WORLDVIEW

Pension privatization in crisis: Death or rebirth of a global policy trend?

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Abstract From 1981 to 2007, more than thirty countries worldwide fully or partially replaced their pre-existing pay-as-you-go pension systems with ones based on individual, private savings accounts in a process often labelled "pension privatization". After the global financial crisis, this trend was put on hold for economic, ideational, and institutional reasons, despite a rise in critical indebtedness that has facilitated pension privatization in the past. Is the global trend towards pension privatization dead or in the process of being reborn, perhaps in a somewhat different form? Several recent trends point to rebirth as policy-makers scale back public and private pension systems, attend to minimum pensions and "nudge" rather than mandate people to save for retirement.

Keywords pension scheme, private pension scheme, defined contribution plan, social security reform, economic conditions, international

Introduction

From 1981 to 2007, more than thirty countries worldwide fully or partially replaced their pre-existing social security pay-as-you-go (PAYG) pension systems with ones

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based on individual, private pension savings accounts in a process often labelled "pension privatization" (cf. Brooks, 2005; Clark and Whiteside, 2005; Ervik, 2005; Guardiancich, 2008; Kay and Sinha, 2008; Madrid, 2003; Müller, 1999, 2003; Orenstein, 2008; Weyland, 2005).[1] To a large extent, pension privatization was fostered by a transnational advocacy campaign that started with Chilean consultants and multinational companies in Latin America and later took hold of the Social Protection and Labour sector of the World Bank. The World Bank, after the 1994 publication of its landmark volume "*Averting the old age crisis*", played an enormous role in advocating mandatory funded pensions in Central and Eastern Europe in the 1990s and 2000s. The economic and fiscal crisis of post-communist countries facilitated the World Bank's efforts at transformative pension reform by promising long-term relief and elevating the importance of international financial institutions (Müller, 2003). This campaign also reshaped the pension debate in the European Union (EU), as eight countries with partly-privatized pension systems joined the EU in 2004 and 2007. Pension privatization, which started as a regional trend in Latin America and Central and Eastern Europe in the 1990s, later spread to Africa and Asia, with Nigeria (Casey and Dostal, 2008) and Taiwan adopting private pensions in 2004.[2] This pattern of diffusion broadly replicated the regional spread of first pension systems worldwide starting in 1889, with Europe and Latin America taking the lead and other regions of the world following suit. In the case of pension privatization, however, Latin America became the primary innovating region rather than Europe and diffusion occurred much more rapidly — both within and especially across regions (Orenstein, 2003, 2008).

Pension privatization has been less dramatic in developed Western countries, but still has happened to some extent through the back door (Natali and Rhodes, 2007). Germany cut back its generous public pension system in the 2000s and simultaneously introduced a system of voluntary, state-subsidized pension savings accounts (Palier, 2010). The former President of the United States (US), George W. Bush, notably tried and failed to privatize "Social Security" in 2005. Yet, like other wealthy Member States of the Organisation for Economic Co-operation and

1. The term "pension privatization" is used here to refer to the replacement of social security-type pensions with ones based on individual, private pension savings accounts. The trend towards pension privatization has gone hand-in-hand with a variety of other measures designed to reduce redistribution through state-managed pay-as-you-go pension systems and tighten the link between individual contributions and benefits. Such reforms are considered as "pension privatization," since they tend to reduce reliance on the State and facilitate a move to private provision in countries or circumstances where full pension privatization is politically unfeasible. See the World Bank's online "Pensions" database (2010) and Yermo (2002) for further detail.

2. In Nigeria, the previous PAYG social insurance systems for private-sector and public-sector workers, respectively, were completely replaced by a unified system of mandatory retirement savings accounts. In Taiwan, the system of retirement savings accounts is mandatory for new entrants to the labour force, but voluntary for other workers.

Development (OECD), the US found a variety of other ways to minimize or cut back on state provision for old-age retirement while placing increasing responsibility and risk on individuals (Hacker, 2006; Munnell and Sass, 2007).

The global financial crisis of 2008-2010 seems to have halted, at least temporarily, the trend towards mandating savings in individual, funded pension accounts worldwide, the core reform of the pension privatization trend. Since the crisis, no countries have adopted mandatory individual accounts and several that were considering doing so have backed away. Two countries — Argentina and Hungary — have even abandoned their individual, private account systems established in the 1990s. Yet the underlying economic and demographic factors that helped to facilitate the spread of pension privatization, such as demographic ageing (i.e. declining fertility rates and increases in longevity), the increasing number of years spent in retirement (including in early retirement), and growing fiscal pressures on government, are still in place in many developed and developing countries. So, why has the trend towards pension privatization seemingly halted? Is it a pause for temporary economic reasons or caused by a longer-term shift in philosophy? When the crisis fades, will pension privatization continue sweeping the world or is it in the process of being swept away?

This article seeks to advance a debate about the impact of the global financial crisis on social security systems worldwide launched in a themed issue of the *International Social Security Review* in 2010 (McKinnon, 2010). As part of the issue, McCord (2010) analyzed international organization responses to the challenges of fiscal crisis on social protection systems in developing countries. Bonnet, Ehmke, and Hagemejer (2010) discussed the "global social protection floor" initiative of the United Nations, led by the International Labour Organization, while Pino and Yermo (2010) assessed the damage to public pension funds. Whereas these works offered preliminary assessments of an ongoing crisis, this article addresses the crisis as a critical juncture with the potential for enduring impacts on global pensions policy and pension privatization worldwide.

Pension privatization has been controversial because it radically revises the post-war social security contract in countries around the world. Franklin D. Roosevelt and other architects of the post-1945 world order deemed government guarantees of pension (and health) benefits as necessary to ensure peace by reducing the social turmoil that had brought communist and fascist governments to power in Europe. The International Labour Organization's 1944 Declaration of Philadelphia was the key proclamation of this post-war social policy consensus. Most countries sought to achieve these goals in part through state-sponsored PAYG pension systems in which current contributors paid the pensions of current beneficiaries, but were promised a pension themselves that would increase in line with average wages in the economy.

Yet the post-war social consensus began to fray during the 1970s, in part because of the rising cost of social guarantees in the rich OECD countries and the failure of many poorer countries to implement basic social rights. During the free-market era initiated by Ronald Reagan and Margaret Thatcher in the 1980s, furthermore, returns to capital outpaced returns to labour as wages stagnated. Population ageing meanwhile required PAYG pension systems to accommodate a rapidly growing number of beneficiaries. The ensuing fiscal problems of PAYG pension systems led policy-makers around the world to consider increasing individual responsibility for retirement saving. Pension privatization seemed to offer a comprehensive answer to the fiscal problems of social security pension systems: force individuals to save for retirement in tax-sheltered accounts and cut back the level of state guarantees. Rather than relying on the dominant role of the state, individuals could seek greater returns in financial market investments or rely on other private sources of income.[3]

However, not only are financial market returns highly uncertain and variable, but making pensions reliant on individual savings and investment returns — rather than on average wage growth, as in PAYG pension systems — significantly alters the manner in which wealth and income are distributed. Public pension systems often account for 10 to 15 per cent of GDP in most wealthy OECD countries and 5 to 10 per cent in many developing countries. Redirecting pensions has a big impact on the macroeconomy, creating significant winners and losers. Typically, women and lower-income earners are the big losers from pension privatization, since they may have significant non-contributory periods, broken employment histories and/or lower levels of savings. High-income earners are usually big winners, since the contributions made to their individual accounts are based on higher earnings throughout relatively uninterrupted work lives. Unlike in risk-pooling social security systems, there is normally no redistribution in systems of individual accounts. The even bigger winners, however, are financial services companies, who earn enormous administrative fees running pension funds. These administrative fees are as much as four to five times those of state social security systems. And then there is the risk that financial markets can go down as well as up, a risk borne by the individual. Financial crises are particularly damaging to funded pensions, eroding the total value of deposits.

Despite these downsides, pension privatization has been popular with governments seeking to confront their long-term fiscal problems, until the crisis that is. Indeed, some scholars have found that high debt levels increases the propensity of countries to adopt these reforms by forcing policy-makers to address a problem that they would rather put off and, in developing countries, by strengthening the hand of reform-minded International Financial Institutions (IFIs). Müller writes that "critical indebtedness also increases the likelihood of the

3. Barr and Diamond (2009, 2010) provide a comprehensive discussion of pension reform options in the context of the several competing objectives of pension systems, including income-smoothing over the life cycle, redistribution, and poverty reduction.

IFIs involvement in the local pension reform arena" (2003, p. 15). The puzzle is that the global financial crisis has produced a dramatic rise in critical indebtedness in recent years. Yet reform has slowed. Why?

A trend in reverse

Part of the explanation for the present rethink of pension privatization is surely economic. While pension privatization reduces governments' long-term fiscal exposure, it increases government debt in the short and medium term. That is because during the first generation, pension privatization requires governments to keep their commitments to pay current pensioners while allowing current contributors to divert funds to their individual accounts. Government financing makes up the difference. As a result, governments with extremely stretched finances may put off pension privatization (Brooks, 2005). The global financial crisis, and fiscal stimulus efforts that followed, badly affected government balance sheets. Supposing that economic factors are the main force slowing the adoption of pension privatization at present, we should expect the trend to resume as countries pull out of the crisis. In this case, the trend would continue after a temporary lull.

Yet there are reasons to think that the pause in pension privatization could be more enduring. This would be the case, for instance, if the crisis has caused a change in the realm of ideas or in the make-up of the institutions that have played such a large role in supporting pension privatization worldwide. There is plenty of evidence to suggest that the global financial crisis has had a major impact on economic thinking, at least in the developed West, and on the institutions that have advocated for reform.

For one, the magnitude of the economic collapse may have changed attitudes towards the viability of financial markets as an alternative to state provision. One report commissioned by the Asian Development Bank estimated that global stock market valuations fell by USD 28.7 trillion in 2008 (Bloomberg, 2009), or approximately by half, according to another study by the McKinsey Global Institute (Roxburgh et al., 2009) that also confirmed the USD 28 trillion figure (see also Bartram and Bodnar, 2009). This collapse was made more dramatic by the failure of many of the leading banking and securities institutions, such as Lehman Brothers, and the effective nationalization or forced mergers and acquisitions of others. The largest banks in the United States, Citibank and Bank of America, lost as much as 90 per cent of their share value at one point. Though equity markets have recovered since the nadir of 2008, such dramatic declines badly affected popular perceptions of the benefits of private pensions. In the United States, for instance, the well-known 401(k) retirement savings plans began to be referred to jokingly as 201(k). Such jokes at the expense of voluntary private pensions reflected reduced confidence in the financial sector overall, including as a source of retirement security. This change of sentiment could be enduring, changing consumer and savings behaviour over decades.

The severity of the crisis also had the effect of convincing many people that the fundamental model of free market capitalism was flawed. Rather than being a path towards higher productivity and efficiency, more people now see free market capitalism as crisis-prone and potentially dysfunctional (Stiglitz, 2010; Birdsall and Fukuyama, 2011). The free market model of capitalism is based on a number of factual and causal claims that suddenly appeared dubious to many people: that markets are always more efficient than governments, that markets distribute welfare more effectively than governments, that markets fail less often than governments, that markets are self-regulating, and that government intervention is necessarily distorting and should be kept to a minimum. The thinking behind pension privatization is part and parcel of these broader free market capitalist ideas, despite not being part of the original "Washington Consensus". It is based on the ideas that markets can provide income-related pension benefits more effectively than governments and private companies are better managers of pension funds than governments.

To say the least, these ideas have come under critical scrutiny worldwide. Even Alan Greenspan, Chairman of the Federal Reserve of the United States from 1987 to 2006 and the most prominent advocate of deregulated markets was forced to admit that he was wrong about core parts of his belief system, particularly the ability of financial institutions to self-regulate. State regulation clearly had to be strengthened. As a result, the crisis feels like the end of an era in Western finance. A wide variety of voices from all parts of the world have questioned the relevance of free market ideology in economic policy. This new ideological climate undoubtedly has made it harder to advocate or defend pension privatization in most countries.

This sudden shift in the ideational landscape changed the balance of debates within the World Bank and other international financial institutions concerning pension privatization. While a wide range of external critics (Arza, 2008; Barr, 2002; Barr and Diamond, 2009, 2010; Blackburn, 1999; Fultz and Ruck, 2000; Minns, 2001) had always opposed pension privatization, criticism within the World Bank and other international financial institutions had been muted during the 1990s and early 2000s. This began to change when, in 1999, the then World Bank Chief Economist, Joseph Stiglitz, sponsored a conference intended to throw cold water on the Bank's pension privatization advocacy campaign. Orszag and Stiglitz (2001) authored a paper arguing that the campaign was based on "ten myths" that needed to be debunked and raised questions about the practices of the Bank's Social Protection and Labour sector. This frontal attack from the Chief Economist did not cause any noticeable shift in the operational division of the Bank's pension advocacy campaign, which worked hard to critique the paper and prevent Stiglitz from having an impact on policy. The conference, however, appears to have created intellectual room for further critiques that developed in subsequent years. In 2005, Gill, Packard and Yermo (2005) published a tough criticism of World Bank pension advice in Latin America, arguing that pension privatization had saddled early clients with enormous fees. And in 2006, an internal World Bank evaluation report chastised the Bank's pension privatization campaign for pursuing reform in countries that lacked necessary preconditions and failing to address issues of pension system coverage and adequacy (Kay and Sinha, 2008, pp. 6-7). The World Bank consensus on pension privatization was beginning to fray even before the onset of the crisis.

Another major setback to the pension privatization campaign came in Chile, that most symbolic of places, where the centre-left government of President Michelle Bachelet initiated a major reform of Chile's pioneering private pension system in 2006. In her introduction to the report of the Pension Reform Commission, Bachelet announced that the privatized system had "low coverage . . . very little competition and high commission charges . . . and discriminates against women" (Kay and Sinha, 2008, p. 7), an incredible admission for a country whose pension system was held up as an international model. Her reforms dramatically increased benefits for the poor, women, and the lowest 60 per cent of earners by replacing a previous minimum pension with a much more generous Solidarity pension (Rofman, Fajnszylber and Herrera, 2008, p. 36), along with a variety of other changes aimed at reducing costs and increasing equity. The Bachelet reforms proved highly popular and sent a strong signal worldwide that pension privatization had major drawbacks that needed to be addressed.

Still, it was the global financial crisis that put a stop to the pension privatization advocacy campaign led by the World Bank, by changing the terrain upon which these debates took place, sharply increasing the credibility of critics and silencing prominent advocates. Reformers quietly shifted into other areas of the Bank while critics basked in the limelight. In one important instance, Robert Holzmann, Director of the Bank's Social Protection and Labour sector and leader for many years of its pension privatization advocacy campaign, reached a mandatory service cap and was replaced by a labour market policy expert with limited interest in pension reform advocacy.[4]

In addition, the global financial crisis forced significant structural changes in the international financial institutions that advocated pension privatization. As a result of the G-20 meetings, these institutions have been rethought and reprogrammed in ways that may have a significant impact on their willingness and ability to pursue pension privatization worldwide. The World Bank, under the leadership of Robert Zoellick, shifted away from a strict focus on free market liberal policies and began to advocate "inclusive and sustainable globalization", both environmental and social.

4. The current Director of the Social Protection and Labour sector of the World Bank is Mr. Arup Banerji.

World Bank advocacy of pension privatization appeared not to be a part of this agenda. Changes were also afoot at the International Monetary Fund (IMF). In exchange for a three-fold capital increase to USD 750 billion, the IMF agreed to reduce its use of neoliberal policy conditionalities, focusing instead on fiscal and monetary management. These changes were enacted as part of a process to increase the capital commitments of developing countries, some of which had resented the imposition of IMF conditionalities in the past.

As a result, in contrast to previous crises (such as the Latin American debt crisis, the post-communist transition crisis, and the Asian financial crisis), during which international financial institutions pushed pension privatization on weakened governments facing banking and fiscal crises, this time they did not. Even countries experiencing catastrophically weakened finances and applying to the IMF for support did not come under pressure to adopt pension privatization.[5] When the IMF responded to fiscal distress in several countries in Central and Eastern Europe, that organization did not advise further efforts at pension privatization, even in countries where reform was planned, but had stalled, as in Ukraine. Quite to the contrary, the IMF approved plans to scale back private pension systems in countries such as Hungary and Latvia, for straight-forward fiscal reasons. This was completely unlike its behaviour in the Asian financial crisis, in which the IMF supported the World Bank's efforts to use the occasion to advocate pension privatization in the Republic of Korea.

Economic, ideational and institutional reasons all contributed to a sudden halt in pension privatization worldwide. While economic factors restraining countries from adopting pension privatization might be overcome more quickly, ideational and institutional factors might prove more long-lasting. While it is impossible to know for sure what will happen next, some trends are already visible and may indicate future directions.

Death or rebirth?

In reviewing present trends, I will argue that pension privatization is not entirely dead, but rather is in the process of being reborn — at least in the Hindu sense of continuing to exist in spirit, yet transmigrating into a different form. Pension privatization has become something else, yet its spirit is still with us.

Two recent, observable trends support this stance. First, while several of the countries that privatized their pension systems have scaled back their commitment to individual, funded accounts, only two — Argentina and Hungary — had

5. The IMF had long expressed greater skepticism towards the pension privatization trend than the World Bank, not least because the IMF was more sensitive to the fiscal problems created by the transition to a funded system. However, the IMF ultimately supported the Bank's objectives from the mid-1990s through 2006, in part by exempting transition-related debt from overall debt levels.

eliminated their private pension systems, at least by January 2011, when this article went to press.[6] The crisis has not persuaded most countries to scrap this reform. Second, and perhaps more importantly, the underlying economic problems that helped to foster the trend towards pension privatization have not been resolved, but only exacerbated by the crisis.

Pension privatization did die in Argentina, showing how simple it can be for governments to step back from pension privatization. Yet so far, Argentina remains relatively exceptional. During each of the last two economic crises in Argentina, in 2001 and 2008, the government reached into the piggy bank of the private pension system to grab assets to prop up government finances. In the first case, in 2001, the Argentine government forced private pension funds to transfer their holdings into government bonds and then defaulted, eventually paying out at a reduced rate (Bertranou, Rofman and Grushka, 2003, p. 109). This set the stage for dismantling the private system in 2008. The Kirchner government had been hostile to private pensions since at least 2007, when Argentina's Congress passed a law allowing participants to switch back into the state pension system and requiring older workers with low balances to do so. Although the government launched a public relations campaign to convince workers to switch out of private funds, only two million of 11 million registered participants did so. When the crisis hit, the government took it as an opportunity to shut the private system down. The government transferred the assets of the private funds to the state social security agency and credited years worked under the private system towards a state pension. While the closure of the private, funded system in Argentina did not elicit major protests from contributors with an average age of 40, neither was the scheme founded in the mid-1990s deeply unpopular (Ferro and Castagnolo, 2010). Rather, the government seems to have acted out of ideological, political, and short-term fiscal motives.

Hungary also effectively dismantled its privatized pension system in December 2010, when the government of Fidesz leader Viktor Orbán imposed penalties on those choosing to remain in the funded system. These changes forced millions of citizens to transfer a total of around USD 14 billion in assets back to the state PAYG system, money that was used to reduce Hungary's high government debt. Prime Minister Orbán and his party had never supported the funded, individual account system and had sought to scale back contributions during his last period in office in 1998 as well. However, the pressure of the fiscal crisis was decisive in the move to scrap the funded system altogether as was the IMF's tacit approval of this change.

In contrast to Argentina and Hungary, several of the main reforming countries in Central and Eastern Europe have scaled back their privatized pension systems,

6. Bolivia announced the "nationalization" of its private pension funds in December 2010, but planned to maintain these funds under state ownership while creating a separate "Solidarity" fund to supplement pension benefits, similar to the Bachelet reforms in Chile.

rather than eliminating them (World Bank, 2009; Chlon-Dominczak and Stanko, 2011). Slovakia made its private pension system voluntary, enabling workers to choose to contribute or, instead, to rely solely on the state pension system. Poland, Romania and the three Baltic states reduced or curtailed planned increases in contributions to the private system. Poland even considered scrapping its private system, but ultimately decided against. The European Union played a role in this by limiting the extent to which Central European governments could exempt pension debt from Maastricht criteria calculations. These cutbacks show the short-term/long-term tradeoffs implicit in pension privatization (Jacobs, 2008). Governments like the long-term benefits of pension privatization, since it takes pension liabilities off government books. In the short term, however, pension privatization requires paying burdensome transition costs. At times of fiscal austerity, short-term fiscal pressure suddenly may make governments unwilling to cover these costs. Still, the fact that despite these problems countries including Chile are continuing to rely on individual pension savings accounts indicates that pension privatization as a practice and as an idea is far from dead.

In some ways, the financial crisis may have set the stage for an increasing reliance on private pensions. Any retrenchment of public, PAYG pension systems naturally leads to an increased reliance on other sources of income, including private pensions. And there is no doubt that cuts in public pensions will be a major outcome of the crisis. In Europe, governments employed extreme deficit spending to counter a recession, reducing the possibility of doing the same to perpetuate out-of-balance pension systems. Then European governments, starting with Greece in 2010, were hit with declining investor confidence in their sovereign debt. This precipitated a wave of budget cutting. Greece increased its retirement age, eliminated extra-month pensions and enacted other austerity measures with long-term effect. Romania, also under an IMF programme, announced a 15 per cent cut in public pensions in order to bring the budget deficit down, but was rebuffed by its own Constitutional Court on the basis that pensions were an acquired right that could not be adjusted in ad hoc fashion (BBC, 2010). Ukraine similarly came under pressure to cut pension spending with its IMF package. A similar trend has occurred in the developed West, as the United Kingdom accelerated a planned increase in its retirement age from 65 to 66 and France increased its retirement age from 60 to 62 in the face of dramatic protests. Few countries will escape the crisis without making serious cuts to existing pension systems, including, but not limited to, increases in the retirement age.

As public PAYG pensions are cut, retirees will need more income from other sources and will naturally turn to private savings, including savings in individual pension savings accounts. By forcing deep cuts in public pension systems, the crisis could ultimately increase demand for funded pensions in one form or another.

The European Commission's recent Green Paper on pension reform gives further evidence that the trend towards pension privatization is not entirely dead. The Green Paper "Towards adequate, sustainable, and safe European pension systems", starts with the observation that:

> The recent financial and economic crisis has aggravated and amplified the impact of the severe trend in demographic ageing. Setbacks in economic growth, public budgets, financial stability and employment have made it more urgent to adjust retirement practices and the way people build up entitlements to pensions.

Noting a distinct trend over the last decade to "lower the share of public PAYG pensions in total provision while giving an enhanced role to supplementary, prefunded private schemes, which are often of a Defined Contribution (DC) nature", the paper makes a number of critiques of the resulting systems and recommendations intended to strengthen their functioning in future. It recommends that Member States may want to address issues such as minimum pensions, coverage of atypical workers and involuntary employment breaks. Increases in the retirement age are seen as the most significant option for restoring pension finances. Better regulation is also needed to ensure that private pensions remain safe.

However, the report also concludes that the trend towards private pension funds continues, particularly in occupational pension systems, where employers are increasingly replacing defined-benefit systems that reward longevity of employment with a particular company with individual pension savings accounts.

Pension privatization is thus subject to countervailing trends. Its advocacy campaign no longer has the wind it its sails. Governments have been forced to scale down and eliminate privatized systems in an effort to protect public finances. Yet, as public pension systems continue to be cut, reliance on funded pensions and other alternative sources of income continues to grow. For these reasons, it seems that one should anticipate a rebirth, rather than a death, of the pension privatization trend in the years ahead.

Two recent trends point to the direction that such a rebirth might take: a renewed interest in the design and implementation of minimum pensions (Bonnet, Ehmke and Hagemejer, 2010; Casey and McKinnon, 2009; ILO, 2009) and a move towards automatic enrolment rather than mandatory participation in pension savings schemes. These two trends may indicate a future in which the campaign for mandatory, funded pension savings in individual accounts gives way to policy options that address the problematic distributive consequences of pension privatization and allow for new forms of individual choice.

One rapidly emerging international trend in pensions is the rising interest in minimum pensions, in part because of the volte face in Chile and because of a campaign led by the International Labour Organization (ILO, 2009; Holzmann, Robalino and Takayama, 2009). While the ILO had limited traction in international pension debates compared to the World Bank from 1994 to 2006, it has had greater success with a new initiative to advocate for the design and implementation of minimum guaranteed pensions worldwide (McCord, 2010, p. 40). The ILO's proposal to create a "social protection floor" that includes basic pensions coincides with the current *zeitgeist*.[7] It also converged to some extent with the post-crisis policy priorities of the World Bank. For the World Bank, minimum pensions were always seen as one option for a basic state social security system that would be redistributive and pro-poor, albeit at a minimal level of income. The World Bank had advocated minimum pensions in its seminal report, *Averting the old age crisis*, and helped to design them as a complement to pension privatization. After the crisis, an emphasis on minimum pensions allowed the Bank to appear more sensitive to the plight of the poor, more in line with the times, and therefore more relevant as an advisory body. From an ILO point of view, an emphasis on minimum pensions provided a way to reframe the global pension debate to address the key problems of developing country pension systems: lack of coverage and poverty reduction. A renewed emphasis on minimum pensions thus allows both organizations to remain relevant in changing times. It does not, however, exclude the possibility of a growth in private pensions in the future, but rather ensures that such a transformation can be carried out with better protection for the poor.

A further trend that has taken shape in the English-speaking countries in particular is a move away from mandatory savings and towards "behavioural" approaches that encourage, rather than mandate, future-oriented savings plans (Thaler and Sunstein, 2008). While the introduction of mandatory savings has been put on hold, plans that "nudge" employees towards private savings have gone forward during the crisis. The United Kingdom, which is in the process of adapting the New Zealand model, is an important case in this regard. Despite massive budget cuts, including the acceleration of a planned increase in the official retirement age from 65 to 66, the Conservative-Liberal Democrat coalition government of David Cameron decided, after some consideration, to proceed with the previous Labour government's plans to introduce a National Employment Savings Trust (NEST) pension system. This system features auto-enrolment and mandatory employer and employee contributions, as well as significant tax breaks for savers (Williams, 2010).

These "nudge" type pension systems encourage workers to contribute to individual pension savings accounts by making enrolment automatic when taking a new job or changing employers, but allowing workers to opt out of contributions if they prefer. Often, there is a tax incentive or government subsidy to contribute. This strategy is rooted in behavioural economics studies, which have shown that individuals have a greater propensity to save when they are automatically enrolled in pension savings plans; importantly, workers rarely revise or reconsider their pension

7. Interview with Dalmer D. Hoskins, former Secretary General of the International Social Security Association (ISSA), May 2010.

plans once they are initially made. At the same time, under "nudge" plans, individuals may choose to opt out and there may be a wide variety of reasons to do so. This allows governments to encourage adequate pension savings, while not being so heavy-handed as to mandate private savings. The United Kingdom has coupled its reform with a significant dose of state regulation of the "nudge" funds, driving down fees and structuring investment options by negotiating hard with the fund industry.

Conclusions

The transnational campaign for pension privatization that spread mandatory, private pensions around the world is in crisis. As pension fund assets were decimated during the global financial crisis, the free market model itself was called into question. The international financial institutions pushing pension privatization similarly were forced into reorganization.

However, the trend towards funded pensions has not gone away. Demographic ageing is accelerating in many countries and PAYG systems find themselves the target of increased budget austerity. As a result, what appears to be happening at present is a rebirth, rather than a death, of the trend. Moving away from a focus on mandatory, individual private pensions that were the centrepiece of the previous World Bank campaign, in coming years we will see the rise of a variety of other ideas and models, yet the spirit of privatization is not dead. "Funded" minimum pensions (i.e. tax-financed and/or pre-funded using a sovereign fund-type mechanism) and nudge-type automatic enrolment in pensions may become part of the future pension landscape, as well as notional defined contribution and quasi-mandatory occupational pensions. This constitutes a broadening of the stream. Global pensions policy has shifted from an emphasis on harnessing free market wizardry to controlling costs through raising the pension age, better covering the poor, and nudging people to save, rather than mandating them to do so. This reflects the outcome of a debate that has taken place for years within the pension policy community, but took on new form and immediacy with the effects of the global financial crisis.

The global financial crisis has had a strong ideational and institutional impact, forcing policy-makers to rethink economic development policy worldwide. The rebirth of the pension privatization trend provides one instance that may help us to discern where global economic policy may be heading in the decades ahead.

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