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CONTENTS

Pension system reforms *in Latin America:* the position of the *international organizations*

Carmelo Mesa-Lago

The Distinguished Professor of Economics and Latin American Studies of the University of Pittsburgh.

This article analyses the position taken by various international and regional organizations regarding pension system reforms in Latin America. Over the last ten years, these organizations have carried out studies on almost all the Latin American countries (although on only a few in the English-speaking Caribbean), identified and analysed key aspects, compared the reforms made, evaluated their advantages and disadvantages and developed global strategies or sets of desirable features for ideal types of reforms. The author identifies a number of the main alternatives or issues in the social security debate, makes a general classification of the pension system reforms carried out in the region, and after describing a hypothetically universal model he analyses its real viability. He notes that most of the Latin American countries have institutional factors which differ from those of Chile, on whose experience the model is based, so that its integral application elsewhere would be more difficult. He then goes on to summarize and compare the strategies proposed by the International Labour Organization and the World Bank, and analyses the Latin American reforms in their context. After summarizing the actions taken by the International Social Security Association and the Inter-American Development Bank with regard to these matters, he analyses the ECLAC proposal. His conclusion is that while on the one hand rigid and excessively general strategies are difficult to apply in practice, on the other hand it is necessary to eschew ad hoc designs which ignore the lessons of experience. The best approach would be to develop a classification by groups of countries which share common features in terms of institutions and social security, and on its basis prepare a general reform model for each group.

I

Introduction

During the last six years, the most frequently discussed social policy issue in Latin America has been social security pension reform, and this discussion is likely to become even more intensive in the rest of the decade. The issue is important not only in the region but also worldwide, and the reforms carried out in some Latin American countries (especially Chile) are being put forward as models in other regions, particularly Eastern Europe, and even in some industrialized countries, such as the United States. For over ten years the field was dominated by the supporters of the Chilean reform model, who extolled it as the unique and universal solution. The international financial and technical organizations did not develop a strategy or detailed set of proposed features in this respect until 1993-1994, when the International Labour Organisation (ILO) and the World Bank published their reports on the subject (ILO, 1993; World Bank, 1994).

The other two international organizations which have analysed this issue at the regional level are the International Social Security Association (ISSA) and the Inter-American Development Bank (IDB), but neither of them has prepared detailed sets of desirable features or systematic comparative studies of pension system reforms. Between 1991 and 1994, ECLAC sponsored diagnostic or analytical studies of reforms and proposals in 16 countries of the region, and in 1995 it published a document summarizing, comparing and integrating all these studies, which differs from the ILO and World Bank reports in that it deals exclusively with the region (see section VII below).

The author of the present article has devoted himself for the last 40 years to studying social security in Latin America, and he has prepared both regional and national-level studies (in 15 countries), as well as working as a consultant for almost all the organizations mentioned, introducing the subject for the first time in two of them. Against this background, his aim in this article is to summarize, compare, integrate and appraise the work of those organizations on pension system reform (particularly in the region), to identify the advances made by them and their points of agreement and disagreement, to clarify the central issues in the debate, and to offer some guidelines for further progress in this field.

The article begins by identifying a number of the main issues in the debate (section II). It then sets forth a classification of the types of pension system reforms carried out in Latin America (section III). This is followed by a description of the position taken by the supporters of a supposedly universal model, and the viability of the reproduction of this model in the rest of the region is analysed (section IV). Section V summarizes and compares the sets of desirable features, forming three fundamental pillars, proposed by the ILO and the World Bank and situates the Latin American reforms with respect to them. Section VI summarizes the work of two other international organizations (the ISSA and IDB) at the regional level. Section VII analyses the ECLAC document referred to earlier, and finally section VIII suggests some possible future actions.

□ The preliminary version of this study was circulated to officials of all the organizations concerned, as well as to academics specializing in this subject. The author naturally bears exclusive responsibility for the views expressed herein, but he wishes to express his thanks for the valuable comments or contributions made by Francisco León, Joseph Ramos and Andras Uthoff (ECLAC); Alfredo Conte-Grand and Carmen Solorio Solorio (ILO); Alejandra Cox Edwards and Estelle James (World Bank); Ricardo Moles (Regional Office for the Americas of the International Social Security Association (ISSA)); Ricardo Hausmann of the Inter-American Development Bank (IDB); Eva-Maria Hohnerlein (Max-Planck Institute); Verónica Montecinos (Penn. State University), and Alberto Arenas de Mesa and Fabio Bertranou (University of Pittsburgh).

II

The main issues of the debate

This section identifies and summarizes the most important issues of the pension reform debate, presented in the form of six pairs of alternatives. The main contenders in the debate are the ILO and the ISSA on the one hand (Beattie and McGillivray, 1995, pp. 7-28) and the World Bank on the other (World Bank, 1994, and James, 1996). Analysis of some of these pairs of alternatives or dilemmas reveals that some of them are false or have been presented in a superficial or incomplete manner.

1. Social objectives vs. economic objectives

Traditionally, the objectives of social security pension systems ("public" pensions) were of a social nature: maintenance of income in old age or in the event of sickness or death (survivors' pensions), solidarity among population groups or generations, etc. This issue was dealt with by international technical experts (ILO, ISSA), national pension fund managers, lawyers and actuaries. Although economists occasionally intervened in the matter and macroeconomic aspects were dealt with, these were not of fundamental importance, at least up to the 1980s.

The crisis in social security and in the economy in general, combined with the effects of the structural adjustment programmes, aroused the interest of the international financial organizations (the International Monetary Fund (IMF) and the World Bank first, followed later by the IDB and ECLAC), and economists began to play an increasingly important role in this area. The latter brought in economic and financial objectives, alleging that public pension systems suffer from serious defects such as high rates of contributions, evasion and arrears, inappropriate allocation of fiscal resources, inefficient investment and waste of opportunities for increasing saving, heavy and growing pension system debts, encouragement of fiscal deficits and inflation and, because of all this, a negative impact on economic growth, productivity and employment. The replacement of public systems with private ones (with other attributes that will be explained later), they claimed, would eliminate these problems and increase national saving, the capital market, the real return on investments, economic development and the generation of employment, all of which would in turn ensure suitably high and equitable pensions.

Both the ILO and the ISSA argued that the risks involved in such reform would be greater than the present ones, including such problems as social uncertainty (because the level of the pensions would depend on unpredictable macroeconomic factors such as inflation, the return on capital and the performance of GDP), the complexity of the decisions that insured persons would have to take (what kind of pension to choose when they retired), minimum pensions insufficient to cover basic needs, the introduction of sex-based inequalities in pensions, and the imposition of a double burden on present contributors (in order to finance their own pensions, plus the deficit caused by the change in system). All these problems may be observed in Chile, which is the only country in the region that has carried out this type of reforms. Furthermore, these organizations maintain that the impact of public systems on the economy, productivity, national saving and employment is non-existent or extremely slight.

Whereas Beattie and McGillivray (1995) hold that pension system reforms and economic reforms (structural adjustment) should not be mixed up in the debate, and that the public systems cannot solve the problems of underinvestment and low economic growth, James (1996) considers that the two types of reforms cannot be separated. Despite this apparently insoluble disagreement, the ILO (1993) has begun to take into account some of the economic objectives, while the World Bank (1994) is including social aspects such as equity. The ISSA maintains a stronger position in terms of the leading role that social objectives must play. As yet, there is no conclusive proof that these two types of objectives are either mutually exclusive or mutually supportive, and the debate therefore continues.

2. Amelioration vs. structural reform

James considers that both sides are in agreement regarding the defects of the public system, but disagree over the solutions for them. In contrast, while Beattie and McGillivray (and also the ILO, 1993) acknowledge many of these defects, they reject the World Bank's view that the public systems have failed. In order to refute that opinion, they offer examples of European countries where such systems successfully continue in operation, with the support of the population, but the World Bank retorts that such countries are few. Both sides agree on the need for reform, but, owing to their disagreement on objectives and diagnosis, the types of changes they propose are different. The ILO and the ISSA favour amelioration of the existing systems (i.e., non-structural reform) in order to correct their faults by such means tougher entitlement conditions (for example, by raising retirement age), eliminating special privileges, providing less generous benefits, reducing administrative expenses, and exercising more effective controls over evasion and arrears. The World Bank, however, while deeming these measures positive, considers them to be insufficient for solving the basic (economic) problems in the long term and therefore proposes radical (structural) reforms involving the replacement of the public systems (later on we shall look at some structural reforms which do not involve the elimination of the public systems).

3. Pay-as-you-go vs. capitalization

Pensions can be financed through the methods of pay-as-you-go (PAYG) or capitalization; the latter method may take various forms such as fully funded or partial, and individual or collective capitalization. In a simple PAYG method (without the establishment of reserves), the contributions of the current contributors finance the pensions already being paid, while future generations, in turn, finance the pensions of the current contributors; contributions have to be increased as the system matures and the population grows older, and the State often has to finance growing deficits (a variation of PAYG includes a small contingency reserve fund to deal with unforeseeable short-term problems). In this method, there is solidarity between generations, and there can also be solidarity within the same generation, through transfers of resources from the higher-paid insured to the lower-paid ones (although legal provisions in this sense are not always applied in practice). Fully funded individual capitalization (FIC), in contrast, is based on a uniform but indefinite premium (contribution) and the insured (present and future) finances his own pension by depositing his own contributions (and in some cases those of his employer) in an individual account. The funds in this account are invested, and the return on the investment is added to the account. This system does not offer any form of solidarity, since there is a strict relation between the contributions made and the benefits received.

The World Bank and the supporters of the Chilean model have clouded the issue by making a simple dichotomy between PAYG and FIC methods ignoring the intermediate methods of partial collective capitalization (PCC), usually based on scaled premiums (SP). Under this system, reserves are built up to pay pensions over a given period (say, 15 years). These reserves are invested and must give a suitable return, together with the contributions, to fulfill the commitments for the period. By means of periodic actuarial studies, it is calculated whether the current contributions are sufficient to ensure the payment of pensions in the following period, or whether such contributions must be increased (which is usually the case). The method is collective, not individual, because it is necessary to practice solidarity in order to pay minimum pensions to low-income contributors, but individual accounts must be maintained for the insured persons, because the pension must bear a relation to the number of years worked and the contributions made during that time. The scaled-premium method has some features of PAYG (intergenerational transfers, solidarity and increasing premiums, although these increases are more infrequent and gradual than in PAYG) and also of FIC (reserves which are invested, individual accounts, and some degree of relation, although much less marked between contributions and benefits).

James acknowledges that the effects of PAYG on national saving are debatable, and that there is no proof that such a method leads to reduced saving, but she asserts that the FIC method does indeed have a positive impact on the capital market and national saving. When the domestic market is not capable of absorbing the entire flow of capital of the pension funds, part of this flow can be invested abroad, which also helps to diversify the risks. All this is subject to

three conditions, however: i) the government must not take advantage of the funds for its own purposes; ii) there must at least be a rudimentary capital market before the FIC method can operate, and iii) strict State regulation is needed in order to prevent excessive risks and fraud.

The response of the ILO and the ISSA to this is that there is no convincing proof that the FIC method has a significant impact on national saving in developing countries, and furthermore it is very difficult to develop efficient capital markets in such countries; moreover, liberalization of investment of pension funds abroad could encourage capital flight and provoke a drop in domestic saving. The World Bank, for its part, acknowledges that in the long term there could be a saturation of the international capital market, which would lead to a decline in the return on the capital invested. Another problem is that evaluation of the impact on national saving should not be limited solely to the FIC-based system but should extend to pension system reform as a whole (which, as we shall see below, causes a deficit in the old public system and a surplus in the FIC system). Various studies on Chile have shown that the net balance of the reform is negative, and it does not have a significant impact on national saving. Furthermore, although Chilean law allows up to 9% of the resources of pension funds to be invested abroad, in actual fact only 0.3% is invested in this way. Finally, most of the Latin American countries either do not have a capital market, or else it is very weak and unregulated (Mesa-Lago, 1994a, 1994b and 1996).

4. Defined benefits vs. defined contributions

In public pension systems, the benefits are defined by law, whereas the contributions are not defined, because they increase in PAYG systems and those based on scaled premiums. If the system works well, it has the advantage that the insured knows how much pension he will receive and there can be solidarity in terms of costs and benefits. The World Bank points out, however, that in many countries the pension legislation is not enforced and the real value of pensions has gone down, although at the same time contributions have risen to unsustainable levels, encouraging evasion, arrears and under-declaration of income. These problems, the Bank claims, would be avoided with FIC and defined contributions (there would be no solidarity within the system, but there could be solidarity outside it). If an insured person were to evade payment of his contributions, fall into arrears or under-declare his income, then he would lose his pension or reduce its amount, but this would not adversely affect either the system or the other contributors. The Chilean experience does not bear out most of the World Bank's assumptions, as about half the insured persons do not contribute actively to the system (this is also the case in Argentina, Colombia and Peru): low-income insured persons apparently minimize their contributions so that the State will maximize its subsidy to their guaranteed minimum pension. If this is true, then the fiscal cost will be much greater than anticipated (Beattie and McGillivray, 1995, pp. 7-28).

5. Public vs. private management

The World Bank claims that private management is better than public management, because the competition among private pension fund management companies to attract members increases efficiency, reduces administrative costs, and maximizes the investments return, provided there is due access to information, clear and open business practices and a suitable regulatory and supervisory framework. It acknowledges, however, that because of the compulsory nature of the system (and especially in countries where the number of insured persons is not very large) concentration may take place. The ILO and the ISSA add that mere access to information does not guarantee that insured persons will be capable of taking rational decisions, especially when the information and options are complex. The Chilean experience confirms these points, since some 69% of the total number of insured persons are concentrated in only three of the 16 pension fund management companies, because insured persons do not choose the companies in the light of their low commissions and high yields, but largely do so thanks to publicity campaigns and the efforts of the pension fund salesmen, who earn a commission for every new member or transfer they can arrange. Furthermore, in developing countries the establishment of a supervisory body calls for the hiring of highly qualified staff who are not easy to find. Finally, the "private" nature of the system has been questioned in view of the existence of four key functions which are assumed by the State: the compulsory nature of membership in the pension funds, strict regulation and supervision, the heavy subsidies and

transfers involved, and the guarantees provided in the event of bankruptcy, as well as other fundamental elements of the system –aspects which will be dealt with later in this article (Gillion and Bonilla, 1992, pp. 171-195, and Mesa-Lago, 1994b).

6. Sensitivity to political pressures vs. political immunity

The World Bank asserts that the system it supports will be free from political interference and manipulation because the insured person is the owner of his individual account, while the funds are privately managed. It admits, however, that no system is completely immune to these problems, and the system will therefore work better if the government "behaves itself". It rejects the viability of non-structural reform of the public system, because of the resistance this would meet from politicians and interest groups (James, 1996). In Latin America, however, central governments usually have not "behaved themselves" with regard to social security, and the crisis of the social security system is partly due to this. An autonomous supervisory body will have a great deal of power, and in developing countries with a low level of education there is a strong risk that the most highly-qualified officials of such a body will take advantage of their knowledge and influence to "feather their own nests"; on the other hand, if the officials are not highly trained the regulatory and supervisory framework will be feeble. Furthermore, inasmuch as the system needs a strong role for the State, this will open up possibilities for government pressure. It would be easy to imagine the possibility of such pressure if the level of pensions (for example, the minimum pension) were insufficient to meet the basic needs of most pensioners, or if the investments made by the pension funds adversely affected fiscal and monetary policy (Beattie and McGillivray, 1995, pp. 7-28). Finally, the political obstacles will be greater in the case of structural reform than in that of the mere amelioration of the existing system (see section IV below).

III

Typology and features of pension system reforms in Latin America

Up to the end of 1995, seven Latin American countries had made reforms in their social security pension systems. Two of them had made non-structural changes which retain the "public" system based on scaled premiums, with some measures to improve this system (Costa Rica), and which also introduce a compulsory programme for saving or for a supplementary pension (Mexico, although in fact in late 1995 this country approved the main lines of a structural-type reform process). The other five countries had made structural reforms which either i) close down the public system (mostly based on PAYG) and replace it with a private system, run by private companies whose activities are restricted solely to this field, and based on FIC (Chile); ii) set up a mixed system which must integrate two programmes: one of them a reformed public programme based on PAYG, and the other an FIC system managed by public or private institutions (Argentina and Uruguay); or iii) establish a parallel or selective system in which the public programme, based on scaled premiums, is maintained (reformed in Colombia and retained without any major changes in Peru) and the insured persons are allowed to choose between that programme and a new FIC programme, either run in the same way as in Chile (Peru) or operated by various types of management institutions (Colombia).

Table 1 gives a broad classification and summarizes the main features of the reforms in the seven countries in question. As of early 1996, there were at least eight other countries of the region which were either studying pension system reform or considering a bill in that respect: Bolivia, Brazil, Ecuador, El Salvador, Guatemala, Panama, Paraguay and Venezuela (the Mexican Parliament was discussing the Act and regulations for its structural reforms, which are not due to come into force

TABLE 1

Latin America (seven countries): Typology of pension system reform, 1995

Features	Argentina	Colombia	Costa Rica	Chile	Mexico [a]	Peru	Uruguay
I. Date and political regime							
Year legislation adopted	1993	1993	1990-1992	1979-1980	1991-1992	1992	1995
Entry into force of reforms	July 1994	September 1994	1990-1992	May 1981	February 1992	May 1993	March 1996
Political regime	Democratic	Democratic	Democratic	Authoritarian	Dominated by a single party	Coup d'état, Parliament dissolved	Democratic
Type of legislation	Act of Congress	Act of Congress	Act of Congress	Presidential Decree-Law	Act of Congress	Presidential decree	Act of Congress
II. Type of reform	Mixed	Parallel or selective	Reform of public system	Replacement with private system	Reform of public system	Parallel or selective	Mixed
Old system:	Public, reformed but not eliminated	Public, reformed but not closed	Reformed but not closed	Reformed but not closed	Reformed but not closed	Neither reformed nor closed	Reformed but not closed
System of financing	Pay-as-you-go	Scaled-premium	Scaled-premium	Pay-as-you-go	Scaled-premium	Scaled-premium	Pay-as-you-go
% of total insured population in this system	45%	80%	100%	6%	100%	71%	Only began in March 1996
New system:	Reformed public system plus pension fund management bodies (private, public, banks, trade unions, etc.)	Pension fund management institutions (private, public, cooperatives, mutual aid organizations, trade unions, etc.)	No new system introduced	Pension fund management companies (private companies restricted to this field)	Supplementary programme to public system: pension fund management companies (banks and the State)	Pension fund management (as in Chile)	Reformed public system plus pension fund management companies (public and private, of various types)
System of financing	Fully-funded individual capitalization	Fully-funded individual capitalization	n.a.	Fully-funded individual capitalization	Fully-funded individual capitalization	Fully-funded individual capitalization	Fully-funded individual capitalization
% of total insured population in this system	55%	20%	n.a.	94%	n.a.	29%	Only began in March 1996
III. Coverage							
Persons already in the system at the time of its reform	The two year deadline for transferring from the mixed system to the public one has now expired, but it is still permissible to transfer from the public system to the mixed one	Those under 35/40 years of age must transfer to the new system (they can choose between the public system and a pension fund management institution); those over this age maintain the old conditions	n.a.	Such persons could choose between the public and private systems (the deadline for transferring to the private system has now expired)	Compulsory for all persons insured under the public system	Such persons could and still can choose between the old system and the new one (pension fund management companies), and they can still return to the old system	Those under 40 years of age are transferred automatically to the new system; those over this age can transfer to the new system within a certain length of time
Future insured persons (those entering the labour market)	Can choose between the reformed public system and the mixed system	Can choose between the reformed public system and a pension fund management institution	n.a.	Must enter the new system (they can choose their pension fund management company)	Compulsory for all persons insured under the public system	Can choose between the old system and a pension fund management company	Must enter the mixed system

TABLE 1 *(continued)*

Features	Argentina	Colombia	Costa Rica	Chile	Mexico [a]	Peru	Uruguay
Percentage of EAP covered (both systems)	80%	30%	85%	98%	40%	32%	80%
Percentage of insured persons enrolled in the new system	62%	50-30%	n.a.	49-58%	No information available	50%	Only began in March 1996
IV. Contributions							
Insured persons	Contributions remain the same	Increased under both systems	Increased	Contributions remain the same under the old system but are lower under the new one	Contributions remain the same	Contributions remain the same under the old system but are lower under the new one (since 1995 they are the same in both)	Increased
Employers	Contributions remain the same	Increased under both systems	Increased	Employers no longer pay contributions	Increased	Contributions remain the same under the old system but are eliminated under the new one (since 1995 they have been eliminated under the old system)	Reduced
State	Levies taxes and covers deficit on the public programme and transfers to the new system	Covers deficit on the old system and transfers to the new one	Payroll contributions and transfers to the public	Covers deficit on the old system and transfers to the new one	None	Does not cover deficit on the old system but covers transfers to the new one	Levies taxes and covers deficit on the public programme
Total payroll contribution (excluding State)	27%	14.5% under both systems (1996)	7.5%	13.2%	10% (1996)	14.5% under the old system and also the new one (since 1995)	27.5%
V. Benefits							
Old age pension	Pensionable age increased to 60/65 and standardized in the whole system	Pensionable age increased to 57/62 and standardized in the old system; no age specified under the new system (pension depends on amount in fund)	Pensionable age increased to 60½/62½ and standardized in the whole system	Pensionable age increased to 60/65 and standardized in the whole system	Pensionable age remains unchanged (65)	Pensionable age remains unchanged under the old system (55/60) and is raised to 65 in the new one. In 1995 it was set at 65 in the old system too	Pensionable age increased to 60 and standardized in the whole system
Recognition of contributions made under the old system	Compensatory benefit (under old and new systems), readjusted, without interest, subject to a ceiling. Requires 30 years of contributions and is paid by the public programme	Readjustable interest-bearing certificate, subject to a ceiling. Requires three years of contributions and is paid by the public programme	n.a.	Readjustable interest-bearing certificate Not subject to a ceiling and is paid by the State to the new system	n.a.	Readjustable non-interest-bearing certificate. Subject to a ceiling and requires 4 years of contributions. Is to be paid by the State (but has not been issued)	Contributions to the old system are not recognized, but years of contributions are recognized for the purpose of fulfilling retirement conditions

TABLE 1 *(concluded)*

Features	Argentina	Colombia	Costa Rica	Chile	Mexico [a]	Peru	Uruguay
Minimum pension	Yes, in the public programme (flat-rate basic pension), but not in the pension fund management institutions	Yes, in both the old and new systems (requires a certain age and number of contributions; the State pays the difference)	Yes, under the public system, which pays the pension	Yes; the State pays the entire pension under the old system and the difference under the new one	Yes, under the basic system, but not under the supplementary one	Yes, under the old system, but not under the new one (introduced in 1995)	Yes, under the public programme (basic pension), but not in the pension fund management institutions
Death and disability benefits	Yes, under the public programme. Under the mixed system and that of the pension fund management institutions the conditions are the same as in Chile	Yes, under the public system. In the system of the pension fund management institutions the conditions are the same as in Chile	Yes (single unified system)	The pension fund management companies take out policies with private insurance companies and charges the premium to the insured person	Yes, under the basic system	Yes, under the old system. Under the system of the pension fund management companies the conditions are the same as in Chile	Yes, under the mixed system. Under the system of the pension fund management institutions the conditions are the same as in Chile
Adjustment of contributions	On the basis of revenue from insured contributors and their total number	Adjusted by the government each year on the basis of the CPI	Adjusted by the government each year	Contributions expressed in constant value units (UFs)	Adjusted by the government	No information available	Contributions expressed in constant value units
VI. Management (of the new individual capitalization system)							
Number of pension fund management companies	21	8	n.a.	16	n.a.	6	Only began in March 1996
Concentration of members in the three biggest companies	40%	No information available	n.a.	70%	n.a.	69%	Only began in March 1996
Minimum capital required (US$)	3 000 000	4 000 000	n.a.	2 000 000	n.a.	400 000 (1992)	1 000 000
Total amount of pension fund resources (US$ million)	1 892 (0.7% of GDP)	150 (0.2% of) GDP	n.a.	23 900 (39% of GDP)	8 758 (2.4% of GDP)	215 (0.4% of GDP)	Only began in March 1996
Real annual return on investments	$\bar{x}$12.8% (1994-1995)	$\bar{x}$-3% (1994-1995)	n.a.	$\bar{x}$12.8% (1981-1995)	$\bar{x}$5% (1992-1995)	7.7% (1993-1995)	Only began in March 1996
Number of changes of pension fund management company allowed	Two per year	Two per year	n.a.	Unlimited	n.a.	Less than two per year	Two per year
Supervisory body	Office of the Superintendent of Pension Fund Management Institutions (financed by the institutions)	Office of the Superintendent of Banks	n.a.	Office of the Superintendent of Pension Fund Management Companies (financed by the State)	n.a.	Office of the Superintendent of Pension Fund Management Companies (financed by the companies)	Central Bank of Uruguay

Source: Compiled by the author on the basis of the legislation and statistics of the seven countries.
[a] Refers to the 1992 reform, as the 1995 reform has not yet been provided with the necessary regulations and has many obscure aspects.
Notes: n.a. = not applicable. $\bar{x}$ = arithmetic mean.

until 1997). It is hoped that the present article will clarify the reform options for these nine countries and for the remaining five in the region (Cuba, the Dominican Republic, Haiti, Honduras and Nicaragua). The omission of the Caribbean countries is due to the fact that there are very few studies on the 14 countries in question, which makes the execution of such research projects even more urgent.

IV

One single universal model, or multiple models

The "father" of the Chilean pension system reform process, José Piñera, claimed in 1994 that that model is universal, and that it has three essential elements: i) an FIC basis; ii) private pension fund management companies whose activities are restricted solely to that field, and iii) freedom to choose among the private management companies. Piñera asserted that the three countries which had adopted structural reforms in their pension systems up to that time (Argentina, Colombia and Peru) were following the Chilean model, but in reality none of them (nor Uruguay either) applied all three elements, at least in their pure form. Thus, in Argentina the FIC programme is a component in a mixed system, but the PAYG, system continues to exist both in the public component of the mixed system and in the independent option (this is the case in Uruguay, too), while in Colombia and Peru the FIC system is just an alternative to the public PAYG system and has in fact been chosen by less than a quarter of the total number of insured persons. Likewise, three of these four countries permit non-private pension fund management institutions, which may be public, cooperative, or some other form. To return to the case of Argentina: the (present and future) insured persons can choose between the public system and the mixed system, while in Colombia and Peru they can choose between the public system and the FIC system (in Uruguay, current insured members of the social security system can either stay in the public system or transfer to the mixed system, whereas future entrants must join the mixed system). In the face of these arguments, Piñera has admitted that these are "distortions", but he has predicted that these three systems will run into crises and be eliminated, adding that in these cases the reform procedure was the result of a political compromise to facilitate their approval, but in the long run the pure Chilean model will prevail (Piñera, 1995, pp. 17-50).

But if the Chilean model is universally applicable, as claimed, and has been operating successfully for 15 years, then why is it that there is so far no country in the region which has installed it in its pure form? The answer is that most Latin American countries have political, legal, economic, social, labour, demographic and social security institutional factors different from those of Chile, so that it is difficult to reproduce the Chilean model in full (Mesa-Lago, 1994a, 1994b and 1996).

The drastic Chilean reform was politically feasible because there was an authoritarian government which dissolved Parliament, banned political parties and trade union confederations and ruled the communications media with an iron hand, so that any opposition to the reforms was eliminated or was extremely feeble. Even with the authoritarian regimes in power in Argentina, Brazil and Uruguay (which were, however, not so radical as in Chile), such pension system reform was not possible. President Fujimori of Peru tried to bring in Chilean-type pension system reforms just after his coup d'état, but even so he failed and had to accept a parallel model. The initial attempt by President Gaviria of Colombia to make similar reforms also failed because of strong opposition from Congress, the political parties, other government bodies and social security experts, all of whom freely expressed their criticisms. Even the moderate mixed programme proposed in Uruguay, after careful study and discussion by technical experts from various parties, was initially defeated in Congress in 1992 and was not adopted until two years later, while the mixed model in Argentina was

only adopted after several years of study and underwent considerable amendments in Congress. Moreover, in Colombia and Peru the Constitution provides that the State must play the leading role in social security or that the principles of solidarity and universality must be observed, thus ruling out a private replacement programme. With the ongoing process of democratization in Latin America, the possibility of adopting such a radical reform as that of Chile is even more difficult.

In discussions held by the present author in various countries, the champions of the universality of the Chilean model maintained that those who call for the optimal reform are "neutral" technicians, whereas those who consider political factors in trying to design a viable model are taking a "political" stance. However, proposing reforms which have a high probability of being rejected in Congress indicates a lack of realism on the part of the technicians and results in the long run in waste of the country's resources or those of international organizations.

Furthermore, the economic conditions of the Latin American countries are different too. In the less developed countries of the region, capital markets either do not exist at all (El Salvador, Honduras), or else they have only recently been introduced (Ecuador). Other more developed countries have capital markets, but they are only incipient (Colombia, Uruguay, Venezuela). In all these countries, there are few profitable investment options, so that it is essential (as the World Bank maintains) to first of all adopt laws to establish, regulate and stimulate capital markets and the private insurance industry, before thinking of privatizing pension systems.

In many Latin American countries, social security displays less favourable conditions than in Chile. In the less developed countries (Bolivia, Colombia, Ecuador, Paraguay, Peru and most of Central America and the non-English-speaking Caribbean), social security covers less than a quarter of the population. Moreover, the magnitude of poverty, the informal sector, self-employment and the marginal peasant sector is much greater than in Chile. The public systems have faced serious obstacles in trying to expand coverage of the population, but adoption of the Chilean model would raise insurmountable barriers, since most of the population (poor people, informal-sector workers, non-wage earners and rural dwellers) would simply not have access to it. One of the main criticisms levelled at the first reform proposal (based on Chilean-type principles) in Colombia was precisely the difficulties it would raise in expanding coverage of the population, and this led to the introduction of a 1% solidarity contribution in order to help attain this objective.

Very large State transfers would be needed in order to put the private pension programme of a middle- or upper middle-income insured minority on a sound footing and cover the deficit on the old system, pay the certificates of previous contributions to that system (recognition bond) and guarantee a minimum pension under the full individual capitalization system. This would have to be done by using public resources that are desperately needed in such fields as primary health services, nutrition and social assistance in order to relieve the situation of the majority of the population who are poor or have low incomes and are not covered by social security.

Among the more developed countries of the region, some pioneers in the field of social security such as Uruguay and Argentina had pension system deficits (at least until the adoption of reforms) much worse than that registered by Chile before its reform process, and the cost of a Chilean-type reform would therefore have been much higher. There are also adverse demographic and other factors: for example, the number of active contributors per pensioner was 2.4 in Chile, but it was only 1.6 in Argentina and 1.4 in Uruguay. Even some less developed countries, such as Colombia, have worse imbalances (especially in the civil service sector) than Chile had. Finally, in countries like Ecuador, Paraguay, Peru and Venezuela (unlike Chile) the State has not fulfilled its social security obligations in the past, so that there is no guarantee that the governments are going to act in a radically different manner, "behave themselves" and finance the heavy fiscal burden generated by the reforms.

It is argued that the Chilean model is the only one with 15 years of successful operation behind it, whereas the others have been operating for less than three years or even for only a few months. The same thing could have been said, however, when the Chilean reform process began. Indeed, 15 years of practical experience are no guarantee that the success will continue: the vast majority of the social security systems in the region also worked well during the accumulation period, for 20 years or more.

On the other hand, the lessons of the Chilean experience have been useful in the reform processes of other countries, for reducing or solving some of the shortcomings revealed by the Chilean model and reducing its high fiscal cost. For example, in the light of that experience limits have been placed on the recognition bond (a ceiling, prior contributions or non-payment of interest, as in Argentina, Colombia and Peru) or no such bond is been issued (as in Uruguay, where past contributions are used to finance the basic pension in the public programme); the minimum pension has been eliminated in the FIC system (Peru up to 1995) or replaced by a basic pension in the public programme (Argentina and Uruguay), or else stricter conditions have been introduced (a minimum age limit and a given number of prior contributions in Colombia); stricter conditions of eligibility have been applied than in Chile (5 years more for women's retirement in Peru); instead of eliminating the employer's contribution it has been maintained (Argentina), increased (Colombia) or only slightly reduced (Uruguay); the insured person's contribution has been kept unchanged instead of reducing it (Argentina) or it has actually been increased (Colombia and Uruguay); a limit of two per year has been placed on transfers from one pension fund to another, which have provided pension fund salesmen with juicy commissions but have not necessarily benefited the contributors (Argentina, Colombia, Peru and Uruguay); and measures have been taken to ensure the veracity of pension fund publicity and the provision of clear and reliable information to contributors (the same four countries). Many of these changes may be seen from table 1.

The failure, on the part of many international consultants who believe in the universal applicability of the Chilean model, to take account of the differing institutional factors in the various countries of the region is clearly reflected in their reports, which usually give quite a sketchy diagnosis of the public pension system in the country in question and then devote the rest of the report to an enthusiastic endorsement of the successful Chilean formula. This is not a completely generalized attitude, however, for there are Chilean political leaders and technical experts who give due weight to the institutional factors and do not believe there is an optimum universal model. In 1994, for example, Jorge Arrate, the Chilean Minister of Labour and Social Security, described the Chilean reforms as "a long learning process with both hits and misses" and said that there was "still some way to go in the quest for improvement", while Edmundo Hermosilla, the Minister of Housing, criticised the attitude of trying to "sell" the Chilean model abroad (notes by the author). At the opening ceremony of the Latin American Congress of Pension Fund Management Companies, held in Santiago in May 1996, President Frei acknowledged the positive aspects of the Chilean model but warned that "it has not yet been tried to the full" and that a "thoroughgoing reform" was needed in order to perfect it and reduce or solve its outstanding problems. Among these problems are: i) the high fiscal cost of the system (US$ 2.1 billion in 1995, or 3.4% of GDP), which is partly defrayed by the insured persons themselves, through the taxes they pay; ii) the high commissions charged by the pension fund management companies and the insurance companies, which it is sought to reduce through bills aimed at preventing excessively frequent transfers from one pension fund to another, stimulating competition among insurance companies, and increasing the information made available; iii) the challenge of finding new investment opportunities for a pension fund which is expected to double in five years (bills to permit investment in infrastructural projects and real estate developments and stimulate investment abroad); and iv) the negative return (-3.5%) turned in by the new system in 1995, which has made it necessary to lower the projected future return from 12.6% (1981-1995) to 4% (Frei, 1996, pp. A 1 to A 16).

V

The main features of the strategies of the ILO and the World Bank

1. The International Labour Organisation (ILO)

In 1990, the Social Security Division of the ILO commissioned the author of the present article to carry out a study on the structural adjustment, its social costs, the situation as regards social security, and the role the latter should play in tackling those problems in Latin America. The study also contained a diagnosis of the situation in eight countries, an analysis of the various reforms effected in pension systems, recommendations for adapting social security to the changes which had taken place, and proposals regarding its future role (Mesa-Lago, 1991c). The purpose of the study was to provide the ILO with bases for designing its future policy in the region, an issue which was discussed at the 13th Conference of American Member States, held in 1992.

The Report of the Director-General of the ILO to that Conference contained the following conclusions:

a) social security had not been discussed in a macroeconomic context since 1966, and while it was now suffering from an organizational and financial crisis throughout the region, that should not serve as a pretext for holding back its progress;

b) social security must be adapted to the new situation (by modernizing it, reducing bureaucracy, increasing its efficiency, and restoring its financial and actuarial balance) in order to offset the adverse social effects of the structural adjustment;

c) although the ILO agreements had played a decisive role in the development of social security, there were grounds for wondering if they were still suitable instruments for the necessary reforms;

d) the new policies must be decided upon by the Governments themselves, but they should maintain the basic principles of social security (universality, solidarity, equity and redistribution);

e) the State should continue to carry out its functions and responsibilities (as regulator, co-financier and guarantor of the system), while leaving the broadest possible scope for private enterprise (profit-making or non-profit-making), and

f) the private sector should concentrate on the establishment of supplementary programmes based on full individual capitalization (compulsory or voluntary, for part of the population), but that was not essential for financing the general system and could run into serious problems and challenges, such as the high cost of the transition and the problem of finding profitable investment opportunities for such a large amount of resources.

The Report in question summarized the social security situation in six countries of the region but did not analyse or evaluate pension system reforms, except in the case of Chile, which was criticised and considered not to be in keeping with various ILO conventions (ILO, 1992a and b). Although the Report represented a notable step forward, the present author's view is that it basically maintained the conventional position, did not discuss the most important and controversial problems of pension system reform or make a systematic comparison of such reform processes, proposed an alternative (supplementary pensions) based on the experience of Europe rather than Latin America, and did not make any specific recommendations.

In 1992, the Director of the Social Security Division published an article in which he made serious in-depth criticisms of the Chilean pension system reform process but under-estimated its achievements, offering as an alternative an extremely succinct model based on three main pillars, namely: i) a public programme (without specifying how it should be financed) guaranteeing a basic minimum pension for all insured persons and a social assistance pension for non-insured persons without resources; ii) a programme (whose form of management was not specified) with partial collective capitalization (rather than FIC) which would retain the employers' contributions and provide a defined wage-related pension; and iii) a voluntary supplementary programme (whose form of financing and management were not specified) which would perhaps also be financed by the employers and pay a supplementary pension (Gillion and Bonilla, 1992, pp. 171-195). This article was

rebutted by another article, by a Chilean technical expert, which was published in the same journal (Bustos, 1993). The controversy marshalled the supporters of the Chilean model, and also some supporters of the mixed approach, but did not offer a detailed alternative model.

Two important steps towards a more detailed alternative model based on three main pillars, together with stronger criticism of the defects of public systems, were taken in the April 1993 Report of the Director-General of ILO (ILO, 1993) and a subsequent article published in that organization's *Review* (Iyer, 1993, pp. 187-207). Both these documents highlighted the many serious shortcomings in the social security programmes of developing countries. They noted that: i) their institutions are usually over-centralized, are incapable of meeting the needs of their beneficiaries, and are not coordinated with macroeconomic policy; ii) there is only limited coverage of the population; iii) the level of benefits is usually very low and is not adjusted for inflation (sometimes it even falls below the poverty line), while the procedures for obtaining benefits when eligible are inefficient and protracted; and iv) administrative costs are high, as are the levels of evasion and arrears, there is no effective system of recording and checking payments, and there are cases of flagrant corruption. Over the last two or three decades, these shortcomings have led to profound disillusionment with public systems, which are very often seen as being inefficient compared with private ones, giving rise to demands for radical reform and a search for alternative schemes, including FIC systems with defined contributions and private management.

While warning that it is not possible to design precise universally applicable strategies and structures, because of the differences in countries' needs and resources, the ILO developed in greater detail the three-pillar model outlined by Gillion. In this alternative model, the first pillar –obligatory and of top priority– is a basic universal subsistence pension, granted on the grounds of need, administered by the State and financed from taxes on the pay-as-you-go principle. The second pillar, which is also obligatory, is administered by the department of social security, must be implemented on a unified basis and expand population coverage, must offer defined benefits, and be based primarily on partial capitalization and financed by contributions from both employers and insured persons, with the State guaranteeing an adequate level of pension benefits. This pillar must be reformed in order to increase its administrative efficiency, its autonomy with respect to the State, its financial soundness and capital returns, as well as to guarantee the payment of adequate pensions. The third pillar, which will be voluntary but regulated by the State, provides supplementary pensions and is based on defined contributions (by the insured persons and/or their employers). It is based on FIC (although without completely ruling out other methods), is run by private competitive management bodies, and does not provide defined benefits.

A pragmatic alternative offered by the ILO involves a combination of the second and third pillars, but with greater emphasis on the third pillar when the public considers this to be necessary. The management of the three pillars must be separate, but it must be coordinated, regulated and supervised by an autonomous authority with tripartite representation on its governing board. The State will be responsible for the costs of transition, risks due to inflation, the legal structure of the system, the guarantees in case of insolvency, and the incentives for the development of the third main pillar (Iyer, 1993, pp. 187-207, and ILO, 1993).

The ILO probably has the largest number of studies carried out on pension systems in the region (although because of their confidential nature most of them have not been published), as well as the biggest stock of up-to-date information and figures, all of which provides an excellent base for action in this field. Furthermore, it can provide a balancing element in the debate, through its alternative model, provided it maintains a flexible position and continues to formulate proposals which are even more specific and in keeping with the conditions of the region. It has been reported that the Social Security Division has embarked upon an ad hoc programme to formulate a world strategy in this field.

2. The World Bank

The World Bank began to include pension system reform in its studies and mission agendas early in the 1980s. It also allocated part of its structural adjustment loans to technical assistance to facilitate such reform and laid down conditions for the disbursement of such funds. The author of the present article

prepared a global diagnostic study, participated in missions and prepared reports on six Latin American countries (McGreevey, 1990, and Mesa-Lago, 1991a). As these activities were extended, it became clear that a world-wide study was needed in order to establish criteria for guiding the Bank's policy.

The World Bank study, which took several years to prepare and was published in 1994, was also based on three basic foundations or pillars (like the ILO study), but it proposes radical reform involving the replacement of the old system, as we saw in section II. The three pillars differ in terms of their legal nature, form of financing, contributions, benefits and management. Thus, the World Bank proposes: i) an obligatory first pillar designed to achieve the objectives of redistribution and insurance, ensure a minimum guaranteed or uniform benefit financed from taxes (to be operated by the public sector on the PAYG principle); ii) a second pillar (also obligatory) with the objectives of saving and insurance, with defined contributions but non-defined benefits, to be achieved through an individual saving plan (in which only the insured person makes contributions) or a plan supported by the employer or enterprise (in which contributions are made by both the insured person and his employer), based on the FIC method and managed by the private sector but regulated by the State; and iii) a third pillar (voluntary) similar in other respects to the second pillar.

The World Bank recommends that there should not be only a first pillar, since this might not be financially viable in the long term (as the system matures and the population grows older), as well as possibly giving rise to distortions in the labour market, encouraging evasion and hindering development of the capital market. It therefore offers four alternatives, each of which combines a form of public system with some type of individual saving system, both compulsory. The first alternative consists of a uniform public pension system, with an individual saving plan; the second is a public system which guarantees a minimum level of pensions, plus an individual saving plan; the third corresponds to a uniform public pension system plus a company saving plan, and the fourth is a public pension system providing pensions on the basis of need, plus a company saving plan.

The World Bank warns that its model is not just a single option: it is neither unique, nor applicable to all countries, so that there may be various different combinations for each pillar, the relative sizes of the compulsory pillars may vary considerably, and the model may need to be introduced at different rates in different countries. This structural pension system reform is recommended in particular for countries which are going to embark on a new pension system and those with existing systems which are in a precarious state (James, 1996). This rules out most of the Latin American countries, except for the pioneers in the field of social security (three of which already carried out reforms) and a few others.

3. Comparison of the strategies of the ILO and the World Bank

The differences between the three pillars of the ILO and of the World Bank are to be found mainly in the second pillar: this is obligatory in both cases, but whereas in the World Bank version it is privately managed (with State regulation), with defined contributions (by the insured persons alone or in conjunction with employers) but non-defined benefits, and based on FIC, in the ILO version this pillar is administered by the social security authorities, contributions are made both by the insured persons and by their employers (or through taxes), benefits are defined, and partial collective capitalization (PCC) is the preferred method (table 2).

If we compare the seven Latin American pension system reform variants described in section III with the three-pillar models of the ILO and the World Bank, we see that the three pillars exist in virtually all the countries, although there are substantial differences from one country to another (table 3).

First pillar: i) this has always existed, and continues to do so, in Argentina, Costa Rica, Mexico and Uruguay (basic or minimum pension within the public programme or system); ii) it also exists in Colombia and Peru for those who opt for the public system; if the FIC system is chosen, the State guarantees a minimum pension (although this right was not granted in Peru until the end of 1995); iii) it is an available option in Chile, both under the FIC system and in the remains of the public system; iv) social assistance pensions are granted when justified by need in Argentina, Chile, Costa Rica and Uruguay (paid directly by the State in three of these cases, or through the social security system in the case of

TABLE 2

Comparison of ILO and World Bank strategies based on three main pillars

	ILO	World Bank
First pillar:		
Legal nature	Compulsory	
Method of financing	Pay-as-you-go	
Contributions	Tax (fiscal revenue or payroll contribution)	
Benefits	Uniform minimum benefit (based on need)	
Management	Public (State or social security institution)	
Second pillar:		
Legal nature	Compulsory	
Method of financing	Partial collective capitalization (but other systems not excluded)	Fully-funded individual capitalization
Contributions	Non-defined insured persons and employers (or taxes)	Defined (paid by insured person and optionally also by employer)
Benefits	Defined (related to contributions, with a possible minimum)	Not defined
Management	Public (social security institution)	Private (but publicly regulated)
Third pillar:		
Legal nature	Voluntary	
Method of financing	Full individual capitalization	
Contributions	Defined (paid by insured person and optionally also by employer)	
Benefits	Not defined	
Management	Private (but regulated)	

Source: Summary by the author, based on ILO, 1993 and Iyer, 1993 and on World Bank, 1994 and James, 1996.

Costa Rica); v) in Colombia, Costa Rica, Mexico and Peru this pillar is based not on the PAYG method, but on the scaled-premium method; and vi) only social assistance pensions are financed wholly from taxes; the minimum pension in Chile is financed only partially by this means, while the basic/minimum pensions in public systems are financed mainly from payroll contributions.

Second pillar: The World Bank version of this pillar: i) exists in full in Chile (FIC); ii) also exists in Argentina and Uruguay, but only in the FIC component element, if the mixed system is chosen (it does not exist if the public system is chosen); iii) exists in Colombia only if the FIC system is chosen; and iv) in all the countries except Chile and Peru, this pillar can be managed by non-profit-making public institutions (not just private corporations, as recommended by the World Bank). Consequently, in the countries which have carried out reforms (except Chile) the second pillar is closer to the ILO strategy than that of the World Bank: completely so in Costa Rica and Mexico (under the 1992 reform) and partly so in Colombia and Peru (in the optional public systems) and in Argentina and Uruguay (in the public components of the mixed systems).

Third pillar: This exists in all the countries except Costa Rica, although in Argentina and Uruguay it only exists if the mixed system is chosen, and in Colombia and Peru only if the FIC system is selected.

Although at first sight the World Bank strategy would appear to be more varied than that of the ILO, in the case of Latin America only the Chilean reform complies with all its elements, whereas the great majority of the countries of the region (regardless of whether they have carried out reforms or not) opt for the elements of the ILO's set of features. The differences between the two organizations as regards the second pillar seem irreconcileable, as they stem from very different diagnoses, objectives and conceptions and elements of the reform process.

TABLE 3

Pension reforms in seven Latin America countries and the three pillars of the ILO and the World Bank

Countries	Compulsory pillar Managed by the public sector (ILO and World Bank)	Compulsory pillar Managed by the private sector (World Bank) [a]	Voluntary pillar [b] (ILO and World Bank)
Argentina	Yes: uniform basic pension in both the reformed public programme and in the public component of the mixed system (but not under the pension fund management institutions), or social assistance pension	Yes, under the pension fund management institutions if the mixed system is chosen, but those institutions can also be public or of some other type [a]	Yes, under the pension fund management institutions if the mixed system is chosen
Colombia	Yes, minimum pension for those choosing the public system (plus another pension depending on income and amount of contributions) or guaranteed minimum pension for those choosing a pension fund management institution	Yes, but only if a pension fund management institution is chosen; moreover, such institution may be public or of some other type	Yes, if a pension fund management institution is chosen
Costa Rica	Yes, minimum pension under the single public system (plus a pension depending on income and amount of contributions) or social assistance pension in cases of need	No, but there can be voluntary supplementary pensions obtained through the public system or some other system [a]	No
Chile	Yes, minimum pension guaranteed by the State (for those insured through pension fund management institutions) or social assistance pension in cases of need	Yes, throughout the new system of pension fund management companies	Yes, throughout the new system of pension fund management companies
Mexico [c]	Yes, minimum pension under the public system (plus a pension depending on income and amount of contributions), but no minimum pension for those insured through pension fund management institutions and no social assistance pensions	The basic pillar is the public system, and the pension fund management institutions (partly managed by banks but with funds controlled by the State) are merely a supplementary system [a]	Yes, through the pension fund management institutions
Peru	Yes, minimum pension for those choosing the public system (plus a pension depending on income and amount of contributions) and minimum pension for those insured under pension fund management companies, but no social assistance pensions	Yes, but only in the case of those choosing pension fund management companies, not those choosing to stay in the public system a	Yes, in the case of those choosing pension fund management companies
Uruguay	Yes, basic pension under the public programme or social assistance pension in case of need, but no minimum pension under the pension fund management institutions	Yes, through the pension fund management institutions in the case of those choosing the mixed system, but the pension fund management companies may also be public [a]	Yes, through the pension fund management institutions, but only in the case of those choosing the mixed system who have high salary levels

Source: Based on a paper by Fabio Bertranou (1996) on pension system reforms in Argentina, expanded and amended by Mesa-Lago.
[a] Countries which depart from the system of private management advocated by the World Bank and have public management or the possibility of such management, as advocated by the ILO.
[b] Contributions by the insured person only.
[c] This refers to the 1992 reform, not to that of 1995, which is not yet in force.

VI

Actions by other international and regional organizations

1. The International Social Security Association (ISSA)

The Latin American Regional Working Group on Pensions set up by the ISSA in 1976 has held at least six meetings, and at some of them discussions have taken place on public and private pension systems, as well as supplementary pensions. At its first meeting, held in 1978, the Working Group came to the following conclusions: a) pension system policy should be based on general compulsory public systems providing basic pensions, and voluntary supplementary systems to improve benefits over the basic level; b) the State should help to finance general systems in order to avoid the erosion of pensions and facilitate the expansion of population coverage; and c) the question of whether or not supplementary systems have a negative effect on the equilibrium of the general system should be studied. These issues were not dealt with in depth at the next three meetings, held in 1983, 1985 and 1987.

At the fifth meeting, held in 1989, a brief review was made of supplementary systems and the experience of the industrialized countries, but the only Latin American case analysed was that of Uruguay. At that meeting, it was concluded that the general pension systems of the Latin American countries are different from those of the industrialized countries and that supplementary systems would aggravate social disparities and deprive the general system of the financial resources needed to expand its coverage. It was acknowledged, however, that (compulsory or voluntary) supplementary systems could contribute to capital accumulation, channel resources to the financial market, and aid economic development, but it was doubted whether this should be an objective of the social security system.

The sixth meeting, held in 1991, was devoted to the question of the financing of pension systems in the region. Two general studies were presented (one on the PAYG and FIC systems, and the other on alternative pension systems), descriptions were given of the pension fund situations in Argentina, Costa Rica, Mexico, Panama and Peru (with brief references to the Chilean reform process), and some degree of consensus was reached on the following points: a) pension systems are passing through a financial crisis due to various social, economic, demographic and political factors; b) PAYG systems have the advantage of providing favourable redistributive effects for low-income groups, while FIC systems with defined benefits are more suitable for better-off groups, so that it is necessary to reconcile the best features of each system; c) pensions must be instruments of social policy and not of financial interests; d) the crisis in social security makes it urgently necessary to review basic concepts and the field of action in this respect, as well as reforming pension systems in general (it must be decided whether the system should be completely public or whether it could include private components); and e) alternative formulas should be considered for ensuring the universal coverage and financing of pension systems, in the light of the different economic and social factors of the countries (ISSA, 1990 and 1991).

The Secretary-General of the ISSA delivered an address in Buenos Aires in 1992 in which he referred to the debate on privatization in Latin America. He announced that in future the ISSA would be more energetic in its defence and promotion of social security, with emphasis on improving its efficiency, and he concluded by saying that each country must seek the solution that fitted in best with its circumstances, but always assigning a crucial role to social security and the State (Hoskins, 1992, pp. 5-14). The former Director of the Regional Office of the ISSA asserted in the same year that the economic crisis and the structural adjustment process made it essential for social security to redefine its role and adopt new lines of action and strategies. He said that there was no universally applicable solution, but offered some very brief guidelines for the reformulation of policies

in that field (Moles, 1992, pp. 103-115). The International Social Security Review published by the ISSA Regional Office has published articles on pension system reforms carried out or proposed in Argentina, Bolivia, Brazil, Colombia, the Dominican Republic, Nicaragua, Peru and Uruguay, but not Chile. In 1994, the ISSA held a meeting on "The challenges of social security reform", at which various types of reforms and ways of carrying them out and evaluating their results were discussed (ISSA, 1992a and 1992b; 1993a and 1993b; 1994a and 1994b and 1995a and 1995b). In 1995 that Association devoted an issue of its world review to pension system reform: out of a total of seven articles, five were on industrialized countries, one was of a general nature (the critique by Beattie and McGillivray of the World Bank model), and only one was devoted to Latin America (ISSA, 1995c, pp. 1-174). In 1996, the ISSA organized a meeting of experts from the Americas on "Regulation and financial management of reformed pension systems" whose objectives were to: redefine and update the principles of social security (determining which should be maintained and which should be changed in order to adapt them to the economic reform process), discuss the new role of the State in reformed pension systems, and identify the areas of greatest importance and lines of action for the future.

Notwithstanding all these efforts and meetings, and in spite of the fact that there is general consensus on the need for pension system reform, the ISSA and the Regional Working Group have not prepared an integrated comparative study evaluating the advantages and disadvantages of each reform process and proposing a strategy for the world as a whole and, in particular, for the Latin American region.

2. The Inter-American Development Bank (IDB)

Although the IDB has a long history of participation in the area of health, its participation in the field of pensions is only very recent. In 1980 it published a study on the possible impact of Value Added Tax on the financing of social security. Five years later, the author of the present article was commissioned to carry out a short study on the social security situation in the region and ways in which the IDB could intervene in that area, but no concrete action was taken. In 1990, the Department of Economic and Social Development asked the present author to carry out a more extensive diagnostic study, with global policy recommendations, and this was published in the IDB's Annual Report (Mesa-Lago, 1991b, pp. 189-227). In 1993, the IDB set up the Social Agenda Policy Group, which carried out pilot missions involving the execution of social development studies (for the purpose of designing future strategies) and published studies on seven countries, including Bolivia, Chile, Costa Rica, Peru and Venezuela. These studies either do not deal with the subject of pensions at all, or else do so only very briefly and without making any recommendations, except in the case of Venezuela, where, after a brief diagnosis, it is proposed that the public system should be replaced with one under private management. The Group apparently terminated its mission in 1996 (IDB, 1993, 1994a, 1994b, 1995a and 1995b).

The IDB has also helped to finance two international seminars on pensions held by the Institute of the Americas in San Diego in 1993 and 1995. At these seminars, papers were presented on reforms that had been effected, Bills put forward in parliament or studies under way in Argentina, Brazil, Chile, Colombia, Peru, Venezuela and Uruguay, as well as on important aspects of such reforms (investment, impact on saving and on the securities market, regulatory framework, cost of delaying reforms, etc.). However, the Proceedings of the seminars have been given only limited circulation and have not been published in book form (Institute of the Americas, 1993 and 1995). The IDB has published specific studies of pension reforms or projects regarding Argentina, Brazil, Chile and Venezuela (Marcel and Arenas, 1991, and Barreto de Oliveira, 1994). In 1995 it set up the Social Development Institute, whose main function seems to be teaching rather than research; by the end of that year it had not published any documents on the subject. In addition, during the current decade the IDB has carried out missions or provided technical assistance on pension reform at least to Ecuador, El Salvador, Guatemala, Paraguay and Venezuela and has granted or is in the course of granting loans in connection with pension reform to Uruguay, Mexico and Argentina. The documents relating to these matters are confidential and have not been published. The Social Division of the Department of Social Programmes and Sustainable

Development has been requested to carry out a new set of studies on pensions in preparation for a "strategy document" on the strategy to be followed.

Some 40% of the IDB's refinancing fund for the period 1996-2001 (approximately US$ 20 billion) is devoted to social programmes in the region. At present, the IDB is the multinational body providing most financial resources for technical assistance to pension reform in the region, but although a good deal has been done so far, it is not enough to cover this task adequately. There is an urgent need to prepare studies on key reforms, to make a comparative evaluation of those reforms, and to design a set of desirable features, a strategy or policy guidelines to serve as a guide for the granting of loans and technical assistance for pension reform in the region (according to the IDB, these points will be included in the "strategy document" referred to earlier).

VII

An analysis of the ECLAC document

The first global study on social security in Latin America sponsored by ECLAC (analysis of problems in this field, identification of trends and policy recommendations) was made in 1983, when the debt crisis and the structural adjustment programmes were just beginning (Mesa-Lago, 1985). Between 1991 and 1994, ECLAC published six volumes on the financial situation of pension systems or their reform in 16 countries of the region: 14 from Latin America and two from the Caribbean [1] (ECLAC, 1991; Uthoff and Szalachmann, 1991, 1992 and 1994; Iglesias and Acuña, 1992, and Schulthess and Demarco, 1993). This is the most comprehensive, best-documented and most analytical collection of studies made on this subject in Latin America, but the studies were all written by local experts with different viewpoints. In 1995, ECLAC published a document summarizing, integrating, comparing and evaluating the results of all the studies (Uthoff, 1995a). The present author concurs with the main elements of that document (see also Uthoff, 1995b), but because of lack of space the present article will only analyse its more debatable aspects or those not dealt with clearly or precisely enough.

[1] The countries were: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Paraguay, Trinidad and Tobago, Uruguay and Venezuela. No studies were published on Cuba (important because of its socialist model which is now in crisis), the Dominican Republic, Haiti, Nicaragua, Panama, Peru (one of the five countries which has made a structural reform in this field), and the other twelve Caribbean countries (this subregion needs an in-depth comparative study).

1. Social objectives vs. economic objectives

Although the ECLAC document does not leave out the social objectives of pension systems (championed by the ILO and the ISSA), it concentrates on the economic objectives and the goal of promoting saving (defended by the World Bank), arguing that if these objectives are not fulfilled it will not be possible to achieve the social objectives either (regardless of the pension system adopted). Although this reasoning is justifiable, the main social question dealt with in that document is the hypothetical cost of a universal basic pension equal to per capita GDP for all those over 65, under a PAYG system based on per capita GDP. This is an excessively generous benefit compared with the basic or minimum pensions paid in the most socially developed countries of the region in 1994: in Argentina the corresponding pension was less than a quarter of per capita GDP, in Chile it was one-third, and in Uruguay it was one-fifth. When the benefit is set so high, the requirements for financing it are also enormous: a 3.3% average annual increase in GDP over the next 35 years, together with increases of 1.7% in employment and 1.6% in real wages, all of which are much higher than the figures registered over the last 15 years. On the basis of these figures, it is concluded in the ECLAC document that it will be necessary to increase national saving (fixed capital formation must be over 22% of GDP) and that the contribution made by pension funds will be crucial in this respect. Before going into this matter, however, we must look at the way that the study deals with the methods of financing pension schemes.

2. Pay-as-you-go vs. capitalization

In the document in question, two extreme types of pension financing systems are used: simple PAYG, and FIC. The document asserts that most of the 13 countries analysed which had not reformed their pension systems ended up with PAYG (p. 53). According to table 5, however (and also according to more recent information collected by the present author), only two countries have a PAYG system (Brazil and Uruguay, in the old public system), while 11 have an intermediate system of partial collective capitalization (mostly based on the scaled-premiums method). Rather confusingly, the document refers to "pay-as-you-go with scaled premiums" (in El Salvador and Honduras), "pay-as-you-go with reserves" or simply "reserves" (in Guatemala, Mexico and Paraguay), and "pay-as-you-go" (in Ecuador, when the method used is really that of scaled premiums), while it does not identify the system used in three countries (Bolivia, Costa Rica and Venezuela which actually use the scaled-premium method). In reality, most pension systems in the region did not have simple PAYG systems in the 1980s (nor do they have them now), and the main method used was or is scaled premiums. It is quite true, however, that the system of scaled premiums has not worked well and, in quite a number of countries of the region, is suffering from serious actuarial imbalances which mean that it will eventually have to be brought into balance or converted into a pay-as-you-go system (Mesa-Lago, 1985, 1991a and 1994a). With regard to the countries which have reformed their pension systems, the document says that "one way or another, they are replacing or propose to replace their pay-as-you-go systems with individual capitalization" (p. 26). This is true of the new system in Chile (although the old system is still operating on a pay-as-you-go basis), but it is not true of Argentina or Uruguay (where pay-as-you-go is used in the old public system and the public component of the mixed system) or of the alternative public systems of Colombia and Peru (which use scaled premiums).

3. Impact on national saving

Basing itself on the erroneous belief that most pension systems in the region use simple PAYG, the ECLAC document concludes that they did not have investment funds and therefore did not contribute to national saving (pp. 8-14). We may recall the inconclusive debate on this matter referred to in section I. The document does not explain, however (until its conclusions, and then only very briefly), that the State pressured or obliged the social security institutions of the region to invest their reserves in public securities or to deposit them in the Central Bank (without indexing of the principal or the payment of positive real interest rates), thus helping to decapitalize those reserves. At the same time, it implies that only FIC can generate extra saving and good rates of return on capital, when in fact these benefits can also be provided by the scaled-premium method if the environment is equally favourable and the State "behaves itself". In actual fact, the document shows in its table 3 that in 1981-1989 (when FIC was already in operation) Chilean national saving was only half the regional average and was the lowest except for Guatemala; furthermore, after analysing the return on capital in 15 countries (in 1990-1992) it concurs with the findings of most of the studies on this subject, which came to the conclusion that it is not possible to decide conclusively whether PAYG or FIC (or, we might add, scaled premiums) is the most suitable method for financing pensions.

4. Public vs. private systems

The ECLAC document confuses the model or type of system with its method of financing (and assumes that all public systems are based on PAYG), so that when evaluating public and private systems it attributes to both systems advantages and disadvantages which may be correct in the case of PAYG but not in that of scaled premiums, or it considers that FIC is the only method capable of providing advantages which in fact also exist, or could be introduced, in public systems based on scaled premiums or on PAYG. Nor does it separate the endogenous defects of the system from those which come from its environment. Finally, it never says whether the fully-funded individual capitalization it advocates should be the only method of financing permitted or whether it should exist as part of a mixed system.

Most of the problems it identifies in public systems, as well as the measures proposed for solving them, are correct, but as a general rule it blames those systems for having three defects which are not in fact found in quite a number of countries, namely: i) they cover only a minor part of the labour force,

which is true in seven countries (the least-developed ones) but not in the other eight, whose coverage ranges from 53% to 93% (Argentina, Brazil, Costa Rica, Jamaica, Mexico, Trinidad and Tobago, Uruguay and Venezuela); ii) their conditions of eligibility for benefits are not homogeneous, and they have some excluded subsystems which affect labour mobility: this is true in most of the countries, but not in five of them (Argentina, Costa Rica, Jamaica, Trinidad and Tobago and Uruguay, except for some small groups); and iii) they suffer from excessive administrative expenses: this is also true in most of the countries, but not in Argentina, Brazil, Costa Rica, Mexico and Uruguay, whose administrative costs range between 2% and 6% of total expenditure. These are not inherent problems of public systems, and the considerable exceptions mentioned above indicate that many of them can be corrected in other countries. Other problems identified are not inherent in public systems either, but have been wholly or partly imposed by the environment, such as indebtedness of the State and low return on capital. The latter problem may be due to inefficient internal management of investments, but it may also be the result of the use of funds by the Government for its own purposes, high levels of inflation, or the absence or weakness of capital markets. Some of these problems may also occur in pension systems using FIC: Colombia and Peru, for example, have very low levels of population coverage, and the return on capital in the Colombian FIC system has been negative.

Furthermore, the ECLAC document describes FIC systems (as opposed to PAYG) as having the following characteristics, some of which, however, are also observed in public systems based on scaled premiums or PAYG, or in mixed systems: i) they provide homogeneous entitlement conditions and greater labour mobility (in addition to what was stated earlier, it may be noted that the Armed Forces have separate arrangements in the Chilean system, as well as in all the other countries except Costa Rica); ii) they regulate and supervise the financial market (something which could also occur in a system based on scaled premiums); iii) they make possible the formation of savings and reserves (also perfectly possible in a system based on scaled premiums), and iv) they assign the State a social function, by guaranteeing a minimum pension (this already occurs, or could be introduced, in public or mixed systems). Finally, that document attributes three other advantages to FIC which are equally debatable: i) it seeks to solve the problem of low coverage (a problem which is just as difficult, or more difficult, to solve in this system than in a public scheme); ii) it generates incentives for workers to join the system and declare their full income (although table 1 of this article shows that in the FIC systems of Argentina, Chile, Colombia and Peru, between 38% and 51% of members do not contribute actively), and iii) by doing away with the employer's contributions simultaneously "eliminates the negative redistributive effect caused by an increase in labour costs" (p. 37). With regard to this latter point, not only has the employer's contribution not been eliminated in Argentina, Colombia and Uruguay, but also the impact of its elimination is the subject of theoretical and empirical debates and a distinction must be made between two effects of the employer's contribution: if it is transfered to the worker or consumer it should not have an impact on the cost of labour (although it can have regressive effects on distribution), whereas if it is truly paid by the employer it can indeed have adverse effects on job creation.

5. Conclusions of the ECLAC document

An important conclusion is that pension system reforms need not necessarily replace PAYG systems (or, it may be added, systems based on scaled premiums). Another conclusion is that in the 13 countries which had not introduced reforms, the experts recommended that they should correct the weaknesses of their public systems (in order to maintain their redistributive function), while improving the financial management of the reserve fund (thus admitting implicitly that they were not simple PAYG systems) and moving in the direction of mixed systems (along the lines of the reforms in Argentina and Uruguay). Specifically, the following types of reforms were recommended in the 16 countries studied: 7 mixed systems, 4 reformed public systems, 2 parallel systems, 1 FIC system, and 2 without specific recommendations. In spite of the variety of experts who prepared the national studies, only one proposed FIC, and even then with crucial elements of solidarity. However, the document does not recommend a general strategy or list of desirable features to be followed, although it does indicate the general objectives (primarily economic) that should be pursued in any reform. Although these

objectives are sensible enough, no order of priorities is established among them, and some social objectives of great importance are excluded.

It is also concluded in the document in question that pension systems should be improved in order to: i) ensure pensions in line with the contributions of the insured; ii) give contributors greater freedom to choose and occupational mobility, through better information and education; iii) strengthen the financial management of the systems and the investment of their reserves; iv) insulate the systems from political or user pressures seeking to use the funds for purposes other than those corresponding to their essential nature, to add extra benefits or to slacken entitlement conditions; v) regulate, supervise and promote capital and insurance markets so that they can act as financial intermediaries for the funds; vi) provide the fiscal resources essential for facilitating a smooth transition and the minimum State guarantees needed to ensure confidence in the system. The document should also have added four social objectives of high priority: i) gradual extension of coverage in order to attain universality; ii) provision of a minimum or basic pension; iii) allocation, as a matter of priority, of the fiscal resources needed to attain universality and avoid regressive transfers, and iv) measures to complete the unification of the systems (by incorporating privileged groups which are still outside the system) and standardize entitlement conditions.

VIII

Future action

Over the last 10 years, the international and regional organizations have made notable progress in the field of social security pensions, both at the world and regional levels. Thus, they have organized studies of almost all the Latin American countries (but only of a few in the non-Spanish-speaking Caribbean), they have identified and analysed key aspects, they have compared the reforms which have been carried out and have evaluated their advantages and disadvantages, and they have developed lists of desirable features (paradigms) at the global level to outline the ideal types of reforms. The incorporation of the economic objectives of pension systems and the debate on economic and social objectives, are important elements which should be dealt with in greater depth, in order to determine how these two dimensions could and should be integrated. A new step which is needed in Latin America is the development of an *ad hoc* strategy that takes account of the region's diversity both in its institutions and in the level of development of its social security systems.

The taxonomies or paradigms drawn up by the ILO and the World Bank fully coincide in their first and third pillars but display profound differences in the second because of the different objectives, diagnoses and reform elements proposed by the two organizations. Except in the case of Chile (whose model is the only one that complies with all the elements proposed by the World Bank), the other Latin American countries which have carried out reforms do not fully comply with either the ILO or the World Bank versions of the second pillar, while most of the countries which have not yet reformed their systems comply with the ILO version of that pillar (although it remains to be seen what will happen if they do reform their systems). The alleged universality and perfection of the Chilean have been refuted not only by the analyses made in the present article (and other studies), but also by the diversity of the reforms carried out in four other countries and the verdict of the Chilean President himself. Despite the apparent flexibility of the paradigms drawn up by the ILO and the World Bank, both aim to apply to countries with enormous differences, ranging from the industrialized nations of Europe (which have pension systems going back a century or more) to desperately poor countries in Africa and Asia which do not even have social security pensions. Even within Latin America, the differences between the extremes are enormous: on the one hand there are countries like Argentina, Chile, Costa Rica and Uruguay, and on the other there are cases like Haiti, Honduras and Bolivia. All this raises serious doubts about the scape of applicability of such paradigms.

Another position is that which holds that all countries are different and each must design an *ad hoc* system that fits in with its special characteristics. Although this position is reasonable up to a point, it ignores the fact that in the field of social security (as in many other areas of policy-making) the experience of more than a century indicates that there are a certain number of general models which have come to be applied in all countries, although they may be adapted in some non-essential aspects. Furthermore, if this position were maintained to the extreme, this would more or less paralyse general progress in this field. Moreover, international organizations need to have at least general guidelines for recommending policies, providing technical assistance and, in the case of the financial organizations, laying down conditions for their loans.

Between the two extremes (a world paradigm of desirable features and separate *ad hoc* systems for each country), an intermediate position can be taken, at least with respect to Latin America. The idea is to develop a typology by groups of countries which have basic common characteristics (in terms of their institutions and social security systems), and use them as the basis for general reform models for each group. The final decision on the reform model to be adopted and the adaptations that might need to be made to it would be the responsibility of each individual country, and in order to design a viable reform model they would have to take account of their political characteristics. In previous studies, the present author has developed several such lists of features, which have proved useful for analysing problems and identifying trends (Mesa-Lago, 1985, 1994a and 1994b). For example, most of the pioneering and most developed countries (which share some common features such as universal coverage, mature pension systems, ageing of their populations and high pension costs) have already carried out reforms, all of which include an FIC element and private management (although not in the entire system, except in Chile, and with some variations from country to country). Brazil is also in that category, and Cuba ought to be too, but its pension system is typical of the former socialist countries, so that it calls for special treatment. At the other extreme are the less developed countries, which have very low population coverage, young pension systems and populations, a high incidence of poverty, an enormous informal sector, etc. In these countries, the first main pillar (of a social assistance nature) would have to be the most important, and the available fiscal resources should be used to finance that pillar rather than being allocated in a regressive manner to reform a pension system that only covers between 9% and 20% of the population (this minority group should seek its protection within the enterprise, in the second pillar, and in the third (voluntary) pillar. Between these two extremes is the intermediate group of countries, which display the greatest variety and call for the application of alternative models. Reform models should also be developed for countries which have already introduced reforms but may run into serious difficulties in implementing them. These are, of course, very general guidelines which need more research in order to make them more specific. Nevertheless, this approach would appear to be more promising than the other two discussed above, and some of the international and/or regional organizations have ample resources for pursuing this line of action. Finally, it would be ideal if the execution of this task (as well as other future studies of various types) could be coordinated among all the relevant international organizations, so as to save resources and reduce conflicts for the benefit of all the current and future members of pension systems in the region.

(Original: Spanish)

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