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The Perspective of the World Review

An international publication by the Institute for Applied Economic Research (Ipea), a body belonging to the Presidency of the Federative Republic of Brazil. It was created to promote contemporary debates emphasizing the theme of development from a South to South perspective and seeks to formulate proposals for the development of public policies, as well as to encourage international comparison with a focus on the scope of political economy.

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SUMMARY

PRESENTATION

The Perspective of the World Review is an international publication organized by IPEA, an institute of the Presidency of the Federative Republic of Brazil, under the Secretariat of Strategic Affairs (SAE in its Portuguese acronym).

This journal is published in Portuguese and English and it was conceived to present and promote contemporary debates, underlining the question of development, from a South – South perspective. Its field of operation is political economy, with multiple approaches on dimensions which are essential for development, such as issues related to economic, social and sustainability matters.

Its purpose is to promote the debate so as to elaborate proposals for the formulation of public policies and, in this context, emphasize international comparisons and a multidisciplinary approach, always underlining the role of planning. The Perspective of the World Review ambitiously aims at defining the issues faced by contemporary civilization, which, at the same time wants to take advantage of comfortable living standards and decent living conditions, must respect the environmental limits to exploitation that the planet can support.

It is important to stress the homage granted to Fernand Braudel through the valuation of his formulation that deals with the "perspective of the world" which, along with the "structures of everyday life" and the "exchange games", defines its originality. Braudel has always tried to deal with the issues that involve the development dimension from a historical and long term perspective, emphasizing that the world, dominated by the production mode based on the accumulation of capital, has always had to balance society, the market and the State. As taught by the master: where the task was well succeeded there was prosperity, and where the difficulties persisted, the results did not have the same success.

This initiative, in Brazil, is not new and the grand pioneer was Celso Furtado, in *The economic growth of Brazil*. This seminal work was hailed as groundbreaking by Braudel under the methodological prism.

Editorial Board

LETTER FROM THE EDITOR

This eighth issue of *The Perspective of the World Review* puts together six papers that present different perspectives on several international scenarios, taking into account social and economic development processes. The main theme of this issue deals with structural approaches such as social security in China and in the "Global South", as well as pension funds from a Latin-American perspective, focusing on unemployment and the pension system in Argentina. Moreover, new issues more closely related to the area of international relations and political science gain space in the Review and contribute to the development of a forum for thought and dialogue on rather contemporary themes.

Among other subjects, authors *Anne Sander, Christopher Schmitte and Stein Kuhnle* deal with the social security concept in China. By presenting discussions about the government and social instability they try to pin down the development of Chinese social values.

Next, authors *Fábio Veras and Radhika Lal* deal with the question of Social Protection in the so called Global South, comparing the social protection systems, and mainly explaining what this protection means, which is differentiated in several countries, according to their different traditions and usages.

Milko Matijascic discusses the reform of public pensions in the Western Hemisphere. He shows how unemployment has been on the rise in Latin American countries and how it affects social security. He brings up as well the issue of countries with a higher GDP per capita, where the rise in unemployment was not a problem, but has become a challenge over the years.

Authors *Barbara E. Kritzer, Stephen J. Kay, and Tapen Sinhá* deal with the "reform of the reform" of the pension systems, focused on the recent reform of the Chilean system, and on the big reforms in Mexico, Peru and Colombia. They also analyze the key elements of the pension reforms related to individual accounts.

Changing the focus somehow, but still dealing with structural problems, *Rubén Lo Vuolo* focuses on Argentina and the income transfer programs aimed at persons in economic dependency. He deals particularly with the program of universal family allowance, a rather peculiar program, since it was not conceived for underprivileged people, but yet for those with an informal employment or unemployed, living in meager conditions.

At last, and still discussing the Argentinian experience, author *Camila Arza* analyzes the impacts of the Argentine pension system. The paper presents the recent measures that have been changing the direction of the real distribution of benefits in the traditional *bismarckian* system.

It is important to note that the papers presented in this issue focus the attention on current issues, generated by the international crisis, as well as subjects related to economic development, reforms, peace building and inequalities. It is within this context that *The Perspective of the World Review* aims at reflecting on the described themes, and underlines the importance of the contributions made by national and international authors.

TOWARDS A CHINESE WELFARE STATE? TAGGING THE CONCEPT OF SOCIAL SECURITY IN CHINA*

Anne Sander**
Christopher Schmitt***
Stein Kuhnle****

In the face of mounting challenges and a growing potential for social unrest and instability the Chinese government has in recent years repeatedly amended its productivism-based social policy line towards the establishment of a "harmonious society". While scholars have thoroughly addressed the question of whether or not China does and will develop along the lines of Western Welfare states, few attempts have been made to identify the Chinese conception of welfare and the values underlying the recent developments. This is however crucial in order to assess the features and impact of a possible new "Chinese Welfare Regime". This paper reviews the existing literature to tag the development of social security related values in China since 1949. The main research questions subsequently are: what is the Chinese conception of welfare and how is it reflected in social policy? We argue, that while the Chinese perception of welfare has changed since the "iron rice bowl" system, embracing new groups and trying to meet new needs, its main rationale and underlying norms persist.

Keywords: Chinese social policy; welfare state; East Asian welfare model; harmonious society; confucianism; reforms.

EM DIREÇÃO A UM ESTADO DE BEM-ESTAR SOCIAL CHINÊS? QUALIFICANDO O CONCEITO DE SEGURIDADE SOCIAL NA CHINA

Em vista dos desafios acumulados e do potencial crescente de intranquilidade e instabilidade social, o governo chinês aditou repetidamente, nos anos recentes, a sua linha de política social baseada no produtivismo para o estabelecimento de uma sociedade harmoniosa. Embora os estudiosos tenham discutido amplamente se a China se desenvolverá ou não seguindo a linha dos Estados de bem-estar social dos países ocidentais, poucas foram as tentativas para identificar a concepção chinesa de bem-estar social e os valores subjacentes aos últimos desenvolvimentos. Contudo, isto é crucial para avaliar as características e o impacto de um possível novo regime de bem-estar social chinês. Este trabalho revê a literatura existente para rotular os valores relacionados ao desenvolvimento da seguridade social na China desde 1949. As questões principais da pesquisa, subsequentemente, são: qual é a concepção chinesa de bem-estar social e como esta se reflete na política social?

* The paper is based on a plan for a research project on social policy development in China in collaboration with the Institute of Social Security and Social Policy, School of Government, at Sun Yat-Sen University in Guangzhou. Findings and interpretations are preliminary. This article is based on a paper presented at the ISSA International Policy and Research Conference on Social Security 29.09.2010 - 01.10.2010, Luxembourg.

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Argumenta-se que, embora a percepção chinesa de bem-estar social tenha mudado desde o sistema de "empregos vitalícios" (*iron rice bowl*), englobando novos grupos e tentando satisfazer novas necessidades, persistem a sua lógica principal e as normas subjacentes.

Palavras-chave: política social chinesa; Estado de bem-estar social; modelo de bem-estar do Leste Asiático; sociedade harmoniosa; confucionismo; reformas.

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1 INTRODUCTION

Over the past three decades China has emerged as one of the leading economic powers and crucial global political players, surpassing Germany as the world export champion and displacing Japan as the number two economic power. Its crucial role and contribution to the world economy – which is even likely to increase within the coming three to five years – was highlighted by the ongoing global financial and economic crisis, despite which China was able to maintain a substantial gross domestic product (GDP) growth. Yet, the crisis has also exposed some of China`s most prevalent problems and challenges such as the widening gap between rich and poor regions and a lack of adequate (even basic) social protection for a large proportion of its 1.3 billion population.

Chinese social policy has undergone immense changes during the transition from a highly centralized communist "iron-rice-bowl" regime into a socialist market economy whose distinct features are much more complex. During transition, competitiveness and flexibility have become the crucial parameters of Chinese policy, immanent not only in economic opening up and enterprise reforms but also in the transformation of State welfare. While welfare in urban areas was originally guaranteed by the State Owned Enterprises (SOEs) which provided their *danwei* (working units) with a cradle-to-grave social security system, the rural population was provided with a minimum of security through the public ownership of land. The urban and rural entitlements respectively were secured by the household registration (*Hukou)* system which – enacted under Mao in the late 1950s – served as a means of control through strict rural-urban segregation. The gradual separation of welfare from SOEs and the exclusion of large proportions of the population (rural migrants, informal workers, unemployed, laid-off workers) from basic social security provisions now amount to significant social and political problems. Since the 1980s, and much more actively since the early 2000s, the Chinese government has thus sought to address this challenge through a wide range of reforms in all fields of social policy. More recently the central government has under president Hu Jintao increasingly moved away from the rationale of mere economic output orientation and has under the concept of a "harmonious society" emphasized the need for more redistribution and equality as well as for a sustainable social agenda; aiming at the equalization of basic social services by 2020. This goal has been re-emphasized by the 12th five year plan for the period 2011-2015.

While the economic transition took an incredibly quick pace and has been monitored closely by scholars worldwide (and from a variety of disciplines), systematic knowledge of Chinese welfare and social security scheme(s) is scarce, particularly concerning its development over time. Research on East Asian welfare and social policy in general is of rather recent date and did not start until the 1970s. Most importantly – and despite the rapidly increasing scholarly interest particularly in developments in China – it has proven difficult to conceptualize and analyse developments in East Asia along the lines of (Western) frameworks and theories. While scholars agree that China does not fit into any of the classical welfare State typologies, developments in China have still constantly been monitored along the lines of developments in European welfare States. Few attempts have been made so far to identify the Chinese conception of welfare and the values and ideas underlying this concept. This is, however, crucial in order to assess the features and impact of a possible new "Chinese welfare regime".

In this paper we seek to identify core features and ideas of welfare in China, asking what the Chinese concept of welfare is and (how/if) it has changed since Maoism. Did the open door policy pave the way for true policy change or is what we have witnessed over the past decades merely an attempt to adjust pre-reform ideology to new challenges and a changing context? We will outline how the respective ideas are reflected in social policy and try to map changes over time, trying to delineate them from Western theories and typologies of the welfare state. We will argue that, while the Chinese perception of welfare has changed significantly since the "iron rice bowl" system, embracing new groups and trying to meet new needs, its main rationale as a means to legitimize the Chinese Communist Party (CCP) rule persists.

We will first give an overview of social policy developments since the foundation of the People`s Republic in 1949 and until the post-2003 approach to establish a "harmonious society" by 2020. We shall highlight the most significant reforms in a broad range of policy fields as well as summarize structural and ideological changes. Based on this, in the second part we will discuss which ideas shaped these social policy developments and try to identify continuities and changes, drawing on the existing literature. The analysis will focus on the question of whether (and if so how) Chinese ideas of welfare are in line with Western ideas; thus contributing to the ongoing scholarly debate on what kind of welfare regime is emerging in China.

2 FROM MAO TO HARMONIOUS SOCIETY – OVERVIEW OF SOCIAL POLICY DEVELOPMENT IN CHINA (1949-2010)

Over the past three decades, China has undergone immense changes, developing from a highly centralized communist "iron-rice-bowl" regime into a socialist market economy whose distinct features are much more complex. During transition, competitiveness and flexibility have become the crucial parameters of Chinese policy, immanent not only in economic opening up and enterprise reforms but also in the transformation of State welfare. While welfare in urban areas was originally guaranteed by the SOEs which provided their *danwei* (working units) with cradle-to-grave social security, the rural population was provided with a minimum of security through the public ownership of land. The urban and rural entitlements respectively were secured by the household registration (*Hukou)* system which acted as a means of control through strict rural-urban segregation (Zhu, 2003; Chan and Zhang, 1999). In the course of economic transition, the importance of the *Hukou* was gradually decreased in order to meet the increasing demand for cheap labour in the emerging economic centres along the East Coast. Yet, economic transition has posed huge challenges for China, with millions of people left unemployed or laid-off by the decay of SOEs. In rural areas, the land reform led to massive rural to urban labour migration, without including migrants into urban social security schemes and thus making them a huge, vulnerable group. Even though precise figures are difficult to come by, both the Chinese Academy of Social Sciences (CASS) as well as the International Labour Organisation (ILO) estimate the "floating population" at 150 million (Tunón, 2006).

Any stylized analysis as short as the one to be presented here, has to employ a high level of simplification and will not do justice to the actual complexity of the historical developments. Bearing in mind these inherent limitations, it is useful to roughly distinguish three broad historical phases of social policy development since the foundation of the People's Republic of China (PRC). The first phase, which can be dubbed the Maoist period, lasted from the founding of the PRC until the beginning of economic opening up and reforms initiated by Deng-Xiaoping in 1979. It was characterized by work-unit based provision of comprehensive social services (organized around SOEs in urban areas and around agricultural communes in rural areas) in the setting of a communist planned economy that relied on universal lifetime employment. The second period lasted from the initial steps of economic reform in 1979 approximately up until the late 1990s or the early 2000s and witnessed a far-reaching erosion of the previous welfare arrangements and a strong focus on market-oriented flexibility, competitiveness, and cost-containment that largely ignored considerations of social security and equity. The third phase, which started in the late 1990s, and more explicitly after President Hu Jintao's assumption of office in 2003, has been characterized by a considerable shift of attention from purely GDP-growth oriented policies towards a more balanced, sustainable and socially equitable approach to development subsumed under the motto of a "harmonious society".

Table 1 gives a simplified overview of developments in major social policy fields throughout these phases.

TABLE 1
Overview of social policy developments in China: pre-reform – present (simplified)

Policy Field	Phase 1) Pre-Reform (-1979)		Phase 2) Economic opening-up – late 1980s		Late 1980s – 2002		Phase 3) 2003 – present	
	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural
Labour	"Cradle-to-grave provision" through enterprises; full-employment policy /"iron rice bowl"	Full-employment policy based on public ownership of land	"three in-one" policy; SOE reform; open recruitment; contract-based employment; dismantling of "*danwei*"; unemployment insurance 1986	Land reform and rural surplus labour	Labour Law (1994) and acknowledgement of unemployment/ active employment policy; re-employment policy (adjustments in 1993 and 1999)	Massive rural to urban labour migration	Labour Contract Law (2008); Admission of migrant workers into Trade Union /2004); local responsibility for unemployment	Partly integration of labour migrants in urban schemes
	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural
Pensions	Non-contributory "labour insurance" in state enterprises	Provision based on public ownership of land; individual accounts in some communes	-	Responsibility for protection with families	1991: three-pillar system (compulsory for SOEs); 1997 uniform scheme for all enterprises	1991: rural pensions scheme; funded by individuals; low coverage	2005: pension scheme for urban workers	Several adjustments to 1991 scheme
	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural
Health	Free medical care for state workers (three-tier-system)	cooperative medical care system	Dismantling of scheme due to localization and privatization	Dismantling of scheme due to localization and privatization	Introduction of Basic Medical Insurance (BMI), contributory system (1998)	-	BMI, but coverage still limited in many cities; subsidized pilot schemes for different groups	New Rural Cooperative Medical Scheme 2003; immunisation costs covered by government (as of 2005)
	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural
Social Assistance	Cash benefits for the "three No`s";[1] narrow coverage	Wu Bao Hu system[2] (Five Guarantee Households) for elderly, disabled and orphans	Cash benefits for the "three No`s"; narrow coverage	Wu Bao Hu	Minimum Standard of Living Scheme (MSLS) ; local responsibility; central government as "last resort"	Wu Bao Hu system	MSLS	MSLS introduction announced in 2006 + Five Guarantees
	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural
Education	Financed through government and state enterprises	Financed by rural collectives, subsidized by government	Focus on competitiveness; reform in 1985; fee-charging principle introduced; decentralization and localization	Nation-wide nine-year compulsory education (locally-funded); rural-urban disparities	Continuing reform "two-basics" plan launched to combat illiteracy	Persisting disparities; high drop-out rates in rural areas	Increase in illiteracy; educational inequality addressed under "harmonious society" guideline /2003	Gender inequality and persisting disparities compared to urban areas

Elaborated by the authors.

Notes:[1]Refers to those with: no working ability, no family, no income.

[2]Equivalent to three no`s scheme", guarantees for provision with food, clothing, housing, medical care and funeral expense/education for young orphans.

As can be seen from the above, the process of transition and economic opening up was characterized by a gradual separation of welfare from SOEs. This resulted in the exclusion of large proportions of the population (rural migrants, informal workers, unemployed, laid-off workers) from basic social security provisions, which has inflicted a significant problem on the Chinese government. Since the 1980s and much more actively since the early 2000s the central government has thus sought to address this challenge through a wide range of reforms in all fields of social policy.

Reforms have gradually led to a system of social insurance with additional welfare provision. A stance towards greater inclusion has in recent years gradually been taken by the government. Still, the strong urban bias, the localization of provisions, regional disparities and rural-urban inequalities persist. While urban industrial workers were the main target group for social insurance related policy, the rural population and the growing share of informal workers still lack access to even basic social security provisions. The government has recognized and addressed these issues, moving away from its rationale of mere economic output orientation. This move from an economic focus to social issues has been emphasized in a government dedication to sustainable development aiming at the equalization of basic social services until 2020.

The social policy field that reflects these challenges and changes most vividly is the labour market, where various new policies have been launched in recent years to tackle some of the most prevalent challenges. Yet, unemployment and growing informalization have led to the development of a two-tier labour market and pose major threats to social stability. However, the gap between economic growth and social security provision also shapes other social policy fields such as health, education and pensions. The main future challenge for China thus, is to attain a balance between a flexible market economy and adequate social security provision. This is closely linked to the question of whether this will eventually lead to the emergence of a new welfare regime.

The following gives a condensed overview of the major policy-shifts and developments in the field of social policy since the establishment of the PRC. We will focus on the crucial policy-areas of health care, old-age pensions, and unemployment/social assistance. For each of these social policy fields, we will discuss developments in both urban and rural areas, since there are typically profound differences in general policies and specific schemes between these two spheres, which means that the urban-rural disparities in and for themselves constitute one of the major social policy challenges the Chinese authorities have to address.

2.1 The Maoist Period

Generally speaking, the Maoist period was characterized by a twofold welfare system organized around individual work-units (*danwei*) in SOEs in urban and agricultural communes in rural areas. While the *danwei* provided their respective members with rather comprehensive cradle-to-grave-services in a context of lifetime-employment in the Communist economic system, the rural population was provided for on the basis of the collective ownership of land. A restrictive household registration system (*Hukou)* denied rural dwellers access to urban areas.

In terms of health-care, the pre-reform stage was characterized by a highly unified system of government-run health care provision that covered nearly the entire population, both in urban and rural areas. As mentioned, work-units acted as a sort of mini-welfare State and played a key role in providing health services. In urban areas, the organization of health-care provision followed a three-tier structure, with street clinics providing outpatient services, district hospitals that provided more sophisticated treatment, and city hospitals at the top to which the most complicated cases would be transferred. The health care professionals were state-employees and services were provided largely for free or at heavily subsidized, centrally imposed rates, which meant that nearly all urban residents enjoyed comprehensive health-services (Ngok, Chan and Phillips, 2008, p. 115-117; Saich, 2009, p. 268-274, Gu and Zhang, 2006, p. 49-51). The three-tier organizational structure also existed in rural areas, where the members of the communes, i.e. the collectivist agricultural work-units, were covered by the so called rural Cooperative Medical Scheme (CMS). The central providers of health services were the so-called barefoot-doctors in commune-based village clinics. More complicated cases would be treated in township health centers and county hospitals respectively. The CMS was financed through village collective funds from collective agriculture, individual households' contributions that amounted to a maximum of 2% of a farmer's annual income, and complementary central government subsidies (Carrin *et al.*, 1999, p. 62; Ngok, Chan and Phillips, 2008, p. 115-117; Liu and Yi, 2004, p. 5-8). In 1976, around 90% of the villages in rural China participated in this type of welfare scheme that provided nearly universal coverage to the rural population (Carrin *et al.*, 1999, p. 962). It is widely acknowledged, for example by official WHO reports, that, given the general backwardness of rural China in terms of economic development, the system provided a remarkably high quality of medical services that was clearly superior to the levels found in comparable developing countries (Ngok, Chan and Phillips, 2008, p. 117; Saich, 2004, p. 273).

The responsibility for the provision of old-age pensions in urban areas lay exclusively with the SOEs (Frazier, 2004, p. 101). Enterprises had to pay the pensions of their retired employees out of their current revenues in a system that had neither a funded nor a pay-as-you-go element of employee-contributions

(Salditt, *et al.*, 2007, p. 15-17). The system combined generous eligibility criteria with high benefit levels offering replacement rates as high as 80% and therefore imposed considerable costs on enterprises (Whiteford, 2003, p. 47-49). In rural areas, there was virtually no formal, state-run rural pension scheme and rural residents had to rely completely on extended family support for the provision of old age security (Shi, 2006, p. 791-793). Only very few, minimal welfare programs and facilities for the elderly existed in individual villages and these welfare measures depended entirely on the discretion of individual communes rather than on a unified, rights-based policy framework (Treas, 1979, p. 36). The only standardized element of institutional assistance available for the elderly were the so-called Five Guarantees established in 1956 that provided a minimum level of material benefits in the form of food, clothes, shelter, medical assistance, and funeral expenses and was strictly restricted to elderly without children, income, and working ability (Ngok, Chan and Phillips, 2008, p. 62-71).

During the Maoist era of universal lifetime SOE-employment, virtually all urban residents were provided with wage labor in the state-run economy. Wage levels and standards of living in the highly inefficient economy, characterized by substantially overstaffed and technically backwards industrial facilities, were often very low, but unemployment was not officially acknowledged as a major social problem. For the few individuals without working ability, the government provided minimal levels of material relief via cash payments targeted at the so-called "three no's", i.e. households without dependants, without any sources of income, and without working ability (Ngok, Chan and Phillips, 2008, p. 61-68; Saich, 2009, p. 23).

In rural areas, where universal employment and the distribution of all daily necessities were provided by the collectivist agricultural work-units, the central government obliged the communes from 1956 onwards to use collective funds to assist the most marginalized and impoverished rural residents. This minimal level of material relief mainly applied to orphans and old people that lacked family support, income and working ability and was designed to provide them with food, clothes, shelter, medical assistance, and funeral expenses within the "Five Guarantees"-framework.

2.2 The Era of reforms and economic transition

The economic reforms initiated by Deng Xiaoping who became the de facto leader of the CCP in 1979 gradually transformed China's centrally planned economy into a more liberal, commodity-based market economy, albeit high levels of State ownership of key industries have persisted until today. The process of economic liberalization gained pace with the emergence of the first free economic zones along the East coast whose cities became the booming centres of production and economic progress. At the same time, the collectivist People`s Communes in rural areas were gradually superseded in the early 1980s by the household responsibility system that allocated farmland and the entitlement to profits resulting from its cultivation to individual families to generate incentives for increased productivity (Yifu Lin, 1992, p. 34-40). Against the background of the large agricultural productivity and output increases triggered by the introduction of the household responsibility system, the central government strived for adopting similar reforms in urban industries. Starting in the early 1980s, it therefore adopted several steps of urban enterprise reform that endowed urban industries with substantially increased autonomy in management decisions and eventually acknowledged the economic potential of privately owned enterprises, by legalizing private ownership of businesses (Wei, 1997, p. 1080-1084; Ngok, Chan and Phillips, 2008, p. 27-32).

The gradual steps of economic reform and liberalization sketched above had a profound impact on the existing structures of welfare and social security provision. A welfare system organized around individual work-units, i.e. SOEs and agricultural communes that were expected to provide cradle-to-grave-services for its employees or members proved to be not compatible with a competition-based, market-oriented economy. Generally speaking, the government adopted an approach that was characterized by a clear priority on economic growth and a strengthening of flexibility and competitiveness. In many respects, this implied state withdrawal from welfare provision and a focus on cost containment at the expense of those that did not benefit from the unleashed dynamics of free markets.

Accordingly, the central government decided to delegate the responsibility for urban health care provision to the level of local authorities and adopted a management reform that transformed hospitals into profit-oriented entities endowed with substantial autonomy. As a result of this health strategy shift, government health-spending declined dramatically. Overall health care spending as a proportion of overall government expenditure dropped from 3,1% in 1985 to 2,3% in 1995 and the government's share in total national health expenditure fell from 28% in 1978 to 14% in 1993 (Ngok, Chan and Phillips, 2008, p. 119). The overall trend was characterized by state-withdrawal and increased out-of-pocket payments by workers for health services to fee-charging, increasingly privately-run facilities. At the same time there was a profound shift towards health care provision by hospitals while the former basis of the system, the primary care street clinics, eroded substantially and in some regions even ceased to exist. (Saich, 2004, p. 284-287).

China's rural areas witnessed a similar process of deterioration of health care due to the collapse of the Cooperative Medical Schemes. The village collective funds virtually disappeared, suddenly leaving 900 million rural residents without health insurance coverage (Ngok, Chan and Phillips, 2008, p. 126). Health care was increasingly provided by private, profit-oriented facilities and large parts of the population could not afford even basic medical treatment (Saich, 2004, p. 291-297).

In the years after the economic reforms, due to increasing financial pressures, evasion and non-compliance with pension obligations in SOEs became a serious problem (Saich, 2004, p. 278). The government reacted to the pressures by introducing employee contributions to pension schemes in 1986 to be pooled in new social insurance agencies that were founded at the city or county level, thereby replacing the tradition of enterprise-based pension provision. To further reduce financial pressures on SOEs and to smoothen the process of economic transition, the central government in 1991 issued a state council document that paved the way for a three-tier pension system based on a contribution-funded basic old age insurance, complementary enterprise benefits, and individual savings. Furthermore, pooling should be lifted from the local to the provincial level (Salditt *et al.*, 2007, p. 16-19). However, the new system only applied to the privileged group of SOE workers and excluded large parts of the population that were occupied in the private sector (Ngok, Chan and Phillips, 2008, p. 62-64). Thus, the government's measures can be seen as an attempt to reduce the financial burden of SOEs and to ensure their smooth transformation and competitiveness in the market, while many employees in the private sector were not covered by any old-age pension system.

In rural areas, given the absence of pension-schemes, the solidarity of the extended family had traditionally been the most important source of support for the elderly. However, the rapid ageing of the population triggered through an increase in life expectancy and the one child policy adopted in 1979 coupled with the exodus of young, productive migrant workers moving to the prosperous, industrialized cities have profoundly undermined the viability of traditional structures of extended family support for the elderly (Shi, 2008, p. 4-11). Only in the late 1980s did the central government begin to display some interest in the issue by overseeing some local experimental schemes. Some rather ambitious projects initiated by the Ministry of Civil Affairs (MCA) that intended to establish a unified, nationwide rural pension system were gradually reduced and undermined by the State Council (SC), which in 1999 decided to completely abandon and effectively terminate the pilot projects successfully established in several provinces (Shi, 2006, p. 796-800). As a consequence, participation in the now privatized schemes dropped even further, from 82 million insurants in 1998 to 54 million in 2004 (Shi, 2006, p. 799-801).

The economic reforms also implied profound changes for the nature of work in urban China, since the traditional notion of lifetime employment was superseded by a more flexible labour market policy (Ngok, Chan and Phillips, 2008, p. 30-32). In the new economic environment characterized by enterprise competition, flexible employment contracts, and mass layoffs resulting from enterprise bankruptcies, unemployment became a major social problem. Reliable estimates are difficult to obtain, but experts agree that unemployment figures soared in the 1980s

(Ngok, Chan and Phillips, 2008, p. 97-99). To preserve social stability and to facilitate the transformation of overstaffed SOEs to modern corporations by allowing them to get rid of redundant workers, the government set up an unemployment insurance system for SOE-employees in 1986. It was funded by enterprise contributions and would provide benefits for a maximum of two years. More importantly, the government established a system of Re-employment Service Centers (RSCs) in 1995 that would provide re-employment services and material benefits to "laid-off" workers from SOEs. In Chinese terminology, these "laid-off" workers were not seen as unemployed but retained formal links with their respective SOEs. The RSCs could therefore be seen as a buffer that helped maintaining social stability among SOE-workers, since redundant workers were taken care of in RSCs for a period of up to three years before they became eligible for unemployment benefits (Ngok, Chan and Phillips, 2008 p. 97-104). However, these policies were heavily biased towards meeting the welfare needs of redundant SOE-workers, whereas other groups were not covered by the unemployment insurance. Most importantly, the massive group of surplus rural workers, which was estimated to comprise between 100 million and 200 million people in the 1990s, was not covered by the schemes sketched above and these peasants often faced severe poverty (Tunón, 2006).

2.3 Towards a "harmonious society"?

The far reaching economic reforms sketched above and the concomitant focus on reducing welfare costs for the government and enterprises has triggered rapidly increasing inequalities in the Chinese society. The most severe source of income inequality in today's China certainly lies in the striking urban-rural disparities. At the end of 2008, per capita disposable income for urban households was 15,781 Yuan while per capita net income for rural households was only 4,761 Yuan (Saich, 2009, p. 14). Starting in the late 1990s, the Chinese government increasingly came to realize the destabilizing potentials of the severe income disparities and the highly unequal distribution of the aggregate welfare gains from growth. "The seeds of widespread social unrest are sown as most of the farming population cannot share in the benefits from the country's growing economy" (Cheng, 2007, p. 49).

Against the background of threatening social instability and unrest fuelled by social inequalities, the government gradually shifted from its initial purely growth based development strategy towards a more sustainable and equitable approach to growth that would pay more attention to the welfare needs of those social groups that had so far been marginalized and neglected in the process of rapid economic liberalization.

This strategy shift which started in the 1990s was increasingly formalized and made explicit in the years after 2003, when president Hu Jintao introduced the ideological concepts of a "harmonious society" and "scientific development" embodying the new strategy into the government's rhetoric and managed to incorporate the new ideas into key policy documents and medium-term strategy plans, such as the government's eleventh five year plan (Cheng, 2007, p. 47-56; Saich, 2009, p. 4-10). The gradual reorientation towards more equitable and balanced growth triggered several social policy changes.

In 1998, the central government issued a document which established a unified urban health care scheme compulsory for all urban employees, regardless of the type of enterprise. It has a component of social pooling and an individual account and requires both employers and employees to pay payroll-based contributions. There are pre-defined caps on per capita health expenditure and workers have to make individual payments to contribute to costs of treatment. To address the problem of health care services for those urban residents not covered by the employment based scheme, the central government has introduced a pilot program in 2007, establishing a voluntary Basic Urban Resident Medical Insurance Scheme targeted at including those without work and flexible work patterns, the large group of uninsured migrant workers, and impoverished children.

In rural health care, the State Council in 2002 explicitly acknowledged the shortcomings of a purely market-based approach and embraced the notion of government responsibility for providing health services in rural areas (Saich, 2009, p. 22) and subsequently adopted a framework for a renewed Rural Cooperative Medical Scheme. The voluntary insurance scheme is financed through contributions paid by individual farmers and by the central and local government which are collected in Rural Cooperative Medical Funds (Ngok, Chan and Phillips, 2008, p. 127-129). In spite of remaining severe difficulties, the scheme has expanded massively and by 2007 covered 20 out of 31 Chinese provinces (Saich, 2009, p. 21-23). In 2006, the central government further increased its health efforts for the countryside when it decided to substantially increase expenditure for the construction of health facilities and the purchase of medical equipment within a broader framework of measures to promote the welfare of peasants and rural residents (Cheng, 2007, p. 52-53; Saich, 2009, p. 14-16; 22-23). In spite of the existing shortcomings, the establishment of a unified and government-run scheme and the government's new interest in rural health care mark a major step towards better social protection in rural China.

The development of the urban pension system in the late 1990s and early 2000s was characterized by a gradual transformation from a purely SOE-focused system into an increasingly universal scheme. Coverage was extended from SOE workers, the pension system's traditional constituency, to all urban workers, irrespective of the company's ownership structure, by the SC's decisions of 1995 and 1997 (Salditt *et al.*, 2007, p. 17; Zhao, Xu, 2002, p. 397-400). Shortly after that, the increasingly unified and standardized pension schemes were made accessible to the self-employed and also to workers with flexible working patterns (Ngok, Chan and Phillips, 2008, p. 62-64, Salditt *et al.*, 2007, p. 35). A further very important step in expanding coverage has been the incorporation of migrant workers that account for 40% of the urban workforce and form the backbone of China's rapid growth, especially in the manufacturing and construction sector (Shi, 2008, p. 4-5). Although ongoing administrative difficulties in ensuring the transferability of accumulated contributions and entitlements across provinces in fact represent a huge obstacle for migrant workers to actually participate in the urban pension systems (Salditt *et al.*, 2007, p. 38-40), observers agree that "MOLSS has made it a national priority to extend social insurance to rural migrants in urban jobs" (Salditt *et al.*, 2007, p. 22). Although compliance is still low and the government has difficulties in implementing the system, the urban scheme now applies to around 48% of (formal) urban employees and coverage keeps rising (Salditt *et al.*, 2007, p. 26; Whiteford, 2003, p. 55).

However, in contrast to the progress made in the urban sphere, there still is no unified pension system for rural areas which are therefore characterized by voluntary, poorly funded, largely privatized and locally fragmented schemes with a very low coverage of the population (Saich, 2009, p. 21). Given the lack of any stable, coherent public option, only 54 million rural residents are currently insured in a pension scheme, which corresponds to only 11% of the rural workforce. According to official estimates, only 7% of rural people aged 60 or older receive any pension benefits (Salditt *et al.*, 2007, p. 22-23).

In terms of social assistance schemes, experimentation and policy innovation first started on the local level. The Minimum Standard of Living Scheme (MSLS), pioneered by Shanghai in 1993 (Leung, 2002, p. 25-26), provided basic living support to urban households that fell below a predefined poverty threshold. In 1999, the central government extended the scheme to the entire country and also started to contribute substantially to the financing of the program. The scheme marked a major move towards means-tested welfare provision, since it targeted not only the traditional three no's but all urban households that fell below the locally determined poverty thresholds. Thus, the practice of conditionality on working inability was abandoned and the level of household income became the sole criterion for eligibility, which meant that the MSLS became an effective tool for tackling poverty resulting from long term unemployment and insufficient pensions (Ngok, Chan and Phillips, 2008, p. 67-68; Saich, 2009, p. 23-25). When the central government promoted the nationwide adoption of the program and accepted financial responsibility, the scope of the scheme expanded rapidly. The number of recipients rose from 2.81 million to 22 million between 1999 and 2004 and the central government's spending on the scheme increased accordingly, from 4 million to 105 million yuan (Ngok, Chan and Phillips, 2008, p. 68).

In 2006, the government announced its intention to establish the MSLS in the countryside for rural residents and also decided to support the local authorities charged with running the scheme by contributing to its funding. In 2007, 15 million rural residents received benefits within the MSLS-framework. Full coverage of the rural population however, turns out to be extremely difficult to achieve for a variety of administrative, economic and financial reasons and rural benefit-levels remain extremely low (Ngok, Chan and Phillips, 2008, p. 70; Saich, 2009, p. 25-27). Nevertheless, constructing a unified, nationwide system of basic social assistance by strengthening the MSLS remains one of the government's key social policy goals (Saich, 2009, p. 26).

3 WESTERN *VERSUS* CHINESE IDEAS OF WELFARE?

3.1 The current debate and State of the art

As we can see from the above overview the Chinese government has – following its 1979 open-door policy - made competitiveness and flexibility in the labour market its core rationale to achieve economic growth and increase welfare. In this early economic reform period it thus focussed its social policy agenda on those segments of the population who, supposedly, were most needed to achieve these goals, i.e. urban industrial workers.

From 2003 onwards the social policy agenda has shifted towards the inclusion of larger proportions of the population and the most vulnerable groups, i.e. rural residents, unemployed, migrant workers. With the newly launched concept of a "harmonious society" (Chi, 2007; Lou and Wang, 2008), the Chinese government under president Hu has made the attainment of a balance between adequate social security and labour market flexibility its rationale. This has been closely followed also by researchers around the globe and has initiated an ongoing debate among scholars about the future of social security in China; focussing on the question whether and what kind of welfare regime is emerging.

Traditionally, academic research on welfare States and their emergence and development has been strongly informed by three major approaches: socioeconomic functionalism, conflict theory and institutionalist approaches (Amenta, 2003). Starting from there a variety of scholars has tried to typologize different welfare States. The most influential and widely acknowledged – even though criticized and self-criticized – typology having been provided by Esping-Andersen (1990; 1999).

None of these classical theories can however easily be applied to social policy development in China due to, for instance, the lack of democratic institutions and an organized labour movement (Lin, 1999).

Scholars have thus often evaded the problem by subsuming East Asian welfare systems under the label of a “Confucian welfare State” (Jones, 1990; 1993). While research on social security and welfare in East Asia is still rather new and scarce, with a considerable increase in research interest in the context of the region`s economic miracle (Peng and Wong, 2010), scholars have mainly focussed on the East Asian exceptionalism (Midgley, 1986; White and Goodman, 1998; Walker and Wong, 2005). This usually resulted in eroding national distinctions and – in the case of China – in often excluding it from analyses altogether.

In general specific “East Asian values” such as Confucianism and the central role of family and kinship ties are held responsible for constraining a development more in line with Western welfare patterns (Jones, 1993; Goodman *et al.*, 1998). The strong Western bias in social policy research which resulted in a neglect of Asian Pacific perspectives and an exclusion of East Asia from the Western concept of a welfare State has been criticised by a number of scholars (Jones, 1993; Jones and Finer, 2001; 2003; Walker and Wong, 1996). Claims are made to reformulate Western welfare regime theory to include East Asian regimes (Walker and Wong, 2005). Yet, even these claims for a “Confucian model” remain vague, given a substantial lack of analysis concerning its underlying cultural context and social norms. This holds to a large extend also true for the Western logic of welfare State emergence and maturation (Titmuss, 1973; Taylor-Gooby, 1980; Chow, 1996).

Scholars widely agree that the process of economic modernization that followed Deng Xiaoping`s reforms is an attempt by China`s leadership to attain output legitimacy based on economic growth and an increase of overall wealth and prosperity (Ngok, Chan and Phillips, 2008). The focus on flexibility and economic competition as the main rationale behind Chinese social policy is also outlined (Hebel and Schucher, 2008; Mok, 2009). Schucher (2009) subsequently considers the recent boost in social security spending as a means to cope with the challenge of vulnerable groups (unemployed, migrant workers and the rural population), while Solinger (2005) analyses welfare development along the lines of path dependency and a “changed State mission from class conflict to economic modernization” (2005, p. 85).

But what is so specific about welfare in China? While welfare State theory widely argues that social policy and its underlying institutions are characterized by a certain “institutional stickiness” and path dependency (Pierson, 2001), the question of to what extent policy-making in China is bound to and shaped by past decisions and established paths remains unanswered. Pierson argues that centralized institutions are an important precondition to maintain stability, but does this hold true for China and its need to cope with new social challenges? Did the economic opening-up pave the way for true policy change or is what we have witnessed over the past decades merely an attempt to adjust pre-reform ideology to new challenges and a changing context?

This brings us back to the necessity of taking a closer look at Chinese welfare-related values and their impact on social policy.

3.2 Social policy related values in China: back to the roots or towards a new welfare regime?

Maybe rather surprisingly, several welfare provisions were introduced earlier in China compared to Western Europe (Wong, 2008) and do not positively correlate with the level of democracy. Early and rather comprehensive provisions of poor relief regarding water control, food supply, famine relief and education were introduced as early as the 18th century in China - at a time when state makers in Europe were still busy with nation building. Based on Confucian political ideology, the emperor was considered as the provider of social order, as a benevolent father. Hort and Kuhnle (2000) have tested the historical European trajectory on Southeast, East Asian social policy developments, i.e. to what extent there has been a similar pattern of correlation between indicators of modernization and economic growth and the introduction and expansion of social security provisions. They found that the first Southeast, East Asian social insurance legislation generally came earlier in "developmental time" than in Europe, which was a pioneer in chronological time.

Research on welfare state emergence and development in the West has typically followed the logic of industrialization and democratization. Based on the Christian (universal) belief of love and kindness as a precondition to earn ones place in heaven, poor relief was first granted by the churches and charities. The notion of civil rights being followed by political rights which finally lead to social rights, dominates the Western approaches (Marshall, 1963). In China, Confucianism stresses a moral obligation to help but not in a universal sense but rather linked to the family. Support should be offered in relation to closeness, with strong clan or community networks serving as the basic units to ensure society´s stability. Social norms and rules were set according to kinship. These reflected the traditional Confucian virtues of strong family bonds, benevolent paternalism, social harmony, discipline and strong work ethics. The belief that inequality between people is normal and that those who work hard to uphold a harmonious society should be rewarded accordingly led to the exclusion of poor people and in turn often to an aversion to seek State support. The government is considered a moral and benevolent authority which grants social security not as an obligation or based on specific rights (White and Goodman, 1998).

This different understanding of welfare becomes obvious also in considering the different meanings of the word "welfare" itself. While "welfare" in Europe goes back to the old Norse "*Velferd*" (fare well) and German "*Wohlfahrt*" (well-being), the Chinese "*oruzhi*" translates into happiness sent from heaven or a benevolent superior (Lin, 1999).

In sum, while the Western idea of social welfare is based on religious (Christian) ideals that eventually gave way to civil rights and social justice as major concepts; collective welfare in China was introduced earlier mostly in the form of material relief that came as an act of favour through the emperor (holding a mandate from heaven) and was not rights-based (Chow, 1987) but served as a crucial means to unite, pacify and control a vast and multifaceted territory.

3.3 Confucius meets Marx: egalitarian social policy under Mao

After years of political instability, invasion and civil war in which social order could not be secured through a central authority, the victorious Communist party government led by Mao was again confronted with the need to rule a unified but multifaceted territory. Modelled on its Soviet neighbour, the Communist government introduced a planned economy based on an egalitarian ideology with (quasi-) universal work-related social security provisions (Deacon, 1983; 1993). While this emphasis on equality and solidarity clearly shattered the Confucian order and is even interpreted as a break with Confucian ideas by some, at least part of the features introduced under the centralised CCP rule resembled those of the mid 18th century. Confucian norms persisted and shaped social policy but

> "had been redefined according to a new pyramid of social stratification (…). The groups in the lowest positions had no right to claim welfare assistance (…). At the same time, many privileges had been granted to the senior cadres, for instance through a system of preferential treatment to entitle pension benefits and health care" (Lin, 1999, p. 174-75).

This is for instance obvious in the continued reliance on family networks and support, particularly in rural areas. Even though formally replaced by the communes, families still played the key role in providing basic social security. Moreover, the Confucian idea that social stability depends on a specific hierarchy persisted – with poor peasants, workers taking over the place of landlords in terms of socio-economic status and thus turning the pyramid of social stratification upside down (Unger, 2002).

Officially based on the ideal of equality and solidarity, Maoist social policy was designed to reflect the superiority of socialism, which also afflicted the highly centralized and authoritarian institutions. This becomes particularly obvious regarding the idea of welfare under Mao. Comprehensive cradle to grave social security provision – considered by some as generous even by Western standards (Mok, n.d.) – was granted to all (urban) workers. These served as the backbone of the socialist State and welfare was thus considered an award for the working class. The image of an "iron rice bowl" or, "one pot" which provides for all, became the key notion of welfare, guaranteed through the respective *danwei*. Yet, while the State took over responsibility for the workers entire life (including their social life), no social security scheme to universally cover the entire population existed.

The focus on a "Stalinist forced-draft heavy industrialization" (Walder, 1989, p. 408) included strong discriminatory elements as well; excluding enemies of the socialist idea – the so-called "four bad elements" – from welfare benefits altogether (Mok, n.d.). Life chances and thereby access to social security thus largely depended on the political categorization, based on political affiliations of father, grandfather in 1949, with preferential treatment of formerly exploited groups such as Red Army soldiers and their offspring.

Peasants formed another huge share of the population that was systematically excluded from State welfare. Cared for – after 1958 – by the Peoples` communes through the collective ownership of land, the rural population was controlled by a strict household registration system (*Hukou*) which denied them access to urban jobs and accordingly to social security.

While China under Mao performed considerably well in terms of income distribution and equality compared to other developing countries and particularly compared to other socialist countries, "the flat urban income distribution was greatly facilitated by its ability to keep out the rural poor" (Walder, 1989, p. 414). This eventually resulted in widening income gaps between rural and urban population.

The socialist egalitarian idea of welfare linked to work was dismantled in the course of economic opening up and reform and was replaced by (neo)liberal ideas, justified by the State`s claim to create a socialist market or socialism with Chinese characteristics.

In sum, welfare under Mao can be described as a system rooted partly in Chinese traditional culture and partly modelled on Soviet influences (Leung 1994). The State tradition to provide social welfare with a strong patriarchal notion and as a means to maintain (social) control goes back to way before Mao and the founding of the People`s Republic (Croll, 1999).

Shattered by marketization, Chinese leaders as well as scholars have recently – and in the light of new challenges – increasingly promoted a return to a more collective approach to welfare, most prominently reflected in the aim to install a harmonious society, as we shall outline below.

3.4 Building a harmonious society: Confucius revisited

With a high level of coverage the *danwei*-based system under Mao was considered as superior and interpreted as a proof of the success of socialist ideals. This underlying ideal as well as the institutional framework deriving from it did not significantly change after Deng`s open-door policy and until well into the 1990s (Gu, 2001). The residual cradle to grave notion of welfare confined to specific entitled (urban) groups persisted and is reflected by social policy reforms such as the introduction of an urban unemployment insurance scheme and the mid-nineties pension reform.

However, this rationale was gradually altered and partly abandoned due to a number of reasons. First, the financial burden of the former SOE based system and the costs to take care of unemployed workers or those made redundant in the process of privatization boosted. Welfare demand increased and left the government unable to provide even for those formerly covered. Reforms were thus to a large extent guided by pragmatism and fundamental ramifications for the Mao system. Secondly, along with this the gradual loosening of *Hukou* restrictions to attract cheap rural labour into the booming economic centres as well as the land reform led to rural to urban labour migration on an unprecedented scale. This floating population was excluded entirely from entitlements to social security benefits, which inflicted a huge social challenge on the government, as social unrest increased.

This thirdly led to a re-definition of responsibilities and of state-market-civil-society-relations as well as to gradual institutional restructuring. Dominated by decentralization and privatization in order to maximize efficiency, the central government started to partly outsource responsibilities for welfare to non-governmental organization (NGOs), charities and private providers (Leung, 2005). Along with this the State-responsibility model was traded for a model involving more actors in welfare distribution in order to establish the balance between equality and economic growth. The shift towards a fee-based educational system and the introduction of private health care are examples for this.

Responsibility for the well-being of the population was thus shifted from the State to the community and individual; to remain with health, this has, however, further boosted social problems: a 2005 survey of seven big cities revealed that more than 65% of respondents were not covered by any medical insurance, with people not being able to afford contributions.

The mounting demand for welfare and social security spurred by rapid economic transition that led to increasing inequalities and the exclusion of large shares of the population from even basic services, resulted in a decline of party credibility (Chan and Yu, 2005). The central government particularly under president Hu has subsequently adopted a back to the roots approach, bringing traditional Chinese values and norms back in: "in order to promote social cohesion and strengthen the communist rule, the Chinese government has recently tried to re-associate itself with Confucianism" (Chan and Yu, 2005, p. 35).

Under Deng and later under Jiang Zemin slogans like "to get rich is glorious" and "some have to get rich first" had been employed to justify the cutbacks in welfare. During the nineties however, the potential of increasing social unrest to hamper reform became profound, making it necessary for the government to find a means to maintain both economic growth and social stability (Croll, 1999). Starting from the late 1990s and more prominently since the early 2000s, Confucian values have thus been re-employed and have dominated the debate about welfare in China.

Despite the original attempt to break with Confucianism under Mao, Chinese leaders have constantly – and throughout the transition period – referred to traditional values, such as Jiang describing Confucianism as a "fine national tradition" (Leung, 2005), partly using Confucianism to maintain and justify restrictive social policies (Walker and Wong, 2005).

However, recent attempts to establish a harmonious society and to move towards a more people oriented development, including marginalized groups (such as migrant labour) go a step further. Social justice and equality, sustainable development and making welfare a top priority have shaped the recent discourse.

A particular focus has been on the countryside, e.g. through the introduction of rural health cooperatives in 2008, attempts to better integrate migrants into existing insurance schemes, combat of illegal land seizures, advocation of farmers rights and the aim to introduce a universal means-tested minimum support system. The move towards a means-test marks a radical turn in itself, superseding the previous test for working ability as a precondition for entitlement to benefits.

Yet, the reason for this shift back to more traditional Chinese values is rather pragmatic. While the introduction of harmonious society as a policy vision marks a policy rethink under Hu (Zheng and Tok, 2007), the clear focus on maintaining economic growth as the key rationale persists. Spurred by the emerging new challenges as well as the potential for social unrest, the discourse about a harmonious society is part of a legitimacy building process for both Hu and the CCP. The 2007 Property Rights Bill is one example, deriving from the rationale of building a harmonious society through capitalistic development (Xinhua News, 26.03.2007).

Saich (2004; 2009) has thus labelled the recent policy as "populist authoritarianism", implying that the more people-centred approach is aimed at preserving social stability which is in turn considered the main precondition for continued and stable economic growth. The 2005 "Campaign to Maintain the Advanced Nature of the Party" designed to strengthen the socialist ideology and the leading role of the CCP calls for a "socialist core value system (…) to underpin the policies to build a harmonious society" (Saich, 2009, p. 9). One can subsequently argue that the return to Confucian values basically serves two purposes. First, it serves as an important means to legitimize party rule, based on a social contract which trades social security in return for government support. Secondly, traditional virtues, norms and customs – most prominently reliance on family, kinship and networks – were increasingly stressed to free the government from escalating costs –

particularly during the early years of reform (White 1998). This went along with the diversification of welfare providers, developing a policy framework which separated welfare from the basis of the enterprise and re-emphasised kinship along with minimal universal provisions.

4 CONCLUSION

In sum, the changes in Chinese social policy since Maoist times and the early phases of transition have – as we have seen – been quite profound. Turning away from the logic of class struggle and "one pot", Chinese social policy after 1978 has been characterized by efficiency and economic output. While a rational model of spending was virtually non-existent under Mao, the legitimacy of opening-up (and thereby of the CCP) "became that of improving the living standards of people and building a stronger nation State" (Jones Finer, 2003, p. 38). This went along with neglecting the goal of (working class) equality, justifying *that some have to get rich sooner than others*.

All this is not to say that the party-State abandoned its underlying ideological logic. While the changes have over time significantly affected both the policy process and the institutional set-up, with the ideal of communism becoming more blurred, the original rationale of employing certain welfare-related values in order to maintain and stabilize CCP rule throughout the transition process, persists. The combination of socialist ideals and Confucian values was – as we have tried to show – maintained throughout the history of the PRC, with socialism (influenced by Confucian values) being the dominant logic during Mao times and a recent shift towards emphasizing Confucian norms without abandoning communist ideals entirely.

Opposed to Western systems of State welfare (based on the norms of citizenship and related social rights), the Chinese welfare system has often been labelled as characterized by collectivism (Deacon, 1983; Leung, 1994) and a strong reliance on family bonds. This value based on traditional Confucianism has become particularly vivid during the early years of reform, when family bonds were increasingly advertised as a means of providing welfare. This logic persists until today especially in rural areas – due to the absence of other social protection schemes – and in the field of old age care.

The party government has however clearly outlined its will and dedication to establish basic provisions for all in the future.

It is still too early to assess the success of these attempts. Pilot projects in the fields of health care protection and pensions have highlighted significant implementation problems. Yet, political stability in China is closely linked to maintaining a balance between productivity and continuous growth and social protection. This has become obvious in migrant labour upheavals and strikes – eventually resulting in attempts to at least partly include this huge but marginalised group into existing social security schemes (and allowing them to join the trade union). Reactions to disasters like the 2008 Sichuan earthquake and the 2003 severe acute respiratory syndrome (SARS) epidemic illustrate this as well.

Getting back to the original question of assessing Chinese developments along Western patterns of welfare State emergence, it becomes clear that, while in terms of privatization and decentralization there is evidence of convergence of Chinese and Western patterns, the underlying values and the understanding of welfare differs significantly.

In order to characterize the emerging new welfare regime in China, it will thus be necessary to conduct further in depth research, including a thorough analysis of these differing values. Such research should foremost focus on the analysis of institutional change in the field of social policies and the norms, logic and mechanisms underlying these restructuring processes. For that purpose, the implementation of the current five-year-plan and a close monitoring of CCP approaches to tackle the impact of the global financial and economic crisis can yield important insights that will be crucial for identifying, understanding and explaining specific developmental paths.

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"GLOBAL SOUTH" INNOVATIONS IN SOCIAL PROTECTION*

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This paper discusses a series of innovations that took place in the field of social protection in the "global South". It uses a broad definition of social protection in order to identify the different experiences of expansion and adaptation of the social protection systems, particularly, as a response to the financial crisis. Such approach aims at identifying the main features of these processes. It highlights the construction of integrated social protection systems with special emphasis on the productive inclusion of the beneficiaries of social programs with a view to increase their access to economic opportunities.

Keywords: social protection; inclusive growth; employment; south-south cooperation.

INOVAÇÕES NA PROTEÇÃO SOCIAL NO SUL GLOBAL

Este artigo discute uma série de inovações que ocorreram recentemente no campo da proteção social no chamado sul global. A partir de uma definição ampla de proteção social, o artigo busca identificar experiências de expansão e adaptação dos sistemas de proteção social, particularmente como resposta à crise financeira internacional. A análise destas experiências permite identificar seus principais elementos. Destaca-se a construção de sistemas mais integrados de proteção social, com especial ênfase na inclusão produtiva dos beneficiários dos programas sociais com o objetivo de aumentar suas oportunidades econômicas.

Palavras-chave: proteção social; crescimento inclusivo; emprego; cooperação sul-sul.

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1 INTRODUCTION: COMPARING SOCIAL PROTECTION SYSTEMS

The first obstacle in comparing social protection systems from different countries is the need to adopt a common definition of social protection. The more usual definitions present a high level of overlap, but also show remarkable differences. There is no universal definition of what social protection is, and what programs it would comprise, and what would be left out of its scope. In addition, in developing countries, the boundary between social protection and social development policies is even more difficult to determine. Barrientos (2010), for example, define social protection as public actions taken in response to the vulnerability, risks and deprivations, considered socially unacceptable by the values of a society.

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According to this definition, the "private actions" of philanthropy would not be part of the concept of social protection.[1]

Along these lines, social protection would comprise social assistance programs, social security programs, and employment regulations. Social assistance would consist in programs dedicated to fight poverty which would be non-contributory, and would be financed by governmental resources generated by general taxation. The purpose of social security would be to protect people from the risks they face throughout their lifecycle: disease, disability to work, aging, or unemployment. In general, social security is financed by tripartite contributions (employers, workers, and government) and is limited to family members attached to the formal sector. Lastly, employment policies would include protection against unjustified lay-offs, and the workers' right to representation. Other definitions include in this category active employment policies, such as professional training, and job placement. Wider definitions, such as the Asian Development Bank's (ADB) include, among other interventions, microcredit, rural credit, and social funds for investment in communities (at the local level).

Devereux & Sabates-Wheeler (2004) propose a typology for social protection programs/policies that classify them according to the purpose they fulfill: protective, preventive, promotive, and transformative measures. The purpose of protective measures is to relieve conditions of poverty and deprivation, and they are directly related to the social assistance policies – monetary or cash transfers and social services – of non-contributory nature.

Preventive measures are more related to contributory or partially contributory insurances that imply some connection with the formal labor market, as for example, contributory retirement plans and the rights and benefits related to social security, which involves employee, employer and government contributions. In low income countries, other measures such as savings groups, and strategies to deal with risks such as the diversification of rural products, are considered preventive measures.

Promotive measures are those with the purpose of increasing families' income and their potentially productive capabilities. In developed and middle income countries, the labor market's active policies, such as professional training

1. Devereux and Sabates-Wheeler (2004) include private, family and/or community initiatives in the field of social protection. The definition adopted by these authors is wider at the social protection supply side, including themes related to equity and social justice (including legislation to protect the rights of ethnic minorities and other vulnerable groups, depending on the country's context), but at the same time, it may have a reduced scope regarding the beneficiaries of social protection, identifying "vulnerable groups", despite the fact that these are not necessarily only the "poorest". Such difference may be partially explained by the "development" perspective adopted by the authors, and focus on social protection in low income countries. They tend to emphasize the contribution of social protection to a society's economic and social development, as observed by Barrientos (2010), and do not limit their interpretation to the categories developed by a theoretical outline traditionally applied to developed countries.

and job placement programs comprise these measures scope. In low and middle income countries, microfinance and school meal programs would represent this category. This last example used by Devereux & Sabates-Wheeler (2004) uncover the blurry intersection between the classic definition of social protection programs and development-related programs (microfinance) to social policies (school feeding), as observed in Barrientos (2010). However, the authors argue that these programs may be classified as such only if they had among their objectives the stabilization and mitigation of income and consumption of families that benefit from them.

Lastly, transformative measures are concerned with fighting social exclusion and promoting social equality through the protection of workers and vulnerable minorities' rights. Its purpose is to transform daily practices that may hurt these rights both through legislation that discourages the discrimination and exploitation of vulnerable groups, and the promotion of these rights.

A possible interpretation would be to impose a value scale that would imply that protective measures would be less adequate or have a smaller impact than promotive measures. However, in practice, the programs end up having different purposes. An income transfer program of assisting nature for a vulnerable category, when transformed in legislation, generates a transformative process in which a vulnerable category becomes the beneficiary of a right, for example. Similarly, public works program may generate assets that are potentially capable of promoting economic opportunities and, at the same time, guarantee an income to the program's participants (protective and preventive). In the case of India, where public works programs became guaranteed employment programs, based on the concept of "right to work", the legislation that introduced it gave it a transformative nature, according to the Devereux and Sabates-Wheeler's typology.

In the absence of a consensus about social protection, the International Policy Centre for Inclusive Growth (IPC-IG), a partnership of the Brazilian Government and the United Nations Development Programme (UNDP), and the locus where this research was developed, adopted an operational definition of social protection that would be useful to be related to inclusive growth processes. From that theoretical outline's perspective, social protection is not perceived only as a short term palliative measure and, in general, adopted ex-post, in order to ease the inequalities generated by the economic growth process itself, but also as an important component of the economic growth process itself.

In this sense, social protection would be composed of a set of actions financed by the State that would: *i*) support individuals and families in dealing with vulnerabilities along their lifecycle; *ii*) help especially the poor and vulnerable groups to have resilience to respond to crisis and shocks, including social-environmental risks;

iii) favor social inclusion and support families, particularly the most vulnerable to poverty, in building up (and keeping) their human and social capital through smoothing of income and consumption and ensuring their access to basic goods and services; and *iv*) stimulate productive inclusion through the development of capabilities, skills, rights and opportunities for the poor, marginalized and excluded groups, as well as low income workers from the formal sector in order to guarantee that everyone benefits from the economic growth process and gets engaged in it. This definition is wide enough to contemplate the traditional categories normally used in high and middle income countries, as well as categories (and functions) that prevail in the lowest income countries, but that are also present in the developing countries.

In any comparative study it is important to recognize that countries have different traditions, determined by different social norms and historical processes (including in some cases, its colonial past). Thus, it is common that different instruments, but with similar purposes, prevail in one or other country within their social protection system. As an example, while cash transfer programs (or income assurance programs) such as the Brazilian Continuous Benefit (BPC) and the *Bolsa Família* Program, tend to get more attention in Latin America, particularly in upper-middle income countries, and countries such as South Africa; guaranteed employment programs and/or public works, tend to prevail in countries like India, as well as many African countries. This predominance does not mean that there are no initiatives such as social pensions or child transfers in those countries, it only means that the priorities (which include budgetary allocation) and the debate over policies tend to focus on these programs. In this sense, this paper intends to contribute to the exchange of experiences between developing countries, particularly those in the so called global South in the field of social protection, focusing on the recent transformations that took place in the social protection field in several countries.

2 SOCIAL PROTECTION AND INCLUSIVE GROWTH: PROMOTING INCLUSION AND RESILIENCE

When analyzing the theoretical assumptions and practical innovations that have occurred within the social protection and inclusive growth fields in the global South, five elements should be highlighted. First, several countries are trying to identify ways to increase the "employment content" of their growth trajectories and to mitigate the vulnerability of the poor and the so-called new lower-middle class upon a context of structural transformations. For example, South Africa released a document by the end of 2010 entitled "New Growth Path" with the purpose to identify job creation triggers and actions that would able to generate five million jobs until 2020 (Government of South Africa, 2010).

Structural transformation (sectoral, education, trade and private sector development) and macroeconomic policies remain the core policies of interest for driving sustainable employment for inclusive growth. However, it is also becoming evident that these policies are unlikely to have significant traction with regard to the numbers of workers in various countries that are engaged in 'survivalist' types of activities. Countries are exploring ways in which to address what Campbell (2011) calls 'employment-led-growth' as opposed to focusing solely on 'growth-led-employment' where growth is expected to stimulate employment. A twin-track focus is thus being proposed in policy circles to support increases productivity and incomes in growth-led-employment sectors as well as in activities and areas where employment-leads growth. Social protection interventions aimed at fostering productive inclusion are an important component of this policy package.

Second, the timeframe for interventions is changing as is their focus. Social protection interventions were typically conceived of as short term measures to mitigate or compensate for the adverse impact of policy reforms and to provide support for poor and vulnerable groups. The short-termism also had to do with the idea of not encouraging dependency on public 'welfare'. There is now a growing acknowledgement of the role of medium-term interventions which aim to transform livelihoods either through fostering investment in human capital and thus seeking to mitigate the intergenerational transmission of poverty or through seeking to transform the ways in which the poor and the vulnerable are inserted into labor markets and productive activities.

In the first group of policies, we highlight unconditional cash transfers and subsidies to facilitate income/consumption smoothing for eligible poor families; conditional cash transfers (CCTs) which provide support for investment in human capital over the education life-cycle of children (Mexico's *Progresa/ Oportunidades*; Brazil's *Bolsa Familia* – PBF – and other CCTs in Latin America). In the second group, the social protection policies related to work provision stand out.

Employment safety nets have also evolved to focus on the provision of predictable amounts of work opportunities which are available for the unemployed/ underemployed to tap into as needed to complement their existing livelihood strategies and to serve as what some are calling a kind of underemployment insurance for the poor. For example, India's National Rural Employment Guarantee Scheme (NREGA) offers up to a hundred days/employment per year to rural households. Bangladesh has sought to implement a hundred days programme as well. South Africa's launched the Community Work Programme (CWP) that aims to offer up to two days a week, eight days a month or equivalent permutations in the areas where it is being implemented.

In the third place, there is a growing focus on exploring the impact of social protection measures on productivity. This involves a greater focus on identifying the direct and indirect productive impacts of social protection and an exploration of how to strengthen the different channels of influence (Yemstov, 2011). This is evident particularly in the design of public works interventions which are not only aimed at providing work opportunities but in paying attention to realizing co-benefits – work opportunities as well as productive assets and services.

Fourthly, the boundary between the preventive and transformative functions of social protection is no longer that clear. Several countries have organized their social protection programs in order to respond to new vulnerabilities and priorities through the integration of different programs. The purpose of this kind of integration is to come up with immediate responses in the short term (protection) and, at the same time, ensure in the medium term that families are more resilient towards economic crisis and idiosyncratic shocks. The food price crisis, followed by the fuel price crisis and the global financial crisis led several countries in the global South to review their social protection instruments in order to increase the families' level of protection. Some of these reforms are discussed in the next section with the purpose of understanding how different social protection instruments were expanded, integrated, and/or transformed during the crisis.

In the fifth place, there is a movement towards a greater complementarity between programs capable of consolidating an approach strongly based on systems instead of isolated programs. The integration of programs has also been supported by the use of common information and by benefits' payment (and delivery) systems, as well as by the use of flagship programs with wide coverage whose structures may be used by new programs (for example, the relationship between the Popular Health Insurance and the information base built by the *Oportunidades* program in Mexico).

This kind of integration can also be observed in the case of employment programs, developed in order to supply a predictable quantum of assistance to individuals depending on their needs (purpose equivalent to the unemployment benefits) and at the same time, supply the communities in which they live with "socially useful" investments in some specific sectors (the Expanded Public Works Program, EPWP, in South Africa, for example), in activities pre-identified as labor-intensive (i.e., the Guaranteed Rural Employment Scheme, NREGA, in India) and, in public works and services chosen as priorities by the participant communities – Community Work Program, CWP, also in South Africa).

A combination of factors contributed to the constitution of these five elements. On the one side, the growing awareness about the limitations involved in the design of short-term programs with limited goals, such as the traditional/emergency public works. On the other, the collective accumulation of experiences obtained from new experiments that increased the knowledge base about how to create long term programs that are, at the same time, financially sustainable, flexible, and adaptable to changes. These facts increased the potential of these programs to serve as policy instruments and to be used during crisis, but, particularly, to be programs which support the inclusive growth process and increase the resilience of families and countries against economic shocks.

As suggested by Yemtsov (2011), the "productive" impacts of social protection may be analyzed within the macro, miso and micro levels. When implemented in large scale, income transfer programs work as a new source of growth and stimulate the domestic production to increase the income of social groups with a greater marginal tendency to consume, which also contributes to deviate the consumption towards goods and services that are more likely to be produced locally, therefore reducing leakages through imported goods that are demanded by the richest groups. Araújo *et al.* (2011) show that the Brazilian growth regime between 2001 and 2009 was determined, domestically, by the increase in salaries, but when external factors are incorporated, the growth process was determined by the profits. Santos (2011) points out that the Welfare policies predicted by the Brazilian Constitution of 1998 demanded an increase of the tax burden for its implementation, but they have also contributed to make the economy more dynamic. The increase in income of the lowest income deciles due to the pro-poor performance of the labor market, as mentioned above, and the redistributive programs, allowed the Brazilian economy to count on a different source of economic dynamism, in addition to the external demand for primary products of low aggregate value. The domestic consumption stimulated by the rise of a numerous lower-middle class and the expansion of credit for consumption, together with the anti-cyclical measures adopted in 2008-09 helped to explain both why the crisis was relatively mild in Brazil (reduction of 0.8% of the gross domestic product – GDP – in 2008), and the vigorous return to growth in the following year (7.5% in 2009).

The impact of the growth in demand is even more important at the local level, especially in poorer areas. Jonasson and Helfand (2008) show that, in Brazil, the poorer and more isolated regions with great concentration of vulnerable populations in urban areas, non-rural agricultural activities are unlikely to offer an alternative way out of poverty. Cassell (n.d.) shows that between 2003 and 2008, the family agricultural income increased 30%, while the employment income contributed with 56% for this growth, retirements and pensions contributed 29% and the cash transfer programs, with 15%. The multiplying effects of these transfers and the impacts on the local economy were not appropriately studied yet, neither the impacts at the macro level, but there is some evidence that these impacts are not negligible.

The impacts of the income injections at the local level are probably much stronger in services offered and consumed locally. Antoponopoulus (2011) and Hirway (2008) predict multipliers for public works and guaranteed employment programs, the EPWP and NREGA, respectively, which suggest significant profits resulting from strategies that focus on social sectors (EPWP) or in investments in local infrastructure (EPWP and NREGA). These programs offer co-benefits and, therefore, reinforce the achievement of multiple goals in a development agenda.

Until today, however, the role of social services as a stimulus to local development is not appropriately emphasized. For example, in several developing countries, the deficits associated with public services such as early childhood care (day care facilities) and elderly care are compensated by the increase in unpaid "domestic" work performed by women and children. The decrease of these deficits would bring multiple benefits and positive results including the increase in women's participation in the workforce. Guaranteed employment programs or public works that incorporate the social services dimension include the EPWP and the CWP in South Africa, and the phased-out program *Jefes y Jefas*, in Argentina. In particular, the basis for the social development of the EPWP and the CWP has prioritized the offer of "home-based care", offered by the community (HCBC) and initiatives to stimulate childhood development (ECD).

The second important channel which is not adequately emphasized in the literature in regards to social policies is the potential positive impact that both cash transfer programs and guaranteed employment programs may have on the labor market. The idea is that, when increasing the reservation wage and offering employment alternatives at a reasonable wage, the programs could distort labor markets, competing for the workforce with other productive sectors, and discouraging workers to accept jobs offers from those sectors. In countries where guaranteed employment programs were adopted as an instrument for long-term policy development, some precautions were taken in the elaboration of a strategy to avoid that such competition creates an obstacle to productive activities. For example, jobs tend to be offered in periods of low work demand, in order to avoid that the shortage of workforce affects the economy as a whole. However, there is a growing awareness that, for several vulnerable groups, labor markets do not work well, and to distort them would not be a matter of concern. Those who live in areas where there is no job availability, but are not able to migrate or cannot afford their transportation to areas where jobs are offered, are particularly affected by the absence of a labor market and/or economic opportunities. In some cases, as with women, they cannot go job-hunting away from their homes, due to their "domestic" duties. Besides, in many rural areas, labor markets are dominated by monopolist employers and workers who do not have another alternative but to accept poor working conditions and low wages. For many of these poor workers, the labor market can offer only casual employment, resulting in low levels of income security. Social protection programs can positively "distort" these markets, helping the establishment of a minimum wage (effective wage) and offering the population an alternative to the under-employment. The so-called additional worker effect is also important both for households and the general economy, and the guaranteed employment programs have frequently had this impact, when it facilitates the participation of women on the labor market and reducing wage differentials between men and women, guaranteeing wage equality between genders. Based on the recent results from the household surveys of the Indian NSS, Chandrasekhar and Ghosh (2011) show that the NREGA program had a significant and positive impact on market wages in rural areas, which got a little closer to the minimum wage (value offered by the NREGA). Besides, the authors show that there was a significant reduction of the rural wages differentials per gender.

A third channel is the impacts on the productivity and income of the poorest through the creation of assets and/or their more productive application. The instruments used to do that are the productive investments of part of the transfers received through social protection programs; the creation of assets and public services that help to increase productivity (i.e., cisterns, soil maintenance, flooding contention, water management, road maintenance are some of the activities supported by the Productive Safety Net Programme (PSNP), in Ethiopia, and by the NREGA, in India; support for the reduction of the vulnerability of households through social services such as the EPWP and the CWP in South Africa and the production of community gardens also supported by the CWP; besides productive investments such as the construction of cisterns in households/properties of small holder farmers as in the case of NREGA in India and the Brazilian *Brasil sem Miséria* program (Brazil without poverty), to be deeply discussed in the next section. The use of these modalities of programs to strengthen productivity and income of small low income producers offer different forms to promote the equity from the bottom up in order to complement the policies aimed at the labor market and sectorial policies.

It is interesting to note that besides the existing concern in minimizing the negative impacts on the labor market, some positive impacts have been documented. In the case of Brazil, Machado *et al.* (2011) and Soares (2011) review the results of several papers and conclude that the negative impacts on the participation of beneficiaries of the *Bolsa Família* program in the labor market, if any, tend to be generally small. Teixeira (2010) shows that the impact on the number of hours worked tends to vary according to the gender and the household composition, with a small, but statistically significant, decline of hours worked by women who have children. This result is probably associated with the difficulty that young mothers face in reconcile the child's care with the need to have a job in the absence of child care services. In the South African case, Eyal and Woolard (2011) show that beneficiaries of children's transfers (CSG) have a greater probability of being employed. These effects are not small and can reach 15% for some groups. These results suggest that these transfers can help to mitigate the cost of the job search for the beneficiaries. They also reveal the difficulties faced by women with small children. The Social Development Department of South Africa (2006) produced a document in which it discusses some of these challenges. According to the profile of most of the CSG beneficiaries who are child caretakers, more than 65% are mothers or single parents, 11% never received formal education, and more than 85% were unemployed. Altman and Boyce (2008) note that only 18% of the adults responsible for the children benefitting from the CSG were working. Thus, the challenge is how to improve job opportunities for these caretakers, particularly those with working ages.

The Community Work Program (CWP) in South Africa offered an outline that does exactly that through its focus on the regular access to a minimum level of employment, in a predictable basis, with a social protection network based on employment. The program was initiated in 2007. Its expansion to one million jobs between 2013 and 2014 is one of the top priorities of the job creation plan within the scope of the "New Path to Growth", from the South African government (2010). Inspired by India's NREGA program, the CWP offers a minimum number of regular workdays, usually two days a week and/or its equivalent per month. It is a program rooted at the local level and focused on poor communities in urban and rural areas and informal settlements. The goal is to create part-time jobs for about one thousand people in each place of operation, depending on the community's dimension. In addition, as Philip (2010) noted, the work to be done must be a job that contributes to the common good and/or to improve the life quality of the communities being benefited. A key feature of the CWP program is that the future intervention is identified and prioritized through participating processes at the community level.

3 THE ECONOMIC CRISIS AND INNOVATIONS IN THE SOCIAL PROTECTION PROGRAMS DESIGN

The recent economic crisis motivated a review of the design and revealed the efficiency of several instruments in controlling its impacts. Cash transfer programs (conditional or not), subsidies and guaranteed employment programs became the object of discussions about how viable their expansion would be during the crisis.

A trade-off may potentially occur between policies and programs that increase resilience in a context of crisis and those that respond to the development's long term needs. For example, targeted programs that encourage investment in human capital and also smooth income and consumption flows are not necessarily able to rapidly respond to the needs of the "new poor", created by the crisis. The use of proxy means tests based on the structural determinants of chronic poverty are, by definition, not very sensitive to the income volatility and variation; which rose questions about the adequacy of using these programs to control the crisis, particularly in the case of the CCTs that place more emphasis on the accumulation of human capital than in immediate poverty relief. Countries that adopt CCTs, however, adapted their programs to respond to this challenge through different means. The enrollment of potential CCT beneficiaries, especially in countries where they were widely applied and where information in the social databases cover a larger proportion of the population rather just the population benefitted by the program, were used under the hypothesis that the crisis would mainly reach those who are above, but still very close, to the poverty line or the eligibility criteria defined for the program. From the technical viewpoint, CCTs could be adapted ex-ante to a situation of negative crisis/shock by means of the introduction of variables associated with these events at the proxy means tests, as for example, more conjunctural and less structural determinants of poverty. (De Janvry *et al.*, 2008); and also ex-post, if it allowed a continuous process of supporting families that are vulnerable to this type of crisis, aiming at the prompt update of their records, so they can became quickly entitled to the benefits in the midst of a crisis.

Many questions regarding the targeting mechanisms remain unanswered. In a context of limited resources, how is it possible to find a balance between the focus on chronic poverty, and the demands generated by the temporary poverty of vulnerable groups? In Africa, for example, income transfer programs concentrated primarily in chronic poverty, the model with 10% of the poorest adopted in trial programs both in Zambia and Malawi, with a focus on households with elderly or disabled residents with no support of adult members of their extended families. But how to handle new poor groups created by the volatility of growth and by the fluctuation of the food and fuel's prices, particularly, in urban areas at the African continent? The CCTs, where they exist, can respond to these new challenges or new programs should be implemented? How to connect the focus on structural middle-term changes with the new developments of public works and the guaranteed employment programs aiming at the promotion of productive inclusion of poor communities? How to generate job and training opportunities to unemployed and under-employed young people and, at the same time, with higher levels of education, as observed in North African countries? Is it possible to think in a wide protection network based on employment that is not only a short-term response to a crisis situation and that is related to middle and long-term goals?

Besides the evidence based on the social protection programs' evaluation (isolated), there is also some signs, non-documented academically, that more integrated social protection schemes/systems were able to protect countries and their populations from the economic-financial crisis more efficiently. Countries with more integrated social protection systems were capable of showing macroeconomic resilience (impacts at the micro and meso levels), recovering more rapidly from the crisis, as well as improved the resilience of families against the shocks (micro level), limiting the crisis impact over poverty and the inequality, in order to minimize its impacts on important dimensions of human development: food and nutritional safety, education and health.

3.1 Adaptation to the availability of resources and different realities

It is important to recognize that countries have different capacities to respond to crisis and to adapt their social protection and employment policies in order to respond to them. Middle income countries and large emerging countries were able to make resources available for the counter-cyclical measures. In these countries, the expansion of social protection programs had also the additional purpose of maintaining the consumption level and the aggregate demand.

That was not the case, however, of low income countries with less fiscal space and that are greatly dependent on Official Development Aid (international aid, ODA). In these countries, a movement towards wider social protection systems requires a clear definition of priorities when selecting programs with more synergy with production and more potential to be integrated to the development priorities defined domestically. The challenge is even greater because the ODA is the most volatile among all sources for public financing (Roy *et al.*, 2009) and, during a time of global crisis, the fiscal consolidation in donor countries tend to cut it exactly when it is most needed.

Some innovative programs such as the PSNP, in Ethiopia, have produced important lessons that can be shared among low income countries. Four PSNP program's characteristics seem to have a great potential for south-south learning: *i*) high level of coordination and alignment between donors and the government of Ethiopia, under the leadership of the latter; *ii*) a design that recognizes the different needs of chronically poor households (or victims of food insecurity, as defined by the program) with the offer of a blend of direct support (income transfer) for those who cannot work (elderly and disabled) and a work front program for households with adults in appropriate work age and condition, during the dry seasons (which lasts for six months), or whenever there is a lack of productive work available in the areas (*woredas*) covered by the program; *iii*) the ability to integrate multiple goals in one single program without overburden it and dissipating it, for example, improve food security, prevent the sales of assets during moments of crisis and promote the generation of community assets in an integrated manner; *iv*) be a model or chief program, being part of a strategy, in the case of food security, which is wider and includes other programs such as the Program for the

Construction of Assets to Families, Settlement Program, and a larger complementary investment program in the communities benefitting from the PSNP.

3.2 The use of information in the expansion, integration, and reform of the social protection programs

The use of single registries or interconnected databases is considered an important innovation that, even if initially led by isolated flagship, can be implemented and be widely applied, acting as important mechanisms for the consolidation of social protection systems. In Latin America, such records became very popular, and their potential for different applications turned to be very useful during the economic-financial crisis.

In the Dominican Republic, the SIUBEN – a registry of potential beneficiaries of social protection programs – whose extension was a result of the implementation of the *Solidariedad* program, a CCT that supports the poor population (moderate and extreme), was used to help in rationing the gas subsidies. These subsidies were targeted to the poorest groups and the lower-middle class through the Bono Gas program. The SIUBEN's database covers 60% of the country's population, while the CCT, *Solidariedad*, covers 21%. Therefore, the SIUBEN is not simply a registration of poor people, but it can be used to support the implementation of programs that have a more universal coverage, as in the case of the Bono Gas Program. The resources saved with the adoption of the gas subsidies reform allowed a more significant expansion of the CCT, both in number of beneficiaries and the values paid to them. As a result of this rapid government response to the crisis situation, the extreme poverty continue to fall – a trend that had initiated in 2005, immediately after the implementation of the *Solidariedad* program – and poverty remained steady, despite of the strong impact that the crisis had on general inflation of food, in particular, as well as the level of economic activity (Gamez, 2011).

Mexico also used its CCT, *Oportunidades* (Opportunities), to promptly respond to the food and fuel price crisis and the international economic and financial crisis. New components were added to the monetary transfers as the "energetic support", an additional sixty Mexican pesos per month to compensate for the increase in expenses with cooking gas and the "better living child support" in the amount of a hundred pesos per month for each child between zero and nine years old. Besides that, the number of beneficiaries from the Opportunities program and the Food Support Program (PAL) was raised. The PAL, differently than the Opportunities, is a food and nutritional safety program directed to extremely poor families, regardless of the supply of services in the areas in which they live, in other words, it is an income transfer program without eligibility conditions (or co-responsibilities) (Soares, in press).

As with the Dominican Republic, Mexico was also able to rapidly respond to the crisis because it already had the instruments necessary for the expansion and/or adaptation of existing programs. The expansion of the PAL did not implicate the need to start a new program from scratch. It used the same technology (registries, databases and targeting mechanisms) used by Opportunities. In addition, the idea is that once the supply of health and educational services is available in the areas covered by the PAL, the families benefitted will then be incorporated by the Opportunities program.

In regards to the crisis impacts, poverty increased from 44.5% to 46.2% in Mexico between 2008 and 2010, according to Coneval (2011), while extreme poverty slightly decreased from 10.6% to 10.4%. These results suggest that the transfers were able to avoid an increase of extreme poverty levels, but they were not enough to prevent an increase in moderate poverty. This could be due to the fact that the crisis was more severe in urban than rural areas, reminding us of the need to develop new components and adapt the targeting mechanisms in order to protect those who, despite not being poor for long periods of time, experienced poverty during the crisis. These groups vulnerable to poverty, in general, are not eligible for the standard social assistance programs and, at the same time, have no access to the social security typical of the formal sector.

The Opportunities program has also helped the development and implementation of other social protection programs, such as the "Seventy and more" program (non-contributive social pension), which changed from a modest component of the *Oportunidades* program to an independent program, applying the same technologies and methodologies adopted by *Oportunidades* to identify potential beneficiaries and plan its national expansion. *Oportunidades* also helped in the implementation of the Popular Health Insurance, which provides the poorest/most vulnerable population a health insurance plan that allows them to access a set of basic health services. The Mexican experience reveals that it is possible to improve the integration and coordination of these programs, based on isolated programs, without causing any overburden due to multiple goals.

More important than having registries developed by the CCTs or similar programs was the ability to respond to the crisis, that is, use these sources of information to be more proactive in the design of policies in order to make the growth process more inclusive. Chile gives us an example of how these registries can be widely used, with the *Puente* Program, the port of entry to the *Chile Solidário* program, an integrated program with the purpose of fighting extreme poverty and social exclusion through a strategy adapted to and built in conjunction with the families benefitted. The idea behind the program is that extreme poverty, or the hard core of poverty, was insensitive to the growing process observed in Chile throughout the 1990s, and that this is due to the lack of access to opportunities, social programs and policies (Larranãga *et al.*, 2009). In this context, it is paramount to give customized attention to the families with psycho-social support offered by social workers and ensure their access to social policies that are adequate to their situation. The program focuses on the following dimensions: health, education, housing, employment and income, family dynamics and identification with the purpose of ensuring that the families reach a minimum acceptable level in each one of these dimensions.

The Puente Program's approach requires a good database that allows us to identify different vulnerabilities of extreme poor families and list them according to this degree of vulnerability in order to indicate the priorities in psycho-social support. This is done through the use of the information available in the Social Protection Application Form (FPS), the instrument used to collect the information used to calculate the vulnerability index (proxy means) of families, which covers 65% of the Chilean population. This information feeds the database of the Social Information Registry (RIS) and is compared with administrative information about the social programs. This system, as a result of the existence of a single identification number, identifies the potential beneficiaries of the social programs as in the FPS database, allowing social workers and program managers to have access to the socio-economic information about the program's beneficiaries and their families. This process is consolidated by the Social Information Integrated System (SIIS), whose purpose is to improve the coordination and the complementarities between different programs managed by different public departments (Robles, 2011).

This technology also allowed Chile to use its social protection programs as part of the economic stimulus package designed to mitigate the effects of the crisis between 2008 and 2009. A temporary benefit, the Family Support Bonus, was paid to four million families, around 23% of the population, in March and August of 2009 and March 2010 with the purpose of easing the crisis impact on income levels within the poor and vulnerable groups. Differently from Mexico, this new component was not incorporated in the benefit package, and it was only paid in these three occasions. However, a new income transfer was introduced with the purpose of complementing the transfers paid within the scope of the *Chile Solidário* program, the *Asignación Social*. This new component led to a 56% increase in the *Chile Solidário* budget for 2011 in comparison with 2010 numbers (Robles, 2011). The new benefit had one unconditional and one conditional component. The first varies between US$ 9 and 15 per capita (per family member), depending on their level of vulnerability according to the FPS numbers. The conditional benefit refers to health, education, and the woman's insertion in the labor market. This last condition represents an innovation in regards to the typical conditions imposed by CCTs in Latin America. More than a punitive condition, it works as a negative tax, providing an incentive to employment, as women receive an extra transfer if they prove they have worked in the formal sector for a minimum period of time. It is interesting to observe that *Chile Solidário*, differently than the other CCTs in the region, did not present any eligibility conditions, and this recent reform places it in line with the other programs.

With respect to the crisis impact, the data from the Chilean household survey, the CASEN, show that, despite of the crisis, there was a reduction in poverty from 1.7% to 11.5% between 2006 and 2009, but an increase in extreme poverty from 3.2% to 3.6% in the same period. Besides, the total income inequality measured by the Gini index remained steady at 0.54%. Meanwhile, the net income inequality of transfers increased from 0.54% to 0.55% (Robles, 2011). These data suggest that without the monetary transfers of the Chilean social protection system, the impact of the crisis over poverty and inequality could have been much greater. In addition, these data reveal the need to increase the amounts received by the extreme poor and to re-evaluate the methodology used for its identification. Both measures were recently taken by the Chilean government, as mentioned above.

If, on the one hand, the design of social protection systems can be a difficult task with regards to time and resources, on the other, the gains and synergies that lead to an increase of these policies' effectiveness are clear. In a south-south learning example, the South-African government is adopting a system to register and handle the beneficiaries' information similar to the Mexican system. In the future, the databases of social pensions could be linked to the EPWP and the CWP's registries, in order to facilitate a precise diagnosis of these families' needs and allow a better planning of the type of jobs that should be offered by both employment programs. Taking into consideration the importance of the intercommunication of databases to avoid duplications and inclusion errors, its greatest contribution must be in the sense of extending the set of opportunities available to families, lowering the exclusion errors and improving the coordination between these programs. Besides, these systems can be used as important data sources in the process and impacts evaluations of the programs with results that can feed a continuous process of redesign and reformulation of different programs' purposes.

The single register developed in Brazil is another example of a database of potential beneficiaries of targeted social programs that was designed due to the consolidation of a CCT. Recently, this register became the informational pillar for a new poverty elimination strategy, *Brasil sem Miséria*. This strategy has three components: *i*) guarantee of a minimum income; *ii*) access to basic service; and *iii*) inclusive production.

The consolidation, expansion, and improvement of the *Bolsa Família* program is the main mechanism used to reach the minimum income goal, which would allow families to become more productive, not only through the investment in their children's human capital, but also through short and middle-term food subsidies for all family members, as well as transportation costs, which are pre-requisites for the access of these families to economic opportunities and their ability to take advantage of them (SAE, 2011). The active search for potential beneficiaries not enrolled in the *Bolsa Família* program and, more importantly, in the single register, is a priority of this part of the strategy. The efforts involved will concentrate in the cities with low levels of program and register coverage in regards to poverty estimates.

In addition to the active search process, the program recently increased the upper limit for the number of benefits a family could receive from three to five. This benefit is dependable on school attendance and regular visits to the health center. This change in the maximum number of benefits will allow poor families that generally have a higher number of children to receive a greater total benefit. Another measure in the pillar of the minimum income guarantee is the creation of a new monetary transfer: the "*Bolsa Verde*". This program will also be implemented to support services for the conservation of ecosystems and forest and extractive reserves. The *Bolsa Verde* will be paid four times a year and will correspond to the amount of R$ 100.

The purpose of the component related to the access to basic services is to develop an integrated approach to guarantee the access of the extremely poor population to the programs in the following area: health (i.e., family health program), electricity, housing and sanitation, food security, education (i.e., adult literacy and early childhood education), social assistance and civil register. This process will require the extension of the underserved areas and the integration of different programs' registers in order to identify these service "gaps", as well as the training of social workers to increase their knowledge of existing programs that can be important for the extremely poor population.

In regards to productive inclusion, the goals of the strategy is to reinforce the connection between the food security programs and the beneficiaries of the *Bolsa Família* program, as 47% of the extremely poor population lives in rural areas. The family farmers will receive technical assistance based on technologies to be developed in partnership with Universities and Embrapa. Until 2014, 250,000 families should have received a financial support of R$ 2,400 in the first and second years of the plan to subsidize the investment in inputs and equipment. Seeds especially developed by Embrapa will be distributed to the beneficiaries. Another important measure is the expansion of the food acquisition program produced by the family farming, PAA, from 66,000 to 255,000 families until 2014. The program still foresees the integration of the PAA program and the school meals and the food distribution programs to hospital, daycare and penitentiaries. It is an example of integration between inclusive production and food security.

Within the urban areas, the inclusive production dimension will focus on professional training, job placement, microcredit and incentives to the practice of solidarity economy. With the support of the Federal Government, states and municipalities will map the opportunities available at the local level, and will match them with the profiles of the families targeted by the strategy. The information available in the single registry will help to identify the needs of families regarding their productive inclusion.

3.3 Experiences in other parts of the global South

Latin America has led the process of applying information systems to integrate its programs more efficiently, but this type of innovation did not occur only in this region. Soon after the Asian crisis of 1997, Indonesia was able to rapidly develop a database of potential beneficiaries of an unconditional income transfer program designed to decrease the negative impacts of the gradual elimination of general fuel subsidies. This experience was very important for the design and implementation of two large scale social programs, a standard CCT – the *Keluarga Harapa*n (PKH) – and a community CCT called *PNPM Generasi*, in place today in the country.

In Egypt, a pilot of a CCT with light eligibility conditions is being designed to be implemented in High Egypt (poorest and most rural region in the country) with the purpose of empowering the women from that region. In India, the income transfer schemes LADLI, implemented in several states, but with different designs, aim at increasing the school enrolment and attendance of girls, besides avoiding the marriage of children through monetary transfers and eligibility conditions. Also in India, the government of Delhi is designing a program called "*Convergence Mission*" to improve the quality of the targeting mechanisms and the information available from different transfer programs, such as support pensions, children benefits, and disabled benefits. The idea is to rationalize the existing programs and improve the delivery process of new components of the transfer system in order to make the process more transparent. In this sense, the introduction of a new universal identification document with a single number for the whole country will represent a great step to mitigate cases of fraud and duplication, but also will allow a better integration between the programs within the conception of the construction of wider social protection systems.

The "convergence" concept is also important for NREGA and it is associated with efforts and complementation of assets and improvements made by the "public work" with other programs of the Rural Development Ministry. The challenge resides in moving beyond the ministry's programs and "matching" the smaller works performed by the program to the larger infrastructure works that guarantee the durability and quality of the assets that are being created. Moreover, the program also allows some of the works to be performed in the areas belonging to marginalized groups of small producers and farmers from lower or tribal castes. Similarly to the inclusive production approach in Brazil, this can be a tool to directly increase the productivity of these populations.

4 FINAL REMARKS

This article discussed ways in which several social protection programs were adapted and expanded within the context of the world's economic-financial crisis in order to learn some lessons about how the programs can be designed in order to increase resilience. We argue that several countries were able to expand social protection using some anchor-programs as a starting point, but not limiting themselves to them.

Fundamental to the ability of the programs to promptly respond to the crisis was the fact they already had a delivery platform for the benefits and registries of potential beneficiaries. In countries where the registry covers large population groups and not only the beneficiaries of the anchor-program, it was possible to extend the existing program's coverage or add new components or release new programs using the previous existing technology.

Emerging economies moved towards the extension of these programs' coverage, as well as towards a greater integration among them. This process allowed the generation of economies of scale and the reduction of transaction costs. However, it is important to recognize that several low income countries are still not ready to make this type of investment, but innovative approaches such as the PSNP in Ethiopia reveals several reasons for optimism, even in the most difficult circumstances.

Besides the fact that the evidences indicate that the programs discussed in this paper are relatively cheap in terms of each country's GDP, even when applied in large scale, they are still seen as a "luxury" that should be limited to short periods of time and crisis situations. However, what is really troublesome is that in the emerging countries, the so called new middle class is still extremely vulnerable to poverty. These groups, in some cases, do not qualify for non-contributive benefits typical of social aid and, at the same time, do not receive the benefits associated to the formal labor market. Similarly, the unemployed, particularly, unemployed young educated people do not seem to be under any kind of protection in different regions of the world. When they are not classified as vulnerable groups, the protection policies do not reach them. In any case, it seems clear that social protections programs, when implemented in large scale and within a medium to long term horizon can, in fact, contribute to an inclusive growth process.

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PUBLIC PENSION RE-REFORMS IN THE AMERICAN HEMISPHERE: A PRELIMINARY COMPARATIVE PERSPECTIVE*

Milko Matijascic**

Paradigmatic reforms did not achieve their goals. Parametric reforms were concerned about improving pension systems but their limit, usually, is that those reforms do not deal with low densities of contribution. The *pragmatic* solutions were built on the tax-financed universal approach, since they reduced deprivation in family's income. They have major potential since it deals successfully with persistent informality, labor market precariousness and social heterogeneity by reducing poverty based on fiscal transfers. Targeted cash transfers present encouraging performance, but universal programs seems to be even more effective.

Keywords: social values; financial crises; government policy; provision and effects of welfare programs; general, international, or comparative; formal and informal sectors; shadow economy; institutional arrangements.

REFORMAS DAS REFORMAS DO SISTEMA PÚBLICO DE PREVIDÊNCIA NO HEMISFÉRIO AMERICANO: UMA PERSPECTIVA COMPARATIVA PRELIMINAR

As reformas paradigmáticas fracassaram em seus propósitos. As reformas paramétricas buscaram a melhoria dos sistemas previdenciários, porém, tais reformas são normalmente limitadas, por não lidarem com baixas densidades de contribuição. As soluções paramétricas com base na abordagem universal do financiamento por meio dos impostos representaram um esforço essencial, pois reduziam a pobreza. Elas lidam positivamente com a informalidade persistente, com a precariedade do mercado de trabalho e com a heterogeneidade social, reduzindo a pobreza com base em transferências fiscais. Transferências em dinheiro com base em focalização apresentaram resultados importantes; contudo, programas universais são ainda mais eficazes.

Palavras-chave: valores sociais, crises financeiras; política do governo; o fornecimento e os efeitos dos programas de bem-estar; geral, internacional ou comparativo; setores formal e informal; economia subterrânea; arranjos institucionais.

JEL: A13; G01; I38; N30; O17.

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1 INTRODUCTION

An increasing number of workers does not have regular jobs and cannot contribute to social security in a regular basis. In LAC - Latin American Countries - the precariousness of occupation, a traditional problem, was combined after the 1980's with unprecedented levels of unemployment.[1] Alternatively, in countries with higher gross domestic product (GDP) per capita like Canada, and especially the United States, rising unemployment was not a problem until 2008, but precariousness seems to represent, more and more, a challenge.

The 1990's represented an age of pension and labor market reforms in order to stimulate savings and market friendly policy measures. Nevertheless, results seem not to match their goals since the economic performance was modest, and social security coverage remains limited in LACs. Conversely, institutions of countries with integrated and complex economies like the United States, Canada and Brazil reject this kind of solution as a way to organize the core services delivered by public social security institutions.[2]

Recent studies point out that social policy based on universality and focused on tax-financed pension are essential to avoid social exclusion and poverty.

The paper is composed by distinct sections:

1) paradigmatic reform: major changes, poor results;

2) paradigmatic reforms: some basic outcomes so far;

3) parametric reforms[3];

4) re-reform initiatives;

5) tax financed pension programs in Latin American countries; and

6) multi-pillar pension system: a new consensus.

1. This paper does not involve exogenous factors impacts such as macroeconomic environment or labor market issues. Those impacts were evaluated by ECLAC (2006); IEG (2006) Matijascic and Kay (2006) and Matijascic, Ospina and Kay (2007). Nevertheless, it is important to reassure that pension reforms based on fully funded schemes and individual accounts, according to those ex post evaluations, failed to change the economic and social scenarios existent in the pre-reform age in all countries. Those evaluations show that pension funds did not play a decisive role to improve the economic performance and the social security coverage and, conversely, their outcomes were affected by those issues.

2. This paper is not dealing with the political process of pension reform. This comment reflects the conclusions of IEG (2006), Kay and Sinha (2008), Weyland (2008) and ISSA (2009).

3. This paper is focused on social security delivered by State or public institutions, or those mandatory for pension coverage. Voluntary coverage delivered by private or company pension funds are not involved in this scope since paradigmatic or parametric reforms do not deal with them as shown by the debate. For those who would like to have more details about parametric or paradigmatic reform definitions of this ongoing debate please check Pierson and Myles (2002) Gill, Yermo and Packard (2005) or Barr (2007).

2 PARADIGMATIC REFORM: MAJOR CHANGES, POOR RESULTS

Countries that build social security institutions to protect their families face non-resolved challenges. Situation may vary, but it is possible to conclude that demands towards those services are high and the contributive capacity of the average worker is weak. Periods characterized by poor economic performance tend to generate major financial problems to pension systems. This kind of period stimulates the demand for benefits and does not generate higher levels of contribution in a situation of economic slowdown. Among countries with poorest institutional traditions this scenario could easily generate a bankruptcy and usually could be confronted with insolvency of pension plans, regardless if they are funded or not. In such a situation political interference is unavoidable.

Although the former description could be widely accepted by most experts, policy proposals are far from achieving a consensus. Those who supported policies inspired by the Washington Consensus believe that the key problem was the structure of traditional pension systems, since they stimulated opportunistic behavior from the insured and did not generate incentives enough to enhance the relation between the replacement rate benefits based on the total amount of contributions.

According to the Washington Consensus point of view, generous promises for benefits created heavy fiscal burdens for the future. This vicious cycle could be halted by paradigmatic reforms based on market incentives to contribute on a regular basis[4]. Those arguments sustained pension reform based on fully funded individual retirement accounts. They could benefit from the accumulation of assets and reduction of government fiscal commitment since those schemes were not based on solidarity as pay-as-you-go (PAYG) ones.

There is not a unique approach for paradigmatic reforms. There are several types as stated by FIAP (2010) – International Federation of Pension Funds Administrators:

- single system – membership of the system is mandatory. Funds are managed by private agencies supervised by a government agency. This system completely replaces the existing PAYG system;
- integrated mixed system – the individually funded system coexists with the PAYG system; and
- mixed in competition system - The individually funded and PAYG systems compete.

4. Pension reforms were classified by many studies. The taxonomy adopted for our purposes chose Pierson and Myles (2000). Most studies characterize them as structural reforms rather than paradigmatic as Mesa-Lago (2004). Mesa-Lago (2004) and ECLAC (2006) also present a very detailed description of pre and post reform scenarios. In our present scope, it is impossible to reproduce the arguments of an ongoing debate.

Table 1 presents LAC pension systems according to their type, year of paradigmatic reform and population who was included or excluded from those reformed systems.

TABLE 1
Paradigmatic reforms in LAC – basic characteristics

Country	Year	Type	Social assistance	Population
Chile	1981	Single	Means tested	Excludes military and police
Peru	1993	Competition	None	Excludes military and police
Argentina	1994	Integrated	Means tested	Excludes military and police
Colombia	1994	Competition	Minimum benefit	Private sector
Uruguay	1995	Integrated	Means tested	Private sector
Bolivia	1997	Single	Means tested	All
Mexico	1997	Single	None	Excludes survivor and disability
El Salvador	1998	Single	Minimum benefit	Population born before 1962
Costa Rica	2000	Integrated	Universal	Excludes public servants
Dominican Republic	2003	Single	Universal	No restrictions

Source: FIAP.

The profile of paradigmatic pension reforms is not uniform. Approaches were different according to country singularities and characteristic political processes to produce a reform. However, Chilean influence was decisive and most arguments to make the case of the reform were quasi identical among LAC.

3 PARADIGMATIC REFORMS: SOME BASIC OUTCOMES SO FAR

The outcomes of the process should be evaluated according to initial expectations of reformers. In order to present outcome of pension evolution in an age of reforms in the last two decades it is necessary to observe how coverage evolved. Reformers made a strong case for paradigmatic reform as an option to create a more solid link between contributions and benefits to stimulate the regularity of contributive effort. As shown by table 2, non-coverage remained high and did not overcome historical paths.

TABLE 2
Contributor's coverage as percentage of economically active population (EAP) for selected years

Country	Initial coverage		Final coverage 2006 (In %)
	Year	%	
Argentina	1992	46.8	39.2
Bolivia	1999	13.8	12.5
Chile	1990	62.2	62.7
Colombia	1996	25.3	31.7
Costa Rica	1990	66.9	62.7
Ecuador	1990	39.4	26.2

(Continues)

(Continued)

Country	Initial coverage		Final coverage 2006 (In %)
	Year	%	
Mexico	1998	34.3	35.9
Peru	1999	10.8	14.0
Uruguay	1991	58.0	60.9

Source: National household surveys *apud*. Rofmann, Luccheti and Ourens (2007).

When the analysis focuses the beneficiaries of 65 years or older (table 3), the conclusion is similar. Coverage decreased in six countries and non-coverage remains a major issue, except for Argentina and Uruguay. Additionally, countries like Costa Rica, Mexico and Colombia introduced pension systems after 1940 and their system is still on maturation, which explains the increasing coverage, although it still remains very reduced, even with the introduction of tax financed programs (see section 5).

TABLE 3
Beneficiaries as percentage of the aged 65 years or more in selected years

Country	Initial coverage		Final coverage in 2006 (In %)
	Year	%	
Argentina	1992	78.1	70.5
Bolivia	1992	38.1	18.0
Chile	1990	73.0	61.7
Colombia	1992	20.0	25.1
Costa Rica	1992	25.6	41.3
Ecuador	1990	18.6	17.5
Mexico	1992	16.7	23.3
Peru	1998	29.9	27.7
Uruguay	1991	88.1	85.6

Source: National household surveys *apud*. Rofmann, Luccheti and Ourens (2007).

One of the primary motivations for paradigmatic reform was to improve efficiencies and reduce costs. However, competition has been limited, as most pension fund markets have become oligopolies. Pension funds have generally not competed on price.

The brokerage firm CB Capitales calculated that when commission charges are taken into consideration in Chile, the real average annual return on worker contributions between 1982 and 1999 was 5.1% – not 11% as calculated by the Superintendency of pension funds - because the official figures only calculated returns before commission and insurance charges. The report found that the average worker would have done better, earning a real average return of 7.2 percent, simply by placing their pension fund contributions in a *passbook* savings account (Matijascic and Kay, 2006).

Arza (2008, p. 2704-5), using pension individual's account data from Argentina shows that yearly average real rates of return from 1994 until 2007 were equivalent to 1.4% when deducted administrative costs and fees. If the deduction considers only administrative costs, the rate of return would be 4 percent, that is, inferior to the presumed rate of return of the PAYG scheme of 4.6 percent. The nominal interest rate of a fixed-term deposit of sixty days or over has been higher than the pension fund nominal return (net of administrative fee) for the period 1994–2006 (10.4% compared to 8.4% in private pension funds).

In sum, paradigmatic reforms did not achieve their goals and the public debate evolved to focus on alternative reforms.[5]

4 PARAMETRIC REFORMS

The alternative approach for pension reform was the parametric one, based on the maintenance of all basic features of traditional pension schemes and adapting legislation in order to *tighten eligibility conditions*, increasing the contribution efforts or reducing the replacement rates of benefits. Usually a combination of those policies takes place in order to face financial and coverage problems. Reformers considered this soft approach as a realistic solution since transition costs are inexistent and solidarity, in many cases, remains a social value for most societies.

Parametric initiatives as eligibility or benefit formulae are also inherent to paradigmatic reforms initiatives, while these changes are necessary to adapt them to the evolution of exogenous facts as demographic changes, macroeconomic oscillations and labor market realities. In that sense, those who pioneered paradigmatic reforms as Chile and Argentina adopted parametric measures in their recent reforms. Other countries as Costa Rica, Panama and Ecuador also introduced major parametric changes[6].

Chart 1 provides some basic and very synthetic information based on major reforms for countries in the American Hemisphere and the Caribbean. It is important to highlight that the chart excludes countries that deserve closer attention further in the paper and others that did not present major pension reforms or without available data.

5. Those figures, as shown by Gill, Packard and Yermo (2005) or Matijascic and Kay (2006) are due to a wide set of traditional problems in the pension fund industry like reduced competition; high administrative fees; excessive transaction costs in financial markets and reduced investment alternatives. The government intervention and misuse of funds represent a major problem only in Argentina since 1999 and in the United States during the Bush Administration. Moreover, a recessive scenario as recent global financial crisis also impacts negatively the pension funds performance. Regulation of pension is also a problem as it is a problem for the banking industry or financial markets.

6. Information according to SSA International Update (SSA, 2005a; 2005b; 2008a; 2008b; 2008c; 2009a; 2009b; 2010). Available at: <http://goo.gl/6sPnDz>.

CHART 1

Fundamental changes in the parameters of the very last major pension reform in Selected Countries in the American Hemisphere and the Caribbean

Country	Year	Type	Management	Eligibility	Age limit	Contribu-tion	Formula	Benefits
Bahamas	1999	Parametric		Postpone				
Barbados	2006	Parametric			Flexibilization	Raised 4 pp	Stimulate contribution	
Belize	2003	Parametric	Combat fraud					
British Islands	2001	Parametric				Raise maximum insurable		Enhance access
Canada	1998	Parametric	Reorganize at-tributions with Provinces	Raised from 3 to 5 years			Increased to last 5 years	Limit survi-vorship
Cayman Islands	2003	Parametric	Centralization					
Colombia	2007	Paradigmatic	Disclosure an competition		Raised from 60 to 62	Provident fund (high earmings)		Minimum benefit
Cuba	2009	Parametric			Raised from 60 to 65		From 15 to 30 years	Stimulates retirement postpone-ment
Dominican Republic	2001	Paradigmatic	Mandatory pension plans - disclosure			Tax exempted		Tax exempted
El Salvador	2007	Paradigmatic	Maximum Fee of 1,5% of income			Reduces 0,3pp employees share		
Jamaica	2003	Parametric	Regulation ans disclosure					Defined contribution (private schemes)
Mexico	2008	Paradigmatic	Regula-tion – inhibit transfers					
Peru	2003	Paradigmatic						From DB to DC
Puerto Rico	1997	Paradigmatic						
Suriname	1999	New Scheme				60 and older poor or civil servant		

Source: ISSA – International Social Security Administration.

Based on chart 1 it is possible to confirm that recent years could be characterized as a period of intense reforms in most pension systems. It is interesting to underline that most paradigmatic reforms focused on management, since institutional framework and regulatory capacities were scarce in most countries that followed that path. This is not to say that other countries did not face problems, but it shows that many of the promises of paradigmatic reforms could not be addressed in those economic and social conditions.

Moreover, countries that were not focused here like Venezuela or Paraguay also promoted changes, but those reforms were not major reforms and tended to target on incremental issues. It is possible that after a long period, those initiatives could induce to a new framework. Nevertheless, according to ISSA's definitions, institutional, managerial or administrative changes always are characterized as major reforms. After showing the methodological approach, it is time to present specific showcases.

The reforms of Costa Rica's system to ensure actuarial viability in 2005 consisted of:

- raising the combined contribution rate from employees, employers, and the government from 7.5 percent of earnings to 10.5 percent over a 30-year period;
- changing the basis for calculating the benefit from 48 monthly contributions to average earnings over the last twenty years, adjusted for inflation;
- increasing the number of monthly contributions from 240 to 300 for eligibility; and
- establishing a separate disability benefit – 50 percent of the full benefit – for workers aged 48 and older with at least five years of contributions. Previously, ten years of contributions were required.

The main provisions of Law 51 of Panama from mid 2005 to equilibrate financial imbalances of social security were:

- the retirement age for men will remain at 62 and for women at age 57; workers could retire up to two years earlier with a reduced pension;
- number of monthly contributions to become eligible for a pension will increase from 180 to 240 between 2007 and 2013;
- the contribution rates for old-age, survivors, and disability programs will rise between 2008 and 2013 from 6.75 percent to 9.25 percent for employees and from 2.75 percent to 4.25 percent for employers;
- workers who choose to have an individual account will have their contributions split between two pillars: contributions on earnings up to \$500 per month will go to the first pillar, based on PAYG schemes and public management and those over \$500 may opt to redirect this related income to individual account;

- individual account benefits will be paid as programmed withdrawals calculated to guarantee income according to the worker's expected lifespan. Workers with low account balances will receive a lump-sum distribution; and
- between 2007 and 2060, the government will contribute US$ 7.2 billion to help reduce the system's deficit.
- Ecuador's National Assembly March 2009 passed a number of amendments to its Social Security Law effective April 1. Ecuadorian authorities focused on changes to enhance the value of benefits and preserve better life conditions, especially among the elderly. Specifically, the key changes were:
- introduce adjustments of benefits according to inflation over the previous 12 months;
- set up a monthly minimum pension equal to the national minimum wage for workers with forty years of contributions. For workers with fewer years of contributions, the benefit is a percentage, *ranging from 50 percent of the potential integral benefit;*
- establish an income test for workers who collect a pension and remain in the labor force. Those who earn less than US$ 770 per month receive a full pension. For any earnings above US$ 770 per month, the pension is reduced by 40 percent. Once the worker completely retires, the full pension is restored.
- allow workers to transfer their home mortgages from a domestic financial institution to the Social Security Institute (IESS).

In sum, most parametric reforms were concerned about improving pension systems in order to keep actuarial requirements closer to a balanced situation or to adopt measures to ensure protection of benefits and their value. The limit, usually, is that those reforms do not deal with low densities of contribution due to informality, precariousness of labor markets and poverty.

5 RE-REFORMS: FACING TRADITIONAL CHALLENGES?

Many countries that adopted paradigmatic reforms are facing severe problems. Based on this picture many countries stopped paradigmatic reform proposal process trying to avoid the problems observed in countries like Argentina and Chile.

In the aftermath of the Argentine pension collapse, for example, Nicaragua decided to postpone its long-planned pension savings account program. In July 2004 after it was deemed socially and financially unsustainable by Economy

Minister Eduardo Montiel, who said that the reform would have generated a deficit of $458 million from 2005 through 2009. Montiel argued that only one in seven workers would have benefited from the new system. Privatizing the social security system had originally been one of the conditions that Nicaragua had agreed upon in 2000 in its effort to enter the IMF's Heavily Indebted Poor Country program. The World Bank had contributed $8 million toward the pension reform, while the Inter-American Development Bank had agreed to contribute $10 million, which it later withdrew due to doubts about its fiscal viability. Since 2005, Nicaragua decided not to follow the paradigmatic reform path. In 2010 it is clear that reforms introduced in Nicaragua are very modest, since in the end of 2009 the government decided to raise the payroll tax for employers by 1% (Matijascic and Kay, 2006).

In 2005, President Bush Administration in the United States tried to introduce some reforms with paradigmatic inspiration. The basis scenario idea was to share the pension system in two tiers and redirect 4% of payroll contributions to an individual account that should create a fund that could invest not only in public debt but in other kind of financial assets such as equities and other private bonds. This basis scenario assumed that this option could avoid an actuarial deficit in the future and generate a surplus based on higher rates of return that could be obtained in the financial markets. Additionally, the advocates of President's Bush proposal also endorsed that such a system could easily have reduced management fees and present excellent achievements.

Those who did not endorse President Bush proposal replied that there is no actuarial problem and projections of precedent decades were systematically conservative and catastrophic in their conclusions. According to the advocates of social security, actuarial situation was reliable. Moreover, funding a share of contributions could generate risks by driving funds to financial markets and creating potential bubbles that could endanger funds of American workers. The outcome of this debate was a rejection of the proposal by the American Congress.

In Bolivia, President Evo Morales presented a pension reform bill to Parliament at the end of July 2009 that overhauls the current individual accounts system established in 1997. The proposed law establishes a guaranteed minimum pension for workers aged sixty or older with at least ten years of contributions. The proposal includes provisions to:

- lower the normal retirement age from 65 to 60;
- transfer pension fund management from the two existing private companies to a new government agency (workers would continue to pay 0.5 percent of earnings for administration);

- require employers to contribute between 1 percent and 1.5 percent of their employees' salaries (currently, employers do not contribute to employees' individual accounts);
- finance the solidarity fund—which supplements the pensions for low earners—with an additional 1 percent of earnings contributions from workers earning more than twenty times the monthly minimum wage (currently 11,550 bolivianos or US$ 1,677) and an additional 10 percent for those earning more than sixty times the monthly minimum wage (currently 34,650 bolivianos or US$ 5,031); and
- allow retirement at any age if a worker's individual account would yield a pension equal to at least 60 percent of the worker's average salary in the previous five years (current law requires 70 percent).

Uruguay implemented most provisions of a new flexible retirement law in march 2009 providing more workers access to a public pension. Specifically, the key changes:

- allow workers aged 65 with 25 years of service to receive an advanced age pension. Workers over age 65 need fewer years of service; for example, workers aged 66 need 23 years and workers aged 70 need 15 years. Previously, an advanced age pension was provided only to workers aged 70 with 15 years of service;
- modify the benefit formula for the advanced age pension to 50 percent of the average of a worker's last three years of wages plus 1 percent for each additional year, up to a maximum of 14 percent. The old formula was based on average earnings in the last ten or twenty years, whichever was higher;
- provide women one year of credit toward their retirement for each child (natural or adopted), up to a maximum of five. This measure will increase women's pensions because they generally spend more time raising children and often have shorter work histories than men;
- eliminate the requirement for a disability benefit of six months of service immediately prior to the onset of a disability. Workers aged 26 or older still need two years of service while those under age 26 need six months;
- create a special unemployment benefit for workers aged 58 or older with at least 28 years of service who have been unemployed for at least one year. The benefit is equal to 40 percent of the worker's average earnings in the six months prior to becoming unemployed and ceases when the worker becomes eligible for a retirement benefit;

- after July 1 the number of years required for an old-age benefit was reduced from 35 to 30. The minimum retirement age will remain at age 60.

Chilean's institutional changes implemented since 2008 deserve special attention are:

- on July, 2008, the Chilean government introduced the Solidarity Pension System. This new first pillar, expands coverage and provides both a noncontributory and a top-up benefit. The PBS (*pensión básica solidaria*) is a means-tested benefit paid to those individuals aged 65 or older who are not eligible for any other pension. The PBS initially covers 40% of the poorest individuals in Chile; coverage will be extended gradually so that by 2012, 60 percent;
- a top-up (old-age and disability) benefit (APS) (*aporte previsional solidario*) is paid to those individuals who have contributed to an individual account and whose self-financed monthly benefit in 2008 is between 50,000 pesos (US$ 101) and 150,000 pesos (US$ 302). The benefit will be gradually increased through 2012; and
- beginning October 2008, Chilean employers may offer voluntary pension savings plans, (APVC), as a supplement to their mandatory individual accounts. Tax incentives for other types of voluntary retirement savings accounts are geared toward higher income workers.

The Argentine Congress passed a law on November 2008 that eliminates the current system of individual retirement accounts and transfers the assets to a PAYG Integrated Argentine Social Security System— (SIPA). SIPA also incorporates the preexisting PAYG earnings-related program. Moreover, since 2007 government reforms:

- raised benefits (accrual/accumulation rate) from 0.85% of base salary per year to 1.5%;
- authorized early retirement (PAYG pension continue to have no automatic indexation);
- established that new workers are enrolled by default into the PAYG scheme and not in AFJP as before, unless affiliates explicitly wanted to join a AFJP;
- eliminated the role of insurance companies to provide disability and survivor pensions and from AFJP to collect those contributions; and
- established that individual contribution for AFJP administrative cost should be 1% of taxable income at most.

It is very premature to evaluate if the number of contributors or beneficiaries rose. However, positive effects on benefit coverage, poverty and welfare are predictable since there was, in most countries, a raise in the benefit value or higher subsidies focused on affiliated with reduced income and high job turnover, especially from formal and informal labor markets.

Nevertheless, many of the provisions focused on tightening eligibility conditions by raising the number of contributions required or raising the payroll taxes. Those measures certainly create extra barriers since the labor markets in the region are precarious and income is quite low.

Brazil can provide a showcase since its figures are very close to the typical LAC's ones. All benefits granted for workers belonging to families with income deprivation (BPC) and rural individuals working in family basis farms represent an important proportion of social security workers eligible to pension, as shown by table 4.

TABLE 4
Long term distribution as a percentage of benefits paid by the private sector pension regime in Brazil (1980-2009)

Benefit	1980-84	1985-89	1990-94	1995-99	2000-04	2005-09
Length of contribution	13.1	11.5	14.6	23.0	10.3	13.4
Age (urban)	7.1	10.9	10.0	7.9	10.2	7.0
Age (rural)	19.8	17.5	38.2	16.3	21.8	11.5
Disability	20.6	17.3	8.6	10.8	13.4	19.6
Survivors	25.8	30.0	22.5	22.5	23.4	26.9
BPC - Assistential old-age	6.5	6.7	2.7	5.7	11.8	10.8
BPC - Assistencial disability	7.2	6.1	3.5	13.8	9.2	10.8
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Ministry of Social Insurance. Yearbook and monthly bulletins.

Based on table 4 figures, more than 33.1% of all benefits entitlements were granted for those who were unable to contribute at least thirteen years (adding rural and BPC pensions). From 2000 to 2004, those benefits represented more than 40% of all entitlements. Additionally, only 13.4% of benefits were paid for those who had continuous contribution records (length of contribution) from 2005 until 2009. Benefits granted by age also reflect problems with workers life cycle since they require records equivalent to thirteen years, which is insufficient to guarantee the individual sustainability in terms of income. In other words, those difficulties should represent a higher fiscal burden.

The problem involved with low densities of contribution (the number of contributions within a predetermined period) illustrated with Brazilian figures was similar among other countries of the region. All those data presented to measure the coverage reflect the same problem. Arza (2008, p. 2701) argues that only 8% of pension affiliates in Argentina will be able to contribute regularly during thirty years. Even Chile admitted recently, on the Consejo (2006) that more than 60% of the elderly would not be eligible to a minimum pension since their contributions were inferior to twenty years. *Additionally for many of those who contributed for twenty years, the individual fund would be insufficient to pay the floor benefit. Table 5 illustrates the Chilean scenario.*

TABLE 5
Average density of contribution in Chile at retirement (2002)

Indicators	Contributors		Affiliated	
	Man	Women	Men	Women
Mean contributive months per year	7.0	7.3	5.3	4.5
Mean contributive months at retirement)	321.5	298.8	241.6	186.1
Replacement rate before taxes (In %)	56	39	40	23

Source: Labor Ministry of Chile. *Apud*. CENDA (2004).

Table 6 also illustrates these phenomena for Argentina including information for various workers of private sector according to their age.

TABLE 6
Average density of contribution for Argentinean private sector workers according to age and gender
(In %)

Years old	Men		Women	
	1994	2001	1994	2001
25	8.1	44.5	5.3	41.5
35	49.5	48.9	49.2	44.0
45	57.5	47.4	57.0	46.7
55	63.1	42.1	65.6	47.8
65	61.6	29.4	76.2	23.2
Total	**54.0**	**39.6**	**57.8**	**37.5**

Source: DNPSS – National Department of Social Security. Apud Bertranou and Sanchez (2003 p. 24-25).

According to table 6 the average density of contribution is not only reduced, but there is also a deteriorating trend with the high levels of informality and precariousness of labor markets that prevailed during 1980's and 1990's in Argentina. Although the scene in Argentina was particularly troubled, those trends seem to be valid for most countries in the region and this scenario requires alternative proposals to deal with social protection. Definitely, market friendly solutions and classical bismarckian models present limits to deal with those challenges.

In sum, neither the paradigmatic nor the parametric approach of social security reform leaded to a system with higher coverage, as shown by Matijascic and Kay (2006). The problem was the assumption based on a profile of labor market dominated by salaried work and long lasting labor contract. The *pragmatic* solutions were build in societies that privileged systems based on the tax-financed universal approach, since they reduced deprivation in family's income.

6 TAX FINANCED PENSION PROGRAMS IN LATIN AMERICAN COUNTRIES

LAC pension programs were usually inspired by a peculiar interpretation of the classical bismarckian model. Since labor markets were always precarious, problems of non coverage and deprivation among the elderly or disabled were recurrent. Many countries introduced innovations to deal with this issue and results are encouraging if focused on poverty alleviation or eradication. Based on Bertranou, Ginneken and Solorio (2004), some of those programs will be presented.

The Argentinean Non-Contributory Programme (NCP) has evolved, awarding various types of benefit for different categories: social assistance pensions; veterans; and other pensions awarded by special legislation. These programs developed in a fragmented way within the national government but also within other levels of government. *The average benefit stood at $Arg 153, equivalent to 57% of the average contributory pension.*

For Brazil it is easier to describe the system based on data presented in chart 2. Moreover it is important to insist that those benefits are financed by the Social Security Budget, as determined by the current Constitution, and encompasses taxes based on payroll, added value taxes and company profits.

CHART 2
Eligibility for non-contributive benefits

Benefit	Eligibility	Length of contribution	Replacement rate
Retirement for rural familiar farms	Age 60 for men and 55 for women and/or disabled	Insured on a regular basis	One minimum monthly wage
Aid to the aged or disabled (BPC)	Age 65 and/or disabled living in households with per capita revenues inferior to 25% of the minimum wage	Not required	One monthly minimum wage

Source: Laws n. 8.112/90 and n. 8.213/91.

The tax-financed pillar of the Chilean system, (PASIS), extended social security coverage to low-income earners. However, the program still faces a waiting list. Targeting improved which can be explained not only by the improvement in the instrument used to identify the potential beneficiaries but also by better control, particularly the municipal level of government. Recent reforms described in the last section should improve a lot the performance when related to the efficacy.

The Non-contributory Basic Benefit Pension Scheme (RNC), administered by the Social Insurance Fund of Costa Rica, provides economic assistance to citizens who are unable to carry out remunerated employment and are not protected by any of the existing pension schemes. Benefits consist of cash benefits and other social benefits. The latter include membership of the health insurance, participation in training, recreation and other social programs. General tax revenues, employers' contributions and taxes on specific items of products finance RNC.

According to Bertranou, Ginneken and Solorio (2004) these programs presented very important effects to alleviate or reduce poverty as shown by table 7.

TABLE 7
Effectiveness of tax-financed and social assistance pensions (TFPs) in reducing the incidence of poverty (1990-2000)
(In %)

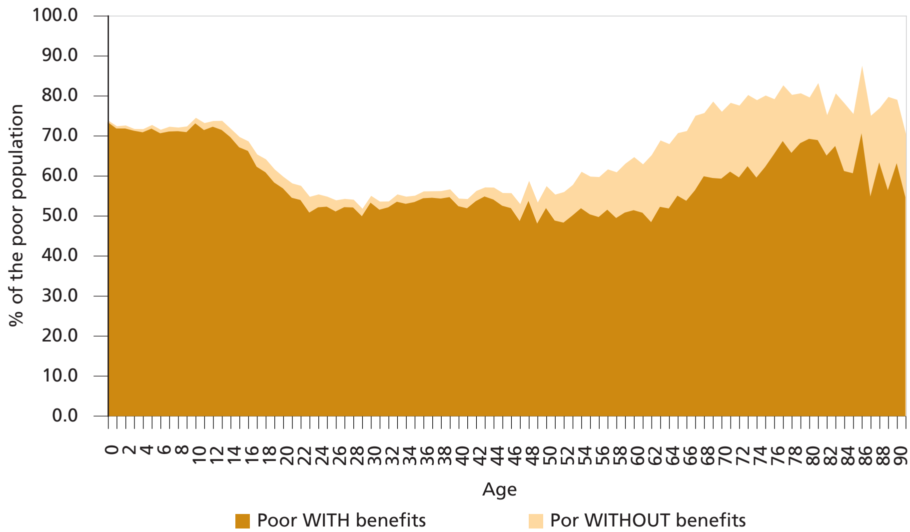
Country	Extreme poverty			Poverty		
	With	Without	Reduction	With	Without	Reduction
Argentina	10.0	30.4	67.1	39.1	56.5	30.8
Brazil	1.2	26.6	95.5	4.6	6.5	29.2
Costa Rica	32.0	40.7	21.4	18.7	24.7	24.3
Chile 1990	32.0	40.7	21.4	18.7	24.7	24.3
Chile 2000	3.7	12.0	69.0	13.0	16.1	18.7

Source: Bertranou, Ginneken and Solorio (2004) based on national data.

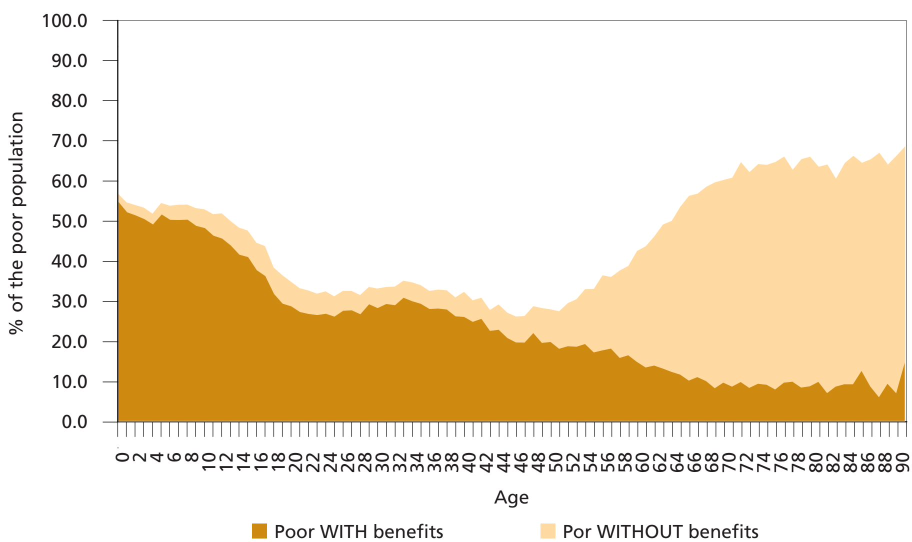
In Brazil, the rise in coverage was driven by new institutional arrangements that permitted many of the working population excluded from the condition of regular contributor to become a pensioner regardless of that requirement. The social pension granted to rural workers and those belonging to deprived families in their old age or disability conditions reduced poverty among individuals, especially among the elderly population in Brazil (Delgado and Cardoso, 2000). Graphs 1A and 1B present those figures for 1998 and 2010.[7]

7. The poverty line considered to address this issue uses the Brazilian national poverty line that represents all income bellow ¼ of the minimum salary per capita (equivalent to US$ 2.03 or US$ 5.08 in PPP method per day) which is far above from the MDG – Millennium Development targets for 2015.

GRAPH 1
Poverty as a percentage of the cohort before and after paying pension
1A –1998



1B – 2010



Source: Ipea.

Other experiences deserve attention. In Mexico *Oportunidades* Program, that exists since 1997 (it was called Progresa before 2002), does not present figures related to poverty as showed in table 7, but the outcomes in healthcare, nutrition, school attendance. Some figures might clarify its impact:

- anemia was reduced from 55% to 44% among the poorest in rural areas;
- motor abilities of children were raised by 15%;
- maternal mortality was reduced by 25%.
- Progresa covered by 300,000 inhabitants in 1997 and 5 million in 2008; and
- Scholarship recipients represented 1.9 million in 1998 and 5.2 million in 2008.

Finally, as shown partially in precedent sections, Bolivia substituted *Bonosol*, a program created in 1997 to cover elderly of 65 years or more in an universal basis by the *Renda Dignidad* in may 2008 targeted to those with sixty years and older that contributed for ten years or more. The benefit was equivalent to US$ 96.

In sum, social security programs based on tax financed resources is growing fast as shown by ISSA (2009). This approach has a major potential since it deals successfully with persistent informality, labor market precariousness and social heterogeneity by reducing poverty based on fiscal transfers. Targeted cash transfers present encouraging performance, but universal programs seems to be even more effective, when the Brazilian experience is considered as a showcase.

7 GLOBAL CRISIS, OPPORTUNITIES AND CHALLENGES

As shown by Barr (2007) it was very easy for the supporters of paradigmatic reforms to compare theoretical pension systems models to the universal ones. Many of the problems inherent to institutional framework and managerial capacities only show up after those reforms are undertaken. Many of the problems in pension systems were related to simple dualities universal versus individual models, funded versus unfunded schemes or public versus private management. Usually, historical problems subsist after major reforms if not addressed conveniently. Pure technical solutions cannot overcome social obstacles. Most problems are related to labor the economy and market structures, even if financing, management and benefit coverage should not be neglected.

It is not possible to rely only on contributory or earnings related schemes in countries that present decades of job precariousness and high levels of informality. To overcome those limits, as shown by McKinnon (2007), social security schemes must involve fiscal transfers to avoid or reduce poverty and non coverage. This is not to say that earning related schemes should be neglected. Those who can contribute on a regular basis should do it in a compulsory way since universal pension pay reduced benefits and usually cannot guarantee the status of such an individual after retirement if compared to his working years.

Moreover, the integration of PAYG or individual accounts in multipillar (or multi-tier) models provides a more comprehensive protection as shown by Pino and Karasyov (2007) and well more adapted to the heterogeneous income that affects most societies.

Ageing and job precariousness also requires dynamic social security systems adapted to those circumstances. Unemployment may require job licenses to deal with retraining or extending the working age, even with part time job added to partial pension payment can reduce financial pressure in social security as well as respect work capacities of the elderly. Sigg and De-Luigi (2007) and Laroque (2007) provide excellent analysis of those challenges. Moreover, some reforms as those undertaken by some LAC countries may inspire future reformers elsewhere.

Global Crisis, as shown by ISSA (2009) is an age of challenges and opportunities. Challenges are related to the rising demand for benefits in a situation when the financial capacity to collect contributions is reduced due to the poor economic performance that induces to a retraction of the mass of salaries and to rising unemployment. During the crisis, social security provides income replacement most of those who cannot find a job and reduces problems that induced to despair as in the 1930's. Social security showed its social importance by moderating the effects of the crisis. The challenges are related to the capacity to adapt institutions, sponsor social pacts and increase income distribution in an age of deep changes and sharp incertitude. Social security must be dynamic.

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NEXT GENERATION OF INDIVIDUAL ACCOUNT PENSION REFORMS IN LATIN AMERICA*

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Latin America led the world in introducing individual retirement accounts intended to complement or replace defined benefit state-sponsored, pay-as-you-go systems. After Chile implemented the first system in 1981, a number of other Latin American countries incorporated privately managed individual accounts as part of their retirement income systems beginning in the 1990s. This article examines the subsequent "reform of the reform" of these pension systems, with a focus on the recent overhaul of the Chilean system and major reforms in Mexico, Peru, and Colombia. The authors analyze key elements of pension reform in the region relating to individual accounts: system coverage, fees, competition, investment, the impact of gender on benefits, financial education, voluntary savings, and payouts.

Keywords: Latin America; individual accounts; pension reform; management fees; private pension fund; retirement.

REFORMAS PREVIDENCIÁRIAS NA AMÉRICA LATINA: A NOVA GERAÇÃO DE SISTEMAS DE CONTAS INDIVIDUAIS

Um contingente expressivo de países da América Latina foi pioneiro na introdução de contas previdenciárias individuais, adotando o regime financeiro de capitalização com planos privados de contribuição definida em substituição ao de repartição com benefícios definidos patrocinado pelo Estado. Depois de o Chile ter sido, em 1981, o primeiro país a implantar o sistema, a partir da década de 1990 uma série de outros países latino-americanos passou a adotar essa sistemática de forma integral ou para uma parcela dos rendimentos de contribuintes com remuneração mais elevada. Este artigo analisa a subsequente "reforma da reforma" dos sistemas previdenciários latino-americanos, com ênfase na recente reforma do sistema chileno e nas grandes reformas no México, no Peru e na Colômbia. Os autores analisam os elementos-chave relacionados a contas individuais das reformas previdenciárias na região: cobertura do sistema; taxas de administração; concorrência; investimento; impacto do gênero sobre os benefícios; educação financeira; poupança voluntária; e pagamentos.

Palavras-chave: América Latina; contas individuais; reforma do sistema de pensões; administração de taxas; fundo de pensão privado; aposentadoria.

JEL: D4, L5, G23, H55, J26.

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1 INTRODUCTION

By the year 2000, several countries in Latin America had followed Chile's lead in setting up individual retirement savings accounts intended to complement or replace defined benefit, state-sponsored pension systems (Sinha, 2000; Kay and Kritzer, 2001). Over the past decade, the world has continued to look to Latin America as these maturing pension systems confront ongoing policy challenges related to coverage, contribution rates, costs, and competition. In the intervening years, issues related to gender equity, financial education, and payouts have become more prominent. Meanwhile, significant next-generation reforms have taken place in Chile, Argentina, and Bolivia and are under consideration in other countries, including Uruguay (Bertranou, Calvo and Bertranou, 2009).

In this article we describe the "reform of the reform" of pension systems, with particular emphasis on countries that have in recent years made significant revisions in their systems of individual accounts. We pay special attention to Chile, which is the region's pioneer in pension reform; however we also analyze major reforms in Mexico, Peru, and Colombia.[1] Specifically, and as described briefly in the remainder of this introduction, this article analyzes key elements of pension reforms that feature individual accounts, including system coverage, fees, competition, investment, the impact of gender on benefits, financial education, voluntary savings, and payouts.

We begin by examining the issue of coverage, which has become a primary concern given disappointment that rates of coverage have not improved and have in fact declined after the move to individual accounts, as the informal sector remains persistently large. Improving coverage remains one of the primary challenges for policy reform (Gill, Packard and Yermo, 2005; Ribe, Walker and Robalino, 2010).

The region's pension systems have received considerable criticism for high fees and weak competition, even as the pension fund industry has itself been highly profitable. We next examine trends in fees and competition in the pension fund industry and discuss the steps that some governments in the region have taken to lower fees. Then we assess how pension funds are invested. Under systems of individual accounts, a worker's pension is ultimately determined by his or her returns on investment. In the early years of the region's pension funds, investment was largely directed toward government bonds; however, there has been an effort to diversify investment portfolios in recent years. Also, some countries have expanded the range of investment options available to workers in order to better match workers' risk tolerance and life-cycle stage.

1. For a comprehensive account of pension reform in the region, see Mesa-Lago (2008).

We then discuss the issue of financial education, which is increasingly recognized as a critical component of pension reform. Under systems of individual accounts, workers are asked to make well-informed decisions that will affect their future lives, although as social protection surveys reveal, most individuals lack the basic knowledge necessary to make such decisions.

The differential impact of pension reform on men and women has also emerged as a pressing topic for policy reformers and was cited as a primary motivation for the Chilean reform by President Michelle Bachelet (Mensaje 558-354, 2006). Because women tend to earn less than men, spend time outside the labor force in care-giving activities, retire earlier, and live longer, their pension benefits are systematically lower. In this section, we assess the differential impact of gender, and how the Chilean reform seeks to remedy gender bias.

Almost all of the systems of individual accounts include a voluntary savings option, although very few workers participate. The 2008 Chilean reform creates incentives for firms to create employer-sponsored voluntary savings plans; however, as we discuss, even with new incentives to contribute, voluntary savings plans have not caught on in Latin America.

When a worker retires after having contributed to an individual savings account, he or she must choose among a range of payout options, including phased withdrawals, a choice of annuities, or a combination thereof. The choice can be complex and costly, with serious and often irreversible consequences. Yet, policymakers have only recently begun to focus on payout options and how they might best be structured. In short, this study assesses the range of pension reforms that have been implemented over the past decade.

2 THE CHILEAN MODEL AND THE FIRST-GENERATION REFORMS IT INSPIRED: AN OVERVIEW

In 1981, Chile introduced a new system of privately managed individual accounts, replacing its public pay-as-you-go (PAYG) pension system. Since 1990, ten other countries in Latin America, as well as countries in Central and Eastern Europe, have adopted some form of what has become known as the "Chilean model."[2]

Under a Chilean-type system of individual accounts, workers contribute a certain percentage of their income each month to a pension fund management

2. The Latin American countries are Argentina (1994), Bolivia (1997), Colombia (1993), Costa Rica (1995), the Dominican Republic (2003), El Salvador (1998), Mexico (1997), Panama (2008), Peru (1993), and Uruguay (1996). Countries in Central and Eastern Europe and Asia that have introduced individual accounts include Hungary (1998), Kazakhstan (1998), Poland (1999), Bulgaria (2000), Croatia (2001), Latvia (2001), Estonia (2002), Kosovo (2002), Russia (2002), Slovakia (2005), and Romania (2008). For more information, see Kritzer (2005) and SSA (2008).

company of their choice (*administradora de fondo de pension*, or AFP).[3] An AFP is a private company, with functions limited to managing pension funds and providing and administering certain pension benefits. table 1 shows the contribution rates in each country, who must contribute (only employees or both employee and employer), and whether or not workers receive some type of compensation for the value of their accrued rights under the old public pension system. In some countries, employers are required to make contributions, while in Chile, employer contributions on behalf of the worker are voluntary. Each month, AFPs charge contributors an administrative fee (some systems allow more than one type of fee) and a premium for survivors and disability insurance, which are often a percentage of the worker's income.[4] The Mexican and Colombian governments also provide subsidies to the individual accounts. In Mexico, the "social quota" is a flat-rate government contribution for those who actively contribute to an individual account. In Colombia, the government provides a partial subsidy to the solidarity fund that subsidizes low earners. High earners in Colombia also contribute to the solidarity fund (SSA, 2009; Reyes, 2008).

TABLE 1
Financing individual accounts in Latin America

Country	Contribution rates (%)[1]		Recognition of accrued rights under the PAYG system
	Employee	Employer	
Bolivia	10	None	Yes
Chile	10	Voluntary	Yes
Colombia[2]	3.85	11.625	Yes
Costa Rica	1	3.25	PAYG is first pillar
Dominican Republic	2.87	7.1	Yes
El Salvador	6.25	4.05	Yes
Mexico[2]	1.125	5.15	At retirement, choice of PAYG or individual account benefit
Panama	[3]	[4]	PAYG is first pillar
Peru	10	None	Yes
Uruguay	[5]	None	PAYG is first pillar

Source: SSA (2009).
Notes: [1] As a percentage of employee's monthly income.
[2] The government also provides a subsidy.
[3] 8.5% of gross monthly earnings above 500 balboas (US$ 490).
[4] 4% of gross monthly earnings above 500 balboas (US$ 490).
[5] 15% of gross monthly earnings above 19,805 pesos (US$ 974).
Obs.: until the end of 2008, Argentina had a mixed system where all insured workers were in the first-pillar public PAYG system; for the second pillar, workers had a choice between contributing to an individual account or the PAYG defined benefit system. A 2008 law closed the second-pillar individual accounts and transferred all workers back to the PAYG system.

3. Although many countries in the region use the acronym AFP, others have different names (see table 2). Throughout this article, we will use AFP as the generic term.

4. More specific information on fees and insurance can be found in the Fees, Profitability, and Competition section.

In all the individual account systems in the region, workers may change from one AFP to another; the number of times per year varies (table 2). In most countries, workers may also make voluntary contributions to either their individual accounts or to separate, voluntary retirement savings accounts. AFPs collect workers' contributions, credit them to the workers' accounts, and invest these monies according to regulations set by the government. AFPs also often contract with an insurance company to provide survivors and disability insurance for their members in some countries. (See the Appendix for a more detailed description of survivors and disability insurance in the region.)

TABLE 2
Characteristics of Latin American pension fund management companies

Country	Acronym for pension fund management company	Year system began	Number of companies[1]	Allowable funds per company	Allowable transfers per year[2]	Minimum rate-of-return requirement
Bolivia	AFP	1997	2	1	1	No
Chile	AFP	1981	6[3]	5	6	Yes
Colombia	SAFP	1993	8	3	2	Yes
Costa Rica	OPP	1995	5	1	1	No
Dominican Republic	AFP	2003	5	1	1	Yes
El Salvador	AFP	1998	2	1	1	Yes
Mexico	AFORE	1997	15	5	1	No
Peru	AFP	1993	4	3	4	Yes
Uruguay	AFAP	1996	4	1	2	Yes

Source: AIOS (1999-2009); FIAP (2008 and 2009); Tapia (2008).
Notes: [1] As of December 2009.
[2] In several countries, a worker may transfer at any time to another company with a lower administrative fee.
[3] A new AFP began operation in August 2010.
Obs.: 1. Until the end of 2008, Argentina had a mixed system where all insured workers were in the first-pillar public PAYG system; for the second pillar, workers had a choice between contributing to an individual account or the PAYG defined benefit system. A 2008 law closed the second-pillar individual accounts and transferred all workers back to the PAYG system.
2. AFAP = Administradora de Fondos de Ahorro Previsional; AFORE = Administradora de Fondos para el Retiro; AFP = Administradora de Fondo de Pensión; OPP = Operadora de Pensión Privada; SAFP = Sociedad Administradora de Fondos de Pensiones.

Across countries in the region, there is a great deal of variation with respect to pension fund markets (table 2). Mexico has the most pension funds, with fifteen, compared with only two in Bolivia – see Von Gersdorff (1997) for details.[5] Furthermore, as will be discussed later, some countries allow workers to choose among different types of investment funds, while in other countries only one type of fund is available. Table 2 also shows that in many cases, funds are regulated with respect to their minimum rate of return.

5. A December 2010 law nationalized the two privately managed pension funds (SSA, 2006–2010).

At the normal retirement age (between 60 and 65 in most countries), workers in most countries can use the balance in their individual accounts to do one of the following:

- purchase an immediate annuity from an insurance company to provide lifetime benefits; or
- set up programmed withdrawals to provide income over the expected life span. If the retiree dies early, dependents may inherit the balance in the deceased's individual account;

Some countries offer variations and combinations of those two options, such as:

- purchasing a deferred annuity, which means setting a future date for purchasing an annuity and, until then, making programmed withdrawals from the individual account; and
- purchasing an immediate annuity with a portion of the funds in the individual account and making programmed withdrawals with the remaining funds.

This model was the basis for reforms throughout the world. While some countries adopted defined contribution individual accounts to replace financially troubled state-run PAYG pension systems, other countries adopted mixed systems or have made individual accounts optional and supplementary. In short, there has been a range of reforms in the region and elsewhere, all of which were inspired by Chile's reform. More recently, Chile has once again led the region with a second generation of pension reforms. In the 2000s, policy debates turned to coverage for the poor and informal sector, gender equity, financial education, and payouts (Gill, Packard and Yermo, 2005), while issues related to coverage contribution rates, costs, and competition remained unresolved. Chile implemented a comprehensive reform that sought to address these challenges, while Argentina took a contrasting approach when the government ended the system of individual accounts and transferred all workers back to the state-run PAYG system.[6] Other countries that have debated or implemented next-generation reforms to their systems of individual accounts, including Bolivia, Peru, and Uruguay, are discussed later.

3 COVERAGE

Coverage is a key indicator of how well a reformed system is functioning. As Gill, Packard, and Yermo (2005, Box 5.2) noted, improving low rates of coverage in developing countries was a core objective listed in the World Bank's

6. Before the government closed the second-pillar individual accounts, Argentina had a mixed system where all insured workers were in the first-pillar public PAYG system. For the second pillar, those workers had a choice between contributing to an individual account or the PAYG defined benefit system.

(1994) landmark report,[7] in later World Bank documents, and in the discussions among Chilean policymakers designing the 2008 reform (Holzmann, Robalito and Takayama, 2009; Chile, Presidential Advisory Council on Pension Reform, 2006). Yet measuring coverage is complex. Rofman and Lucchetti (2006) noted that in the past it was difficult to compare coverage among countries because there was no consistent definition and even within a country, the definition changed over time. However, since 1990, a series of household surveys have been conducted for most countries in the region.[8] These surveys used a consistent definition making it possible to compare coverage across countries at a given point in time or data across time for the same country.

One way to measure coverage is to examine the number of affiliates[9] in the system of individual accounts as a percentage of the labor force. With few exceptions, this percentage has risen – for most countries from 2004 through 2009 (AIOS, 2009) – for two reasons. First, because most of these countries have, relatively immature systems, most register entry of new affiliates, but do not register many exits. Second, once an affiliate signs up for the system, he or she remains in the system regardless of whether or not they are actively contributing to an account.

When we measure the number of contributors as a percentage of the total labor force, as shown in table 3, coverage is far lower because the figures only refer to the system of individual accounts and not other special social security systems that exist in these countries for certain groups, such as public employees, the military, and police. For example, in Uruguay, both the banking sector and notaries have separate systems.

TABLE 3
Proportion of contributors as a percentage of labor force (June 2004 through June 2009)

Country	2004	2005	2006	2007	2008	2009
Argentina	21.3	23.1	24.7	26.1	19.8	1
Bolivia	10.5	10.6	12.1	13.2	12.8	13.4
Chile	55.5	59.8	58.1	60.3	62.2	59.9
Colombia	13.5	11.8	12.7	15.7	17.3	18.4
Costa Rica	48.3	51.1	51.5	53.8	59.1	58.0
Dominican Republic	16.5	17.6	17.8	19.1	20.5	21.3
El Salvador	17.2	17.4	17.9	18.3	19.3	18.6
Mexico	29.0	30.8	31.2	32.0	31.7	29.6

(Continues)

7. See the World Bank (1994, 320) and Mitchell (1997, 15).

8. Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela.

9. An affiliate is a person with an individual account. A contributor is an affiliate that regularly contributes to an individual account.

(Continued)

Country	2004	2005	2006	2007	2008	2009
Peru	11.5	11.2	11.6	12.9	13.6	13.3
Uruguay	23.6	25.6	27.5	29.1	32.0	34.2

Source: AIOS (1999-2009).

Obs.: a contributor is defined as a person who has contributed in the last month in question. This definition does not apply to Mexico where a contributor is defined as a person who has contributed in the last two months in question. The difference is because Mexico follows a bi-monthly accounting procedure, see Sinha (2003).

Note: [1] Until the end of 2008, Argentina had a mixed system where all insured workers were in the first-pillar public PAYG system; for the second pillar, workers had a choice between contributing to an individual account or the PAYG defined benefit system. A 2008 law closed the second-pillar individual accounts and transferred all workers back to the PAYG system. Another way of viewing the system is to examine the number of contributors as a percentage of the total number of affiliates of the system, shown in table 4. This table indicates that in seven of the ten countries listed, less than half of affiliates have made regular contributions, while Costa Rica and Uruguay are the only two countries where approximately two out of three affiliates have made regular contributions. Furthermore, as tables 3 and 4 indicate, significant portions of the labor force have not made regular contributions to their accounts.

In assessing coverage, it is important to consider whether pension system coverage has increased in the region because of the first round of reforms. It is instructive to compare coverage before and after the reform in each country, especially when considering that increasing coverage was one of the primary goals of pension reform (World Bank, 1994). Such a comparison leads us to the following conclusion: With the exception of Bolivia, none of the countries increased coverage as a result of reform (Mesa-Lago, 2004; AIOS, 2006). In Bolivia, coverage before and after reform remains about the same, but is very limited. Overall, it appears that the changes in the system did not result in improved coverage.

TABLE 4

Proportion of contributors as a percentage of affiliates (June 2004 through June 2009)

Country	2004	2005	2006	2007	2008	2009
Argentina	37.3	38.7	39.6	40.0	37.9	1
Bolivia	42.7	42.2	47.1	48.0	43.9	43.8
Chile	48.0	51.9	50.7	52.8	54.3	51.4
Colombia	49.5	39.3	40.0	43.3	44.9	44.9
Costa Rica	66.8	69.8	65.1	68.4	71.0	66.4
Dominican Republic	66.8	55.8	52.6	51.0	49.8	47.7
El Salvador	42.5	40.5	38.3	36.5	34.5	29.6
Mexico	38.9	38.5	37.4	37.9	37.1	34.1
Peru	40.0	37.7	37.5	40.3	41.4	40.1
Uruguay	56.1	59.4	61.6	63.3	65.1	64.5

Source: AIOS (1999-2009).

Obs.: a contributor is defined as a person who has contributed in the last month in question. This definition does not apply to Mexico where a contributor is defined as a person who has contributed in the last two months in question. The difference is because Mexico follows a bi-monthly accounting procedure – see Sinha (2003).

Note: [1] Until the end of 2008, Argentina had a mixed system where all insured workers were in the first-pillar public PAYG system; for the second pillar, workers had a choice between contributing to an individual account or the PAYG defined benefit system. A 2008 law closed the second-pillar individual accounts and transferred all workers back to the PAYG system.

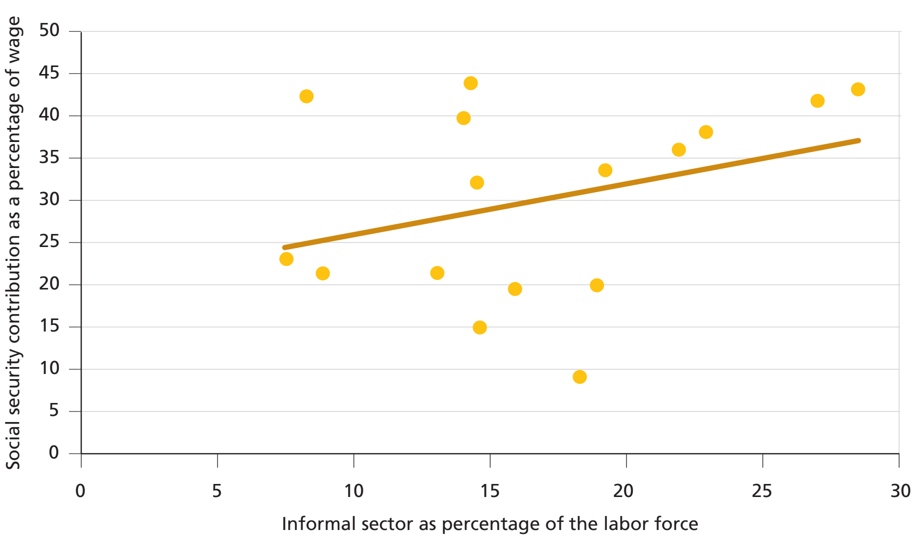
In Argentina, coverage rates declined rapidly for the lowest-income workers after the 1994 pension reform. Rofman, Fajnzylber and Herrera (2008) examined coverage by income quintile in Argentina and found that although coverage for both the lowest and highest quintiles was around 50% in 1992, by 2006 coverage had increased to over 60% for the highest-income quintile, but had decreased to less than 13% for the lowest quintile.

3.1 Labor force in the informal sector

Pension coverage (in *any* pension system) is negatively correlated to the size of the informal sector. The larger the informal sector, the smaller the number of workers that contribute to and are covered by social security because this particular sector is rarely covered by social security. Even in the Organisation for Economic Co-operation and Development (OECD) countries, the relationship holds. What is more disturbing is the relationship between the social security contribution rate (as a percentage of wages) and the size of the informal sector.

Graph 1 plots the informality as a percentage of the labor force along with the regression line fitted to the data. It clearly demonstrates that informality is positively correlated with social security contributions as a percentage of the wages.

GRAPH 1
The informal sector and social security contribution rates in OECD countries (1996)

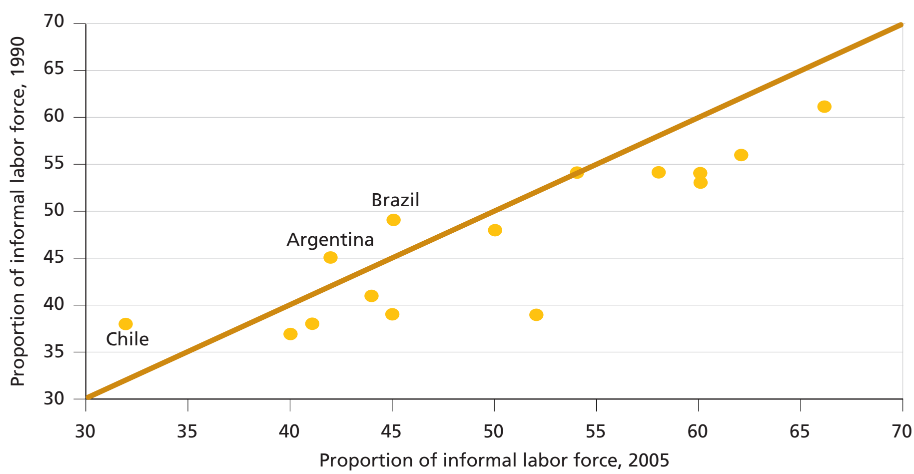


Source: Schneider (2002).
Obs.: OECD = Organisation for Economic Co-operation and Development.

The counterpart to increasing coverage is decreasing the size of the informal sector in the economy. However, there has been very little research on whether a system of individual accounts reduces the size of the informal sector. Schmidt-Hebbel (1999) argued that the reason Chile was the only one of thirteen Latin American countries without a steadily growing informal-sector share of the economy is that it has a growing fully funded pension system, suggesting that "pension reform may contribute significantly to employment formalization – as reflected in expanding pension system coverage – in countries where initial informality is large." In other words, Schmidt-Hebbel suggested that a fully funded pension may lead to more formalization of the labor market based on the evidence of a higher formal labor market associated with the introduction of pension reform in Chile.[10] However, Sinha (2000, Figure 4.3) came to the opposite conclusion. From 1990 through 1995, the informal market grew in Chile and the formal market expanded in Colombia. During the same period, Chile strengthened its reformed system and Colombia only managed a partial reform in 1994.[11]

More recently, Tokman (2008) presented a comparison of informal employment between 1990 and 2005 in sixteen Latin American countries and found that the informal sector has grown. Using that data in graph 2, we compare the informal sector in 2005 to that in 1990. The diagonal line represents what the results would have been had there been no change in the proportion of the informal sector in the labor market. The chart shows that there are three countries in which the size of the informal sector has shrunk during the 1990–2005 period: Argentina, Brazil, and Chile. The other countries (on the opposite side of the diagonal line) have seen their informal sectors increased, demonstrating that reformed pension systems have not systematically resulted in a reduced informal sector.

GRAPH 2
The informal labor force in Latin America: 1990 compared with 2005



Source: Tokman (2008).

10. Gruber (1997) showed that the reduction in payroll tax in Chile in the early 1980s did not increase employment in the formal sector.

11. Chile's reform included phasing out the PAYG system. Colombia has a "mixed" system with a choice between the PAYG and individual account systems.

From a theoretical point of view, moving from a PAYG to a fully funded system is not equivalent to starting a fully funded system from scratch. Thus, there is no clear economic incentive for *all* workers in the informal sector to move to the formal sector. For example, moving to the formal sector may mean higher income tax (although not for all levels of income).

A theoretical model to measure such incentives was proposed by Orszag and others (1999) in a slightly different context. They found that despite claims that "individual accounts would improve labor market incentives relative to a defined benefit pension system (…). The incentive effects of reforms can be complex and, in particular, that in a type of second-best scenario, moving only the pension system to individual accounts may not improve incentives." In other words, a defined contribution system is no guarantee that rates of formal employment will improve, a phenomenon that is demonstrated by the empirical evidence cited earlier.[12]

3.2 Coverage of the informal sector

It is possible to provide pension coverage to workers in the informal sector, but it is very difficult to incorporate informal-sector workers into the pension system. Hu and Stewart (2009) suggested the following ways of doing so based on experiments conducted in countries with very large informal sectors (such as India, where 90% of the labor force work in the informal sector).

1. Offering old-age pension guarantees (provided in some countries, such as Bolivia and Chile).
2. Allowing flexible plans where workers can withdraw money in emergencies and contribute when they have seasonal work (pilot programs are underway in China).
3. Targeting and giving incentives to those who save. This scheme could include tax incentives or matching contributions by the government, although there is no guarantee that such a scheme will be successful (in Mexico, a pilot scheme was attempted, but it did not last because of lack of interest).
4. Utilizing existing infrastructure from a broad range of sectors and financial-sector players: microfinance institutions or rural banks have been mobilized in Bangladesh and the Philippines for this purpose.

12. Coverage and gender are strongly related issues and are discussed at greater length in the Gender Equity section. In general, because women spend less time in the formal labor force than men, earn lower wages, and have greater periods of inactivity and lower density of contributions, their rates of coverage will be lower.

Ribe, Walker, and Robalino (2010, p. 85) noted that the reality of Latin America with large informal sectors should be confronted directly by introducing social insurance programs (for example, pensions, health insurance, unemployment insurance) to the informal sectors as a matter of course with financial and institutional incentives. They argued that behavioral models suggest that moving from a minimum pension guarantee to matching contributions could increase contribution densities and reduce fiscal costs. Given limited international experience with such ex-ante subsidies, the authors called for governments to introduce pilot programs and suggested financial incentives and subcontracting the collection of contributions to aggregators to increase participation. However, a previous experiment with such policies in Mexico suggests that implementation is quite challenging. A pilot plan to incorporate the marginal population in Mexico into a contributory pension program by offering a peso-for-peso subsidy failed primarily because most marginal workers were budget constrained and did not participate.[13] That is, they could not afford to save anything on their own even with the incentive of a matching contribution from the government. Most of the workers in the informal sectors in Latin America are at the lower end of the income distribution, so these incentives would be problematic elsewhere as well.

3.3 Low density of contributions and coverage

Contribution density refers to the proportion of months that a worker makes contributions compared with the maximum number of months the worker could have contributed. As noted in the Coverage section, a recurring problem in the region is that workers have low contribution densities; they do not contribute regularly to an individual account. Low density means that at retirement a worker may be eligible for a minimum or low benefit or may not qualify for any type of benefit at all. Chile, Colombia, Mexico and Uruguay have conducted studies (based on surveys) on workers' contribution patterns in individual account systems, which has led to a series of projections on how density will affect pensions.

Of the workers surveyed in Chile, about half were affiliates of the individual account system. Of the affiliates, men contributed on average about 60% of the time and women about 40 percent. Workers in general contributed about 75% of the time that they were employed (Bravo and others, 2008). Also about 30% of low-income workers contributed to social security, compared with about 70% of high-income workers (Chile, Presidential Advisory Council on Pension Reform 2006). The density achieved in Chile stands in sharp contrast with what was assumed when the system started: The assumption was that the average density of contribution would be 80% (Piñera, 1992).

13. A noncontributory pension program for persons aged seventy or older is being rolled out across Mexico. It pays the recipients living in rural areas with less than 30,000 people 500 pesos (US$ 41) a month. For more information, see <http://www.sedesol.gob.mx/index/index.php?sec=15>.

A 2006 study, conducted by several Superintendent of Pension Fund Management Company (the system's regulator) officials in Chile, estimated that – based on the proportion of AFP members who have contributed to an individual account – about 45% were expected to have a pension that is below the minimum pension, and most of that group would not have qualified for the lowest benefit level (Berstein, Larrain e and Pino, 2006). In 2005, about 66% of these workers had fewer than ten years of contributions. The study predicted that without any changes, by 2025 about 85% of these workers would not have enough years of contributions for the guaranteed minimum pension.[14]

Valencia (2007) noted that the average contribution density for a Mexican worker is 51.5 percent, which would require almost 47 years of contributions to qualify for a minimum benefit. In other words, workers with up to a 60% density are unlikely to receive a minimum benefit. That means 58% of workers have such low densities that they would not be eligible for a retirement benefit. Only about 20% of workers (19% of men and 21% of women) would meet the actual requirements (24 years) for a retirement benefit because they regularly contribute to an account. In general, workers aged 45 to 60 have the highest densities, and those under age 30 have the lowest. But those in the two highest-income quintiles have higher rates for both men and women.

The findings in Uruguay were similar to other countries. Bucheli, Forteza and Rossi (2008) used administrative data for 1996–2004 from the Banco de Prevision Social (which supervises and administers the country's main social security program) to simulate life-time contribution patterns among different groups of workers. According to their findings, close to 30% of workers contributed to an individual account 100% of the time, and more than 40% did not make contributions for at least half of the time. Workers in the poorest quintile contributed almost 38% of the time, while the richest quintile contributed 80 percent. However, unlike in Chile, the rates for men and women were very close: Men contributed 61 percent; and women, 58 percent. As a result, men working in the private sector in the poorest quintile would have a 1% chance of reaching the required number of years of contributions at age 65, compared with 64% for those in the richest quintile. For women, the figures are 4% and 56 percent, respectively.

In Colombia, a 2007 pilot survey found that about 46% of workers (42% men and 50% women) reported not paying contributions, and 20% of the labor force regularly contributed to social security. Similar to Chile and Uruguay, less-educated younger workers are more likely to be in the informal sector. But unlike in Chile, in Uruguay the percentage of men and women in the informal sector

14. The problem is more acute among women. For more details, see the Gender Equity section later in the article.

is about the same (Peracchi, Perotti and Scarpetta, 2007). In addition, most workers in Colombia have very low earnings: 60% of affiliates contribute on an income that is equal to the legal monthly minimum wage, and 20% contribute on an income of between one and two times the monthly minimum wage (Tuesta, 2009).

3.4 Measures to extend coverage

A few countries in the region have established measures to improve coverage and the level of benefits; indeed this has been a critical component of next-generation reform. Chile's reform is the most extensive. It added a new pillar, known as Sistema de Pensiones Solidarias (System of Solidarity Pensions) to the existing mandatory individual accounts system to expand coverage and provide a basic benefit to a larger percentage of the population. A noncontributory benefit will eventually cover 60% of the poorest individuals. In addition, a supplement is available to those who have made contributions to an individual account, but do not qualify for a minimum benefit.[15] In Bolivia, a December 2010 pension reform law creates a solidarity benefit for those workers who do not qualify for a guaranteed minimum benefit (180 months of contributions) but have at least 10 years of contributions. A solidarity fund subsidizes these benefits (*La Razón,* 2010). Other examples include Colombia's Periodic Economic Benefits program (Beneficios Económicos Periódicos, or BEP) for workers who have reached the normal retirement age, but do not qualify for a minimum benefit; Bolivia's universal Renta Dignidad benefit for everyone aged 65 or older; and Peru's special pension program for microenterprises (companies with one to ten employees).

3.5 Coverage for the self-employed

Improving low coverage rates for self-employed workers is a significant policy challenge. Aguila, Attanasio and Quintanilla (2010) found that the absence of compulsory contributions for the self-employed is a key explanatory factor for low overall coverage in Chile, Colombia and Mexico. In most of the region, participation for the self-employed is voluntary.[16] As a result, coverage is low and in many countries, about one in ten self-employed affiliates contribute to an individual account (Auerbach, Genoni and Pagés, 2007).

In Chile, the self-employed represent about one-quarter of all workers, 60% of whom have been AFP affiliates. By 2007, close to 40% of self-employed affiliates actively contributed to an individual account (Bertranou and Vásquez 2007). Chile's recent reform gradually extends mandatory coverage to the self-employed. Beginning January 1, 2012, contributions by the self-employed will be

15. For a detailed description of the 2008 Chilean reform, see Kritzer (2008).
16. Argentina, Brazil, the Dominican Republic, Colombia and Uruguay require the self-employed to participate.

based on 40% of taxable earnings, increasing to 100% by January 1, 2014. Beginning January 1, 2015, all self-employed persons will be required to contribute 10% of their taxable earnings to an individual account (Gobierno de Chile, 2008).

In sum, providing adequate coverage remains a challenge for the region's pension systems. Although some have argued that workers would be more motivated to contribute to individual accounts (presumably leading to higher rates of coverage) and given the fact that workers would see a direct link between contributions and pensions (Piñera 1992, p. 20), the evidence cited earlier suggests that coverage has not improved, especially given the low ratios of contributors to affiliates. Sizable informal sectors, low density of contributions, and low rates of compliance by the self-employed all present challenges to improving coverage.

4 FEES, PROFITABILITY AND COMPETITION

Administrative fees for defined contribution plans in Latin America are generally perceived by industry observers to be high by international standards[17] and have been a major preoccupation of policymakers. High fees contribute to high profits for pension funds (compared with other industries) and reflect a pension funds market with low levels of competition. Policymakers in the region have pursued reforms aimed at increasing competition and lowering fees. This problem of high fees has been identified since the 1990s (Kritzer, 1996; Shah, 1997). As Queisser (1998) noted, "The financial condition of the private fund management companies has been disappointing despite the fact that workers have been paying high fees and commissions for the pension fund management services. Out of the total contribution rates, workers pay on average from 3 to 3.5% of wages for insurance coverage against the risks of disability and survivorship and for the services of the fund management companies. Depending on the level of contribution rates, this amounts to between 20 and 30% of workers' contributions.[18]

4.1 Administrative fees

Pension funds can charge fees on contributions, account balances, or returns. All three types of fees are permitted in the region's pension funds; in some countries, the funds may charge account holders more than one type of fee. In most of the region, the AFPs charge a fee on contributions as a percentage of a worker's income (flow), which is the case in Bolivia, Colombia, Chile,[19] El Salvador, Peru, and Uruguay. By contrast, Mexico eliminated this fee in March 2008, and now pension funds are *only* allowed to charge a fee based on the account balance (not on the income

17. See, for example, Christensen (2007).
18. See table 5 below for the range of administrative fees and table 9 for premiums for survivors and disability insurance.
19. For example, AFP income in Chile is largely derived from fees. In 2005, administrative fees represented 91% of an AFP's income, and the yield on investments from the reserve fund was about 8% (Chile, Presidential Advisory Council on Pension Reform, 2006).

flow or as a percentage of the rate of return that was permitted earlier). Bolivia, Costa Rica, and Uruguay also charge a fee on assets, and El Salvador has a fee on returns.[20] In El Salvador, both employers and employees contribute to the individual account, but only the employer pays the administrative fee.

Most countries have set a ceiling on both administrative fees and contributions that is often a multiple of the legal minimum wage (or in the case of Chile, the ceiling is a multiple of the *unidad de fomento* (UF), a monetary unit adjusted daily to reflect changes in the consumer price index that is used in most financial contracts including pensions). Peru is the only country in the region that does not have a ceiling on either administrative fees or contribution rates; that means account holders must pay both administrative fees and contributions as a percentage of total gross earnings (SSA, 2009).

Because of the wide range of fees charged, it is difficult to compare them across the region. Table 5 shows a history of average administrative fees as a percentage of earnings in five countries (Bolivia, Chile, El Salvador, Peru, Uruguay) in selected years from 1999 through 2008. Bolivia's rates are the lowest among the group and have remained exactly the same over the period because the two AFPs, which have monopoly rights in two separate regions, are required to keep their fees at a set level.[21] At the same time, the rates in the other countries have fluctuated, but still remain quite high. In June 2009, in all of these same countries except Bolivia, administrative fees represented between close to 12 and 18% of an individual's total contribution, a figure that remains high (table 6).

TABLE 5
Average administrative fees as a percentage of earnings from 1999 through 2008, by selected countries and years, December

Country	1999	2001	2003	2005	2007	2008
Bolivia	0.50	0.50	0.50	0.50	0.50	0.50
Chile	1.90	1.77	1.55	1.54	1.71	1.74
El Salvador	2.05	1.69	1.71	1.71	1.40	1.20
Peru	2.36	2.39	2.27	1.99	1.81	1.87
Uruguay	2.02	1.98	1.93	1.85	1.79	1.71

Source: AIOS (1999-2009).

20. Peru, Chile, and Uruguay also used to charge a flat fee that was proportionately higher for lower earners than higher earners. Peru eliminated this fee in 1997, and the other two countries abolished their flat fees about 10 years later.

21. According to the December 2010 pension reform law, account holders in Bolivia will continue to pay the same administrative fee to the government that they paid to the privately managed AFPs. The government will review the fee every 3 years (*La Razón*, 2010; SSA, 2006–2010).

TABLE 6
Administrative fees and contributions in selected countries (June, 2009)

Country	Administrative fee as a percentage of earnings	Mandatory contribution as a percentage of earnings	Administrative fees as a percentage of total contributions
Bolivia	0.50	10.00	4.76
Chile	1.73	10.00	14.75
El Salvador	1.50	10.30	12.71
Mexico	1.87[1]	8.50[2]	18.03
Peru	1.87	10.00	15.75
Uruguay	1.63	12.17	11.81

Source: AIOS (1999-2009).
Note: [1] Calculated after converting all numbers as a percent of earnings.
[2] This figure includes the "social quota," which is set at 5.5% of the value of the minimum wage in Mexico City and applied to the average wage.

Peru, Chile, and Uruguay also used to charge a flat fee, which was proportionately larger for lower earners than higher earners. Peru eliminated this fee in 1997, although the other two countries abolished their flat fees about ten years later. Also, until 1988, AFPs in Chile were permitted to charge a fee on the individual account balance. Bolivia, Costa Rica, Mexico, and Uruguay charge a fee on assets, and El Salvador has a fee on returns (Tapia and Yermo, 2008).

Bolivia, Colombia, Costa Rica, and El Salvador have set statutory limits on fees. The limits for both Colombia and El Salvador apply to combined administrative fees and premiums for survivors and disability insurance (Tapia and Yermo, 2008). There are no limits on the amount of fees in Chile, but all members of one AFP must be charged the same fees.

When account holders only pay a fee upon contributing to their account, in effect, the contributors are subsidizing the noncontributors from whom no fees are received – using this logic, a 2008 study calculated that about 40% of all individual accounts in Chile were subsidized (Asociación AFP 2008a). This phenomenon does not occur in El Salvador, where noncontributors are charged a fee on inactive accounts – which could deplete the account value (Tapia and Yermo, 2008).

The average fee in each country at given points in time is shown in tables 5 and 6. But those tables give an incomplete picture for each country. First, there is tremendous heterogeneity within each country that is not captured in the tables. Second, in each country, there are different types of fees, which can be on the flow or balance, and it is not easy to compare fees cross-nationally given such variation. Finally, some funds allow a "loyalty bonus"– the longer an affiliate stays with a fund, the less he or she pays. Corvera, Lartigue and Madero (2006) and Impavido, Lasagabaster and García-Huitrón (2010) provided a more complete picture of fees by taking into account all these factors, and their results are summarized in tables 7 and 8. Table 7 projects fees – assuming an affiliate stays with a given fund for 25 years. For each country, this table gives the charges (as a percentage of the balance) for the fund, the fund that charges the lowest (minimum) and the highest (maximum) fees, a weighted average (proportional to the market share in capital) of each fund, and the variability (as measured by the standard deviation). Examining the minimum and the maximum values reveal that in the Dominican Republic, the least expensive value is 20% less than the most expensive, but the weighted average is close to the most expensive range, showing that affiliates have not flocked to the least expensive funds. Mexico and Uruguay show large variability. The average fee in Chile turns out to be higher than that of Mexico over the 25-year horizon.

TABLE 7
Equivalent fees: 25-year average as a percentage of fund balance

Country	Minimum	Maximum	Weighted average	Standard deviation
Argentina	1.20	1.45	1.35	0.09
Bolivia	0.53	0.53	0.53	0.00
Chile	0.98	1.21	1.07	0.08
Colombia	0.81	1.01	0.92	0.08
Costa Rica	0.75	1.10	1.02	0.16
Dominican Republic	0.81	1.01	1.01	0.09
El Salvador	0.86	0.86	0.86	0.00
Mexico	0.67	1.51	0.89	0.20
Peru	0.94	1.22	1.10	0.13
Uruguay	0.74	1.14	0.90	0.19

Sources: Corvera, Lartigue and Madero (2006); and Impavido, Lasagabaster and García-Huitrón (2010).
Obs.: data up to 2007, projected 25 years.

TABLE 8
Equivalent fees: 40-year average as a percentage of fund balance

Country	Minimum	Maximum	Weighted average	Standard deviation
Argentina	0.69	0.83	0.77	0.05
Bolivia	0.39	0.39	0.39	0.00
Chile	0.56	0.69	0.61	0.04
Colombia	0.46	0.58	0.53	0.04
Costa Rica	0.69	0.98	0.92	0.13
Dominican Republic	0.64	0.84	0.84	0.09
El Salvador	0.49	0.49	0.49	0.00
Mexico	0.46	0.88	0.62	0.12

(Continues)

(Continued)

Country	Minimum	Maximum	Weighted average	Standard deviation
Peru	0.54	0.70	0.63	0.07
Uruguay	0.42	0.65	0.51	0.11

Sources: Corvera, Lartigue and Madero (2006); Impavido, Lasagabaster and García-Huitrón (2010).
Obs.: data up to 2007, projected 40 years.

When we examine the figures projected over 40 years, the panorama changes as Argentina,[22] Costa Rica, and the Dominican Republic turn out to have the most expensive funds. Bolivia, Uruguay, Colombia, and El Salvador have the least expensive plans and exhibit low variability of fees across funds. Corvera, Lartigue and Madero (2006) cited another important finding: Fees have largely stagnated over the years and are unlikely to decline in the medium term because of insufficient competition, especially in Bolivia and El Salvador with entrenched duopolies. Finally, in comparing fees more broadly, Impavido, Lasagabaster and García-Huitrón (2010) noted that the fees of pension funds in Latin America (shown in table 8) have charges that are 50 and 100 basis-points higher than what large US occupational funds and mutual funds charge.

4.2 Other fees: premiums for survivors and disability insurance

In addition to administrative fees, most AFPs also charge a percentage of earnings for survivors and disability insurance. For many years, each AFP would contract with an insurance company to provide separate insurance for these two contingencies. In some countries like Chile, the amount of the premiums has varied from one AFP to another, and the average premium among all AFPs has fluctuated over time. Table 9 shows average premiums for several countries in selected years. The rates in Bolivia and Mexico have remained the same since 2003, but are higher than the other countries. During the 1999–2008 period, the rates in Uruguay have steadily increased.[23]

TABLE 9
Average survivors and disability insurance premiums as a percentage of earnings from 1999 through 2008, by selected countries and years, December

Country	1999	2001	2003	2005	2007	2008
Bolivia	2.00	1.71	1.71	1.71	1.71	1.71
Chile	0.65	0.67	0.71	0.76	0.73	0.94
El Salvador	1.13	1.29	1.28	1.28	1.30	1.50

(Continues)

22. This refers to Argentina's system before the 2008 law that closed the second-pillar individual accounts and transferred all the workers back to the PAYG system.
23. Since 2006, the cost of survivors and disability insurance has shifted to the employer in El Salvador and Chile. In Chile the process has been in two stages: Since July 1 2009, employers with at least a hundred employees are required to pay for this insurance; this will be extended to include all employers beginning June 2011.

(Continued)

Country	1999	2001	2003	2005	2007	2008
Mexico	2.50	2.50	2.50	2.50	2.50	2.50
Peru	1.36	1.34	0.92	1.00	0.91	0.88
Uruguay	0.64	0.76	0.90	0.98	0.99	1.00

Source: AIOS (1999-2009).

In Mexico, the premiums for survivors and disability insurance are two-to-three times higher than other countries in table 9 (and have remained the same since the system's inception in 1997) despite the fact that it has a younger population than both Uruguay and Chile.[24] This can be explained by the fact that unlike other countries, there is no competition, as disability insurance is still managed by the Instituto Mexicano del Seguro Social (IMSS) – the government agency that managed the PAYG system before 1997.[25] Although a private market for disability and survivors insurance was created under the 1997 law, the IMSS remains the main administrator and dispenser of such pensions in Mexico.[26] Sinha (2008) has shown how the private market for annuities in Mexico did expand rapidly from 1997 through 2001, only to shrink in the subsequent years. When the regulations for the new individual account system were implemented, the initial plan called for buying single premium annuities for widows and disabled workers under the new system. IMSS dominated the market because it was able to provide benefits more quickly than private companies. This change meant that almost all of the eligible affiliates opted for the IMSS option, which led to an exit of annuity companies from the market and a subsequent collapse of the private market (see Pérez and Sinha 2008).[27]

Until 2009 in Chile, each AFP contracted with a separate insurance company to provide survivors and disability insurance for its members through a periodic public bidding process. Reyes (2010) found that a typical contract did not encourage competition for prices and that in most cases, the insurance company

24. The median age in Mexico is 26.7, compared with 31.7 in Chile and 33.7 in Uruguay (CIA, 2010). Thus, as the population is younger in Mexico, the premium charged for death and disability should be *lower* than in Chile or Uruguay. But, in fact, it is exactly the opposite.

25. IMSS also administers the sickness and maternity, work injury, unemployment, and family allowance programs (SSA, 2009).

26. Because most workers have not yet retired under the individual account system, these were mainly survivors and disability annuities.

27. This process led to a sudden rise in one-time payments by the IMSS because earlier that agency was paying a stream of smaller benefits over many years. In order to lower the costs, IMSS adopted a new policy: All disability pensions were treated as "provisional pension benefits" rather than "definitive pension benefits." A definitive pension meant that the IMSS would be responsible for a 900,000 pesos up-front payment because it was obligated to buy an annuity on behalf of the widow/disabled worker. To avoid the strain on the IMSS budget, it made the benefit "provisional," which essentially pushed the cost into the future. In terms of present value, they are the same. But it was easier on the budget process, as the IMSS does not consider long-term budgets; it only had to fund the pensions on an annual basis. In addition, definitive pension criteria were tightened. This abrupt change in regulation in 2000 led to the collapse of the annuities market in Mexico.

that won the bid belonged to the same conglomerate as the AFP. Also, AFPs often used a number of measures to control insurance costs, which include the following:

- monitoring the application process. While this would discourage fraud, AFPs could also prevent a claim from being processed or recommend another product that the AFP provides such as an early retirement pension;
- passing increases in insurance costs on to its affiliates instead of absorbing the increase;
- "cream-skimming" or selecting lower-risk, lower-cost members such as high-income and younger workers.

According to an AFP Association report (Asociación AFP, 2008b), the design of the insurance contracts permitted certain groups to subsidize others. For example, the premiums for men and women were the same even though women generally have lower risks than men.

The 2008 Chilean pension reform changed the way premiums are set in order to lower the cost. Since 2009, all AFPs must conduct one joint annual bidding process to establish uniform premiums for all affiliates of every AFP. At the same time, coverage for these programs was expanded to include the following:

- women up to age 65, provided they continue working. Until 2009, women were covered only up to age 60, the normal retirement age for women;
- widowers and students up to age 24. Previously, only disabled widowers and students up to age eightteen were eligible for a benefit (SSA, 2006–2010).

The premiums have been divided into seven categories for men and four for women, which permit multiple companies to participate. To date, two annual competitions have been held, and the rates have gone down by 20% on average between the first and second years (Asociación AFP, 2010; Reyes, 2010).

4.3 Profitability

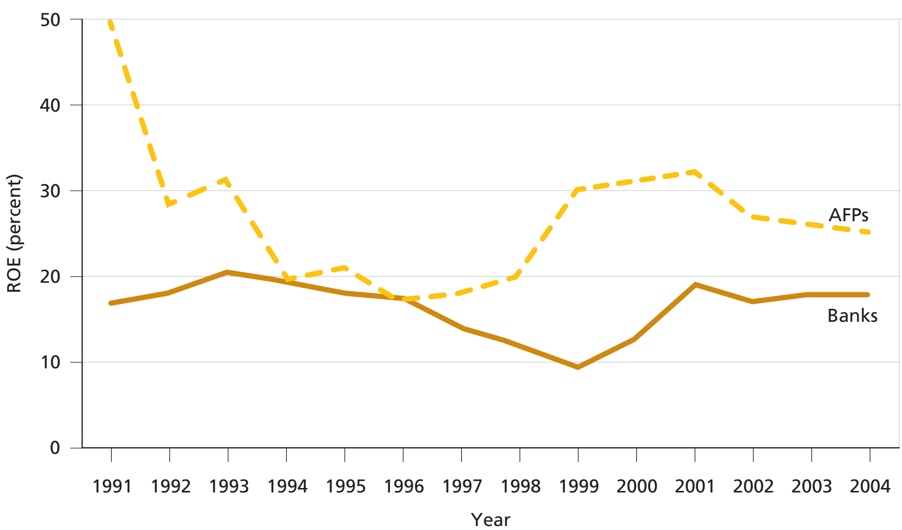
Economists have long argued that without barriers to entry, firms in competitive markets will earn "normal" profits. That does not preclude some firms from earning above normal profits in the short run if they innovate; however, the only way that a firm would be able to generate above-normal profits in the long run is to have monopoly power.[28] In this section, we examine the profitability of pension funds in Chile, Mexico, and Peru. In all three countries we observe that over more than a decade, these pension funds have shown persistently higher

28. For example, governments have granted monopoly power to firms through patent protection. The argument for granting patents is that it is necessary for inventions and innovations.

profitability than comparable industries. We compare returns on equity in the pension fund industry with comparable financial-sector industries and find that pension funds are three times more profitable than other sectors. These pension funds earn profits that are consistently well above what might be expected in a competitive marketplace. This observation suggests that pension fund markets lack competitive pressure. As noted later in the section, recent reforms in the region have sought to increase competition.

Return on equity (ROE) gives us a measure of the profitability in an industry. A comparison of the ROE in two distinct but related industries is instructive. In graph 3, we examine the ROE for the AFPs and the banks in Chile from 1991 through 2004. The chart shows that the ROE for the AFPs are consistently higher than the ROE for banks over the entire period, and at times, by a substantial margin. This gives us a reason to suspect that AFPs might be earning supranormal profits.

GRAPH 3
Chile's return on equity for AFPs and banks (1991-2004)

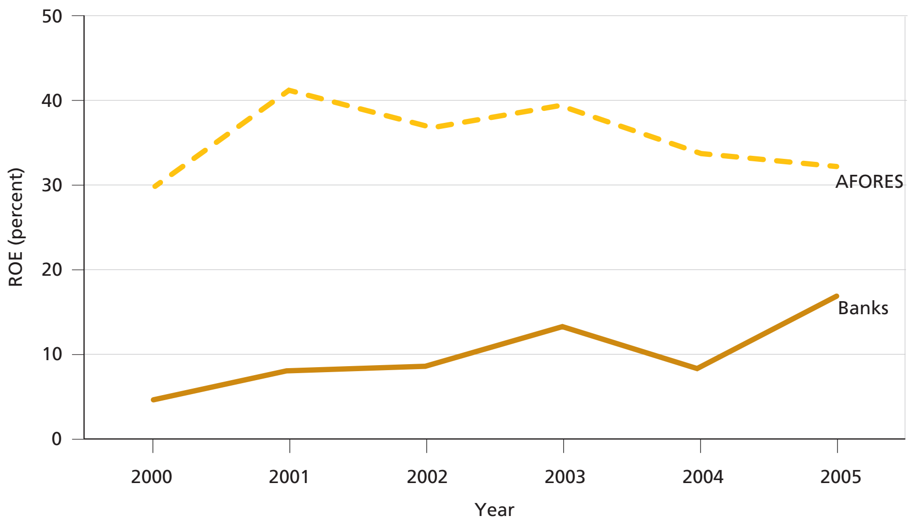


Source: Chile, Presidential Advisory Council on Pension Reform (2006).

In Mexico, regulators noted with alarm the high ROE of the pension funds industry. The Federal Commission for Competition (Comisión Federal de Competencia, 2006) reported to the Senate in 2006, "The AFOREs have earned extraordinary profits that are difficult to attribute to their competitiveness or to the value generated for the workers. For example, during the 2000–2005 period, the largest six AFOREs generated a return on equity (ROE) of 35.6 percent.

This rate of return is high by any standards – especially if one considers that it did not come with an accompanying value generated for the workers. As a reference, this ROE is 3.6 times higher than the banking operations undertaken by the same financial groups to which these AFOREs belong" (authors' translation). Around the same time, Levy (2006, 2008) presented data demonstrating the same phenomenon (graph 4).

GRAPH 4
Mexico's return on equity for AFOREs and banks (2000-2005)



Sources: Levy (2006; 2008).
Obs.: Includes data from Afore Banamex, Bancomer, Banorte, Inbursa, ING, and Santader, which jointly account for 70% of all invested funds.

In Peru, there is an even more pronounced gap between ROE for pension funds versus banking and other financial service industries, as table 10 illustrates. Return on equity averaged 61.7% from 2001 through 2005 in the pension sector, compared with 11.9% in banking and 14.3% in insurance.

TABLE 10
Return on equity in different industries in Peru, by selected time periods (1996-2005)

Industry	Return on equity		
	1996-2000	2001-2005	1996-2005
Pension	21.8	61.7	46.7
Banking	9.7	11.9	10.9
Financial services	14.2	11.5	13.0

(Continues)

(Continued)

Industry	Return on equity		
	1996-2000	2001-2005	1996-2005
Insurance	7.4	14.3	12.5
Ocean transport	18.3	30.3	25.3
Marketing	23.1	25.3	24.2
Oil and mining	13.2	27.5	22.0
Confectionary	19.6	14.1	15.6
Refineries	13.2	14.5	14.0
Informatics	9.5	18.8	13.1
Construction	11.5	13.6	12.6
Media	15.1	10.2	12.1
Others	8.0	13.7	11.5
General commerce	7.4	12.4	10.8
Surface transport	9.8	10.4	10.0

Source: Gerens Escuela de Gestión y Economía (2007).

In sum, we find the AFPs in Chile to be almost twice as profitable as banks from 1990 through 2004; in Mexico, the AFOREs were more than three and a half times more profitable during the 2000–2005 period; and in Peru, the AFPs were more than four and a half times as profitable from 1996 through 2005. All of this is evidence that these markets are not as competitive as similar financial industry markets.

4.4 Competition

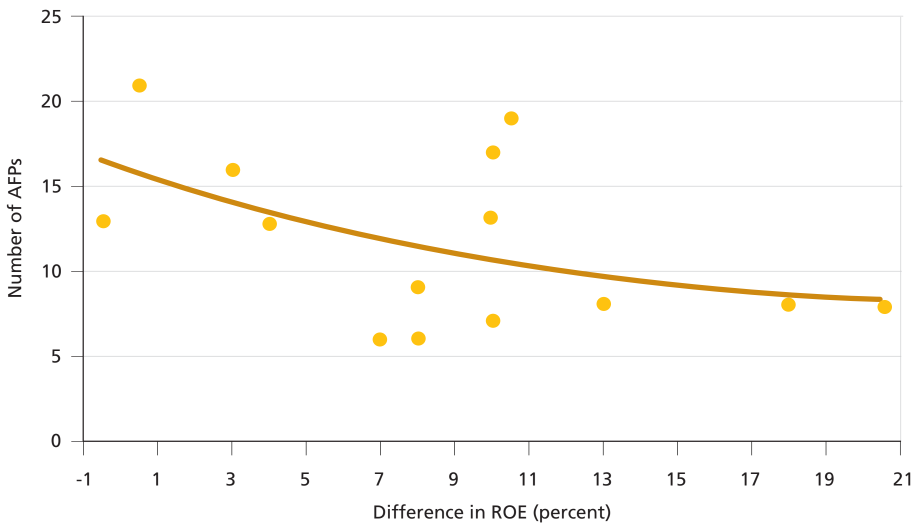
The higher profitability of pension funds compared with other financial services can be explained by limited competition. First, given minimum capital requirements and high fixed costs, there are economies of scale in the pension industry. There is a clear first-mover advantage for the firms that entered the market when the system began. They had the chance to enroll affiliates at once when formal-sector workers were forced to select a pension fund management company. In some countries (like Mexico), those workers who did not make a choice were assigned to one. The only way for an AFP to acquire new affiliates afterward was to persuade affiliates to switch from one AFP to another or get new entrants to the job market (formal) to sign up for their company. However, it is extremely costly to get an affiliate to change companies, and AFPs are left competing for new entrants to the workforce – a majority of whom are in the informal sector (of those that enter the workforce, many decline to choose a pension fund and are assigned one).

Chile's pension reform commission (known as "The Marcel Commission") listed several reasons why competition in the pension fund market was weak (Chile, Presidential Advisory Council on Pension Reform, 2006). It argued that because most workers do not compare administrative fees before choosing an AFP, firms have less of an incentive to compete by lowering fees. Rather, AFPs often used gifts and other inducements to lure new members. Also, AFPs are required to charge all of their members the same fees, giving them an incentive to target higher-income earners, from whom profit margins are higher. As described earlier, barriers to entry make it hard for new firms to enter the market; and banks, which could be expected to be strong competitors in the AFP market, are specifically prohibited from setting up AFPs.

It is important to develop a measurement of competition. Bikker and Spierdijk (2009) have put forth a set of criteria that marks the level of competition in the financial markets. They list important factors that impede competition, with the primary impediment being the number of firms available. The number of funds in a pension market is dictated by the size of the market, although any variation in the number of funds *within* a given market is endogenous to the market. Thus, one simple way of measuring competitive pressure in a market is to examine the relationship between the number of funds operating in a market against the profitability of the funds in that market. Absolute profitability of the pension funds is influenced by the general economic conditions. Thus, it is necessary to have a benchmark against which the profitability needs to be measured in order to evaluate "excess profit" that the pension funds are earning. One benchmark to measure "excess" profitability of the pension fund market would be a measure of the *difference* in profitability between pension funds and banks.

In graph 5, we show the results of this exercise. In the years when there were more pension fund firms in the market, the excess profit of the industry was lower. This is a crude measure because it does not take into account the lagged effects of entry of funds (that is, the impact of the entry of a fund in a given year on the excess returns of the following years). If the relationship holds, then it suggests that a small number of companies operating in the system would lead to excess profits in the industry.

GRAPH 5
Profit differential and number of AFPs in Chile (1992-2004)



Source: Authors' calculations using data from the Chilean Superintendent of Pensions.

Mexico and Chile have tried various experiments to encourage pension funds to reduce their fees or increase their net rate of return for the affiliates (net of fees). Before the 1997 reform, Mexico tried to promote competition by a relatively liberal policy for issuing licenses (compared with banking licenses). Although 42 companies expressed interest, less than half of them actually entered the field when AFOREs were allowed to operate. The second experiment came with the assignment of affiliates who had not chosen any AFORE. The initial take-up rate by the formal-sector workers in Mexico in the first 3 years was much higher than that of Chile. (Perhaps this was the result of Mexican workers having previous experience with private individual accounts from the 1992 Sistema de Ahorro para el Retiro (SAR) reform, which required formal-sector workers to contribute 2% of wages to retirement accounts.) Approximately 10 million people opened 65 million accounts. There was a lack of cross validation on the part of the employers, and many people ended up with multiple accounts. However, 6 million people were still in the consolidated account of the Central Bank of Mexico (cuenta concentradora).[29] The Comisión Nacional del Sistema de Ahorro para el Retiro (CONSAR) devised a formula for distributing

29. Cuenta concentradora (consolidated account) was created for affiliates who did not sign up for any AFORE. Those affiliates were automatically assigned to this account, managed by the Mexican Central Bank, which paid a fixed interest rate of 2% on these accounts.

these accounts to the 25% of AFOREs with the lowest administrative fees. In June 2001, these accounts were handed over to the AFOREs using this formula. Ever since then, the CONSAR has followed the same procedure for assigning AFOREs to workers who do not choose one. By the end of 2007, the CONSAR had assigned over 17 million affiliates to AFOREs.

Although unexpected, this process provided an incentive for some AFOREs to enter the market with the sole strategy of getting workers' accounts assigned to them. These AFOREs did not invest in marketing or promotion, nor did they seek to provide any service to any affiliate. Their business model depended on collecting fees from the assigned accounts. AFORE de la Gente obtained 99% of its affiliates from direct assignment from the CONSAR, while Ahorra Ahora had virtually 100% of its affiliates assigned by the CONSAR. The CONSAR considered this practice to be against the spirit of operating an AFORE and forced these pension funds into mergers in 2009 (CNN Expansión, 2009).

In the first decade of its existence, the CONSAR has stayed away from explicitly criticizing the AFOREs for their lack of competition or for charging "too much." However, since 2008, the CONSAR has been taking an increasingly activist stance with respect to fees. In 2008 alone, the Board of Governors of CONSAR issued a bulletin, where it took six AFOREs to task by declaring that their management fees were "way above average" (CONSAR, 2008). In order to promote more competition, the CONSAR has also changed the way information is presented in the quarterly statement (mandatory) sent out to the affiliates to more clearly state investment returns and fees (described later in the Financial Literacy section).

Along with contributing to pension funds, Mexican workers in the formal sector also contribute 5% of their base salary to a housing fund. In April 2010, this housing fund, managed by Instituto del Fondo Nacional de la Vivienda para los Trabajadores (INFONAVIT), proposed starting its own AFORE and charging an administrative fee of 0.52% of the fund balance (Sinha, 2010). This proposal is controversial as it is not clear if INFONAVIT can legally be permitted to operate a pension fund because it may contravene its charter, managing funding for housing. Because INFONAVIT already manages nearly 30% of national long-term mandatory saving (the AFOREs manage the rest), the proposal will certainly create a concern for CONSAR about monopoly power. Moreover, because INFONAVIT is owned by the federal government, the government may not want to expand its role in the pension market after earlier efforts to privatize it (as of December 20, 2010, no decision has been made on this matter).

Lack of competition among the AFPs has also been a problem in Chile. The number of AFPs operating in Chile fell from 22 in the mid-1990s to 5 in 2008. In March, 2010, three of those five firms had 87% of the pension fund affiliates (Chile, SP, 2010e). As part of its 2008 pension reform, Chile sought to lower fees and induce competition by assigning the cohort of 350,000 annual new entrants to the labor force to the AFP with the lowest administrative fee. The bidding process is held every 24 months, and the AFP selected must maintain the lowest fee among all AFPs for 2 years, with all of its account holders being charged the same fee. New workers must remain with their assigned AFP for 2 years unless: (1) another AFP offers a lower fee for at least 2 consecutive months; (2) another AFP provides a higher rate of return sufficient to make up for a higher administrative fee; or (3) the assigned AFP does not maintain the required minimum rate of return, is declared insolvent, or must liquidate its assets. Workers already in the system may switch to the AFP with the winning low bid.

This provision was implemented in March 2010. The first company to win the competition had a bid of 1.14% of an account holder's income, which is 24% lower than the average fee of 1.51% charged by the five current AFPs. The other AFPs that participated in the competition also offered fees below the current average (SSA, 2006–2010). On August 1, 2010, Modelo, whose owners also control the information technology services firm Sonda, became the first AFP to enter the market in fifteen years.[30]

In sum, to achieve the efficiencies that its planners envisioned, pension fund markets must be competitive. As described earlier, the region's pension markets are often oligopolies, charging fees and earning profits that are in excess of what one would expect in a competitive market. Improving competition is critical for reducing fees and costs and improving efficiencies, and recent reforms in Chile and Mexico will be closely watched to see how well they address these policy challenges.

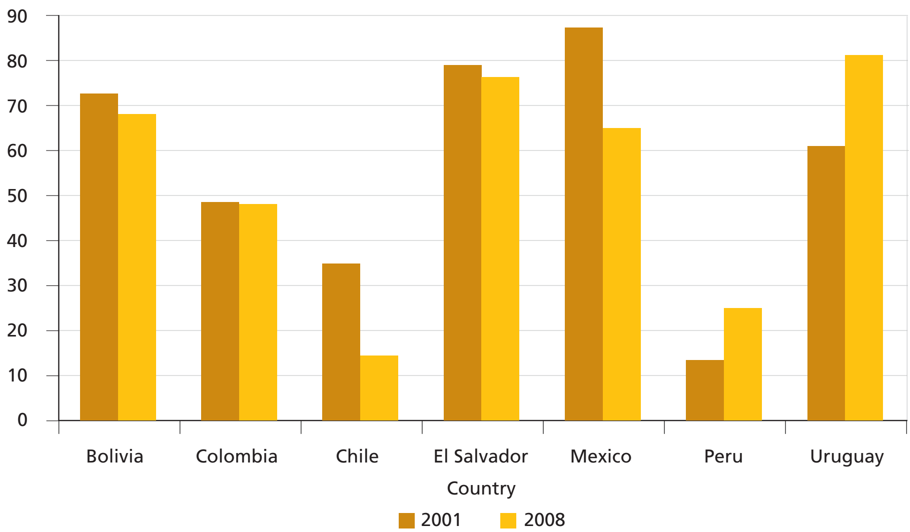
4.5 Investment diversification

A diversified investment portfolio is fundamental to managing investment risk. When the defined contribution systems in the region were first established, investment tended to be concentrated in state-issued bonds, and as graph 6 shows, that is still the case in many countries. Because investment-grade instruments

30. From the Superintendent of Pensions' published-fees tables, accessed on December 22, 2010 (http://www.safp.cl/573/article-6014.html), we note that Modelo is charging 48% of what is being charged by the most expensive fund, Planvital. So far, there has been no movement toward reducing the fees by other AFPs. Also, an October 2010 report found "stronger competition to improve customer service, as well as an increase in advertising, but not lower commissions in real terms" (*Business News Americas,* 2010).

remain in short supply in emerging capital markets, there is little alternative to investing in government bonds (Uthoff, 1997). During the 1990s, firms with investment-grade status found it cheaper to borrow from banks, both at home and abroad, than to turn to the capital markets, while small and medium-sized firms typically did not meet investment-grade requirements. In other words, those firms that could access capital markets did not want to, and those firms seeking such investments did not qualify as investment grade. Consequently, government-issued securities remained the investment of choice for pension funds in most countries (Kay, 2009).

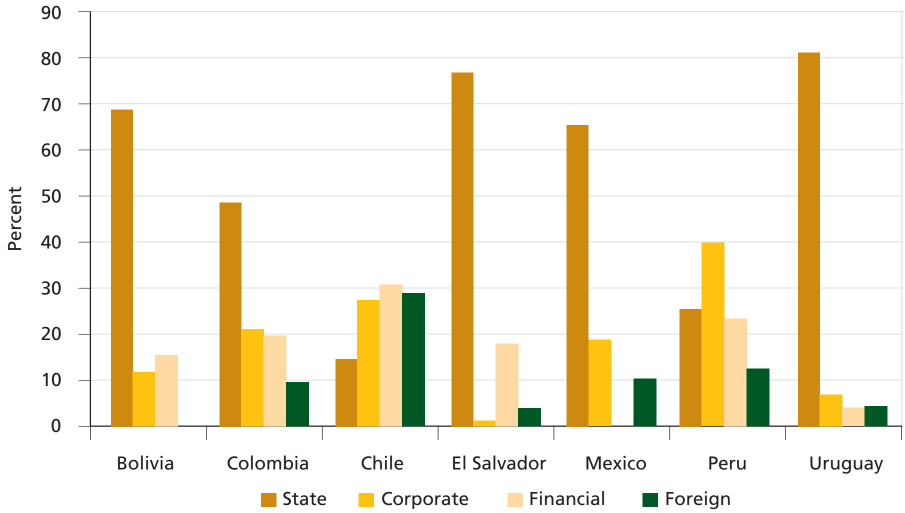
GRAPH 6
Investment in government securities as a percentage of total pension fund investment (2001 and 2008)



Source: FIAP (2010).

Concentration in government bonds does carry investment risk given that governments can default on their obligations, as Argentina did in 2002 when 80% of pension fund investment was in government bonds. Some countries, like Mexico, have encouraged pension funds to diversify away from government bonds (graph 7), leading to reduced concentration in government bonds. Nevertheless, in Bolivia, El Salvador, Mexico, and Uruguay, investment in government bonds is well over 50 %.

GRAPH 7
Pension fund investment by investment sector (2009)
(In %)



Source: FIAP (2010).

Foreign investment offers another opportunity to diversify investments and reduce country and currency risk. It has generally been the case that, in part for political reasons, foreign investment is restricted or not permitted during the early years of individual account systems, but is then later permitted as the systems mature. For example, as graph 7 demonstrates, Colombia and Mexico now have about 10% of invested funds in foreign securities, while Peru has 12.5 percent—up from virtually zero in 2001. Meanwhile in Chile, pension fund foreign investment has risen from 5.7% in 2001 to 28.5% in 2009 (the 2008 pension reform permits up to 80% of assets to be invested abroad).[31]

4.6 Multifunds

Over time, some countries have broadened the rules for pension fund investments. As the country with the oldest system of mandatory individual accounts, Chile was the first to increase the type and number of funds available to an individual account holder. In March 2000, Chile introduced a second fund that invested in fixed instruments for workers within ten years of retirement.[32] Then in 2002, the number of allowable funds was expanded to five in Chile's new multifund system.

31. Beginning in December 2010, the limit on assets invested abroad in Chile is rising by 5 percentage points every 3 months until it reaches 80% by September 2011 (SSA, 2006–2010).

32. However, only 625 affiliates signed up for this fund (Homedes, 2002). In 2001, Mexico allowed each AFORE to offer its affiliates a choice between two subfunds (discussed shortly).

Since then, both Peru and Mexico have also set up multifunds, and Colombia introduced them at the beginning of 2011.[33]

4.6.1 Chile

In the early stages of the Chilean individual account system, investments were restricted to government bonds, mortgage bonds, bonds of financial institutions, and a very limited amount of corporate bonds; investment in foreign securities was not permitted. As the system matured and became better established, Chile gradually liberalized investment rules, and restrictions on investments in foreign securities have gradually been eased.

For the first 20 years of Chile's program, individuals did not have meaningful investment choices among the AFPs, which could only invest in limited asset classes and had to meet minimum profitability rules. Both requirements effectively forced all AFPs to adopt nearly identical investment strategies, commonly referred to as a "herd effect." As a result, AFPs had to set their investment policy for the short term, thus eliminating any longer-term and potentially more profitable strategies. Furthermore, AFPs were only allowed to offer one type of investment fund, providing no choice for workers in terms of investment time horizons and risk tolerance (Kritzer, 2003).

In January 2001, Chile introduced a second type of fund, which is now known as Fund E. Soon after that, in August 2002, Chile's multifund law changed the rules to allow more choice and expand the minimum and maximum rates-of-return requirement. Under the law each AFP must offer four different types of funds – called Funds B, C, D, and E – with varying degrees of risk. AFPs also offer Fund A, with up to 80% of its assets in equities. The 2002 law permits account holders to allocate their contributions between two different funds within one AFP. A voluntary savings account can be in a different AFP than the mandatory account. The funds differ in the amount or maximum percentage that they may invest in variable-rate instruments (such as equities) and fixed income (such as bank deposits, mortgages, or government paper that offer a low level of risk or variability) as shown in table 11. The limit on foreign investment, which applies to all of the funds in a particular AFP, is calculated as the percentage of foreign investment within an AFP's investment portfolio. Each AFP must maintain a minimum and maximum rate of return for each type of fund over the previous 36 months. The rates are calculated separately for each type of fund. The government also guarantees account holders a minimum rate of return (Kritzer, 2003). Most affiliates – workers who have enrolled with an AFP and have an individual

33. As of August 2010, the Costa Rican Superintendent of Pensions expected to have multifund regulations ready by the end of 2011 (Arias, 2010).

account – can select any of the five funds throughout their working lives. Affiliates who do not choose a fund are automatically placed in one according to their age. Those who have not been actively contributing to their accounts and who reach the next age bracket without choosing a fund are automatically enrolled in the fund corresponding to their age bracket. Their assets are transferred gradually – 20% per year – from one fund to the next (Kritzer, 2003). As of December 2009, 69% of account holders in Chile had been assigned to a fund according to their age, about 25% of account holders chose the higher-risk Funds A and B (split evenly among the two funds), and about 8% opted for Fund C (Asociación AFP, 2009). Beginning in August 2010, account holders were given another option; they can sign a contract with an AFP to automatically enroll them in a fund according to their age. This contract permits affiliates up to age thirty to be automatically enrolled in the highest-risk Fund A and workers aged 61 or older (men) and 56 or older (women) in the most conservative Fund E (Chile, SP, 2010a).

TABLE 11
Characteristics of multifunds in Chile

Fund	Limits on investment in equities (percent)[1]		Default age designation (years)[2]	
	Minimum	Maximum	Men	Women
A	40	80	[3]	[3]
B	25	60	Up to 35	Up to 35
C[4]	15	40	36 to 55	36 to 50
D	5	20	56 or older	51 or older
E	[5]	[5]	[6]	[6]

Source: FIAP (2007); Chile, SP (2010b).
Notes: [1] Applies to mandatory accounts only.
[2] For members who do not choose a fund or do not actively contribute to their mandatory retirement account.
[3] Since August 2010, affiliates up to age thirty may sign a contract with an AFP to automatically enroll in Fund A.
[4] Through 2002, Fund C was the only investment fund.
[5] Mainly fixed instruments.
[6] Since August 2010, male affiliates aged 61 or older and female affiliates aged 56 or older can sign a contract with an AFP to automatically enroll in Fund E.

4.6.2 Mexico

When Mexico introduced the system of AFOREs in 1997, affiliates had no choice of funds, and investments were limited to almost all government bonds. Over time, highly rated corporate bonds were permitted, but most AFOREs did not pick them because there were not enough of those bonds in the market until 2002. Soon afterwards, each AFORE was allowed to offer affiliates a choice between two subfunds. One of the riskier funds would invest in structured notes (notas estructuradas) – futures contracts, where the funds would have zero probability of losing the nominal value of the principal. The riskier fund would limit its risk on the return, but protect the principal by the use of the structured notes.

More options were introduced in 2008: SIEFORE Básica 1 through SIEFORE Básica 5, with varying degrees of risk (table 12). Each affiliate is allowed to choose exactly one fund, with restrictions according to age. An affiliate aged 26 or younger can choose any one of the five funds, whereas an affiliate aged 56 or older can only pick SIEFORE Básica 1, which is invested in fixed instruments. There is no distinction in age for men and women. The idea is that as a worker ages, he or she will be transferred into funds with fewer risks. Many mutual funds in the United States offer these kinds of "life-cycle funds." Account holders are limited to one fund for both their mandatory and voluntary contributions. The types of investments and levels of risk are much more limited in Mexico than in Chile. In Mexico, the medium-risk fund permits a maximum of 20% of investment in equities, compared with 40% in Chile; and for the highest-risk fund the ceiling is 30 percent, compared with 80% in Chile. Each fund has a maximum limit with respect to type of security, but no minimum. Also, the age restrictions are different in Mexico than in Chile, and the retirement age is 65 for both men and women. The SIEFORES have no required minimum rate of return, and the government does not provide any guarantees.

TABLE 12
Characteristics of multifunds in Mexico

SIEFORE Básica (fund)	Limits on investment in equities (In %)	Age designation (years)[1]
1	[2]	56 or older
2	15	46-55
3	20	37-45
4	25	27-36
5	30	Up to age 26

Source: FIAP (2007).
Obs.: SIEFORE Básica (Sociedad de Inversión Especializada de Fondos para el Retiro) – basic pension fund in Mexico.
Notes: [1] Members may choose to transfer their accounts to a fund type for an older worker in another AFORE. There is no restriction on transferring from one fund to another within the same AFORE.
[2] An affiliate aged 56 or older can only pick SIEFORE Básica 1 (the original fund when there was only one), which is invested in fixed investments.

4.6.3 Peru

Multifunds introduced in Peru in December 2005 consist of three types of funds: fund 1, preservation of capital; fund 2, balanced; and fund 3, growth. Workers up to age sixty may choose any fund they wish, but those who do not make a choice are assigned a fund according to their age: up to age sixty, fund 2; and older than age sixty, fund 1. A proposal to add fund 4, with only fixed investments, was under discussion in Congress in 2010. Of the 4.3 million Peruvian account holders, only 10% had chosen a fund in 2008.

Just as in Mexico, in Peru each fund has a maximum limit on the type of allowable investments, but no minimum (table 13). A worker may choose one fund for the mandatory contribution and may set up a second account with another AFP for any voluntary contributions. In 2005, the government replaced the guaranteed minimum rate of return with a new system based on benchmarks set up by the AFPs for each type of fund. If an AFP's rate of return falls below the benchmark for any of its funds, it must make up the difference with its own resources. Also, just like in Mexico, there is no government guarantee (FIAP, 2007).

TABLE 13
Characteristics of multifunds in Peru: ceiling on investments
(In %)

Fund	Fixed instruments	Variable instruments
1	100	10
2[1]	75	45
3	70	80

Source: FIAP (2007); Bernal and others (2008); SSA (2006-2010).
Note: [1] The original fund when there was only one.

4.6.4 Colombia

AFPs in Colombia are required to offer three types of funds with varying degrees of risk: conservative, moderate, and high risk. Since January 2011, account holders can choose one of the three types of funds for their contributions. But those who do not make a choice are automatically assigned to the moderate fund. Account holders can change from one type of fund to another every six months. In addition, according to the "rule of convergence," a certain percentage of an older worker's individual account must be invested in the conservative fund, based on age and sex, ranging from a minimum of 20% for women aged 52 and men aged 57, to 100% for women aged 56 or older and men aged 61 or older (SSA, 2006–2010), as shown in table 14.

TABLE 14
Required percentage in conservative fund in Colombia, by sex and age

Required minimum percentage	Women	Men
20	52	57
40	53	58
60	54	59
80	55	60
100	56 or older	61 or older

Source: Colombia (2010).

Unlike in Mexico where account holders have age restrictions whether or not they choose a fund type, Colombians who make a choice will not be limited and the default is the moderate fund regardless of age; the only requirement begins 3 years before the normal retirement age when at least 20% of an account must be held in the conservative fund. Also, in both Chile and Peru, there is a default fund that depends on age for those workers who do not choose a fund.

4.6.5 Multifund participation rates and performance

In comparing the distribution of affiliates in Chile and Peru with respect to fund type, 90% of Peruvians are in the intermediate fund, which is the default fund (Arthur, 2009). In Chile, 37% of affiliates are in the intermediate C fund, with 54% of affiliates in the two funds on the riskier end of the spectrum (Asociación AFP, 2010); see table 15. This outcome is no doubt the result of the varying default options. As described earlier, in Chile there are three default options according to age (funds B, C, and D), while in Peru, the intermediate fund is the default option for all workers up to age sixty.

TABLE 15
Distribution of Chilean and Peruvian affiliates, by type of fund (December, 2008)
(In %)

Type of fund	Chile	Peru
Most conservative	2	3
Conservative	8	-
Intermediate	37	90
Risky	40	-
Riskiest	14	7

Source: Arthur (2009).
Obs.: (-) = not applicable.

In Chile, 61% of the multifund accounts were assigned as a default option, while the remaining accounts were the result of workers' choices (workers have the option of contributing to two accounts in Chile). Of the 39% of accounts that were actively chosen by workers, 72% of the selections were the higher-risk A and B funds (Asociación AFP, 2010); see table 16 for the actual figures.

TABLE 16
Default *versus* actively chosen accounts in Chile (February, 2010)

Fund	Accounts		**Total**
	Assigned	Chosen	
A	_	1,384,737	**1,384,737**
B	2,353,549	1,344,620	**3,698,169**

(Continues)

(Continued)

Fund	Accounts		**Total**
	Assigned	Chosen	
C	2,789,179	797,421	**3,586,600**
D	730,440	140,310	**870,750**
E	–	118,095	**118,095**
Total	**5,873,168**	**3,785,183**	**9,658,351**

Source: Asociación AFP (2010).
Obs.: (–) = data not available.

The returns of the multifunds in Chile since 2003 are listed in table 17. Although fund A fell the most (40.3 percent) in 2008 in the wake of the financial crisis, it increased in value at the highest rate among the other types of funds in 2009, returning 43.5 percent. Since their inception, higher returns are correlated with the higher-risk funds.

TABLE 17
Chile's multifund real annual returns
(In %)

Year	Fund					**Total**
	A	B	C	D	E	
2003	26.9	16.0	10.5	8.9	3.3	**11.9**
2004	12.9	10.3	8.9	6.8	5.4	**9.1**
2005	10.7	7.3	4.6	2.8	0.9	**5.7**
2006	22.3	18.8	15.8	11.5	7.4	**17.0**
2007	10.1	7.5	5.0	3.3	1.9	**6.5**
2008	-40.3	-30.1	-18.9	-9.9	-0.9	**-22.0**
2009	43.5	33.4	22.5	15.3	8.3	**27.7**
2010 (January–March)	4.0	3.8	3.6	3.2	3.3	**3.7**
Cumulative	93.2	70.2	56.8	47.0	32.4	–
Annual average	9.2	7.3	6.2	5.3	3.8	–

Source: Asociación AFP (2010).
Obs.: (–) = data not available.

In sum, investment diversification remains a challenge in the region, where capital markets are still emerging, and many countries continue to have a majority of investment in government paper. Increasingly, countries are diversifying into foreign investment, as a hedge against country and currency risk. Starting with Chile's introduction of multifunds in 2001, several countries have provided workers with investment options that vary with respect to risk, which offers the potential for a better match between workers' life cycles and risk profiles.

5 GENDER EQUITY

The differential impact of gender on pension benefits in defined contribution systems in the region has been well documented.[34] In this section, we discuss the link between gender and pension outcomes and measures undertaken in Chile and elsewhere to reduce the gender gap.

As Arenas de Mesa and Montecinos (1999, 8–9) noted, under the defined benefit system that Chile had until 1981, "women received more generous benefits with fewer requirements, and the gap in benefits between men and women was smaller" because women could qualify for a minimum old-age pension with a shorter period of affiliation and without making contributions. They could retire earlier than men and receive similar benefits for a longer period of time (given greater average longevity). Pensions were calculated based on salaries earned in the last years of working life, so that workers were not punished for time spent out of the labor force (favoring women who on average have lower rates of labor participation and fewer years of making contributions).

In contrast, under defined contribution systems, which are based on a tighter link between contributions and benefits, gender inequalities in labor markets are exacerbated upon retirement. Women generally earn lower wages than men because of factors such as gender discrimination, occupational differentiation, and because of time spent outside the paid labor market that is due to caregiving responsibilities. For example, in Chile, 29% of women earn the minimum wage, compared with 9% of men. Furthermore, women are disproportionately represented in the region's informal labor markets, meaning they are not making contributions to their accounts. As table 18 shows, women's informal employment as a percentage of nonagricultural employment ranges from 44% in Chile and Colombia to 74% in Bolivia. Employees in the informal economy do not (by definition) contribute to pension fund savings accounts, with devastating consequences. According to Chile's Social Protection Survey –Encuesta de Protección Social (EPS) – prior to Chile's 2008 reform, 70% of those not affiliated with the pension system were women.

TABLE 18
Informal employment in non-agricultural employment, by sex (1994-2000)

Country	Informal employment as a percentage of non-agricultural employment		
	All	Women	Men
Latin America	51	58	48
Bolivia	63	74	55
Brazil	60	67	55
Chile	36	44	31

(Continues)

34. See Arenas de Mesa and Montecinos (1999); James, Edwards and Wong (2008); and Dion (2008).

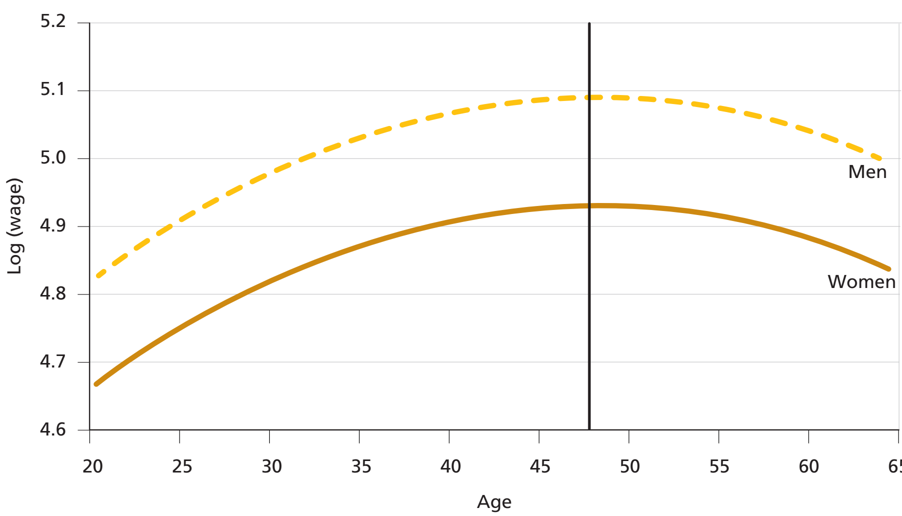
(Continued)

Country	Informal employment as a percentage of non-agricultural employment		
	All	Women	Men
Colombia	38	44	34
Costa Rica	44	48	42
Dominican Republic	48	50	47
El Salvador	57	69	46
Guatemala	56	69	47
Honduras	58	65	74
Mexico	55	55	54
Venezuela	47	47	47

Source: ILO (2002).

With the switch to defined contribution accounts, pensions are determined by the investment performance of actual contributions, so the tendency for women to have both fewer total contributions and overall lower wages means that women accumulate significantly less capital in their accounts than do men. Wage differentials have a serious impact; for example, Sinha (2009) examined the income patterns of a random sample of men and women in Mexico who made regular, uninterrupted contributions to their AFORE (pension fund savings accounts). For the whole population in the data set, the author found that women earn on average 17% less than men and would accumulate commensurately fewer funds in their retirement accounts (graph 8).

GRAPH 8
Estimates of wage equation in Mexico, by sex and age

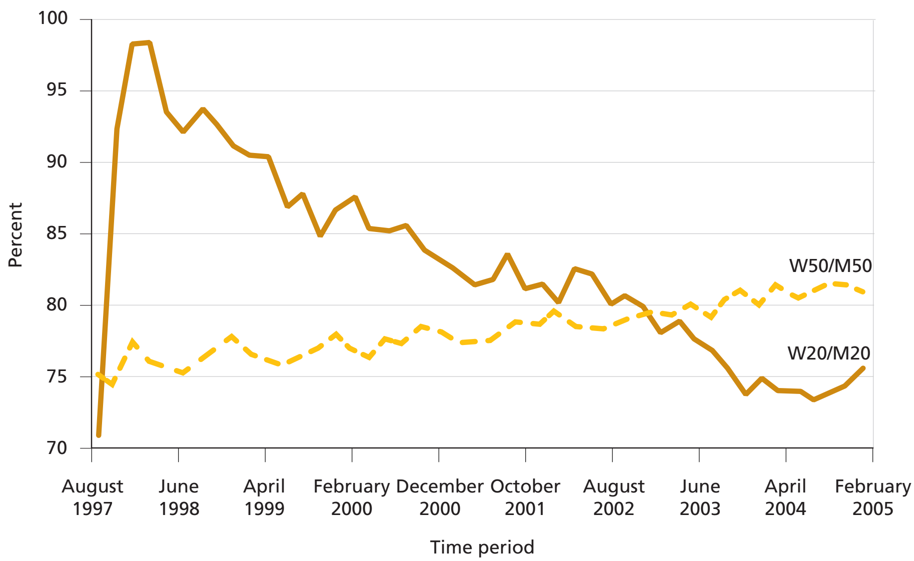


Source: authors' calculations using data from CONSAR.

Sinha (2009) also found, in comparing trends in income inequality among men and women in Mexico, that inequality is actually growing worse for younger workers. The author grouped men and women between ages 18 and 25 and noted the ratio of their average income from August 1997 through February 2005 (see the w20/m20 graph in graph 9). Then he examined the same for men and women between ages 55 and 65 (see the w50/m50 graph). For the older generation, the income ratio did not show any trend. However, for the younger generation, the income ratio has been declining over time, meaning that inequality between men and women has been rising over time.

GRAPH 9

Evolution of income ratio of men and women in Mexico, by selected time period



Source: authors' calculations using data from CONSAR, based on a random sample of about 500,000 affiliates of the system.
Obs.: W50/M50 stands for the ratio of income of women and men in their fifties. W20/M20 stands for the ratio of income of women and men in their twenties.

Reforms that introduced individual accounts also raised the number of years of contributions required for a pension, which meant that fewer women qualified for pensions given years spent out of the labor force (Dion, 2008). Berstein, Larrain, and Pino (2006) showed that women are inactive in the labor force for an average of 35% of their potential working lives, compared with 10% for men. Furthermore, Arenas de Mesa and others (2008) found that in Chile, an average man's contribution density is 60 percent, while contribution density for a woman is 43 percent. By age forty, working women will have made contributions in less than half as many years as working men.

Earlier retirement ages also mean that women have fewer years to accumulate capital in their accounts (Peru, the Dominican Republic, Mexico, and Uruguay have equalized retirement ages, ameliorating this problem). These gender differences are further widened by the fact that pensions for men and women are determined by separate actuarial tables, which increases the gap even more so because women tend to live longer than men.

Projections for the Chilean pension system before the 2008 reform showed clear disparities in pension levels between men and women. Based on their projected contribution patterns, 61% of women were not likely to qualify for a minimum pension, compared with 32% of men, although the numbers were nearly reversed with respect to workers expecting to receive a benefit above the minimum pension (table 19). The overall numbers were not encouraging, with nearly half of all workers not expected to get a minimum pension.

TABLE 19
Chile's projected pension levels from 2020 through 2025, before the 2008 reform
(In %)

Projected pension level	All	Men	Women
Above the minimum	52	67	37
At the minimum	2	1	2
Below the minimum	46	32	61
Total	**100**	**100**	**100**

Source: Chile, Presidential Advisory Council on Pension Reform (2006).

Marco (2004) assessed gender inequality in the region's pension systems and made several policy recommendations. These included using single mortality tables to calculate pensions for both men and women, gradually equalizing the retirement age for men and women, setting up unemployment subsidies that replace the monthly contribution to an individual account (or to social security), and reducing the number of years required for a pension in recognition of women's time spent in child rearing (out of the paid labor force).

A competing perspective on gender inequality and pension reform is reflected in James, Edwards and Wong (2008), which stresses actuarial fairness. They emphasized lifetime benefits as a metric for measuring fairness, which would mean that if women live longer than men, then their contributions to the pension system (beyond the requirement for the minimum pension) should reflect this. Furthermore, the authors argued that because women are also recipients of net public transfers and private intra-household transfers, then they have gained more from the region's pension reforms than men.

The conclusions of Marco (2004) and of James, Edwards and Wong (2008) represent competing views of the role of pensions; in the latter, the principle of actuarial fairness comes first, while in the former, the link between contributions and benefits is loosened to account for social and labor market inequalities. As Fornero and Monticone (2010) noted, reforms that emphasize actuarial fairness are "at odds with measures that tend to compensate, at the pension level, inequalities originating from the labour market." Chile's 1981 reform placed more emphasis on actuarial fairness, and the 2008 reform sought to improve equity, as policymakers sought to reduce the gender gap.

The gender gap was a primary motivation for the 2008 pension reform in Chile, as President Bachelet stated bluntly when the Marcel Commission report was released (Mensaje 558-354, 2006) that the pension system discriminates against women. The report noted that women receive annuity benefits equivalent to just 42% of what men receive because women spend less time in the formal labor market, have lower income than men, have an earlier retirement age (60 years for women and 65 for men), and yet live longer than men. Also, insurance companies use gender-specific mortality tables to calculate annuities, which result in lower benefits for women as well (Chile, Presidential Advisory Council on Pension Reform, 2006).

Consequently, the 2008 pension reform included several measures designed to ameliorate gender inequality. Recognizing time spent out of the labor force to care for children, the government pays women a bonus for each child born – from the child's birth until the mother reaches age 65 – equivalent to 18 monthly contributions based on the minimum wage at the time each child was born, plus fund C's net return. For the first time, assets in an individual retirement account may now be divided between the spouses in the case of divorce or annulment, and widowers (in addition to widows) are now eligible for a survivorship pension. With respect to survivors and disability insurance, women had been paying the same rates as men, even though costs were lower given greater expected longevity. Since the reform, the difference in costs will now be refunded into women's retirement accounts (Mensaje 588-354, 2006).

Other countries also initiated measures to compensate women for time spent out of the paid labor force because of caregiving. Uruguay now has a credit for child rearing, and a similar measure was adopted recently in Bolivia.

In sum, with defined contribution accounts, women will receive lower pensions than men based on the structure of labor markets, as lower wages, employment in lower paid professions, higher rates of participation in the informal sector, and fewer years in the paid labor force will lead to lower capital accumulation. Separate actuarial tables and a lower retirement age can deepen these inequalities. Chile's 2008 reform directly addressed labor market inequalities that lead to pension benefit inequalities by including the measures described earlier and through el Sistema de Pensiones Solidarias (System of Solidarity Pensions), which benefits women more than men (described earlier in the Measures to Extend Coverage section). Other measures, such as unifying actuarial tables and having a single retirement age for men and women, would further minimize pension differentials.

6 FINANCIAL LITERACY

Financial illiteracy is a universal problem. Lusardi and Mitchell (2007) found in a US survey that less than 18% of those who had successfully done a simple interest calculation and a simple division problem could do a simple compound interest calculation (respondents were asked the total balance of a US$ 200 account that earned 10% interest over 2 years). Furthermore, evidence of lower levels of financial literacy among the poor, less-educated, and minority households puts these groups at a further disadvantage economically (Hung, Mahaly and Yoong 2010). This widespread financial illiteracy and a demonstrated link between financial literacy and household decision making are especially problematic for pension systems where individuals are required to make investment decisions by choosing among a range of competing pension plans (Lusardi 2009).[35]

In Latin America, governments have increasingly required pension fund managers to provide more transparent information to members about their individual accounts. For example, individual account statements in Chile must indicate the rate of return after deducting administrative fees. In Uruguay, the Central Bank has to publish the net real rate of return for each AFAP and the average fees for all AFAPs. Also, the Mexican regulator, CONSAR, is required to report the gross and net rates of return separately, as well as administrative fees for each AFORE. However, despite these efforts, it is evident that in general, workers do not have sufficient understanding of individual account systems.

6.1 Chile

According to Chile's EPS survey,[36] most respondents did not know how their pensions were calculated, did not understand the relationship between contributions to an individual account and their pensions, and were not familiar with the basic facts about the guaranteed minimum pension and its requirements.

35. Hastings and Mitchell (2010) found that level of impatience is also a key factor in decision making.

36. The 2002 survey was called the History of Labor and Social Security Survey. After the 2004 EPS was conducted, to simplify the terminology, researchers began to refer to the 2002 survey as an EPS as well. The EPS was also conducted for 2006 and 2009. To date, only preliminary findings have been released for the 2009 survey. For more information on the EPS, see <http://www.proteccionsocial.cl/>.

EPS findings included the following:

- fewer than 35% of those surveyed reported that they knew the percentage of their taxable income that was directed to the pension system every month, and less than half of those respondents provided accurate answers;
- of the 50% who reported that they were aware of how much they had in their individual account, the amount that two-thirds of them reported was more than 20% different from the actual amount;
- only about 8% of those surveyed knew how pensions were calculated;
- even though half of the respondents stated that they knew about the multifunds, only 20% knew how many fund options existed. About 40% correctly identified fund A as the highest risk, and about 33% knew the fund with the highest rate of return (in the medium term).
- those with less education and the poor were less likely to have knowledge about the system;
- the majority of those surveyed knew the correct normal retirement age;
- about 66% of the pensioners surveyed were aware of what kind of benefit they received, but the amount they reported receiving ranged from 20% less to 20% more than the actual benefit amount (Arenas de Mesa and others, 2008; Bravo and others, 2008);
- the percent of respondents who calculated how much they needed for retirement rose from 1% in 2006 to 6% in 2009 (Reyes B, 2010).

Since 2005, AFPs in Chile have been required to send out an annual personalized pension projection (PPP) to each member based on the individual account balance and some conservative assumptions regarding rates of return. The PPP is based on the member's age – the effect of making additional voluntary contributions (continuing compared with stopping these contributions) for younger workers, of retiring at the normal retirement age, or of postponing retirement for three years. A 2009 study found that this new information changed some behaviors. Some workers aged forty to fifty who received the projections did increase their voluntary contributions, while younger workers did not (Fajnzylber, Plaza and Reyes, 2009).

To improve financial literacy in Chile, the 2008 pension reform included a provision to set up a social security education fund – financed by contributions from the state and private donations – to develop a series of financial education programs through a competitive process. The program is supervised by the Ministry of Labor and Undersecretary of Social Security (Law 20.255)[37].

The first initiative, which began at the end of December 2008, focused on establishing a dialogue on social security between workers and employers and creating "a new social security culture" in the workplace. The government hoped to reach some 300,000 workers through trade unions and other labor groups, with 34 separate projects for a total cost of US$ 2.7 million. The 2010 initiative had US$ 2.9 million in funding (Berstein, 2010).

The 2008 reform also requires the government to set up an accreditation system for pension advisors to create a network of advisors that provide professional and independent financial advice to account holders, overseen by both the Superintendents of Pensions and of Securities and Insurance. As of April 2010, there were 480 authorized advisors (Berstein, 2010).[38] The law (20.255) also limits fees to 2% of the worker's individual account balance, up to a maximum of 60 UF (US$ 2,714).[39]

6.2 Mexico

Hastings and Tejeda-Ashton (2008) examined consumer behavior in Mexico in making choices among pension fund managers (AFOREs) from September 2004 through December 2006. They found that the amount of the administrative fee generally had no influence on the decision to switch from one AFORE to another, and workers did not switch companies frequently even though fees increased. A change in employment was the most likely reason to switch. For lower-income workers, peer influence, advertising, and name recognition were the most important factors; for higher- income workers, past rates of return were key factors.

The authors also used a sample of Mexican workers to ask a number of questions relating to their level of financial literacy in general. Several of the results follow.

- About 33% of respondents correctly answered the question on compound interest.
- Over 65% correctly answered the inflation question.
- Close to 25% demonstrated knowledge of investment returns terminology by selecting "past returns do not predict future performance."
- More financially literate workers tended to choose funds with lower fees.

37. See Chile (2008).

38. In October 2009, the first qualifying exam was given and only 30% of the 193 applicants passed. The test given at the end of May 2010 had better results: 48% of the 113 applicants passed. The test consists of multiple choice and true/false questions (Chile, SP and SVS, 2010). For the topics covered in the test, see <http://www.safp.cl/573/articles-6049_comunicado010410.pdf>.

39. See Chile (2008).

A survey commissioned by CONSAR evaluated the effect of certain changes to the system on the account holders' level of understanding since 2003. For example, the survey, conducted in 2006, found that since 2005 – when AFOREs were required to send out account balance statements twice a year, instead of just once, and when the heading "Estado de Cuenta" (account statement) had to be more prominent on the page—the percentage of individuals that recognized the account statement rose from 12% to 62%. Also, the percentage of account holders who found the information in their statement to be confusing dropped from 41% to 27 percent, while those who considered the information complete rose from 64% to 79% (Consulta Mitofsky, 2006).

Calderón-Colín Domínguez, and Schwartz (2008) conducted a survey of about 1,000 individuals (a stratified sample of people in Mexico City) to see if the affiliates made the "optimal" choice if data were presented clearly in a table. The results showed that with proper information, people were able to choose the "optimal" AFORE. Armed with this evidence, CONSAR has now included a section, in the quarterly statements that AFOREs send out to their affiliates, with a table that lists the rates of return for all the AFOREs in operation. It also points out where the AFORE in which the affiliate is enrolled stands with respect to the others.[40] This is one instance where a financial education experiment has resulted directly in a policy change by the regulatory body.

Calderón-Colín, Domínguez and Schwartz (2008, Figure 3) also examined fund switching in Mexico. Using administrative data from the CONSAR, the authors divided the switches based on the difference in the administrative fees and the difference in the rates of return (between the old and the new AFORE). They found that of the 3.87 million affiliates in 2006 who switched from one AFORE to another, 39.9% moved to a new AFORE with a *higher* fee and a *lower* return. The authors also used CONSAR's calculator – which produces a comparative table of AFOREs including income, account balance, age and other specific characteristics for those same affiliates – and found that 95.7% of them did not switch to the best AFORE (called "optimal" by the authors; see figure 6).

CONSAR has also taken steps to control the AFOREs sales agents who help workers make decisions regarding their individual accounts. In July 2009, the agency published rules (Circular CONSAR, 2009) for AFOREs sales agents. The key responsibilities include the following:

- familiarize oneself with and inform workers about financial mechanisms that generate retirement savings, and present truthful information about the products that the AFOREs offer;

40. For a sample statement, see <http://www.consar.gob.mx/principal/info_gral_trabajadores-estado_cuenta-imss.shtml>.

- offer workers products and services that meet their needs;
- have full knowledge of the information provided to workers so that they can make an informed decision about enrolling in or transferring to an AFORE; and
- keep workers' personal information strictly confidential.

The rules for selecting sales agents require AFOREs to have a rigorous selection process and periodic exams to test their knowledge.[41] As of December 2010, these measures had not been fully implemented, nor had an evaluation of their impact taken place.

6.3 Peru

The Inter-American Development Bank (IADB) conducted a survey in Metropolitan Lima of 6,000 heads of household between ages 25 and 55 in paid positions (either as an employee or self-employed). Results of the portion of the survey regarding knowledge of the country's pension system include the following:

- some 40% knew the correct retirement age for men, while only 8% were aware of the retirement age for women;
- only 12.2% were aware of the monthly contribution rate, and 16.5% knew who paid the administrative fee;
- only 3.2% knew how pensions were calculated in the system of individual accounts, while 8.2% knew how pensions were calculated for the public PAYG system;
- older workers (aged 50–55) had the highest percentage of correct answers for the retirement age and pension calculation questions, while younger workers (aged 25–34) had the highest percentage for the contribution rate and administrative fees questions;
- generally, women knew less than men except for the retirement age for women; and
- almost half of the group could not answer any of the questions correctly, and less than 1% answered all the questions correctly.

In addition, close to 50% of those surveyed never thought about how to finance their old age, and only 16% thought about it "a lot." Of the 43% who had taken concrete measures to save for retirement, 41% contributed to either pension system, almost 28% owned their own business (more women than men),

41. For part of a Mexican qualifying test for AFORE sales agents, see <http://www.segurosinbursa.com.mx/gestor/cursos/afore2008/aforevoz_v2/modulo1/autoevaluacion_m1.html>.

14% had a savings account in a bank, and almost 12% had bought a house. As in the rest of the world, Peru has relatively low levels of financial literacy, and knowledge of pensions and financial markets is extremely low (Pagés and others, 2009).

6.4 Other countries in the region

In the past few years, El Salvador has set up an interagency financial education program, which involves government organizations such as the Superintendent of Pensions, the Central Reserve Bank, and the Superintendent of the Financial System. Each agency focuses on the aspects of their mission relating to financial literacy. The materials relating to pensions on the financial education website include a coloring book, brochures on the basic features of the program, a video entitled "Your Money in the Future," and a manual for employers (SPES, 2009).

Colombia's 2009 financial reform bill created multifunds (in 2011) and required the government to set up regulations that include incentives for various groups (such as labor unions and consumer organizations) to establish low-cost financial education programs in conjunction with institutions such as universities (SSA, 2006–2010). An April 2010 draft law requires each AFP to implement a permanent financial education plan for its members on the risks associated with each investment alternative. The plan could involve training, conferences, talks, or "entertainment." Members could also ask their AFP for some form of pension calculator (*Portafolio,* 2010).

In addition, Uruguay intends to set up a Social Protection Survey similar to the one conducted in Chile. An IADB project to train professionals to administer an EPS survey was approved in 2008 and was scheduled for 2010 (IADB, 2008).

In recent years, the challenge of improving financial literacy has become widely recognized throughout the globe.[42] As described earlier, policymakers in Latin America have undertaken a range of initiatives that seek to improve financial education. Because the region's pension systems are based on a model that assumes that well-informed and financially literate workers will respond to incentives in a competitive marketplace, improving financial literacy in the region is of vital importance.

7 VOLUNTARY SAVINGS FOR RETIREMENT

Latin American pension systems offer a range of options for voluntary savings. Within the framework of individual account systems, voluntary contributions are often allowed and are under the same regulatory framework as the mandated

42. The OECD has a Financial Education Project, <http://www.oecd.org/department/0,3355,en_2649_15251491_1_1_1_1_1,00.html>. For information on the US government's program, see <http://www.treasury.gov/resource-center/financial-education/Pages/commission-index.aspx>. Also, in 2009 SSA established the Financial Literacy Research Consortium, <http://www.socialsecurity.gov/retirementpolicy/financial-literacy.html>.

contribution. In many countries, participation is encouraged through tax incentives. Some countries also have private pension plans sponsored by the employer and are subject to different regulations.[43] Mexico is the only country in the region where the supervisory authority (CONSAR) is now regulating the AFORES (both mandatory and voluntary), as well as separate employer-sponsored pension plans for workers. The focus of this section is voluntary contributions to an individual account (CONSAR, 2006; 2007).

Most of the Latin American countries with individual account systems allow voluntary retirement contributions in addition to the mandatory contribution. The method of saving varies: Workers can make additional contributions to either the same mandatory individual account or to a separate voluntary account. The government often provides some form of tax incentive to the employee to encourage additional saving for retirement. However, Uruguay offers tax incentives only to employers. Table 20 gives an overview of those provisions in nine countries. To illustrate examples of voluntary savings, the next two sections contain a brief description of the voluntary programs in Chile and Mexico.

TABLE 20
Voluntary contributions to individual accounts

Country	Additional contribution[1]	Separate account	Employer	Tax incentives[2]
Bolivia	Yes	No	Yes	No
Chile	Yes	Yes	Yes	Yes
Colombia	No	Yes	No	Yes
Costa Rica	Yes	No	No	Yes
Dominican Republic	Yes	No	No	Yes[3]
El Salvador	Yes	No	Yes	Yes
Mexico	No	Yes	Yes	Yes
Peru	No	Yes	No	Yes
Uruguay	Yes	No	Yes	Yes[4]

Source: FIAP (2006); SPES (2009).
Notes: [1] To the mandatory individual account.
[2] For employees.
[3] For those older than age 45.
[4] For employers only.

7.1 Chile

Since 1987, Chile has permitted various options to supplement the mandatory individual account.

- A separate savings account with the same AFP as the mandatory account.

43. For example, assets for Brazil's occupational pension funds are the seventh largest in the world (Pugh, 2009).

- Additional contributions above the mandatory 10% of earnings.[44] These contributions may be regular or periodic, but withdrawals are limited to four per year.
- Employers' contributions to employees' mandatory accounts. These are agreements (called "fixed deposits") between employees and employers that allow employers to deposit either a lump-sum or a periodic payment.

It was not until 2002 when tax incentives for these voluntary contributions were established. These tax incentives benefited mainly higher-income workers (Berstein, Larrain and Pino, 2006); by February 2010, about 16% of the 8.6 million AFP members had voluntary accounts, but 45% of those accounts had a zero balance (Chile, SP, 2010c; 2010d).

In October 2008, the government introduced employer-sponsored, voluntary pension plans, known as Ahorro Previsional Voluntario Colectivo (APVC), which target the middle class and supplement the existing voluntary retirement savings accounts.[45] Both employers and employees can contribute to an APVC. In addition, workers enrolled in an APVC plan who contribute up to about (US$ 3,150) a year to a voluntary account (and regularly contribute to a mandatory retirement account) are eligible for an annual government subsidy of 15% of the amount that the worker has voluntarily saved for retirement.[46] If the worker withdraws any of the funds from an APVC account before retirement, the entire government subsidy must be returned to the General Treasury (Chile, SP, 2008). The take-up rate for the APVC has been very low since the inception of the program. By the end of February 2010, there were a total of 126 APVC accounts, mainly in utility supply companies (Chile, SP, 2010c).

7.2 Mexico

A voluntary savings option with a given AFORE, called complementary contributions, has been permitted in Mexico since the inception of the system in 1997. In addition, the affiliate now gets a tax break on complementary contributions of up to 10% of income with a maximum of five times the minimum salary (around US$ 7,700) in 2010. Since 2003, CONSAR, the system regulator, has implemented some other measures to encourage voluntary savings. Any worker (not just affiliates of AFOREs) is permitted to open a voluntary retirement account with any AFORE. In addition, workers are allowed to borrow money from

44. The ceiling for the mandatory contribution is currently at 66 *unidades de fomento* (UF). The UF is a monetary unit adjusted daily to reflect changes in the consumer price index. As of December 19, 2010, the UF was equal to approximately US$ 45. Since 2010, the ceiling on contributions is adjusted annually according to changes in the real wage index for the previous year.

45. Before the new law was implemented, very few Chilean companies offered occupational pension plans.

46. Up to a ceiling of about US$ 2,800 as of December 23, 2010.

this voluntary account to buy a house, for weddings, or during periods of unemployment. CONDUSEF, the consumer protection agency of the federal government (and the organization that handles disputes concerning AFOREs), reported in 2008 that 1.4% of the affiliates opted for voluntary accounts (CONDUSEF, 2008). By 2009, 0.45% of the total savings in the AFOREs were voluntary savings (CONSAR, 2009).

Overall, the individual account systems in both Chile and Mexico have not been successful in encouraging workers to save more for retirement. Unlike in Chile, in Mexico there is a sizeable number of employer-sponsored pension plans, which cover approximately 1 million workers. These plans have existed for many decades without any regulation; since 2006, they have been supervised by CONSAR. These plans offer benefits over and above what is legally required by the Mexican government, and contribution requirements vary: only the employer contributes in 40% of these plans; the employer and employee in 53 percent; and both employer and employee in 4 percent. More than 60% of the plans are defined contribution systems, 13% are defined benefit systems, and an additional 25% are hybrid plans. Large banks manage almost half of the funds, while more than one-quarter are run by *casas de bolsa* (investment firms). Total assets under management accounted for 2.8% of gross domestic product (GDP) in 2009, compared with 9.6% of GDP for the AFOREs (CONSAR, 2009).

Private companies offer these plans to encourage workers to stay with their company. To be vested, typically a worker will need at least fifteen years of service. However, if a worker leaves before retirement, at best, most of these funds will pay a benefit based on only the workers portion of the contribution. These plans offer a good test case for measuring the cost of fund management because they are privately operated for the private sector. Sinha (2010) and Hamden (2010) provided some evidence on the cost of managing these employer-sponsored private pension funds. Based on a sample of around thirty funds from 2000 through 2006, both authors noted that on average, these companies charged an annual fee of 0.41% of the value of the fund at the beginning of the year. This figure can be contrasted with the AFORES average charges of more than double, estimated by Impavido, Lasagabaster and García-Huitrón (2010).

As is apparent from the discussion earlier, although these countries have implemented systems to encourage voluntary pension savings, the take-up rates have been extremely low, despite the incentives. This suggests that additional steps are necessary to encourage voluntary savings beyond the institutional and incentive frameworks that have recently been established.

8 PAYOUT PHASE

Much of the literature on pension reform focuses on the risks and costs of individual account systems during the accumulation phase when workers are contributing to their individual accounts. Yet, there is increasing attention being paid to the policy challenges of the payout phase and its associated risks. Even though Chile's system of individual accounts was established in 1981, it has not matured—as 30% of pensioners receive benefits from the old PAYG system—and recognition bonds for contributions made to the old system still figure prominently (Corripio, 2010).

As Rocha and Vittas (2010) noted, the payout phase has not received much attention in the literature. The authors point out that pensioners face longevity and bequest risks, as well as investment and liquidity risks, while the retirement products that they may choose carry their own specific risks. Purchasing an annuity can protect against longevity, but reduces the possibility for a bequest, while investments that bring higher returns may bring liquidity risks. As Rocha and Thorburn (2007) noted in their Executive Summary, "longevity risk remains one of the most difficult issues to be addressed by regulators and participants in annuities markets, requiring a constant effort to track mortality improvements and reflect these improvements in capital and product regulation."

Meanwhile, there is a range of types of payouts, including phased withdrawals, lump-sum, and self-annuitization; and a range of real, nominal, and variable life annuities – all of which offer differing degrees of protection against the aforementioned risks. As Antolin (2008, p. 16) noted, given different levels of risks and guarantees of differing annuity products, "in situations where a stable retirement income is already provided by the public PAYG pension, it may be appropriate to allow individuals to purchase annuity products that entail greater risks."[47] In fact, selecting the default risk level and payout requires an analysis of the level and security of other retirement income sources, wage and employment profiles, bequest motives, and liquidity preferences (Antolin, Payet and Yermo, 2010). Further complicating the creation of a default option is the fact that the relative performance of investment strategies depend on the payout phase. As Antolin, Payet and Yermo (2010) argued, life-cycle investment strategies do best when benefits are paid as life annuities, and are less valuable when benefits are paid as programmed withdrawals. Given the complexity of payout decisions and low levels of financial literacy, the default options for payouts are of critical importance (Rocha and Vittas 2010, p. 35), especially because there is evidence that workers may view default options as being a recommended option (Beshears and others 2008, p. 76). Also critical is the presence of an effective regulatory and supervisory authority.

47. Antolin (2008, p. 23) recommended that to manage longevity risk, policymakers should mandate deferred life annuities that start paying at very old ages (85 or older) with the remaining assets distributed as programmed withdrawals.

As table 21 demonstrates, there is a range of payout options in Latin America. For example, every country except for Panama offers an annuity; all but Uruguay and Bolivia offer programmed withdrawals; while Costa Rica, the Dominican Republic, and Panama do not offer programmed withdrawals combined with a deferred annuity. Mexico has a small annuities market in part because it has a very small insurance market overall and because private-sector annuities are only available for individuals with workers' compensation or disability claims (Impavido, 2007, p. 34). Before 2004 in Chile, workers could choose between phased withdrawals, indexed life annuities, or a combination of the two. Since 2004, workers can use a combination of a minimum pension fixed real annuity with either a phased withdrawal or a variable annuity.

TABLE 21
Payout options for Latin American individual account systems

Country	Retirement age		Type of retirement payout options				
	Men	Women	Early retirement	Annuity	Programmed withdrawals	Programmed withdrawals with deferred annuity	Guaranteed minimum benefit
Bolivia	65	65	No	Yes	No	No	Yes
Chile	65	60	Yes	Yes	Yes	Yes[1]	Yes
Colombia	[2]	[2]	No	Yes	Yes	Yes	Yes
Costa Rica	62/65[3]	62/65[3]	No	Yes	Yes	No	[4]
Dominican Republic	60	60	Yes	Yes	Yes	No	Yes
El Salvador	60	55	Yes	Yes	Yes	Yes	Yes
Mexico	65	65	Yes	Yes	Yes	Yes	Yes
Panama	62	57	Yes	No	Yes	No	[5]
Peru	65	65	Yes	Yes	Yes	Yes	Yes
Uruguay	60/65[6]	60/65[6]	No	Yes	No	No	No

Source: SSA (2009).
Notes: [1] Temporary income with a deferred life annuity and an immediate life annuity with programmed withdrawals.
[2] Paid if the accumulated capital in the individual account is sufficient to purchase an annuity greater than 110% of the minimum wage.
[3] Depending on the number of monthly contributions.
[4] For the first-pillar PAYG system.
[5] If the pensioner lives beyond the estimated life expectancy and the individual account is depleted, collective insurance tops up the accumulated capital in the individual account to finance the old-age pension.
[6] Age 65 has no coverage requirement.

Chile has high rates of annuitization with nearly 66% of retired persons choosing annuities and 60% of pensioners retiring early (of whom 85% annuitize, compared with 34% among people retiring at normal retirement age). Two separate studies attribute different causes for these high rates: *i*) detailed rules that encourage annuitization, such as the prohibition on lump-sum withdrawals (James, Edwards and Iglesias, 2010), and *ii*) marketing of annuities by insurance companies, which is directed at higher-income workers (Rocha and Thorburn, 2007, p. 138). The lower rate of annuitization for those retiring at the normal retirement age is due to the minimum pension guarantee, which provides a form of longevity insurance, as well as rules prohibiting annuities for low-value accounts (James, Edwards and Iglesias, 2010). Given concerns about high commission costs, illegal marketing practices, and high levels of early retirement, regulations implemented in Chile in 2004 and 2008 placed a 2% cap on annuity commissions, promoted competition by allowing banks entry into the market, and introduced an electronic quotation system designed to reduce the influence of individual brokers (Rocha and Vittas, 2010, p. 23). The latter was structured to provide unbiased advice given that insurance brokers were especially aggressive in marketing annuities because they received commissions on premiums. In contrast, insurance brokers received no commissions for programmed withdrawals from pension funds, and the funds were not allowed to charge a front-end fee to workers who kept their funds in their accounts, giving brokers little incentive to promote programmed withdrawals. Furthermore, the electronic quotation system was also designed to discourage early retirement, given the close link between early retirement and annuitization discussed earlier. Mitchell and Ruiz (2009) suggested that the 2008 reform, which expands access to a minimum benefit and raises its level, would reduce the high level of annuitization in Chile.

In short, the complex set of policy challenges associated with the payout phase listed by Rocha and Vittas (2010) require close attention from policymakers. The appropriate mix of products needs to be available (and oftentimes must be created in markets where they do not yet exist), and they must be effectively regulated and supervised. Chile has a head start in managing the payout phase, given the greater longevity of its system of personal accounts, but every country using such a system will need an effective set of policies. Deciding among a mix of product options is a complex decision even for the most sophisticated workers. However, given the low levels of financial literacy (see Arenas de Mesa and others, 2008; and Rocha and Vittas, 2010), the call for appropriate default options is especially urgent.

9 SURVEY OF OTHER REFORMS

Risk-based supervision (RBS), now being developed in Chile, offers a new approach to the supervision of pension funds. Beginning in July, 2010, Chile began implementing a transition to risk-based supervision of pension funds rather than rules-based supervision, with the goal of improving transparency and efficiency in the supervisory process. Under RBS, the supervisory authority assesses the capacity of pension funds to appropriately measure and manage risk with adequate levels of controls at all levels of the firm (Chile, SP, 2010b). Specifically, it means the quantitative restrictions (such as limits on investment in equities and default age designations) are being phased out and are being replaced with limits in terms of total risk assumed by the funds. RBS remains a challenge because there is no universally accepted measure of risk (Artzner and others, 1999). Chile's innovations with RBS will no doubt be closely monitored by other countries in the region.

Since Chile's comprehensive reform of its pension system in 2008, other countries have also considered measures intended to reform the reforms that they implemented in the 1990s. In Uruguay, the labor ministry initiated a social dialogue in May 2010, with the intention of proposing reforms in the second half of 2010. A 2009 Peruvian government study considered measures to incorporate independent workers and noncontributory social pensions, but at the present time there is no legislative effort underway to reform the pension system. Both Uruguay and Peru allowed certain workers who switched to systems of individual accounts to switch back to the public PAYG system.[48]

Meanwhile, in December 2010, a new law passed in Bolivia that allows a state takeover of the two private pension funds that had been created in 1996. This provision is part of a larger reform that lowers the retirement age for both men and women from 65 to 58 (even lower for miners and mothers) and creates a solidarity fund to help increase the benefit level for lower earners. This fund is financed by an employer's 3% of payroll contribution, 0.5% of earnings for workers and an additional contribution for higher earners.

Bolivia's nationalization of its private pension funds is following in the footsteps of Argentina, which became the first country to reverse the switch to individual savings accounts when it placed the US$ 24 billion in assets managed by the ten pension funds under government control and incorporated all workers into the public PAYG defined benefit system.

The 2008 presidential decree (Argentina, National Executive Power, 2008 (Poder Ejecutivo Nacional)) announcing the takeover cited the private system's low rates of coverage and high commission costs and argued that the private system would leave workers at the mercy of the markets during a time of financial crisis.[49] Furthermore, the new law stated that under the new Integrated Argentine Pension System (Sistema Integrado Previsional Argentino – SIPA), benefits would be equal to or better than benefits under the private system (Boletín Oficial de la República Argentina, 2008).

48. In both cases, the rules apply to older workers who voluntarily switched to individual accounts and would not have enough time to accumulate a significant account balance before retirement. In Peru, the ability to switch is ongoing, while in Uruguay the time period was limited.

49. For a comprehensive assessment of the Argentine experience with privatization, see Arza (2008).

Fiscal concerns were an important consideration during the 2008 renationalization of pension funds in Argentina, given government financing needs in the wake of a sharp fall in revenue that was due to lower export taxes and commodity prices during the financial crisis in the second half of 2008 (Reuters, 2008). Taking over the pension funds provided fiscal support for the government, and because 55% of pension fund assets were invested in government bonds, the government was essentially taking control of around US$ 13 billion of its own debt. Workers were promised benefits that would be equal to or better than the benefits that were provided by the private system. Legislative approval was no doubt aided by the lack of widespread political support for the private system. The legislative opposition, realizing it was not going to be able to block the measure, demanded that the funds be prudently managed and not used for political ends.

Mesa-Lago (2009) argued that the system's problems did not merit its complete dismantling: The funds' historic 6.6% real returns were far better than characterized by the government; pension funds were in relatively strong shape and underexposed to equities in the face of the economic crisis; despite a short-term financial boost from the takeover, the long-term pension burden would increase for the government; and that the reforms did not adequately safeguard how the newly acquired funds would be invested, which could further undermine confidence in (and compliance with) the public pension system.

The 2008 pension renationalization in Argentina can be contrasted to Chile's 2008 pension reform (Kay, 2009). The performance of Chile's privatized pension system also faced its share of criticism with respect to efficiency and equity (Gill, Packard and Yermo, 2005), and both presidential candidates in the 2006 Chilean election pledged to initiate a reform. President Bachelet created a reform commission that held public hearings, solicited input from stakeholders, and ultimately presented a package of measures aimed at improving coverage, increasing competition, lowering costs, and reducing gender inequity (Chile, Presidential Advisory Council on Pension Reform, 2006). In Argentina, there was no public debate or any hint that a core social program would be reformed before the legislation was introduced and quickly approved.

In short, recent events suggest great divergence in the direction of policy in the region. In some cases, like Chile's, the new system of individual accounts was strengthened by measures to improve competition and lower costs; at the same time, a significant public benefit was added to include the majority of workers who were not likely to have sufficient savings. Meanwhile other countries, including

Argentina, ended their systems of individual accounts, while other countries, like Bolivia, are moving in that direction.[50]

10 CONCLUSION

During the past decade, there has been a new generation of reform measures designed to address some of the principle policy challenges of Latin America's systems of individual accounts. Kay and Kritzer (2001) described how high administrative fees, limited competition, investment rules that discouraged diversification, evasion and low density of contributions, the need to extend pension coverage, and the role of gender were policy challenges that confronted the region's pensions systems. Since that time, policymakers in the region have taken significant steps to address those very issues, and in this article we have described this "reform of the reform" in some detail, with particular emphasis on countries that have taken significant steps, including Chile, Mexico, Peru and Colombia.

In the case of Argentina, the government chose an alternative path – rather than a next-generation reform, the system of individual accounts was ended, and workers were placed back into the state-run PAYG system. The Argentine path remains the exception in Latin America. For example, even though the state has taken over the private pension fund administrators, the individual accounts appear set to continue.

Expanding coverage remains the most significant policy challenge. Coverage is a key indicator of how well a reformed system is functioning, and improving coverage rates was a core objective of the reforms that led to individual accounts. With the exception of Bolivia, coverage rates for workers in the region did not improve.[51] Low density of contributions (the proportion of months that a worker makes contributions compared with the maximum number of months the worker could have contributed) is a persistent problem in the region, and workers who do not contribute regularly may find themselves receiving low benefits, or no benefits at all. Although a 2000 law would have led to the creation of individual accounts in Nicaragua, high transition costs and anticipated low rates of coverage led to a 2004 government decision (supported by the World Bank) not to introduce the new system. Economy Minister Eduardo Montiel noted that only one in seven workers would have benefited from individual accounts (Enríquez and Bow, 2004).

50. In October 2010, the Hungarian government, facing ongoing challenges from the financial crisis, moved toward taking over its system of individual accounts by freezing government payments to the private system and hinting that workers would be encouraged to return to the state-run system (Reuters, 2010). Then in November 2010, the government went one step further. Those account holders who did not switch their account balances back to the state, would lose their public pension benefits (Simon and Balazs, 2010).

51. Recent reforms to the public system expanded coverage for aged individuals who had been without coverage in Argentina and Chile.

Although reforms in the 1990s focused on the creation of individual savings accounts, a number of recent reforms have emphasized poverty prevention. As Gill, Packard and Yermo (2005) argued, the poverty-prevention pillar of pension systems did not receive the attention it deserved under the original pension reforms in Latin America, and in recent years, "closing the coverage gap" – as Holzmann, Robalito and Takayama (2009) titled their study – to incorporate lower-income and informal-sector workers has become a top priority. With only 20% of the world's elderly receiving pensions and 25% of the labor force contributing, it is clear that expanding basic antipoverty pension coverage will continue to be a top priority. Given these challenges, improving pension coverage remains a critical component of the next generation of pension reforms. For example, Chile's Sistema de Pensiones Solidarias (System of Solidarity Pensions) is one such model that will no doubt continue to receive attention from other countries seeking to expand coverage to their poorest citizens.

Administrative fees and limited competition have also been an issue of concern for many years (Shah, 1997; Queisser, 1998), and the 2008 Chilean reform includes measures with incentives for pension funds to compete for an entire cohort of workers, while allowing firms to lower their cost structures through outsourcing administrative functions. Although pension funds in Chile, Peru, Mexico and Colombia once offered only one investment portfolio, workers can now choose among the "multifondos," and limits on foreign investment have been liberalized, allowing for greater diversification of risk. The new Chilean system offers workers greater incentives to participate; some workers once had little incentive to contribute beyond what was required for the minimum pension, but the recent reform provides an array of incentives and subsidies for young and lower-income workers to contribute. The reform also seeks to bring the self-employed into the system, which remains a problem that is widespread throughout Latin America. Finally, recent reforms in Chile contain incentives for women, including subsidies for having had children, to ameliorate the gender gap.

We have also described policy challenges that were not widely discussed ten years ago, but are now on the frontier of policy reform, including financial education, default options for payouts, and the creation or improvement of the basic universal pensions to cover the lowest-income workers. Because workers are being asked to make critical choices about their financial future despite, as surveys demonstrate, very low levels of knowledge about finance, financial education is prominent in policy discussions throughout the hemisphere. Translating this concern to concrete results continues to be an extraordinarily difficult task.

Developing appropriate default options is another key challenge. Low levels of financial education make default options critical to the functioning of the pension system (Beshears and others, 2008), not only during the accumulation phase, but also during the payout phase, when workers often must make an irreversible choice in the face of an array of complex options (Rocha and Vittas, 2010).

Risk-based supervision is another emerging trend, and Chile is the first country to implement RBS for the pension system. In 2005, the Pension Superintendent began a multiyear implementation process designed to integrate all relevant risks into supervision (fiduciary, financial, operational, technological, and so forth) that will take a preventative approach, focusing on firms' risk management and internal controls. Chile's experience with RBS, which is part of a broader global move toward RBS in the financial sector, will no doubt be closely watched in the coming years.

While this study is by no means exhaustive, it has covered a wide range of next-generation reforms of systems of individual accounts in Latin America. As countries throughout the world continue to face similar policy challenges, these reforms will continue to provide lessons for policymakers.

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APPENDIX

APPENDIX A

SURVIVORS AND DISABILITY INSURANCE

All of the countries in the region with individual account systems provide some form of survivors insurance based on a percentage of the workers' prior earnings or pension. Generally, the deceased worker must have had a minimum number of years of contributions. The amount of the survivor benefit depends on the number and type of survivors, and usually all survivors benefits combined may not exceed 100% of the deceased's old-age pension (if he or she was a pensioner at the time of death, or the pension the deceased worker would have been entitled to receive). In most of the countries, the benefit is linked to the individual account balance and life insurance. Life insurance tops up the accumulated capital in the individual account if the balance is less than the required minimum to finance a benefit.

Eligible survivors include the spouse and children generally younger than age eighteen, unless a student or disabled. Although most of the countries provide similar benefits to both widows and widowers, in some instances, a wife is eligible for a benefit as a widow when the husband is ineligible as a widower, or a widowed husband must be disabled or financially dependent on the deceased wife to receive a benefit (SSA, 2009).

Most of the countries in the region with individual account systems offer permanent and partial disability benefits based on prior earnings. The main qualifying condition for total disability is at least 50% loss of working capacity in Mexico and Colombia, 60% in Bolivia, and 66% in the other countries' programs. Only three out of nine countries provide a temporary disability benefit. Chile's 2008 reform eliminated the three-year waiting period to be assessed as permanently disabled; only partial disability benefits require a final assessment after three years. Other countries such as Mexico and El Salvador have a waiting period before a worker may be assessed as disabled, while others including Bolivia and Costa Rica may review the assessment at any time. The regulator of the individual account system generally supervises the disability program except in Mexico and Costa Rica, where the social security agency administers the program (Ferro, 2009).

In most of the countries, the benefit is linked to the individual account and disability insurance. Disability insurance tops up the accumulated capital in the individual account if the balance is less than the required minimum to finance a permanent disability pension. However, in Bolivia and the Dominican Republic, the insurance company pays a disability benefit and also contributes to the insured's individual account until the pensionable age. At that point, the insured worker uses the individual account balance for some type of old-age benefit, to purchase an annuity, or make programmed withdrawals (Bolivia allows only annuities.) In Costa Rica, disabled workers receive a social insurance benefit directly from the social security agency and may withdraw the balance from the individual account when assessed as disabled. In Mexico, if the insured worker is eligible for a disability pension and the pension (based on the value of the accumulated capital plus accrued interest) is higher than the minimum pension, the person may withdraw the sum exceeding the amount needed for the minimum pension (Ferro, 2009; SSA, 2009).

THE "ALLOWANCE PER CHILD" PROGRAM OF ARGENTINA AND INCOME CASH TRANSFER PROGRAMS

Rubén M. Lo Vuolo*

"The only way to be truly rich, with no problems, in this country or anywhere else, is to have the poor at your side"
(Juan José Saer, *La ocasión*)

Latin America seeks to address structural problems at the labor market mainly through income transfer programs aimed at economically dependent people (children and seniors). Among other Conditional Cash Transfer Programs (CCT), the Universal Child Allowance in Argentina is unique in many aspects. It is not conceived for poor families, but yet for those with an informal employment or unemployed people living in specific conditions and sanctions. The article analyses this program, identifying similarities and differences with other CCT programs in the region and evaluates, among other issues, its advantages and limitations in terms of its coverage, distribution and conditionalities.

Keywords: structural problems; unemployment; conditionalities; distribution.

O PROGRAMA DE SUBSÍDIO UNIVERSAL POR FILHO E AS TRANSFERÊNCIAS MONETÁRIAS DE RENDA NA ARGENTINA

A América Latina busca solucionar os problemas estruturais do mercado de trabalho principalmente através de programas de transferência de renda, dirigidos às pessoas economicamente dependentes (crianças e idosos). Entre outros programas de transferências monetárias condicionadas (TMC, em inglês, *conditional cash transfer programs*), a Alocação Universal por Filho (Asignación Universal por Hijo – AUH), da Argentina, é peculiar em muitos aspectos. Não está direcionado a famílias pobres, mas a pessoas com emprego informal ou desempregadas mediante condições e sanções específicas. O artigo analisa este programa, identificando semelhanças e diferenças com outros programas de TMC na região, e avalia, entre outras questões, suas vantagens e limitações em termos de cobertura, distribuição e condicionalidades.

Palavras-chave: problemas estruturais; desemprego; condicionalidades; distribuição.

JEL: H53; I31; I38; D63; E24.

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1 THE LABOR MARKET "FAILURES" AND THE INCOME CASH TRANSFERS

In the history of different economic and social systems, the capitalist system is the only one that aims to solve, simultaneously and through the same market mechanism, the problems of job allocation and distribution of income among the population. This dual function operates through a supposedly "free" contract between the supply and demand of workforce, through which labor remuneration (that is, wages) is at the same time part of the cost of production and the main component of the workers' demand power.

In practice, this supposed freedom of contract is fictional while is subjected to legal criteria and operating rules governing markets limits that the parties must respect. Among others, there are two limits that constrain labor remuneration (Offe, 2008). Thus the supposed freedom of contract is restricted between an "upper" limit that wages cannot exceed without jeopardizing the profitability of the production unit (and thus the very existence of employment) and a "lower" limit that cannot be exceeded without risking the livelihood of workers and their families (and the reproduction of the labor force).[1]

Economic globalization exacerbates problems, pressing for the reduction of labor costs and increasing labor productivity in order to compete internationally. The results of these pressures are many: unemployment, underemployment, precarious employment, work skills disqualification, mass migration of the labor force, poverty of the working class, inflation of costs, etc. Thus, the possibilities are increasingly restricted to manage the recruitment of the entire workforce paying an income situated between the above mentioned limits.

Among the effects derived from these difficulties, the tendencies are evident. On the one hand, the forms and conditions of employment are multiplied in such a way that the heterogeneity of the labor hired is increased. A job is a difficult reward to receive for the unemployed and a difficult privilege to maintain for the employed. In this context, the job market is not a free hiring space for the most part of the workforce, rather than a space for submission and loss of personal autonomy.

Among other consequences, one can observe a tendency that seeks to separate in part the dual function of the job remuneration, distributing income through fiscal means. These cash transfer policies to persons by fiscal means tend to be analytically located in the field of the so called "social policies" although the problem is originated in the difficulties of the labor market in complying with the imperatives imposed by the capitalist organization. In fact, the very changes in the work relationship are the best way to track the metamorphosis that the "social

1. Social rights of the modern welfare State have joined another imperative: the work pay must also cover, through whatever scheme, an income (enough) throughout the occupationally passive life of people.

question" has been undergoing through time (Castel, 1995; Lo Vuolo *et.al*, 1999, chap. 7). The cash transfers to persons through fiscal means have been happening since the very beginning of the capitalist system.[2]

Many arguments are used to justify this transfer of the labor market's problems from the economic to the social field, among which I highlight two. One notes that the problem is not in the labor market, that works properly, but in the labor force, which has no capacity to be "employable", or because it demands very high incomes. Another argues that policies of fiscal income transfer to people would only be "temporary" and would serve to manage the transition to the definitive labor solution thanks to economic growth, job creation and training of the workforce.

As time goes on, these arguments become more difficult to sustain and cash income transfer policies through fiscal means are installed as "new contractual figures" between individuals and the State. Therefore, individuals respond to the specific contexts and the institutional heritage of each national system of social protection. For example, in countries with more mature and expanded social protection systems, multiple "active employment policies" varying from the transfer of income in return for training and the relocation of the unemployed, to programs that require, in exchange, the obligation to work on tasks assigned by the State (workfare) have been added to broad unemployment insurances.

Meanwhile, Latin American countries are following different paths in this area due, in large part, to the extensive presence of economic sectors operating in informal employment, and particular institutional legacies.[3] In this context, the promise of operation of the "virtuous cycle" between economic growth, employment and universal social protection becomes more difficult to achieve in the region (Lautier, 2006).[4]

These difficulties are not unexpected: the concept of informality was built decades ago in the region when it was proved that despite years of continuous economic growth, major labor groups were excluded from the benefits of formal employment.[5] Informality in Latin America responds to structural factors that

2. For reference remember the "poor laws" in England and the widely quoted Speenhamland system (Aguirre and Lo Vuolo, 2011).

3. In fact, it has come to characterize welfare regimes in the region and informal security regimes (Gough, 2004), suggesting that until the 80s, its institutional responsibility matrix ranged between "informal-conservative" or "conservative-informal", depending on whether "the emphasis is placed on existing institutional characteristics or its absent" (Barrientos, 2004).

4. Added to this, is the commitment of a "dual" models dynamics, where a supposedly modern sector drags the backward sector (Barbeito and Lo Vuolo, 1992).

5. For a discussion on how the content of the term informality has changed, see for example Lautier (1994) and Theodoro (2002). For an analysis of the recent situation in the region, see Tokman (2007).

are not resolved by growth and even informality feeds the growth in much of the economy. No wonder, then, that even though many countries in the region have recorded economic growth in recent years, high levels of informality and heterogeneity remain in the labor markets.

Among other effects, this structural characteristic has limited the effectiveness of the institutional arrangements that operate under the rule of social insurance, in general, and in particular, the policies of complementation, replacement and support of income. As a result, various programs that seek to transfer income to the population not reached by formal employment and by the coverage of traditional social insurance programs can be observed in the region. Lately, they occupy a central role in the so called Conditional Cash Transfer Programs (CCT), whose origin is often identified as the Education, Health and Nutrition Program (Progresa), created in Mexico in 1997, but they actually recognize diverse backgrounds as the historical trajectory and political realities of each country.[6]

Most CCT programs cannot be justify by monetary transfers for labor problems of the working-age population, but for the inadequacy of household income and especially for the financial burden that the presence of an "economically dependent" population represents. The goal that is usually invoked for these programs is twofold: in the short term, to reduce poverty through the transfer of income and, in the long term, to increase the formation of "human capital" as a mechanism to break the "hereditary" chain of insufficient income. This is achieved because the "rate of return" of fiscal income transfers would be greater when addressing children, and if conditions are demanded from their parents (World Bank, 2005).

The operating rules of these programs recognize certain common general features: *i*) transfer of monetary resources (in some cases with additional in-kind transfers); *ii*) targeting households classified as poor (and/or extreme poverty) with children and teenagers (some admit categories of households without children); *iii*) punitive conditionalities linked to school attendance and health and nutritional controls of both children and adolescents and of pregnant women; *iv*) preference for the benefit's transfers to mothers;[7] *v*) targeting in accordance with geographical priorities, self-identification, resources tests, and/or need, etc. This does not deny that there are programs that are classified as CCT which lack some of these characteristics, but in general these are the main operational rules.

6. As reference, since 2010, the CEPAL databases recognize CCT programs in eighteen countries in the region, covering more than 25 million households (approximately 113 million people) and with an expense of 0.4% of the gross domestic product – GDP (Cechini and Madariaga, 2011). However, the programs included differ on its operating rules, magnitude, coverage and resources. See also World Bank (2009).

7. Generally, but not always, CCT programs pay benefits to mothers, reinforcing their role as caretakers of children and the fulfillment of conditionalities on education and health. See Rodríguez Enríquez (2011).

Related to the CCT programs are the Non-Contributory Family Allowances (*Asignaciones Familiares No Contributivas* – AFNC).[8] Chile, for example, features the Single Family Subsidy for poor people who do not access the contributory family allowance and whose beneficiaries are chosen by the enforcement authority in accordance with the evaluation recorded in the Social Protection Profile.[9] Another example cited is that of Uruguay, which has been expanding coverage of its contributory family allowance program with non-contributory benefits.[10] Comparable Noncontributory benefits can also be seen in pensions.[11]

Taking as background and reference a growing debate in Argentina over multiple draft bills proposing universal benefit payments for families with children and adolescents in charge, in October 2009 the country presented the "Universal Allowance per Child for Social Protection" (*Asignación Universal por Hijo para Protección Social* – AUH).[12] This is a unique and non-contributory benefit which is incorporated - by Decree n. 1602- to the Law 24,714 which regulates the various benefits of Family Allowances (AF) that are paid to formal salaried workers.[13] The AUH benefit recognizes people who register themselves as "informal" or "unemployed" workers. The supposed universality of the benefit would be derived from the sum of the three categories considered as components of the labor market: formal salaried, informality and unemployed.

The AUH appears as a new species within the income transfer programs through fiscal means. Its uniqueness is that it explicitly recognizes that the origin of the problem lies centrally in the malfunction of the labor market and of social insurance. Interestingly, it is a program that recognizes the right of access

8. In general, family allowance programs for formal workers were established after pension programs: Argentina in 1957; Chile (1937), Brazil (1941), Uruguay (1943), Bolivia (1953), Colombia (1957), Mexico (1973), Costa Rica (1974). See ISSA (2010).

9. In addition, households within the Chile Solidarity Program automatically participate in this grant. The system also pays other benefits as maternal attendance allowance, family protection bonus (for families participating in the program "Solidarity Chile"), the March Bonus (benefit paid at the beginning of the school term for families with children whose monthly income is less than a certain amount, etc. In 2009, the contributory and non-contributory amounts were unified per child

10. Since 2000, Uruguay has implemented a program of family allowances for low-income households, regardless of the type of employment (ILO, 2007). From 2008, it was replaced by the New Family Allowance Regime, which increased coverage and paid a variable benefit according to the number of children per household, with an equivalence scale that provides a higher amount if the children attend primary or secondary school levels.

11. For example, in Mexico, on the one hand, the "Seventy-plus" program works, and, locally, the Universal Alimony of Mexico City (Yanes, 2011; Duhau, 2009). The case of Brazil's rural pension qualifies as "semi-contributory" while being financed by taxes over sales of agricultural products and a minimum pension contribution. Another non-contributive experience is the "Dignity Rent" of Bolivia (Müller, 2008).

12. See Carmona Berrenechea and Straschnoy (2008) and Lo Vuolo (2009).

13. Family allowances charged by formal employees include those paid as a monthly amount for a certain period (prenatal, maternity, child, disabled child) or paid as a lump sum to the occurrence of the event (birth or adoption, marriage, school aid). These assignments vary on descending basis (to even canceled), as the amount of the employee's salary in activity and the geographical area where it performs its task. They also charge some assignments the Unemployment Insurance beneficiaries and retirees and pensioners. The program is funded by employer contributions (workers do not make personal contributions), and various state jurisdictions (national, provincial and municipal) pay their employees directly without contributing to social security.

to a benefit recognized by law, but always when the person is participating in an employment relationship that is illegal: informal employment. And also, by leveling the rights of people in that situation with those who also declare themselves unemployed.

The operating rules of the AUH, thus, seek to resolve the deficiencies of CCT programs and even the programs of noncontributory family allowances. Hereinafter I describe the main features of the AUH and, then, analyze their likely impacts.

2 THE "UNIVERSAL ALLOWANCE PER CHILD FOR SOCIAL PROTECTION" OF ARGENTINA

As a general rule, those who verify the following criteria are eligible for the AUH benefit: *i*) do not receive another family allowance under the law of AF; *ii*) be "unemployed" or work in the "informal economy"; *iii*) receive remuneration below the Minimum Living and Mobile Wage (*Salario Mínimo, Vital y Móvil* – SMVM).[14] A maximum of five benefits may be demanded from AUH per household and payments can be made to both the mother and the father of children residing in Argentina. The regulation of the norm that created the AUH added another requirement: not only the beneficiary but everyone registered "included in the family group" must meet the characteristics stated above.

The first problem arises from the vagueness of the term "informal economy", which involves very heterogeneous activities, as recognized by various studies in the field and by government reports themselves (Ministry of Labor, Employment and Social Security, and the World Bank 2008). This imprecision enables the arbitrary selection of groups by the political power, which has resulted in the inclusion of large groups of workers in precarious working conditions, as in the case of the self-employed "*monotribuistas*" (unless they are registered as "social *monotributistas*").[15]

The AUH has a greater potential of coverage than other CCTs because quotas have not been imposed for the total number of benefits (such as Family Allowance, *Bolsa Familia* program in Brazil). In addition, the income ceiling for beneficiaries is relatively high and not established specifically for the program, but equivalent to the value of the overall benefit of the child allowance paid by the AF program to the lower income category of formal employees.[16]

14. From January 2011, the amount of the SMVM was $ 1,840 (US$ 443) per month.

15. The "social *monotributistas*" are a new category of workers whose production activities, services or marketing "hinder their integration into the formal economy because they are found in situations of social vulnerability". To enjoy this benefit they must be registered in the National Registry of Effectors of Local Development and Social Economy.

16. Since August 2010, the monthly value is $ 220 (US$ 53 approximately). There are different values of child allowance in the Family Allowance program for formal workers, according to income brackets and the region of the country in which the employee works. The AUH levels the overall value of the first tranche of the established salary scale.

The other peculiarity of the AUH is the mechanism established to compel the compliance of the conditionalities. Every month only 80% of the total amount of profit is paid and the remaining 20% is held until the end of the calendar year, at which point, one must certify the fulfillment of the conditionalities of attendance in the educational system and regular attendance of mother and child in controls of the health system. Failure to meet these conditionalities will result in the loss of the benefit and may even lead to other penalties for "distortion of the sworn statement".

Another distinctive feature of the AUH is that it is financed by funds from the social security system, including revenues and contributions of formal employees and annual returns of the Guarantee and Sustainability of the Fund of the Public Welfare Distributing System. This fund was established in mid-2007 and was expanded in late 2008 with the re-nationalization of the social security system and the subsequent transfer of the various funds that were managed by the *Administradoras de Jubilaciones y Pensiones* (AFJP).[17]

Another innovation is the creation, in April 2011, of the Universal Allowance per Pregnancy for Social Protection (SEA, Decree 446/2011), in addition to the AUH and organized with similar provisions: *i*) it is a non-contributory benefit within the contributory regime of AF; *ii*) its beneficiaries are pregnant women who meet the same social and labor characteristics required by AUH; *iii*) during the months of pregnancy it is charged 80% of the benefit and the 20% retained is collected at birth and provided if demonstrated the compliance with health conditionalities.[18]

As can be observed, the operating rules of the AUH are a particular combination between the CCT and the AFNC programs:

- the norm that regulates the benefit is included in the Family Allowances Act for formal salaried workers;
- beneficiaries are registered by employment status and because they earn an income below the SMVM;
- does not take into account household income but the employment of all household members;
- the value of the benefit and its setting are "glued" to current values for the AF program for formal employees;

17. At that time, Argentina eliminated the individually funded component of contributions administered by private companies, established in 1994, to return to a single, state pay (Arza, 2009; Mesa-Lago, 2009; Lo Vuolo, 2008).

18. The value of the benefit to the AUE is equivalent to the "pre-natal" allocation of AF program of formal employees and for the "general area" (also about US$ 53 monthly to date). Medical checks are required under the "Plan Nacer" of the Ministry of Health.

- a "preventative" sanction mechanism that retains some of the benefit (in a context of high inflation) for the account of certification of compliance with conditionalities;
- the benefit is funded with resources of the social security;
- a differential benefit is paid to pregnant women.

Even with this particular combination of operating rules, the AUH continues to maintain four general criteria of CCT programs: *i*) targeting (by occupational category and income); *ii*) punitive conditionalities for receiving the benefit; *iii*) lack of compatibility between various benefits of the same kind paid by other programs of social protection; *iv*) lack of integration between these benefits and tax credits recognized in the tax system. In addition, a benefit that usually is seen as a childhood right, it is actually a right of parents, according to their employment status.

3 THE PROBABLE IMPACTS OF THE AUH

The impacts and returns of CCT programs are controversial.[19] In general, the ones that are more established declare they have reached all households listed as indigent, and much of the poor. In contrast, in most programs in Central America the coverage does not exceed 20% of the population classified as poor. The positive impact on household income is varied and depends on the level of benefits transferred, of the coverage, and the "ceiling" their own income established to qualify for the benefit. The oldest and most stable programs seem to have helped improve liquidity constraints and access to credit, while improving the level and quality of the food consumed. Also, conditionalities of health and education are linked to higher rates of enrollment, although substantial improvements are not observed in learning levels and nutritional status of the beneficiaries. Disincentives to the labor supply of adults in beneficiary households are not recorded, and neither is the reduction of child labor.

To date, there is little chance of making sound assessments on these and other aspects for AUH. This is due, on the one hand, to the non-availability of information derived from the records of beneficiaries or beneficiary surveys to assess their situation before and after implementation. This is compounded by the suspicion over the indicators, released by the National Institute of Statistics and Census (INDEC) under intervention of the national government since early 2007. Nor are there adequate records of the unemployed.[20]

19. See Cechini and Madariaga (2011), especially chapters V and VI.
20. Unemployment Insurance covers an average of 8% of the statistically unemployed.

3.1 Coverage: universal?

An example of these problems is the following: there is no agreement even on the number of children under eighteen living in the country, to the point that the figure used in different studies on the subject varies from 12.4 million to 13.6 million people.[21] Considering that, by February 2011, just over 3.5 million of benefits paid by the AUH[22] were reported, and taking into account other existing programs that pay benefits to people under eighteen, a report found out that between 18% and 28 % of this population remains not covered by any type of benefit (Lozano and Raffo, 2010).[23] In contrast, other research argues that only 2% would have no coverage of any kind today (Bertranou, 2010).[24]

The coverage analysis is more confusing when you consider that about 90% of those receiving the AUH are recorded as "unemployed" women. This finding is inconsistent with the composition unemployed/informal as well as with female/male unemployment data reflecting the employment market.

What explanation can be offered for these inconsistencies? Intuitively, it can be assumed that men who work in informal jobs prefer not to register themselves as beneficiaries of the AUH. This is so for two main reasons. One is related to the fear of the very audit activity of the State, while informality is illegal and also is at risk of not meeting certain conditions, such as receiving an income less than SMVM. Second, control of income is avoided and ensures "permanence" in the perception of income if inactive women beneficiaries are recorded as unemployed. In a way, the AUH generates a particular "informality trap" (and/or unemployment) derivative of the reason above mentioned: it recognizes a "formal and legal" right that requires people to work in an "informal and illegal" employment relationship.

This situation stems from the transfer of beneficiaries of programs that were "absorbed" into the AUH (Lozano and Raffo, 2011). In practice, though, the ones who quickly collect the AUH were those people who were already registered in other programs and, therefore, were in the databases managed by the National Social Security Administration (ANSES). For example, nearly 29% of the benefits paid to individuals was transferred by the AUH from the "Family Plan for

21. The first data is the 2001 Census and the official reports and some private reports are taken; the second data arises from applying the proportion of this age range on the total population in 2001 (33%) of the total population of the provisional data of the 2010 Census (40,091,359 individuals).

22. According to the presentation of the Ministry of Labor, Employment and Social Security, on the Day of discussion on the Universal Child Allowance for Social Protection, organized by ASET and Unicef in Buenos Aires on March 29th, 2011. The number of adult beneficiaries stabilized at just over 1.85 million.

23. It was estimated that 4.2 million of benefits are paid by the AF system of national social security, 1.6 million are family allowances paid directly by the states (National, Provincial and Municipal), and 800,000 are covered by the tax credit for family charge on income tax from their parents' income.

24. The AUE coverage for pregnant women is even more difficult to estimate for its recent launch.

Social Inclusion" (Zaga Szenquer, 2009), which subsidized women with children to charge if not participating in the labor market (i.e., inactive). Another 21% relative to children from parents who were beneficiaries of some kind of plan of employment / unemployment (mainly programs Unemployed of Household Heads and Community Employment).[25] The most difficult to grasp, and that explains much of the coverage deficiency, are those who are in such a situation of extreme economic and social precariousness that they were not included in registered programs (Lozano and Raffo, 2010).[26]

In sum, the particular targeting method of the AUH recognizes a broad coverage under other CCT programs, but it is not universal and does not solve problems widely detected as segmentation, coverage errors, discrimination, stigma and clientelism, etc. It also incorporates the problem of the informality trap.

3.2 Punitive conditionalities: chindren's rights and formation of human capital?

There are various conditionalities required to collect the AUH. To limit the level of income, in practice, it operates with self-report and there are not known criteria or methods of control for it. As stated, it is a strange situation because the person working informally must state the conditions under which he/she participates in a working relationship that is illegal.

As for conditionalities of health and education, the retaining mechanism of 20% of the monthly benefit amount "dependable" on compliance is one of the most critical features of the AUH. First, it means unequal treatment in relation to wage earners from whom no amount is retained of their benefits, or taken away if the children do not attend education and health facilities. In the AF program it is another one: it pays an extra – a kind of "prize" – in case of attendance to the school system. Thus, the same elements that justify punitive conditionalities of the AUH serve to justify a "prize" for formal workers.[27] This unequal treatment is reinforced by the loss of real value of the monthly benefit of the AUH in an economy with high inflation (20% to 30% per year, according to more reliable private estimates and surveys of the Provinces with no statistical systems operated by the national government).[28]

25. With the creation of the AUH, employment programs were also restructured and eliminated, which in some cases cut off its coverage and reduced benefits. Also, it decreased 600,000 "scholarships" of the Compensatory Actions Program in Education and transferred beneficiaries from programs of provinces and municipalities who adhered to the AUH.

26. Records show an increasing amount of benefits with "suspended collection", estimated at about 10% of those registered, explained by the incompatibilities between National and Provincial databases, lack of card withdrawal in a timely manner, absence of mechanisms to facilitate access to identity documents, etc.

27. Similar discrimination between AUH beneficiaries and the AF program is verified in the limit of 5 benefits per household for the first case, while in the second case, the benefits charged depends on how many children they are in charge of.

28. See, for example, Barbeito 2010.

Unequal treatment is also evident in other standards. For example, the AUH requires that children attend to state schools; this restriction does not prevail for formal wage earners. The argument is that attendance in private institutions (which are almost entirely subsidized by the state) is an indicator of resource availability, although records indicate that in the lower groups of the income distribution line there is a high turnout at private establishments.[29] This inconsistency has led to "suspend" this requirement in practice, but it has not been repealed, and political power remains the authority responsible to apply or not sanctions for this reason.

In summary, the AUH continues to consolidate an institutional system organized to pay better benefits to workers that are better positioned in the job market and income distribution. This is not a general feature of policies and social protection programs in Latin America, leading to doubts about the objective sought with the conditionalities and the selection criteria that characterize this type of program. It is more reasonable to assume that they are related to the implementation of mechanisms of social control and political legitimacy than to the technical rationality associated to the formation of human capital.[30]

Conditionalities open space for arbitrariness in the selection and sanction of potential beneficiaries, particularly because the AUH is a national program, while education and health services are managed almost entirely by the provincial and municipal authorities. There is evidence to suggest the implementation of dissimilar criteria by school and health authorities to certify the "non-compliance" of conditionalities and thus enable the potential loss of the benefit and, therefore, create more difficulty in continuing the educational and career care in the health system.

The elements identified seriously question the claim of presenting these types of AUH benefits (and TMC programs in general) as "children's rights". How could these benefits be considered rights if that political authority can remove them if conditions which children and adolescents are not able to be responsible or fulfill on their own are not met? How could they be universal rights when the most disadvantaged have worse conditions of access to the benefits than others who are in better conditions, and the State reserves itself the right to sanction under unequal standards?

Punitive conditionalities, particularly when they are unequal in relation to other population groups, cannot characterize universal rights of the people, much less children and adolescents. Far from establishing childhood rights, conditionalities are a mechanism that limits personal autonomy, establishing relations of

29. For 2006, it was estimated that 36% of children from households in the first two income groups were attending private institutions (Gamallo, 2008).

30. Similar conclusions are obtained from the case of programs such as *Bolsa Familia* (Medeiros *et al.*, 2007, p.18).

subordination and social control that open the door for the use of programs for purposes of political patronage. Its arbitrary use does not depend on beneficiaries but of the behavior of political authorities.

3.3 Distributive impacts: what is the level and in whose favor?

Obviously, any transfer of income to people who previously had no coverage of such benefits has positive impacts on their income, consumption, school attendance, etc. Unfortunately, in the case of the AUH it is very difficult to quantify these impacts due to the concerns expressed with regard to the information base, to which we add the complexities of operating rules regarding the selection of target groups, conditionalities, sanctions, weak oversight, etc.

To illustrate, while Indec estimates that the value of the basic food basket which defines the poverty line rose 40% between January 2007 and May 2011, estimates based on alternative price indexes place that growth in 166%. For the poverty line, the differences oscillate between 43% and 135%, respectively.[31] So, while the Indec estimates, for late 2010, that indigent families are about 2% of the total, and 6.8% are poor families, alternative estimates placed those percentages around 16% and 29%, respectively (Lozano *et al.*, 2011).

To the data on the cost of living complications, we add the multiple criteria used in the exercises of "simulation" seeking to estimate the distributional impact of the AUH. The dispersion observed in the results obtained by these exercises is very wide. The estimated drops in poverty and indigence indicators range from 55% and 70%, respectively (Agis *et al.*, 2010), to only 4% and 11% (Lozano and Raffo, 2010, table 20).[32] With other methods, it is estimated that if the selection of beneficiaries and conditionalities had applied "strict", "extreme poverty" would fall from 6.9% to 3.2% and the "moderate" from 23.2% to 21.1%, if, instead, conditionalities were not being audited, the fall in the first case would be from 6.9% to 2.8% and, in the second case, from 23.2% to 19% (Gasparini and Cruces, 2010). A document published by the ILO estimates that the AUH program "reduces homelessness and poverty marginally by 65% and 18% compared to the previous situation" (Bertranou, 2010).

The various results of the attempts to measure the distributional impacts at the "macro" level are worsened at the "micro". This is so because of the multiple "cases" that may occur, and also because the amounts of the benefits of AUH and

31. The estimates reported use price indexes of Provinces whose statistics institutes maintained their methodologies. For the methodology, see Barbeito (2010).

32. Officials of the Ministry of Labor, Employment and Social Security point out reductions of 35% and 53%, respectively (See Emilia Roca, Undersecretary of Social Security Policy: "The challenges and opportunities of Social Security in Argentina", in Dialogues of Social Protection, May 14, 2010).

AF program differ from those recognized in the "additional coverage" that represent tax deductions for family responsibilities in the population's tax income. Thus, taxpayers who earn above the wage limits established to collect the AUH and the AF, also have tax credits for their sons and daughters. This disintegration of the tax system prevents the estimate of the "net position" of each taxpayer and therefore the net distributional impact.[33]

In summary, it can be assumed that the distributional impact of the AUH is positive, but there is no consensus about its magnitude or about what is the distribution among the different groups. The multiplicity of programs, conditionalities, and the lack of fiscal integration are the main explanation for this situation.

3.4 Financing: guaranteed and stable?

Many CCT programs are totally or partially financed by funds from foreign loans or general taxes. In contrast, the AUH takes resources from the social security system, accentuating a trend that has long been diluting the traditional separation between contributory and non-contributory benefits. This trend is verified in two ways. On the one hand, the social security benefits are financed in part with general taxes, on the other, non-contributory benefits are paid with funds raised by payroll taxes (personal contributions and employer contributions).[34] As an illustration, in 2009, the resources collected by dues and contributions on wages accounted for only 57% of the total revenues of the Argentinian social security system, the remaining came from transfers from general taxation.

The pension reform of 1994 was a milestone in this process. At that time, the "pothole tax" generated by the transfer of workers' personal contributions to the funds of individual capitalization accounts of contributions was covered by a corresponding transfer of general taxation. However, when Argentina re-nationalized the pension system in late 2008, recreating a public system and single distribution, general revenue taxes remained social security funded, despite the fact that the state recovered workers personal contributions. So, today, the fund that finances social security and the AUH is constituted by both resources and contributions on wages, as general revenues.

Currently, the social security system shows a surplus, which is explained by the transfer of funds from the extinct private management system to the State. The exceptional nature of these funds joins the high and growing "contingent debt" that records the social security system for non-payment of benefits, as established by the applicable law (and the Supreme Court's Office has notified to pay).

33. On this subject, see Barbeito (1995).

34. As in the rest of Latin America, in Argentina, the greater weight of tax collection corresponds to indirect taxes and taxes on wages, while the tax burden is lower on personal income, wealth and capital (Cetrángolo and Gómez-Sabaini, 2007).

Finally, the Reserve Fund - established from the assets of the funds that previously managed the AFJP, is being used to fund the national treasury (and various grant programs).[35]

In summary, the AUH competes with other contributive programs for resources that may not be sufficient in the medium and long term. Part of the funding problem could be alleviated if the resources that funded the programs (whose beneficiaries were abolished and absorbed into the new program) were transferred to the AUH's financing.[36] However, it did not happen. The Treasury surcharged the social security system with the AUH and kept those funds to be allocated to other programs for other purposes.

4 FINAL THOUGHTS: RETHINKING THE CENTRAL PROBLEM

Whenever a public policy is formulated and analyzed, the first thing to be done is to define the problem to be solved. Beyond the advertised objectives, the various tax programs of income cash transfers are the result of an increasingly urgent problem: the ineffectiveness of the labor market to meet the imperatives imposed by the regime of the current economic and social organization.

As much as they are presented as programs aimed at enshrining children's rights and training human capital, CCT programs in general, and particularly the AUH, appear as a result of a labor market failure. However, they are organized as "emergency" and temporary programs that serve to "wait" for the economic growth that will allow the labor market to meet once and for all the purposes it cannot meet.

Certain organizational principles that are common to these programs are an evidence of this. First, they are selective and targeted programs for income and/or "precarious" occupational category. Second, punitive conditionalities are required for access, which are more severe than those that must be met by people with higher incomes and jobs able to access other more generous programs of the social protection system. Third, the benefits paid are worse than those paid to better positioned groups and are not integrated with the tax credits recognized in the tax system. These operating rules are summarized in the following statement: worst benefits and more stringent access conditionalities for those who are worse off.

The peculiarity of CCT programs, in general, and particularly the AUH, is that they justify their existence in the distribution of benefits targeted to children. In other words, instead of attending the adult "guilt" of having no formal em-

35. Including financial assistance to large companies (for example, the automotive sector).

36. Of the total annual spending announced for the AUH (0.6% of GDP), it is estimated that half is "saved" by the transfer of benefits from other programs (Lozano and Raffo, 2010).

ployment, it seeks to assist children and teenagers considered "innocent" about their situation. Paradoxically, despite the supposed innocence, it punishes those who fail to meet certain conditions for access. In practice, it is not about a recognized right to childhood.

The greatest innovation of the AUH is the recognition of the benefit to people on the working age who are unemployed and/or have informal jobs. By including them in the regulating law of the AF for formal workers and financing them with social security funds, in practice it keeps the tradition of recognizing rights of the "working" person. This criterion for defining the potential beneficiary population means a greater potential compared to the traditional CCT coverage, because it has no fixed boundaries (quotas) in the number of benefits, and the earnings ceiling is relatively high (linked to the governing SMVM of formal workers). Nevertheless, the AUH does not solve the typical problems of lack of universal coverage, heterogeneity and selectivity. So, for the Argentinian children and adolescents it has different values, depending on the employment relationship that their parents are temporarily involved in.

As a result, there is evidence to believe that the AUH originates certain forms of "poverty trap", "unemployment trap" and "informal employment trap". Because of the threat of an audit of one's income and employment, some people who work informally prefer to conceal their status and register other household members as unemployed. Besides, as people who, for some reason, were already receiving some State benefit and, consequently, included in state administrative records, almost all of the beneficiaries are listed as unemployed women.

Thus, the AUH highlights that people "adapt" to the targeting criteria and conditions applicable to each program, while the State reserves the right to discriminate between those who deserve and do not deserve benefits. The AUH reinforces this situation by applying a questionable retention mechanism "dependable" on the certification of compliance with the conditions required. This further erodes the real value of the benefit (and further complicates the access to education and health services). This combination of rules defines an unstable benefit whose operational rules are functional to paternalistic and clientelistic states.

Funding for AUH based on social security funds suggests some assurance, but the truth is that the adequacy of those funds is not guaranteed for all programs. That forced "solidarity among workers" is held in a regressive tax system where even tax credits and subsidies remain for high income earners.

The greatest merit of CCT programs and the AUH is distributing benefits to a deprived population who had no coverage of social insurance programs. However, the operating rules chosen by these programs insist in organizing principles that have proven to be drawbacks: targeting, punitive conditionality, timing and lack of integration with the tax system. These criteria enhance the role of the "technician" specialized in qualification and selection of the population, so it is not surprising that they enjoy their choice. But, in return, it reduces the autonomy of the beneficiaries and their ability to develop in society regardless of the "permission" granted by the political power and its operators.

Some items shown in this paper help to think of possible ways to improve the results of these programs. In particular, it is interesting to highlight four increasingly clear evidences in Latin American societies: *i*) it is not possible to obtain the ideal of full employment for the entire workforce, much less in a condition to promote well-being and personal autonomy; *ii*) it is not possible to obtain universal coverage and egalitarian benefits with targeted and conditional programs; *iii*) it is not possible to generate progressive distribution of income and sustain funding sources without integrating tax subsidies with distributive progressive taxation; *iv*) it is not possible to continue to demand from the labor contract the current imperatives imposed by the capitalist system in regards to the allocation of available jobs and the income distribution.

This evidence should be considered as initial assumptions to draw new paths for income transfer policies. The challenge does not pass through adding programs to the same organization principles, but by thinking organization based on other principles. Thus, targeting, punitive conditionality, timing and lack of integration with the tax system, characterizing CCT programs, should oppose operational rules of universality, non-conditionality, stability and integration between subsidies and taxes.

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WHO GETS WHAT? DISTRIBUTIVE PRINCIPLES AND IMPACTS OF THE ARGENTINE PENSION SYSTEM

Camila Arza*

This article discusses the distributive principles and impacts of the Argentine pension system. On the one hand, it presents the evolution of pension policy from its origins, including two recent structural reforms (privatization in 1993-1994, and its reversal in 2008), and the way in which each of them defined the distributive principles of the system. On the other hand, the paper studies the most recent measures that have been loosening the actual distribution of benefits from the traditional Bismarckian model. These and other measures have jointly defined the distribution of benefits and coverage in the current Argentine pension system, which is presented at the end of the paper.

Keywords: distribution; equity; social security benefits; coverage social security.

QUEM RECEBE O QUÊ? PRINCÍPIOS E IMPACTOS DISTRIBUTIVOS DO SISTEMA PREVIDENCIÁRIO ARGENTINO

Este artigo analisa os princípios e os impactos distributivos do sistema previdenciário argentino. Mostra o desenvolvimento da política previdenciária desde a sua criação, incluindo as duas últimas reformas estruturais – a privatização de 1993-1994 e a estatização de 2008 – e como cada uma delas tem definido os princípios distributivos do sistema. O trabalho estuda também as medidas mais recentes, que têm tornado a distribuição real dos benefícios desligada do sistema bismarckiano tradicional. Juntas, estas e outras medidas foram definindo a distribuição de benefícios e a cobertura do sistema previdenciário argentino atual, apresentado até o final do artigo.

Palavras-chave: distribuição; equidade; benefícios previdenciários; cobertura; seguridade social.

JEL: H55; H53; I38; E24; D63; D31.

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1 INTRODUCTION

Pension systems are powerful distributive mechanisms. The combination of forced saving, wage contributions and fiscal transfers reallocate resources over the lifecourse and among people, structure social stratification and influence levels of inequality in society. Over time, the construction and development of social security systems around the world gave rise to political battles for the distribution of rights and benefits. As pension systems expanded, they redefined the market, State and families' roles in social protection, and the coverage of risks in society. The expansion of social security was particularly important for people who faced high social risks and lacked resources to obtain economic protection by other

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means. However, its impacts were not always progressive. In Latin America, for example, the development of stratified social security systems also generated new inequalities (Mesa-Lago, 1978). In practice, each pension system defines the subjects of public attention and has its own distributive effects, intentional or not, both intra and inter-generational. In its design, it defines what many regard as the essence of politics: "*who gets what, when and how*".

This paper deals with the analysis of the Argentinian pension system from the above mentioned perspective. The distributive principles and impacts of the system have fluctuated over time. After a period characterized by occupational stratification, the pension system was expanded to include the entire formally working population, under more homogeneous conditions. However, its contributory design segmented the population between those who were inside and those who were outside the system based on their work patterns. The population working in the informal labor market and their families, the long-term unemployed and unpaid workers (particularly, women engaged in domestic work) found themselves increasingly unprotected. The reform of the 1990s, which replaced the pay-as-you-go (PAYG) system by a mixed system with fully-funded individual accounts, consolidated the system's contributory aspect. The benefits became increasingly associated with each one's pension savings capacity (and along with it, wages and contributive history). In 2008, a new reform eliminated the capitalization system, keeping the public contributory and earnings-related subsystem as the only pillar of the pension system. These and other measures (linked to mechanisms of assignment, calculation and indexation of benefits), influenced the distribution of pension rights and benefits that currently prevails.

The article is organized as follows. After this introduction, the second section presents the basic conceptual aspects of the pension system's design and its distributive principles. The third section presents the evolution of the Argentinian pension policy from a historical perspective, with special attention to two recent structural reforms (privatization in 1993-1994 and nationalization in 2008) and the way in which each of these reforms has defined the distributive principles of the pension system. The fourth section orients to the quantitative analysis of the distributive impacts of the current pension system: the distribution of benefits and the distribution of coverage among older adults. At the end of the paper, some final thoughts about the prospects for a long term redistributive pension policy are presented.

2 SOCIAL SECURITY DESIGN AND DISTRIBUTION OF RIGHTS, BENEFITS, AND RISKS

Social security systems can be classified based on their distributive principles, i.e. according to the manner they distribute rights, resources, and risks. The distribution of rights defines who is eligible for a benefit and under what conditions. The distribution of resources tells us which benefits each one has access to and how those benefits are financed. And the distribution of risks takes into consideration the contingencies (labor market, demographic, political, etc.) that may affect the rights, benefits and costs in each pension system, and how they are distributed – who bears their costs – (Arza, 2006a).

The literature identifies three models of distribution of rights: *i*) *universal systems*, which grant benefits to the whole population with the only requirement of reaching the retirement age and, in some cases, residing in a country or district, *ii*) *means-tested systems,* which allocate benefits only to people with family or individual income below a pre-defined threshold, and *iii*) *contributory systems* based on employment, which grant benefits only to those who worked and contributed for a certain period of time (International Social Security Association, 2008). Additionally, within each of these three models there can be major differences, e.g. in relation to the number of years of contribution required to obtain the benefits (in employment-based systems), to the value of (individual or family) income above which they begin to receive benefits (in means-tested systems), and to the specific requirement of residence/citizenship (in universal systems).

On the other hand, the distribution of pension system's resources depends on both the financing mechanism and the formula for calculating benefits. Jointly they define how much each one contributes (directly or indirectly) and how much each one receives throughout his/her life. Financing can be based on several combinations of worker and employer contributions, public transfers (with resources coming from a variety of tax sources), interests, etc. The distribution of benefits also varies among alternative pension systems. The most common designs are *i*) *flat-rate benefits*, administratively set to a single value for all, *ii*) *earnings-related* benefits, calculated on the basis of a wage replacement rate established in social security legislation, and *iii*) *actuarial benefits,* associated to individual savings, which simply transfer resources intra-personally, over each person's life.

Finally, social security systems also cover risks in different ways depending on their design (see Barr and Diamond, 2009). For example, contributive pension systems tend to offer less coverage for labor market risks (e.g. the risks of unemployment or informality) than universal systems, in which the benefit does not depend on each one's working history. Similarly, fully-funded pension systems are more affected by financial market risks than PAYG systems, while political risks (poor management or regulation, or management decisions guided by political interests) affect both private fully-funded and public PAYG pension systems (Barr, 2002; Kay, 2009). Each system also offers different levels of coverage against these risks, which can be transferred to the individual (as often happens with individual pension accounts) or shared between generations (as in PAYG systems).

Based on these design elements, social security systems affect the intra- and inter-generational distribution of social protection. In some cases, these effects are not intentional but rather arise from the implementation of the pension system in specific contexts. A classic inter-generational impact of PAYG systems typically occurs in the early stages of its development. When a new pension system grants benefits to the first cohorts of older adults under a PAYG mechanism and finances those benefits through wage contributions from the active population, it effectively generates a net transfer of resources to the first generations of pensioners.

Similarly, a reform that replaces a PAYG by a fully-funded system creates at the same time a double financing burden for the generations that have to pay the transition cost, i.e. the implicit debt of the PAYG system with current and future pensioners. In general, the maturation of pension systems[1], population aging, and changes in social security rules or their implementation, are some of the mechanisms that can cause inter-generational transfers of costs and benefits, and variations in the levels of protection across generations (Arza, 2006b).

On the other hand, social security systems can have important impacts on the intra-generational distribution of rights and benefits. Virtually all social security systems generate some kind of intra-generational transfer, either vertical (between income groups) or horizontal (among other social groups, such as gender, occupational groups, etc.). Most social security systems have some type of mechanism for transferring resources to the poorest people (for example, through minimum pensions), and many also produce transfers between men and women and between occupational groups according to the relative risks of each one (for example, as a result of the differences in mortality or the typical earnings trajectories of each group). When there are special systems for certain groups of workers, funded from a general resource pool, there can also be horizontal transfers towards them. Pension systems that finance part of their benefits with general tax resources but grant them only to a portion of the population (for example, only to formal workers), transfer resources from the population that pay taxes toward pension system beneficiaries. Since retirement and pensions are lifetime benefits, people with higher life expectancies usually get a higher aggregate benefit over the lifecourse than the rest.

In short, each pension design defines and promotes a specific distributive pattern. By organizing the allocation of rights and resources, and the coverage of risks, between individuals and over the lifecourse of each one, the pension system

1. The "maturation" of a social security system is associated with the elapsed time from the moment in which a system is created, on the one hand, and to the contributory requirements established to get benefits, on the other. A "young" system is one that has many contributors and few beneficiaries because there are few individuals with a right to a pension who have reached the retirement age. As time elapses and more affiliated workers reach the retirement age, the system "matures".

has an impact on the intra- and inter-generational distribution of social protection. "Winners" and "losers" will depend both on the design and implementation of the pension system, and on its interaction with the socio-economic context. The design is not neutral. Its analysis allows evaluating its political outcomes: who gets what, when and how from pension policy. Next, the experience of the Argentinian case is analyzed from this perspective.

3 ARGENTINE PENSION POLICY: DISTRIBUTIVE STRATEGIES OVER TIME

3.1 Origins and development

The Argentinian social security system was born in the early 20th century with the creation of the first pension schemes aimed at a few occupational groups that had close ties with the State apparatus or were located in strategic economic activities (Mesa-Lago, 1978). Until the beginning of the 1940s, Argentinian social security was reduced to these relatively privileged sectors, and included only a small fraction of the active population (Feldman, Golbert *et al.*, 1986, p. 31). The system was organized in "pension plans", each corresponding to a specific occupational group, constituting a segmented system in which differences in access conditions and in benefits among workers in different occupational sectors prevailed. With the creation of a pension plan for commerce workers in 1944 and for industrial workers in 1946, there was a significant increase in coverage. When towards mid-1950s, the last three pension plans were created for hitherto excluded sectors (rural workers, independent, professional workers and entrepreneurs, and, finally, workers in domestic service), the legal coverage of all formal workers was completed. However, effective levels of membership and contribution compliance varied across pension plans, and were particularly low in some of them. In 1961, for example, only 5% of active self-employed workers contributed to the system (Feldman, Golbert *et al.*, 1986, p. 36). In all cases, pension plans were contributory, financed with worker and employer contributions, and granted earnings-related benefits to eligible workers and their families.

In spite of attempts to centralize the system through the National Social Security Institute, the fragmentation was maintained until the late 1960s (see Feldman, Golbert, *et al.*, 1986; Lloyd-Sherlock, 1992). In 1968, the government issued a reform that centralized the administration, definitely eliminated the occupational segmentation and homogenized the access conditions and benefits.[2] The new rules consolidated the contributory model, establishing a minimum vesting period of ten years of contributions to obtain a retirement benefit upon reaching the legal age of retirement. The distribution of benefits approached an income re-

2. Some differentiation continued to exist, however, with the proliferation of "special regimes" for specific occupational groups that had more generous access conditions and/or benefits.

placement model, by removing previously existing reduction scales (that generated higher replacement rates for lower-income workers). The system directed protection towards the formal worker and his/her family, in a classic Bismarckian scheme. Thus, its distributive impacts were associated with the distribution of labor income and formal employment, and with the structure of families, partially offset by components such as minimum and maximum benefits.

After the full legal incorporation of all occupational groups, and the standardization of pre-existing pension plans, the most important mechanism that segmented the population in terms of pension protection was associated to the participation in the formal labor market. Under a contributory design, informal workers (who were not contributors during their working life) tended to remain outside the system. As the number of contribution years required to obtain benefits were increasing (particularly, after pension reform in the 1990s), the segmentation of the population between formal workers "with pension rights" and informal workers "without rights" became more pronounced. In 1980, coverage among males of sixty years of age or older was estimated to be between 62% and 72% (Feldman, Golbert *et al.*, 1986, p. 74). In the following decade, with the increase of labor market informality and the establishment of increasingly stringent conditions for access, the segmentation deepened. Between 1992 and 2003, coverage dropped from 78% to 68% of the population aged 65 or older (Rofman, Lucchetti *et al.*, 2009).

Another relevant aspect in terms of the distribution of resources is the system's financing. Until the 1980s, financing was mainly based on worker and employer contributions. This meant that – apart from the possible transfer of employer contributions to prices – resources circulated from formal workers to pensioners. A shift in financing occurs in 1980, during the dictatorship, when employer contributions were removed and replaced by fiscal resources. This measure modified the structure of social security financing, which began to include a broad tax portion, reconfiguring the distribution of resources of the pension system. In a system oriented to formal workers and their families, funding with general tax resources generates questionable income transfers in as much as informal workers finance through taxes a pension system from which they obtain no benefits. The elimination of self-financing affected both the system's equity principles of and its financial balance in the medium term.

With the return of democracy, the employer contributions that had been removed some years earlier were re-established, but given pension system's maturation, high labor market informality and tax evasion, the system continued requiring fiscal resources to pay for benefits.[3] In the context of the external debt

3. In 1980, there were 2.54 contributors for each beneficiary. This ratio dropped to 2.05 contributors per beneficiary in 1983, 1.9 in 1985, and 1.8 in 1990 (Jáuregui, 1993, p. 26).

crisis that hit Latin American economies at the beginning of the 1980s, fiscal constraints were particularly strong. The gradual aging of the population added greater difficulties to the financial balance of the system, both because the benefit payment periods expanded (increase of life expectancy) and because the working age population (potential contributors) represented a declining percentage of the total population. The population over 65 years old, which in 1950 represented 4.2% of the total, increased to 8.9% in 1990.[4] In addition, there was a proliferation of court rulings favorable to pensioners' demands for a recalculation of their pensions that would lead to higher benefits and expenditures.

In this context, in 1986, the government declared the "pension emergency", in order to freeze all the lawsuits and the enforcement of rulings, establishing a new mechanism to calculate benefits. Between 1983 and 1987, average retirement benefits fell by 36% in real terms (MTSS, 2001, table 2.4). In a context of high inflation and fiscal austerity, benefit indexation was segmented by benefit level, giving higher increases to the minimum pension than to mid-range or higher pensions. This resulted in greater uniformity in the distribution of pension benefits and a rise in the number of pensioners receiving the minimum pension. The pension crisis affected pensioners' social position and the intergenerational distribution of social protection: some cohorts were more affected than others, depending on the specific year in which they retired. The crisis also had political effects, undermining confidence in the public pension system and expanding the possibilities for structural reform which would take place a few years later.

3.2 Structural reform and private individual capitalization

In 1993, as part of the state retrenchment policy promoted by Carlos Menem administration, the National Congress approved Law 24,241, which comprehensively restructured the Argentinian pension system (Goldberg and Lo Vuolo, 2006; Arza, 2008; Bertranou, Rofman *et al.*, 2003; Alonso, 2000). The reform replaced the old PAYG model by a "mixed" system that included mandatory individual fully-funded pension accounts and private administration.

The new pension regime was divided into two subsystems: on the one hand, a public PAYG subsystem with a new mechanism to calculate benefits in order to make them more strictly associated to each worker's contributory history; on the other hand, a private fully-funded subsystem, based on the capitalization of workers' contributions in individual accounts managed by private firms (so-called Pension Fund Administrators, or "AFJP").

4. Based on CEPAL, *Población por grupos de edad según sexo*, available at: <http://www.cepal.org/estadisticas/>, accessed in 17/9/2011.

The reform was a fundamental shift from a "defined benefit" model, in which the pension benefit is determined by a replacement rate known *ex-ante*, to a model called "defined-contribution" in which the benefit is only known at the time of retirement and depends on the funds actually accumulated by each worker. The change also generated a redefinition of the system's risks and their distribution. With individual accounts came the risks typically affecting private pension systems (such as investment risk) (Barr, 2002). Although capitalization systems may allow for different levels of risk-sharing after retirement (e.g., whether longevity risks are shared or not), labor market and investment risks during the period of accumulation (i.e. before retirement), tend to be individualized. Thus, the benefit that each one gets reflects, among other things, each one's individual accumulation capacity, which in turn depends on individual labor and salary history and on the investment results of individual accounts.

In the new system, the benefit calculation became more complex, and began to partially depend on the subsystem to which each one belonged (public or private) (see figure A.1). All workers who met the conditions for retirement (retirement ages and vesting periods) would obtain the Basic Universal Benefit (PBU), a flat benefit paid by the State, with a potential for progressive redistribution among the covered population. During the transition period from the old PAYG to the new mixed system, all pensioners would also get the Compensatory Benefit (PC) equivalent to 1.5% of the reference wage for each year of contributions prior to the reform (i.e. up until 1993). Workers affiliated to the public subsystem would also get the Additional Benefit for Permanence (PAP), worth 0.85% of the reference wage for each contributory year after the reform (i.e. after 1993) (the PAP was increased to 1.5% in 2007 - see below). Workers affiliated to the private subsystem would instead get a retirement benefit calculated on the basis of the resources they accumulated in their individual accounts and estimated life expectancy at the time of retirement.

Under this new social security design, in both subsystems, the right to a benefit is built over the working life and depends more closely on the characteristics of that working trajectory, particularly in terms of job formality and wages. In the private subsystem, individual accounts spurred the idea of the "right of ownership" on labor contributions: each individual could build a fund, which profitability and risks belonged to him/her. Thus, the reform transferred part of the systems' risks (e.g. financial, managerial, political and labor market risks) to the private realm (to the individual), introduced mechanisms of explicit insurance for specific risks (e.g., mortality and disability insurance), and turned social security into a regulated mechanism of individual savings for retirement.

In the public subsystem, there were stricter conditions to obtain benefits. The reform established a minimum contributory requirement of thirty years and reduced facilities to justify past working and contributory periods. In this context pension coverage among older people began to fall. While in 1992 approximately 84% of men aged 65 or older received a pension benefit, the percentage dropped to 73% in 2005 (with lower initial coverage, women also underwent similar reductions) (Rofman, Lucchetti *et al.*, 2009).

Furthermore, financing became increasingly dependent on tax resources (rather than wage contributions). The transition from the PAYG to the capitalization system, combined with the reduction of wage contributions and the transfer (during successive years) of the deficits from some provincial pension plans to the national social security system (Bertranou, Rofman *et al.*, 2003), deepened the dependence of the pension system on fiscal transfers (rather than contributions). This expanded the intra-generational transfers of resources involved in the pension system's financing (from the population in general, towards people with pension rights).

The deep economic crisis in late 2001 affected both the PAYG and the capitalization systems. In the former, pensioners suffered a cut of 13% in payments in a context of tight fiscal constraints. In the latter, affiliates were affected simultaneously by political and investment risks, in as much as the government forced the AFJPs to increase the tenure of government bonds – which reached over 70% of the investment portfolio in early 2002 (SAFJP, 2002) – just before the cessation of payments. The crisis demonstrated not only the political risks faced by both (public and private) systems (Kay, 2009) but also how these risks can affect the intra-generational distribution of resources. It also showed the importance of State intervention to help mitigate the inter-generational inequalities that this process can generate.

In summary, the pension system established in 1993 adopted a contributory model for the distribution of pension rights oriented to formal workers and their families. The distribution of benefits combined a flat benefit (the PBU), with earnings-related benefits in the public subsystem, and actuarial benefits in the private subsystem. In the latter, virtually all mechanisms of intra-generational income transfers were eliminated and each worker's benefit was more closely connected to his/her contributory history and individual savings capacity. The redistributive function was confined instead to the benefit granted by the public subsystem that, given the stringent contributory requirements, can only cover the formally working population. The uncovered population, however, potentially contributes to finance part of the transition costs and to pay for the pension system's deficit (through general and specific taxes oriented to finance the system).

3.3 The post-2001 social security policy

With economic recovery after the crisis of late 2001, started a process of expansion of the State role in the Argentinian pension system, which changed the trend of the 1990s. Shortly after the crisis unfolded the new government promoted social dialogue to assess and eventually reform the pension system (Mesa-Lago, 2009; MTSS, 2003), but the most important changes took place years later.

3.3.1 Coverage expansion

One of the most important measures of the post-crisis period was the expansion of the social security coverage, which was carried out in two ways. On the one hand, there was a substantial expansion in the number of benefits offered by a non-contributory pension program (for old age and disability, among other risks) that existed before but up until 2003 was limited by budgetary restrictions (see CELS, 2004; Bertranou, 2002). By lifting these restrictions, the number of benefits increased, particularly those oriented to disabled individuals and mothers with seven or more children. Non-contributory pensions specifically oriented to elderly people increased from 43,272 to 92,517 between December 2003 and December 2007, and thereafter began to fall, until 57,059 benefits in June 2010 (MTESS, 2010, p. 37).

On the other hand, the expansion of the coverage was carried out through a program that had much broader impacts. This program, called "pension moratorium"[5] (that soon was named "Pension Inclusion Plan"), allowed access to social security benefit to almost 2.5 million older adults who did not meet the contributory requirements for a standard retirement pension (see Rofman, Fajnzylber *et al*., 2009; Cetrangolo and Grushka, 2008; Arza, 2011;2012; ANSES, 2011a). This program tackled one of the main causes of social security exclusion of this period: the difficulties to comply with the thirty years of registered contributions needed to obtain a pension benefit in the contributive system.

The program works as follows: once reached the retirement age, people can request the National Social Security Administration (ANSES) to calculate their "pension debt" (the contributions that they should have paid during the alleged years of unregistered work), and join a plan of payment facilities (see Boudou, D'Elia *et al*., 2007). Once the first installment was paid, they could start receiving a pension benefit and pay the remaining contributory debt in monthly installments, usually discounted directly from their pension. Although the regulation assumes that those who join the system have worked on non-registered (informal) jobs over a specified period, in practice, many women who had dedicated to household unpaid work could also be incorporated in the pension system and obtain a benefit.

5. A "moratorium" is a payment plan for overdue tax debts that is normally offered on an exceptional basis and for a limited period of time. While tax moratoriums are not new in Argentina, the recent pension moratorium made it possible for uncovered individuals at retirement age who adhered the program to start receiving pension benefits immediately, thus rapidly expanding pension coverage.

The initiative allowed to extend coverage and to reduce existing coverage gaps, including informal and unpaid home workers, and redirecting part of the social security resources to this population group. Nevertheless, as the expansion was carried out through a short-term measure it did not set the bases for ensuring access to protection in old age for the informal and unpaid workers of future generations.

3.3.2 The 2007 reform

A second important measure was the social security reform of February 2007 (Law 26,222) through which the State expanded its participation in the pension system, before the elimination of the private subsystem that would take place less than two years later. This reform aimed at modifying the public/private balance in the system, expanding the public subsystem and introducing new regulations applicable to the private subsystem.

On the one hand, the reform introduced the "free choice" of membership between the public and private subsystems (by which workers affiliated to the private subsystem could choose to move to the public subsystem). It also established that workers first joining the pension system who did not exercise a membership option between the public or private subsystems (the so-called "undecided" workers) would be assigned by default to the public subsystem (and not to the private one as was the case since 1994). Additionally, the reform established the automatic transfer of a set of workers close to retirement with limited social security funds in their individual accounts to the public subsystem.

Thus, as the "pension moratorium" expanded the number of beneficiaries of the public subsystem, the 2007 reform expanded the number of affiliates and contributors to this subsystem. Consequently, since 2007, the public-private mix of the Argentine pension system was modified, with a substantially increase in the number of affiliates and contributors in the public subsystem (ANSES, 2008).

Finally, this reform also established an increase of the PAP (the replacement rate for each year of contributions made since 1994 to the public subsystem), from 0.85% to 1.5% of labor income for each year of contribution, thus increasing the benefit expected by the generations who will begin to retire in the public subsystem thereafter.

3.3.3 The automatic indexation

The third important measure was the establishment of a legal mechanism for automatic indexation of benefits. This was one of the main problems of the system after the 2001-2002 crisis as inflation rates increased.

Although discretionary increases in benefits during the period 2002-2008 were applied, most of them concentrated in the minimum pension, and there was no regular indexation mechanism which could give predictability to these adjustments and could effectively comply with the right to indexable pensions established in the National Constitution. This gave rise to countless legal claims by pensioners for the recalculation of their benefits following price and wage increases. In 2007, a Supreme Court ruling favorable to one of these demands set a legal precedent that gave rise to massive presentation of more lawsuits by thousands of affected pensioners. According to journalistic sources, around 4,782 cases would have been presented on a monthly basis in 2008.[6]

Finally, in 2008, the National Congress approved the bill of benefit indexation (Law 26,417), establishing an automatic mechanism to update benefits, based on a formula that considers the evolution of wages and of resources of the social security system. Although it was a substantial improvement over the previous situation, the bill included no measures to compensate for losses eventually suffered during years prior to the enactment of the law, and hence the lawsuits continued.[7]

3.3.4 The elimination of the individual capitalization system

Less than two years after the 2007 reform, the government announced its plan to eliminate individual capitalization accounts, transferring resources and affiliates from the private to the public subsystem. The formal proposal was sent to the National Congress by the end of October 2008 and approved in both Houses within a very short period (Mesa-Lago, 2009; Arza, 2009; Lo Vuolo, 2009). It was a fairly simple law that did not regulate the whole pension regime or modified the pre-existing public subsystem (the previous rules continued in force). It generated, however, a structural change with the elimination of the individual private capitalization system created in 1993.

The transition from the mixed system to the fully public system was relatively simple because there was already a public subsystem in the previous design. Indeed, all members of the private subsystem that was being eliminated were transferred to the public subsystem, which was made the single pension system. Thereafter the benefits of these workers at the time of retirement would be calculated based on their reference wages and the number of years contributed, under the same rules that had been applied to members of the public subsystem, regardless of the funds they may have previously accumulated in their individual capitalization accounts (see figure A.1).

Funds previously accumulated in individual accounts were transferred collectively to the Guarantee of Sustainability Fund (FGS), managed by ANSES,

6. Every day, more than 400 retirees initiate legal proceedings against Anses (Stang, 2009).
7. See, for example (Stang, 2011).

which reached an approximate value of 98 billion pesos.[8] The reform thus produced a substantial increase in ANSES resources, both in terms of flow (workers' personal contributions that went from the private subsystem to the public system) and stock (funds accumulated in individual capitalization accounts of those same workers).In addition to resources, the reform also naturally increased the implicit pension debt, in other words, the amount of benefits that the State must pay in the future as generations of new affiliates to the public system begin to retire.

4 WHO GETS WHAT, HOW AND WHEN IN THE CURRENT SOCIAL SECURITY SYSTEM?

This brief review of the recent pension history allows identifying some of the crucial elements which define, either directly or indirectly, the distributional principles and impacts of the pension system. The changes in benefit calculation formulas, the redefinition of the sources of financing and the public transfers involved, the incidence and distribution of the risks affecting each pension system, the inclusions and exclusions from the contributory regime, have all contributed to shape the distributive impacts of the Argentinian pension system over time. The outcomes arose from a combination of design, implementation and context, decisions and omissions, institutionalized and circumstantial measures.

4.1 The distributive principles of the current pension system design

Under the current design, the pension regime established in the main social security legislation in force is based on:

1. a *contributory* right: the right to a pension benefit is based on contributions made and/or family position, under a classic contributory and familial design. Workers (male or female) get coverage on the basis of their participation in the formal labor market, and their family (spouse or children) get "derived" benefits in case of death;
2. an earnings-related benefit per year of contributions (PC and PAP), complemented with a flat benefit (PBU) and a minimum benefit, that favor lower income individuals (see figure A.1);
3. *mixed financing*, mainly through worker and employer contributions and fiscal transfers.[9]

Hence, the current design of the pension system combines a model that tends to reproduce part of the inequalities in the labor market, with specific

8. Data from December 2008, extracted from Bossio, Diego "*Fondo de Garantía y sustentabilidad*" presented in the Bicameral Commission of the Nation's Congress in August 25, 2009, available at <http://www.anses.gob.ar/portalFGS/>.

9. Although the rise of employment, on the one hand, and the elimination of individual fully-funded accounts, on the other, reduced the relative incidence of fiscal resources in total financing, these remained important. State transfers also continue to include 15% of fiscal revenues that should be distributed among the provinces (something established in the 1990s as a way to finance the transition from the PAYG to the fully-funded system) (see Graph 2 in ANSES, 2011b).

mechanisms that partially compensate for them. Thus, on the one hand, contributory requirements and proportional benefits characterize a system that aims to replace the formal worker's wage, generating a distribution of benefits that accompanies the distribution of income and formal employment. On the other hand, the flat (PBU) and minimum benefits tend to raise the floor of pension income, generating a more homogeneous distribution.[10] The greater increase of the minimum pension (in relation to the average benefit) in recent years has deepened this trend. Finally, two compensatory mechanisms were used recently to reduce the social security exclusion: *i*) the social security "moratorium" and *ii*) the targeted non-contributory pension benefits. Together, these elements contributed to generate a distribution pattern of pension benefits which, in practice, diverges from the pure Bismarckian system.

4.2 The current distribution of social security rights and benefits

4.2.1 The distribution of coverage

The coverage expansion that occurred during recent years as a result of the flexibilization of the access conditions to the pension system reconfigured the distribution of pension benefits. With the assignment of almost 2.5 million of new benefits, coverage expanded significantly, reversing the downward trend that had followed the 1993-1994 pension reform.

The coverage rate increased from 61% to 84% of the population in retirement age (men of 65 years or older, women of 60 years or older) between 2005 and 2010 (second quarter, see table A.1). This also helped reduce gap in access to benefits among people with different socio-economic characteristics. Coverage expanded particularly among women who previously had lower levels of protection, which reduced the gender gap, typical of contributory systems.

Coverage expansion also narrowed the distances between people by marital status: widowed people are still more likely to be covered than the rest, but access to benefits also substantially increased among married individuals, from 50% to 81%. These figures include a large proportion of women who, until then, did not receive benefits of their own, but benefits "derived" from their husbands' entitlement (i.e. widow's pensions) and therefore closely linked to marital status (widowhood).

The reduction of the stratification of access is particularly observable in the distribution of coverage by educational level. The expansion of benefits has been

10. In practice, the role of the PBU is currently weakened because its value is well below the minimum pension (in 2011, the PBU was AR$ 580 and the minimum pension AR$ 1.227 monthly (ANSES Resolution 58/2011); in 2000 the PBU was AR$ 200 and the minimum pension AR$ 150 monthly.

concentrated among the population with lower educational levels, reversing the previous pattern. Among people with low levels of education (up to primary education) coverage increased from 60% to 87%. In contrast, the group of older adults with higher education (university level) showed the most limited increase in coverage rates (from 69% to 74%). This may be the outcome, among other things, of the higher activity rate of above-retirement-age individuals with higher educational attainment.

In short, even though the expansion of pension coverage was carried out based on a short-term strategy, at the same time, by tackling the existing restrictions of access in the traditional contributory system, it allowed for an extension of social protection towards previously excluded individuals and for a more even distribution of access to benefits among social groups. Women, less educated workers, and married and divorced individuals who previously had coverage levels below the rest were particularly favored. However, given the design features of the program that led to this outcome, and the nature of the labor market in the country, the full inclusion of future generations of workers in the pension system is not guaranteed.

4.2.2 The distribution of benefits

The distribution of pension benefits currently tends to be "flatter" than the distribution of labor income. Again, this is an outcome of the combination of features of the social security system design (especially, the minimum pension), and of implementation. In particular, the limited indexation of benefits and of reference earnings used as a basis for benefit calculation for several years in the post-convertibility period, combined with the faster increase in the minimum pension (as compared to pensions above the minimum) and the expansion of the number of pensioners through the moratorium (with benefits often close -or even below- the minimum pension),[11] tended to flatten the distribution of benefits, making it increasingly depart from the distribution of labor income.[12] Indeed, the percentage of pensioners who receive the minimum pension increased from around 20% in the 1990s, up to 70% in 2007 (Rofman and Oliveri, 2011).

Chart A.1 presents comparative Gini coefficients for the distribution of per capita family income, labor income, total individual income, and pension income. In general, data show a lower dispersion in income among people above the retirement age in comparison to the rest. The Gini coefficient for *per capita* family income is lower for population above the retirement age than for the total

11.The net benefit may be below the minimum pension during the period while pensioners pay their moratorium dues, which are deducted from their benefits (see Rofman and Oliveri, 2011, p. 26).

12. Although the enactment of the Pension Indexation law in 2008 is expected to stop this trend, it only established indexation forward (without a recalculation of existing benefits).

population (0.389 and 0.443, respectively).[13] The difference reduces considerably when comparing the distribution of total individual income of people at retirement and working ages (including income from all sources, such as work, interest, state transfers, etc.). In this case, the Gini coefficient is 0.428 for the working age population and 0.415 for the population above the retirement age. The Gini coefficient for labor income among the working age population (only labor income, excluding other sources) is somewhat lower.

Finally, the distribution of pension benefits among people above the retirement age (the last four bars in chart A.1) tends to be more equitable than the distribution of labor income (0.327 for the distribution of individual pension income and 0.326 for per capita pension income in the household). The coefficient varies, however, according to whether only people with pension income or the entire population above the retirement age is considered (in this case, considering pension income equal to zero for those who do not receive retirement or pension). In the latter case, the Gini coefficient is 0.432 for individual pension income and 0.390 for per capita pension income in the household. The more equitable distribution of pension benefits as compared to labor income, total individual income and per capita family income, reflects the impact of the design and implementation of the current and past social security system (under whose rules many current pensioners have retired).

Nevertheless, pension income is, on average, lower than average labor income. Indeed, pensioners tend to be placed in the middle-low income deciles of the distribution of *total individual income* (though they are better placed in the distribution of *per capita household income*). In general, people above the retirement age with higher individual incomes complement pension benefits with income from other sources (work, interest, etc). As mentioned above, the majority of current pension benefits are at the level of the minimum pension. As a result, the pension system tends to offer a basic benefit rather than a proportional benefit, thus separating in practice from the pure Bismarckian model, and offering instead benefits that are often unlinked to people's contributory and wage histories.

5 FINAL THOUGHTS: PROSPECTS FOR CONSOLIDATING A DISTRIBUTIVE STRATEGY

More than an incremental process towards the consolidation of a single pension regime, the history of pension policy in Argentina is a history of successive breakdowns and critical junctures both in the system's design and in its implementation and outcomes. The current pension regime arises not from a

13. A similar difference can be observed if equivalent family income is considered.

gradual process of expansion, but from progresses, setbacks and redefinitions of design, combined with also changing socio-economic contexts of implementation. The priorities of pension policy and the strategies to achieve them, the relative roles of State and market, the effective distribution of rights and benefits are some of the system's fundamental features that have been changing, sometimes in a structural way, over time.

In recent years, pension policy combined a basic institutional design oriented towards income replacement for formal workers and their families, with a set of ad hoc policies which, in general, untied the system's outcomes from this basic institutional design. In other words, the current distribution of coverage and benefits does not arise only from the distribution of rights and benefits established in the main social security laws (Law 24,241 of 1993, Law 26,425 of 2008, among others) but also from less institutionalized decisions (such as the "moratorium" and the differentiated indexation of benefits) and from specific contexts of implementation (including for example, varying levels of inflation and labor market informality), which have influenced the system's outcomes.

All these features explain an important part of the current distribution of benefits. Their very nature makes it difficult, however, to predict future impacts. Indeed, some analysts mention the "normative volatility" as one of the reasons why it is difficult to make predictions of the Argentinian social security system for the medium and long term (see Rofman and Oliveri, 2011; Cetrangolo and Grushka 2008). Although these ad hoc measures can solve short-term problems and quickly reorient pension policy towards new priorities, they can also bring along other problems, such as financial weakness (when the system cannot finance the benefits it has promised), inter-generational inequality (when rights, benefits or costs, change abruptly between generations), social vulnerability (when there are no stable guarantees of protection) and judicialization (when rights are not fulfilled).

How could then a progressive pension policy be consolidated and maintained? Several analyses of welfare reforms in Europe show the resilience of social security systems in the age of "permanent austerity" (see, for example, Pierson, 2001). One of the reasons why pension systems are particularly resistance to change and reform cutbacks is the strong public support these systems have, a support that goes beyond pure self-interest, and is also based on moral support, on the conception of what is "fair", and on ideas regarding what are the legitimate rights and duties of citizens and the State (see Schmidts, 2000). This suggests that a politically sustainable social security policy not only needs to be feasible (in administrative and financial terms, for instance) but it also needs to generate a legitimate distribution of rights and benefits, and enjoy a social base that could support and defend it, and an adequate level of institutionalization. In the absence of these elements, the policy becomes more vulnerable to change in a context of changing policy priorities or specific political junctures.

A universalist model of social security inclusion could favor the construction of broad class coalitions that allow sustaining a distributive strategy in the medium and long term. Several analysts have argued that the social bases are often broader in universal systems than in targeted systems, which tend to separate the poor from the rest (see Martínez Franzoni and Voorend, 2009; Korpi and Palme, 1998; Huber, Pribble *et al.*, 2008). Indeed, the international experience shows that in countries with universalistic Welfare States, citizens' support for public intervention in social welfare policies is greater. On the other hand, in liberal regimes (where targeting is more common), the level of support tends to be lower (see Mehrtens, 2004; Svallfors, 1997).

In industrialized countries, universalistic social policy usually exists where there are extensive inter-class alliances, particularly among the middle and working classes. In Argentina, in a context of high labor market informality, the consolidation of broad alliances in defense of redistributive policies may be more feasible on the basis of a strategy that does not segment formal and informal workers. A properly institutionalized universal benefit, which offers basic protection for all regardless of each one's family or employment history, can be the starting point to give long-term political strength to an inclusive pension policy.

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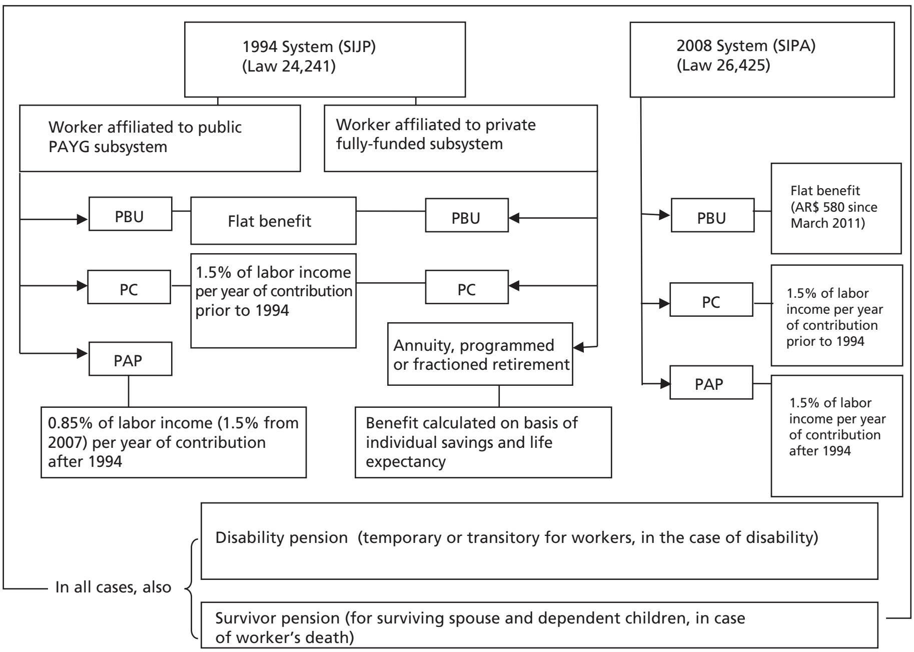
APPENDIX

APPENDIX A

FIGURE A.1
Benefits of the Argentine social security system – 1994 and 2008 systems compared.



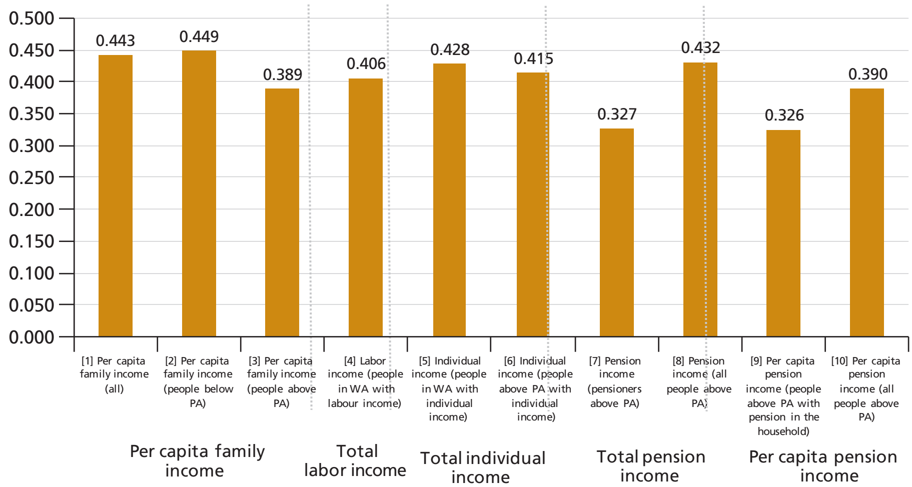
Source: own elaboration based on Law 24,241 and Law 26,425, ANSES Resolution 58/2011 and ANSES, 2011.
Obs.: PAP: Additional Benefit for Permanence; PC: Compensatory Benefit; PBU: Basic Universal Benefit.

TABLE A.1
Social security coverage distribution in Argentina (second quarter of 2005 and 2010)

	2005	2010	2010-2005 Difference	Reduction of the coverage gap
	[a] (%)	[b] (%)	[b]-[a] (%)	([b]-[a])/(1-[a]) (%)
Total coverage	61	84	24	60
By gender				
Male	74	88	14	54
Female	54	83	29	63
By age				
60-64	27	62	35	48
65-69	47	80	33	62
70-74	68	93	25	78
75+	84	95	11	70
By marital status				
Married/cohabiting	50	81	31	62
Separated or divorced	34	71	37	56
Widowed	81	92	11	58
Single	69	86	17	56
By educational level				
Up to Primary education	60	87	27	68
Secondary education	61	82	21	54
University education	69	74	5	16

Source: own elaboration based on INDEC, Permanent Continuous Household Survey, Availeble at: <www.indec.gov.ar>.
Obs.: weighted sample. Estimates calculated on the total urban agglomerates included in the Permanent Continuous Household survey.

CHART A.1
Income distribution – Gini coefficient (second quarter 2010)



Source: own elaboration based on INDEC, Permanent Continuous Household Survey, Availeble at: <www.indec.gov.ar>.
Obs.: PA= Pension age (at or above 60 years old for women and 65 years old for men); WA= Working age (from 18 years old to the pension age); Weighted sample. Estimates on the total number of urban agglomerates included in the Permanent Continuous Household Survey; the estimates presented in bars [1] [2] [3] [8] [10] include zero (people without income).

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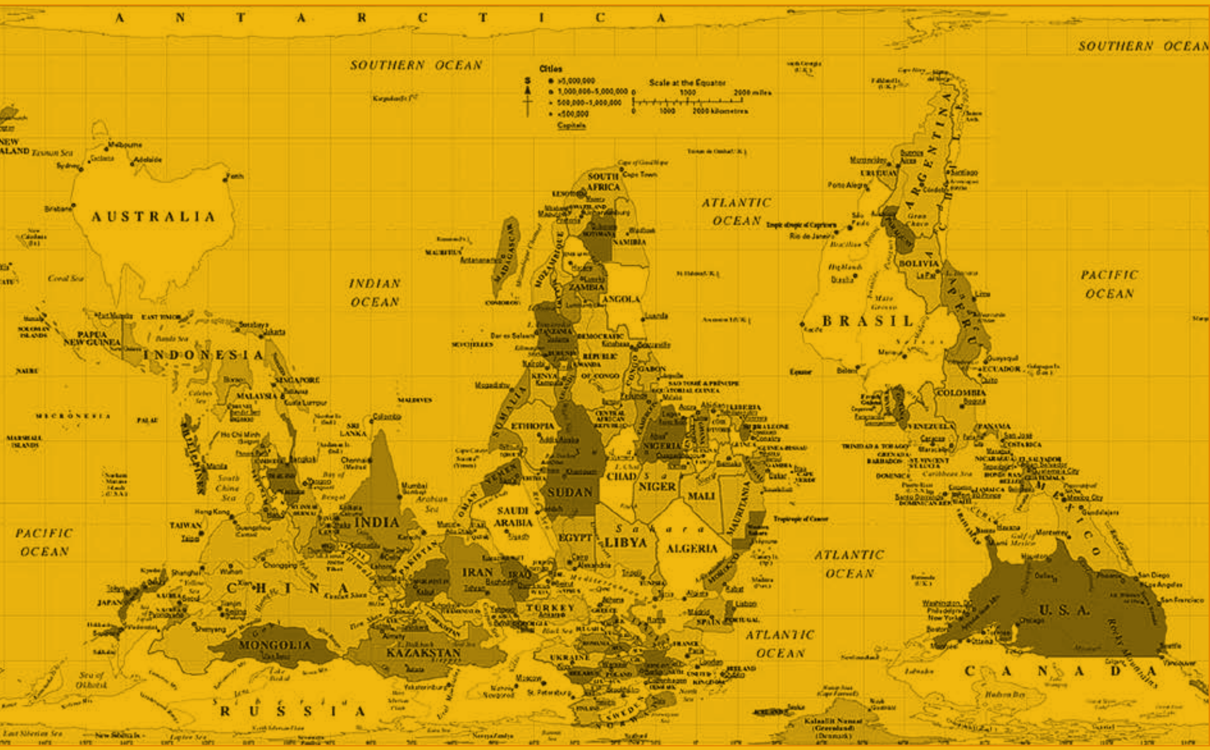

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