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Mitchell A. Orenstein

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Out-liberalizing the EU: pension privatization in Central and Eastern Europe

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ABSTRACT The pension privatization trend that swept Central and Eastern Europe (CEE) between 1998 and 2004 presents a conundrum when viewed from the perspective of European Union (EU) enlargement. While these reforms took place at around the same time as EU accession, the EU did not use its formidable membership conditionality to impose them on CEE accession states. This article reviews the major causal explanations for pension privatization in CEE and finds that a critical factor was the transnational policy campaign launched by the World Bank and allied organizations in the mid-1990s. Pension privatization appealed to CEE accession states because it was significantly more 'liberal' than EU social policy norms. Pension privatization enabled CEE liberals to out-liberalize the EU in an effort to further a low-wage, low-cost development strategy and attempt to exert leadership in EU economic policy-making.

KEY WORDS Central and Eastern Europe; conditionality; pensions; persuasion; privatization; transnational actors.

INTRODUCTION

The pension privatization trend that swept Central and Eastern Europe (CEE) between 1998 and 2004 presents a conundrum when viewed from the perspective of European Union (EU) enlargement. While these reforms took place during the EU accession process, the EU did not use its formidable membership conditionality to impose them on CEE accession states. Quite the contrary, Ferge and Juhász (2004: 234) show that the EU played an 'unduly modest role in shaping CEE social policy during the enlargement,' and little to no role in reforming pension systems in the region (see also Deacon 2000; Vaughan-Whitehead 2003, 152–6; Potůček 2004). Therefore, the rise of pension privatization in CEE cannot be attributed to the 'active leverage' of the EU (Vachudova 2005). The trend towards full or partial replacement of pay-as-you-go pension systems with ones based on private individual pension savings accounts (what I term 'pension privatization') was seen by

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many experts as an explicit rejection of the European social model and an 'Americanization' of social policy (Ferge and Juhász 2004: 249; Bohle and Greskovits 2006; O'Dwyer and Kovalčík 2007: 4). The question that arises is: if the EU did not demand pension privatization, why did so many CEE countries adopt it just before and during the accession process?

This paper explores the major causal explanations for pension privatization in CEE and argues that this trend was set in motion by a transnational policy campaign led by the World Bank and the the United States Agency for International Development (USAID). It is therefore a case that looks beyond conditionality insofar as there were no explicit EU rules (Epstein and Sedelmeier 2008). For the most part, this campaign relied on norms-teaching and persuasion rather than on hard conditionality. It found fertile ground in CEE for a number of reasons, one of which was that pension privatization differed from EU social policy norms. CEE states did not seek to replicate EU pension systems, but to surpass them by adopting more 'modern' policy advice from the World Bank and USAID. Pension privatization enabled CEE states to signal the rise of a more liberal approach to social welfare issues in the centre and east of the continent.

These findings have substantial implications for the study of Europeanization. First, they suggest that the EU has collaborated with other transnational actors to pursue policy change in new accession states, surrendering some control of the policy agenda in the process. Second, they show that in at least some issue areas, under some conditions, persuasion, rather than conditionality, can be a powerful mechanism of transformation (though see Sasse 2008 and Schimmelfennig 2008 for different findings). Third, they illustrate that an important driver of CEE state policy during the accession process has been the desire to out-liberalize the EU. Out-liberalizing the EU makes sense for two reasons. First, CEE states stand to gain from economic liberalization because they are relatively low-wage, low-cost production zones within the EU. Economic liberalization, by reducing labor costs, fits with their overall development strategy. Second, relatively weak CEE states see out-liberalization as an opportunity to exert political-economic leadership within the EU. By distinguishing themselves as leaders in economic reform, they increase their prominence as members of that group of EU states that wishes to push the EU towards a more liberal economic model. In short, while conditionality has been emphasized as the dominant dynamic of the accession process, it has not been the only game in town. As the impact of conditionality diminishes in coming years, the dynamic of out-liberalization is likely to increase in importance, forcing policy changes throughout the EU.

PENSION PRIVATIZATION

Before exploring causal explanations for the adoption of pension privatization, it is important to describe what pension privatization consists of and how widespread it has become in CEE states. The trend towards pension privatization began in Chile, which in the early 1980s fully replaced its traditional, pay-as-you-go type pension system with one based on privately managed, individual pension savings accounts. In pay-as-you-go pension systems, current taxpayers pay for the retirement benefits of current retirees via a state social security administration. In funded individual-account systems, like the Chilean one, individuals receive a retirement benefit that depends on the amount they have invested in their individual accounts over a lifetime of work and the rate of return on investment minus fees.[1] The fund is managed not by a social security agency but by a private investment company in most cases and is used at the end of the working life to pay for retirement income. Most funds are typically invested in-country, in stocks and government bonds, though a small percentage may be invested abroad. Thus, the means of financing and administration of pension privatization and social security type systems differ greatly. They also differ in their distributive consequences. Whereas many (though not all) pay-as-you-go pension systems redistribute income from wealthier to poorer pensioners, personal private pensions individualize risk and returns. Often, countries seek to combine the benefits of both systems, for instance by partially rather than fully replacing their existing pay-as-you-go system with one based on individual accounts. Therefore, the differences between actual country systems may not be as great as a side-by-side comparison of pay-as-you-go and private, funded systems may suggest. However, the shifts to funding and to individual accounts constitute major changes in pension regulation that have substantial distributive consequences. As a result, they are always controversial both in developing and developed countries.

Nearly 30 countries around the world have adopted pension privatization, mostly since the early 1990s, a remarkable number in such a short time period (see Orenstein 2003 for a comparison of the spread of pension privatization with that of first pension systems since 1889). Twelve of these are countries of CEE and the former Soviet Union. Aside from Latin America, where the pension privatization trend had its start, CEE has been the region of the world most amenable to these reforms. Table 1 provides a list of all countries adopting pension privatization. CEE countries are indicated in bold type.

Table 1 divides reforming countries into three distinct types. Substitutive reforms are those that fully replace social security type systems with ones based on individual, funded pension savings accounts. Mixed reforms, the most common type in CEE states, partially replace the former social security type system with individual accounts. Participants contribute to both a scaled down pay-as-you-go system and to individual pension savings accounts. Parallel reforms also maintain both systems, but allow individuals to choose whether to participate in the individual pension savings account system or not. In CEE mixed systems, it is common for approximately one-third of total contributions to be allocated to pension savings accounts, with the rest going to support the social security type system (European Commission 2003a; Holzmann and Hinz 2005). Though less radical than full substitution, mixed reform still represents a sizable shift in the method of pension financing and retirement outcomes.

Table 1 Types of pension privatization worldwide

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

Sources: Orenstein (2000); Madrid (2003); Müller (2003); Fultz (2004); Palacios (2003); Holzmann and Hinz (2005); Becker *et al*. (2005); and web resources from World Bank, Inter-American Development Bank (IDB), and USAID.

EXPLAINING PENSION PRIVATIZATION

Europeanization and conditionality

In contrast to other policies adopted in CEE during the accession process, pension privatization cannot be explained by EU active leverage. Many prominent analyses of enlargement show that the 'asymmetric interdependence' (Vachudova 2005) of Western and Eastern Europe and the vast power disparities between the two sides forced CEE states to comply with EU policies through the application of membership conditionality. Moravcsik and Vachudova (2003) argue that CEE accession states need the West European states more than West Europe needs them, and that therefore CEE states have been consistently weaker in membership negotiations. Indeed, these negotiations were barely worthy of the name, since little negotiation took place. Rather, CEE states received the positions of the EU and were asked to make haste to comply. Jacoby (2004, 2008) has used the image of a 'priest and penitent' to describe this impression of the accession process. Humble CEE countries approached the EU as a sinner approaches a priest, hoping for forgiveness for poor policies and advice on how to come closer to the divine. Similarly, Cameron (2003) writes that 'new members will be re-created as states' in the EU accession process, emphasizing the 'transformative power of the EU' (Grabbe 2001). During the accession process, CEE legislatures were forced to adopt dozens of laws with little or no debate in order to comply with EU regulation in numerous areas of policy.

A new literature has emerged that inquires into the 'Europeanization' of CEE and the extent of compliance with the directives of the EU. In this literature, the major emphasis has been placed on conditionality and coercion as tools of influence (Schimmelfennig and Sedelmeier 2004), though some authors also discuss normative suasion as a means that the EU has used to exert influence. Moravcsik and Vachudova (2003) emphasize that membership conditionality has been by far the most powerful tool of the EU in its efforts to gain compliance from CEE new member states. Kelley (2004) shows that conditionality combined with normative appeals have been influential, but that norms alone are rarely enough to encourage compliance with EU minority policies.

Pension privatization, however, does not conform to patterns of 'Europeanization' of either the norms-based or coercive variants. First, as mentioned above, the EU did not attempt to exercise much coercion or even normative influence in CEE pension reforms (Deacon 2000; Potůček 2004: 263). As opposed to other areas of social policy (Sissenich 2007), the EU had no strong or coordinated stance on pension reform in CEE. The EU did not attach hard conditions to the form of pension reform. Consultants hired under the PHARE program to support pension reform efforts in CEE states sometimes opposed pension privatization (as in Hungary, see Orenstein 2000) and sometimes supported it. Deacon suggests that individual consultants were given wide latitude to set their own policy advice (Deacon 2000: 159). In short, pension privatization in CEE states cannot be explained by EU policy conditionality. There was none.

Beyond conditionality

If the EU did not use conditionality to press pension privatization on CEE states, why did so many CEE states adopt it concurrently with the accession process? Any explanation of the pension privatization trend needs to explain this spatial and temporal clustering (Weyland 2005). Scholars propose a number of different explanations. First, they emphasize economic or demographic conditions that facilitated the adoption of pension privatization or made it more appealing. Second, they emphasize the role of domestic political conditions that have favored these reforms. Third, they emphasize the role of non-EU transnational actors on CEE reforming countries. This section explores these competing explanations and argues that while each of these explanations has merit, the rise of pension privatization in CEE cannot be explained without reference to the international campaign for their adoption launched by the World Bank in 1994.

Economic and demographic factors

Some analysts suggest that economic and demographic conditions have made pension privatization particularly desirable or necessary in CEE. In particular, it has been argued that many countries, including those in CEE, face a demographic crisis that will negatively affect pension system finances over the coming years (World Bank 1994; James 1998). As populations in Europe age, the proportion of pension system contributors to beneficiaries decreases.

In order to maintain the same pension levels, payroll taxes and retirement ages need to rise. Otherwise, benefits will have to be cut. Changing to a funded pension system under which each individual relies on his or her own lifetime contributions to fund retirement savings can also reduce reliance on state pension systems and ease their financial crisis. From the perspective of the state budget, privatization relieves governments of a large and (for the foreseeable future) ever-increasing fiscal burden (James 1998; James and Brooks 2001).

While demographic aging is no doubt an important background condition explaining the emerging crisis in pension system finance, it provides only a partial explanation for the rapid spread of pension privatization itself. Pension privatization is not the most obvious solution to fiscal pressures resulting from demographic aging. While pension privatization can help to ameliorate the fiscal effects of an emerging demographic crisis in the long run, in the short and medium run it actually increases pressure on the government budget. This is because, in the transition to a private pension system, the state must continue to pay current pensioners while diverting a part of payroll tax contributions to private, individual accounts. As a result, the government must borrow money to offset these contributions to individual accounts. Yet governments are often expected to respond to short-term, rather than long-term pressures.

Second, empirically, if countries adopted pension privatization in order to stave off a demographic crisis, one would expect to see these reforms adopted primarily in countries most imminently facing such a crisis, i.e. in demographically older countries. However, pension privatization has been enacted in a wide variety of countries with different demographic profiles, ranging from older Baltic countries to younger ones such as Poland (and throughout Latin America). Some of the demographically oldest countries in the world are in Western Europe, but few West European countries have privatized their pension systems, in part because of transition costs. While the possibility of a demographic fiscal crisis may help to explain the propensity to adopt pension privatization in CEE, it does not provide a sufficient explanation for this trend. A demographic crisis can be dealt with in a number of other ways, such as by enacting a phased increase in the retirement age and otherwise reforming existing social security type pension systems (Barr 2005).

Domestic political factors

Another common set of explanations for the adoption of pension privatization is domestic political factors. First, scholars have emphasized the weakness of the political and social backing for communist-era pension systems. This lack of political support arguably provided an opportunity for radical change. Second, O'Dwyer and Kovalčík (2007: 5) note the weakness of CEE party systems and suggest that second-stage economic reforms like pension privatization are more likely in countries with high levels of party volatility and political instability. 'What stands out about the second-generation reformers is the following. They have been parliamentary democracies with weak executives. They have chaotic party systems, whose under-institutionalization weakens vertical accountability between government and voters.' Others have argued that as trade unions and left parties have declined in power, existing pension systems have become more vulnerable to change. Likewise, Brooks (2005) posits that countries with more concentrated political power and fewer veto points are more likely to reform. CEE countries appear to be more likely to adopt radical economic reforms because of relatively weak democratic processes.

Domestic political factors help to explain the propensity to reform in CEE, but like demographic factors they cannot explain the exact nature of the pension privatization trend or its timing. According to theory, domestic political conditions were amenable to reform since 1990 in CEE. Why did pension privatization take place only after 1998? A careful investigation of pension reforms in CEE countries reveals that nearly all countries in the region indeed reformed their pension systems soon after 1990 without adopting pension privatization (Orenstein 2000). Instead, most countries increased payroll taxes and reduced benefits in a fairly ad hoc manner. They did not initially enact or in most cases even consider pension privatization. This suggests that while domestic politics can help to understand why pension shifts were possible, they cannot explain the direction of these changes.

Social learning

In order to explain the exact nature and timing of pension privatization in CEE, rather than a general propensity to reform, it is necessary to consider external social learning factors. There are two variants: non-hierarchical and hierarchical social learning. Weyland (2005) exemplifies the non-hierarchical explanation. Weyland suggests that the reason why policy-makers have adopted these reforms is that when faced with the demographic, economic, and political factors that together constitute a pension system 'crisis,' they have tended to look to neighboring countries for solutions. This helps to explain why neighboring countries adopt similar reforms at around the same point in time. However, Weyland's argument, which was developed to explain the Latin American countries, misses some important features of the CEE experience. First, whereas in Latin America, there was a clear regional reform example, Chile, in CEE there was none, at least not prior to 1998. Where did the CEE first movers, Poland and Hungary, find their inspiration? To answer this question, one must address the role of transnational actors in CEE pension reforms.

Transnational policy campaign

Pension privatization came to CEE as part of a transnational policy campaign led by the World Bank but with additional participation from a host of international, bilateral, multilateral, and independent transnational organizations. USAID was particularly influential in CEE, providing extensive resources to reforming countries for planning and implementation over multiple years. The Organization for Economic Cooperation and Development (OECD) supported these reforms as well through conferences, technical support, and training. These efforts were complemented by those of independent reform entrepreneurs such as José Piñera, the Labour Minister who first implemented private accounts in Chile. Piñera has spent many years advising CEE politicians on pension privatization, through individual meetings with leaders such as Vladimir Putin and much longer, more involved consultation with reform designers in Croatia, for instance. Piñera attests to being involved at some level in most CEE reforming countries (author interview, 2006).

Piñera's work in Slovakia has been extensively documented in a book published by the F.A. Hayek Foundation in Bratislava, part of a worldwide network of liberal think-tanks (Oravec 2006: 28–43). Piñera arranged a four-day visit to Slovakia together with the F.A. Hayek Foundation just as the idea of pension reform came to the political agenda in Slovakia. During his visit, he gave the annual lecture of the Foundation, attended an international conference on pension reforms organized by the Foundation, attended the presentation of the Hayek Foundation's reform proposal, which Piñera had advised on, and made several TV appearances and visits with politicians from various parties. Piñera is a deeply influential and charismatic public speaker and his visit made a strong impact on publicity and on politicians in support of pension privatization (Oravec 2006: 32). Piñera continued to advise his local contacts from afar as they made crucial decisions about the pension reform agenda. He returned to Slovakia for an additional visit at a critical point in the legislative balance, helping to tip legislators in favor of his preferred reform design. This appears to be a typical example of his work in many CEE countries.

While Piñera had been active in promoting pension privatization in Latin America and other countries outside of CEE since the early 1980s, the transnational campaign for pension privatization received a major boost in 1994 with the publication of the World Bank's report, *Averting the Old Age Crisis* (World Bank 1994). This report was commissioned by Chief Economist Larry Summers under the direction of research director Nancy Birdsall. Led by economist Estelle James, the *Averting* project gathered together a core group of World Bank economists who later formed the kernel of the Bank's policy advisory group on pensions. Prior to *Averting*, pensions had not been a core area of the Bank's work. However, with the transition in CEE and demographic aging in other parts of the developing world, the Bank decided to put greater emphasis on pension systems, given their large fiscal ramifications. Most OECD countries, for instance, spend between 5 and 15 percent of gross domestic product (GDP) on pensions. Developing countries tend to spend less, though CEE countries generally fall in the OECD range. Poland and Slovenia have been at the high end of the OECD range.

The reform model advanced in *Averting* represented a substantial innovation in pension reform thinking. It promoted what it termed a 'multi-pillar' approach to pension systems, incorporating a basic, redistributive state system, a second pillar based on individual pension savings accounts, and a third, voluntary occupational system. This departed from the Chilean model, insofar as it did not call for a complete replacement of previous social security type systems, but rather a reduction in them, carving out space for private, individual accounts. These accounts were argued to be the best way to provide an income-related benefit. In addition, funded accounts were said to provide a pool of investment capital for developing countries, creating a spur to economic growth that would help all people, including retirees, over time. *Averting* signaled the launch of a major transnational campaign for pension privatization, fueled by the tremendous legitimacy, international presence, and substantial resources of the World Bank.

The World Bank began vigorously promoting its multi-pillar model in CEE starting in 1994. Prior to that date, there is little evidence that CEE countries considered pension privatization. The only instance of a CEE government even considering funded accounts took place in 1991 in Poland, where the director of the social security administration, ZUS, wrote a brief proposal for a funded pension system in Poland. Interestingly, this proposal was quashed by the World Bank social policy specialist in Poland at the time, Nick Barr, a renowned pension economist. Barr had been hired to work on pension issues in CEE and opposed private pensions (see Barr 2005). The fact that World Bank opposition to reform in Poland prevented these reforms from going ahead attests to just how important World Bank support was to the implementation of these reforms in later years. World Bank and other international support was a necessary condition for the spread of pension privatization in CEE.

World Bank and USAID support for pension privatization in Poland and Hungary was particularly intensive. As in other countries in CEE, the World Bank provided training and recruitment sessions for government officials interested in pension privatization at locations in Washington DC, Harvard and Oxford Universities. These seminars acquainted leading pension officials with information and norms supportive of pension privatization. In addition, the World Bank and USAID funded government reform teams who undertook to plan reforms in particular countries, providing resources that enabled them to make pension privatization a serious priority. In Poland, the World Bank released one of its key pension reform advisers, Michał Rutkowski, to work for the Polish government as head of the office of the plenipotentiary for pension reform, the key office charged with formulating reform proposals. In Hungary, the World Bank seconded two high-level employees to work for periods of six months or more with the Hungarian inter-ministerial working group planning reform. These officials were involved in a detailed manner with the discussion within the government and with stakeholders outside the government in reform negotiations. Ferge and Juhász (2004: 244) go so far as to say that the World Bank, 'forced its "multi-pillar" system onto the agenda' in Hungary. USAID provided funding for public relations campaigns to ensure diffuse public support for reform. This included training a cadre of journalists to understand pension privatization issues and sending journalists and parliamentarians on study trips to Latin America to learn about the benefits of pension privatization. USAID further provided several years of technical assistance for reform implementation, helping to establish regulatory agencies and regulations for the control of pension fund managers.

Technical and policy assistance from a range of transnational policy actors was a necessary factor for reform in CEE reforming states. Reforms in particular countries also responded to domestic interest group pressures and political conditions. However, these reforms would not have happened throughout CEE without the well-organized transnational policy campaign led by the World Bank, but including other agencies and individuals as partners, including USAID, the OECD, the International Monetary Fund (IMF), and individual consultants and policy entrepreneurs. Transnational actors helped to put pension privatization on the reform agenda in CEE countries and provided the resources for governments to follow through with the development and implementation of reform programs.

EU tacit support

While the EU did not take direct part in the transnational campaign for pension privatization in CEE, it did play an indirect role. Transnational actors tend to coordinate with one another (Orenstein 2008) and it was only natural that officials of the World Bank and the OECD consulted with the EU as they pursued pension privatization in CEE states. The EU considered these reforms and debated them in top policy circles. Ultimately, the EU did not take a definitive stance on pension privatization, disappointing many who would have liked to see the EU promote a European social model that would oppose pension privatization (Deacon 2000: 159; Ferge and Juhász 2004; Vaughan-Whitehead 2003). Instead, the EU took a passive approach that reflected differences of opinion within the EU. However, passivity differs from neutrality. In this case, the EU did not impose conditionality for pension reform, but by staying out of the way, it left the pensions field open to the transnational campaign organized by the World Bank.

Internal EU debates on pension privatization are reflected in several documents produced during the accession process. In particular, the 2001 Economic Policy Committee 'Report on Budgetary Challenges Posed by Ageing Populations' argued for increased reliance on private pensions in the EU (EPC 2001). This report was endorsed by the powerful Economic and Financial Affairs (ECOFIN) Council. In the same year, the Social Protection Committee 'Report on the Future Evolution of Social Protection' (SPC 2001) called for further modernization of pension systems in the EU and indicated a role for pension privatization, without advocating any particular reforms. This latter document became the basis for further discussions among member states within the context of the open method of coordination (OMC) on pensions and was later published in a modified form as a Joint Commission/Council Report on Adequate and Sustainable Pensions (European Commission 2003b).

The joint report on adequate and sustainable pensions reflected a compromise between the Economic Policy and Social Protection Committees' position on a number of issues, including the role of pension privatization (Nanz and de la Porte 2004; Schludi 2003). The word 'adequate' seems to represent the social side and the word 'sustainable' the economic one. The joint report noted that private funding of pensions can reduce 'pressures for public expenditure increases' in the face of demographic aging and thus help to improve financial sustainability (European Commission 2003b: 8). The report also noted the severe problems of West European pension systems and called for 'modernization' of pension arrangements, though it stopped short of advocating any single model of reform.

In effect, by not coming out against the transnational campaign for pension privatization, the EU lent it tacit support. The Economic Policy Council and ECOFIN were well aware that the World Bank had launched this campaign in CEE states. By making comforting noises in Brussels and preventing the EU from explicitly opposing it, they created the impression that the EU would accept CEE countries which adopted pension privatization. This conclusion is reinforced by evidence that the EU coordinated its (in)action with the World Bank. According to an official World Bank document entitled, 'European Union accession and the World Bank' (World Bank 2004), the World Bank during the accession process 'helped the EU8 in modernizing social services and meeting other development goals. Although not governed by the *acquis*, the World Bank's support in these areas was closely coordinated with the EU Commission.' Both World Bank and USAID officials clearly interpreted the EU stance as being broadly supportive of their pension privatization efforts (interview with Denise Lamaute, pension team leader, USAID).

Interviews with government leaders in Slovakia provide further insight into the relation between the EU and World Bank in pension privatization in CEE states. Slovakia privatized its pension system in 2003 as part of a wave of neoliberal economic reforms undertaken by Finance Minister Ivan Mikloš. According to the chief economic adviser to the Finance Minister responsible for pension reform, Martin Bruncko, the EU exerted no direct influence on pension privatization in Slovakia. It was an important background force, since its conditionality had helped to oust the government of Vladimir Mečiar and make possible the liberal economic policies of the Dzurinda government that followed. However, the EU gave no specific advice on pension reform nor was it seriously considered in government efforts to prepare the reform. Instead, Slovakia based its pension privatization model on the advice of the World Bank and the OECD, which had prepared a set of pension reform recommendations for Slovakia in 2001–02. The IMF also helped with pension projections (interview, June 13, 2007). According to Peter Golias, a member of the Slovak government working group for pension reform, the World

Bank played a major role in Slovakia's reform, producing econometric models of the costs of reform. World Bank officials Augusto Iglesias and Hermann von Gersdorff stayed for several months in Slovakia to work on all aspects of pension reform planning, legislation, and implementation. The World Bank also provided financing for the Slovak government's pension reform working group (interview, June 13, 2007). State Secretary of Labor Miroslav Beblavy confirms that the EU had no direct influence on pension privatization in Slovakia beyond trying to enforce the Maastricht criteria for public finance. He went so far as to say that the 'EU is a content neutral organization' in labor market and social policy (interview, June 14, 2007). However, inaction should not be confused for neutrality. By staying out of the way, the EU gave a green light to pension privatization in CEE states during the accession process.

In this way, pension privatization can be seen as an example of EU 'passive leverage' on CEE (Vachudova 2005). Just by being there, the EU exerted a subtle (and for some officials unintentional) influence on CEE states to adopt pension privatization, a policy that was expected to help CEE countries compete economically within the EU.

OUT-LIBERALIZING THE EU

Pension privatization in CEE states can be explained by a combination of factors. Economic transition, demographic trends, and political instability created unusually favorable conditions for radical economic reform. This made CEE fertile ground for a transnational policy campaign led by the World Bank starting in 1994. Once several leading CEE states adopted pension privatization in 1998, others quickly followed suit. The EU supported the transnational campaign for pension privatization by staying out of the way while the World Bank took the lead.

Yet the question still remains, why did CEE states feel that pension privatization was a worthwhile policy innovation at a time of EU accession? It could be argued that CEE states had enough on their agendas with passing the large quantity of legislation required to enact the *acquis communautaire*. Why did they feel compelled to add to this agenda by adopting radical pension reforms at the same time?

To explain the relation between EU accession and the adoption of pension privatization in CEE, one additional factor needs to be considered: the fit between pension privatization and the liberal economic development strategies adopted by governments in CEE since 1989 (Orenstein 2001). Since 1989, economic policy in CEE states has been dominated by liberal governments which come to power periodically determined to enact reforms that will wipe out all traces of communism and significantly liberalize the economic environment. At the time of EU accession, CEE liberals (such as Czech President Vàclav Klaus) expressed concerns that EU accession would require a re-regulation of the economy that might conflict with their goals of economic liberalization. While

CEE liberals came to accept EU accession, they did so with the hope of pushing the EU as a whole towards a more liberal policy regime.

Pension privatization was attractive for CEE government leaders not because it conformed to an EU model, but because it helped to distinguish CEE states as policy leaders in economic liberalization. CEE states were attempting to out-liberalize the EU. They had two motives for this. First, pension privatization enabled CEE states to cope with demographic aging in a way that signaled their commitment to a liberal economic environment and to low labor costs, an important feature of these countries' comparative advantage within and outside the EU. Like other second-stage reforms, pension privatization was intended to make Central European markets more attractive and to tap 'investment flows opened up by accession to the European Union' (O'Dwyer and Kovalčík 2007: 4). Second, out-liberalizing the EU also promised to turn CEE states from poor cousins into respected policy leaders at a time when the rest of the EU was failing to implement the Lisbon agenda on economic reform. For weak CEE states humiliated by the process of accession, out-liberalization created an opportunity to strengthen their hands within the EU.

Pension privatization fit closely with CEE liberal reformers' preferred economic development strategy. It is no secret that CEE states have pursued a low-wage, low-cost development strategy since 1989, seeking to become low-cost production hubs benefiting from inclusion in the EU. This strategy has netted substantial rewards in terms of inward investment and high growth rates in recent years. In just one instance, Nokia in 2008 decided to move one of its major mobile phone production facilities out of Bochum, Germany, laying off 2,300 workers, and creating a new 60 million euro plant that could employ as many as 3,500 workers in Cluj, Romania (*Financial Times*, January 15, 2008: 20). Wages in Romania are approximately one-tenth of those in Germany. In order to maintain low labor costs, CEE states have liberalized their formerly highly regulated labor markets to a much greater extent than most countries in Western Europe. CEE states are now not only cheaper, but also considerably more liberal in terms of hiring, firing, work conditions, inward investment (Epstein 2008), and safety regulation (Crowley 2006).

Pension privatization provided CEE liberals with an opportunity to signal a good business climate and economic liberalism in an area that has a substantial impact on labour costs. CEE states sent a strong signal to investors that they were working to prevent the rapid growth of non-wage labor costs. It did not matter that these reforms were not tried and tested in Western Europe. The point was to enact reforms that would differ from the high-labor-cost strategies of West European countries.

Furthermore, CEE government officials saw pension privatization and other liberal reforms as an opportunity to exert policy leadership within the EU. Committed to a more liberal policy agenda than is the norm in the EU, CEE liberals have sought to influence EU policy, in part by enacting liberal reforms at home. These reforms then influence the EU in several ways, through public information, by putting pressure on labor costs in Western Europe, and through policy discourse. As one example, chief adviser Martin Bruncko notes that Slovakia's adoption of the flat tax (at the same time as pension privatization) has had an impact on other EU states. He points out that corporate tax rates began to drop more sharply in Europe with the advent of the 19 percent flat tax in Slovakia and that pension reforms in Central Europe bolstered the confidence of liberals within other EU governments (interview, June 13, 2007). Vladimir Dlouhy, former Economy Minister of the Czech Republic now working for Goldman Sachs, also said that 'we believed that the EU would change' as a result of the accession of the new Central European member states, pushing it in a more liberal direction. However, he opined that this 'didn't happen . . . a big disappointment for me' (interview, June 26, 2007). Yet CEE liberals continue to try. Liberal reforms help to make CEE states more attractive for inward investment and push the rest of the EU towards further liberalization. This can result in greater recognition of CEE states as reform leaders and increase their status in ways that are important for economic development, national stature and security.

This pattern of behavior presents a very different model of EU influence on CEE state policy than that posited by most of the literature on accession. Rather than CEE states being forced to more or less implement EU directives under threat of coercion, the case of pension privatization suggests that CEE countries have responded to EU accession by seeking out policy initiatives that allow them to distinguish themselves from EU norms and gain comparative advantage in areas where they have room to maneuver outside the *acquis*.

IMPLICATIONS: COOPERATION, PERSUASION, AND COMPARATIVE ADVANTAGE

The dynamics of pension privatization in CEE states have had little to do with EU conditionality. The EU, without strong *acquis* in this area, left the field of pension reform assistance in CEE states in the hands of a campaign led by the World Bank. This raises some interesting questions about the ways that the EU has cooperated with other transnational actors during the accession process.

As in several other areas of policy, the EU effectively delegated its authority to other actors and left them to pursue their programs of policy advice relatively independently during the accession process. Vachudova (2008), looking at different policy areas, interprets this to mean that the EU has effectively bolstered the effectiveness of other transnational actors during the accession process. CEE states may follow the advice of the Council of Europe or the Organization for Security and Cooperation in Europe (OSCE) High Commissioner, but only because the EU's membership conditionality says that they must. However, the case of pension reform is different. Here, the EU did not enforce any strong conditionality. Instead, the EU Commission deferred to the World Bank, OECD, and USAID and allowed them to pursue their campaign for pension privatization, agreeing that such reforms would not compromise membership, though they were not required. Further comparative research is needed on the ways that the EU coordinates with other transnational actors in policy reform and the impact that this may have in the absence of membership conditionality.

In a separate study (Orenstein 2008), I hypothesize that transnational actors, including the EU, often lack the resources to regulate and monitor the wide (and often increasing) areas of their authority. Therefore, they coordinate where possible with other organizations in the pursuit of broader transnational campaigns. This coordination is dictated by resource constraints and governed by 'donor conferences' and other informal methods of coordination. It allows for a division of labor between transnational actors committed to broad policy campaigns. However, it also means that transnational actors are forced to rely on other organizations within their sphere of behavior and delegate substantial authority to them in goal-setting, strategy, and tactics.

In addition to considering the ways that transnational actors collaborate with one another, this study suggests that conditionality is far from the only manner in which transnational actors have affected policy in CEE states during the accession process. The World Bank-led coalition succeeded largely through the mechanism of persuasion, devoting enormous resources to policy studies, recruitment of officials, and other means of convincing CEE states to adopt pension privatization. While there are undoubtedly many conditions and policy areas in which persuasion may not work, the success of the campaign for pension privatization suggests that persuasion should not be discounted as a method of influence.

Influence through persuasion does not operate the same way as influence through conditionality. Conditionality can provide better chances to get recalcitrant officials to comply with transnational actor agendas in a shorter period of time. Persuasion strategies may work better when domestic officials are more predisposed to being persuaded, for instance because they share a similar liberal outlook (Johnson 2008). Therefore, campaigns of persuasion may take a longer period of time. Transnational actors may have to have the resources to wait until liberal-oriented governments come to power and then press their advantage through 'windows of opportunity' for liberal policy innovation. But the success of the campaign for pension privatization in CEE states suggests that this can be done effectively. High-profile policy reforms in neighboring states can also be a highly effective means of persuading policy-makers to comply with transnational actor agendas as countries try not to be left behind.

This brings us to the issue of policy competition. I have presented some evidence to suggest that part of the reason for the adoption of pension privatization in CEE states has been a policy dynamic driven by competitiveness pressures. CEE states seek to distinguish themselves by economic liberalism, signaling a positive climate for inward investment. Pension privatization adds to this image of economic liberalism because these reforms are promoted by the World Bank and allied organizations, and helps to distinguish CEE states from Western Europe. It also helps CEE states to pursue its low-wage, low-cost development strategy within the EU.

It will be interesting to observe over the coming decade the extent to which CEE states are able to exert policy leadership within the EU by following avant-garde policies of economic liberalization. By adopting more liberal economic policies, it is possible that CEE states will push other EU members towards greater market liberalization. This effect has already been visible in the accelerated drive to cut corporate income taxes, and it may become more visible in pension reform through the impact of the OMC. As CEE states achieve and possibly maintain high levels of economic growth in coming years, their liberal policies may gain credence and be emulated, at least in part, by older EU member states.

While the EU accession process often looked like a forceful imposition of *acquis* legislation under the threat of membership conditionality, in the area of pension reform, CEE countries adopted policies that are largely outside of EU practice and represent the forefront of liberal economic policy-making. As membership conditionality ends, this dynamic of competitive out-liberalization may become more influential as a driver of policy throughout the expanded EU.

Biographical note: Mitchell A. Orenstein is the S. Richard Hirsch Associate Professor of European Studies at Johns Hopkins University School of Advanced International Studies, USA.

Address for correspondence: Mitchell A. Orenstein, Johns Hopkins School of Advanced International Studies, 1619 Massachusetts Avenue NW, Washington, DC 20036, USA. email: morenstein@jhu.edu

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NOTE

1 Note that the government of Michelle Bachelet launched an effort to revise the Chilean pension system in 2006 to provide greater protection for the poor and those with shorter working histories. While the proposed changes are significant, current plans do not involve a dismantling of the private pension fund system or a return to a pay-as-you-go social security type system.

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