Policy Architectures and Pension Reform in Brazil and Chile

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Abstract

The fulfilment of any ambitious social policy reform takes time, and this trajectory will be shaped by several political variables that may set obstacles. Policy architectures at a particular moment define subsequent problems and shapes de power distribution (Martínez-Franzoni and Sánchez-Ancochea, 2016), limiting the available policy choices for pension reform (Myles and Pierson, 2001). Old-age pension is a politically complex social policy area because it is one of the most resilient with a universal character and value for key constituencies with political capacities (Bonoli, 2012). The literature on political institutions is crucial to understanding the intensity of political obstacles in social policy reforms with long-standing path dependence (Pierson, 1996), including the impact of the ideology of political parties and governments (Huber and Stephens, 2012) and the role of electoral competition (Haggard and Kaufman, 2008). Yet there is still limited work explaining policy trajectories over the long term or linking political and temporal factors together for pension reforms aiming for the expansion of universalist outputs: What are the opportunities and constraints created by the two different architectures to overcome political obstacles to pensions over the long term? Which policy architecture is likely to lead towards stronger political obstacles to pension reform outcomes?

Building upon the contributions of Myles and Pierson (2001) and Brooks (2009), I define strong political obstacles as those raised in loss-imposing pension reforms. The political incentives for legislators are prone to blame avoidance for potential welfare cuts, and the government pension strategy needs to reduce these strong political obstacles through less-visible benefit cuts or offering a political cover. Soft political obstacles are based on credit claiming for benefits or coverage expansion for electoral support, in return (Bonoli, 2012).

Chile and Brazil were pioneers in social security in Latin America and are among the countries with the most developed state capabilities and who are moving towards inclusion of labour market outsiders to social policies (Garay, 2016). However, they diverged from their paths during the second wave of reforms (Melo, 2004). In the 1980s, Brazil consolidated a pay-as-you-go system managed by the public sector, whereas Chile moved to a pension scheme based on individual capitalisation accounts managed by private fund managers. Consequently, these cases fit with the most diverse system design to conduct a comparison.

I conducted 68 semi-structured anonymous interviews with politicians, policy experts, high-level policymakers and representatives from organised groups, among other primary data sources. The interviewees were selected utilising the maximum variation sampling strategy to ensure the inclusion of different perspectives.

The comparison shows both commonalities and differences on the intensity of political obstacles between the two countries with such divergent policy architectures. The trajectories are full of incentives from different components of the policy architectures, with differences in the profile of organised groups that raise most of the political obstacles to avoid the full implementation of adjustments aimed at increasing the equity and generosity

dimensions. Chile´s timid struggle towards access and equity was based exclusively on the expansion of non-contributory pensions for the poor and vulnerable old-age population. Reforming contributory pensions had strong political obstacles because private providers controlled critical aspects of provision and built close links to political parties. In Brazil, where pensions are more generous, the move towards equity took place through a slow and gradual reduction in the advantageous old-age pensions that civil servants receive, by introducing parameter modifications to reduce public expenditure on pensions.

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List of acronyms

AFPs	*Administradoras de Fondos de Pensiones* (Pension Funds Managers)
ANFIP	*Associação Nacional dos Fiscais da Previdência Social* (National Association for Social Security Auditors)
BPC	*Beneficio de Prestação Continuada* (Continuous Benefit Programme)
CANAEMPU	*Caja de Empleados Públicos y Periodistas* (Civil Servants and Journalists Fund)
CAP	*Caixas de Aposentadoria e Pensões* (Retirement and Survivors' Pension Funds)
CLT	*Consolidação das Leis do Trabalho* (Consolidation of Labour Laws)
CSLL	*Contribuição Sobre o Lucro Líquido* (Social Contribution on Net Income)
CUT	*Central Unitaria de Trabajadores* (Chile) (Workers´' United Centre)/*Central Única dos Trabalhadores* (Brasil) (Unified Workers' Central)
DRU	Desvinculação das Receitas da União (Divestment of Union's Revenues)
EC	Emenda Constitucional (Constitutional Amendment)
ECLAC	Economic Commission for Latin America and the Caribbean
EMPART	*Caja de Empleados Particulares* (Private Employees Fund)
FUNRURAL	*Fundo de Assistencia ao Trabalhador Rural* (Assistance Fund for Rural Workers)
GDP	Gross Domestic Product
IADB	Inter-American Development Bank
IAP	*Instituto de Aposentadorias e Pensões* (Retirement and Pension Institute)
IAPB	*Instituto de Aposentadorias e Pensões dos Bancários* (Institute of Bank Workers)
IAPC	*Instituto de Aposentadorias e Pensões dos Comerciários* (Institute of Commercial Workers)
IAPETC	*Instituto de Aposentadoria e Pensões dos Empregados em Transportes e Cargas* (Single Institute for Transport and Cargo Workers)
IAPFESP	*Instituto de Aposentadoria e Pensões dos Ferroviarios e Empregados em Serviços Publicos* (Institute of Railroad Workers and Public Services)
IAPI	*Instituto de Aposentadoria e Pensões dos Industriários* (Institute of Industrial Workers)
IAPM	*Instituto de Aposentadoria e Pensões dos Marítimos* (Institute of Maritime Workers)
ILO	International Labour Organisation
IMF	International Monetary Fund
INP	*Instituto de Normalización Previsional* (Social Security Normalisation Institute)
INPS	*Instituto Nacional de Previdência Social* (National Institute of Social Security)
INSS	*Instituto Nacional do Seguro Social* (National Institute of Social Security)
IPASE	*Instituto de Previdência e Assistência aos Servidores do Estado* (Social Security and Assistance to State Civil Servants)
IPEA	*Instituto de Pesquisa Econômica Aplicada* (Institute for Applied Economic Research)
IRA	Individual Retirement Account
ISI	Import Substitution Industrialisation

ISSB	*Instituto de Serviços Sociais do Brasil* (Institute of Social Services of Brazil)
LOPS	*Lei Orgânica da Previdência Social* (Organic Social Security Law)
MDB	*Movimento Democrático Brasileiro* (Brazilian Democratic Movement)
MDSD	Most Different Systems Design
ODEPLAN	*Oficina de Planificación* (National Planning Office)
OECD	Organisation for Economic Co-operation and Development
PASIS	Social Assistance Pension
PAYG	Pay-As-You-Go
PBS	*Pensión Básica Solidaria* (Solidarity Basic Pension)
PCdoB	*Partido Comunista do Brasil* (Communist Party of Brazil)
PDT	*Partido Democrático Trabalhista* (Labour Democratic Party)
PEC	*Proposta de Emenda á Constituição* (Constitutional Amendment Projects)
PFL	*Partido da Frente Liberal* (Liberal Front Party)
PMDB	*Partido do Movimento Democrático Brasileiro* (Brazilian Democratic Movement Party)
PPB	*Partido Progresista Brasileiro* (Brazilian Progressive Party)
PPD	*Partido por la Democracia* (Party for Democracy)
PSD	*Partido Social Democrático* (Social Democratic Party)
PSDB	*Partido da Social Democracia Brasileira* (Brazilian Social Democratic Party)
PSOL	*Partido Socialismo e Libertade* (Socialism and Liberty Party)
PT	*Partido dos Trabalhadores* (Workers' Party)
PTB	*Partido Trabalhista Brasileiro* (Brazilian Labour Party)
RGPS	*Regime Geral de Previdência Social* (Private-sector Employees' Pension Regime)
RPPS	*Regime Próprio de Previdência Social* (Public-sector Employees' Pension Regime)
RUJ	*Régime Único Jurídico* (Single Legal Regime)
SINPAS	*Sistema Nacional de Previdência e Assistência Social* (National Social Insurance and Assistance System)
SSS	*Servicio de Seguro Social* (Social Security Service)
UDI	*Unión Demócrata Independiente* (Independent Democratic Union Party)

1 Introduction

1.1 Introduction

Pension reforms are not an easy task for governments, regardless of their ideology, the characteristics of the pension schemes, or the issues to solve. Yet the need for reform will become more difficult in the Global South because of the ageing demographic (a growing share of people aged 65 or over) and the continuous pressure to provide pensions, healthcare, and long-term care. For instance, high and upper-middle income countries are experiencing an ongoing ageing process. However, the pace of population ageing is much quicker in developing countries. In less than one generation, old-age persons living in developing countries will increase from 7% to 14% of the overall population, meanwhile the same process took more than a century among Western European societies (Vargas Faulbaum, 2021). As a result, there is a rising demand to meet economic security, which governments must be able to satisfy through contributory and non-contributory pension schemes. Nevertheless, these demands are not easy to meet as the politics of pension reform play an important role in establishing the constraints and narrowing the available options.

One key decision when thinking about pension reforms is how many people should be covered and how generous pensions should be. Since the sub-prime crisis, universalism has been a central perspective in this conversation (Garay, 2016). For instance, there is growing recognition of universalism from international organisations in their main policy reports and technical and financial cooperation agenda (Martinez-Franzoni and Sanchez-Ancochea, 2016). Moreover, a growing number of countries from the global South are enacting reforms that are being officially promoted as universal. This situation creates a greater necessity for knowledge of the underlying political trends that trigger decisions and how to promote the right policy trajectories in the future.

A definition of universalism could be focused on the outputs, while also recognising that they are reached through different instruments. Scholars like Martínez-Franzoni and Sánchez-Ancochea suggest that universalism may be defined by focusing on the outputs, while recognising that these are reached through different instruments. Hence, universalism will not be defined by the latter and it comprises three different outputs or dimensions, which are

of interest for the purposes of this dissertation. Firstly, access is related to mass coverage among a specific group of the eligible population. Secondly, generosity relates to the quality and comprehensiveness of the benefits needed to achieve a universal output. Finally, equity refers to the fair distribution of generosity and access among the population entitled to being beneficiaries (Martínez-Franzoni & Sánchez-Ancochea, 2016).

The fulfilment of any ambitious reform, such as one that moves towards universalism, takes time, and this trajectory will be shaped by several political variables that may help overcome or cause obstacles, which are explored in detail, considering the cases of old-age pensions. Hence, there is a growing need to explain the incentives created by the policy architecture, which is defined as the combination of the components that define provision of a particular social policy, including eligibility, benefits, provision/delivery, funding and the outside market option. Also, this set of components and their interaction 'influence universal outputs both in the short and the long term. In the short term, they define who receives what and how. Over the long term, by empowering a set of actors and creating incentives for the subsequent expansion of policies (…)' (Martínez-Franzoni & Sánchez-Ancochea, 2016, p. 50). Thus, this dissertation contributes to bridging the gap in the incentives from the policy architecture by explaining the long-term process needed and intervening political variables to accomplish policy changes with political obstacles.

As a social policy area, the central role of pensions is to achieve economic security for old-age persons, acting as insurance considering growing life expectancy and insufficient autonomous income. In essence, pensions seek to relieve old-age poverty and reduce inequality, thus complementing the role of taxes and lifelong earnings (Barr & Diamond, 2008). Old-age pensions may adopt a Defined-Benefits or Defined-Contributions model with different public and private sector participation in their implementation. Secondly, it may operate with a different funding set, going from a pay-as-you-go where benefits are linked to taxes or contributions paid by participants. On the contrary, the pension scheme may adopt a fully-funded model where the contributions or individual savings are saved in an account without the chance of withdrawals until retirement. Finally, pension schemes may combine contributory and non-contributory pillars to the policy architecture and how to guarantee an old-age income for poor old-age people.

Then, old-age pensions is a policy area which assesses and explains the political obstacles that may exist to achieving a policy reform aimed at expanding its coverage and increase its internal equity or generosity. A radical change in the trajectory of a policy is hard to implement, especially when it involves a large programme with significant political and electoral commitments, and organised interests that 'constitute a barrier to radical change' (Pierson, 1996, p. 175). In this sense, pensions are part of this category, because they are usually the largest social policy, with the constituency heavily involved in political matters, and with the highest electoral turnout, as beneficiaries. This social policy area is generally stable, marked by 'long duration and large scope [and with] a large political constituency supporting it, which will constrain efforts of politicians to change the status quo' (Mares & Carnes, 2009, p. 106).

As a result, the following research questions will be addressed: **What are the opportunities and constraints created by the two different architectures to overcome political obstacles to pensions over the long term? Which policy architecture is likely to lead towards stronger political obstacles to pension reform outcomes?** In other words, this thesis explores how a particular policy architecture can create opportunities and constraints for the delivery of universalist outputs over the long-term, followed by an assessment of the decisions taken during the foundational moment of the policy architecture and how they influence further discussion of reforms and efforts.

This dissertation looks to explain differences and similarities in political obstacles to pension reforms in two pension system designs among Latin American pioneer countries. Chile and Brazil are pioneer countries in establishing pension schemes in South America (along with Uruguay and Argentina) and had similar system designs until the second wave of reforms, which will be reviewed in chapter 2. However, since 1981 the Chilean contributory pillar is based on defined contributions to an individual capitalisation retirement account. These accounts are managed by private funds managers (AFPs) which are responsible for collecting contributions, investing in financial instruments to boost the returns of the funds, and providing different options for the retirement of the affiliate. By contrast, the Brazilian pathway is characterised by a public pay-as-you-go scheme with defined benefits over two mandatory pillars that depend on a worker´s affiliation (private or public sector). Both

countries have also experienced strong political constraints, particularly promoted by the main organised groups that have better benefits or control the provision components. The details of the comparison to justify the selection of these cases are available in section 1.3.3

On this issue, the main argument and empirical contributions are as follows. I argue that this expansion of access with soft political obstacles was possible due to two factors: firstly, electoral pressures and favourable fiscal conditions explain the swift expansion to include outsiders. Secondly, organised groups have a complex set of assets that hinder the importance of private providers to pension fund administration, but coverage expansion was performed through social pensions without establishing significant cutbacks on AFPs. Both trajectories on coverage expansion were carried through non-contributory pension programmes for outsiders - particularly relevant for Brazil, which has a long-standing record for social pensions for poor urban and rural workers. Regarding the promotion of generosity, Brazil shows a better track record than Chile in terms of adequacy and sufficiency of pension amounts granted by both contributory and non-contributory schemes. Secondly, there is a remarkable influence on the nature of policy architecture, but both cases face similar challenges in terms of equity. In particular, occupational groups may mostly determine the conditions for accessing an old-age pension in Brazil; meanwhile, in Chile, inequities are likely determined by gaps in contributory and non-contributory pension amounts and dissimilarities in gender. These different political tracks of pension reform outcomes can be explained by the incentives from the policy architectures, which significantly differ for a public pay-as-you-go with defined benefits (Brazil) and private individual capitalisation with defined contributions (Chile). For the remaining components of policy architecture, the differences are diverse. In terms of funding, the Chilean experience shows incentives related to the sustainability of a permanent expenditure by allowing greater access through social pensions, which was enabled by the fact that the transition period was over; meanwhile, funding for the Brazilian case is a constraint that requires essential modification of benefit rules for advantaged groups. Hence, funding is necessary to implement changes to benefits to move towards more significant equity outputs, with limited results. Lastly, the provision component of the Chilean case is the most critical asset of private companies, converting it into the primary resource to release veto power during reform processes.

Moreover, this dissertation explains how these processes are influenced by political parties and their relationship with organised groups. An organised group that controls one of the policy architecture components is likely to establish liaisons with political parties that are more aligned with their function (a programmatic linkage) and cast their votes on particular issues. For those organised groups that do not have direct participation in the policy implementation, the more powerful will be those that can offer electoral support at the grassroots level in exchange for legislation favourable to them. Lastly, at least in these two cases, political parties' ideological location does not play an essential role in their policy decisions, unlike electoral incentives, and competition. As a result, Chilean private firms could veto further developments, and sufficiency remains a problem for most contributory pensions. In Brazil, the move towards equity took place through a slow, difficult and gradual reduction in the benefits for civil servants and private employees by increasing the retirement age and years of contribution to reduce public liabilities on pensions.

1.2 Literature review of the variables to be assessed: obstacles for pension reforms and welfare politics.

1.2.1 **Dependent variable: political obstacles to pension reforms in Latin America**.

The literature on political institutions and pension reforms is crucial to understanding the intensity of political obstacles in social policy reforms with long-standing path dependence, such as old-age pensions. Authors like Myles and Pierson (2001) suggest that policy choices for pension reform play out over a long period, and the available reform options are limited. In addition, the old-age pension is a politically complex social policy area because it is one of the most resilient ones with a universal character and value for workers (Bonoli, 2012). In general, it is a policy area where reforms are available from specific features coming from the past, and there are different sets of organisation and political capacities of key constituencies that will impact the character of reform. Thus, the second wave of reforms and post-retrenchment policies in the region are marked by an important crossroad: 'the welfare state for the elderly (…) will be larger than it is now for no other reason than demand for benefits will rise more quickly than the capacity of policy makers to cut entitlements. Reform can slow down the rate of spending growth but, with rare exceptions, will not reverse it' (Myles & Pierson, 2001, p. 306).

The political obstacles to pension reforms, and their intensity, may emerge from different sources. On the one hand, there are electoral incentives that will influence legislators' decisions, an aspect that may minimise the existing multiparty negotiations and reduce the likelihood of radical shifts. A second way to moderate the policy proposals is the role of veto players during the reform process and the need to reach an agreement with them to sanction a reform (Kay, 1999). Consequently, the pension reforms, due to the abovementioned characteristics of this policy area and its particular political challenges, may need 'all-party agreements, referenda requiring the consent of the 'people', or corporatist 'social pacts' (…) involving organized labour and employers' associations are the rule rather than the exception so that 'negotiated settlements' (…) are the usual political mechanism for redesigning pension policies' (Myles & Pierson, 2001, p. 306).

Building upon the contributions of Myles and Pierson (2001) and Brooks (2009), I define strong political obstacles as those raised in loss-imposing pension reforms. In general, the political incentives for legislators tend to blame avoidance for potential welfare cuts, and the government pension strategy needs to reduce these strong political obstacles. By doing this, politicians have 'either to obfuscate loss-imposing reforms through less-visible benefit cuts such as indexation changes or to negotiate retrenchment across broad coalition that offer "political cover" to legislators against a potential electoral backlash' (Brooks, 2009, p. 28). Within this perspective, powerful potential losers may emerge, with veto players being pivotal actors in the success or failure of the policy reform.

These arguments applied to the Latin American second wave of pension reforms suggest a process of confrontation between different actors, who utilised resources to promote or mobilise against pension privatisation reforms. The pension privatisation process began in 1981 with the Chilean experience, which led 'governments throughout Latin America [to replace] state-run social insurance programs in various degrees with private pension institutions' (Brooks, 2009, p. 120). According to Huber and Stephens (2000), the political process and difficulties largely depended on the balance of power between opponents (such as trade unions and opposition parties) and neoliberal reformers, followed by political power concentration. Thus, these variables partially explain the politics related to pension reform, giving insights into the triggers and obstacles to successfully implementing a policy process.

Specifically, the pension privatisation literature argues that the main goals of these reforms were to eliminate the public monopoly on pensions, improve the results of investments, and reduce public expenditure on subsidies. Nevertheless, Mesa-Lago argued that the different versions of pension privatisation were diverse, with the need to adapt the model to their demographic, economic, financial, social security institutions and political needs that may determine the spread of the adoption of the Chilean model (Mesa-Lago, 2008).

Additionally, I argue that it is crucial to assess political obstacles by considering pension reform trajectory, not exclusively its outcomes. This trajectory will establish valuable resources whose control will be determined by a distribution of power from where the different stakeholders will play their cards, perform veto power and establish strong political obstacles. This will influence the confirmation of a path-dependence or the emergence of a path-departing policy trajectory that will face different political obstacles. Hence, it is critical to recognise that these outputs require time where different variables may play a role in setting incentives or raising constraints to adopting policy decisions.

On the contrary, in pension reforms that aim for benefits or coverage expansion, the political obstacles will be soft ones. The latter is based on political credit claiming, which was more common during the reorientation of welfare states and the expansion of social rights in the post-war era. Nevertheless, in the age of austerity, an "affordable" credit claiming 'can be based on the traditional mechanism, whereby the state grants advantages to citizen-voters, who in turn respond with electoral support. (…) Affordable credit claiming can also take a different shape by targeting not so much the beneficiaries of a policy, but the middle classes (Bonoli, 2012, p. 104). The blame avoidance perspective (Weaver, 1986) is attractive for defining the intensity of the political obstacles to pension reforms of two dissimilar policy architectures of countries, Brazil and Chile, that have some of the most long-standing trajectories of pension schemes in Latin America.

An example of soft political obstacles to pension reforms is the introduction of non-contributory pensions in the early and mid-2000s to expand old-age pension coverage. Consequently, '[n]on-contributory pensions have been effective at increasing the number of individuals who have access to a pension' (Bosch, Melguizo, & Pages, 2013, p. 103). These reforms generally increased the coverage among people older than 65 who received a

pension (contributory or non-contributory) by 11.5 percentage points. They also expanded non-contributory schemes and introduced a gender dimension to the pension reform designs, new solidarity mechanisms, and more public participation in managing and funding contributory pensions (Arenas de Mesa, 2019).

However, these reforms did not mean a substantive retrenchment of individual retirement accounts (IRAs) because they 'reinforced the involvement of public institutions in the pension system. In addition, numerous countries have introduced measures to improve IRAs. The driving force of the second round of reforms has been increasing coverage, equity, and efficiency of the overall system' (Bertranou, Calvo, & Bertranou, 2009, p. 5). Their position is supported by Hujo and Rulli, who argue that, despite a reduction in the dominance of IRAs and 'the fact that privatized pension systems in Latin America demonstrate significant institutional resilience, based on new path dependencies and power constellations which are linked to the introduction of capitalized schemes, major re-reforms are indeed possible' (Hujo & Rulli, 2014, p. 26).

For the abovementioned reasons, this dissertation considers political obstacles to pension reforms as the dependent variable. I argue that the likelihood of significant political obstacles to such kind of reforms, especially those aimed at the expansion of coverage, generosity and equity, will depend, partly, on the interaction of the policy architectures that, adopting an institutionalist approach, will determine most of the topics and actors involved in a pension reform process. Moreover, two other variables will interact according to the balance of power between organised groups (private sector or trade unions) and party systems that could adopt a high level of fragmentation and the importance of non-programmatic parties. As a result, aspects such as control of any component of the policy architecture, past policy decisions or political fragmentation that turns into a lack of the government agenda and discipline will determine to raise strong or soft political obstacles to pension reforms.

Moreover, Latin America is a region where old-age pensions have been the central axis for developing a welfare regime from the 1920s onwards. The foundations and development of social insurance schemes were implemented, leaving a path of fragmentation and stratification that mirrored the labour market situation. The more advantageous benefits and conditions were for those occupational groups in strategic positions in the economic model,

especially those linked to the implementation of import substitution industrialisation economic strategy and public servants, leaving a large share of the population excluded (Cruz-Martínez, Vargas Faulbaum and Velázquez-Leyer, 2021). Hence, current challenges are marked by the inclusion of outsiders in the form of non-contributory pensions (Garay, 2016). Additionally, pension schemes face financial constraints and worsening forecasts due to the structural demographic and epidemiological transitions (Arenas de Mesa, 2019). Consequently, the political variables affecting the enactment of progressive reforms to old-age pensions are a cross-cutting issue that will likely influence outcomes and pace of universalism. The role, in Latin America, of corporatist clientele or powerful private providers, in the context of fragmented party systems, is part of the core of this dissertation.

1.2.2 Three explanatory variables for the achievement of political obstacles to pension reforms.

1.2.2.a Policy architectures

This dissertation makes a crucial assumption that the foundational architecture's characteristics establish the wide margins from which future policy decisions will confirm a specific pattern in its trajectory. The literature on Historical Institutionalism is quite useful to explain potential answers to the research questions, as identifying the underlying mechanisms that increase the likelihood of particular policy choices decreases the probability of alternatives, as decisions restrict the available options (Pierson, 2004). In general, the Historical Institutionalism approach states that policymaking is marked by extended periods of stability that draw a particular path but can be interrupted by formative moments that may reinforce or reframe the trajectory. Then, from this tradition, we can understand that trajectory and foundation matter to the subsequent decisions, while there are power struggles that shape the availability and feasibility of policy options.

The concept of policy architecture allows us to bring these premises into research design and can be established as an explanatory variable that contributes significantly to the understanding of the trajectory of social policies on reaching universalist outputs. Within the Latin American context, Filgueira (2007a) introduces a relational definition, arguing that the individual risks that emerge during the lifetime could be socially distributed, especially by the transformation of family and markets but will define the social protection architecture. As a result, Filgueira argues that the social risks will result in a particular arrangement in the social

protection architecture, and this is not an independent variable on its own. Nevertheless, this thesis expands its argument, stating that the policy architectures influence universalist outcomes over the long-term.

Policy architecture is the combination of five components that define, in the short-term, how a public service or transfer is delivered and who is entitled to be a beneficiary. Besides, it affects the long-term by determining the resources to be contested among the different stakeholders that deploy their strategies to influence or directly control any policy architecture component. What are these components? According to Martínez-Franzoni and Sánchez-Ancochea (2016), these components are:

1. Eligibility: the criteria to assign benefits to people.
2. Provision: the delivery is arranged by public or private entities, which can be for-profit or not-for-profit.
3. Benefits: definition of the benefits, by public agencies or with the participation of stakeholders. It also involves the way the benefits are defined and delivered.
4. Funding: determines the finance sources, such as general revenues or payroll taxes, among other instruments.
5. Outside-market option: the regulations that oversee the operation of market-based alternatives, in parallel to the public options.

The consideration of the trajectory of these components is crucial as it develops the distribution of power among the actors involved in a policy, the financial conditions for pursuing a retrenchment or public involvedness in the delivery. Also, these components will constrain the available options or policy alternatives that a set of social and state agents will advocate for. Hence, the policy architectures' trajectory is the primary channel to distribute the power between the different components of the policy architecture during the agenda-setting. Pribble (2013) argues that policy legacies define the problems that the reform agendas should consider. To conclude, I argue that the trajectory of policy architectures defines what is possible to modify through reform, the incentives and constraints that different components raise (especially the funding one), and the range of actors involved in the policy adoption, with particular advantages to those that are controlling any of the components of the policy architecture involved.

The fragmentation of the different components of the policy architecture directly impacts the persistence of constraints concerning universalism. If a policy architecture has a different set of options on benefits, funding, providers, entitlements, or significant power is given to an outside market option, this can result in a high degree of fragmentation among its components. Nevertheless, this process can be led by corporatist arrangements or through the growing participation of private actors in public goods provision. Hence, if the policy architecture components show significant fragmentation among them, it is likely to create constraints that will lead to slower progress towards advanced or pure universalist outputs. On the contrary, a policy architecture with high levels of unification among its components is likely to develop incentives which will have more significant results on universalist outputs.

1.2.2.b Political parties

Policy architectures, thus, set the issues and tone of the debate, creating incentives and constraints for reforms. Yet the way these incentives and constraints are framed is mediated by political parties. Hence, the second variable in the argument of this dissertation is the role of party systems, i.e., the incidence of stable, fragmented or any other characteristic that it may assume, affects the trajectory of universalist outputs on any of its three dimensions. Consequently, it is important to provide answers to these questions that justify the inclusion of this variable in the general scheme: are policy architectures independent of politics? Are there key political actors who influence the trajectory of the policy architecture? Although there is a gap in explaining the variation in universalist trajectories, the literature on welfare state politics provides excellent theoretical models that explain the role of party systems in policy formation. Esping-Andersen's (1990) seminal work establishes the impact of political parties on the formation of the welfare state, leading to his well-known typology. Huber and Stephens (2012) establish the strong correlation between left-wing government and policy decisions oriented to the expansion of universalism in social policies. This argument is refuted by Altman and Castiglioni (2019) and Holland and Schneider (2017), who state that electoral pressures are a crucial determinant of the social policy expansion towards universalist outputs, rather than the ideological location of political parties.

This dissertation considers the party system to relate with the policy architecture and political obstacles to pension reforms. In particular, I argue that more significant party system

fragmentation is likely to be due to electoral competition among different political parties. This electoral competition triggers decisions on expanding the level of access to different social benefits, but the main obstacles and differences promoted by political parties are related to the expansion of the generosity and equity aspects of pensions. Specifically, eligibility, provision and benefits components are likely to induce the efforts of parties and organised groups of insiders and outsiders to influence the policy adoption stage. Furthermore, party system fragmentation creates gaps from which organised groups can introduce their demands by establishing direct contact and negotiation with them. Thus, this explanatory variable is due to its role in processing incentives and constraints created by the policy architecture trajectory.

1.2.2.c Organised groups

The foundational policy architecture and its trajectory create the set of resources that generate the struggle between stakeholders to access direct control, or be beneficiaries with special rules, compared to the rest of the population. These resources, and the need to defend them, generate the incentives for organisation among private providers, occupational groups, or any other corporatist affiliation criteria to be an active player during the reform periods. Specifically, they can be direct participants by controlling any of the policy architecture components, such as the provision of the service or administration of transfers, or occupational groups have advantages compared to the rest of the population in the benefits and eligibility rules. As a result, this trajectory establishes the margins in which stakeholders play their cards and introduce constraints to defend their interests or promote their agendas. Then, this dissertation argues that organised groups are critical elements within this puzzle. They can try to veto reforms aimed at increasing equity or decreasing generosity, using political parties as intermediaries during the policy adoption stage of the reform in Congress. Consequently, the thesis suggests that the formation of organised groups results from the policy architecture trajectory. However, the party system's fragmentation or stability is a relevant factor that will facilitate the success of organised groups in making their points and giving further consideration to the final approved bill.

For the Latin American case, it is worth noting the recent work of Altman and Castiglioni (2019), who argue that this variable is relevant to explaining the variation in social policies

which look to increase the equity of grants among different social groups. They claim that strong civil society actors can proceed with mobilisations to include their demands in the agenda and access lawmakers, which become relevant and pivotal when policy decisions may harm their interests. Nevertheless, this dissertation seeks to expand on this research agenda, by conducting a comparative analysis to explain the strategies performed by pension policy architectures during the long-term trajectories, with a particular focus on reform periods. By comparing the pension schemes of Chile and Brazil, this thesis aims to fill this gap in the literature by considering the role of organised groups within two different contexts. Following Garay (2016), the Chilean context is a negotiation between incumbents and congressional parties with limited access to social movement coalitions, with the exception of direct comptrollers of the provision component of the policy architecture. This, in combination with high electoral competition for the outsiders' votes, results in restrictive policies when there is no alliance with organised groups. On the other hand, the Brazilian setting is marked by the consideration and participation of movement leaders in different stages, which influences the policy choices through formal or informal channels established with governments or congressional parties, to promote the inclusion of outsiders as beneficiaries of the policy. The primary outcome is likely to be an inclusive social policy, which is 'broad reaching – achieving often universal or near-universal coverage of outsiders – provide higher benefit levels, and include social organizations in policy implementation to some extent' (Garay, 2016, p. 300).

As a result, the literature is conclusive in showing that the different stages of the policymaking process, such as design, implementation, and outcomes, will vary according to the influence that organised groups and social movements may have, mainly through their access to key players at the different branches of government. Garay's work is insightful in considering organised groups as critical factors in the expansion of social policies for outsiders, particularly due to their leadership and role in pursuing social mobilisation from below. Hence, organised groups may dispute the policy design and implementation to incumbents and respond to their demands. Nonetheless, despite her essential contribution to a better understanding of the role of social movements or organised groups in the policymaking process and its impact on the social policy expansion, it does not fully grasp the trajectory and different strategies concerning the dimensions of universalism, in interaction with institutionalised actors for auspicious advocacy of their interests with policymakers and lawmakers.

1.3 Methodology

1.3.1 Analytical framework

This dissertation relies on historical institutionalism by making the preliminary assumption that foundational architecture increases the likelihood that future policy decisions will not affect the trajectory. Nevertheless, the trajectory and diversions occur within a political context of power struggle, so the consideration of intervening political variables is plausible to understand these trajectories better. As a result, Historical institutionalism is useful to explain how Brazilian and Chilean pension systems are pursuing universalist outputs, but through different paths, and facing particular challenges for each dimension of universalism. This approach fits with the abovementioned characteristics of the policy architecture and its legacy that shaped the selection and distribution of the issue of power within a policy area. On this, Pierson states that '(…) early steps in a process may fundamentally restrict the range of options available at later ones; identifying the mechanisms that generate such constraints can be a source of powerful insights into the determinants of institutional change; (…)' (Pierson, 2004, pp. 133-134).

From the historical institutionalist perspective, gradual changes may continue to bring about essential outcomes. A small change has an impact on the distribution of power and the agents involved in this that may be looking for a specific path which may conflict with other interests. In short, this scheme assumes the existence of vested interests that push for institutional continuity, then 'change and stability are in fact inextricably linked. Those who benefit from the existing arrangement may have an objective preference for continuity but ensuring such continuity requires the ongoing mobilization of political support as well as, often, active efforts to resolve institutional ambiguities in their favor' (Mahoney & Thelen, 2010, p. 9). Then, the interactions between characteristics of political context and institutions have, as a result, a type of institutional change.

Lastly, this literature provides an in-depth explanation of the existence of different patterns and their causes. Peters, Pierre and King point out that it is possible to consider 'public policymaking and political change as a discrete process, characterized by extended time periods of considerable stability – referred to as "path-dependency" – interrupted by turbulent "formative moments"' (Peters, Pierre, & King, 2005, p. 1276). Consequently, the

scholarship on historical institutionalism and its consideration of path-dependence are insightful analytical models that point to the system design that will affect, by and large, the trajectory of a particular policy. This fits with my claim that pension reforms will depend on the incentives promoted by the different components of the policy architecture and shape the boundaries where party systems and organised groups can deploy their strategies to raise concerns.

1.3.2 Research design

This research seeks to understand the determinants of the political obstacles to pension reforms in Latin America. The variation in these political obstacles that goes from soft to strong, may be partially explained by the interrelated effect of three independent variables: policy architectures, party systems and organised groups. This research design aims to explore the relationship between these sets of variables and build a mid-range theory applicable to the cases of Chile and Brazil, rather than test or assess a pre-existing theory. Consequently, this research design enables the exploration of the theory-building to explain how a particular policy architecture shapes the policy trajectory and results over the long-term, as well as the intermediating factors that place constraints on policy reforms' critical moments.

The unit of observation is the pension reforms held in 1995-1998 and 2003 for the Brazilian case, and 2008 for the Chilean one, allowing for in-depth case analysis (from chapters 3 to 6) and further comparison (chapter 7). These reforms were the first since the enactment of the 1988 Federal Constitution of Brazil and the Decree-Law 3,500 and 3,501 of Chile. These legal texts regulate a significant share of the current pension policy architectures. Additionally, chapter 2 examines the historical dimension of pension reforms in both countries, to offer a diachronic dimension which provides a longitudinal view of the incentives and constraints of the policy trajectory on their path towards universalist outputs. Consequently, the unit of analysis of this doctoral thesis is pension schemes at the national level, as it does not involve subnational levels of inquiry such as municipalities or regional/state governments. This unit of analysis is justified, as pension scheme reforms in both countries are performed at the national level. Particular consideration is given to the Chilean case, which does not have special arrangements on pensions at any tier of subnational governments, in comparison to the Brazilian case, which has some exceptions for civil servants at state and municipal levels.

Nevertheless, this dissertation does not focus on these subnational pension arrangements or reforms in order to maintain the same level for the unit of analysis.

1.3.3 Case selection strategy and justification

The comparative study involves two countries with some shared characteristics that are pre-conditions for advancing universalist outcomes in social policies. The selection strategy follows the criterion of comparability based on differences in the dependent variable and in key independent variables, such as characteristics of political parties and the policy architectures. Nonetheless, there are similarities in state capacity and level of development. Hence, both cases are suitable for a comparative study based on the Most Different Systems Design (MDSD) (Przeworski & Teune, 1970). Particularly, an inductive MDSD comparison is an appropriate design that can offer exploratory conclusions on the trajectory and determinants of the variation of universalist outputs of two dissimilar pension system designs. The selection strategy in a qualitative small-N comparison is not driven by the achievement of many randomly selected cases or observations. On the contrary, the selection of cases is crucial for the research design's success in reducing the selection and outcome bias, because 'qualitative comparativists usually discover ever more complex configurations when the number of cases is increased' (Ebbinghaus, 2005, p. 144). The reasons that support this research design for comparison and case selection strategy are as follows.

Firstly, Brazil and Chile were pioneers in the first wave of reforms during the 1920s and 1930s, but their paths diverged in the second wave of reforms in the 1980s and early 1990s (Melo, 2004). Secondly, both countries have been expanding access to rule-based social programmes for labour market outsiders (Garay, 2016). Finally, these countries are among those with the most developed government capabilities in the region (Franco Chauire & Scartascini, 2014). Government capabilities could be defined as 'key features of public policies to a series of political and institutional variables such as: the policymaking capabilities of the congress, party system institutionalization, judicial independence, and bureaucratic quality' (Franco Chauire & Scartascini, 2014, p. 15).

However, starting from the second wave of pension reforms, Chile and Brazil have different initial and final pension policy architectures that have created a legacy with their effects on

the range of available options in every reform, political actors and stakeholders that determine the achievement of different universalist outcomes of pension systems. In terms of political actors, there are significant variations 'in regime type, party system […], as well as the organization of outsiders and labor movements over time' (Garay, 2010, p. 3). Moreover, they differ in their general orientation, efforts, and segmentation levels, mainly due to two reasons. First, Chile has a liberal-productivist variation marked by a retrenchment of the state role upon social protection for those who are not participating in the labour market. In contrast, as a country with a protectionist profile, Brazil protects people who do not form part of the formal labour market with broader coverage of social assistance and pensions (Cecchini, Filgueira, & Robles, 2014).

In terms of specific differences in pension systems, the Chilean one is a Defined Contribution system funded by 10% of employees' gross salary or a voluntary contribution for self-employed people paying into an individual retirement account. Hence, the 'level of the pension depends primarily on the amount saved during the life cycle and on the return to those savings. […] Thus, workers with low frequency of contributions do not accumulate enough pension wealth, leading to low pensions' (Attanasio, Meghir, & Otero, 2011, p. 6). Although the contributory pillar of the Chilean scheme is based on mandatory individual savings, it offers limited protection from old-age poverty and does not redistribute between lower and higher-income except for a public subsidy to remedy this shortcoming. Also, a private scheme based on individual retirement accounts leaves financial and labour market risks to individuals, failing to comply with ILO principles of social security standards for designing and reforming pension systems, such as social solidarity and collective financing (Ortiz, Durán-Valverde, Urban, & Wodsak, 2018).

Nevertheless, Arenas, Bravo, Behrman, Mitchell and Todd (2006), adopting the World Bank terminology, suggest that the Chilean scheme is a three-pillar public/private system, where "[t]he *second pillar* of the Chilean pension system consists of the mandatory contributory defined contribution known as the AFP system. This is a national savings program aimed at all wage and salary workers, intended to provide participants with old-age benefits (it also provides life insurance and disability benefits as part of the mandatory program". The first pillar is the state-guaranteed minimum pension and the new elements for support enacted in

the 2008 pension reform regarding social pensions and public contribution to self-funded low pension amounts. Also, the mandatory contributory scheme of private savings based on a fully-funded defined-contribution pension eliminated the "principle of social solidarity and its replacement by the notion of individual responsibility – but in this case it was *compulsory individual responsibility*" (Borzutzky & Hyde, 2016a, p. 60). Hence, according to Mesa-Lago, a private scheme, such as the Chilean one, is a type of pension system and its main difference from the public scheme is that contributions do not go to a collective fund or a pay-as-you-go scheme with defined benefits (Mesa-Lago, 2021). Consequently, this dissertation argues that the Chilean mandatory pillar is a private pension designed to provide some old-age economic security, but with outcomes under scrutiny, and it does not meet the overall ILO social security standards.

On the other hand, the Brazilian pension system has three pillars: 1) the General Social Security Regime, which is a mandatory public pay-as-you-go system; 2) a pension system for public workers; and 3) a complementary private pension. During the second term of Cardoso (1999-2003), a reform affected the General Social Security Regime. The main changes were the age of retirement, the setting of a maximum amount for the pension (so that it cannot be higher than the salary received when the worker was active) and a four-way management scheme via a body made up of government, employees, employers and retired people (Bertranou & Grafe, 2007).

Finally, the Brazilian private scheme was designed as a complementary pillar to the mandatory public ones. Some authors argue that the private scheme is aimed at promoting a gradual change to a fully funded private pension scheme (Studart, 2000). The complementary pillar experienced a significant modification in 2003 as it introduced a defined-contributions to civil servants whose earnings surpassed an established ceiling on a voluntary-basis (Brooks, 2009).

Both countries have non-contributory pensions directed at older adults who do not have enough contributions to fund their pensions. On the one hand, Chile approved a pension reform in 2008 to shift from a system based on work history to a system based on free access to benefits guaranteed to all citizens (Uthoff, 2010). This reform created the new *Pensión Básica Solidaria* (PBS), and the primary beneficiaries were women and the self-employed;

groups that had long had significant disadvantages in achieving adequate economic security during their elderly years.

Brazil has two non-contributory programmes. The first is *Beneficio de Prestação Continuada* (BPC), created by the Constitution of 1988, regulated in 1993 and beginning its payments in 1996. The amounts are equivalent to the minimum wage, and the beneficiaries did not need to certify past contributions to the pension systems. However, it targeted the most deprived people older than 65 (Kassouf & Rodrigues de Oliveira, 2012). The second one is *Previdência Rural*, which is targeted at rural workers and is part of the General Social Security Regime. This policy would be considered one of the most important ones in achieving universal economic security for retired rural workers in Brazil (Delgado & Cardoso Jr, 2000).

In conclusion, Chile and Brazil share similarities, such as public institutions that support government capabilities and a continuous effort to include labour market outsiders in social protection schemes, primarily due to the expansion of coverage. The main differences that enable comparative research are the potential roles of policy legacies since the second wave of reforms and the actors (political parties and organised groups) that affect the raise of strong political obstacles to reduce the reform scope and outcomes.

1.3.4 Methods

1.3.4.a Data sources

To explore the determinants of party systems, organised groups and policy architecture on the establishment of soft or strong political obstacles to pension reforms outcomes, I conducted process-tracing to contrast the Chilean and Brazilian pension systems. The original data was produced through the application of semi-structured interviews with politicians, experts, policymakers and organised group representatives. In parallel, I performed a document analysis of primary information based on official sources, including legislative process reports and formal documents. Lastly, for the assessment of the trajectory of each pension scheme, I gathered comparable statistical information from different sources, which are described below.

Document analysis is a qualitative technique that considers a document as a source of information and can be defined as ‘a systematic procedure for reviewing or evaluating

documents—both printed and electronic (computer-based and Internet-transmitted) material' (Bowen, 2009, p. 27). This technique allows the analysis of information about the legislative policy process of the reforms. Moreover, these data sources contain information regarding how the policy proposals were made during the reforms described above.

For the case of Brazil, the data sources for legal documents are the websites of the Senate and Chamber of Deputies, the Cabinet Subcommittee on Legal Affairs of the Presidency of the Republic, the Ministry of Labour, the Secretary of Social Security of the Ministry of Finance and the Ministry of Social and Agricultural Development. For the Chilean case, the legal documents are available online, in the Library of the National Congress of Chile, the Ministry of Labour and Social Security and the Presidential Advisory Commission on the Pension System, which systematised other hearings from stakeholders and handed in a set of proposals to President Bachelet in 2015.

Beyond this, I conducted 68 semi-structured interviews, where 'the researcher has a specific topic to learn about, prepares a limited number of questions in advance, and plans to ask follow-up questions' (Rubin & Rubin, 2012, p. 31). Interviews were carried out in Santiago between December 2016 and May 2017. A second phase was carried out from September to December 2017 in Brasilia (with preliminary fieldwork during April 2017), Rio de Janeiro and São Paulo. These are useful to gather information about the trajectory of pension systems and the specific reforms detailed above, mainly because the interviewee can provide helpful information 'that is left out of formal documents or omitted from sanitized histories, which reflect power holders' points of view' (Tracy, 2013, p. 133), especially to gather valuable background information with which to analyse the political and institutional factors.

Table 1-1 details the interviewees' general profile according to their type (politicians, policymakers, members of organised groups and experts). These interviews are the primary source to collect original data with direct sources in order to discuss the relevance of organised groups, their interaction with party systems and the main influence promoted by the policy architectures' long-term trajectory on the pension reforms and their universalist orientation.

Table 1-1 Typology of interviewees in Brazil and Chile

Type of interviewee	Brazil	Chile
Politicians (12)	**Chamber of Deputies:** members or former members of Commission of Social Security and Family, and Justice and Constitution. **Senate:** members or former members of Commission of Social Affairs, and Justice and Constitution.	**Chamber of Deputies:** members or former members of the Commission of Labour and Social Security, and Finance. **Senate:** members or former members of the Commission of Labour and Social Welfare, and Finance.
Policymakers (18)	Actual or former Senior Officials of the Ministry of Labour and Social Welfare (*Ministério do Trabalho e Previdência Social*) and National Institute of Social Security (*Instituto Nacional de Previdência Social*), members of the Presidential Cabinet and Legislative consultants.	Actual or former Senior Officials of the Ministry of Finance, Ministry of Labour and Social Welfare (*Ministerio del Trabajo y Previsión Social*) and Pensions Supervisor (*Superintendencia de Pensiones*), and members of Presidential Cabinet.
Experts (34)	Academics mainly from University of Brasilia, University of São Paulo, Federal University of Rio de Janeiro, State University of Rio de Janeiro, Getulio Vargas Foundation and National School of Public Administration. Officials from ECLAC, ILO and other related agencies.	**Members of Presidential Advisory Commissions:** Commission Marcel (2006) and Commission Bravo (2014). Academics mainly from University of Chile, Pontifical Catholic University of Chile, University Diego Portales. Officials from ECLAC, ILO and other agencies.
Representatives of organised groups (4)	Former leaders of trade unions in the public sector. Researchers at private-sector central unions think tank.	Former representatives of the private fund managers and Banks.

Source: Author.

To definitively ascertain which experts and politicians to conduct semi-structured interviews with, I utilised a maximum variation sampling strategy. This sampling strategy ensures different perspectives about pension systems in both countries and within the specific sub-groups. According to Ritchie et.al. (2003), 'diversity is needed for two reasons. First, it optimizes the chances of identifying the full range of factors or features that are associated with the phenomenon under study […]. Second, it allows some investigation of interdependency between different characteristics, so those that are most relevant can be

explored separately from those identified as having lesser importance' (Ritchie, Lewis, Elam, Tennant, & Rahim, 2003, pp. 116-117). Lastly, the interviews were conducted until they had reached data saturation, which is 'a point at which all questions have been thoroughly explored in detail, no new concepts or themes emerge in subsequent interviews' (Trotter, 2012, p. 399). On average, the conversations lasted between 45 minutes and 1 hour.

The interviews focused on examining each independent variable, such as policy architectures, party systems and organised groups. The questions on these dimensions were directed to politicians, policymakers, representative of organised groups or pension experts whose details are in Table 1-2, and the general topics are introduced below.

Regarding the role of policy architectures, the interviews conducted with this instrument inquired about: 1) the problems that the pension reforms addressed and their origin. This question was directed to the whole range of interviewees; 2) the decisive actors that were pivotal during the pension reforms, a topic mostly directed at politicians and policymakers; and 3) the reasons for maintaining central aspects of pension schemes, such as individual capitalisation and public-funded benefits on each country. This was mainly asked to politicians and experts on pensions.

The second dimension considered in the instrument was parties' role (and some inquiries on relationships within the government) in the decisions for universalisation of coverage, equity or generosity of pension systems in both countries. In particular, the interviews gathered data related to 1) whether the reform outcomes suffered any constraints due to the parliament composition and government coalition size. This item was directed mainly at politicians and relevant policy makers; 2) the inclusion of organised groups within the official talks or how they proceeded during the reform debates to include their points to the relevant decisionmakers. The primary respondents were the whole set of interviewees; 3) the recall of the internal deliberations of political parties during the milestones of the reform, especially considering the opinion of politicians; and 4) questions about the domestic relations within the Ministries of Social Security and Labour with the Ministry of Finance and their strategies with government coalition and opposition during the parliamentary debate about the bill. These questions were directed primarily at policymakers, including former Ministers.

Thirdly, to query the role of organised groups in inserting their demands into the debate, I considered the incidence of them on the variation (or not) of the trajectory of the policy architecture, the binding role of their participation in the talks and negotiations and particular aspects of the bills that considered their views. The respondents of these items were representatives of organised groups, experts and policymakers. Besides, this dimension inquired about the ways in which pressure was exerted by the main stakeholders pushing for the continuation of the schemes (private fund managers and corporatist groups, Chile and Brazil, respectively), directed at politicians, policymakers, and representatives of these groups.

Table 1-2: Semi-structured interview guideline, by dimension, themes and interviewees

Dimension	Questions or topics covered	Receptor
Policy architectures	To what extent did the trajectory of the pension system condition the problems to be solved by the reform? Which are the issues or themes left aside?	Policymakers Experts
	Which were the most decisive or relevant actors in the processing of the Pension Reform?	Politicians
	In your opinion, what do you think is the main reason for maintaining the centrality of individual retirement accounts (Chile) / public and segmented pay-as-you-go scheme (Brazil)?	Policymakers
	What was your proposal to increase coverage, generosity and equity in pensions?	Politicians
	For the Chilean case, how was the influence of the AFPs manifested? What proposals would they have accepted or rejected? For the Brazilian case, how did the influence of the public-sector trade union manifest itself?	Policymakers
Political parties	Do you think that the results of the pension reform would have been different if the government had had a majority in Congress? In what sense would the results have promoted a more significant universalist orientation?	Politicians
	Was there participation of citizens or organised groups? To what extent were your proposals incorporated? Or was there a more considerable influence of technical discussion in political negotiation and decision-making?	Politicians Experts Representatives
	Where do you locate your party/government in the ideological spectrum (left / right, progressive, liberal, conservative, etc.)? Do you consider that the outcome is akin to your views on the role of the state or market in the social policy provision?	Politicians
	I would like to know how the reform guidelines were discussed at your party/coalition or within the government. Were there any instances in which representatives of the bases or communities were summoned? Or, did the discussion focus on central instances such as central committee or politicians with the participation of technical groups?	Politicians

	What changes were made to the original negotiation design? If there were, what were the main consequences of the result? Looking back, what decisions would you have made to increase the likelihood of the reform having more universal results?	Politicians
	Did you feel "pressure" in your decisions by the electoral power of the primary beneficiaries and stakeholders in the pension system?	Politicians
	How was the relationship with the Ministry of Finance / Labour?	Policymakers
	How was the relationship with the opposition / ruling party coalition benches?	Policymakers
Organised groups	What was the binding level of participation of representatives of organised groups/stakeholders in the discussion of pension reform?	Policymakers Experts Representatives
	Do you consider that the participation of representatives of social movements reshape the legacy of pensions based on individual accounts/public pay-as-you-go scheme?	Policymakers Experts Representatives
	Was there a tangible impact on the participation of organised groups that have been included in the law that promulgated the pension reform of 2003 (Brazil) / 2008 (Chile)?	Politicians

Source: Author.

1.3.4.b Data Analysis

The data was systematised based on Qualitative Content Analysis. This technique analyses textual material and utilises categories derived from theoretical models to reduce the material. For the interviews, I analysed them based on the independent variables and interactions among them, which have been explained above. Finally, I collected different official documents to provide evidence of both policy architectures' dynamic aspect of creating their policy legacies, giving a summarised history of pension reforms in Brazil and Chile. Thus, I analysed the data in a deductive way, where '[c]ategories are brought to the empirical material and not necessarily developed from it (…)' (Flick, 2014, p. 429).

Following the typology of qualitative content analysis developed by Hsieh and Shannon (2005), this research utilised a conventional content analysis, where the study starts with observation, and codes are defined during data analysis of the raw data. This method of conducting qualitative content analysis is not driven by existing theories that may guide the codification process to assess a particular claim in the literature, nor a summative approach based on counting words with identified sources.

Following Beach and Pedersen (2013), the theory-building process-tracing approach has three iterative steps. The first one is to collect evidence that matches the empirical manifestations of causal mechanisms. The second step is to make inferences from the evidence, and the degree of these reflects an underlying causal mechanism. Finally, the research seeks to infer causal mechanisms between the dependent variable and the set of independent ones. These steps could be summarised as the gathering of empirical material with structured analysis to detect a plausible hypothetical causal mechanism linking X variable with the set of Y variables. The analysis and coding of the interviews were conducted on NVivo.

1.3.4.c Limitations

The limitations of the research are related to some difficulties in accessing interviews with politicians. For the case of Brazil, I was based in Brasilia when there was a two-fold combination of events that made the circumstances more difficult: by September 2017, the Brazilian Congress was negotiating a new electoral law that included new procedures for more transparent funding, so they were not available to return my calls. Secondly, there was an attempt to introduce an impeachment motion against President Temer (October 2017). This meant that the personal agendas of these interviewees radically changed and reduced their availability. Nevertheless, I decided to extend my stay in Brasilia for an extra month, in order to have access to more interviewees, which tightened my original agenda for interviews in Rio de Janeiro and Sao Paulo. This decision was crucial to overcoming these difficulties.

For the Chilean case, certain politicians were more reluctant to participate in the interviews, but I had more personal connections to contact different chiefs of staff of parliamentarians. The interviews with experts who had relationships with politicians or policymakers facilitated further direct recommendation from them, to convince them to accept my invitation. Indeed, being a Chilean national was an advantage, but on some occasions, I was received with an initial caution as some interviewees were expecting a foreign researcher. However, these initial restraints on their responses were lifted, and the interviewees gave answers with more interpersonal confidence, significantly reducing any asymmetry of power between us.

Lastly, there was a contextual aspect that I needed to consider at the very beginning of the interviews. There were ongoing pension reforms in both countries, so I had to be clear that I

will not focus the conversation on the current processes and assuring that the quotes will be anonymous and confidential. Hence, I had to develop particular skills to set a frame, primarily directed to politicians highly oriented by these specific circumstances but being diplomatic to do not upset them. As a whole, I consider that these obstacles were successfully passed, and I did not have personal issues or concerns raised by interviewees.

1.3.4.d Ethics

This study is not targeted at vulnerable populations and follows the ethics guidelines provided by the Central University Research Ethics Committee (CUREC) and the Departmental Research Ethics Committee (DREC) of the University of Oxford, which were approved on December 5th, 2016 (Reference number CUREC 1A/ODID C1A 16-085) and July 31st, 2017 (Reference Number CUREC 1A/ODID C1A 17-064) for fieldwork conducted in Chile and Brazil, respectively. In general, the research did not involve risk of criminal prosecution of participants, nor did it involve deception or issues relevant to the Counter-Terrorism and Security Act of the United Kingdom, and the study did not require participants whose ability to give free, informed consent was in question. Finally, this research adheres to the professional guidelines of the American Political Science Association (APSA) (Guide to Professional Ethics in Political Science) and the Social Research Association (Ethical Guidelines).

The recruitment process for potential participants was an invitation sent by email stating that there will be informed consent, offering information about the nature of the research and why their participation was crucial to meeting these aims. Nevertheless, the message tried not to overwhelm them with excessive details. Besides, I attached a supporting letter signed by my supervisor to provide more credibility to convince the informants to accept the invitation. The interview date and location were agreed with them, so as to ensure convenience, as they are active politicians, academics, trade unions leaders, or political personalities.

The informed consent process followed the Best Practice Guidance for Elite Interviewing issued by the University of Oxford. The informed consent was oral, combining the provision of information orally to the participant and obtaining oral consent. I followed a script for

verbal approval, which was audio-recorded and described the intention of the interview, a statement assuring that their participation was voluntary, and that they could finish it without stating a reason and provide the characteristics of anonymity/confidentiality of their statements. It ended with an offer of clarification or a degree of control over their audio recordings transcripts. Finally, the oral consent script provided details about data storage as the files are kept on my laptop only with passwords.

Finally, the ethical guidelines for assuring anonymity/confidentiality include details for capturing and storing data and records, including the following: 1) manually written notes of the interview. If the interviewee agrees during the oral informed consent process described above, the interview was recorded; 2) I recorded notes on my laptop and transcribed essential aspects of the audio file of the recording; 3) after the transcription, the personal notes were destroyed and audio records saved in an encrypted folder; 4) the notes and files do not contain the interviewee name, in order to protect the confidentiality of the interviewees?; 5) I changed the real names to pseudonyms or descriptors, previously agreed with the interviewee; 6) the electronic files are protected by password and kept on my laptop; finally, 7) any file containing exact names and addresses of the interviewees will be destroyed after the completion of the original research.

1.4 Main argument and expected variations

The general argument of the dissertation is as follows. The long-term deployment of a scheme based on private managers of pension funds, such as in Chile, would shape the set of reform options considering the centrality of these private firms that control the provision component and large sums of aggregated pension funds. Hence the scheme will set strong constraints for reforms on the role of private managers responsible for the provision of pension fund administration and it introduces a rise in contribution rates that would not be allocated to the individual retirement accounts. From the side of a corporatist pay-as-you-go pension scheme, the issues to be solved are to reduce the future fiscal liabilities and push for standardisation of benefits and retirement rules. Therefore, the foundational policy architecture will reveal a legacy that, in the long term, facilitates or limits the achievement of universalist outcomes. Therefore, policy architectures 'influence the likelihood of reaching universal outputs and the speed of advances' (Martínez-Franzoni & Sánchez-Ancochea, 2016, p. 103).

Nevertheless, how these problems are framed and what other issues matter is also influenced by political parties and organised groups. In particular, the specific influence of political parties depends on the following aspects: the external links with their core constituencies, the internal ties between party elite and base, and the ideological location with a distinct impact. Consequently, the political determinants required to move towards the achievement of universalist outcomes in the arena of social policies should consider political parties, but state actors will also depend on the power distribution generated by the policy architecture's long-term trajectory.

Regarding organised groups, their role is determined by the interaction between the policy architecture and the political party system. Hence, organised groups shape the political debate by establishing close connections with parties characterised as devoted representatives of core constituencies that match with their policy preferences. Besides, pressure groups that aim to reduce other actors' power within a policy sector can look for extra-institutional or ad-hoc arrangements to advocate for their interests directly with policymakers and other actors. Thus, organised groups that are not participants in the policy architecture or have advantages in the benefits definition may play a role regarding questioning and softening the strong influence of policy legacies in the long-term trajectory of policy. Moreover, pressure groups as social movements can trigger, in the long term, the adoption of significant reforms or the launch of policies more aligned to their demands. For instance, a scheme based on private managers of pension funds will shape the set of reform options considering the centrality of these private firms that directly control the provision component of the architecture by managing large sums of aggregated pension funds. On the other hand, any attempt to reform a fragmented public pay-as-you-go scheme to reduce its fiscal costs and unify its various components may trigger the opposition of specific occupational groups that will face a reduction in their benefits.

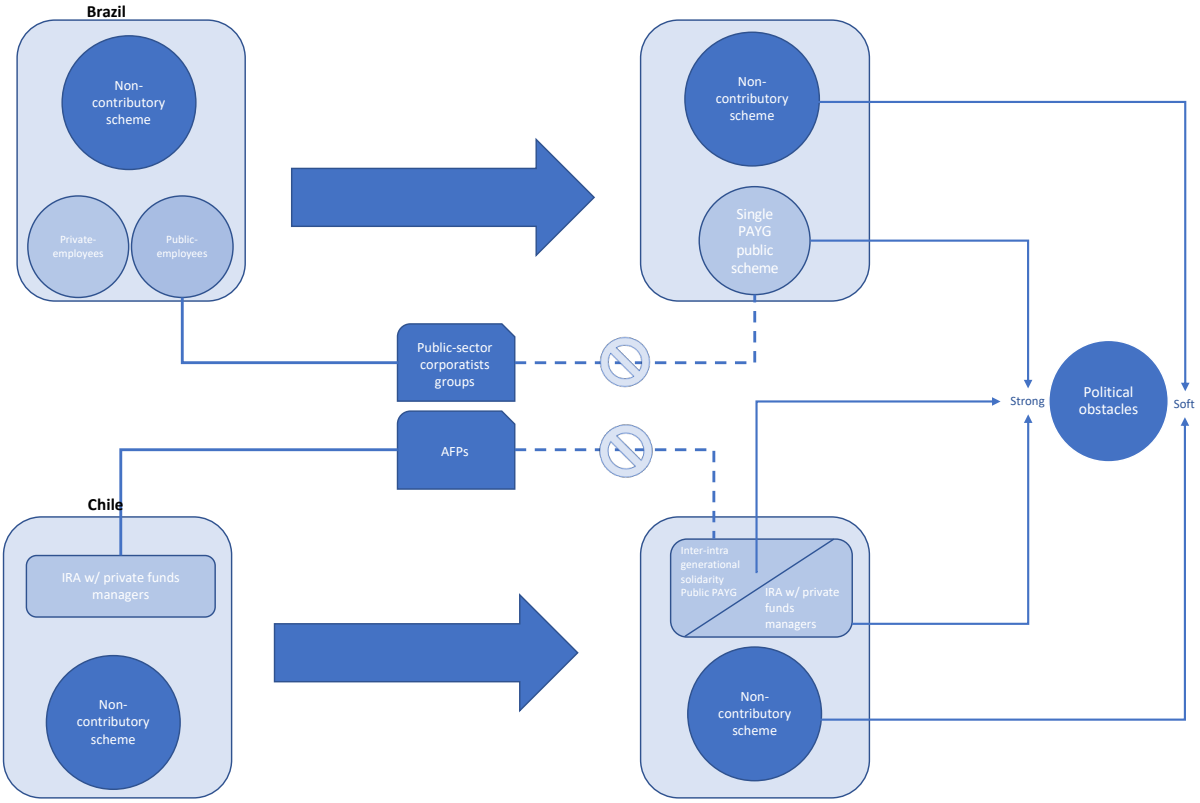
The following sections show the expected variations for each variable included in the dissertation, by considering the rationale of the previous argument and its potential results. Hence, it starts with the potential results of the political obstacles to pension reforms in Chile and Brazil, followed by the specific trends that each independent variable will assume for each country's case.

1.4.1 Expected variation in political obstacles to pension reforms

As mentioned, this dissertation aims to explain the political and institutional determinants on political obstacles to pension reforms, considering them as a policy area of interest. Building on the contributions of Martínez-Franzoni and Sánchez-Ancochea (2016), Pribble (2013), Garay (2016), and Altman and Castiglioni (2019), it is plausible to argue that, during reforms, looking at the expansion of universalist outcomes will produce political obstacles according to their initial architecture as well as political party system. In particular, the Chilean case is likely to experience soft political obstacles due to the attempt to expand the coverage of non-contributory pensions to less-wealthy elderly citizens. Moreover, the expansion of equity is intimately linked to this general trend of coverage expansion, especially those that constitute vulnerable groups, mainly women and young workers. Lastly, the Chilean pension scheme experienced a concentration of strong political obstacles on issues regarding expansion of benefit generosity. The Brazilian case is expected to concentrate most of the strong political obstacles on the generosity dimension, mainly pushed by corporatist groups of insiders aiming to maintain some advantages in relation to outsiders, such as informal urban workers, rural workers and new cohorts of civil servants. A segmented public scheme is likely to expand its equity by closing the generosity gaps among different occupational groups.

These expected different trajectories of political obstacles to pension reforms are summarised in Figure 1-1. The first set of boxes shows the general schemes in Brazil and Chile, respectively, highlighting the two most prominent stakeholders that play a significant role in establishing strong political obstacles that will constrain the trajectories towards universalist outcomes.

Figure 1-1 Expected trajectories of political obstacles to pension reforms in Brazil and Chile



Source: Author

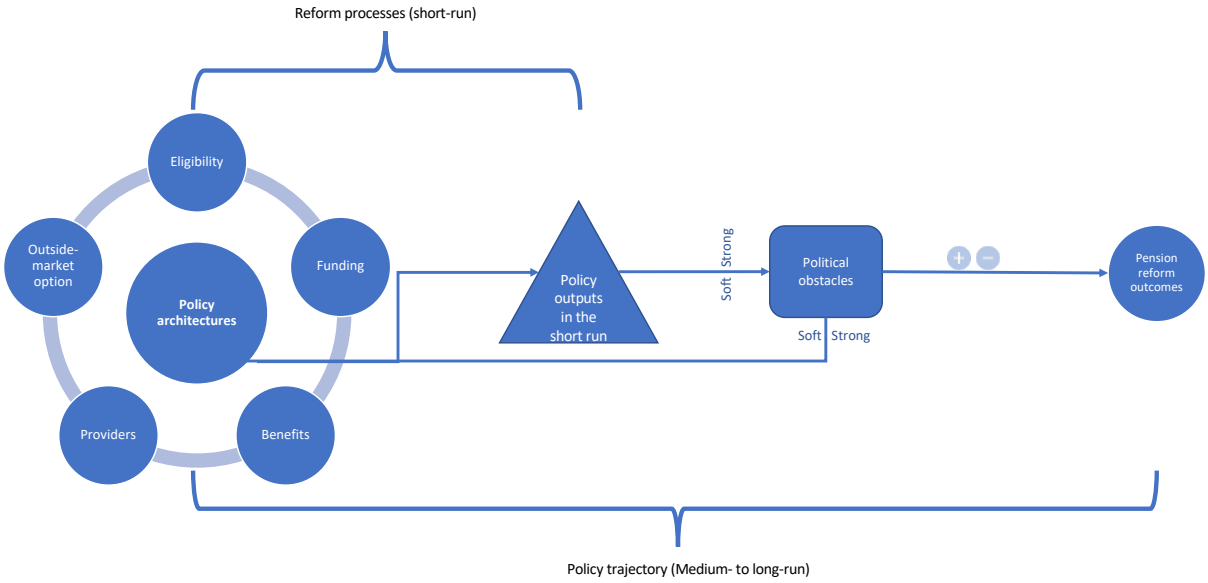
Consequently, the emergence of soft and strong political obstacles to particular issues, such as in equity and generosity of benefits, will be largely determined by the stability of political parties in connection with the role of organised groups in the implementation of the policy. On the contrary, coverage expansion efforts will be determined, to a larger extent, by electoral and financial reasons – namely, the vote of outsiders and sustainable funding based on public permanent liabilities and is likely to face soft political obstacles. The expected variations for each independent variable are in the following sections.

1.4.2 Expected trends in policy architectures

Policy architecture is the variable that determines the differences in pension scheme organisation between Chile and Brazil. A policy architecture with extensive participation of private providers in pension savings management and benefits is likely to create incentives for funding and eligibility components. Meanwhile, a public and segmented pension scheme is likely to create incentives for reforms mainly to the benefits and funding components.

These expected trends are due to primary issue that a defined-contribution pension scheme in a labour market marked by informality. Thus, extended results of non-compliance of the minimum requirements to opt for a contributory pension are likely, especially among women. Hence, there will be an issue with the coverage gap that will need to be adequately solved with sustainable funding to expand the access dimension. In doing so, the eligibility component of the policy architecture is crucial for expanding the non-contributory scheme, combined with the necessary funds provided by the funding component. On the other hand, a segmented policy architecture is likely to push for reforms aimed at reducing this feature by standardising the benefit rules, followed by fiscal constraints that push for benefit reduction for privileged occupational groups of insiders. In sum, the nature of policy architecture determines the components that are creating incentives for soft or strong political obstacles that may affect the pension reform outcomes.

Figure 1-2 Policy architecture reforms and trajectories and universalist outputs



Source: Author based on Martínez-Franzoni and Sánchez-Ancochea (2016).

To conclude, the variation in social policy output will be influenced by the initial composition of policy architectures. On the one hand, in countries with advanced privatisation, like Chile, private providers will dominate the power structure. This situation leads to the enactment of equity-enhancing reforms 'in an incremental and fragmented manner' (Ewig & Kay, 2011, p. 68), if at all. On the other hand, in countries with limited privatisation, such as Brazil, the

‘efforts to build universalistic reforms sometimes faced opposition from powerful organized interests committed to the defense of status quo’ (Pribble, 2013, p. 28). Hence, policy legacies create interests that are mobilised by different organised groups, especially those responsible for implementation (Haggard & Kaufman, 2008). All in all, the foundational policy architecture will reveal a legacy that, in the long term, facilitates or limits the emergence of political obstacles and its importance for the pension reform outcomes. Therefore, policy architectures ‘influence the likelihood of reaching universal outputs and the speed of advances’ (Martínez-Franzoni & Sánchez-Ancochea, 2016, p. 103).

1.4.3 The role of political parties in the variation of political obstacles to pension reforms

Following the arguments of Pribble (2013) on party character and the variations of social policy outputs and those of Holland and Schneider (2017) and Altman and Castiglioni (2019) on electoral pressures in the context of party system fragmentation to enable social policy expansions, it is plausible to state the expected trends of political obstacles to pension reforms due to characteristics of political parties, such as their external links to stakeholders.

Firstly, in the context of fragmented party systems, a pension reform is likely to expand access to non-contributory pensions for the poor elderly population rather than lead to severe concerns about the equity and generosity aspects of the contributory pillar, as the fragmentation is likely to hinder significant progress in these two dimensions.

Nonetheless, political parties with a clientelist-electoral or incorporation-electoral profile within competitive contexts in fragmented party systems are likely to consider their grassroots-level core constituencies' concerns in order to negotiate aspects that will benefit them. Their links with corporatist groups that are electorally relevant will create incentives to establish direct negotiations with public-sector corporatist groups with the main advantages of the benefits component. Hence, the links with these organised groups are likely to explain the slow progress in closing the existing gaps in generosity and equity by establishing strong political obstacles. As was mentioned, fractionalisation, lack of party discipline and fragmentation are drivers to not conduct modifications that may affect “extra-governmental actors” direct interests in pensions (Castiglioni, 2005).

1.4.4 Expected outcomes due to the influence of organised groups on establishing political obstacles

Castiglioni (2005) suggests the variation of social policy outputs particularly because 'the role of these extra-governmental actors becomes relevant when policy decisions threaten the status quo' (Castiglioni, 2005, p. 9). Thus, extra-governmental actors will not achieve success in blocking the overall reform, but they may concentrate their efforts on limiting the scope of the reform. Consequently, the expected theoretical outcomes of organised groups are as follows. No matter how powerful insiders and private-sector organised groups are, they are likely to create political obstacles on these topics. The level of power will depend on the participation and control of any of the policy architecture components. Hence, the private sector will be more successful in establishing these strong political constraints to pension reform outcomes, especially when they are the mandatory direct providers rather than powerful corporatist insider groups struggling to maintain their advantages of benefits.

In contrast, organised groups of outsiders do not have control over components of the policy architecture, and neither will they defend the generosity of their benefits. Nevertheless, the reforms will consider their electoral asset to expand the pension coverage, mainly through non-contributory schemes. Nevertheless, this expansion of the access dimension does not contradict the interests of private pension management providers and occupational groups of insiders with special arrangements on benefits.

1.5 Plan of the dissertation

This dissertation contains seven chapters, and the organisation is as follows. Chapter 2 provides the historical background of pension reforms (and several failed attempts) held in Chile and Brazil during the 20th century to show the long-term and critical junctures of both policy architectures to contextualise contemporary policy debates on long-term issues. It shows common issues such as attempts to unify the occupational-based funds and standardisation of benefits rules and eligibility to reduce future liabilities of pension schemes in both countries. At the same time, specific trends related to political projects, such as the *Getulismo* or extension of access during the military dictatorship in Brazil or the substitutive reform carried by the Pinochet dictatorship in Chile in the early-1980s.

Chapters 3 to 6 are the core empirical chapters of the dissertation. Chapter 3 analyses the incentives and constraints generated by the Brazilian pension policy architecture, focusing on funding and benefits as the specific components pushing for modifications in the 1998 and 2003 pension reforms. Specifically, it discusses the onerous benefit rules for civil servants and incentives for early retirement, the inequalities between the mandatory contributory pension (private-sector employees and civil servants) and the impact on the future sustainability of public finance on old-age pensions. Also, it develops an argument about why the potential privatisation of the funds management was not possible, primarily due to financial reasons.

Then, chapter 4 depicts the political negotiation held to conduct the 1998 and 2003 pension reforms, including the incentives of organised groups, concentrating on the costs of benefit modifications and how they established links and influence within a fragmented party system. It provides a detailed focus on the characteristics of the 2003 pension reform and how the first administration of President Lula dealt with the pressures of the most critical stakeholders in pensions debates, such as the corporatism of civil servants.

Chapters 5 and 6 are the empirical ones for the Chilean case (2008 pension reform). The first reviews the incentives and constraints that created the policy architecture from the 1990s until the mid-2000s, such as the evidence of effective coverage and estimations of future net replacement rates of pensions granted by the contributory pillar, the decline of the fiscal obligations of the transition costs from the old to the new system since the 1981 reform, and providers' regulations on competition and fee structure. Then, this chapter depicts the constraints of the policy architecture on achieving strong political obstacles to pension reform, primarily due to the strength of the AFPs.

Chapter 6 introduces the agenda-setting and policy adoption process of the 2008 pension reform, starting from the decision to pursue reform in the Presidential campaign and programme of then-candidate Bachelet. Then, it explains the role of the Marcel Commission and the political convincement and approval of the reform contents within the political committee at the government. Then, it shows the legislative process, including the role of private stakeholders, such as Banks and AFPs, and how they established connections with political parties to balance their interests and partly shape the reform contents.

Lastly, chapter 7 compares pension reforms in terms of the incentives from components of the policy architectures to reduce fragmentation and achieve fiscal sustainability and cost reduction of the private industry of pension fund management. Then, it reviews the constraints, such as policy fragmentation and concentration of costs to organised groups and the restrictions of party systems. Finally, the chapter introduces the final remarks of the thesis, the contributions to the literature and the future research that this agenda may lead to.

2 Background chapter

2.1 Introduction

The pension systems in Brazil and Chile were two of the first to be established in Latin America, along with Uruguay, Argentina, Peru and Cuba (Mesa-Lago, 1978; Malloy, 1979). This chapter explores the main pension reforms of Chile and Brazil from a historical point of view. Also, it suggests how both countries shared similarities in issues to be solved and political determinants that shaped the ultimate results. In particular, it argues that for the majority of the reforms held in the 20th century, the pension policy architecture remained segmented, as its components were not unified successfully. These constraints were caused by strong political obstacles raised by organised occupational groups, particularly those in crucial economic sectors, such as military, railways workers and merchants in the early 20th century. Then, civil servants were an influential group in lobbying for generous benefits for themselves, with direct links with Congress members in both countries. As a result, they successfully had separate benefits and funding mechanisms which were remarkably higher than private-sector workers, especially those who did not belong to critical economic sectors.

In contrast, the most deprived population remained excluded from these contributory pension schemes, particularly informal urban and rural sector workers. According to Filgueira, the reason is because the 'earliest labour and pension insurance schemes were not designed in order to deal with a social or labour question, or from a general perspective of citizen rights, but formed part of the expansion of privileges to upper-middle-income sectors forming part of the State apparatus' (Filgueira, 2015, p. 51). By the first quarter of the 20th century, the emergency of the "social question" promoted the organisation of the labour movement, which established direct links with new political parties who were struggling for political representation outside of liberal and conservative parties, as 'workers began to organize and protest, thereby opening up a new political agenda centered on the social question. They posed the issue of how the state and economic elites should respond to worker protest and new working-class demands' (Collier & Collier, 1991, p. 94). Only by the second half of the 20th century these groups begin to be included in the reform proposals, as they started to be more relevant as an electoral group and mobilised their interests for greater social inclusion.

Nevertheless, the social security reforms pursued by Pinochet's dictatorship meant a definite crossroads for both policy architectures, as Chile turned to adopt a private-managed scheme based on individual retirement accounts funded on a defined-contribution base. On the one hand, this divergence was possible because of the authoritarian context of that time. Hence, it was not possible to raise opposition to the reform from political parties and trade unions as they were banned and prosecuted. On the other hand, the new proposal achieved convincement of the internal government, as it would not affect the Armed Forces pension scheme. In addition, the reform had the support of the contemporary business elite, which would play a crucial role in managing the funds, thus developing the Chilean capital market. The Brazilian trajectory did not follow the Chilean diversion and continued to expand access in exchange for political support of the military regime. By the late 1980s, the political incentives included organised outsiders during the democratisation process and debates at the 1987 Constituent Assembly to expand social rights to the excluded and non-insured population based on defined benefits and pay-as-you-go funding. Consequently, this chapter reviews these reform processes by linking the universalist dimension involved and the role of the policy legacy, political parties and organised groups in its trajectory and outputs.

Brazilian and Chilean pension reform trajectories follow these general trends of segmentation and deficit in access for vulnerable groups that were not part of parties' core constituencies or established pressure groups. The gradual advancement of expansion of access to contributory pensions to blue-collar workers was partly due to their close links with political parties that transmitted their interests and needs in accessing the contributory pension scheme. In exchange, blue-collar workers were an increasing electoral power that benefited congress members and governments who supported their demands regarding the policy architecture's benefits, eligibility, and funding issues. The rest of the chapter is organised as follows: firstly, section 2.2 reviews the trajectory of the pension reforms in Brazil, with particular focus on the Eloy Chaves Law (section 2.2.1), the Vargas Period and the attempts to universalise and uniformise the pension scheme (section 2.2.2), the enactment of the LOPS (section 2.2.3) and the way in which the dictatorship held the pension policy (section 2.2.4) including the launch of the non-contributory rural pension (section 2.2.4.a) and SINPAS (2.2.4.b). Lastly, it outlines the central debates on social insurance, focusing on pensions, during the democratisation period and the 1987 Constituent Assembly (section 2.2.5).

Secondly, the Chilean case is analysed by reviewing the origins of the old public pay-as-you-go established after a turbulent political period in the mid-1920s (section 2.3.1), followed by the modern but segmented pay-as-you-go that included blue-collar workers (section 2.3.2). Then, it shows the incentives for reform attempts developed by President Frei (section 2.3.3) and Allende (section 2.3.4) to standardise the benefits and expand the contributory system coverage. Following the trajectory, there are two critical moments in the pension reforms during the Chilean dictatorship: the stage of standardisation of the previous model (section 2.3.5), followed by the privatisation of the contributory pension system with the establishment of the private fund managers (AFPs) in 1981, among other modifications (section 2.3.6). This chapter concludes that both schemes shared political obstacles from organised groups, adopting a policy architecture based on occupational groups who set the constraints for unifying the funds. Nevertheless, the breakpoint in the trajectories had started by 1980, when Chile, under a dictatorship, started with defined-contributions with individual capitalisation accounts with private management. In contrast, the Brazilian dictatorship adopted pensions to expand their social base and decrease social conflicts, while maintaining occupational segmentation. Therefore, both countries shared decades of similar trajectories with reforms that aimed, in general, to include outsiders and unify the administration and benefits scattered across the multiple funds.

2.2 Brazil

The origin of the modern system of social security in Brazil started with the debate and enactment of the Eloy Chaves Law (1923), which brought the social security benefits primarily enjoyed by specific occupational groups of the public sector. Previously, mutual-aid societies formed social security whose membership was voluntary, and it was the primary organisation among middle-class and blue-collar workers. In parallel, large private firms established funds (*caixas*) that provided social security benefits for their employees regarding health care, retirement, funeral expenses, disability and sickness. Nevertheless, the membership to these private *caixas* was mandatory and funded by payroll contributions and fines. From this institutional landscape, in a context of political inquiry about the social question with the significant impact of foreign ideas and movements, the Eloy Chaves Law began to be discussed

in order to formalise and work towards a potential unification of the fragmentation of benefits, eligibility and provision of social security (Malloy, 1979).

This section aims to review the different reforms of the social security system, including old-age pensions, from the enactment of the Eloy Chaves Law until the debates at the 1987 Constitutional Assembly, which established the foundations of the contemporary policy architecture. Hence, sub-section 2.2.1 introduces the main characteristics of the Eloy Chaves Law and the creation of CAPs as the origin of a modern scheme in Brazil. Then, part 2.2.2 develops the policy orientation on social security and pensions in the 1930s and early 1940s, including creating the IAPs, the Ministry of Labour, the role in the project of *Novo Estado* pursued by the regime and a failed attempt at unification of these funds. This section continues with the 13-year process (1947-1960) of debates and enactment of a significant milestone, such as the Social Security Organic Law, which aimed to unify, universalise and standardise the social security benefits. Then, part 2.2.3 details the initial implementation of the Social Security Organic Law before the military dictatorship that started in 1964. Subsection 2.2.4, details the policies on pensions adopted by the dictatorship, such as the expansion for rural workers (section 2.2.4.a) and the establishment of the National Social Insurance and Assistance System (heading 2.2.4.b). Lastly, this section on pensions in Brazil ends with the main debates held in the context of democratisation of the 1980s and the 1987 Constituent Assembly. Table 2-1 summarises these reforms (and the attempts at reforms) with general descriptions and achievements.

Table 2-1 Brazil (1923-1987): Summary of pension reforms and outcomes

Reforms (year)	Outcomes
Eloy Chaves Law (1923)	Expansion of coverage, through creation of occupation-based social security institutions (CAPs) for private-sector employees of companies in critical economic areas, while excluding working-class sectors
Creation of Institutos de Aposentadorias e Pensões (IAPs) (1933-1953)	Coverage extension to occupation-based insurance and establishment of Ministry of Labour to organise these institutions. Fostering of intergroup competition, fragmentation of labour movements and benefits of the social insurance schemes.
Failed attempt of unification of IAPs (1945)	Attempt to rationalise IAPs and unify them into a single institution (*Instituto de Serviços Sociais do Brasil*), to solve disequilibrium between contributions and benefits, administrative inefficiency among other issues. Opposition from IAPs staffs and influential occupational groups of white-collar workers, as they may lose benefit adequacy.

Social Security Organic Law (1947-1960)	The original bill maintained the guidelines of the ISSB project, including the potential expansion to self-employed, rural and domestic workers looking for universalisation, standardisation and unifications. President Café Filho continued to discuss the bill and unified the remaining CAPs into the IAPFESP to gather a vast share of formal private-sector employees.
	President Kubitschek formed a new technical commission and submitted an enhanced Organic Law of Social Security bill in 1958, to be approved in 1960, which failed on administrative unification but expanded benefits to the different IAPs and achieved standardisation of them.
	Extension of service-time for old-age pension eligibility to the entire set of IAPs, with a minimum of 35 years and minimum retirement age of 55 (later eliminated). It failed on modifications to the generosity dimension to tackle the financial issues and administrative unification.
	Inclusion of autonomous urban workers, but rural and domestic workers remained excluded from social insurance, including old-age pensions.
Creation of the National Institute of Social Security (INPS) (1966)	Establishment of a single institution which centralised administration and benefit rules of private-sector employees. It resulted in a decrease in societal participation in decision-making and an increase in administrative judiciousness. Now, the State controls the provision and benefit components, especially on standard eligibility rules.
Non-contributory old-age pension for rural workers (1963-1971)	In 1963, rural workers had the right to access social security schemes regulated by the Rural Worker Statute, limiting access to rural producers. Then, they passed to the new INPS, and rural workers began to have access through the Basic Plan of Social Insurance (1969), targeted at formal rural workers. Hence, access was still limited to informal rural workers.
	In 1971, *Pró-Rural* was launched to include informal rural workers in the social security scheme, including old-age pensions. The pension amount was 50% the minimum wage, and stated at a minimum retirement age of 65 years to access a flat-rate pension funded through a contribution of 2.5% of the first sale of the agricultural production.
1987 Constitutional Assembly	Debates to universalise access to social security, including old-age pensions. Mainly four groups were involved in the debate, such as organisations of retired people, bureaucrats and conservative groups who were against the expansion, while groups of health practitioners and organised labour movement favoured universal coverage of social security.
	Creation of the contemporary RPPS and RGPS with state provision of pensions and management, with defined-benefits and pay-as-you-go funding scheme. Standardisation of benefit rules and eligibility for each mandatory pillar, consolidating the unification efforts of the INPS, still segmented for the public sector with more generosity and favourable rules. The details of the outcome of the Constitution are in Table 3-1 of section 3.2.1.a.

Source: Author.

2.2.1 Eloy Chaves Law: the initiation of the modern Brazilian pension scheme

The Eloy Chaves Law created the Retirement and Survivors' Pension Funds (*Caixas de Aposentadoria e Pensões* – CAPs) covering railway workers, with further expansion to dock and maritime workers, allowing them access to social security benefits for sickness, old age, incapacity or death. Firstly, the retirement benefits were targeted at those unable to work due to severe incapacity or by age based on 30 years of time-in-service and at least 55 years

of age. Secondly, beneficiaries had access to medical practitioners and subsidised medicines. Thirdly, the insured workers had coverage for monetary transfer to their families for death and funeral expenses. Lastly, the Eloy Chaves law included the job tenure provision which meant that after ten years of service the reasons for dismissal of a worker were only a serious cause followed by an administrative procedure. Regarding funding, it had a tripartite and equal contribution, which was later part of the 1934 Federal Constitution. Nevertheless, Malloy stated that despite this funding scheme with variances across the Funds, there were internal inequities in each of them in terms of pension benefits and retirement rules. As a result, 'the CAPs were explicitly designed not to be a means of income redistribution. Higher paid employees contributed more but received more in benefits (…) leading to a system of *previdência social* that was highly stratified and unequal' (Malloy, 1979, pp. 42-43).

The establishment of the CAPs did not follow any universalist orientation in terms of access, generosity, or equity. According to Malloy (1979), the CAPs were established to prioritise the core and strategic economic activities of that time, focusing on middle-classes, with better organisation but lacking active participation from working-class trade unions. The political objective of the enactment of the Eloy Chaves law and its subsequent institutional development was to provide, from the Brazilian elite, a solution for inactive workers and 'to undercut those who proposed radical and direct action by an autonomous and aggressive working class. While Chaves proposed class collaboration, he also made it clear that the terms of the collaboration would be defined by the established elite' (Malloy, 1979, p. 47).

2.2.2 1930 Revolution and first administration of Getulio Vargas

The 1930 Revolution, led by Getulio Vargas, was the conclusion of eight years of political activism of young Army officials (*tenentes)*. However, *tenentes* failed to join upper-level positions in the new government and to pursue relevant policy influence during the early days and until August 1931. Vargas utilised the platform offered by this movement to extend its political constituency, particularly from lower-middle class. The advantage of this linkage of one of the pillars in the early days of the Vargas regime was an 'incorporation into the State via the Ministry of Labor would prevent worker unrest and radicalism, but also make available a mass of new voters whose support could be tapped through indirect elections' (Conniff, 1978, p. 81).

By the early 1930s, the social security system started a transition in its organisation, passing from company-based to occupation-based insurance. The creation of the *Institutos de Aposentadorias e Pensões* (IAPs) meant extended coverage and less segmentation than the policy architecture based on the company-based provision component. Additionally, the Vargas government inaugurated the Ministry of Labour, Industry, and Commerce (1930), in which the Labour Council were responsible for coordinating the elaboration of a modern *Previdência Social*. Firstly, the administration focused on expanding the coverage while maintaining funds depending on companies, including civil servants and miners. By 1933, the IAPs began to be implemented, marking a breakpoint in the institutional organisation of Brazilian social security. Following Pinheiro, it evolved from a social security system based on 'private organizations created within companies, the IAPs had a different legal status and were directly dependent on the Labor Ministry, becoming parastatals in nature. They were part of the corporate structure' (Pinheiro, 2005, p. 194). Table 2-2 shows the chronological progress of the different IAPs during their early years, while each occupational group had its social security organisation. Also, there was inter-group competition which contributed to the fragmentation of the labour movement and inter-class solidarity. As a result, the system based on the IAPs can be described as heterogeneous (benefits), fragmented (institutions and budgets), and selective (beneficiaries) in its process of coverage expansion before the 1966 reform (Draibe, Guimarães, & Azeredo, 1991).

Table 2-2 Chronology of foundations of the IAPs (1933-1953)

Foundation date	***Instituto de Aposentadorias e Pensões* (IAPs)**
June 1933	Institute of Maritime Workers (IAPM)
May 1934	Institute of Commercial Workers (IAPC)
July 1934	Institute of Bank Workers (IAPB)
August 1936, implemented in 1938	Institute of Industrial Workers (IAPI)
August 1938	Single Institute for Transport and Cargo Workers (IAPETC)
1953	Unification of remaining CAPs into Institute of Railroad Workers and Public Services (IAPFESP)

Source: Author, based on Malloy (1979).

The funding component of the pension schemes' policy architecture was a centrepiece of statecraft by the utilisation of the payroll and state contributions. However, the latter did not follow the established procedures and accumulated a substantive debt. Regarding the funding share coming from earmarked taxes, until the late 1940s, each fund established the

taxes from services, and this was one of the primary sources of inequality among IAPs. Then, IAPs formed by well-established occupational groups that generated good revenue had financial capacity to meet with the benefit amounts for their insured people; meanwhile, for funds whose members did not provide the services that were earmarked taxes, the situation was far from optimum, and the benefits had a significant gap from those better-off funds. Lastly, the triple contribution scheme had a notorious regressive impact on Brazilian income distribution. The indirect taxes directed to the funding were heavily paid by low-income groups not covered by the IAPs. Consequently, the policy architecture based on segmentation of the provision and benefits components had an immediate impact on deepening inequalities among the insured population, and between insured workers and the vast majority of rural and poor urban workers who were not covered.

The New State (*Estado Novo*) project of the Vargas regime aimed to redesign the labour relations and social security. It was successful in the first objective, but the constraints raised by economic and local political interests of several CAPs and IAPs severely damaged the social security system's potential substantive reform to tackle segmentation among formal urban workers and outsiders such as informal and rural workers, through rationalising the funds into a single public entity and unification of the benefits. Within this equation, the two most prominent parties (*Partido Trabalhista Brasileiro* - PTB and *Partido Social Democrático* - PSD) had enormous interests in negotiating important passages of these proposals directly linked to labour movements and civil servants' associations. Both parties were part of the core foundations of *Getulismo* by the mid-1940s, by building support from people with direct control of the public administration (PSD) and workers who were the main constituents grouped at the PTB (Gomes & D' Araújo, 1987). The PTB started as the third most popular party in terms of votes, and ended up in number one position by the end of the Third Republic, becoming the senior partner of the PTB-PSD coalition. Also, the PTB had a centre-left political orientation with strong urban base, and were populist supporters of Vargas with an ambition to be the most important mass party in Brazil after World War II (Mainwaring, Meneguello, & Power, 1999). The PSD, particularly, was formed by the inner-circle of Vargas, is labelled as the conservative vehicle of *Getulismo* and 'was interwoven with long-established networks of rural domination in the less-developed regions. Born of the *Estado Novo* bureaucracy (…) the party always had a close relationship to the state apparatus' (Mainwaring, Meneguello, &

Power, 1999, p. 7). Lastly, these two parties were an alternative for working-class people in a polarised context marked by the influence of the right-wing *União Democrática Nacional* (UDN) and the leftist Communist Party, during the 1946-1964 period.

The institution responsible for conducting the reforms was the Ministry of Labour, which had a team of specialists interested in creating a system less fragmented than the current one. Within that Ministry, João Carlos Vital was a prominent social security specialist who created the largest IAP (Pension Institute of Industrial Workers – IAPI), which started in 1938 and led a taskforce on the international trends and characterisation of the Brazilian social security system, submitting the report to President Vargas in 1945.

Specifically, the work led by Mr Vital was a systematic proposal to rationalise the IAPs and merge them into a single social insurance institution known as Institute of Social Services of Brazil (*Instituto de Serviços Sociais do Brasil* - ISSB). Following Malloy (1979), this plan listed the system's deficiencies, particularly the disequilibrium between benefits and contributions and administrative inefficiency caused by the multiplicity of funds, personnel, infrastructure and rules. In a nutshell, the proposed ISSB should be responsible for medical services, social services, and retirement and survivor benefits for workers and their families based on a contributory scheme which may avoid a regressive impact of income distribution. Consequently, the ISSB was an ambitious plan that met strong resistance from the administrative staff of the IAPs, political parties and influential groups of workers, such as banking workers. The main reason for the opposition was the potential loss of benefit adequacy compared to the situation at their particular IAPs, which would result in a loss of political resource - the foundation of the advantages for specific occupational groups. Besides, the IAPs were one of the primary sources of employment in the public sector, utilised as a source to co-opt urban middles classes 'by ambitious leaders to build particularized clientele groups among public employees and their families' (Malloy, 1979, p. 73). The strong link between social insurance and politics is a crucial component that helps us explain the persistent constraints that the Brazilian pension reforms faced in increasing equity. This was achieved through the curtailment of benefits to reduce the overall financial costs for achieving sustainable funding for subsequent reforms.

Based on the work conducted by Vital and collaborators, in 1945 President Vargas enacted the decree 7,526 as the Organic Law of Social Services. However, the implementation rules were pending by the time he was ousted, dismantling the ISSB project. In short, social security was a key policy area during the Vargas dictatorship, with enormous power resources, such as the array of interests and bargaining involved for benefits, that government, occupational groups and political parties took advantage of. As Pinheiro mentioned, '[t]he IAPs controlled enormous financial resources and many jobs, which were an important source of leverage in Brazil's system of patronage politics. In the post-1945 period, those corporatist structures attained an unexpected degree of autonomy and blocked all attempts to unify the social security system' (Pinheiro, 2005, p. 195). To conclude, the fragmentation of the policy architecture created incentives for the scheme's unification to improve its adequacy, coverage and administration. Nevertheless, corporatist groups in close connection with crucial political parties were essential to raising the constraints to those policy goals, as the access to particular benefits and potential loss of political resources were in play.

2.2.2.a Policy debates and enactment of Lei Orgânica da Previdência Social (1945-1960)

After Vargas's fall, the social security in Brazil remained highly fragmented as previously noted; however, the post-war diffusion of ideas permeated the technical debate among specialists in the late-1940s and 1950s. Also, the criteria of policy experts at the Ministry of Labour and IAPI merged into a favourable opinion of unification, confronting the positions defended by interest groups who opposed. In 1947, the bill for the future Organic Social Security Law (*Lei Orgânica da Previdência Social* – LOPS) was introduced and frequently supported by experts from IAPI and the Ministry of Labour, with committed work on analysing social security in Brazil and abroad with high-level technical work published in relevant journals. According to Hochman (1988), this policy elite (led by the IAPI) was responsible for nourishing, with valuable information, the public debates on social security reforms that possibly aimed to establish a new institution of social security to reduce the inefficiencies of the fragmented system remaining in Brazil. Their climax of influence was the approval of the system's unification for private workers and further coverage expansion to rural workers during the military dictatorship, which are reviewed in section 2.2.4.a.

The bill was introduced in 1947 and was finally enacted in 1960. Initially, the bill drafted by deputy Alves, member of an anti-Vargas party, lacked the public support of President Dutra. Prominent experts were also heavily involved, and maintained the principles of the ISSB. Nevertheless, after Vargas' first-term, the political conditions were determinant for two outcomes: firstly, to reduce the pressure to achieve administrative unification, followed by establishing the benchmarks for benefit standardisation and universalisation of coverage. These conditions of political openness compared with the previous authoritarian regime of Vargas (1930-1945), and included his main allies at the Parliament. Due the rejection of the original bill, President Dutra was forced to propose a new text to be co-authored by the deputy Alves and members of Vargas' coalition base, mainly from the PTB. Hence, a new bill was introduced to Parliament in 1952, highlighting the need to expand access to social insurance benefits to the self-employed, rural and domestic workers. By stating these goals of universalisation, standardisation and unification, '[t]he project called for expansion of coverage to all persons gainfully employed, and the creation of one social insurance law providing a single plan of contributions, benefits, and services' (Malloy, 1979, p. 94).

In sum, the struggles to achieve advances towards unification were partly due to political differences between the government and its core constituencies who were not strong supporters of rule changes for insiders' occupational groups. Consequently, constraints raised by organised groups to modifications to equity and generosity had slow-moving consequences on access expansion for outsiders. This is because the political incentives did not merge in a process of gradual reduction of benefits and changes to the provision component of the policy architecture. Nonetheless, there were internal splits due to regional differences within the organised labour movement. For instance, in an event organised by Vargas and Minister Goulart in August 1953 on administrative unification of IAPS, a vast rejection was raised by banking and maritime trade unions nationally, and delegates from the South and South East; whereas delegates coming from the North and North East favoured the unification of the providers of social insurance (including pensions) and expansion of its coverage to other disadvantaged occupational groups.

2.2.2.b Partial Unification of Social Security Funds

After the suicide of Getulio Vargas and the first administration of Café Filho, the remaining old-CAPs created by the Eloy Chaves were merged into a single IAPs (IAPFESP). As a result, six were active, and a seventh was the provider of social insurance for civil servants (IPASE), who had more considerable benefits than the previous six dedicated to formal workers from the private sector. Nonetheless, rural workers, self-employed and domestic workers did not have access to any institution that may have benefitted retirement, healthcare or survivors' benefits.

In 1956, Juscelino Kubitschek became President of Brazil (1956-1961) with a coalition led by the PTB, with organised urban workers as constituencies in combination with the PSD and its links with the rural sector. Furthermore, the PTB was responsible for running the Ministry of Labour and occupied a high-level position in the social insurance administration. PTB officials were skilful in utilising these appointments for their own political and electoral advantage, rather than pursuing the unification of the provision and benefit components of the policy architecture.

The policy issue on social security was a dramatic priority as the financial situation showed a growth of expenditure from the mid-1940s until the mid-1960s, from 42.1% (1945) to 83.3% (1966). As a result, the pressure of liabilities over revenues was a growing concern for policymakers around the sustainability of the social security scheme for the upcoming decades, as the percentage of people receiving benefits was still low (Oliveira & Teixeira, 1989). Additionally, the Brazilian media reported this issue by linking it with clientelism and job politics that existed within the IAPs. Hence, this policy issue was a part of public opinion, and not only among policy experts and high-level civil servants. As an effort to deal with the financial problem and the potential consequences that any pension reform may have within the government coalition, in 1956 President Kubitschek called for a new technical commission formed by those policymakers involved in the debate since the mid-and late- 1940s. This commission took advantage of the projects introduced to the Parliament since 1947, and in 1958 the President submitted a bill, drafted by a technocratic commission, and approved in August 1960 as the new Organic Law of Social Insurance.

Although the reform passed within a short period (one year), the contents were significantly modified to meet the political negotiation led by Senator Batista Ramos. As a result of the conversations held by the most important parties of that time, the original project suffered more than 200 amendments, losing its original contents and aims. In particular, this bill failed on the administrative unification but succeeded in establishing expansion of benefits throughout the different IAPS, and achieving standardisation of the policy architecture's benefits component. Regarding old-age pensions, there was an extension of the time-of-service scheme to the entire set of IAPs, maintaining the minimum requirement of 35 years and adding a minimum eligibility age of 55 years old, with incentives for late retirement. Hence, political pressures from political parties and organised labour groups were crucial in postponing reforms on generosity to tackle the financial aims of the administrative unification of the IAPs favoured the PTB and corporatist groups. According to Malloy, the PTB and its core constituency 'would seek first and foremost to expand their own institutional bases of power and to meet the specific demands of their own rank and file even at the price of ignoring the needs of unorganized urban marginals and rural workers' (Malloy, 1979, p. 104).

2.2.3 General details of the early implementation of the LOPS

The Organic Law of Social Security (*Lei Orgânica da Previdência Social* – LOPS) (Law N. 3,807) was enacted in 1960 and represented an essential step towards the system's unification, particularly for benefits and funding component of the policy architecture of pensions (and social security in general) in the early 1960s. According to Farias (1997), it uniformised the benefits plans and funding sources, including the IAPs. Regarding coverage, it included autonomous urban workers while maintaining the exclusion of domestic and rural workers from any social insurance provision. However, social security politics continued to be? based on giving concessions to organised labour, like the previous situation. For instance, in 1962 the minimum age for retirement was eliminated, so workers had the right to a pension if they could meet the 35 years of time-of-service, followed by discretionary increases in family allowances, bonuses, and a new IAP for legislative civil servants.

During the administration of João Goulart (1961-1964), the financial deterioration of the IAPs was rampant, partly due to the non-payment of the employers' contribution and government debt on payments to the system. In general terms, on average, the liabilities represented over

73.3% of the total revenue of the system, putting future sustainability in question. Furthermore, people receiving benefits from the social insurance system as a percentage of active contributors were between 27.1% (1961) and 21.5% (1963) (Oliveira & Teixeira, 1989). In terms of administration, the clientelistic job politics (*pistolão)* continued and was not solved by the LOPS. This situation limited the efficiency of the IAPs but was politically and electorally profitable for the PTB. Nevertheless, Goulart enacted the Assistance Fund for Rural Workers (FUNRURAL), which was not implemented due to financing issues, but the military dictatorship later executed the project with a different financing scheme (1971). To conclude, the Organic Law failed to accomplish its goals regarding the equity and generosity dimensions of universalism during its early years. The LOPS faced profound resistance from the administrative staff at the IAPs and political parties that were operating closely with them and insider groups, to avoid significant reduction to their benefits.

2.2.4 Pension policy reforms during the Dictatorship (1964-1984)

During the first years of the military dictatorship in Brazil, there was an important milestone in the history of pension reforms – the establishment in 1966 of a single institution that centralised the different rules and administrations of funds of private-sector employees into a single one, called the National Institute of Social Security (*Instituto Nacional de Previdência Social - INPS*). However, the Social Security and Assistance to State Civil Servants (*Instituto de Previdência e Assistência aos Servidores do Estado* - IPASE) did not participate in this unification process. Following Matijascic's (2002) argument, the centralisation of the administration of the different IAPS was the corollary of the earlier attempt to unify the pension system started in the mid-1940s by President Vargas. This reform aimed to reduce the costs through an economy of scale and equalise the retirement rules among the different socio-occupational groups. According to Pinheiro (2005), this reform was possible to carry out due to the authoritarian environment and reduction of civil society representatives in the policymaking process and administration of the system.

Social security experts gathered at the old IAPI, led the creation of the INPS. Besides, the military government intervened directly in the labour movement and the administration of the IAPs. Minister of Labour Sussekind, with the support of President Castello Branco, created a technical committee for the drafting of deep social insurance reform. This policy proposal's

contents were not far from the original ISSB plan, as its core values were the expansion of coverage to domestic and rural workers, followed by the unification of the IAPs into a single institution. This Commission was formed by technocrats and did not receive input from organised groups, but failed to embrace a complete administrative unification and universalisation of coverage. In 1965, the Commission submitted the report to President Castello Branco, but his regime went to moderation regarding political repression and depth of the social reforms. Thus, this new political context allowed consideration from organised groups with vested interests, such as private insurance companies and bank workers. According to Malloy, the reason for this failure was a growing concern of members of the cabinet about the monetary stabilisation for achieving fiscal austerity and potential disruption due to more considerable public expenditure on pensions. As a result, the attempt of Sussekind was unfruitful, and the project 'was scrapped and the technocrats were sent back to the drawing board. In December 1965, the technocratic Sussekind was replaced as minister by Walter Peracchi Barcellos, (…). Under Peracchi Barcellos planners shifted their focus from global reform to effective administration unification of the six existing IAPs' (Malloy, 1979, p. 127).

In 1966, the new minister Nascimento e Silva started the work of the long-standing creation of an institute that unifies the existing IAPs. The resistance to this new attempt came from the original groups as before: bank workers who may lose the generous retirement benefits, and civil servants associations.

After six months of work led by the senior social insurance expert (former IAPI), Jose Dias Correa Sobrinho, the new National Institute of Social Insurance (Instituto Nacional de Previdência Social – INPS) was inaugurated in January 1967. The implementation of the INPS had profound political consequences because it eliminated the primary source of power of organised labour, as they lost the fund administration, which was now controlled by the Federal government (Malloy, 1979). The consequences of social security politics, including pensions as a centrepiece of this game, are relevant for the following reasons: firstly, the control of the provision component of the policy architecture changed from organised labour to the federal government. Secondly, the reform implied state control and implementation of future new standard eligibility rules for all insured workers, modifying particular legislation

and advantages of the IAPs. Thirdly, the benefits component of the policy architecture was uniformised for all retired people, and benefits definition (pension amounts and retirement rules) lacked the participation of these organised occupational groups in a formal procedure. Lastly, the new INPS modified the funding scheme, aiming to reduce the deficit that existed previously. The INPS took the different funds of the IAPs to achieve financial balance and consolidated tri-partite funding based on a PAYG scheme. In short, the inauguration of the INPS was the corollary of a long struggle between a policy elite, who promoted unification, and occupational groups, who enjoyed most of the benefits and advantages of a fragmented pension scheme by the mid 20th century. I agree with the argument developed by Pinheiro, who noted that '[t]he 1966 reform implied a victory for the IAPI experts, inspired by the Beveridgean paradigm, over corporatist interests. The reform was possible only because of the authoritarian environment, which led to an increase in administrative judiciousness and a decrease in societal participation in decisionmaking' (Pinheiro, 2005, p. 195).

2.2.4.a Non-contributory pension for rural workers (ProRural)

Since the 1960s, there were several attempts to expand the coverage of social security to rural workers. Firstly, begun in 1955 but not implemented until 1961, the Rural Social Service Foundation was the first attempt to provide social assistance for rural workers. Then, in 1963, the (FUNRURAL) was created after the approval of the Rural Worker Statute. As previously mentioned, the funding was taxation of 1% of the rural produce, which was not enough and limited social insurance benefits for these workers, including pensions. In 1967, the rural workers' benefits passed from the IAPI to the INPS, including medical and social assistance. In 1969, the dictatorship enacted the Basic Plan of Social Insurance (*Plano Básico da Previdência Social*), targeting rural workers of sugar cane and funded by payroll contributions paid by employees and payments by the employers. Probably, the incentive for the enactment of this rural pension scheme was to include these outsiders and increase coverage of social security in order to obtain popular support, in response to the national security doctrine and a patrimonial statecraft of authoritarian governments in Brazil. This process included the consideration of rural organisations pro-regime that were converted 'into organizations dispensing social services rather than articulating and pressing the interests of the rural masses. This regime has continued the strategy of pre-empting political and organizational space so as to increase dependence on the state' (Malloy, 1979, p. 131). As a result, the

expansion of access to include rural workers was partly in response to a long-standing issue of the policy architecture pushed by political considerations of military in power. Nevertheless, these initiatives failed to accomplish a sustainable plan of social insurance for rural workers, as the funding was not enough or did not include the vast majority of rural workers in Brazil (Beltrão, de Oliveira, & Pinheiro, 2000).

Between May 1971 and December 1974, the regime made a substantial effort to include rural workers in the social insurance scheme. Pinheiro develops a twofold explanation for this expansion of access to social security benefits during the authoritarian regime. Firstly, the increase in access to social security and other services for marginalised workers helped to diminish the social costs of the economic development strategy and to ensure the political concentration in the federal government (Pinheiro, 2005). Finally, the progress achieved during this period in expanding the coverage was a response to increasing state dependency of rural workers, who started to create organisations that were representatives of rural interests, prior to the rise of the regime in 1964. Consequently, the statecraft strategy of the dictatorship aimed to intervene in radical groups and develop a paternalist approach to extend its control over society through co-optation, regulation and citizen dependency.

In 1971, the Basic Plan of Social Insurance was replaced by Assistance Programme for Rural Worker (Pró-Rural) to deliver old-age and disability pensions, survivors' benefits, and access to healthcare, among other services. The implementation of this programme for rural workers was under the responsibility of FUNRURAL and regulated by the Complementary Law N. 11. The eligibility rules for accessing the old-age pension granted by Pro-Rural were a minimum age of 65, and the amount was equivalent to 50% of the minimum wage. On funding, the contribution rate passed from the old 1% rate on the value of the first sale of the rural product to 2.5%, plus the creation of a 2.4% rate on the urban payroll. These contributions are collected by the INPS but managed by FUNRURAL (Beltrão, de Oliveira, & Pinheiro, 2000). As a result, the pension scheme (FUNRURAL and INPS) in Brazil by the 1970s significantly expanded its coverage to reach 84% of the total insured population, with less segmentation than the previous institutional architecture based on CAPs and IAPs (Malloy, 1979). The scheme had two clienteles: urban and rural workers, who had different rules and benefits. Also, military, federal civil servants, state civil servants and federal savings and loan

employees remained with their social security funds, with higher benefits than private urban workers. Nevertheless, the more equal was FUNRURAL, which provided a flat rate for their beneficiaries which was not linked to the system's contribution time. Still, both were under the responsibility of the new Ministry of Social Security and Assistance. This segmentation remained for the following years, but was interrupted by the unique demands for universalisation of social insurance during the 1980s. These demands for universalisation and political openness resulted in the 1987 Constitutional Assembly and the enactment of the 1988 Federal Constitution, but with differences between the private and public sectors on social security.

2.2.4.b National Social Insurance and Assistance System (SINPAS)

In 1974, the Brazilian regime created the Ministry for Social Insurance and Assistance, and in 1977, Geisel's government established a consolidation of the institutional landscape related to social security and social assistance by creating the SINPAS. The SINPAS involved social insurance and assistance, following the unification and rationalisation of the institutions related to the organisation and delivery of benefits and medical services. It also included electronic data processing (DATAPREV) (de Oliveira & de Azevedo, 1985). As Leite showed, one of the reasons for this administrative reform was to unify some functions that were not adequately related to the delivery of benefits for the different clienteles of INPS, FUNRURAL and IPASE. Specifically, the purpose of Law No 6,439 was to reduce the duplication of functions that each social insurance institution performed, such as asset management, contribution collection and financial administration. Hence, the SINPAS aimed to redistribute the resources and increase the system's, efficiency by improving the administrative structure (Leite, 1978).

The social insurance scheme in the 1970s is marked by manifest attempts to universalise its coverage to domestic and rural workers, with a large share of the system revenue depending on contributions which mostly relied on urban workers payroll. Based on information from the Ministry of Social Security and Assistance, de Oliveira and Azevedo (1985) show that this share represented 83.4% of the total revenue in 1971, while by 1980, 91.6% of the total revenue was from social contributions. The figures of the average social contributions between 1971 and 1982 can be disaggregated: 96% of the mandatory contributions came

from the urban payroll, from which 1/3 were paid directly by the insured worker and 2/3 were from the employers' contributions. Finally, only 4% of the mandatory contributions were from taxation of rural production (de Oliveira & de Azevedo, 1985).

Regarding expenditure of the overall social security scheme, on average, between 1971-1982, 67.1% was directed to INPS benefits, including old-age pensions for urban workers, civil servants and rural workers. As a result, the bulk of expenditure increased dramatically, pushed by the high inflation rates and an aggressive increase in the real value of salaries (including minimum wage), which was the primary indexation for the adjustment to old-age retirement benefits. These two labour market variables, coupled with the economically active population's continuous growth, resulted in an uncontrollable rise in the current and future expenditure, and affected the pension scheme's financial sustainability. De Oliveira and de Azevedo (1985) showed figures to illustrate this point, arguing that between 1979 and 1981, the deficit represented as the percentage of the total revenues of the SINPAS passed from 1.3% to 14.2%, representing a swift and meteoric deficit that encouraged financial reforms to avoid bankruptcy of the social protection system in Brazil. To conclude, by the late 1970s and early 1980s, the expenditure structure had a high degree of rigidity. Demographic determinants and the gap with revenues were likely to continue growing in the mid-and late-1980s. This situation was followed by political difficulties in increasing the share of payroll contributions, curtailing benefits or increasing the funding participation of a highly indebted Federal Government.

2.2.5 1987 Constituent Assembly during the Brazilian democratisation process

In the late 1970s and early 1980s, the economic situation deteriorated. The dictatorship's political response was to start a process of openness to having an institutional way out of the growing pressure for open and democratic elections. In particular, during the early 1980s, Brazil suffered from high unemployment, deterioration of wage purchasing power, massive public debt and a high inflation rate. In 1981, after Brazil accepted the IMF economic policy recommendations of authority, the labour movement, business groups and political sectors demanded the country's re-democratisation. Besides, professional groups pledged the initiative for democratisation and the end of political repression; nevertheless, there was a

lack of consensus on the content of the new democracy and civilians' role in the future new government and main policies on social security and pensions.

The economic hardship had direct consequences on the pension debate of that time, as the new goal was to expand the contribution base from payroll to general taxation. This proposal aimed to provide sustainable funding sources which were not directly linked to the economic cycles of a volatile Brazilian economy. The unsustainable funding situation had a regressive impact on wages, pensions and social assistance benefits of the SINPAS. Hence, among technical experts, there was a deep need to find proper solutions for new funding sources and increase income redistribution through social policies (Matijascic, 2002).

However, as Mainwaring (1986) noted, the regime's political openness was decided due to its strength, not its weakness, by the early 1970s. In particular, the regime party has a landslide victory in the parliamentary elections in 1970, defeating the opposition grouped in the MDB (*Movimento Democrático Brasileiro*). In 1974, General Geisel announced a slow-motion process of political liberalisation that was not exempt from the tightening of authoritarian control from military dictatorship supporters. Notably, the breakpoint for diminishing political legitimacy was the electoral results of 1974, as middle-class sectors and affluent groups from the most developed regions in Brazil began to promote and demand greater political rights and oppose authoritarian abuse. By 1978, the opposition demanded the end of authoritarian practices, including torture, and the change of the two-party system established in 1965. The regime aimed to divide the opposition among different parties, increasing the chances of the emergence of a centrist party that could control them. After the gubernatorial elections of 1982, with important opposition victories in the most important states (including Rio and São Paulo), the democratic forces were able to topple the regime by 1983. Then, the government lost control of concessions and the presidential succession. This instability allowed the increase of the political opposition impacting the agenda-setting (Mainwaring, 1986).

The emergence of a new labour movement by the late 1970s and mid-1980s reinforced the values of autonomy, democracy and responsiveness from union leaders to the constituency. Based on these characteristics, the new labour movement aimed to differentiate itself from the old occupational-basis one which was linked to government administration and co-optation. Between 1978 and 1980, the new labour union led significant strikes, especially in

the industrial district of Greater Sao Paulo (ABC Paulista), triggering political repression of the regime and the incarceration of the union leaders, as the government invoked the National Security Bill. Hence, these new union leaders (including Lula da Silva) emerged aside from the old PDT and PTB parties and faced the challenge to survive during a political transition with new institution. As a result, the choice of a strategy for setting their demands in the agenda became crucial for their survival. Scholars like Payne (1991) argue that during political transitions, the new labour movement was weak due to the authoritarian period and did not utilise intransigent strategies for fulfilling their demands. Hence, during the Brazilian democratisation, the labour movement framed its needs through institutional channels such as the Constitutional Assembly and the Parliament (Payne, 1991) . Consequently, the new labour movement was fully involved in the debate on social security at the Constitutional Assembly of 1987, negotiating labour and social security rights within the forum, mobilising political parties and lobbying to accept their proposals.

In 1984, the breakpoint for the military regime was the eruption of a popular demand for a direct vote, represented on the banner *Diretas Já* for the future Presidential elections. This campaign was the primary input for the unity of the opposition with social movements, but they were defeated. The PMDB accepted the indirect Presidential election rules and set their efforts on winning delegates for the electoral college, in favour of Tancredo Neves. Surprisingly, he died before the presidential inauguration, and José Sarney took office. The coalition ousted the left-wing sectors of the government, forming a cabinet with moderate members of the PMDB and former civilian supporters of the military regime. As a result, after months of hope and unity for direct elections, the defeat of the Constitutional Amendment and the activation of political elites' negotiations, the democratic transition started with a revealing of the old patronage politics for cabinet formation and a proposal of a new Constitution to be written by the 1986 new Congress (Mainwaring, 1986).

2.2.5.a Pensions debate at the Constituent Assembly

Since the late 1970s, the new labour movement's demands, combined with the emergence of new urban sectors, pushed for greater social inclusion through rights-based social policies. The labour movement did not have a significant number of representatives, but they were

quite influential in lobbying for different topics to be included in the final text, particularly labour rights in direct alignment with progressive political parties (Payne, 1991).

In 1986, the Ministry of Social Security and Assistance formed a working group on the Social Security System's Reform in terms of funding and pension benefits. Four groups within that Committee were in favour or against the original proposal of universalisation of social protection, putting together healthcare, social security and social assistance in terms of funding and coverage (Wargas, 1998). Firstly, a group formed by retirees were against the universalisation of access, as they feared a detriment to the benefits and deterioration of the services (pensions and healthcare) because of the higher demand, defending the position of formal urban workers. Secondly, the conservative group was not in favour of the original proposal because of the political consequences of supporting a redistributive policy backed by the State and against the elite interest. Besides, they were cautious about establishing a power disequilibrium within the state apparatus in terms of funding, political importance and bureaucracy involved in managing healthcare, social security and social assistance. Thirdly, bureaucrats and technical experts at the Ministry did not support the original proposal as it was a perceived attempt to modify their institutional power in the Ministry. Lastly, the groups pushing for healthcare reform within the Ministry showed their differences, with the group pushing for a vast social security reform (Wargas, 1998).

These divergences continued during the Constituent Assembly sessions, and each group established direct links with political sectors with different strategies. For instance, conservatives were closely working with the *Centrão*, and social security experts worked as senior advisors for the Social Order Commission rapporteur. Nevertheless, the procedural rules forced the negotiation of the differences between progressive groups and moved forward to the systematisation Committees and Plenary Sessions of the Assembly. For this final stage, the final text was a broad one, and the *Centrão* utilised their support to negotiate further chapters of the Constitution, showing their flexibility on this matter as argument (Wargas, 1998). In sum, the policymaking process during the Constitutional debate was marked by a strategic consensus of progressive sectors in order to include social rights, such as social insurance, in the Constitution, and to defend the principles of universality, uniformity, funding diversity and non-discrimination (Draibe, 1992).

To conclude, the long-term trajectory of the Brazilian pension scheme has been characterised by a political struggle for generosity for insiders and access for outsider groups, as follows. During the first half of the 20th century, the main struggles were in establishing a set of attractive benefits for the core occupational groups of insiders as part of the statecraft process of modern Brazil. The access dimension for outsiders remained closed until the launch of the FUNRURAL, motivated by political drivers rather than solving issues of the policy architecture. Then, fiscal issues began to incentivise the discussion for introducing the standardisation and organisational unification of the occupational-based funds, clashing with the direct interests of trade unions of the public and private sectors. It is noteworthy that organised occupational groups were a crucial actor in pressuring for benefit expansion for their constituencies, and they crystallised the segmented nature of the pension scheme primarily inherited on contemporary pension policy architecture. However, the political incentives created by outsiders by the end of the dictatorship (1964-1984) had an impact on the establishment of a wide non-contributory pillar that offered the right to an old-age pension to informal and poor workers.

2.3 Chile

This section[1] aims to review the different reforms and attempts at modification of the social security system in Chile, focusing on old-age pensions. It starts by reviewing the origin of the social security schemes for specific occupational groups in 1924 (sub-section 2.3.1). Then, the section describes the establishment of the previous pay-as-you-go scheme established in 1952 by the creation of specific funds for blue and white-collar workers (heading 2.3.2). Then, this section reviews reform projects that were partially or totally rejected, such as the inclusion of rural workers in 1967 or the attempt at standardisation and administrative unification of several pension funds in 1969 (heading 2.3.3). In the 1970s, President Allende was unsuccessful in achieving the previous aims of administrative unification and standardisation of benefit rules and expanding coverage to independent workers (sub-section 2.3.4). This section continues by reviewing the pension modifications pursued during the

[1] Part of these contents were previously published as Vargas, L. H. (2018) "Reformas del sistema de pensiones en Chile (1952-2008)". Serie Políticas Sociales n. 229, Naciones Unidas, Santiago. That report was based on the doctoral research.

Pinochet dictatorship, such as those held in the late 1970s which targeted equity, access and generosity dimensions of universalism, such as the special minimum pension, the introduction of the non-contributory pension (PASIS) and parametric reforms to eligibility and benefit rules (sub-section 2.3.5). Lastly, sub-section 2.3.6 depicts the substitutive reform introduced in 1980-1981 that changed the funding scheme and nature of the contributory pillar by establishing a defined-contributions system of individual retirement accounts managed by private companies. Table 2-3 summarises these reforms (and the attempts at reforms) with the general descriptions and achievements in terms of the universalist dimension involved.

Table 2-3 Chile (1952-1981): Summary of pension reforms and outcomes

Reforms (year)	Comments
Blue-collar social insurance (1952)	Establishment of *Servicio del Seguro Social*, which was the largest pension fund in the system. In 1960, the estimated coverage was 52% of the Economically Active Population enrolled in the pension system.
White-collar social insurance (1952)	Introduction of service-time base for eligibility to old-age pensions.
Inclusion of rural workers (1967)	Rural landowners' economic and political decline allowed the extension of the application of social security norms to rural workers due to the enactment of the Peasant Unionization Law.
Defeated project to unify and standardise pension eligibility and granting rules (1969)	Bill that looked for changes to social security institutions and standardisation of their procedures. Attempt to establish a minimum retirement age and elimination of service-time base for eligibility.
Attempt to reform social security system (1972)	Rejection of attempt to modify the funding mechanism of pensions, uniformisation of benefits and unification of institutions. Success in the inclusion of independent workers by the foundation of Merchants, Small Industrials, Carriers and Independent Workers. However, the Pinochet dictatorship established after the 1973 Coup d' Etat shut it down.
Special minimum pensions, Decree Law 446 (1974)	Establish a minimum pension for those who cannot meet the age requirements for minimum guaranteed pensions granted by the Social Security Funds, with an equal amount for all retirees receiving this minimum pension.
Non-contributory pensions (PASIS), Decree Law 869 (1975)	A new non-contributory old-age pension started, with limits on beneficiaries who had to certify their living conditions to continue receiving this pension. Also, it had coverage limits according to each local district, creating waiting lists.
Decree Law 2,448 (1979)	Elimination of service-time base for old-age pension eligibility and establishing mandatory minimum age for retirement (65 for men and 60 for women). Standardisation of the indexation mechanisms of the pension amounts, except for the Armed Forces and Police. Elimination of "*perseguidoras*" pensions.
Decree Law 3,500 and 3,501 (Creation of a new old-age pension system of defined-contributions	After five years of implementation, 45.9% of occupied workers contributed to their retirement accounts, and 11% remained in the old system. Informal workers were not entitled to a mandatory contribution (only 4.8% were active contributors). The overall coverage was 51.6% of the labour force.

with private management of individual capitalisation accounts (1981)	The pension amount will depend on the individual labour trajectory and the accumulated savings with the returns. The reform created the Guaranteed Minimum Pension and included the PASIS, whose amount represented 1/3 of the minimum pensions.
	Benefits rules were standardised, and the amount will depend on savings capacity and the total balance. Hence, cross-subsidies and solidarity did not exist as savings were based on highly unequal and intermittent labour conditions trajectories.

Source: Author.

2.3.1 The origins of social security in Chile (1924-1952)

In Chile, the origin can be traced to the first laws targeted at covering old-age pensions, disability and survivors' allowances to members of the Army (1855), Navy (1866), and civil servants (1888). Likewise, in 1858 the Savings Bank of Public Employees was founded, being the first institution of private law in Chile, which sought to promote savings and the well-being of its members. Moreover, this organism was the first aimed at fostering savings with contributions of the State to individual accounts (Comisión de Estudios de la Seguridad Social, 1964). Then, the railroad workers were a powerful group and in 1911 a law was enacted to ensure retirement pensions, with a modification in 1918. They created the Retirement and Pension Fund of the State Railways (*Caja de Retiros y Previsión de los Ferrocarriles del Estado*), which was the legal and organisational background to establish, in 1924, a savings system of bipartite contribution to ensure the payment of retirement or old-age pension for private employees.

Specifically, between 1921 and 1924, several attempts were made to create a modern social security system which would include benefits to protect for old age, disability, and sickness, among other risks. Is important to highlight the importance of two bills that were introduced to the Parliament. The liberal bill was inspired by the French social security system and was drafted by Moises Poblete, as part of President Alessandri's Labour Code bill. This project aimed to create a national insurance system for blue and white-collar workers to have access to 'a full range of benefits for both the disabled and the able-bodied unemployed' (Borzutzky, 2002, p. 47). Contrarily, the conservative bill was based on the German experience of the Bismarckian system on pension and other benefits by occupational groups. Ezequiel González proposed implementing a pension system oriented to blue-collar workers which meant lower economic and political costs than the liberal one.

Neither bill was discussed in Parliament because of the commitment to creating a modern Labour Code. However, young Army officials were not satisfied with the slow response to social security security issues of their concern. On September 4th, 1924, parliamentarians were debating a salary raise, and a group of young officials were watching this debate. They started to rat their sabres to the floor on their way out of the building (this episode is known in Chilean history as *Ruido de Sables*) symbolising the support of President Alessandri's social agenda being paralysed in Parliament.

Therefore, between September 8th and 9th, the Parliament approved a set of bills, including the new law 4,054 that regulates establishing the blue-collar workers' pension system. This law reinforced 'the divisions within the working class, emphasized state control over the unions and the social security systems, and provided benefits only to selected groups within the working class' (Borzutzky, 2002, p. 48). In 1925, a Military Junta took over the government in Chile and set the basis on which the defined benefit pension system, financed under a pay-as-you-go system, would prevail until 1981. This temporary government created the Armed Forces Fund, the Police Fund, the Private Employees Fund, and the Public Employees Fund. A common feature was that these Savings Banks administered the contributions made by employees and employers, while there were representatives of the beneficiaries on their boards of directors. Likewise, these new Savings Banks reflected a conservative vision of social security, marked by a customer relationship between the beneficiaries and the political parties to achieve wider coverage and generosity of pensions and other insurances against occupational risks that affect their generation (Borzutzky, 2002).

Thus, pensions during this period experienced a sustained expansion in coverage and benefits. This expansion responded more to union actions and professional associations, rather than an explicit government policy. The most advantaged groups were those with easy access to the Executive or Legislative power to present their demands and obtain political support for their approval and implementation, creating and consolidating internal inequalities and a multiplicity of institutions in charge of administration (Raczynski, 1994).

In 1925, a Military Junta took over the government and created four new funds that would be the pension system base until 1981. This temporary government created the Armed Forces Fund, the Police Fund, the White-Collar Fund and the Civil Servants Fund, with a standard

feature which combined employer and employee contributions that Funds would administer with an appointed board of directors, partly representatives of the beneficiaries. These Funds crystalized a conservative approach to social security where beneficiaries became the clients of political parties to achieve broader access and generosity of pensions and other insurance against risk.

The background of the 1952 reform, which shaped a national system of defined benefits with pay-as-you-go financing (to be studied in greater depth in the next section), dates from this period when different bills were entered that had a lengthy parliamentary debate. For example, in 1941, a bill was introduced to reorganise social security for workers in institutional and benefit terms. That reform sought to create new benefits, such as survival pensions, illness, maternity benefits, and the worker's family's coverage in health services. The institutional modifications involved the National Health Service and the Social Security Service (SSS) foundation, both for managing these new benefits. Furthermore, the reform for private employees was introduced as a bill in 1948, establishing that a person was eligible to receive an old-age pension after 35 years of service. Lastly, the pay-as-you-go financing system was implemented due to macroeconomic problems (high inflation rates) and low returns on investments for capitalisation of funds.

To sum up, the conservative organisation of pensions along occupational groups derived from the fragmentation of social security within a multiparty democracy that organised the Chilean party system between 1932 and 1973. Furthermore, this legislative dilemma between conservative and liberal options did not align with the growth of socialist, Christian humanist, workers, and radicals, among other political alternatives. Therefore, the expansion of the pension system responded to ‘a process of subdivision of the working class and of the original funds into various units, each seeking to expand the number and quality of the benefits received. The expansion was piecemeal by way of legislative concessions of benefits to one small group after another’ (Borzutzky, 2002, p. 49).

2.3.2 The modern separate defined benefits system in Chile (1952-1981)

The system that started in 1952 was organised on around 35 Funds or *Cajas de Previsión Social*, which were semi-public institutions in charge of managing the contributions from

workers, employers and the State. The main beneficiaries were formal workers who were affiliated, mainly, to the following Funds, according to their occupational group:

1. Social Security Service (*Servicio de Seguro Social* – SSS) directed at blue-collar workers
2. The Private Employees Fund (*Caja de Empleados Particulares* – EMPART), which received contributions from private white collars
3. The Civil Servants and Journalists Fund (*Caja de Empleados Públicos y Periodistas* – CANAEMPU)

The funding mechanism corresponds to a tripartite contribution on a percentage of workers' wages, varying according to each Fund, detailed in Table 2-4.

Table 2-4 Chile (1968): contribution rates according to occupational group and funding source (in percentages of wages).

Occupational group	**Employee**	**Employer**	**Status**	**Total**
Blue-Collar Workers (SSS)	6.5	12.5	[a]	19
White-Collar Workers (EMPART)	8.5	16.8	[b]	25.3
Civil Servants (CANAEMPU)	10.5	Between 4.5 and 18.8	[c]	Between 15 and 29.3
Armed Forces	8.5	0.5	[d]	9
Merchant Fleet	Between 0 and 11.5	Between 10.5 and 13.8	[e]	Between 10.5 and 25
National Railways	6	6	[f]	12
Municipal officials	Between 8.5 and 11.5	Between 12 and 30.5	[g]	Between 20.5 and 42
Banking workers	Between 10.5 and 11.5	Between 17.5 and 23.8	[h]	
Racetrack workers	Between 5.5 and 10.5	Between 13.8 and 18.8	[i]	Between 19.3 and 29.3

Source: Mesa-Lago (1978)

Notes: [a] Taxes: 2% of payments from the government and municipalities; [b] Taxes for artists' phones: the State fully finances 5% of the value of tickets for cinemas and theatres; [c] Pension readjustment. There are also taxes for notaries (on public documents). For private lawyers (on legal documents, stamps, etc.) and for journalists (1% -4% on bets on racetracks and 5% on tickets to entertainment venues). The State also contributes 4% of the income of notaries public and judicial employees, 5% of legal clerks and 14% of tax collectors. The employer contribution ranges from 0% to 14%; [d] The State absorbs the entire cost of the deficit generated in this fund. For the military and police, the State pays 75% of the readjustment of pensions; [e] Taxes for customs agents (on imports and exports), for officials and professionals (2% on freight and passenger rates) and sailors (1% on the same); [f] contribution of 1.5% of the income of the railway company; [g] The largest contributions from employers are in the funds for professional municipal officials of Santiago and Valparaíso; [h] contribution of 0.25% of deposit balances in commercial banks every six months; [i] 9.95% tax on wagering for the professional racetrack workers fund.

These contributions were made by active workers and finance the pensions of passive workers belonging to the same Fund. Retirement ages vary according to the Savings Banks and range from 65 years for men and 55 years for women belonging to the Social Security Service, 55 years for journalists and 50 years for bank workers. Likewise, there are different criteria to qualify for the old-age pension, and it ranges from 1,040 weeks for members of the Armed Forces to 52 weeks of contribution for workers belonging to the Private Employees Fund. Finally, seniority pension benefits were provided for workers with 35 years of service for men and between 25 and 30 years of service for women of the Private Employees Fund, passing through requirements of 20 years of service for members of the Armed Forces and journalists, up to only 15 years for members of Congress (Mesa-Lago, 1978).

Based on these parameters, the defined benefit pension was calculated as an established percentage of the average of the last salary. According to Mesa-Lago (1978), the usual practice to access higher amounts was to increase the worker's salary in the previous period of his active working life and thus be able to increase the average that enters the benefit calculation, where the percentage Final was from 50% to 100% of that average. The number of months used to calculate the pension amount varied from the 60 months before retirement to the average of the wages of the last 36 months for the Fund of Public Employees and Journalists, the merchant marine, and bank officials. For the Armed Forces, the pension was computed based on the percentage equivalent to the official's last wage.

During the 1950s and 1960s, several modifications were introduced to expand the coverage to family allowances and health insurance to passive members of the system. The Klein and Saks Mission, entrusted by the second term of Carlos Ibañez del Campo (1952-1958), prepared a critical report about the pension system and policy proposals. In this report, the Mission found that the inequality in benefits reflects the pressure of small groups that have achieved the approval of thousands of laws amending the original legislation (Misión Klein & Saks, 1958). In this sense, a central aspect of his recommendations was to adopt a social security system with a unified administration and separate social security functions to those of social welfare.

The Prat Commission was hosted by the Ministry of Labour and Social Security, working between 1959 and 1964. The Commission published a report that diagnosed the Chilean

pension system, its different rules and other Social Security benefits. Also, it proposed a global reform following the guidelines of social security covenants (Comisión de Estudios de la Seguridad Social, 1964). To be specific, this high-level commission was a critic on 'the anarchical nature of the system, the lack of coverage of large sectors of the society, the inequalities, and the high cost of the system' (Borzutzky, 2002, p. 98). This Commission reported the regressive impact of the social security on income distribution due to the cross-subsidies from non-insured and blue-collar workers (Mesa-Lago, 1978).

For instance, Mesa-Lago shows the degree of protection among different types of workers by 1964, available in Table 2-5. He concludes that '92 percent of the salaried employees and 90 percent of wage-earners were insured, but only 14 percent of the self-employed and an insignificant percentage of employers and unpaid family workers' (Mesa-Lago, 1978, p. 44). This reflects a deficit in coverage of important occupational groups by that time. This was officially recognised by Prat Commission, which stated that self-employed workers are practically on the margin of social security benefits.

Table 2-5: Chile: Coverage of social security by Occupational Group, 1964 (in thousands and percentage)

Class of Worker	**Labour force *(in thousands)***	**Insured *(in thousands)***	**Percentage insured**
Salaried	534.8	489.6 [b]	91.5 [b]
Wage-earners	1,464.4	1,315.8 [c]	89.8 [c]
Self-employed	655.2	90 [d]	13.7 [c]
Employers	35 [a]	[e]	[e]
Unpaid family workers	40 [a]	[e]	[e]
Not specified	70.6 [a]	[e]	[e]
Total	2,800	1,895.4	67.7

Notes: [a] Disaggregation of a clustered figure of 145,600 for these three categories, based on distribution from the 1960 and 1970 censuses; [b] All insured in white-collar, civil servant, and armed forces funds minus the self-employed; [c] All insured in blue-collar funds (including domestic servants) minus the self-employed; [d] Estimate of self-employed insured in SSS (about 67,000) and in CANAEMPU (23,000); [e] A small number of these workers could be insured by other funds.
Source: Mesa-Lago (1978) based on official statistics.

In terms of benefit inequalities among the different occupational groups, Mesa-Lago concludes that 'the highest pensions were paid to the armed forces, followed by white-collars, and civil servants, with blue-collars at the bottom. Some small funds such as amortization, banks, and municipal (civil servants) had an average per-capita pension five to eight times higher that of SSS (mostly blue-collars)' (Mesa-Lago, 1978, pp. 63-64). Table 2-6 shows this

information in a disaggregated form, displaying he average annual pension as a proportion, according to the occupational group.

Table 2-6 Chile: Average yearly pension amount ratio by occupational group, 1967

Occupational Group		**Ratio** [a]
Blue-collars		**1.1**
	General (SSS)	1
	Merchant Marine	2.5
	Municipal	1.3
	Racetracks	1.5
	Water	--
White-collars		**3.2**
	General	3.9
	Merchant Marine	3.4
	Journalist	1.4
	Bank	3.2
	Special Funds	1.9
	Racetracks	1.1
Civil Servants		**2.1**
	General [b]	2
	State Railroad	0.9
	Banks	5.3
	Municipal	5.4
	Water	3.7
	Amortization	8.5
Armed forces		**3.5**
	Military	3.7
	Police	3.2
Total		**1.7**

Notes: [a] Ratios of average pension per capita (total) in relation to the lowest average per capita, that of SSS; [b] Data from December 1966. Due to inflation the figures should be increased by 10-20 percent.
Source: Mesa-Lago (1978), based on official statistics.

Therefore, since the origin of the modern social security system, the coverage and allocation of benefits were significantly unequal among the different occupational groups due to their capacity to establish strong or soft political obstacles. This situation is a negative consequence of the different pressures to achieve a massification of privileges to specific groups linked to political parties. As a result, 'the prescription for the ills of inequality and excessive costs of the Chilean system of social security is unification and standardization. But successive democratic governments (i.e., Conservative, Christian Democratic, or Socialist) were not capable of implementing the needed reforms' (Mesa-Lago, 1978, p. 69). On the other hand,

Parrish and Tapia-Videla (1970) point out that Chile's social security system was functional for political stability. Still, at the same time, it had a potential impact on the establishment of more acute class struggle, due to the fact that the establishment of generosity in pensions in the middle sectors had been carried out at the expense of the working-class sectors.

2.3.3 The failed reforms of Eduardo Frei (1964-1970)

In 1965, President Frei (Christian Democrat) started his commitment to introducing comprehensive reforms to the pension system to improve the situation analysed by Prat Commission. He prepared proposals utilising administrative instruments to expand the coverage to the rural sector, and unsuccessful legislative proposals for substantive reform.

Firstly, this expansion of the pension system to rural workers coincided with the decline of landowners' power in national politics and a commitment to improving peasants' labour conditions. Secondly, the origin of the legislative attempts was a report commissioned to a social security expert, Patricio Novoa. This reform aimed to obtain similar benefits, obligations, and coverage among the different occupational groups of the labour market. Specifically, the reform sought to reduce the contribution rate by eliminating pensions based on years of service and the so-called *perseguidoras*[2]. Furthermore, the bill proposed reducing attributions for Legislative on the creation of Funds and specific benefits that would favour specific organised groups in terms of pension benefits.

According to Borzutzky (2002), in 1966-1967, the political debate and efforts were considerably concentrated on the Agrarian reform and a new Copper Agreement. Then, there were no proper political conditions to introduce a pension reform bill to the Congress, marked by strong left-wing opposition and division in the incumbent Christian Democratic Party. As a result, the bill's introduction was postponed, but the contents were leaked and confronted by strong opposition from the Congress and labour unions.

The new strategy was to introduce a reduced version in 1969 that aimed to make requirements for old-age pensions more uniform, create a new family allowance fund, finish the *perseguidoras* pension, and allow Executive to modify contribution structure to declare

[2] The amount of this pension was adjusted according to the salary of the position occupied by the retired.

incompatible pensions. The Parliament partially approved this bill, but it 'failed to reform the system as the administration had hoped, but at least it would set the basis for the elimination of its major vices' (Borzutzky, 2002, p. 115).

Likewise, in 1969 President Frei made public and robust criticism of the state of Chilean social security, particularly old-age pensions, in the official public account to the Congress. In the last year of his mandate, President Frei gained the approval of a constitutional reform, where he established that any modification to the law that implies modification to social security would turn out to be the exclusive prerogative of the Executive. Hence, he successfully removed the legislative initiative to create bills in this policy area, achieving more significant control of public finances on pensions (Desourmeaux, 1998).

In conclusion, the government of President Frei was successful in extending pension coverage for rural workers based on administrative instruments issued after the enactment of the Agrarian Reform. It reinforced the rights to social security and collective bargaining of peasants, a minimum wage and legalisation of rural organisations and unions (Mesa-Lago, 1978). Nevertheless, there was scarce progress towards improving the equity dimension of universalism and reducing fragmentation. This failure is because the standardisation of benefits and rules suffered from strong opposition from the left-wing parties in the Parliament and trade union representatives.

2.3.4 Allende, the expansion of pension values and blocked initiatives (1970-1973)

During the 1970 presidential campaign, which marked the election of Salvador Allende (Socialist Party) as President of Chile, the state of the pension system was one of financial and administrative complexity. In general, the objective for a profound intervention was to avoid the bankruptcy of social security and to get rid of increasing budgetary pressures for more resources. The former was familiar to the three presidential candidates, who strongly criticised the system and proposed radical changes to its operation. Nonetheless, politicians' general opinion was to homogenise and centralise the administration, maintaining the pay-as-you-go funding scheme (Marcel & Arenas, 1991). The new government of Salvador Allende (1970-1973) agreed to reform social security and pensions with the main labour union confederation (*Central Unitaria de Trabajadores* – CUT). The agreements related to social

security aimed to increase pension amounts by 100%, the participation of workers' representatives in social security funds, and new benefits for blue and white-collar workers, among other initiatives.

In 1971 the government introduced a five-year economic plan. Regarding social security, this plan pursued a pension reform to expand coverage, uniformise benefits, raise minimum pensions equivalent to minimum wage, and finance social security via direct taxes, among other measures. However, this plan was partially executed, because 'the implementation of these measures would have involved a total transformation of the social security system and the creation of a welfare state' (Borzutzky, 2002, p. 139).

Besides these programmatic announcements, the government began to promote changes utilising traditional policies. Borzutzky (2002) noted that Allende's political strategy involved creating a new social security fund to expand the benefits to middle-class sectors to get political support from them, which was crucial for its survival. Therefore, this responded to the need to build a multiclass alliance and Allende had new attributions for establishing new rules on social security due to the Constitutional Reform of 1970. Allende's failure to implement changes to blue-collar workers was a result of the desire not to hurt workers' acquired rights and insufficient political support.

In summary, the modifications to the pension system carried out by the government of Salvador Allende focused only on the coverage expansion to formerly-excluded independent workers, but did not change the stratified and discriminatory nature of the Chilean social security system. The main objective of these modifications was to expand his government's social support, with new benefits for middle-class workers, Armed Forces and Police. In addition, the politics of pensions sought to ensure guarantees for 'the maintenance of the privileged systems of those organized workers and employees whose support the government required in order to carry out some of the structural reforms' (Borzutzky, 2002, p. 142).

2.3.5 The first stage of Pinochet: the internal debate and preparation of the private pension system (1973-1980)

After the coup d'état of 1973, the Military Junta began to enact decrees to conduct major reforms with inexistent opposition from political parties, labour unions or other organised groups. These decrees were parallel to the regime's request to the Social Security Superintendence and to the National Planning Office (ODEPLAN) for policy proposals to reform the pension system. Both agencies drafted their reports with opposite views about the design, funding, and institutions to implement a new pension scheme. On the one hand, Superintendence´s report pushed for a new system managed by the state, unifying the administration and benefits, and eliminating the inequities described above. On the other hand, ODEPLAN 'called for the replacement of the existing financial structure with an individual capitalization fund, the creation of private institutions charged with the administration of the individual capital accounts, and the investment of those funds in private capital markets' (Borzutzky, 2002, p. 205).

In 1975 the dictatorship drafted a bill that combined the two reports made by ODEPLAN and the Social Security Superintendence. This bill was known as "*Anteproyecto del Estatuto Fundamental de Principios y Bases del Sistema de Seguridad Social*", announced in November 1975, and is the legal precedent of the substantive pension reform of 1981. During the discussion between the Junta and their advisors, there was a clash of positions between corporatists and neoliberals about the reform's direction. This situation was favourable to the government's neoliberal sector when Sergio Fernández was appointed as Minister of Labour and Social Security in April 1976. The bill was completed in August 1977 and reappeared in early 1980 when Mr Piñera was appointed as Minister and ignored that bill's existence (Borzutzky, 2002).

The debate about the pension reform must be contextualised by the government's ambitious agenda starting in 1979. This agenda, called the Seven Modernisations, aimed to enforce Chilean development by promoting individual freedom of choice through the handover of public responsibilities from the State to the private sector. Ideally, the State's intervention in the provision of public goods should be limited to direct provision to the most disadvantaged groups of the population. Foxley (1982) stated that these modernisations were in seven areas:

labour relations, social security, health, education, regional decentralization, agriculture, and judiciary apparatus.

According to Arellano (1985, 1988) these reforms focused on privilege reduction and uniformised the dispersed pension system formed by 35 funds, 150 programmes and more than 2000 normative texts. For instance, in 1974, the government set a single minimum pension, eradicating occupational groups' differences. Later in 1975, the government issued the Decree-Law 869, which targeted non-contributory pensions to the poor population older than 65 years. It included up to 200,000 people excluded from the pension system, but the amount represented one-third of the minimum pension (Gana, 2002).

In contrast, the main difficulties for retired people during the first years of the Military Junta was a swift and significant reduction in the real value of their pension amounts. Arellano (1985) stated that between 1973 and 1982, the pensions lost 26% of their purchasing power, compared to the real value of the period 1969-1970. This was caused by an inadequate readjustment mechanism combined with an economy characterised by high inflation rates and low public expenditure on pensions.

Table 2-7 breaks down the devaluation of pensions according to occupational group. On the one hand, the most damaged group is the white-collar employees from the private sector, losing 33.6% of their pension purchasing power between 1970 and 1980. On the other hand, the amounts of the pensions received by the Armed Forces' retired personnel and the Police experienced a reduction in the purchasing power in 1975. However, in 1980 the amounts increased by 42.9% compared to the average pension in 1970.

Table 2-7 Pension as percentage of the average pension amount (1965-1980)

Year	Blue-collar private sector	White-collar private sector	Civil servants	Armed Forces and Police
1965	49	128	90	203
1969	52	131	170	212
1970	49	116	168	245
1971	50	94	153	293
1972	52	94	130	338
1973	57	67	127	346
1974	51	68	146	361
1975	53	77	157	283

1976	54	75	152	334
1977	52	77	131	370
1978	56	74	131	335
1979	49	88	150	332
1980	46	77	148	350

Source: Arellano (1985)

In 1979, the government introduced the Decree 2,448, which modified some parameters of the pension system and saw, as a result, a substantive reduction in government expenses. The government suppressed the old-age pensions determined by years of service and set new ages for retirement: 60 for women and 65 for men. Therefore, most of the workers would contribute more time to funding the system, and would spend fewer years in retirement, leading to an increase in the pension amounts. Also, mostly explained by the extreme political power concentration in the Junta, the *perseguidoras* pensions were eliminated. Most of the unjustified privileges of pensions from specific occupational groups were eradicated, and there was a uniform adjustment to the living costs (Mesa-Lago, 1985). Therefore, that adjustment meant an important source of savings for the system's financial sustainability (Arellano, 1985). In conclusion, this parametric reform meant making the pension reform carried out in 1980 viable, as these topics did not have an extended internal debate. It established a much lower contribution rate than the existing one and calculated replacement rates that were somewhat higher in the absence of a mandatory minimum age to qualify for old-age retirement. In this way, this decree decompressed the debate, leaving only for the scrutiny of the participants the industry's design, the administration of pension funds, incentives to promote the transit of beneficiaries to the new system and access to pensions under the new regime.

In sum, the reforms carried out between 1952 and 1973 attempted to advance the system's coverage, equity, and generosity. Still, the expected results were partially achieved due to political opposition from parties, unions, and other organised groups such as the Armed Forces members. However, the modifications that were possible to make during the first stage of the Pinochet dictatorship were approved, without the possibility of any political opposition, and were aimed at reducing the main privileges that some occupational groups had maintained since the origin of modern social security. However, both in the previous period and in the Social Security Reform of 1980, the military social security system remained

unchanged and with separate regimes with superior benefits, and was mostly financed by the public treasury (Rulli, 2012).

Regarding coverage, more than 60% of the workforce was listed in the pension system, maintaining significant differences with those occupational groups that had greater pressure power. The main differences were in terms of generosity and equity due to the system's organisation and nature. Regarding generosity, benefits were significantly more generous for members of the Armed and Order Forces and professional public officials, leaving workers in a situation of lower amounts. Likewise, during a large part of this period, rural workers remained excluded until the political conditions to dictate an administrative measure for their incorporation were adequate.

2.3.6 The radical Chilean neoliberal pension reform

As most of the literature states, Chile was the first country to implement a fully private pension system, based on contributions of the employee to individual retirement accounts that were managed by private companies (*Administradoras de Fondos de Pensiones* – AFP). The private managers can invest these funds in infrastructure projects and in the national stock exchange market to obtain a utility that would benefit the balance of the retirement account.

José Piñera was appointed as Minister of Labour and Social Security in 1978 with three specific tasks: to reform the social security system, to institutionalise a new system of labour relations, and to lead and coordinate the economic and labour sectors of the government (Borzutzky, 2002). Starting with the social security reform, he created a commission to draft a pension reform based on the proposals of the 1975 ODEPLAN's report, such as 'the principle of subsidiarity of the state in the administration of the funds, the reduction of the principle of social solidarity, and the elimination of the portion of the social security tax paid by the employers' (Borzutzky, 2002, p. 210).

This commission was made up of two technical teams related to the Military Dictatorship's economic ideology. On the one hand, a team oversaw the new system's core decisions and was formed by Hernán Büchi, Alfonso Serrano and Martín Costabal. On the other hand, a technical team was created that drafted the project to be presented and sanctioned as law,

made up of the people mentioned above and expanded by the participation of Luis Larraín, Renato Gazmuri, Patricio Mardones, Roberto Guerrero, María Teresa Infante, Margarita Hepp and, as a guest, Miguel Kast (Piñera, 1991).

The process of preparing the proposal for the new Chilean pension system had two stages. The first was developed in 1979, with the bill's preparation and the beginning of the convincement of the members of the Military Junta. This process was officially announced on May 1, 1980, and encountered some opposition from sectors of the government, including from the nucleus closest to Pinochet, such as the uniformed members of the President's Advisory Council. However, the main allies to the reform project were the Ministry of Finance and the Budget Directorate. Nevertheless, the project was shelved around mid-year to focus the government's agenda on the new political constitution's approval, which occurred in August 1980 (Piñera, 1991).

When the pension reform debate was resumed, Minister Piñera established strong alliances with some Governing Board members. Still, the Advisory Committee continued with its concerns regarding the loss of state power by transferring the pension administration to private entities. In October 1980, the differences with the Army were overcome, and a transitory article was established that would create a mixed commission to study the eventual entry of the Armed and Order Forces into the new pension system. Within six months of the new pension system's approval, this working group was to issue a final recommendation on the advisability or inconvenience of including the armed forces in the new provision (Piñera, 1991). It should be noted that Piñera resigned from his post as Minister of Labour on December 29, 1980, and that Mixed Commission was never called, so the advisability of transferring the Armed and Order Forces to this new pension system was not reviewed.

This new system started in 1981 and was initially regulated by decrees 3,500 and 3,501 (published in November 1980), drafted by a team of economists from the Ministry of Labour and Social Security, led by the Minister José Piñera. From 1983, the new employees had to contribute to the new pension system in a mandatory way, where they could choose which AFP was a better fit for their interests. The Armed Forces and Police Fund's affiliates were not included in this new pension system, and they are still subject to the old pay-as-you-go system (Arellano, 1985). The decrees stated that when the active worker retires, they must select

between two retirement plans: 1) scheduled withdrawal, a monthly withdrawal from the accumulated funds until they are completed. The amount is calculated yearly depending on the available funds, the life expectancy of the retired person, fund returns, among other variables; and 2) annuity, where the pensioner must contract old-age insurance, and he will receive a fixed monthly pension (the amount is adjusted according to the variation in the consumers' price index).

The transition to the new system took five years (until 1986) and had significant incentives to change from the pay-as-you-go to the new one for active employees. Firstly, the State paid an Acknowledgment Bond (*Bono de Reconocimiento*), to recognise the past contributions. This bonus paid 2.9% of the necessary capital to obtain an old-age pension equivalent to 80% of the taxable income registered from June 30th, 1978, to June 30th, 1979. Secondly, the new system offered a significant reduction in the contributory rates, which translated into an improvement, on average, of 17% of the net income (Arellano, 1981). Although these incentives could be applicable to the entire workforce, the government stated that reducing monthly contribution rates and improving the net income was only available to those who opted for the new system.

The 1980 pension reform sought to decrease the role and costs associated with the State's participation in the administration and payment of pensions. In this way, the transition costs from the pension system were estimated based on the remaining commitments of the old system, the Recognition Bonds, the financing of welfare and solidarity pensions, the funding of pensions of the Armed and Forces, and the administration and payment of the Minimum Pensions with a State Guarantee. These meant a significant fiscal discipline effort that contradicted the first estimates that predicted a transition cost that would quickly converge to zero cost for the Treasury. Arenas (1999) established that the new system meant a fiscal deficit equivalent to 3.8% of GDP in 1981 and reached a maximum of 6.1% of GDP for the year 2000, but would involve substantial fiscal commitments equal to 3.3% GDP for the year 2040. Borzutzky (2005) states that the reform failed to meet the sustainability criterion and that it involved budget reallocations in financing the deficit. Consequently, if the new pension system's cost was double in 1999 compared to 1981, it is worth asking about the validity of the arguments regarding obtaining fiscal relief through the pension reform.

On the other hand, there were recommendations regarding the implicit debt, which involved a change to the pension system. Mesa-Lago defines the implicit pension debt as the sum of the present value of benefits paid to current pensioners plus the present value of pension rights that current insured workers have already acquired (Mesa-Lago, 2000). According to Bravo and Uthoff (1999), the implicit debt reached around 130% of the GPB, forcing the payment of this deficit through equivalent expenses that fluctuate between 2% and 5% of annual GDP for 40 years.

The pension reform redefined the role of the State by establishing the roles and responsibilities of two new institutions: Pension Fund Managers Superintendence and Social Security Normalisation Institute (Instituto de Normalización Previsional – INP). This new Superintendence was in charge of supervising the AFPs, controlling their commission structure and regulating pension funds, among other tasks related to the creation of a competitive sector. According to Borzutzky, the political reason for this new agency is 'to create an institution responsive to the needs and ideas of the neo-liberal economists and to put an end to the life of the old Superintendencia' (Borzutzky, 2002, p. 219). The Social Security Normalisation Institute assisted the transition from the old to the new system, through the administration of the contributions accumulated in the old system and depositing them in the new individual retirement accounts. Furthermore, the INP directed the old multiple Funds into a single and centralised one and administered the Recognition Bond.

In conclusion, the new pension system radically changed the basis of social security in Chile. The pension amounts in the old system would depend largely on the salary growth rate. However, the new one is largely based on the capital markets growth rate, which in a country like Chile, is highly unstable and mostly depends on the investors' confidence. Therefore, the new pension system exposes large amounts of savings to a high-risk environment and gives power to a small number of economic actors. Arellano (1985) was one of the first experts to argue that this reform meant a loss of sovereignty, leaving a large amount of financial resources in the hands of corporations that had active participation in and control of the Chilean financial market.

In sum, this reform tackled the situation in terms of coverage and equity by eliminating organised civil pressure groups' social security privileges, while maintaining the scheme for

Armed Forces members. This was also possible through the extreme political power concentration of the government, with unions and political parties banned from public activity. Supporters of the system argued that the new private pension system established a direct relationship between efforts during working life and benefits to be received once the contributor receives an old-age pension (Piñera, 1988; Cheyre, 1988). Arellano (1988) contradicts the abovementioned argument, stating a decrease in pension coverage in the system's first years of operation and an inefficiency in the industry due to the high operating costs paid by the affiliates. He also argues that discrimination existed against people who did not switch to the new system because they did not have a lower mandatory contribution rate, resulting in a lower net wage.

2.4 Conclusions

To conclude, both pension schemes have a trajectory marked by issues concentrated on equity and access dimensions of universalism. The segmentation is partly explained by the action of benefits and funding components of the policy architecture during a vast part of the 20th century. In Chile and Brazil, the architecture's original organisation was around several occupational-based social insurance funds that gave coverage, funding schemes, and benefits to social insurance, including pensions, to formal workers in critical economic areas and the public sector. In parallel, there was the emergence of the so-called social question (*cuestión social*) which was an attempt to overcome a political order led by the primary-export related economic and political elite. This wave of grassroots mobilisation was triggered by the expansion of working class on export-led economic sectors influenced by European labour movement organisation, leading to new working-class protests and demands (Collier & Collier, 1991). Since then, there has been a continuous process of access expansion, to include blue-collar urban workers who did not belong to economic areas linked to the primary export sector but gained more importance as countries' development began to be based on import substitution industrialisation. As a result, the expansion of access did not involve tackling the equity dimension of universalism for the following reasons.

Political parties began to establish strong ties with different organised occupational groups, particularly relevant for further calls for increasing benefits or expanding access to the contributory scheme by establishing a new provider for specific groups. The incentives to

legislate were crucial to reproducing segmentation and inequities among workers, as the process of expansion lacked uniformisation in terms of benefits and funding mechanisms and management. This segmented coverage expansion process was electorally relevant as it strengthened the ties between political parties and their core constituencies due to progress in this area. However, these diverse landscapes of funds and rules led to government issues regarding unsustainable funding and the need to establish national rules and institutions for the insured population. In Chile and Brazil, these attempts failed during democratic governments as the high political costs to pass this legislation outweighed the financial issues generated by this highly segmented pension scheme's policy legacy. These incentives were placed in fragmented party systems with a myriad of parallel interests that made it challenging to swiftly approve this kind of legislation. Simply, it did not pass because parties looked to survive by ensuring unequal conditions for pensions that were benefitting (more than others) their electorally relevant core constituencies and had the resources for setting strong political obstacles to reduce the pension reform scope.

Regarding the role of organised occupational groups, they were crucial in sustaining a process of expansion of access while advocating for segmentation of the provision of old-age pensions. The Military were the group to receive special funds with benefits and eligibility rules vastly more generous compared to those for the rest of the population. Then, civil servants and private-sector workers in relevant economic areas also held retirement rules and amounts that were part of their interests and contrary to the pension scheme's potential unification. As mentioned above, this concentration of benefits allowed the raising of constraints to reforms to establish a national rule on retirement and perpetuation of segmentation of the benefits and management of the occupational funds. Nevertheless, political concentration in authoritarian regimes, in Brazil and Chile, allowed for further expansion to excluded groups of the population (mainly in Brazil), the initiation of a more stable and single pension institution (in both countries, but relevantly in Chile), and a process of substitutive (Chile) and profound parametric reforms (Brazil).

In this sense, the systematisation carried out by Uthoff (1995) confirms a series of recurrent problems that pension systems in Latin America must face. As mentioned above, the reforms attempted to expand coverage to excluded segments of the population, adapting benefits to

the system's financing capacity, improving administration, generating homogeneity between pension regimes, and improving collection, especially concerning self-employed workers. As a result, the review of the pension reform trajectory in terms of incentives and constraints faced by both countries during the last 100 years is crucial to understanding the long-term policy legacy and foundational architectures that help us to explain the emergence of political obstacles to pension reforms aiming to expand on any dimension of universalism. It also allows us to establish the current pension policy architecture's direct background, its policy legacy, and figure out long-term and emerging political determinants acting as promoters or constraining the advancement towards universalist outputs.

3 The incentives and constraints of policy architecture in the 1998 and 2003 Brazilian Pension Reform

3.1 Introduction

This dissertation has discussed the primary role of policy architectures in establishing the conditions that promote reform. These incentives for reform may originate from one or more components of the policy architecture, that may create strong of soft political obstacles determining the pension reform outputs on one or more dimensions of universalism. The 1988 Federal Constitution states the nature, benefits, recipients, retirement rules, and pension scheme calculations. In general, Brazil undertook a series of parametric changes to adjust its public pay-as-you-go system to growing fiscal constraints (Kay, 1999; Mesa-Lago, 2009; Brooks, 2009). These parametric reforms carried out in the late 1990s and early 2000s were partially successful in reducing inequities among the insured population and granting access to outsiders. Consequently, this chapter aims to address the following question: What are the issues and incentives created by the components of the Brazilian pension policy architecture that supported the decision to pursue reforms in the mid-1990s and early-2000s?

The 1998 (Cardoso) and 2003 (Lula) reforms aimed to improve the regressiveness of the pension scheme, but clashed with strong political obstacles built by the corporatist legacy and its political connections, which made these processes extremely difficult for the respective government coalition (Hunter & Sugiyama, 2009). This chapter examines the long-term incentives and constraints generated by the policy architecture that shaped pension reforms in 1998 and 2003. It argues that the historical, segmented, public-funded pay-as-you-go pension scheme created a broad set of incentives for modifications to the benefit and funding components. These incentives permeated the 1998 and 2003 reforms, as fiscal concerns and definition of entitlements to receive old-age pensions were incentives for more significant equity among different occupational groups. Therefore, the incentives created by the policy architecture were active in the following components: funding (funding sources and financial commitments) and benefits (which define the benefits and criteria for receiving them). Finally, the long-term development and inertia of the pension scheme were some of the significant constraints that help us understand why Brazil did not conduct a structural pension reform.

In 1995, the government of President Cardoso introduced a Constitutional Amendment Project that was passed after three years of debates and negotiations. The approved Constitutional Amendment was intensive in terms of modifications to the private sector employees' pension scheme (RGPS). The purpose was to change the parameters in order to postpone the retirement age and benefit rules, so as to move towards fiscal equilibrium over the long term and fulfil an actuarial balance for this sustainable funding (Serra, 2009). Based on this pension reform track and a projected rise in liabilities over revenues, the new government of President Luiz Inácio "Lula" da Silva introduced the Constitutional Amendment Project n. 40/2003, which exclusively affected public workers. This project aimed to induce 'a deep adjustment in the pay-as-you-go system for active [public-sector] workers and retirees of the current generation. For future workers, the new system implies rules similar to those applied to private sector workers' (Pinheiro, 2005, p. 211). Moreover, this reform was deeper for future cohorts of civil servants, changing the adjustment index from wages to price variation. Consequently, it is possible to argue for the existence of a continuum between the pension reforms of 1998 and 2003, creating an inertia based on a necessary fiscal reduction in the liabilities on pensions through the modification of the benefits component of the policy architecture, with particular emphasis on the mandatory pillar for civil servants (Brooks, 2009). As a result, there is a strong likelihood of convergence of two different governments who shared the same concerns about running similar policy proposals due to financial considerations and macroeconomic equilibrium.

Having said this, I will assess these claims as follows. Firstly, the chapter introduces the main constitutional rules on pensions in their original version (section 3.2.1). This will be followed by the incentives generated by the policy architecture, which are: a projected growth in fiscal deficit (section 3.2.2); the disparities in benefit rules, such as the strong incentives for an early retirement (section 3.2.3) and inequalities among the *Regime Geral* and the *Regime Proprio de Previdência Social* (section 3.2.4). Finally, the chapter argues that the introduction of a Defined Contribution system with Individual Retirement Accounts managed by Pension Funds Manager or similar private providers was unlikely (section 3.3).

3.2 Incentives from the policy architectures: the debate about the fiscal deficit, benefit delivery rules, and inequalities within the mandatory pillar.

3.2.1 Brazilian pension architecture at a glance

The Brazilian pension scheme is public and funded through a pay-as-you-go scheme that operates on a defined benefits basis. The architecture leads to segmentation between one pillar for private-sector workers (*Regime Geral de Previdência Social* – RGPS) and one for civil servants (*Regime Próprio de Previdência Social* – RPPS). As Table 3-1 shows, both pillars had different rules stated in the 1988 Federal Constitution. However, they shared aspects such as the inexistence of mandatory retirement age, eligibility according to service time and an institutional design that left informal workers uninsured. Generally speaking, the Brazilian pension policy architecture started a unification process of the rules operating in their pillars looking for a reduction in segmentation, with limited outputs in terms of equity.

This chapter also argues that pension policy architecture, prior to the reform of 1998, led to concerns regarding its financial sustainability and highlighted the need for it to assume a more significant role in equity, especially after retirement. Nevertheless, the benefits component was the target of several actors who were pushing for more equity or avoiding changes that may affect their interests. Issues regarding the civil servants' retirement scheme remained after Cardoso's reform and were the basis to justify the 2003 pension reform.

3.2.1.a 1988 Federal Constitution and pensions

Both contributory pillars have a long-standing tradition of reproduction of income inequality, especially in urban and metropolitan areas (Hoffmann, 2003). After the Federal Constitution of 1988, some aspects of the legislation and parameters remained controversial, as critics claimed that it was inefficient and financially onerous, while supporters claimed it was necessary to reduce perennial inequality (Matijascic & Kay, 2007). Hence, this subsection supports the initial constitutional aspects which regulated the regime for private-sector employees and the regime for civil servants.

The 1988 Federal Constitution reinforced the previous segmentation logic which favoured middle and upper-class occupational groups. Specifically, this text 'mandated that all public

servants should belong to a single regime (…)' (de Oliveira & Beltrão, 2001, p. 104). The details of the pension scheme of the 1988 Federal Constitution, previously the Constitutional Amendments of 1998 pension reform, are available in Table 3-1. Article 40 of the Constitution regulated the regime for public servants, stating the parameters for benefit calculation (a defined benefit equivalent to the last salary) and retirement rules (based mainly on the length of service, but later changed to contribution time and retirement age). For the private employees, article 241 was an essential consolidation of a long-term process of institutional merging started in 1966 with the creation of the *Instituto Nacional de Previdência Social* (INPS). This Institute then turned into the *Instituto Nacional do Seguro Social* (INSS), which manages the RGPS that gave similar legal status to urban and rural workers. Besides these unifications, some inequities continued because the eligibility, benefits calculation and entitlement rules are more likely to benefit formal workers with high income (Pinheiro, 2005).

Table 3-1: Federal Constitution of the Federative Republic of Brazil on pensions

Title	Chapter	Article N.	Content
I Fundamental Principles	II Social Rights	6	Social Security is a social right
		7	Right to access a pension for urban, domestic workers and rural workers, among others.
III State Organisation	VII Public Administration	40	Mandatory retirement for civil servants at 70 years old with earnings on service-time basis. Voluntary retirement according to the following criteria: a) 35 years' service time for men (30 for women) with access to full amount based on past salaries; b) 35 years of service time (25 for women) for teachers, access to full pension amount based on past salaries; c) 35 years' service-time (25 for women) with proportional benefits; d) 65 years old (60 for women) with proportional benefits based on service time.

VIII Social order	II Social Security	194	Pensions are part of social security, which also involves social assistance and healthcare.
		195	Social security will be funded by the whole society, with public resources from the Federal Government, States, Federal District and Municipalities. Sources of social contributions are I) employers, based on payroll, billing and profits taxes; II) employees; and III) others. The Social Security Budget, a different one from the Public Budget of the Union, will count public resources for pensions. Other sources of revenue and exemptions.
		201	Every source of income (such as pensions) will not be lower than the minimum wage
		202	Pension amount is calculated according to the average of the last 36 salaries that were reported on the contribution procedure, ensuring monetary adjustability to avoid the loss of purchasing power. The person must fulfil these conditions: I) 65 years old for men (60 for women). Five years earlier for those who worked on rural activities, and those who were working in family economy, such as rural producer, fishermen and "gold diggers" (*garimpeiro*); II) 35 years of service-time for men (30 years for women) that were under hazardous work; III) 30 years of service-time for men (25 years for women) who were school teachers.

	A proportional pension amount is granted after 30 years of service-time for men (25 years for women).

Source: Author, based on the 1988 Constitution of the Federative Republic of Brazil (1988).

During the implementation process, the government created the Social Security Budget to provide political credibility by isolating the public funds directed to finance healthcare, pensions and social assistance. This budget, enshrined in the Constitution, was funded 'from multiple sources –including payroll taxes, taxes on earnings and profits, and, beginning in 1993, a tax on financial transactions' (Matijascic & Kay, 2007, p. 288). However, as section 3.2.2 depicts, the funds in the Social Security Budget are constantly being diverted to finance other budget items, harming the original aims of expanding the guarantee of basic social rights (Delgado, 2002). However, this implementation faced several challenges marked by a vision of state retrenchment from the economy, contradicting the motto that inspired the Constituent Assembly and the 1988 Constitutional (de Castro, 1993). In addition, Brazil was experiencing a skyrocketing inflation rate and profound public debt, so the government of Collor 'tried hard to reduce these favors and delay spending increases ensuing from the new laws' (Weyland, 1996, p. 66).

Notwithstanding, the Executive attempted to reduce the funds allocated to the pension system, but it was defeated by strong political and social opposition at the Parliament due to pressure groups' close involvement in establishing the benefits. The enactment of generous rules that would favour employees with a greater likelihood of having a formal labour trajectory is linked to higher expenditure that, in the long-term, pushes for the fiscal deficit that governments should reduce. According to Weyland (1996), the pension debate had a plurality of interests managed by strong organised groups from labour segments and better-off sectors. Specifically, this author stated that there was a 'neglect and stubborn defense of all their benefits could backfire if public social insurance suffers a financial collapse. In this case, the pursuit of narrow self-interests could turn the present winners into losers' (Weyland, 1996, pp. 67-68). Consequently, a pension reform during the early 1990s was not part of the public debate and the series of reforms did not embrace the entire system, as an influential economist argued that "*instead of just one major reform, there would be a series*

of successive reforms. If you see what actually happened, that was it. In reality, it is not that there have been reforms; there were several insufficient ones" (Economist at the Brazilian Development Bank, October 30th 2017, Rio de Janeiro).

Table 3-2 summarises the components of the pension scheme's policy architecture after the enactment of the 1988 Federal Constitution. It provides a description of the general rules to be eligible for an old-age pension, notably the service-time based benefit rules, with favourable conditions for civil servants to have access to a full pension. The pension provision by the late 1980s was mostly public, except for a supplementary pension for those who could afford an extra payroll contribution. Lastly, the funding sources were predominantly public due to the establishment of the Social Security Budget, and considered payroll contributions from employers and employees.

Table 3-2 Components of the policy architecture of pensions after the enactment of the 1988 Federal Constitution

Components of the policy architecture				
Eligibility	**Benefits**	**Provision**	**Funding**	**Outside-market option**
RPPS: civil servants employed at federal, state and municipal levels not covered by CLT. Since 1990, the Single Legal Regime (Régime Único Jurídico - RUJ) applies, with benefits equivalent to the last salary.	Amount of pension is calculated according to the average of the last 36 salaries, if the person meets the following criteria: 1) service-time: 35 years (30 for female) and five years less for teachers, workers performing hazardous tasks and proportional pension; or 2) age: 65 years-old for men (60 for women) in urban areas and five years earlier for rural workers. 70 years is mandatory for civil servants, if they did not meet	RGPS: National Institute of Social Security - INSS	The primary source of funding was the Social Security Budget. One of the components of this budget was the Social Contribution on Net Income (Contribuição Sobre o Lucro Líquido – CSLL).	The Constitution established a supplementary and optional collective insurance, funded by additional contributions and managed by private providers linked to financial institutions and public enterprises.

	the previous requirements.			
RGPS: Private-sector workers under the Consolidation of Labour Laws (Consolidação das Leis do Trabalho - CLT)	Access to the age-based pension for rural workers.	RPPS: Management Units at the Federal Administration	Tripartite contribution: employee, employers and state contributions.	
65 years old (60 for women) for an age-based pension, if there is not a fulfilment of service-time basis.	Introduction of the minimum pension equivalent to the minimum wage.			
	In 1989, establishment of the contribution cap equivalent to 10 minimum wages.			
	Since 1991, the introduction of a minimum contribution time (60 months) as old-age pension entitlement.			

Source: Author.

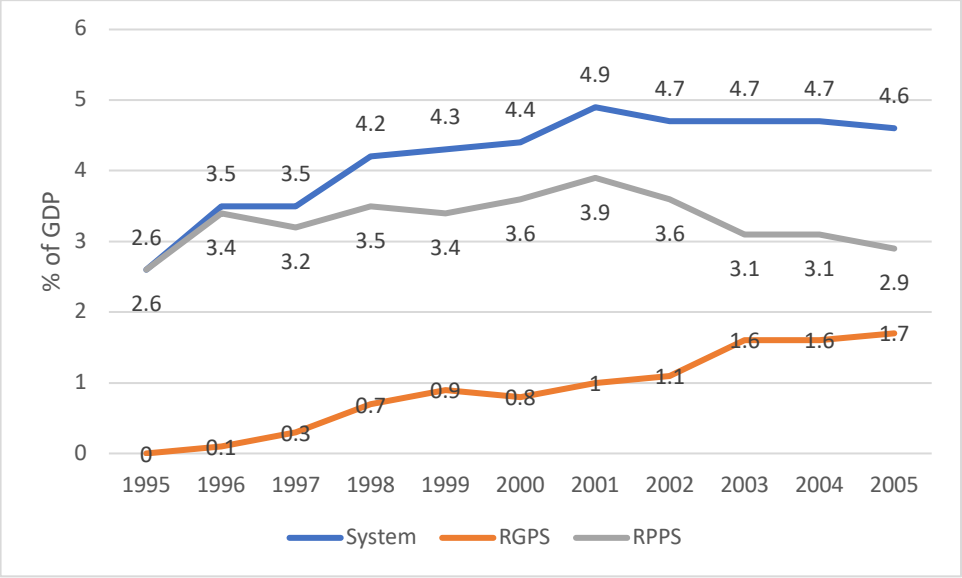
3.2.2 Funding: The debate about the fiscal sustainability of the pension system.

Governments led by President Cardoso (1995-2003) and President Lula (2003-2010) framed the fiscal argument as one of the central concerns in conducting pension reforms during their administrations. Nevertheless, these were politically disputed, either credit claiming for benefits extensions or with a blame avoidance orientation for the case of benefits reductions for specific occupational groups. Hence, the debate lacked of a technical consensus because several scholars and policymakers argued that the policy architecture contributed to the uncontrollable growth of the fiscal deficit, whereas other experts and organised groups refuted this argument. As a result, the Brazilian case shows that the policy architecture's constraints are not objective and given as facts among experts, and are politically utilised by different actors according to their interests in the policy proposals. This section introduces

the statements in favour and against, identifying a political dispute on establishing the financial sustainability of the scheme.

According to data published by different sources, available in Table 3-3, in 1997 the pension deficit was directly related to the regime for civil servants. The deficit of the RPPS was equivalent to 3.2% of the GDP, representing 91.9% of the overall deficit of the pension system (in 2003, it represented 72%). Moreover, Giambiagi and others (2004) pointed out that since the enactment of the 1988 Constitution, the expenditures did not reduce until the last year of their analysis, and deficits continued to grow from the mid-1990s until 2004, with a more serious situation affecting the civil servants' pillar. Figures show that in 1997 the benefits of the RGPS were received by 15.1 million retirees, a figure substantially higher than the 876,000 retired at the Federal level of government. The situation by the early 2000s remained with a fiscal deficit which was higher for the RPPS, but involved a significantly lower number of retired people, as 19.5 million retirees were receiving an old-age pension in the RGPS, and the deficit of the RPPS is associated with the pension payment for 2.9 million people. The information regarding the deficit as a percentage of the GDP for the RPPS, RGPS and the total system is available in Graph 3-1.

Graph 3-1 Brazil: Pension system deficit as percentage of the GDP, by total, RPPS and RGPS (1995-2005)



Source: World Bank (2005), Ministério do Trabalho e Previdência Social, Instituto Nacional do Seguro Social e Dataprev (2014).

In sum, there was an urgency to reduce the actuarial disequilibrium to face the trend of high expenditure on pensions and the deficit of both pillars as a percentage of the GDP (Giambiagi, Mendonça, Beltrão, & Ardeo, 2004). Despite these disparities that were appearing in the policy architecture of the reform of 1998, it was only possible to conduct modifications to the civil service regime in 2003. This was mainly due to the original scope of the reform, which made full approval unviable, but by that time there was an even higher deficit than the one linked to the scheme of private-sector employees. This is recognised by a high-level politician who served as Minister of Labour and Social Security after the 2003 reform, who stated that "*the civil servants' regime is much more generous, with much more generous rules and a much higher deficit potential. To give you an idea, in 2003 there was practically the same deficit, between the general scheme and the own scheme. But for the own regimen for about 900,000 servants, in the General Regime for 17 million. So, it was the same as saying you spent 17 times more on the servers than on ordinary people. So, we made the reform"* (Former Minister of Labour and Social Security, April 23rd 2017, Brasilia). This is confirmed in figures published by the World Bank (2005) where the number of pensioners was around seven times higher than the federal and subnational governments' civil servants, but the difference in public expenditure was largely reduced between both pillars. The details of these figures are available in Table 3-3 below. Therefore, I agree with the World Bank, which stated that '[t]he disproportionately large expenditures and deficits in the regime for civil servants are primarily due to much higher average benefits (…)' (World Bank, 2005, p. 49).

Table 3-3 Financial indicators and coverage by the mid-1990s

Issue areas	**Private-sector Employees (RGPS)**	**Civil Servants (RPPS)**
Pension Deficit as % of GDP *(year)*	0.3 *(1997)*	3.4[a] *(1997)*
Pension Deficit as % of total system *(year)*	8.1 *(1997)*	91.9 *(1997)*
Expenditure as % of total system *(year)*	56.8 *(1997)*	43.2 *(1997)*
Expenditure as % of GDP (*year*)	5.4 (*1997*)	4.1 *(1997)*

Pensioners, in millions *(year)*	15.1 (*1997*)	0.876 [b] (*1997*)

Notes: [a] This figure includes pension deficit at the subnational governments (state and municipalities); [b] It does not consider beneficiaries at the subnational governments (state and municipalities).

Sources: World Bank (2005).

This diagnosis is shared by Pinheiro, who argued that '[t]he main source of the overall fiscal imbalance in Brazil is the public sector pension plans, including those that cover federal, state, and municipal civil servants and the armed forces (…). Moreover, the beneficiaries of these plans tend to have relatively higher incomes, making the allocation of public resources to this group unfair' (Pinheiro, 2005, p. 189). According to this set of scholars, this is a clear source of income inequality in a country that is already deeply unequal, like Brazil. A former high-level civil servant from the Ministry of Social Security agreed, arguing that "*the poorest people cannot comply with early retirement with that time of contribution. What happens is that these more impoverished people retire by age 65, for men and 60 for women. The problem, in fact, is not the poorest, the problem is the richest in Brazil's pension system. And that is both in the General Scheme and the Public Employees Regime*" (Former Secretary of Social Security, March 17th 2017, skype interview). Therefore, the main issues for the eligibility component of the policy architecture were the benefits and retirement rules. According to Table 3-4, before the 1998 reform, the benefit rules were based on service-time without a mandatory retirement age, which may reduce the share of public expenditure on pensions. These aspects of the benefit component of the policy architecture were crucial in setting the incentives that have been a common issue in every pension reform attempt, which look for the reduction of fiscal expenditures. In general, these may be achieved by changing retirement rules, such as contribution-time, and the chance to establish a mandatory retirement age, among other possibilities. Hence, the details of segmentation of the mandatory pension scheme, by the mid 1990s, are provided in the next table.

Table 3-4 Brazil: Retirement and benefit rules on pensions by the mid-1990s, RGPS and RPPS.

Areas	**Private-sector Employees (RGPS)**	**Civil Servants (RPPS)**
Retirement rules	Revocation of time-of-service retirement rule (valid until 1998 pension reform)	35 (men)/30 (women) years of time-of-service.

	Age-based pension: 65 (men)/60 (women) with 15 years of contributions. Length of contribution pension: 35 years of contribution (men)/30 years (women). No minimum retirement age.	After 1998 reform: Minimum retirement age of 53 (men)/48 (women) for current workers. 60/55 for new civil servants.
Benefit rules	Based on the wage average of the previous 36 months before retirement.	Integrity (equivalent to last earning) and parity (adjustments based on the variation of active position)
	From 1999 to 2015: Social Security Factor (*Fator Previdenciario*) multiplied by the average of the 80% higher contribution wages since July 1994.	After 2003 reform: 20 years, as a minimum, working in the public sector. Five years in their last position to receive a full pension. For those who were employed in the public service before 2003, benefits were calculated according to integrity and parity criteria.

Source: Medici (2004) and Brooks (2009)

In contrast, scholars and organised groups argued that public deficit did not exist for several reasons. The central claim is that official computations only consider the revenue collected from payroll contributions and they sustained this argument during both reforms (1998 and 2003). Hence, they contested the official calculations by arguing the need to consider every social security budget heading, such as those being diverted by the application of Divestment of Union's Revenues (*Desvinculação das Receitas da União - DRU*)[3]. According to ANFIP (2003), DRU is a means of formalising an old practice by reallocating resources from the social to the fiscal sector. As a result, it will reduce the fiscal burden at the expense of the social security sector. These scholars suggested that the Social Security Budget, created by the Federal Constitution of 1988, had a redistribution of resources equivalent to approximately 50% of social contributions (ANFIP, 2003). These reallocated fund destinations are to reach a primary fiscal surplus to pay the domestic and external public debt (Marques & Mendes,

[3] The DRU was created in 1994 in the context of Real Plan to stabilise the Brazilian economy. Originally, it was called Emergency Social Fund (*Fundo Social de Emergência*) stated by the Constitutional Amendment Review (*Emenda Constitucional de Revisão)* n. 1. In 2000 its name was changed to DRU, and in 2016 it was extended until 2023 with the approval of Constitutional Amendment Project n. 31/16. Nowadays, the DRU allows for up to 30% of the revenues collected by economic and social contributions, constitutional funds, and financial compensations from hydric and mineral resources to be diverted.

2004). In practical terms, a trade union leader argued that there is a constant "fiscal pedaling" or "*pedalada fiscal"*, because "*the government* has *a serious problem, (...) a creative accounting. It places social security pensions in the public employees' pensions, when in the constitution it says that public servants' pensions are not funded by social security resources, they are funded by the contribution of those who employ them: the public apparatus, state, municipality and Union, and more the very contribution of the civil servant. And it wants to charge in the area of welfare; this is creative accounting, the so-called fiscal pedalling"* (Former President ANFIP, October 18th 2017, Brasilia).

The second source of lack of revenue, particularly for the private-sector pillar to overcome a fiscal deficit, is the tax break or loss of collection. This is a legal instrument within the Brazilian tax system that allows employers an exception for specific non-compliance and tax evasion. In particular, ANFIP (2003) argued that this tax break affects the payroll contributions through which the total amount is calculated, to fully cover the deficit of the pension system for private employees, contradicting the official statement of fiscal deficit. Consequently, promoters of this agenda state that it should be mandatory to improve tax compliance and enforcement from the government on employers, followed by a more restrictive utilisation of the DRUs so as to achieve an accounting surplus in the pension system. As a result, if authorities did not over utilise this public resource deviation, it may be possible that "*all sets of taxes that are destined for this social security faced with the social programs that must be maintained, there must be money left. And this is one of the main bases of being criticising, condemning and, so to say, rejecting, denying the reforms that have been made*" (Former President ANFIP, October 18th 2017, Brasilia). In short, there is a long-term dispute over the fiscal deficit, generating a political struggle between supporters of the subsequent government argument (even the governments of Cardoso and Lula) and organisations who defend the fact of resource availability and long-term sustainability.

A third argument that is wielded by these scholars and associations is that public accounts consider as permanent expenditure the non-contributory pensions for poor elderly (*Benefício de Prestação Continuada* - BPC) and rural workers (*Previdência Rural*). This is significant for the deficit within the RGPS because it is considered a liability of this pillar. Nonetheless, beneficiaries do not contribute to the pension system as these are non-contributory

programmes. Therefore, the inclusion of these pensions affects the lack of revenue to fund these expenditures, for the reasons explained above (Marques & Mendes, 2004). According to calculations carried out by ANFIP (2003), in 2001, the rural and assistance pensions were equivalent to 43.5% of the number of pensions granted by the RGPS. Moreover, this volume of pensions meant an expenditure of 23.7% of the overall pension amounts paid by the RGPS. In conclusion, the additions of these non-contributory or social pensions are a financially perverse but socially necessary issue which could be accountable and politically manipulated (Gentil, 2006).

To conclude, the debate about the pension scheme's fiscal deficit was far from being resolved, unlike the inherited inequalities in retirement amounts for the different mandatory pillars. However, the incentives promoted by the funding component were crucial for the further promotion of equity in the benefit component. These financial issues were a common objective for pursuing pension reforms to reduce the fiscal deficit as a preceding step for reducing the gap between mandatory pillars (details of these differences will be presented in subsections 3.2.3 and 3.2.4). As a result, the extension of the projected transition costs was far beyond any manageable level for the Brazilian Treasury, making the fiscal window opportunity unlikely (see section 3.3). Consequently, there was a singularity in the policy debate on pensions in Brazil marked by a blurry baseline, like on the fiscal balance of pensions, which was a central piece for designing any parametric modification for a public pay-as-you-go pension system with defined benefits (Matijascic & Kay, 2007). This disagreement pushed for a constant campaign to influence legislators with a fiscal deficit or surplus of pensions, clashing with historical positions aligned with particular sectors.

3.2.3 Benefit delivery rules: disparities and incentives for early retirement.

Early retirement was a matter of strong concern for policymakers before President Cardoso's pension reform and continued after its enactment in 1998, as the establishment of a minimum retirement age was defeated. The Senate introduced a mandatory retirement age of 60 years for new urban contributors (55 for women) and 53 years old for a full pension for old contributors. Chambers of Deputies rejected both initiatives in the last round of debates, and the government did not reintroduce these motions (Matijascic, 2002). As Table 3-5 shows, by 2002, the average of the earliest and normal retirement age for men in OECD

countries was 61 and 63.6 years, respectively. The OECD definition of earliest retirement age was utilised for the Brazilian case, resulting in 55 years old for male private-sector workers who could meet the contribution time requirements, detailed in Table 3-3 above. For comparative reasons, I only consider the male retirement age to illustrate this point. Among male civil servants, the minimum age that prevailed by 2002 was 53 years old, since the new retirement age modified in 1998 did not affect existing cohorts of active and retired workers. This early retirement situation does not consider rural workers and teachers who were able to retire five years earlier due to a more flexible contribution time criterion. Consequently, Brazil had the earliest retirement age within this sample of countries, which assumes the eligibility of a worker who entered the labour market at 20 years old and fulfilled the overall requirements to be eligible for an old-age pension.

The extension of early retirement had a fiscal burden that governments needed to tackle to reduce future larger shares of liabilities which may affect the pension scheme's sustainability and overall public finances. The new retirement rules stated in 1998 and the Social Security Factor (*Fator Previdenciário*) in 1999 partially solved this issue for private-sector workers. Analytically, the opportunity for early retirement is directly related to the benefit component's characteristics which allowed these rules that harm pension system finances over the long term. Hence, it is a strong incentive for a reform to tackle issues to advance to more significant equity outcomes, but at the same time it is constrained by tug-of-war negotiations among parties and organised groups.

Table 3-5: Male retirement ages in Brazil and OECD countries, by 2002

Country	2002				Country	2002		
	Earliest		Normal			Earliest		Normal
Australia	55.0		65.0		**Japan**	60.0		65.0
Austria	61.5		65.0		**Korea**	55.0		60.0
Belgium	60.0		65.0		**Latvia**	60.0		61.5
Brazil (RPPS)	53	[a]	60	[b]	**Luxembourg**			60.0
Brazil (RGPS) [c]	55.0		65.0		**Mexico**	60.0		65.0
Canada	60.0		65.0		**Netherlands**			65.0
Chile			65.0		**New Zealand**			65.0
Czech Republic	58.2		61.2		**Norway**	62.0		67.0
Denmark	60.0		65.0		**Poland**			65.0

Estonia	60.0		63.0		**Portugal**	55.0		65.0
Finland	60.0		65.0		**Slovak Republic**			60.0
France			60.0		**Slovenia**			60.0
Germany	63.0		65.0		**Spain**	61.0		65.0
Greece			58.0		**Sweden**	60.0		65.0
Hungary			62.0		**Switzerland**			65.0
Iceland	65.0		67.0		**Turkey**			55.0
Ireland			66.0		**United Kingdom**			65.0
Israel			65.0		**United States**	62.0		65.0
Italy	60.0		65.0		**OECD**	**61.0**		**63.6**

Sources: OECD (2017) and Giambiagi, Mendonça, Beltrão, & Ardeo (2004).

Notes: Ages refer to labour market entry at age 20, with the normal retirement age being the earliest point to be eligible for all pension components without deduction. OECD average for earliest age uses the normal age for those countries where there is no early retirement option. The OECD average does not include Brazil.

[a] Female civil servants were allowed to receive a pension at 48 years old; [b] It is the retirement age for new cohorts of public servants after 1998 pension reform; [c] Rural workers are allowed to fulfil the requirements five years earlier than urban workers. Also, primary and secondary school teachers are allowed to retire five years earlier than urban private-sector workers: a male school teacher may retire with 30 years of contribution and a female with 25 years of contribution time.

Regarding the original rules stated in the Constitution (Table 3-1), the pension system started to experience a general trend of early retirement as the incentives were too high before the pension reform of 1998 and in the early 2000s. This situation had a positive effect on members' decision to participate in the labour market. These incentives had a high cost for society, due to a rise in the opportunity cost for the retired people who fulfilled the service time requirements to return to the labour market. These authors argued that by the late 1990s, for the cohort of 40-year-olds, around 50% of retired people decided to continue working. As the population gets older, there is a higher proportion of active retired people as opposed to inactive non-pensioners when they are 65 years old (Leme & Málaga, 2001). They concluded that early retirement was fostered by relaxed rules impacting on lower labour participation of people who are still productive, with potential impoverishing effects.

Schwarzer and Paiva (2003) agreed by arguing that, in 2001, there was a perverse effect of social security on the decision of labour participation among male early retirees. This impact continues but has lesser significance among pensioners and non-pensioners aged between 60

and 75. Pensions granted by the fulfilment of service-time, like before the 1998 reform, and the new rule based on contribution time, are notably costly for the public treasury and highly regressive in income redistribution (Matijascic & Kay, 2007). A specialist in the public sector who I interviewed highlights the cost of the system: "*this set of circumstances, which had already been identified by specialists ... is now overflowing and becoming evident for a larger group of people. Why does it not become legal changes to the rules of the game? Here there is something that has to do with the national idiosyncrasy (...). Here in Brazil, it is very common even in people with a university degree or doctors, that the most natural thing in the world is to retire at 53-54 years old. (...) They have the right from the legal point, yes. But obviously, that has a cost for the country, which is noted in international comparisons"* (Economist at the Brazilian Development Bank, October 30th 2017, Rio de Janeiro). Hence, a certain degree of technical agreement was about the detriment that early retirement was causing to the pension system's fiscal health, especially in the civil servants' pillar; however, they recognised that this finding was not sufficient to convince the population to make a behavioural change. All in all, a high-level politician who was in charge of the 2003 pension reform policy process recognised the existence of untenable situations, such as "*there were some aberrations in Brazil that the public servant, with only ten years in the public service and only five years in the position that he occupied could retire with the salary of the job"* (Former Minister of Social Security, April 26th 2017, Brasilia).

In conclusion, the policy architecture showed significant benefits for civil servants compared with private-sector employees. The first attempt to tackle these conditions was partially modified by the pension reform conducted by President Cardoso. Later, the 2003 pension reform focused on establishing modifications to the benefit component of the policy architecture of the civil servants' pillar. A general situation of the abovementioned is that prior to these reforms, members of the public service were entitled to receive pension amounts even higher than the salaries received before their retirement (Melo, 2004). Therefore, an early and generous pension for civil servants is a disequilibrium source for a pay-as-you-go in the long-term, for two reasons. Firstly, the active life contributions were based on significantly lower salaries but would fund pensions of an even higher amount to the best income. Secondly, civil servants could mostly fulfil the contribution time, so they were likely to take early retirement and their period as passive within the system was

equivalent to, or even longer than, the contribution time. These incentives created by the eligibility component for civil servants were one of the main issues that policymakers wanted to address and were a long-standing inheritance from previous attempts. A senior member of the Ministry of Social Security at that time stated, "*we did not want to restrict coverage, we wanted to create a process of convergence between the federal regime and the regime of public employees with transition rules that make similar criteria of contribution rates, of pension calculations, ceilings, introduction of complementary pension funds to those that are valid in the general regime*" (Former Secretary of Social Security, March 17th 2017, skype interview).

Consequently, the rules that tended to incentivise early retirement were a particular asset to reduce financial commitments and inequalities between private-sector workers and civil servants. The figures introduced above are precise in supporting this argument, and the literature was highly conclusive regarding this situation. However, the political dimension was not accessible as legislators needed to deal with civil servants' associations, which could act as electoral counterparts among other factors. These aspects will be discussed in the next chapter.

3.2.4 Benefit inequalities among retired civil servants and between RPPS and RGPS.

The policy architecture created the third issue regarding inequalities on a double dimension, which increased the importance of tackling the main objective of reforming the RPPS in 2003: firstly, between the pension regime for civil servants and private employees; and secondly, inequities within the civil servants' regime. By the late 1990s, the special regime for civil servants resulted in a disproportionate contribution-time based pension with complete (32.2%) or proportional benefits (57.4%), compared to the old-age pensions granted by the RGPS, with percentages of 7.6% and 20.7%, respectively (Matijascic, 2002). The advantages for civil servants were a core commitment of the pension reform conducted by President Cardoso. For the 2003 pension reform, after the failed attempt to pursue further modifications to the RPPS by President Cardoso, 'Lula justified the project as a means to correct actuarial distortions in the pension model while improving the equity between the public and private sector pension regimes' (Brooks, 2009, p. 233). Consequently, there was a massive mandate for pursuing equity, again, as a central aim of this reform, which put

pressure on elite civil servants, such as those serving in the Judiciary and Congress. The main struggle was how to deal with this process of privilege abolishment with guaranteeing acquired rights of this core constituency. A former senior member of the Civil House explained this situation, arguing that "*when Lula puts into debate his new reform proposal, in part the discourse of privileges is there, why? Because many people retired early, they retired with high values without having contributed. So, they needed to contribute to compensate the States' bodies and the Union that paid, therefore, was a reduction in their pensions amounts. But on the other hand, it was also necessary to approximate the rules of public servants of those rules applied in the private sector*" (Former Officer at the Civil House, October 26th, Brasilia).

According to Ferreira (2003), cited in Lobato (2004), the average pension amount granted by the RGPS was R$712 (USD 231)[4]. This figure is significantly lower than the pension amount granted by the RPPS, confirming a trajectory of significant differences in the generosity of old-age pension amounts between both pillars. Moreover, there was a more serious situation among the civil servants' branches. For instance, a civil public servant had access to a pension amount of R$ 2,181 (USD 709), but those who developed a career at the judiciary had access to a pension three times higher, equivalent to R$ 7,308 (USD 2,375). The average pension amount was similar among Central Bank officials and those from the Legislative branch (around R$ 6,700 or USD 2,177). Lastly, officials from the Public Prosecutor's Office received a pension amount that was almost twice that of aforementioned public servants, obtaining an average pension amount of R$ 11,863 (USD 3,855). This situation is acknowledged by Medici, who noted a general situation of 'enormous disparity in the benefit rules and requirements for different kind of employees –especially for civil servants, who are a privileged group. And among civil servants, some groups (such as members of Congress and judiciary employees) receive pensions higher than their last salaries. This situation increases social inequity' (Medici, 2004, p. 8). In sum, there was a condition of internal inequities among civil servants with circumstances that were highly disruptive, financially and politically speaking, that was a cross-issue for both reforms. A former Minister of Labour and Social Security gave a common example of an issue that the 2003 pension reform aimed to tackle,

[4] The original data is in Brazilian Real. The conversion to American Dollars was made by utilising the official exchange rate (LCU per US$, period average) series provided by the World Bank. This series is available at: https://data.worldbank.org/indicator/PA.NUS.FCRF?locations=BR

such as "*the purpose of the reform was to reduce some of the inequality of the civil servants' scheme because what was possible - only for you to have an idea of the inequality - a servant who would make a contest and stay two years in the position with a salary of 30,000 and parity. With two years, it is not possible, it is very uneven. And who pays the bill? The society pays the bill"* (Former Minister of Labour and Social Security, April 23rd 2017, Brasilia).

Consequently, the primary challenge by the late 1990s and early 2000s was to reduce these inequalities between both mandatory systems, in order to decrease the fiscal deficit in the civil servants' scheme. As Medici (2004) stated, civil servants had two advantageous features: a higher pension value and shorter contribution time for having access to a full pension similar to the last salary. A satisfactory explanation is that 'some of the groups receiving generous benefits (such as judges, the armed forces, and members of Congress) have considerable political power –inhibiting the likelihood for extensive reform' (Medici, 2004, p. 13). All in all, the pension regime for civil servants contributed, dramatically, to income inequality. This situation is publicly recognised by a former Minister of Social Security who considered this an aberration that should be faced by cutting the so-called privileges for civil servants. He stated that "*the reform was planned on our government programme, to approximate the rules of the private sector and the public sector. (...). Then there was a large imbalance, in the private sector, there was already implementing average contributions [as a calculation method]. So, we designed a reform with the objective of reducing some situations of aberration. We have not eliminated any rights; all rights have been preserved. Only the rules for access to the law were adjusted for greater consistency between contribution and retribution*" (Former Minister of Social Security, April 26th 2017, Brasilia).

To partially solve this issue, the government planned to create a contribution cap similar to the one created in 1998 for employees from the private sector. Pensions are publicly funded until a determined ceiling, which is equivalent to 5.9 times the minimum wage. A complementary pension scheme was available for private employees and a growing number of civil servants who would like to contribute to their overall wage. However, civil servants' complementary pension scheme was enacted almost ten years after this reform and affected new entrants to public service. As Pinheiro explained, 'civil servants will be subject to the same ceiling applied to private sector workers and would have the option of joining the

complementary pension funds to increase their retirement income. (…) Establishment of these pension funds is not mandatory and depends on a federal, state, or municipal government initiative' (Pinheiro, 2005, p. 210). Regarding this, a former Minister of Social Security recognised during an interview that "*one of the important points was to establish the public sector pension ceiling but could only come into force when we were able to create the complementary fund for federal civil servants*" (Former Minister of Social Security, April 26th 2017, Brasilia).

In conclusion, the long-term incentives generated by the policy architecture and partially tackled by the reforms held by President Cardoso (1995-1998) and Lula (2003) were a pension scheme with significantly higher pension amounts for retirees from the public sector and the considerably disproportionate public budget to afford them. This issue was tackled by President Cardoso and Lula, with different results but with a common constraint: the pursuit of modifications to the benefits component of the civil servants' scheme had a fertile strong political obstacle raised by corporatist groups, who established links with lawmakers in order to deploy pressure to cast votes to reject particular aspects of the policy proposals. The central discourse was the end of privileges and expansion of the equality dimension of universalist outputs to reduce the regressive impact of pensions on income inequality. Indeed, these inequities played a role in pushing for pension reform in 1995-1998, but had become the main issue to be solved by the 2003 pension reform. The priority of this issue and the resistance carried out by organised groups of civil servants will be analysed in the next chapter.

3.3 The constraints of the Brazilian policy architecture for a substitutive pension reform

The policy legacy creates various incentives and constraints that may push for the generation of a reform that could reinforce a trajectory or trigger a variation. The long-term deployment of a specific policy architecture determines the problems that are part of a reform project, and leaves out of the debate some aspects that could also affect the achievement of universalist outcomes. Adopting the defined-contribution scheme with private managers of individual pension funds involved a severe financial commitment that authorities were unable to make. In particular, the economic authorities ruled out this option due to the high fiscal

transition costs for the Brazilian Treasury by the mid-1990s. As the Chilean experience showed, the transition cost meant long-term expenditure on pensions that should be assumed by those who were already receiving them or those who would opt for not changing to the potential new regime. Therefore, to fulfil the reduction of fiscal commitments on pensions, adopting a structural reform will harm this objective, because it is contradictory to finance high transition costs and adjust fiscal expenses (Matijascic & Kay, 2007).

Liberal think tanks began to draft a structural reform proposal in the early 1990s. *Instituto Liberal* and *Instituto Atlântico* advocated for privatising the pension system, partially replicating the Chilean experience and parameters. Nevertheless, these attempts to replace the pay-as-you-go scheme 'was considered politically and economically unfeasible because of its fiscal implications. At the same time, strengthening the public PAYG system was supported by the notion that pensions are one of the pillars of social stability in the country' (Pinheiro, 2005, p. 188). Interviewees of different political opinions and views on pensions clearly support the abovementioned reasons. An economist at the Brazilian Development Bank mentioned that "*rightly or wrongly, the so-called Chilean model in the hearts and minds of 99% of the people who think about this, is associated with Pinochet and then, that makes it have a huge negative image. Then there is the cost of the transition (...). Adding a transition cost, whatever that may be, is practically suicidal*" (Economist at the Brazilian Development Bank, October 30th 2017, Rio de Janeiro). A high-level policymaker from the Worker's Party agreed with that diagnosis about the political and fiscal difficulties for adopting a defined contribution pension scheme. He makes strong claims about the long-term tradition of the system, based on the public nature, which is recognised by the population. On this, he stated that "*here in Brazil, the culture of social security has always been very strong. People actually see it as something that is peoples' heritage, an institution already consolidated. I think it would be difficult to pass a proposal to privatise social security, to make a capitalisation system and private funds. Here, in my opinion, it is impossible*" (Former Minister of Social Security, April 26th 2017, Brasilia).

In 2001, the Secretary of Social Security argued that during the previous pension reform carried out during President Cardoso's first term several studies estimated the fiscal transition costs. He reported that international organisations calculated a transition cost equivalent to

twice the GDP. To be specific, he argued that in 1998 the World Bank reported 205% and ECLAC released a transition cost equivalent to 201.6% of the GDP in 1999. Moreover, local institutions' estimations were even more severe, destroying the viability of any structural reform attempt. These domestic estimations were made in 1999 and showed a fiscal cost that ran from 218% (IBGE/IPEA) to 255% (*Universidade de São Paulo*) (Pinheiro, 2001). In sum, these figures made the option to adopt the Chilean model completely non-viable for the Brazilian policymakers, whose main aim was to reduce the pension system's expenditure to avoid future bankruptcy.

A former Social Security Secretary revealed an anecdote during one of these attempts to convince financial authorities to adopt an individual capitalisation pension system. However, this was responded to with a slam due to its fiscal unfeasibility. On this, he said that "*there was a meeting with the President of the Central Bank where Lara Rezende's proposal to privatise was presented. And there he asked himself, the President of the Central Bank, who was called Chico Lopes, asked: - But, how much does that cost me? It sounds very nice, but all that has a price. (...) And they have told him: 'Look, the transition cost is X % of GDP per year. Then, they say that Chico Lopes had answered: - then this proposal is dead because of this cost of transition only over my corpse. The President of the Central Bank would have blocked [the plan], from the own government of Fernando Henrique Cardoso*" (Former Secretary of Social Security, March 17th 2017, skype interview). Consequently, the long-term deployment of a public pay-as-you-go system with decent access levels for the general population targeted generous amounts at influential groups, increasing the segmentation among the scheme beneficiaries. Also, a political caution for adopting a private scheme with defined contributions will be subject to political manipulation if there is a detriment caused by financial ups and downs, especially during crisis periods. Despite fiscal arguments, this political concern is an accolade that lowers the likelihood of adopting this kind of system in Brazil, as a well-known expert pointed out "*the people here will tell you: -Very good, very good, as long as they think they will benefit. But if you think in terms of retirement, you have to think about 70 years from now, in 70 years there will be several crises in the stock market. In the first crisis in the stock market, there will be a senator who will introduce a bill to the government to increase retirement to compensate and it will be approved unanimously*" (Economist at the Brazilian Development Bank, October 30th 2017, Rio de Janeiro).

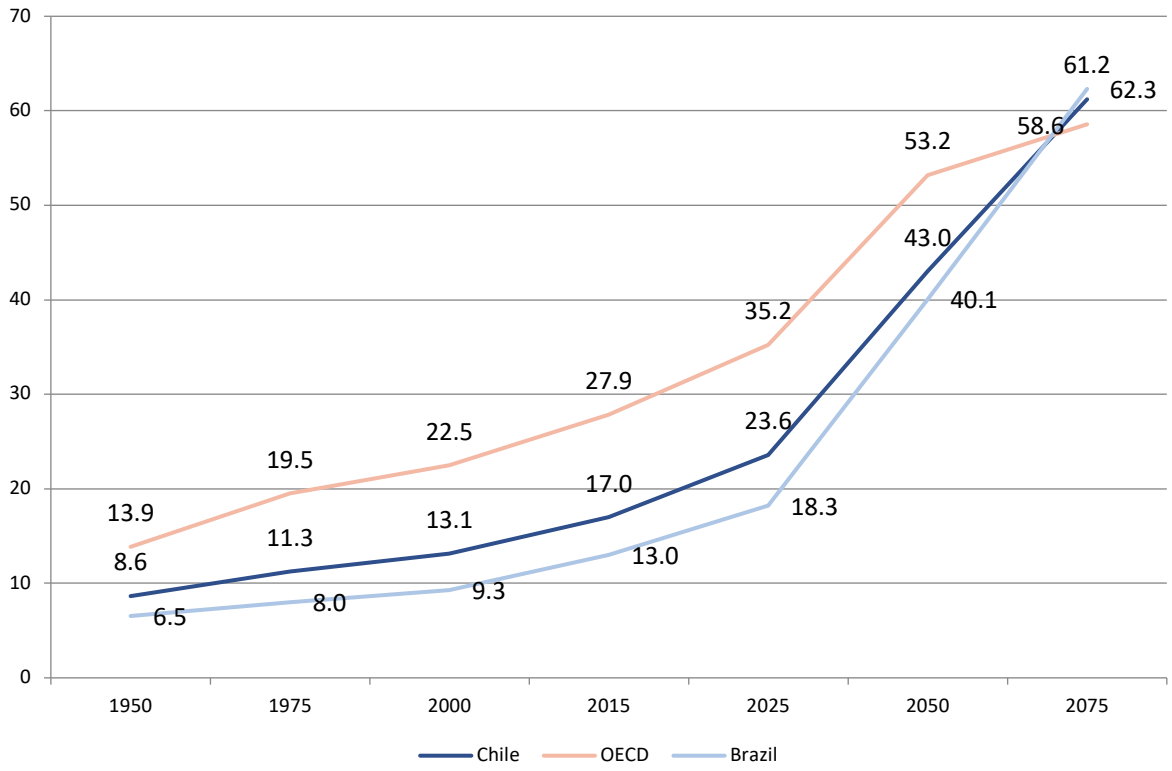
3.4 Conclusions

Over the long term, the Brazilian pension scheme developed a series of incentives at the policy architecture level for reform, for both 1998 and 2003 pension reforms. Specifically, the issues that were the primary objective of any attempt have concentrated on benefits and funding components in order to achieve advanced or pure universalist outcomes on the equity dimension. In this chapter, I argued that part of these incentives was contested by different academics and organised groups. Hence, there is a political construction of the evidence needed to justify Brazil's pension reforms for the specific changes in the components mentioned above, feeding the intensity of political obstacles to pension reforms. Thus, incentives created by a public pay-as-you-go system would necessarily affect some rules which would benefit specific sectors that pushed, successfully, for a transition period. The pension scheme's fiscal perspective was a double-edged sword in Brazil, instead of a reform facilitator like in Chile. This is positively related to arguments that disagreed about the seriousness of the fiscal deficit and sustainability of the public pay-as-you-go scheme.

The benefits component developed a range of incentives promoting further modifications to both regimes, but with special significance for the civil servants' one. Firstly, the eligibility rules stated in the Constitution incentivised an early retirement. This condition, analysed in section 3.2.3, was common among Brazilians, with parameters far from usual practice in other countries. The gradual introduction of new eligibility requirements was a constant issue that damaged the overall expected fiscal impact of pension reforms enacted in 1998 and 2003. Before 2003 pension reform, the eligibility rules were more advantageous for civil servants, who were able to retire at 53 years old (48 for women), with benefit rules much more generous than those applied to the RGPS. Hence, these incentives permeated the political debate, with the close participation of trade unions. They put their attention on lobbying for the implementation of new rules, which would affect new cohorts, while maintaining the benefits for workers near retirement and retirees. The most powerful trade unions represented civil servants' interests, and were successful in remaining on the margin of the 1998 reform due to its strength and high political costs, which were unsustainable for President Cardoso's plans.

Funding was the second component of the policy architecture that created strong incentives. This debate is crucial for a public pay-as-you-go scheme and demographic characteristics, as Brazil had projections of a significant and fast-paced rise in the old-age dependency ratio, sharing a similar trend with the Chilean case, as shown in Graph 3-2. For instance, in 2000, there were 9.3 individuals aged 65 and over for every 100 active people aged between 20 and 64. In contrast, the estimations for 2025 and 2050 on old-age dependency ratio are 18.3 and 40.1, respectively. By the end of this series, there will be more old-age Brazilians for every 100 active people compared to the average of the OECD countries. Despite these demographic insights, funding issues were highly disputed, as they involve the redefinition of benefits and retirement rules stated in the Constitution. The main goal was to reduce the fiscal deficit, while the primary source of disagreements was based on alternative calculations described above. Thus, civil servants' organised groups and experts developed political and technical reasons to argue the official fiscal pressure claim.

Graph 3-2 Old-age dependency ratio estimations in Chile, Brazil and OECD countries (1950-2075)



Source: Author, based on OECD (2017).

To conclude, the policy legacy created by the long-term deployment of the Brazilian pension system's policy architecture is marked by incentives and constraints for reforms on different policy architecture components: benefits and funding. The incentives analysed above directly impacted the modifications to both policy architecture elements, which looked for more significant equity among old-age retired people and fiscal sustainability of the system. The nature of the problems, design of solutions and further implementation of a successful reform were based on partial political agreement rather than an overwhelming technical agreement. The Brazilian policy adoption did not follow the Chilean path of an academic consensus on the issues that were severely affecting the pension system's benefits and future sufficiency. Therefore, organised groups that were being availed by the benefit rules successfully delayed the full implementation of this modified component of the policy architecture, in 1998 and 2003. Nevertheless, it is important to note that the policy architecture's long-term deployment determines the boundaries of these political factors and margin of action. Finally, the specific political negotiation as an obstacle to the achievement of more significant equity, confrontation with civil servants' trade unions and their links with political parties will be analysed in the next chapter.

4 The agenda setting and policy adoption of Brazilian pension reforms (1998 and 2003)

4.1 Introduction

Each reform aims to provide policy solutions to evolving issues that affect the overall performance. These issues are mostly generated by the long-term trajectory of the policy architecture, which establishes the main power distribution and the reform agenda. Hence, policy architectures are the main shapers of the field; nevertheless, parties and organised groups establish their arguments and push for the final direction of the reform. In particular, this chapter analyses the agenda setting and policy adoptions of the 1998 and 2003 reforms in Brazil, in order to provide analytical and empirical answers to the following question: how did policy architecture interact with parties and organised groups in shaping the pension agenda? What was their role in establishing political obstacles for modifying the pension reform outputs?

To answer the above question, this chapter's core argument is that the incentives created by the policy architecture were financial issues that began to affect the pension scheme's sustainability, and these were followed by particular benefit advantages that harmed the unification of the different components. Interest groups pushed hard for segmentation instead of unifying benefits, particularly those that represented corporatist groups at the Brazilian civil service. As a result, there was strong political obstacles clashing between the intentions of the reforms and organised groups involved in the pension debate, which was partially mediated by the party system's characteristics in Congress and particular manoeuvres performed by Presidents Cardoso and Lula. Specifically, the characteristics of organised corporatist groups (mostly insiders, such as private and public sector trade unions) that concentrated costs due to benefit modifications. It was their character and link to political parties which shaped the ultimate degree of universalist outcomes regarding equity and generosity.

The 1998 pension reform is considered as an attempt to solve long-term issues regarding funding difficulties and the need to reorganise the benefits component for those groups that enjoyed more advantages than the vast share of the population. Moreover, the 1998 reform

was the first de-constitutionalisation of benefit rules of the RGPS, such as the calculation method to establish the pension amount that was previously stated in the Constitution. However, this reform could not introduce significant changes to civil servants' benefit component, resulting in limited results in sustainability of funding over the long term. Then, the reform of 2003 solved most of the remaining issues affecting the civil servants´ pillar. Part of the literature argues that both reforms may be considered part of a singular path of reversing benefit rules stated in the Constitution to reduce the pension scheme's fiscal liabilities and privileges of interest groups (Medici, 2004). For the abovementioned reasons, this chapter focuses on these two reforms as, analytically, they are part of a similar trend of 'reform effort to countervail the generous constitutional innovations which were introduced in the democratic constitution of 1988. (…) The constitutional provisions reflected the demands of civil servants, unions, and clientelistic politicians and resulted in an even more inequitable pay-as-you-go system compared to the one that had been set up in the 1930s' (Melo, 2004, pp. 331-332). Nevertheless, more focus will be given to the latter because, despite some difficulties, it was particularly relevant and successful in modifying the pension pillar that involved most of the benefit and funding incentives, thus expanding the equity dimension of universalist outputs.

As a result of these two reforms (1998 and 2003), the overall outcomes were a significant progress on generosity and advanced on access, but still limited in terms of equity, due to an imbalance which favoured the civil servants' pillar. After these series of reforms, for the access dimension of universalism, the percentage of old-age people receiving a pension remained high (84.6%) and the percentage of the employed population contributing to the scheme passed from 46.7% (1995) to 51.4% (2006), and breaking the 60% barrier by the late 2000s. On equity, the gaps remained significant regarding the contributors by employment sector, which greatly favoured those working in the public sector, and this segmentation was substantial in the pension amounts between contributory and non-contributory pillars. In the mid-2000s, this pension amount gap was 52.6%. Finally, the generosity dimension of universalism and the scheme's replacement rates began to reduce with the implementation of new benefit rules. Still, by the mid-2000s and early 2010s, this figure decreased from 96.6% to 63.5%. Moreover, the contributory pension amount as a percentage of the monthly per

capita GDP suffered a reduction after the enactment of the 2003 reform, mainly due to the new benefit rules for new civil servants.

This chapter aims to explain the interaction between political parties and organised groups, as well as the incentives and constraints generated by the components of the policy architecture during the 1998 and 2003 pension reforms held in Brazil. This chapter will fulfil that objective by summarising the proposed and approved modifications to the two pension reforms. Sections 4.3 and 4.4 analyse the details of the interaction between the incentives of the policy architecture and parties with social actors in shaping the ultimate pension agenda for the 1998 and 2003 reforms, respectively. Lastly, in section 4.5, I draw conclusions about the role of fragmented party systems and organised groups in establishing strong political obstacles that partially blocked further modifications to the benefit and funding components of the policy architecture.

4.2 Snapshot of the reform processes and details of the components of the policy architecture

The advancement towards the achievement of universalist outcomes on pensions has been a constant struggle. Presidents Cardoso and Lula had severe fiscal issues that motivated further reform to reduce the benefits, in particular, to highly organised and mobilised occupational groups such as civil servants. The different between each of their proposals was the embrace of the reform and the strategies (political and institutional) to cope with the constraints and difficulties. Table 4-1 shows the contents of the different Constitutional Amendment Projects (*PEC*, by its acronym in Portuguese) and Constitutional Amendments approved by both governments, grouped by the two components of the policy architecture involved, as was justified above.

The table below shows that both PEC concentrated their efforts on introducing changes to the minimum requirements for retirement (change from service-time to contribution-time pensions, but limited results in establishing a mandatory retirement age), including reduction of the entitlement to an old-age pension, with amounts similar to the overall wage that the beneficiary was receiving from their last job. In terms of funding, there was a continuous effort to set a cap on the contributions and pension entitlements to be publicly funded,

followed by a tedious process of extinguishing the pension indexation based on the active wage for civil servants, which was highly resisted and implemented with a transition rule affecting new entrants to public service.

Table 4-1: Main modifications to benefits and funding components by Constitutional Amendments Projects (PEC) 33 (1995), 40 (2003) and Constitutional Amendments 20 (1998) and 41 (2003)

Component policy architecture	Topic	Constitutional Amendment Project (PEC) 33 (1995)	Constitutional Amendment 20 (1998)	Constitutional Amendment Project (PEC) 40 (2003)	Constitutional Amendment 41 (2003)
Benefits	Minimum requirements for retirement	Elimination of service-time pension. Similar rules for rural and urban workers. Minimum retirement age of 60 (men)/55 (women), with 35/30 years of contribution.	Introduction of contribution-time instead of service-time pensions. Elimination of special pensions for occupational groups, except for school-teachers of 1st and 2nd grades. For civil servants, entitlement for pension for those working in the public sector for 10 years and 5 in the last post. Introduction of minimum retirement age for civil servants (60 for men and 55 for women), but for new civil servants. Rural workers may comply with these conditions five years earlier	To increase the age requirements to voluntarily opt for retirement for civil servants, from 53/48 to 60/55 who were able to contribute 35 and 30 years, respectively.	Servants who joined civil service before December, 15th 1998 (EC 20), have the following retirement rules: 1. 53 (male)/48 (female) years old; 2) 5 years of effective exercise of position; 3. Fulfil one of the contribution time criteria, 3.a) 35 (male)/30 (female) years of contribution; 3.b) an additional contribution time-span equivalent to 20% of the time needed to fulfil the time-limit stated in 3.a.

			than urban workers.		
	Integrality	Elimination of full pension amounts for civil servants.	Civil servants enjoyed access to pension with amounts equivalent to the overall last wage.	Guarantees of acquired rights for active civil servants and retired ones, such as the respect of the old eligibility rules, such as compliance of integrality (pension equivalent to the overall salary) principle.	Requirements to grant an integral pension to those who joined civil service until the publication of EC 41 (December 2003): 60 (male)/55 (female) years old, 35 (male)/30 (female) years of contribution-time, 20 years of work at the civil service, 10 years of work in the public service scheme, and 5 years of effective exercise of the last post.
Funding	Benefits cap	For civil servants, introduction of a cap equivalent to the salary of Minister. The accumulation of pensions and continuation of paid activities of retirees in the public sector will be forbidden.	The amounts of pensions granted by the RPPS were not capped at similar level as RGPS. Introduction of a benefit cap for RGPS equivalent to ten times the minimum wage	Introduction of a ceiling similar to the RGPS, and future establishment of complementary pension scheme for civil servants.	States the ceiling of the retirement benefits as those that are valid for the RGPS, adjusted to not lose its real value.
	Benefits calculation parameters	Extension of time-frame of the 36 months of last wages as reference to calculate pensions. Civil servants' details on necessary years of work in the public sector for	Establishment of 10 years of work in the public sector and 5 years in the last position, for civil servants. For the RGPS benefits, this was equivalent to 80% of the	Elimination of the last salary as a parameter on the benefit amount calculation method.	Establishes the salary ceiling parameters for civil servants of every branch, to calculate pension amounts.

		pension amount calculation purposes, to be defined by a complementary law.	highest wages received during the working life. Calculation parameters were taken off the Constitution		
				Establishment of contribution cap similar to RGPS benefits.	Benefit amounts should be calculated based on previous legislation in force when conditions were met, either under the terms of current law.
	Parity	Elimination of parity of the amount between pension and wage of the position, as indexation mechanism for retired civil servants.	The reform did not modify requirements for the provision of parity pensions for civil servants	Guarantees of acquired rights for active civil servants and retired ones, such as the respect of the parity as criteria for pension amount indexation.	Pension benefits for office-holders' civil servants will be reviewed at the same date and proportion when the salary of active civil servants holding the same post. This is extendable for benefits and modifications to the positions held by active servants.

Source: Author, based on Presidência da República do Brasil (1995, 1998 2003a and 2003b).

The variation of universalist dimensions through these two pension reforms required months of debates at the Brazilian Parliament and internal coordination at the Executive due to the strong political obstacles and a blame avoidance logic that characterised these initiatives. Figures 4-1 and 4-2 show the timeline of the central legislative moments and executive decisions concerning President Cardoso's (1995-1998) and Lula's (2003) pension reforms. More importantly, these timelines include the main changes during the legislative debate of both PECs and institutional decisions, such as establishing working groups or introducing substitutive PECs.

Figure 4-1 Timeline of milestones in Cardoso's Pension Reform (1995-1998)

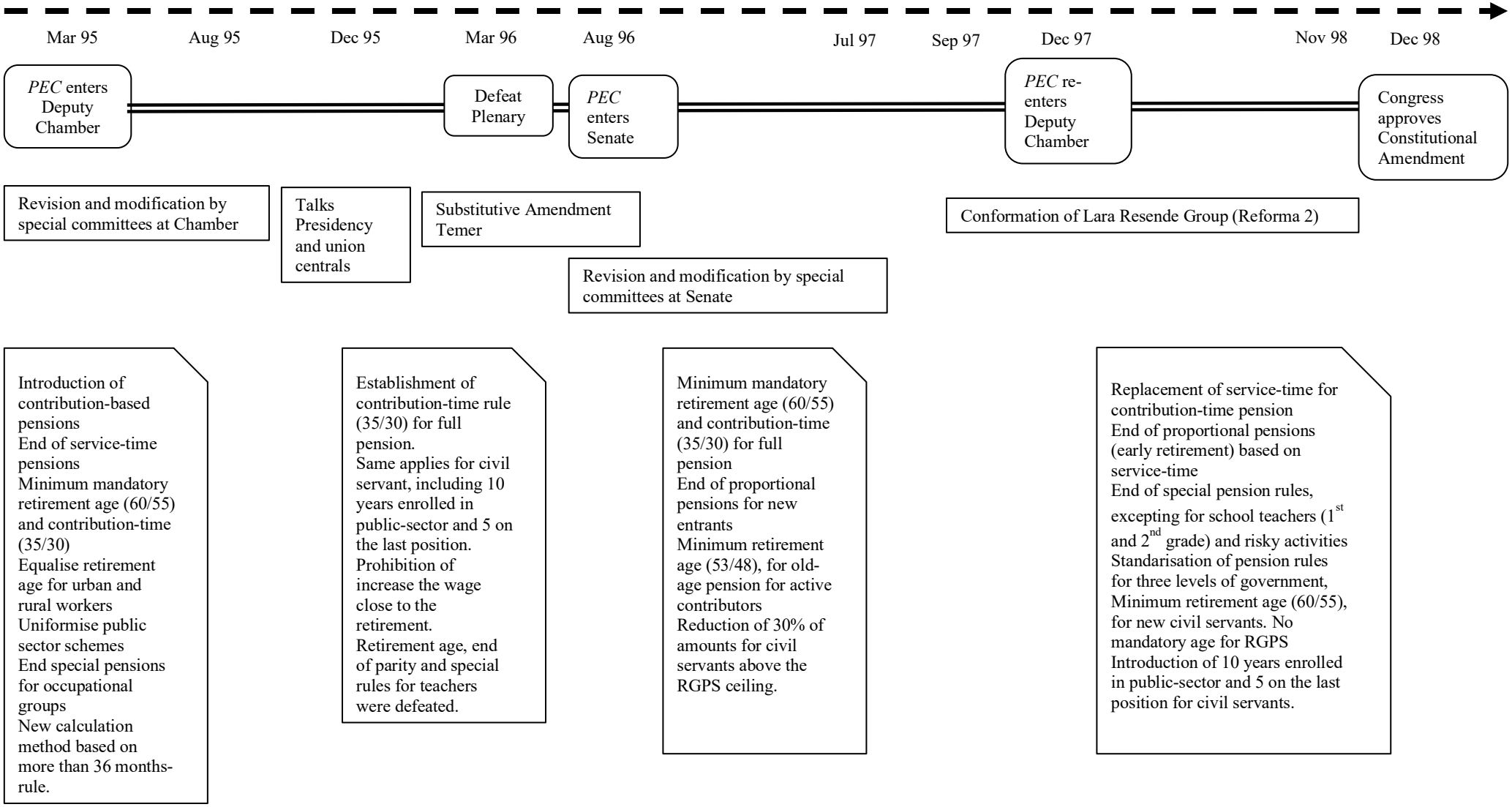
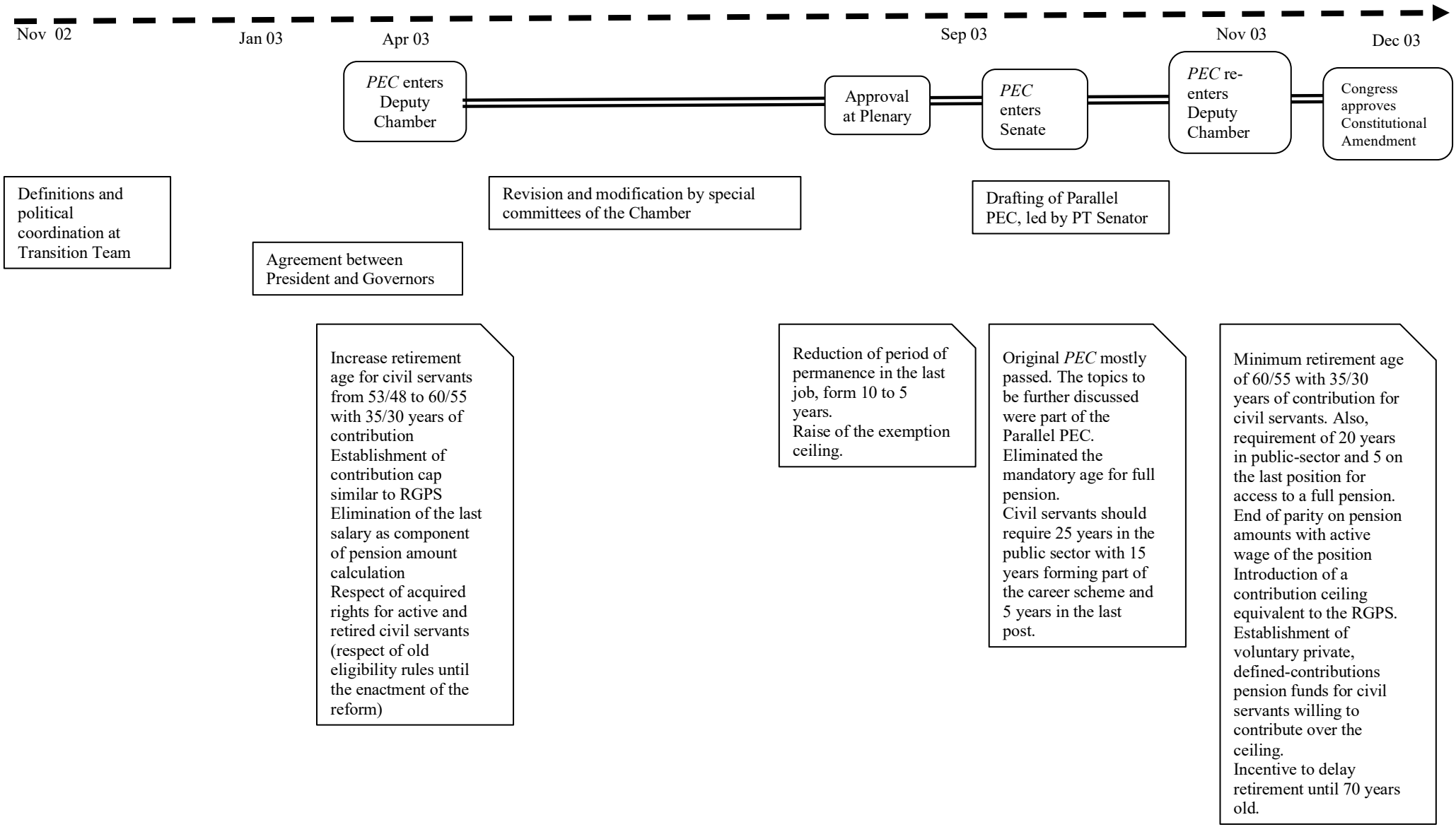


Figure 4-2 Timeline of milestones in the Lula's Pension Reform (2003)



In conclusion, the abovementioned components of the policy architecture concentrated most of the struggles faced by the governments of Cardoso and Lula regarding modifications to the different schemes of the pension system. Furthermore, these attempts set the benchmarks for subsequent efforts to increase the progress towards universalist outputs. Hence, the Constitutional Amendments Projects (PEC) and enacted Constitutional Amendments meant a task that took advantage of the inertia provoked by past decisions and the new shape of the incentives of the benefit and funding components. Finally, the abovementioned proposals and items that were approved, followed by the milestones, show differences in strategies, allies and policy adoption of each reform in this chapter.

4.3 President Cardoso's Pension Reform (1995-1998)

4.3.1 Attempts to combine two visions into one reform

The government's initial tasks aimed to provide economic stability after the hyperinflation situation which was solved mainly by the Plan Real, led by Cardoso when he was Minister of Finance. Pensions were a significant source of liability for the new government with a high risk of insufficient revenue over the medium term. Hence, President Cardoso initiated an ambitious reform agenda to tackle public finances 'through reforming social security, the civil service, and the tax system, through privatizing state-owned companies and eliminating deficit spending at all levels of government. Over the long haul, the stability of the real hinged on the credibility of fiscal policy' (de Souza, 1999, p. 54).

Before introducing the reform to Parliament, there was a debate among technocrats belonging to the Ministry of Social Security and the Ministry of Finance, but with a consensus on linking contributions and obtaining precise details of the pension scheme's funding sources. The differences between them were a pay-as-you-go scheme with the abolition of the privileges and benefit rules, sustained by the Social Security group. This clashed with a liberal view of adopting the Chilean version, which was defended by those from the Economic area of the government. President Cardoso opted to introduce a PEC aligned to the principles advocated by experts linked to the Ministry of Social Security, including parameter changes, such as a ceiling, and other rules stated in the Constitution (Coelho, 1999). Hence, the policy architecture's incentives, with strong consideration of the political implications around the

continuation of a more harmonised public pay-as-you-go scheme, were core values of the agenda-setting at the initial stage of the reform.

Nonetheless, given the political difficulties facing the original bill in Parliament (details are in section 4.3.2.a), in 1997, President Cardoso took the decision to form the Commission for the Reform of the Pension System. This Commission was formed by experts aligned to a pension policy based on individual accounts and they drafted a proposal labelled *Reforma 2*. Generally, this group, led by André Lara Resende, assessed 'the possibility of using the assets from the privatization of the country's state-owned enterprises to cover the transition costs for a fully funded or mixed system' (Melo, 2004, p. 333). This policy proposal's objectives were to reduce the financial and economic disequilibrium to obtain solvency in the medium and long-term, promote equity and transparency, and finally to incentivise the domestic savings to invest in instruments with larger economic returns (de Oliveira, Beltrão, & Pasinato, 1999). Lara Resende's group proposed a cap equivalent to three times the minimum wage which was directed to new public insurance with defined benefits. For those surpassing this proposed ceiling, 12% of the contribution would be directed to the private fund manager and would postpone the retirement for workers who could not meet a minimum threshold of years of contribution. For the private-sector scheme, the group proposed the availability of programmed withdrawal or an annuity as forms of accessing old-age pensions, without differences between urban and rural sectors. Their proposal was cautious for civil servants regarding the acquired rights of retired and active contributors of the RPPS. Nevertheless, the focus on new entrants would be similar to the private employees, which was individual actuarial equilibrium between current values of contributions and future benefits. In parallel, there would be a scheme to incentivise five years' late retirement for civil servants to reduce the fiscal imbalance (de Oliveira, Beltrão, & Pasinato, 1999). As stated in the previous chapter, this proposal was vetoed by the Central Bank, mainly due to the transition costs and the potential damage to Brazil's international credibility for financial markets. These fears became real after the Russian default in August 1998 and subsequent capital flight from emerging economies, including Brazil. As a result, the agenda-setting process did not follow a particular guideline from the President and internal competition between groups affected the internal cohesion at the Executive due to these internal differences and struggle for influence.

4.3.1.a Main themes addressed by the Constitutional Amendment Project n. 33/1995

The reform introduced by President Cardoso in 1995 aimed to modify crucial aspects of the benefit and funding components of the policy architecture. Mainly, the original purposes were the introduction of a mandatory retirement age for civil servants and private-sector workers, to change the allocation of benefits from service-time to contribution-time, to introduce a contribution ceiling for both pillars, and to equalise rules between the pillar for civil servants (RPPS) and private-sector employees (RGPS). As Matijascic (2002) and Melo (1998) argued, the observed deliberation of the reform within the Parliament was highly plausible as the benefits for the public finances were tangible over the medium and long-term, with concentration of costs in the short term.

The government of President Cardoso started with comprehensive reforms to the public administrations system, pensions and a failed attempt for taxation. A former Minister of Social Security recognised the fiscal concerns as one of the main reasons for conducting the pension reform in the mid-1990s. He underlined the need to achieve future stability of the liabilities, arguing that "*when in 1994 I proposed the reform at the request of President Fernando Henrique Cardoso, it predicted that in the future the system would not resist, it had to be supported by budget resources, and that happened. So, it was also a fiscal issue."* (Former Minister of Social Security and Social Assistance and former PSD Deputy, October 25th 2017, Brasilia). Hence, it was a priority for the administration to have this reform implemented, but as Melo (2004) recognised, there is a path-dependence process, largely because 'constraints imposed by the high implicit pension debt were very clear to Brazilian policy-makers' (Melo, 2004, p. 333).

Regarding the changes implemented by the 1998 benefit reform, it introduced contribution-time pensions for the private-sector, replacing the service-time pensions, while maintaining special rules for school teachers of 1st and 2nd grades. Also, the reform was successful in establishing more relaxed retirement requirements for rural workers. For civil servants, the Constitutional Amendment 20 established a minimum of 10 years of work in the public sector and minimum retirement age (60 for men and 55 for women) for new cohorts, while maintaining access to amounts equivalent to the last salary. In terms of the funding component, the reform introduced a benefit cap equivalent to ten times the minimum wage,

only applicable to the RGPS. For the pension calculation method, the private-sector workers were entitled to receive a pension equivalent to 80% of the average of their highest wages, instead of considering the 36 months prior to retirement. Civil servant pension amounts remained indexed to the last position's wage variation. However, the details for the calculation parameters were removed from the Constitution. These changes did not accomplish the fiscal objective for future sustainability, and the details are outlined in this chapter.

4.3.2 Policy adoption

4.3.2.a The slow pace of the reform through a fragmented and undisciplined Parliament

Fernando Henrique Cardoso won the election with the direct support of the PSDB, PFL, and PTB, winning 183 seats in the Deputies Chamber out of 513. To achieve a broad majority in the Deputies, at least in terms of numbers, he incorporated the PMDB into the coalition in exchange for high-ranked positions, including Ministers. The same, but with a limited offer of Ministries, applies to PPB. Hence, the electoral coalition was the PSDB, PFL, and PTB, but the expanded coalition (*coalizão ampliada*) included the PMDB and PPB. With this composition, the government had a slight majority, at the Deputies Chamber, of the special quorum of 3/5 for the PEC approval (Figueiredo & Limongi, 1998). Nevertheless, these adjustments and a potential majority did not prevent strong political obstacles characterised by a slow process of debate, negotiations and a procedural decision to split the original bill into four, with 475 days before the bill passed to the Senate, then another 253 days to discuss the modifications held at the Upper House.

Contrarily, the Opposition confronted the PEC by introducing votes for several items on topics that were electorally sensible for Deputies, forcing government parliamentarians to take a side on these issues, such as a minimum age to gain access to a pension based on contribution-time and integrality. Also, item votes that were highly controversial for lawmakers of the government coalition were the retirement of professional groups (mainly university professors) or the parity between active and inactive civil servants as criteria for the pension amount. All in all, the Opposition's strategy adopted a blame avoidance pattern by causing a significant delay and diminish the government's base support on the pension reform. Consequently, the Opposition may have reduced the impact on groups that were

electorally important constituencies at local level, which was important input for deputies' decisions. Hence, the costs of being undisciplined were lower than the electoral costs for those parliamentarians on practical issues that affected the direct interests of organised groups. A high-level adviser to President Cardoso provided the best summary of this situation, recognising that the reform was *"[a]mbitious because the government imagined having sufficient political capital to face this challenge of simultaneously reforming the pension system for public employees, including the military, and also the pension system of the private sector workers system. It turns out that, as you have said, while the process that the government put on the table of the Congress, the negotiation with the Congress, the problems began sooner than later. It was a terrible struggle to move forward with the process, and I think there was a mistake, and the mistake was, at the same time trying to face diverse pressure groups.*" (Executive Director of the Fernando Henrique Cardoso Foundation, November 21th 2017, São Paulo).

In mid-1996, the Deputies' Chamber Plenary rejected the PEC, and Deputy Temer led the substitutive PEC, compromising the potential support of the PMDB for the Constitutional Amendment. Despite an attempt to block this legislation through a group of opposition parliamentarians' request to the Supreme Court, the bill conducted by Mr Temer was based on the establishment of a common agenda to reduce expenditure. However, it did not consider controversial topics, especially those regarding retirement age, the parity of pensions of civil servants and special rules for school teachers. As Matijascic (2002) noted, the outcome at the Deputies' Chamber was one full of significant changes, highlighting the guarantee of full pension for civil servants with 35 years of contribution, a minimum of 10 years of service in the public sector and five years in the position. A legislative consultant who worked actively on the reform explained the relevance of Deputy Temer after the first defeat at the Plenary, because "*then we would have to vote on the original text that came from Fernando Henrique's government, and that text was not a consensus among the deputies he was going to lose again. So, the solution was to build a so-called agglutinative amendment, which is also provided for in the Chamber's internal regulations, (…). It will then say all the amendments used to build a text that will still be voted on in front of the original project that came from the government. This agglutinative amendment was reported (...) [by former] President Michel Temer that managed to pass the plenary of the Chamber of Deputies.*

Because it was built from the amendments presented, it was a very flawed text, you know, so we threw the ball to the Senate, reconstructed the text and made a more organised text" (Legislative Consultant at the Federal Deputies' Chamber, September 28th 2017, Brasilia).

In August 1996, the PEC passed to the Senate, and the rapporteur re-introduced a minimum retirement age and the elimination of the right to receive a pension while active in the civil service. Then, the Commission of Constitution and Justice proposed to eliminate the proportional pension for newcomers to the scheme, and transition rules, including a minimum retirement age of 53 years (48 for women) for those enrolled in the pension scheme prior to the reform. Figueiredo and Limongi (1998) underlined the majority that the government had in the upper-chamber, enabling it to reverse the changes, focusing on guarantees of acquired rights, transition rules, and some progressivity rules to allow for the acceptance of the intended new rules of the benefit component.

Because the Senate modified the Deputies' original text, in December 1997, the PEC was reintroduced to the Chamber. The deputies rejected several modifications made by the Senate, giving special consideration to the institution of minimum retirement age (53 for men and 48 for women) for those new contributors of the RGPS to have full pensions, and a potential reduction in the old-age pension amount for civil servants. An interviewee with direct participation revealed that '*in 98 in the Chamber the government had many difficulties, [but] in the Senate he managed to control the process well. Fernando Henrique's government had problems in the Chamber, at least at the government's beginning and very easily in the Senate. The majority in the Senate was much more comfortable in the government than in the Chamber. Then, the Chamber rejected the project and came to the Senate to change, start from scratch, and do another project.'* (Legislative Consultant at the Federal Senate).

After almost four years, the PEC was approved and released as Constitutional Amendment 20 in 1998. The main features were related to the end of service-time pensions, including the proportional pensions. These were granted five years earlier than the legal requirement, with a 30% reduction of the amount. Also, it included the finalisation of special old-age pensions, except for school teachers. For civil servants, there was a new minimum retirement age of 60 years (55 for women) only for new retirees, which did not affect acquired rights for the three

levels of government. Hence, a minimum requirement to be eligible to receive a pension granted by the RPPS was established (Nakahodo & Savoia, 2008).

To conclude, the debate related to the pension reform was characterised by strong and intense political obstacles causing a constant rejection, pushed by members of the Parliament, of the more sensitive items. Their main incentive was to have an electoral effect on future elections, mainly those affecting civil servants. For instance, most of the attempts to significantly reduce public liabilities on civil servants' pensions were rejected and the original size of the reform was diminished, by focusing on the private-sector employees' pillar. Similar to Matijascic (2002) argument, the fragmentation of the Brazilian party system, and structural indiscipline of political parties, are critical to explain why political obstacles affected the pension reform outputs, despite the strong incentives created by the funding and benefit components of the policy architecture. In short, these structural constraints help us to understand the difficulties and perverse incentives executed by the Legislative during the pension reform carried out during the first term of the administration of President Cardoso. Lastly, most of the items left behind in this reform were recovered by the Worker's Party led government coalition in the subsequent 2003 pension reform, in section 4.4.

4.3.2.b Concentration of costs and advocacy raised by trade unions

The sectors that promoted the Constituent Assembly and the drafting of the Federal Constitution developed a tacit alliance to sustain the principles that inspired it. With a particular focus on pensions, this tension is explained by a retired researcher at IPEA, who points out that "*There is a tacit alliance, (...), since the 1988 constitution, between the workers' movements, the trade union centrals, the workers' parties, the grassroots groups, and the organized sectors of the public service. Because the organized sectors of the public service have the capacity to be heard, this alliance produced these two systems: one of rights, the other of some privileges (...) and this situation has been difficult since 1988. It went through a first reform in 1998, and it went through the second in 2003"* (Former Senior Researcher at IPEA, April 20th 2017, Brasilia). Furthermore, the primary opponents were mostly concerned with the costs incurred by the new rules to the benefit component of the policy architecture. Several stakeholders were involved in pushing for different directions and influencing the debate through different mechanisms. Although there were interests from banking, financial

sector firms and private pension funds, they did not play an essential role in the veto, as they considered the reform proposal timid and not substantive for their aspirations. However, the strong political obstacles were mostly raised by trade unions from the private sector and civil servants. The latter had tremendous success in maintaining most of their advantages and curtailing the depth of the modifications promoted by the PEC, such as pension amount calculation method or the continuation of access to pensions equivalent to the last salary. Pinheiro argues that these organised groups 'did not mobilize to support this important reform. But a number of organized groups, which would be affected by specific provisions. In fact, opposition was widespread because some groups asserted that it was too modest, whereas others attacked it as a neoliberal package that would hurt workers and sell the country to foreign capitalists' (Pinheiro, 2005, p. 199).

In particular, the main organised groups defending their interests were advocating against benefit reduction, taxation of retirees, and establishing a retirement cap. For the modifications to the RGPS, left-wing labour confederations aimed to increase the benefits to low-income workers while being indexed to the variations of minimum wage. Even conservative trade unions were against further restrictive conditions for private-sector workers. However, according to Pinheiro, they advocated for a merge of the pillars because 'the special conditions enjoyed by public servants were an "unacceptable privilege." Força Sindical was against any adjustment to the PAYG system that would be restrictive for private sector workers' (Pinheiro, 2005, p. 202).

As the PEC experienced a slow pace at the lower house, the government called on trade unions to negotiate the pension reform and overcome the obstacles. They accepted the invitation, but their agenda excluded most of the points aiming to modify benefit rules, such as maintaining exclusive retirement rules for rural workers and teachers. Additionally, they agreed with the government on having contribution-based instead of service-time pensions and to finalise with the proportional pensions (Matijascic, 2002). The two largest labour confederations in Brazil, *Força Sindical* (pro-government) and CUT (militant and leftist), joined these talks but '[a]fter demonstrations from the rank and file accusations of treason, the unions withdrew from the roundtables. In fact, the governments' strategy backfired because

the very design of the proposal strengthened the coalition of the sectoral interests of public employees and the much larger group of private sector employees' (Melo, 1998, p. 15).

In contrast, the strategy of organised groups aligned with left-wing parties was to label the pension reform as the privatisation of social security, which was promoted mainly through newspaper, radio and television advertising funded by ANFIP (Brooks, 2009). The implications of this strategy were to shape the conflict among those favouring privatisation and those willing to preserve access to public social security with acquired rights within a context of 'Cardoso's alliance with the promarket PFL lent credence to the idea that the government intended to privatize the pension system' (Brooks, 2009, p. 232). Hence, corporatist groups were able to set a general framework to signal the implications for voting to parliamentarians and show their capacity for mobilisation and robust links with left-wing parliamentarians and trade unions with active participation in the sub-commission of Social Security and Family of the Deputies' Chamber (Silva P. , 1999). It is worth noting that this element is not exclusive to this reform, as is shown in section 4.4.2.c, but a cross-cutting characteristic of the pension reforms in Brazil. One of the drafters of the 20th Constitutional Amendment pointed out these, by suggesting that '*public servants, despite being a smaller group, they have greater organisational capacity. The reform of the general regime is much more diffuse, and organisations are more fragile. It is much easier to organise in the public service. So, we feel strong resistance from civil servants in all the reforms, I think that the fact of having reached the civil servant more if we take before the amendment 20 the rules of public service pensions, they were so generous, so absurdly favourable that you had much fat to burn on the move, and we managed to change in large part because of that*' (Legislative Consultant at the Federal Senate, April 20th 2017, Brasilia).

To conclude, most mobilised groups of insiders concentrated the political obstacles, increasing the reform costs and confronted the argument of fiscal sustainability of the pension scheme. In contrast, they advocated that the funding component's issues were mainly due to tax fraud, incentives for labour formalisation, and underreport contributions. This advocacy was combined with the tenure of high-level access to legislators, prominently those from leftist sectors, and non-programmatic members of the Parliament due to the corporatist electoral counterbalance. Lastly, the bulk of the resistance was carried out by

public sector organisations that avoided further changes to the RPPS parity and integrality pensions, critical aspects to reduce the fiscal deficit and increase equity among retirees. The vast source of rejections came about due to strong political obstacles built by pressures from organised insider groups on members of the Congress, and less organised private-sector workers concerned with most of the costs and modifications of their pension benefits.

4.4 Pension Reform of 2003: Adjustments to the civil servant scheme

This dissertation claims that the Brazilian pension reform and its incentives are cross-cutting issues that are not limited to a single government. Hence, the policy architecture components that set incentives are similar, and each government aims to tackle the pension reform from a fiscal point of view to increase the budgetary space from the revenue side. However, variations in the political variables and strategies allow singular agenda-setting and policy adoption processes for each case to reduce the intensity of political obstacles. The 2003 pension reform objectives and focus followed the inertia started years earlier by the debates and outcome of the reform conducted by President Cardoso.

4.4.1 Political approval at the Executive

Regarding the agenda-setting stage, the chapter identifies two aspects that made it crucial, for political convincement and technical lines, to conduct a pension reform for civil servants. This was during the transition period between the governments of Cardoso and Lula, and the initial talks and coordination were held at the Casa Civil to overcome obstacles from civil servants' trade unions and the necessary 3/5 of the votes in Parliament. This section's arguments fill the gap that authors like Brooks (2009) did not assess, which is the pivotal political role of Casa Civil during the early days of President Lula's first administration and the prior conversations held at the Transition Team.

4.4.1.a Transition period until the Presidential Inauguration

Between the run-off elections and the Presidential inauguration of Lula da Silva, a transition team started to draft the guidelines for the first decisions, to establish contacts with other political parties to form part of the coalition and to show credibility to important economic actors who were cautious of the new President. This transition team was led by the future

Minister of Finance, Antonio Palocci, who was in charge of "*establishing a dialogue particularly with the market, with the financial sector, business sector and preparing what would be the government's economic program*" (Former Officer at the Civil House). An interviewee stated that the rest of the coordinators' tasks were to assess the impact of the policy proposal on the public administration (Luiz Gushiken, former unionist, deputy and close advisor of Lula da Silva). The other senior members of this team were senior politicians, academics and advocates on several policy areas that later assumed high-ranking positions in the Federal government.

Within this context, the pension reform project, which aimed to modify the civil servants' scheme, was discussed among Lula's political advisors and experts willing to collaborate. Although it was already part of the government programme, it was not publicly released, partly to avoid early misunderstanding with one of the Workers' Party's main constituencies and to deviate the focus and campaign strategy. A former official at the Civil House recalled that a member of the presidential campaign team leaked to the media that "*the government was going to do pension reform, and he was immediately disallowed and disproved by the party president, José Dirceu. Because really at that moment, if this had been placed as a project, an item of the government program, it would cause loss of votes, it would cause enormous political wear and tear. Perhaps not enough for the election's loss, but it would be a fair skirt, a controversial and exhausting issue. It was then decided, it was a political option, that this was a topic that should not be addressed publicly*" (Former Officer at the Civil House, October 26th, Brasilia). This statement and the political coordination involved highlights how cautious this reform was, and how it involved a moderate left-wing party with a profile more likely to fit into the constituency-coordinating category when Lula inaugurated his administration. Following Pribble (2013), this responded to 'the difficulties that constituency-coordinating parties face when attempting to reform sectors in which there are strong organized interest association' (Pribble, 2013, p. 182).

4.4.1.b Role of Civil House in negotiations.

During the process of political coordination and convincement in the cabinet, the Casa Civil played a substantive role as the agency responsible for the relationship with the Legislative branch and the Presidency. Casa Civil is the primary gatekeeper to assess legislative success

by commanding negotiations among Ministries, treating them as 'autonomous entities within the cabinet, competing and collaborating for advancing bills to the Casa Civil. The Casa Civil brokers these relationships, enforcing coordination, assuring a unified, coherent agenda, and proposing collaborations and integration among ministries in transversal policy proposals' (Gaylord & Rennó, 2015, p. 254). The 2003 pension reform was not an exception, as a former high-ranking official remarked that "*during the first two years of Lula's mandate, the Civil House played, especially in the first year in office, the political coordination function. At the same time, the Chief Minister of the Civil House was responsible for coordinating the debate before sending a proposal to Congress, which was sent out in the first months of the government. But, as a result, it will also coordinate political negotiations within the structure of the national congress looking at its approval*" (Former Officer at the Civil House, October 26th, Brasilia). These internal negotiations among two groups occurred at the Civil House talks. The first was technocrats, who played a role as policy designers and advisors responsible for the public finances and for offering governance and public credibility of the new government. The second group was formed of high-ranking civil servants who had a career as trade union leaders and people responsible for public finances.

This composition and the political coordination at the Civil House made an agreement possible among the different visions stated above and consolidated a single vision of the reform at the Executive branch. Furthermore, as expected, the government suffered intense contestation from their base constituents, such as trade unions with the capacity to raise strong political obstacles to resist particular aspects of the pension reform. The Civil House organised a series of talks involving senior members of the Ministries involved with leaders who tended to support the Workers' Party-led government. Hence, a preliminary round of hearings was necessary to reduce future constraints, because "*there was considerable difficulty from the political point of view in the domestic sphere, given the link between the government of President Lula and his party to the trade union movement, the union, unions and even public servants. Meetings were held at the Civil House conducted and coordinated by the Chief Minister of the Civil House, with the participation of the Minister of Labor, with the participation of the Minister of Social Security and trade union leaders, to explain the proposal and ask for support or at least that there was no radical position against it"* (Former Officer at the Civil House, October 26th, Brasilia).

4.4.1.c Main contents of Constitutional Amendment Project n. 40/2003 and Constitutional Amendment 41/2003

The Constitutional Amendment Project 40/2003 (PEC, by its acronym in Portuguese) that the government introduced to Parliament aimed to align both mandatory pillars in terms of benefits to meet the incentives that the funding component of the policy architecture was developing on long-term sustainability since the previous reform carried out by President Cardoso. The details of the reform, presented in Table 4-1, were the introduction of a contribution cap, similar to the one applied to the beneficiaries of the RGPS which was approved in the pension reform in 1998. This was followed by tighter rules for the integrality pension so that it would not be higher than the wage of the civil servant position at which the retirement occurred. As these proposals of the benefits component mostly narrowed the pension amount granted by the pay-as-you-go scheme, the PEC 40/2003 considered establishing a complementary pension regime exclusive to civil servants (Presidência da República do Brasil, 2003b).

Moreover, the PEC 40/2003 aimed to legislate future benefit calculation rules considering the rule applied to the RGPS. Besides, this proposal suggested increasing the age requirements to voluntarily opt for retirement from 53/48 (men and women) to 60/55, for those who could contribute 35 and 30 years, respectively. However, the 40/2003 eliminated the last salary as a parameter in the benefit amount calculation method. Finally, there was a series of guarantees of acquired rights for active and retired civil servants, such as the respect of the old eligibility rules, especially those entitled to receive old-age pensions that meet the integrality and parity principles (Presidência da República do Brasil, 2003b).

The approved PEC was enacted as Constitutional Amendment 41/2003, and its main contents may be summarised as follows. There were new retirement rules for civil servants, a minimum age (53 years for men and 48 years for women) and at least five years in the last position for the benefit component of the policy architecture, along with the fulfilment of one of the contribution-time requirements (35/30 for men and women, respectively, of years of contribution, or a contribution time-span equivalent to 20% of the years needed to meet the contribution-time requirements). Also, the Constitutional Amendment established new requirements for accessing a full pension, such as a minimum time of being employed in the

public sector (20 years), with ten years within the civil service official staff, and five years in the last position, followed by a contribution-time and minimum age, such as those stated above. On funding, the Constitutional Amendment 41/2003 established a benefits cap similar to the one approved for the RGPS in 1998, but it would affect new cohorts of civil servants due to acquired rights criteria. Lastly, pension amounts would be reviewed according to the salary variations, proportionally, of the active position.

The Presidency enjoys exclusive legislative powers on social security, but it is diminished by the lack of majority and party discipline, creating challenges to reach broad approval with qualified quorums. For instance, Kay (1999) suggested that '[g]overnments pursuing cost-imposing measures like social security reform will be more likely to receive legislative approval, or will be able to achieve a majority at a lower cost, where party discipline can be better enforced, than where party discipline is weak, as in Brazil' (Kay, 1999, p. 413). To undermine this disadvantage, the President decided to expand his authority by calling on Governors to ensure their support for the general project and reduce the chances of legislative blockade due to party system fragmentation. The target of financial liability reduction was a commitment that involved state governments exchanging a broader coalition for agenda approval. Governors demanded that this agreement should include a bill on taxation that may benefit the state-level Treasuries. Consequently, an interviewee revealed that "*President Lula also sought to build around this proposal. As well as his project for tax reform, which was sent to the Congress at the same opportunity, in agreement with the state governors, so that he would be authorised, with the support of these governors, to accelerate discussions within the legislative branch. On that occasion, a compromise was also signed by the governors, the Brasilia Charter, whose purpose was to signal to the National Congress the support of the governors for the proposal then forwarded*" (Former Officer at the Civil House, October 26th, Brasilia). The constraints that modifications to the benefit component faced at the very start of the parliamentary procedure were countered through this expansion of the Executive authority by including state governors from different political parties into the debate to receive their share of credit claim. This counterbalance led to diminished resistance from deputies due to the governors' commitment to approval and their role in state-level politics. Hence, the Presidential authority was expanded after the agreement with Governors

and overcame the loyalty dispersion and potential individual negotiations of votes for unique benefits.

In conclusion, the Presidency decided to involve the Governors in undermining potential difficulties at Parliament. Hence, the Presidency was capable of merging expectations with relevant actors in Brazilian polity, such as Governors, having as a result an increased Presidential authority and power on this matter. The agreement, formalised in the Brasilia Charter, weakened party discipline difficulties from the national directorates to federal deputies, especially on legislation that may have been unpopular. Hence, this agreement was an instrument to reduce the likelihood of parliamentary incentives for fulfilling their clientele's expectations and refusing the approval of important aspects of the reform. The abovementioned political decision confirms the role of governors in the Executive-Legislative relationships because 'governors control resources that can influence other politicians' careers, and national parties and the president lack such resources, federal and intergovernmental disputes play a key role in defining executive-legislative relations. (…) Thus, the state-centeredness of elections in Brazil tends to increase the weight of subnational interests in Brazilian national politics and to weaken and fragment Brazil's parties' (Samuels, 2000, p. 251). Hence, Presidential power was fundamental in agenda setting because it consolidated the proposal drafted by an inner circle of technocrats combined with senior members of the PT with a unionist background. This combination of profiles and the Presidency role was crucial in bridging the historical issues affecting the public-sector pension scheme, ensuring broader support through the initiative of establishing a deal with Governors to reduce political obstacles in Congress.

4.4.2 Policy adoption

4.4.2.a Political costs of the Worker's Party: internal disputes and dismemberments.

The Workers' Party began to navigate between two visions that struggled to prevail during the Transition Period and the early days in office: one sector that aimed to reduce the gap between social movements and the Executive policies, while they were confronted by a fraction that promoted the division of the Workers' Party constituencies' demands and proper government tasks. This division was deepened by the 2003 pension reform, which was announced in the first days of the PT administration. This is a sample 'of the party's

transformation from a constituency-coordinating to an electoral-professional organization' (Pribble, 2013, p. 183). As the PEC progressed in its debate, having considered that civil servants were one of their main constituencies, the government could not reconcile these differences and suffered an internal split that damaged the early days of the new government coalition. According to Brooks, 'the governing coalition suffered notable defections, including from the Labor and Communist Parties (PDT and PC do B). Most strikingly, the PT itself sustained an unprecedented eleven defections (eight deputies abstained and three voted against the measure). Those PT defections marked a breach of party rules, obliging PT leaders to initiate disciplinary action' (Brooks, 2009, p. 292). A former Congressman stated that "*sectors of the party that failed to understand this, very corporate sectors linked to specific civil service sectors that did not understand. We split as a group that left the PT and formed the PSOL.*" (Former PT Deputy, October 24th 2017, Brasilia).

Consequently, this output is clear evidence of the close links that can be established between organised groups and political parties during pension reform debates, which create political obstacles that may affect further dimensional progress towards universalism. For the reasons stated above, the split of the government party and coalition helps us acknowledge the intensity and importance of these links in social policy debates, particularly for a constituency-coordinating party profile that clashes with sectors pushing for governance and leadership of the Executive as essential tasks. A former Minister of Social Security explains this apparent dichotomy, arguing that "*if I am a unionist, I have to defend my category in the sector. But from the party and the government's point of view, I have to look for the whole of society. So it was a very tough debate, but respectful*" (Former Minister of Social Security, April 26th 2017, Brasilia).

4.4.2.b The role of the Parliament in the debate

Compared to the tortuous debate held at the Chamber of Deputies on the pension reform proposed by President Cardoso, the 2003 reform debate had fewer difficulties and it was enacted in less than a year, despite the PT having direct control of only 18% of the seats in the Chamber (Brooks, 2009). The main issue was taxation on generous pensions of civil servants, an aspect that was rejected by members of the government coalition, but the Opposition demanded their support to reduce future electoral constraints, a decision largely

motivated by a blame avoidance perspective on the politics of pension reform. The government was also forced to increase the contribution ceiling, affecting the original fiscal goals and the initiation of the new complementary pillar for civil servants. Consequently, the 2003 pension reform benefitted from the previous one (1998). This was mainly due to the focus on the civil servants' scheme, which was concerned with the incentives coming from the benefit and funding components of the policy architecture. As the previous chapter argued, civil servants were the main inheritors of a long tradition of particular arrangements for pension entitlements with large fiscal imbalances in financing. By this time, most of the proposals aimed at curtailing benefits and postponing the retirement decision were considered positive by deputies of the Opposition, weighting the potential electoral losses promoted by mobilised civil servants. A representative of the Brazilian Social Democrat Party recognised that most of the bill introduced by Lula was supported by them, due to similarities in the aims of the previous attempt at reforming the civil servants' scheme. Hence, past decisions matter and partly determine the range of topics to be part of future pension reforms, confirming this policy's path dependence.

Hence, most lawmakers located on the other side of the bench backed a substantive part of the proposal. Unlike Cardoso's constitutional amendment on pensions, the deputies negotiated particular aspects of the text in exchange for more significant support from government deputies as a form of guarantee, and less exposure to future complaints to allow the surpassing of political obstacles. By considering these aspects, members of the main parties of the previous government coalition (PSDB and PFL) passed a vast proportion of the proposal. These defections were from sectors of the governing coalition whose parties had strong ties between the party elite and base, combined with a programmatic link with their core constituency.

In September 2003, the PEC was approved in the Deputies Chamber and passed to the Senate to continue with the constitutional procedure, yet it was not a straightforward process for the government at this stage. Notably, although the government had a reachable majority in the Senate, members of the Worker's Party did not fully support the bill. This situation required negotiation within the Senate; otherwise, they could change the Deputies' project issues and would take much more time to get full approval due to constitutional procedures.

As Brooks stated, the situation of possible modification of the amendment 'would have obliged to the government to return it again to the Chamber of Deputies to restart the process. The risk of such a delay was too great for Lula to accept, given the rising spectre of local elections in the following year' (Brooks, 2009, p. 293). The solution was to discuss a parallel project, being drafted at the Senate, with the intention of negotiating a transition in the new eligibility rules, especially the loss of the integrality and parity. A legislative expert emphasised that "parallel" Constitutional Amendment Project's role was a success at the Senate but was not received with sympathy. This interviewee stated that "s*ome senators agreed to approve the government bill without change as long as there was another Constitutional Amendment Proposal by changing some points, reducing the impact of some points. When the bill that turned the 2003 amendment was passed in the Senate, the parallel PEC got approved at the same time in the Senate. There it went to the chamber and stayed a year and a half more in the Chamber because this caused a certain discomfort with the deputies. The deputies said the following: - Look, we have done everything that government wanted, that is, we have done evil and the senators have done the good. The deputies were a bit uncomfortable with the fact that the House is bad of the story - the bad cop - and the Senate is the right guy in the story, the cute character. The Chamber had a very high resistance in approving the parallel PEC (...)*" (Legislative Consultant at the Federal Senate, April 20th 2017, Brasilia).

To sum up, the Senate allowed a swift approval of the bill as it did not review the project in depth, which was sent back to the Deputies in its final stage for approval and enactment. However, this fast track in the Senate was made to introduce transition rules backed by Senators linked to public sector trade unions for credit claiming. Consequently, the bill did not suffer a slow debate in Parliament and got approval after eight months of debates and text adaptations.

4.4.2.b.1 Debates and differences between political parties

Historically, the Workers' Party (PT) has strong links with the labour movement, which intensify when they do not form part of the government coalition. Nevertheless, the PT faced the dilemma of sectors representing the concerns of public sector trade unions. The new PT-led government had to struggle to meet the approval of the Constitutional Amendment to

reach the fiscal goals involved as primary incentives generated by the policy architecture. This situation divided the party and carried high political costs. A former deputy recalls that period: "*one thing is the party program, and another thing is the government program because the government works with correlations of forces, social correlation of forces, which also express themselves in parliament, in never had a parliamentary majority. Although Lula has won twice, although Dilma has won twice, we have never had a parliamentary majority of the political forces (...)*" (Former PT Deputy, October 24th 2017, Brasilia). As a result, in the early days of PT governing Brazil, they were more willing to pursue reforms which tackled some unique benefits which were, undoubtedly, costly to their core constituencies' interests but highly unequal for the overall pension scheme.

For the specific case of the 2003 pension reform, a former Minister of Social Security recognised the government's difficulties in their relations with left-wing sectors of the party, the governing coalition and organised core constituents. This evidence confirms the argument on the incentives that a segmented pay-as-you-go pension scheme has to organised groups to defend some of their entitlements, as they focus on the direct costs of adjustments. Moreover, there was an appropriate deployment of government officials to solve potential gridlocks to limit the advancement towards universalist outcomes. Senior policymakers were required to hear their demands and reduce tensions and misunderstandings to allow a fast passing of the bill in Parliament. A former high-ranking official emphasised this disposal for dialogue but recognised some intransigence from representatives of organised groups, arguing "*I received, practically all the entities, public servants, leaders of the government, parliamentary representatives of the Chamber of the Senate and there was a dialogue. Now some union leaders set the following: We do not accept the reform. It is impossible to dialogue, if you propose to change something, you can change. However, most leaders struggled with their base of negotiating with the government*" (Former Minister of Social Security, April 26th 2017, Brasilia).

The Brazilian Social Democratic Party (PSDB) concentrated their debates at a technical level, and the political implications were processed by the party elite without the substantive consideration of their party base on the policy proposals. Additionally, they mostly agreed on the project, but as mentioned above, they claimed some guarantees before the general vote

at the Deputies. This political action fits with the electoral-professional party character by that time, where the programmatic priorities were of primary importance for the party members, as 'the opposition PSDB – Cardoso's party, which had led the pension reform effort over the previous decade – signalled that it would not offer unqualified support for the amendment unless the *entire* governing coalition supported it. For if there were defections from the governing coalition on the question of pension reform, then PSDB legislators supporting the amendment would be vulnerable to electoral attacks from the left in the next election' (Brooks, 2009, pp. 290-291). A highly-ranked official at the Fernando Henrique Cardoso Foundation mentioned the short-term political game that motivates the parties, particularly the PSDB, which is that instead of having a pension project issued by the policy cadres, they are willing to deploy veto and lobby for their policy preferences. Nevertheless, the 2003 pension reform matched the previous attempt to equalise the retirement rules between private-sector workers and civil servants, facilitating their affirmative decision. This source stated that, "*we lost the election, but we did not lose the shame, we continued to vote in favour of the reforms, back then. Then, the party, well, lost several elections and there the opportunism. Well, you know how the average politician is, but back then Lula had more problems with his party for this kind of thing, than with the Social Democratic Party. Because back then, even the quality of the representatives of the Social Democratic party in the Chamber of Deputies, in the Senate a lot over what it is. Politicians more in the Chilean style, to put it in some way, are now more Brazilian*" (Executive Director of the Fernando Henrique Cardoso Foundation, November 21th 2017, São Paulo). To sum up, the PSDB was not the main target of civil servants' corporatism; neither were they part of their core constituencies. Besides, as the issues affecting the benefit and funding components of the public servant scheme were similar to the 1998 pension reform, the PSDB had the convincement for the urgent needs which it was necessary to meet. However, the final details were on reducing the potential for negative electoral impact by forcing most members of the government coalition to support the bill.

The Party of the Brazilian Democratic Movement (PMDB, nowadays MDB) seems to be one of Brazil's most prominent catch-all parties, highly characterised by limited discipline and loyalty combined with high individualism, ideologically diffuse character and heterogeneous internal composition (Mainwaring, 1999). Furthermore, the PMDB is the party that can be

noted as an icon of non-programmatic but powerful influence on local elites' networks and electoral machinery (Power, 2010a). An interviewee supports this claim about the PMDB non-programmatic profile but richness of political resources such as votes in Parliament. This expert remarked that "*parties that are large opportunist agglomerations, as is the case of the largest Brazilian party of the PMDB, that has a programme, has an orientation. However, deep down, in fact, what governs the action of the deputies there, are actions of political elites within the party, within their region, to which they are linked and that optimise the chances of political survival, political plans of them*" (Professor at the Institute of Political Science at the University of Brasilia, April 27th 2017, Brasilia).

For the 2003 pension reform, the PMDB held the third majority of seats (74 elected members) at the Deputies' Chamber. The PMDB asked for conversations for benefits and positions in the Federal Government, and President Lula provided it after the 2003 pension reform. Following Brooks, this bargain with leaders of the PMDB allowed for the passing of the reform bill with wide margins. In return, 'Lula offered leaders of the notoriously incohesive PMDB monetary rewards and secondary administrative positions such as nominations to federal government positions; this was much less than the high-ranking cabinet positions its leaders demanded' (Brooks, 2009, p. 292). Hence, PMDB took advantage of its position as a catch-all party by arguing for an exchange of favours and promoting transitions on the reform implementation to reduce the immediate impact benefits for civil servants. All in all, the PMDB responded to a pattern of predominantly non-programmatic links in order to deliver benefits to selected groups that generally counteract mobilising electoral support and political promotions (Pribble, 2013).

To conclude, even though the 2003 pension reform was much more manageable than the 1998 reform, it was still not an easy task for political parties, even if they were from different ideological locations, performing official duties at the Federal Government or leading the Opposition. There is a cross-cutting and structural determinant on the politics of this policy area, as summarised by a Professor at the Institute of Social and Political Studies at the State University of Rio de Janeiro: "*a determinant of the difficulties of passing a pension reform is the nature of public policy, it is a policy that imposes immediate costs and has uncertain results. That is, certain costs in the present and unknown results in the future because it will*

depend on other governments, it will depend on so much, the economy" (Professor at the Institute of Social and Political Studies at the State University of Rio de Janeiro, November 14th 2017, Rio de Janeiro). Consequently, segmented pay-as-you-go pension policy architecture is likely to create incentives for reform issues regarding benefits and funding components. Concentrating on the costs in the short term and the diffused benefits over the long term, parties will behave according to this pattern. Henceforth, political parties with strong links to groups that bore most of the pension reforms' costs are likely to be an active opponent of further benefits. Meanwhile, electoral-professional parties are likely to lead these reforms, arguing for the fiscal effects that will lower the public treasury's financial pressure. Lastly, these parties at the executive branch would need to negotiate with the opposition, which has a robust linkage mechanism with organised groups to approve the bill and transition periods.

4.4.2.c Organised groups: the corporatism of Civil Servants' Trade Unions

This dissertation has argued that the long-term deployment of segmented pension systems creates strong incentives for corporatist trade unions to have direct involvement in maintaining advantages on the benefits component of the policy architecture. Additionally, these organised interest groups are likely to establish strong political obstacles due to their strong links with politicians with time-horizons marked by electoral criteria and local political favours. This local influence from organised groups allows the undermining of 'the ability of national party leaders to command the cooperation of federal deputies on difficult legislation' (Brooks, 2009, p. 273). Hence, there are conditions that empower these organised groups representing corporatist interests to influence politicians in order to preserve some of their advantages, allowing for a situation where '[p]oliticians had little incentive to promote mass entitlement programs given weak collective popular action on their behalf' (Mainwaring, 1999, p. 230). As a result, the concentration of costs in the short term for those groups facing a potential tightening of the rules on access and calculation methods generated the eruption of lobby against the new provisions.

From these active and organised groups, the literature identifies civil servants' trade unions as those in which collective action is more decisive and active on these reforms. In contrast, business groups could also be a pivotal actor, but by the mid-1990s, a potential privatisation

was primarily defeated. Nevertheless, business associations showed interest in the details of the new contribution cap for the RPPS to increase the coverage of the contributory pensions under their management. They did not support the overall design of this set of reforms, mainly because 'they thought [constitutional reforms] did not go far enough. (…) Like the other business associations, [pension fund associations] (…) considered the government's proposal insufficient because it did not stipulate such a drastic change' (Pinheiro, 2005, p. 201). For these reasons, this section focuses its analysis on the roles of the groups with the higher costs and able to set strong political obstacles by deploying the defence of their benefits, rather than mutual support in improving the pension scheme's actuarial balance.

The contested role from the public-sector trade unions remained defiant for the 2003 pension reform. Their main disadvantage was that 'Lula could more credibly advocate curtailing the privileges of public sector workers. And when faced with the opposition from other credible actors, Lula's embrace of ideological rhetoric simplified the reform issue and framed it as consistent with shared norms' (Brooks, 2009, p. 236). For instance, a corporatist trade union looked for alliance with labour confederations that were out of the direct control of the Workers' Party. According to a former President of ANFIP, they "*we were united at the time to the central unions that were not aligned to the government, had a central very especially the CUT that was manipulated by the Planalto Palace. It was definitely aligned with the government and despite representing a large contingent of workers did not contest the reform, contested very weakly ...*" (Former President ANFIP, October 18th 2017, Brasilia).

These corporatist trade unions identified that despite the government claim in respect of the acquired rights, they needed to focus their efforts on any aspect to reduce the immediate costs for cohorts of nearly retired civil servants. Consequently, they targeted their veto power at achieving a postponement of the full implementation of the new contribution cap and establishing a complementary scheme to manage the payroll contributions that surpassed that ceiling. For instance, it is worth noting that the Brazilian judiciary system may perform a judicial review of legislation, and the decisions are abided by executive and legislative branches (Taylor, 2006). Therefore, as judiciary servants were one of the most privileged sectors in terms of pensions, they were able to perform a corporatist defence of their situation by activating these procedures "*In Lula's reform, the 2003 reform, the greatest veto*

power came from the judiciary, but what happened was that the Lula reform approved in 2003, the component of the reform that harmed public officials, was only regulated in the Dilma government (...). Then, the unions rebelled, the reform was approved, but the government did not implement the reform, did not regulate" (Professor of Political Science at University of São Paulo, November 22nd 2017, São Paulo). The central conflict between the government and civil servants was about the cohorts for which the new rules would be valid, as their concern was to postpone the implementation and to extend the transition period, which would not change the acquired rights of active civil servants.

The most notable example of the influence of organised groups was the late establishment of the ceiling benefit, which was implemented in 2012. In November 2003, the Senate addressed the concerns of highly-organised public sector corporatist groups (such as judiciary and federal level civil servants) that still had severe misgivings about the reform. Then, the Senate decided to facilitate the approval from a large part of the project that remained, such as rules which aimed to equalise both mandatory pillars and parity on pension amounts from the current salary of the posts involved. As a result, the Deputy Chamber's swift approval forced the civil servants' association to target their lobby at the Senate, taking advantage of the procedural rules of this legislation. The parallel reform created by the upper-house should introduce modifications and the lower-house should countersign, resulting in an extension of the approval and creating the need for new strenuous negotiations with lawmakers. The Presidential mandate to approve a swift reform was the main incentive for government Senators to introduce the Parallel PEC, which attracted the interest of civil servants, as they were one of their primary constituencies. Through this political manoeuvre, which was highly advocated and demanded by these organised groups, a second round of draining and time-consuming talks at the Chamber of Deputies was avoided. Therefore, it would make it easier to meet, but not entirely, the fiscal goals and include some demands from trade unions to reduce their antagonism. A Legislative Consultant at the Senate argued that "*despite being a left-wing administration, Lula's government; nonetheless, there were some proposals that workers did not accept very easily. Then Senator Paim, along with other Senators, made a proposal for a parallel constitutional amendment. It was a debate at the Senate, and some prepositions were made. So, from this point of view, the workers were in favour, because it was a way of slowing down propositions that had come very hard from Lula because they*

came from the economic area, did not come from the area of social security" (Academic and Legislative Consultant at the Federal Senate, September 25th 2017, Brasilia).

Consequently, the parallel amendment reinforces some structural features of the Brazilian politicians as they 'are free to attend to their own clienteles without being bound to national programmatic concerns' (Mainwaring, 1999, p. 259). The resulting modifications disappointed government officials because the results moved away from the financial goals that those in charge of the reform aimed to meet, especially during the first years of implementing the new rules. Besides, the results extended the existence of some of the so-called privileges, as a former Minister of Social Security stated during an interview, "*I would say that we got the main thing: after the negotiation in the Federal Senate to approve the constitutional amendment, there was an initiative by other senators to make another parallel text, it was called a parallel PEC that modified eased the transition rules. (...) It was the primary loss we had. Because it reduced the budgetary impact that the reform would have in the first ten years. So, it was terrible, from the point of view of the reform goal it was bad, for the servants it was good. (...)"* (Former Minister of Social Security, April 26th 2017, Brasilia).

To conclude, civil servants were one of the most unionised and organised workers' groups in Brazil, with particular interest in defending their advantages compared to pension entitlements for private-sector workers. Their actions were varied, involving marches, lobbying and a media campaign. Direct pressure was put on legislators as '[i]n July 2003, for example, more than four hundred thousand civil servants participated in a march in Brasília, calling the legislators who supported the measure traitors. In the context of a minority government, this increased the cost of support for Lula's proposal in the legislature' (Niedzwiecki, 2014, p. 40). According to this author, the results of this process of articulation and mobilisation of civil servants was a reform with policy concession that harmed the original fiscal goals and postponed a significant resolution to a long-standing policy issue which originated in the funding component of the policy architecture. In parallel, direct access to lawmakers gave them an asset to put their demands directly on the table to negotiate, coordinated by the National Association for Social Security Auditors (ANFIP). Lastly, civil servants, such as those belonging to the judiciary branch, activated their veto resources outside of the legislative arena, deploying their concerns at the local level as they may affect

the federal and state bureaucracy's regular operation. Consequently, these resources are utilised to compensate for the lack of direct control of any policy architecture component and affect their union behaviour, as an interviewee suggested, "*it has a set of categories that continued with its association characteristic and did not have a union action itself. They have a corporate role, which is what you were saying, which is an association of judges affiliated with the central, but they do not decide the direction of the central, they do not have enough power to determine the direction of the central. However, at the same time, you do not need the central union control to pressure the government; they work within the state.*" (Researcher at Inter-Union Department of Statistics and Socio-Economic Studies, November 23rd 2017, São Paulo).

4.5 Conclusions

The 1988 Federal Constitution stated the fundamental rules that organised the pension scheme in Brazil, marking the inertia of the current incentives for reform and facing strong political constraints that are difficult for any democratic government trying to introduce profound modifications. Although the policy architecture plays a leading role as a determinant of further modifications, marking the main boundaries and distributing the power within the policy area, it is insufficient to explain the achievement of universalist outcomes. Two different governments carried both reforms, sharing the same arguments to pursue further changes to the policy architecture's benefit and funding components. Cardoso and Lula tried to forge a programmatic electoral-professional character but had to deal with pressures from core constituencies, and even sectors from their broad coalition, which was prone to behaving as a non-programmatic party. Due to this set of different party characters and tendency to be influenced by corporatist groups, they obstructed the approval of eligibility items and delayed the full implementation of the reform. Lastly, the range of discussion topics on both reforms reduced fiscal compromises as the primary criterion to achieve a future sustainable and manageable pension scheme.

In particular, there were significant political incentives to block or reduce the planned alterations to benefit rules for specific groups. This incentive was stronger for parties located at the opposition, but they later were part of the governing coalition changing their position and attempted to pass measures to reduce benefits in order to lower the fiscal burden of

pensions on the public treasury. Nevertheless, by the mid-1990s, there was consensus among most Brazilian technocrats about the high fiscal costs that would be involved in a structural reform from a segmented, but public, pay-as-you-go scheme to an individual capitalisation account. These fiscal transition costs contradicted the incentives generated by the funding component, which looked at the reduction of the fiscal deficit. Besides, the privatisation of the pension scheme was highly unlikely as it may have triggered even more intense mobilisation from organised groups that would bear most of the costs of this policy decision. Lastly, political parties would not support reforms that brought high electoral cost over the short term, followed by questionable diffused benefits over the long term.

The benefit and funding components of the policy architecture targeting equity and generosity created broader differences between the government, political parties and organised groups. Notably, these were the primary targets of corporatist groups to push for their interests in adjusting the original modifications to eligibility and implementing further transition to increase the costs to future cohorts. The groups that experienced most of the modifications advocated for their benefits, while they did not exercise direct control of any component of the policy architecture. The characteristics that remained alike for the 1998 and 2003 pension reforms were notable poor party discipline, fragmentation, strong links to centre-left-wing programmatic parties, and caveats offered by non-programmatic and catch-all parties that enjoyed a substantive share of seats in Parliament. The abovementioned general trend resulted in powerful lobby and success in establishing transition periods with the support of parties to diminish potential electoral losses pushed by the mobilisation of corporatist groups at the local level.

These political obstacles led to cautious legislative strategies carried out by President Cardoso and President Lula. President Cardoso had the Workers' Party as opposition, which had a strong link with private-sector trade unions and civil servants. Hence, it faced considerable resistance in Parliament, followed by significant defeats such as the unavailability to state minimum retirement age. It was also a politically costly reform and required the pork and barrel manoeuvre to groups of legislators. At the start of Lula’s first term, the political environment was similar to the one that President Cardoso faced; however, his reform was more focused, and part of the new opposition of the government shared his argument.

Notable senior officers designed and monitored the political strategy at the Civil House and the alliance with Governors was crucial to facilitate cross-party support. Lastly, civil servant-related groups deployed partial veto power on both reforms by activating connections with individual politicians, resulting in the government's failure to implement profound modifications to active civil servants' eligibility rules and those who were already retired.

5 The incentives and constraints of policy architecture in the 2008 Chilean Pension Reform

5.1 Introduction

In 1981 the Chilean pension system changed from defined benefits funded on a pay-as-you-go basis, to defined contributions that finance individual capitalisation accounts. In addition, the segmentation continued by establishing limited access to non-contributory pension and high eligibility requirements for a minimum guaranteed pension. As a result, a significant number of old-age people were living in poverty with scarce public support. The evidence indicated serious consequences if the government did not tackle this problem, especially by the mid-2000s. In order to address an extended state of poverty among the elderly, a smooth process of technical consensus and political convincement sought a public response. The pension reform enacted in 2008 aimed to expand coverage to people who were not eligible for a minimum or assistance pension but needed to receive one, raise non-contributory pension amounts through a new solidarity pillar and complement the contributions made during working life, particularly among the vulnerable population. In addition, there were adjustments to important issues in the contributory pillar, such as the fee structure, that were affecting affiliates of the AFPs. Also, the reform introduced a bidding process to allocate new contributors to the firm that offered the lowest administrative fees, to ensure more competition between new and old AFPs. Finally, this reform had a strong gender approach by recognising the role of women in childcare through the creation of the Bonus per Child. This bonus sought to compensate the time during which women did not contribute to their individual retirement accounts because of unpaid domestic work. All in all, the 2008 pension reform was an important step towards the fulfilment of universalist outcomes, especially in the access dimension, with the new solidarity pillar. The advancements in the generosity and equity dimensions were shaped by the constraints and incentives created by the policy architecture. These determined the subsequent political debate and activation of organised interest groups on this matter.

Therefore, this chapter seeks to explain the creation of the different sets of opportunities and challenges that shaped the issues to be solved by the 2008 pension reform. For the Chilean

case, I argue that incentives created by policy architecture were divided into the following components: eligibility (the rules for receiving benefits, especially the ones for the new solidarity pillar) and funding (general revenues for social pensions rather than new taxes or increase in payroll contributions). Consequently, changes to this private pension scheme were a response to long-term problems created by the policy architecture. In addition, policy architecture influences politics through organised groups that exercise power by sharing with their concerns and demands with political parties that support them. In other words, it is these organised groups, with parties whose main constituencies are business elites, who have control of political resources and establish strong political obstacles. Therefore, the constraints were issues that were pressuring for substantive changes to the provision component of the policy architecture. These political obstacles resulted in moderate advancements in the generosity and equity dimensions of universalism, which, through necessity, would involve changes to the for-profit nature of pension fund managers.

The outline of the chapter is as follows. Firstly, I outline the main incentives generated by the policy legacy for conducting a pension reform within this scheme. Those issues were mainly raised by academic evidence that endorsed the need for pension reform to avoid catastrophic consequences to the Chilean pension trajectory. The incentives generated by the policy architecture were: 1) eligibility, due to the projected growth of under coverage, especially among the poor and vulnerable population (section 5.2.1); 2) funding, especially because of the projected reduction in the fiscal costs of the transition from the old pay-as-you-go to the new system adopted in 1981 and the opportunity window for public finances by the mid-2000s (section 5.2.2); and 3) provision, which was facing a set of problems that were solved by adding new regulation to the private fund managers, with a view to achieving more competition and lower costs (section 5.2.3). Then, in section 5.3, I introduce the main constraints that affected the advanced fulfilment of universalist outcomes on the overall dimension. I will finalise this chapter by concluding that the long-term deployment of the policy architecture generated incentives for reform to solve issues that were mainly affecting the eligibility and funding aspects. However, the constraints were concentrated on potential modifications to the nature of pension provision, specifically those problems that were affecting the equity and generosity dimensions of the trajectory towards universal outcomes. It is necessary to recall that the incentives and constraints of the policy architecture partly

explain the contents and direction of the policy solutions for the reform. The final decisions and enactment of modifications also respond to the political game, which includes the political incentives to pursue a particular path or to propose solutions that may significantly change the policy architecture components and its trajectories.

5.2 Incentives from the policy architecture

As was mentioned earlier, policy architectures create a particular legacy that impacts the trajectory of a policy area towards the fulfilment of different dimensions of universalism. During the late 1990s and early 2000s, a large body of literature started to examine various problems with the pension system, such as a coverage deficit among vulnerable sectors, which would create future pressure for a solution to avoid a rise in the poor elderly population. In parallel, there was new information to calculate estimations of future pension amounts and the situation of contribution gaps, which triggered the need to design proposals to face the new diagnosis. This was followed by an insightful debate about the real fiscal transition cost of the new system, held in 1981, and its consequences on public finance. Finally, there was a lack of competition in the pension savings management industry (AFPs, by its acronym in Spanish), insensitivity to the demand according to price signals, among other issues that concerned policymakers.

President Bachelet created a Presidential Advisory Commission led by the economist Mario Marcel. This Commission, known as Marcel Commission, gathered 15 of the most influential experts on pensions who were politically representative of the right-wing coalition and the *Concertación*. As will be discussed in-depth in section 6.2.2, decree 336 of 2006 established the scope of the debates to be held at the Commission, which enabled a focus on specific issues, facilitating the work and agreements among the members. In July 2006, the Commission submitted a report (Gobierno de Chile, 2006) to the President, which was the primary input for the bill drafting and further debates within the government and Congress. The abovementioned issues were part of the debate and report, as some of the leading scholars were part of this Commission.

5.2.1 Coverage and contribution density of affiliates

The first incentive was related to the eligibility component of the policy architecture. In particular, there was current and projected insufficient coverage and low amounts of savings, due to a small number and size of contributions to individual retirement accounts. Although this was a common problem, it was especially worrying for women, due to gender disparities in terms of wages, formality, unpaid domestic and care work, and higher life expectancy of the elderly. For instance, by the early 2000s, the effective coverage (contributors among the work force) of the AFP system had increased from 29% in 1982 to 55% in 1999, and those who continued in the old system decreased their participation from 13.4% to 3.9% (Arenas, 2000). Therefore, the overall pension system after almost 20 years of operation had 58.9% of the workforce participating. However, the main coverage deficits identified by Arenas were the scarce participation of independent workers in the pension system, followed by a significant 35.3% of the affiliates who did not contribute to their retirement accounts during the last year of analysis (1999). In terms of coverage according to income distribution, a poor worker is unlikely to participate as a contributor due to the need to increase their net salary for present consumption rather than postpone it for future consumption (Arenas, 2000).

Moreover, there was a more precarious situation for women belonging to the first two quintiles of income distribution. Specifically, they would have more difficulty in obtaining an annuity with a decent replacement rate and larger probability of being eligible for the guaranteed minimum pension scheme due to the lack of sufficient savings for a self-funded pension (Barrientos & Firinguetti, 1995). Hence, the pension coverage among low-income women was an issue that needed to be taken seriously by a reform. Also, pension punished maternity due to the temporal inactivity and lack of contributions to their individual funds. On this, Arenas and Montecinos argued that '[b]ecause the new social security system deepens gender inequality, serious debate is needed to identify possible ways to adjust the current situation' (Arenas & Montecinos, 1999, p. 32).

As a result, the academic research during the late 1990s indicated that the policy architecture was creating incentives for reform, in terms of inadequate coverage and accumulated savings within individual retirement accounts. This was more important among some sectors of the workforce, implying larger fiscal pressure for assistance and minimum pensions. This was

made even more serious by the lack or inexistence of contributions and insufficient amounts of self-funded pensions, especially for independent and poor female workers (Arenas, 2000). Consequently, the issues generated by the eligibility of the policy architecture would have direct consequences on funding and potential modifications to the provision component over the medium and long term.

Nonetheless, the unavailability of data in the 1990s and early 2000s did not allow researchers to perform sophisticated calculations and estimations related to contribution densities and amounts among a large sample of individuals. The Chilean pensions expert with an outstanding career in public finance who led this reform recognised that after 20 years of implementation, the coverage gaps were becoming an issue for future legitimacy and fiscal sustainability of the pension system with private administration. Finally, he argued that improved data enabled experts and policymakers to gain a better understanding of diagnosis and policy recommendations (Arenas, 2000). This limitation is disputed by an expert who claimed that there was not a feasible explanation for the lack of data during the 1990s, preventing solid diagnosis for policy proposals. He stated that "*until then, data were rather absent. I would like to add that, even more, data were… I think that expressly not shown. There was no interest in deepening the information and I tell you with full knowledge"* (Economist and Lecturer at Pontifical Catholic University of Chile, January 31st 2017, Santiago).

5.2.1.a Social Protection Survey: a crucial step for further research on coverage and contributions

To overcome this situation of lack of proper data, the Social Protection Survey[5] began to be designed at the University of Chile with cooperation from the Ministry of Finance, the Ministry of Labour and Social Security, and the Superintendence of AFP. This panel survey was crucial academic input to influence the public debate about the need to undertake a reform to tackle evidence-based pension problems. According to a member of that academic team, "*facing the absence of data, there was no data about contribution density or anything, what we did*

[5] The Social Protection Survey started to deliver information about knowledge of the system from the affiliates, labour trajectory of the population, and pension coverage along the labour trajectory. Moreover, this longitudinal survey complemented the responses with administrative records, to have reliable information about pension trajectories and projections. To date, the Social Protection Survey has held five rounds in 2002, 2004, 2006, 2009, 2012 and 2015.

was… we developed an instrument that could measure that. That information, from the Social Protection Survey, basically it was the one that generated, firstly the discussion about contribution densities. That was the first time that data came out" (Economist and Lecturer at Pontifical Catholic University of Chile, January 31st 2017, Santiago). The sample size was 17,246 individuals interviewed between May 2002 and January 2003, and the first results were published in 2004 (Centro de Microdatos y Ministerio del Trabajo y Previsión Social, 2004). The data was highly useful for academic papers (Arenas, Behrman, & Bravo, 2004; Arenas, Bravo, Behrman, Mitchell, & Todd, 2006) to set the estimations for the technical debate in the Marcel Commission and promote a consensus about pension issues. An expert declared that "*there were quite opposing views on how the pension system works, what it is and whether it was necessary to make changes, the AFPs have done so well. That was the speech around it. But the data that began to come out about what were the effective contribution densities, the pension gaps, the ignorance of the pension system. All that was so strong, showing evidence that caused people who were living as if on another planet, in practice with good will, to say that we actually have a problem"* (Economist and Lecturer at Pontifical Catholic University of Chile, January 31st 2017, Santiago*).*

Regarding the users' knowledge, only 25% of the affiliates knew the percentage of the mandatory contribution rate; the rest did not know or gave incorrect answers. Moreover, 89% of the respondents knew the legal retirement age for men and women, but only 23% identified the requisites for the Minimum Pension and only 21.2% for the Assistance Pension. The survey inquired about specific understanding of the AFP system, and 44.4% of the respondents declared the amount of their savings, 70.6% did not reveal how their own savings are invested, and 93% had no knowledge of the administrative fees charged by the companies. Finally, the survey inquired about the knowledge regarding pension calculation and retirement modalities, where 78.4% and 62% of the respondents did not know about them, respectively (Centro de Microdatos y Ministerio del Trabajo y Previsión Social, 2004). The main conclusion was the existence of a widespread ignorance about the pension system fundamentals among the affiliates, which damaged the assumption of rational and informed decision-making by the people. This is highly regretted by an expert who participated in the 1980-81 pension reform, who assumed that people would take rational decisions due to the need to be informed about the profits of their own savings; therefore, he stated *"(…) I, at*

least, thought that there would be more education and the people would also be more interested in knowing the system. Part of the motivation for making this reform was that people feel part of their heritage. It was like having a piece of the house paid, outside of the mortgage and was a growing thing. Then, people would worry about how much they have, to know how they were going to retire in the future" (Former Commissioner of the 1980 Reform and Marcel Commission, January 4th 2017, Santiago).

In terms of coverage, the results from the first Social Protection Survey suggested a correlation between higher schooling and likelihood of contributing to the individual retirement account. The same trend is reported with contribution coverage and income, so well-paid and educated workers are participating actively in the pension system via contribution, but this trend was not extended to the rest of the active population (Centro de Microdatos y Ministerio del Trabajo y Previsión Social, 2004). In addition, the survey inquired about the labour trajectory from 1980 until 2002. On average, 64.5% of the working population were employed. Thus, around 2/3 of the labour history is subject to potential contributions if the worker was an employee hired with mandatory contribution payments to their retirement accounts. Moreover, the average effective contribution density[6] is 52.4%, a figure significantly lower than the 80% that was usually considered by different projections. The disaggregation of the contribution density by sex showed discouraging results: women have a contribution density of 43.7%, meanwhile men achieve 59.8% (Centro de Microdatos y Ministerio del Trabajo y Previsión Social, 2004).

Based on this data, Arenas, Behrman and Bravo (2004) showed that the average male replacement rate was equivalent to 44% of their pre-retirement income, and for women it was 23%. They concluded that the situation would have serious consequences for future pensions and fiscal pressures to offer a solution, assuming that there would be a larger number of pensioners with amounts which would be far from their last incomes. Therefore, the policy implications are focused on improving coverage for low-income workers, women and independent workers, but also on improving the information available to the affiliates (Arenas, Behrman, & Bravo, 2004). This was remarkable, politically speaking, because this

[6] It is the share of affiliated months where there is a contribution record made by the worker to the individual retirement account.

pressure was a key point to build technical consensus for the delivery of solid recommendations to push for a political decision to decompress the disequilibrium. As a former high-ranking civil servant argued, *"[t]he stars were not aligned and there was a capacity for aligning them to do a pension reform in President Bachelet's first government. But because, a system's legitimacy sense was added, a sense about the technical consensus was added to move forward and an increasing pressure from a number of people who were going to be retired with low pension amounts or zero pension. That was not equilibrium; it is a situation that does not give for a balance"* (Former Budget Director and Minister of Finance, December 16th 2016, Santiago). However, further changes to the contributory pillar were not manageable, politically speaking, as the original proposal efforts on this topic were directed at increasing the competition (which partially succeeded) and at establishing a public AFP (which failed). Proposals such as a diversion of the contribution to a public fund or increases in the contribution rate did not reach a consensus or close majority among the government coalition. The government coalition did not have political incentives, such as electoral, to develop a dual arduous political negotiation process on these topics.

The situation of people who would obtain a low pension amount after participation in the new defined-contribution system was an issue detected by several estimations based on the Social Protection Survey microdata. For instance, Arenas, Bravo, Behrman, Mitchell and Todd (2006) argued that men reported 40% higher quantity of months contributing to their personal retirement account than women. Moreover, the contribution pattern mainly applied to those periods when the interviewee was formally employed. The authors confirmed the low levels of financial literacy of the affiliates, inappropriate knowledge about the basic information of the system and of their own assets. Considering this evidence, they concluded that 'to build a more resilient pension system, it is likely that people will need a better appreciation of exactly what is required for eligibility to each of the pillars. Also, greater financial literacy will be essential in enhancing the contribution and investment patterns' (Arenas, Bravo, Behrman, Mitchell, & Todd, 2006, p. 23).

The Social Protection Survey was a reliable instrument whose main contribution was to open a debate about the problems that the pension system was experiencing among experts and high-ranking policymakers, such as senior civil servants from the Budget Office of the Ministry

of Finance. Before this report, there was no public information available on the low contribution densities among the population, the high rates of inactivity during the labour trajectory, and the dynamic coverage of pensions. Therefore, it measured and identified the problems generated by the trajectory of the policy architecture which were to be solved by the authorities to avoid future malaise of the population. Hence, the data and these papers had a significant influence on political and policymaking circles, for instance 'some of these findings appear to be matters of concern to the newly elected Chilean president who confirms that pension reform is high on her policy agenda' (Arenas, Bravo, Behrman, Mitchell, & Todd, 2006, p. 4).

Hence, there was clear information to unlock a black box of problems that were affecting both the contributory and the non-contributory systems. It is likely that the most important issues for a politician were the low amounts of self-funded pensions, the deficit in coverage due to lack of contributions and the need to modify the design of the non-contributory pension, from the quotas access to an ensured right for a person who needs it. Moreover, this situation overcame the discourse of the 1990s, which marked high return rates on pension funds by AFPs. The latter was followed by higher coverage than before the economic crisis of the early 1980s. Mrs Bachelet understood the public role in adopting a solution that was also being debated in academia and by members of their petit bureau, so the design of the reform was matured, politically and technically speaking, to obtain her approval. According to a former senior member of the Ministry of Finance, the new evidence allowed the identification of "*(…) a strip of the population and David's survey helped a lot, look here there is strip of the population, between 15-20% that has this pension density. And from the point of view of running the model on it, could have an important replacement rate. Therefore, the problem was not all pensioners. The problem was the difficulties that we had with people entering and leaving the labour market, with women who were left without pension contribution for a long pregnancy period, you know. From that point of view, we always said, look… the individual capitalisation model works for certain people but the rest does not work. And for the rest, we have to put the solidarity pillar*" (Former Parliamentary Negotiator of the Ministry of Finance, January 9th 2017, Santiago).

Lastly, Berstein, Larraín and Pino (2005) estimated that in 2025, with an average annual growth in salaries of 2%, a pension fund return of 5%, and a variation in minimum pension of 2%, 50% of people would receive a pension amount lower than the minimum pension. Moreover, 45% of the population would have access to self-funded pensions, and only 5% would be eligible to receive a minimum pension according to the rules prior to the 2008 reform[7]. They also calculated the contribution densities for men and women, utilising a sample of around 24,000 individuals with administrative records, which produced similar figures to those reported by the first results of the Social Protections Survey: on average, men contributed 56% of the months eligible for contributions, whereas women achieved 48% of contribution density.

Thus, these estimations were also crucial in setting a policy agenda in order to intervene in the architecture variables to increase contribution density, but also to increase coverage for vulnerable groups. In addition, Berstein, Larraín and Pino (2005) suggested that it is crucial to maintain a low unemployment rate, increase the number of months contributing to the retirement account, and maintain a good performance in terms of pension savings returns. Lastly, they proposed an incentive-based scheme with guaranteed pension by years of contributions, and to introduce a universal right to obtain a basic pension, considering equilibrium between protection and contribution incentives.

5.2.2 Fiscal window for new permanent expenditures: decline in the transition fiscal costs of the 1981 pension reform

One of the main incentives generated by the policy architecture was the real fiscal transition cost of the 1981 pension reform. By the mid-2000s there was a decline in the public commitments to the pension administration and payments remaining from the old system. Also, there was a projected drop in the expenditure on Recognition Bonds. As a result, this implied an opportunity from the fiscal sustainability for adopting new permanent funding executed via National Budget instead of public debt or a rise in payroll contributions or taxes.

[7] Access to the guaranteed minimum pension was possible if the worker was able to contribute to the individual retirement account for a minimum of 20 years. The reform warrants access to a non-contributory pension for people aged over 65 years old who belong to the poorest 60% of households.

The first calculations suggested that between 1992 and 1997, the funding of transition from the old to the new system was equivalent, on average, to 3.7% of the GDP per year (Bustamante, 1998). This was the sum of the Recognition Bonds[8] and the fiscal direct support explained by the funding of the deficits of the old remaining *Cajas* for the pension payments. However, Bustamante excluded expenditure on the pension system of the Armed Forces and Police, and the payment of the Assistance Pension or similar. According to his criterion during the 1980s, on average, the direct fiscal transfers to continue paying old-age pensions from the previous system explained 92.57% of the pension deficit. The expenses involved in the Recognition Bonds represented the remaining 7.43% and would achieve the peak of its macroeconomic importance in 2005, representing 1.06% of the GDP (Bustamante, 1998). Finally, Bustamante pointed out that the overall fiscal cost started at 1.5% of the GDP in 1981 and reached a maximum of 3.7% in 1997. His forecasts also signalled a smooth decline from 3.13% in 1999 until 2015, with a projected fiscal expenditure on transition costs equivalent to 1% of the GDP.

Arenas (1999) calculated the transition costs by including the regime for the Armed Forces and Police, the Minimum and Assistance Pensions, the Recognition Bonds and the expenses remaining from the old system. Although the figures are higher than the series developed by Bustamante (1998), the general trend is different in terms of the fiscal cost of the Recognition Bond. According to Mesa-Lago (2000), Bustamante's series showed that fiscal costs of the Recognition Bond would reach a peak in 2005 of 1.06% of the GDP and then experience a swift decline until 2015, representing 0.51% of the GDP. Nonetheless, Mesa-Lago points out that Arenas' series achieve a zenith in 2005 (1.3% of GDP) but remain stable until 2008 and then drop to 0.7% of the GDP in 2015. All in all, the fiscal cost of the reform in 1999 was more than double that of the original fiscal cost in 1981, and the projections showed that the original cost of the 1981 reform would be similar after 40 years of operation (3.8% of the GDP

[8] The Recognition Bond (*Bono de Reconocimiento*) is a compromise acquired by the state with the workers who contributed to the pension system before the reform of 1980-1981. Hence, it is an implicit financial instrument designed to recognise the acquired rights of those workers and became effective when they started to retire within the new pension scheme. This bond paid 2.9% of the capital needed to obtain an old-age pension equivalent to 80% of the taxable income recorded between June 30, 1978 and June 30, 1979.

in 1981 and 3.6% in 2020). According to Arenas (2006), the overall cost of the 1981 reform during the period 1981-2004 was, on average, 5.7% of the GDP per year.

These inputs from academia were crucial in defining the funding mechanism for the 2008 pension reform, as a fiscal window was acknowledged by the authorities. Hence, the main person responsible for the public exchequer at that time clearly declared that: "*when you create a public insurance, you have to ask yourself how you will pay the bill and not who will pay it today, but for the next 100 years. Therefore, a key element of our design was how it is financed and we were very explicit about the financing formula. This is related to the creation of a pension reserve fund. It has to do with the link between benefit and fiscal rule. It has to do with the saving that happens when system's recognition bond is maturing, and therefore the transition fiscal weight decreases because the old retirees are passing away, so the bond's stock is falling, and the contribution of the government is also going down. This is something very important and, generally, people do not understand*" (Former Minister of Finance, January 6th 2017, Santiago).

In conclusion, pension privatisation represented an important cost for the public treasury during the first two decades of implementation. However, the stock of retired people receiving pensions from the old system started to decline in the late 1990s. This was followed by a downturn in the fiscal costs of the Recognition Bonds, which started in the mid-2000s, and provided a fiscal opportunity to achieve commitments of responsible public finance, especially to face a potentially larger number of people in need of non-contributory and minimum pensions to avoid elderly poverty. Consequently, the Chilean State was able to face these challenges through the design of responsible and guaranteed long-term funding with fiscal restrictions, aspects that were already acknowledged in 2005 and were crucial to the political convincement of senior members of the ruling coalition and candidate Bachelet. This was highlighted by a former Minister of Finance and Budget Director in an interview in Santiago, in which he stated the fiscal restriction and responsibility to design the benefits that involved a long-term permanent public expenditure for the 2008 pension reform: "*there was a fiscal restriction, if the solidarity pillar would have cost 0.1 GDP points, it could have done much more. But the solidarity pillar did not cost less than 1 GDP point and it could not cost more than 1.4. Until that moment it was the most expensive social reform that had been made*

in the last 40 years in Chile. So, it depends on the money that there is and intertemporal as well, because it is not the money for one year. It is a commitment made by the State for the next 40 decades, and I am saying 40 decades but I could tell you to infinity. Because one could say, the most probable is that in a few decades there will be another reform and they will see as follows. But at least one presents that in the next 4 decades this is financed, and the State has no problems facing this permanently" (Former Budget Director and Minister of Finance, December 16th 2016, Santiago).

5.2.3 Providers' regulation: competition, cost reduction and issues regarding demand-side sensitivity to prices

The AFP industry was a successful one in terms of results on asset size compared to the GDP and real returns prior to the reform. However, this policy architecture created some limitations that needed to be addressed, such as the lack of rational decisions by the affiliates due to complexities that involved pension savings management and investments. Secondly, this was an expensive investment instrument available in the market; therefore, the high costs were affecting the future pension amounts. Lastly, the supply side was highly concentrated among a few firms, putting costly barriers for new providers to foster competition. In summary, policy architecture incentives strengthened the provision component within for-profit firms. As a result, powerful AFPs remained as single providers of the management of pension funds, which represented a substantive proportion of the Chilean GDP. In parallel, a legislation that allowed a growing liberalisation of investments turned them into important financial actors in the Chilean capital market. Consequently, the AFPs were specially alerted to any attempt at reform that would modify the nature of service provision and funding of the policy architecture, in order to improve the generosity and equity of future pension amounts.

Valdés and Marinovic (2005) estimated that AFPs achieved, on annual average, 18% of returns on equity of the AFPs between 1993 and 1997. This partially motivated the entry of new firms between 1993 and 1994. However, incumbents deployed a vast number of sales agents and marketing strategies to induce customers' decision to change AFP. In 1997, a new regulation tightened the paperwork standards for users to change AFP. Therefore, during those years, the profits over equities were reduced and damaged the commercial and financial goals of

the new companies, which led to a rapid drop in their numbers. Then, the industry recovered historic figures of returns on equities of 42% yearly in the period 1996-2003. The authors concluded that it is a highly unusual industry, especially within the financial sector, with returns from 35% to 68% per year (between 1998 and 2003), without the entry of new competitors. This continued over the years where the average returns on equities during the period 1991-2006 was 28%, but there were no entries of new companies (mainly between 1996 and 2003) and pressures to lower prices (Berstein, Castañeda, Fajnzylber, & Reyes, 2009).

The provision component of the policy architecture had strong incentives to create entry barriers for new competitors and reduce the margins between prices and marginal costs by the incumbents. Berstein and Micco (2002), and Berstein and Ruiz (2005), concluded that the main explanatory variable for the differences in costs are the customer portfolios and commercial strategies to induce affiliates' decision to switch AFP, rather than the effect of scale economies on minor costs. This contradicts the assumption of a competitive market-oriented industry that would align the interests of the companies and the affiliates in terms of service quality, pension fund returns and administrative costs. All in all, the evidence regarding the delivery of AFP showed that commercial strategies are better predictors, rather than price signals.

A second factor that contributes to demand-side insensitivity is the scarce knowledge of the affiliates about the system. According to the Social Protection Survey released in 2004, 53.3% of the affiliates to an AFP knew the percentage of mandatory contribution, 23% showed knowledge about the eligibility for the minimum pension guaranteed by the State, and 21% identified the rules to receive the former Assistance Pension. Finally, 93% did not recognise the administrative fees and the way AFPs invest their own savings, among other parameters (Centro de Microdatos y Ministerio del Trabajo y Previsión Social, 2004). Hence, this evidence suggests that demand-side decisions are mostly explained by a strong deployment of commercial and advertising strategies instead of rational decisions of the affiliates seeking an increase in their savings returns. This was reinforced by a general ignorance about elemental information of the pension system operation.

5.2.3.a Industry entry barriers and policy proposals.

As stated above, the evidence indicated that entry barriers were affecting competition. As the affiliates' behaviour and decisions are explained by marketing strategies rather than prices, a reform must ensure the access of new AFPs to the market, despite the commercial campaign of the incumbent AFPs. For that, the design of a bidding process to facilitate the entry of new actors to the AFP industry was crucial for a pension reform aimed at increasing the competition and lowering the costs. Some progressive sectors of the centre-left coalition argued that these bidding proposals may be followed by an intervention on the supply-side by introducing a public-run AFP that would lower fees and offer a better service by the industry. Nonetheless, this pledge was mainly defeated during the policy adoption process held during the political negotiation in the Senate, which is reviewed in the next chapter.

Several proposals about the design of a bidding process to enhance competition within the industry were circulating by the mid-2000s. Valdés (2005) developed an extensive one, based on two assumptions: the State did not deploy a proper system for the users to compare AFPs in terms of their administrative fees and benefits; nonetheless, the service provided by them is mandatory. He argues that the lack of competition is a responsibility of the State, rather than market participants. Hence, it was necessary to create a Searching Service for the least expensive AFP, followed by a bidding process for three years and the AFP with the lowest fees would be able to receive, as a maximum, two rounds of 500,000 affiliates. In addition, he proposed the split of functions between those directed at increasing the returns of pension savings and those tasks that are not directly related to the finance ones, such as "back office". The potential benefits for the affiliates would be significant reductions in marketing costs, which would have a direct impact on the administrative fee structure.

In addition, Tarziján (2006) proposed the separation of the roles of administration from the fund management. On the one hand, this proposal looked for the creation of a market where the new company would be able to participate in one or both tasks, however, the retirement accounts administrators do not have a mandatory single purpose, as stated for the AFPs. On the other hand, AFPs would have an incentive to differentiate between themselves in terms of offering higher return rates, high standards of products, and lower fees. Hence, Tarziján concluded that this proposal allowed the participation of new entries because the efficient

size would be lower than the one that existed during the mid-1990´s. However, this should be complemented with a strong policy of information dissemination to reduce price insensitivity, in order to incentivise a significant fee reduction by the firms.

Despite a clear claim for the need for a bidding process to increase competition in the industry, there was not a technical consensus about the possible orientation. For instance, Larraín, Castañeda and Castro (2006) did not share the need to separate the AFP functions as fund managers and individual accounts administrators. They proposed a bidding of affiliates which was renewable over time, avoiding a commercial war between the new firm and the incumbents. The main focus was to ensure a size and attractiveness for the affiliates to enhance the participation of the firms in the bidding process; therefore they proposed that conformation of the affiliate groups may follow different paths, as follows: 1) Non-binding random draw, where the selected affiliates will be informed about the advantages of moving to the successful AFP that offered lower costs; 2) voluntary registration but mandatory transfer to the winning AFP; 3) late incorporation, where the AFP is entitled to offer the same terms and conditions to a limited number of affiliates who are attractive to the firm; and 4) incorporation by default to the new workers who did not express any AFP preference. These mechanisms are complemented by the enactment of a legal body to refuse the discrimination on prices between bid and old affiliates. This would avoid an entry blockage by potential predatory prices offered on the bidding by an incumbent AFP, damaging the likelihood of success of a new offeror. They concluded that the proposed bidding mechanism must seek the entry of new firms or rising competition among the incumbent firms, ensuring the long-term maturation of the industry without the consideration of excessive commercial risks.

5.2.3.b Fee structure issues affecting pension funds of affiliates.

The fee structure is one of the most significant variables that determines competition among AFPs. The variable fee is the main source of revenue for an AFP and is a percentage of the contributor's gross salary, whereas the fixed fee is a lump sum paid by every contributor with no consideration of their level of income and accumulated savings. As the fees are based on every contribution, these are relevant for young workers because they represent an important percentage of their entry-level accumulated pension funds. However, for mature workers, this variable does not largely affect their AFP affiliation decision. Lastly, the fee

structure does not allow for an easy calculation of which one offers a lower cost, because it would depend on the salary, so this variable is not relevant to determining the affiliation to a particular AFP (Berstein, Castañeda, Fajnzylber, & Reyes, 2009). A former Minister of Finance acknowledged this, stating that fees were a real issue that should be incorporated into and solved by the 2008 pension reform. On this, he argued "*the second problem was the very high fees. The fee falls as a result of tenders is gigantic"* (Former Minister of Finance, January 6th 2017, Santiago). As stated above, the high costs of AFPs was recognised as an issue which concerned politicians, allowing the conditions for the necessary consensus building based on the academic input on this topic.

The arguments about high fees and demand inelasticity of prices were technically solid and convincing: the prices needed to be reduced and did not have to damage the pension savings, which means a reduction of pension amounts (Arenas, 2010). Therefore, the policy architecture developed, over the long term, incentives to partially change the funding mechanisms related to the achievement of significant progress in the generosity dimension of universalism. According to a former high-level member of the regulatory body of pensions, *"(…) the portfolio bid was proposed, because there is a problem of supply and demand in the pension industry, in pension provision. One of the problems that determines the lack of competition is that people are insensitive to price, that is, they do not know, do not worry, will not generate price competition. (…). To expect price competition to occur because people changed depending on whether an AFP is more expensive than the other… so, there a demand-side problem, people, in reality, do not force to be charged*" (Former Superintendent of Pensions, March 3rd 2017, Santiago). This instrument was highly supported by the members of Parliament and was not confronted by AFPs. As I state in the next chapter, they dedicated their best efforts and resources to avoiding the entry of new finance actors into the pension savings management industry.

To conclude, the AFP industry experienced a period of high returns over assets, but with high administrative fees paid by affiliates (Valdés, 1999). There was conclusive evidence for the insensitivity and low levels of knowledge from the demand-side, being mostly affected by marketing and commercial strategies (the so-called "commercial war" experienced during the mid-1990s) rather than price-based and rational decisions. This is remarkable in an industry

that was 50% more expensive than savings accounts, term deposits and escrow accounts at brokerages (Valdés, 1999). These aspects were considered during the pension reform debate and faced by the design and implementation of several bidding rounds to enhance competition by offering lower fees. According to a former high-ranking official, these issues were approachable with greater regulations to the industry: *"(…) although we are going to pursue a reform against the individual capitalisation system, it needs a snip to modernise. It cannot go charging fixed fees, the corporate governments should improve, we have to tender the portfolios, to reduce fees, we have to regulate a lot of things. It is a trilogy of topics"* (Former Budget Director and Minister of Finance, December 16th 2016, Santiago). Moreover, the literature provided strong evidence-based proposals to design instruments aimed at reducing the effect on commercial strategies by the AFPs, expanding the general knowledge of the system by creating pension education programmes for affiliates, and increasing the sensitivity to price signals for informed and rational decisions.

To summarise, the incentives created by the policy architecture to push for a reform towards the achievement of universalist outcomes were concentrated on the diagnosis of a coverage deficit among current and future pensioners, combined with poor performance of the affiliates in their active period as contributors. These were due to structural features of the Chilean labour market and disadvantages for women as carers, among other factors. From a fiscal point of view, the government was able to increase its expenditure due to a projection of lower figures regarding the fiscal transition costs. Consequently, this reform assumed fiscal responsibility and the new expenditures would be assumed without incurring extra revenues or fiscal deficit. Lastly, the incentives that pushed for modifications to the provision component of the policy architecture were to overcome issues that were affecting competition among AFPs. Also, the affiliates faced high administrative costs, which were affecting their pension funds. In short, the incentives were intense for making modifications to the eligibility component in order to achieve greater results in the access dimension of universalism. Nevertheless, these incentives enabled the modification of particular aspects of the provision component, but did not affect their nature as core elements of a private scheme, mostly due to a path driven by politics, which will be the main focus of the subsequent chapter.

5.3 Constraints of policy architecture in achieving universalist outcomes

5.3.1 Strengths of AFPs prior to the reform

The literature that explores the politics of social policy reforms defines the role of policy legacy in shaping the power distribution among the actors that participate in a policy area. For the Chilean pension system, there is a predominance of private providers who behave as incumbents to avoid new regulations and competitors. On this, Pribble argues that 'private-sector actors proved to be extremely powerful, and in subsequent policy reforms, these firms –and the associations that they belonged to – mobilized to block efforts that involved the expansion of state involvement in social protection, and increase in regulations on private involvement, or increased tax liabilities for the private sector' (Pribble, 2013, p. 28).

The AFPs, created in 1980, are for-profit private companies working solely in this field, owned by local conglomerates (in the original version of the system). In addition, the AFPs are closely connected to domestic business and economic groups, where there are important Management Buy Outs which 'AFPs have significant but minority shareholding positions. (…). [Moreover,] pension funds have taken important ownership positions as new equity was required for these groups to grow' (Majluf, Abarca, Rodriguez, & Fuentes, 1998, p. 113). As a result of this increasing participation in ownership positions and the fund size that they manage, it is likely that their investment decision would affect the stock prices of the desired asset (Bonilla, Sepulveda, & Carvajal, 2017). Therefore, AFPs have remarkable importance as powerful players in the Chilean capital market. Since the mid-2000s, the ownership of AFPs, with their economic and financial accomplishments, started to attract the participation of 'some of the world's most powerful banking and insurance institutions' (Borzutzky & Hyde, 2016b, p. 40).

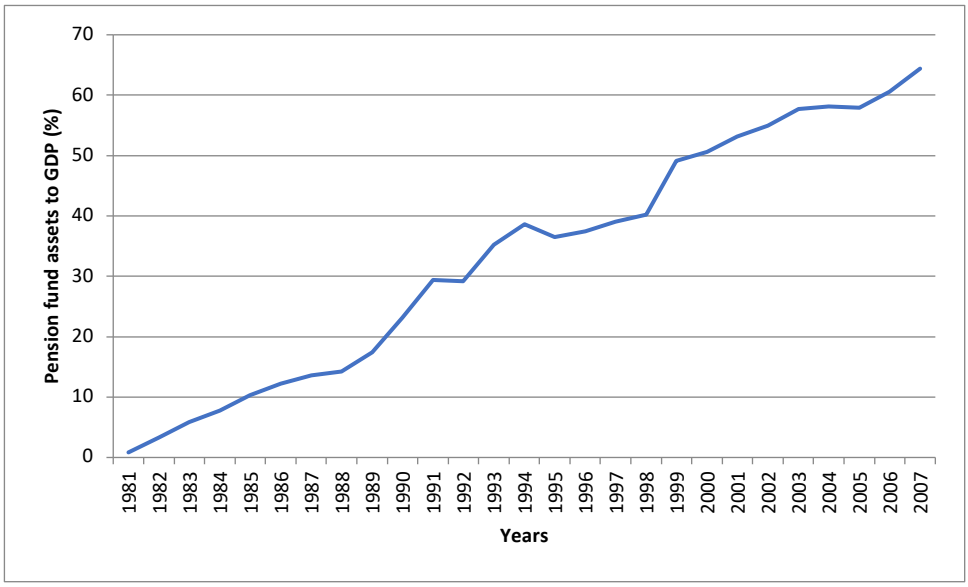
The AFPs are responsible of the collection of employees' contributions and allocation of assets into different financial instruments to obtain future returns. Hence, the rationale is that those returns will impact positively on the balance of the individual retirement accounts. The allocation of these investments goes into Central Bank and government securities, financial instruments (deposits, bonds and mortgages bonds, stocks, etc.), foreign instruments, and current account and cash deposits. According to OECD (1998), the trend was

to look for the expansion of investment alternatives to meet the requirements needed by a fund that experienced a growing size. Specifically, during the first part of the 1980s, the pension fund allowed the maturation and deepening of the small capital markets in those years. In contrast, in the second part of the decade, there was a need to invest in new privatised companies. For instance, in 1994 a major reform of the capital market allowed a new legislation for AFP investment portfolios, 'which increased the number of eligible instruments, relaxed the limits and changed the criteria and procedures concerning risk rating' (OECD, 1998, p. 13).

In 2002, the Multifunds were created, allowing affiliates to choose from a risky strategy to maximise their returns, or to keep their savings in conservative instruments as the retirement age is near (Berstein & Ruiz, 2005; Kritzer, 2008). In addition, this new scheme increased the limits for AFPs to invest in variable based instruments, both in the domestic market or abroad. This certainly followed the abovementioned trend of liberalising their financial assets to achieve better financial returns with diversification of investments, and increasing AFPs' influence as one of the most important energisers of the financial market. The main factor that sustained this push for asset liberalisation was the private nature of return seekers, because *"(…) in short, one sees that some countries force to pension funds to invest a large part in state instruments and also sees how these state instruments are not profitable. (…) So, somehow, an individual capitalisation system, the part of private management, is also an important variable because it has a different entity from the State that fights for maximizing profits of pension funds"* (Former AFP Association representative, March 7th 2017, Santiago).

Hence, the size of the fund that was controlled and invested by the AFPs was of significant macroeconomic importance, transforming them into one of the main financial players. During the first 10 years of operation, the fund size grew from 0.84% to 29.4% of the GDP. But by the mid-2000s, the amount was equivalent to nearly 60% of the Chilean GDP, as detailed in Graph 5-1. Consequently, the importance of the AFPs as single managers of this amount of resources gave them an excellent opportunity to act as a powerful veto player. This situation is crucial to understanding the difficulties with making modifications to the contributory pillar or to the investment rules, portfolios, fee structure, and new firms to foster competition within this sector.

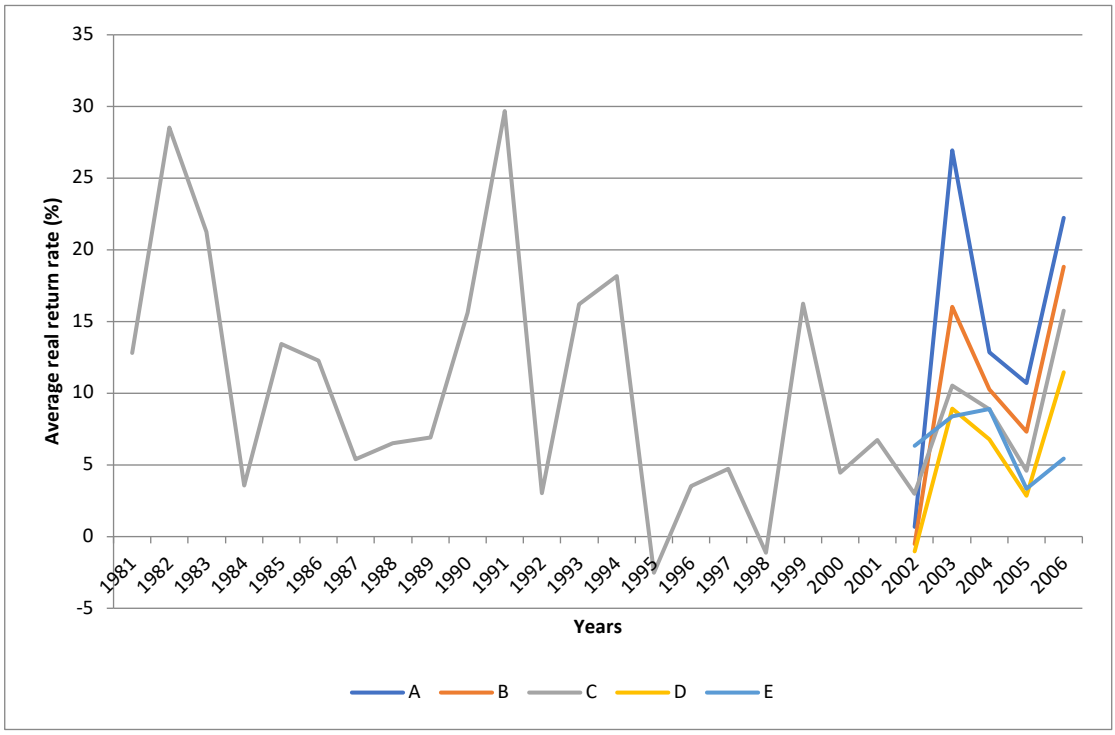
Graph 5-1 Pension fund assets to Gross Domestic Product (1981-2007)



Source: Author, based on statistics of Superintendence of Pensions.

The AFPs were a powerful actor with a strong influence on reforms, which may involve direct modification to the destination of the payroll contributions or the nature of the providers, among other topics related to the provision component of the policy architecture. Part of this relevant position was due to the real returns, which were higher than any financial instruments available in the Chilean market. According to Graph 5-2, for the period from 1981 to 2006, the average annual real return rate of fund C (which is the default fund and the one with a complete series since 1981) was 10.31%. Within this period, the returns skyrocketed between 1981 and 1994. In 1995 and 1998, the financial crises that hit Mexico, Russia and East Asian countries affected the AFPs' investment portfolio performance, but those downfalls were rapidly recovered. Nonetheless, the success of AFPs in terms of returns was a strong argument to block proposals aimed at destabilising this trend, which was widely recognised and supported by experts, politicians and policymakers involved in high level public administration.

Graph 5-2 Average real return rate of pension funds, by type (1981-2006)



Source: Author, based on statistics of Superintendence of Pensions.

With regard to the size of the funds that were under the control of the AFPs, these started to be one of the most important financial actors with priority access to the most prominent board of directors. Hence, a privately managed pension scheme allowed the emergence of new financial actors that were able to take the role as some of the most important players in the Chilean stock market. As a result of this growing importance, AFPs built political power based on their relevant positions as actors whose investment decisions had direct implications on fund return rates and the overall performance of the capital markets. This allowed these companies to be highly considered by politicians, who listened to their proposals on pension reforms. This, in turn, established close connections with right-wing constituency-coordinating parties. Consequently, the long-term operation of the policy architecture shaped a concentrated distribution of power within this policy sector, marked by single stakeholders, who were the managers, and who utilised a vast amount of money on investments, which gave them power to establish their representatives on the main companies' boards. Therefore, any reform should consider this context, which implies that

changes affecting AFPs interests in the funding and provision components of the architecture, will be highly contested. It is probable that the best summary of the interplay between the importance of private providers and their power was given by a Socialist Senator, who stated "*because there is a lot of power at stake. It is much easier a reform that took away from the State and it was passed to privates, which is what happened with Pinochet. The power has to do with funds, not with retirement*" (Socialist Senator, March 28th 2017, Santiago).

5.4 Conclusions

The incentives generated by the policy architecture directly influenced the agenda setting of the 2008 pension reform. The identification of these incentives and constraints was a result of academic efforts to gather evidence for the issues that began to affect the trajectory of the defined-contributions pension system. Although the system was praised for its good performance in terms of returns, during the late 1990s and early 2000s, accumulated evidence questioned the real fiscal costs of transition, and gender "neutrality", among other topics. These questions permeated the academic debate and exploded onto the political agenda after a sustained struggle between liberal and progressive sectors of the government coalition that ruled Chile between 1990 and 2010.

The policy architecture component of eligibility had strong incentives for modification. The most crucial aspect was a coverage gap that was affecting the vulnerable and poor population. To solve this problem, there was a challenge in terms of available data and its quality for parameter estimations to arrive at a proper diagnosis and policy proposals. The release of the Social Protection Survey and the estimations described above were crucial to starting a smooth convincement process of the petit-bureau of candidate Bachelet and representatives of the centre-left and centre-right wing coalitions with parliamentary representation.

Regarding the funding component of the policy architecture, there was a fiscal window to increase long-term liabilities in a sustainable way through general revenues. This was mainly possible due to a reduction in the expenditure of the transition costs generated by the change from a defined benefit to a defined contribution scheme in 1981. The evidence shows that by the mid-2000s, the main fiscal burden on the Recognition Bonds would start a smooth

decline, allowing the creation of new permanent expenses funded with current income. Hence, this component of the policy architecture gave an opportunity to adopt new solutions to expand coverage among the poor population through the implementation of social pensions. As will be reviewed in the next chapter, this incentive was strongly supported by experts from different orientations and political parties, who gave strong support to this policy proposal. In short, this incentive was managed by state actors and policy experts to ensure the viability of this method to improve the coverage and move towards the fulfilment of the access dimension of universalism.

Finally, as a policy legacy distributes the power within a policy sector, this was highly concentrated among the main incumbents: AFPs. The issues generated by these firms, after 25 years of operation, were associated with high fees and market concentration from a widespread number into a small quantity of AFPs that were controlling the entry of new competitors. Consequently, there was a clash about the for-profit interest of these firms and benefit reduction for the affiliates, causing contradictions between these two components of the policy architecture. Therefore, the incentives to advance towards the achievement of universalist outcomes were to reduce the administrative fees and a create a policy to ensure greater competition among the AFPs, especially to reduce the entry barriers for new firms. The solutions designed by policymakers recovered a broad set of proposals made by experts in the late-1990s. However, the main constraint was the centrality and the power achieved by the AFPs, who were controlling a pension fund equivalent to around 65% of the Chilean GDP, and whose performance was based on high real return rates of their pension fund management. Thus, further modifications to this component need to address the issues with these incumbents.

As previously stated, further modifications had to deal with different constraints created by the long-term operation of the policy architecture, but others were reasonable in terms of their results due to the strong incentives created by them. However, the role of policy architecture does not explain the overall process of advancement towards universalism. The next chapter argues that, based on the distribution of power created by the policy legacy, political parties and organised groups shape the ultimate decisions, but are subordinate to the role of policy architectures. The details about the variation of parties, the strategies of

organised groups and explanations of their interaction on the final outcomes are outlined in the next chapter.

In summary, the policy legacy of the Chilean pension scheme created, over the long term, incentives and constraints for reforms to tackle issues generated by specific components of its policy architecture: eligibility, provision and funding. Hence, these incentives, located within the policy architecture structure, conditioned the size of the pension reform and the degree to which it was embraced. In addition, the main criterion was to assess the political economy of the reform, whether it was politically feasible and with significant outcomes in terms of the solutions. However, there were issues around the policy debates that government technocrats were truly afraid of. They were notified about the limits that would transform a reform's achievability into one full of obstacles and radical opposition, because "*we were convinced that the instrument that took care of the 2005 diagnosis. We had the political conviction that the political economy did allow us to fight with AFPs, in terms of their model. There were no conditions in Chile, to consider, there were not 100,000-200,000 people. There was no capacity to do that"* (Former Budget Director and Minister of Finance, December 16th 2016, Santiago).

6 The agenda setting and policy adoption of the 2008 Chilean Pension Reform

6.1 Introduction

As has been argued throughout the dissertation, policy architectures create a set of issues that are the main incentives for pursuing reforms to tackle and solve them. Nevertheless, there is no straightforward process from the incentives created by the policy architecture to the actual outcomes that a reform achieves. Hence, the different components of the policy architecture create issues that turn into incentive reforms, acting as a baseline for the subsequent political game between the government, political parties and activation of organised groups. For the Chilean case, the incentives were mainly generated for the eligibility (expansion of non-contributory pension to poor elderly population), provision (modifications to the AFP industry to reduce costs and increase competition) and funding (take advantage of the reduction of the transition costs due to the 1981 reform) components of the pension policy architecture.

In between, there is a policy adoption process in which political parties and the main stakeholders play a role in establishing political obstacles that will impact the outcomes of the reform. The most crucial determinant that primarily affects the trajectory and final contents of the pension reform in Chile is the nature of political parties and their links to the pension fund managers industry. Specifically, I argue that AFPs concentrated their efforts on avoiding further modifications to the provision component, such as introducing a public entity or private banking, activating their strong links as constituencies of right-wing parties. Consequently, the political game towards achieving universalist outcomes in social policies would depend more on these interactions than formal legislative and institutional arrangements that may ensure formal participation in the debates. As a result, private-sector organised groups played a role in setting strong political obstacles that affected further progress on equity promotion of the pension scheme.

I will develop the argument mentioned above by examining the various stages of the 2008 Chilean pension reform policy process. Notably, this chapter looks at the explanation of the interaction between political parties and organised groups, with the incentives and

constraints generated by the components of the policy architecture in the Chilean case. I argue that in the agenda-setting phase, the government looked for broad technical support from experts to reduce vested interests that could create disagreements. At the policy adoption stage of the policy process, a critical political variable that explains a large share of the final social policy outcome is the strength of the external linkage with their core constituencies, rather than internal organisations and significant ideological differences among political parties involved in the debate. In sum, the components of the policy architecture and the dimensions of universalism involved may trigger strong political obstacles, such as potential vetoes from organised groups concerned with this policy reform. For the Chilean case, the AFPs, as single providers, developed the main veto power, focusing on a potential loss of their role in the supply side of the pension fund management industry.

The organisation of the chapter is as follows. Firstly, I introduce the different deliberation spaces that played a role in the agenda setting process. In doing so, I discuss the persuasion process to achieve political approval from senior-level members of the 2005 presidential campaign of Mrs Bachelet (section 6.2.1). Then, I present the topics discussed at the Marcel Commission (section 6.2.2) and its main policy proposals (section 6.2.2.a). Thirdly, I will review the main guidelines of the debate at the Interministerial Committee (section 6.2.3) and topics that were politically excluded from the reform proposal (section 6.2.4). Section 6.3 analyses the policy adoption process during legislative debate, such as the government incentives for negotiation (section 6.3.1) and the internal discussion within the main political parties (section 6.3.2). Then, I present the key interactions between organised groups and political parties (section 6.3.3). Finally, in section 6.4 I draw conclusions regarding the role of political parties and organised groups and their incentives to agree, but also to deploy strong political obstacles with a veto power targeting the potential modifications to the funding and nature of pension provision.

6.2 Agenda setting

Chile is known for its good standards of policymaking and strong power of the Presidency, which receives high-level contributions and advisory from well-prepared technicians and cabinet members. According to the IADB, the policy making process starts when ‘the president (…) tries to develop consensus for his policies inside his own party, and then within

his own coalition, usually through negotiation with the leaders of the other parties in the coalition. Then interactions with the opposition take place, mostly through open forums such as congress' (Inter-American Development Bank, 2005, p. 160). Moreover, there are policy areas, including pensions, with corporate interests that have been remarkably powerful in slowing down major reforms. Representatives of these private interests argued that any reform would cause damage to economic stability, the financial system and the potential growth (Marcel, 2016). However, Mrs Bachelet decided to propose a pension reform of which the main guidelines would be debated at the Presidential Advisory Council, considering arguments from experts, citizens and actors involved in the pension system.

6.2.1 Persuasion and decision to include pension reforms in the 2005 Bachelet Presidential campaign

As stated in the previous chapter, there were some issues with eligibility, triggering an expansion of social pensions. In parallel, funding facilitated this expansion because the fiscal costs of the transition began to reduce, while there remained challenges in the form of competition among private providers and expensive fees. These issues were shared among different pension experts and discussed in the literature. Although issues regarding eligibility and funding determine the political debate, the potential solutions must be activated and make sense to political actors to reduce their potential obstacles. The reform promoters started a slow process of maturation and convincement to include pensions as an issue to be solved for the newly-elected government of the 2005 elections. Mr Marcel and Mr Arenas established connections within the inner circle of candidate Bachelet, focusing their arguments on funding and technical feasibility. As a result, there was growing convincement among the government coalition members to include a pension reform in the presidential programme (Arenas, 2010). A former Socialist Senator declared that "*in a discussion on the political-technical team of the precandidacy of President Bachelet, finally there was an agreement that should include this within the President's programme. That is, a proposal for a reform that would correct the most negative aspects of the system*" (Former Socialist Senator). These high-level civil servants planned to have strong support from *Concertación* members and reduce the confrontation with the industry and the Opposition. Hence, this former Socialist Senator declared that "*the detractors had the typical arguments that we have*

to wait more, it is just beginning to give pensions, it was a politically sensitive issue, there was no clear alternative model, quite classic arguments" (Former Socialist Senator, September 25th 2017, Brasilia).

Consequently, in terms of public funding involved, this would be the most important social policy reform of the new democratic period. A former high-level government official remarked that Bachelet's convincement about the importance of this crucial reform was a strong incentive for the government coalition and its parties for the success of certain decisions, albeit taking into account previous concerns and cautions. Regarding this, he states that "*of course the President, with her political leadership and the political parties that could have said in this we are not going to embark, but in that context was… after 15 years of democracy, there were not in the Concertacion's parties something like let's reform pensions. I talked about pensions and the prairie was completely burned*" (Former Budget Director and Minister of Finance, December 16th 2016, Santiago).

Mrs Bachelet decided to argue for the necessity and feasibility of a pension reform and included this topic in the presidential campaign. It is likely that the main announcement was at a presidential forum organised by the Unitary Workers Central (*Central Unitaria de Trabajadores* – CUT). In general, the four candidates agreed on the high fees and to increase pension amounts. According to the media, candidates from the centre-right coalition (Mr Piñera and Mr Lavín) and candidate Bachelet agreed on the need for recognition of the role of women, larger coverage among the poor population and independent workers, and the improvement of the available information to contributors, among others (El Mercurio Online (EMOL), 2005). Mrs Bachelet announced that this reform would consider the conformation of a Presidential Advisory Council – known hereafter as Marcel Commission – that drafted a preliminary report with a solid diagnosis and proposals shared by a plural panel of experts (Arenas, 2010). A former civil servant of the Ministry of Finance responsible for dealing with the political negotiations highlighted the importance of this plural pre-legislative Commission, in terms of validating a complex public policy to reach political and fiscal feasibility. This is remarkable for the reform strategy design, because "a *lot of study, a lot of research, in which there was a plural commission in the pre-legislative phase. And then, for the question of political economy, we always thought about building agreements both in the Chamber of*

Deputies and in the Senate (…)" (Former Parliamentary Negotiator of the Ministry of Finance, January 9th 2017, Santiago).

In conclusion, the political support of senior politicians of *Concertación* was in response to clear terms of fiscal limits, maintenance of the contribution rate or any tax to fund a larger reform package to address the abovementioned challenges. Moreover, politicians were mostly aware of the political feasibility of the proposed solutions regarding the enactment of a new solidarity pillar to solve problems with the eligibility component. A minority of *Concertación* members raised concerns about making modifications to the funding and provision components of the contributory pillar, but their position was not considered by senior officials at the Ministry of Finance. All in all, the political debate was constrained by the policy legacy in terms of availability of fiscal resources, modifications to administrative issues, and a new non-contributory solution for uncovered elderly people. Consequently, the power distribution created by the long-term operation of the policy architecture was considered by politicians to set the guidelines for a future pension reform that prioritised achievements in terms of access dimension outcomes, to reduce resistance in the Legislative debate.

6.2.2 The role of the Presidential Advisory Council

This Presidential Advisory Council (Marcel, 2016) designed a strategy to reduce the obstacles and constraints that stakeholders in pensions were able to raise, and had an implicit Presidential mandate to achieve a consensus among its members. Therefore, the topics would bypass the first blocking attempts by the private providers and the Opposition, leading to increased autonomy in the bill drafting process to solve the issues that were already agreed at the Marcel Commission. A high-level policymaker stated that this Council was successful in reducing rejections by powerful actors such as the AFPs, because "*we told them, this issue requires a stronger solidarity pillar and adjustments can be made in the industry. I think that our reform, in terms of industry adjustments, could have done more. I am aware of that, but also as we privilege the agreement at the Marcel Commission, and at the Marcel Commission the industry was well represented, it was what could be done"* (Former Parliamentary Negotiator of the Ministry of Finance, January 9th 2017, Santiago).

In February 2006, Mr Velasco and Mr Arenas suggested that Mr Marcel should lead this Commission. According to Arenas (2010), Marcel was the perfect candidate because he had had 15 years of experience as a policymaker at the Ministry of Finance, since the start of the new democratic period. He would consider the fiscal limitations and long-term sustainability of the proposals, the importance of a new solidarity pillar and greater participation of the State in pension management and regulations. President-elect Bachelet appointed Mario Marcel as President of this Commission. The first members were Mr David Bravo (Economist at the University of Chile, Director of the Microdata Centre of the Faculty of Economics and Business responsible of the Social Protection Survey), Mr Harald Beyer (senior researcher at *Centro de Estudios Públicos*, a think tank of the Opposition) Mrs Rosanna Costa (Economist at *Instituto Libertad y Desarrollo*, a right-wing think tank) and Mr Andras Uthoff (Social Affairs Officer at the Economic Commission for Latin America and the Caribbean). Then, it was expanded to 15 members. The overall composition of this Commission ensured expertise and political representation. A former commissioner acknowledged a robust academic dialogue with experts from different standpoints, but the mandate was clear, and the leadership of Mr Marcel facilitated a consensus. He stated that "*clearly the role of the commission and what that commission said was going to be crucial. And there, the conformation of the commission was decisive. That was a commission eminently technical, eminently technical. There was… I think that one or two people that were in the know about the topic, that they were there more by their political representation. The rest of us were all representatives of this group that had produced this same material during all the previous years*" (Former Undersecretary of Social Security, January 25th 2017, Santiago). Consequently, the team responsible did not include experts who were corporatist representatives or close supporters of a specific reform proposal (Marcel, 2016). In addition, the extra-parliamentarian left-wing political parties were deliberately excluded because they had few incentives for an agreement and greater ones for breaking up the negotiation or forcing a report with minority votes (Arenas, 2010).

Michelle Bachelet announced the Marcel Commission in her first week in office, setting the institutional boundaries as advisory and not binding. Decree 336 was issued to regulate the functions and aims of this Presidential Advisory Council (Marcel, 2016). According to a former member of this Commission, these institutional limitations were clear in setting the debate margins. This is confirmed by another commissioner, who stated that "*when this guy [Mario*

Marcel] in the first meetings tells you: - look, here we are not going to change the pension system. The space that was left was… that is, the ones we were scared of, we were sitting down, was a breath of relief. It was, let´s make an agreement, was not the world war, was not the black and white war" (Former Undersecretary of Social Security, January 25th 2017, Santiago). Hence, this political decision to pursue a limited but significant reform was well recognised and valued by experts who were not necessarily strong supporters of Bachelet's government. However, they shared the diagnosis and the set of potential policy solutions that were not considered a substantive reform of the contributory pillar, such as changes to the funding mechanisms, individual retirement account administration or establishment of collective funds.

President Bachelet clearly stated that this Commission should consider the organisation of public hearings to receive different actors, such as think tanks, trade unions, business associations, experts, political parties, among other organised groups interested in pension reform debate. In total, this process organised 49 sessions with the participation of 73 organisations (Gobierno de Chile, 2006). The range of talks varied from minimal modifications to the complete substitution of the pension system (Marcel, 2016). The report was submitted to President Bachelet in July 2006 (Gobierno de Chile, 2006). The set of policy recommendations were organised on a contributory, voluntary and solidarity pillar (Marcel, 2016).

The Council commissioned inputs from different public services, which was consolidated into a single diagnosis report (Superintendencia de AFP y Dirección de Presupuestos, 2006)[9]. A former commissioner highlighted this as a crucial aspect to arriving at a single diagnosis, because that "*meant that, at least at the diagnosis level, the diagnosis we built like this (finger click). That is, practically in the first sessions that we started to really talk, we agreed about what was the origin of the problems, what are the problems to be solved, and what was the priority of those problems. There was not much debate on that and it was due to the conformation. That was not a representative group of all living forces of society; it was a group*

[9] This report was a diagnosis based on the different academic contributions published until 2006. The report had five sections, which were as follows: 1) Coverage of the pension system and quality of its benefits; 2) Gender and pension system; 3) Administrative costs and returns of pension funds; 4) Institutions and solidarity pillar; and 5) Fiscal commitments of the pension system.

of technicians who had been working on pensions. And the leadership of Mario was also central" (Former Undersecretary of Social Security, January 25th 2017, Santiago). To enhance the group's efficiency, the Council was divided into two working groups: the first was in charge of reviewing issues related to coverage, generosity and design of the new social pensions. The second oversaw proposals to improve the performance of the individual capitalisation scheme (Gobierno de Chile, 2006).

In summary, this Commission responded to the goal of reaching a new deal on pensions. For this, members' backgrounds and the results were crucial to the fulfilment of this political aim in this policy area. A shared diagnosis of the main deficits of the pension system in the mid-2000s enabled a report that was the baseline for targeted success of the policy proposal in the political debate. In an interview held in Santiago, an intellectual enthusiast of this reform declared "*that is how some of us conceived it, that we have to make a new deal and that was why there was a need to have a transversal commission where, of course, the majority was prone to supporting the government. But there were some people who were not at all alligned to the government. There was a gentleman who was Budget Director of the dictatorship, Martin Costabal. It was so diverse, but when Martín Costabal saw the diagnoses, he said we have a problem because numbers speak for themselves*" (Former Budget Director and Minister of Finance, December 16th 2016, Santiago).

6.2.2.a Main proposals of the Presidential Advisory Council

On the solidarity pillar, the Presidential Advisory Council agreed on a Universal Basic Pension for those who were eligible according to age requirements, area of residence, socioeconomic situation and pension savings. In addition, the Council established a gradual reduction according to whether the potential beneficiary had access to a self-funded pension. Finally, this scheme would have higher pension amounts if the beneficiary had higher pension savings (Marcel, 2016).

The set of recommendations referring to the contributory pillar focused on an increase in coverage and contribution density. Secondly, proposals were drafted to improve competition among AFPs. Lastly, commissioners looked at the increase in investment returns through the

replacement of the asset limits fixed by law, into ones that would consider the advice of an investment committee (Marcel, 2016).

A third set tried to incentivise voluntary individual savings and create collective plans with bipartite contributions. As a result, the voluntary pillar emerged as a good complement to the contributory pillar and the proposed social pension. Therefore, the Council sought to improve the projected pension amounts and replacement rates for those with savings capacity and include middle class workers in this voluntary pillar, forming collective schemes.

Finally, there were significant gender gaps and conditions affecting the contributory and non-contributory pillar. To tackle this, the Council proposed that domestic work, especially childcare, must be recognised in order to diminish the negative impact on individual retirement accounts. In addition, it established the need to increase the female retirement age from 60 to 65 years within a ten-year transition period (Gobierno de Chile, 2006).

In conclusion, the Presidential Advisory Council drafted a reform proposal that had a shared consensus among its members who had different backgrounds and positions in the pension debate. They were not direct representatives of corporative interests or militants of political parties. This was crucial in allowing a fluent debate and achieving technical unanimity about the recommendations without significant minority votes or irreconcilable positions. The main asset was a strong pre-existing technical and political agreement (Arenas, 2010). Although some members of this Commission tried to integrate the contributory and non-contributory pillars, the proposals enacted by this Commission responded to the official government call. Considering the opinion of one of the highest authorities in charge of this reform, the role of Marcel Commission was to propose a package to improve saving and insurance components, aspects that were the main policy legacy to improve access and generosity dimensions of universalism. On this, a former high-ranking officer stated that "*we made a reform to address these two problems and I think we addressed those two problems quite well. There were other problems, obviously, we knew, and we know today, we decided not to address. Not because of political pressures, but the jack of all trades, master of none. A reform that has no focus is a reform destined to fail and we gave it a focus*" (Former Minister of Finance, January 6th 2017, Santiago).

6.2.3 Political approval within the Executive: the debate within the Interministerial Committee

The next step was the proposal revision by sectorial ministers gathered at a Committee led by the Minister of Labour and Social Security. Also, it was formed by the Minister of Finance, the Minister Director of the National Service for Women, the Minister General Secretariat of the Presidency, and the Director of the Budget Office, who acted as Executive Secretary. Finally, the Government Speaker attended in order to centralise communications and the Minister of Economy was included as an expert and former member of the Presidential Advisory Council.

The Executive Secretariat was able to build a bridge between Ministers of Finance and Labour, and enjoyed the full confidence of President Bachelet. Moreover, the Secretariat was formed of a group of lawyers provided by the Minister of Finance and the AFP Superintendence. They were responsible for bill drafting, coordinating the internal work plan of the Interministerial Committee and providing technical input. According to a former Minister of Economy, the input from Marcel Commission was an excellent navigation chart in terms of issues and policies that must be articulated in a legal text, therefore "*there was not much to interpret, but to take and transform into a bill. That helped the vision that was in the report, may be interpreted without difficulties by the technical teams of Finance and Labour. In Labour, more by the Superintendence instead of Osvaldo Andrade"* (Former Minister of Economy, February 27th 2017, Santiago).

Former members of this Committee also recognised the control by the Ministry of Finance of the policy process. There was not fierce internal opposition, and this confirmed the fiscal boundaries of the reform, a determinant characteristic of a professional-electoral centre-left wing coalition. This informant claimed that "*I do not recall that there were differences or hidden conflicts within the government about the bill content. Moreover, the great fiscal significance of that project, the big quid that Finance was putting into the project, gave to Finance a draconian control of the overall reform process that was challenged by hardly anyone*" (Former Minister of Economy, February 27th 2017, Santiago). Lastly, the debate saw differences on two topics: the rise of female retirement age and the introduction of a public-run AFP. The latter issue was not discussed at the Marcel Commission.

Regarding the female retirement age, the Marcel Commission recommended a gradual increment of 5 years. According to a former member of this Committee, there was a dispute between the Minister of Finance and Minister Director of the National Service for Women on this topic. This former Minister stated that "*the only difference that was in the commission and, finally, the President had to make a choice, a determination and (…) is about the retirement age of women. Because there was a sector that stated that women had to raise their retirement age to have better pensions. Andres Velasco was strong on the idea and Laura said no, and said no, based on (...) that this would be seen as something negative by women, because women face very adverse conditions in the market. And therefore, as long as no progress was made in these matters, it was not possible in these matters and I think that was what prevailed in the President*" (Former Minister General Secretariat of the Presidency, March 9th 2017, Santiago). President Bachelet decided to keep the mandatory retirement age at 60 years old and the same eligible age (65) to receive the social pension. In compensation, the Bonus per Child should not consider women's income level for eligibility. According to Arenas (2010), this was a direct mandate that modified the original proposal which guaranteed this Bonus for women at the bottom 40% of the income distribution.

The second issue was to create a public AFP to satisfy a demand from centre-left sectors of the government coalition and increase competition (Arenas, 2010). The strategy was to modify the General Bank Law to allow the entry of bank subsidiaries as pension fund managers, including the State Bank (*Banco del Estado*). The Executive drafted measures to avoid conflict of interests, such as the prohibition of conducting commercial sales subject to the permanency of the affiliate in the bank, the forbiddance of investments in instruments issued by the bank, and finally, the separation of commercial operations (Biblioteca del Congreso Nacional de Chile, n.d.). In contrast, the former Minister of Finance argued that the main solution to the lack of competition was to reduce entry barriers instead of increasing the number of firms. Hence, he declared, "*to me it always seemed a political irresponsibility to say that a public-run AFP was going to change the size of pensions (…). This was the point where there was more disagreement, my problem was not an ideological problem, whether there is a state AFP or not, it is a second order problem"* (Former Minister of Finance, January 6th 2017, Santiago). Despite these arguments, the proposal of a public-run AFP was politically

important within the government to reduce internal opposition to the project, especially from leftist sectors of the government coalition (Arenas, 2010; Marcel, 2016).

Finally, the bill was introduced to Parliament on December 15th 2006, and considered most of the new solidarity pillar, reformulation of the *Instituto de Normalización Previsional* and Superintendence of AFP, bidding of new affiliates, gender equity, and pension regime flexibility (Marcel, 2016). Nonetheless, the Executive introduced modifications to the gradual incorporation of independent workers, separation of AFPs as account managers and fund investors, and omitted some tax issues. Lastly, there were some aspects added exclusively during the debate at the Executive, such as: gender equity, participation of bank subsidiaries, creation of Integral Pension Attention Centres, changes to fixed fees, and a new bid for Disability and Survivors' Insurance. Table 6-1 summarises these changes that affected particular aspects of, mainly, the eligibility component of the policy architecture.

Table 6-1 Main Presidential Advisory Council recommendations modified by the Interministerial Committee

Components policy architecture	**Marcel Commission**	**Drafted bill**
Eligibility	Women with access to solidarity pillar at 60 years old. Targeted Bonus per Child and calculation method. Inclusion of childcare as a benefit for female workers.	Women allowed to receive benefits at 65 years old. Presidential order to create a universal bonus with the amount calculation method suggested by Marcel Commission. Not included.
Funding	Modification of AFP's fixed fees. Separate Disability and Survivors' Insurance by sex, and the prime difference deposited into women's IRAs.	Abolition of AFP's fixed fees. Bid the Insurance as a single package for overall AFPs. Reduce AFP's operational costs and discretion about risk exposure.
Benefits	Users Committee (included in the final bill) responsible for developing education strategies, diffusion and communication with affiliates.	Creation of Integral Pension Attention Centres to reduce misinformation.
Provision	Emphasis on bidding process.	Introduction of bank subsidiaries by Banking Law changes.

Source: Author, based on Marcel (2016) and Biblioteca del Congreso de Chile (n.d).

Eligibility, funding and provision components of the policy architecture pushed for a reform to advance towards universalist outcomes. The dimension of universalism that had broader political agreement was access, and there was less unanimity in the policies to address the

remaining challenges in equity and generosity with different intensity of the political obstacles to be set. Therefore, even in a space that did not have the influence of the Opposition or a more intense lobby carried out by organised groups, these were politically-sensitive issues. It is probable that the most remarkable matter in terms of eligibility was the rise of the female retirement age and their entitlement as beneficiaries of the solidarity pillar. On the one hand, the government rejected the increment of the female retirement age, but maintained 65 years old as an eligibility criterion, for fiscal reasons that would keep solidarity pension expenditure on a planned path. On the other hand, the incentives of provision and funding components were targeted to enable greater achievement of the generosity and equity dimensions of universalism. The authorities aimed to increase pension savings by reducing the management costs and enhancing competition among providers. However, the political decision did not have clear continuity between the Marcel Commission and the Interministerial one, where the introduction of a public-run AFP was like an instrument to gain support from progressive sectors of *Concertación*. However, the government pursued the bidding process for new affiliates, leaving changes to the supply-side for a future discussion to avoid strong political obstacles that may block the bill.

6.2.4 Exclusion of topics due to political reasons: the demands that were not included in the debate.

The range of demands was from specific adjustments to the parameters in the funding scheme, to proposals that sought to modify the provision and finance mechanisms of the pension system. Some of these matters were clearly generated by the policy architecture and acknowledged by policy experts. On the one hand, experts with affinities to the centre-right coalition focused on some administrative demands that were not considered by the Executive, which decided to leave important parameter adjustments out of the discussion. Moreover, they argued that it was not necessary to debate modifications to the funding component of the pension system. The main reasoning was because "*there are very good empirical and technical arguments to sustain that, as a financing mechanism, the savings mechanism allowed you to finance with the same effort of contributions, higher pensions or to finance the same pensions with a lower financing effort*" (Former Undersecretary of Social Security, January 25th 2017, Santiago). Then, some items were excluded from the debate

related to parameter changes, such as a rise in the contribution rate and mandatory retirement age. An expert declared that the diagnosis emphasised the lack of contribution frequency, so a rise in the contribution rate would have adverse effects on goal achievement. In addition, "*an increase in age was proposed, (…). That part of the proposal, the President did not pick it up. So yes…. it was an issue that, consciously, could have been an error, and ex post, was an error. (…). If someone had had another opinion, there were all the elements on the table and if the distinguished parliamentarians had had another opinion, they could have proposed it to the President*" (Former Undersecretary of Social Security, January 25th 2017, Santiago). In conclusion, a rise in the life expectancy of the elderly and a decrease in the real interest rates are some of the main factors leading to a continuous decline in pension amounts, if the parameters remain constant. This is understood by the AFP industry, which argued that modifying those parameters was a lost opportunity, stating that "*there is an error that we made, strategic, of not having strongly suggested that changes in the parameters were required. We supported the increase in the retirement age of women to raise the pension, but nevertheless, politically that thing was not achieved, and it was one of the main reforms to improve pensions*" (Former AFP Association representative, March 7th 2017, Santiago).

On the other hand, contesting scholars had a different agenda, but clashed with the boundaries set by the government. A former commissioner recognised that the timing was tight and the range of topics had been previously decided, so "*at one point I raised one and they made me shut up immediately, (…), that is a mixed system, which is what this country should have. But they told me that the solidary pillar was enough, and they jumped over me and well, these things have a deadline, and it does not allow us to continue debating as it must be*" (Former Commissioner and UN expert, December 16th 2016, Santiago). According to him, the principles on which the pension system is based must be changed, recovering universality and solidarity as main pillars. However, politically, it was impossible to pursue this kind of in-depth revision by that time. In addition, the self-funded pensions that elderly people were receiving by the mid-2000s were a mix of the old and new systems, so by 2006 '60 percent of current pensioners are receiving pensions from the old system, while 30 percent receive their pensions from the new one' (Contreras & Sehnbruch, 2014, p. 254).

In conclusion, positions aiming for a substantive debate about funding and provision components of the policy architecture were rapidly rejected. Moreover, the problems that were diagnosed as urgent were widely shared and the proposals were consistent with the academic evidence. The contemporary criticisms of the overall system were not part of the majority of the governmental coalition of that time, as they focussed political efforts on achieving a reform capable of tackling the most urgent issues that needed to be solved immediately, such as access for poor old-age people to a non-contributory pension and cost reduction of the contributory scheme. Both topics had strong electoral incentives for members of the Congress and the government coalition, so it was likely to have soft political obstacles. This reduction in fees and costs did not involve the general rationale of the contributory scheme. The aim was to reduce the constraints that AFPs industry and the Opposition may face, triggering significant delays to the overall reform in terms of contents and timing. Hence, the exclusion of topics, such as parameter modifications or structural ones, were a political decision that was highly constrained by the dynamism of the policy architecture, which limits 'the number of possible alternatives that social and state actors can pursue' (Martínez-Franzoni & Sánchez-Ancochea, 2016, p. 70).

6.2.4.a Fiscal orthodoxy and the unlikely introduction of pay-as-you-go funding

Social policies were strongly influenced by the fiscal orthodoxy carried out by high-level technocrats, setting as priority fiscal concerns and 'working in isolation from political demands to create a more efficient and equitable system of social protection' (Pribble, 2013, p. 26). The evidence shows that the introduction of solidarity funding within the contributory pillar was unlikely, due to strong political obstacles that may hinder the legislative process, and a strong commitment by the Ministry of Finance. This followed the trend of policymaking characterised by a robust intervention of fiscal responsibility, developing universalism from above during the new democratic governments (Pribble, 2013). This fiscal orthodoxy was largely unquestionable when '[e]ven the most radical sectors within the Chilean Left advocate the structural principle that permanent expenditures must be financed with permanent source of incomes' (Landerretche, 2014, pp. 187-188).

Firstly, the introduction of a different funding mechanism in the contributory pillar was unlikely to be considered by any senior civil servant. Hence, proposals wielded by the trade

unions to introduce a pay-as-you-go component did not convince, technically or ideologically, the team responsible. On this, a former high ranked official declared that "*unfortunately, the proposals of the trade union world, especially the CUT, were more ideological and rhetorical than practical. All the proposals were, let's go back to the pay-as-you-go system and for the State to guarantee a 70% replacement rate to everyone, (…). That's like saying I'm 1.78, but I want to reach 1.80. If I have already turned 50 years old, the probability of me growing two centimetres is quite low, is it not?"* (Former Minister of Finance, January 6th 2017, Santiago). This assessment of substantial modifications labelled as ideological proposals not based on technical evidence, follows Pribble's argument that 'policy-making arena of the Concertacion governments tends to be dominated by policy experts and technocrats. These actors enjoy special access to the policy-making process, while actors perceived as political (or with mobilizing potential) are viewed with suspicion and kept at bay (…)' (Pribble, 2013, p. 125).

Secondly, the authorities considered that a deep change to the AFPs was not politically viable for two reasons: the size of the funds under their management and the chance that the reform would fail if the government tried to pressure AFPs' interests that may respond by promoting strong political obstacles. A former high-ranking official of the Ministry of Finance stated categorically that, "*how many fights you make at the same time. And in that sense, it never was, because there were no political conditions in Chile in 2005 to consider finishing with the AFPs or of making a structural reform that would change the commercial business of the AFPs. (…) Now, it is not because there was no knowledge, it was a decision of the political economy that the reform was like this*" (Former Budget Director and Minister of Finance, December 16th 2016, Santiago). This view is shared by Garay (2016), who mentions the difficulties at Parliament, forced a reduction of the reform's scope to gain the approval of conservative politicians. This was specially to deal with modifications to the provision component, which would be resisted by the Opposition with strong external linkage mechanisms to private providers, forcing to a draining negotiation to reduce the intensity of political obstacles.

6.3 Legislative process

Since 1969, the legislation on social security has been an exclusive Executive power and was ratified in the 1980 Political Constitution. It indicates that the President establishes or

modifies the norms of social security. The Congress must accept, reject, or decrease the expenditure and benefits proposed by the Executive. Finally, the Constitution states a quorum of absolute majority of Senators and Deputies in office (Biblioteca del Congreso Nacional de Chile, 2005). According to Siavelis, 'Chile's president is the most important legislative actor in the country, and is universally recognized as a "co-legislator"' (Siavelis, 2014, p. 26). Hence, this characteristic remained as one of the features of Chilean policymaking in the post-authoritarian governments. Finally, this period was known as 'democracy of agreements', presenting to the Opposition and strong organised groups a legislative agenda that would not threaten some of the economic pillars, but obtain political stability (Siavelis, 2014).

The first Bachelet administration was the one just after the constitutional reforms of 2005, which eliminated the designated and senators-for-life, who were one of the main sources of virtual veto power over legislation of the centre-right coalition (Angell, 2007). This was followed by a successful 2005 legislative election allowing *Concertación* to have 'a majority in both houses for the first time. This was also the first time the senate would not have the distorting effect of designated senators' (Angell, 2007, p. 123). However, some Senators abandoned the *Concertación* and remained defiant to the government agenda, causing a change to the original legislative plan and forcing negotiation.

This section argues that provision and funding were the most controversial components of the policy architecture. The debate on provision and funding aimed at enhancing competition and reducing administrative fees in the pension management industry. In contrast, the access dimension was likely to be solved without affecting further revenue sources, with debates focussing on eligibility rules of the new solidarity pillar dealing with soft political obstacles. Despite the general support from the actors involved, political parties had greater incentives to support modifications aimed at advancement towards the access dimension of universalism meeting a credit claiming criterion. Nonetheless, the generosity and equity dimensions were harder to process, politically speaking, due to the external links of parties with their core constituency, and lobby from private providers if the fulfilment of those goals involved modifications to their operation.

6.3.1 The government incentives to negotiate.

The legislative stage considered the abovementioned parliamentarian advantage that *Concertación* held during the early days of the first Bachelet administration. Within this context, the presidential order was to process the overall project as one single bill that contained modifications to both the industry and solidarity pillar. The deadline was to process it within a year, in order to have new social pensions being paid by July 2008.

6.3.1.a Deputies' Chamber and ruling coalition.

At the Deputies' Chamber, government parliamentarians appealed to include aspects that were not in the original bill. According to a high-ranking official "*there was much discussion of other things that are politically symbolic, but they were not part of the reform either, for instance, much discussion in the Chamber of Deputies about contribution and not payment, sanctions for employers, which are important but they gave them a significant ideological nature*" (Former Minister of Finance, January 6th 2017, Santiago). This debate started to tighten the government deadlines and forced a round of talks to include some of their demands. Nevertheless, non-contributory pension parameters, such as amounts and targeting criteria, would not be modified significantly (Arenas, 2010). The main demands were female age reduction for access to the solidarity pillar benefits and an increase in employers' participation in the contribution scheme, among other issues regarding social security misconduct. For instance, a former Deputy declared that, "*we had a majority on the Concertacion of that time, (…). But there was a group who were in that fight, that the employer's contribution had to be increased, to state the declaration and not payment as offense. (…) But all those positions were lost*" (PPD Senator, January 20th 2017, Santiago).

As a result, the government expanded the resources involved in the reform and included improved gender measures, expansion of the voluntary contribution for middle-income groups, tougher punishment for misconduct, etc. This agreement set the debate boundaries within the ruling coalition, were politically attractive and gave a strong mandate that it was a centrepiece for the government. After this stage, the decisions and future negotiations were highly monopolised by the Ministry of Finance, having the power for an increment in the benefits, coverage and calculation methods, but *"all that must have meant that the total size*

of the package has gone beyond 1 point of the GDP to 1.1 of the GDP, but we were not going to 2 GDP points. It was not in the design and nobody has thought, I certainly would not have signed it" (Former Minister of Finance, January 6th 2017, Santiago).

6.3.1.b Negotiations with the Opposition in the Senate

The ruling coalition lost its majority when the bill was introduced to the Senate. With these new conditions, the team was at a crossroads in terms of who were the best counterparts. One option was a direct conversation with the former government Senators, but it was a risk to give them power in a major reform. The second option was to negotiate with the Opposition. On this, a negotiator declared that *"when we got to the Senate with the pension reform we said: - here the only way, we have two options: or we negotiate with Zaldivar who is pure populism, or we negotiate with the model representatives (…). Then, we make an agreement with the model managers, and there you have Longueira, Allamand and Matthei*" (Former Parliamentary Negotiator of the Ministry of Finance, January 9th 2017, Santiago).

Besides these constraints and turbulent political moments, the team responsible pushed for joint sessions of the Labour and Finance Committees at the Senate. These sessions were led by the Socialist Senator Escalona, who convinced members from both committees (Arenas, 2010). In addition, President Bachelet ordered an agreement with the Opposition on most of the items of the reform. A protocol with the Alliance was drafted to arrange the legislative work, but "*leaving one thing out of the agreement for voting in the plenary session, and [the debate agenda] was approved at the Commission because there was a Concertación majority, and it was the subject of AFP as bank subsidiaries. On that issue, the Right says, look, we will talk about everything, except this. I replied: - it is not that we will not talk, it is the Senate that will decide and they told me: -OK (…), this is the agreement and that the Senate will decide, do we agree? Yes we do*" (Former Budget Director and Minister of Finance, December 16th 2016, Santiago).

The Executive carefully selected the contents and the negotiating partners oriented with a credit claiming perspective that may create soft political obstacles. On this, government officials revealed part of the strategy utilised, stating that "*there were issues that had to be left to some senators. I insisted on that… so Soledad Alvear, let's give her the Bonus per Child,*

because she will help us on this topic. So, I went to talk to her and explain. (…). And so, then what thing we are going to give to the right, because in this matter we are going to get Allamand and Longueira. So, we were always thinking about this design, a question that is strange now. (…) But it was always in us and I think that's good practice in an issue like this, let's say. Where a reform of this magnitude cannot be made if there is a minimum consensus" (Former Parliamentary Negotiator of the Ministry of Finance, January 9th 2017, Santiago). At this stage, officials opted to achieve unanimous support on the major lines of the reform. They assessed that solidarity pensions, measures to improve the situation of vulnerable groups, and a clear design of the bidding of new affiliates to enhance competition and lower fees were core values of the reform. An interviewee detailed, "*the structural design was never in question, because those senators, at the core, shared that design (…). The structural design was quite consensual, there was a lot of fine architecture, (…). The concept that had a mixed system, the individual capitalization stood, they had incentives contribution for men and women, the gap closed to women because there was a bonus, the idea about creating a new pillar that was a non-contributory pillar, that pillar had to be well designed so that it was not a disincentive to contribution, all that was never really challenged by anyone in that commission*" (Former Minister of Finance, January 6th 2017, Santiago).

The proposal for the entry of banking into the pension fund industry was defeated and included rejection votes from the former *Concertación* Senators. Then, the government decided not to push for its approval back in the Deputies' Chamber, as a fourth round of debates in a mixed commission of Senators and Deputies would cause several delays to the law enactment and subsequent legal procedures. Consequently, '[t]he Alliance quite easily agreed with the creation of new benefits for outsiders, and with the main features of these benefits as proposed by the government. However, strong disagreement revolved around the issue of the public pension fund, which was rejected by Alliance legislators and the AFPs (Garay, 2016, p. 289). This situation was explained in comprehensive terms by a key actor in the reform, who detailed that "*the Chamber can say, I approve of the Senate and it is a new Law or they could say, I approve everything except that of the AFP and we are going to a mixed Commission, but that meant we could stay two more months in Parliament. We were on January 27, pensions are beginning to pay on July 1 and there was a government decision that was: the reform came out and we commit this same article to Parliament to discuss the*

necessary time, rather than not debating, in a hurry, tight, with one vote, because it is a pretty important thing. What happened is that the international financial crisis came and basically there was no room to be opening the pension discussion" (Former Budget Director and Minister of Finance, December 16th 2016, Santiago).

6.3.2 The debate within political parties

As Pribble (2013) argues, policy outcomes may be influenced by the character of political parties in terms of their ideology, party organisation and external linkage mechanisms with core constituencies. The combination of these three components affects explanatory power of political parties on establishing the intensity of political obstacles that may affect social policy outcomes. This section argues that besides differences among political parties in terms of ideological location and internal organisation, the factor with larger explanatory power in the variation on social policy outcomes is their differences in the external linkage mechanisms with their core constituencies, such as organised groups linked to the pension debate.

Among the centre-right wing coalition, UDI was leading the internal political force correlation and was the party with the most votes and parliamentarians. UDI is the political party that represents, in close connection with its core constituency, the interests of the Chilean business elites. Thus, the business community 'can influence policy when they perceive that outcomes could impact their profits and stability' (Pribble, 2013, p. 127). However, the internal debate held at UDI is a suitable characteristic of a party with weak links to their internal base, where 'elites enjoy autonomy in designing social policy reforms' (Pribble, 2013, p. 31). UDI interviewees stated that specific knowledge of this topic is the most important political resource to create a majority position without significant dissidents and centralise the negotiation with the government. For instance, a former UDI Senator stated that "*it was really easy being influent, because simply as I knew more than the others, the norms are really complex. (…) They do not know about this. No, this was managed between Longueira and me (…). At the end, we negotiated and the rest followed" (*Former UDI Senator, January 9th 2017, Santiago*).* Despite liberal economic goals being pursued by UDI, they were conscious of being pragmatic about the solidarity pillar legislation and ideologically coherent with the modifications to industry structure. This is stated by a former UDI Deputy, who declared that *"if I had proposed that the UDI vote against, with liberal and purist arguments to say no, we*

*must maintain the reform of the 81 pure, it would have been the biggest failure. So, what I saw, quickly, was that I could achieve viability. And the feasible thing was that what was going to be done did not destroy what was there and I quickly realised that Velasco wanted the same thing" (*Former UDI Deputy, January 12th 2017, Santiago*).*

Concertación developed a governance scheme for a stable democratic transition, maintaining a good performance in terms of economic growth. For that, they 'devised a formula for governing based on consensus building among its many parties and negotiation with potential powerful veto players, including the military' (Siavelis, 2014, p. 15). Following Pribble, *Concertación* was a centre-left coalition that may be categorised as an electoral-professional one with programmatic linkage by providing, unconditionally, public policies for winning elections. Also, there is a strong predominance of professionals and technocrats, mainly from those who are high-ranking government officials and militants of any party of the coalition. Nevertheless, the debate about this reform was a contradictory situation for legislators from progressive sectors of *Concertación*. On the one hand, they were aware that this reform was a central piece of the government agenda on social policies. Hence, they could confront some aspects to force a negotiation, but they should follow the government definitions during the bill voting. On the other hand, there were some demands from their constituents, such as trade unions, civil servants, women's associations, and local organised groups that were looking for further modifications to the provision and funding components; otherwise they could induce an electoral counter effect and perform with a blame avoidance criteria. A parliamentarian declared that these organisations "*(…) are in charge of denouncing when a parliamentarian, who is from their sector, votes differently. But yes, we always meet with trade unions, civil servants, women's associations and influences, of course there is an influence*" (PPD Senator, January 20th 2017, Santiago). Hence, there was consideration by some local actors to include their agenda in the legislative debate to gain future support and electoral success. This influx was important for a centre-left coalition shaped by professional cadres on government duties and moderation of policy proposals arguing fiscal responsibility.

The Socialist Party had, as a main incentive, to be the consort of the government, especially when some members were leading the reform. The debate within the party did not balance inquiries about the model and there was an immature resolution regarding this by their core

constituents. A high-level Socialist militant acknowledged, "*in general it was valued, but it was said that this does not make a new system, but the new system is pending. There were positions which supported an old-fashioned pay-as-you-go system and others which supported a mixed system, but it did not constitute a very significant critic"* (Socialist Senator, March 28th 2017, Santiago). In short, the Socialist Party, as representatives of the progressive sector of *Concertación*, showed weak links with their own core constituents and did not strongly promote their demands. Therefore, the debate remained among the party elite.

Although some sectors of *Concertación* wanted to introduce solidarity mechanisms within the contributory pillar, they did not have a hegemonic position. The debate followed the general guidelines proposed by the government, maturing positions regarding coverage extension, amounts and eligibility of the solidarity pillar. In relation to this, a Socialist Senator claimed during an interview that "*but never a structural discussion, never, I do not remember. The structural work of that law (it was agreed upon), but the whole system was neither supported nor questioned, it was a fact*" (Socialist Senator, March 28th 2017, Santiago). This was a common feature during the *Concertación* period, highly characterised by 'a political system in which parties argue over the details of policies rather than the nature of the policies themselves, let alone the legitimacy or not of the current government, is obviously inherently more stable' (Angell, 2007, p. 179). The most urgent matters being incentivised by the policy architecture were not the nature of the provision or funding changes to increase generosity of the self-funded pensions. In contrast, the government needed to reinforce the public role in the non-contributory pillar and introduce a fee reduction without instruments that may modify pension management organisation. However, the major differences and source of strong political obstacles between both coalitions were in the area of competition enhancement on the supply-side. This would break the single operation of the AFPs, resulting in a loss of preponderance of the fund size and its implications within the stock exchange market by positioning representatives in the boards of the largest companies.

6.3.3 Association of Banks and AFPs break into the debate

Two business associations disputed the inclusion of new actors into the pension savings management: Association of Banks and AFPs Association. As stated above, the original aim was to decrease the fees through the incorporation of new actors on the supply-side,

including a new state-run AFP. Therefore, this would increase competition among a larger number of firms. The project looked at the creation of bank subsidiaries, but AFPs pushed for rejection, acting as veto players in alliance with a right-wing party and mobilising their positions and votes in the Congress. As a result, this topic was the centrepiece of strong political obstacles that erode one aspect of the reform, affecting major changes on equity and generosity of pensions granted by the contributory pillar.

According to a former representative of the Association of Banks, their arguments would contribute to proper functioning without risking the system core. The obstacles were not a technical issue about banking participation, but were a strong political one because "*if you are an intellectual, the debate was won by the banks, but UDI had the votes, UDI was the stopper for the banks' entrance to manage pension funds"* (Former Association of Banks representative, December 26th 2016, Santiago). He also recognised a commercial interest in this possibility to act as a pension fund manager. In an interview, he stated that "*the first objective is that there would be more competition and the second is that the banks were interested because that way they would expand the customer portfolio, because AFPs have everyone and current accounts do not have everyone, (…)*" (Former Association of Banks representative, December 26th 2016, Santiago).

UDI and AFPs' Association mainly resisted these reasons and agreed that, to solve those issues, the increment of the number of companies was not necessary. A former UDI Senator declared the fierce opposition on this topic, stating that "*the government tried to suggest that banks may have an AFP and I was terribly opposed, terribly. I argue that it is very dangerous, politically and economically, that this amount of money is managed by five pension funds, five groups, five administrators or six. (…). Now, allow entry of banks, that was the "cueca over the piano", because banks nowadays, are the ones who decide if you have a project, they can give you loans, they can help you place bonds, anyway. They can finance you. That is a line of funding and the other line of financing is to try to place the bonds, the shares that AFPs can buy*" (Former UDI Senator, January 9th 2017, Santiago). They argued that the entry of banking would create potential distortions to the financial system, followed by a lack of efficacy in solving the original problems. Hence, banking aspirations crashed against a strong political wall constructed by AFPs and centre-right wing parties. Regarding this, a former

representative of the Association of Banks regretted the decision that was politically, rather than technically, driven, arguing that "*we had a very decent argument, but the factual powers of fact won us, that is the truth. (…) They won, in practice by one vote (…), the right wing was about to lose control of the AFPs, of the profits, that is the topic. That was the issue, the profits! That is why they defended them*" (Former Association of Banks representative, December 26th 2016, Santiago). Consequently, the results of the dialogue and lobby process undergone by the Banks and the AFPs relied heavily on connections with political leaders that tipped the scales towards AFPs' interests. This is explained in the literature with the assumption that an 'actor's ability to undermine reform initiatives also depends on their level of access to legislators who have the ability to block a given policy proposal when it reaches the floor' (Castiglioni, 2005, p. 9).

The AFPs developed a strategy to resist the entry of Banks by issuing a series of arguments. Firstly, they issued a warning about the potential financial misconduct in the investment negotiation between AFPs and Banks. A former member of the AFPs Association stated that "*an important part of the investment of the pension funds is invested in banking instruments and, evidently, nowadays we have a duality: a person who negotiates for pension funds and a person who negotiates for banking. As a product of that negotiation, each one fulfils its objective and a reasonable market balance is achieved. But necessarily, if the manager of the bank is the boss of the one who invests the pension funds... the instructions are given, to think that it would not exist, frankly it is something very naive*" (Former AFP Association representative, March 7th 2017, Santiago). In addition, they shared the concern about a potential economic concentration in the savings industry as an unexpected consequence. According to them, there would be a wrong signal about the operation of the Chilean financial market that would provoke a high concentration of handpicked economic groups, because "*banks are big players, the main actors of savings. Secondly, the pension funds (…). To the extent that Banks are the owners of AFPs, they become almost the only actors in the system, so be careful how you measure this. Indeed, there may be a greater number of AFPs, but there may also be a concentration in the economy*" (Former AFP Association representative, March 7th 2017, Santiago). This argument obtained wide support from centre-right wing legislators who, according to an interviewee, were more receptive because "*they understand more about economic issues like this argument and others that we developed and we proposed to*

them" (Former AFP Association representative). Hence, their main concern was losing their incumbency as single providers. As a result of the failed attempt to drastically modify the component of provision, the power and the linkage mechanism between centre-right wing constituency-coordinating parties and AFPs were reinforced.

Finally, AFPs lobbied against the bidding proposal of new beneficiaries to reduce the administration fees, but as a secondary aim. Although the industry had some apprehensions, they concluded that the proposal was rational and their customer portfolios were not being affected. They targeted their efforts with efficiency by giving priority to the first point detailed above. A former representative of the AFPs declared, "*in meetings with Senators, in meetings with Deputies, you cannot convey 100 ideas. You have to concentrate on the points that you consider to be relevant. There we prioritised many issues about the struggle with banking. (…) It was a war, it was hard (…)*" (Former AFP Association representative, March 7th 2017, Santiago).

In conclusion, both organised actors developed arguments to convince members of the Parliament about a potential alteration to the nature of pension providers. The AFPs, as main stakeholders, established a close connection with the centre-right wing coalition to defend their interests. In the dispute with banking, AFPs were successful 'to steer the new programs to their advantage by seeking to affect policy design and/or implementation of the programs' (Garay, 2016, p. 73), such as the campaign pursued to reduce public participation that clashed with industry interests. With this priority, AFPs did not disagree completely on the bidding process of new affiliates, because it would not affect previous investments that were useful for creating the customer portfolio. Lastly, this advocacy and building of strong political obstacles had a positive outcome for them, as the allowance of new private actors and a state-run AFP was rejected.

6.4 Conclusions

Although promoters of the reform gained the support of Bachelet's candidacy, there were political obstacles related to further changes towards universalist outcomes. Prior social policy reforms highly influenced the trajectory throughout the new democratic governments, and were followed by an unexpected parliamentarian minority to ensure a successful bill

passing. The electoral-professional character remained, but the strategy changed due to the conformation of the Presidential Advisory Council. There was agreement among the members and a reduction in further pressures from political parties or organised groups at the agenda-setting stage of the policymaking process. From the government, one of the reasons was to propose a reform with a limited scope, based on a shared diagnosis that would not damage the overall outcome. In addition, the range of topics was controlled by the Ministry of Finance, which had fiscal boundary as a main criterion to achieve sustainable finance with general revenues.

The interaction between the components that were being modified by the reform, the dimensions of universalism involved, and the actors, were crucial in explaining the policy outcome. As the evidence showed, political incentives for credit claiming in the eligibility component looked for an agreement on greater participation of the State for an improved access dimension. This was even for those parties seeking liberal economic goals and lesser state intervention. However, the fiscal orthodoxy of the Ministry of Finance was a valuable aspect that guaranteed them public expenditure which was under control. Among leftist sectors of the government, an extensive non-contributory pillar was highly valuable because it meant greater state participation to deal with poverty among the old-age population. This was derived from an advocacy to increase coverage and amounts, reducing pressures from the Ministry of Labour and Social Security on other aspects of the bill (except the public-run AFP). As a result, the electoral pressure to see a swift but significant approval of the pension reform, particularly for the inclusion of a vast number of people previously excluded from the non-contributory scheme, was crucial to overcome the soft political obstacles. Nevertheless, changes to the provision component by including public participation as pension fund manager concentrated strong political obstacles, with a potential major interruption of the original timeline and the corresponding electoral profits.

Thus, the provision and funding components of the policy architecture targeting equity and generosity fostered these strong political obstacles between the government, political parties and interested organised groups. Furthermore, these were the main targets for organised groups to push for their interests in the modification of the nature of pension provision. The main variable that explains their success is the relationship with pension fund resources as a

core element of the policy architecture. Secondly, organised groups transmit their interests utilising diverse connections with political parties that display strong external linkage mechanisms with their core constituencies, such as business elites. The active lobby of the AFPs industry and the Opposition vetoed new actors and public participation in the contributory pillar. Hence, '[t]he legacy of a powerful private-sector actor was also crucial in explaining why the article permitting a public AFP was eliminated from the pension reform proposal' (Pribble, 2013, p. 81). Then, the incumbent private provider that had accumulated power in this area intervened in the reform by maintaining some central aspects of the administration structure of the system.

The reform had two rounds of negotiations held by the government in each House of Parliament, highly focused on these components. Civil servants promoted the major lines of the reform, achieving extended support, and leaving isolated groups from the left (pushing for modifications) and right-wing (looking for perpetuation of the scheme) on funding and provision. Moreover, the technical team were cautious about fulfilling their fiscal cost estimations to obtain sustainable finance. In terms of the role of political parties in the reform, most of them saw limited internal debate. Moreover, they had connections with policy experts that marked an internal technocratic debate. Consequently, the political influence at this stage was subject to a policymaking process held by an electoral-professional centre-left coalition in government. On this, I agree with scholars like Pribble, that 'it is worth noting an interesting consequence of this fact for the character of social policy reform during the *Concertación* governments: it established the Ministry of Finance as the hegemonic actor in the policy-making process' (Pribble, 2013, p. 125). I argue that despite the limited space for maneuver, parliamentarians focused their indications on particular credit claiming aspects of eligibility, such as expansion of the solidarity pillar coverage and greater amounts, among others, as the most urgent issues to be solved by this reform. However, as stated above, their influence was limited in terms of changes in funding and provision to improve the generosity and equity dimensions of universalist outcomes.

In conclusion, a private pension scheme with issues of provision and funding components of the policy architecture is likely to experience strong political obstacles promoted by interest groups to achieve moderate advancements towards greater equity and generosity

dimensions of universalism. A large share of the outcome is explained by the nature of the organised group acting as single providers. Their position as managers of the resources on pension funds allows them to be prominent actors in the financial system. Consequently, proposals that look at changes to the nature of the provision component are likely to face a strong deployment of veto power. This capability became active through its close connections with constituency-coordinating political parties, rather than institutional devices that may facilitate or hinder its influence. Thus, debates about deviation of these resources will tend to moderate the outcomes of these components in relation to advancements towards generosity and equity. In contrast, this reform allowed remarkable progress in the access dimension, which did not represent any important variation in the interests of the organised groups. In parallel, the formula presented by the government was backed up by experts and did not experience differences among the political parties according to their ideological location, internal organisation or external linkage mechanism. Lastly, the control exercised by the Ministry of Finance left politicians unable to increase, dramatically, the costs associated with the non-contributory pillar. Despite some minor recriminations, there was a broad understanding of progress in universalising access to pensions for poor old-age people.

7 Comparison of pension reforms in Chile and Brazil

7.1 Introduction

As stated in the introduction chapter, Chile and Brazil have significant differences in terms of their policy architecture, which makes them suitable for comparison utilising the Most Different Systems Design (MDSD). Both countries are among those with the most developed government capabilities in the region (Franco Chauire & Scartascini, 2014). Moreover, they were some of the first Latin American countries to set up old-age pension schemes by the early 1920s (Melo, 2004). Regarding their differences, Chile has a private pension scheme based on individual capitalisation accounts managed by private fund managers, whereas Brazil has a long-standing pay-as-you-go system managed by the public sector.

This dissertation explains the variation in social policies, focusing on pensions and the political obstacles that may affect the reform outcomes. In particular, the trajectories of policy architectures are the key variable that largely determines the set of issues that may push for the enactment of social policy reform, and the incentives and constraints that establish the margins of debate. Specifically, this dissertation inquires whether these are key factors in explaining the emergence of political obstacles and the mechanism from which a path-dependence pattern operates, as policy legacy, over the long term in the context of expected advancements on universalist outputs. Consequently, the research questions are: What are the opportunities and constraints created by the two different architectures to overcome political obstacles on pensions over the long term? Which policy architecture is likely to lead towards stronger political obstacles to pension reform outcomes?

This chapter conducts a comparison by establishing the similarities and differences in the political economy of the pension reforms in Chile and Brazil, focusing on the intensity of the political obstacles that affect the reform outputs. To be specific, this comparison proves that both countries have experienced notable progress in the access dimension, mainly because of two reasons: firstly, electoral competition (Chile and Brazil) and favourable fiscal conditions (only applicable to Chile) explain the swift expansion to include outsiders. Secondly, the advanced results on generosity in Brazil are due to subsequent real value increases in the minimum wage, which act as a parameter for the establishment of a certain set of pension amounts. Lastly, both countries showed limited progress in equity, which is the most difficult

dimension to improve for every pension reform. Hence, I argue that these variations can be explained by a two-fold explanation. Firstly, policy architectures introduced incentives regarding the improvement of access (Chile) and the solving of public funding issues (Brazil). Secondly, there are organised groups, particularly from insiders, that show their interests in the political process. Specifically, the Chilean case is marked by the power of pension fund administrators in maintaining their role in the asset management of the system; meanwhile, Brazilian corporatist trade unions can resist through the negotiation of transition periods, but not the full implementation of reforms and pension providers.

In general, this dissertation concludes that from the mid-1990s until the mid-2010s, both cases experienced limited progress in more significant results on equity with strong political obstacles, followed by shared patterns of significant expansion of access characterised by soft political obstacles. Regarding similarities, the variations in the intensity of political obstacles to pension reforms are not solely explained by the policy architecture trajectory, as there are influences from organised groups directly involved in reducing the reform costs and taking advantage of the power distribution and resources. Regarding political parties, their policy decision will be influenced by electoral pressures rather than ideological concerns on pensions. In terms of differences between the trajectories of both architectures, it is remarkable for the generosity dimension. Brazil regularly showed better generosity outputs (for the contributory and non-contributory pillar) than Chile. This result will depend on the availability of public funds, especially relevant for a public pay-as-you-go scheme, and difficulties in applying new rules to the benefits component for the case of Brazil, and the role of provision of old-age pensions in a private contributory scheme, such as the case in Chile.

The organisation of the chapter is as follows. Following this introduction, I develop the comparative argument on how the policy architectures' components define the set of issues discussed in each country which promoted the arguments for reform (section 7.2). The second part of this comparison (section 7.3) outlines the evidence for the interaction between political parties and organised groups on their role in setting the political obstacles for pursuing advanced universalist outputs, such as policy fragmentation (section 7.3.1) and partisanship restrictions raised during the policy adoption stage (section 7.3.2). Finally, this dissertation concludes with the final remarks (section 7.4), which wrap up the results,

followed by an introduction of the analytical implications for further exploration derived from the theoretical framework (section 7.4.1). Lastly, section 7.4.2 offers guidelines for future research, in terms of the failed reforms of 2017 (Chile) and 2018 (Brazil) and recent process of pension reforms (2019-2020) in Chile and Brazil, the singularity of the Chilean scheme within the privatisation reversion processes, and the arguments for expanding the generalisation of the argument to different policy areas (mainly healthcare).

7.2 Incentives from components of the policy architecture

7.2.1 Reduction of fragmentation through incentives of eligibility and benefit components of the policy architecture.

The intensity of political obstacles and its effect on pension reform outputs becomes more challenging when there is a persistent lack of unification of the policy instruments. Consequently, fragmentation promotes these obstacles and is understood as 'the existence of diverse mechanisms of access, funding, entitlements, and providers, as well as the presence of a large outside market option. Fragmentation can be policy driven (i.e., led by corporatist arrangements) or market driven (i.e. led by the growing use of private actors in public provision)' (Martínez-Franzoni & Sánchez-Ancochea, 2016, p. 19). The most immediate policy instrument that governments have to tackle fragmentation is the expansion of access so as to include outsiders, through the establishment of non-contributory pillars, avoiding the delivery of particular benefits separated from the general scheme. According to Häusermann (2010), this will be confronted by insiders. She argues that 'targeting reforms benefit labor market outsiders, whereas insiders (typically male workers with standard employment contracts) do not depend on needs-tested schemes. Quite the contrary, standard workers may prefer to safeguard the equivalence principle' (Häusermann, 2010, p. 40).

Other policy architecture incentives aim to diminish the intensity of the political obstacles and reduce the subsequent fragmentation, such as in eligibility and benefits. Eligibility is particularly relevant for a policy architecture highly characterised by the private administration of the pension funds and based on defined contributions. In Chile, by the mid-1990s and early 2000s, there was growing evidence of future shortcomings in pension coverage, which would create pressure for access expansion. The main drivers were the limited eligibility criteria of the previous non-contributory scheme and a positive funding

situation to finance this expansion. Meanwhile, the Brazilian pension scheme's historic financial imbalances led to fiscal problems that pushed for equity-enhancing reform proposals by looking for the reduction of benefits for occupational groups. As a result, Brazil's main issues on pensions were the financial pressures concerning policymakers in tackling the benefits component of the contributory scheme as the primary way to increase equity.

However, there are financial considerations to recognise: a segmented pay-as-you-go looks to reduce fiscal liabilities and implement fairer rules. For a defined-contributions scheme, public funding availability is likely to improve access to social pensions for poor and vulnerable elderly people, but not necessarily to more onerous benefits granted by the contributory scheme. In conclusion, the eligibility component creates soft political obstacles that allow the promotion of universalism of access for the Chilean private pension scheme. The incentives from the benefits component, in a pay-as-you-go scheme, are crucial for moving forward to close the gaps in equity, mainly due to occupational groups that have advantages in the retirement rules. Hence, the incentives to reduce segmentation differ according to the nature of the policy architecture involved. The Chilean eligibility component created incentives to include outsiders as it was credit claiming reform for politicians; meanwhile, the benefit component of the Brazilian scheme set incentives to move towards the equalisation of retirement rules among the occupational groups. Lastly, both eligibility or benefits correlate with the funding component of the policy architecture, as opportunities for the achievement of improved results in access and equity, respectively.

7.2.2 Funding to achieve fiscal sustainability

Nowadays, all pension systems, whether it is a private scheme with defined contributions or public with defined benefits funded on a pay-as-you-go basis, are experiencing a shared trend. Their operational costs are on the rise and go hand-in-hand with demographic pressures caused by population ageing. This general situation makes the funding component of the policy architectures a central issue that determines the extent of reforms aimed at achieving universalist outputs. On the one hand, funding determines the coverage of targeted non-contributory pensions; on the other hand, funding establishes fiscal concerns about the future sustainability of a segmented public scheme with occupational groups enjoying advantageous rules. For the case of schemes in Western Europe, there is a structural

challenge for pension politics in terms of financial sustainability. In particular, '[g]overnments have also proposed funding separate special pension schemes in order to eliminate inequities, reduce administrative costs and increase the coverage of the system to include greater proportions of higher-income persons, such as by rolling civil servants into the general pension schemes or eliminating special privileges for public sector workers' (Immergut & Anderson, 2009, pp. 20-21). Consequently, funding is the policy architecture component that will determine most of the universalist orientation and is directly controlled by state actors responsible for public finances.

Despite these shared patterns, the funding component of the policy architecture creates different incentives in each country. For instance, for the Chilean case, the fiscal boundaries were crucial to establishing the scope of the highly necessary social pensions for those who were not entitled to receive the old-age assistance pension and did not have enough contributions to acquire a guaranteed minimum pension. Specifically, by the mid-2000s the largest burden of the transition costs was already afforded by the state, so there was a fiscal window to increase the public expenditure on pensions by reducing substantial pressures on coverage. A government coalition that has a weak tie between the base and party elite but relies on a programmatic linkage strategy (Pribble, 2013) is likely to pursue universalist outputs which will be, ultimately, determined by fiscal considerations and leaving particular demands from their core constituencies largely unattended or subjected to the fiscal sustainability of their demands.

The incentives generated by the funding component of Brazilian policy architecture are not due to a fiscal window to allow coverage increase, such as in the Chilean case. In contrast, the rising costs, combined with demographic changes and an extended informal sector, cause a fiscal pressure that threatens sustainability over the medium and long term of the pension scheme. The pension reforms of 1995-1998 and 2003 assumed most of the funding incentives to be core objectives, aimed at reducing pension benefits entitled to specific occupational groups. As Barr and Diamond demonstrated, a structural problem that contemporary PAYG schemes face is the requirement of 'a higher contribution rate or lower monthly benefits to maintain the balance of the system funding and no change in interest rates, the sustainable level of monthly benefits is lower if the retirement lifetime is longer' (Barr & Diamond, 2010,

p. 70). The results of these incentives directly affected the creation of strong political obstacles diminishing the outputs on generosity and equity dimensions of universalism, but the ultimate results of the reforms were not determined solely by the influence of this component of the policy architecture. As I show in section 7.3.2 below, the attempt to respond to the fiscal crisis by reducing benefit gaps between groups triggered most of the veto actions from organised groups. They adopted different strategies to stop harmful reforms combined with programmatic and non-programmatic political parties aligned to their interests.

In conclusion, this component of the policy architecture delivers incentives independently to the characteristics of the architecture. However, the policy architecture's long-term trajectory determines the direction and particular aspect of universalism which the component is aiming to meet through the reform. Nevertheless, funding generates incentives for further equity while establishing constraints to progress in terms of generosity, thus affecting the overall results on universalism. Consequently, this component of the policy architecture is continuously pushing for reforms to expand the coverage or solve issues regarding equity and generosity, but facing increasing political conflicts in a context of demographic ageing (Häusermann, 2010).

7.2.3 Provision to reduce administrative costs in private sector

The incentives promoted by the provision component exclusively formed by private actors are likely to have similarities when a policy architecture has an important private stakeholder controlling the outside market-based option component of the policy architecture. The abovementioned means that the achievement of advanced or pure results on equity and generosity dimensions of universalism is unlikely, because 'it is easier to produce universal outputs when everyone enters a single social program in a similar fashion, with the state playing a major role in ordering the sector, providing services and taming the market' (Martínez-Franzoni & Sánchez-Ancochea, 2016, p. 50).

Section 5.2.3.b, in chapter 5, showed that for the Chilean case, administrative costs were an issue affecting small pension savings and future pension amounts. The academic diagnosis on this topic was shared and supported by policymakers and lawmakers, allowing for the

discussion of technical solutions that would overcome this situation. Barr and Diamond outline the remarkable importance of the administration to the sustainability of private pensions, arguing that these schemes 'depend on administrative expertise to keep track of individual contributions and pension accumulations across a working life as well as on financial market expertise to manage pension funds and pay-outs. A lack of either capacity runs the risk that administrative costs, administrative breakdowns, or incompetent or corrupt fund management will erode the benefits to pensioners from investment returns. Since administering an individual account has a fixed-cost element (it does not cost much less to administer a small accumulation than a large one), the issue is of particular concern for small pensions. At worst, deficient administrative capacity and expertise in fund management put at risk the viability of the entire system of private accounts' (Barr & Diamond, 2010, pp. 115-116). Hence, the funds administration plays a role, and when it is not carried out properly, serious problems may arise. As Barr and Diamond emphasise, administrative costs are a matter of concern for small savings, and the Chilean scheme before the reform was experiencing issues due to high administrative fees. The expected outcomes are likely to affect the generosity dimension, but the observed results depict a remaining gap to improve this inadequate situation.

By the early 2000s, policy experts revealed that to increase competition among private firms, it was necessary to reduce the entry barriers to noncurrent firms, with legal instruments aiming to regulate their survival. The regulation and agreement on removing these barriers were necessary to ensure an initial market capacity for new competitors who were confronting a small number of incumbent firms controlling this market. Also, conclusive evidence shows that a free flow of private entities will not encourage competition and lower fees due to demand-side market decisions. Barr and Diamond (2010) explain the incapacity of price competition induced by the demand-side, because '[g]iven the high potential cost of mistaken choice, imperfect information and suboptimal choices create an efficiency justification for stringent regulation to protect consumers in an area where they are not well enough informed to protect themselves' (Barr & Diamond, 2010, p. 38).

To conclude, the trajectory of the provision component of a private pension policy architecture is likely to raise concerns regarding the gaps to fill in order to achieve advanced

or pure outputs for the generosity dimension. The low pension amount results from several factors located in this component of the policy architecture, such as high entry barriers for new firms and high administrative fee structures that affect the individual savings and lead to a future old-age pension marked by its insufficiency and inadequacy. These issues on the supply side harm the adequacy and sufficiency of the retirement pension amounts directly. This will result in unmet expectations regarding living conditions of the worker after retirement. Policy architecture particularities play a crucial role in defining the component that will provide most of the modifications to overcome weak or moderate results of the generosity dimension of universalism. However, the administrative cost reduction was highly insufficient in tackling a generosity performance far below what was expected and necessary.

7.3 Political obstacles to the achievement of universalist outcomes

The achievement of universalist outputs is not an easy task, and several political obstacles are raised by different actors who are empowered by different aspects of the trajectory of the policy architecture. This general argument fits with Pribble, who detailed that '[p]rivate actors are not, however, the only potential roadblock to universalism. Other organized groups may also oppose universalizing initiative. In particular, corporatist associations, including unions, which represent stakeholders in the existing system of social protections, may attempt to derail universalistic reform. Thus, the extent to which these organizations have been empowered by previous policy design can have an important effect on reform outputs' (Pribble, 2013, p. 176). Organised groups are part of the distribution of power shaped by the policy architecture's long-term trajectory and they deploy their influence through political parties setting strong political obstacles that constrain the advancement towards more significant universalist outputs. Although policy architectures play the leading role, this dissertation argues that specific intensity of these political obstacles are an outcome of the interaction between organised groups that may control components of the policy architecture and political parties with different external linkage mechanisms with private managers or corporatist groups.

7.3.1 Policy fragmentation and concentration of costs of reforms: how corporatist groups and private providers establish strong political obstacles

As mentioned above, private providers and corporatist groups are likely to raise concerns about issues developed by the trajectory of each component of the policy architectures. Moreover, the strong political obstacles mainly involve modifications that aim to increase generosity and/or equity dimensions of universalism, rather than extreme caution in the promotion of access. The Chilean private sector was more successful in avoiding profound modifications to their core activity, such as pension fund administration, but they accepted new instruments to enhance competition from the demand-side. In Brazil, the role of trade unions was reduced as they could not question the system implementation since they did not have direct control of the components of the policy architecture. However, they succeeded in establishing negotiations to ensure that only new cohorts of civil servants would be affected by the new retirement rules, pushed by fiscal concerns about the scheme's sustainability.

Specifically, the similarities are mainly in the resources utilised to introduce the demands based on their links with political parties. For Chilean pension fund managers, they are likely to be one of the core constituencies of programmatic parties located at the right/centre-right. Certainly, pension fund managers may influence non-programmatic parties to cast their votes, but they will not necessarily share their views as private social insurance providers. However, they are likely to establish aspects to negotiate, rather than being close allies for their project and function. For Brazilian civil servants, they do not have a specific ideological location affinity and do not rely on specific party characters. They took advantage of particular characteristics of Brazilian politics, such as the extension of non-programmatic parties in the Parliament, lack of internal discipline, and counter-electoral power and mobilisation at the grassroots level. In short, the trajectory of the policy architecture, both in Chile and Brazil, shapes the power distribution amid the different actors participating in the different components, directly as incumbent providers (Chile), or indirectly as beneficiaries of particular benefit rules (Brazil).

Nevertheless, its influence will depend on the control of any component of the policy architecture. For the Chilean case, private actors established links with political parties who

were aligned, to raise their concerns at the policy adoption stage. Their primary purpose was to focus their efforts on opposing modifications and expansion of the generosity and equity dimensions, as private providers did not have significant incentives to limit the expansion of the access dimension. However, occupational groups' power resources are focused on rising political costs to avoid modifications to the benefit rules and deal with transition periods, like in Brazil, without controlling the power resources of the policy architecture, as private actors do for the Chilean case. Henceforth, the likelihood of success increases when the organised group raises concerns and deploys active control of any of the policy architecture components, such as the Chilean experience. The progress in achieving universalist outputs will face the constraints raised by groups affected by modifications to any of the components, but the more participation they have, the more likely they are to push their agenda effectively. A common strategy to deploy their veto power is to establish high-level connections with politicians that may influence the policy adoption, rather than institutional channels established at the Executive or Legislative branch.

7.3.2 Party system restrictions on partial advancements towards universalist outputs

This dissertation has argued that policy architectures partly determine the extent to which party systems may play a role in intensity of political obstacles that affect the variation of universalist outputs of pension schemes. Within these boundaries, fragmentation of party systems allows a particular external linkage with organised groups involved who have specific interests in any of the policy architecture components. Hence, their intervention will be mostly triggered by the organised groups that will have a say in incentives created by eligibility, benefit, funding and provision components of the policy architecture. This fragmentation of the party system will transform parties, programmatically or non-programmatically speaking, as the main channel of these private interests in the political debate during periods of reforms. This role will be more significant when electoral pressures exist which mediate the links between stakeholders and parties. Therefore, political parties' ideological location does not have a significant influence on policy decisions on this matter, such as electoral concerns and pressures that may directly affect their incumbency. Consequently, this dissertation shows that, in contexts of extreme party system fragmentation, there are greater chances that corporatist groups may have direct access and deploy counter-electoral arguments at the grassroots level concerning their representatives'

decisions, promoting strong political obstacles to pension reforms. In combination with fiscal orthodoxy and the considerable importance of programmatic parties, a stable party system is more likely to play a role in slowing down the pace of the achievement outputs on the generosity and equity dimensions. Nevertheless, electoral competition is an incentive to approve access expansion through non-contributory pensions for vulnerable groups of the population.

For the Chilean case, these incentives aimed at expanding access to pensions for vulnerable groups did not involve strong opposition from political parties. The main redline was to perform the reform within the limits of fiscal sustainability, which was assured after affording the highest expenditure of the fiscal transition costs. However, the evidence suggests that political debate on pension reforms is likely to concentrate on two issues, depending on the nature of the policy architecture. On the one hand, there are persistent political obstacles raised by centre-right wing parties, who adopt a constituency-coordinator profile, and private fund managers, to avoid further modifications to the provision component. Consequently, establishing strong links between incumbents at the provision component and programmatic parties whose main constituencies are business representatives or elites certainly reinforces a partial veto power which affects further progress in the generosity dimension of universalism. The 2008 pension reform is a relevant example to argue that having a strong incumbent in the provision component is likely to result in little progress in the generosity dimension, despite the incentives for further modifications pushed by the policy architecture.

Regarding the incentives from benefits of the policy architecture, the Brazilian case shows that political parties were likely to consider the demands from corporatist groups due to their electoral counterbalance and non-programmatic profile that prevail in critical political parties. Although the modification to the benefits was approved, corporatist groups were successful in forcing the implementation of transition periods in which those rules will no longer affect current cohorts of retired and active civil servants who entered the civil service before the enactment of the constitutional amendment.

The incentives generated by the provision and funding components are crucial in determining the nature of the reform. For the Chilean scheme, modifications to provisions may change the fund managers' structure; meanwhile, funding delivers strong incentives to reduce the

fiscal expenditure of Brazil's public scheme, which represents a heavy burden for public finances. Each of these incentives triggers organised groups to activate their high-level access to members of political parties during the policy adoption phase. Political parties have a say at this stage and they will either push for the achievement of improved results on equity and generosity, or not, according to partial consideration of the points made by the groups that are affected and how they have an impact, electorally or programmatically, as core constituents. In short, the components with organised groups involved are likely to face strong political obstacles by the combined action of them in alliance with political parties that will consider their relative weight in the equation. As a result, significant progress in equity and generosity dimensions is unlikely to be made.

In conclusion, the party system's fragmentation is a factor that increases the likelihood of consideration of electoral calculation, rather than programmatic lines for particular policy choices. Specifically, this dissertation's findings suggest that the links that parties establish with organised groups are more relevant to the variation of social policy expansion compared with a specific ideological location. Besides, this link has particular patterns such as a tendency for non-programmatic parties to establish links built upon electoral bargaining with a group of voters or corporatist groups that may offer a share of electoral mobilisation at the local level. For the case of parties with a programmatic character (either electoral-professional or constituency-coordinating), these links give an insight into some expected behaviours of parties, because '[p]olitical parties offer packages (programs) of policies that they promise to pursue if elected into office. They compensate voters only indirectly, without selective incentives. Voters experience the redistributive consequences of parties' policy programs regardless of whether they supported the governing party or parties' (Kitschelt, 2000, p. 850). Overall, the political obstacles raised during a pension reform process in Brazil and Chile tend to limit the progress towards equity and generosity dimensions of universalism for the reasons and mechanisms stated above.

7.4 Conclusions, contributions and future research

Chapters 3 and 5 provided empirical evidence to argue that policy architectures are the main determinants of power distribution within particular policy areas, but the components' importance will determine its dominance. As I have shown, Brazil experienced issues

generated by the funding and benefit components of the policy architecture to pursue financial balance and sustainability of this scheme. Then, these fiscal goals are likely to induce modifications to the general rules of pension entitlements to respond to the incentives from the funding component looking for more sustainable finance. Meanwhile, Chilean policy architecture components that create incentives for further reforms are eligibility and funding, and they involve two dimensions of universalism. On access, it is likely to set incentives for coverage expansion to old-age people living in poverty; whereas, on generosity, the Chilean case showed improved competition among firms and modified fee structure to increase the generosity of the pension amounts. Table 7-1 summarises the components that set the main incentives along the trajectory of the policy architectures of Brazil and Chile's pension schemes.

Table 7-1: Components of the policy architecture and actors involved in political obstacles to pension reforms in Brazil and Chile

Component	Brazil	Chile	Actors
Eligibility	Informal rural workers have a special regime (*Previdência Rural*). Self-employed have a mandatory legal pension coverage, but some gaps existed, in particular among self-employed. Informal workers were not fully represented by national trade unions. BPC and *Previdência Rural* entitlements are guaranteed for those meeting the conditions and do not depend on budgetary constraints.	Increasing demand to expand coverage to a vulnerable population that will not meet the requirements of the contributory pillar or may have access to insufficient pension amounts. Significant impact on improving outputs of access dimension of universalism.	Government of Chile, on adopting a new social pension.
Funding	Growing pressure on Federal Treasury because of the increase of the expenditures due to early retirement and high pension amounts for specific occupations. This situation was the primary source of (contested) deficit of the pension system due to the extension of expenditures surpassing revenues from contributions of formal workers, employers and public funds divestments. The intended achievements have a	The pension fund managers were charging high fees that were being, partly, discounted from the workers' balances. The reduction of costs impacts directly on individual account solvency. Although the original aim was to improve pension generosity, there was limited progress on this dimension.	Private Funds Managers (Chile). Government of Brazil (cautious with fiscal deficit). Civil servants organisations and private sector trade unions (arguments of inexistence of deficit).

	direct impact on the equity dimension of universalism.		
Provision	--	Entry barriers were affecting the competitiveness of the pension fund management industry. The incentives of this component are entitled to improve the generosity dimension of universalism.	Private Funds Managers (Chile) control this component.
Benefits	Rules granted at Constitution rank, being modified to increase contribution time and reduce amounts. Partially successful with public-sector employees but challenging to achieve for civil servants. The latter involves most of the constraints, although strong incentives from the policy architecture.	--	Civil servants (Brazil) were success on avoiding deep modifications (reform of 1998) and establishing new rules for incoming cohorts (reform of 2003).
Outside option	--	--	

Source: Author.

Much of the literature on welfare politics analyses centre-left/left-wing governments' role in the provision of services and transfers with broader access, generous and with relative equity among beneficiaries and redistributive impact (Huber & Stephens, 2012). Also, the impact of electoral competition contributes, from politics to the expansion towards universalist outputs (Haggard & Kaufman, 2008). Based on this scholarship, this dissertation argued that there is a particular aspect of the welfare politics which needs closer consideration to better understand the impact of political obstacles on the trajectory towards universalist outputs on social policies. In general, both case studies show that the interrelation between organised groups and party systems is crucial to explaining, partly, the strong political obstacles that constraint to move towards the reduction of segmentation. Electoral incentives and availability of funds due to the decline of the transition cost help us explain how Chile expanded the pension system's access dimension with soft political obstacles during the 2008 pension reform. However, the funding component did not experience the same incentives to achieve significant expansion of generosity. For the Brazilian case, civil servants' counter-electoral power and widespread practice of favour exchange among political parties are also plausible explanations, but not for the access dimension. On this, the organised groups involved in the debate on benefits took advantage of this characteristic and succeeded in postponing the full implementation of the new benefit rules, which were marked by a growing

fiscal concern about the scheme's sustainability over the long-term. The results suggest that strong political obstacles utilising veto power is more effective if organised groups are directly involved in controlling and implementing any policy architecture component.

The organised groups are likely to establish useful connections with political parties that may follow their suggestions, especially if they develop strong links with their constituencies, both, programmatically or non-programmatically. On the one hand, the private sector is likely to develop a strong relationship with parties located at the centre-right/right-wing of the ideological spectrum, which they assume to be part of their main core constituencies. They establish connections with parliamentarians through high-level access and seek their support, utilising arguments that match with their policy proposals about the unique role in the provision of services and transfer management, and a public retrenchment for those who are not able to fulfil the requirements to access a full-service provision. On the other hand, the findings suggest that organised groups that do not control the policy architecture components are likely to establish negotiations based on their potential counter-electoral power, which may affect the election of incumbent parliamentarians. Hence, a corporatist group increases its likelihood of gaining the support if they have extended representation at the grassroots level that may attract the interest of politicians. Hence, they are likely to need their support or to avoid their electoral punishment by considering organised groups' demands. There is a reinforcement provoked by Brazilian contextual characteristics, such as a sizeable catch-all party that is pivotal for every government coalition, lack of internal discipline and space for particular interests at the local level, and the limited number of parties with electoral-professional character or fully constituency-coordinating.

In short, political parties are crucial at the policy adoption stage, not on their own, but due to their interaction with organised groups that may promote strong political obstacles to affect reform outputs. The outcome of this interaction will depend on whether the organised group controls a particular component of the policy architecture and their counterparts' party character. Also, organised groups which are direct beneficiaries of the eligibility component will deploy their resistance mainly through a broad set of non-programmatic political parties without ideological affinity. Specifically, these corporatist groups can establish separate agreements with parliament members by activating their local organisations that may act as

a counter-electoral power for incumbents, without consideration of any preference for a political party. For the case of a party system with more powerful programmatic parties, in comparison with non-programmatic parties, organised groups are likely to connect with parties with ideological affinities and transmit their interests through them.

All in all, this dissertation's findings show that political parties play a role in transmitting the queries and demands from organised groups that perform as service providers or beneficiaries of eligibility rules. The relationship is marked by the programmatic profile of political parties that are likely to establish a strong link when there is a programmatic matching. Otherwise, as Pribble says, the linkage will cater to special interests, without any coherence with ideological orientation between corporatist groups and non-programmatic political parties. Despite these differences, the obstacles created by organised groups and political parties are critical in setting a backstop to further progress in the equity and generosity dimensions of universalism. In particular, organised groups will avoid losing their benefits through eligibility rules or an increase in regulations to the provision component of policy architecture.

In conclusion, the findings suggest that the intensity of political obstacles to pension reforms needs the consideration of the trajectory of policy architectures, and the interactions between political parties and organised groups, which may cause a delay in or barrier to achieving the desired results. By comparing two different system designs, it is possible to determine that there is one component, funding, that encourages modifications to eligibility or benefits. The trajectory of these policy architectures suggests that, partly due to the constraints that take place during the policy adoption stage of the policymaking process, both countries experienced significant progress in coverage expansion, but limited achievements in equity. In this dissertation, I argued that these limitations in equity had an occupational basis for Brazil. Meanwhile, the Chilean scheme's inequities are likely determined by pension amount gaps in terms of the contributory and non-contributory pillar and differences between men and women. Nevertheless, there is more advanced achievement in the generosity dimension for the Brazilian public but segmented pay-as-you-go pension scheme rather than the Chilean private scheme with defined-contributions.

7.4.1 Analytical implications for further research.

The findings of this dissertation have important implications for the literature on the politics of welfare regimes, with a particular focus on Latin America, by exploring an initial theorisation of the mechanisms by which organised groups take advantage of the fragmentation and extension of non-programmatic parties and establish connections with political parties to share their concerns and focus, mostly on the generosity and equity dimensions of universalism. Nevertheless, there is still a need to develop further case studies to draft a more general theory that can fully explain the details of how the links between organised groups and political parties contribute to achieving a particular universalist output. Considering these limitations, I argued that political parties' ideological location might play a weaker role in explaining the variations in universalist outputs in social policies than previously thought. The literature has explored this claim without conclusive evidence, but political parties play a role in social policy expansion. This dissertation suggests that the party system's fragmentation helps us understand why particular social policies are more likely to move towards more significant results in terms of universalism. Hence, a fragmented party system with high electoral competition sets the conditions to allow for social policy expansion, without an ideological match regarding expansion and the State's expected role in providing public goods. Nonetheless, this dissertation highlights that the concerns and implementation of any veto power will be concentrated on attempts to reduce segmentation of equity and generosity, primarily by those organised groups that are involved in the components of the policy architecture or those who have unique advantages granted by eligibility or benefit rules.

Hence, this dissertation aims to further expand the politics of segmentation (Picot, 2012), as fragmentation in the party system leads to a comprehensive representation of interests. A broad set of interests is likely to generate polarised positions on the issues affecting components of the policy architecture. Moreover, based on the definitions of universalism from Martínez-Franzoni and Sánchez-Ancochea (2016) and Pribble (2013), this dissertation delivers a more sophisticated theorisation about the set of incentives and constraints generated by the policy architecture, which are taken as resources for negotiation by organised groups with close links to political parties within party systems that have different degrees of fragmentation. Authors like Pribble suggest that ideological location is a factor that

helps us to understand differences in universalist outputs; however, the main findings of this dissertation suggest that, recognising a significant variance explained by the trajectory of the different components of the policy architecture, the fragmentation of the party system and nature of organised groups play a significant role in the variation of the intensity of political obstacles to pension reforms. Hence, what are the incentives for political parties to take part in debates about welfare policies? I contend that we would need to examine the electoral incentives for legislation, particularly for access expansion, but the difficulties in expanding generosity and equity remain due to the intromission and influence of groups that build coalitions (Holland & Schneider, 2017; Altman & Castiglioni, 2019). This dissertation contributes to explaining the political obstacles to universalism, by disaggregating the dimensions involved and differences in the linkage strategies that political parties and organised groups establish according to the relevant component. Consequently, the argument developed in this dissertation provides analytical input to solve this empirical and theoretical puzzle which could be perfectly refined for application to other social policy areas and country case studies.

7.4.2 Future avenues of research

Future research should explore to what extent the findings can be generalised, with new case studies on the same countries or different contexts beyond Latin America. Furthermore, the theory introduced in this dissertation should be applied to different policy areas to set potential limitations or establish differences across sectors.

The first avenue for future research is the assessment of the political economy of the reforms conducted in the late 2010s in Chile and Brazil. Bachelet's second administration introduced a bill after intense pre-legislative work that included the formation of a Presidential Advisory Commission known as Bravo Commission (Comisión Asesora Presidencial sobre el Sistema de Pensiones, 2015b), followed by pre-legislative work with party representatives, public hearings and, simultaneously, mass mobilisations led by organised groups utilising the slogan "No more AFP". The government announced the bills in August 2017, which aimed to introduce new regulations to private providers, a rise in the mandatory contribution rate, and a new public entity that was able to administer part of the increase by creating the New Collective Savings (*Nuevo Ahorro Colectivo*). However, this initiative failed to be approved by

a lack of quorum on decisive calls for votes. The term of President Bachelet finished in March 2018 and the second administration of Piñera dismissed this project. In Brazil, the administration of President Temer (2016-2018) introduced the Constitutional Amendment Project (PEC 287/16) aimed at modifying parameters such as a rise in the minimum retirement age to a mandatory one of 65 years old for men and women and to introduce a new benefit calculation method. Finally, the reform aimed to set the entitlement of full pension amount at 49 years of contribution and a transition towards the unification of rules for the two types of pensions granted by the RGPS: pension by contribution time and pension by age. For civil servants, the proposal had similar parameters to those of the RGPS, but did not involve significant modifications to old cohorts with entries before 2004 and 1999 (Nery, 2016). As in previous pension reforms, the Brazilian government's main argument was to tackle the fiscal deficit and reduce the pension system's expenditure for its sustainability. Nevertheless, the Temer pension reform proposal did not pass the high quorums and abovementioned political constraints, so it failed.

The observed outcomes of the attempted pension reforms in Chile (2017) and Brazil (2017-2018), preliminarily fit the expected results based on the dissertation framework. The Brazilian case aimed to change characteristics of both mandatory pillars' benefits, dealing with a more polarised and fragmented party system that was experiencing highly competitive electoral pressures. Additionally, the involvement of a broader set of interests pushed by organised groups with interests in avoiding the establishment of tighter rules for retirement enabled them to place strong political obstacles to the reform's core. It is likely that factors which are not explicit in the framework help us explain the mechanisms, such as polarisation of the political positions and limited time before general elections. In particular, a government, led by President Temer, was an ad-hoc coalition of centre-right parties that supported Rousseff's impeachment and alignment of groups of the private and public sectors with the new opposition led by the PT. The Chilean case is marked by conditions of increased fragmentation of the party system and planned to modify funding and provision components to move towards more significant outputs in terms of generosity. The reform was the first attempt to diminish the exclusivity of collecting and managing new payroll contributions by the AFPs. In other words, the private sector was likely to lose partial control of the provision component of the pension policy architecture, and private providers centred their concerns

over this topic. Then, President Piñera started his second administration in March 2018 and pensions remained in the policy agenda for much-needed reform to expand the generosity of pensions granted by the contributory pillar, but with a focus on more funding to be managed by the same providers. However, the debate radically changed after protests started in October 2019.

Further research could be done to explore the generalisation of the explanation introduced in this dissertation for the political economy analysis of pension reforms in other emerging regions or advanced economies. In the context of recent economic crisis and welfare retrenchment that affected Western European economies, Naczyk and Seeleib-Kaiser (2015) argue that there are different alliances and preferences among trade unions for public and generous pension schemes. To be specific, these authors suggest that 'in the face of growing political pressures for pension privatization, trade unions representing high-skilled and less-skilled workers have paradoxically been led to increase their cooperation with one another in this specific policy area, so as to extend coverage of supplementary pensions to as large a group of workers as possible. The union's reasons and the strategies they have employed have differed according to the pre-existing institutional design of domestic pension system' (Naczyk & Seeleib-Kaiser, 2015, p. 362). Hence, a potential research line is to what extent a dualization of trade unions within countries with significant unionisation rates may help to explain variances in the advancement towards universalist outputs in Latin America.

Furthermore, a structural change of austerity and new social needs of post-industrial society have been analysed for continental European countries. However, it utilises an insightful framework of the conflict lines and actors' configurations, and a set of dimensions. Angelaki and Carrera (2015) carried out a comparison of public pension retrenchment and expansion in Greece and Argentina, respectively. On this, they develop an insightful argument to explain the differences in pension scheme trajectories by considering the influence of access to international financial markets, fiscal pressures, and short-term macroeconomic goals which may help to explain the retrenchment or expansion of the public sector on pension provision. Although this dissertation does not examine these factors, it is useful to recognise these reforms to increase access to external funding or leverage public finances. Hence, further consideration of the role of the policy architecture, political parties and organised groups in

pension reforms between advanced economies in South America and Southern European countries are potential research derivations from this dissertation on pension reforms in Chile and Brazil.

A second avenue is to expand the research into different social policy areas, especially healthcare, as a policy area based mostly on service provision, rather than transfers. Healthcare and pensions are two policy areas that provide 'a better understanding of the dynamics fostering and inhibiting universalism' (Martínez-Franzoni & Sánchez-Ancochea, 2016, p. 13). Hence, even policy architectures, their legacies over the long-term and the influence of party characters on shaping ultimate results (Pribble, 2013) are crucial factors in the puzzle to explain variations in progress towards the achievement of universalist outputs on healthcare in emerging regions. Summing up, the inquiry on healthcare and other policy areas may have an added value by contrasting electoral-professional or constituency-coordinating governments with non-programmatic ones and their path towards the advancement or regression of the expansion of access, equity and generosity dimensions of universalism. Consequently, the theoretical argument introduced in this dissertation has the potential to be tested on emerging and advanced regions for its applicability to pensions, on failed pension reform attempts in Chile and Brazil, or on its potential to explain the improvements towards universalist outputs in different policy areas.

A third avenue for research is to assess the political economy of pension privatisation reversal reforms to better understand the role of policy architectures in private provision of funds management. Given the argument developed by Ortiz, Durán-Valverde, Urban, Wodsak, & Yu (2018), it is plausible to argue that the main triggers of privatisation reversing processes are incentives which originate from the policy architecture. Particularly, they argue that there are three shared elements of the reversion experienced by 18 out of 30 countries which fully or partially privatised their contributory pillars. Firstly, newly privatised pension schemes involved high and growing transition costs that governments were starting to afford, but with difficulty. Secondly, the 2008 global financial crisis brought into consideration the vulnerability of pension funds to economic shock and potential negative effects on pension amounts due to high individual exposure to financial and economic risk. Thirdly, the authors suggest that the actuarial calculations and projections began to show in several cases that

there will be a decline in future replacement rates if the parameters and return rates remain similar for the upcoming years and pensions will not advance significantly towards generous amounts. All in all, these issues ended up creating fiscal challenges and unmet expectations mainly because '[p]ension privatization was not providing income security to the majority of older persons; on the contrary, pension benefits deteriorated, increasing gender and income inequalities. The system of individual accounts became unpopular and untenable' (Ortiz, Durán-Valverde, Urban, Wodsak, & Yu, 2018, p. 36). Hence, the main topics affecting private schemes[10] that were in their early stages were similar to the Chilean case by the mid-2000s; however, the long-term trajectory and macroeconomic importance of Chilean counterparts allowed a limited pension reform to tackle issues affecting the access dimension of universalist outputs. Consequently, the Chilean case highlights that private providers do not solely explain the persistence of a private scheme. It is their existence and control of the provision component, and veto power based on their role as managers of a fund equivalent to around ¾ of the Chilean GDP, which helps to understand the path dependence of an extensively developed private scheme, like in Chile.

In sum, this dissertation shows the importance of understanding the underlying political trends that partly explain the policy reform towards advancement in the dimensions of universalism. Notably, it fills the gap between policy legacies' short and long-term influence and the mechanisms utilised to increase the inclusion of outsiders in social policy in Latin America. Pensions are crucial considering the rapid demographic ageing that Latin America is starting to experience, and current policy architectures and universalist levels will determine the prospects of inclusion for the future old-age population. Lastly, this dissertation shows how two dissimilar policy architectures develop a trajectory to reach similar universalist outputs, especially on access, and the political variables intervening in the achievements.

[10] For the case of countries in the Eurozone (Hungary and Poland), they must comply with the Maastricht criteria on debt (62% of the country GDP) and fiscal (3% of the country GDP) deficits. The transition costs largely surpassed these rules and forced governments to decide upon profound reversion of pension privatisation, in order to meet these goals (Ortiz, Durán-Valverde, Urban, Wodsak, & Yu, 2018).

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