UNDERSTANDING THE NATURE OF THE RECENT PENSION REFORM REVERSALS: THE CASES OF ARGENTINA AND HUNGARY

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Abstract

Since 2008, the world has witnessed a new phenomenon, namely partial or comprehensive reverse reforms of the second pension tier. These reforms included nationalization of second pillar private pension funds or redirecting part of the individual accounts' contributions to the public PAYG first pillars. The current thesis strives to examine the nature of the recent pension reform reversals through the perspectives of the political science, political economy and public finances. The results of this study yield that the two most important factors, that determine the scope of the reforms in the second pension pillar, are the political environment in terms of a stable majority in the country's legislature and the size of outstanding debt coupled with an aid from the IMF. In addition to these findings, this study reveals that the three-pillar pension model is insufficiently politically isolated and the present thesis may serve as input data for future research in the field.

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Abbreviations

CEE – Central and Eastern Europe

EFRP – European Federation of Retirement Provision

EU – European Union

IMF – International Monetary Fund

NDC- Notional defined contribution

OECD - Organisation for Economic Co-operation and Development

PAYG – Pay-as-you-go

SPC – Social Protection Committee

Glossary

“Age-dependency ratio” means a measure of the age structure of the population. It relates the number of individuals that are likely to be “dependent” on the support of others for their daily living – youths and the elderly – to the number of those individuals who are capable of providing such support (OECD 2007)

“Pension pillar” and “pension tier” are used interchangeably

“Pension scheme” and “pension system” are used interchangeably

Chapter 1. Introduction

1.1. Problem Identification

In the past three years, nine countries from Latin America and Central and Eastern Europe have undertaken structural transformations in their multi-pillar retirement systems. The pension reforms implemented in these countries vary in their scale. In countries like Argentina, Bolivia and Hungary, the governments initiated comprehensive policy reversals and practically eliminated the second pillars by nationalizing the individual pension accounts. By contrast, other reform countries decided to only reduce the size of mandatory contributions that go to the second tier. All these changes in the second pension pillar yield the insufficient pension system isolation against political risks. Since each of the nine countries implemented two opposite reforms in less than 15 years, they have created significant socio-economic uncertainties for the future retirees, the pension fund owners, and the financial markets. Thus, in order to understand the specifics of the recent phenomenon, it is necessary to identify the main causes that created the momentum for the reverse pension reforms.

1.2. Research question

The object of the current research is to reveal the nature of the recent pension reform reversals. Accordingly, this thesis strives to answer the following question: what are the factors that contributed to the implementation of second pillar restructuring in Latin America and Central and Eastern Europe? By analyzing the case studies of Argentina and Hungary, the study attempts to capture the true causes that led to initiation of the latest wave of reverse pension reforms. Finally, this thesis provides recommendations and ground data for further research in the field of pension system isolation.

1.3. Methodology & Limitations

The methodology adopted in this thesis consists of a qualitative research design based on a comparative case study approach. This approach tends to provide a more in-depth analysis of the researched problem. The selected cases of Argentina and Hungary are scrutinized through the political science, political economy and public finance perspectives in order to provide valid conclusions about the factors for reforming the second pension pillars in all reform countries. Further on, a theoretical framework is set and used to examine the pension policy changes in the concrete cases of Argentina and Hungary. The other methodological tools used in this study are the literature review and data analysis incorporated into the empirical and theoretical parts. They are based on data collected from secondary sources like statistics from governments, the EU, the OECD, the World Bank, the IMF, the CIA Factbook and EFRP etc.

1.4. Key Findings

The key findings of the study comprise of the two most important factors that determine the scope of reform in the second pension pillar. These factors are the political environment in terms of stable majority in the country's legislature and the size of outstanding debt coupled with an aid from the IMF. Thus a stable majority in the parliament accompanied by excessive outstanding debt plus received aid from the IMF increase the likelihood of implementation of a large-scale restructuring of the pension system. However, this study acknowledges its limitations coming from the small sample size and the low variance of the case studies. Nevertheless, the thesis provides useful insights especially in a context of the uniqueness and recency of the reform events.

1.5. Structure of the thesis

This thesis is organized in five chapters. The first chapter is giving a summary of the study. The second chapter includes the empirical overview of the introduction and abolishment of the second pension pillar. The third chapter comprises the theoretical framework used to analyze the nature of the reform reversals from the perspective of political science, political economy and public finances. Accordingly, with regard to the three perspectives, the fourth chapter examines the implemented reforms in the cases of Argentina and Hungary. Moreover it provides justification for the selection of the case studies. Lastly, the final chapter presents the findings of the research and furthermore gives policy recommendations for pension system isolation.

Chapter 2. Empirical Data Review

2.1. The Need for Pension Systems' Stabilization

During the last 30 years there have been numerous pension reforms throughout the world. These changes represent a shift from pure pay-as-you-go (PAYG) defined benefit systems to some hybrid forms which include individual pre-funded accounts that constitute a property of each contributor. The major reasons for the change in the retirement systems include decreasing fertility rates and increasing average life expectancy (James and Brooks 2001). These two factors triggered aging of the population in most developed and some developing countries and worsened their age-dependency ratios. Thus, the pension systems of the above countries became very much financially unstable, and generated large deficits. As most of the pension schemes around the world used to be Bismarckian PAYG ones, they did not account for the negative demographic changes, hence created system deficits that had to be covered by general government revenues or accrual national debt. Together the demographic factors and the financial concerns posed the need for structural changes in the existing retirement schemes.

The seminal World Bank (1994) analysis "Averting the Old Age Crisis" emphasized the effect of the negative demographic perspectives on the retirement benefits in the non-reformed state pension systems. Even though renowned scholars like Orszag and Stiglitz (2001) opposed the main arguments in favor of the establishment of private pension pillar as the World Bank advocated, "Averting the Old Age Crisis" remains the leading piece of research that marked the beginning of a global wave of pension transformation. Following the international debate over the long-term sustainability of the retirement schemes, the World Bank led the global structural reform campaign with its model of a three-pillar pension system which incorporates a reduced mandatory PAYG defined benefit first pillar, a mandatory defined contribution second pillar, and a voluntary defined contribution third pillar. The proposed three-tier pension scheme added individual account components to the existing publicly funded pensions similarly to the privatized Chilean system. The aim of the two additional tiers is to strengthen the stability and viability of the retirement schemes.

2.2. The Three-Pillar Pension System

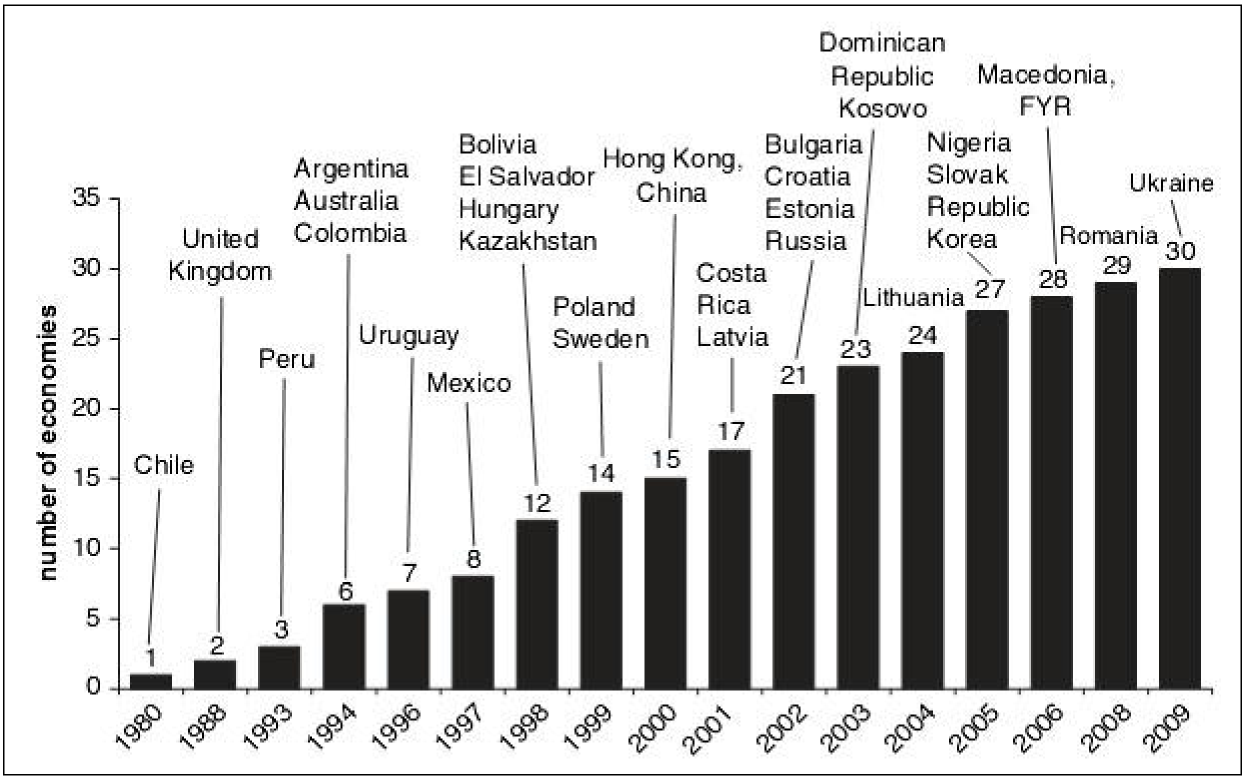
Thus far, depending on the features of the second pillar, the three-pillar systems exist "on a mandatory or voluntary, contractual basis" (Holzmann 1998, 8). The first tier in a three-tier pension system comprises a mandatory public social security scheme which in most cases is structured as PAYG system. The social insurances are collected and managed by a state organization. In order to relieve the financial burden on the national budgets, governments around the world started to reduce the size of retirement benefits, increase the statutory retirement age and reduce the amount for annual pension indexation etc. The main purpose of the first tier is to ensure a social minimum income that alleviates poverty among elderly people. Moreover, public pensions also ensure benefits for people who have no or insufficient social security insurance because of illness or joblessness (EFRP 2006, 9).

The second pension pillar is usually designed as a "mandatory personal saving accounts or, in some cases, occupational plans" (World Bank 1994, 27). The mandatory individual accounts are fully funded defined contribution schemes which are either mandatory for everyone or a certain group stipulated by a law. In addition, mandatory second tiers are sometimes a result of social bargaining and thus they take the form of occupational pensions. Contributions are made by the working people and, or employers. Therefore, the source of the second tier pension is the paid work. The employees who participated in the pillar are entitled to the benefits of the scheme. Participation in the second pillar pension schemes could also be a voluntary act. Most pension reforms allow the workers who contributed to the pre-reform system to deliberately choose whether to participate in the new scheme or not. As the majority of pension transformations took place between 1990 and 2010 (see figure 1), the current number of people impacted by voluntary second pension pillars is substantial. The second pillar pensions aim to complement those from the first pillar and thus provide a decent income to the workers after their retirement. Furthermore, the second tier tends to make up for the reduction of the benefits from the first pension tier. In most of the cases, the funds accumulated by the second pillar contributions are managed by private pension funds under national regulations. The pension assets accumulated through the occupational tier are directly owned by the pension providers until the retirement of the employee (EFRP 2006, 9). Only after retirement, the contributor is entitled to normal property rights over his or her individual account.

The third pillar in most three-pillar schemes constitutes a voluntary defined contribution pension. It has a character of a normal savings account or a life insurance with a fixed amount contribution in a certain period of time. The decision to join the third pillar is left entirely up to the worker although sometimes governments can provide tax incentives for employees and or employers to participate in voluntary pension schemes. The contributions of the future retirees are also run by private pension funds which make the respective investment decisions and pay back benefits upon retirement or a prior request.

So far, the World Bank has supported pension reforms in 68 countries through lending or and analytical and advisory activities. In this regard, the Bank's experts acquired extensive experience and know-how which they were eager to multiply in the countries around world. Consequently, they became the engineers of the three-pillar pension model. Accordingly, the World Bank advocated for introduction of three-tier pension systems that included a type of individual account component. Figure 1 illustrates the large scope of the reform that brought to the world the three-pillar pension model. The World Bank was invariably an active facilitator in most of the cases and thus it became the main proponent for the transformations.

Figure 1. Number of Pension Systems with Second Pillars, 1960–2009



Note: *"Second pillar" is defined here as a pension system with mandatory personal retirement accounts.*

Source: Holzmann, Robert, Mitchell, Orenstein, and Michal Rutkowski, ed. 2003. *Pension reform in Europe: process and progress*. Washington D.C.: World Bank.

The World Bank pension model was spread across countries in the regions of Latin America, Europe and Central Asia. In this respect, the reforms in Latin American countries were targeted at improvement of the financing and reduction of the political influence on the pension plan operation whereas the reforms in Europe and Central Asia aimed to address the fiscal stability and demographic pressures by a reduction of the PAYG components (World Bank 2006, 15). The World Bank, through its assistance and financial aid had an instrumental role in the dissemination of the three-pillar pension model among developing countries.

In comparison, most of the OECD countries have also introduced an individual account element into their pension schemes in order to ensure fiscal stability and decent size of retirement benefits to their citizens. Accordingly, the major innovation in the pension systems around the world was the implementation of a second pillar aiming to complement the PAYG one. In line with the World Bank model, the second pension pillar is funded by splitting, according to a predetermined formula, the mandatory pension contribution between the first PAYG and the second individual account pillar. Reflecting on the individual specifics of the various states, the proportion between public (1st pillar) and private pension (2nd pillar) contributions differs from country to country.

2.3. Types of Second Pension Pillars

In this regard, some OECD countries including most EU-15 member states have different types of second pension pillars called occupational pensions. The nature of this pension tier is not mandatory but it is rather voluntary provided by employers on their discretion or a product of collective bargaining at national, regional or sector level. Thus, there is a great diversity in the second pension tiers which can be best illustrated by figure 2 that summarizes the similarities and differences in the second pillars within the various retirement schemes in the European Union.

Figure 2. Types of Second Occupational Pension Pillar in EU 25 Countries

EU-25	Pillar II – Occupational pension		
Type	Supplementary	Supplementary	Supplementary
Access	**Mandatory**	**Collective Bargaining**	**Voluntary by employer**
Nature	Paid work	Paid work	Paid work
Financing method	Pre-funded	Pre-funded	Pre-funded
Management	Private sector	Private sector	Private sector
Ownership assets	Pension provider	Pension provider	Pension provider /

Source: European Federation of Retirement Provision (EFRP). 2006. The Need for an EU-25 Pension Terminology Model.
http://www.efrp.org/LinkClick.aspx?fileticket=KEeuP4OcNlQ%3D&tabid=1507 (accessed June 1, 2011)

Figure 3. EU-25 Descriptive Pension Model – Member States

	BE	CZ	DK	DE	EE	EL	ES	FR	IE	IT	CY	LV	LT	LU	HU	MT	NL	AT	PL	PT	SI	SK	FI	SE	UK
Pillar I	v	v	v	v	v	v	v	v	v	v	v	v	v	v	v	v	v	v	v	v	v	v	v	v	v
Demographic reserve funds	v						v	v	v								v			v					
Pillar II – mandatory			v		v			v				v	v		v				v	v		v	v	v	v
Pillar II – voluntary	v		v	v		v	v	v	v	v	v	v	v	v	v		v	v	v	v	v	v	v	v	v
Pillar III	v	v	v	v	v	v	v	v	v	v	v	v	v	v	v	v	v	v	v	v	v	v	v	v	v

Source: European Federation of Retirement Provision (EFRP). 2006. The Need for an EU-25 Pension Terminology Model.
http://www.efrp.org/LinkClick.aspx?fileticket=KEeuP4OcNlQ%3D&tabid=1507 (accessed June 1, 2011)

The EU member states provide an excellent example of each type of second pension pillars as all kinds of occupational pensions exist in the member states. The EU Social Protection Committee acknowledges this diversity by stating "the role and development of private funded pension provision results to be very diverse across Member States" (SPC 2008). The main difference across member countries is in the access to the second pillar occupational pension which can be based on a mandate, collective bargaining or a voluntary act (see figure 2 and figure 3). By contrast, renowned World Bank scholars like James and Brooks (2001), Rutkowski (2003) and Holzmann et al. (2009) consider that the second tier pension should have a mandatory character in order to be qualified as such. Consequently, the reforms aided by the World Bank and implemented mostly in CEE member states (see figure 3.) included obligatory participation in the second tier. This mandatory character is eliminated from the definition elaborated by the European Federation for Retirement Provision (EFPR) and adopted by the European

Commission, according to which the common denominator for second pillar characterization should be the "private work place pension scheme" (EFRP 2006). This study adopts this broader interpretation of the second pension pillar because it seeks to expand the applicability of the findings and the conclusions that will be drawn.

Another differentiation between the types of the second pension tiers can be done on the basis of whether the funds in this tier are really accumulated in individual accounts and invested in assets or they are notionally calculated and accrued as a liability of the government. The notional defined contribution (NDC) schemes require that the government determines a fraction of the individual pension contribution to be notionally accumulated into a notional personal account without actually setting aside the respective funds. However, an implicit interest is calculated over the notionally accumulated funds in the individual accounts according to a rate of return chosen by the government. The NDC schemes are also called non-financial or unfunded individual retirement accounts. The introduction of NDC model aims to create "stronger link between contributions and pension benefits" (Arpaia et al. 2009, 10) and thus contribute to the increase of labor force participation and delay in retirement.

2.4. The Pension Reform Reversals

In the last three years the world has been witnessing a new phenomenon, namely partial or wholesale reverse reforms of the second pension tier. The reverse reforms of different scale include partial or full nationalization of second pillar private pension funds or redirecting part of the private pension contributions to the public PAYG first pillars. Such pension system transformations have been implemented in Argentina, Bolivia, Hungary, Poland, Latvia, Lithuania, Romania and Bulgaria. These reforms are now going to be reviewed in a more detailed manner in groups of countries, formed according to the relative scale of pension policy changes.

2.4.1. Countries the Implemented Large-Scale Reforms

2.4.1.1. Argentina

Argentina was the first country to shift back to public pay-as-you-go pension system after 14 years of a three-pillar pension model. In the end of the 2008, the government nationalized the private pension funds holding the individual accounts accumulated during the period 1994-2008. This structural reform included removal of the private pension funds and direct subscription of all participants in the pension system to the National Social Security Administration (ANSES). As a result of the pension transformation the government took control over pension funds amounting to 30.2 billion USD or nearly 9% of Argentinean GDP (Arza 2009). The government emphasized the lack of financial sustainability, the low pension coverage, low profitability and high administrative costs of the private pension funds as major reasons that drove the restructuring of the retirement system.

2.4.1.2. Bolivia

In 2010 Bolivia followed the Argentinean example and also nationalized all private pension funds with assets of 3 billion dollars. The administration of Evo Morales undertook this measure as part of the ambitious plan for massive expansion of the government control over the Bolivian economy. Moreover, the structural pension reform in the case of Bolivia included also lowering of the retirement age and increase in benefits for the retirees.

2.4.1.3. Hungary

Hungary is the only European country to undertake the path to full nationalization of private retirement funds from the second pension tier. Having introduced a three-pillar pension scheme in 1998, the country was famous for being a European pioneer to reform its PAYG system. However, the Hungarian government struggled to balance the national budget for most of the period between 2000 and 2010. What is more, after the Hungarian accession to European Union the country needed to comply with the Maastricht criteria which limit the maximum debt to GDP ratio to 60%. On top of this, the Hungarian economy was hit severely by the World financial crisis and this posed even heavier pressure on the public finances. Consequently, the Hungarian ruling coalition took the decision for a comprehensive pension reform aiming to stabilize both the national and the pension budgets. Thus, the government got control over 11 billion euros and reduced the demand for borrowing. The reverse reform was implemented through building strong incentives for the workers to deliberately join the public PAYG system. Currently only 3.2% of the former contributors to the second tier stayed with their individual accounts.

2.4.2. Medium-Scale Reforms

2.4.2.1. Poland

Poland is the one of the countries which implemented a medium-scale restructuring of its pension system. Although the country was one of the few in the world that managed to mitigate the negative impacts of the financial crisis and prevented a GDP drop, it achieved this at the expense of budget deficits and accrual of debt. The major budget item contributing to the large deficit is the transition costs of its three-pillar retirement scheme. In order to alleviate the pressure on the budget, Poland reduced its pre-funded second pillar contributions from 7.3% to 2.3% in 2011. Similar to Hungarians, the Polish experienced similar low rate of return and high administrative costs of the private pension funds. Furthermore, the retirement system had growing needs for state financial intervention which resulted in growing deficits as well. In response to the financial instability of pension system and to the EU commission's initiation of a procedure against hyper deficit, the government of the current prime-minister Donald Tusk decided to introduce the present reform. Together with the down-sizing of the second pillar, the government approved new and more liberal regulations over the pension funds investment portfolios allowing for more risky and profitable activities as well as increased diversification.

2.4.2.2. Lithuania and Latvia

The global financial crisis did not bypass the Baltic countries. Latvia and Lithuania also implemented a series of medium-scale reverse pension reforms in the last couple of years as a result of the aggravated fiscal situation in the region. Both Latvia and Lithuania reduced the size of their second pillar contributions from 8% to 2% and from 5.5% to 2% respectively (Schwartz 2011). Both of the countries announced that these had only been temporary measures which aimed to stabilize their national budgets in a time of crisis and had been planning to go back to the original pre-crisis situation as soon as possible. Even though this may be an effective way to strengthen the state finance positions it created time inconsistency and credibility problems whose consequences are soon to be faced and duly assessed.

2.4.3. Small-Scale Reforms

2.4.3.1. Bulgaria, Romania and Estonia

Bulgaria, Romania and Estonia implemented small-scale reforms in their pension schemes unlike the previously mentioned countries. In the case of Bulgaria the government nationalized one occupational pension fund specially designed for workers entitled to early retirement privilege. The underlined reason for this nationalization was the inability of the private fund to ensure adequate benefits to its participants due to the shorter time of operation (privileged workers retire 10 to 15 years earlier than unprivileged) and low rate of return of the investment portfolios so far. As for Romania, the country postponed the planned increase in second pillar contribution in 2010 in response to a commitment that was part of its IMF agreement from 2009, but this year (2011) it has begun to raise the contribution rate. The third country to undergo only a small temporary policy change was Estonia. It redirected the whole private pension contribution of 4% to the public PAYG scheme but as soon as 2011 it re-established 2% contribution to the second pillar. Moreover Estonia plans to restore to the original state in 2012 (Schwartz 2011).

2.5. Summary

After the start of the World financial and economic crisis the governments of many countries faced the reality of increased social payments on the one hand and decreased revenues on the other. This led to a sudden increase in government debt which during a crisis time is dramatically more expensive to finance by borrowing. The easiest and probably the most unsustainable way to stabilize the countries' finances was to nationalize the already accumulated sums in the individual accounts or to reduce the contribution dedicated to the second pension pillars. As for the member countries of the European Union, the so-called Maastricht criteria impose strict regulations on the size of the government debt and budget deficit. Due to the very recent pension scheme transformations, most of the new member states are still paying the transition costs and this is reflected in both the accruing of deficit and debt. As the European Commission refused to calculate the individual pension contributions to the budget revenues and transfers to the private pension funds as expenditures, some of the new member states instigated reverse reforms in order to secure their financial prudence and meeting the Maastricht criteria.

From the experience of the various countries described above it can be concluded that as a result of the global financial and economic crisis some unexpected outcomes for the second pension pillars have occurred. First, the multi-pillar pension schemes proved that they are not isolated from political interference. Secondly, financing the system's transition costs with debt is not always sustainable (Schwartz 2011). Thirdly, the overly conservative portfolio requirements led to lower rates of return and last but not the least the pension funds management is more expensive than expected (Schwartz 2011). All of the above outcomes will be analyzed in the next chapter in terms of three different perspectives.

Chapter 3. Theoretical Framework: The Nature of Pension Reform Reversals

The aim of this chapter is to provide a sound theoretical framework that will be applied to examine the abolishment of the second private pension pillars in Argentina and Hungary. With regard to the policy cycle stages and key actors, the two cases of pension reforms will be scrutinized according to the political science, political economy and public finance perspectives. Although, all of the above aspects have contributed to a certain extent to the implementation of the latest pension transformation in the two countries, this research attempts to find out the major factors that complemented the global financial crisis effects and led to the elimination of the second pension pillars.

3.1. The Political Science Perspective

In general, undertaking of pension reforms requires favorable political conditions. Depending on the specific country or region, these conditions may differ significantly. It seems that the global financial crisis has created a similar necessary environment for a structural change in the reform countries in Latin America and Central and Eastern Europe (CEE). In addition to this, the analysis of Immergut, Anderson and Schulze (2009) points out that implementation of a change in the status quo of the pension systems in the old European Union member states (EU15) is a difficult task with regard to the key social partners' roles. On the contrary, the reforms in CEE and Latin American countries easily reached consensus on the pension restructuring issues because of the wide social approval of the transition from a planned economy towards a market economy (Chlon-Dominczak and Mora 2002). The voters, labor unions, employers and politicians accepted the change in the retirement schemes as an important and inseparable part of their political and economic evolution. Moreover, the international partners like the World Bank, USAID and the EU advocated in favor of introduction of multi-pillar pension system and so facilitated and accelerated the changes both in Latin America and CEE. Even though, Immergut et al. made this statement for the previous wave of pension reforms, this is still a valid argument as the empirical data also supports it. Pension reform reversals have so far only happened in Latin American and CEE states.

In addition to the above reason, leadership has also been identified as one of the significant factors (Chlon-Dominczak and Mora 2002, 136) for instigation of pension system reforms. According to this line of argumentation, policy changes result from decisive acts of politically powerful politicians with "strong reform vision" going against "interest group pressure" (Chlon-Dominczak and Mora 2002, 136). Moreover, in the context of political economy, leadership is associated with reform initiation when it brings political self-interest. Thus the concept of leadership touches upon populism as an engine of pension reforms. Populism here meaning "an appeal to the people, with which populist parties identify and legitimise themselves" (de Raadt et al. 2004) as defined by Jagers and Walgrave (2003) correlates to political self-interest and re-election. This concept of leadership is central to the research and its validity will be examined with regard to the ongoing restructuring of retirement schemes in Argentina and Hungary. If this is the case, the voters' preferences are more or less influenced by the political leadership or populism and no real resistance is met by the government. In such an environment it is impossible for opposition parties, labor unions and employers' organizations to gather the necessary support to block the plans of the ruling politicians. The wide public support for the personalities and parties of the president of Argentina and the Hungarian prime minister by the time of the reforms provides grounds for this line of thought at a first glance. However, it will be more thoroughly analyzed in the next chapter.

In addition, governments are also concerned with the following politically intolerable effects that are created by the pre-funded private pensions. First of all, the private defined-contribution system reproduces the existing labor market inequalities. The sharpest inequality which is universally observed is that based on gender. On an average, women have lower rate of labor participation, lower incomes and a higher life expectancy. Thus female workers are destined to either not be able to fulfill criteria for retirement or receive substantially lower pension benefits due to the above reasons. Most of the abovementioned features of gender inequality refer to the lower educated and low-paid workers as well, who together with women constitute the major part of pension system members. The second negative effect of private pensions is the shift of all risks including "investment risk, labor, market risks, and macroeconomic risks" (Arza, 2009, 28) to the insured (SPC 2008). Even though this seems financially sustainable "problems can arise with the future adequacy, guaranteeing of which may once again be on the shoulders of the State" (SPC 2008). This threat becomes increasingly pronounced in times of financial crisis like the current one. As the savings of pensioners and workers are unprotected, this puts pressure on the governments to step in and secure them. Moreover, the second pillars lack redistribution element, hence risk sharing between members of the system is not a viable option for ensuring decent old age incomes.

3.2. Political Economy Perspective

First, the political economy analysis examines the attitudes of voters and how these translate into governments' decisions and actual legislative changes. This thesis analyzes the role of the popular opinion in the process of reforming of the multi-tier pension systems. The comparative study of the two cases reviewed in the next chapter will portray the prevalent public attitudes towards the three-pillar retirement scheme restructuring.

The second political economy aspect that will be researched in the context of the Argentinean and Hungarian reforms in the next chapter is related to the ownership of the private pension funds managing the second pillar contributions. It is assumed that governments are more eager to undergo a comprehensive abolishment of the second pension tier if the majority of the pension funds and insurance companies are not domestically owned. On the contrary when such companies are owned locally, governments tend to act protectively. The bailing out of companies like AIG in the USA and ING in the Netherlands (Riesco 2009) supports such an argument. Moreover, an analogical example that illustrates how the interest of domestic financial-service companies influences a pension system is the empirical research conducted by Kemmerling and Neugart (2009). They prove that financial markets in United Kingdom and Germany do lobby on governments to decrease the contribution rate to the first pillars in order to attract "more private savings from households and increases the demand for products of the financial-service companies" (Kemmerling and Neugart 2009). Therefore, the ownership of the second pillar pension funds is considered crucial for the following analysis of the nature for the undertaken reverse reforms.

3.3. The Public Finance Perspective

The public finance perspective offers another probable rationalization for the ongoing reverse pension reforms. Namely, governments use "nationalized" private pension funds to mitigate the consequences of the aggravated state finances. This position is held by the local political opponents of current reforms, private pension fund owners, analysts from credit rating agencies etc. The relation between bad public finances and reform can be illustrated by the fact that most of the countries which are presently implementing a change in the retirement systems are also facing budget deficits and over-indebtedness. The empirical data from the public finances of Argentina, Hungary, Romania and Poland supports this claim, as all of these countries have already received aid from the IMF and all of them feature a sudden increase of state debt in the last few years. This over-indebtedness of the reforming countries has been partly accrued to cover transitional costs of second pension pillar introduction. This is due to the fact that switching to a multi-pillar system requires that the collected pension insurance contributions are split between the first public and second private pillars according to a predetermined ratio, whereas the benefits are paid in full by the public pillar alone. Private pension funds are expected to start paying benefits only after their contributors retire and this process usually takes around 15-20 years after initiation of the reform. During these 15-20 years an annual deficit of around 1-3% of GDP in the public PAYG tier is most often financed by debt, "additional fiscal consolidation, and recourse to privatization" (Velculescu 2011, 9). But in a time of a world financial crisis characterized by insecure financial markets and social spending at its peak and public revenues at its lowest point, financing pension scheme deficits becomes increasingly difficult (Schwartz 2011).

Furthermore, this study will test the hypothesis that the governments which enacted pension scheme changes are benevolent social planners aiming at a retirement system design that is both efficient and financial sustainable in the long run. Currently, politicians around the world justify their decision for abolishment of the second pension pillar with the extremely high administrative costs and failure of the private pension funds to deliver the promised rate of return, probably partly due to the investment requirements in place. Moreover after the global financial crisis along with the state finances, the pension funds' portfolios worsened drastically as they lost some 25 to 50% of their value (OECD 2009). Thus, the countries started to experience growing deficits and public dissatisfaction with the inadequate pension benefits received under the multi-pillar pension schemes, hence transition costs became financially and politically unbearable.

Assessing the factors leading to second pension pillar abolishment, it is essential to look at the immediate response of the financial markets and the international financial institutions like the IMF. Both the markets for government bonds and the IMF possess key roles in the public finances of the reform countries. In addition to this, their reaction to the change in the pension policy can either reward or punish the governments. It is interesting to know whether the decision makers had the reaction of the financial world in mind before initiation of a pension policy change. Accordingly, the following chapter will offer a detailed picture of the response of the IMF and the investors in the context of Argentina and Hungary. Thus, this study provides valuable insights for the true costs and gains originating from the latest reforms.

3.4. Summary

Analyzing the determinants of the latest pension reforms requires all the above political and economic dimensions to be scrutinized. Furthermore, the study is oriented towards the policy cycle implications in pension system restructuring including agenda setting, veto players and strategic interactions between the relevant stakeholders. The next chapter offers detailed research of the driving forces that facilitate and propel pension reforms with regard to the second pillars in the selected cases of Argentina and Hungary.

Chapter 4. Reforming the Second Pension Pillar: The Cases of Argentina and Hungary

4.1. Introduction: Case selection.

This chapter examines and compares the experience of Argentina and Hungary in order to assess the political and economic features characterizing the current reverse shifts in the multi-pillar pension schemes around the world. The selection of the case studies of Argentina and Hungary is justified by the following reasons. First, pension reform reversals have only happened in Latin America and Central and Eastern Europe. Thus the selected countries are representative of the countries in the two regions as they are exposed to the same influences (e.g. Maastricht criteria). Second, these are the two most extreme cases with regard to the variable scale of the reform. The extreme case method usually limits generalizability, but shows best internal dynamics and some commonalities between cases. Additionally it is more informative and useful for hypothesis formulation (Gerring 2008). Third, the two countries were among the first reformers in their regions, to introduce the World Bank's multi-pillar pension model in the 1990s. Thus, this leaves enough time for the system of private pension funds to demonstrate its merits and gives solid evidence to the analysts to objectively assess the pension scheme performance. For all these reasons the comparative research of Argentina and Hungary will contribute to reveal the true causes that led to initiation of the latest wave of reverse pension reforms.

4.2. Historical background of the reforms in Argentina and Hungary

As mentioned before, Argentina was the first country to undertake a structural reform for abolishment of the second private pension tier and reestablish a pure public PAYG system. As early as 2008, the president Cristina Kirchner initiated the abandoning of the mixed public-private funded system that had been in place for 14 years. The common feature between the two reforms is that both of them came into being after a period of a series of severe crises in the government finances. The context, in which the decision for establishing of multi-pillar pension system was taken, was the economic crisis of the "model of import substituting industrialization" (de Filippis and Mascova 2010, 158) in the 1990s. Similarly, the current reverse reform followed the outbreak of the global financial crisis in the autumn of 2008. The observations of Ebbinghaus (2005) coincide with the above facts as he argues that "a window of opportunity for action, often opened up through a societal crisis situation". When the multi-pillar pension reform was put forward in 1994 in Argentina "pension system privatisation was presented as the solution to the problems of financial sustainability, benefit adequacy, equity and administrative efficiency in a system shattered by years of mismanagement and lack of strategic planning" (Arza 2009, 6). But eventually this new pension system did not manage to live up to the expectations. First of all, the multi-tier system faced the 2001 debt default crisis which resulted in significant devaluation of peso leading to a drop in the value of the individual accounts by 29% on average (Mesa-Lago 2002). Secondly, the 2008 world financial crisis hit both pension funds portfolios and Argentinean government public finances. The private pension funds lost -27% of the value of their assets (Riesco 2009) and it became extremely expensive for the government to finance the transition costs of the pension reform with additional debt. Thus, the above conditions facilitated the introduction of the reverse reform in the end of 2008.

In Hungary, the 2011 reform of the second pension pillar was instigated soon after the new government realized that the global financial crisis had caused more significant damages than expected. Prior to the recent reversal to pure PAYG scheme, the Hungarian state was known for being the first country in the former communist bloc to implement private pension element into its retirement system. Beside the worsened demographic structure, one of the major factors for the adoption of the multi-tier pension system back in 1998 was the inadequacy of the system's design in terms of its complexity when it comes to pension calculation (Augusztinovics et al.

2002). Moreover, the mechanism of pension calculation was actuarially unfair and retirees could hardly figure out how their pensions had been estimated. In addition to these defects, another crucial factor that favored system's structural transformation was the Hungarian democratization and the shift to a market economy. During this transition period, Hungary, similar to other ex-communist states wanted to put a new sustainable foundation for its economic and social development. For most of these countries the neo-liberal paradigm became a determinant for their advancement (Chlon-Dominczak and Mora 2002). In the light of this process of dynamic changes, the country undertook the path to implementation of the World Bank three-pillar model. Thus, the introduction of partial pension privatization alongside with a change in the public PAYG pillar aimed to make the Hungarian pensions system transparent and financially viable. Even though the country's retirement scheme transformation has been given as a successful example, it seems that it has not been politically and economically insulated. Eventually the accumulation of the above factors resulted in a reform of the reform and in 2011 the system went through a new reverse change that "nationalized" private pension funds worth 11 billion euros.

4.3. The Political Science behind the Second Pension Pillar Elimination

This section of the study deals with the political science factors that have a direct and indirect impact on decision of a country to reestablish pure PAYG pension system after having implemented a multi-pillar retirement scheme. Further on, the cases of Argentina and Hungary are going to be presented and compared in order to draw legitimate conclusions about the necessity of having certain political conditions as a prerequisite for a reform.

4.3.1. The Political Conditions

The Argentinean pension restructuring was initiated by the president Cristina Kirchner who succeeded her husband as a head of state. In the time of the reform, both Cristina Kirchner and the political parties that backed her "Front for Victory and Justicialist Party" had a huge political support which translated into a comfortable majority in the two chambers of the Argentinean legislature – the senate and the congress. In addition to this, most of the opposition parties also did not support the existence of the private second pillar as they had a long record of criticizing the private pension funds (Arza 2009). This political environment creates more than favorable conditions for instigation of a policy change in the direction of nationalization of individual pension accounts.

The political situation in Hungary prior to the reform looks very similar. In 2010 the center-right conservative party FIDESZ won the elections with a large margin and together with its coalition partner Christian Democratic People's Party secured a super majority in the parliament. Consequently, Viktor Orban was elected a prime minister. This political victory came after a very poor-performing government of the socialist party. The new government found an economy in a bad shape, so it agreed with the IMF for a financial aid. Soon after Orban took office, he announced his government's intensions for major reforms in the country that were meant to stabilize the public finances as early as 2013. One of these reforms was the nationalization of the private pension funds. Holding a two-third majority in the parliament and facing the consequences of financially irresponsible previous government coupled with insufficient financial education of Hungarian people, FIDESZ had all the necessary support to carry out a comprehensive reform for elimination of the second pension pillar.

Both the cases of Argentina and Hungary illustrate strong political support in the executive and legislative branches of power. Additionally, the two pension reforms were undertaken in the early part of the executives' terms which guaranteed that the popular trust from the vote would be exploited for the implementation of reforms of such scale. Therefore, it can be concluded that the political conditions were facilitating factors that set the agenda and created a momentum for the reverse pension reforms.

4.3.2. The Role of Leadership and Populism

The next political science aspect which according to Chlon-Dominczak and Mora (2002) is crucial to be scrutinized in view of reform commitment is leadership. The present thesis section looks at this factor through the cases of the Argentinean and Hungarian pension restructuring. Chlon-Dominczak and Mora argue that pension reforms are driven by country leaders with significant political power and energy, who manage to withstand the pressure of the key interest groups. They also claim that populism is rarely a motive for large scale reforms as the ones under scrutiny. Even though financial analysts and political opponents often blame the ruling parties for undergoing pension restructuring because of political interests attached to them. However, studying the current reform reversals is very much impeded because they are still very recent and the consequences (e.g. re-election) are not fully revealed and cannot be investigated thoroughly, hence, no valid conclusions can be drawn. Therefore, further research needs to be done in order to properly assess the significance of the factors of leadership and populism.

4.3.3. Politically Intolerable Second Pension Pillar Deficiencies

Beside the above deficiencies of the second pension pillar, the Argentinean and the Hungarian governments also acknowledged the following shortcomings which were found politically intolerable with the discourse adopted by the two examined governments. First, the second pension pillar reproduced and deepened the labor market inequalities, the most significant of which was the one based on the gender. The problem stemmed from the facts that on average, women had had lower rate of labor participation, lower incomes and a higher life expectancy. Thus in a private system which lacked redistribution elements, women if eligible[1] received substantially smaller than men pensions. Lower-paid and low educated workers suffered the same obstacles except for the higher life expectancy (Mesa-Lago 2006). Thus, a very large part of the population had to rely on social benefits because of being left behind in the mixed public-private multi-pillar pension systems. Second, due to the lack of a redistributive element in the fully funded private pension tier the above inequalities could not be mitigated and they became even more pronounced deepening the intergenerational and intra-generational inequalities. "The limitations of the privately-managed system of individual accounts to guarantee universal and adequate benefits led to growing criticism among both policy analysts and the population at large" (Arza 2009). The last pressing issue that bothers the governments throughout the world including Argentina and Hungary is the excessive risk that has been shifted solely to the individual. Thus there is a moral hazard for the private pension funds to invest irresponsibly retirements' savings. Eventually, if pension funds fail to provide *socially acceptable* size of pension benefits the government should step in and pay for the bad management of the pension contributions. This is illustrated by the recent nationalization of one professional fund in Bulgaria which failed to accumulate enough funds to pay the expected benefits. For all the above reasons, the second pension tiers became more and more unattractive and provided grounds for pension system restructuring but probably not as radical as the ones already implemented in Argentina, Hungary and Bolivia.

[1] Because of the low labor market participation in general and constant switches between formal and informal labor market, women often do not cover formal contribution requirements and are not eligible for receiving of private pensions.

4.4. The Reverse Pension Reforms and Political Economy

This section scrutinizes the current reform in the second pension pillars through the various aspects of the political economy perspective.

4.4.1. Public Attitude towards the Pension Reform Reversals

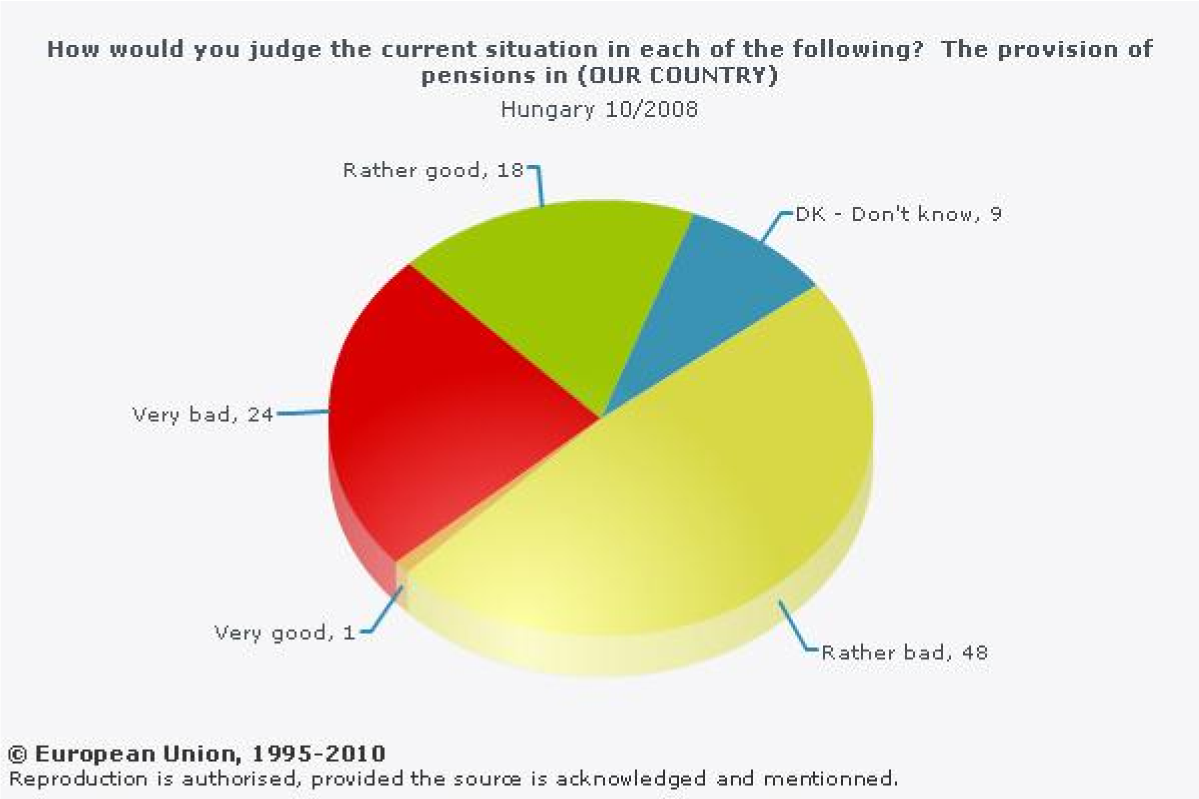
The political economy perspective examines the environments in which the decisions for undertaking pension reform reversals were taken. More concretely, this section of the study deals with the public attitudes which governments were supposed to consider before undergoing a total pension system restructuring like the ones in Argentina and Hungary.

Argentina which is a country often associated with a "strong and oppositional society" (Salmenkari 2009) is famous for its spirit for protest demonstrations. Thus, it is logical to assume that had the general public not approved the pension policy change, it would have protested on the streets as it commonly does. But except for a few minor demonstrations the workers did not resisted the nationalization of the private pension funds. By contrast, the words "I haven't seen crowds in the streets defending the private pension funds" of the head of the Peronist party in the Senate, (Raszewski 2008), support this line of thought. Taking into consideration one of the major flaws of the former mixed public-private pension system that is the low coverage, it is safe to conclude that the majority of the Argentinean people would find themselves better off in a public PAYG system. Moreover, people in Argentina used to compare the multi-pillar pension system with the previous PAYG one which was known for it generosity towards its members (Riesco 2009). In addition, "since people cannot calculate the value of their future pension benefits in an individual account" (Orenstein 2009, 110) they do not know what they are actually loosing or gaining with the switch to pure PAYG scheme.

In Hungary, the public attitude towards the current pension reform reversal cannot be measured directly due to fact that it was carried out only a few months ago. Therefore, the public opinion about the elimination of the second pillar can only be assessed indirectly. One way of doing it is looking at the Eurobarometer's statistics according to which the majority of the Hungarians (72%) found the pension provision under the pre-reform system as bad (see figure 4). Without speculating on what the reasons and biases behind this attitude were, we can infer that a change in the system would most probably be welcomed by the Hungarian people. Moreover the same Hungarian people granted super majority to the ruling coalition and entrusted it to cope with the outcomes of the global financial crisis. Again in Hungary, there were no major demonstrations that would yield a public resistance against the reversal reform.

The analysis provided in this section revealed negative attitudes towards the pre-reformed pension systems in both Argentina and Hungary. However, this analysis was conducted by measuring public opinion indirectly, hence the results may not be totally valid. That is why further research needs to be done in order to fully assess the role of the popular support for the recent wave of pension reforms.

Figure 4. Attitude towards the unreformed Hungarian multi-pillar pension system



Source: Eurobarometer data. 2008.

http://ec.europa.eu/public_opinion/cf/showchart_line.cfm?keyID=3228&nationID=22,&startdate=2008.10&enddate=2008.10 (accessed May 29, 2011)

4.4.2. The Factor of Pension Fund Ownership

The second political economy factor that will be examined in the context of the implemented comprehensive pension reforms in Argentina and Hungary is the ownership of pension funds. In line with the common hypothesis that implementing a wholesale abolishment of the second pension tier is more likely if the majority of the private pension funds operators are not domestically owned. In both of the reform countries Argentina and Hungary the majority of the pension funds are owned by foreign conglomerates. In the case of Argentina the largest shares of the former second pillar contributions were managed by the following international giants - ING, Metlife, BBVA and HSBC (Reuters 2008). The case in Hungary is very much similar as the private pension fund providers with the largest share were ING, Aegon, AXA, Allianz, ERSTE and Generali. Similar to these two examples is also the situation in Bolivia where a full nationalization was implemented. Thus, apparently the empirical data is consistent with the theoretical model. Furthermore, the Hungarian government raised a temporary crisis tax on the telecommunications, energy and retail sectors. All of these sectors are dominated by international companies and thus they bear the costs for the necessary addition revenue. Therefore this act of the government is a clear illustration that foreign ownership can be a crucial factor that influences the political decisions on pension reforms.

In this section, I examined the roles of the public opinion and private pension fund ownership in influencing the political decisions for abolishment of the second pension pillars in Argentina and Hungary. First, the study indirectly revealed negative public attitude towards the private pension funds but as the reform is still recent, further research needs to be carried out to assess the post-reform opinion of the general public. Secondly, the analysis proves that the empirical data from Argentina, Hungary and Bolivia is consistent with the theoretical postulate that the lack of strong domestically controlled private pension funds facilitates the elimination of the second pension tier.

4.5. The Public Finances Perspective in the Second Pension Pillar Elimination

The third perspective that is scrutinized in this section of the study reveals the public finances perspective in the second pension pillar abolishment. The aspect of public finances first examines whether the pressing financial needs of a country impact the decision-making in favor of reform reversal. Secondly, this part of the thesis looks at the hypothesis of benevolent governments aiming at a sustainable retirement system design. Lastly, the response of the financial markets and international financial institutions like the IMF to the current pension fund nationalization is reviewed.

4.5.1. The Impact of Public Debt and IMF aid on the Reform Initiation

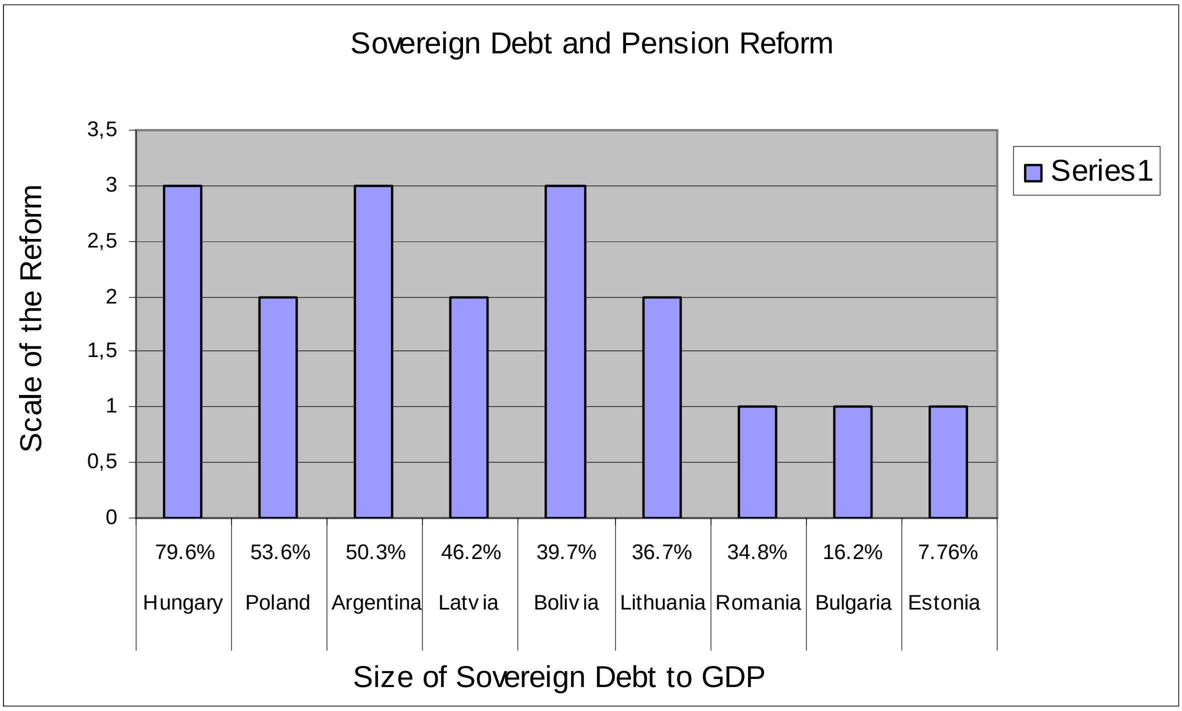
According to political opponents of the current reforms, private pension fund owners, analysts from credit rating agencies the most probable reason for the introduction of the recent wave of pension reforms is solving budget problems due to the negative consequences of the world financial crisis with the retirement savings of the workers (Simon 2010). The idea behind this statement is that the governments which initiated nationalization of funds took the easiest way to finance current deficits and reduce their large debts accrued by unreasonable public spending. In line with this logic, financial analysts believe that this is only a short-term solution which will not have sustainable positive impacts in the medium and long run (Borza 2011). Looking at the concrete empirics (see figure 5 and 6) of the countries that instigated pension reforms in the last 3 years, several conclusions can be drawn. First of all, countries like Hungary and Argentina which had the largest outstanding sovereign debts, also introduced the large-scale reforms. Bolivia is an outlier here as it also implemented a comprehensive reform but has a medium-size debt. The radical change of political discourse brought by the president Evo Morales is possible explanation behind this case. The nationalization of the Bolivian pension system is only one of the series of nationalizations initiated under Morales's government. Moreover, the president wanted to reduce the statutory retirement age and increase the size of retirement benefits which could not have happened under the former Bolivian pension system. Further on, the empirical data yields that countries with medium indebtedness implemented medium-scale reforms. Last but not the least, Bulgaria, Romania and Estonia, the countries with the smallest sovereign debt, implemented the most insignificant pension policy changes. The second variable that has an impact on the scope of the reforms introduced is the existing of IMF debt. The statistical data shows that countries which had received financial aid from the IMF also implemented larger in scale pension reforms. Consequently, taking into consideration the factors outstanding debt and IMF aid, it can be inferred that they have a magnifying effect on the scope of the realized retirement system reforms.

Figure 5. Determinants of Pension Reform Reversals

№	Country	IMF Aid	Debt to GDP	Scope of reform
1.	Hungary	Yes	79.6%	Large
2.	Poland	Yes flexible credit line	53.6%	Medium
3.	Argentina	No. Repaid in the end of 2008	50.3%	Large
4.	Latvia	Yes	46.2%	Medium
5.	Bolivia	No	39.7%	Large
6.	Lithuania	No	36.7%	Medium
7.	Romania	Yes	34.8%	Small
8.	Bulgaria	No	16.2%	Small
9.	Estonia	No	7.76%	Small

Source: CIA World Factbook. 2011. Country Comparison: Public Debt. https://www.cia.gov/library/publications/the-world-factbook/rankorder/2186rank.html (accessed May 29, 2011)

Figure 6. Relation between Size of Debt and Scale of Reverse Pension Reform



Note *3 on the scale of the reform means large/comprehensive change and 1 means a small policy change*

Source: CIA World Factbook. 2011. Country Comparison: Public Debt. https://www.cia.gov/library/publications/the-world-factbook/rankorder/2186rank.html (accessed May 29, 2011)

4.5.2. Benevolent social planner government hypothesis

This part of the study reviews the hypothesis that the governments which enacted pension scheme changes had been benevolent social planners aiming at a sustainable retirement system design. The official justification of the recent nationalization of the private pension funds by the governments which undertook such reforms is related to the underperformance of the mixed public-private multi-pillar pension systems. In line with Camila Arza (2009, 18) the window of opportunity for the policy change was created by “a change in ideas and discourse” triggered by the "poor operation" of the three-pillar pension scheme and "institutional and political fragility" in the region. Accordingly, government officials claimed the existence of second pension tier had not met the high expectations entrusted in it. The failure of the second pillar individual accounts has been proved by the extremely high administrative costs, low rate of return and low coverage of the system. The evidence from both Argentina and Hungary support the claims of the government as the private pensions funds management costs equal one third of the collected contributions (Arza 2009; Schwartz 2011) and furthermore the average rate of return adjusted for inflation and net of administrative costs was almost zero or negative (Riesco 2009, Arza 2009, Schwartz 2011, Velculescu 2011). These historically low rates of return are often associated with the conservative investment requirements which were imposed by the states. In light of this, governments around the world including most of the countries which implemented only partial pension reforms (Poland, Latvia, Lithuania and Estonia.) started implementing changes in the pension funds investment regulations and the size of eligible administrative costs. In addition, prior to the nationalization, the coverage of elderly people by the Argentinean private pensions was 68% whereas after the reform it rose to 87.5% (Arza 2009). By contrast, in Hungary coverage was not so much of a problem because the country's informal labor market is significantly smaller than the Argentinean one. The problematic aspect of the multi-pillar system in Hungary was the worse demographic factors which made the former system financially unstable. According to the Ministry of National Economy (2010) the country needed one million "legally employed workers paying contributions in the short and medium term, and one million children who could make the system sustainable in the long run" in order to secure the financial sustainability of the pensions.

To sum up, good intensions of the governments to balance the pension systems accompanied by the objectively low-performing systems of private pension funds seem to create a strong push for a radical reform in the retirement systems. However, in order to fully confirm this theory the governments should have tried harder to amend the second pension pillar defects.

4.5.3. The Financial World's Response to the Reverse Reforms

When assessing the factors leading to second pension pillar abolishment, it is worth looking at the immediate response of the financial markets and the international financial institutions like the IMF. The one-sided way of implementation of these nationalizations without any public consultations is expected to cause serious trust problems on the financial markets and among the IMF partners who are famous for their neo-liberal views. A potential negative reaction of the investors in terms of requirement of higher risk premium could make the reform costs higher than expected. The empirical data from both Argentina and Hungary shows that the immediate response of the investors was exactly as described above – calculating almost 12% higher risk premium for Argentinean and Hungarian government bonds (Barrionuevo 2008; Partlow and Byrnes 2008; Simon 2010). In addition, the stocks from the two countries also plummeted shortly after the announcement of the planned pension reforms. As for the response of the IMF, it remained silent. One possible explanation for such a reaction is the following. The nationalization which brings cash to the governments' treasuries helps the two countries to repay their debts the IMF. The proof of this argument is the Argentinean repayment of IMF aid shortly after pension nationalization. The long-term impact of the pension reforms on the financial markets of the two countries cannot be analyzed at this moment because it has not passed long enough time to gather the necessary empirical data that can form a trend. Nevertheless, such an analysis is important to be carried out in the future in order to provide precise calculations of the true costs of the retirement system restructuring.

This section showed that the presence of considerable size of public debt and received aid from the IMF increases the likelihood of undertaking a reverse pension reform with a larger scope. In addition, the impact of investors' and the IMF's response to nationalization on governments' decisions for reform reversals seems to be underresearched due to the relative recency of the pension transformations. However, altogether the public finances perspective provides strong analytical tools in examining the determinants of the current wave of second pension pillar abolishment.

Chapter 5. Conclusion

5.1. Summary of the findings

This thesis tried to analyze the nature of the recent reverse pension reforms through the perspectives of political science, political economy and public finances. The outcome of a close examination of the above aspects revealed the following findings.

The factors from the political science domain were found to have a strong impact in favor of implementation of the second pillar abolishment. These factors include political conditions and politically intolerable deficiencies of the three-pillar pension system. In particular, the political environment in both of the examined countries demonstrated that the governing parties enjoyed a comfortable majority in the legislature and thus were greatly facilitated to implement the desired reforms. Second, the mixed public-private pension systems had additional deficiencies which were intolerable in the new political discourse. These shortcomings comprise market inequalities, complete shift of risk to the individual and non-redistributive nature. In addition, the study showed that further research is needed for the assessment of the true impact of the factors of political leadership and populism.

Further on, the political economy perspective revealed that the lack of domestically owned private pension funds is likely to be a factor that has a positive effect on the nationalization of the individual accounts from the second pension pillar. However, this study managed to only indirectly measure the popular opinion towards the pension system before and after the reforms. Thus this thesis did not find sufficient empirical evidence that illustrates the role of the public attitude in the decision making processes that accompanied the reverse reforms. Consequently, more research has to be done in order to examine the roles of the key social actors in the process of pension schemes' restructuring.

Last but not the least, the public finance perspective yields a strong relation between the size of debt and IMF aid on the one hand and on the other hand, the scope of the pension policy change. Secondly, the empirical data partially supports the benevolent government hypothesis justifying the reform by the very high administrative costs, low rate of return and low coverage of workers by second-tier private pension funds. In addition to this factor, the thesis could not acknowledge whether and how the governments had taken into consideration the eventual response of the foreign investors and the IMF before implementing the comprehensive reforms.

Even though all the above described issues contributed to the undertaking of the current backtracking pension reforms, this study underlines that the two most important factors, that determine the scope of reform in the second pension pillar, are the political environment in terms of stable majority in the country's legislature and the size of outstanding debt coupled with an aid from the IMF. This conclusion is supported by the fact that no country lacking both of the two prerequisites managed to realize a comprehensive pension system change. However, this thesis acknowledges its limitations stemming from the small sample size and the low variance of the case studies. Nevertheless, the study provides useful insights especially in a context of the uniqueness and topical nature of the reform events.

5.2. Policy Recommendations

In line with the presented findings, this study reveals that the three-pillar pension is insufficiently politically isolated. Therefore, a couple of policy recommendations for minimization of political risks can be formulated in line with the identified key factors impacting the decisions for pension policy changes. First, I argue similarly to Diamond (1997) that the individual accounts have to be identified as private property and thus have the same constitutional protection as other assets. This policy provides isolation against political risk of expropriation of the private pension pillar contributions by the governments of the day. My second recommendation deals with the financial prudence rules regarding the maximum size of annual debt accrual and the overall size of outstanding debt. The two indicators need to be fixed at financially healthy levels in the countries' constitutions in order to ensure protection against irresponsible public spending and accrual of excessive national debt that threatens the overall stability of the country. Thus, the need for the expropriation of the individual accounts of the future retirees will be significantly reduced.

5.3. Limitations and Suggestion for Further Research

In conclusion, a research with similar focus has not been done so far due to the already mentioned uniqueness and recency of the abolishment of the second pension pillars in Latin America and Central and Eastern Europe. Thus, this thesis contributes to broadening the knowledge and understanding about the political and economic factors characterizing the present reverse shifts in the multi-pillar pension schemes. Furthermore, the study provides input data for future research on pension system isolation.

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