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**MODELS OF PENSION SCHEMES PROMOTED
BY INTERNATIONAL ORGANIZATIONS**

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Analyses of pension schemes and recommendations for their reform have been on the top of the agenda of international organizations in recent years. Although pension policy is an integral part of the social policy mandate of the International Labor Office (ILO), and the International Social Security Association (ISSA), one can notice the recent involvement of the World Bank and International Monetary Fund (IMF). The Organization for Economic Cooperation and Development (OECD) traditionally is concerned about the social policy in its member states, but comprehensive and fundamental statements on pension reform are new department. The European Union on the other hand leaves the social policy in the competence of its member states.

Whereas the OECD encourages exchange of ideas and programs among the member states, the World Bank focuses on programs of concern to developing countries. The World Bank report "Averting the old age crises: Policies to protect the old and promote growth", presented at the annual World Bank meeting in Madrid 1994, made the organization's worldwide involvement in the issue of old-age provision into a much-discussed and sometimes controversial subject.^[1] The report favors a three-pillar model of old-age provision. According to this model, the functions of income protection and income redistribution should be separated in both administration and financing. Income distribution should be taken over by the public system financed taxes or contributions, while old age saving should be done under the second pillar, which should be fully funded and privately managed. The third pillar should allow anyone who wants further protection to accumulate capital privately to provide for their old age.

The OECD approach is different from other international organizations since it is a research body which analyses economic issues and formulates policy recommendations, but does not give credits or finance projects, as the World Bank does. The OECD does not have to specify all the details of a reform project and negotiate them with the borrower because "it does not enter into any financial risk."^[2] In early 1998, the OECD published its study "Maintaining prosperity in an ageing society" in which the organization stresses the need to contain the expenditure of statutory social security systems. According to OECD's calculations, the balance of financing statutory pensions in most member states will go into a sustained deficit in about ten years' time. Thus, a legal framework within which alternative provision options can operate must be established. Here OECD's

recommendations coincide with those of the World Bank, advocating a second pillar of fully funded old age savings.

The vision of the European Commission on social matters is not clear cut. The European Union so far has focused only on building the European common market leaving the social dimension out of its competence. However, EU has given strong financial support to the pension reform in many CEE, SEE and "wider Europe" countries through programs like PHARE or TACIS. The Union also remained to be the only international actor that did not back up any concrete model of pension scheme but continued practicing the "open model of coordination"^[3] in social policy. This led to conflicting interests and persuasions which prevented the European Union to bring strong presence into the CEE and SEE countries leaving the ground free for other influences, mainly those coming from the World Bank and IMF.

The Council of Europe has always been a supporter of human and social rights as well as social integration. The efforts put in the adoption of the Social Charter did not have a strong impact on the member states but merely had a symbolic importance for the development of social policy in Europe. It is interesting to see that the Council of Europe also plays a significant role in diffusing the values and proposals shared by the International Labor Organization in those countries where the ILO does not have permanent representation.

The International Labor Organization has been rather skeptical about the proposals coming from the World Bank and OECD. The World Bank and the OECD are interested in supporting the reforms of pension systems, because pension funds are the only domestic sources of capital available for long- term investment, whereas ILO is opposed to this use of social security systems as a tool of capital market development. Also ILO is strongly involved in the taxation as one of the social policy aspects through which benefits are financed. They object to direct and indirect taxation imposed upon the poor who cannot access to the benefits later. International Labor Organization (ILO) and International Social Security Association (ISSA) in the past have set their sights on considerable higher provisions than the World Bank.

General observation in all analyses of the pension reforms undertaken in Central and South Eastern European countries is that the World Bank and its model of three pillar pension system has been embraced in almost all countries in the region with exception of Slovenia, Romania and the Czech Republic[4]. Analysts argue that this development is a result of the comprehensive approach of the Bank, promoting a concrete pension model, supported by favorable loans, which can decrease the public debt of the countries-clients of the Bank.

The role of the World Bank in pension reform in transition democracies

If we accept marketization and privatization as the central objectives of the international institutions, the reform measures in the area of pension policy, promoted by the World Bank in the beginning of the 90's, appeared to mirror the effects and the efforts of the conservative governments of the West. The headquarters of many international institutions, based in the USA, were unlikely to remain immune from the local political climate. We can only speculate that a broad epistemic community may have been at work in Washington DC that encompassed the international financial institutions, think-tanks and the US Government. Biersteker (1995:186, quoted in Richard Common's "Public management and policy transfer in Southeast Asia", 2001) remarked that 'there was a pronounced interest in the willingness, especially on the part of the US Government to use the Fund and the Bank to force changes in developing country's economic policy.' As Held and McGrew (1993:272) argue 'these organizations are at the centre of a continual conflict over the control and direction of global policy' and have acquired 'entrenched authority' over the years. In particular, World Bank loan conditions, which involve changing the pension policies and have further impacts on the developing country's economy are 'designed to ensure execution of a *contract*' and are reminiscent of public choice theory (Mosley 1991:65). The top direction of the Bank is explicitly committed in the "Washington consensus":

The 'Washington Consensus' on economic policy was founded in 1980s by US economic officials, the IMF, and the World Bank. It emphasized liberalized trade, macroeconomic stability and getting prices right. Once the government got out of the way, private markets would produce growth....(Stiglitz 1997/1998)

Furthermore, the international organizations are not consistent in their approach to reform the pension system. For instance, Friedman (1995:80) argues that “the World Bank shifts from all-out privatization promoted and pushed in Latin America, to a serious support for both public and fully funded pillars of the pension system for the transition democracies in Central and South Eastern Europe”. Haas attempts to explain these shifts in the basic philosophy of the World Bank by changes in consensual knowledge, common interests and the existence of ‘stable coalitions’ of power in the donor countries in the CEE and SEE. But the new vice president of the bank, Professor Stiglitz, has defined this shift as the replacement of the ‘Washington consensus’ by the ‘post-Washington consensus’:

The post- Washington consensusmust be owned by the developing countries...it can not be based in Washington.... [The new consensus means that] we also have broader goals: ensuring that development is environmentally sustainable, equitable, and democratic...(also Stiglitz 1997). In the ‘post Washington consensus’ many salutary elements may be identified as, for instance, an increased openness to more perspective policy -making; the will to bring the state closer to the people, to strengthen the voice function of the NGO sector; more emphasis on environmentally- friendly growth; more emphasis on the state’s role in investing in the future via education, technological innovation and heightened awareness about poverty relief. These efforts of the Bank are certainly welcomed.

In regard to pension policy, the post-Washington consensus did not change the former convictions of the Bank. The underlying philosophy of marketization and privatization has remained the same. The role of the World Bank in the process of pension reform in the transition democracies in Central and South Eastern Europe is that of an agent who diffuses policy ideas. The policy idea being the three pillar pension system, designed for the pension reform in Latin America in the 80’s, is used by the Bank to serve the above mentioned philosophy of marketization and privatization in CEE and SEE countries. Through its involvement in this policy area, the World Bank is ensuring that the funds from the individual accounts of the contributors can be invested and thus the capital market will be strengthened in the countries that are clients of the Bank.

In the course of the pension reform the World Bank is using its own funds in the form of loans and credits given to the clients, but it is also managing foreign assistance to the pension reform in these countries. Trust funds coming from the European Union and individual governments are usually administered by the World Bank due to the comprehensive approach which the Bank has in the process of reforming pension systems by promoting a concrete model (the three pillar pension scheme) supported with the needed

financial assistance for designing, introducing and implementing the model. In accordance with the 'Washington consensus', the US agency for investment and development (USAID) in coordination with other implementing partners is also involved in the process of reforming pension systems. The role of USAID is to keep pension reform experts and staff constantly deployed in the countries where the Bank is assisting the reform process, giving technical assistance to the Governments to implement the three pillar pension system.^[5] USAID supplies the Bank's mission teams (pre-assessment, assessment, evaluation missions) with requested data and sets up projects for developing the capital markets of the aid receiving countries through the process of pension reform. Thus if the Council of Europe has a role in diffusing the values and proposals shared by the International Labor Office, than USAID has a role in diffusing the three pillar pension system promoted by the World Bank in the countries of Central and South Eastern Europe.

[1] World Bank, "Averting the old age crisis", Policy research report, 1994

[2] Monika Queisser, "Pension reform and international organizations: from conflict to convergence", International Social Security Review, Vol.53 2/2000, p.41

[3] Member countries prepare and share with one another material on status, reform concept, and progress in selected policy areas, including pensions and exporting best practices to accession countries

[4] Slovenia and the Czech Republic did not have big public debt and didn't need foreign financial assistance to balance their public expenditures. Additionally, in these countries the announcement of the reforms in the pension system that will introduce the private pension scheme received great opposition from the trade unions. All these pulled back the reforms of the pension system. However, nowadays Slovenia and the Czech Republic are considering the adoption of the notional defined pension scheme that recently has been implemented in Sweden and is promoted as a 'best practice' model by OECD.

[5] Interview with Mitchell Wiener, Macedonia financial sector strengthening project, USAID office in Skopje