Paradigmatic Change in Old-Age Security - Latin American Cases

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1 Introduction

During the last four decades, Latin America has been an interesting and dynamic object of study as far as its efforts in stabilisation and development are concerned. Different schools of economic theory were able to test their recipes against chronic inflation and budget deficits, balance of payment crises, weak currencies, underdeveloped product and financial markets, and poor living conditions of the countries' populations - unfortunately without much success.

Whereas Latin American economies changed from import-substitution strategy to monetarist liberalisation plans, back to heterodox stabilisation shocks and again to neoliberal policies in the 1990s, little attention was paid to their welfare systems and social policies, with only one exception: the Chilean pension reform of 1981.

Under dictator Pinochet's government, Chile changed its public pay-as-you-go (PAYG) system into a compulsory fully-funded capitalisation scheme managed by private pension fund administrators. However, the Chilean reform seemed to remain the bold experiment of an autocratic regime, with little attraction for democratic policy makers elsewhere.

This view has changed in recent years for various reasons. Many countries - as different as developing, transformation and industrialised countries - recognise a growing need to reform their traditional (mostly public PAYG-financed) social security systems because of changing economic conditions, shrinking economic resources, structural problems and demographic changes. Searching for viable solutions to the old-age security problem, the international pension debate centres around such controversial issues as structural versus non-structural reform, social versus economic objectives, PAYG versus fully-funded financing, public versus private administration (Mesa-Lago 1996).

There are many examples for state-managed, PAYG-financed social security systems throughout the world. The Chilean pension system, however, is the only private model based on individual fully-funding (IFF) that has been operating for more than 16 years. It evolved as a reform paradigm for Latin America and beyond. The myth of a Chilean success story in social security reform has been strengthened by several World Bank publications, especially "Averting the old..."
age crisis” (World Bank 1994). The credit institution promotes a three-pillar model for old-age security, which is strongly based on the Chilean reform type:

The recommended structure of a pension system consists of a first, public and tax-financed pillar with the objective of poverty alleviation, a second pillar of private, fully-funded pension funds based on a strong contribution-benefit link, and finally a third pillar of voluntary savings (World Bank 1994: 16).

During the 1990s, seven Latin American countries have implemented Chilean inspired pension reforms with major or minor modifications. Latin American policy makers seem to be anxious to make up for the lost decade of the 1980s with radical economic and social reform projects. Whether this kind of implementational success also provides stable and socially acceptable long-term solutions has yet to be seen. Nevertheless, a careful study of the reform concepts and their recent performance may contribute some conclusions to pension reform debates in other regions: especially Eastern European countries that are trying to implement new pension systems could profit from the Latin American experiences (Müller 1997; Vittas 1997b).

For this purpose, the following article will briefly describe the development and problems of the former social security systems in Latin America (2), then present a classification of implemented reforms in eight Latin American countries (3.1), while concentrating on the Chilean (3.2) and the Argentine (3.3) model, in order to make a comparative evaluation of the two countries (4), and finally (5) draw some preliminary conclusions from the Latin American experiences.

2 Evolution and problems of old-age security systems in Latin America

The origins of social insurance programmes in Latin America can be traced back to the first decades of this century. Coverage and benefits in the so-called pioneer countries were gradually extended from powerful groups like state employees (military, civil servants, teachers) to the well paid labour aristocracy (transport, energy, banking, communications, etc.), and finally to weaker groups of urban workers as well as agricultural workers, self-employed workers and domestic servants (Mesa-Lago 1991: 6). The young demographic age structure as well as the progressive integration of new contribution groups into the pension schemes provided a comfortable financial basis during the first decades.

The expansion of social security programmes on the basis of pressure group influence and populist-corporatist state action (Mesa-Lago 1978) reached its peak in the 1950s/60s: the genuine Latin American welfare state model based on the import-substitution strategy was financed via a soft budget constraint for state finances and growing external indebtedness. However, inflation and investment of

1 Pioneer countries have the most developed social security system in the region: Chile, Uruguay, Argentina, Cuba and Brazil (see Mesa-Lago 1991). As I will focus on Chile and Argentina in my analysis of Latin American pension reforms, the evolution and characteristics of this group are of special interest, in particular when referring to the European discussion.