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EXTERNAL PRESSURES AND INTERNATIONAL NORMS IN LATIN AMERICAN PENSION REFORM

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ABSTRACT

What accounts for the striking of wave of pension privatization that swept across Latin America during the 1990s? Many authors argue that the international financial institutions (IFIs) successfully promoted this drastic change, forcing or persuading weak developing countries to enact their uniform blueprints. But the present analysis, based on field research in Bolivia, Brazil, Costa Rica, El Salvador, and Peru, shows that these claims are not convincing. The IFIs cannot impose external models of social sector reform on Latin American countries; to a greater or lesser extent, all five countries under investigation—even weak, aid-dependent Bolivia—diverged from IFI recommendations. The diffusion of Chilean-style pension privatization did not result from the spread of new norms and values either; in fact, the IFIs promoted structural social security reform with instrumental, not normative arguments. Instead of vertical imposition, horizontal contagion among developing countries of equal status—especially direct learning from Chilean pension specialists—accounts for the diffusion of social security privatization. Even in the age of globalization, national sovereignty is quite alive and surprisingly well.

RESUMEN

¿Qué da cuenta de la impactante ola de privatización de los sistemas de pensión que se extendió por América Latina durante los 90s? Muchos autores sostienen que las instituciones financieras internacionales (IFI) promovieron exitosamente este cambio drástico, forzando o persuadiendo a débiles países en desarrollo para llevar a la práctica sus diseños uniformes. Pero el presente análisis, basado en trabajo de campo en Bolivia, Brasil, Costa Rica, El Salvador y Perú, muestra que estos argumentos no son convincentes. Las IFIs no pueden imponer modelos externos de reforma del sector social sobre los países latinoamericanos. En mayor o menor medida, todos los países analizados –aún la débil y dependiente de la ayuda externa Bolivia—se apartaron de las recomendaciones de las IFIs. La difusión de la privatización del sistema de pensiones al estilo Chileno tampoco resultó de la difusión de nuevas normas y valores; de hecho, las IFIs promovieron la reforma estructural de los sistemas de pensión con argumentos instrumentales, no con argumentos normativos. Lo que da cuenta de la difusión de la privatización de los sistemas de pensión no es la imposición vertical sino el contagio horizontal entre países en desarrollo de igual status –especialmente el aprendizaje directo de expertos en pensiones chilenos.—Aún en la era de la globalización, la soberanía nacional está viva y sorprendentemente sana.

The 1990s saw a striking wave of profound social security reforms sweep across Latin America. From 1992 onward, thirteen countries in the region passed laws to introduce pension privatization, and ten nations have actually implemented this change. After Chile initiated the wave of diffusion in 1981, Argentina, Bolivia, Colombia, Costa Rica, the Dominican Republic, El Salvador, Mexico, Peru, and Uruguay have followed suit. Among Latin America's major countries, only Brazil has refused to move in this direction.

What accounts for this massive spread of the Chilean model of pension privatization? Theorists of policy diffusion and analysts of social security privatization often point to the international financial institutions (IFIs) as the driving forces behind such waves of change. In this view, the IFIs command a broad arsenal of influence, ranging from loan conditionality to technical assistance and normative persuasion. In the last two decades, they have used these instruments of power to induce indebted and aid-dependent developing countries to adopt a wide-ranging program of neoliberal reforms (Stallings 1992; Teichman 2001: ch. 3; Ikenberry 1990: 99–101; Jacoby 2000: 28–30; Appel 2004; Simmons 2001; Guisinger 2003; Henisz, Zelner, and Guillén 2003; Armada, Muntaner, and Navarro 2001). This package of changes has included pension privatization; that is, the total or partial replacement of the state-run pay-as-you-go (PAYG) system that guaranteed defined benefits with privately managed pension funds that make benefits dependent on the accumulation of defined contributions and their investment returns. This change revamps not only the financial basis, but the very nature of social protection: whereas a PAYG system finances retirement pensions through the social security contributions of current workers and thus embodies intergenerational solidarity, private pension funds rest on individual effort. Each worker accumulates their own pool of savings that determine the level of future benefits.

Theorists who emphasize the role of the IFIs claim that policy diffusion has been vertical: it has drawn its main impulse from powerful actors located at the core of the international system, not from horizontal contagion among countries of similar development level and international status. By forcefully promoting a uniform blueprint such as Chilean-style pension privatization, the IFIs have pushed many weaker countries to comply with demands originating from central countries, especially the US, which has dominated the IFIs. Thus, the spread of this innovation has resulted from top-down imposition, not from learning among equals.

These claims raise a crucial theoretical issue: how much sovereignty do developing countries retain in this age of globalization? Are they the victims of "coercion" by international agencies that are controlled by advanced industrialized countries (Guisinger 2003; Henisz, Zelner and Guillén 2003; Armada, Muntaner, and Navarro 2001)? Do they need to submit to external dictates? Can powerful external actors steer their policymaking and successfully push them to adopt economically and socially momentous and politically controversial reforms? Or, by contrast, do even poor, indebted, and aid-dependent countries retain a good deal of domestic latitude and autonomy in their policymaking? Does the impressive arsenal of power resources commanded by the IFIs actually guarantee only limited influence, at least on complex institutional changes such as social security privatization (and in general, on "second-generation" reforms)? Do domestic governments retain considerable independence in their policymaking, even in times of intensifying globalization?

The present paper, drawn from a broader book project,[1] assesses these theoretically and practically important questions through an in-depth study of the IFI contribution to pension reform in Bolivia, Brazil, Costa Rica, El Salvador, and Peru; it is based on intensive field research, interviews with leading decisionmakers, and the analysis of a wealth of documents. While sharing many broad background conditions, the five nations under investigation encapsulate considerable variation. In particular, all four outcomes of Latin American pension reform efforts (see especially Mesa-Lago 1997) are represented: Bolivia and El Salvador enacted full-scale privatization; Peru created a private pension system alongside the public system, giving affiliates a free choice; Costa Rica created a mixed system by adding a mandatory private pillar "on top of" the existing public system; and Brazil rejected privatization and kept reforming its public system. Can IFI pressures account for these variations, especially for the adoption of some form of pension privatization in Bolivia, Costa Rica, El Salvador, and Peru?

Theoretically speaking, the arguments about the IFIs' impact on pension privatization—and on policy diffusion more generally—see the spread of innovations arise from powerful foreign influences on decisionmakers' goal pursuit. Accordingly, external factors induce domestic policymakers to act in ways that differ from their original interests. This claim diverges from learning arguments, which assume that foreign experiences affect the instrumental calculations, but not the interest definition of domestic policymakers (see, e.g., Meseguer 2002; Weyland 2005a, 2005b).

But arguments that emphasize the role of the IFIs highlight two different “causal mechanisms,” in contemporary parlance (cf. Hedström and Swedberg 1998; McAdam, Tarrow, and Tilly 2001; Mahoney 2003; and Mayntz 2004). One can distinguish an external pressure approach and a normative appeal framework, which differ on the origin and nature of the goal shift just mentioned: the external pressure approach stresses coercion, whereas the normative appeal framework invokes persuasion and conviction.

The external pressure approach claims that international financial institutions use their enormous leverage to impose their own preferences on reluctant developing countries. In this view, the IFIs force poor, aid-dependent nations to pursue goals that those countries do not genuinely embrace. By contrast, the normative appeal framework, advanced especially by constructivist scholars in the field of international relations, argues that the IFIs apply the power of persuasion to promote new international norms. Inducing developing countries to embrace these novel standards, they transform the interest definition of Third World governments and thus manage to implant their own preferences in an especially profound fashion. Rather than imposing foreign goals, they convince domestic policymakers to change their own goals. In this way, they set in motion a genuine redefinition through which international norms are incorporated into domestic preferences (Finnemore 1996a, 1996b; Finnemore and Sikkink 1998).

Both of these approaches claim to account for the wave of pension privatization in Latin America. The external pressure approach emphasizes that leading IFIs, especially the World Bank but also the Inter-American Development Bank (IDB), promoted this reform with their whole arsenal of power. In this view, the spread of radical social security reform resulted from external coercion (see, e.g., Armada, Muntaner, and Navarro 2001). By contrast, the normative appeal framework claims that neoliberal principles, espoused especially in the World Bank’s high-profile study on pension reform (World Bank 1994), reshaped global thinking on social security reform. These promotional efforts spread norms of individual responsibility and thus induced governments genuinely to pursue pension privatization.

Can these arguments explain the diffusion of social security privatization in Latin America? To what extent did external pressures or new international norms contribute to this striking wave of change?

IFI INFLUENCES ON PENSION REFORM

The IFIs command an impressive arsenal of power. Since underdeveloped countries frequently need financial aid, the World Bank (WB), International Monetary Fund (IMF), and Inter-American Development Bank hold great leverage as providers of development loans or emergency assistance. In addition to controlling voluminous resources, the IFIs serve as crucial gatekeepers. Many private lenders insist that the IFIs approve a government's economic policies before they will extend loans to that nation. Thus, the IFIs seem to hold many trump cards. Can their usage account for the spread of pension privatization in Latin America?

From about 1992 onward, the IFIs indeed cared intensely about pension privatization and undertook enormous efforts to promote it. The World Bank made a strong case for this change in a high-profile document (World Bank 1994), which oriented the reform debate for years to come. The WB also offered voluminous financial resources and ample technical assistance to support the elaboration and implementation of pension reform; it loaned more than US$ 3 billion to Latin American countries for these purposes from 1992 to 2004 (Holzmann and Hinz 2005: 64–66). Moreover, it exerted great political pressure and incorporated pension reform goals as conditions for a wide range of loan operations. Later than the World Bank and with less zeal and power,[2] the IDB also pushed for drastic social security reform from the mid-1990s onward (Oliveira 1994). Thus, powerful IFIs sought to induce Latin American countries with a range of carrots and sticks to restructure profoundly their PAYG systems and institute partial or complete pension privatization. Were these high-salience efforts successful? Did they produce the reform wave that swept across the region?

Investigations of these questions need to keep in mind an important selection problem that may distort conclusions about IFI influence. The IFIs, especially the World Bank, put more pressure on governments that were reluctant to follow its neoliberal guidelines than on administrations that were predisposed to enact pension privatization. Accordingly, the World Bank did not push much for social security reform in Bolivia, El Salvador, and Peru, but sought to exert more influence on Costa Rica and Brazil. For instance, the leader of the WB's pension privatization project during the 1990s, Estelle James, did not visit El Salvador, but maintained intense, forceful discussions with Costa Rica's pension reform team (interviews with Brevé 2004, Cercone 2004, and Durán 2004). Indeed, because the Salvadoran government was already committed to social security privatization, the WB did not include this change in its loan conditionality. Thus, the WB did not see the need to use its most powerful weapon.

In sum, the IFIs applied their means of influence strategically and saved the heavier artillery for their more recalcitrant clients—yet with limited success. A simple correlational analysis would therefore yield mistaken conclusions: radical pension privatization—as in Bolivia, El Salvador, and Peru—is empirically associated with low IFI pressure. By contrast, countries on which the IFIs leaned more heavily proceeded slowly and hesitantly, such as Costa Rica, or rejected privatization, such as Brazil. Thus, there is a negative correlation between the advance of social security reform and the extent of IFI pressure.[3]

The methodological complication caused by the IFIs' strategic use of influence requires an in-depth qualitative analysis, rather than a simple scorecard. Two questions are crucial. First, where governments' initial goals diverged from IFI preferences, were the IFIs able to impose their recommendations? Did the IFIs successfully force governments to comply with their own principles, as the external pressure approach predicts? Second, where governments looked favorably upon pension privatization, had the IFIs instilled those preferences by means of persuasion? That is, did governments' convergence with IFI preferences result from a normative shift promoted by the IFIs, as hypothesized by constructivist scholars, who claim that state interests are not fixed, but can be reshaped by international normative and symbolic influences? The following two sections investigate these questions in turn.

TOOTHLESS GIANTS? THE LIMITED SUCCESS OF IFI PRESSURES

My field research clearly suggests that the IFIs did not apply their means of influence with great success. IFI support contributed to radical social security reform in Bolivia and El Salvador, and IFI exhortations helped to induce Costa Rica and Brazil to consider pension privatization. But IFI pressures did not manage to impose reform on any one of those countries. Prodding from the World Bank, in particular, contributed to pension reform efforts in several cases, but those efforts yielded decisions that diverged greatly from WB goals, and the Bank's attempts to push countries closer to its preferred position yielded strikingly little success. Even a weak, aid-dependent country like Bolivia ended up resisting strong World Bank pressures on crucial reform decisions. Thus, Latin America's pension reform wave was clearly not the product of IFI coercion.

As regards reform initiation, the pension privatization projects of Bolivia, El Salvador, and Peru did not originate in World Bank recommendations, that is vertical imposition. Instead, horizontal connections to Chilean experts who had spearheaded reform in that country provided the trigger (Weyland 2005a, 2005b). José Piñera, the architect of Chile's social security privatization, and his aides promoted this change throughout the region, stimulated interest from economic policy officials in a number of countries, and in this way set in motion domestic pension privatization efforts, which received ongoing supported from Chilean consultants. These intense contacts, stemming from 1989 to 1991, preceded the World Bank's heavy engagement in the pension area, which started in 1992. As local reform team members stress, the World Bank at that time did not even have much in-house expertise on the topic (interview with Salinas 2002). Only when the Bolivian and Salvadoran reform efforts were already under way did the World Bank provide advice and support, especially by bankrolling the heavy usage of Chilean consultants. Thus, horizontal, not vertical diffusion set in motion the reform process in countries that were sympathetic to the neoliberal agenda.

By contrast, the World Bank did provide an impulse for putting pension privatization on the political agenda in Costa Rica and Brazil, whose governments were less predisposed towards adopting this radical change. As these nations hesitated and did not pursue privatization projects in the early 1990s, the World Bank forcefully advocated this reform in the mid-1990s, after it had codified its own thinking on the topic in its high-profile study of 1994 (World Bank 1994) and turned social security privatization into a priority goal. Visits by leading World Bank experts and policy studies (especially Demirgüç-Kunt and Schwarz 1995) provided an important impulse for the reform discussions of the mid-1990s in Costa Rica (interviews with Durán 2004 and Aguilar 2004). Similarly, the special pension reform commission appointed by Brazilian President Fernando Henrique Cardoso in 1997 took its inspiration in part from the WB's pension primer of 1994 (interview with Moraes 2003).

But the World Bank's contribution to agenda setting did by no means translate into the capacity to shape decision outputs. Instead, despite continuous prodding from the IFIs, both the Costa Rican and Brazilian governments chose to proceed in very different ways than the WB recommended. Given the firm commitment to a solidaristic welfare state among Costa Rica's civil society and political class, both the governments of social democrat José María Figueres Olsen (1994–98) and of Christian democrat Miguel Angel Rodríguez were unwilling or unable to enact radical social security reform. Specifically, they did not want to confine the existing public pay-as-you-go system to a poverty reduction function and create an extensive scheme of private pension funds, as the WB continued to advocate (World Bank 1998). Costa Rican reform team members strenuously resisted strong WB pressures for slashing replacement rates in the existing public social security schemes (interviews with Aguilar 2004, Carrillo 2004, Cercone 2004, Céspedes 2004, Durán 2004, Jiménez 2004, and Rodríguez 2004). Space for private pension funds has therefore remained limited. In fact, the reform law eventually passed in 2000 allowed public institutions to run their own pension funds—and a whopping 79.3 percent of affiliates have stayed with public pension fund administrators (Martínez Franzoni and Mesa-Lago 2003: 27; Leal 2004). As a result, Costa Rica's reformed social security system differs greatly from WB blueprints.

Costa Rica's success in resisting IFI pressures is due to four main factors. First, the great technical capacity of the country's social security experts forestalled dependence on World Bank advice. The principal public pension agency, Caja Costarricense de Seguro Social (CCSS), has a strong cadre of well-trained experts who are recruited in a meritocratic fashion and carefully instructed in the complexities of the social security system. These career specialists claimed to command more expertise than the leader of the World Bank's pension privatization project, who was an economic generalist (interviews with Aguilar 2004 and Durán 2004). Second, Costa Rica had made a concerted effort during the 1990s to pay down its external debt (Hidalgo 2003: 217–18) and therefore did not require IFI approval for renegotiation deals. And the country's last structural adjustment loan was canceled in 1995, before the pension reform came to fruition (World Bank 2000: 6–9). Therefore, the IFIs had little financial leverage. Crucial instruments of power—both loan conditionality and technical assistance—gave the IFIs only limited influence on Costa Rica.

Third, the widespread sense among Costa Rican experts and policymakers that despite looming financial problems, the country's system of social protection was highly successful intensified their reluctance to embark on a drastic transformation (see Comisión Técnica de Pensiones 1990: 13–14; interviews with Aguilar 2004, Carrillo 2004, and Durán 2004). The absence of an acute financial crisis (World Bank 2003b: 113) strengthened Costa Rica's hand vis-à-vis the IFIs. Last but not least, the deeply rooted commitments to the principles underlying the established welfare state, which were firmly enshrined in Costa Rica's constitution, and the consensual nature of politics and policymaking posed an insurmountable obstacle to external pressures for dramatic policy change. Experts and politicians of various partisan orientations knew that radical neoliberal reform was politically infeasible in Costa Rica (interviews with Aguilar 2004, Barahona 2004, Carrillo 2004, Céspedes 2004, Durán 2004, Jiménez 2004, and Rodríguez 2004).

For these reasons, this small, not very powerful country managed to resist significant IFI pressures. While World Bank exhortations contributed to Costa Rica's decision to take a step towards pension privatization at all, the very cautious mixed system that the country implemented diverged greatly from IFI preferences. Thus, the World Bank did make a difference—but a rather small difference.

By contrast to Costa Rica, Brazil is a giant and aspiring great power that has always been reluctant to give in to IFI pressures. Reflecting this nationalistic position, social security experts commonly expressed aversion to World Bank exhortations.[4] During most of the past fifteen years, the country has indeed diverged from IFI recommendations on social security reform (World Bank 1989, 1995, 2001) and has shied away from pension privatization. Instead, it has sought to correct the established public system mainly with parametric reforms, that is, adjustments in the rates of social security contributions, the level of pension benefits, and eligibility rules. Although Brazil is Latin America's most important hold-out against the wave of social security privatization, the IFIs have had only minimal influence on the country's pension policy. External pressures have clearly not borne fruit.

This resistance to IFI demands was due to factors similar to those in the Costa Rican case. Brazil also commands a well-trained corps of social security specialists with a long tradition of expertise (Malloy 1979; Hochman 1992; Weyland 1996a: 89–91, 132–33). Newly recruited experts were quickly socialized into this technocratic culture and proudly stressed that domestic specialists knew much more about the Brazilian social security system than the World Bank (interviews with Carvalho 1992 and Moraes 1995). The social security ministry (Ministério da Previdência e Assistência Social, or MPAS) gave these specialists a powerful political base for resisting external pressures.

Furthermore, despite rapidly increasing expenditures, the general social security system for private sector workers did not suffer from significant deficits until the late 1990s (Ornélas and Vieira 1999: 33; World Bank 2003a: 599). The 1988 constitution had created ample funding sources for Brazil's social policies, and the MPAS had successfully claimed the most dependable revenue base, namely the payroll tax. As the established pension system was not confronting severe financial problems, demands for drastic reform found limited resonance. Last but not least, Brazil's political system is highly fragmented, and the resulting dispersal of power impeded profound change. Not only is the party system weak (Ames 2001; Mainwaring 1999), but interest groups lack cohesion and encompassingness, and infighting among state agencies is rife (Weyland 1996a: ch. 3). For these reasons, it proved exceedingly difficult, if not impossible, to marshal majority support for controversial, politically costly projects such as pension privatization (Weyland 1996b). All of these factors gave Brazil a high level of defensive autonomy from external pressures.

On one occasion, however, World Bank exhortations did help to set in motion a privatization effort. In 1997, when it had become clear that parametric reform efforts would make only halting progress, President Cardoso appointed a special reform commission and charged it with designing a structural change in the social security system. Prodded by domestic experts who had for years advocated a mixed system akin to the WB's multi-pillar approach, the leader of this team, André Lara Resende, took his inspiration partly from the Bank's 1994 pension primer (Pinheiro 2004: 129). In secretive meetings, the commission elaborated a project along these lines.[5] In 1998, this proposal gathered political force; for the first time in Brazilian history, pension privatization seemed to have a real chance to go forward. Certainly, the powerful social security ministry opposed drastic change, but its capacity to stand up to the even more powerful ministries of finance and planning, which had long advocated privatization, was questionable (interview with Moraes 2003).

But a serious goal conflict between the two leading IFIs helped to abort this reform effort quickly. By 1998, Brazil's international financial position had worsened greatly. The IMF therefore worried intensely about the country's fiscal deficit. While the WB kept advocating drastic pension reform from a long-term perspective, the IMF vetoed this change due to its tremendous transition cost in the short and medium term (interview with Moraes 2003; Pinheiro 2004: 129–30). Thus, one IFI blocked the reform project pushed by another IFI. Such goal conflicts can neutralize external pressures and allow Latin American governments to play various IFIs off against each other. For instance, the IMF has never shared the World Bank's enthusiasm for pension privatization, which threatened hard-won fiscal equilibrium. In a similar vein, the Inter-American Development Bank, led by Latin Americans themselves, has often been less "pushy" and more accommodating to regional governments, limiting the influence of the more orthodox World Bank and IMF. These divergences give Latin American countries additional protection against external pressures.

In sum, since Costa Rica and Brazil were not pursuing structural pension reform on their own initiative, the IFIs—especially the WB—applied significant pressure in order to advance the privatization agenda that the Bank codified in the mid-1990s. Yet while this influence helped to get some reform efforts under way, these attempts either failed to come to fruition, as in Brazil, or the ensuing changes differed greatly from WB preferences, as in Costa Rica. In both countries, pension specialists who had been socialized into the existing pay-as-you-go system commanded a high level of technical expertise, which created significant immunity from foreign influences. These specialists were entrenched in powerful state institutions that commanded substantial political clout and counterbalanced economic agencies like the finance ministry, which was more supportive of the IFI project. Moreover, both countries had an anti-majoritarian constellation of political forces and decision-making structures. Both Costa Rica's consensual mode of policymaking, which gave the major parties, business, and labor significant voice, and Brazil's fragmented institutional system, which empowered numerous veto players, made it very difficult to impose controversial change. Thus, a number of domestic factors account for the limited results of external pressures.

Interestingly, however, even poor, aid-dependent countries that lacked many of these sources of strength—such as Bolivia, El Salvador, and Peru—managed to resist IFI pressures on some economically and politically crucial issues. While the overall policy course charted by these countries during the 1990s was in line with the IFIs' market-oriented program, they diverged from World Bank recommendations on important specific points. Although these countries lacked the technical and political capacity to design an independent reform program, as Costa Rica and Brazil did, they managed to act autonomously when highly salient political issues were at stake. In fact, it did not prove particularly difficult or excessively costly to face down international agencies that are often depicted as supremely powerful. The requirements for obtaining defensive autonomy were not high.

Even governments of a broadly neoliberal orientation—such as the administrations of Gonzalo Sánchez de Lozada in Bolivia (1993–97), Alberto Fujimori in Peru (1990–2000), and Armando Calderón Sol in El Salvador (1994–99)—diverged from important IFI recommendations on a number of occasions. While they took technical advice from the World Bank and other international organizations (IOs) seriously, crucial political concerns and calculations could push them in a different direction. Once a government had decided to give its political goal priority, technically solid World Bank objections and strong external pressures could not force compliance. Thus, even when confronting weak countries such as Bolivia, El Salvador, and Peru, the IFIs could not impose their preferences on a number of important issues.

Bolivia, for instance, clearly commanded fewer assets in its negotiations with the IFIs than did Costa Rica and Brazil. The institutions that administered the old social security system lacked the high level of technical expertise and political clout that the CCSS and MPAS enjoy. And the formation of partisan coalitions, which were necessary for electing presidents, allowed for a decision-making style that is more majoritarian than consensual; for instance, the pension reform itself was quickly pushed through Congress at the end of a lengthy decision-making process (interviews with Peña Rueda 2002 and Fernández Fagalde 2002).

Despite these differences from Costa Rica and Brazil, Bolivia successfully resisted external imposition where the government's political goals clearly diverged from IFI preferences. Above all, the administration of Gonzalo Sánchez de Lozada, which enacted drastic pension privatization, faced down strong IFI pressures on the essential question of how to cover the reform's fiscal transition cost. The IFIs pushed very hard for applying the proceeds from public enterprise privatization, which the government was promoting at the same time, towards paying off existing pension entitlements (interviews with Gottret 2002, Vargas 2002, Peña Rueda 2002, Guevara 2002, Grandi 2002, Pantoja 2002, and Bonadona 2002). In this way, the Bolivian state would use the sale of its productive patrimony for liquidating its social debt. This solution would avoid any additional drain on public coffers. But the Bolivian government rejected this proposal tenaciously. After repeated "frank discussions," the president finally countered very strong IFI pressures by invoking Bolivia's national sovereignty, i.e., the country's right to make decisions as it pleased (interview with Peña Rueda 2002).

For reasons of social equity and political expediency, President Sánchez de Lozada insisted on placing the revenues from public enterprise privatization into a collective capitalization fund, in which all Bolivians would hold property rights; the dividends from this fund would finance annual payments of US$248 to all citizens above the age of 65. This basic scheme of universalistic old-age security benefited more than 300,000 elderly people in 1997, helping to alleviate widespread poverty (Graham 1998; Müller 2004). This "solidarity bond" (BONOSOL) also contributed to the president's reelection victory in 2002. But it forced the Bolivian state to cover the pension reform's transition cost through regular budget revenues or debt. As a result, the public deficit grew significantly, amounting to 4% of GDP from 1998 onward (World Bank 1999: 10). Without the burden caused by the social security reform, the Bolivian state would not have been in the red at all.

To combat this fiscal disequilibrium, which caused concern among the IFIs and elicited strong pressure from the IMF, President Sánchez de Lozada in his second term (2002–03) tried to raise taxes. This adjustment plan triggered violent unrest in February of 2003 and made the government vulnerable to further protests, which in October of that year forced the president's resignation. Ironically, the politically motivated decision on the pension reform's transition cost, which contributed to Sánchez de Lozada's reelection in 2002, set in motion the chain of events that led to his ignominious ouster in 2003 (Arellano 2004; Laserna 2003).

Yet despite the fiscal imprudence of President Sánchez de Lozada's BONOSOL decision and its dangerous political implications, the IFIs were unable to force the Bolivian government to cover the fiscal burden of social security privatization with the revenues from public enterprise privatization. Strikingly, even a weak, underdeveloped, highly aid-dependent country like Bolivia managed to face down strong IFI pressures on a decisive issue. National sovereignty clearly survives in the age of globalization.

In a similar vein, political considerations made the Peruvian government diverge from IFI recommendations on the process and sequencing of pension privatization. Aware of his precarious position in the government and of President Fujimori's skepticism towards neoliberalism, Economy and Finance Minister Carlos Boloña tried to take advantage of the political opportunity offered by Peru's hyperinflationary crisis and push through a comprehensive package of profound market reforms as quickly as possible. Fearing that his window of opportunity might close soon and that the "period of extraordinary politics" (Balcerowicz 1994: 84–87) might come to an end (Boloña 1993: 170), Boloña pressed for pension privatization when the Peruvian economy still lacked minimal stability.

This tremendous rush disregarded the IFIs' advice on the proper sequencing of economic stabilization and structural reform. Given the enormous transition cost of pension privatization, it seemed especially dangerous to enact this drastic change at a time when the Peruvian economy continued to suffer from severe disequilibria. The

World Bank as well as the IMF, whose main mission it is to guard countries against fiscal imbalance, therefore warned Peru's economic team and urged a slowdown of its ambitious reform program. But Minister Boloña and his close-knit group of aides, firmly committed to neoliberalism, discarded this advice and stormed ahead with full force (interviews with Boloña 1996, Du Bois 2002, and Peñaranda 2002). IFI exhortations could not prevent them from being "more Catholic than the pope." Although the Fujimori administration was trying hard at that time to reestablish good relations with the IFIs, which the preceding government of Alan García had ruined, it decided not to listen to IFI recommendations—and did not incur any negative consequences.

While the IFIs cautioned against Minister Boloña's neoliberal zeal, they were even less happy with the skepticism toward the market agenda that induced President Fujimori to decide at the last minute against full-scale pension privatization. Listening to the head of the established social security agency IPSS (Instituto Peruano de Seguridad Social) and to other opponents of radical change, the chief executive kept the existing public pension system open and gave affiliates the option to switch to the new private pension funds or stay with the IPSS. While this decision was true to the neoliberal principle of freedom of choice (cf. Roggero 1993), it limited the expansion of the private scheme and seemed to threaten its very viability. Together with Minister Boloña's aides and other domestic neoliberals, the IFIs therefore pressed the Peruvian government in subsequent years to make the private scheme more attractive to affiliates and eventually to close the public system (Kane 1995: 2–4; Arévalo and Cayo 1997: 2–3; Queisser 1998; World Bank 2004). Yet while the Fujimori government enacted some of the recommended changes, it maintained the parallel structure of the new social security system, which lay at the root of the difficulties emphasized by the World Bank. Thus, once again IFI pressure attained only limited success.

Firmly committed to neoliberalism, El Salvador's ARENA (Alianza Republicana Nacionalista or Nationalist Republican Alliance) government also rushed into pension privatization more precipitously than the World Bank found advisable. While agreement on the general direction of change precluded open conflict and kept World Bank involvement in the reform process limited (interviews with Brevé 2004, Ramírez 2004, and Solórzano 2004), the Bank had urged governments to prepare a firm institutional framework for a private pension system, for instance by developing and regulating the capital market (World Bank 1994: 231, 245, 255, 258–59, 280). The administration of Armando Calderón Sol, however, enacted only perfunctory, insufficient measures in 1995 (Mesa-Lago and Durán 1998: 9, 34–44) and quickly advanced toward radical pension privatization in December 1996. As in the Peruvian case, this lack of sequencing diverged from IFI recommendations; the underdevelopment of the capital threatened the investment returns of the new private pension funds, which indeed have been more meager than expected (interviews with Martínez Orellana 2004 and Ramírez 2004).

Thus, even weak countries that depended on financial assistance from the IFIs deviated from World Bank recommendations on a number of important issues and resisted IFI pressures to fall in line; Bolivia's decision on the fiscal transition cost of pension privatization is the most striking case of such immunity to external coercion. These instances of open goal divergence show that the IFIs are not particularly successful at imposing their will on recalcitrant governments. Despite their impressive arsenal of influence, they have difficulty forcing governments to deviate from their preferred course of action and comply instead with IFI exhortations.

In conclusion, the IFIs are much weaker than the external pressure approach claims. This finding from my field research corroborates a number of careful empirical studies, which have shown that the IFIs' seemingly strongest weapon, loan conditionality, is of limited use. The IFIs have only moderate influence on second-stage market reforms like social security privatization, which are highly complex and pass through a complicated domestic decision-making process. The participation of numerous political actors makes it difficult for the IFIs to apply their leverage effectively (Nelson 1996, 1999; Kahler 1992; Hunter and Brown 2000; Brooks 2004; Madrid 2003). Therefore, IFI pressures cannot account for the wave of pension reforms in contemporary Latin America.

THE EXTERNAL IMPOSITION OF REFORM GOALS?

The preceding discussion takes for granted the distinction of external and domestic actors and of external and domestic goals that straightforward versions of the external pressure approach draw.[6] In this line of reasoning, powerful international actors force their own will on weak domestic governments that hold divergent preferences, but have to comply with these external dictates. But external pressures could have even more profound effects by forcing national governments to redefine their own goals and adopt the preferences pushed by the IFIs. In this case, even governmental decisions that were not the product of external pressures targeted at that specific choice could in fact result from international coercion, namely the imposition of a whole preference set. If the IFIs can impose their principles on a Third World government in this way and oblige it to shelve its own goals, then this government's compliance with IFI exhortations is not the result of genuine conviction, but of coerced consent.

The countries under investigation yield little evidence of such an external imposition of goals. Costa Rica and Brazil persistently diverged from IFI preferences, especially in the pension arena. While the World Bank and IMF had some influence on specific decisions, they certainly did not manage to reshape governments' overall policy orientation in significant ways. And in Bolivia and El Salvador, reform-oriented presidents were intrinsically committed to neoliberalism, not as a result of IFI pressures. A long-standing neoliberal, Gonzalo Sánchez de Lozada had been a driving force behind Bolivia's shock program of market reform in 1985 (see especially Goedeking 2003: ch. 5); he was not a recent convert pushed forward by the IFIs. And El Salvador's ARENA governments drew their strong neoliberal orientation from connections with the country's powerful business community and a high-profile neoliberal think tank, the Fundación Salvadoreña para el Desarrollo Económico y Social—FUSADES (interview with Daboub 2004; Segovia 2002: 27–31), not from IFI pressures. Thus, the World Bank and IMF did not succeed in imposing their preferences on Costa Rica and Brazil and did not need to impose their will on Bolivia and El Salvador.

But IFI pressures did play an important role in inducing President Alberto Fujimori of Peru to make a radical shift of policy course immediately after his first election victory in 1990. Although he had campaigned on the promise of avoiding a neoliberal shock program, he decreed a brutal adjustment plan upon taking office and embarked on a program of market reforms. While the hyperinflationary crisis that was exacerbated by the election of this dark-horse candidate was the crucial reason for this policy switch (Weyland 2002: 109, 116–18), the carrots and sticks controlled by the IFIs strongly pushed Fujimori in this direction. In fact, direct contacts during which World Bank and IMF leaders conditioned their urgently needed financial support on an orthodox policy approach triggered the president-elect's decision to abandon the heterodox ideas that his economic advisers had elaborated (Stokes 2001: 69–71). Thus, Fujimori embraced neoliberalism under duress; in this case, external pressures clearly contributed to a change of presidential preferences.

Peru in 1990 faced exceptionally dire circumstances, however, which gave the IFIs an unusual degree of influence. Besides hyperinflation, the country suffered from a civil war unleashed by the brutal Shining Path guerrillas. Thus, the need for external assistance was particularly high. Furthermore, the president-elect seemed to lack clear, fixed preferences on economic issues. He fought the first round of the election campaign with the simplistic slogan of "work, honesty, and technology" and adopted the anti-shock plank only for the second round, in which he faced neoliberal ideologue Mario Vargas Llosa. While he initially hired heterodox economic advisers, the market reform program with its emphasis on individual effort and hard work had affinities with his disciplinarian, moralistic streak. In addition to his own openness on economic issues (interview with De Soto 1996), Fujimori lacked any strong party organization or firm links to interest groups that could have impeded his policy switch. Thus, the tremendous depth of Peru's crisis and the president-elect's feeble ideological and organizational commitments gave the IFIs an unusual opportunity to pressure successfully for a shift of course. But this case looks more like the proverbial exception that proves the rule. Under more normal conditions, the World Bank and IMF cannot force governments to change their policy preferences.

In fact, Fujimori never converted to neoliberalism. While he adopted a host of market reforms, he did so under the pressure of the severe crisis, not out of genuine conviction (interviews with Boloña 1996 and Vásquez 2002; see Boloña 1993: iii–ix, 169–73, 202). Committed neoliberals—namely Economy and Finance Minister Carlos Boloña and his hand-picked group of aides—guided the government's economic policy only for the limited time period during which Fujimori regarded this delegation as indispensable. Fujimori had initially rejected Boloña's conditions for serving as the leader of the government's economic team; in July of 1990, precisely when IFI pressure was at its highest level, Fujimori chose a pragmatist over this neoliberal zealot (Boloña 1993: 25–26; interview with De Soto 1996; Weyland 2002: 117–18). Only when his first economy minister failed to guarantee economic stability did Fujimori appoint Boloña and give him free hand to enact his ambitious program of market reforms, including pension privatization. Yet as soon as Peru achieved the first stages of economic recovery, the president fired his principal economic aide. Thus, the fervent embrace of neoliberalism that inspired the early pursuit of radical social security reform arose more from the severity and persistence of Peru's crisis than from IFI pressures; in fact, as mentioned above, the World Bank and IMF cautioned against the launching of pension privatization at a time of continuing economic instability.

In sum, while the IFIs clearly contributed to President Fujimori's switch to neoliberalism, the particularly zealous promotion of an ambitious market reform program that led to the rushed enactment of pension privatization was a response to the extraordinarily profound crisis afflicting Peru. The available evidence suggests that World Bank pressures cannot account for this temporary intensification of Peru's march toward neoliberalism. Among the five countries under investigation, the external imposition of goals therefore played only a limited role.

Moreover, what at first sight looks like external imposition is often the product of an interaction—even collusion—between domestic and international actors. Rather than being the passive victims of IFI coercion, national decisionmakers, especially reform-minded experts, often ask the World Bank, IMF, or IDB to impose conditions on their country. These domestic actors are committed to neoliberal goals yet need help from powerful foreign institutions to overcome domestic political opposition. They therefore ask for external conditionality to force the hand of Congress or of the president himself; in addition, they try to create constraints on their own successors and oblige future experts to continue their earlier initiatives. Consequently, a government's enactment of IFI-sponsored reforms often does not result from unilateral imposition, but from a much more complex interaction and bargaining process (see in general Vreeland 2003: 13–16, 46–48, 51–54, 62–64, 103).

Thus, the clear distinction of external vs. internal interests and goals assumed by the external pressure approach does not hold. Often, the IFIs do not force their will on recalcitrant Latin American governments, but domestic experts cooperate with IFI officials in designing loan conditions that are of interest to both sides. Reform-oriented national specialists collude with IFI representatives to gain leverage on the domestic front. Domestic and international actors share interests. The main line of cleavage does not fall between the IFIs and a nation state. Instead, domestic specialists often have more in common with IFI officials than with politicians inside their own country, especially if those politicians are interested primarily in patronage, not in programmatic issues of economic and social reform.

In this vein, Bolivian pension reform experts at several points in the lengthy reform deliberations asked their IFI counterparts, *"Póngame esta condición, por favor,"* that is "could you please impose this condition on us?" (interviews with Salinas 2002 and Gottret 2002). In this way, they sought to gain leverage vis-à-vis domestic politicians and ensure the continuation of the privatization project despite the change of government in 1993. More strikingly even, Peru's Economy Minister Carlos Boloña and his team requested of the IFIs to impose conditions on Peru that they then used to coax President Fujimori himself into supporting their neoliberal reform goals. Whereas the chief executive had initially refused to decree certain changes, he gave in to this domestically solicited IFI conditionality (interview with Peñaranda 2002). Thus, "external" pressure can help technocrats to invert the institutional hierarchy by pushing their political superior, the president himself, into compliance with goals that they share with the IFIs.

Thus, the main division often does not pit external against domestic actors, but international and national experts against domestic politicians. A transnational community of specialists pools its influence to lean on politicians and win approval for its projects (cf. Teichman 2001: ch. 3). On many technical issues that are not highly salient to politicians, this transnational alliance is successful—although politicians retain the last word and impose their will on questions that are crucially important to them, as the above-mentioned case of the transition cost of Bolivia's pension reform shows.[7]

This transnational collusion is facilitated by the fact that a number of IFI officials are citizens of the country on which—and sometimes, in which—they work. For instance, the director of the World Bank's pension reform project for Bolivia, which sought to protect the privatization effort against any political risks emerging from the presidential election of 1993, was a Bolivian national, Pablo Gottret. As a result, IFI officials sometimes have particularly close personal and professional ties to the domestic experts on whom they "impose" conditions. National specialists, in turn, often aspire to a prestigious and lucrative career as an official or consultant for an IFI; therefore, they have a personal interest in nurturing a collaborative relationship with the IFIs. Indeed, a considerable number of domestic specialists who participated in pension privatization projects in their own country later worked as IFI consultants on social security reform in other nations. For instance, the leader of Bolivia's first reform team, Helga Salinas, later advised the Nicaraguan government, and Gustavo Demarco, a crucial participant in Argentina's privatization effort, did consultancies in several Latin American countries (see also interviews with Durán 2004 and Brevé 2004).

Thus, the web of mutual interests and linkages is more complex and less hierarchically structured than the external pressure approach assumes. There is little evidence of clear external imposition in Latin American pension privatization. Under most circumstances, the IFIs cannot force their will upon countries—even on weak, aid-dependent nations. And even where imposition seems to occur, as in instances of loan conditionality, the goals "imposed" by the IFIs are often not strictly external. As the IFIs cannot successfully push new models, diffusion does not proceed vertically. While IFI influence and power certainly promote and facilitate the spread of policy innovations, they are not the principal causal mechanism.

THE TIMING OF IFI INVOLVEMENT IN LATIN AMERICA'S PENSION REFORM WAVE

The temporal sequence of events also suggests that the IFIs did not set in motion the wave of pension privatization in Latin America. This diffusion process started before the IFIs, especially the World Bank, geared up their promotional efforts. In Argentina, Bolivia, Brazil, Costa Rica, El Salvador, Mexico, Peru, and Venezuela, serious interest in social security privatization emerged between 1989 and 1991, years before the World Bank published its famous pension reform primer in 1994, and even before it prepared this massive study by commissioning numerous consultant reports in 1992. From 1989 to 1991, the WB and other IFIs actually paid little attention to social security; and when they did focus on this arena, they did not advocate Chilean-style privatization (see, e.g., World Bank 1989; Mesa-Lago 1991).

In the late 1980s and early 1990s, most Latin American countries were confronting acute economic crises and therefore concentrated on immediate tasks of economic stabilization. These countries, and the IFIs as important promoters of adjustment, focused on pressing first-stage reforms, rather than on complicated institutional changes such as social security privatization, which had less urgency and required more time. As mentioned above, the IFIs deliberately advocated a sequential approach to market reform. Governments should guarantee economic equilibrium before moving on to technically complicated, politically controversial, and economically costly changes such as drastic social security reform, whose fiscal transition cost threatened to undermine precarious economic stability. Therefore, the IFIs did not push for pension privatization at this early point.

In the social security arena, the IFIs concentrated instead on parametric reforms such as increases in social security contributions, limitations in pension benefits, and the tightening of eligibility rules, which sought to restore financial and actuarial equilibrium in existing public pension systems. For instance, in 1991 the IDB gave El Salvador a grant designed to improve the performance of the two public pension institutes. At this point, the IDB did not push for structural reform, but hoped to ease the administrative and financial problems plaguing the existing social security system. That this grant—through the hiring of Chilean consultants—set in motion the privatization effort (as analyzed below) was an unintended consequence (interviews with Ramírez 2004 and Tamayo 2004). Similarly, the World Bank in 1989 focused on "fiscal and financial issues" in Brazil's social security system, stressed the fiscal transition problem as an insurmountable obstacle even to partial privatization, and endorsed instead a scheme to guarantee actuarial equilibrium inside the public system (World Bank 1989: 21). Thus, the IFIs were not pushing for pension privatization at the time when many Latin American governments developed a serious interest in this reform proposal.

In the perception of Latin American reform team members, the IFIs actually did not have much in-house expertise on social security reform in the late 1980s and early 1990s. According to the initial leader of Bolivia's privatization effort, Helga Salinas, the

World Bank did not know much about this topic and had only a couple of specialists on its payroll at that time; expertise was really concentrated in Chile (interview with Salinas 2002). And the IDB commissioned the special section on social security in its annual report of 1991 from an independent academic specialist, Carmelo Mesa-Lago, who was not a neoliberal advocate of drastic privatization (Mesa-Lago 1991). In sum, the IFIs did not trigger the pension reform wave of the 1990s in Latin America.

But the IFIs, especially the World Bank, significantly reinforced this wave once it was already swelling. They provided technical, financial, and political support to countries that had initiated structural reform projects on their own and tried to coax more reluctant governments to follow their lead. As regards autonomous emulators, the World Bank and IDB underwrote numerous consultant missions to Bolivia and El Salvador, for instance. Furthermore, they offered technical advice and financial assistance on specific problems, such as calculations of the fiscal transition cost of privatization (interviews with Gottret 2002, Salinas 2002, Solórzano 2004, and Vargas 2002). And they protected structural reform projects against political uncertainty arising from presidential elections, for instance in Bolivia in 1993. As regards laggards such as Brazil and Costa Rica, the World Bank eventually tried to press their governments to jump on the privatization bandwagon—though with limited success, as discussed above. Thus, the IFIs contributed to the spread of pension privatization once this process was already under way. They supported ongoing diffusion rather than initiating it. They were followers, not leaders.

In the late 1980s and early 1990s, the primary promoters of pension privatization were Chilean experts who had participated in that country's pension reform, especially José Piñera and his former aides. This group provided the initial impulse for the spread of structural social security reform in Latin America. As Chile's return to democracy in 1989–90 eased the stigma stemming from pension privatization's first enactment by the Pinochet dictatorship,[8] Piñera himself, the minister presiding over that reform, turned into a missionary who advertised the Chilean model worldwide, especially in Latin America. A number of Chilean specialists who had helped to design the reform or to administer the new pension system also became international consultants and eagerly spread the Chilean blueprint (interviews by Madrid with Iglesias 1996 and Larraín 1997).

Thus, when the diffusion of pension privatization in Latin America started to gather steam in the late 1980s, Chilean experts—not the IFIs—were the primary promoters of this innovation. Their missionary zeal, which often made them push beyond the specific consulting tasks for which they had been hired, provided the spark for this reform project to catch on in several countries. It led domestic specialists to see a new, definitive solution for problems that they had faced for years and unsuccessfully sought to overcome (interviews with Ramírez 2004, Salinas 2002, and Tamayo 2004; see Weyland 2005a, 2005b). The persuasive power of Chilean experts, led by the charismatic Piñera, managed to lift social security reform to a qualitatively new level. It induced specialists in several countries to leave behind parametric adjustments and elaborate radical privatization projects.

This success is noteworthy because Chilean consultants did not command any real means of influence. Since their advice went beyond the tasks for which they had been hired (for instance, in the Salvadoran case), they could not invoke the authority of the IFIs that underwrote their technical assistance. And as foreigners, they lacked political clout. Thus, their impact did not arise from any form of pressure, but had a purely ideational character. The new solution they proposed convinced domestic experts who held policy-making positions as well as their political superiors (Weyland 2005a, 2005b).

In conclusion, powerless Chilean experts, not the powerful IFIs, were the prime movers in the diffusion of pension privatization in Latin America. This wave arose at a time when the IFIs focused primarily on economic stabilization, not structural and institutional reform. The World Bank, in particular, soon supported the further spread of the privatization wave, however. Thus, the IFIs reinforced diffusion; but they did not set it in motion (similar for education reform, Grindle 2004: 47, 198).

THE PROMOTION OF NEW NORMS AND PRINCIPLES?

As the IFIs' heavy weaponry—especially loan conditionality—did not prove decisive for the spread of pension privatization in Latin America and as Chilean consultants with minimal power capabilities triggered this wave, has "soft power," especially the power of persuasion, been the crucial causal mechanism? Did the IFIs or

Chilean experts manage to convince Latin American governments to embrace neoliberal goals and principles, reshape their definition of interests, and instill a genuine commitment to social security privatization? Did the wave of radical social security reform in Latin America thus result from the spread of new norms and principles, as constructivists would claim?

As mentioned in the beginning, a private pension system rests on principles that differ starkly from the ideational foundations of the old pay-as-you-go (PAYG) system. Whereas the established scheme was built on social and intergenerational solidarity, a private scheme is inspired by individualism and freedom of choice. The PAYG system promised social equity and protection guaranteed by the state; by contrast, the new system rewards individual effort and harnesses the efficiency of market competition for maximizing people's benefits. Pension privatization thus brings fundamental change; to what extent was it driven by the normative principles inspiring this change? Did new ideas and values promoted by international organizations provide the crucial impulse for the wave of radical pension reform in Latin America?

Among the IOs that could promote neoliberal ideas and values, the IFIs once again stand out. The IO that had helped to build the old PAYG systems, the International Labour Organization, certainly did not advocate pension privatization; instead, it criticized and resisted this neoliberal recipe (Beattie and McGillivray 1995). The main proponents of the new credo were the IFIs, especially the World Bank. In the 1980s and 1990s, the IFIs indeed undertook a host of efforts to spread their market-oriented message and convince governments of the specific benefits and general validity of neoliberalism. They produced a wealth of publications, which they distributed widely. They held a large number of international conferences and seminars to proselytize for their creed and to advertise "best practices" that embodied neoliberal principles in various policy arenas. These promotional efforts were especially intense in the area of social security reform. After a huge research effort, the World Bank produced a widely read primer on pension privatization that explained its main goals and gave countries a menu of reform options to choose from (World Bank 1994).

The normative imitation argument claims that the IFIs are quite successful in their promotional efforts, which are said to go beyond mere technical assistance and seek to shape governmental goals. New norms embody higher standards of modernity and legitimacy and therefore win over the hearts and minds of policymakers and the broader public. To what extent can this line of reasoning account for radical social security reform?

The neoliberal wave that included pension privatization was certainly driven in part by the spread of new economic ideas (Edwards 1995; Leiteritz 2003), and these ideas contained a normative component. The attraction of neoliberalism arose not only from new or revived technical arguments, but also from the ethics of individual responsibility, hard work, and independence from governmental handouts. Neoliberalism had a heroic ring: Self-reliant individuals were supposed to take life into their own hands and take responsibility for their choices; and reform-minded experts were supposed to take on rent-seeking interest groups and populist politicians to create a free society in which well-being would depend on hard work, not lobbying and "connections."

Thus, while presented first and foremost as a scientific edifice, neoliberalism also embodied a moral—even emotional—message. This normative, ideological component helps account for the fervor with which some leading experts and policymakers, such as Peru's economy minister Carlos Boloña and his aides, held market-oriented views. In fact, reform team members sometimes characterized their embrace of pension privatization in emotional or religious terms: "We fell in love with the project" and had "faith" in it, reported the leader of the Salvadoran team, for instance (interview with Brevé 2004; see in general Boloña 1993).

Yet while the IFIs' normative message imbued some committed advocates of neoliberalism with special missionary zeal, it did not hold the broad public appeal in the pension arena that new norms enjoy according to constructivists. Whereas novel principles of human rights, for instance, sooner or later marginalize the power interests that initially resisted their advance, neoliberal norms never won such hegemony in the social security sphere and always remained heavily contested. In fact, the ethic of individual responsibility faced an uphill battle against prevailing views on the importance of social solidarity, which pre-reform pension systems claimed to embody. Advocates of those systems, such as trade unions and leftist or populist parties, strongly criticized the neoliberal message and defended established norms that seemed gentler and kinder and therefore retained considerable public support. In countries where those traditional values had particularly deep roots, such as Costa Rica, reformers deliberately avoided the neoliberal message. Instead of preaching individualism, they stressed the congruence of their proposals with the solidaristic principles underlying the old system (Rodríguez and Durán 1998: 228–35; MIDEPLAN 1998: 29).

In fact, the World Bank itself downplayed the normative change it was promoting in the pension area by endorsing a complex, multi-pillar system that included important solidaristic components (World Bank 1994; see also James 1998). The Bank did not advocate abandoning the traditional principles inspiring social security and adopting completely new goals. Instead, it promoted the differentiation of the old goals that in its view had been mixed up in existing social security systems. According to this line of reasoning, all pension systems need to fulfill three functions, namely redistribution, insurance, and saving. Whereas pay-as-you-go (PAYG) systems used one institutional scheme to attain all three goals, the WB recommended assigning them to separate institutions (World Bank 1994: 10–16, 73, 76, 99, 162–63). A basic redistributive pillar should guarantee social solidarity and poverty alleviation; individual pension accounts in the second and third pillars should ensure sufficient savings; and all three pillars together would provide insurance (World Bank 1994: 233–54). Thus, the WB message did not propound conversion to a new goal, but a more effective and efficient pursuit of already established goals. Deemphasizing social solidarity was merely an implicit subtext (e.g., World Bank 1994: 82).

In sum, the central thrust of the IFI message was pragmatic. It presented pension privatization as a new solution to longstanding problems that were inherent in PAYG systems. The very title of the WB primer, *Averting the Old Age Crisis*, highlights this instrumental effort to combat threats to existing goals. In the WB's technical analysis, PAYG systems were financial and actuarial time bombs. They granted generous entitlements that future generations eventually could not pay, due to the inherent maturation of the pension system and to increasing life expectancy and falling birth rates. This demographic transition increased the proportion of pensioners and diminished the percentage of active workers in the population. Sooner or later, there would not be enough current workers to fund the increasing number of pensioners. Therefore, PAYG systems would inevitably become unsustainable (World Bank 1994: ch. 4).

By the 1980s, experience seemed to provide some corroboration of this gloomy analysis. A number of Latin American social security systems, especially in Argentina and Uruguay, where the demographic transition had advanced the farthest, were already suffering from severe financial problems. Other countries with a younger population were facing less dire straits; but in the World Bank's eyes, they were well-advised to transform their pension system soon in order to limit the accumulation of pension entitlements, which would make the unavoidable reform more costly later on.

In sum, the WB's advocacy of structural pension reform rested first and foremost on pragmatic considerations. The Bank stressed threats that existing social security systems posed to long-established goals derived from the inherent core interests of the state, especially fiscal equilibrium. It was this instrumental, technical argument—not normative subtexts about individual responsibility—that had the greatest impact on pension specialists, policymakers, and the broader public (Weyland 2005a, 2005b).

The WB's second main selling point of structural pension reform had a more novel character. Based on Chile's experience in the 1980s, when social security privatization was followed by a significant increase in national savings and investment, reform advocates postulated a causal connection between these phenomena. This argument, advanced quite cautiously by the World Bank (World Bank 1994: 92–93, 126, 202, 209, 307–10), but embraced with much greater confidence by Latin American reformers (Weyland 2005a, 2005b), was important in giving pension privatization a broader economic rationale as a crucial stimulus to national development and in thus widening the circle of governmental decisionmakers that had a direct interest in this change. Consequently, ministries of economy and finance, the most powerful governmental institutions, often led the charge for pension privatization. The hope that social security reform would boost savings, investment, and growth indeed contributed significantly to the adoption of this change by many Latin American governments (Madrid 2003: 31–36; Brooks 2002).

But this argument embodied a new technical claim, not a novel norm. It did not frame radical social security reform in terms of legitimacy or modernity, but in terms of economic benefit. The savings and investment argument linked social security reform to an existing goal that had long commanded broad public support, namely socioeconomic development. It did not introduce a new goal, but depicted pension privatization as a new instrument for accomplishing this old goal.

In sum, the WB's promotion of structural pension reform did contain a normative subtext, the ethic of individual responsibility, which inspired the narrow circle of ideologically committed privatization advocates. But the Bank's official core message, which had much broader appeal and greater political weight, linked a Chilean-style reform to previously identified goals that governments had pursued for decades. These pragmatic arguments about economic benefits were decisive for allowing the true neoliberals to win the necessary political backing for designing and approving social security privatization. Thus, pension reform arose primarily from conventional ends-means considerations, not from a normative shift: it promised new solutions for old goals. Contrary to constructivist hypotheses, the IFIs' main arguments had an instrumental, not normative character.

Interestingly, considerations of international prestige did not shape the diffusion of structural pension reform either. Some constructivists claim that developing countries look up to the First World and for symbolic and legitimacy reasons take their inspiration primarily from advanced, modern nations (see, e.g., Bergesen 1980). But instead of learning from North America or Europe, for instance by importing the novel notional defined-contribution (NDC) scheme,[9] Latin American governments eagerly emulated the private pension system enacted by another underdeveloped country; even Argentina, which traditionally saw itself as superior to Chile, took this step. This diffusion among equals diverges clearly from constructivist predictions that innovations spread downward in the hierarchy of global prestige (as the Bismarckian social security system indeed did; see Orenstein 2003: 183–85). As the current US government tries to enact changes inspired partly by Chilean pension privatization, it has become obvious that international status does not shape the diffusion of innovations.

CONCRETE PROBLEMS AS TRIGGERS OF PENSION REFORM

Latin American policymakers also diverged from sociological-institutionalist arguments by applying conventional principles of goal orientation in deciding on pension privatization. They saw the Chilean model as a promising means to resolve clearly visible, previously identified problems. They adopted this new solution to pursue long-standing, firm interests. This instrumental posture diverges from theoretical arguments that stress the role of new norms in reshaping actor interests. In this view, the appearance of a new solution that embodies or symbolizes a novel, modern principle or value raises standards of legitimacy and attracts support; once embraced, this novel solution then triggers the search for a problem that could justify its adoption (Meyer and Rowan 1977; March and Olsen 1976; Kingdon 1984). Sociological-institutionalist theories thus invert the conventional order of goal orientation. Applied to social security, they argue that the desire to prove a country's modernity and legitimacy prompted the emulation of the novel Chilean model, which was rationalized through the identification of deficiencies in pre-existing PAYG schemes. After decisionmakers became committed to privatization, they searched for problems to legitimate the adoption of this reform and therefore came to diagnose difficulties in the long-established system of social protection.

My field research shows, however, that most policymakers proceeded in the sequence corresponding to conventional goal orientation. Public officials who turned into leaders of pension reform teams had for years sought to resolve worsening financial and actuarial difficulties that were plaguing established public pension systems. These problems had been diagnosed by a wide range of observers, even by scholars who were distant from neoliberalism. For instance, the foremost academic expert on Latin American pension systems, Carmelo Mesa-Lago, gave his 1989 book, which analyzed six country cases in the region, the dramatic title *Ascent to Bankruptcy.* Some countries, where population aging had advanced the farthest and where pension entitlements had therefore risen substantially, faced acute fiscal crises. Argentina, for instance, had to declare pension emergencies in the 1980s because the state lacked the cash to pay social security benefits, which claimed 30.5 percent of current government spending in 1989 (MTSS. SSS 1991/92; Alonso 2000: 93–98). And in Uruguay, state pension spending claimed a clearly unsustainable 14.34 percent of GDP in 1994 (Filgueira and Moraes 1999: 14).

At the opposite extreme, fiscal problems were much less severe in countries with a younger population and a less mature social security system. El Salvador, for instance, had created a consolidated public pension system only in 1969, and the demographic transition had not advanced far in the country. As a result, the country was not facing acute financial stress in the early 1990s. But trends were worrisome, as experts of various ideological persuasion agreed (Mesa-Lago, Córdova Macías, and López 1994: 34, 59–62; Ramírez 1994: 95–99; Synthesis 2000: 1–3). The economic crisis of the 1980s, which twelve years of civil war had exacerbated in El Salvador, shrank the formal sector of the economy and pushed many workers into the informal sector, where payment of social security contributions is low. This change in occupational structure limited the number of active contributors per retiree. Actuarial simulations showed that the financial situation of the pay-as-you-go system would deteriorate greatly in future decades. Thus, disequilibria were fast approaching.

Many other Latin American countries that lay in between these extremes, such as Bolivia, Brazil, Costa Rica, and Peru, were already suffering from significant though not overwhelming financial problems. Social security systems were older and had accumulated a large stock of pension entitlements. The demographic transition had advanced further, especially in Costa Rica, or was proceeding at an accelerated pace, as in Brazil. The “lost decade” of the 1980s, characterized by debt crisis and economic austerity, had changed the occupational structure and limited or reduced affiliation with the social security system; as a result, the ratio of active contributors per retiree had deteriorated significantly. Therefore, Bolivia’s pension system by the late 1980s needed special subsidies from the government budget to remain liquid, and Peru’s social security institute was close to financial and administrative collapse at that time.

Despite looming problems, Brazil and Costa Rica faced less dire straits, though for opposite reasons. In Brazil, accelerating price increases allowed the government to limit the real value of pension benefits surreptitiously by adjusting nominal benefits below the rate of inflation. This corrosion of governmental outlays maintained precarious financial equilibrium in the general social security system until the mid-1990s, when—

ironically—the government's success in ending hyperinflation eliminated this subterfuge and caused a growing imbalance in the pension system (Bacha 1998: 13–14, 53, 56; MPAS 1995: 31). In Costa Rica, by contrast, early, gradual, and externally cushioned adjustment to the crisis of the 1980s had limited the deterioration of the occupational structure (Mesa-Lago et al. 2000: 493–99; Clark 2001: ch. 3), and the country's very good healthcare system gave people a strong incentive to maintain their affiliation with the social security system. Thus, although actuarial projections forecast financial disequilibria for the future, Costa Rica's general social security system was not suffering from acute problems in the early 1990s.

In all of those countries, however, occupational categories with particularly high bargaining power, especially civil servants, had successfully pushed for special pension regimes that offered very generous benefits financed by subsidies from the public treasury and that therefore put a significant, increasing drain on state budgets (Mesa-Lago 1978). Bolivia, for instance, had twenty-two such "complementary funds;" many were actuarially unsound, and some suffered from large deficits (Mercado 1991: 16–21, 27). In Costa Rica, the special schemes for school teachers and for civil servants experienced severe disequilibria by the late 1980s (Programa Reforma Integral de Pensiones 1998: 3–22). In Peru, the rule that civil servants' pensions were increased with every readjustment of public sector salaries imposed enormous costs on the treasury (IPE 1997: 78–98; Roggero 1993: 27–29). In El Salvador, the social security institute for civil servants was in much more dire financial straights than the scheme for private sector workers (Mesa-Lago et al. 1994: 59–61). And in Brazil, the special regimes for civil servants at the federal, state, and municipal level, which conceded unprecedented privileges such as an additional salary and pension increase at the time of retirement, spent on their three million retirees almost as much as the general social security regime paid its 18 million beneficiaries (Oliveira, Beltrão, and Ferreira 1998: 363–64). Since civil servants paid only low contributions, this regime confronted severe actuarial and financial disequilibria (Schwarzer 2003: 178; World Bank 2003a: 599).

In sum, special pension regimes for strategically placed occupational groups caused significant, sometimes enormous, deficits and thus exacerbated the financial problems in the social security system greatly. To attain or preserve economic stability, governments therefore faced an urgent need to restore actuarial equilibrium. In addition to being financial time bombs, these special regimes also brought substantial regressive redistribution. Through tax payments, broad segments of the population, including poorer sectors, helped to fund the disproportionately generous retirement benefits of middle class groupings. For fiscal and equity reasons, the need to reform these privileged schemes therefore seemed especially urgent.

In conclusion, Latin American social security systems were suffering from real problems that had been diagnosed for years. Specialists of various stripes agreed on the need for change and were interested in finding solutions. These problems made economic specialists in governmental positions, especially in finance and economy ministries, receptive to the Chilean model of pension privatization (Weyland 2005a, 2005b). Thus, Latin American governments initiated structural social security reform in a conventionally goal-oriented fashion: after identifying a clear, important problem, they pursued what appeared to be a promising solution. They did not invert this order, as sociological institutionalists claim: they did not embrace an attractive, novel, modern scheme and then search for a difficulty that could rationalize its adoption. Instead, the broad outlines of means-ends rationality prevailed.

But the problems afflicting Latin American pension systems did not determine the solution that policymakers adopted. Financial and actuarial disequilibria did not require and necessitate social security privatization. In fact, Chilean-style reform was bound to aggravate the medium-term drain on public budgets through its huge fiscal transition cost, which had to be paid for decades. For many years to come, parametric reforms and the elimination of privileges would bring much greater financial relief than pension privatization. Thus, the emulation of the Chilean model was not the logical solution to the difficulties that triggered reform efforts. These problems did not in any direct, functionalist way bring forth this recipe for change.

The wave of radical reforms was not purely demand driven. While real problems triggered this change, they cannot fully account for its shape and nature. Instead, a supply-side factor, namely the availability of the Chilean privatization model, played a decisive role as well. Information about this innovation made a crucial independent contribution to the decision of so many Latin American governments to adopt structural social security reform. If this blueprint had not appeared on decisionmakers' radar screens, they would most likely have continued to tinker with the existing pension system. It was the availability of the Chilean model that made policymakers go beyond incremental, piecemeal reforms and embark instead on a systemic transformation.

Thus, the wave of pension reforms in Latin America was decisively inspired by learning from the Chilean model (for in-depth discussions, see Weyland 2005a, 2005b). Reforms are not the direct product of domestic problems and the sociopolitical interests that respond to these difficulties, as conventional political economy frameworks assume. Instead, external ideas, models and experiences often make a crucial contribution as well, as diffusion approaches claim (see Orenstein 2003: 173).

CONCLUSION

As this paper shows, two approaches that are often invoked to explain the diffusion of innovations across countries and that emphasize external pressures and normative appeals, respectively, cannot account for the wave-like spread of pension privatization in Latin America. The impressive power resources of the IFIs did not serve as the main causal mechanism that made governments emulate the Chilean model of structural social security reform. The IFIs did not initiate this wave of change, but only supported it once it was already underway. They helped governments who embraced privatization to carry through this project, as in Bolivia and El Salvador, but did not manage to impose their will on administrations that were reluctant to take this step, as in Costa Rica and Brazil. In sum, these seemingly powerful institutions made some contribution to the spread of pension privatization, but this process was clearly not the result of vertical imposition.

The diffusion of the Chilean model did not result from the normative appeal of novel ideas and principles either. While the ethic of individual responsibility inspired some strongly committed neoliberals among pension reformers, it never achieved public hegemony and did not guarantee the privatization project the necessary broader support. Instead, traditional norms of social solidarity and state protection continued to hold considerable sway in the social security arena and blocked the advance of individualistic norms. In fact, these old ideas were so firmly entrenched that leading privatization advocates, including the World Bank, depicted their novel ideas as a mere effort to pursue established goals more transparently and efficiently. Instead of preaching new norms, they advanced mostly instrumental, pragmatic arguments and claimed that pension privatization would augment individual and collective economic benefits.

In sum, the wave of drastic social security reform did not result from vertical imposition. Domestic decisionmakers retained considerable autonomy; they chose to enact pension privatization, inspired by horizontal learning from the Chilean model. And their main motivation was not the quest for legitimacy and modernity, but the pursuit of clear, long-established interests that seemed to face new challenges from acute financial problems or looming actuarial deficits in existing social security systems. Decisionmakers thus acted in a conventionally goal-oriented, instrumentally rational fashion.

In conclusion, national sovereignty seems to be quite alive and surprisingly well in the age of globalization, at least as far as social sector reforms are concerned. As other authors have argued as well (see especially Nelson 1996, 1999; Kahler 1992; Hunter and Brown 2000; Brooks 2004; Vreeland 2003), the IFIs cannot impose their will on weak, seemingly defenseless developing countries; in particular, they cannot coerce Third World governments to adopt complex institutional changes. Instead, even poor, aid-dependent nations retain considerable latitude in their domestic policymaking.

ENDNOTES

[1] This book project analyzes the spread of innovations in Latin American pension and healthcare policy. In addition to the two theoretical approaches to explaining policy diffusion that the present paper examines, the broader study investigates whether decisions to emulate foreign models and principles approximate the standards of comprehensive rationality or are closer to the empirical patterns of bounded rationality. For a summary of the broader project, see Weyland (2005b); for an in-depth case study, see Weyland (2005a).
[2] Interviews with numerous Latin American policymakers show that the IDB pushed pension privatization and other neoliberal reforms with less determination and force and exerted less pressure than the World Bank.
[3] Obviously, however, the IFIs did not press countries that a priori rejected pension privatization, such as communist Cuba. Thus, the relationship of IFI pressure and predisposition toward radical pension reform is curvilinear.
[4] Confidential author interviews with three leading pension specialists, Brasília, June 1995 and June 1999.
[5] This project was never published, but was similar to Giambiagi, Oliveira, and Beltrão (1996), Oliveira, Beltrão, and Marsillac (1996), and Oliveira, Beltrão, and Marsillac Pasinato (1999); see also Galuppo (1998), Drummond (1998), and Oliveira (2001).
[6] In the terminology of Stallings (1992: 55–58), this line of reasoning stresses external "leverage."
[7] Interestingly, President Sánchez de Lozada's political choice faced strong opposition not only from the IFIs, but from domestic experts as well, triggering the resignation of one of the longest-standing reform team members, Alberto Bonadona (interviews with Bonadona 2002 and Peña Rueda 2002).
[8] This stigma never disappeared completely, however. For instance, in 1996 El Salvador's pension reform team flew twelve influential Assembly deputies to Chile to impress on them the advantages of pension privatization. But one FMLN deputy is said to have commented that despite all the apparent benefits, she could never approve a Chilean-style reform because pension privatization had been constructed on the blood of so many human rights victims (interviews with Solórzano 2004 and Ramírez 2004).
[9] The NDC system is a hybrid of the old PAYG system and a privatized pension scheme. It credits affiliates' social security contributions to individual retirement accounts, remunerates them with a government-determined interest rate, and makes pension benefits dependent on the accumulated values. But rather than capitalizing an affiliate's contributions and using them for paying that individual's later pension benefits, it uses these social security contributions to pay current pensioners' benefits, thus maintaining the intergenerational contract that underlies the PAYG system. See Cichon (1999).

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