects current reform efforts (for example, the capacity to raise revenue to properly fund new policies and to use competent civil servants to design reforms). Second, even if social investment-proposing coalitions manage to advance reforms and overcome existing constraints in the short term, a lack of adequate state capacity may impair the results of those reforms, for example, through the (in)ability to execute mandated budgets or implement reforms evenly across the territory following the law and without discretion. In this latter sense, state capacity affects the implementation and sustainability of SI reforms. That is why we argue that having SI-enhancing reform coalitions is not sufficient for successful reform outputs and outcomes – whether these are successful and sustainable depends (at least to some degree) on the level of state capacity.

Another important aspect is that over time, high levels of state capacity can also strengthen policy legacies. Policy legacies, i.e. the design and functioning of past policies, have "long-lasting effects on the ability of reformers to alter the [current] design and scope [of those policies]" (Pribble 2013:27). Policy legacies, therefore, also set opportunities and

constraints in the formation of reform coalitions and the pursuing of policy alternatives (cf. Chapters 1 and 2 of this Volume). These legacies inform political strategies and coalitional alternatives to foster SI reforms (Busemeyer 2015; Pribble 2013; see also Pierson 1994). Such legacies structure the sort of problems that reform coalitions need to address for reform. Existing policies empower certain societal groups over others. This influences how organized actors define their political goals and how they pursue their policy preferences. We can expect policy legacies to bear especial influence in the context of gradual processes of policy and institutional development (Mahoney and Thelen 2010). Occasionally, however, disruptive processes or critical junctures may allow a disregard for these legacies, and permit substantive overhauls of the existing systems, as we will argue is the case in Chile during the military period (see Levitsky and Murillo 2013).

Skills creation is intimately related to state capacity (Evans and Heller, 2013; Kurtz, 2013). In Latin America, the construction of educational institutions closely followed that of welfare systems and the relative levels and evolution of state capacity. By analyzing gross enrollment rates in primary education for our selected cases, we observe differences in state capacity to carry educational reforms in history, in particular with respect to the movement from elite education to mass education (see table 7.3; cf. also the discussion in Chapter 9 of this Volume). Data shows how Chile and Uruguay were among the top-5 countries in the region in crossing the enrollment rate benchmarks of 60 and 90 percent for primary education, while Bolivia and Guatemala are placed among the laggards (for a global analysis of enrollment levels cf. also Garritzmann, Häusermann, Kurer, Palier, and Pinggera in this Volume).

**Table 7.3: Evolution in gross enrollment rate at primary level**

The fact that Bolivia and Guatemala universalized a minimum level of education only recently is telling with regards to the capacity of states to pursue more complex SI strategies. Now, state capacity reflects not only historical efforts at skills creation, but also affects current reform strategies. Figure 7.2 aligns Latin American countries according to the index of government effectiveness (a broad measure of state capacity that is available for all countries in the region), and an indicator of success in the expansion of SI. While the first takes the average government effectiveness score between 1995 and 2015, the second takes the change in secondary education attainment among young adults (20-24 years) in 1995-2015. We weighted this indicator by the initial level in each country, in order to control for the decreasing returns of public investment and social incorporation: it may be relatively easy to expand supply and attainment at early stages of coverage through drastic increases in the education budget and public effort; however, once a threshold is reached, countries face increasing problems to tackle remaining bottlenecks and continue expanding supply and attainment in specific populations not yet incorporated. Thus, a country with a high advancement but starting at a relatively low level, will see its score decreased while a country having a lower advancement but starting at relatively higher level will have its score increased. Given the challenges of skills creation in the region explained above –not least the lack of quality data available for all countries–, we believe this is a rough but accurate measure of countries' skills creation efforts in the last two decades.

Figure 7.2 does not show a clear-cut picture. We divided the figure into four quadrants for a clearer visualization. While some countries with low state capacity indeed have low social investment effort (e.g., Guatemala) and while some with high state capacity show high social investments (e.g., Chile), we also observe several ‘off-diagonal’ cases: Uruguay, for

example, stands out in the quadrant of countries with low social investment effort despite high state capacity; Bolivia, in contrast, reaches high scores on social investment reforms despite comparatively low levels of state capacity.

In the remainder of this chapter, we analyze one country from each quadrant to better understand the role that state capacity and its interaction with political coalitions and policy legacies have played. To foreshadow the results, we will argue that Bolivia shows success despite low state capacity and Uruguay shows failure despite high state capacity because of the importance of the interaction between policy legacies and reform coalitions. We propose that weak legacies and strong coalitions in the case of Bolivia allowed a short-term improvement in SI reforms albeit confronting long-term challenges of sustainability because of the underlying state capacity problems. In Uruguay, high and valued legacies by strong advocacy groups such as teacher unions in combination with reform coalitions unwilling to take the costs associated with reform conflicts blocked the advancement of SI reforms in spite of high levels of state capacity.

### **Figure 7.2: State Capacity and Advancement of SI reforms**

#### **3.1.1 Guatemala: SI gridlocked by chronic low state capacities**

Guatemala is a country where feeble state capacity is reinforced by a legacy of poor social policy and weak political coalitions. Although democracy returned in 1986 and the signing of peace accords in 1996 marked the initiation of a new era after a decade long civil war, institutionalization of the political system has been deceptive. Low state capacity has translated into state capture, corruption and criminality. Due to the gravity of the situation,

in 2006 the UN set an unprecedented organism in order to promote accountability and strengthen the rule of law, the International Commission Against Impunity in Guatemala (CICIG). Working as an international prosecutor under Guatemalan law, the CICIG investigation was a deciding factor for the last serving president, Otto Pérez (2012-2015), being forced to resign before the termination of his term and being prosecuted for corruption and fraud. Earlier, in 2010, another president, Alfonso Portillo (1998-2002) had also been convicted for corruption and fraud. More recently, in a publicized affair with diplomatic repercussions, current president Jimmy Morales expelled the head of CICIG from the country after finding it was investigating dirty campaign donations affecting him (Malkin, 2017).

Guatemala ranks today among the countries with highest education and health coverage problems, among the highest rates of poverty and extreme poverty, and inequality in the region. Highlighting the urgency of tackling these problems, the peace accords committed to increase educational and health expenditures by 50%, for which a tax reform was needed increasing state revenues by another 50%. However, the tax reform failed miserably and so did efforts at increasing expenditure up until today (Schneider, 2012). As a result, Guatemala is today among the countries with lowest tax revenues and the country with lowest public expenditure overall and lowest expenditure in education in Latin America.<sup>6</sup> In this context, Guatemala remains unable to build a long-term reform coalition and advance SI reforms. For example, following the wave of conditional cash transfer programs in Latin America (cf. the various chapters on Latin America in Volume II), the Colombian government established in 2008 ‘Mi Familia Progresiva’ (MFP), a cash transfer conditioned

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<sup>6</sup> Data from ECLAC, CEPALSTAT.



on among other, school attendance. However, MFP was poorly designed and funded since the beginning. Although the program was formally means-tested, the inexistence of procedures for targeting beneficiaries or accountability for the use of resources made transfers de facto discretionary, therefore increasing the danger of clientelistic practices (cf. Cecchini et al., 2009: 44-45). In terms of resources, at the time of launching, the program involved a meager 0.06% of GDP (ECLAC, 2017) and no permanent resources were earmarked to maintain it alive. Already one year after being implemented, the government had to settle a loan from the IADB to maintain the program running. A new IADB loan had to be secured in 2012. Moreover, it suffered from severe political weakness. MFP was hosted by the Presidency's Executive Coordination Secretariat and depended directly from the Office of the First Lady; its future being strongly dependent on the incumbent government (Cecchini et al., 2009: 41). In fact, after the government turnover in 2012, the new Pérez government cancelled the program and launched a new –albeit strikingly similar one–, "Mi Bono Seguro".

Guatemala has bet on secondary level TVET to offer an educational alternative to those who stay in formal education. There is also a Vocational Training Institute offering formal secondary education titles and –mostly– post-secondary short-cycle courses to an elite of cherry-picked candidates. This institute is funded through payroll taxes and albeit a public institution, is led by business and governments have little to no capacity to influence its management and/or strategies. Very low levels of state capacity have impeded the government to effectively incorporate this institution. On the one hand, due to the fact that since its creation governments have failed to provision budget resources to complement payroll taxes as established in the institute's governing law. On the other, because of the effective negative on the part of the employers to relinquish control of the institute to the

state. In this context, the state has had to use resources from external cooperation projects (e.g. USAID, Millenium Challenge Corporation (MCC), GIZ) to further expand the coverage of TVET, while employers maintain their capacity to manage a small but high equality public institution to their own interests, producing an important gap between employers' skills creation capacities and the lower quality and poorly funded public education system. The result is a complete stalemate in terms of historically low enrollment and quality.

In short, the case of Guatemala shows how low levels of state capacity prevented the expansion of skills creation social investment policies, as lacking state capacity hindered proper funding, organization, and policy design of these policies.

### **3.1.2 Bolivia: SI breakthrough endangered by low state capacity**

Bolivia's political and institutional history is not unlike that of Guatemala: revolutionary challenges, military dictatorships, secession attempts, and a polarized ethnic society. It departs from Guatemala, however, in that a long-term government coalition led by a political outsider managed to temporarily overcome state capacity problems and enact significant SI reforms. Yet, as we show below, these reforms were much more impressive on paper than they were in practice, as considerable state capacity problems undermined the policies' effectiveness (cf. also Jenson/Nagels in Volume II).

Evo Morales –currently serving his third term as president– was the leader of a union of small indigenous farmers, which led mass mobilizations with anti-neoliberal and ethnic demands against the establishment in the late 1990s and early 2000s (Silva 2009; Garay-Molina 2010). Building on the support of a strong and experienced union movement,

mobilized impoverished rural workers, and sectors of urban middle classes, and capitalizing on the neoliberalization of traditional left-wing parties, Morales led the leftist Movimiento al Socialismo (MAS) to the presidency, with a strong popular backing and the resistance of business and regional elites (see Garay-Molina, 2010; Anria, 2016).

Morales devised two strategies for expanding SI: first, in the context of low expenditure on education and low tax revenues, Morales decided to reinforce support from poorer populations by subsidizing the demand of education to quickly increase enrollment and attainment rates. To this end, he devised a cash transfer for children in public schools conditioned on school attendance: the ‘Bono Juancito Pinto’. Spending only about 0.3% of GDP, Bolivia's CCT reached around 10% of the Bolivian population, and over one-third of the targeted population in 2007, its first year of operation (ECLAC, 2017). The transfer was expanded with government funds in the subsequent years, reaching 50% of the targeted population in 2010 (ECLAC, 2017). The second strategy was increasing supply. To this end, and in order to circumvent the strong opposition of domestic businesses to increasing taxation, he implemented a tax on hydrocarbons and a policy of nationalizations with hurt the mostly foreign natural gas companies operating in the country (Fairfield 2015). This allowed a significant increase in revenues and expenditure (Garay-Molina 2010, 66-7). In fact, compared to the early 1990s, Bolivia has doubled its educational expenditure.<sup>7</sup> Following this, Morales engaged in important institutional reforms. In 2010 the MAS government passed the “Avelino Siñani-Elizardo Pérez” bill, with a marked emphasis on strengthening the link between education and the productive sector, both in its general and TVET components. Catering to its support base, the bill has a strong emphasis on

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<sup>7</sup> Data from ECLAC CEPALTAT

communitarian economies and integrating indigenous culture to productive activities (Sevilla 2017, 26-7; Yapu 2015). The law also created new public post-secondary TVET institutions, the Escuelas Superiores Tecnológicas Fiscales. This emphasis on state-provided TVET was instituted in the Bolivian constitution of 2009 and was paralleled with the creation of a national system of competences (Sistema Plurinacional de Certificación de Competencias).

Nonetheless, despite these reform advances, low state capacity has significantly impaired the implementation of reforms and their sustainability. The TVET component of the Morales reform was difficult to implement due to limited infrastructure in public schools, lack of trained teachers, and difficulty in adapting curricula to new the normative (Sevilla 2017, 27). In other words, despite the presence of a SI-enhancing reform coalition, the results of the reform in terms of implementation was not unlike that of previous reform attempts in the country (e.g. Lizárraga 2015, 15). Low state capacity also decreased the ability to execute the larger budgets brought about by higher tax revenues. For example, the tax on hydrocarbons allocated a fixed 8% of revenue to public universities. However, due to several reasons, including their low focus on research and development, public universities are unable to spend the extra resources: in 2012, budget execution was only 60% (Lizárraga 2015, 16).

In sum, the Bolivian case shows that lacking state capacity hindered the implementation and sustainability of skills creation policies, despite the fact that a SI-friendly government pushed for them. This shows, on the one hand, that state capacity is a necessary condition for successful and sustainable social investment reforms; on the other hand, the Bolivian case also shows that a SI-friendly reform coalition alone is not sufficient to achieve

sustainable reforms, either. We thus argue that both state capacity and a SI-friendly reform coalition are necessary (but in themselves insufficient) conditions for successful SI reforms.

### **3.1.3 Uruguay: SI gridlocked in the political arena despite high state capacity**

The case studies so far have shown why state capacity is a necessary condition for successful social investment reforms. Uruguay will illustrate why state capacity is a necessary, but in itself not a sufficient condition for such successful reforms. Despite high levels of state capacity, Uruguay has only managed to enact and implement some meager skills creation reforms and lags behind other countries in terms of enrollment levels – because Uruguay lacked the political reform coalitions pushing for SI reforms.

Contrary to Chile (see below) and confronted with the need to reform education institutions under democracy, Uruguayan reformers have been heavily constrained by past legacies, despite having strong state capacities. Strong unions and the inherited narrow-corporatist institutions have been pervasive to the necessary reform of the once model public education system by regional standards. Divided elites have been unable to agree on the need to provide political shielding to reformers. Massive middle-class allegiance to public education has made it more difficult to propose privatization, while a historically state-led TVET system has made it difficult for a dispersed business community to participate in training efforts. Therefore, a legacy of state-led education with a pervasive focus on academic programs over TVET but one of the lowest attainment rates in the region has proven resistant to several reform attempts during the last quarter of century.

Carrying on the most comprehensive educational reform in 1995 by the center-right Colorado Party government, Uruguay secured almost universalization of pre-primary

access and strengthened primary education quality and equality. However, reformers failed completely to advance necessary reforms in secondary level education aimed to increase enrollment and attainment rates. By 2016, only Guatemala and Nicaragua lag Uruguay in terms of secondary education attainment rates (table 7.2).

By 2005, the labor-backed Frente Amplio government began an aggressive policy of budgetary increase in education, from an initial 2 percent in terms of GDP to 4.5 percent by 2015. However, in spite of massive investment in education, there is a political stalemate regarding institutional reform. The Frente Amplio governments have confronted strong opposition from teacher unions with respect to education reform agendas, similarly to center-right Colorado governments a decade before. Under such circumstances, the Frente Amplio administrations (2005-) have targeted educational expenditure for academic programs on the demand side, doubling it as a share of GDP in just 10 years. The inability to pair an increase in resources with a necessary institutional reform resulted in a sluggish advance in enrollment at all levels.

Two policies have been successful during the FA administrations in terms of education, alongside the massive increase in investment. First, the continuation of the successful inherited pre-primary programs. Second, the “one laptop per child” program (CEIBAL). These two policies are worth mentioning because, having been inaugurated by two different governments in two different decades, share a key common factor: institutional responsibility was allocated outside the education administration in order to circumvent opposition from teacher unions. In other words, a strong policy legacy of corporatism and union control of education administration – particularly at the secondary level – played against reforms aimed to expand education access at this level and advancement in other

levels was achieved only when institutional reforms placed the new policies outside the realm of the Education authority controlled by teacher unions.

In spite of this gridlock, secondary level TVET programs have been partially enhanced by the inclusion of an upper secondary level TVET path towards tertiary education, which contributes to easing internal formal barriers between academic and TVET programs.

Tertiary education programs, even at the university level, have slowly began to open enrollment for students coming from the TVET path. This was achieved, again, thanks to the lower barriers to change in TVET programs given teachers lower organization in this level and in the context of an educational system strongly oriented toward academic programs (see Bogliaccini and Madariaga 2020). However, the extremely poor figures in terms of secondary education attainment signal a de facto barrier to the improvement of the skills portfolios among youngsters.

In terms of tertiary level TVET, Uruguay lagged behind other Latin American countries up until a specific training institution was founded in 2008. This new institution, under the wing of the Labor Ministry, generously funded by a tax levied from every formal employee, and with active participation of both organized labor and business, was mostly oriented towards the labor supply up until 2014, concentrating both on the unemployed and small niches of high-skilled service exports. Since 2015, a second impulse given from the third Frente Amplio government (2015-2019) has slowly begun to focus on firm demands and seeking for a more active relationship between firms and experts. However, this government initiative, while fully supported by organized labor, has encountered some difficulties to get business decisively involved in it; partially because of internal divisions in the business community, partially because an excessive focus on historical concerns

associated with TVET in the country, namely, unemployment alleviation and supply side demands.

In sum, the case of Uruguay shows that although state capacity is a necessary condition for successful social investment reforms, it is not a sufficient condition in itself. Whether social investment reforms are launched, as well as how they are designed and implemented also crucially depend on the respective political reform coalitions, as also argued in this Volume's theoretical framework (Chapters 1 and 2 in this Volume).

### **3.1.4 Chile: SI enhances policy legacies in a context of high state capacity**

In a scenario of high state capacity, Chile represents a positive case in the success of SI reforms.<sup>8</sup> Chile's policy legacies are tightly connected with the unique conditions under which educational institutions were reshaped: a harsh dictatorship that displaced educational institutions and actors in order to rebuild the system on two main pillars: to subsidize and to privatize the supply of education. These extraordinary conditions allowed the Pinochet dictatorship to disregard a previous legacy of strong state involvement and the power of teacher unions. Results after three decades are mixed: while coverage and attainment increased in a sustained way to put Chile at the top of the region, access and quality became stratified, producing important within-system inequality and opportunity segmentation.

The Concertación coalition governed between 1990 and 2010 as a center-left political alliance between the Christian Democrats, the Socialists and other minor parties. In the

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<sup>8</sup> Chile is a case of success in SI reforms by regional standards, but not so when compared to the OECD. See Bogliaccini and Madariaga (2020).



post-authoritarian period, these parties successfully re-organized themselves in a professionalized and technocratic manner and therefore severed their previously strong linkages to organized civil society (Flores-Macías 2010; Levitsky and Roberts 2011; Pribble 2013; Luna 2014). This allowed the Concertación governments to contain the strong social pressure accumulated during the years of dictatorship, particularly among middle-classes left behind from neoliberal modernization. Thus, while a tax reform negotiated across the political spectrum allowed to importantly increase social expenditure, the Concertación governments strengthened the legacies of the Pinochet dictatorship by reinforcing freedom of choice and subsidizing private education through expanding voucher schemes paid directly to schools and post-secondary institutions. These governments also enhanced private provision of TVET at the tertiary level.

Chile's CCT program (*Chile Solidario*), established in 2003, is among the smallest in the region. The logic behind this was explicitly that Chile counted with an extensive supply of services and near universal coverage, and the program was highly targeted to those few families still remaining outside the public-private network. In this context, unlike other CCTs, the key was not the transfer not the conditionality, but the associated program of social work with excluded families.

Demand-side education subsidies served to increase per student expenditure in the private supply of education, and not as a direct transfer to students and their parents. Over time, these subsidies substantially increased matriculation in the private sector. In fact, today, private education comprises over 50% of enrollment in secondary and tertiary education. In the case of post-secondary TVET, private provision is virtually full (Sevilla 2017, 36).

Post-secondary TVET is also noteworthy for legally accepting for-profit institutions – unlike private universities, which need to exploit regulatory loopholes to extract profits that

are legally prohibited. Therefore, the sharp increase in public expenditure during the democratic governments compared to the previous period masks the fact that an important part of these extra resources went to subsidize private education.

Although Chile did not build specific institutions to incorporate business into the management of TVET, during the dictatorship it privatized state-owned educational institutions, delegated the management of key secondary VET schools to the private sector, and set up new training schemes –including a tax break program and several targeted programs to incorporate outsiders– with training provision sub-contracted to private providers. In this context, private actors have been able to set up their own educational and training institutions and manage the training-related tax break program with little involvement of state actors least so weakened unions.

The necessary cautionary note on Chile’s strategy comes from the inability of the privatized system to increase quality or induce coordination among labor market actors to improve the existing skills mismatch, in addition to a significant stratification of education access (see Torche and Mizala 2012). This has induced a change of orientation but with uncertain outcomes. After strong student demonstrations since the mid-2000s demanding higher state involvement to secure educational quality, and counting with a strong political mandate and congressional support, the second government of Michelle Bachelet (2014-2018) pushed important educational reforms in order to restrict the expansion of the private for-profit sector, reduce subsidies to private institutions, and strengthening state provision of education. Particularly important in the last case is the founding of 15 state-run TVET post-secondary institutions, which will change the privatized character of the sector, and the elimination of tuition fees in post-secondary institutions (TVET and academic) receiving funds from the state. To this end, Bachelet implemented a new tax reform to meet the new

expenditure needs. The advancement of these initiatives illustrates the importance of partisan coalitions to either reinforce or attempting to break the existing pattern of skills creation in Chile. In fact, Bachelet's governing coalition included the Communist party for the first time since re-democratization, a party with strong ties to the student unions behind the protests. The current right-wing Piñera government has sought to reverse some of these reforms, catering to the interests of the segment of reluctant middle-classes, educational entrepreneurs and business in general. However, its ability to do so will imping on his ability to build reform coalitions in Congress and convince the citizenry of the need to reform what are today seen as acquired rights.

In sum, Chile shows how high state capacity and a good fit between reform coalitions and policy legacies produced successful –for the region– SI reforms and outcomes. State capacity allowed Chile to raise revenues through tax reforms each time governments had substantive educational reform commitments. At the same time, reform coalitions attuned to previous policy legacies allowed for a high continuity of reform efforts during the two decades following democratization, while changes to this trajectory followed political negotiation in Congress and majoritarian will.

#### **4. Conclusion**

In this chapter, we have highlighted the importance of skills creation as an SI strategy and studied the politics of SI reforms in a region historically characterized by a legacy of compensatory social policies, state capacity problems and unstable political coalitions impairing political and policy sustainability. Moreover, we have pointed at the complex, but crucial relationship between state capacity and social investment reforms, showing that

state capacity is a necessary, but in itself not a sufficient condition for successful social investment reforms.

Latin America entered the new millennium with a low-skilled workforce and significant educational coverage and quality gaps. In this context, international organizations diffused an SI agenda with emphasis in covering basic gaps and serving labor market and economic flexibility and adaptation to new economic requirements. Latin American countries have responded variably to this agenda, reforming their educational and training systems through strategies with diverse degrees of success. In this chapter, we have put emphasis on state capacity. We have argued that state capacity is a necessary but insufficient factor affecting the expansion of SI. This not only in terms of policy design and political support, but most notably, in terms of implementation and the sustainability of SI reforms. Latin American countries find challenges in investing in state capacity precisely due to the urgency of coverage gaps. As we showed, Chile and Uruguay present consistently higher levels of state capacity than Bolivia and Guatemala, which have allowed these countries to pass from elite to mass education, and to provide a minimum of welfare and education to the population.

However, state capacity does not ensure the sustainability of SI reforms. Drawing on the context of specific policy legacies, reform coalitions can advance a SI agenda even at low levels of state capacity by catering support from new constituencies, increasing resources and expanding access. Yet, lacking state capacity hinders the implementation and sustainability of these reforms in practice, making state capacity a necessary condition for successful social investment reforms. Yet, the case studies also showed that existing policy legacies and organized actors could act as veto players for further institutional reforms, even in the context of high state capacity and institutional strength. State capacity can

therefore be regarded as a necessary, but not in itself sufficient factor for successful social investment reforms.

Overall, the differential advancement of SI reforms in the region is overly consistent with state capacity levels, as expected, but also respond, mostly in the short-run, to the interplay of policy legacies and reform coalitions. That is, our analysis argues in favor of the importance of state capacity for the sustainability of SI reforms, although the sole presence of high levels of state capacity is not a sufficient factor to observe such an advancement. Policy legacies and reform coalitions have to be brought into the analysis to portrait a complete picture of the politics of the advancement of SI reforms.

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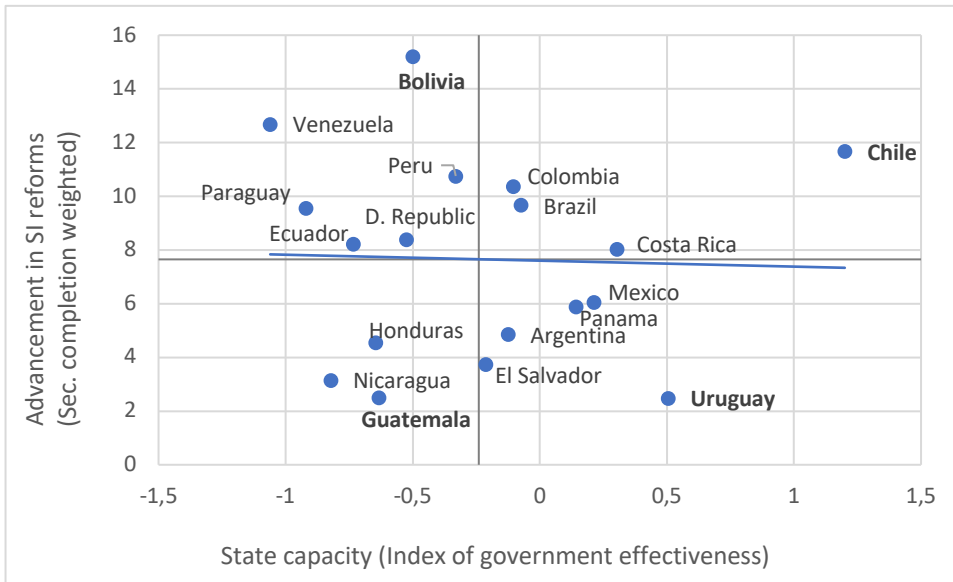
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**Figure 7.1: Welfare state development and social investment reforms**

	<i>Welfare State (XX century)</i>	<i>Social Investment (XXI century)</i>
<i>Advanced</i>	Argentina Chile Costa Rica Uruguay	Chile Argentina Costa Rica Uruguay
<i>Intermediate</i>	Brazil Colombia Mexico Panama Venezuela	Bolivia Brazil Colombia Peru Venezuela
<i>Laggards</i>	Bolivia Ecuador El Salvador Guatemala Honduras Nicaragua Peru	Ecuador El Salvador Mexico Panama  Guatemala Honduras Nicaragua

Source: Author's elaboration based on Filgueira (2005), Segura-Ubierno (2007), and Bogliaccini and Madariaga (2020).

**Figure 7.2: State Capacity and Advancement of SI reforms**



Source: Authors' elaboration based on World Development Indicators (WDI), World Bank and CEPALSTAT. Division lines are drawn at the respective mean.

**Table 7.1: Average PISA scores for general and TVET programs**

	Math			Reading			Science		
	General	TVET	Diff	General	TVET	Diff	General	TVET	Diff
Chile	423	416		459	446		447	443	
Argentina	409	408		427	415		432	433	
Costa Rica	397	422	*	424	451	*	417	441	*
Uruguay	418	410	*	437	409	*	436	429	
Brazil	374	443	*	404	482	*	397	471	*
Colombia	386	405	*	418	449	*	411	433	*
Mexico	402	426	*	417	442	*	410	433	*

Source: Authors' elaboration based on data from OECD

\* Differences are significant at the 0.05 level

**Table 7.2: Advancement in skills creation indicators 1995-2015**

	Highest educational degree = primary education (%) /a			Highest educational degree = secondary education (%) /b			Cognitive test scores /c			Population in TVET alternatives /d	
	ca. 1995	ca. 2015	% change	ca. 1995	ca. 2015	% change	2006	2013	% change	Secondary	Post- secondary
Chile	14.9	6.7	-8.2	58	84.2	26.2	539.7	575.9	36.2	23.2	45.0
Avg	14.9	6.7	-8.2	58	84.2	26.2	539.7	575.9	36.2	23.2	45.0
Argentina	9.7	3.1	-6.6	49.9	65.6	15.7	511.5	521.4	9.8	14.9	13.0
Costa Rica	22.5	10.4	-12.1	30	58.2	28.2	556.0	539.0	-17.0	15.7	9.0
Uruguay	21.1	8.7	-12.4	31.9	42.1	10.2	550.5	545.4	-5.2	15.3	8.0
Avg	17.8	7.4	-10.4	37.3	55.3	18.0	539.3	535.2	-4.1	15.3	10.0
Bolivia	50.1	29.9	-20.2	44.1	79.1	35	--	--	--	4.7	15.0
Brazil	55.6	25.5	-30.1	23	62.2	39.2	501.5	519.5	18.0	8.0	14.0
Colombia	47.8	29.8	-18	38.1	70.1	32	501.6	516.9	15.3	19.0	37.0
Peru	40.7	23.4	-17.3	29.7	82.6	52.9	482.0	524.3	42.3	1.1	32.0
Venezuela	22.2	11	-11.2	37	72.8	35.8	--	--	--	15.0	24.0
Avg	43.3	23.9	-19.4	34.4	73.4	39.0	495.0	520.2	25.2	9.6	24.4
Ecuador	--	13.5	--	--	63.3	--	456.0	510.8	54.8	21.5	12.0
El Salvador	49.7	31	-18.7	27.2	45.9	18.7	N/A	N/A	N/A	17.4	13.0
Mexico	33.3	15.5	-17.8	21.3	51.1	29.8	536.0	542.9	6.8	16.2	23.0
Panama	--	10.3	--	--	58.6	--	459.4	475.7	16.3	15.3	5.9
Avg	41.5	23.3	-18.3	24.3	48.5	24.3	483.8	509.8	26	17.6	13.5
Guatemala	61.8	52.4	-9.4	21.2	33	11.8	451.4	491.4	40.0	28.0	4.6
Honduras	48.2	34.7	-13.5	18	42.7	24.7	--	488.3	--	46.0	4.4
Nicaragua	53.4	39.2	-14.2	14.4	35.8	21.4	463.9	470.2	6.3	5.0	9.0
Avg	54.5	42.1	-12.4	17.9	37.2	19.3	457.7	483.3	25.6	26.3	6.0

Source: Authors' elaboration using different sources (see notes)

/a Economically Active Population with 0-5 years of education (%). Source: ECLAC CEPALSTAT.

/b Population aged 20-24 that completed secondary education. Source: ECLAC CEPALSTAT

/c SERCE and TERCE regional standardized tests, averages for math and reading in each year (UNESCO 2014).

/d Source: Sevilla (2017) and UNESCO-UIS Database (for Bolivia and Guatemala)

**Table 7.3: Evolution in gross enrollment rate at primary level**

	Decade in which gross enrollment rates reached 60%+	Decade in which gross enrollment rates reached 90%+
Chile	1910 (1)	1950 (3)
Uruguay	1940 (4)	1960 (4)
Bolivia	1960 (15)	1990 (15)
Guatemala	1980(17)	2000 (17)

Source: Authors' elaboration based on Frankema (2009)

Note: The numbers in brackets are the countries' position among 17 Latin American countries in passing the selected benchmarks