DOI: 10.1111/j.1468-2397.2012.00872.x
Int J Soc Welfare 2012: **21**: S46–S60

INTERNATIONAL JOURNAL OF SOCIAL WELFARE
ISSN 1369-6866

The politics of counter-reform in the Argentine pension system: Actors, political discourse, and policy performance

Arza C. The politics of counter-reform in the Argentine pension system: Actors, political discourse, and policy performance

In November 2008, the Argentine National Congress passed a bill drafted by the executive branch to reform the country's pension system. The law eliminated the fully funded pension accounts created in 1993/94 and transferred all participants in that system to a pre-existing pay-as-you-go pension system. On the basis of debates in the National Congress and statements in the media, this article analyzes the political process of pension reform. It studies the positions of major actors and the arguments presented in favor of and against the bill. In sum, the article analyzes a recent policy experience that may be of interest to other countries in the region that have similar pension systems, offering empirical insights for conceptual analysis of institutional change and continuity.

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Key words: pension reform, nationalization, institutional change, policy performance, solidarity, private pensions, negative feedback, crisis, Argentina

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Accepted for publication February 12, 2012

In November 2008, the Argentine National Congress passed a bill drafted by the executive branch to reform the country's pension system. The law eliminated the fully funded pension accounts created in 1993/94 and transferred all participants in that system to a pre-existing pay-as-you-go (PAYG) pension system. The bill was passed by a comfortable majority approximately 1 month after it was submitted to Congress. Shortly thereafter, the assets in individual pension accounts were placed under public administration.

This policy shift is particularly relevant to the analysis of institutional continuity and change in welfare systems. From the ground-breaking work of Paul Pierson onwards, several studies of the politics of reform in mature welfare systems have contributed to the understanding of policy change (or the lack thereof). Many such studies have demonstrated the status quo bias of existing institutions, that is, their tendency to create conditions for their own reproduction over time.[1] Policies distribute benefits, generate expectations, and create their own political constituencies (like pensioners defending their pension rights) which later make it difficult to change course. Past policy decisions

[1] See Pierson (1994, 1996, 1998, 2000, and 2001). For a critical assessment, see Streeck and Thelen (2005). See also Thelen (1999) for a review and analysis of different strands of the institutionalist literature and the concept of path dependency in politics.

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can thus restrict subsequent opportunities for change and promote path-dependent policy trajectories. In contrast, when in this article, policies fail to take root and gain sufficient political support, they may become vulnerable to rapid transformation, making it easier for governments to reverse the course of earlier policy when their policy priorities change.

This study analyzes the political process surrounding the counter-reform of the Argentine pension system by looking at the actors involved, the positions they took during the reform process, and the most salient arguments that surfaced during the debates in the National Congress. Such arguments engaged issues like the gap between promised performance and outcome in the private pension system, a growing distrust of the role of the private sector in the administration of retirement funds, and concerns over the management of pension assets by the government after the shift to public administration. The policy debate also touched on a set of ideas related to public pensions, such as notions like solidarity and intergenerational contract. In the context of the international financial crisis, the government showed a renewed interest in entrusting pension fund assets to public administration and resuming management of social security contributions that, since privatization, had been in the hands of private pension fund administrators (*Admnistradoras de Fondos de Jubilaciones y Pensiones* [AFJP]). While some of the actors that traditionally defended private pensions had lost power, other major actors (like trade unions) showed a preference for public, rather than private, pension systems.

Other countries in Latin America, and beyond, that have in recent decades implemented pension systems based on private individual accounts may take special interest in the Argentine experience.[2] In some of those countries, dissatisfaction with the outcomes of existing systems, among other factors, has fomented a "second generation" of pension reforms in recent years (see Calvo, Bertranou, & Bertranou, 2010). The Chilean reform in 2008 and the Bolivian reform at the end of 2010 exemplify two different ways of addressing some of these issues (see Berstein, Castañeda, Fajnzylber, & Reyes, 2009; Marco Navarro, 2010).[3]

The article is organized as follows: This introduction is followed by a section that briefly presents the recent history of reform to the Argentine pension system, from privatization in the 1990s to nationalization in 2008.[4] The third section studies the political process of pension reform, focusing on the

2 Three models of structural pension reform ("privatization") have been applied in Latin America: a "substitutive" model where the existing public PAYG system is closed to new entrants (Chile, Bolivia, Mexico, El Salvador, Dominican Republic); a "parallel" model where a public PAYG system continues to exist as an alternative to a new, privately managed system of individual accounts (Peru and Colombia); and a "mixed" model where the new pension system includes both a publicly administered PAYG pillar and a privately managed pillar based on individual accounts (Argentina [until 2008], Costa Rica, Uruguay, Panama) (see Mesa-Lago, 2004, 2006a, 2006b; Mesa-Lago & Müller, 2002). In recent decades, a number of Central and Eastern European countries have also implemented structural pension reforms based on privately managed individual accounts (see Müller, 2003, 2008; Orenstein, 2008b; Schmähl & Horstmann, 2002).

3 The Bolivian reform (passed by that country's legislative branch in December 2010) introduced a new "solidarity pillar" and established that the administration of individual accounts will shift from private to public hands. The Chilean reform maintained individual accounts and private administration, created a "solidarity pillar," and effected other adjustments to the existing system (see Arenas de Mesa, 2010; Mesa-Lago, 2008; Quiroga, 2008).

4 Although, for the sake of simplicity, I use the term "privatization" in this article, the state, generally speaking, continues to play a role in the pension system even after privatization, although the specifics of that role vary from country to country and according to institutional designs (see Béland & Gran, 2008). Similar caveats apply to the use of the term "nationalization," as it can refer to distinct classes of reform (the Bolivian and the Argentine reforms, for instance).

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positions of legislators in the National Congress. The fourth section addresses the way political actors in the government and the opposition explained and legitimized their position. The fifth section concludes with some comments on the relevance of this case study for analysis of welfare policy change and the future of private pensions in Latin America.

Pension reform in Argentina: from privatization to nationalization

Due to a structural pension reform passed in the National Congress in September 1993 and implemented in 1994, the traditional PAYG and earnings-related pension system was replaced by a mixed public/private system that included individual accounts managed by private pension fund companies (known locally as AFJP). This shift to the market was a central component of the neoliberal economic strategy of President Carlos Menem during that period (see Cortés & Marshall, 1999). Indeed, the Menem administration devoted a great deal of effort to ensuring the approval of this new policy (see Alonso, 1998, 2000; see also Madrid, 2003; Mesa-Lago & Müller, 2002). The reform resulted in a mixed and "parallel" pension system whereby a fully public pension scheme continued to exist alongside a mixed public/private system whose core pillar consisted of individual accounts managed by the private sector.[5] Although contributors could choose between the reformed PAYG public system and the "mixed" public/private system, a number of dispositions tended to favor affiliation with the latter,[6] which eventually came to include the majority of active contributors (75% of active contributors by the end of 2006 – see ANSES, 2007).

At the end of 2001, a profound economic crisis triggered the fall of the administration of President Fernando De la Rua. A new provisional government announced that the state would default on its debt and abandon the fixed parity of the local currency to the dollar that had been established over a decade earlier under the strict rules of the Convertibility Law. Unemployment and poverty increased and the GDP fell by about 11 percent in one year. The crisis did away with the paradigms for existing policy and made way for sweeping change. In terms of pension policy, a commission of experts was formed to review the pension system, which had been affected by the economic crisis and the state's default (over half of private pension fund assets were invested in state bonds). The International Labor Organization was asked to provide an assessment, and what was called the "white book" was published by the Ministry of Labor (see MTSS, 2003; Mesa-Lago, 2009a), but no structural reform was sanctioned at that time.

It was not until some years later that major modifications to the pension system were

5 The Argentine pension system was set up as follows: There were two systems and contributors had to choose and enroll in one of them. The first was the publicly run defined-benefit system, whose pensions consisted of (i) a flat-rate benefit (PBU, *Prestación Básica Universal*) plus (ii) two earnings-related benefits (PC, PAP, *Prestación Compensatoria*, for contributions made before 1994, and *Prestación Adicional por Permanencia* for contributions made after 1994). The second system was a mixed public/private system, which entailed (i) a flat-rate benefit (PBU); (ii) an earnings-related benefit (PC) (both paid by the state, as for contributors to the publicly run system); and (iii) a private pension calculated on the basis of individual account balance and estimated life expectancy upon retirement. This second system is also referred to as the "private" system. On the institutional structure and functioning of the Argentine pension system, see, among others, Arza (2008), Cetrángolo and Grushka (2004), Goldberg and Lo Vuolo (2006), and Rofman (2003).

6 Examples of these dispositions are: Up until 2007, (i) participants affiliated with the private system were prohibited from shifting to the public system, and (ii) new members of the labor force who did not express an explicit choice between the public and the private systems were automatically assigned to the latter.

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effected (see Rofman, Fajnzylber, & Herrera, 2009). A government program known locally as the "moratorium" brought about large-scale expansion of public pension coverage by offering senior citizens with limited or no contribution records access to benefits. The massive extension of benefits under this program increased the role of the state in providing income security to older people. A second major shift toward greater state involvement prior to the elimination of individual accounts was a pension reform passed by the National Congress in February 2007 that addressed some of the problems of the existing system (such as high fees and limited choice). Specifically, this reform allowed workers affiliated with the private system to change over to the public system (something previously prohibited). Under this reform, those entering the labor force for the first time who failed to make an explicit choice between the public and private systems started to be automatically assigned to the public system (previously, such new contributors were automatically assigned to the private system).[7] The reform did not do away with the system of individual accounts or the overall structure of the pension system. It received widespread support from the National Congress, reflecting a far-reaching political consensus that the private pension system established in 1993/94 needed to be reformed, and that that reform should be geared toward greater state involvement and regulation.

A year and a half later, in October 2008, the government sent a bill to the Congress for a more structural reform that would eliminate individual pension accounts and return to a fully public system (see Lo Vuolo, 2009; Mesa-Lago, 2009b). The vote on that bill was not preceded by a substantive debate, and the role of the National Congress was rather limited: The reform bill was drafted by the Executive, presented to the legislative branch on October 21, and passed by the Chamber of Deputies on November 6 and by the Senate on November 20. The law provided for the creation of the Argentine Integrated Pension System (*Sistema Integrado Previsional Argentino*), which eliminated individual accounts and applied the rules and conditions of the pre-existing public system to all future pensioners. The years of contribution to private pension funds would be recognized by the state in the calculation of future benefit entitlement, as if previous contributors to the private system had always been affiliated with the public system, which was not modified.[8] The pension assets accrued in individual accounts would be transferred to the National Social Security Administration.

The political process of pension reform

The 2008 reform was a radical shift that reversed a policy adopted as part of a wider process of market reform in the early 1990s. Unlike privatization, which had been advocated by international organizations and implemented in many Latin American and Central Eastern European countries (see Brooks, 2005; Orenstein, 2005, 2008a), there was, at least in Latin America, no prior experience with renationalizing a pension system that had previously been privatized. Despite the magnitude of the change it effected, the

7 Other measures included the automatic transfer to the public system of the funds of workers close to retirement age with limited accumulation in individual accounts, a cap on administrative fees for private pension fund administrators, a new mechanism for life insurance, and an increase in the expected benefit of workers affiliated to the public system.

8 The reform law also establishes that "the national state guarantees affiliates and beneficiaries of the fully funded scheme the perception of the same or better benefits as those enjoyed on the date of the enactment of this law" (Law 26425, art. 2, my translation). Although that guarantee may have been feasible for the pensioners (beneficiaries) in the system at that time, it is unclear how it could be applied to future pensioners (affiliates), given the "undefined" nature of the benefits offered by the private pension system (see also Mesa-Lago, 2009a).

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Table 1. The Congressional vote for the pension reform bill, Law 26,425. Argentina, 2008.

Political party/coalition	Chamber of Deputies				Senate			
	Affirmative	Negative	Not present or no vote	Total	Affirmative	Negative	Not present or no vote	Total
PJ-Front for the Victory (FPV)	115	5	7	127	39	0	1	40
Radical Civic Union (UCR)	0	22	2	24	0	7	1	8
Civic Coalition (CC)	0	17	1	18	0	2	0	2
Socialist Party (PS)	10	0	0	10	1	0	0	1
PRO	0	9	0	9	0	0	0	0
Solidarity and Equality + *ARI Tierra del Fuego*	7	0	2	9	2	0	0	2
Other	30	22	7	59	4	9	6	19
Total	162	75	19	257	46	18	8	72
Percentage of representatives	63%	29%	7%	100%	64%	25%	11%	100%
Percentage of valid vote	68%	32%		100%	72%	28%		

Source: Own elaboration on the basis of H. Cámara de Diputados de la Nación, Votación Nominal, 126 Período Legislativo Ordinario, 15° sesión especial, 28° reunión, Orden del Día 1167 (Exp. 27-PE-08), votación en general, and Senado de la Nación, Votación Nominal, 126° Período Legislativo Ordinario, 18° sesión, Orden del día 1168 (CD-70-08). Political party/coalition as established in the same source for the Chamber of Deputies, and taken from www.senado.gov.ar "Voto Cantado", *El Parlamentario*, 2008, Nov. 15, at http://www.parlamentario.com/articulo-3031.html, for the Senate.

reform process in Argentina was short, especially if compared with recent structural pension reforms in neighboring countries such as Chile and Bolivia. This meant limited possibilities for consensus building and social dialogue (Mesa-Lago, 2009a) before the National Congress passed the reform bill.

Legislators from the government's coalition and the most influential trade union leaders supported the project from the start, as did some legislators from other parties who had always defended publicly managed pensions. Other actors, such as international financial institutions that had been among the main advocates of pension privatization in the 1990s, had lost influence. Indeed, Argentina's weak ties with the international financial system may have made reform politically easier simply because the position of those-international actors mattered less. Among domestic actors, opposition to the reform bill was too weak to impede swift approval. Private pension fund administrators rejected the government's proposal and jointly presented an alternative bill that would have maintained the private system, but that proposal received no support whatsoever (*La Nación newspaper*, 2008, Nov. 3). Representatives of some business organizations expressed some concern about the reform project (see, e.g., *Ámbito Financiero* newspaper, 2008, Oct. 23; *La Nación newspaper*, 2008, Oct. 31), but seem to have avoided further confrontation with the government on this issue.

The reform bill passed in the Chamber of Deputies with 68 percent of the vote, and in the Senate with 72 percent. The opposition included representatives from the *Unión Cívica Radical* (UCR), *Coalición Cívica* (CC), and PRO, among others (see Table 1). While the reasons for supporting the reform may have differed from legislator to legislator and party to party, the ease with which it happened demonstrates the political weakness of the private pension system established in Argentina in 1993/94.[9] As we shall

9 From a political point of view, the reform process was undoubtedly facilitated by the fact that it involved, on the one hand, state expansion rather than retrenchment and, on the other, a return to a traditional pension model rather than the enactment of something entirely new. However, the first point should not be overemphasized. As

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see, debates in the National Congress and statements made by key political actors show that there was rather widespread discontent about how private pensions had performed. While more often than not legislators supporting the nationalization bill emphasized the limitations of private pensions, the discourse of legislators opposing the reform bill was, generally speaking, not based on a defense of the private pension system created back in 1993/94. Instead, the opposition's discourse revolved around a critique of the government's intentions in effecting the reform, the urgent way the process had been carried out, and its possible consequences.

Political support, policy continuity, and policy change in the pension system

The question of *whether*, *when*, and *how* public policies can be structurally reformed has been analyzed extensively by political scientists, especially in recent decades, as many countries have faced both pressure to effect change and political resistance to it.[10] Paul Pierson (1996, 2001) argued that one of the key obstacles to reforming modern welfare systems is the popular support these systems have. Once created, welfare systems distribute rights and resources and generate expectations. They also create new actors, mainly the beneficiaries of various public programs, and give them a reason to act collectively to defend their rights, planting the seeds for the reproduction of those programs over time. Finally, welfare systems create their own norms regarding who deserves protection, how collective resources should be raised and distributed, and how the government, the market, and the family should share responsibility for the production of social welfare.

Not all policies, however, rally significant political support or create the conditions for their reproduction. Brooks (2009) argued that normative beliefs and performance expectations are central to explaining variations in the level of political support for social security systems. In her view, a gap between expectations and outcomes accounts for a reduction in political support for existing systems and provides opportunities for structural reform. Along similar lines, in a recent article, Kent Weaver (2010) emphasized the ways that policies' negative feedback loops can make way for transformative reform. In extreme cases, he stated, strong negative feedback can produce an "absence of choice" whose effects are opposite to those usually associated with path dependence (i.e., there is no option but to change course).[11] The strength and scope of coalitions supporting alternative policies is also significant to their political sustainability (see, e.g., Huber, Pribble, & Stephens, 2008). Coalitions and interest groups, which can organize and channel their concerns and ideas into the political process, are a factor in both the creation of new policies and the maintenance of existing ones.

Performance gaps, crisis, and reform

An analysis of the political discourses on the process of the 2008 pension reform shows that, in the Argentine case, the poor performance of the existing policy, along with the international financial crisis, were key arguments of actors supporting the policy shift. A number of public officials and legislators made reference to the international financial crisis when explaining their support of

research in other countries has shown, private components of welfare systems can become as difficult to change as public components once powerful vested interests in their favor have come into existence (in the case of the U.S.A., see e.g., Hacker, 2002).

10 For a discussion of institutional constraints on policy reform and mechanisms for change, see Bonoli (2001), Crouch and Farrell (2004), Ebbinghaus (2005), Immergut (2006), Peters (2005), Streeck and Thelen (2005), and Thelen (1999), among others.

11 On policy feedbacks, see also Béland (2010) and Pierson (1993, 2004).

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nationalization.[12] The local crisis of 2001 was also mentioned: *We must not waste time; we cannot and should not wait. We are committed to preventing a 2001-like pension crisis* [in reference to the 2001 local crisis], said Minister of Labor Carlos Tomada (quoted in *Página/12*, November 11, 2008, para. 1).[13] The government maintained that the international financial crisis made it necessary for the state to intervene and rescue pension funds from the financial market, which was producing substantial losses around the world. Upon announcing the pension reform plan, President Cristina Fernández de Kirchner said: *We are making this decision in an international context where the most economically powerful countries, whether members of the G8 or not, are pursuing policies that protect banks* . . . [In contrast, our policies seek to protect] *our pensioners and our workers* (Fernández de Kirchner, 2008, Oct. 21, para. 3). Similarly, in the Congressional debates, many legislators spoke of the international financial crisis as one of the reasons it was necessary to return to a fully public pension system. The international financial crisis meant that reform took place in a context of declining social trust of the financial sector both at home and abroad. It helped justify the timing and rapidity of policy shift that had not (at least not explicitly) been on the government's agenda a year and a half before when the 2007 Pension Act was passed.

In the political debate, the need for change was also defended based on the gaps between performance promises and outcomes in the existing system. Key political actors stressed the failures of the private pension system to meet expectations. They emphasized the high fees that AFJPs charged for the administrations of pension funds and the fact that public monies used to pay transition costs had reduced the budget available to pay current pension benefits. Amado Boudou, head of the National Social Security Administration at that time (later Minister of Economy and currently vice-president), explained: *The fully funded system has generated a debt of 100,000 million dollars, which is why pensions have been frozen in Argentina for more than 10 years.* He added that it was *also the cause for the 13% reduction in pension benefits and wages of public employees* [applied in 2001] (quoted in *Ámbito Financiero* newspaper, 2008, Oct. 21, para. 12–13). With the reform bill, he argued, the government could "end the failed experiment of the fully funded pension system" (quoted in *Página/12* newspaper, 2008 Oct. 22, para. 1). Others, including some members of the opposition, had a similar view. The failure of the private pension system to meet expectations (often called the "unmet promises" of the private system) was mentioned repeatedly in the Congressional debate.

Indeed, the limitations of the private pension system had been noted by a number of policy studies, which identified transition costs, coverage gaps, limited choice, high administrative fees, and the volatility of investment as some of the problems with the system (see, e.g., Arza, 2008; Goldberg & Lo Vuolo, 2006; Mesa-Lago, 2004, among others). In fact, the 2007 pension reform Act had attempted to address some of these problems (e.g., limited choice and high fees). Other problems included the political risks facing the system due to modifications of rules and regulations that were not always geared toward making the best use of workers' savings (see Kay, 2009). Besides, in a context where pension funds the world over were losing value due to the international financial crisis, private pensions could hardly be defended as more secure or profitable than public social security. In addition, the state had recently administered and financed two

12 For a discussion of the role of crises in policy change, see Drazen and Grilli (1993), Gourevitch (1989), Haggard and Kaufman (1992, 2008), Hirschman (1985), Rodrik (1996), and Weyland (2002).

13 My translation of this quote, as well as the others taken from speeches given by politicians and from newspaper articles.

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pension measures that had had a positive impact on the elderly: the increase in minimum benefits and the expansion of coverage. This is likely to have increased confidence in the role of the state and reduced the persuasive power of the traditional defenders of the private system.

As a result, when the reform bill was being treated in the National Congress, there seemed to be widespread agreement among most actors about the poor performance of the private pension system. Interestingly, legislators from the UCR and the CC, two of the political parties that opposed the reform bill, did not base their arguments on a defense of the private pension system. Instead, most expressed their preference for a fully public PAYG system, emphasizing that they had voted against privatization in 1993 and criticizing the performance of the fully funded system. By and large, their opposition to the bill was not based on the view that private pensions were better than public benefits. Instead, they argued that the mechanisms to limit the government's discretionary use of newly public pension-fund resources were limited; they feared, they said, that such funds would be used for fiscal or electoral purposes. Some criticized the speed with which the reform was being undertaken and the absence of a wider debate on the future of pension policy.

One of the key arguments of opponents to the bill was that the government's decision to nationalize the pension system was due to the need to obtain funds in a context of international financial crisis and limited access to international credit (on this point, see also Mesa-Lago, 2009b). In practice, the nationalization process did yield a significant increase in the resources of the National Social Security Administration as a result of both the stock transferred from individual accounts and the monthly contributions made by workers now participating in the public system. These resources became crucial (among other things) to fund the Treasury, new loans for investment and consumption, and a widely welcomed child allowance for informal workers and the unemployed (*Asignación Universal por Hijo*), which was created the year after the pension reform bill passed.

The contents of the arguments presented in the Congressional debates on the reform bill are summarized in Table 2. As not every representative spoke during the debate, totals do not coincide with the number of votes. Of course, an analysis of the participants' discourses does not reveal their underlying intentions. In some cases, what was not said may be as important as what was. Political discourse cannot explain why a policy gets enacted (the number of seats available in Congress, as well as party discipline, is on occasion more important than arguments). It can, however, help us to understand the way the discussion was framed and the positions of major actors. It also provides insight into how the new policy was legitimized with the wider population.

Data show that over 57 percent of the legislators who voted against the reform bill complained about the lack of time for adequate analysis and debate of such a complex and important issue, 66 percent argued that the main purpose of the reform was to raise funds for fiscal or electoral aims, and about 47 percent stated that there was a risk that the funds transferred from individual accounts to the state would be used for purposes other than those strictly related to the pension system. Other arguments against the reform bill revolved around the idea that the reform was "confiscating" pension funds, attacking private property, undermining the rule of law, and constraining choice and freedom. Concerns about financial sustainability were also mentioned, although by about 15 percent of legislators opposing the reform.

Among legislators supporting the reform bill, about 39 percent stressed the poor performance of private pensions; indeed, 14 percent used the word "failure" in reference to the private system. Although legislators

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Table 2. Content analysis of the debate for the pension reform bill. National Chamber of Deputies. Argentina, 2008.

	Legislators who oppose the pension reform bill		Legislators who support the pension reform bill	
	Number of speakers who . . .	%	Number of speakers who . . .	%
Argues that the government's reason for undertaking the reform initiative is to capture funds for fiscal or electoral purposes	31	66.0	2	4.9
Refers to the lack of time/rushed nature of the reform process	27	57.4	2	4.9
Refers to the risk that pension funds transferred to the state will be used for purposes other than pensions	22	46.8	1	2.4
Mentions that freedom and/or choice of workers is being restricted	14	29.8	0	0.0
Refers to pension reform as "confiscation"/"appropriation" of workers' funds	12	25.5	0	0.0
Argues that property rights of pension fund holders are being violated	9	19.1	0	0.0
Refers to issues of financial sustainability	7	14.9	0	0.0
Argues that the rule of law is being compromised	9	19.1	1	2.4
States preference for the state and/or PAYG pension system	18	38.3	9	22.0
Demands that federal funds ["coparticipación"] allocated to financing pensions be restituted to the provinces	10	21.3	4	9.8
States there was insufficient participation/debate in the reform process	6	12.8	2	4.9
Mentions word "failure" in reference to the private pension system	5	10.6	6	14.6
Criticizes the high profits obtained by AFJP	4	8.5	5	12.2
Mentions the international financial crisis	5	10.6	8	19.5
Refers to private pension derogatively as "business"	5	10.6	9	22.0
Makes reference to "solidarity" as a desirable principle prompted by the public pension system	7	14.9	14	34.1
Emphasizes the role of the state	2	4.3	8	19.5
Criticizes the performance of the private pension system	7	14.9	16	39.0
Uses the words "plunder" [saqueo], "thievery," "fraud," "gambling," and alike in reference to AFJP	1	2.1	9	22.0
Total number of speeches	47		41	

Note: Legislators participating in the debate are coded positively for each of the arguments they present to justify their position (or that of the political party/coalition to which they belong to) for or against the reform bill.
Source: Own elaboration on the basis of transcripts of debates in the National Chamber of Deputies, 28th Reunión. 15th Sesión ordinaria (especial). 6/11/2008, available at www.diputados.gov.ar.

supporting the reform were more likely to make extended comments on performance gaps, this problem was also cited by those opposing the project. Indeed, about 38 percent of the legislators who voted against the reform bill stated their preference for a public and/or PAYG pension system.

Social security principles, policy ideas, and the state versus market controversy

The policy paradigm established with the privatization of the pension system in the 1990s involved a change in the distributional principles informing pension policy. The private system was based on the principle of equivalence between contributions and benefits, that is, each contributor was promised a pension equivalent to the contributions she/he had made, plus investment returns. In this way, contributors would both confront the risks and enjoy the rewards of the performance of the economy and the financial markets. In subsequent years, however, there was growing concern about the political and financial risk associated with private pension

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funds, as well as the high administrative fees charged. This led to widespread questioning of whether private pensions could provide workers and pensioners with a fair deal. Some argued that while pension fund administrators (AFJP) could earn high profits with nearly no risk, workers and pensioners had to face all the risks of a system that offered no certain benefit. Fees consumed a considerable share of contributions, and the volatility of the financial market was making future benefits rather uncertain.

These doubts about the private pension system and what it meant for workers were cited several times during the reform process. In the context of the international financial crisis, mistrust of the financial market and, by extension, of private pension administrators was growing. Private pension administrators (AFJP) were criticized for being concerned with their own profits rather than with maximizing pension savings or old-age security. This concern appeared in the Congressional debates and in statements by members of the Kirchner administration. In an article in a local newspaper, President Cristina Fernández de Kirchner stressed that *the resources of our pensioners are not and cannot be a source of speculation. Pensions cannot and should not be a business* (Fernández de Kirchner, 2008, Oct. 28, para. 12). Similar opinions were voiced by members of some opposition parties and trade union leaders.[14] In the National Congress, about 22 percent of legislators who supported the reform bill (and 10 per cent of those who did not) referred to private pensions derogatively as a "business," that is, a means for AFJPs to make profits above all else. About 22 percent of the legislators who voted for the reform used the words "plunder," "thievery," "fraud," "gambling," and alike when referring to private pensions (Table 2).

In the debate surrounding the reform process, the clash between private profit and public solidarity contributed to frame the issues in a particular way. Although the idea of solidarity in the debate was rather vague, it was backed by a long tradition of social security based on intergenerational transfers from workers to pensioners.[15] The reform bill itself stated that the new pension regime would "be based on the principle of solidarity" (Argentine Chamber of Deputies, 2008, p. 2). Furthermore, in the Congressional debate, the supporters of the reform did not focus on the technical aspects of the new system, but rather on the importance of recovering the long-standing principles underlying social security.[16] Nearly one out of four legislators whoparticipated in the Congressional debate mentioned "solidarity" as a desirable basis for the pension system, and they wed that principle to a publicly run system (Table 2). Legislators opposing the reform did not, by and large, challenge this principle, nor did they question the idea that the public system could better serve it. Interestingly, almost no one in the debate voiced the position that individual savings, rather than intergenerational transfers, were a better way to organize economic security for retirement, an argument that was common during the period of market reform.

According to the Argentine poll of the World Value Survey, the trend in public opinion on the relative roles of the state and the market in the promotion of welfare mirrored this return to a wider role of the state in

14 See, for example, the opinion of Pino Solanas, leader of the opposition party *Proyecto Sur*, in Solanas (2008, Nov. 12), and of trade union leader Víctor De Gennaro (*Central de Trabajadores Argentinos*) quoted in *Página/12* newspaper (2008, Oct. 28).

15 On the evolution of the concept of solidarity in social policy, see Béland and Zamorano Villareal (2000). On the effect of ideas and social beliefs on welfare policy and reform, see Béland (2005), Campbell (1998), and Rothstein (1998), among others.

16 See Mesa-Lago (2009a) for a critical assessment of the effect of the 2008 pension reform on the achievement of ILO social security principles, such as universal coverage, financial sustainability, and social dialogue and participation.

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welfare policy. In 1991, shortly after the beginning of the market reform and 2 years before pension privatization, 10.9 percent of respondents stated that "the government should take more responsibility." That figure increased to 19.1 percent in 1995 and 31.2 percent in 1999, dropping to 27.7 percent in 2006.[17] In the realm of social security for older people, the trend was similar. Data from Latinobarometer suggest that the percentage of the population that believes that pensions should be *primarily* in the hands of the state increased between 1995 and 2008 in most Latin American countries (Table 3). In Argentina, in 1995, just 1 year after the mixed public/private system was implemented, 60 percent of the population thought that pensions should be primarily in public hands. This percentage grew to 90 percent in 2008, the year when the counter-reform bill was passed. By then, Argentina was one of the three countries (the others being Chile and Uruguay) with the largest percentage of the population supporting the idea that pensions should be primarily publicly administered. Furthermore, in response to a specific question formulated in a Latinobarometer survey from 2007 geared toward measuring opinion on the role of the private sector in different policy areas, 48.3 percent of Argentine respondents said that the private sector should have "no participation" in pensions, by far the highest percentage to express such an opinion in Latin America.[18]

Table 3. Public opinion on the role of the state vs. the private sector in pensions. Latin America. 1995–2008 (% of respondents who believe that pensions should be primarily in the hands of the state).

	1995 %	1998 %	2008 %
Argentina	60	71	90
Bolivia		62	71
Brazil	73	75	77
Chile	78	83	90
Colombia		77	83
Costa Rica		82	82
Ecuador		60	76
El Salvador		55	81
Guatemala		78	85
Honduras		79	80
México	57	54	84
Nicaragua		89	89
Panama		86	87
Paraguay	46	65	89
Peru	68	73	79
Uruguay	82	83	90
Venezuela	64	80	89
Total	68	74	82

Note: The question asked was "C0515: From the list of activities that I am going to read out to you, which do you think should mostly be in the hands of the State and which should mostly be in the hands of private companies?: Pensions". Remaining categories that would yield 100% of respondents are: "private," "don't know," and "no-response".
Source: Own elaboration. Based on data from Latinobarometer Survey taken from the Online Data Analysis at www.latinobarometro.org, last checked April 4, 2011.

These data are interesting for at least two reasons. On the one hand, they show that the population never fully embraced the idea espoused by the reformers of the 1990s that pensions should be primarily private. On the other, it shows that the support for the private

17 Individuals had to place themselves on a 10-point scale going from 1 (full agreement with the statement "people should take more responsibility") to 10 (full agreement with the statement "the government should take more responsibility"). The figures cited indicate the percentage of people situating themselves at point 10. World Values Survey, Online Data Analysis, at http://www.worldvaluessurvey.org.

18 From Latinobarometer 2007, online data analysis at www.latinobarometro.org. The other response categories were "limited participation," "extensive participation," "totally in charge," "no answer," "don't know." A more recent LAPOP survey (2010) also included a question on the role of the state in pensions (see Lodola & Seligson, 2011). About 81 percent of respondents from Argentina thought that the state (rather than the private sector) should be responsible for providing pensions, which situates the country in the midsection of opinion compared with the rest of the countries in the Americas. The population that looks least favorably on state-run pension systems is the U.S.A., where private provision has a well-rooted history.

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system dwindled over time. Rather than taking root, the private pension system seems to have lost defenders over the years. While the poor performance of state pensions in the 1980s could have facilitated the introduction of pension privatization in the 1990s, it did not permanently erode popular support for state pensions (see also Brooks, 2009). As the promised or expected rewards of privatization were not delivered and the local (2001) and international crises made the risks of market failure more visible, public support for private pensions further decreased. Responses in Table 3 suggest that the population looked favorably on the idea of a public pension system when the government embarked on the nationalization. This is likely to have provided more political space for reform. Byreflecting the widespread preference for state involvement, appealing to the growing mistrust of private pension administrators, and offering solutions that appeared feasible and appropriate in a context of international financial crisis, the government was also likely to take political credit for the return to a fully public pension system. Furthermore, the nationalization of the pension system also provided the government with substantial resources (both flows and stock), which were particularly welcome in the wake of the international financial crisis and in a context in which other sources of financing were lacking.

Closing remarks

The nationalization of the pension system in Argentina provides an interesting case study of policy change. It highlights the fact that policy stability must be sustained politically over time. While specific political contexts may allow for path-breaking reforms like the pension privatization in 1993/94, the process does not end there. The stability and strength of a new policy will depend on the construction and consolidation of political support for it by powerful groups, wide coalitions, or both. As people become attached to existing welfare arrangements, these arrangements become stronger and more difficult to modify. Less entrenched policies, on the other hand, are more prone to quick reversal.

In a broader sense, the Argentine experience with pension nationalization also shows how crisis and performance gaps can facilitate path-breaking change. The role of performance on policy continuity may not have been sufficiently emphasized in existing analyses of institutional change (see, however, Weaver, 2010). The case studied here shows that gaps between promised (or expected) performance and outcome may contribute to generating and legitimizing structural policy change. Indeed, when policies are perceived as unfair or to have performed poorly, reform need not require governments to devise blame-avoidance strategies, as what happens in contexts where widely popular welfare systems undergo reform, but can instead provide an opportunity for governments to take political credit for addressing policy problems and appealing to shared beliefs and values that may not be well served by existing arrangements.

This experience may be relevant to other countries in the region which have also implemented private pension systems that have been increasingly questioned in recent years. Whether other countries will follow the Argentine route remains to be seen. In Bolivia, a recent reform has legislated the return to public administration of pensions, whereas Chile has followed a different path, improving some aspects of the existing private system without eliminating it. In any case, the private pension systems created in Latin America over the past two or three decades can no longer be taken for granted: the Argentine case demonstrates that they can be brought to an end more easily than originally thought.

Acknowledgements

This article has benefited from comments and suggestions from a number of colleagues and

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two anonymous referees to whom I am very grateful. Errors of fact or interpretation remain my own. Part of the research on which this article is based was funded by *Agencia Nacional de Promoción Científica y Tecnológica, Programa de Modernización Tecnológica* III, BID 1728/OC-AR.

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