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Coalitions, Institutions, and Nationalizations:

A Comparative Analysis of the Hungarian and Argentine Pension Nationalizations

by Joshua Malnight

Abstract

Scholars have studied the Latin American and Eastern European pension privatizations, but work is only beginning on the recent Argentine and Hungarian pension nationalizations. Pensions matter because they distribute large portions of a society's wealth temporally and socially. This exploratory study seeks to understand the causes of pension nationalization. I test theories drawn from the pension privatization, expropriation, and coalition literatures. I conclude that coalition type and institutional strength conditionally lead to pension nationalization.

Since 2008, two of the earliest adopters of structural private pension reforms in Latin America and Eastern Europe, Argentina and Hungary, abolished their private pension systems and nationalized those plans under government pension systems. A third, Kazakhstan, appears poised to do so later this year. Many Latin American and Eastern European states adopted structural pension reforms in the 1990s and 2000s, creating mandatory private pension systems in which citizens were required to purchase privately owned and managed pension plans, sometimes alongside supplemental government-run pension schemes. Argentina, which introduced a private pension pillar in 1994, reversed course in late 2008 by transferring all the private pension plans to the control of the state social security agency; Hungary, which was the first state in Eastern Europe to adopt this type of reform in 1998, nationalized its private pension pillar in 2010.

These nationalizations are not trivial matters. Pension systems are integral parts of a society's social fabric; nationalizing a pension system affects citizens' lives more than the nationalization of, say, an oil or car company. Pension systems are more politically and socially visible than other industries. And the sizes of the nationalizations are massive: the Argentine state nationalized approximately $30 billion (USD) worth of pension funds, while Hungary nationalized approximately $14 billion. Kazakhstan plans to nationalize a great deal more. Furthermore, as of this writing, only Argentina and Hungary have successfully tacked this course (though Kazakhstan looks to do so soon); did the winds of the global recession affect only their ships of state so dramatically? Why were two of the earliest adopters of private pension systems also the first to abandon them?

The nationalizations become more puzzling when one considers the path dependent effects and the (relative) scarcity of nationalization as a government policy tool. Scholars (e.g. Mesa-Lago 1998; — 2002; Madrid 2003; Brooks 2007; Haggard and Kaufman 2008) sought to explain how

politicians could overcome path dependent effects of entrenched welfare states (see Pierson 1994; — 2004) and move the onus of old-age security from society, via the state, to the individual, via the market (Brooks 2007). Those path dependent forces should have begun to solidify for the private pension systems. Furthermore, nationalization seemed to have been rendered quite endangered; Kobrin (1984) and Minor (1994) showed that the incidence of expropriation — nationalization of FDI — had decreased significantly by the 1980s, after which came the privatizations. Recently, Hajzler (2011) shows that nationalizations still occur quite infrequently, and are overwhelmingly focused in the mining, petroleum, utility, and manufacturing sectors.

Understanding the causes behind Argentina's and Hungary's nationalizations is therefore important. For good or ill, these are seismic events, rippling throughout a country's firmament for years to come. Furthermore, it is of equal importance to understand why other states did not seek this radical solution. The pension privatizations that swept through Latin America and Eastern Europe in the 1990s and 2000s had seemed nearly impossible only a decade earlier why these two states implemented these structural reforms furthers our understanding of welfare and "developing" state political economy.[1]

I will characterize nationalization as shifts in government *ownership* and government *control*. Ownership often implies control, and certainly there is significant potential control in government ownership. Though often correlated, the two are not equivalent; British public corporations, for example, were created to be as similar to private corporations as possible —

[1] The literature broadly refers to the OECD welfare states as developed; all the cases herein have been called developing in earlier welfare state analyses (e.g. Rudra 2002; Haggard & Kaufman 2008; Carnes & Mares 2009).

indeed, they were to act like private companies as much as possible — but were wholly government owned. Similarly, the (partial) nationalization of General Motors by the U.S. government did not yield Stalinistic five-year directives, but allowed the management to maintain some autonomy. Analyzing nationalization thusly allow greater nuance than simply a dichotomous analysis of "*nationalized* or *not"*.

This paper will argue that the nationalizations occurred in Argentina and Hungary, but not in other states, due to the model of political survival adopted by each state's ruling coalition. Solingen (1998; 2011) has proposed classifying ruling coalitions based on their orientation toward the global economy; "inward-looking" coalitions are supported by groups who benefit from protection from the global economy, while "internationalizing" coalitions benefit from greater access. Their orientations constrain their responses to antecedent conditions. Inward-looking coalitions mobilize the state to blunt particular groups to the vicissitudes of the global market; they are disposed to exerting greater state control than internationalizing coalitions, who in turn seek to minimize the role of the state for many reasons, in particular because they frequently assume the state to be a drag on the benefits of integration with the global economy. Streamlining the state involves the reduction of socialized costs, which statist coalitions more readily accept.

This paper will show that Argentina and Hungary's ruling coalitions were not only strongly inward-looking, but significantly stronger, both within formal state institution and in terms of their own cohesion, than their domestic opponents. Under these circumstances, these ruling coalitions were able to structurally reform their pension systems through nationalization.

Some scholarly work, particularly within the disciplines of law, political science, and economics, conclude that nationalizations are the result of institutional weakness — i.e. that institutions are unable to constrain ravenous government leaders. I will show that this is not the

case; while Argentina's institutions give greater leeway to the executive, the Hungarian and Argentine nationalizations were primarily the result of exceptionally strong coalitions operating within institutional frameworks that exist in other states that did not nationalize their pension systems. Furthermore, these were the same systems that created the same pension system in the first place. These are conditioning factors, and their qualities enabled the privatization of pension systems in the first place.

Similarly, global- and systemic-level structural theories, such as the globalization compensation and efficiency hypotheses (e.g. Garrett 1998; Brune and Garrett 2005) do not account for the nationalizations. Many of the trends we currently see — increased capital flows, increased trade integration, economic crises — have been evident since the 1990s, and were invoked to explain retrenchment in social spending, particularly in Latin America (e.g. Kaufman and Segura-Ubiergo 2001). Indeed, many of the trends that are associated with pension privatization continued in Argentina and Hungary up through the time of nationalization. Pension nationalization is not, therefore, simply a reversal of those trends.The important changes occurred *within* the domestic system.

While other scholars have analyzed these states either solo or in pairs, I use a most similar systems design (MSSD) to compare Argentina, Uruguay, Hungary, and Poland. This design controls for broad regional factors, as well as for some temporal aspects of the problem. Argentina and Uruguay's pension systems were privatized in 1994 and 1996, while Hungary and Poland's were privatized in 1998 and 1999, respectively. The purpose of this exploratory, cross-regional analysis is to generate hypotheses about the new nationalizations; by extending theories of international political economy to domestic policy-making — indeed, to the dramatic reorientation of domestic economies — we can analytical leverage along a broader empirical array.

Pension Privatization

Pension nationalization could not have occurred if pension privatization had not diffused throughout Latin America and Eastern Europe in the 1990s and 2000s. The pension privatization literature helps clarify what might—and what might not — explain pension nationalization. Pension privatization refers to structural, as opposed to parametric, changes in a pension system; structural reforms "radically transform a [public] social security system […] by replacing, paralleling, or supplementing it with a 'private' system", while parametric reforms keep the public system but modify the financing or entitlement conditions (Mesa-Lago and Müller 2002: 688). Mesa-Lago and Müller (2002: 688) list four primary ways in which the logic behind private pension systems differs from that of public pension systems, which they refer to as a "paradigm shift":

> F]rom collective to individual provision for retirement; from pay-as-you-go (PAYG) to fully funded (FF) financing; from the state to the market as the main supplier of pension benefits; and from solidarity-equity to competition-efficiency as the fundamental principle of the system.

Table 1: Summary of Mesa-Lago and Müller's (2002: 688) Paradigm Shift

	Public Pension System	**Private Pension System**
Provision for Retirement	Collective	Individual
Financing	Pay-as-you-go	Fully-funded
Supplier of Pension Benefits	State	Market
"Fundamental principle of the system"	Solidarity-equity	Competition-efficiency

Table 1, above, summarizes the differences between public and private pension systems.

The World Bank was integral to the spread of private pension systems. It pushed for a three-pillared pension system to provide sufficient protection for pensioners. The first (public mandatory) pillar had an explicitly redistributive goal, to "[transfer] lifetime income from high

earners to lifetime low earners who [couldn't] save enough in prime age to support themselves in old age", and would be likely a pay-as-you-go (PAYG) system. The second (private mandatory) pillar would be a defined contribution (DC) private system whose function would be to smooth workers income over their lifetimes. Governments regulate mandatory private pension plans (to one greater or lesser extents) but private companies manage them. Lastly, the third pillar is voluntary individual savings (James, Packard, and Holzmann 2006: 164). By the mid-2000s, 29 countries worldwide had reformed their pension systems along these lines (Orenstein 2008).

Using the above terminology, the nationalizations in Argentina and Hungary transferred the funds citizens had accumulated in the second pillar to the first, where they would be managed by the government.

In Latin America, pension systems had historically been expanded piecemeal due to political patronage; in Eastern Europe, pension systems had been universally administered under their Soviet-dominated command economies (for a regional and historical comparison, see Haggard and Kaufman 2008). Pension privatization began in Latin America (in Chile in 1981 and Peru in 1992), partially because Latin American pensions weighed so heavily on their national budgets. Governments sought to privatize their pensions to, among other reasons, remedy these perennial pension budget crises.

While the causes of pension privatization (and its diffusion) are many, there is strong evidence that international investment played a role in both the shaping and spread of pension privatization reforms. Kaufman and Segura-Ubiergo (2001) used a time-series, cross-sectional analysis to analyze the impact of globalization on social security, health, and education spending for 14 Latin American states between 1973 and 1997. They found that trade integration has a negative effect on total social spending, and that openness to capital markets increased that effect.

Interestingly, they find that integration primarily effects social security transfers, primarily pensions; they also note that parties closely linked to labor unions, such as Menem's Peronist party in Argentina, "tend to protect […] pensions and other welfare transfers," as they benefit middle-class and union interest groups (ibid., 555, 563). In order to bring powerful labor unions in line with his policies, Menem did make concessions regarding pension policy (see Kay 1999).

James and Brooks, however, found that a large implicit pension debt motivated politicians to reform pensions, even as it decreased the degree of privatization. To meet existing obligations with less revenue following privatization, governments needed to raise contribution rates, raise taxes, or issue bonds. The subsequent reaction from voters and financial markets (from increased taxes and/or debt) could be debilitating to national economies. Brooks (2007) argued that international capital markets provided incentives for long-term reforms, but in the short term punished efforts to create those reforms. In other words, capital market pressure created its own bind, at least in the states in most need of reform. Modifying Kaufman and Segura-Ubiergo, Brooks finds that although globalization does not affect the likelihood of a state privatizing its pension system, it does decrease the social spending levels of a privatizing state.

Haggard and Kaufman (2008) analyze the creation, development, and restructuring of welfare states in Latin America, Eastern Europe, and East Asia using a mixture of quantitative and case study methods. They argue that the twin pressures of democratization and economic crisis coincided to provide a critical juncture for welfare reform. "Democratization placed new demands on the state," they write, "but the capacity to respond was bounded by economic circumstance" (347). Regarding globalization, they argue that its "effects […] are neither uniform nor are they likely on their face to be substantial when compared to the effects of crises and fiscal constraints" (353). Furthermore, they argue that institutionalist arguments about the structure of government,

particularly “veto-point arguments”, are useful but of less importance than arguments that stress coalition preferences and organization (358-359). Nevertheless, they argue that democracy offers greater opportunity for reform than autocracy, particularly with regard to the formation of cross-class coalitions (362).

Pension privatization reforms may offer some explanatory leverage toward pension nationalization. As Mesa-Lago (2002) and Brooks (2007) note, pension privatization involved a decrease in state *ownership* but varying decreases in state *control*: regulations abounded, and private companies were allowed to operate within particular parameters that shifted as various amendments were made to the pension systems. As Brooks (ibid., 6) writes, “[f]ar from being consigned to redundancy, privatization demands that the state remain intimately involved in the creation and sustenance of the private pension market”. Indeed, “there is no respite for the state following privatization” (ibid. 7).

Despite its contention, globalization may play a role. Since the relationship posited in the literature argues that increases in globalization decrease social spending, it may be that decreases in trade openness or capital flows allowed states freedom from market pressures; the marginal cost of “anti-market” policies would, essentially, be diminished and the transfer of ownership of private pension funds to public hands could occur.

Haggard and Kaufman, however, argue that critical realignments, created by democratization and economic woes, allowed the mobilization of new groups within the existing social fabrics. We should expect, then, some critical juncture to enable this sizeable shift. It will certainly be dependent on the domestic context, and debt levels — both public sector debt and implicit pension debt (Brooks 2007) — would play key factor. There is evidence that crises have directly caused pension reforms already; as will be discussed, Argentina’s 2001 economic

devaluation and subsequent abandonment of the currency board led directly to new pension regulations. Evidence of economic or political crisis and high levels of debt would suggest that the crises provided the necessary political space for pension nationalization.

Nationalization

I turn now to nationalization more broadly. In the literature, there is a specific subset of scholarship dealing with expropriation, the nationalization of foreign property. Because many of the private pension funds were managed by foreign-owned companies, pension nationalization straddles the line between purely "domestic" nationalization and expropriation. Theories of expropriation and nationalization should therefore be applied to the phenomena. I will briefly describe the historical trends of nationalization and expropriation, then discuss relevant theoretical approaches.

Nationalizations have become quite rare since the 1960s and 1970s, but the decrease was unexpected. Nationalization of domestic industries had been seen as necessary to the correctives of the market. Hanson (1963, 12) stresses the uniform acceptance of public ownership as a (sometimes unpleasant) necessity: a corrective to monopoly power, to under-capitalized investments, and in service of the national interest. Expropriation, meanwhile, was "commonplace" (Sigmund 1980, 35). The "wave" of nationalizations occurred predominantly in South America and Africa (Sigmund 1980, Kobrin 1984), but decreased by the early 1980s (Kobrin 1984; Minor 1994; Hajzler 2011). Sigmund (1980) attempts to explain why Latin American governments, which had been nationalizing significantly in the early postwar decades, began to abandon the process. He argues that Latin American governments realized the costs of nationalization, prompting, in part, an ideological shift among the ruling class away from dependency theories; "[w]hile nationalization has become easier [for Latin American states]," he writes

[...] Latin American policymakers have recognized that neither the automatic harmony of interests by the advocates of free enterprise nor the inevitable conflict of interests espoused by the

Marxists is an accurate description of the relation of the less developed country to foreign capital [...] (279).

Furthermore, Latin American states gained greater bargaining power *vis a vis* foreign companies, which made nationalization a less attractive option. Kobrin (1980; 1984) argues that states expropriated oil resources for particular goals (as opposed to ideological commitment to broad nationalization), such as acquiring technology or administrative expertise. Kobrin (1985) credits the end of the 1970s diffusion of oil nationalizations with the increase in human capital in nationalizing countries, as well as the recognition by state leaders of increased benefits of cooperation with private companies.

Building on Kobrin's (1984) framework, Minor (1994) and Hajzler (2011) confirm that the incidence of nationalization had decreased, respectively, by the early 1990s and the mid 2000s. Meanwhile, an opposing trend — privatization — flourished. From 1981 to 2001, 14 Latin American states structurally reformed their pension systems to include a mandatory private pillar; 7 Central Asian and Eastern European states did so from 1998 to 2002 (Gill et al. 2005; Muller 2003). Data from the World Bank's Privatization database (itself compiled from various databases and sources) provides a crude metric for this trend (the authors admit the database is non-exhaustive). From 1988 to 2008, the average growth rate of privatizations proceeds (measured in millions of US dollars) was approximately 38 percent.

How have scholars approached the phenomena theoretically? A relevant literature, dominated by the disciplines of law and economics (e.g. Moran 1973; Rosenn 1974; Williams 1975; Whan Park and Ward 1979; Shupe and Wright 1980; Kobrin 1980; — 1984; Wilson III 1990; Tomz and Wright 2009), analyzes expropriation, "the forced divestment of equity ownership of a foreign direct investor" (Minor 1994, 178). Many formal models of expropriation

focus on the utility derived from expropriation at a given point in time versus the utility of a future stream of payments (see discussion in Tomz and Wright 2009). These utilities depend partly on the market's ability to punish bad and reward good behavior (honoring property rights), as well as the particular traits of the government (for example, a government may be risk-loving or risk averse). Scholars have addressed such topics as the role of asymmetric information in convincing firms to invest in states that may invest (Raff 1992), "creeping expropriation" (Schnitzer 1999), and asset prices shocks (e.g. Cole and English 1991; Guriev et al. 2009).

While some scholars have given states the benefit of the doubt (Cole and English, for example, argue that states maximize citizen welfare), most of these analyses necessarily proceed from the assumption that the state's payoff functions make nationalization worthwhile. Certainly, this keeps one's results non-trivial, but also sidesteps the interesting question as to how those payoffs are determined. When political factors are taken into account, they are often simplified; Guriev et al (2009), for example, treat the cost of expropriation as arising completely from institutions — "weak" institutions impose lower costs. This is not uncommon in the economics literature; indeed, Acemoglu et al (2005) use a measure of protection from expropriation as a proxy of institutional strength.

Institutional strength, the literature holds, will prevent nationalization; institutions which guarantee the rule of law and property rights and that successfully constrain government behavior should prevent nationalization. The executive should not be able to unilaterally nationalize property.

The second camp studies the benefits of government ownership versus market ownership.

A Role for Coalitions

If the nationalizations do not appear to correlate with a reversal in the trends correlated with pension privatization, and if the nationalizations do not share overt similarities with previous expropriations, how might we explain them? Since the international environment, in terms of exposure to world FDI and trade, has not changed significantly, it suggests that a change in the domestic *response* to globalization might be an explanation. I suggest that understanding pension nationalization requires understanding the domestic coalitions that would pursue and oppose that goal; as Haggard and Kaufman (2008, 359) argue, it is important to begin a political economic analysis "with a clear map of the distribution of preferences and their political organization". Since nationalization is a government decision, it behooves one to examine the coaltions — ruling and opposition — that comprise a government. I draw on Solingen's (1998) ruling coalition classification. Solingen divides ruling coalitions according to their views on political and economic integration with other states; she uses this categorization to explain regional orders, but the concept has analytical traction here, as well. The primary test will be to analyze whether the type and strength of the ruling coalition affects the propensity to nationalize. It is also necessary to test the effect of institutions on the nationalization processes: were strong institutions able to successfully restrain leaders who otherwise would have nationalized, or were nationalizing leaders able to bypass restraining institutions?

Below, I will discuss the dependent variable, nationalization of the mandatory private pension system; afterward, I will discuss the two theoretical perspectives in greater detail.

Nationalization occurs when the state unilaterally transfers control of an industry, organization, or business from private ownership to public. This action may occur with varying levels of support from other actors; however, it is the state (or the ruling coalition of the state)

which makes the decision. The state also decides the manner in which it will control the industry. The degree of involvement imposes fewer or greater restrictions on the original owners. Sigmund (1980, 282-284) proposes a linear typology mixing control and the share of benefits accruing to the state and to the private sector. I propose a similar conception, albeit along two different axes: state *control* and state *ownership*, which allows us to examine greater variance in the concept. The table below shows the different types of industries you would find at each level of ownership and control.

Table 2: Industry Types Under Different Levels of State Control and Ownership

	…Low Ownership	**…High Ownership**
Low Control and…	Private Industries	Public Corporations
High Control and…	Heavily Regulated Industries	State Industries

Governments control how these levels are defined for particular industries and property. For example, airline deregulation in the 1980s represented a lowering of control of a low-ownership industry. Nationalization characterizes a specific subset of these shifts. It represents a definite shift toward complete ownership and often of control. Control is certainly often correlated with ownership (more ownership offers potential for higher control), but the two are theoretically, if not always empirically, separable. Importantly, ownership conveys something that is not always related to control: responsibility. Nationalization is an extreme example of such a shift in ownership and control, and therein lies its analytical usefulness. It is more likely to clarify the relevant analytical cleavages among coalitions.

Financial firms and business associations generally supported pension privatization because they represented new business opportunities. Mandatory private pension funds represent a mix of domestic and foreign capital: citizens invest in funds managed by private firms, which national governments heavily regulate. Foreign firms are integrally involved in the private pension systems of many states; according to the *Economist Intelligence Unit Finance Reports*, in

Argentina and Hungary's cases, foreign-owned firms controlled 68.4 and 62.8 percents of all private pension assets before those assets were nationalized. This muddies the waters; governments nationalized citizen wealth, but that wealth was controlled by predominantly foreign firms.

As of this writing, only Argentina and Hungary have fully nationalized their pension systems, although Kazakhstan appears on its way to do so in July 2013. While I am currently analyzing the complete population of successful private pension nationalizations, future revisions of this work will necessarily expand its scope.

Nationalization, as a dependent variable, can be categorized in two ways. One may dichotomously conceptualize nationalization according to whether property is nationalized or not. This is usefully parsimonious, but this generalization can mask some nuance within the concept. Nationalizations might differ according to whether the preceding property was foreign- or domestically owned; however, as previously mentioned, this is problematic in the private pension system. A successful nationalization — an observed nationalization, as opposed to, say, an attempted nationalization — may vary as to the *extent* of the nationalization (how much direct control the state seeks versus the responsibility the state wants to be seen to shoulder). Another possible measure would be to examine the nationalization policy itself: was it publicly discussed by government decision-makers? Was it unsuccessfully attempted? Or was it never a seriously considered option, as far as evidence shows? In this paper, I am more focused on the extent of nationalization, but evidence of nationalization discussion will be examined.

Ruling coalitions, Solingen (1998; — 2001; — 2007) argues, can be classified according to their orientation toward particular issue cleavages, the most salient of which is their orientation toward the global political economy. Integration with the global political economy creates

supporters amongst those integration benefits and opponents amongst those whom it harms. While she uses the concept to explain variance in regional orders, her choice of cleavage makes this concept particularly suited for questions of nationalization where foreign capital is heavily involved. Based on their orientation toward integration with the global political economy, ruling coalitions may be "internationalist" or "statist-nationalist" (I will also refer to them as "outward-looking" and "inward-looking", respectively). The former base their political survival "on economic performance, export-led growth, and integration in the global political economy," while the latter seek "statism and self-sufficiency" (— 2007, 760). For internationalizers, this often means trimming government budgets; for statists, public ownership provides stability. Inward-looking coalitions would be those most predisposed to nationalize an industry.

How then, to classify coalitions? Outward-looking coalitions seek to cooperate internationally, particularly with other cooperative regional allies. Solingen (1998, 26-30) argues that internationalist positions have three observable consequences. First, internationalist coalitions seek fiscal discipline and try to "[free] up resources" for domestic reform particularly by abstaining from fiscally draining emphases on military expenditures. Second, they attempt to weaken their domestic opponents and antithetical institutions. Last, they focus on procuring foreign investment and technology and pursue investments of their own abroad.

Opposition to regional cooperation and economic liberalization, meanwhile, classifies inward-looking coalitions. Frequently, this takes the form of an entrenched and favored military. Economically, those who benefit from import-substitution industrialization are classified as inward-looking since they favor "a strong, active government that controls prices, increases nominal wages, overvalues the currency to raise wages […], protects state enterprises, […]" and handicaps imports (ibid., 32). Similarly, state bureaucracies involved in economic planning or

market regulation would resist liberalization. Solingen also discusses the role of ideology in nationalist coalitions. Groups may oppose market-based reforms as detrimental to the well-being of the society, in particular social values or social cohesiveness (ibid., 36). Related to the question of nationalization, Solingen argues that inward-looking coalitions oppose economic liberalization because it "[deprives] the coalitions of mythmaking" and inhibits existing benefits to inward-looking allies (ibid., 41-45).

Solingen takes pains to argue that one must examine coalition preferences, strategies, and outcomes; the latter two are conditional on the environment in which a coalition finds itself, and a coalition will adapt its behavior to the environment. A coalition would be identified as inward-looking by examining the preferences of the groups that support it, the statements (official and unofficial) made by representatives of the ruling coalition, the policies pursued by the coalition, and the outcomes of those policies; public statements and member preferences, however, offer the clearest classification. For ruling coalitions to implement their preferred policies, they must be cohesive and possess sufficient political resources to win over opponents. Cohesion refers to the level of consensus within the coalition regarding its macropolitical goals (ibid., 48). I would also argue that a ruling coalition's engagement with international institutions can shed light on its orientation. IFI influence played a role in the pension system reforms over a decade earlier. Key to the economic liberalization that swept through Latin America and Eastern Europe in the 1990s was the support of IFIs such as the IMF and the World Bank (see Müller 2003; Brooks 2007; Weyland 2009). IFI influence can shape politicians' reactions to economic crises and add or remove options from the table. A ruling coalition's reaction to international institutions illustrates its orientation; does it embrace IMF proposals, for example, or does it castigate the organization to draw up political support? The former would more likely be outward-looking; the latter, inward-looking.

Methods

The previous sections established the following hypotheses regarding the likelihood of pension nationalization:

H1: First, decreased trade openness or decreased capital flows may decrease the marginal punishment by international markets of nationalization.

H2: Second, political or economic crisis could precipitate pension nationalization.

H3: Third, weak formal (e.g. checks on the executive) and informal (e.g. respect for the rule of law) institutions should precede pension nationalization.

H4: Lastly, inward-looking coalitions, not outward-looking coalitions, should privatize.

The hypotheses are not necessarily mutually exclusive, nor are the relationships they describe likely to be deterministic. Presence of the independent variables in the non-nationalization cases does not rule them hypotheses out completely; absence of those variables in the nationalization cases, however, is much more telling. The hypotheses likely are mutually supportive (for example, crises might allow greater change in a state with weak institutions), but the I cannot specify the relationship magnitudes and forms between them.

This study will use a most similar systems design (MSSD) (Przeworski and Teune 1970) to compare the nationalizations of four different states. Argentina, which nationalized its pension system in 2008, will be compared with its neighbor Uruguay, which did not. Similarly, Hungary, which nationalized its pension system in 2010, will be compared with Poland, which, like Uruguay, abstained. In the most similar systems design, the outcomes diverge, so independent variables that are held constant within a comparison are less likely to affect the dependent variable. The paired MSSDs allow for further verification: an independent variable present in Argentina and absent in Uruguay becomes more plausible if it is also present in Hungary. Similarly, since

regional factors are held relatively constant between each regional pairing (Argentina/Uruguay and Hungary/Poland) we can discount broad regional variables that influence both countries similarly.

This research design holds constant confounding variables such as institutional membership and regional trends. Hungary and Poland are both post-Communist EU members, so EU laws and regulations apply equally. Argentina and Uruguay both transitioned from bureaucratic-authoritarian states to presidential democracies roughly contemporaneously. Each pair belong to regional trade blocs (the European Union and Mercosur, respectively) that link their economies and bureaucrats. Finally, welfare state *type* is held constant, as each pair had, pre-nationalization, similar welfare state types.

Variables will be operationalized using a mixture of methods and sources. I describe each in turn below. In addition to testing each hypothesis directly, I include a detailed case description for each state to supplement the analysis. The two bodies of evidence serve to complement each other and curb the other's excesses.

Nationalization

Nationalization necessarily involves the transfer of ownership from private to public hands, but I will also note any changes in control of those funds (additional regulations, for example, or directives for future fund use). I will draw upon academic work (e.g. Arza 2008; — 2009; Fultz 2012) and available primary sources, particularly news articles and transcribed speeches. I also look for mentions of whether nationalization was considered or attempted in Uruguay and Poland.

Ruling Coalition

The ruling coalition will be identified by its relationship with those groups, such as

business and financial interests, within each state that seek greater integration with the international economy. Outward-looking ruling coalitions would likely support the central banks seeking macroeconomic stability. Inward-looking groups would be supportive of efforts to protect or expand state enterprises, even at the expense of the private sector. Popularly-based parties are susceptible to this; they are also more likely to pursue other ventures which identify inward-looking ruling coalitions, such as price-setting and import protection. Data is collected from academic articles, news sources, and transcribed speeches.

Globalization

I use the traditional measures of globalization, trade and investment openness. The former is measured often measured by summing the state's imports and exports and dividing the sum by the state's GDP. I measured the latter by looking at levels of foreign direct investment stock in the country in each year. Data is taken from the UN Conference on Trade and Development (UNCTADStat, available at http://unctad.org).

Institutional Strength

Institutional strength is most evident when it restrains actors that try to act outside institutional limits; strong institutions also deter these actions, since actors can expect significant resistance. Formal and informal institutions, however, should present evidence of their strength historically and in expert assessment. The case studies will be of particular importance here, but so will measure of institutional quality. I use the World Bank's Worldwide Governance Indicators (http://info.worldbank.org/governance/wgi/index.asp) to assess the rule of law and the level of corruption within the state. Both the rule of law and corruption show the extent to which a state exerts control within its territory. The WGI rule of law indicator measures how social agents perceive "the rules of society, […] in particular the quality of contract enforcement" (Kaufmann et

al. 2010, 4). The corruption indicator "[captures] perceptions of the extent to which public power is exercised for private gain […], including [state capture]" (ibid.). The WGI are advantageous because they take a weighted average of government, private, and civil society conceptual indicators. I also use the Polity IV score for constraint on the executive (XCONST), to measure the particular restraints on that branch.

Crisis

Economic and political crises will be most evident in the statements of politicians and news coverage of those states. Macroeconomic indicators of employment, GDP growth, and inflation, available from the World Bank's World Databank (http://databank.worldbank.org) and the IMF World Economic Outlook Database (http://www.imf.org/external/pubs/ft/weo/2012/01/weodata/index.aspx), will also show comparative evidence as to the size of economic shocks, though those must be supplemented by the statements of actors "on the ground".

Pension information was taken from the Economist Intelligence Unit (http://www.eiu.com), the Organization for Economic Cooperation and Development (OECD) (http://www.oecd.org/statistics/), and the U.N.'s Economic Commission for Latin America and the Caribbean (ECLAC) (http://www.eclac.org/).

Results

In sum, I will test for the roles of globalization, institutional strength, economic crises, and coalition type on pension nationalization. The MSSD research design controls for regional variables, pension system variables, and some temporal effects. The table below summarizes the four cases.

Table 3: The Four Cases

Country	Nationalization	Year of Privatization	Year of Nationalization	Region	Type of Pre-Nationalization Pension System
Argentina	Successfully implemented; Second pillar abolished, funds transferred to first pillar.	1994	2008 (implemented 2009)	South America	Mixed, 3-pillar
Uruguay	Discussed, but not implemented. Some parametric changes.	1996	N/A	South America	Mixed, 3-pillar
Hungary	Successfully implemented; citizens encouraged to transfer funds from second to first pillar (else heavily penalized)	1998	2010	Eastern Europe	Mixed, 3-pillar
Poland	Not discussed by ruling coalition, not implemented	1999	N/A	Eastern Europe	Mixed, 3-pillar

Source: For Argentina, Arza (2009); For Poland and Hungary, Fultz (2012); for Uruguay, Saldain (2008).

I will examine each hypothesis in turn using the indicators discussed above. Then I will examine the cases in a more detailed manner to verify the results.

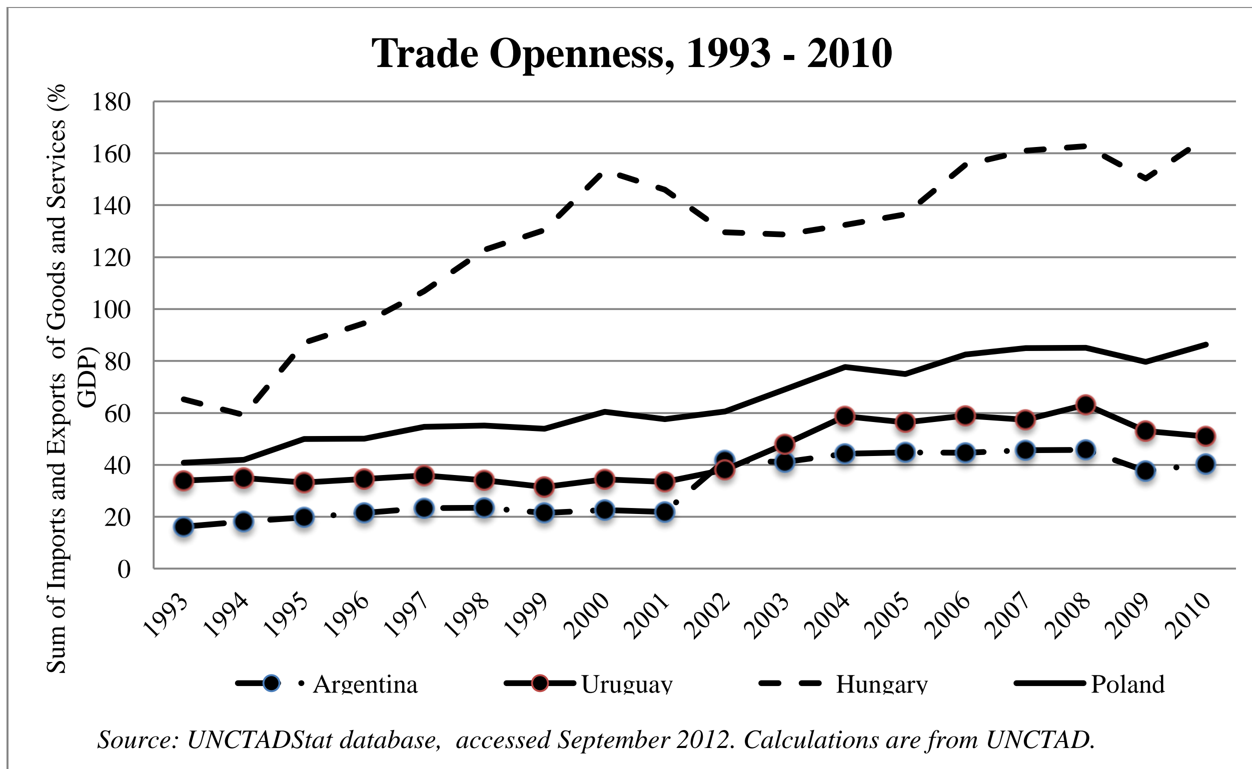

Figure 1: Trade Openness (Imports plus Exports, % GDP)

From Hypothesis 1, we might expect that pension nationalization would be correlated with a decrease in trade integration and a decrease in capital openness. Figure 1, below, shows UNCTAD data measuring the levels of trade openness for Argentina, Uruguay, Hungary, and Poland from 1993 (when pension privatization began to diffuse) through 2010. There are no obvious patterns in the data. Hungary has the highest levels of trade openness in 2010, but Argentina has the lowest levels in 2008. Similarly, Hungary's trade openness shows the greatest increase since 1993, while Argentina's is relatively stable. Furthermore, Argentina and Uruguay show very similar trends and levels of trade integration. Decreased trade integration doesn't appear to offer a compelling hypothesis to explain pension nationalization.

Similarly, there is no clear pattern when one examines financial openness, measured as stocks of foreign direct investment (FDI) as a percentage of GDP). Figure 2, below, charts levels of FDI openness for the four countries from 1993 to 2010. FDI openness increased for all countries

from 1993 through 2010 except for Argentina; Argentina's FDI openness began to decrease in 2002 (by 2008 it was the lowest for all four states). Hungary's FDI openness was highest over the entire period. The purpose of the MSSD is to control for as many exogenous factors as possible, so as to illuminate the relevant theoretically important paths. There is no consistent trend, and it is moving in the opposite direction of the hypothesis.

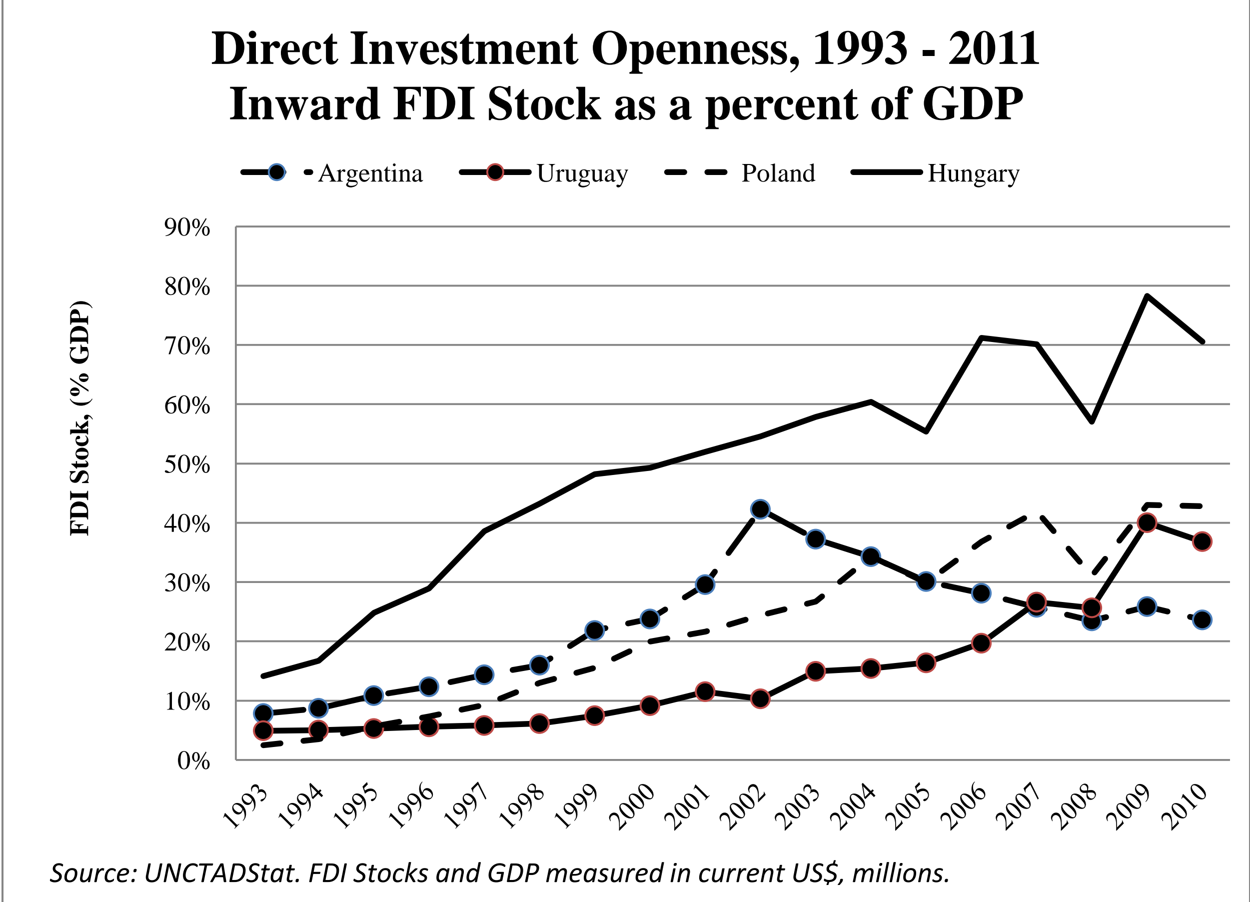

Figure 2: Direct Investment Openness

From hypothesis 2, we would expect political or economic crises to precede the nationalizations. The figure below shows the annual percentage growth in GDP for the four cases from 1993 to 2011.

Figure 3: Economic Growth (Annual Percentage Change in GDP)

Each pair's growth rates generally track one another. This is not unexpected: Uruguay's economy is closely linked with Argentina, and Argentina's devaluation in 2001 had clear implications on Uruguay's economy. All four countries experienced dips in 2009 due to the global recession (see Table 2, below), but the decrease was greatest for Hungary and Argentina. It is interesting that all states but Hungary avoided GDP shrinkage in 2009; furthermore, both Uruguay's and Argentina's economies rebounded stronger than the Eastern European cases.

Table 2: GDP Growth Before and After the Great Recession

Gross Domestic Product, Annual Percent Change				
Year	**Argentina**	**Hungary**	**Poland**	**Uruguay**
2007	8.7%	0.1%	6.8%	7.3%
2008	6.8%	0.9%	5.1%	8.6%
2009	0.9%	-6.8%	1.6%	2.6%
2010	9.2%	1.3%	3.9%	8.5%
2011	8.9%	1.6%	4.3%	5.7%

Source: UNCTADStat

The indicators do not indicate significant economic contraction , except for Hungary. I have already shown that neither trade nor investment (relative to GDP) decreased significantly during the recession. Inflation has historically played a significant role in Latin American pension politics (see Panizza 2009 for Latin America or Rofman 2005 for Argentina in particular) because it represents the erosion of current wealth. Data from the World Bank shows that inflation, shown in the table below, shows that inflation is highest in Argentina and Uruguay and lowest in Hungary and Poland. However, Argentine inflation is nowhere near as high as the crisis that preceded pension privatization: in 1990, Argentine inflation breached 2300 percent. However, the peso devaluation of 2001 coincided with 26 percent inflation in Argentina; still, inflation was less than half that in the years of the nationalization.

Table 3: Inflation, Consumer Prices (Annual % Change)

Inflation, Consumer Prices (Annual % Change)				
Year	**Argentina**	**Uruguay**	**Hungary**	**Poland**
2006	11%	6%	4%	1%
2007	9%	8%	8%	2%
2008	10%	8%	6%	4%
2009	10-15%	7%	4%	4%
2010	11-30%	7%	5%	3%
2011	10%	8%	4%	4%

Source: Argentina 2008 - 2011, Economist Intelligence Unit reports (estimates); all other data from the World Bank World Databank.

The evidence so far does not support hypothesis 2. Crisis conditions these do not make.

I turn now to hypothesis three: the role of strong institutions. Certainly, examining the pension nationalization in greater detail will illuminate this issue better; we can, however, get a brief, comparative picture of each state's rule of law, level of corruption, and executive constraint. The table below presents the WGI indicators for Rule of Law and Corruption for the four cases from 2002 to 2010. Argentina stands out as the state with the lowest scores on both corruption and rule of law. Property rights are weaker in Argentina than the rest of the states in the set, and public power is more likely to be directed for private purposes. While the Argentina-Uruguay pairing fits the hypothesis, comparing Hungary to Poland does not support the hypothesis.

Table 4: Rule of Law and Corruption Indicators

Rule of Law					Corruption			
Argentina	**Uruguay**	**Hungary**	**Poland**	**Year**	**Argentina**	**Uruguay**	**Hungary**	**Poland**
-0.82	0.59	0.93	0.63	**2002**	-0.51	0.75	0.52	0.33
-0.82	0.60	0.89	0.51	**2003**	-0.52	0.94	0.60	0.38
-0.83	0.42	0.89	0.40	**2004**	-0.46	0.82	0.65	0.11
-0.58	0.43	0.82	0.42	**2005**	-0.43	1.04	0.62	0.23
-0.56	0.47	0.90	0.37	**2006**	-0.40	1.00	0.61	0.18
-0.59	0.52	0.86	0.38	**2007**	-0.40	1.13	0.56	0.19
-0.67	0.55	0.84	0.52	**2008**	-0.47	1.23	0.39	0.35
-0.67	0.71	0.79	0.63	**2009**	-0.52	1.24	0.36	0.43
-0.58	0.72	0.78	0.69	**2010**	-0.44	1.29	0.27	0.46

Source: World Bank World Governance Indicators (Kaufmann et al. 2010).

Polity IV scores for executive constraint (XCONST) are constant from 1999 onwards. Hungary, Poland, and Uruguay all receives scores of seven – there are other groups with the power of the executive – while Argentina has a score of six, meaning the executive is slightly more powerful than other groups. This likely results from the Argentine president's emergency decree powers, among other factors, which will be discussed later in the paper. Hypothesis 3 fits when one compares Argentina to Uruguay, but Hungary remains an outlier when compared to Poland.

Case Studies

I explore Hypothesis 4, and check the previous three hypothesis, in the following case studies.

Uruguay

Uruguay represents the baseline against which I will analyze the Argentine case. Like Argentina, it is a representative democracy with a presidential system; similarly, despite the vast differences in size, Uruguayan GDP per capita is very similar to Argentina's, and tracks it relatively steadily (see Figure 4 below). Historically, the Uruguayan economy has been closely tied to the Argentine economy; as seen in the graph, the 2001 recession affected both countries' per capita GDP very similarly. According to MSSD logic, we can infer that these factors – governmental structure, level of development, structural position in the global economy – are unlikely to be causes of the divergent outcome, nationalization.

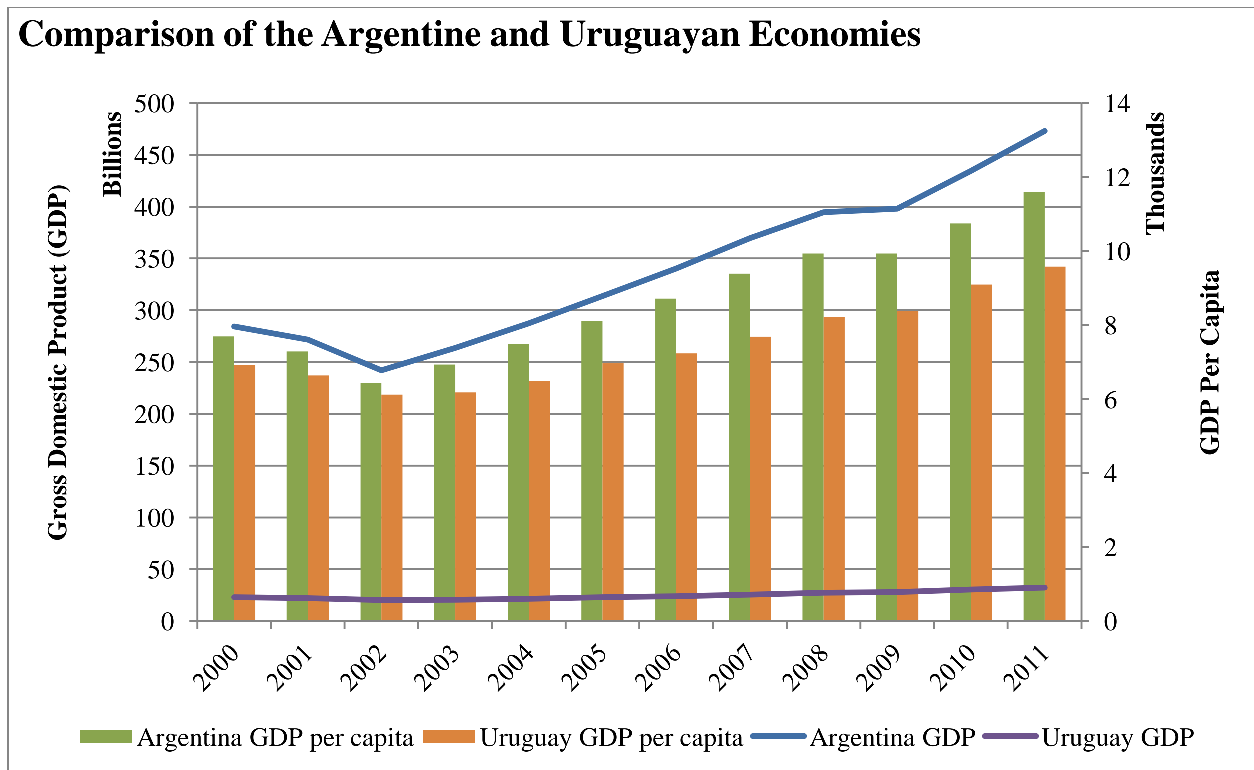

Figure 4: Comparison of Argentine and Uruguayan GDP and GDP per capita

Most importantly, the Uruguayan and Argentine pension reforms, implemented in 1994 and 1996 respectively, were very similar. Each maintained a public universal pillar while creating a mandatory private pillar. The literature refers to these types of reforms as "mixed"; Mesa-Lago and Müller (2002) classify only three Latin American pension reforms as "mixed": Argentina,

Uruguay, and Costa Rica. Other Latin American states reformed their systems quite differently, some with the expressed objective of phasing out the public pillar altogether (Chile was the originator of this type of reform, though recent reforms have strengthened the basic universal pillar; Mexico and Bolivia, in particular, implemented reforms more Chilean in character than Argentine). However, there is an important difference between the two systems. Uruguay is the only mixed system to offer a “private” pension plan under government ownership. The state-owned Republica pension management firm, in fact, manages the majority of Uruguayan private pension plans (Antia and Lanzara 2011; *Business News Americas* June 8th, 2011).

The Uruguayan state-run second-pillar fund does not, in and of itself, speak to the probability of nationalization. One might expect a state-run second-pillar pension fund to provide some stability in a private pension system (thus making nationalization unlikely). However, one could just as easily argue that Uruguay should have been more likely to nationalize its pension system, given the dominance of its state-run second-pillar fund.

Uruguay’s ruling coalition is currently the *Frente Amplio* (FA) coalition, which opposed the pension privatization efforts in the 1990s (Saldain 2008). The FA is a coalition of Uruguay’s left-wing parties, and is much younger than its competitors. The domestic supporters of Uruguayan pension privatization were the two largest political parties, the Colorados and the Blancos, and interest groups such as the *Associacion Cristiana de Dirigentes de Empreses* and the *Consejo Superior Empresaria*l (CSE), who represented firms in finance, agriculture, construction, commerce, and industry (Kay 1999). Uruguay attempted two reform pensions before the successful 1996 privatization. The two attempts were overturned by plebiscite. Currently, the FA has support from defectors from the main two parties and “old constituencies for import substitution industrialization” (Luna 2007, 2). The New York Times (April 19th, 2012) recently

wrote that Uruguayan President Mujica supported the Argentine nationalization of the oil company YPF, calling YPF's original privatization an "error". When the coalition came into power in 2004, some members had called for the abolition of the mandatory second pillar (Saldain 2008).

However, the party is not unfriendly to the market and investment. I reviewed every relevant article from two Lexis Nexis searches, the first using terms "market" and "Uruguay" and the second for "investment" and "Uruguay". I also searched every *Economist* story featuring Uruguay; given the *Economist* magazine's stated bias towards free trade, it is more likely to notice and condemn efforts to protect state run industries. I summarize some of the evidence below.

The International Herald Tribune (November 3rd, 2004) reported that FA president Vazquez (2004-2010) proposed following "the example [of market-friendly policies] of Lula". Saldain (2008) reports that the "Vazquez administration focused on improving the business climate." Latin Finance (September 2008) lists what it calls an "impressive" number of new infrastructure investments and FDI projects. Uruguay has worked with the World Bank and Inter-American Development Bank on a number of projects, and research has shown no obvious recent conflicts. These stories, among others, suggest a cautious, investment-seeking coalition that emphasizes buttressing the sizeable welfare state. In 2004, the FA promised the restoration of health, education, and housing benefits (*International Herald Tribune*, November 3rd, 2004). Of all Latin American nations, Uruguay spends the most on social expenditures, 23.5 percent of GDP and seventy-five percent of public sector expenditures (Luna 2007). The ruling coalition used orthodox economic policies to provide the policies preferred by groups that are not outward-looking. I classify them as an inward-look coalition due to its political base, since traditional outward-looking groups (finance, for example) support the other two major parties and

some of its core supporters supported the nationalization of the private pension pillar. However, it must be noted that its behavior certainly resembles that of an internationalist, outward-looking coalition.

Uruguay has long held a prominent role for the state in society. Discussing the long history of Uruguayan pension reform efforts, Castiglioni (2000) argues that even the military government, which sought to protect the country from Communism and left-wing ideologies, "[identified] as two of the guiding principles of the social security system the principle of solidarity and the principle of universalism." As previously mentioned, Uruguay spends more than any other Latin American state on social expenditures. The FA party has apparently accepted the system and would in any case have to contend with the strong pensioners organizations (Luna 2007; Saldain 2008), which can initiate and block legislation (as they did during the pension privatization process: see Kay 1999) via plebiscite.

Indeed, the difficulties that the Uruguayan ruling coalition faced while attempting to reform pensions from 1989 through 1995 speaks to the constraint on the Uruguayan executive compared to Argentina. Whereas Argentine President Menem had access to special emergencies powers, Uruguayan President Sanguinetti had no such powers (Kay 1999). Kay (ibid) lists a number of veto points that special interest groups had access to during the reforms: a "unified, independent […] labor coalition" that allied itself with the FA party; a single, national pensioners organization to organize the various associations spread throughout the country; labor unions had representatives on the governing body of the Social Security Bank (BPS); and a plebiscite process which could be initiated by either the government or civil society actors (indeed, the national pensioners' association organized such a plebiscite in 1989). The plebiscite is particularly noteworthy, as nothing like it exists in Argentina. Indeed, the Uruguayan executive has more

difficulty enacting legislation, comparable to Argentina. Furthermore, foreign investors are guaranteed the same legal treatment as domestic investors (ibid.). This confirms what we have already established: that Uruguay's institutions are strong. This effect may feed back into the ruling coalition's decision-making process, further explaining the absence of nationalization discussion or legislation.

In sum, then, Uruguay's ruling coalition is classified as inward-looking based on the preferences of its primary supporters, but its strategies have been more mixed. Its choice of strategies should be reflected in its environment. There is strong social support for the welfare state in Uruguay (Castiglioni (2000) treats this as a persistent feature of Uruguayan history), but this hasn't translated into business-unfriendliness. According to the World Values Survey, there is less support for government ownership of business than in Argentina. Nearly two-thirds of Argentines surveyed responded that there should be increased state ownership of business; meanwhile, a majority of Uruguayans had no preference or favored increased private ownership. However, Uruguay's largest pension company is state-owned, as is the largest (in terms of assets) banks, the largest insurance bank, and the country's crude oil importer and refiner (Economist Intelligence Unit Country Report 2012). While the pro-investment climate is good for investors, privately owned companies must compete with government-controlled companies that often dominate their sectors.

Table 5: Uruguayan and Argentine Opinions of State Ownership

Private Versus State Ownership of Business

	Argentina	Uruguay
Increased Private Ownership	17.80%	32.40%
Equal Opinion	15.80%	28.80%
Increased State Ownership	66.30%	38.70%

Source: World Values Survey Databank

To conclude, then: the evidence strong shows that Uruguay's coalition is inward-looking, but it has adopted a mixed set of strategies; and its institutions are strong.

Argentina

Argentina's pension reforms reflected the Chilean pension privatization and World Bank advice (advice, it must be noted, that was also heavily influenced by the Chilean pension privatization) but kept a significant role for the state. All workers 18 and over were required to contribute, but they could choose between two different regimes. The first system, or pillar, paid all Argentine workers who met age and contribution criteria; in the second system, workers could choose either the public Pay-as-you-go (PAYG) option or the private option based on individual capitalization. The National Administration of Social Security (ANSES) managed the former system, while private companies (AFJPs) managed the latter (Arza 2008; 2009; Kay 1999; 2009; Rofman 2008). New entrants to the system were, by default enrolled in the second-pillar's private plans; however, reforms in 2007 briefly made the public option the default (Arza 2009; 2012). Finally, in 2008, President Cristina Kirchner abolished the private pension plans and absorbed their investments into the public plan managed by ANSES.

The pension privatization process that occurred in the mid 1990s illustrates certain aspects of the Argentine political system that are also evident in the 2008 reforms. Menem was exceedingly popular when elected, having conquered, with his Minister of the Economy, the hyperinflation crisis that had plagued the previous administration. Kay (1999) notes that not only were opponents of privatization disorganized, but the Argentine constitution (after 1994) gave Menem the ability to issue emergency decrees; ironically, this allowed him to bypass congress and simply introduce legislation by fiat. As Kay writes, "[t]he mere threat of decree weakened the veto power of the legislature" (416). The administration of Nestor Kirchner continued the tradition of a strong executive, and his wife has ably taken up those same reins. Levitsky and Murillo (2008)

note that President Nestor Kirchner (Cristina's husband – now deceased -- and predecessor) issued executive decrees at a rate of 4.3 per month, as compared to Menem's rate of 4.4 per month.

Executive power certainly should not be overstated; Kay, for example, noted that Menem bargained with one of the the largest labor unions, the *Confederacion General de Los Trabajadores* (CGT), to support his plans in exchange for the ability to invest in the private funds. Nevertheless, the evidence suggests significant leeway for a president to implement her personal (and coalitional) preferences. Indeed, Levitksy and Murillo (2008) argue that Argentina suffers from "institutional weakness;" formal rules may exist but not be enforced, or they may not "survive minor fluctuations in the distribution of power and preferences" (25). Furthermore, "Argentina's legislative and judicial branches are underdeveloped" compared to its neighbors (ibid, 26).

The government has a precedent of interfering with the pension system. During the 2001 currency crisis, the Argentine government used pension funds to pay for its other debt. The government forced the AFJPs (the private investment companies) to exchange USD 2.3 billion in exchange for Treasury bills. As Kay (2009) writes,

> The government forced the conversion of pension fund deposits to guaranteed loans. The loans were then converted to pesos at the below-market rate […]. Pension funds sued the government to redollarize the loans, arguing that both the forced loans and their "pesification" were illegal. However, granting such concessions would have hurt Argentina's position in front of international creditors. In short, the AFJPs' interest in maximizing the value of affiliates' accounts conflicted with the government's incentive to receive as generous a debt restructuring as possible (14).

There is not always a discernible border between necessary policy modification and unnecessary meddling. Successive Argentine governments continued to amend the pension rules after the initial 1994 reforms; important reforms were enacted in 1995, 1997, 2000, and from 2005 through 2008 (Arza 2009, 8-9; Haggard and Kaufman 2008, 278-279; Kay 2009). Amending a law is neither necessary nor sufficient to conclude that a government is is "meddling" or "subverting" a good law. However, the Argentine government frequently used pension funds – public and private – to fund other projects. This would seem at odds with a stable, funded pension system. Government statements, understandably, painted a different picture of its actions. President (Cristina) Kirchner argued that she was protecting Argentina's elderly from the worldwide recession by nationalizing the pension funds (Economist 2008a; 2008b; Carnes and Mares forthcoming). Similarly, ANSES president Boudou argued that the private pillars had achieved none of their assigned goals, particularly regarding adequate retirement benefits (Carnes and Mares forthcoming). Indeed, Arza (2009) found that pension coverage increased for the richest quintile of the population but decreased for the lowest quintile. For these reasons, the Kirchner government argued, private pension fund wealth needed to be placed in the public pillar and managed by ANSES. Eighty-nine and half percent of the Argentine public supported the pension nationalization in 2008 (*Latinobarometro*, cited by Carnes and Mares forthcoming), though this did decrease to 51 percent eight months later (Carnes and Mares forthcoming).

Carnes and Mares and Arza (2012) provide detailed summaries of the political negotiations and the nuances of pension finances. The ruling coalition can be classified as inward-looking, since the (Peronist) *Justiciliasta* party has its base among small business owners, low-income individuals, and unionized workers, all of whom are predisposed to favor the public pillar since it is more redistributive. Its opponents, the *Union Civica Radical* (UCR) and *Propuesa Republicana*

(PRO) parties, both have greater support amongst high-income earners (Carnes and Mares forthcoming). In 2007, Nestor Kirchner's administration set price controls for "hundreds of products" and banned the export of beef (Raszewski 2007). Cristina has supplemented these with fuel price controls. Lastly, Argentina has been cut off from international capital markets and does not receive IMF loans (Arza 2012).

Certainly, the Peronist party is large enough to be quite fractional, and so classifying the Peronists as an entire group can be misleading. However, this ruling coalition is relatively unified for a number of reasons. Numerous sources have documented the strength of the Peronist party in Argentina, as well as the skill with which certain politicians, in particular President Menem, have utilized the party infrastructure. Argentine candidates are strongly dependent on party support for advancement. Though there are factional differences in the party, there are "strong incentives" to follow the party leaders (Kay 1999). Levitsky and Murillo (2008) credit Cristina Kirchner's electoral success to, among other factors, greater party unity created by the success of her husband, strong Peronist party machines, and a particular voting practice. This practice, the *listas colectoras*, allowed "multiple mayoral and gubernatorial candidates [to support] – and [share] a ballot with – the same presidential candidate" (18). These *listas* "allowed Cristina Kirchner to accumulate the votes of diverse and competing tickets that might otherwise have backed her rivals" (ibid.). Carnes and Mares credit the Kirchnerists with taking advantage of the "emergence of an underlying coalition supportive of change" to nationalize the private pillar (ibid, 13).

To summarize, then: Argentina's ruling coalition is unified and inward-looking. Its institutions are weak. The table below summarizes the results in comparison with Uruguay.

Table 6: Uruguay and Argentina, Compared

State	Ruling Coalition	Institutions	Nationalized
Uruguay	Inward-Looking;	Strong	No

	But mixed (sometimes outward-looking) strategies		Discussed in 2004.
Argentina	Inward-Looking	Weak	Yes Implemented in 2009

Hungary

Hungary reformed its pension system in 1997 with advice from the World Bank, which drew upon the Argentine model (Fultz 2012, 2). The Hungarian pension system was similar to its Argentine and Uruguayan counterparts. It also had three pillars: the mandatory public PAYG (defined-benefit) pillar; the mandatory private defined contribution pillar; and an optional private pillar. Twenty-eight percent of an employee's income was to be contributed to cover all mandatory funding, paid by both the employer and the employee. Importantly, eight percent of that revenue, which had previously funded the public pillar, was "diverted" into a private plan managed by government authorized private pension funds (Aspalter et. al. 2009, 177; Fultz 2012, 6).

Fultz (2012) credits early design flaws with the growing problems in the Hungarian pension system, which resulted in meager, if not outright negative, returns to individual plans (due to high management fees) and a budget shortfall (and therefore growing public debt). Patchwork pieces of legislation were passed (and sometimes reversed) as power shifted between the Hungarian Socialist Party (MSzP) and the Federation of Young Democrats Party (Fidesz) over the next thirteen years.

In 2010, the Fidesz took control of government in a "political landslide" which garnered them a 2/3 legislative majority (*Der Speigel* May 8, 2012). By November, the government had passed a plan to withhold contributions to the private pension funds until the end of 2011. On November 24th, 2010, the government proposed a plan whereby citizens' private plans would be switched to public ownership unless citizens made an explicit choice to keep their plans private;

however, citizens who kept their private plans would lose up to 70 percent of their pensions (*Bloomberg*, Nov. 24th, 2010; *Economist* Nov. 24th, 2010; Fultz 2012). This plan became law. Of the approximately 3 million private pension plan holders, barely 100,000 kept their plans (Fultz 2012).

Hungary's ruling coalition can be classified as nationalist (inward-looking). *Der Spiegel* (ibid) noted that "[i]n his rhetoric, Orban often stirs up anti-capitalist resentment and invokes the national community of all Hungarians," and that his political base resides among "owners of mid-sized Hungarian companies". Before nationalizing the pension system, the government passed significant windfall taxes on foreign companies (*WSJ*, Nov. 8th, 2010; *Bloomberg*, Nov. 24th, 2010; *Economist* Nov. 24th, 2010). When the government decided to penalize pension holders if they did not switch to the public system, *The Economist* (Nov. 25th, 2010) quoted Economic Minister Matolcsy thusly:

> I want to make it clear. [People who do not opt back in] are no longer part of the solidarity-based state pension system… Private pension fund investors will have written themselves out of the community and will be going their own way.

Interestingly, the nationalization was likely unconstitutional under the original laws that existed before the 2010 Fidesz election. A key element seems to be the supermajority achieved by the Fidesz party.

The Fidesz party's two-thirds majority essentially forced deference to the executive. The Constitutional Court had been so weakened that it was unable to adjudicate the pension nationalization when Stabilitas, the private pension fund association, sought legal recourse (Fultz 2012, 14). International investors were not, as previously noted, part of the ruling coalition. The

Fidesz party had taken aim at the private pension funds since those funds' inception (Fultz 2012). Fultz also notes that political opposition peaked with the aborted suit by Stabilitas.

Hungary's government has bickered publically with both the European Union (EU) and the IMF; the government has justified some of its reforms on the grounds of avoiding defaulting on international loans (ibid).

The Hungarian nationalization takes place under a state with strong institutions that were overcome by Fidesz's supermajority. The ruling coalition ignored the costs imposed by investors with international ties. The ruling coalition can be classified as nationalist or inward-looking, and had strong popular support when initially elected. The ruling coalition lacked the emergency powers seen in Argentina, but extremely high levels of popular support, and the subsequent majority control of parliament, allowed significant state action. The recession created significant pressure for economic reform (particularly given the restraints imposed by the Maastricht criteria), but IFI presence was limited, though some IFI interference seemed to restrict the state.

Poland

Poland privatized its pension system a year after Hungary, in 1999. Its three-pillar, mixed system follows the basic structure of all the previously discussed cases. Like Hungary, a portion of a worker's overall pension contributions was diverted from funding the public pillar to the private pillar (*Bloomberg* March 2, 2011; Fultz 2012). Originally, this contribution was 7.3 percent of employees' salaries; however, as borrowing costs rose and debt climbed following the 2007 recession (the negative consequences of which Poland otherwise largely avoided), the Polish coalition government proposed cutting that percentage to 2.3 percent in 2011. The Polish government maintained that contribution rates would rise to 3.5 percent by the end of the decade.

The Polish pension experience mirrors Hungary's in important ways, allowing us to control for exogenous and confounding variables. First, Poland and Hungary are both

post-Communist states, which democratized and adopted market economies at roughly the same time. Research by Tavits and Letki (2009) have established that in the CEE countries, the dual transition to democracy and market economies reverses the expected party—spending relationship; right-wing parties end up increasing government spending, while left-wing parties, in fact, decrease it. Indeed, this relationship holds regarding Hungary's Fidesz party. This is held constant by this case selection, and speaks to the utility of examining cleavages regarding support for globalization, rather than the traditional left/right split. Second, in 1999, Poland followed Hungary to become the second Eastern European state to implement a mixed, three-tiered pension reform system. Third, Poland and Hungary shared roughly equivalent standards of living, measured by GDP per capita, until the recession in 2008, at which point Hungary's per capita GDP drops while Poland's maintains its rise. Table 7, below shows average per capita GDP, in constant year 2000 U.S. dollars, for the 2000-2003, 2004-2007, and 2008-2011 periods.

Table 7: Hungarian and Polish GDP, in constant year 2000 USD, specified years.

GDP Per Capita (Constant USD 2000)			
	2000-2003	**2004-2007**	**2008-2011**
Hungary	4842.07	5701.35	5643.80
Poland	4591.57	5436.94	6499.37

Source: World Bank Databank

Fourth, Muller (2002) shows that Hungary and Poland had strikingly similar pension reform processes. Muller argues that Poland and Hungary pensions were shaped by the influence of the World Bank (its funding and, particularly, its pension expertise) and by the competition between the Welfare Ministry's pension plan and the Finance Ministry's pension plan. She contrasts these cases with the Czech Republic, which had a neoliberal regime and a sole Welfare Ministry plan; it, in turn, implemented only a private pillar.

Finally, both Poland and Hungary were admitted to the EU in 2004, and face the same criteria for maintaining good standing. Despite the fact that Poland weathered the recession admirably, as reflected in its GDP per capita and its plaudits in *The Economist*, both states were attempting to keep debt levels within the Maastricht criteria, and effort that became all the more difficult when the EU High Court decreed that pension fund debt was to be included in the overall measure of state debt used by the EU (*The Economist,* April 14, 2009). While the recession affected Poland less than Hungary in terms of GDP growth, the two states faced the same EU-imposed constraints that weighed on their overall debt levels.

Broadly, then, Poland and Hungary are two states with similar Communist-era pension systems and governments, similar transitions to market democracy, similar post-1998 pension reforms, similar GDP per capita, and similar experiences with the EU during the post-2007 recession. Interestingly, Poland retrenched its pension system during the recession, but fell short of outright nationalization. The Civic Platform or Civic Forum party (PO), described as centrist by *The Economist* and "centre right" by Fultz (2012), in coalition with the Polish Peasant's Party (PSL), pushed forward the retrenchment.

At first glance, the Polish action seems like a partial nationalization. The government unilaterally diverted a promised funding flow from private funds to the public pillar. I refrain from classifying it as a nationalization for two reasons. First, the government did not gain any *control* over the industry as a whole that it did not already have. This is not, using the language of pension reform, a *structural reform*; it simply changes the parameters of funding for the pillar. Secondly, both academic (Drahokoupil and Domonkos 2012; Fultz 2012) and public sources (*Bloomberg* March 2, 2011; -- 25, 2011; *The Economist*, March 22, 2011) agree that the reforms are put in place to deal with immediate budget constraints. In a televised debate on the retrenchment in Poland, the

two participants (Jacek Rostowski, the current finance minister and Leszek Balcerowicz, a two-time ex-finance minister) made arguments based on managing the public debt, rather than responsibilities toward the public, the “community”, or mismanagement of funds (*The Economist*, March 22, 2011). Nationalization was never publically discussed by the ruling coalition. Therefore, I have classified this value of the dependent variable as “nationalization not discussed and not implemented”.

Fultz (2012) describes the political and economic actors who supported and opposed private welfare retrenchment. Supporters included the Minister of Social Affairs, the Minister of Finance, the economics minister, the Law and Justice Party, the All Poland Alliance of Trade Unions (OPZZ) trade union confederation, and self-employed farmers; they argued, she writes, “that creating the second tier had been a policy error. […] [T]hey portrayed the second tier not as a solution but rather as a burden in meeting Poland’s rising pension costs.” (15-16). The focus for opponents was addressing the costs of an aging population, and they argued the mandatory private pillar was not doing so. Meanwhile, opponents of retrenchment included another trade union, most of Poland’s employer associations, the Central Bank, the Warsaw Stock Exchange, and the pension industry. Central Banks, when concerned about macroeconomic stability, are useful compasses for assessing whether a ruling coalition has headed in an inward-looking direction or not. In this case, however, Poland’s decision was heavily influenced by its intention to meet EU criteria and abide by the European Commission’s ruling that pension debt would be considered as part of the overall debt levels. This decision is similar to Uruguay’s in the sense that the policy supporters would be considered to have inward-looking interests compared to the policy proponents, but the policy itself is broadly outward-looking, as it protects relations with trading partners (and, in particular, with EU funding that strongly benefits Polish farmers (CITATION)).

This decision has been based on outward-looking criteria; the ruling coalition's positive engagement with the EU continues into other decisions as well. Therefore, this ruling coalition will be classified as outward-looking since it is certainly more outward-looking than inward-looking.

Table 8: Hungary and Poland, Compared

State	Ruling Coalition	Institutions	Nationalized
Hungary	Inward-Looking	Strong, but weakened by ruling coalition	Yes
Poland	Outward-Looking	Strong	No, but retrenchment

Discussion

Pension politics are important because they represent redistribution across time and social groups, and they represent large parts of national economies and national wealth. Pension privatization was unforeseeable – until it no longer was, and structural reforms swept through Latin America and Eastern Europe. Pension nationalization may or may not be diffusing phenomena, as Kazakhstan reminds us. In that vein, pension nationalization is empirically important on its own terms.

Theoretically, pension nationalization represents a mixture of domestic nationalization and expropriation, which have often been analyzed separately. Work on expropriation has focused too strongly on the nuances of discount rates and utility functions, without addressing the underlying distribution of preferences. I have addressed this by introducing Solingen's (1998; 2002; 2007) conception of ruling coalitions. Her categorization relies on a coalition's relationship with the global political economy and its model of political survival; this cleavage fits private pension systems – with significant foreign investment and prominent roles in the domestic economy – very well. Tavits and Letki (2009), for example, found that left/right party divides do not align with party preferences for government spending. They show that Eastern Europe follows a different party-spending logic than Western Europe. The relationship to the global political economy is similarly a better analytic lens than party divide.

Table 9, below, presents the results of the analysis.

Table 9: Summary Results of Case Studies

State	Ruling Coalition	Institutions	Nationalized
Uruguay	Inward-Looking; But mixed (sometimes outward-looking) strategies	Strong	No Discussed in 2004.
Argentina	Inward-Looking	Weak	Yes Implemented in 2009
Hungary	Inward-Looking	Strong, but weakened by ruling coalition	Yes
Poland	Outward-Looking	Strong	No, but retrenchment

The results above should not be considered the final word on the nationalizations, but they do present useful results for further consideration. Both Uruguay and Argentina have inward-looking ruling coalitions, but Uruguay's has adopted a more internationalizing strategy. In comparison to Uruguay, Argentina's institutions are weaker. Were we to stop here, we would be inclined to credit the nationalization with weak institutions, tentatively concluding that the Kirchner administration felt no need to temper its goals because it was less institutionally constrained.

The Hungarian and Polish experiences, however, suggest a more nuanced view regarding institutional strength. Hungary's and Poland's institutional systems were similarly constraining, were similarly corrupt, and had relatively similar respect for the rule of law. Yet Hungary's ruling coalition – the Fidesz party – was able to nationalize Hungary's pension system and, indeed, to rewrite its constitution. The ruling coalition had significant strength to overcome the strong institutions in which it was situated.

Further research would consider more detail regarding the political coalitions: are the groups whom they serve broad or narrow? Pensions have been expanded to serve both narrow and broad groups, historically. Nationalization benefitted the groups whom the private pension system failed, but some portion of those who invested their wealth in the private system opposed the

nationalizations. An expansion of cases, particular following the finalization of Kazakhstan's decision, would also enable a more detailed analysis.

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