Better Luck Next Time:

Cycling Between Private and Public Pensions in Argentina

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Abstract

I argue that policy reversals between nationalization and privatization can be treated as a state reorganizing responsibilities between itself and the private sector. To that end, privatization and nationalization can be thought of as two similar phenomena which can be judged on the same criteria. An industry is nationalized or privatized based on how governments perceive the industry's revenues, costs, patronage potential, potential use to implement discretionary (including ideological) goals, and the political space for reform. Argentina's 1994 pension system privatization and its 2008 pension nationalization are treated as two initial cases for the model.

Introduction

Privatization and nationalization are, respectively, instances where the government transfers some of its responsibilities to the private sector or assumes responsibility from the private sector. Social scientists who have studied these decisions have most frequently studied them as independent processes, and this approach would be fine if a privatization or nationalization were a permanent change. Not all privatizations or nationalizations remain privately or publically owned; some of these decisions are reversed via government mandate. This paper seeks to explain, within a unified framework, why governments decide to privatize nationalized industries and to nationalize privatized industries. That is to say, this paper will explore why government decides to impose responsibilities upon itself and later divest itself of those responsibilities, and vice versa.

In 1993-4, President Menem pushed for, and achieved, reform of the government pension system that established a private "pillar" that would operate alongside a universal, minimal, government-funded system. Argentina was not alone; many other Latin American states were attempting reform, inspired by Chile's private pension system, which had been reformed a decade earlier under the auspices of the Pinochet regime. This and other neoliberal reforms were met with broad popularity in Argentina, challenging the idea that coercive, authoritarian methods were necessary to implement market-oriented reforms (Weyland 1998b). Fourteen years later, President Kirchner's government passed a law declaring that all private pension plans were to be transferred to the control of the National Administration of Social Security (ANSES), giving the government access to 23 billion dollars worth of assets (*Economist* 2008a; 2008b). President

Kirchner justified the nationalization on the grounds of defending pensioners and protecting them from the failures of the reforms and the vagaries of the market (ibid.).

The goals of a pension system, either private or public, remain the same: provide income for retirees sustainably. The goals of a government might change; that is, the political costs and benefits of a particular pension system might change as well, but it is likely that we may broadly categorize those goals for analysis. The decisions to privatize and then nationalize, though finely nuanced, might be broadly explained by the same variables; furthermore, when a policy is reversed (the nationalization), you cannot explain that reversal without explaining the initial decision (the privatization). A unified model to address this policy reversal would need to explain both the privatization and the nationalization. This model would provide a more useful theory than separating each decision into a separate analysis, and not only for the sake of parsimony. First, the model could be used to explain or predict "waves" of privatizations (as occurred in the 1990s), nationalizations (as occurred in the post-War period and the 1970s), and policy reversals. Normatively, political stability is valued; neither nationalization nor privatization is good for its own sake. Pensions, for example, benefit from political stability, as they are promises of future income and are only as useful as they are secure.

This paper is a preliminary attempt to present such a model and situate it within the literature. I argue that we may explain the decisions by parties in power (PiPs) to privatize and nationalize with the following criteria: revenues and costs of an industry; patronage possibilities of an industry, which include employing or providing for political allies, usually in a broad, rather than an individual sense; discretionary aims, which include the ideological and pragmatic goals of a particular party; and political space, an admittedly broad term denoting the political

context, ideological and economic, within which the decision takes place. Policy reversals occur when the variables change from a state favoring the first decision to a state favoring the second.

First, I will summarize the recent literature regarding pension privatizations and compare it to the literature on nationalizations. I will then briefly discuss the small literature regarding policy reversals, or "cycling". I will then present the unified model and evaluate it against the Argentine pension case. This is a preliminary investigation to develop the nuances of the theory, rather than a definitive test. Finally, I will conclude with discussion of the merits of this approach and suggestions for further research.

Literature Review

First, I will discuss the 1990s Latin American pension privatization literature. The most recent systematic evaluation of nationalizations concerns the oil expropriations in the 1970s, but I have also included studies of the post-War nationalizations for greater breadth. Lastly, I have included previous models that explain both nationalization and privatization.

Privatization

Latin American pension reform literature has generally focused on broad on broad cross-country analyses (see Brooks 2007; James and Brooks 2001; Kaufman and Segura-Ubiergo 2001; Madrid 2005; Mesa-Lago 2002; Weyland 2005), sometimes placing pension reform in a broader historical context (see Haggard and Kaufman 2008; Segura-Ubiergo 2007). International-level factors discussed in the literature include the effects of globalization and the influence of international financial institutions, while state-level factors include economic conditions, regime type, and the institutional makeup of each state.

Kaufman and Segura-Ubiergo (2001) use a qualitative analysis to examine the impact of globalization on social security, health, and education spending for fourteen Latin American states[1] between 1973 and 1997. The authors attempt to arbitrate with regards to the compensation and efficiency hypotheses in the globalization literature, which suppose that greater integration into the international economy leads to, respectively, either greater social spending (to compensate added market risk) or less social spending (as investors use the greater mobility to take their capital to less costly states). Their evidence supports the efficiency hypothesis, rather than the compensation hypothesis, but primarily for social security spending, rather than health and education spending. They find that trade integration has a negative effect on total social spending, and that openness to capital markets increases this effect. Importantly, there are different effects on each type of social welfare spending. Disaggregating spending, they find that integrating into the international economy primarily affects social security transfers (primarily pensions), "while health and education expenditures are far less vulnerable" (554).). Overall, the effect of regime type – democratic and popular-based governments – affect social spending independent of globalization's effects, due to the "constellation of interests" affected by each type of social spending (583).

James and Brooks (2001) find that a large implicit debt motivates politicians to reform pensions, but decreases the degree of privatization. The latter effect is due to path dependencies, "legacies from past systems," which influences who is affected and who can affect proposed changes. Importantly, they hypothesize that governments fear the economic and political cost of making the implicit pension debt more explicit through greater privatization. To meet existing obligations with less revenue following privatization, governments must raise contribution rates,

[1] Argentina, Bolivia, Brazil, Chile, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Paraguay, Peru, Uruguay, and Venezuela (Kaufman & Segura-Ubiergo 2001, 554).

raise taxes, or issue bonds (8). The subsequent reaction from voters and financial markets due to the increased taxes and/or debt can be debilitating to the economy. The authors acknowledge that the implicit pension debt variable can be loaded with multiple meanings; for example, higher IPDs "may also be [proxies] for other kinds of path dependencies such as public pressure." They also account for the spread of these pension reforms via "cultural, linguistic, and geographic proximity to 'first movers.'"

Brooks (2007) argues that the influence of IFIs and "global economic forces" were not coercive; rather, they simply promoted one specific type of solution to pension reform. Government technocrats were responding to pressures from international capital markets to short-term and suboptimal solutions. International capital markets, she argues, create incentives for long-term reforms but punish efforts, in the short-term, to create those reforms; pressure from capital markets creates its own bind, at least in the states most in need of reform because of their fiscal problems.

Haggard and Kaufman (2008) argue that the twin forces of democratization and economic crisis coincided to provide a critical juncture for Latin American, East Asian, and Eastern European welfare states. “Democratization placed new demands on the state,” they write, “but the capacity to respond was bounded by economic circumstance” (Ibid.: 347). However, old legacies still influenced policy. In Latin America, they argue, political pressures for reform and status quo were both very strong; as such, welfare state reform was more extensive than in Eastern Europe, where welfare state coverage had been more equal. Examining international influences on the creation of welfare states, The authors argue that the “great powers had an important influence on domestic political realignments” (348). That influence, they argue, was more subtle in Latin America than in East Asia and Eastern Europe. Regarding

the effects of globalization, the authors argue that the effects of globalization are not uniform, but are filtered through national policies and circumstances, reflecting similar conclusions by Garrett (1998) and Brune and Garrett (2005). In particular, the fiscal situations of governments limits the actions a government may take or presents it with motivation to pursue policies that would amend the situation. The strength of parties of the left in Latin America influenced welfare state reforms, generally by trying to expand the welfare state. The authors quantitatively test a number of variables and their effect on the level of social spending. For Latin America, they find that democracy, as operationalized by Polity changes, has no impact on social spending.

Segura-Ubiergo (2007) argues that globalization "put downward pressures on social spending", but that pensions, due to their ingrained and powerful constituencies, are most resistant to retrenchment or changes to the pension system (265). In particular, he points out that globalization effects created larger informal economies in Latin America, and that these newly created poor were not easily mobilized to press for pension reform.

Other analyses primarily use qualitative comparative approaches to determine the causes of pension reform. Kay (1999); Mesa-Lago (1997); Mesa-Lago and Muller (2002); Muller (2003); and Panizza (2009) are examples of this approach. Mesa-Lago (1997), Mesa-Lago and Muller (2002), and Muller (2003) are excellent overviews of the pension reform process. Mesa-Lago (1997, 516) holds the greatest hope for "mixed or selective models of reform", such as Argentina's, but points to a number of extant challenges. Muller (2003, 119) points to a number of domestic and regional factors influencing pension reform, including the previously mentioned economic conditions, as well as existing private financial sectors and "a lack of social cohesion and poorly spread values of social justice.

Nationalization

As pension nationalization is still a two-case phenomenon, I will summarize the broader literature on nationalizations that has been developed since the post-War period. Conceptually, one may differentiate between two types of nationalization: domestic, the nationalization of industries owned completely by citizens of a host country; or foreign, sometimes called expropriation, which Korbin (1984) defines as as the "involuntary forced divestment of foreign direct investment" (330). The most recent "wave" of nationalizations was a wave of oil expropriations in the 1970s. Korbin finds two time periods in which the conceptual boundaries of expropriation differ. Before 1960, he notes that expropriations were generally undertaken as part of a larger socioeconomic transformation such as a social revolution. After 1960, expropriation were used "more selectively", and, "given the complex web of host country objectives and means, the concept of expropriation lost precision" (330). Kobrin (1980) forcefully argues against expropriation as an instantiation of economic nationalism. Using data for foreign nationalizations between 1970 and 1976, he finds that expropriation is "used to attempt to achieve national political-economic objectives by increasing control over economic actors" (85). He downplays the role of ideological and political motives, arguing that "only a portion of foreign firms were forced to divest" (86). Firm type plays an important role, as does the level of technology and the ownership structure of the firm or industry. Kobrin (1984) writes that many states saw foreign ownership of industry "as a symbol of Western industrialization and Western colonialism;" however, he credits the decrease in expropriations, following an initial surge, to the accommodation of states to Western foreign direct investment, to the acknowledgement of benefits to Western investment and the costs of nationalization, and to a general increase of administrative and managerial abilities on the part of the host state (340).

When a domestic industry was nationalized, the goal was frequently to correct a natural monopoly or to meet some greater social criteria (see Hanson 1963 for examples from the British nationalization experience). To influence a company without direct control, the government simply buys a majority share of a domestic company's equity, creating a limited corporation. A company may also be transformed into a public corporation (although public corporations could also be created from scratch, rather via nationalizations), where a company is owned by the government (and put in place via special legislation) but is treated as a separate entity, in that the company can borrow funds and raise revenue but all in its own name. Lastly, a government may simply run an industry directly from a department or ministry as part of the bureaucracy.

Nationalization of a domestic industry may be considered a subset of all the actions a government may take to protect industry, alongside tariffs and subsidies, for the greater national good. This larger superset is frequently given the term *economic nationalism* (for an excellent discussion, see Helleiner 2002). Government ownership of industry is therefore seen to contribute to national security or the national interest. There have been many economic arguments for protecting an industry or fostering its growth through government support, if not control. As an example of economic nationalism, Stephen Brooks (1987) presents the case of the British Petroleum (nee the Anglo-Persian Oil Company). In 1914, the British government bought the majority of voting shares (until the late 1960s) in the company in order to "secure a supply of foreign oil for military purposes, while avoiding reliance upon non-British petroleum companies" (178). The nationalization serves the purposes of securing the state as an entity separate from its components.

However, as Helleiner also points out, previous scholars had neutered the term; economic nationalism must begin from a point of *nationalism*, putting the state first. As he astutely argues,

economic nationalists may make liberal arguments, if they believe them to be in the best interest of the state. A "resurgence" of economic nationalism, then, does not necessarily explain a policy reversal; economic nationalism might have been constant at each policy decision, but the understanding of a state's interests may have changed.

Cycling

The literature combining nationalization and privatization is scarce. Backhaus (1987) offered one of the earliest models for combining the two. Attempting to explain the wave of privatizations sweeping through Europe in the 1980s, he astutely identifies how nationalization occurs at a specific moment in time, and that there are path-dependent effects that result in eventual privatization.[2] Parties are in charge of government when nationalizations occur, and so nationalizations have a political character. A party in charge has political aims (employment, discretionary policies, and profit) that create an institution with particular goals; as parties alternate power, the opposition finds the institution less useful, and so might handicap it or at least neglect it. As these institutions become less and less useful, they become more and more likely to be privatized. Backhaus's model is parsimonious and necessarily stylized; he does not attend to exogenous effects or try to generalize beyond an alternating party system. As will be seen, I take key elements of his model but add key elements that affect the cycle.

Zahardias (1999) extends Backhaus's argument and analyzes how states move between nationalization and privatization. He tests two hypotheses: the first predicts that parties in power try to use nationalized industries to further their agendas, and that subsequent parties in power will try to privatize or weaken those industries to undo or counter that agenda (Backhaus's hypothesis); and the second argues that privatization and nationalization are both economically

[2] He does not use the words "path dependence," but based on his usage it seems uncontroversial to denote them as such.

driven, that they are the different political responses to stagnant industries (445). His comparative case study of British telecommunications and railways analysis finds the first hypothesis to be more compelling. Nevertheless, the idea that states take the performance of an industry into consideration is compelling and should be accounted for.

Backhaus's (1987) and Zahardias's (1999) works raise the issue of government commitment and the exercise of influence in a nationalized industry. Governments that nationalize an industry set in motion certain policies that are likely at odds with the opposition party, which, in many states, will likely take power in the future. That party will likely undermine, subvert, or convert an industry in whichever ways politically benefit it, thus changing the character of the industry. Given those path dependent effects, it suggests that the government itself might be opposed to its own nationalized industries, if only to a marginal extent. It also suggests that nationalizations might almost inevitably be followed by privatizations, except in rare circumstances where an industry is politically beneficial to both parties.

Rosa and Perard (2010) also present a model to explain policy reversals as the result of a competition between private investors and the state for industries. These two actors value an industry differently, based on their respective costs of capital. They suggest that "the investor who prevails is the one (State or private) which values the firm the most" (127). However, the authors neglect to account for the fact that it is the state that makes the final decision over an industry or not. The private sector may petition the state, but it is the actors within the state who decide whether an industry shall be made private or public.

Argument

Governments are controlled by parties, so the decision to nationalize is made by what I shall call the Party in Power (PiP). PiPs may be one party, or multiple parties representing a coalition government. Generally we may say that PiPs differ from parties that did not gain power; at the minimum, they have different ideologies and political bases of support. This model takes the point of view of the party in power; it is a model of decision-making. PiPs are assumed to take actions that directly benefit their ability to retain power and win reelection. More generally, parties are also assumed to try to further their political goals, and to serve their constituencies, whether those parties hold power or not. These assumptions should be uncontroversial.

In order to explain systematic "policy reversal" (Rosa and Perard 2010) or "cycling" (Backhaus 1987), I have to explain both nationalization and privatization. This model is built on Backhaus's foundations, but adds explicitly political and contextual variables to the analysis. PiPs take account of the possible benefits and costs they will accrue by nationalizing or privatizing an industry. Politically, PiPs want to reward their supporters, carry out their political promises, and achieve their ideological goals.[3] Economically, I assume that PiPs seek profits in their care or from the sale of industries in its care. I am, to some extent, devaluing ideological arguments here. I do not assume that free market ideology is sufficient motivation for a PiP to pursue privatization; rather, a PiP will privatize an unprofitable venture and retain a profitable one.

[3] Argentina, of course, is a bit of a special case. President Menem's stated goals during his first election were not the policies he pursued when first elected. HOWEVER, BY 1994 HE'D BEEN REELECTED OR SOMETHING AND HAD A MANDATE.

Beyond explaining cycling or policy reversal, there are additional benefits to addressing nationalization and privatization within a unified framework. Both nationalization and privatization represent government decisions to redistribute responsibility, provided by some industry or firm, between the private and public sectors. Conceptualizing these two processes as different values of a more abstract dependent variable (reallocation of responsibility) allows for a more useful analysis of each concept than from individual analysis.

I operationalize these variables simply. *Ceteris paribus*, a government will privatize an industry that is unprofitable – or where costs are high and revenue streams are low. When revenue streams flow free and costs are relatively low, a government will nationalize an industry. Similarly, PiPs want to reward their supporters directly to ensure their continued support. Government benefits, in the form of direct patronage, are a key element of this program. If political patronage possibilities are scarce, a PiP will privatize an industry. Similarly, if political patronage possibilities are abundant, a PiP will press to nationalize an industry. Similarly, a PiP will have preferences as to the actions government should take; these may be ideological or "selfish". To the extent that a PiP cannot realize its discretionary aims through a nationalized industry, it will be more likely to privatize it. Similarly, if an industry lends itself to furthering a PiP's ideological goals, it will nationalize it. Discretionary aims could be established by examining party manifestos and ideological leanings; nevertheless, it should be separated from ideology itself. I will discuss the puzzling nature of ideology below.

I include a variable that applies to both decisions: "political space", which refers to political opportunities to make what is often a relatively drastic change. Political space for privatization or nationalization can be created by economic crises (Gourevitch 1992), created by a unified PiP controlling different branches of government. Admittedly, this variable can

encompass a rather broad swath of factors; however, for the purposes of this study, I will operationalize it as a destabilizing (usually economic) crisis. As Gourevitch (1992, 9) writes, it is after economic crises "that institutions and patterns are built which will persist long into the next cycle." Economic crises are insufficient to cause privatizations and nationalizations (though severe recessions do increase the number of nationalizations due to rescue). Political space is also created by ideology. There are two ideal-type poles that one could use to describe the effects of ideology, and it is somewhere between them where I will stake my claim. First, ideology could be the supreme independent variable, a structural effect which provides complete justification for privatization or nationalization without operating in context. The extreme opposite would be completely instrumental ideology, or ideology used as cheap talk to obscure more material motives. Certainly, very few would subscribe to either side; here, ideology is treated as more instrumental than not, but are not necessarily the result of conscious calculus. Ideology affects what responses are on the table, and are viewed as acceptable. It would be insufficient to discuss pension privatization without discussing the Washington Consensus and neoliberalism, but it is also very easy to overstate the case. Neoliberalism provided a set of heuristics and options for dealing with a particular problems. Blyth (2009, 211), for example, defines ideas as heuristics, "interfaces with the world constructed by agents to make sense of complexity and uncertainty," but those ideas are only useful as far as they prescribe solutions to particular problems. To state the counterfactual, neoliberalism could not have flourished before import substitution industrialization began to falter. As Madrid (2005, 27) writes, the manner in which "policymakers respond to […] challenges depends partly on what sort of beliefs the policymakers and other actors hold." Ideas can be used by actors to advance their interests, but frequently these ideas can affect what interests actors pursue. The conceptualization of a

particular idea, such as privatization or globalization, matters as these ideas may act as guides in areas of uncertainty. These may be categorized as "second-image reversed effects" (Solingen 2009, 221).

Table 1, below, summarizes when one would expect a PiP to privatize an industry and when it would nationalize an industry.

Table 1: Criteria for Privatization and Nationalization

	States PRIVATIZE when…	**States NATIONALIZE when…**
Revenue Streams for the Industry Are…	Low	High
Expenses for the Industry Are…	High	Low
Political Patronage (non-individual) Possibilities Are…	Scarce	Abundant
Discretionary Aims (including ideological goals)…	Cannot be realized	Can be realized
"Political space" for this (relatively dramatic move) is…	Available (e.g. economic crisis)	Available (e.g. economic crisis)

Having described the ways in which industries may be privatized and nationalized, it is relatively easy to describe how cycling might take place. An industry in is a particular state of ownership at some initial time (t = 0). There is a set of conditions (*c0*), listed in the table above, that determine whether the government will nationalize or privatize the industry at a later time (t = 1). At some time further down the road (t = *n*), the government reverses this decision. Conditions have to alternate from one required set (*c0*) to another (*c1*). This is not as easy as one might think; not only is low revenue never a goal for any industry, public or private, but the discretionary variable depends on the eye of the beholder: the eye of the party in power. Retaining a nationalized industry might be politically useful for Party A, whether because A has filled the industry with its supporters or because the industry serves one of A's key constituencies, while Party B finds the industry odious. It seems likely that most policy reversals

would be enacted by a party that finally found itself in the position to do away with an industry it has long had no use for, rather than from a party finally tiring of a key industry. Alternatively, there may be sufficient political space for a Party to reverse its own previous course of action, particularly if sufficient time has passed. We might expect some level of financial losses that might cause a Party to privatize an industry it had nationalized, particularly if the move was politically popular.

Research Design

Methods

This paper will be a "plausibility probe", likely to lead into further refinement of the theory (George and Bennett 2005). The case study method will be used, primarily as a first pass at assessing the interactions between the variables of interest. As previously described, the model implicitly attributes causal effects to environmental factors and institutional states in that they cause relatively uniform responses in government decision-makers. At a point in history, the state of the world is conducive for nationalization or privatization, which occurs in the country of interest as decision-makers react to satisfy their political goals. The states of those variables change as time passes, until a set of conditions present themselves that cause new decision-makers to reverse the previous decision. Each group of decision-makers responds to the same set of criteria to make their decision. Observations within a case need to be analyzed at two different points in time: immediately before nationalization and immediately before privatization.

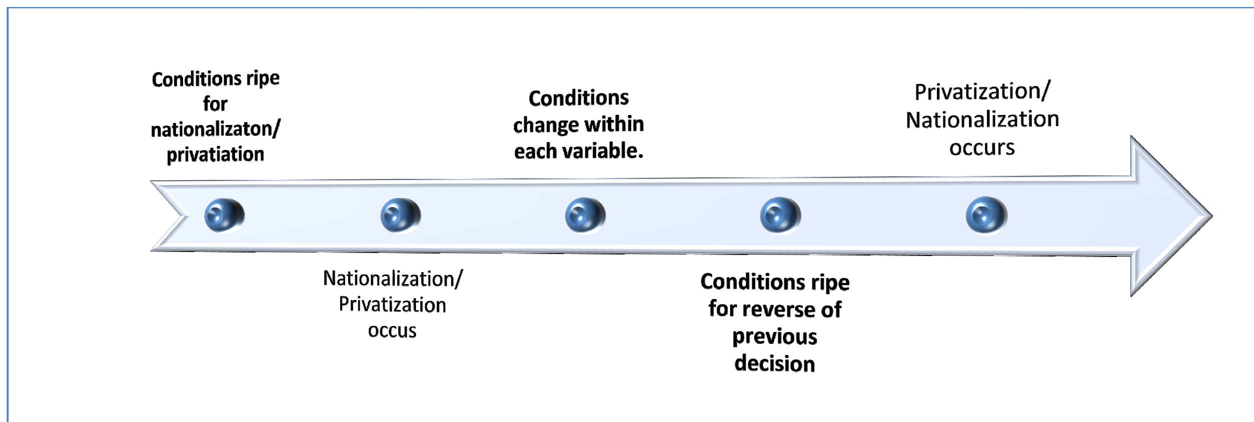

Figure 1: Summary of Cycling Process

Revenue and costs are assessed easily enough, though as of February 2012, *the Economist* magazine removed Argentina's reported inflation rate from its statistical indicators. Studies using the official numbers broadly agree, but we cannot control at this time for potential governmental meddling. A search for further statistical nuisances has been, thankfully, fruitless, but the possibility of inaccurate data remains. Patronage must be assessed by qualitative evidence demonstrating how the ruling party rewards its political supporters and strengthens its coalitions. To prevent "overfitting" a qualitative "curve", discretionary aims are determined *a priori*, and should fit statements made by the decision-makers and match their demonstrated ideologies. Lastly, as discussed in the Arguments section the Political Space is should reflect contextual conditions such as economic crises, ideological paradigms, and levels of popular support. Similarly, executive strength and institutional relationships between the executive and the legislative reflect the ability of the executive to achieve its goals.

The Case: Argentina's Pension Reform and Nationalization

After the Pinochet regime privatized industries and Chile's old age pension system in the late 1970s, some speculated that only a "highly autonomous executive" could implement such drastic, market-oriented reforms (Panizza 2009: 55). It was thought that the "repressive, authoritarian character of the Pinochet regime" was necessary for the significant structural

pension reform, and as such, similar pension system reform in democracies was unthinkable (Mesa-Lago & Muller 2002: 688). Because of pension systems' breadth of coverage and their depth of investment, pension system reform represented a particularly thorny case for politicians; to extend the metaphor, a president or executive would need a powerful machete to hack through the undergrowth of institutionally entrenched special interests. And yet, when democracy came back to the rest of the Southern Cone, pension reform soon followed. The pension system affected every Argentine citizen and (when privatized) could potentially develop Argentina's capital market. Its significance should give us extreme values of the independent variables: revenues and costs will be discussed explicitly (pension system debt was a major motivation for privatization), and the Argentine pension system was created by piecemeal expansions to woo politically useful groups (Arza 2009; Haggard and Kaufman 2008; Rofman 2008).

In 1994, the Argentinean government enacted Law No. 24241, which created the Sistema de Jubilcaciones y Pensiones (SIJP), or the Integrated Pension System. All workers 18 and over were required to contribute to the SIJP, but they could choose between two different regimes within it. The law structurally reformed the pension system by creating a two-tiered scheme. The first system, or pillar, paid all Argentinian workers who met age and contribution criteria; in the second system, workers could choose either the public PAYG option or the private option based on individual capitalization. The former system, was managed by the National Administration of Social Security (ANSES) while the latter was managed by private companies (AFJPs) (Arza 2008; 2009; Kay 1999; 2009; Rofman 2008).

Workers could contribute up to 11 percent of their salaries to either the PAYG system or an individual account. The 16 percent employer payroll tax continued to fund the universal PAYG benefit. AFPs managed the workers savings and received an additional fee proportional to

the workers' wage. Because, unlike in Chile, the payroll tax was still paid whether or not one chose the PAYG or individual capitalization system, there was little incentive to switch to the private system (Kay 1999: 408). After fulfilling the age and years of contribution requirements, workers could withdraw their funds either in scheduled lump sum payments or may purchase of an annuity. Certain groups, such as the military and members of state and local governments were exempt from the new system (Ibid.: 408). As Rofman (2008) notes, the rate of contribution would decrease from "more 45 percent in the early 1990s to less than 35 percent in the early 2000s" due "partly to growing unemployment" and changes in the distribution of participation (387).

Despite Argentina's anecdotal status as a "basket case", its experience serves as a potentially useful case for a plausibility probe to test the theory because of the potentially extreme values of each variable. Argentina is also the first state to reverse its policy among those that rode the wave of privatizations in the 1990s. Given the current malaise in the world economy, Argentina may only be the first in a line of states to nationalize their pensions. .

Case Study Results

I will discuss each case in succession. The table below summarizes the expected and observed states of the pertinent independent variables.

Table 2: Summary of Expectations and Observed States of the Pension System

	Pension Privatization		Pension Nationalizaton	
Variable	**Expected**	**Observed**	**Expected**	**Observed**
Industry Revenue	Revenues should be low or exceeded by costs	Pension system cost significantly over revenues (Haggard and Kaufman 2009, 277-278; Rofman 2008, Vittas 1997)	Pension systems should have high revenues or very high wealth available	Private SS revenues increased as economy recovered in mid 00s. (Arza 2009; 10)
Industry Costs	Costs should be high relative to revenue, or projected to increase significantly in the near future.	Pension system cost significantly over revenues; recent economic crisis (Kay 1999; 2000; Rofman 2008)	Pension systems should have costs lower than revenues	Public system deficit, public system profitable w/30 billion USD in funds (Arza 2008)
Patronage	Little ability to expand the franchise or add further benefits in national system. Party may not be politically associated with the pension system.	Coverage had been declining since mid-80s (Rofman 2008; Kay 1999).	Ability to expand benefits among important groups. Party may be supported by groups historically associated with pension system.	Nationalization was "opportunity to broaden […] political coalition" (Carnes and Mares, forthcoming). Similarly, coverage grew but still low in absolute numbers (33 to 39.2 % from 2002 to 2006) (Arza 2009, 10).
Discretionary Aims	The party in power (PiP) will have an ideology broadly consistent with its actions. Lowing of government expenses via	Liberalization was pursued by technocrats; primary aim was to improve long-term financial outlook of economy.	The party in power (PiP) will have an ideology broadly consistent with its actions. Hard to assess other goals *a priori*.	Gov't established precedent of using pension funds for other purposes; limiting fund exposure to recession
Political Space	Some combination of executive strength, legislative support, and/or strong public support will be necessary. Economic crises frequently provide impetus for change.	Strong and popular executive, supportive legislature, ideological and technical support from ISIs (Brooks 2002; Haggard and Kaufman 2008)	Some combination of executive strength, legislative support, and/or strong public support will be necessary. Economic crises frequently provide impetus for change.	Populace dissatisfied with pension system (*Economist Nov. 2008*; Carnes and Mares, forthcoming); economic crisis in 2008; Kirchner established precedent for previous nationalizations, but popularity in 2008-2009 only moderate.

Privatization

Revenue and Costs

Even before the reform, the pension system had been plagued with financial insolvency. Vittas (1997, 12) reports that the social security system deficit consistently ranged between 1 percent and 1.5 percent of GDP, with costs ranging between 5 and 5.5 percent of GDP. Vittas catalogues the lists of various burdens on the financial performance of the system: high levels of evasion; an aging population; incentives for "strategic manipulation"; and a growing informal economy, which provided no payroll tax revenue to finance the system (11- 13). Both the military government and the first democratic government attempted structural reforms, but had been unable to pass them. Mesa-Lago and Muller (2002) attribute this failure to "the unwillingness of policymakers to undertake such a politically difficult move, the stern opposition of trade unions and pensioners' associations, and the lack of essential technical studies" (694). In order to keep making payments, government administrators ignored the rules for benefit indexation, resulting in pensioners receiving less than they were promised; as more and more pensioners filed suit against the government, the national government declared a "Pension Emergency" in 1986 (Arza 2009, 6; Rofman 2008, 380-383).

Patronage

The pension system, one of the earliest in the world, had been created in piecemeal fashion, but by the 1960s the Argentine government had centralized the many scattered schemes into three programs (for the civil service, the private sector, and the self-employed). This newly centralized system ran into financial difficulties in the 1970s and early 1980s, due to the increased average age of the Argentine population and increasing employment in the informal sector (Rofman 2008: 380). The previously mentioned Pension Emergency demonstrates how

the government pension system failed to pay its promised benefits. The financial costs of the industry allowed no possibility for expansion of benefits, but the need for extreme measures also allowed the possibility of broad cuts across all groups.

Discretionary Aims

The primary discretionary aims of the Menem administration were to liberalize the Argentine economy, though individual personal patronage did play a part. However, the administration was not staffed by ideologues, but by technocrats; the economy was not liberalized for its own sake but because neoliberalism offered solutions to the problems presented by the decay of the ISI system (Panizza 2009). Their goals were to create a long-term sustainable system through liberalization. These technocrats believed the liberalized system would increase domestic savings, reduce implicit debt in the current system, and reduce transaction costs (Haggard and Kaufman 2008, 277).

Political Space

Understanding the macroeconomic conditions before privatization is integral to understanding how President Menem was able to privatize the pension system. The table below shows the rates of growth of GDP and inflation of consumer prices for the years 1986 to 1997. As seen in Table 3, Menem's administration, which began in 1989, found itself with an economy with thousand-percent inflation and shrinking GDP. Menem, along with Economy Minister Cavallo, responded to this crisis by passing the Convertibility Law of 1991, which established a currency board system and, as Haggard and Kaufman (2008, 277) write, "ended the hyperinflation virtually overnight." Economic crisis, followed by effective response, gave Menem and Cavallo significant leeway with regard to their next priority: reforming the pension system (Ibid.).

Table 3: GDP Growth and Inflation in Argetntina, 1986- 1997

Year	GDP Growth (Annual %)	Inflation, Consumer Prices (Annual %)
1986	7.9	90.1
1987	2.9	131.3
1988	***-2.6***	***343***
1989	***-7.5***	***3079.8***
1990	***-2.4***	***2314***
1991	12.7	***171.7***
1992	11.9	24.9
1993	5.9	10.6
1994	5.8	4.2
1995	-2.8	3.4
1996	5.5	0.2
1997	8.1	0.5
Source: World Bank Development Indicators		

The Menem administration had successfully dealt with one aspect of the economic crisis, and promised to do so to the sclerotic pension system. Similarly, the Menem administration was very strong, as far as presidential administrations go. Teichman (2004) argues that Menem used official methods, such as presidential decrees, and a "full range of patrimonial methods" (32) to push through his particular will without compromise. O'Donnell's (1994) classic work, "Delegative Democracy," argued that the democratization that occurred during the late 1980s and early 1990s was in some countries incomplete. O'Donnell argued that some states, these "delegative democracies," were not consolidating their democratic processes, were not institutionalizing them like proper representative democracies; rather, citizens were electing presidents who governed without regard to restraint. His conclusions flow from his characterization of the Argentine government: "the president and his most trusted advisors are the alpha and omega of politics" and therefore "resistance [from congress, political parties, interest groups, etc...] has to be ignored" (60-61). O'Donnell specifically characterizes the Menem administration as a delegative democracy (67).

As Weyland (2005, 262) argues, Latin American policymakers employed cognitive heuristics in their decisions to adopt pension reform, as evidenced by patterns of policy diffusion, wherein "[a] bold reform adopted in one nation" is adopted by other states, usually in an identifiably geographic pattern. The 1981 Chilean pension system inspired significant pension reform and created a model for Latin American pension reform in both Latin American countries and international financial organizations such as the World Bank (Kay 1999; Madrid 2005; Panizza 2009; Ghilarducci and Liebana 2000; Muller 2003). Furthremore, the director of the Chilean social security agency, Walter Schulthess, worked directly with Argentine Minister Cavallo in the creation of the Argentine plan (Haggard and Kaufman 2008, 277). Similarly, the efforts were supported by international financial institutions - the IMF and the World Bank – which provided additional technical expertise and political support abroad (Brooks 2005; Haggard and Kaufman 2008; Panizza 2009; Weyland 2006).

As we can see, there was significant political space in which the Argentine government could operate. The Menem presidency was strong (both Constitutionally and personally), was politically popular, had political support for its actions both at home and abroad, and lastly, it had a solution to a pressing problem that, appeared to be a proven success.

Nationalization

Revenue and Costs

Creating a private pension pillar left the public pillar underfunded (Arza 2009; Kay 2009). A vital revenue stream to fund current benefits had been diverted. Despite efforts to cap benefits and entitlements, the social security deficit (spending minus revenues from social security contributions) were never lower than 3.1 percent of GDP between 2000 and 2005 (Arza

2008). Arza (2008) points out that the projections for the public pension system made during the reforms underestimated the future costs:

> Reform transition was more painful than initially thought. Not only were fiscal costs higher, but the macroeconomic context also changed and public accounts were less able to cope with deficits. (2699).

While the public system was losing money, the private pillars were profiting. Arza also documents the returns accrued to investments in the private pillar. From 1994 to 2007, the historical real return for the private pension funds was 9.9 percent, compared to 4.6 percent for the public system over the same period (2704). Furthermore, the private pension system funds grew from over USD 16.1 billion in December 2003 to USD 30.1 billion in December 2007, representing 12.4 and 11.5 percent of GDP, respectively (AIOS 2010).

Patronage

Arza (2008) notes that despite their higher returns, private plans, when administrative fees are taken into account, the historical real return over the 1994-2007 period is 4.0 percent, less than the public plan (2704). More damning is the severely unequal coverage that progressed over this period. The poor were abandoned by the pension system. For the highest quintile of the population, coverage was 54.2 percent in 1992 and rose to 59.3 percent in 2004; for the lowest quintile, coverage dropped from 48.1 percent in 1992 to 9.6 percent in 2004 (Arza 2008, 2701). Such a severe drop is due to the growing informal economy and outright evasion (Arza 2008; 2009; Kay 2009). The percentage of the economically active members of the population who contributed to the private funds ranged from a low of 19.7 percent to a high of 25.7 percent from 2003 to 2007. Affiliates, meanwhile, made up approximately 60 percent of the

economically active population (AIOS 2010; Kay 2009). Essentially, large numbers of the population by the private pension funds, particularly the poor. Those that were covered received lower returns, due to higher administrative costs, than had been promised during the push for privatization.

Discretionary Aims

Kay (2009, 14) highlights the tension between Argentina's obligations to provide social security, through its universal public pillar, and its "government interests as a debtor." 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 (ibid., 8). As Kay 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).

Arza (2009, 7) notes the creation of "new risks", such as investment risks, alongside the old (i.e. "political risks"). Private workers had to worry about the stock market as well as government default. And as noted above, political risks were still quite strong. Arza (ibid., 8) notes that the government had to introduce "inter-generational risk-pooling […] *ad hoc* to

manage the impact of debt default on pension adequacy." Similarly, the government continued to amend the pension rules after the initial 1993 reforms (important reforms were enacted in 1995, 1997, 2000, and from 2005 through 2008), leaving those that had invested in the private pillar without the balm of making claims to the state (Arza 2009, 8-9; Haggard and Kaufman 2008, 278-279; Kay 2009). More simply put, the government was unable to prevent itself from using pension funds – public and private – to fund other projects and protect its own economy.

Government statements, however, paint a different picture of its actions. President Kirchner argued that she was protecting Argentina's elderly from the worldwide recession (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).

Political Space

Administrative costs for the private pillar were significantly higher than the public pillar. While the administrative costs of the public pillar never reached more than 2.4 percent of revenues, the private system's administrative costs ranged from 15.6 percent of revenues to 37.8 (Arza 2008, 2703). These costs ate away at investors' returns in the private funds, leaving investors doing barely better than the public plan (as discussed above).

Discussion

The model treats cycling between pension and nationalization as the result of a transition between two particular states, where each state is a set of values the variables (revenue, costs, patronage, discretionary aims, and political space) must take on. I have not, as Backhaus did, included a specific mechanism that creates each particular state. Costs may rise, for example,

because of too high a level of patronage, because of government deadlock, because of a global recession that lowers the value of investments, or simply because of demographic concerns.

Based on the cases discussed, most variables appear salient. Costs and revenues for both nationalization and privatization were as expected; the public pillar was unprofitable (insolvent, in fact) and was privatized. In 2008, the public pillar was unprofitable but the private pillar was profitable, and so the private pillar was nationalized. In each case, pension coverage was expected to increase (either from market incentives or from fixing market failures). When the main aim for Argentine government technocrats was to solve the financial problems plaguing the economy, they partially privatized the expensive pension system, which they expected to reduce costs. Similarly, when the Argentine government wanted to protect pension funds, as well as earmark those earnings for other projects (Economist 2008b), the Argentine government seized power. And in each case economic crises and public dissatisfaction with the current system played a large role in providing the political space necessary for either process to be carried out. In each case, action was initiated and carried out by the government; the opinions of other actors mattered only so far as they affected the PiP's ability to achieve its goals. International financial institutions provided advice and expertise, but were not coercive.

The model presented is at present a collection of likely factors that influence decisions to nationalize and privatize. Further research would focus on developing the causal pathways between the variables for each process, and for identifying the qualitative size of the contribution of each factor to the decision. I have not, for example, discussed how high patronage possibilities must be for a party to decide to nationalize an industry that is unprofitable. These will likely need to be studied with statistical techniques at a later time.

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