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Political process and
the outcome of structural reforms
in pension systems

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Political Process and the Outcome of Structural Reforms in Pension Systems¹

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Las naciones presentan diferentes niveles de desarrollo social, diferentes estructuras de oportunidades así como diversos grados y tipos de pobreza y exclusión. A su vez enfrentan estos desafíos de manera diversa. Esta serie pretende ofrecer panoramas comparados de desarrollo social y extraer lecciones de dichas comparaciones que permitan a la comunidad académica y a los tomadores de decisión conocer mejor las realidades nacionales, sus niveles relativos de desarrollo y las causas detrás de logros y problemas del desarrollo humano.

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1. INTRODUCTION

In the 90s, Latin American pension systems faced a severe crisis. This crisis had been evolving for at least two decades in those countries where pension schemes were introduced first. The pay as you go (PAYG) systems presented financial and actuarial disequilibria and the deficit started to be funded by the state through tax revenues. The economic crisis of the 80s aggravated the magnitude of the crisis of pension systems and expanded it to most Latin American countries. By the 90s the crisis was deeper and consensus had arisen that urgent reform was needed.²

This thesis seeks to relate political dimensions to pension reform outcomes in three Latin American countries. I argue that the outcomes of structural reform policies are related to the characteristics of the political process. Where we find complex political processes, we may also find outcomes that deviate from the liberal residual model. To understand the complexity of the reform's political process, the analyst must pay attention to factors such as the characteristics of extra-governmental actors and the Congress in policy-making as well as Constitutional factors that provide veto points to prevent a reform from being launched.

To test such a hypothesis this work follows two basic steps. First I will describe and analyze the pension reforms in Uruguay, Argentina and Peru. The first, I argue, constitutes a case of a complex and open process, the second is an example of an 'open' delegative order with a significant concentration of power in the executive branch but with the active presence

² The literature on pension systems emphasize two kinds of causes of the crisis. The first has to do with external conditions: aging population due to increasing life expectancy (and therefore, a lower ratio active/insured), growth rates, employment level, and inflation. The second are internal causes such as liberalization of benefits without proper financing, generous entitlement conditions, poor investment of the funds, clientelism, political pressures, plain corruption, and deficient management. For more information on the features of the crisis of pension systems in Latin America and its causes see: Mesa-Lago (1985), Thullen (1985), Saldain (1997), Cruz-Saco (1998b), Mesa-Lago and Bertranou (1998).

of other actors, while the third, at the moment of the reform, constitutes a delegative regime with authoritarian features.³ The comparison of these three cases suggests that complex decision-making processes, indicated, for instance, by the participation of social actors or an active role of Congress, did introduce modifications to the reforms. Nevertheless, these modifications did not prevent the executives from passing the reform. Thus, this work challenges the hypothesis that claims that to pass structural reforms, it is necessary to concentrate power in the executive branch and provide it with exclusive decision-making capacities. The point is that even when the necessary reforms took place, a complex political process ‘contaminated’ the decision making course of action. This ‘contamination’ allowed for some modifications from a pure ‘World Bank’ pension systems model. Second, I will call special attention to the comparison between the Argentine and the Uruguayan cases. These two cases deserve special attention because even when in general terms they are clearly distinguished from the Peruvian case for similar reasons, they present some peculiarities that actually affected the policy outcome in each country. I will argue that it is relevant to address the different roles played by pensioners in Uruguay and in Argentina. Whereas in the former they constituted a very successful veto player, in Argentina they do not seem to have played a key role in the decision-making process.

A single set of factors or one theory cannot explain by itself the politics of pension reform. Indeed, the explanation presented in this work uses multiple factors from different theoretical frameworks. It assesses the institutional dimension of each case in terms of the constitutional provisions that served as the general background under which the politics of the reform unfolded. But, it also underscores the balance of power and coalitions among social and political actors as a powerful factor to explain the reforms’ political processes.

Equally important, for the Latin American case, much more attention has to be paid to informal politics. For this region, social power can be much more relevant than the institutional set-up in terms of policy outcomes. For example, I do not think that if Peru had a referendum mechanism, it would have allowed for the emergence of strong veto actors to

³ One could argue that at the moment of the reform, Argentina was a case of quite weak delegative order. For the Peruvian case, it could be argued that in fact it was a pure authoritarian regime.

block the pension reform in that country or, at least, to introduce major modifications to the original project. However, it is important to realize that the Peruvian regime is on the edge between authoritarianism and democracy.

A complete explanation must also discuss the effect of the international forces that interact with domestic political process. This variable is particularly relevant to our understanding of Latin American politics.

I will begin by presenting the categories to define and classify the outcomes of social policy. Basically I will use the World Bank (WB) and the International Labor Office (ILO) models for pension systems as theoretical references that are related to broader categories of welfare states paradigms.

Next, I will add some theoretical reflections on the relationship between the political dimension and structural reforms. In order to define my independent variable I will consider the constitutional arrangements that determine the veto points in a political system. In addition, I will complement the constitutional dimension with variables concerning the strength of the president in the Congress, and the political parties' and civil society actors' strength. The last variable is related to the presence and level of mobilization of the beneficiaries of the old system and their relationship with political parties and more traditional social actors (i.e., unions). In performing this analysis I will underscore how the internal political dynamic can or cannot mediate the influence of International Financial Institutions over the decision-making process.

Then, I will present the empirical evidence for the three cases. I will illustrate and synthesize the point of this work through two synthesis tables: one for the policy outcome and the other for the characteristics of the political process. Before presenting these tables, I will also include a brief narrative introduction for each country's reform process.

After analyzing the empirical evidence, I will address my original questions in the conclusions. The conclusion of this thesis is that it is possible to affirm that Peru, Argentina,

and Uruguay passed structural reforms to their pension systems and that the complex political processes that took place in Argentina and Uruguay were not significant obstacles to pass structural reforms of pension systems. Nevertheless, in the “complex political processes” cases the reforms are clearly less liberal-residual oriented.

Regarding the comparison between Argentina and Uruguay, one of the key differences between these cases is the presence in Uruguay of organized beneficiaries as a relevant and efficient political actor. This presence is related to the availability of the referendum mechanism, the autonomy from political parties and traditional social actors, and the presence of a strong left party.

2. PARADIGMS OF PENSION SYSTEMS

Structural pension reforms in Latin America are part of the second-generation reforms that comply with the so-called “Washington Consensus,” which consists of a set of public policy prescriptions inspired mainly by international institutions.⁴

For pension systems, the World Bank (WB) has been one of the most important centers in terms of research production (and also diffusion) on reforms intended to launch multi-pillar systems. The WB’s paradigm focuses on the weaknesses of “pay as you go” systems. Namely, it highlights: a) effects in terms of inequality, b) inefficient administration, and c) distortions to the economy. Among the public systems’ ‘illnesses,’ it mentions that: a) they do not protect benefits’ value from inflation, b) they induce early retirements, c) they pay better wages for the richer, d) they use too generous mechanisms to compute benefits, and e) they offer administrators the opportunity to use pension funds for other ends than paying for pensions.

The WB suggests a three-pillar system, which I depict in the table below.⁵ This table also presents an alternative posture from the International Labor Office (ILO) regarding pension systems. The latter is a model oriented toward a more active role of the state than the WB’s model. Its concern with issues such as solidarity and universalism is also apparent.

⁴ The “Washington Consensus” key features are: fiscal discipline, definition of public expenditure priorities, tax reform, financial liberalization, unified exchange rates, trade liberalization, foreign direct investment, privatization, deregulation, and respect for property rights. For a discussion of the content of these policy prescriptions, see Gamarra (1994) and Williamson (2000). On the topic of the distinction of second-generation reforms, see Lo Vuolo (1995).

⁵ For a description of the World Bank’s perspective on multi-pillar schemes see Holzmann (1998).

Table 1. WB and ILO models for pension systems

| | First pillar (ILO and WB) | Second pillar (WB) | Second pillar (ILO) | Third pillar (ILO and WB) |
|-------------------------|--|--|--|---|
| Legal nature | Compulsory | Compulsory | Compulsory | Voluntary |
| Financial regime | Pay as you go | Fully-funded individual capitalization | Partial collective capitalization (but other systems not excluded) | Individual capitalization |
| Contributions | Tax (fiscal revenues or payroll contributions) | Defined (paid by insured person and optionally also by employer) | Not defined (insured persons and employers or taxes) | Defined (individual with or without employer) |
| Benefits | Uniform, minimum (based on need) | Not Defined | Defined (related to contributions, with a possible minimum) | Not Defined |
| Administration | Public (state or social security institution) | Private (but publicly regulated) | Public (social security institution) | Private (regulated) |

Source: Mesa Lago (1996)

The purpose of the first pillar is to insure and to redistribute. It is funded by general revenues and guarantees a minimal pension. The second pillar (also obligatory) has the objectives of saving and insurance, with defined contributions but non-defined benefits, to be achieved through an individual saving plan (Mesa Lago, 1996: p.87). The third pillar is similar to the second, but it is voluntary instead of compulsory. One of its functions is to provide high-income individuals with the opportunity to complement their savings and, thus to increase their pensions.

Both the ILO and the WB coincide in the basic features of the first and the third pillars. The main differences between these models are to be found in the second pillar. The second pillar of the ILO's model is also obligatory, but is administered by the department of social security. It offers defined benefits and it is based on a partial collective capitalization instead of a fully-funded individual one. The contributions come from the insured person, but also from employers and, eventually, from the state via taxes.⁶

⁶ Madrid (2002) mentions a new "economic logic" of social security reform in which the model is Chile, privatization is promoted, rising pension spending and capital shortages are the main stimulus to the reforms,

These two paradigms are ideal types and constitute theoretical references that can be linked to broader models of social policies. Whereas the WB paradigm is related to a liberal-residual welfare state model, the ILO one is closer to an institutional-social democratic one.⁷

Huber (1996) depicts an illuminating synthesis of these two opposed models: “social policy in Latin America today stands at the crossroads between market-oriented, private, individualistic and inegalitarian models on the one hand, and market-correcting, public, solidaristic, and egalitarian models on the other hand” (p.141). In general, with some exceptions, Latin America has followed a path toward the first style of social policies since the second half of the ‘80s.

the main goals are economic, the main domestic agencies promoting the reforms are the ministries of finance or central banks, the reform promoters have an economist profile, and the main international agency promoting the reforms is the World Bank.

⁷ For a definition and a discussion of these types of welfare states, see Titmus (1974), Esping-Andersen (1990).

3. THE POLITICS OF THE REFORM

The Role of International Institutions:

To analyze structural reforms in Latin America without considering international actors would provide us with an incomplete explanation. Huber and Stephens (2000) conclude that International Financial Institutions (IFIs) pushed to adopt pension systems that have individual accounts, are fully funded, and privately administered. This, as an integral part of neo-liberal reforms, led to full or partial adherence to this model in many Latin American countries (p.32). Assuming a political economy approach, it is possible to take account of three factors: the balance of power between classes and class coalitions, the structure, strength and autonomy of state apparatus, and the impact of transnational power relations on both balance of class power and on state-society relations (Rueschemeyer, Stephens and Stephens, 1992). The first two factors refer to domestic actors that form a political constellation that is also influenced by external actors. Free capital mobility and the need for international investment to pursue a country's development put capital in an advantageous position when concerned to domestic actors. Additionally, capital, contrary to social actors does not need to get organized in order to mobilize.

Focusing on pensions, the international system pressures employers to achieve competitiveness. A model based on solidarity and redistribution in which both employers and employees contribute may cause the loss of competitiveness if payroll taxes are high. Therefore, employers will in general support IFIs-inspired structural reforms on pension systems (Huber, 1999).

To some extent, the IFIs could be considered one of the most salient power centers where some relevant decisions are made. However, depending on their strength, domestic actors will be more or less susceptible to IFIs' cues (Filgueira, 1996).

Of course, the implementation of policy prescriptions is not just a product of IFIs' direct imposition. Teichman argues that policy conditionality per se has not been effective in inducing policy reform (2001: p.63). According to this author, these institutions have worked together with domestic officials and have built "policy networks" that pushed for the reform and defined its contents. She claims that the international policy environment has bolstered market reforms along with the debt crisis in Latin American countries that created extreme financial exigencies and thus increased the contact of national officials with IFIs actors and ideas.

It is also true that under extreme financial constraints and commitments with IFIs, it is more likely that governments implement IFIs-prescribed policies. But, as mentioned above, the government's capacity to do that will also be related to the internal political structures and the political constellations and coalitions that take place in the domestic arena.

An indicator of the strength of institutions, such as the World Bank, in the launching of the reforms is that the initial proposals followed the WB paradigm guidelines in terms of introducing private actors to the system. The Peruvian government, after the first project was presented, even tried to push further towards more privatization. In Argentina, the World Bank financed diagnosis studies of the pension system and provided funds to facilitate the design of the pension privatization plan as well. Besides, this country signed a letter of intent with the International Monetary Fund (IMF) in which it promised to carry out the partial pension privatization plan along with a host of other measures in exchange for IMF financial support (Madrid, 2002: p.313). Regarding the Uruguayan case, a WB's report defined this country as a "particular" one, in which the social security is a 'highly sensitive' issue. It also stated that the structural reform was really difficult because it opposed powerful group interests, which are able to block any attempt at reform.⁸ However, two different presidents signed, as in Argentina, a letter of intent with IFIs in which the Uruguayan government promised to carry out a reform of the pension system.⁹ In the same vein, even though the WB

⁸ McGreevey, William (1990) *Social Security in Latin America. Issues and Options for the World Bank*. Washington: Discussion Paper N.110 World Bank. Quoted in Lo Vuolo (1995).

⁹ President Sanguinetti during his first term in office (1985-90) signed one letter of intent with the WB. Likewise, President Lacalle signed one with the Inter American Development Bank in 1992. Document published by newspaper La Juventud (7/27/95).

clashed with domestic policymakers in Uruguay, it subsequently provided funding to cover some of the transition costs (Madrid, 2002). In fact, according to Madrid, the Uruguayan government depended more on the Inter-American Development Bank than on the WB for technical assistance.¹⁰

To sum up, international pressures clearly limit the options for Latin American governments to deliver public goods (Stark, 1998) and certainly played a role in the implementation of structural reforms to pension systems. The fact that Uruguay, Argentina and Peru embraced the privatization alternative promoted by the WB (instead of, for instance, the ILO model) indicates that IFIs played an active role in the reform processes.¹¹

Nonetheless, since domestic politics mediates the role of international institutions, the study of the domestic sphere is essential to understanding public policy outcomes in 1990s Latin America. Given that the WB's paradigm is at the neoliberal end of the spectrum, I would expect the domestic mediation to moderate the liberal-residual contents of the outcomes.

Domestic Politics:

Even when economic crisis and international pressures severely constrain the room for maneuver of a government (especially in the Latin American contexts) there still remains space for politics (Acuña and Smith, 1994).

In this section, I will consider which factors are relevant to understand how the political dimension of a reform affects its outcome. To do so I will consider three basic dimensions: constitutional arrangements, partisan configuration, and social mobilization.¹²

¹⁰ In August 1995, IADB's representatives claimed that they supported the proposed pension reform in Uruguay and that the IADB had a reserve of U\$S 250 millions to help financing its transition costs.

¹¹ After comparing pension reforms in industrial and in Latin American countries, Huber and Stephens claim that: "...the very fact that different types of reforms were chosen in advanced industrial democracies, where governments were not exposed to IFIs' pressures for privatization and the establishment of individual accounts, underlines the importance of IFIs' pressures for the resulting reforms in Latin America..." (2000: p.20).

¹² To consider these factors also implies to discuss the issue of different types of "democracies" in Latin America or, in other words, the shortcomings of some Latin American democracies.

To begin with the discussion of these dimensions, I will present the notion of policy styles that constitutes a useful typology for my argument. Then, I will discuss the implications of the components of that typology. Basically, my discussion refers to the ability of the executive power to introduce legislation and to see it passed, and raises the issue of executive-legislative relations. I will deal with two basic issues: presidential autonomy, and those factors that interact with it either enhancing or constraining it.

Policy styles

Bresser Pereira et al. (1994) claim that, when a government needs to implement structural reforms, there are four different policy styles: a) Decretism: the executive may force reform measures on a society because it might be persuaded about the technical soundness of the economic blueprint, and it may be equipped with decree powers, b) Mandatism: when the executive has no decree powers but enjoys a majority in the legislature. It entails no consultation with opposing political forces in the parliament and no negotiation with forces either in the parliament or outside it, c) Parliamentarism: the majority consults and negotiates with opposing forces in the legislature. It can result either from a deliberate decision or, frequently, from the fact that proportional representation fails to generate majorities, and d) Corporatism or Concertation: a policy style which extends consultation and negotiation beyond the parliamentary actors to unions, employer's associations, or other interest groups (pp.196-197).¹³

To some extent, this typology refers to the different relations between the executive and the legislative branches. The analysis of these relations should account not only for the constitutional provisions and formal separation of powers (e.g., parliamentarism vs presidentialism; decree powers for the president), but also for the power behind the president in the parliament as well as the possible alliances and coalitions that he can craft. Shugart and Carey (1992) think of this problem as a type of government with two agents of the electorate: an assembly and a president. They evaluate the role of electoral rules in presidential systems, claiming that the way in which the presidents and assemblies are elected affects the shape of

¹³ To some extent, the selection of the three cases for this study is quite representative of the spectrum of different policy styles.

the party system and the likelihood of coalition building in the parliament. They argue that a trade-off exists between efficiency (the ability of elections to serve as a means for voters to identify and choose among the competing government options available to them) and representativeness (ability of elections to articulate and provide voice in the assembly for diverse interests) (1992: p.8).

In the same vein, Haggard and McCubbins (2001) argue that the number of components of a government that can, constitutionally, exercise a veto on the formation of public policy (i.e., veto actors) is “half of the story.” According to these authors, the relevant concept is the effective number of vetoes, which is the product of the combination of the formal separation of powers (that define the potential number of veto players) and the separation of purpose in a society (2001: p.5). The concept of separation of purpose implies that the different parts of the government are motivated to seek different goals. This definition admits that the number of veto points defined by the constitution is not necessarily the same as the effective number of veto players. For example, even when a constitution creates the separation of powers among different branches, if the different sectors in Congress are unified, there are no different purposes and, therefore, the Congress in that case could hardly be considered as an effective veto point.

These authors claim that in a polity with a large number of effective veto powers, changing policy becomes difficult. Similarly, in this type of polity the policy will be more private-regarding because each different veto actor will seek independent pay-offs. Their argument links the electoral system with the partisan configuration and potential for alliances in the Congress.¹⁴

Regarding the argument of this paper, it is remarkable that the policy style of a reform will impact on the policy outcome. The policy style’s framework calls attention to the assessment of different types of democracies in the continent. The first two policy styles named by Bresser Pereira et al. are called the technocratic styles. One of the defining

¹⁴ It is clear that the main contribution of the ‘new-institutionalism’ perspective to this thesis is that it is necessary to consider not only the formal provision of powers and the distribution of ‘formal’ veto actors, but also the partisan configuration. I will consider the latter in the “partisan configuration” dimension.

characteristics of these styles is the concentration of power in the executive branch and thus a great degree of autonomy for the president.

This takes us to the topic of diminished types of democracy in the region and the assessment of some common drawbacks of contemporary Latin American “democratic” regimes. O’Donnell (1992) points out that almost all Latin American regimes fulfill formal requirements of a poliarchy: free and fair elections, and quite extended political freedom. However, these democracies have shown deficits in institutional and structural dimensions. This author argues that a delegative order exists where the elected president simply ignores electoral promises, as well as bypasses democratic institutions such as the Congress.

In general, delegative democracies present very individualistic governments. Under the context of a deep economic crisis, the president is seen (or he sees himself) as a kind of ‘rescuer’ of the country that must be invested with super-powers in order to overcome the country’s “chaos.” In short, in a delegative order it is possible to find weak limits to presidential powers and discretion.

In the rest of this section, I will discuss some factors that affect presidential power and presidential autonomy to pass his legislation initiatives. Of course the interest of this work is not only focused on the mere fact of passing a given legislative piece, but also on the ability of the executive branch to preserve the most important characteristics of the project as originally designed. I will group them according to the nature of the factor.

Constitutional arrangements: at this point, I believe it would be fruitful to consider the role of institutions in the political process of the structural reforms. Formal institutions do not determine the final outcome, but they do determine the places in the process where passage is certain and those where bottlenecks are likely to arise (Immergut, 1992b: p.26). Therefore, it is necessary to analyze the institutional configuration in order to understand not only the presence of opportunities to oppose executive’s will and projects, but also to understand the incentives structure for social actors to operate in the political arena. In other words, the veto groups’ configuration within a society will be strongly linked to the existing ‘veto points’ within a political system.

Note that this analysis will underscore the role of institutions but without denying the importance of other factors apart from the formal rules. It will consider institutions, specifically the presence of veto points within the political system, but controlled by other set of variables related to power distribution and alliances between actors. Particularly, the comparison between Argentina and Uruguay, that are very similar cases, will constitute a very good example in which the institutional dimension arises as one of the relevant variables in order to explain the different outcomes in these two countries.

On one hand, constitutional arrangements can enhance presidential autonomy. I will consider the proactive powers that the president possesses, that is, whether the president can issue decrees. If the president has decree power, he could make the first move in the legislative process by issuing a decree, thereby engaging the legislature in the discussion of a given issue.¹⁵

On the other hand, some constitutional devices can reduce presidential power. One way they influence the decision-making process and the likelihood that a reform is passed is through the creation of veto points. Immergut claims that “political decisions require agreements at several points along a chain of decisions made by representatives in different political arenas. The fate of legislative proposals ... depends upon the number and location of opportunities for veto along this chain” (1992: p.63). This means that the probability of veto is not random; it is affected by constitutional rules. This author admits that this probability also depends on the electoral results.

In the same vein, Huber and Stephens (2001) argue for industrialized countries that “the absence of veto points facilitates rapid and radical change in policy” (p.309). Note that the presence of veto points favors the status quo regardless of whether the government’s intention is either to expand or to retrench the welfare state. Immergut’s study on health

¹⁵ An important digression regarding the Argentine case: Haggard, McCubbins and Shugart (2001) claim that authority delegated from Congress (rather than the president’s constitutional decree powers) proved to be the most important factor in most of Menem’s reforms.

politics in Sweden, France, and Switzerland is an example of an attempt to expand the welfare state (i.e., launching a national health insurance).¹⁶

For this work, I am especially interested in two instances that can emerge as veto points: Congress and the electorate. The former can emerge as a veto point when the constitution requires parliamentary approval. The electoral arena could emerge as an effective veto point where the possibility for popular referenda on legislative decisions exists. The referendum mechanism deserves special attention given its relevance for this study. One could argue that the referendum devices are more powerful than other veto points. Immergut discovered that in Switzerland, a case with referendum provisions, the blockade of the governmental proposal was more effective. Meanwhile, in the other two cases the outcomes are: a) a mixed one where the Congress was identified as the most effective veto point (France), and b) a more radical one (i.e., full national health insurance) where the effective point of decision was concentrated in the executive (Sweden).

The accessibility to direct democracy mechanisms could be a very useful tool for small groups to participate in the policy-making process. Referring to the Swiss referendum, Lijphart claims that “even very small minorities (have a) chance to challenge any laws passed by the majority of the elected representatives.” (1999: p.231). They can participate either by pressing policy-makers to introduce modifications under the threat of calling for a referendum, or just by calling one after the law was enacted. Policy makers’ perception of the group will be a crucial element for them to evaluate the real threat from that group. This perception could be based on, among other elements, its past performance in the exercise of direct democracy devices as well as the group’s organizational resources and potential alliances with social and political actors.

In short, supporters of a law initiative will try to reach an agreement with all those groups that could be capable of calling for a successful referendum against the bill. This opens an opportunity for the actors that are opposed to a law initiative to, at least, try to modify it.

¹⁶ Perhaps the main difference between attempts at retrenchment and attempts at expansion is the policy-feedback effect in the former (that I discuss later when presenting the social mobilization dimension).

Notwithstanding the incentive for small groups to participate in the law-making process, it is also true that the organizational capabilities are absolutely necessary to face a referendum campaign (from the signature's collection stage to the actual electoral campaign). The organizational capabilities of a group are related to its assets in terms of public visibility and image, mobilized members, and last but not least, the capacity to build effective political alliances with other social and political actors. The last item interacts with the former two. To gather support and build alliances with powerful groups, such as political parties or other social actors, the possible paths are twofold. First, some type of natural alliance may exist due to either ideological reasons or the logic of certain policy. Second, a political sector may support a group demand to be identified as a supporter of a "just cause" or, the flip side of this reasoning, to avoid being punished for not supporting it.

This raises another relevant dimension: the electoral nature of popular referenda as a veto point, which has serious implications for the political actors involved in the policy-making process. First, as a direct democracy device that appeals to the electorate, it is a political strategy of higher visibility than, for instance, lobbying in Congress. Moreover, in Uruguay, the case in which we find direct democracy mechanisms, after a referendum is successfully convoked, voting is compulsory. This means that when the requirements for a popular referenda to take place are met (e.g., a percentage of the electorate has to sign supporting the initiative), the majority of political actors have to, at least, express their opinion on the subject. To keep a low profile is extremely difficult. Not only will the citizens look for cues from political leaders, but also the involved groups (for and against the bill) will need these political actors' definition to obtain the necessary votes to impose one or the other position.

In this regard, Bowler and Donovan (2001) claim that "the mass electorate engaged in direct democracy is not likely to be fully informed, nor do they deliberate long, nor do they always evaluate policy from an objective, public-regarding perspective, but many ... are likely to reason in ways that conserve cognitive resources, time, and energy, and they often vote on the basis of subjective, instrumental concerns" (p.165).

Sometimes the messenger is more important than the message. That is, the voter will not evaluate the message itself but the politician who sent the message. Depending on the image of the politician for the voter, he will decide to follow his position or take an alternative way. Shortly, “if you like them, you accept the cue” (p.169). The point is that political actors have to take a position on issues that are put to consideration in a popular referendum.

Partisan configuration: the Parliament is also a potential veto actor. It also can introduce important modifications to original projects proposed by the president. It is clear that the more active the Congress, the less autonomy the President will enjoy. As a matter of fact, a Congress that does not play a relevant role in the decision-making process (i.e., has full capacity, depending on its composition, to reject an executive’s initiative) may not be considered as an effective veto point as this concept was discussed above. It is also true that, for example, if the president’s party is the majority and the party’s discipline is high, a lot of activity in the Congress will not necessarily translate in strong opposition to the president’s project.

Such factors as the share of seats of the government’s party and party discipline become relevant to understand the success or failure in launching a reform initiative. In terms of the policy outcome, the strength of the president may determine the contents of the first project that is sent to Congress as well as the initial willingness to negotiate. If to obtain a majority the president needs to negotiate with more sectors, the independent pay-offs for those sectors will be higher.¹⁷

The presence of a strong opposition party with a significant number of seats in Congress is crucial for the fate of a reform initiative. Note that left parties will tend to oppose projects that seek to retrench welfare structures or privatize state-provided public services. Thus, a framework that seeks to explain policy reform’s outcomes should consider the presence and strength of a left party as well as the real electoral strength of this party. In addition, if this party holds a conflicting ideological stance with the president’s party, one

¹⁷ See Haggard and McCubbins (2001).

could expect that the electoral competition will maximize that conflict and that the opposition will become more intense.

Social mobilization: this dimension calls attention to the role of civil society in the reform's process. The partisan variable, specifically the presence and strength of an opposition party, should be complemented with the analysis of unions' strength and their partisan links. The potential coalition of unions with opposition parties could be crucial to the fate of the opposition to a reform. One expects that unions will oppose neo-liberal reform attempts. If a strong left party exists, it is plausible that unions will form a coalition with it to oppose reforms or to introduce modifications to the proposed projects.

Another variable related to social mobilization is the role played by the beneficiaries of the policy that is being reformed. Pierson (1993) posits that a policy feedback effect exists. That is, social policies may generate a constituency that will oppose any attempt at cutting entitlements or reforming that policy. In other words, whereas politics affects policy, the latter also affects politics by triggering the creation of new groups that will defend those policies. In the same vein, Huber and Stephens (2001) identify for industrialized countries an important legacy effect that affects the partisanship effect on welfare models in a given country. They state that regardless of the incumbent party, the development of a given policy constitutes the baseline of future discussions about that policy and thus modifies original policy preferences.

To assess the role of beneficiary groups, attention must be paid to their autonomy. For instance, a relevant question is whether a group constitutes a real constituency of the policy or in actuality it is merely a particular "section" of a broader movement (e.g., unions) or a party. If the latter is true, the "defense" of the policy will follow partisan or union lines. If the movement is autonomous from other groups, it will act according to its own agenda and priorities, and it will have more latitude to form coalitions with different parties or groups.

Needless to say, the analysis of the mobilization of social actors should be complemented by the previous discussion about veto points, in particular the availability of

direct democracy devices. As I discussed before, groups that oppose a given bill will try to focus their action on veto points along the chain of decisions. The results of past actions in the political process will also define the future strength of a group. The Uruguayan case illustrates this situation, in which successful interventions by the beneficiaries movement was also triggered by an extremely successful collection of signatures in a referendum that, in the end, determined the emergence of this group as a key actor in pension politics. Moreover, even when its success had to do with its autonomy, there is reason to believe that the accessibility and actual use of the referendum devices reinforced that autonomy from political and traditional social actors.

4. INDICATORS

Policy Outcome:

To assess the public policy outcome I will consider these indicators:

- Reform type: this indicator refers to a broad classification of the new system.
- Private participation in the system: to consider this dimension I will pay attention to three features of the reformed system: a) the public and private participation in the new system, b) if the state pillar is maintained in the new system, c) the percentage of private sources on total retirement income of the individual, d) the score of the analyzed countries in a privatization index that combines 'c)' with the percentage of members of private system over total members. Through the observation of these characteristics I will determine how important is the transference to the private sector as a provider of the public service. An additional piece of information for this dimension will be the commission charged by the fund's administrators. A residual-liberal model will definitely allow for more expensive commissions (a free market issue).
- I will also include some indicators of non-contributory or compensatory components of the new systems. On the one hand, a liberal oriented design would minimize these elements. On the other hand, a more institutional design would maximize them. The indicators for this dimension are: a) minimum pension, b) handicap and death pension, and c) welfare pension.
- Beneficiaries: this indicator illustrates what individuals are obliged to enter the new system and their options.
- Finally, I will include some indicators on the performance of the system. Of course this is by no way an evaluation of them. Nevertheless, it is important to consider these elements after more than at least 6 years (in the Uruguayan case) since the systems are in place. The indicators are: a) 65 or older income (the ratio of per capita income over the line of poverty's threshold), b) percentage of affiliates over EAP, and c) percentage of actual contributors over

affiliates. It is my intention to address one of the most important problems of the private pension systems: the high percentage of people that will not fulfill the requirements to be entitled to a pension because it is not contributing to the system.

Political process:

All the factors depicted above that define the policy style by affecting presidential power and autonomy constitute a set of variables that should discriminate among different policy outcomes. Policy styles are theoretical categories that in the real world are not pure (except for some extreme cases). I think that one of the most amenable attributes of this classification is that it can imply a lot of constitutive elements of the political process dimension that, even when it makes a pure categorization more difficult, it helps to accurately describe the politics of a structural reform.

In that sense, to address the independent dimension I will consider a broad set of indicators. These indicators are:

- General features: to help the reader to recall the context under which the reform was launched I will include two general features in this synthesis table: a) year of promulgation, and b) political regime.
- Constitutional arrangements: to assess this dimension I will consider two indicators: a) whether the president has decree power, and b) the existence of direct democracy mechanisms (i.e., devices such as referendums that can be called with the support of a certain percentage of the electorate).
- Partisan configuration: for this dimension I will present these indicators: a) the value of the country in an index of institutionalization. I think that this is an important factor considering the mediation process between the domestic politics and the international system influence. Political parties organize electoral challenges to authority and they serve as key links between political elites and the citizenry, mobilizing participation, articulating demands, and aggregating political interests (Diamond et al. 1999). Thence, this is an important measure to discuss the political process in terms of presidential discretion and autonomy. The more institutionalized a parties' system, one could expect a less favorable environment for political

power concentration¹⁸, b) President's party percentage of seats in Congress, c) party discipline, d) presence of left party, and e) whether the left party constitutes a real electoral threat, f) the type of law actually used to pass the reform (Presidential decree or a congressional law) --remember that this paper analyzes reforms that were already passed, and g) the number of projects sent to Congress by the executive.

- The indicators for the dimension concerning social mobilization will address two main actors: the unions and the retirees. Namely, these are: a) levels of unionization, b) ties of unions with political parties, c) presence of organized beneficiaries movement and its autonomy, and d) beneficiaries as a percentage of the electorate.

¹⁸ This statement does not include systems with an hegemonic party like Mexico in the last decades.

5. THE CASES

To present the cases I will follow this structure. First I will present the economic context of the reform (the general context but also the specific one). Then, I will introduce the reform process, through which I will depict the different reform projects and the final outcome, altogether with the actors that actively participated in the political struggle.

Peru:¹⁹

Context: between 1976 and 1990 Peru presents a long-term crisis with violent stop and go cycles. These cycles got to an end in the end of the 80s with a hyperinflationary process (Dancourt, 1999).

The Instituto Peruano de Seguridad Social (IPSS)²⁰, that administered the pension system, showed huge problems in terms of its capital. Originally, the Peruvian system was conceived as a Partial Collective Capitalization (CPC) system. However, as the time passed by, it became a Pay as you go (PAYG) system. Some of the most salient problems of this institute were: it was not autonomous, inefficient administration, important evasion, great deviation of resources to objectives other than social security issues, plus excessively permissive (or populist) criteria to entitle new beneficiaries. On November 1991, the IPSS was close to collapse (Ortiz et al., 1999: p.37).

¹⁹ The description of the Peruvian case is built on: Ortiz et al (1999), Cruz-Saco and Mesa Lago (1998), and Mesa-Lago and Bertranou (1998).

²⁰ Peruvian Social Security Institute.

Reform process and projects: the reform was originally launched in December 1991 through a presidential decree. This project introduced a parallel private pension system similar to the Chilean one (Law Decree 724). The continuity of the public system was due to a constitutional norm, which rules that the citizens have the right to count on a public option for their pension scheme. It is noteworthy that the eligibility requirements were more generous in the public system than in the private one. The commencement of the new system was expected for 1992.

This decree raised the radical opposition of labor unions, nurses union, IPSS' doctors association, and other professional associations that developed a public campaign against the reform (Ortiz et al., 1999: p.39). These actors' attempt to roll back the reform was a legal resource: they called for the derogation of the norm because of constitutional reasons.

Meanwhile, the reformers found a firm support within the influential investor groups that, afterwards, would become fund's administrators.

On April 1992, Peru witnessed a 'self-coup' perpetrated by President Fujimori who closed the Congress. Through a new Decree Law, he derogated the previous decree before its commencement. The new project was more oriented toward the Chilean model,²¹ and obliged all new insured workers to affiliate to the Sistema Privado de Pensiones (SPP).²² Therefore, the proposed system was a substitute/private one. Besides the project raised the contributions in the SPP to make it sustainable. This project included some measures in order to turn the private system more attractive to workers.²³

Simultaneously to the public pressure against the reform, analyses of the political process also call attention to a low-profile support campaign that came from the investor groups. It is apparent that this support was crucial to counteract the opposition to the reform.

²¹ Nonetheless, Cruz-Saco (1998) notes some differences with the Chilean model. Among others, these are: the public system continues to exist; workers can choose affiliation to the public or the private system.

²² Private Pension System

²³ Workers who transferred to the SPP received a net salary increment of 13.54% to pay for the additional cost of the new pension system; recognition bond for their past contribution to the IPSS. In 1997, the contribution required for the public system was 1.2% higher than the required for the private one.

The final project was written in December 1992. The new decree established: a) voluntary affiliation, the public system remains as an option, with limited recognition bonds, b) workers can choose to disaffiliate the pension fund's administrator to affiliate back to the public system, c) workers who transfer to the SPP receive a net salary increment, d) the state assumes public system's payments, and e) banks and insurance companies' shareholders are allowed to form funds administrators (Ortiz et al, 1999: p.46).

One of the objectives of the new project was to eliminate the cost-bias against the private system. Afterwards, in 1994 this trend was even stronger. The fund administrators implemented a lobby action toward the implementation of measures that helped to increase the number of affiliates to the private system.

Regarding the public system, it is important to note that in 1995 it had become bankrupt. Besides, the time required to process a pension request in the public system was dramatically increased. One could argue that, even when it was legally active, there was a kind of privatization by default. That is, the current condition of the system transformed it in, at least, not a very good idea for the insured.

Excluded from the reform were the armed forces, workers of the fishing industry, and public sector workers who were not included in the old IPSS's pension system.

Argentina:²⁴

Context: the Argentinean system presented a deep fiscal crisis. The PAYG system was bankrupt, and was also failing to honor payment of contractual benefits to pensioners (pension system payments represented 7% of GDP in 1992).²⁵ Isuani and San Martino point out that some of the causes for these deficiencies are to be found in the populist use of the system by successive governments (no funded expansion of covered population, etc). Thence, the social security system that was once thought to reduce social conflict, became at the beginning of the 90s its trigger (Isuani and San Martino, 1998: p.130).

²⁴ The description of the Argentinean case was built on: Alonso (2000), Torre and Gerchunoff (1999), Isuani and San Martino (1998), and Mesa Lago and Bertranou (1998).

²⁵ As the government did not honor the adjustment of pensions to the inflation, there was an important gap between the legal and the actual replacement rate that led to judicial disputes. In 1991, the courts ruled against the government on more than 20,000 demands, and 60,000 cases were waiting courts' decision on this issue.

Carlos Menem (the president during the reform period) came in to the office under an urgent economic situation with hyperinflation and social turmoil. Through a Convertibility Program (Programa de Convertibilidad) the government was successful in terms of economic stabilization. This enhanced the political power base of the president and made possible a broad set of economic reforms (such as privatization and deregulation). Nevertheless, the pension reform followed a different pattern, in which politics played a central role, that is, it was vulnerable to the influence of social and political actors (Alonso, 2000; Isuani and San Martino, 1998).

Reform process and projects: the first project was sent to the Congress in June 1992. It proposed a system with two pillars: a) a public program (PAYG) and b) a fully-funded individual capitalization. The two pillars would complement each other and the pension would consist in a Basic Universal Benefit for all insured with additional benefit coming from the private pillar. It increased the age of retirement both for women and men to 65. Under this project, all younger than 45 were obliged to enter the capitalization pillar, while for insured 45 years old or older it would be optional.

Criticisms to this project included: a) lack of trust in the Chilean model, b) the difficulty in maintaining adequate real returns of the pension fund in the future, c) the high administrative costs, d) rejection of the proposal to not acknowledge previous years of contributions by workers younger than 45, and e) the government's incapacity to supervise private pension fund administrators and the investment of pension funds (Isuani and San Martino, 1998: p.137-38). In response to these criticisms, the government argued that this project was the only way to comply with the legally established pension payments and raises that at that moment were not honored.

Unions were the most important actors that opposed the reform. Their motivations were twofold: a) ideological: the conception of a social security system that were shared by some legislators in the Justicialismo (government's party) and also in the Radical party (opposition), and b) the already mentioned concerns about the state's capabilities to make the private actors accountable and supervise them.

Pensioners were also opposed to the reform, but this movement constituted a lot of small, fragmented, and low-representative associations that sometimes worked as real union's annexes (Torre and Gerchunoff, 1999: pp.19-20). Indeed, pensioner's organizations membership was defined almost exclusively by the individual's previous role during his or her active economic life.²⁶

Despite a massive weekly mobilization, the direct impact of retirees' action on the reform outcome was not relevant. Each Wednesday thousands of pensioners met in the Congress' surroundings to demand the elimination of the gap between the legal and the actual replacement rates. Aligned with the unions, they had an indirect effect by putting the pension issue on the public agenda. According to Alonso (2000), pensioners' mobilization somewhat displaced the issue of the reform because instead of focusing public opinion's attention in the situation of the future beneficiaries that were affected by the reform, it focused the attention on the dramatic situation of the current beneficiaries.

Alonso mentions that some political moves made by the Argentinean government could have undermined the movement's base support to oppose the reform. First, as I mentioned above, the government argued that the reform was the only way to cut the gap between the legal and the actual entitlements of current beneficiaries. Second, the government decided to use the money generated by the privatization of the state-owned oil company to pay the debt with the retirees. Apart from the fact that unions' linkages conditioned the pensioners' movements to follow the unions' political agenda, it is clear that due to these two factors an independent action of this actor was less likely to occur.

Unions, together with pensioners, collected more than one million signatures that were presented in the Congress. If the possibility to call for a referendum had existed, the influence of these actors could have been decisive. In this case, the institutional factor to some extent influenced the nature of an actor in the political process. One could argue that the strategy of retiree associations would be different had they counted with a direct democracy resource.

²⁶ Of course, these strong linkages to unions were a very important source of material and organizational resources for the organizations. Union-based organizations' configuration also reproduced the internal conflicts within the labor movement. This implies that each pensioner's organization was identified with one or another union's factions.

The government's project was supported by the enterprises associations because of two reasons: a) ideological: this reform was in line with the previous economic reforms, and b) the possibility to access to important savings in the long term was very attractive for these actors.

After a complex process, that included a very intense interaction between the two chambers of the Congress and the Executive, in February 1993 the executive presented a modified project. The most relevant modifications were: a) capacity to opt between the two systems (mixed and private one), b) unions, foundations, mutual associations, cooperatives, banks, and other public and private organizations both public and private could become pension fund managers, c) related to the former, the creation of an AFJP owned by Banco Nacion (the most important public bank in the country) with double guarantee on the deposits, d) the government could acknowledge previous years of contributions, and e) retirement ages for men and women could be differentiated (Isuani and San Martino, 1999; Alonso, 2000). These modifications are considered an important success for unions. Indeed, most of them were their own demands.

Thence, workers could opt between the reformed public system (with more restricted eligibility requirements) and the mixed system. The latter consisted of two mandatory elements: a) the reformed public program that pays a basic pension and b) fully-funded individual capitalization program that is administered by the funds administrators and provides complementary pensions.

In both public reformed and mixed systems, the government will pay a universal basic benefit to every insured that fulfills the requirements of age and years of contribution.

Excluded from the reform were the armed forces and employees of provinces and municipalities.

Uruguay:

Context: in the beginning of the 90s, a WB report defined the Uruguayan case as a 'particular' one, in which the social security is a 'highly sensitive' issue. It also stated that the

structural reform was really difficult because it opposed powerful group interests, which are able to block any attempt at reform.²⁷

Being a developed system (with high actual coverage) along with an increasingly older population, clientelism, and inflation, the PAYG Uruguayan system faced serious deficits that were funded by the state through tax revenues (Papadopoulos, 1998). After the democratic transition in 1985, the government implemented some austerity measures that impacted negatively in pensioner's benefits.

Since 1985, a pensioners' movement emerged as one of the most important social actors. Originally, pensioners' organizations were small and quite fragmented. Nevertheless, they got organized by 1987. One of the causes for this emergence was the retirement of some former labor union leaders that brought political expertise to the movement. Even when unions were not the only source of political leadership for this movement, the political expertise and organizational skills of the former union leaders was crucial to overcome discrepancies between different sectors within the movement. Other organizations were in general identified with the traditional rightist parties.

By the end of the eighties, it was clear that the retiree's movement constituted an autonomous organization with its own political agenda. Other important reason for this successful emergence as an unique and autonomous actor was the important base's support. According to Papadopoulos "it was easy for these organizations (of retirees) to articulate a powerful lobby that forced political parties to accept pensioner's demands because of fear of electoral consequences" (1998: p.155).

Of course, one of the most important political assets of this movement was its autonomy. It did not follow either union's or political parties' agenda. It is noteworthy that some political leaders, regardless of their political affiliation, became real "pensioner's issue entrepreneurs" and tried to get electoral advantage by backing pensioner's demands. In the Congress, they counted on leftist legislators, but also on some legislators from the rightist opposition party that intended to take a "free-ride" on pensioner's demands by backing their demands.

²⁷ McGreevey, William (1990) *Social Security in Latin America. Issues and Options for the World Bank*. Washington: Discussion Paper N.110 World Bank. Quoted in Lo Vuolo (1995).

In 1989 a remarkable event for the pensioner's movement took place. After successful lobbying actions in the Congress during 1987, the retiree movement was able to successfully push the political system in order to obtain improvements in the retiree's income level.²⁸ These improvements consisted of an important rise in pension benefits through a popular constitutional amendment that ruled pensions' indexation according to public employees salaries' adjustments (every four months). This highly salient political effort made this movement very visible as well as reinforced the public's perception of this group as politically successful and as holder of fair demands.

As a result of the 1989 plebiscite, the retiree population had an impressive increment in their wages. But, this increment also impacted in the deficit of the system that experienced a huge increment. Taking 1990 as a baseline (100), the real retirement benefits were 74.5 in 1985 and increased to 122.9 in 1991. Meanwhile, the deficit climbed from 9.8% of the GDP in 1989 to 12.7% in 1991 and 15% in 1994 (Mesa Lago and Bertranou, 1998). The pension system reform was an unavoidable task for the next government.

Reform process and projects: President Lacalle (1990-1995) presented three attempts to reform the pension system while he was in office. However, all these projects failed.

The first project was submitted to Congress in 1992 and established a mixed system with three elements: a) a reformed public program with more restricted entitlement conditions, with the addition of individual accounts, b) a welfare pension funded by the state, and c) complementary and voluntary pensions through complementary-funds institutions.

The system would remain under public control and all the insured must be incorporated to the new system (except for those that needed only two more years to retire). Even when this project was the result of a multiparty technical agreement, the pensioners

²⁸ Moreover some sectors that originally had rejected the pensioners' initiative finally supported it. The opposition to this initiative is one of the most mentioned reasons why Jorge Batlle (the current president) lost the 1989 election. In the last election (1999), he just suggested that the country should revise that measure and, after the immediate reactions of some political leaders, he had to sign a written statement where he promised not to go against the "popular will" in this issue.

disliked it and pushed the Congressmen to veto it. It turned out that the Congress did veto the project.

The second attempt was not as ambitious as the first one. It had two main features: a) instead of calculating the retirement benefits on the basis of the worker's last three years of work, the project established as a basis for appraisal the last ten years of work and b) the basic retirement was lowered to 55% of the average salary of the last ten years of activity (Papadopoulos, 1998: p.158). This proposal was included within the budgetary discussion of 1992 and again was rejected by the pensioners' association. Regardless of the dissatisfaction with the contents of this reform, the argument to oppose it was a formal one: the Uruguayan Constitution does not allow including modifications to the pension's system in budgetary laws. Then, through a plebiscite held in 1994, the articles referred to the pension system were derogated. Once again, the pensioners' will (now allied with the left and labor unions) was stronger.

The third project was presented by the executive at the end of 1993 and proposed a mixed system; 65 years as the minimum retirement age for men and women and a basic retirement estimated on the basis of 65% of the average of the last ten years of work (Papadopoulos, 1998). This project was rejected in the Congress.

One of the principal outcomes of these attempts (and continuous failures) was the accumulated learning during that period. First, there was a political learning by the elites, who realized that it was necessary to try to isolate the technical debate from the political debate. Second, there was a relevant accumulation at the technical level, especially after various years of work commissions that designed different proposals.

The final and successful project was approved in September 1995. In this case, a bipartisan commission formed by the two rightist parties designed a project that was backed by these two parties' legislators in the Congress.

The pension reform was part of a broader conservative agreement that included an electoral objective. This agreement also allowed for a constitutional amendment to change the electoral rules in order to prevent the left-party from taking office. The most important

change was the introduction of an obligatory second round election when no party obtained more than a half of the votes. Indeed, for the second round in the 1999 elections (that was implemented for the first time), the two conservative parties were electoral allies against the leftist one. Afterwards, that agreement was translated in a government coalition that allowed for a majority in the Congress.

The conservative parties' leaders realized that complying with pensioners' demands did not prevent electoral losses. And, basic mathematics indicated that the left party was capitalizing on those losses. Therefore, the stance based on electoral calculations, adopted by the conservative party that was not in office, proved to be useless.

The approved reform introduced a mixed system that combines two pillars: a) PAYG pillar, funded with payroll taxes (mandatory for all insured) and financial assistance from the government and b) mandatory fully-funded individual capitalization, administered by the Pension Funds Administrators (AFAPs). Contributing to this pillar is compulsory for insured above an income threshold. For those below that threshold, the affiliation is voluntary. This reform also allows for a third pillar that consists in a voluntary fully-funded individual capitalization for insured above a second income level.²⁹ The Central Bank would regulate private administrators operations.

There is no minimum pension in the individual capitalization because the public pillar of the mixed system pays a basic pension. There is a noncontributory program for indigents older than seventy.

Excluded from the reform were armed forces, policemen, notaries, professionals, and bank employees.

The mandatory nature of the reform presented these exceptions: a) current beneficiaries of PAYG system, b) insured people of at least 40 years old. Due to these exceptions, the old system will survive as long as these exceptions exist. Moreover, this also guarantees genuine funding for the old system and reduces significantly the burden of the transition's costs of the reform.

²⁹ The mandatory contribution is for the income between the first and the second income levels. Above the highest level the contribution is voluntary.

The reform of the pension system did not affect in any way the current beneficiaries' rights and benefits. Besides, three public institutions (one of them is the Social Security Institute) own one of the new fund administrators, which is the biggest in terms of number of affiliates (approximately 35% of the total).

The opposition to the new system came from the left-party, the unions and the pensioners. However, after 1994 the pensioners' movement had achieved one of its main objectives: raising the level. Moreover, this achievement was guaranteed by the Constitution. The acquisition of this goal reduced the threatened feeling the retired people had towards their pensions. Consequently, the leaders of this movement could not count anymore on electoral retaliation as their most important bargaining resource with political elites.

In addition, as I said before, the conservative party in the opposition was not as willing to accept pensioners' demands as it was in the past. The conservative parties realized that, regardless of supporting pensioners' demands, the electoral growth of the left and their electoral losses were systematic election after election. It is also important to note that the electoral agreement in the 1999 elections' second round and the formal sharing of power increased significantly the party's discipline in the Congress.

One could argue that the fact that current beneficiaries were not affected by the reform is a 'by default' exit of the beneficiaries from the new system. Additionally, the reform generated a break between potential allies: the already retired people and the future beneficiaries (current workers).

These groups called for a referendum proposal to amend the constitution in order to prohibit that any private institution administrates pension funds. In short, it directly attacked the most important innovation of the system: the private fund administrators. Through this amendment, these entities would become unconstitutional.

As social security issues are considered part of tax matters, a modification concerning this issue necessarily had to convoke to a constitutional amendment. That is why the referendum fate was postponed until 1999, three years after the new system started to work. The salience of this referendum during those three years was quite low, a lot of time had been

spent, and the consolidation of the system seemed to be irreversible. The referendum attempt failed, thus consolidating the new system.

6. SYNTHESIS AND DISCUSSION OF THE EMPIRICAL EVIDENCE

At first glance, the empirical evidence indicates low variance in the dependent variable. All three countries followed the IFI's recommendations. That is, the individual capitalization is the main pillar of the reformed systems and private actors can participate as administrators of the pension funds. According to James and Brooks (2001) these three countries are structural reformers.

The outcome of the pension reform in Peru is a parallel regime with two systems: the public and the private. However the former has been seriously retrenched and, as a matter of fact, it is not a good option for workers. Peru is the only case that does not retain –at least theoretically- some redistributive dimensions. The Peruvian reform is the closest to the Chilean model and thus to the WB paradigm. Additionally, the fee charged by the fund's administrators is the highest among the three cases. In other words, Peru appears to be the country where the private actor benefits the most with the reform.

Argentina and Uruguay present a mixed system and rank below Peru in terms of levels of privatization. Nevertheless, Argentina shows higher levels than Uruguay in all the indicators for this dimension.

Table 2. Pension system outcomes

| | PERU | ARGENTINA | URUGUAY |
|--|---|---|--|
| Reform type | Parallel/Private | Mixed | Mixed |
| <i>Private participation in the system</i> | | | |
| Public and private participation in the new system | Only private (AFPs) | Reformed public plus private AFJP (private, public, unions). State in charge of collecting funds. | Reformed public plus private AFAP (private, public). State in charge of collecting funds. |
| Is the state pillar maintained in the new system? | Not enforced. | YES. Workers contribute for both. | YES. Workers contribute for both. |
| Contributions to private pillar/total contributions (%) | 100 | 41 | 37.5 |
| Privatization index (Contributions to private pillar/total contributions x Members of private system/total members) | .58 | .27 | .15 |
| Commission charged by Fund Administrators (as % of salaries) ^a | 3.73 | 3.28 | 2.68 |
| <i>Non-contributory and compensatory elements</i> | | | |
| Minimum pension | Yes in the old one. Not in the newest. | Yes, within the public program (uniform basic pension), not in the AFJP. 30 years of contribution required. | Yes, within the public program (basic pension), not in the AFAP. 15 years of contribution is required. |
| Handicap and death | Private insurance only. | In the public program. In the mixed one private insurance. | In the mixed program. In the AFAP private insurance. |
| Welfare pension | No. | Yes, in public pillar. | Yes, in public pillar with means test. |
| Beneficiaries | Could choose between the old system and the new one (AFP). Since 1995 cannot go back to the old system. | One year to change to the mixed system. Passage from the mixed to public system still allowed. | Younger than 40 years old forced to new system. Older than 40 could choose between the old and new system. |
| <i>Indicators of performance of the system</i> | | | |
| 65 or older income (per-capita income over poverty-line value – 1997) | N/A | 2.3 | 3.3 |
| % affiliates over EAP (New system- 2001) | 23 | 52.8 | 37.7 |
| % of actual contributors over affiliates (2000) | 39.9 | 29 | 49.2 |

Sources: Madrid (2002); OIT/ACTRAV (2001); Mesa Lago (1996); Mesa Lago and Bertranou (1998). ^a This figure constitutes the addition of the commissions charged for the administration of the funds plus the fees for life and disability insurance (See OIT/ACTRAV, 2001).

The mixed models from Uruguay and Argentina are the nearest ones to the ILO's paradigm and, as a result, further from the liberal-residual paradigm of the WB. In both cases a robust state pillar remains active and with genuine funding sources (all insured must contribute to this pillar, even when they also contribute to the private one). Regardless of the private nature of the fund administrators, the state still plays a key role in the administration of the system. First, it owns one of the administrators ('Nacion' AFJP in Argentina and 'Republica' AFAP in Uruguay). Second, in both countries the state is the collector of the contributions. Additionally, pension schemes in Argentina and Uruguay provide a minimum pension for the whole population. This minimum pension benefit could be either contributory or non-contributory and it basically consists of an "old-age" benefit. Particularly in Uruguay, all the noncontributory programs remained without changes under state control.

Argentina has the highest percentage of economically active people affiliated to a fund administrator, whereas Peru has the lowest. This figure reflects the low actual coverage of the Peruvian pension system due to the significant informal sector that exists in that country. For the Uruguayan case, it is necessary to take account of the fact that all insured people older than 39 and with an income below a fixed level were not compelled to affiliate to an AFAP.

The important level of affiliates who are not contributing to the fund's administrators is a motive for concern. Advocates of the new systems claim that they are successful because the level of affiliations is really high. However, this assessment is incomplete if it does not consider what percentage of affiliates is actually contributing to the system. In our three cases, the percentage of contributors over affiliates ranges from 29% (Argentina) to 49.2% (Uruguay).³⁰

This means that in two or three decades, the continent could confront serious social problems caused by a massive contingent of workers who do not satisfy the basic requirements to retire. Furthermore, this trend is more worrisome if we follow the evolution

³⁰ Note that even when Peru has a higher percentage of affiliates that actually contribute than Argentina, the percentage of the EAP that is affiliated is less than a half of the affiliates in Argentina.

of these figures. Indeed, they get worse instead of getting better as time passes. In the cases where a minimal non-contributory pension exists this problem will also be economic (i.e., growth of fiscal deficit).

Another important issue will be the amount of the benefits to be received by the future beneficiaries. This will be determined by the performance of the investment made by the fund administrators. In that sense, the future benefits will depend on the market behavior and the general economic situation in a given country.

The performance's indicators show that a good or bad provision of a social policy will not be inherent to the nature of the system. The fact that the system is public or private will not guarantee per se the fulfillment of all its objectives in an effective manner. The state plays a key role in supervising and regulating the system. It also has to play an equally important role in supervising the stability of the economy as well as guaranteeing the provision of some basic social services (e.g., non contributory benefits for uninsured).

Current Argentina is a very good example for discussion. As I presented above, Argentina reformed its very developed pension system and introduced private actors in it. Nowadays, this country is facing a severe economic crisis. The Argentinean case embodies some of the potential problems and shortcomings of privatized pensions systems.

First, some authors argue that the privatization of the pension system is by itself a plausible cause for the crisis in Argentina. By taking "out of the budget" current workers' contributions to the system, it automatically generated a transitional cost that increased the Argentinean fiscal deficit by 3%. According to Stiglitz, "had Argentina not privatized (its social security system), its 2001 budget would actually have shown a surplus" (2002: p.2). Leaving aside that this measure was consistent with the general orientation of the economic reforms that were taking place in the country, one of the reasons to adopt it regardless of its cost could be merely that economic officials' assessment of the Argentinean reality was too optimistic. Perhaps they expected that the country would keep on growing at the same rates as at the time of the reform.

The destabilization of the Argentinean economy had to do in part with a weak state that was not capable to maintain economic stability. The fact that a state is not capable to assure minimum conditions of economic stability and certainty is a serious problem given that the amount of future benefits in a private system is much more sensitive to the fluctuations of the market and the general state of the economy. Under economic slowdown and uncertainty the amount of pensions received by the beneficiaries could shrink dramatically. Therefore, there is little reason to believe that a total private system will work under any circumstance. The role of the state is still crucial to assure that the economic context in which the private actors operate is stable.

Furthermore, the Argentinean example is an indicator against one of the most salient arguments from the advocates of private systems: that under private pension systems contributor's money is "safe" from public officials (i.e., politicians). Indeed, in December 2001, the Argentinean government forced the fund administrators to buy public bonds for 3000 millions dollars. Therefore, as the majority of pensions funds consist of public bonds, once again state liquidity is essential regarding future commitments to the beneficiaries. Needless to say, Argentina's current default seriously jeopardizes the sustainability of pension funds.

Table 3. Political dimension of the reforms

| | PERU | ARGENTINA | URUGUAY |
|---|----------------------------------|--|--|
| <i>General features</i> | | | |
| Promulgation of the reform | 1992 | 1993 | 1995 |
| Political regime | 'Self Coup', Dissolved Congress | Democratic | Democratic |
| <i>Constitutional arrangements</i> | | | |
| Direct democracy | No | No | Yes |
| Decree power of the president | Yes | Yes (Congress can delegate powers to the president) | Yes |
| <i>Partisan configuration</i> | | | |
| Index of institutionalization of political parties' system (12=highest) ^a | 4.5 | 9 | 11.5 |
| President party's seats in Congress (%) | Dissolved Congress | 47 (government with majority in the Senate but not in the chamber of deputies) | 32 (64 total of governmental coalition). Data for the period in which the reform was passed. |
| Party's discipline | High | High (could not sway the labor representatives to support the reform). | Problematic (great influence of beneficiaries in the beginning; high from 1995 on). |
| Presence of a strong left party | No | No | Yes |
| Electoral challenge from a left party | -- | -- | Yes |
| Type of law used to pass the reform | Presidential decree | Congressional law (corrections by decree). | Congressional law |
| Number of projects | Dissolved Congress | 2 projects, intense negotiations | 4 projects |
| <i>Social mobilization</i> | | | |
| Unionization (% over EAP) ^b | 20* | 24 | 16 |
| Ties unions/political parties | Not with party in the government | With government's party | With left party |
| Presence of organized beneficiaries | Without influence | Yes (strong link to unions). | Yes, with strong policy specific emphasis (until 1994). |
| % Of the electorate represented by the retired population ^c | -- | 20 | 36 |

Sources: Compiled on the basis of sources for each country.

^a Source: Mainwaring and Scully (1995) ^b Sources: For Argentina and Uruguay (data for 1991): Busquets (2001), for Peru (data for 1994) Saavedra-Chanduvi and Diaz (1998) * This figure is inflated because it represents the percentage of workers that indicates that there is a union in their workplaces and because it is calculated as the percentage of wage earner and not all the EAP. / ^c Source: Busquets (2001).

Taking into consideration the policy outcome table, there are clear-cut differences between the Argentinean and the Uruguayan cases in comparison to the Peruvian one.

Whereas the former presents a much less neo-liberal outcome, the latter's outcome is more World Bank-paradigm oriented.

In the Argentinean case, the influence of the unions was clear in the final outcome, as they pushed the government to incorporate some modifications to the original project (which was more liberal oriented). In the Uruguayan case, the presence of an active pensioners' movement delayed the implementation of a reform until 1995 after successfully blocking three attempts. In this case, the achievements of this movement are side payments to this group more than achievements for the whole population. Nevertheless, in the Uruguayan case most policy-makers did not even consider a purely liberal pension system. True enough, the action of the veto coalition formed by pensioners, unions and the left party was one of the principal causes for this "moderated" reform. In the Peruvian case, the reform was launched under a quasi-authoritarian regime that was the result of a "self-coup" through which the Congress was dissolved. The Peruvian political process of the reform was straightforward and presented low levels of complexity. Likewise, the Peruvian party system shows the lowest level of party consolidation.

Therefore, the link between the political dimension and the policy outcome is quite evident when comparing Argentina and Uruguay on one extreme and Peru on the other.

Parenthetically, is interesting that, given the overall market reforms in Latin America, one could have expected that Argentina would cluster together with Peru and not with Uruguay. The aftermath of the pension reforms shows, however, that the outcomes in Uruguay and Argentina are very similar. As I stated in the narrative description of the case, the pension reform in Argentina followed a different pattern, in which politics played a more important role than in other economic reforms (Alonso, 2000).

Having said this, one of the factors to consider when addressing this issue is that the urgent situation caused by the deep economic crisis that Argentina suffered since 1989 was not present at the time of the discussion of the pension reform. The economic emergency allowed for delegative leadership by Menem, specially during the first two years of his first term. The context of severe economic crisis was a political resource for the Menem's

administration to pass stabilization and liberalization programs and some privatization laws as well.

Besides, it is crucial to analyze the evolution of the most influential actor that opposed the reform and was capable to introduce some modifications: the labor movement. In the beginning of Menem's presidency, the unions were divided between those sectors that supported Menem's market-oriented reforms and those which remained against this type of reforms. This division in the most important labor organization between October 1989 and March 1992 weakened its bargaining power (Murillo, 2001: p.150). During the first period of his administration, Menem built a reformist coalition that included his own party and the unions that remained loyal to him after his 'ideological conversion' towards the market. As a result of its re-unification after March 1992, the labor movement's bargaining power to confront the government significantly grew.

Another relevant fact is that, according to Murillo, the reform to the pension system directly affected the sources of financial and organizational power of labor unions. Recall that one of the most important concessions obtained by the unions in Argentina was the authorization to own pension fund administrators.³¹

The explanation of the differences between those reforms with more neoliberal outcomes and those in which the outcomes in terms of public policy are less radical (such as pension systems) is beyond the scope of this research. Nevertheless, it is noteworthy that this difference strengthens the argument posed in this thesis. It is clear that for those sectors that present a complex political process (i.e., pensions) the outcomes seems to include more redistributive components than those in which a strong delegative leadership by the president prevailed.

The next step for this research endeavor is to address the differences between the two "complex political processes": Argentina and Uruguay. In both cases, party system is highly institutionalized, a congressional law was used to pass the reform, and the Congress played an active role in the reform process.

³¹ For an exhaustive discussion of the interaction between the Peronist government and the Unions regarding market-reforms in Argentina see Murillo (2001). Most of the speculation described here is based on this author's analysis.

The differences between the Argentinean and the Uruguayan cases are the availability of direct democracy devices in Uruguay, a quite stronger president in Argentina, a real electoral threat by a left party in Uruguay, stronger unions --at least in terms of levels of unionization-- in Argentina, and a different configuration of the linkages between the unions and the party's system.

Perhaps the most important difference between Argentina and Uruguay is the action of the organized beneficiaries. As I have already mentioned, pensioners in Uruguay obtained side payments that significantly improved their condition.³²

Whereas in Uruguay the retirees have enjoyed an extraordinary recovery in their pension levels since 1989, in Argentina the already weak pension levels have not been substantially improved. In Uruguay the benefits increased by almost 40 points between 1990 and 1995 (1990=100), while in Argentina the recovery was only around 20%.³³ It is important to consider that during the first half of the nineties, the Argentinean economy suffered a serious slowdown that included the effect of an episode of hyperinflation that undoubtedly had an impact on this variable.

Furthermore, in 1994 it also was impacted by the consequences of the Mexican economic crisis (known as the Tequila effect). Indeed, the economy in Argentina registered for 1995 a 2.9 percent negative growth. After that year and until 1998 the economy in this country presented high levels of growth (with a peak of 8% in 1997). Afterwards this trend ended and a new downward cycle started, ending in the 2001 debacle.

Nevertheless, I think that one of the most important issues has to do with the actual provision of the retirees' acquired benefits (in terms of increased income levels, genuine funds availability, and so on). The provision of the benefits seems to be much safer in Uruguay than in Argentina because in the former they are guaranteed by the Constitution. Besides, recall that the Argentinean reform did not constrain the passage from the old to the

³² An indicator of this situation is that, whereas the income of those 65 and older constitutes 2.3 "poverty-line baskets" in Argentina, it constitutes 3.3 in Uruguay (see Table 2).

³³ Sources: Mesa-Lago and Bertranou (1998); and Direccion de Politicas de la Seguridad Social (2001).

new system thus increasing its transitional costs. As a result, the availability of genuine funds to pay for current obligations could be also endangered.

Pensioners' movement in Uruguay and Argentina:

What are the factors that help us to explain the presence of a politically effective pensioner's movement in Uruguay and not in Argentina?

The answer to this question is a combination of various interwoven factors. They are related to the different dimensions (e.g., constitutional arrangements, etc) of the independent set of factors of this study.

The table below synthesizes these factors.

**Table 4. Pensioners' movement in Argentina and Uruguay
(selected characteristics)**

| | ARGENTINA | URUGUAY |
|--|------------------|----------------|
| Autonomy/own agenda | No | Yes |
| Direct democracy | No | Yes |
| Presence of left party with real electoral chances to form an alliance with | No | Yes |
| % Of the electorate represented by the retired population | 20 | 36 |

In the first place, the retiree movement in Argentina was almost totally dependent on the unions and seemed to constitute an extension of them. Analyses of the Argentinean reform process point out that the labor movement was the key social actor that resisted the reform. In actuality, unions were quite successful as they were able to introduce several modifications to the original project. One might argue that the participation of the unions in the policy-making process was a product of their close ties to the Peronist party that was in office at the moment of the reform. It raises the question of whether this process would have been possible without those close ties between unions and the governing party.

Going back to the original question of this section, in Uruguay the emergence of the pensioners as an organized force was the result of the convergence of retirees' associations with different political origins and stances. Even when one of these movements was affiliated

to the Uruguayan central labor confederation, unions did not subsume organized retirees at all. Nonetheless, the presence of former unions' leaders provided the movement with political expertise and skills that helped them to overcome internal differences and was beneficial for the political activities of the movement.

The availability of a direct democracy resource, combined with fear of vote losses by political leaders, was a key distinction between the action of pensioners in Argentina and in Uruguay.

The 1989 plebiscite held in Uruguay was a watershed. The reasons are twofold: it helped to unify the different groups within the movement under the same goal, and it was a sample of the impressive political efficiency of this group. In actuality, what it showed was the capacity of the retirees' leaders to force political parties to publicly support the referendum. It is noteworthy that half of the sectors that supported the pensioners' initiative had previously resisted it. The majority of the political sectors that shifted their position regarding the referendum issue were among the conservative parties. The leaders of these sectors feared the electoral losses that could have resulted from not backing the pensioners' initiative. A similar phenomenon took place at the Congress level every time a project related to the pensioners was issued.

It is remarkable that referenda were very visible instances where legislators and political leaders could hardly keep a low profile. Once again, this improved the political gains of the Frente Amplio and undoubtedly affected the conservative leaders' decision of whether to support pensioners' demands.

One of the reasons why politicians were aware of the possible electoral losses if they did not back pensioners' demands was the fact that the Frente Amplio (the left party) did always back pensioner's demand. Thence, to prevent this party from obtaining electoral gains through this strategy, some conservative leaders found it "profitable" to back pensioner's demands. This electoral calculation was a strong incentive for the political sectors other than the president's one (sometimes even from his own party) to try to avoid sharing the electoral

costs. As a result, the government would have to deal alone with the electoral costs of opposing the retiree's movement.³⁴

The alliance with a strong left party provided this movement with political legitimacy and a minimum support in Congress. That is, negotiations and bargaining in Congress were enhanced by the fact that pensioners could count on a minimum number of votes in the Parliament that was equal to the left party seats.

Last but not least, the pensioners' population does constitute an important portion of the electorate. Whereas in Uruguay it represents 36% of the electorate, in Argentina it is 20%. I recognize that both figures are high, but it is also true that if we combine them with the factors depicted above, it also helps to explain the ability of the Uruguayan pensioners to make the politicians aware of the electoral threat. In addition, whereas in Uruguay the vote is compulsory regardless the age of the person, in Argentina the vote is not obligatory for people older than 70, thus further decreasing the importance of this group as a portion of the electorate.

To finish, I believe that it could be useful to pose a counterfactual question. What would have happened in Argentina had popular referenda mechanisms been available? There is reason to believe that pensioners' movement in Argentina could have easily collected enough signatures to call for a referendum. In other words, one could speculate that pensioners' opposition would have been much more effective.

The effectiveness of a veto actor is also related to its autonomy and capacity to pursue its own agenda. As the Uruguayan case illustrates, the availability of a direct democracy resource is one of the factors that fostered the autonomy of a movement in terms of pursuing its own agenda without being constrained by its ties with external actors.

Similarly, the presence of a strong opposition and anti-retrenchment/privatization party is a relevant factor to take into account. In a hypothetical scenario in which the

³⁴ In Uruguay presidents have been members of two conservative parties: the Colorado party and the Nacional party. For the first time in 1994 there was a virtual three-way tie between the two conservative parties and the left.

pensioners call for a referendum, this political actor would certainly support them, thus forming a political alliance that would strengthen the opposition to market-oriented reforms. Even though these are speculations, the description of some possible scenarios provides with a glimpse of the significant difference the introduction of a new veto point, such as the availability of popular referendum, could make.

7. CONCLUSIONS

Concerning my initial hypothesis, it is possible to affirm that all three countries passed structural reforms to their pension systems. Even though Argentina and Uruguay faced complex political processes, in which the president had less autonomy and discretion and where extra-government actors actively participated in the policy-making process, they were still able to pass structural reforms. Meanwhile, Peru presented a political configuration in which the president had important levels of autonomy and discretion. Therefore, it is possible to affirm that complex political processes in Argentina and Uruguay were not significant obstacles to pass structural reforms of pension systems.

The policy outcome in Argentina and Uruguay (the two complex political processes) are the nearest ones to the ILO's paradigm. This suggests that political processes where the president has less autonomy and discretion and with high participation of extra governmental actors had a positive effect on the policy outcomes in terms of their social and redistributive components.

To address the differences between the Argentinean and the Uruguayan outcomes, it is necessary to pay attention to the situation of the current beneficiaries. In the latter, the retirees have enjoyed a significant recovery in their pension benefits levels since 1989 and their benefits have not been affected by the reform.

One of the key differences between Argentina and Uruguay is the presence in the latter of organized beneficiaries as a relevant and efficient political actor. This presence is related to the interplay of institutional factors, but also of variables that account for the balance of power of social and political actors.

The empirical evidence suggests the presence of three remarkable factors. First, the availability of direct democracy devices seems to have been decisive for pensioners' action. The 1989 referendum is a watershed for this movement in Uruguay and marked the emergence of this group as a key actor in pension politics. Second, and partly caused and triggered by the success in 1989, the beneficiaries in Uruguay were autonomous from political parties and traditional social actors. Its autonomy is combined with the fact that it represents a relevant portion of the electorate. Third, the presence of a left party with real electoral chances enhanced pensioners' capacity to negotiate and also increase their legitimacy and support in the Congress.

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