



The New Pension Reform as Global Policy

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ABSTRACT This article analyzes the emergence and spread of the new pension reforms, a set of privatizing reforms that is part of a broader neoliberal agenda for global economic policy. The new pension reforms are significant both because they revolutionize the post-war social contract and because global policy actors have been involved directly in their implementation in more than 25 countries around the world. In this sense, the new pension reforms are a case of global policy. This article defines the scope of global policy, explores the content of the new pension reforms, and shows the new pension reforms to be a global policy in their development, transfer, and implementation.

KEYWORDS *international organizations, pension privatization, pension reform, policy transfer, transnational policy*

Introduction

This article analyzes the rise and spread of the new pension reforms, a set of privatizing reforms that is part of a broader neoliberal agenda for global economic policy. What is particularly notable about the new pension reforms is that global policy actors have been involved directly in their development, transfer, and implementation in more than 25 countries around the world. In this sense, the new pension reforms are a case of global policy. While most countries implementing the new pension reforms to date have been middle-income developing countries in Latin America and Europe, the announcement by US President George W. Bush that he will pursue such reforms during his second term in office, starting in 2005, suggests that global policy trends may affect developed countries as well.

The new pension reforms are significant because they revolutionize the post-war social contract and because they exemplify the emergence and spread of a global policy. This article proposes a definition of global policy, explores the content of the new pension reforms, and demonstrates that the new pension reforms meet this definition of global policy, through an analysis of their development, transfer, and implementation.

Defining Global Policy

The approach to global policy proposed here synthesizes theories of comparative politics, policy studies, and international relations to address problems of 'governance without government' (Rosenau, 1992) at the global level. It builds on new institutionalism in comparative politics in viewing institutions and organizations as more than just the congealed rational behavior of constituent individuals (Hall, 1989; Hall and Taylor, 1996). Instead, it analyzes institutions and organizations as bodies with particular histories that shape actor preferences and behavior (Hacker, 2002; Mahoney and Rueschemeyer, 2003; Pierson, 1994). National level institutions are also viewed as increasingly interpenetrated by global actors – and in many cases as global actors themselves (Bockman and Eyal, 2002; Deacon, 1997; Fourcade-Gourinchas and Babb, 2002; Kaul et al., 1999; Nee, 1998; Powell and DiMaggio, 1991; Reinicke, 1998; Slaughter, 2004; Strang and Soule, 1998).

This concept of global policy also draws on new advances in international relations theory. The idea that global governance exists despite the lack of traditional hierarchical state structures at the international level has arisen relatively recently, building on a long lineage of thinking about international regimes (Krasner, 1983; Young, 1999). I incorporate insights from the actor-centered school of Keck and Sikkink (1998), Risse and Sikkink (1999), and Schmitz (1999), who analyze transnational advocacy coalitions, one important type of global policy actor. Other actors that contribute to global governance include international organizations (Barnett and Finnemore, 2004; Strang and Chang, 1993), transgovernmental networks (Slaughter, 2004), transnational corporations and other 'private authorities' (Hall and Biersteker, 2002).

Finally, this approach to global policy draws on current thinking in policy studies on the importance of policy networks (Mintrom and Vergari, 1998), policy communities, advocacy coalitions (Sabatier and Jenkins-Smith, 1993), and policy entrepreneurs (Mintrom, 1997). Increasingly, these trends are giving birth to a new field of 'network governance', which offers new insights into patterns of governance that differ from traditional hierarchical authority in many policy areas. These approaches share an appreciation for the role various network actors play in advancing new ideas and agendas for policy at multiple levels and interpenetrating states in a multiplicity of ways. In

integrating these theories, I seek to advance a fuller view of global policy as it currently exists.

I propose a definition of global policy that is grounded in the behavior of global and/or transnational policy actors and coalitions: Global policies are those that are developed, diffused, and implemented with the direct involvement of global policy actors and coalitions at or across the international, national, or local levels of governance. The following sections expand on this definition.

GLOBAL POLICY ACTORS

In this article, I use the terms 'global' and 'transnational' policy actors interchangeably to refer to international organizations, non-governmental organizations (NGOs), state agencies, transnational networks, transnational corporations, and professional associations that play a policy advocacy or entrepreneurial role (Mintrom and Vergari, 1998) in policy in multiple states and transnational forums. The role of global policy actors may include critiquing existing policy, offering limited proposals for policy reform, developing fully elaborated alternative policy proposals and frameworks, advocating these positions through various means, and/or playing a direct role in policy implementation.

Examples of global policy actors include an international organization like the World Bank or the International Labor Organisation (ILO) that brings multinational groups of experts together to develop global 'best practice' on pension reform, for example, and seeks to persuade governments to adopt such policies. Other examples of global policy actors are NGOs active in policy advocacy in multiple countries, loosely linked networks of professional experts who seek to influence policy in a specific direction, state agencies involved in policy advocacy in other states, or transnational corporations with offices specializing in the implementation of a particular type of policy. Global policy actors may also include coalitions or networks of actors that share similar principled ideas and agendas (Keck and Sikkink, 1998). Global policy actors are defined by the scope of their policy activity, not their constitutional nature. For instance, nation-state organizations may also be global or transnational policy actors if the scope of their policy activity is transnational (Slaughter, 2004).

Because of the lack of a single, coherent global government, global policies normally require cooperation from state organizations at the national or local level to be implemented. Thus, they often are co-determined by global policy actors and national and/or local authorities (Orenstein, 2000). Still, global policies are global in two important senses. First, they are spatially global insofar as they are replicated in whole or in part in multiple national states and thus implemented in a global or transnational policy space. Second, they are politically global to the extent that they reflect priorities or innovations of global actors. A central claim here is that policy communities that were

previously national have become increasingly open to global influence and are increasingly interlinked in a system of global governance (Cerny, 2001; Rosenau, 2003; Slaughter, 2004). Thus, even policies enacted at the national level may be considered global to the extent that they are co-determined by global policy actors.

GLOBAL POLICY PROCESS

The policy of global or transnational actors may be global in scope, but to what extent is it policy? This definition of global policy is grounded in the idea of 'governance without government' at the global level (Rosenau, 1992). It is widely recognized that there is no formal government at the international level with formal authority to carry out policies. Many policies such as pension reform must be enacted by nation-states. Yet this does not mean that processes of policy formulation, policy transfer, or implementation are not driven by transnational policy actors. Instead, multiple levels of governance may be involved in policy development, as with 'multi-level governance' in the European Union (EU; Hooghe and Marks, 2001).

To assert the existence of global policy processes does not mean that national policy processes do not exist or that they are unimportant. National social policies often reflect path dependent historical developments in particular states – differences that may be relatively enduring (Hacker, 2002; Hall, 1989; Pierson, 1994). Analysis of global policy complements this literature by adding a transnational perspective that has been lacking from most of this work. Thus a central question in the new literature on global policy is how transnational and domestic policy actors interact and influence one another in the setting of social policy agendas (Brooks, 2004; Chlon-Dominczak and Mora, 2003; Hering, 2004; Kay, 1998; Madrid, 2003; Müller, 2003; Ney, 2003; Orenstein, 2000; Orenstein and Haas, 2005; Weyland, 2004). Addressing this issue requires careful attention to different phases of a global policy process, including policy development, transfer, and implementation.

Policy Development

Policy development can be conceptualized in numerous ways. Two major elements of a definition stand out: first the process of devising new policy ideas and, second, the process of formulating a policy change in a particular locale. The strictly ideas – or drawing board – part of policy development is akin to what many authors have called 'agenda-setting' or 'policy formulation' (Baumgartner and Jones, 1993; Kingdon, 1995; Lukes, 1986). There are several different schools of thought on how this process occurs. Many contemporary accounts emphasize the role of 'policy networks' or 'advocacy coalitions' on policy formulation (Fischer, 2003: 31–5). These communities of like-minded policy actors seek to develop policies that reflect their core beliefs, which do not readily change (Sabatier and Jenkins-Smith, 1993). From these beliefs, policy actors develop a problem definition in a particular

area, a broad strategy that is generative of more specific policy ideas. For instance, the neoliberal reform agenda was rooted in trends in academic economics, new ideas and observations about economic policy. Networks of individuals trained in this tradition went on to revise economic policy in numerous areas. Neoliberal economists brought new problem definitions and strategic responses to the fore (Bockman and Eyal, 2002; Chwioroth, 2003).

A particularly important nexus within which to observe this process of global policy development is within the first adopting or innovating agency. Every global policy reform must happen somewhere first and the first instance provides a critical 'laboratory' for experiments in policy reform (Bockman and Eyal, 2002). The literature on diffusion of innovations (Rogers, 2003), which often focuses on technical innovations, places significant emphasis on first innovators and how their decision processes may differ from those of later innovators. In this article, I emphasize the role of global policy actors in the process of innovation and policy formulation broadly, but with a particular focus on their role in developing innovations in first adopting or 'laboratory' countries. I argue that a policy is global to the extent that global policy actors are directly involved in policy innovation. This direct involvement may include participation on a reform team, technical assistance to reformers, provisions of financing, or other direct, observable interventions into the planning of policy as it is enacted into law by a first innovating country or agency.

In conclusion, the notion of 'policy development' advanced here draws heavily on standard accounts of agenda setting and policy formulation in the policy studies literature. What is different is that it seeks to 'stretch' this category to encompass policy networks, advocacy coalitions, and the like that are global in scope, rather than confined to a particular national setting. It also places special emphasis on policy development in a first innovating country as a critical test of global policy in action.

Policy Transfer

A second phase of global policy making is the process of transfer of a policy innovation beyond the 'laboratory' country or agency to others around the world (Dolowitz and Marsh, 2000). This process sometimes also is labeled policy diffusion (Strang and Soule, 1998). There is nothing inevitable about this process. Some policies may not diffuse at all. It is assumed that countries and agencies may choose to adopt a policy or not; there may be substantial differences between adoptions of nominally similar policies; and the diffusion process may take a longer or shorter period of time. A process of diffusion is a process whereby multiple states or agencies adopt a policy that represents an innovation for that state or agency, but is similar in intent, purpose, and design to a policy implemented in a first innovating country.

The spread of a policy innovation may occur without the involvement of global policy actors. It may occur, for instance, by independent invention of

the policy in multiple locales at the same time, perhaps because the different countries or organizations are facing similar problems at a similar point in time. Policies may spread through reports in the print media, or through other independent data collection. Policy transfer may also occur by a cascade effect, with each country or agency observing its neighbors and peers and enacting policies that appear to work in these reference organizations or states. Policy also may be spread through the direct involvement of global policy actors. If policy is spread through direct global policy actor involvement, such as international conferences, the work of international consultants, international organization or NGO activity or other global policy actor involvement, it should be readily observable. Direct involvement of global policy actors in policy transfer is a second element of the definition of global policy proposed here.

Policy Implementation

Global policy actors may also be important in implementing reform after the initial adoption/innovation in a particular country or organization. Global policy actors such as transnational corporations (TNCs) may help to implement similar policies in many countries simultaneously and may continue to influence policy as it undergoes further modifications and adaptations over time. Global policy actors may offer ongoing technical assistance to policy regulators or actively carry out policy in different settings. Such involvement of global policy actors in policy implementation provides further evidence of global policy.

SUMMARY: DEFINING GLOBAL POLICY

In summary, I have proposed that a policy is 'global' to the extent that policy actors operating in a global or transnational space are involved in policy development, transfer, and implementation. I have tried to specify definitions employed here carefully, so as to clearly ground the discussion of pension reform as a global policy.

Global policy is a reality of today's world and a concept worthy of careful definition and study. If one makes the leap to thinking of the world as one with 'governance without government', with many governmental functions performed at the transnational level, despite the lack of a traditional governmental structure, then it is important to define what 'policy' means within this context. The following sections describe the content of the new pension reforms and show that they were developed, transferred, and implemented as part of a global policy process.

New Pension Reforms

The new pension reforms have revolutionized welfare state practices in a growing number of countries around the world. They overturn many of the core premises of traditional social security type pension systems that have dominated state social policy since the World War II. The new pension reforms are part of a broader ‘neoliberal’ agenda of economic reform that has swept the world since being enacted in Chile and Britain in the 1970s and 1980s (Campbell and Pedersen, 2001). The new pension reforms are important for three reasons: (1) they radically alter the social contract and are thus highly controversial; (2) they represent a large proportion of the total economy; and, (3) they have been implemented through a global policy process with the direct involvement of global policy actors. Everyone who expects to contribute to or benefit from a pension system should understand the nature of the new pension reforms, but few people do. This section provides a basic comparative analysis of existing social security systems and new pension reform systems that enables the reader to analyze and understand their important differences.

The basic difference between social security and new pension reform systems can be summed up in a phrase: individual, private, pension savings accounts. The new pension reforms introduce such accounts and seek to increase reliance on them as a means of funding retirement benefits over time. Of course, the nature and implications of these reforms are more complex. Social security and new pension reform systems are financed differently, administered differently, calculate and pay benefits differently, allocate risk differently, and have different implications for labor markets, coverage rates, and the economy as a whole.

Traditional social security pension systems in most countries of the world today are based on six principles:

- *The state and/or employers* administer collections and benefits;
- *Financing is ‘pay-as-you-go’*, where current payroll tax revenues are used to pay current beneficiaries;
- *Benefits are defined in advance and predictable* with clear expectations of retirement benefit level.
- *Benefits may be redistributive* within and between generations and oriented towards preventing poverty;
- *Benefits may be linked to lifetime income* to support a retirement consistent with a retiree’s previous lifestyle;
- *Risk is pooled* to provide ‘social security’ against a variety of risks, including lacking old age income, disability and survivorship.

By contrast, the new pension reforms depend in part on mandatory savings in privately-managed individual accounts. Private pension savings systems have the following features:

- *The private sector administers individual pension savings accounts in a manner similar to mutual funds.*
- *Financing is 'pre-funded', with pension benefits paid from funds collected ahead of time and invested in private accounts;*
- *Benefits are not defined in advance, but depend upon investment returns and fees in private accounts;*
- *Benefits are linked strictly to past contributions;*
- *There is little or no redistribution within or between generations, though other redistributive mechanisms may be preserved or created;*
- *Risk and reward is individualized, with individuals taking greater risk for their own retirement, but potentially realizing greater returns as well.*

Social security and new pension reform systems both require mandatory payroll tax contributions and both provide state-mandated savings for old age security. However, they do so in very different ways with very different economic consequences, reflecting different philosophies of welfare state provision. Social security systems are an outgrowth of European traditions of state social provision. They emphasize solidarity of citizens within the nation state. New pension reform systems emphasize individual saving, individual responsibility and incentives, choice and returns. New pension reform systems reflect skepticism about the role of the state in social provision and a concern about the impact of state social provision on economic efficiency and redistribution. The following sections cover differences in financing, administration, coverage, and redistribution between the two systems, emphasizing key differences.

However, note that distinctions between these two types of systems are often not as clean as those presented in a side-by-side comparison. For countries that implement them, the new pension reforms often do not replace the state social security system completely. Instead, many countries may introduce private individual accounts while reducing the size of the state social security system (see Table 1). Thus, this presentation of the differences between the two systems is followed by a discussion of how these two systems are combined in practice.

FINANCING

Differences in the financing of state social security and new pension reform systems are portrayed simply in Figure 1. Mandatory payroll tax revenues paid by employees and/or employers finance both systems. Payroll tax rates range from 6% in Canada and Indonesia to 12.4% in the USA to just over 20% in Germany and Sweden to a high of 30% or more in Italy and several Central and East European states (Fultz, 2003; Gillion et al., 2000: 141). In most developed countries, nearly 90% of employers comply with payroll tax requirements. In many developing countries, payroll tax compliance is much lower. Many countries have large 'informal' sectors of the economy that

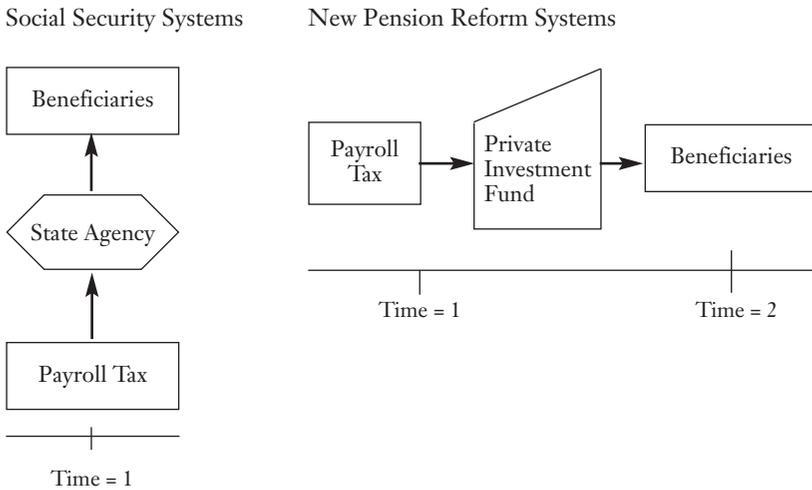


FIGURE 1 *Financing of pension systems*

operate outside the formal labor market and tax system. Some countries do not require all workers to contribute to pension systems, but only those in certain privileged sectors. Thus, the percentage of the workforce covered by pension systems in many developing countries ranges from 10–30% (Gillion et al., 2000).

While both social security and new pension reform systems rely on payroll tax revenue, they differ in the use of these payroll taxes. In social security systems, current payroll tax contributions are used to pay current beneficiaries. This type of financing is called ‘pay-as-you-go’. New pension reform systems are pre-funded. Individuals deposit contributions in their private pension savings accounts during their working life and draw on these contributions, plus investment returns and minus management fees, in their retirement.

ADMINISTRATION

Social security pension systems normally are operated by a state agency, such as a ‘social security administration’, that collects contributions, calculates and pays benefits, and makes actuarial calculations to insure future fiscal balance. A social security administration is often a semi-autonomous state agency with professional management and a supervisory board that represents the interests of key stakeholders (Gillion et al., 2000: 426). In developed countries, this regulatory structure has worked well, with a highly-trained cadre of social security experts involved in the management and administration of these systems (Reynaud, 2000). In developing countries, social security administrations have been vulnerable to political manipulation of benefit formulas

and awards (Gillion et al., 2000: 426; World Bank, 1994). Technical supervision has been lacking and funds have been appropriated by the government during fiscal crises. Contribution evasion by large 'informal' sectors of the economy has eroded the viability and poverty-reduction promises of these systems. Benefit levels and coverage have been erratic in some countries. This has provided one impetus for reform (James, 1996; World Bank, 1994).

Under the new pension reforms, governance and administration is partly privatized. Private investment companies undertake the tasks of investment management, collections, and administration. Private investment companies may be more competitive and provide better administration, investment management and returns to investment, and therefore higher pensions (Iglesias and Palacios, 2001). Some controversy surrounds this claim, since private pension funds also charge high fees to manage individual private accounts of a small size. The state role is not eliminated, but it changes from one of direct administration to one of regulating the activity of private funds. The state needs to create a strong regulatory agency to insure that regulations are being followed, that funds are solvent, and that they operate in the best interests of their many small investors. The pension fund management market also may be more or less competitive. New pension reform systems generally have higher administrative costs than a social security system, though advocates of the new pension reforms argue that this is offset by higher returns on investment in the private funds (Diamond and Orszag, 2004; Iglesias and Palacios, 2001).

REDISTRIBUTION

Social security systems combine aspects of pension savings, old-age insurance, and social redistribution in a single system. They require people to save for retirement, insure people against the risk of living to an exceptionally old age, and redistribute funds to those in relative need. Social security type systems may redistribute funds in three ways: from those who die young to those who die old, from one generation to another, and from people in one part of the income distribution to those in another. As a social insurance system, social security provides higher overall benefits to those who live longer. Social security systems also redistribute between generations. A smaller generation may have to pay more to fund the retirement of a larger generation, for instance. And the first generation of social security retirees generally reaps enormous benefits, despite having never contributed into the system (Diamond and Orszag, 2004). Finally, many social security systems tend to provide 'progressive' benefits to poorer pensioners, through mechanisms such as a 'minimum pension', a maximum pension, and benefit formulas that weight years worked in addition to earnings. Typically, men also subsidize women in social security systems, as men tend to contribute more and women to live longer in retirement.

New pension reforms dramatically reduce redistribution within pension systems, since they tie pension benefits firmly to individual contributions. This eliminates much inter-generational redistribution and rich-poor or male-female redistribution within pension systems. Advocates of the new pension reforms argue that aspects of savings, insurance, and redistribution within pension systems need to be separated out and that individual private pension funds are an excellent tools for savings, while other government programs can achieve the goals of insurance and social redistribution (World Bank, 1994). For instance, the government may choose to support a 'minimum pension' benefit that achieves redistributive goals, while leaving savings to the mandatory private funds. Similarly, the annuities insurance market can be regulated to help equalize benefits between women and men (or other groups) in retirement, by requiring annuities to use a single age scale, rather than different ones for men and women. Since women live longer on average, separate benefit scales would result in women receiving lower benefits than men with the same pension accumulation at retirement.

RISKS AND RETURNS

Social security systems are vulnerable to a number of risks, and must be carefully managed and adjusted over time to deal with them (Gillion et al., 2000: 302). These risks include demographic risks, such as unexpected changes in birth and mortality rates from generation to generation that may compromise the ability of one generation to pay for another's retirement. Indeed, a central problem of social security type systems today is broad-based demographic aging, due to increased standards of living, higher life expectancy, and reduced fertility rates in many countries (Feldstein 2002; World Bank, 1994).

In addition, social security systems may face economic risks arising from unexpected changes in growth rates, wages, or prices that may reduce the ability of social security systems to obtain sufficient revenues through payroll taxes. There are political risks, such as the failure of the political system to respond to changes in the policy environment adequately or quickly enough to head off major challenges to the system. There are institutional risks that may arise from failures of the social security administration to adequately predict system balance or to administrate benefits properly. Finally, there are individual risks that people take, arising from uncertainties about the future of a work career and earnings.

New pension reform systems face a different set of risks. Under the new pension reforms, demographic risks are substantially reduced, since pension benefits do not rely on the earnings of another generation. This is one of the major advantages of the new pension reforms at a time of demographic aging. On the other hand, individual economic risks are increased. Individual savings depends almost entirely on an individual's career trajectory and economic conditions during a working life. Those who live through poor economic

times, such as a great depression or hyperinflation, may suffer disproportionately. Institutional risks are also different, as pensions do not depend on the health of a single government agency, but on the health of a private pension fund and an annuity insurance company regulated by the state. While individual risk in these systems is generally higher (Hacker, 2002), individuals may also receive higher potential individual returns to pension savings.

REPLACEMENT, PARALLEL, AND MIXED MODELS

This article has so far emphasized the differences between pay-as-you-go state pensions and those based on private, individual pension accounts. In most countries that have adopted the new pension reforms, however, the traditional social security system has been maintained in part or in whole, alongside the system based on private, individual accounts. Müller (2003) shows that there are three types of new pension reform systems: substitutive, parallel, and mixed. In substitutive reforms, the former state social security system is completely replaced by one based on private, individual accounts. In mixed reforms, a system of private, individual accounts is established alongside a reduced state social security system. In parallel reforms, the two systems exist side by side and people have a choice of which system to join. In Table 1, the 27 countries that had adopted new pension reforms including savings in private, funded accounts by 2004 are categorized by type of reform. They are listed in each category by date of reform.

Over time, more countries have adopted either a mixed or substitutive system. Several countries, particularly in Latin America and including the first reforming country, Chile, as well as Bolivia, Mexico, and El Salvador, and Kazakhstan in Central Asia, have opted to completely replace their traditional pay-as-you-go systems with ones based on private, individual accounts. In these cases, the government often provides a means-tested minimum pension benefit. Four countries, the UK, Peru, Colombia, and Lithuania, have given people the choice to participate in either the state, pay-as-you-go system or the new private system based on individual accounts. Most other countries have adopted a mixed system, whereby the new pension reform system partially replaces the traditional social security system. Such a mixed system has been adopted in such diverse countries as Sweden, Hungary, and Argentina. Mixed systems reduce the transition costs (discussed in the section 'Transition between Systems') substantially, compared to replacement, and thus often are a better choice for countries with large pay-as-you-go systems.

Reformers sometimes argue that a partial replacement of social security is good because it enables risk diversification (Hausner, 2001). Retirees are neither completely dependent on the state pay-as-you-go system, nor on investment returns and management of their private individual accounts. In the future, people may compare their returns, and policy makers can choose whether to continue with a mixed system or to convert wholly to one or

TABLE I *New pension reform types*

<i>Substitutive</i>	<i>Mixed</i>	<i>Parallel</i>
Chile 1981	Sweden 1994	UK 1986
Bolivia 1997	Argentina 1994	Peru 1993
Mexico 1997	Uruguay 1996	Colombia 1994
El Salvador 1998	Hungary 1998	Lithuania 2002
Kazakhstan 1998	Poland 1999	
Dom. Rep. 2001	Denmark 1999	
Nicaragua 2001	Costa Rica 2001	
Kosovo 2001	Estonia 2001	
	Latvia 2001	
	Bulgaria 2002	
	Croatia 2002	
	Macedonia 2002	
	Russia 2002	
	Slovakia 2003	
	Romania 2004	

Sources: Orenstein, 2000; Madrid, 2003; Müller, 2003; Fultz, 2003; Palacios, 2003.

Note: This chart covers countries that reformed their social security systems through the introduction of mandatory, individual, private pension savings accounts. This definition leaves aside some countries that are often considered part of the new pension reform trend. For instance, Australia never had a social security-type system (rather a means-tested minimum pension guarantee funded by general tax revenue), but introduced a pension system based on mandatory, individual, private accounts in 1992. Switzerland introduced a mandatory occupational pension system in 1985, but only some of these pensions are based on individual private savings accounts (Queisser and Vittas, 2000). Netherlands also has a quasi-mandatory occupational system, based in part on individual accounts. Many African and Asian countries have publicly-managed provident funds, but not privately-managed individual accounts (World Bank, 1994: Chapters 5–6).

another system. Some argue that neoliberal reformers simply want to get a foot in the door, with the objective of totally eliminating social security sometime in the future. This may be true in some cases, as the next sections will show that along with the central pillar of mandatory savings in private, individual accounts, reformers have encouraged countries to adopt a variety of other reforms that represent steps on the way to privatization of social security.

NOTIONAL DEFINED CONTRIBUTION PENSION PLANS

While the introduction of mandatory, private savings in individual pension savings accounts is the central element of what I have called the ‘new pension reforms’, there are other planks in the reformers’ platform. These reforms share a general logic of increasing the linkage between individual contributions and pension benefits, increasing individual risk and returns, and reducing reliance on state redistribution.

Notional defined contribution plans are one element of the new pension reforms (Feldstein, 2002: 7). As mentioned, social security type pension benefits often have been linked in to prior income, at least in part. Notional defined contribution plans seek to strengthen the link between contributions and benefits in a pay-as-you-go system by creating 'notional' individual accounts. In these notional accounts, there is no actual money. Instead, contributions are recorded and credited with a notional interest rate each year, which represents the expected return on investment in the pay-as-you-go system. At the end of one's working career, the accumulation in the account forms the basis for pension benefit calculations. However, the system is still financed on a pay-as-you-go basis. These systems are supposed to make social security type systems more transparent, providing information on the rate of return, and incentives to link benefits more closely to contributions. They are also seen by reformers as a first step towards the introduction of private savings accounts, in part by changing the mentality of contributors and beneficiaries. Sweden has adopted such a system for its income-linked benefit, as have Poland and a handful of other countries (Palmer, 2002: 173–4).

VOLUNTARY PRIVATE PENSION INSURANCE

In addition, the new pension reforms have sought to extend the scope of voluntary, private pension savings of various types. In the USA, there has been a distinct trend towards the 'expansion of tax-favored retirement plans and toward the loosening of restrictions both on eligibility for them and on the purposes for which they can be used' (Hacker, 2002: 163). Governments may extend tax breaks to individuals who choose to save in voluntary individual accounts, but these tax breaks tend to go to those in the upper income brackets, rather than those at the low end of the earnings distribution (Diamond and Orszag, 2004: 137). In many countries with large state pay-as-you-go systems, introducing voluntary private savings can start the process of familiarizing people with the concept of individual private pension accounts, with an eye to eventual implementation of mandatory accounts.

TRANSITION BETWEEN SYSTEMS

One of the key issues for the new pension reforms is the process of 'transition' between pension systems. For countries with traditional social security programs, current payroll contributions are required to pay current beneficiaries. Where does the money to fund individual private accounts come from? Essentially, the current generation has to face the burden of saving for its own retirement, while also fulfilling promises to previous generations through the pay-as-you-go system. Therefore, the transition to a funded system must be financed, often by the state. The state must cover the full cost of any payroll tax contributions that are rerouted to individual private accounts. This payment can amount to a significant percentage of GDP and may come through a combination of additional taxation, borrowing, and spending reductions.

For this reason, many countries choose to limit or phase in contributions to private accounts. Sweden, for instance, initially allocated 2.5% of payroll to the private system, with 16% going to the pay-as-you-go state system (Palme, 2003: 152). Denmark began with a 1% payroll contribution to private accounts, which will rise gradually to 9% (Gern, 2002: 452). Transition costs are one reason that some global policy actors have expressed skepticism about the new pension reforms. Some economists, for instance, have expressed concern about transition costs increasing state indebtedness or forcing benefit cutbacks (Diamond and Orszag, 2004).

So far, this article has shown that the new pension reforms revolutionize social security by introducing, in whole or in part, systems based on private, individual pension savings accounts. The following sections show that such changes reflected a concerted global campaign by a transnational advocacy coalition, making the new pension reforms a case of global policy.

New Pension Reforms as Global Policy

This section analyzes the new pension reforms as global policy according to the definition already presented, as a result of global policy actor involvement in policy development, transfer, and implementation. It makes the following points:

1. The new pension reforms were developed in Chile in the early 1980s by economists embedded in a US-based movement to initiate a revolution in economic policy making.
2. Chilean reformers advised many other governments and the Chilean model became a template for reform, particularly in Latin America.
3. Major global policy actors joined the transnational coalition supporting the new pension reforms, notably the World Bank starting in 1994.
4. There is strong evidence of coordination among global policy actors within this coalition.
5. Global policy actors put the new pension reforms on the agenda in many countries by funding reform teams or conferences.
6. Many reforming countries are middle-income developing countries that receive advice and support from international development agencies involved in the advocacy coalition for the new pension reforms.
7. Reforming countries are concentrated in two regions, Latin America and Central and Eastern Europe, where the influence of neoliberal ideas has been particularly marked since the 1980s.

In short, the new pension reforms were developed by a transnational advocacy coalition that developed and spread the new pension reforms as part of a well-organized campaign. This section explores the new pension reforms as an

instance of global policy through a discussion of the development of the Chilean model, its adoption by a growing transnational advocacy coalition, the organization of an effective global campaign, and global policy actor involvement in reform implementation.

DEVELOPING THE CHILEAN MODEL

The story of the new pension reform begins in Chile in the early 1980s. After the overthrow of the Allende government by General Augusto Pinochet in 1973 with US support, Pinochet's government began a dramatic series of economic reforms inspired by 'Chicago school' neoliberal economics. Indeed, a central part of this story are the 'Chicago boys' (Kay, 1998; Kurtz, 1999; Madrid, 2003; Mesa-Lago, 1994; Valdes, 1995), a group of young Chilean economists trained at US universities, sometimes with US government support. The story of the Chicago boys has been told many times. To those on the left, it represents the violent defeat of more leftist economic policies in conjunction with US domination in Latin America. To the right, it represents an unusual and successful effort to impose right-thinking economic policy in the face of leftist revolution that is now bearing fruit in terms of economic growth and progress towards democracy. The Pinochet regime created a dramatic moment in 20th-century political economy and has become a critical policy laboratory for similar reforms in countries in Latin America and around the world.

The Chilean reforms of the 1970s and 1980s represented the vanguard of a transnational movement that had advocated market-oriented policies as a counterweight to Keynesian economics. A leading center for this new monetarist economics was the University of Chicago economics department and Graduate School of Business. Chicago school economists argued against the welfare state, suggesting that many well-meaning programs did not have the intended effects and actually harmed the welfare of the poor, while helping those in the upper and middle classes disproportionately (Hirschman, 1991).

In the 1950s, the University of Chicago entered into a US government sponsored aid program to Chile to train a group of elite economists to teach at the Catholic University of Santiago to counter the leftist economics that was dominant in Latin America at the time (Valdes, 1995: 126). This program proved remarkably successful. Chicago graduates, trained by Milton Friedman and other ultra-conservative economists, returned to Chile to build up the Catholic University economics department. They began to publicly advocate monetarist economics and years later, under the Pinochet regime, they were gradually called upon to provide a radical new direction for Chilean economic policy, together with colleagues from other major US university economics departments. The Chicago boys went on to implement monetarist inflation stabilization, labor market reforms, enterprise reforms, and new pension reforms, among many others (Kurtz, 1999).

The pension reforms designed in Chile in 1980–1 marked a major departure from the country's previous tradition of social insurance. Chile's pension system was experiencing systemic failure in the 1970s. It contained many different systems for different sectors of the economy, with civil servants and well-off individuals receiving higher pension benefits and more generous terms. It was inequitable, bankrupt, and financed by a very high payroll tax of 16–26% of wages, depending on the type of job (Edwards, 1998: 38). The new system eliminated the old social-security type system and replaced it with one based on individual, private accounts. People who had contributed to the old system received 'recognition bonds' from the state that were deposited in their individual accounts and paid a four percent interest rate (Edwards, 1998: 50). The new funds were managed by pension fund management companies that each established a single pension fund. Contribution rates were set at 10% of payroll for pensions, plus an additional 3% for disability and life insurance. This substantially reduced payroll tax rates and increased take-home pay, making the program popular among workers.

After implementing pension reform in Chile, the neoliberal reform program faltered as inflation spiraled out of control (Edwards, 1998). Yet the government held firm to its economic principles and once the economy revived and began to grow, Chile's pension reform began to bear fruit. Account balances grew rapidly; replacement rates have been high by international comparison at 78% (Edwards, 1998: 48), mostly due to rapid growth in the Chilean economy. Chile's new pension reforms began to be seen as a legitimate model for other countries, particularly in Latin America (Brooks, 2004; Nelson, 2004), but also by an international community now advocating neoliberal economic models. The next countries to reform were in Latin America. In many cases, global policy actors funded the reform teams that were to consider the new pension reforms. Chilean reformers were also central to a growing transnational advocacy coalition that supported the new pension reforms in Latin America.

THE WORLD BANK COMES ON BOARD

A turning point in the development of the transnational coalition for the new pension reform came in 1994 with the publication of *Averting the Old Age Crisis*, which brought the World Bank and its resources fully on board with the campaign for the new pension reforms. *Averting* was the result of a research project initiated by World Bank Chief Economist Larry Summers in the early 1990s. *Averting* is notable because it added a new intellectual justification for the new pension reforms, but also because it coincided with a measurable policy shift in World Bank pension policy. Before its publication, the World Bank did not consistently advocate the new pension reforms and individual pension accounts in its pensions policy advice. It more nearly mirrored World Bank practice in related social areas such as health care, where a range of advice may be given (Deacon, 1997; Nelson, 2004). In a

systematic search of all publicly available project documents related to pensions on the World Bank documents web page, it is clear that several World Bank publications as late as 1993 warned against pension privatization, arguing that it would not solve fundamental problems facing systems in Central and Eastern Europe. These publications were authored by Nicholas Barr, a well-known scholar and critic of the new pension reforms. After 1994, no project documents by the World Bank are inconsistent with the new pension reforms, indicating that a policy shift took place in conjunction with the publication of *Averting*. *Averting* is also notable for presenting a more palatable set of options for the new pension reforms that amend the Chilean model in important ways.

In particular, *Averting* advocates what it calls a ‘multipillar’ or three-pillar approach to pension reform. This relies on:

1. A first pillar of state-provided, redistributive benefits, such as a minimum pension or a reduced social security system;
2. A second pillar of mandatory pension savings in privately managed individual accounts;
3. A third pillar of voluntary savings in funded individual or occupational pension plans.

By making advice more flexible than doctrinaire advocacy of the Chilean approach and allowing room for continuation of the state social security system, *Averting* made the global policy approach more appealing to a broader array of countries without giving up the key element of adding individual, privately-managed, funded accounts. Indeed, this flexibility set the stage for these reforms to be mixed with existing social security systems in many countries in Latin America and Central and Eastern Europe. *Averting* provided a single template for reform that was flexible enough to provide a basis for reform in the developing countries where the World Bank worked, as well as in the developed democracies, where many World Bank reformers played an important role in domestic pension reform processes as well.

The transnational coalition that supported the new pension reforms grew in the early and mid-1990s to include not only the World Bank, but also US Agency for International Development (USAID), the Inter-American Development Bank (IDB), and other actors. In 1994, for instance, IDB also published a book that called for three-pillar reforms in Latin America, echoing the approach in *Averting*. It argued for increasing the linkage between contributions and benefits and increasing reliance on funded, privately-managed pensions (De Oliveira, 1994: 8–13). USAID generally followed the World Bank’s lead on broad reform strategy as well after 1994.

As in other areas of reform, this transnational advocacy coalition was not without opponents. The new pension reforms were opposed by a second coalition composed primarily of the International Social Security Association

(ISSA) and the ILO, organizations deeply involved in the spread of the early social security model pension systems. These competing coalitions occasionally debated one another head on (Beattie and McGillivray, 1995; James, 1996). They also competed in the field. However, as the World Bank led coalition moved from success to success, the ILO/ISSA led coalition increasingly looked like it was fighting a rearguard action. In 2000, ILO issued a book accepting pension privatization as one possible option for reform, though not without faults (Gillion et al., 2000). Increasingly, ILO provided support on pensions to countries where the World Bank did not advocate pension privatization, particularly in poorer developing countries in Africa, Asia, and Europe. In only a few cases did it directly oppose pension privatization in countries where the World Bank was active, as in Hungary. Nelson (2004: 50) suggests that the pension reform debates in Latin America lacked the ‘multiple models, with contested strengths and weaknesses’ that characterized debates over education and health care reform. The transnational advocacy coalition in favor of the new pension reforms thus was particularly focused around a clear platform for change after 1994, but it did face, and overcome, opposition. Reasons for the success of the new pension reforms may include:

- A clearly focused reform agenda;
- A platform that emphasized ancillary benefits for economy-wide savings and investment (Brooks, 2004);
- Consistency with neoliberal reform agenda;
- Limited opposition from vested interest groups;
- Coordination of campaign organization and ability to leverage various resources more effectively.

In sum, the new pension reforms were developed by a transnational advocacy coalition of global policy actors including Chilean reformers, US economists, US government agencies, and World Bank and other multilateral international organizations. This powerful coalition issued its manifesto in 1994 and gained the resources of the World Bank at that time, enabling the start of a major transnational policy campaign. This campaign was organized and coordinated among the main actors and was highly effective in changing nation-states’ policies on pensions – a core element of the social contract and an area of policy thought to be highly resistant to change (Pierson, 1994). The success of this transnational policy campaign should cause us to reshape views of how policy is made in both developing and developed countries.

POLICY TRANSFER

Between 1992 and 2004, the new pension reforms spread to 26 countries in addition to Chile, for a total of 27 overall (see Table 1). An additional set of countries has adopted policies consistent with the new pension reforms (for

instance notional defined contribution [NDC] or voluntary private) but without mandatory private accounts. This is true, in particular, for rich Organisation for Economic Co-operation and Development (OECD) countries that are often seen as slow reformers. Two other countries appear in 2004 to be in the midst of reform. This section seeks to demonstrate the impact of global policy actors on pension reform in country after country, and does that by analyzing publicly available data on reform in all reforming countries. While detailed case studies are not available on reform processes in all countries, a group of researchers has been steadily developing such studies (Brooks, 2004; Madrid, 2003; Müller, 2003; Weyland, 2004) and as a result, accounts of transnational advocacy coalition activity are available for many countries. This section draws on this case study research to provide a preliminary picture of global policy actor involvement in new pension reform processes.

One of the most important comparative studies of the new pension reforms in Latin America and Central and Eastern Europe was conducted by Müller (2003), who shows that in the eight countries selected for the study, all had substantial direct involvement from global policy actors. Chief among the global policy actors pushing the new pension reforms was the World Bank, actively involved in every global reform process except for Uruguay, where the World Bank ultimately loaned US\$100m for reform implementation. Müller's study took looked at two countries in four sub-regions: Central Europe, Southeastern Europe, the Andes, and the Southern Cone of Latin America. While there still may be selection bias, her study gives a good sense of the level and types of involvement of various global policy actors. In addition to the World Bank, global policy actors included leading Chilean economists, notably Jose Pinera, the former Chilean Minister of Labor, who 'personally convinced more than one Latin American president to embark on pension privatization' (Müller, 2003: 117), the International Monetary Fund (IMF), USAID, IDB, the United Nations Development Program (UNDP) and the Asian Development Bank (ADB). Many of these organizations are headquartered in Washington, DC.

In every case studied by Müller (2003), government reform teams planning the new pension reforms were financed by external actors and provided with extensive technical assistance. Table 2 is a chart detailing the types of involvement of global policy actors in the diffusion of pension reform. It suggests that global policy actors made a coordinated effort to spread the new pension reforms worldwide, with a regional focus on Latin America and Central and Eastern Europe. In all countries, several global policy actors have played complementary roles in the reform process.

Müller's findings illustrate the important role transnational and global policy actors have played in the transfer of new pension reforms to countries in Latin America and Central and Eastern Europe.

TABLE 2 *Direct involvement of global policy actors in new pension reforms*

<i>Country</i>	<i>Global Policy Actor Involvement</i>
Argentina (1994)	Chilean economists play advisory role World Bank finances reform team United Nations Development Program provides technical assistance IMF includes pension reform in loan conditionality
Uruguay (1996)	Chilean economists play advisory role IDB finances planning of reform by Uruguayan and foreign economists under leadership of a Brazilian economist IDB provides US\$150m loan to finance transition to funded system World Bank provides US\$100m to finance transition to funded system
Peru (1993)	Chilean economists play advisory role IDB provides technical support and advice World Bank provides technical support and advice
Bolivia (1997)	Chilean economists play advisory role USAID funds pension reform team World Bank provides technical assistance and finances pension reform experts World Bank requires pension privatization as part of loan conditionality Spanish banks dominate pension fund system
Hungary (1998)	World Bank finances reform team and provides technical assistance USAID provides technical assistance to pension fund regulator World Bank provides loan to finance transition
Poland (1999)	World Bank finances reform team World Bank employee appointed to head Polish Office of the Plenipotentiary for Pension Reform World Bank and USAID sponsor trips for decision makers and opinion leaders to Argentina and Chile World Bank provides loan to finance transition
Croatia (2002)	Chilean economists play advisory role World Bank finances critical conference on reform organized by East-West Institute bringing Chilean and other international experts to advocate pension privatization IMF and World Bank provide technical advice World Bank employee appointed National Coordinator of Pension Reform in Croatia
Bulgaria (2002)	IMF and World Bank conditionality requires pension reform World Bank provides US\$24m for technical assistance, study tours, and consultants USAID funds and provides technical assistance for reform preparation and public information campaign

Sources: Müller, 2003 and Orenstein, 2000.

IMPLEMENTATION

As Pierson (2004) has pointed out, many policy studies consider only the act of passing significant reform legislation, ignoring all the important changes that constitute policy development. Yet in the new pension reforms, global policy actors have typically remained involved in policy implementation. The World Bank, USAID, and other members of the transnational advocacy coalition for the new pension reforms have typically remained deeply involved in policy implementation in developing countries after the initial reform legislation. USAID has provided continuing technical advice to pension system regulators. The World Bank has encouraged and assisted governments to improve technical functioning of the new pension reforms. It has even advocated second-stage reforms to fix substantial legal and regulatory problems that emerged in implementation in Latin America and Central Asia (Gill et al., 2005). Additional global policy actors also get involved after implementation, particularly multinational fund management companies. Such companies may lobby regulatory agencies for changes and team up with other transnational actors. Studying the reform process post-implementation provides additional evidence of the impact and involvement of global policy actors that may not be captured by cross-sectional evidence gathered at the time of implementation.

Conclusions and Implications

The new pension reforms have been pursued by a transnational advocacy coalition that seeks to revolutionize social protection on a global scale. This article has defined the scope of global policy and shown the new pension reforms to be a global policy in its development, transfer, and implementation. Global policy actors are likely to remain a major force in the advancement of these reforms. It is important to understand the global policy process for the new pension reforms as well as the opportunities within this reform program for influencing its welfare outcomes.

As the field of global policy studies develops, further research will be required to establish whether the patterns explored in this article hold in other countries implementing these reforms, and in particular whether developed countries like the UK, Denmark, Sweden, and the USA are influenced by the same global policy actors in the same or different ways. Another key issue for future research is determining the relative extent to which global policy actors, local structural conditions, or domestic policy actors shape the outcomes of reform. While countries differ in the ways that they have implemented the new pension reforms (see Table 1), reform outcomes are also more similar than might be expected if only domestic factors were at play. This article has emphasized the global policy dimension, but the impact of global policy actors versus other determining factors

remains the source of much debate (Brooks, 2004; Madrid, 2003; Orenstein, 2000; Weyland, 2004). Available evidence suggests that the new pension reforms should be seen as part of a global policy process that includes global policy development, transfer, and implementation as well as interaction with domestic policy actors and conditions.

What will be the impact of the new pension reforms on the 27 developed and developing countries that have implemented them so far? And what impact will this global policy process have in developed and developing countries in the future? First, it would be fair to say that this trend towards the new pension reforms has not crested yet. Countries in all parts of the world are currently considering or planning such reforms. They appear to win support in country after country because they address some pervasive problems of social security systems. In countries where state management of pension contributions is unreliable, they switch primary responsibility for administration into private hands. In countries facing population ageing challenges, they offer a way out of long-term fiscal imbalance. At best, the new pension reforms can work to increase returns to pension savings, and may also facilitate economic growth by creating large pools of investment capital. The new pension reforms have substantial problems as well, but these appear to be downplayed by countries pursuing pension reform. In essence, the new pension reform model of state-mandated but privately managed pension insurance appears to be popular among policy makers. There is no sign that this trend is abating.

Second, it appears likely that more developed countries will adopt new pension reforms in coming years. Middle income developing countries have led the way in implementing the new pension reforms, with the help of a broad transnational advocacy coalition led by the World Bank. However, similar reforms have been implemented in leading European welfare states such as Sweden, Denmark, and the UK and now are under consideration in the US and other OECD countries. Most OECD countries have implemented reforms broadly consistent with the new pension reforms, in terms of increasing reliance on private savings, but have not yet established mandatory systems of private accounts. However, it is likely that this will happen in the next 10 or 20 years, particularly if implemented in major peer countries.

Third, the impact of such reforms will be to further consolidate a growing trend towards neoliberal economic policy; however, it may not seriously undermine the importance of state-mandated social insurance. While the new pension reforms do represent a thorough reformulation of welfare state traditions, they do not abandon them. Instead, the new pension reforms continue to project a strong state role in social provision, but as an organizer and regulator, rather than as direct provider. The new pension reforms reflect a viable means of insuring old age income, though those concerned with equity and the poor would require that they be supplemented with some protection of at least minimum standards.

Fourth, those concerned with the impact of the new pension reforms should examine the details of their operation, in order to find strategies to pursue important social goals. As with any pension system, changes in certain parameters and regulations can have a major impact on welfare. With the new pension reforms, the design of guaranteed minimums, state regulation of private managers and investment fees, annuity schedules, and many other aspects can substantially alter the welfare impact of these systems.

This article has analyzed the new pension reforms as a global policy process. As this process continues over coming decades, it will remain an important example of how welfare state policy increasingly is co-determined by global policy actors.

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RÉSUMÉ

Les Nouvelles Reformes des Pensions en Tant que Politique Mondiale

Dans cet article on analyse l'émergence et dissémination de nouvelles reformes de pensions en tant qu'ensemble de reformes pour la privatisation faisant partie de l'agenda des politiques économiques globales. Ces nouvelles reformes pensionnaires sont importantes parce que elles mettent en cause le contrat social de l'après-guerre et parce que les acteurs de la politique globale ont été impliqués dans leur mise en place en plus de 25 pays sur la planète. Dans ce sens, les nouvelles reformes de systèmes de pension sont un cas de politique globale. Cet article définit l'envergure des nouvelles politiques globales et démontre pourquoi les nouvelles reformes pensionnaires sont un cas de politique globale du point de vue de leur développement, transfert et mise en œuvre.

RESUMEN

La Nueva Reforma Previsional como Política Global

Este artículo analiza el surgimiento y difusión de las nuevas reformas provisionales como conjunto de reformas de privatización que forman parte de una agenda neoliberal de políticas económicas globales. Las nuevas reformas provisionales son importantes porque revolucionan el contrato social de la pos-guerra y porque los actores de la política global han estado involucrados directamente en su implementación en más de 25 países en todo el planeta. En este sentido, las nuevas reformas provisionales constituyen un caso de política global. Este artículo define el alcance de las políticas globales, y muestra que las nuevas reformas provisionales constituyen una política global desde el punto de vista de su desarrollo, transferencia e implementación.

BIOGRAPHICAL NOTE

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