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# Social Insurance Regimes: crises and 'reform' in the Argentine and Brazil, since c. 1900

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**Social Insurance Regimes: crises and 'reform' in the Argentine and Brazil, since c. 1900**[1]

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ABSTRACT: The paper examines the structural and organisational problems of social insurance systems in Brazil and the Argentine in order to illuminate current debates about pension 'reform'. Much of the present discussion depicts social insurance 'crisis' as a modern phenomenon. Similarly, preoccupations about the macroeconomic objectives of reform - profitable pension funds as an adjunct to capital market deepening, about sustainability - the financial viability of systems, and about equity and coverage, are often assumed to be peculiar to the late twentieth century. The papers stresses the generational (or cyclical) nature of crises that have plagued social insurance regimes in both countries. It also identifies what may be learnt from differences, as well as similarities, between the two systems - not least the relatively larger historic role the private sector and earlier substantive provision for rural workers in Brazil. Following an appraisal of different 'models' (individual 'capitalised' accounts versus pay-as-you-go schemes and monopolistic state systems versus pluralistic/competitive arrangements), the paper concludes with an evaluation of the administrative and financial stability of current schemes.

Poverty alleviation or political co-option; protecting the economically and social disadvantaged or capturing resources: the debate about social policy has never been ideology free, nor has social policy provision been economically and politically neutral. Yet some proponents of current social policy initiatives in Latin America advance arguments of equity and neutrality. This paper will test these assertions by focussing on pension 'reform' in the Argentine and Brazil, locating present debates about the need for change - and the origin of pension funds 'crisis' - within an historical context. The paper opens with a survey of the principal issues that have shaped the reform agenda and comments on the relevance of the two country case-

[1] The focus of this paper is principally on social insurance or, more properly, compulsory social insurance (*seguro obligatorio* in Spanish, *seguro compulsório* in Portuguese) and the functioning of social insurance funds (*cajas*/*caixas*). While some of the new Spanish and Portuguese language literature employs the term *seguridad*/*seguridade social*, the conventional translation for social insurance remains *previsión/previdência social*.

studies. It then examines pension regimes, identifying the factors that influenced the evolution of pension fund administrations. The following sections of the paper consider structural and organisational problems encountered by the systems and the extent to which state retreat in pension delivery may resolve them. Particular attention is given to (i) the financing of pensions and events and processes that affected fund solvency (ii) the debate about public/private provision and (iii) the implications of past problems for current initiatives.

The originality of the paper arises from contrasting the Brazilian and Argentinian systems. Possibly reflecting perceptions of generalised crisis, much recent writing has tended to over-homogenise both the history and structural problems of social insurance regimes: there are lessons to be learnt from differences as well as similarities. The paper also points to the generational or 'cyclical' nature of financial crises: insolvency is not a recent problem nor is the cause necessarily the payment of over-generous benefits or mal-administration. Attention is drawn to the role of private pension providers during the early twentieth century and the survival of private sector participation in Brazil after the 1940s, a feature often ignored in modern survey material that tends to emphasise the role of the state sector across the continent. Finally, the paper endeavours to assemble a set of relatively homogeneous data on the proportion of the population enjoying social insurance protection. Robust information about enrolment over the long-run is notoriously difficult to obtain and harmonise: at best, proxies of possible rates of coverage can be constructed.

**Perceptions of Crisis and Models of Reform**

Social security 'reform' (essentially pension reform) is now firmly on the political agenda and likely to remain so. It is regarded as a crucial element in neo-liberal projects of structural adjustment, the so-called new economic model. All-too-frequently, social security reform is presented as a component of fiscal reform, capital market deepening and financial sector de-regulation. Yet social security systems can play a critical role in compensating for the social costs of economic reform.[2] Chile and Costa Rica were the first countries to confront problems of solvency, delivery and equity generated by former state pension regimes and did so in radically different ways. In the 1990s, the Argentine, Brazil, Colombia, Peru, Mexico and Uruguay embarked upon reform; others may follow.[3] There are now several alternatives to the Chilean model: (i) a competitive regime in which private and state funds vie for business; (ii) a complementary arrangement where state *cajas* provide a basic - usually very basic - pension and the private funds a top-up; (iii) a residual/transitional arrangement where, as in Mexico, the state maintains a public system solely for those currently enrolled, workers now entering the labour market being provided for by the private sector. Only Chile has evolved a fully-funded capitalisation (*capitación*) system in which the final pension paid to an individual is determined by the investment income generated from premiums paid by the insured during his or her working life into a specific account.[4] Most of the previous (and un-reformed) systems provided a flat rate pension with *ad hoc* provision for a *capitación* supplement (or for the award of an additional pension on a case-by-case basis).

Although the rhetoric of reform is dominated by several sets of assumptions and ideologies, all start from the premise that the previous system has failed, both as an agent of social welfare and of economic development. Structural problems attributed to the old systems include low coverage (only a relatively small proportion of the economically active population was enrolled), a failure of delivery (driven by growing insolvency) and lack of fairness (amongst groups and between generations). Proponents of the new economic model also stress the economic and financial

[2] C. Mesa-Lago *Changing Social Security in Latin America Toward Alleviating the Social Costs of Economic Reform* (Boulder 1994) pp. 89, 90 and 'Social Security in Latin America' in Inter-American Development Bank (hereafter IDB) *Economic and Social Progress in Latin America: 1991 Report* (Washington DC 1991); R. Herring & R. Litan *Financial regulation in the Global Economy* (Washington DC 1995).

[3] A. Barrientos *Pension Reform in Latin America* (London 1998) pp.1, 9, 25-30; A. Arenas de Mesa & F. Bertranou 'Learning from Social Security Reforms: two different cases, Chile and Argentina' *World Development* XXV 3 (1997) p. 329.

[4] IDB *Economic and Social Progress in Latin America: 1996 Report: Making Social Services Work* (Washington, D.C. 1996) p. 208; C. Mesa-Lago 'Pension System Reforms in Latin America: the position of the international organisation' *CEPAL Review LX* (1996) p. 78.

failure of the old system. Namely, the inadequacy of an under-funded pay-as-you-go system which, increasingly dependent on state hand-outs, became a source of fiscal instability.[5] Others perceive failure in terms of a lack of equity. The old, contributory arrangements, which were fragmented and highly stratified, did not address the requirements of the needy and simply replicated existing social imbalances.[6] All critics accept the necessity of de-politicising pension administrations. Partiality, evasion, delinquency and over-blown, expensive bureaucratised administrations typified pre-reform systems.[7]

Wide-ranging adverse criticism has, unsurprisingly, resulted in differing expectations of reform. Neo-liberals (or neo-conservatives) emphasise the social and economic benefits of 'choice', 'responsibility' and 'individual empowerment'. These are the sentiments that characterise the social philosophy under-pinning the broader model of growth.[8] In macroeconomic terms, reform is presented as strengthening national capital markets and increasing domestic savings rates - both vital to the consolidations of the new paradigm. State retreat and the de-politicisation of the administration of social insurance constitute the political dimension of the neo-liberal discourse about pension privatisation. Those concerned about equity and outreach, while advocating the continuing role of the state and the importance of harmonisation (of benefits), accept the need for greater efficiency and resource flexibility in order to secure the delivery of retirement and invalidity pensions capable of sustaining recipients with dignity.[9] Hence, from all quarters, the language of reform is about administrative efficiency and pension sustainability within the context of macroeconomic stability. It is also accepted that regulation - of the private sector - and transparency - in the public - are equally important to the

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[5] International Bank for Reconstruction and Development (hereafter IBRD) *Averting The Old Age Crisis: policies to protect the elderly and promote economic growth* (Oxford 1994) pp. 138-56.
[6] C. Mesa-Lago *Social Security in Latin America: pressure groups, stratification and inequality* (Pittsburgh 1978).
[7] IDB *Economic and Social Progress in Latin America: 1996 Report: Making Social Services Work* p. 207.
[8] IBRD *Averting the Old Age Crisis passim,* especially pp. 5-18.
[9] International Labour Organisation (hereafter ILO) *The ILO and the Elderly* (Geneva 1992) *passim*.

viability and vitality of any new arrangement.[10] It is not easy to reconcile all these objectives - the economic, social and political - in the short-term. Large segments of the population remain uninsured and many groups cannot afford to take out the new private pensions now available.

It is useful to assess whether the problems addressed by the recent wave of reforms are recent or of long-standing. Some proponents of reform draw attention to conjunctural factors, such as the sudden acceleration of population ageing and the sustained fiscal impact of the 1980s debt crisis.[11] These are certainly contributory factors but are not necessarily the sum of systemic difficulties intrinsic to many social insurance models. Also, it is useful to establish whether the basic concepts and rhetoric of reform are new or whether they can be traced back to previous efforts to stabilise social insurance regimes. This can only be done by careful historical study of the development of pension systems of particular countries.

**The case-studies**

Throughout the twentieth century, the differences in economic and social development between the Argentine and Brazil have been considerable. At the start of the period addressed in this paper, the Argentine appeared to be on the verge of achieving 'first world' status; Brazil remained largely a poor, under-developed economy. By the mid-twentieth century their relative fortunes had begun to change rapidly: the Argentine had entered a period of general stagnation and decline, and Brazil was experiencing profound social, demographic and economic transformations. Given these differences, the apparent similarities in the development of welfare programmes in the two countries are striking. At the start of the century both saw the limited up-grading of insurance schemes for privileged

[10] Comisión Económica de América Latina y el Caribe (hereafter CEPAL) 'Reformas al los sistemas de pensión en América Latina y el Caribe' Serie Financiamiento para el Desarrollo No 26, CEPAL (Santiago 1995); Conferencia Interamericana de Seguridad Social *La seguridad social en Brasil* (Mexico 1995), *La securidad social en Argentina* (Mexico 1995).

[11] Mesa-Lago *Changing Social Security* pp. 8-13; E.A. Isuani 'Social Policy and Political Dynamics in Latin America' in S.S. Nagel (ed.) *Latin American Development and Public Policy* (New York 1994) pp.60-61.

occupation groups, accompanied by a profusion of self-help, charitable and private sector initiatives. This was followed by periods of accelerated expansion of state welfare organisations. In Brazil this reached its peak between 1930 and 1945 during the first Vargas governments. In the Argentine the corresponding period was between c.1944 and 1955. The 1950s, 1960s and 1970s saw the consolidation, restructuring and continued expansion of public sector welfare provision. Since then, both countries have suffered perceived crises of these public programmes, which have prompted attempts to re-establish more pluralist patterns of intervention. Given these apparent similarities in terms of social insurance initiatives and profound differences in their broader development trajectories, a study of the history of pension schemes in the two countries offers particular insights into the current debate about the need for reform and the origins of the crisis of the old system. One observation made by this paper is that the superficial similarities in the development of social insurance in the Argentine and Brazil belie a number of key differences, especially regarding the relative roles of the public and the private sectors. These similarities and differences have considerable relevance for welfare reform programmes in the two countries and elsewhere.

**Institutional Development of Social Security: plurality versus state monopoly**

The current orthodoxy strongly favours the abolition of what are perceived to be monolithic, centralised public funds. In fact, plurality was the order of the day during the early period of the development of social security in Latin America. But multiple funds were soon seen as inefficient and a barrier to the creation of a universal and equitable welfare system. Over time, and often in the face of stiff political resistance, it proved possible to centralise and unify pension fund administration. This was considered a significant achievement at the time. Consequently, does the present pre-occupation with plurality suggest that earlier reformers had been misguided? Or do present-day debates neglect the lessons of the past?

Although the view that economic policy in Latin America during the late nineteenth and early twentieth centuries was predominantly liberal has been challenged, state action in the social sphere in both countries remained distinctly limited.[12] As such, the majority of workers had to provide for their own current and future welfare needs. In larger cities such as Buenos Aires, Rio de Janeiro and São Paulo, this was often achieved through the establishment of mutual aid societies. Some 58 mutual aid societies were registered in Rio de Janeiro around the end of the 1870s. Unsurprisingly, most catered for particular occupational groups or immigrant communities: total membership was in excess of 100,000.[13] (The 1872 census recorded the population of the city and province of Rio de Janeiro as about one million.) By 1914, mutual aid societies in the city of Buenos Aires contained approximately 300,000 members, approximately 29 percent of the total working population.[14] Like their counterparts elsewhere, Argentinian mutual aid societies offered affiliates a range of facilities such as medical services and invalidity and death benefits, in short, social insurance against occupational hazards.[15] For more affluent groups, private and company pension schemes were available. One of the larger Argentinian private funds, Unión Popular, had 37,000 affiliates in 1914.[16] By

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[12] For a much challenged analysis of the liberal hypothesis see C. Veliz *The Centralist Tradition of Latin America* (Princeton 1980). The counter position is persuasively argued in J.L. Love & N. Jacobson (eds.) *Guiding the Invisible Hand: economic liberalism and the state in Latin America* (New York 1988). See also O. Oszlack *Ensayos sobre la formación histórica del estado en América Latina* (San José 1981), S. Topik *The Political Economy of the Brazilian State, 1889-1930* (Austin 1987) and C.M. Lewis 'The Economics of the Latin American State: ideology, policy and performance c.1820-1945' in C. Smith, D. Solinger & S. Topik (eds.) *States and Sovereignty in the Global Economy* (London 1999). For observations on the ideology associated with social policy, see D.C.M Platt (ed.) *Social Welfare, 1850-1950: Australia, Argentina and Canada compared* (London 1989) and C.M. Lewis 'Social Insurance: ideology and policy in the Argentine, c.1920-66' in C. Abel & C.M. Lewis (eds.) *Welfare, Poverty and Development in Latin America* (London 1993). For non-state provision see, R. Munck 'Mutual Benefit Societies in Argentina: workers, nationality, social security and trade unionism' *Journal of Latin American Studies* XXX 3 (1998), R.C. Rocha da Costa 'A atividade de seguros nas primeiras décadas da República' in V. Alberti (ed.) *Entre a solidariedade e o risco: história do seguro privado no Brasil (Rio de Janeiro 1998).*

[13] J. da Silva Mello Guimarães *Instituções de Previdência Fundadas no Rio de Janeiro: apontamentos históricos e dados estatisticos* (Rio de Janeiro 1883) Table 4, between pp. 166 & 167. At 5.656:200$000, the capital assets of the societies totalled approximately £500,000.

[14] A. Bunge *El seguro nacional* (Buenos Aires 1917) pp. 128-33. 'Working age', used in lieu of data for the economically active population, is defined here as between 15 and 64 years old.

[15] República Argentina *Censo Nacional 1914. Tomo X. valores mobiliarios y estadísticas diversas* (Buenos Aires 1917) pp.92-103; Munck 'Mutual Benefit Societies' pp. 577-9.

[16] República Argentina *Censo Nacional 1914. Tomo X.* pp. 92-103.

1923, nine private insurance companies in Brazil (two based in the city of São Paulo, the remained in Rio de Janeiro) were licensed 'to offer worker industrial accident policies. In 1925 the total industrial accident business of the six largest companies was almost £200,000.[17] However, after the turn of the century, several occupation-specific public insurance programmes were set up (See Table I). The Argentine was the first country in Latin America to adopt a system of worker/employee protection based on social insurance. A *caja* for central government employees - civil servants and workers employed in federal agencies and companies - was set up in 1904. Over the next half-century or so, other groups were brought within the scope of the social insurance net.

As Table I demonstrates, key categories of blue and white collar workers were incorporated at the end of the 1910s and during the early 1920s. The years immediately prior to the advent of the Peronist regime in 1946 witnessed the creation of further cajas for seamen, workers in the publishing industry, and in commerce. Manufacturing was covered in 1946, and in 1954 funds were established for the self-employed and professional groups. Rural workers and domestics were amongst the last to be incorporated within the system through cajas created in the mid-1950s. Yet the nominal entitlements extended to these two groups were generally ignored. Marginal elements in society, rural and domestic workers were among the least organised. Relations with employers were highly personalised and/or politically sensitive. Consequently, employer and worker adhesion to social insurance regimes was not easy to police.

**Table I: Evolution of Social Insurance by Occupational Group**

| | The Argentine | Brazil |
|---|---|---|
| 1904 | Federal Civil Servants (including state agencies) | |
| 1919 | Railway Workers | |
| 1921 | Utility Workers | |

[17] Rocha da Costa 'A atividade de seguros' pp. 51-2. Almost half the total premium income was collected by one company, the Segurança Industrial.

| | | |
|---|---|---|
| 1923 | Bank Employees | Railway Workers |
| 1926 | | Port Workers |
| 1928 | | Radio and Telegraph Workers |
| 1931 | | Utility Workers |
| 1932 | | Mine Workers |
| 1933 | | Merchant Seamen |
| 1934 | | Shopworkers<br>Bank Workers<br>Air Company Workers |
| 1937 | | Industrial Workers |
| 1939 | Journalists and Print Workers<br>Merchant Seaman | |
| 1944 | Shopworkers | |
| 1946 | Industrial Workers | |
| 1954 | Rural Workers<br>University Teachers<br>Self-employed<br>Managers and Entrepreneurs | |
| 1956 | Domestic Servants | |
| 1971 | | Rural Workers* |
| 1972 | | Domestic Servants |

Notes: * Social Insurance for all categories of rural workers.
Source: Conferencia Interamericana de Seguridad Social *La seguridad social en Argentina* (Mexico 1995) pp. 5-9, *La seguridad social en Brasil* (Mexico 1995) p. 3; J.M. Malloy *The Politics of Social Security in Brazil* (Pittsburgh 1979) pp. 40-1, 66-8, 129; C.M. Lewis 'Social Insurance: ideology and policy in the Argentine, c.1920-1966' in C. Abel & C.M. Lewis (eds.) *Welfare, Poverty and Development in Latin America* (London 1993) pp. 177-85; P. Lloyd-Sherlock *The Instituto Nacional de Previsión Social And Social Insurance Reform in Argentina 1944 to 1953* (London 1992); S. Lichinsky 'La afiliación al sistema previsional (1944-1955): logros y dificultades en su expansión' mimeo (Rosario 1988).

In Brazil, transport and utility workers were amongst the earliest groups to organise mutual aid societies and, subsequently, (after civil servants and the military) the first to be provided with pension coverage. The history of social insurance in Brazil is usually dated from 1923 when the Eloy Chavez law established *caixas* for railway workers.[18] (There were, however, crucial differences between Argentinian *cajas* and Brazilian *caixas* of the period. Strongly regulated by the state, *cajas* were organised on the basis of occupational groups. As such, they

[18] Fundação Getulio Vargas (hereafter FGV) *A previdência social no Brasil e no estrangeiro* (Rio de Janeiro 1950) p. 20; A. de Oliveira Assis *Compêndio de seguro social* (Rio de Janeiro 1963) pp. 159-60; Rocha da Costa 'A atividade de seguros' p. 54.

conformed closely to the Bismarckian social insurance model. *Caixas* were company based and administered, operating in a much looser regulatory framework.) In 1926 port workers and seamen were brought within the scope of the legislation; two years later those employed by telegraph and radio companies were added to the list. The most striking feature of the Brazilian system, however, is the dramatic incorporation of urban groups in the 1930s. *Caixas* proliferated during the early years of the Vargas presidency (1930-45) and, as will be shown below, this was also a period of major administrative change. As in the Argentine, Brazilian rural workers and domestic servants were the last to be effectively covered.

These stylised facts about the evolution of social insurance *cajas*/*caixas*, the consolidation of individual funds into large units, the establishment of social insurance institutes and the absorption of the responsibility for social insurance administration by welfare ministries suggests a natural progression - a rational organisational change resulting from a growth in coverage - that facilitated administrative efficiency. The reality was quite different. As argued below, cross-subsidisation (and fiscal considerations) rather than economy and advantages of scale explain the creation of the Argentinian Instituto Nacional de Previsión Social (INPS). Despite the potential efficiency gains deriving from a consolidation of occupational (rather than single-company) schemes, in Brazil, the process was driven by political not administrative logic. The transition was far from smooth and, unsurprisingly, was resisted by those with vested interests in the old order. Companies, in particular, resented a loss of control resulting from the 'nationalisation' and centralisation of fund administration. Although complaining about the costs of social insurance, employers recognised the potential for labour discipline associated with individual company schemes. Workers (and not simply trade union bosses who sometimes controlled mutual accounts) were often unconvinced of the security promised by larger, government-administered funds. Amalgamation did not result in the harmonisation of payments and benefits and potential administrative cost saving were also eroded by bureaucratisation.

**Coverage Growth: ideology, benefits and administration**

As already suggested, ideas informing social security and welfare policy have shifted more than once over the last hundred years.[19] Private provision, largely administered by charities and mutual societies, was the norm approximately a century ago. Subsequently, Bismarckian precepts gained ground and influenced the emergence of contributory social insurance for particular groups of workers. Later still, social insurance was subsumed within larger developmentalist projects - the politics and economics of 'stabilising development'.[20] More recently, state retreat and privatisation can be depicted as a return to assumptions of the past. Has the ideological wheel come full circle? There are, of course, differences. A much larger proportion of the economically active workforce is now covered by social insurance than that envisaged in the late nineteenth century and present projects pretend to universality.

Table II and III, which detail the growth in state social insurance, confirm that the proliferation of individual social insurance funds did not lead to the enrolment of a large proportion of the economically active population before the mid-1940s. Early Peronist administrations saw a sudden extension of coverage in the Argentine. Official figures record that the number of affiliates rose from 2,771,000 to 4,892,000 between 1944 and 1954.[21] But the value of benefits and quality of

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[19] C. Abel & C.M. Lewis 'Welfare, Poverty and Development in Latin America' in C. Abel & C.M. Lewis (eds.) *Welfare, Poverty and Development in Latin America* (London 1993).

[20] The term 'stabilising development' (*desarrollo estabilizador*) is particularly associated with the political economy of growth strategy applied in Mexico from the late 1950s to approximately the end of the 1960s. See R. Izquierdo *Política hacendaria del desarrollo estabilizador, 1958-1970* (Mexico 1995), C.W. Reynolds 'Por que el "desarrollo estabilizador" de México fue en realidad desestabilizador? (Con algunas implicaciones para el futuro)' *El trimestre económico* XLIV 176 (1977), A. Ortíz Mena *Desarrollo estabilizador: una década de estrategia económica en México* (Mexico 1969). However, the framework -which included efforts to promote rapid growth and rising social welfare within the context of greater macroeconomic stability - has a wider application. From the 1940s to the 1970s, there were efforts in several countries to link Keynesian-style economic growth and increasing social security coverage. See R. Ffrench-Davis, O. Muñoz & G. Palma 'The Latin American Economies, 1950-1990' in L. Bethell (ed.) *The Cambridge History of Latin America* vol.vi pt.1 2 (Cambridge 1994), C. Anglade & C. Fortin (eds.) *The State and Capital Accumulation in Latin America* 2 vols. (London 1986 & 1990) can be applied more generally.

[21] J. Feldman, L. Golbert & E. Isuani *Maduración y crisis del sistema previsional argentino* (Buenos Aires 1988) pp. 101; Lichinsky 'La afiliacion al sistema previsional, (1944-55)' states (pp. 5 & 11) that the effective levels of affiliation were much lower due to evasion.

services may be questioned. The initial impact of increased insurance affiliation on general welfare was, at best, patchy and as inflation took hold, the real value of pensions lagged, notwithstanding periodic adjustments. By the 1980s they only covered a small fraction of the basic income needs of older people.[22] There was a similar up-grading of public welfare institutions in Brazil during the corporatist Vargas period. Social insurance coverage grew steadily in the 1930s, increasing from around 142,500 individuals to almost 190,000 affiliates between 1930 and 1932. With the shift towards *institutos* from 1937, there was a marked surge in membership. Table II shows that in 1930 less than one percent of the economically active population was socially insured in Brazil. In 1940 this figure was 8.7 percent. By 1947 approximately 3,000,000 Brazilians were enrolled in social insurance schemes.[23] As in the Argentine, the inclusion of affiliates was still very selective and benefits varied greatly over time and from occupational group to occupational group. Moreover, the Bismarckian ethos that under-wrote coverage growth for much of the period further limited outreach, as captured in the different coverage rates displayed in Tables II and III. The proportion of the population of retirement age in receipt of a state pension was consistently lower than the proportion of the economically active population enrolled in state insurance funds. The differences are more structural than demographic.

**TABLE II: Proportion of the economically active population enrolled in state social insurance schemes (%)**

| | The Argentine | Brazil |
|---|---|---|
| 1904 | 0.7 | - |
| 1914 | 1.6 | - |
| 1925 | - | 0.23 |
| 1930 | - | 0.75 |

[22] P. Lloyd-Sherlock *Old Age and Urban Poverty in the Developing World: the shanty towns of Buenos Aires* (London 1997) pp. 16-22.
[23] FGV *A previdência social ...* pp. 22-4; J. Araujo Oliveira & S. Fleury Texeira *(Im)previdência social: 60 anos de historia da previdência no Brasil* (Petrópolis 1986) pp. 44-52.

| | | |
|---|---|---|
| 1940 | - | 8.7 |
| 1944 | 4.2 | - |
| 1950 | - | 17.0 |
| 1955 | 18.8 | - |
| 1960 | 55.2 | 23.1 |
| 1970 | 68.0 | 27.0 |
| 1980 | 69.1 | 87.0* |

Notes: * In 1980 only 50.0% of the Brazilian economically active population were contributing. The FUNRURAL scheme for agricultural workers was non-contributory.
Sources:
The Argentine: E. Isuani & J. San Martino *La reforma previsional argentina: opiniones y riesgos* (Buenos Aires 1993) p.19; International Labour Organisation *The Role of Social Security and Improved Living and Working Standards in Social and Economic Development* (Geneva 1966) p. 33; C. Mesa-Lago 'Social Security in Latin America' in Inter-American Development Bank *Economic and Social Progress in Latin America: 1991 Report* (Washington, D.C. 1991) p.186.
Brazil: A. K. Ludwig *Brazil: A handbook of historical statistics* (Boston 1985) p. 138-46; C. Mesa-Lago 'Social Security in Latin America' in Inter-American Development Bank Economic and Social Progress in Latin America: 1991 Report (Washington, D.C. 1991) p. 186.

**TABLE III: Proportion of population of standard retirement age in receipt of state pension (%)**

| | The Argentine | Brazil |
|---|---|---|
| 1950 | 12.6 | - |
| 1960 | 33.5 | - |
| 1970 | 44.5 | - |
| 1980 | 58.0 | - |
| 1990 | 60.9 | 47.1 |

Notes: Multiple pension holding means that the data exaggerate the true level of coverage. For example, in 1990, Isuani and San Martino estimate that 14 per cent of Argentinian beneficiaries held more than one pension (E. Isuani & J. San Martino *La Reforma Previsional Argentina: opiniones y riesgos* (Buenos Aires 1993) p. 21).
Sources:
The Argentine: P. Lloyd-Sherlock 'The Roles of the Public and Private Sectors in Providing Economic Support for the Elderly' in P. Lloyd Sherlock and P. Johnson (eds.) *Aging and Social Policy: Global Comparisons* (London 1996) p. 30; International Bank for Reconstruction and Development *Averting the Old Age Crisis: policies to protect the old and promote growth* (Oxford 1994) p. 356.
Brazil: C. Mesa-Lago 'Social Security in Latin America' in Inter-American Development Bank *Economic and Social Progress in Latin America: 1991 Report* (Washington, D.C. 1991) p. 186.

Through the 1950s and 1960s there was a steady growth in coverage in the Argentine, though much less in the case of Brazil. Indeed, by 1970 Argentinian rates of coverage were more than double the Brazilian. However, given the larger size and rapid growth of the workforce in Brazil, differences in absolute levels of affiliation were not so pronounced. Again as Table II shows, there was an unprecedented rise in pension coverage in Brazil during the 1970s: by 1980 it had overtaken the Argentine with 87 percent of the workforce protected. This was largely due to the establishment of a non-contributory scheme for rural workers, the Fundo de Assistência ao Trabalhador Rural (FUNRURAL) without which it is estimated that only around half of workers would have social security entitlements. Mesa Lago observes that less than a quarter of the total population was covered until the rural scheme was set up in the 1970s.[24]

FUNRURAL had been established in 1963. Initially, it had a very limited role, providing only the most basic medical protection. It did not pay pensions. In part this was due to the level of funding. Fundo finances derived from a one percent tax on rural produce which was virtually impossible to enforce. In the mid-1960s, the financial base was extended to include a 2.5 percent wage tax on urban enterprises. This entailed a substantial redistribution from the urban to the rural sector and permitted FUNRURAL to offer affiliates retirement pensions, though these were worth somewhat less than those granted to urban pensioners.[25] As implied, FUNRURAL differed from other social insurance funds in several respects. Not only did it provide medical assistance before becoming responsible for pensions, it broke with the tradition of tripartite funding - contributions by beneficiaries, employers and the state.[26] In the Argentine, no such arrangement for rural workers was forth-coming at this stage and, as demonstrated in Table II, total coverage levels have never exceeded 70 percent of the economically-active population. The experiences of both countries demonstrate the difficulty of creating a universal social insurance programme purely based on Bismarckian, contributory principles. This point is rarely made in the current literature about pension reform.

The pace and nature of coverage extension in both countries suggests that the approach to social security development was *ad hoc*. Organisational and administrative changes were similarly haphazard. The importance of ideology, however, should not be ignored. Fund proliferation (detailed in Table I) during the inter-war decades momentarily triggered a debate about the creation of a complete, national system of social insurance. Later still, the concept of social security - protecting all workers against a wide range of social risks - took root, and was manifest in a substantial growth of the proportion of the workforce covered by social

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[24] Mesa Lago 'Social Security in Latin America' p.186.

[25] Malloy *Politics of Social Security* p.120; A. Brumer 'Gender Relations and Social Security in Southern Brazil' in C. Abel and C. M. Lewis *Exclusion and Engagement: Social Policy in Latin America* (London 2002) pp. 227-8.

[26] Malloy *Politics of Social Security* pp.120, 132.

insurance (with some health provision) in the 1940s and 1960s.[27] There was, too, a meritocratic element to the social insurance/welfare coverage in the 1940s - namely the evolution of the concept of productive citizenship. This was most clearly articulated by the Collective of Peronist Intellectuals which observed that a modern state should provide a range of welfare services, including retirement pensions: it was equally the duty of the able-bodied to work to support the state.[28] A feature common to both countries was that 'welfare rights' - in essence social insurance and social security - were enshrined in the 1934 'Vargas' Constitution in Brazil and the 1949 Argentinian *constitución peronista*. Although both Constitutions were later overturned, constitutional reform in the 1990s has resulted in the re-instatement of 'welfare' clauses, that it, inclusive coverage as a right of citizenship.

Fund proliferation, combined with an emphasis on greater state action in the social and economic spheres, also explain the drive for administrative reform. Figure I confirms that the first major restructuring of the administration of the Argentinian pension system occurred in 1944 with the creation of the Instituto Nacional de Previsión Social (INPS). Set up as an autonomous state agency, the Institute was charged with managing existing funds, including the collection of contributions, investment and payment of benefits. It was also granted the authority to redistribute finances amongst the different occupational schemes. The separate pension funds were, however, allowed to continue in existence and this prevented the INPS from exercising many of its powers of co-ordination and control.[29] Approximately twenty years later there was another re-structuring of pension fund administration. The Social Welfare Ministry (Ministerio de Bienestar Social) was created in 1966 and three years later all twelve, non-military social insurance funds were amalgamated in to three, decentralised, semi-autonomous 'super' *cajas* - civil

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[27] Centro de Estudios Monetarios Latinoamericanos *Aspectos financieros del seguro social en América Latina* (Mexico 1963) pp. 17-18.

[28] Agrupación de Intelectuales del Partido Peronista *Doctrina hacia una vida mejor* (Buenos Aires 1947) pp.1-4.

[29] P. Lloyd-Sherlock *The Instituto Nacional de Previsión Social and Social Insurance Reform in Argentina, 1944 to 1953* (London 1992) pp. 8-11. S. Lichinsky 'La afiliación al sistema previsional (1944-1955): logros y dificultades en su expansión' mimeo (Rosario 1988).

servants, workers and employees in industry, commerce and other activities, and the self-employed.[30] At the same time, there was some attempt to harmonise contributions and benefits and to streamline administration.[31] Since the late 1980s there has been a change in the language of debate - from the imperative of centralised, co-ordinated administration to the need for greater flexibility and autonomy at pensions fund level. This reflects wider concerns about de-centralisation and the reform of the state, and conforms with attempts to depoliticise and professionalise sections of the government machine.[32]

In Brazil, with the onset of the authoritarian *Estado Nôvo* (1937-45), the system was similarly reorganised and centralised. In 1937 the number of Caxias de Aposentadorias e Pensões (CAPs) was reduced to 104. Some ten years later there were only 30 *caixas* and five larger agencies knows as *institutos*, which were organised on a sectoral basis.[33] The rapid early growth in the number of Brazilian agencies is explained by the fact that, before 1937, social insurance was principally organised on a company basis.[34] Thereafter, the system was structured along occupational lines broadly as in the Argentine. Sectoral *institutos* were formed for newly incorporated groups of workers and gradually company *caixas* were absorbed by *institutos* or company pension funds catering for groups of workers in related fields were consolidated first into *caxias unicas* and later 'super' *institutos*. An *instituto* was created for bank employees in 1934, for industrial workers in 1938, and

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[30] C. Mesa-Lago *Social Security in Latin America: pressure groups, stratification and inequity* (Pittsburgh 1978) pp. 166-7; S.R. Fiscella 'Evolución historica y aspectos financeiros de la seguridad social argentina' in Conferencia Interamericana de Securidad Social *La seguridad social en Argentina* (Mexico 1995) p. 9.

[31] Lewis 'Social Insurance' p. 192; P.W. Lewis *The Crisis of Argentine Capitalism* (Chapel Hill 1990) pp. 281-6.

[32] C.H. Acuña (ed.) *La nueva matriz política argentina* (Buenos Aires 1995); L. Sola 'The State, Structural Reform and Democratization in Brazil' in W.C. Smith, C.H. Acuña & E. Gammara (eds.) *Democracy, Markets and Structural Reform in Latin America* (Miami 1993); A.L. Resende (ed.) *Policies for Growth: the Latin American experience* (Washington 1995); E. Isuani & J. San Martino *La reforma previsional argentina: opciones y riesgos* (Buenos Aires 1993).

[33] FGV *A previdência social* pp. 22-4.

[34] FGV *A previdência social* pp. 1-4; S.M. Draibe 'An Overview of Social Development in Brazil' *CEPAL Review* XXXIX (1989) p. 50; A.C. Médici, F.C.B. Oliveira, K.I. Beltrão & R. Macedo 'Evolución histórica y diagnóstico de la seguridad social' in Conferencia Interamericana de Securidad Social *La seguridad social en Brasil* (Mexico 1995) pp. 4, 10-12; A. Cohn *Previdência*

for transport workers in 1939. Between 1963 and 1971 there was much discussion about harmonising benefits amongst occupational categories and a number of attempts to extend coverage to rural workers and in 1972 to domestic servants.

As suggested by changes in the financing of FUNRURAL, during the 1960s and 1970s Brazilian social insurance was subsumed within a larger policy framework of state provision of public goods and social services - education, healthcare, social assistance, social security and housing. There was, however, much ambiguity in official policy following the 1964 military *coup*. Advocating orthodox stabilisation measures, some members of the regime were enthusiastic about returning worker accident and social insurance to the private sector, reactivating a business ravaged by rapid inflation during the early 1960s. Others pressed for a larger government role along with nationalist regulation of insurance companies.[35] The Ministerio da Previdência Social was established in 1964 and in 1967 the Instituto Nacional de Previdência Social (INPS) absorbed the six existing Institutos de Aposentadorias e Pensões. As with the formation of the Ministry of Labour, Industry and Commerce (charged with the supervision of pensions funds) in 1930, although articulated in terms of harmonisation and administrative efficiency, the under-lying motives were co-optive and meritocratic. Further administrative change occurred in 1974, with the formation of the Ministry of Social Insurance and Social Assistance. Some three years later, the National Agency for Social Insurance and Assistance was established within the ministry to take over the functions of the INPS. Subsequently, and reflecting the increasing politicisation of worker pension and healthcare administration, responsibility for pensions was transferred back and forth between the Labour and Health ministries.[36] Most recently, as elsewhere, the debate has shifted again to private pension provision within the context of financial

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*social e processo político no Brasil* (São Paulo 1981) p. 6.

[35] M.A. Parahyba Leopoldi 'A reforma do sistema de seguros privados no governo militar (1964-84)' in V. Alberti (ed.) *Entre a solidariedade e o risco: história do seguro privado no Brasil* (Rio de Janeiro 1998) pp.209-26.

[36] Draibe 'An Overview of Social Development' p. 51; J.M. Malloy *The Politics of Social Security in Brazil* (Pittsburgh 1979) pp. 125-30; Médici, Oliveira, Beltrão & Macedo 'Evolución histórico' in Conferencia Interamericana de Seguridad Social *La seguridad social en Brazil* pp. 5-9.

market de-regulation and a larger role for commercial insurance companies.[37]

In the Argentine, when social welfare programmes were expanded to include health and medical facilities, trade unions were made responsible for the administration of these services. Whether this derived from a longer and stronger mutualist tradition or from the consolidation of union control over the *cajas* during the *peronato* (itself possibly reflecting the strength of the organised labour movement), the creation of separate systems of *obras sociales* in the Argentine further enhanced the organisational fragmentation, or the independence, of social welfare agencies. Autonomy and fragmentation increased administrative costs and allowed greater discretion in the application of regulations. Thus, administrative arrangements in Brazil detailed above, more approximated those elsewhere in Latin America where, despite the delegation of some aspects of welfare administration to union bodies, there was a much greater degree of central control.

Coverage growth and associated administrative re-organisations have been explained in a number of ways. Yet debate continues as to whether or not these changes were driven from 'above' or 'below'. There is similar disagreement about the extent to which ideological and fiscal factors triggered the spreading of the social insurance safety net. Although Mesa-Lago and Malloy present the growth of the system in largely political terms, financial, economic, fiscal and demographic factors all played a part. Lewis maintains that periodic increases in coverage were as much motivated by fiscal considerations.[38] 'Generational' financial crises in the 1940s and the 1960s, explored further below, explain coverage extension at that point in the Argentine and in Brazil in the 1960s and 1980s. Arguably, administrative reorganisations of the 1960s were as much about revenue generation as about the integration of social and economic policy. Committed to rapid growth and low inflation, post-1968/9 Brazilian military administrations favoured institutional consolidation and a massive expansion of the social insurance regime in order to

[37] M.A. Parahyba Leopoldi 'Os anos de incerteza: redemocratização, globalização financeira e desregulação do setor de seguros privados (1985-1998)' in V. Alberti (ed.) *Entre a solidariedade e o risco: história do seguro privado no Brasil* (Rio de Janeiro 1998).
[38] Lewis 'Social Insurance' pp. 175-6.

expand mechanisms of forced savings. The language of the period also echoed that of earlier debates about productive citizen: social rights had to be earned and were awarded by the military regime to compliant groups who did not clamour for political rights[39]. Hence, coverage extension served a dual objective. Bringing in new groups of contributors generated extra fiscal income as well as covering deficits in existing funds.[40]

Nevertheless, Mesa-Lago and others continue to argue forcefully that the most powerful labour unions and various privileged groups were able to impose their demands on the state.[41] Conversely, the fact that establishment of the railway *caja* in the Argentine and railway *caixas* in Brazil followed particularly bitter, disruptive strikes is interpreted by yet others as indicating that the state itself took the initiative and sought to co-opt strategic sections of the labour movement.[42] (In Brazil, state action may also have been prompted by the widespread abuses and financial mismanagement of the private and mutual sectors. Menicucci maintains that Article 20 of the Civil Code of 1916 specifically brought the funds under state regulation in order to remedy past irregularities.[43]) Malloy certainly depicts social insurance programmes as resulting from state inspiration rather than worker pressure.[44] He draws attention to the relative small size and political weakness of the working classes in cities such as São Paulo. Co-optive social insurance programmes became part of the ideology of modernisation espoused by successive Brazilian regimes, not least the *Estado Nôvo* and post-1964 military administrations. Other studies, such as Araujo de Oliveira and Fleury Teixeira, refute this argument, claiming that the

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[39] Malloy *Politics of Social Security* pp. 125-30.

[40] Centro de Estudios Monetarios Latinoamericanos *Aspectos financieros* pp. 30-3.

[41] P. Ross 'Policy formation and implementation of social welfare in Peronist Argentina', unpublished PhD thesis, University of New South Wales 1989 p. 19; C. Mesa-Lago *Social Security in Latin America: Pressure Groups, Stratification and Inequality* (Pittsburgh 1978) pp. 10-14.

[42] E. Isuani 'Los origenes' in J. Feldman, L. Golbert & E. Isuani (eds.) *Maduración y crisis del sistema previsional argentino* (Buenos Aires 1988) p. 29; Rocha da Costa 'A atividade de seguros' pp. 54-5.

[43] T.M. Gonçalves Menicucci 'Previdência privada: a negação/complementação da previdência social pública' unpublished Masters dissertation, Faculty of Philosophy and Humanities, Federal University of Minas Gerais, 1990, pp. 24-5.

[44] Malloy *Politics of Social Security* pp. 40-50.

implementation of insurance schemes was the consequence of increasing divisions between traditional and more modern elite factions.[45] Privileged sections of urban labour were able to forge alliances with progressive elite factions to force through insurance legislation.

**Explaining Deficits**

The *ad hoc* nature of the growth of social insurance regimes and differing interpretations placed on periodic extensions in coverage cannot be separated from the question of financing, irrespective of whether unplanned growth produced funding crises of coverage extension was devised to resolve fund insolvency. The current debates about pension reform depict deficits as relatively recent phenomena, the product of an inefficient, centralised public sector characteristic of populist development. This research questions that assertion. Having already identified periodic crises, this section will further explore chronic financial problems confronting the systems. Several factors are addressed. These include the structural peculiarities of the capitalisation system, patterns of fund investments, 'generous' entitlements, evasion, administrative costs and externalities.

The continual funding crises endured by mutual aid societies in the Argentine and Brazil are well documented.[46] State-administered funds suffered similarly. Argentinian contributory *cajas* set up at the beginning of the century were subject to perennial actuarial crises.[47] For example, the civil servants fund experienced a built-in deficit from inception: established on a contributory basis in 1904, the *caja* was made responsible for existing non-contributory pensions of public servants who had already retired. To cover this charge, the fund was endowed with $10 million 6 percent government bonds, the income from which was totally inadequate for the

[45] Araujo de Oliveira & Fleury Teixeira *(Im)previdência social* pp.44-52.

[46] S. Baily 'Las sociedades de ayuda mutual y el desarrollo de una comunuidad italiana en Buenos Aires, 1858-1918' *Desarrollo Económico* XXI 84 (1982). Amongst other factors, Baily identified mal-administration, corruption, conflicting financial demands and illiquidity.

[47] República Argentina, Caja Nacional de Jubilaciones y Pensiones *La stiuación de la administración nacional en la actividad y en la pasividad* (Buenos Aires 1914) pp. 47-9; J. González Gale *Jubilaciones y seguro social* (Buenos Aires 1929) p. 5; *Boletin Informatico Techint*

purpose.[48] So parlous was the position of the Civil Servants Fund that actual deficit were already being experienced by 1915 - income from affiliates in employment being insufficient to meet the pensions of retired members.[49] The Buenos Aires municipal fund had experience an actuarial deficit virtually from the outset. By 1921 the capital base covered less than 40 percent of anticipated future pension liabilities.[50] In 1922, within three years of its foundation, the railway workers fund was suffering a structural financial crisis as payments to pensioners absorbed an increasing proportion of income, preventing the *caja* from building up an investment fund sufficient to cover estimated future out-goings. Projected deficits mushroomed thereafter.[51] In the mid 1920s, the *cajas* were investing between three-quarters and two-thirds of annual income, most of the balance being distributed as pensions to affiliates. Ten years later, the proportions were reversed with pension payments absorbing two-thirds of income, allowing only one-third of income to be transferred to the capital account.[52] By 1939 all three major funds - civil servants, railway workers and utility workers - were registering large actuarial deficits. The capital base of the civil servants *caja* was barely 20 percent of what it should have been. The railway fund held less than 50 percent of the capital sum needed to generate income to cover future obligations. The capital reserves of the *caja* for utility workers, set up but a few years previously, were sufficient to cover less than 80 percent of existing obligations.[53] Actuarial deficits soon translated into actual

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'La previsión social en la Argentina' CXXXII (1963) pp. 2-5.

[48] F.E. Arduino *La Caja Nacional de Pensiones y Jubilaciones: bajo que bases podria funcionar normalmente sin auxilio del estado* (Buenos Aires 1917) pp. 26-8, 33-41, 42-49; I.F.A. Maberino *Bases económico-financieras de la pasividad a través del estado económico de la Caja Nacional de Jubilaciones y Pensiones Civiles* (Buenos Aires 1935) p. 8.

[49] A.L. Palacios *La defensa del valor humano: legislación social argentina* (Buenos Aires 1939) p.153.

[50] Ciudad de Buenos Aires, Caja Municipal de Jubilaciones, Retiros y Subsidios *Memoria correspondiente al ejercicio de 1926* (Buenos Aires 1927) p. 17.

[51] República Argentina, Caja Nacional de Jubilaciones y Pensiones de Empleados Ferroviarios *Memoria correspondiente a los años 1934 y 1935* (Buenos Aires 1936) pp. 11-13, 125-8.

[52] República Argentina, Secretaria de Trabajo y Previsión Social *Publicación Informativa: relacionada con el movimiento financiero y administrativo de la sección, correspondiente a los años 1943-1944-1945 y servicios generales de la misma prestados desde su fundación* (Buenos Aires 1946) unpaginated, Table 13.

[53] J.A. Solari *Previsión social argentina: el problema de las cajas de jubilaciones: necesidad de*

deficits.

This problem was recognised and partly addressed with the creation of the Instituto Nacional de Previsión Social in 1944. It enabled newly-formed funds to bail out established *cajas* whose income was insufficient to cover outgoing.[54] As shown above, two factors influenced the establishment of the INPS and the extension of social insurance to new groups of workers between 1944 and 1958: revenue-raising and cross-subsidisation.[55] Following reorganisation in the 1940s, the Argentinian system remained in surplus for virtually twenty years. Yet, by 1965, the combined current surpluses of liquid funds was barely covering the income gap of *cajas* in deficit.[56] Hence further administrative reorganisation in 1969, which echoed Brazilian legislation of 1967, combining the thirteen occupational *cajas* into three super *cajas nacionales de previsión* and increased contribution rates. As in 1944 the rhetoric of re-organisation was couched in terms of 'efficiency' but the main imperatives were revenue and subsidy. Deficits were chronic and only reduced with great difficulty.[57] On each occasion, pooling hardly deferred the structural crisis for a generation. By this stage, and prefiguring the financial crisis of the 1980s, the capitalisation system was thoroughly discredited.[58] Partial unification of the funds in 1969, as in 1944, simply deflected attention from a basic rethink of social insurance provision.[59]

The position in Brazil was similar even if the causes of the funding crisis were not identical. Since 1934 all *caixas* and *institutos* had been financed according to the tripartite principle - contributions being collected from workers, employers and the state. In practice, the state rarely paid in full: state delinquency was a major factor

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*unificar sus leyes retiro de obreros de la industria* (Buenos Aires 1941) p. 77.

[54] Lloyd-Sherlock *The Instituto Nacional de Previsión Social* p. 11.

[55] Lloyd-Sherlock *The Instituto Nacional de Previsión Social passim.*

[56] ILO *The Role of Social Security and Improved Living and Working Standards in Social and Economic Development* (Geneva 1966) p. 59.

[57] H. Diéguez & A. Petrecolla 'La distribución funcional del ingreso y el sistema previsional en la Argentina, 1950-1972' *Desarrollo Económico* XIV 55 (1974) p. 435.

[58] *Boletin Informativo Techint* 'La previsión social en la Argentina' CXXXII (1963) p. 2.

[59] Lewis 'Social Insurance'.

driving the funds into crisis.[60] However, unlike the Argentinian *cajas*, Brazilian funds were linked to health insurance programmes that resulted in further financial pressures. By the early 1960s, several of the larger *Institutos de Aposentadoria e Pensões* (IAPs) were in a state of chronic deficit, mainly due to spiralling health expenditure. As in the Argentine, pooling arrangements introduced in the 1940s as a result of partial unification meant that funds in deficit were able to draw on the reserves of those in surplus. Consequently, and again as in the Argentine, this device served to provoke a generalised crisis within a generation.[61]

This suggests that demographic crises were congenital. When occupational funds were established, the cohort of passive (retired) members was initially small compared to active affiliates (namely, those still in employment). However, as successive generations of workers retired, the balance between the passive and active membership shifted dramatically. The impact of this demographic effect would have been muted had fund membership continued to grow. Unfortunately, macroeconomic structural change tended to limit employment growth in sectors of the labour market covered by the early *cajas* and *caixas*. As sectoral levels of employment stabilised, funds could no longer dilute the financial burden of an aging membership by a relatively larger infusion of new affiliates. Labour entry into the sectors (and consequently affiliation to the relevant pension scheme) tended to approximate to the rate of retirement. With a structurally-bounded membership, the politically strategic position of affiliates drove funds further down the pay-as-you-go road.

Rising administrative costs were viewed as another cause of deficits and often provided the justification for centralisation and state control. Yet, as has been argued for Brazil, this solution often exacerbated the problem. Brazilian social security *institutos* rapidly became sources of middle class employment and not only during periods of civilian rule.[62] As administrative costs rose, bureaucratisation

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[60] Malloy *Politics of Social Security* p. 111.

[61] Médici, Oliveira & Beltrão 'Panorama histórico' in Conferencia Interamericana de Seguridad Social *La seguridad social en Brasil* pp. 12-23; Malloy *Politics of Social Security* pp. 111-2.

[62] Malloy *Politics of Social Security passim.*

pressed on the availably of funds for investment and payment of benefits. Bureaucratisation and politicisation further eroded affiliate confidence and solidarity. Arguably there was an inverse correlation between delivery, on the one hand, and centralised, bureaucratic expansion on the other.

While structural and demographic factors made for chronic insolvency, patterns of investment (as well as the return on capital) contributed to short-term fund illiquidity. Resources were often 'immobilised' in low yielding activities. In Brazil and the Argentine a substantial proportion of assets was tied up in mortgage advances to members.[63] Indeed, the ability to borrow from a fund was widely regarded as one of the principal benefits of membership - it was also an immediate benefit. Purchasing a property was viewed as an effective means of providing security in old age. The rate of interest charged on member mortgages was positive but low. Mortgages, however, gave a higher rate than many other permitted areas of investment. In economies with under-developed capital markets, most of the early funds were legally required to be invested in a narrow rage of government bonds. It was an arrangement that favoured the state over fund members. Hence it is not surprising that, setting aside the cancer of inflation, fund investment income was low. Lamenting a gradual decline in the return on investments over the previous decades, the City of Buenos Aires pension fund recorded in 1938 that about 40 percent of its investments were in public bonds and another 20 percent in mortgages.[64]

By the 1960s systemic problems were well-known and frequently catalogued in both countries. Yet, while demographic and structural factors were acknowledged along with 'capital immobility' and erosion of the capital base by inflation, too often, inadequate funding was perceived as a problem of early retirement and, for some at least, over-generous benefits. Even following administrative re-organisation

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[63] FGV *A previdência social* p.22. In both the Argentine and Brazil, property ownership financed through fund mortgages were regarded as an important membership perk. Home ownership also offered security in old age.

[64] Buenos Aires, Caja Municipal de Previsión Social *Memoria correspondiente al ejercicio de Ciudad de 1937* (Buenos Aires 1938) pp.6, 13.

in the 1940s and 1960s, it was observed that retirement ages were low, given prevailing rates of life expectancy, compared with higher age limits applying in other countries. Initially, the normal age of retirement for Argentinian women was 50, 55 for men. In the 1990s these limits were successively raised to 55 and 60 respectively, to 57 and 62, to 58 and 63, to 59 and 64. In 2001, the retirement age for women was set at 60, and for men, 65. The normal age of retirement in Brazil is 60 for women and 65 for men. The earlier retirement age for Argentinians contrasts with original limits of 70 years for both men and women in Canada, Eire and Norway. Brazilian retirement ages more approximate European norms while life expectancy rates in Brazil were, in the 1940s and 1960s, much lower than in Europe, and remain so. In the mid-1990s, life expectancy in Brazil was 64 for men and 69 for women. This has made the Brazilian system relatively less burdensome in demographic terms. Argentinian life expectancy in the mid-1990s is 69 for men and 76 for women, a figure little changed since the 1960s.

Generosity also extends to the minimum contribution period and proportion of salary theoretically paid at retirement. For many decades public sector workers - and the state has been a major employer since the 1940s - were entitled to receive length of service pensions (albeit of low value) after only 25 years of contributions. The minimum current contribution period was 20 years in the Argentine (raised to 30 years in 1993) and five years in Brazil, figures that compare with an assumed working life of 47 years in the UK and 38 in France. Until the mid 1990s, on achieving the minimum contribution period, Argentinian and Brazilian pensioners were entitled to 70 percent of their wage, a percentage substantially higher than in many OECD economies.[65] But not all cases of 'generous early' retirement have been voluntary. Government attempts to massage unemployment figures in the Argentine in the 1990s are not new. As in the 1930s and 1950s, so in the 1990s, the problem of unemployment was passed to the *cajas* by forcing them to absorbed 'early' retirees. Legally, this was not difficult given the generous entitlement

[65] C. Belaunde *Problemas de política social* (Buenos Aires 1958) p. 22; IDB *Economic and Social Progress In Latin America: 1996 Report* (Washington DC 1996) pp.213-5.

regime.[66] The net impact on the funds of 'forced' and elective early retirement, however, was the same - further pressure on solvency.

In theory, generous benefits could have been met had fund income proved adequate. The obvious solutions would have been to increase contributions or reduce benefits. In the early 1940s, pension contribution rates ranged from 10 percent to 15.5 percent of the wage bill in the Argentine. In the early 1990s, the rate was 27 percent, compared with 29 percent in Brazil.[67] However, increasing premiums often encouraged negative behaviour by all parties - evasion, resistance and delinquency. Evasion has been a perennial, multi-dimensional problem. As already stated, in both Brazil and the Argentine, the state has been an assiduous delinquent. Governments have looted social insurance funds and, in many cases, have failed to make adequate provision to cover their contributions - either as the third party in a tripartite (state, employer and employee) system or as employer. Just as Vargas looted pension funds to finance the development of an integrated iron and steel plant at Volta Redonda, so in the 1960s and 1970s governments siphoned resources from the insurance institute and National Housing Bank to fund infrastructural investment.[68] Similarly, if for less 'developmental' purposes, the Peronist regime of the late 1940s used the proceeds of sales of Crédito Argentino bonds to social insurance funds to cover the operating deficit of state corporations.[69] Resource-rich funds proved an irresistible temptation for cash-or-capital-strapped regimes requiring finance to cover current expenditure or finance development projects. As contributors were only too well aware, governments rarely made adequate capital restitution to looted funds.

State delinquency has been observed as an increasingly important problem. It largely explains the funding time bomb encountered in the Argentine in the 1960s, 1970s and 1980s, as the ratio of pensioners to contributors rose and the state failed to

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66 Lewis 'Social Insurance' p. 187, note 32.

67 F.F. Delrio *Amparo y previsión social* (Buenos Aires 1942) p. 76; IDB *Economic and Social Progress in Latin America: 1996 Report* (Washington D.C. 1996) p. 217.

68 Malloy *Politics of Social Security* p. 126.

69 Lewis 'Social Insurance' p. 190.

re-pay sums pilfered from those funds which had previously enjoyed a surplus. Social insurance system deficits reached crisis proportions in 1986, when the Argentinian Supreme Court ruled that the system was in 'a state of emergence' and that the value of benefits were to be brought into line with past promises. A similar ruling was made in Brazil in 1992, a period of systemic crisis in the social security regime which coincided with a profound political transition that led, amongst other changes, to the gradual liberalisation of the insurance market generally: by that time the state system had accumulated an actuarial deficit of U$S10,000m.[70]

Reflecting a lack of member commitment and inter-generational solidarity, the payment record of private employers was often no better than that of the state. Workers were equally reluctant to contribute. Late and incomplete payment of contributions were far from rare. An attempt to establish a general system of social insurance for all non-rural workers in the Argentine in 1923 collapsed in the face of a contributor boycott, a form of resistance organised by the unions with employer support.[71] When social insurance was extended to journalists and newspapermen, there was similar resistance. The first annual report of the Caja Nacional de Jubilaciones y Pensiones de Periodistas recorded a lamentable lack of solidarity on the part of would-be beneficiaries.[72] After mid-century, rates of evasion rose exponentially. For example, in 1950 some 80 percent of contributors to the *caja* for the self-employed were fulfilling their obligations: a little over ten years later only 55 percent were doing so.[73] In 1950, Argentinian funds were receiving barely two-third of payments due. Ten years later just one half of dues were being paid.[74] At

[70] P. Lloyd-Sherlock *Social Insurance Reform in an Aging World: the case of Latin America* (London 1992) p. 34. See also Leopoldi 'Os anos de incerteza' pp. 261-6.

[71] Lewis 'Social Insurance' pp. 177-81; Feldman, Golbert & Isuani 'Maduración y Crisis del Sistema Previsional Argentino' *Boletin Informativo Techint* CCXXXX (1986) p. 119.

[72] República Argentina, Caja National de Jubilaciones y Pensiones de Periodistas *Memoria y balance correspondiente al período 1 de junio de 1939 al 31 de diciembre de 1940 (Buenos Aires 1941) p. 9.*

[73] J. Feldman, L. Golbert & E.A. Isuani 'Maduración y crisis del sistema previsional argentino' in Conferencia Interamaricana de Seguridad Social *La seguridad social en Argentina* (Mexico 1995) p. 131.

[74] República Argentina, Consejo Federal de Seguridad Social de la República Argentina *Informe acerca de la factibilidad financiera del plan argentino de seguridad social* (Buenos Aires 1967) p.

this stage, 1960/61, several *cajas* experienced the same problem as the Self-Employed and had 'captured' under 60 percent of potential contributors.[75] In the case of Brazil, admittedly incomplete data show that the rate of evasion rose almost continuously through the 1980s. In some years the rate of non-payment exceeded 25 percent.[76] There is little reason to suppose that the situation has improved markedly since then. Attempts to curb evasion or raise worker contributions - or reduce benefits - were invariably fiercely resisted. Policing evasion was lax, and undermined by periodic amnesties. Moreover, as the financial position worsened, contribution rates were raised, further encouraging non-payment by workers and employers. Both groups viewed inflation and amnesties as devices to reduce - or remove - the burden of social insurance contributions. Hence, generosity, whether in terms of early retirement or the low minimum contribution periods were resolved in time-honoured fashion - delays in payment (highly complex procedures had to be completed in order to ascertain eligibility and pensions were usually paid substantially in arrears) and inflation.[77] As insurance funds ran deficits in the 1970s and 1980s, it was frequently argued that fund debt was a major element in the fiscal deficit and thus a contributory factor to inflation. This argument may be turned on its head: over-generous pension rights could only be rendered manageable by inflation.

Problems confronting the funds were clearly demographic, structural and political as well as actuarial. Poor service delivery, mal-administration and a mis-use of fund income reduce member commitment and increase resistance, lack of solidarity and evasion. Converting this vicious circle of deficit into a virtuous income circuit is far from easy. The ability of government unilaterally to adjust benefits and contributions or alter pension ground rules requires considerable incentives. This can be inferred from the Chilean 'model' where, notwithstanding

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112.

[75] ILO *Role of Social Security* pp. 24-6.

[76] K.I. Beltrão, B.J. Lustosa & F.E. Barerto de Oliveira 'Financiamento' in Conferenencia Interamericana de Seguridad Social *La seguridad social en Brasil* (Mexico 1995) pp. 163-4, 169.

[77] C. Mesa-Lago *Ascent to Bankruptcy: Financing Social Security in Latin America* (Pittsburgh

the highly authoritarian framework within which social policy change was implemented, generous sweeteners had to be offered to encourage pensioners to transfer out of the state system. In the Argentine, government similarly had to offer substantial inducements to facilitate a switch to the private sector, as well as permitting a lengthy transitional period.

**Public and Private Fund Management: competition or complementarity**

Changing the roles played by the public and private sectors is central to neo-liberal reform. In the case of Chile, this has meant the wholesale transfer of non-military pensions administration to private firms.[78] Most other Latin American countries have retained some direct role for the state but have also significantly increased the scope for private involvement. Privatisation is based on the premise that the market is intrinsically more efficient in allocating resources and is less prone to fraud and political meddling. The accuracy of this view, and assumptions about the past balance between the private and public sectors in different Latin American countries, may be questioned. This section shows that, although at first sight the broader roles allotted to the public and private sectors in social insurance in the Argentine and Brazil do not appear to be very dissimilar, there are in fact a range of importance differences. These differences derive partly from the public-private mix in the post-Second World War development strategies applied in the two countries. The pension reforms projects currently being implemented reflects these wider disparities which, perhaps, explain a number of inconsistencies in neo-liberal assumptions about the nature of the relationship between the public and private sectors.

Care should be taken not to exaggerate these comparisons. Even in the early twentieth century, there were basic differences in terms of the role of the state and the 'space' accorded to the private sector. In the Argentine, all social insurance funds established from the beginning of the century were managed by the state. In

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1989) pp. 15-21.

[78] Barrientos *Pension Reform* p. 53

some cases these superseded earlier, private arrangements. Munck has shown how mutual aid societies, often pioneered by immigrant artisans, provided for occupational groups - albeit in very limited form - some of the benefits that would later be arranged under state auspices.[79] Their role, however, became increasingly circumscribed by government. In Brazil, the situation was quite different. Whilst national law imposed minimum standards of benefit and other regulations on pension funds, initially they remained privately-administered, usually operating at the level of individual companies.[80] There was a sharp increase in the number of private pension funds and mutual aid societies after the turn of the century. These operated in competition with a large private life insurance companies, which included a number of overseas insurance houses.[81] In this respect the Brazilian case conformed closely to the liberal ideal of the time. According to Malloy, this happened because the unions only played a minor role, leaving the state to impose its own model. However, the Brazilian approach may equally have been a reflection of the reduced resources and scale of the federal government relative to the Argentinian at this time, as well as the presence of strong opposing forces at the level of regional government.

Differences in welfare intervention became much more pronounced over time. In the Argentine, it is no exaggeration to state that in the post-1940s period there was an imposition of a complete public sector monopoly in all aspects of social insurance - until the 1990s. By the late 1940s, all forms of social insurance not administered by the public sector had disappeared. In 1946, mutual aid societies, along with around 2 million affiliates, were forcibly incorporated into the newly-formed public insurance funds.[82] Similarly, private insurance companies were debarred from administering contributory pension schemes, either as alternatives or complementary to the public system. Argentinian workers were obliged to

[79] Munck 'Mutual Benefit Societies'.
[80] Cohn *Previdência social* p. 6.
[81] Rocha da Costa 'A atividade de seguros' pp. 35-72.
[82] J. Juárez *Los trabajadores en función social* (Buenos Aires) p. 128; J. Mensa 'Algunas consideraciones sobre legislación mutua' *Crónica mensual de la Secretaría de Trabajo y Previsión*

participate in public insurance schemes and prohibited from making additional contributions elsewhere. Throughout the 1960s and 1970s, Argentinian legislation continued to prohibit complementary private insurance schemes.

In Brazil, while there was an increase in state activity, this occurred within a context of much greater plurality. Thus, although the role of the state in social insurance increased substantially in the 1940s and 1950s and included more rigorous regulation of the old privately-run pension funds, and their eventual replacement by publicly-administered, sector-specific programmes, the process was much more gradual than in the Argentine.[83] The last Brazilian private funds survived well into the 1950s. Another difference was the failure to unify insurance funds within a single coordinating body. As already observed, the Argentinian Instituto Nacional de Previsión Social was established in 1944 to this end, although most of its powers were subsequently shifted to the union-controlled Secretaria de Trabajo y Previsión.[84] In Brazil, a very similar proposal put forward in 1945 to create an Instituto de Servicos Sociais do Brasil was blocked, partly due to the resistance of the private sector.[85] Likewise, a project mooted in 1953 to hand over worker accident insurance from private administrators to a public monopoly was successfully aborted.[86] These episodes testify to the continued importance of private organisations. A national symposium on private insurance noted that, despite the official tendency progressively to reduce their sphere of action in insurance and assistance, a large number of private organisations continued to function.[87]

As mutual insurance societies and voluntary organisation disappeared in Buenos Aires, this period saw their rapid expansion in cities such as São Paulo. These included *círculos operarios*, worker associations linked to the Roman Catholic church, which aimed to counter the influence of socialist ideas. The

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(Buenos Aires 1946) p. 83.

[83] Cohn *Previdência social* pp. 6-9.

[84] Lloyd-Sherlock *Instituto Nacional de Previsión Social* pp. 8-11 and 26-29.

[85] Malloy *Politics of Social Security* p. 88.

[86] Cohn *Previdência social* pp. 52-3.

[87] M. Lopes Leão 'Previdência, seguros privados e seguros sociais' in Instituto de Organização Racional de Trabalho (hereafter IDORT) *Simpósio nacional da previdência privada* (São Paulo

*círculos* provided a variety of welfare functions, including mutual insurance. They received a large proportion of their funding from the public sector via clientelistic contacts with individual politicians. With their anti-socialist credentials, *círculos operarios* had no difficulty in adapting to the political changes which followed the 1964 *golpe*. Similarly, complementary private insurance (via *monte-píos*) and mutual aid (via *círculos operarios* and similar bodies) continued to grow in Brazil. By 1974 *monte-píos* had approximately 5 million affiliates and a total capital stock of US$250 million.[88]

The experiences of the two countries were, then, very different. In Brazil, increases in state intervention in the insurance sector were limited and did not preclude initiatives by other actors. In the Argentine, social insurance became entirely the responsibility of the public sector. The reasons for these differences are not immediately apparent. It could be argued that the capacity of the Brazilian state to intervene was more limited. From the 1940s, however, the centralisation of power in the federal government, the general expansion of the public sector and its increasing participation in the economic development of the country suggest otherwise. This hints that the reason for divergence between the two countries might have been ideological. In the Argentine, the rise in state welfarism in the 1940s was based, albeit loosely, on Beveridgean principles of universal protection and the exclusion of the private sector from this sphere. This considered public and private intervention in welfare as mutually opposed. In Brazil, the rise in public intervention was driven by a different model, which might be termed 'state developmentalism and Bismarckian welfare'. This advocated the involvement of the public sector in welfare in as much as it promoted development. The state increased its involvement in insurance both as a political device and as a means to capture forced savings for investment in public projects. It had no principled objection to the presence of complementary schemes run by the private sector, so long as they

1974) p. 77.

88 S. Valldão 'O papel social do monte-pío' and M. Tostes 'Monte-pío e seguro' in IDORT *Simpósio nacional* pp. 41,60.

did not conflict with the basic obligatory contributions to the public funds. This strategy did not require the establishment of a universal system of public welfare and so state involvement beyond insurance was sporadic and limited. Indeed, wherever possible the state encouraged private and voluntary initiatives.

State action in the area of social insurance in the two countries mirrored aspects of their industrial development strategies. In the Argentine, a process of forced industrialisation appeared to crowd out the private sector, particularly important segments of national capital.[89] 'State exclusiveness' may be dated from the 1940s. For example, proposals to establish mixed (private and state) corporations in the iron and steel and railways sectors, which were considered in Buenos Aires in the late 1940s, never bore fruit.[90] Thereafter, an official presence in the manufacturing sector continued to grow, even during the 1976-1982 military regime which was purportedly committed to privatisation.[91] The Brazilian experience was quite different. Notwithstanding the establishment of the state-owned iron and steel complex at Volta Redonda (the first fully integrated plant to be established in South America) in the 1940s, private firms continued to be represented in the sector and, notably following policies of 'industrial deepening' pursued after 1968, complementary areas of activity were demarcated for the state and private sectors.[92] This arrangement, described as a process of state managerial capitalism, was the so-called 'triple alliance' of state, private national capital and transnational corporations.

The continuing presence of the private sector in the provision of social insurance and other welfare services has considerable implications for state retreat in Brazil. Does the existence of this platform mean that a rapid growth in private social insurance can be anticipated? Possibly, as in so many other areas, the abandonment

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[89] Lewis *Crisis of Argentine Capitalism* pp. 313-316, 356-9.
[90] B. Duggan 'Iron and Steel Production in Argentina c. 1920-1952: attempts at establishing a strategic industry', University of London, unpublished PhD, 1998, pp. 14-15, 297-99.
[91] Lewis *Crisis of Argentine Capitalism* p. 335-61, 450-57.
[92] P. Evans *Dependent Development: The Alliance of Multinational, State and Local Capital in Brazil* (Princeton 1979) pp. 86-94,216-73; J. Sheahan *Patterns of Development in Latin America: poverty, repression and economic strategy* (Princeton 1987) pp. 171-2, 189.

of a state monopoly in social insurance underscores the profound nature of changes implemented during the Menem presidencies in the Argentine. Hence, Argentinian pension reform necessitated breaking the long-standing state monopoly. In Brazil, reform involved developing a more effective means of collaboration between the public and private sectors.

In fact, the end of the Argentinian public sector pension monopoly shortly predates the first Menem government. Provision was made for the establishment of complementary private pension funds in 1987, and by 1992 they catered for roughly three per cent of the economically active population.[93] In 1993, following much political resistance, a more thorough change was implemented allowing the private sector a major role in the national insurance system. Workers were given a deadline to chose between remaining with the old public system or joining the private one. Much was made of the supposed advantages of the private system. However, by July 1994, the initial deadline for making the change, only 30 per cent of affiliates (3,5502,000) had chosen to leave the state insurance system. Over the following three years, affiliation to private funds gradually rose, probably attracted by high returns reported on fund investment. By 1997, 6,222,000 Argentinians had joined private pension schemes.[94] Yet, the largest private fund is partly owned by the Central Bank and competitors complain that the fund is perceived to be tacitly under-written by the state. Thus, although the significance of the recent reform should not be played down, it cannot be characterised as the accomplishment of a liberal welfare ideal. Moreover, the financial position of the remaining public pension systems has continued to deteriorate. As members transfer out of the pay-as-you-go state system, the financial position of existing *cajas* can only worsen in the short- to medium-term: state funds are suffering a haemorrhage of receipts but not of obligations.

To date, attempts in Brazil to reduce the scope of public sector intervention have been less dramatic. This reflects the more limited nature of state intervention

[93] Lloyd-Sherlock *Old Age and Urban Poverty* pp. 90-1.
[94] Barrientos *Pension Reform* pp. 119-20, 192 (table 5.2).

in the first place. It also reflects a tendency to be more cautious about the relative merits of the private sector. The financial difficulties of insurance administration were not restricted to public funds. During the 1970s large numbers of *monte-píos* went bankrupt, and in the early 1990s it was estimated that private pension funds had accumulated substantial actuarial deficits.[95] As such, privatisation was considered neither as a cure-all solution nor an abrupt break with the past. The introduction of a further measure of government regulation in 1977 was followed by the rapid expansion of private administration, which accounted for 6 per cent of total social insurance affiliates by 1985. While complete data is not yet available, it is assumed that private affiliation more than triple between the mid 1980s and 2000. At the same time, the dividing lines between public and private insurance becomes increasingly confused, with private firms sometimes administering complementary pensions for public sector workers. It is not surprising then that recent proposals to reform social insurance were not primarily billed as attempts to 'privatise' the system. Indeed, plans to modify the structure of benefits generated more political resistance than proposals to alter the role of private administrators. The latter mainly involved stricter government regulation of private pension fund investments and holdings. Through the 1990s neo-liberal reform proposals were largely thwarted by the continued strength of corporatist structures: rather than reform, clientalistic benefit enhancement caused the public system to fall deeper into deficit.[96] In May, 1998, a legislative proposal seeking to increase the retirement age for public sector workers (then around 53 for men and 48 for women) was defeated by a single vote in Congress.

Private administration of obligatory social insurance funds remains largely untested in the Argentine, and has not been a clear success in Brazil. The organisation of the former state system in the two countries is widely acknowledged to have been corrupt and inefficient. As indicated above, even before the effective

[95] M. Matijasic 'Fundos de pensâo: para financiamento' unpublished MA dissertation, Insituto de Economía, Universidade Estadual de Campinas (UNICAMP), Brazil.
[96] Weyland *Democracy without Equity failure of reform in Brazil* (Pittsburgh 1996).

‘nationalisation’ of social insurance systems at mid-century, private and state funds were subject to government manipulation, not least to generate employment for privileged groups or to safeguard them from unemployment. In addition, the proliferation of funds and the highly stratified and fragmented nature of the system made for high administration charges and even after ‘reforms’ of the 1960s, administration remained as politicised and inefficient as other areas of social policy administration. From the 1950s to the 1990s, obtaining a pension (particularly a special pension) was determined more by political contacts than pension contributions. Despite pressure from inter-governmental organisations and the emphasis given to the ‘reform of the state’ in the new economic model, there is little evidence of a substantive shift towards greater competence and honesty in large parts of the public sector. Consequently, although privatising pension administration (that is, depoliticising decision-making) is often presented as an improvement,[97] even the World Bank is cautious:

> “All pension systems require good government... A country that is deemed unable to run well a funded or unfunded public pension system ... would most likely be unable to regulate and supervise a private pension system”.[98]

The ability of private management to deliver depends on a mix of microeconomic and macroeconomic variables. In the two countries, new private pension providers are still at an early stage on a collective learning curve. Moreover, fund managers are being required to made decisions about future domestic economic performance when the ground rules that have determined previous patterns of change are themselves being modified. Structural adjustment has meant that ‘historic’ assumptions no longer apply so that organisations are functioning in a new universe. This implies a continuing regulatory role for government in states with histories of intervention rather than regulation. There are

[97] C. Mesa-Lago ‘Pension System Reform in Latin America: the position of the international organisations’ *CEPAL Review* LX (1996) p. 78.
[98] D.Vittas ‘Swiss Chilanpore: the way forward for pension reform’ (Washington D.C.1992).p. 2.

issues of trust and information. Here the experience of the privatisation of state corporation, particularly public utilities, does not augur well - little attention was given to the establishment of frameworks to ensure competition. And, as indicated above, problems of capital market size and availability of a suitable combinations of financial instruments to protect the system again inflation risk remain unresolved.[99]

**Looking to the Future from the Past**

What insights does an analysis of past problems of social insurance regimes in the Argentine and Brazil offer in terms of the future of pension provision? First, comparison of social insurance indicates that differences were more pronounced than apparent similarities. While, the state came to play an increasing role in the delivery of social insurance in both countries until the 1980s, Brazil never experienced the state monopoly that came to characterise the Argentinian system. The longer history of private pension funding has major implications for the retreat of the state but does not necessarily imply that the politics of privatisation will be less problematic in Brazil than in the Argentine. Differences in the administration of the systems were also pronounced. Paradoxically, in Brazil the public sector was much more centralised than the Argentinian, where administrative responsibility initially lay in the hands of workers themselves (that is, mutual societies) and was subsequently devolved to trade unions. Brazilian schemes differed again in that many funds assumed an early responsibility for the delivery of medical services and, in the case of FUNRURAL, the principle of worker contributions was breached. Indeed, FUNRURAL is one of the few examples of redistributory social insurance. In addition, very early Brazilian arrangements differed from the Argentinian in that they were organised on a company, not sectoral, basis. Yet, despite these differences, by the 1980s pensions funds in both countries were experiencing similar problems.

The second major finding of the research concerns the viability of capitalisation systems. While several factors account for the failure of many of

[99] A. Uthoff 'Pension System Reform in Latin America' *CEPAL Review* LVI (1995) pp. 58-9.

social insurances funds to generate sustainable surpluses, 'reform' of the system in the 1940s and the 1960s was triggered by both a financial/fiscal and an accumulationist agenda which prefigure concerns of the 1980s and 1990s. It is this that makes the problems of past *capitación* systems relevant. In the 1980s, inter-governmental organisation were pressing the case for reform in terms of fund insolvency. By the 1990s fiscal instability remained uppermost but, increasingly, the Chilean model has been applauded for its capital market effects. There are, of course, differences between the 1940s and 1960s, and the 1980s and 1990s. Previously, solutions were conceived in terms of greater centralisation and the incorporation of new occupational cohorts to generate 'savings income' for the state: current remedies emphasise de-centralisation and the investment/allocation of pension fund income by (and in) the market, which is perceived as a more efficient mechanism than the state.

Yet, if a capitalisation system is to be re-instituted, the ability of the system to deliver will depend to a very large extent on the effective use of premium income. Here, the history of the early social insurance *cajas*/*caixas* indicates what should not be done. Namely, channelling of very large proportions of fund income into low-yielding government bonds and the immobilising of a substantial part of income in mortgage advances. Problems of shallow domestic capital markets and narrow investment opportunities remain. Although the limits were subsequently liberalised, Chilean private pensions funds were initially obliged to invest in a restricted series of domestic bonds. Currently, Chilean pension providers are allowed to invest up to 40 percent of premium income in equities. The same maximum is permitted for holding of public bonds. Argentinian funds may hold up to 50 percent of assets in equities, up to 50 percent in federal government bonds (and an additional 30 percent in provincial and municipal bonds) but not more than 10 percent in foreign government bonds or 10 percent in foreign corporation. This compares with an actual investment in equities of almost 70 percent by British pension funds.[100]

[100] O. Chisari, S. Scheimberg & P.Dal Bó 'El analisis macro económico de las AFJP' in Conferencia Interamericana de Seguridad Social *La Seguridad Social en Argentina* (Mexico 1995)

Moreover, governments are anxious to maximise opportunities for domestic borrowing. The lesson of the recent history of private pensions funds in Chile and the experience of the original Brazilian and Argentinian *caixas* and *cajas* is that (subject to the usual requirements of security), the ability of private funds to maximise incomes depends on a liberal schedule of permissible areas of investment.

The third main finding derives from the second, namely that problems encountered by the Argentinian and Brazilian social insurance regimes in the 1980s and 1990s have been present for much of the century. These problems may be categorised under various headings, such as, inadequate funding, ineffective use of resources and administrative 'inefficiency'. Some of these problems were specific to the Bismarckian, capitalisation arrangement, others resulted from the almost inevitable lurch towards a pay-as-you-go systems. These problems were identified before the 1920s yet continue to confront late twentieth century reformers. Present protagonists who argue that change - either the switch from state to market arrangements or parallel, competitive private and public systems - will ensure efficient administration and a productive use of premium income to generate a stream of future resources sufficient to meet the needs of beneficiaries, ignore the lessons of history. Several problems must be addressed: there must be a closer match between benefits and contributions; the payment of contributions must be rigorously policed; contributions and the period over which contributions need to be made are likely to be substantial in order to yield a reasonable pension.

Fourth, a 'realism' gap remains. The rhetoric of pensions reform in the two countries is cast in terms of realistic expectations, not least as regards funding and benefits. As indicated, over the last fifty years there has also been a considerable increase in rates of contributions. This did not 'closed' the benefits/contributions gap. Rather, evasion and delinquency grew. Does this account for current efforts to reduce contributions? An important strand in the current debate about labour 'flexibilisation' is the reduction in the employer quota, currently standing at around 16 percent (20 percent in Brazil). This either means a reduction in global

pp. 247-51, 269.

contributions or passing to employees a larger share of the total social insurance quota. If total contributions are reduced, will the funds realised at the end of a worker's active life yield sufficient resources to provide an adequate pension? If not, who will cover the cost? Even if viable funding arrangements can be established for workers currently entering the workforce, or existing workers transferring to new private pension schemes, the legacy of past delinquency and evasion remains and the government it still responsible for existing pensions. Like the Chilean government, the Menem administration in the Argentine discovered that encouraging workers to move from the public to private pension providers transfers current fund income to private pension companies but not existing obligations. In the medium-term, pension privatisation compounds financial imbalance in the public system: rising obligations to retired members have to be met from reduced resources. The response, in the Argentine, has been to cap existing pensions (a mechanism that has been challenged in the courts) and a promise to honour future contribution requirements. Will the state prove more virtuous in the future than in the past? Recent experience is not positive.

Today, pension privatisation is being actively pursued. Assessments of the outcome of the process will be determined by the principal objective of 'reform'. Are the changes designed to achieve social/welfare, administrative or larger macroeconomic objectives? Capitalisation schemes, as the example of the past - and the current experience of Chile - indicates, can generate substantial amounts of investment income, particularly in the early life of funds. However, as the history of early funds in the two countries also shows, generous pension entitlements, limited investment opportunities and rising administrative charges can rapidly induced financial crisis and a systemic change from capitalisation to pay-as-you-go. When the previous systems in Brazil and the Argentine experienced generational financial crises - as the mass of 'early' contributors became pensioners and deficits loomed - they were bailed out by an extension of the system and by state aid and 'nationalisation'. New groups of contributors were brought into the system, permitting cross-subsidisation. If the new schemes are designed to be universal and stand-alone, 'historic solutions' - successive sectional extensions of coverage - cannot apply.

All other things being equal, fund financial viability will depended on contributions - premium levels and regularity of payment - and investment income. To date, most of the private funds have managed to secure regular payments but, again, the lessons of the past suggests caution. Affiliates usually experience greatest difficulty sustaining contributions during an economic downturn and funds seen to be under-performing can loose income. Notwithstanding the recent currency crisis, these are two areas in which the private sector is still largely untested, though there is historic evidence of member resistance to increases in contributions. And, as in the past, not all workers are in a position to make contributions. If the objective is fund financial stability and equity, without a continuing state presence, there is little prospect of realising either. The new system will be as exclusive as the old.

In terms of administrative efficiency, the new system can hardly be worse than the old. Continuing improvement, however, will depend on supervision and information. After decades of inflation, large sectors of the public are 'financially aware' even if the concept private pensions is novel. But public confidence will only grow if fund operations are seen to be successful and public regulation is transparent. Effective regulation and the transitional relationship between a residual public system and private providers complicates the equation. Here the lessons of the past are equally ambivalent. In the past the relationship between the public and private sectors was uneasy and private providers were suspicious of state intentions. Moreover, in both countries, administrative and regulatory regimes were subject to repeated amendment. There was little stability in the regulatory framework. This also contributed to unease in the private sector as well as confusing contributors and beneficiaries. It remains to be seen whether new arrangements will exhibit greater stability and generate confidence.

In sum, with a decline in the rate of inflation, the accumulationist objective of pension re-organisation is being realised even in the short run. And administrative changes must almost certainly yield positive results. It is equally obvious that the privatisation of pension provision will not deliver the social objectives of equity and that for some time previously under-funded provision means that residual state pension schemes will remain a significant factor in fiscal instability. Those arguing the case for change must learn from history: deficits are not a new phenomenon, nor is the concept of pluralist administration novel. History shows that there are no easy solutions to resolving deficits. The success or otherwise of private pension administration depends on the relationship between the public and private sectors. Are they to be complementary or competitive? The 'public-private mix' in the two countries has been quite different and the ideological underpinnings of social security system have changed dramatically over time. How much longer will the theory of the market dominate social policy thinking in Latin America? At the beginning of the twentieth century, social insurance provision was atomised and largely unregulated. By the middle of the century, centralisation and greater state involvement were thought to offer equity and efficiency. Pension sustainability, delivery and 'dignity' are now promised by pluralistic, competitive systems. Basic differences between Brazil and the Argentine, despite apparent similarities in the evolution of social insurance regimes, cautions against universalist solutions - the 'one-size-fits-all approach' implicit in much of the policy recommendations emanating from international agencies.

Those now entering the labour market, and falling within the purview of 'reformed' social insurance regimes must look to economic growth and effective fund performance for their future pension needs. Inter-generational 'conflicts', however, are likely to remain, though the form will change. That is, from the active/passive divide of the old pay-as-you-go systems to the competitive claims of wages and investment needs on corporate income, on the one hand, and the dividend/distribution demands of stockholders (including the pension funds), on the other. Who will arbitrate this dispute - the state? And will the state be able to resist the temptation to skim? History provides only gloomy answers to these questions.