

Raúl L. Madrid

Retiring the State: The Politics of Pension Privatization in Latin America and Beyond.

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In the current debate about the determinants of market-oriented reform in the area of social security, the book of Raúl L. Madrid, *Retiring the State: The Politics of Pension Privatization in Latin America and Beyond*, is a welcome addition to recent literature on the welfare state in middle-income countries. To explore the politics of reform over a range of cases, Madrid focuses specifically on pension privatization. He begins by observing that in the last fifteen years, governments in Latin America and Eastern Europe have increasingly embraced the market, adopting “sweeping market-oriented reforms” in the area of social security. Despite protests from workers and pensioners, a number of nations have reduced or eliminated their existing public pension systems and replaced them with privately managed systems based on individual retirement accounts. Other countries have either proposed major privatization schemes in the past or are planning to do so in the near future. While several individual case studies have recently explored the causes of this recent wave of market-oriented reforms, Madrid asserts that few have developed a theory of the determinants of policy reform. In addition, he argues that many hypotheses generated in the existing literature are questionable because they tend to treat the causes of different types of reform as the result of a “single policy rather than a possible ensemble of different and, at times, contradictory policies” (p.2). Finally, claims in relation to the pre-eminent causal role of economic crises to explain market-oriented reform in developing countries remains doubtful according to Madrid given that many of these claims have not yet been subject to rigorous quantitative tests.

Madrid seeks to avoid the theoretical and methodological shortcomings of previous works, to explain why pension privatization became so widespread during the 1990s in middle-income countries, and why some nations have embraced this new policy model while others have not. To answer these questions and to unravel the determinants of pension privatization, Madrid relies on extensive field research on pension reform in Mexico, Argentina and Brazil. The rationale for the selection of these countries is that each case differs in term of reforms initially proposed and in the degree of success that policymakers have had in getting these reforms enacted. “Whereas Mexico has fully privatized its social security system, Argentina has adopted a mixed public/private system, and Brazil has yet to implement any significant social security reform whatsoever” (p.22). From these three cases, hypotheses are generated and then refined through a broad qualitative survey of other pension reform efforts in Latin America and Eastern Europe. Finally, Madrid tests these hypotheses with statistical analyses of a sample of middle-income and upper-income countries.

The book is guided by a central argument based on three claims. It is the combination of economic pressures, ideational mechanisms, and political factors that explain why some countries have replaced their public pension system with privately managed pension system. First, Madrid argues that economic factors rather than social policy considerations have placed pension reform on the policy agenda in many countries. Pension reform was seen as a means to achieve certain

macroeconomic goals like boosting domestic saving rates and reducing the long-term economic burden of public pension expenditure. Qualitative and quantitative evidence supports the claim that countries concerned with their low saving rates and facing large increases in public pension spending were more likely to opt for privatization than other countries. He concludes that "...countries with low saving rates tend to adopt more sweeping pension privatization schemes and that countries with high public pension expenditures often opt for parametric reforms of their public pension systems" (p.200).

Madrid then suggests that economic considerations alone cannot explain pension reform choices or the decision to reform. He makes the case that ideational factors operate as channels through which ideas about the macroeconomic and social benefits of pension privatization spread. He emphasizes three factors that encourage privatization -- regional diffusion of the Chilean model, the growing influence of the World Bank, and the ascent of neoliberal economists to top social security policy-making positions (p.59). Madrid exposes clearly in his case studies of Mexico and Argentina the role of these three factors for the diffusion of ideas about pension privatization. Still, in both cases, he shows that the predominance of liberal economists in key positions was probably the most determinant factor.

Finally, whereas economic and ideational factors have shaped the pension reform choices of policymakers, Madrid proposes that political factors determine whether and how these choices have been applied. He argues that policy outputs are closely associated with the executive's degree of control of the legislature and party discipline. "Executives whose parties have enjoyed a majority or a near-majority in the legislature have typically managed to enact pension privatization schemes, whereas executives whose parties are small or undisciplined have usually encountered serious obstacles to pension reform" (p.5). The statistical analyses support the relation between a high degree of control of the legislature and the likelihood of pension privatization. Madrid highlights also the importance of other political factors such as the strength of affected interest groups, the regime type and the constitutional rules governing social security. While they help to shape the details of pension privatization legislation, they do not play a decisive role in determining whether pension privatization schemes are enacted.

The strength of the argument developed by Madrid resides in its integrative approach for understanding pension reform. The combination of "economic pressures, ideational variables, and political factors has shaped pension reform efforts in recent years, but each type of variable has mattered more at a different stage of the reform process" (p.5). While economic pressures have put pension reform on the policy agenda, ideational factors have influenced the views of policymakers, and political variables have helped determine whether each government's reform proposal has been enacted or not.

In sum, Raúl L. Madrid has written a theoretically and methodologically accessible book that fills a number of gaps in our understanding of the determinants of pension privatization in middle-income countries. *Retiring the State: The politics of Pension Privatization in Latin America and Beyond* is a well-written book and should prove valuable in courses on political sociology, the politics of economic reform and comparative politics in Latin America more generally.

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