INNOVATIVE OLD-AGE SECURITY MODELS FOR DEVELOPING NATIONS: Chile and Brazil

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ABSTRACT: Despite the similar origins of their public pension programs, by the 1980s Chile and Brazil emerged with very different old-age security schemes. This paper presents a comparative analysis of these two models with a focus on developments during the past twenty-five years. Brazil has emerged as a model of how in a developing nation old-age security programs can be extended to include most of the rural population and many urban workers in the informal sector. Chile has emerged as a model of a fully capitalized pension scheme with substantial private sector control over pension assets. The Brazilian scheme has done more than the Chilean system to reduce income inequality, but the Chilean system has done a better job than the Brazilian system for some categories of workers, particularly more affluent workers. It also has had a more positive impact on the economy.

Both Chile and Brazil introduced their first public pension programs quite early relative to other developing countries and at about the same time—Brazil in 1923 and Chile in 1924. In both nations protection was at first limited to a few categories of workers that were crucial to the nations' export-oriented economies. Over the next five decades coverage was gradually extended to other categories. In both countries social security protection began as a privilege granted to particular occupational categories and by the 1970s had became a right inherent to citizenship (Abranches 1982; Santos 1985).

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In Brazil corporatist social control goals were an important motivation behind the introduction of early policies and in the extension of coverage to certain categories of workers. Pension schemes were used by the state to co-opt and control labor (Malloy 1979; Santos 1979). In Chile co-optation and controlled inclusion were likewise important, but so too was pressure from organized labor. In both cases periods when the state and its bureaucracy played the dominant role alternated with periods during which pressure groups representing labor were able to exert their influence and shape policy (Mesa-Lago 1978; Abranches 1982).

The Brazilian and Chilean pension schemes started out as social insurance schemes organized along the lines of the Bismarckian model. Contributions were tripartite (the insured, employers, and the state). Their institution and organization was by professional group defined under law and benefits were differentiated according to professional group. Eligibility and benefit amounts were linked to contributions and funding was based on a capitalized system (Mesa-Lago 1991, pp. 356-357). By the late 1950s and early 1960s these systems had become rigid, stratified, highly differentiated, and unequal. They were also showing signs of actuarial, financial, and administrative crisis. During the 1960s and 1970s, both nations made efforts to include new sectors, to standardize legislation, and to unify administration of the social insurance system. Over time both systems evolved into pay-as-you-go schemes.

By the end of this period both countries had effectively included the entire formal sector of their urban economies and public employees within their social security systems. In the Brazilian case most rural workers had also been included, contrary to policy in most Third World nations with large rural populations (Williamson and Pampel 1993, p. 117). The proportion of the population covered by the Brazilian social security system (approximately 96 percent in 1980) is the highest in Latin America and among the highest among the developing nations of the world (Mesa-Lago 1989, p. 10).

Despite their similar origins and similar evolution up through the late 1960s, Chile and Brazil emerged from the 1970s and 1980s with very different approaches to the provision of old-age security. Today Chile and Brazil represent two distinct polar models for the provision of social security. The Brazilian model is statist and universalistic while the Chilean model represents a more circumscribed privatized alternative covering primarily the middle class and employed workers, particularly those in the organized sector of the economy. While each of these models has its limitations each also has its strengths which deserve careful consideration by policy makers in other developing nations and in various international organizations that advise governments with respect to social security policy (McGreevey 1990). In recent years much attention has been given to the Chilean model which since its inception in 1981 has made a dramatic and unprecedented break with the social insurance model. This break was all the more dramatic because social insurance based institutions had been in place for more than 50 years and because Chile for decades had been a leader in the developing world with respect to public pension policy development. The current Brazilian model, on the other hand, represents an evolution towards the types of schemes that have been adopted in the industrial nations. It has become a model of how those policies can be adapted to many of the social and economic realities of the developing world.
In this article we use the comparative case method. Our emphasis on the differing political and economic assumptions and consequences of the Chilean and Brazilian models reflects a political economy theoretical orientation. Esping-Andersen (1990) describes three welfare-state regime types that have informed the political and economic analysis presented in this paper. His typology was designed to classify the welfare-states of the advanced industrial nations. While the Brazilian and Chilean cases do not exactly fit his welfare-state regime types, they do come close. The current Chilean old-age security scheme reflects many of the assumptions of what Esping-Andersen describes as the liberal model. The current Brazilian scheme, on the other hand, reflects many of the assumptions of his social democratic model. In addition during their early years both the Chilean and the Brazilian schemes reflected many of the characteristics of what Esping-Andersen describes as a conservative or corporatist model. In both cases vestiges of this corporatist past remain. While we present some comparative historical analysis, our emphasis is on the assumptions and consequences of these two very different old-age security policy models as they presently exist. We do not attempt a full explanation as to why such different policy models have emerged in these nations despite such similar early histories with respect to old-age security policy.1

We turn first to an assessment of old-age security policy developments in Brazil with an emphasis on the past quarter century. This is followed with a similar assessment of developments in Chile. We conclude with a comparative analysis of the future prospects for each scheme and an assessment of the potential utility of each as policy models for other developing nations.

OLD-AGE SECURITY POLICY IN BRAZIL

Starting soon after the 1964 military coup and particularly during the 1970s Brazil made profound changes in its social security system, changes aimed at administrative and financial centralization. The first step came in 1967 when the country’s six retirement and pension institutes (created during the 1930s and organized by occupational category) were merged to form the National Social Insurance Institute (INPS). The Ministry of Social Insurance and Assistance (MPAS) was created in 1974. Three years later came the inauguration of the National System of Social Insurance and Assistance (SINPAS) managed by the new ministry. SINPAS comprised organizations with specialized functions such as pensions, health care, social assistance, and the separate institutions for civil servants and rural workers.

This move towards administrative reorganization reflected and accompanied a substantial increase in the number and kinds of social insurance benefits and medical assistance services provided, as new and important segments of the population were brought into the system (Malloy 1991, p. 32). These new members included rural workers (1971), household servants (1972), the self-employed (1973), the destitute elderly and disabled (1974), and rural employers (1975/1976) (NEPP-UNICAMP 1985).

The 1971 Rural Pension Program (Pro-Rural) was funded in part by a tax on wholesalers who purchased rural products and in part by a tax on urban employers (LeGrand 1989, p. 33; Weise 1970). This program represented the first break in over four decades of social security policy development in a contract conception of social rights (Santos 1979, p. 115; Santos 1985, p. 300). It also represented one of the first
attempts by a developing nation to extend pension coverage to virtually the entire rural population. The first of these changes made at the behest of Brazil’s authoritarian regime were reasonably successful efforts to counteract what had been the growing influence of organized labor on social insurance policy and to foster regime legitimacy (Keck 1989, p. 257). It also represented a reasonably successful response to the financial and administrative crisis of the early 1960s (Abranches 1982, p. 66). During the 1970s, the regime made changes meant to expand its base of support and to keep the process of political redemocratization under government control. The latter was especially of concern when the regime's main source of legitimacy—the amazing economic growth know as the Brazilian miracle—began to display signs of wear and tear and to show its other face: the "miracle" increased social inequality and for many it meant poverty (Abranches 1985).

In any case the changes during the 1970s brought the consolidation of the Brazilian social security system. The number of contributors increased as did access to benefits by an increasingly broad segment of the Brazilian population. During this period social security revenues and spending increased dramatically. Between 1970 and 1980 the number of pension recipients increased by 245 percent and by 1980 rural pensions represented 30 percent of the total (NEPP/UNICAMP 1986, p. 78; Barros Silva and Médici 1991). In 1970 9.4 percent of the population was contributing to the social insurance system and by 1980 this figure had increased to 20 percent (Barros Silva 1984; NEPP/UNICAMP 1986; Britto 1992). As one indication of this expansion in coverage, the ratio of pensions to the population age 60 and over increased from .19 in 1970, to .70 in 1980, and then to .76 in 1985 (LeGrand 1989, p. 35). This rapid expansion was made possible by the rapid expansion of the Brazilian economy, but it was also due in large part to the political goals of the government. This economic growth transformed Brazil into a primarily urban industrial nation.

The process of expansion was marked by troubles and distortions typical of state intervention in authoritarian Brazil such as the extension of rights irrespective of any solid financial base of support and non-accountability on the part of administrators. Also problematic was the frequent use of the system’s financial, human, and administrative resources for emergency, clientelistic, and electoral purposes (Abranches 1985). Corruption, fraud, and tax evasion were likewise facilitated by the system’s lack of transparency.

The economic growth of the 1970s, the inclusion of new contributors, and the creation of new social taxes to be paid by companies made it possible (so long as earnings grew) to expand benefits and services to workers (whether they were contributors or not) and to satisfy clientelistic interests. This expansion generally came in the form of low-value benefits and low-quality medical and assistance services, differentiated by worker segment: urban or rural, contributor or non-contributor, those paying in greater or lesser amounts.

The dawn of the 1980s was marked with two intimately interlinked processes: the persistent economic crisis and redemocratization. In the first half of that decade financial support of the social security system became a central problem for the government. Deficits were recurrent; the economic crisis pushed down revenues; the expansion of coverage (especially to rural workers) meant rising expenses; child mortality decreased,
life expectancy increased, and population growth was rapid (Camarano et al. 1991; Moreira and Carvalho 1992); and access to the system's medical and social assistance services was expanded irrespective of contributions.

In response to these problems the government adopted a strategy of trying to boost revenue by increasing contributions and holding down spending, thus placing the onus on contributors and beneficiaries, whose burden was made all the more difficult by the nation's chronic inflationary environment. What is worse, however, no efforts were made to change the funding mechanisms. They were not compatible with the funding needs of an ever broader and more universalistic social security system (Barros Silva and Médici 1991). As Brazil entered the 1980s, a period of economic and political crisis, the country's pension system encompassed a significant portion of the Brazilian population, but it lacked an efficient mechanism for guaranteeing adequate pension benefits. In addition the system's base of funding was precarious and fraught with internal privileges and inequities.

The struggle for redemocratization was also a struggle for social policy reforms. Thanks to the process of political opening (abertura), intellectuals, politicians in the opposition, unions, and professional associations could criticize the shortcoming of a model of economic development that excluded substantial sectors of society and concentrated wealth. Social policy played a central role in these criticisms. Criticism of the authoritarian regime's social policy and the call for social policy reforms and expansion became banners of the opposition forces. Economic growth and universalistic social policies were goals that most of those in the heterogeneous coalition that inaugurated the Nova República (1985-1990), Brazil's first civilian government in twenty-one years, could agree upon. Expectations were high that social policy reforms would provide mechanisms for redistributing wealth and fighting poverty.

The most important development during the period of the Nova República was the 1988 Constitution. It included a number of provisions relevant to pension policy. It is important to keep in mind that provisions included in the Constitution do not automatically lead to changes in policy. Provisions in the Constitution are supposed to inform specific laws that in turn directly impact policy. For example, one provision in the Constitution is that all ongoing pension benefits (old-age pensions, length of service pensions, disability pensions, and rural pensions) be maintained at least at the level of one monthly minimum wage (MW). However, such a provision does not become policy until and unless it is enacted into law. With respect to the pension system, the new Constitution mixed substantial progress vis-à-vis the legislation of the prior authoritarian regime, but it did continue many of the privileges and distortions from the past.

The advances had a substantial impact on rural workers and the destitute elderly, given the guarantee to pay all pensioners a minimum pension equivalent to one MW; prior to that the minimum had been roughly 50 percent of one MW. The provisions calling for a lowering of the eligibility age for rural workers (who do not make individual contributions to help finance the system) and guaranteeing the destitute elderly a minimum pension did lead to the inclusion of a substantial number of low-income and non-contributing people into the system who otherwise would not have been included.

Despite such redistributive provisions, the Constitution also maintained the length-of-service (LOS) retirement benefit without any minimum age requirement. It also
maintained the corporatist privileges enjoyed by teachers, who may retire after even fewer years of contribution, and are able to obtain pro rated LOS pensions without having met the normal years of service required for the LOS pension. Under the new Constitution in some cases it is possible to receive more than one pension.

The ill fated administration of Fernando Collor with its neoliberal orientation delayed the implementation of many of the provisions in the 1988 Constitution. His orientation was to do what he could to restrict the new Constitution's universalistic conception of social rights. The policies of his administration contributed to a crisis in the Brazilian public pension system, a crisis that had moral, managerial and financial aspects. Workers and retired persons called for compliance with the provisions of the Constitution and used the court system in an effort to force compliance.10

In 1991 laws were enacted putting into effect the new Constitutional provisions with respect to the pension system. As a result the rural and urban programs have been unified, the years of service required for eligibility for the old-age pension, the length-of-service pension, and the special pension will be increased by six months per year each year over a twenty year period starting in 1992. At the end of this period a minimum of 180 months of contributions will be required to become eligible for each of these pensions. The maximum earnings for purposes of both contributions and benefits will be 10 MWs (previously it had been 20), a provision making pension benefits more egalitarian. It also contained new provisions with respect to how much employers and employees must contribute to finance the system.

A strength of the Brazilian model is that it is one of the few developing nations with a universalistic social security system in place. A related problem with the model is that an effort is being made to finance this system based primarily on payroll taxes. This means that available revenues are very directly tied to the cyclical movement of the economy. There is also evidence that the policy is having some unintended negative effects in that it seems to be promoting a shift of jobs from the formal sector to the informal sector and a reduction in tax compliance. It has been estimated that as many as half of employed workers are not contributing to the pension system (Médici and Marques 1993).

Although the creation of a separate Social Security Budget in the 1988 Constitution was supposed to increase the system's fiscal base, in practice payroll taxes continue to fund the pension system, social assistance, and the health care system (Britto 1993, p. 8). The Brazilian public pension system displays both a social insurance dimension (with benefits tied to contributions) and a social assistance dimension (with benefits extended to large segments of the population independent of contribution). The dual nature of the system results in some interest groups pushing for new benefits without concern for how they will be paid for (Oliveira 1993).

A second major limitation of the Brazilian model is that a great deal of inequality remains in the pension system due in large part to its corporatist legacy. While almost the entire population is now covered, there are very large discrepancies in the generosity of pension benefits for different segments of society. Certain professional groups, such as teachers, receive LOS pension benefits after 25/30 years (as opposed to 30/35 years), a right that only corporatism can justify.11

However, despite these inequities the Brazilian pension system has less internal inequality than does society as a whole. While the Gini Index for Brazil is .64 that for
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the pension system is .32 (Konder et al. 1992). Although the average amount paid to Brazilian pensioners is low, the system does have a positive impact on standard of living for the elderly. It guarantees them a minimum income that is higher than that of the average for Brazilian worker. The income of most workers, particularly rural workers, increases upon retirement.

OLD-AGE SECURITY POLICY IN CHILE

The changes made in the Chilean public pension system in 1981 contrast sharply with the rest of the Latin American experience and in some respects the change represents a sharp reversal of what had been several decades of system expansion. In 1924 Chile inaugurated a social insurance scheme for blue-collar workers and a compulsory savings scheme for white-collar workers (Mesa-Lago 1978, p. 25). Rural workers were the last to be included between 1965 and 1970.13

Due to a decline in fertility rate and an increase in life expectancy, the 1960 to 1980 period saw a dramatic increase in the ratio of pensioners to contributing workers: from 9/100 to 45/100 (Pension System in Chile 1990, p. 4). This is one reason why this pay-as-you-go system was running into very serious financing trouble by 1980. Another contributing factor was the strong temptation to evade paying the full amount of compulsory contributions due. Because of these problems, during the 1970s the old scheme was paying pensioners the equivalent of only 20% of their final salary upon retirement, rather than the intended 70 percent (Simone 1983, p. 6).

The Chilean system was one of the most advanced in the region; public social security spending as a percent of GNP was substantially higher than the Latin American Average (Foxley et al. 1979) and in 1973 some 79 percent of the labor force enjoyed coverage (Mujica and Larrañaga 1992, p. 49). However, reflecting its corporatist origins the system was split into over 100 different pension programs; it was weak on coordination and strong on privileges. Owing to actuarial and financial difficulties, substantial supplementation from general government revenues was needed (Mujica and Larrañaga 1992, pp. 31-34).

Starting in 1973 the Chilean government began taking a series of steps to standardize and rationalize its pension system. After more than fifty years of experience with what had become one of the most well-developed social insurance systems in the Third World, in 1981 the decision was made to shift to a form of mandatory individual private insurance (U. S. Social Security Administration 1981).

The 1981 reform should be understood as a response to the public pension system's political, financial, and administrative troubles within the context of reorganizing and reforming the Chilean economy in the direction of privatization and economic liberalization. The ideological conceptions guiding the reform were: the state should pay a subsidizing role, government spending should be concentrated on the poor, and subsidies should be provided in the form of services or moneys rendered directly to beneficiaries. The authoritarianism of the Pinochet regime made it possible to enact a reform that was strongly opposed by Chilean workers and by many in the state bureaucracy.14 As a result Chile shifted to a variant of the provident fund approach to old-age security provision, inaugurating a fully capitalized scheme.
This new Chilean pension system is funded primarily by tax-exempt contributions made only by the employee to his or her own retirement fund. These moneys are managed by private pension fund administrators (AFPs), who charge a commission to cover administrative costs (Arnold 1982, p. 17). Coverage is mandatory for employees, but optional for the self-employed; it includes old-age (60/65), disability, and survivors pensions. Upon retirement workers choose between a periodic withdrawal plan or purchase of an annuity from a private insurance company (Castro-Gutiérrez 1989, p. 57). The pension benefits are indexed to the consumer price index. Contributors cannot withdraw money from their accounts until retirement, but they may qualify for early retirement, depending upon how much is in their account. Thus, what a worker can withdraw during retirement is a function of his or her contributions plus accrued interest. The only benefit funded by employers is insurance coverage for work accidents. The unemployed have the right to disability and survivors insurance and to unemployment insurance benefits for one year if they have made at least six contributions during the previous year (Gillion and Bonilla 1992, p 184).

From 1981 on the organization of the pension and health care systems have been quite similar as both were restructured in similar ways: the state plays a subsidiary role, benefits and services are focused on the poorest, contributors may exercise free choice, and service providers compete with each other. Both systems are funded by mandatory contributions and thus have direct repercussions on worker income. Employers and the self-employed must contribute 7 percent of their salaries to the National Health Fund (FONASA) to support state medical assistance. As of 1981 workers at the highest end of the income scale have had the option of withdrawing fully from the public system and making their 7 percent contributions to one of the many private health and social security institutions known as ISAPREs. Pensioners also contribute 7 percent; the AFP or insurance company deducts the amount from their pensions and pays it into the FONASA or IASPRE, at the pensioner’s discretion. Thus, mandatory contributions to Pension and Health-care Systems add up to approximately 20 percent of a worker’s gross wage. There are also provisions that provide for free public health services for the destitute and for low-wage workers (Medici, Oliveira, and Beltrão 1992).

Despite the private character of this pension scheme, the role of the state has been crucial in its implementation, consolidation, and operation. In the first place, the state played the main role in getting workers into the new system. As an incentive to switch to the new system the government agreed to deposit a generous bond called a bonus to the worker’s account in the new privatized system. The value of this bonus depended on how much the worker had paid into the old system. In this way the Chilean state has assumed some responsibility for funding and fostering the transition from the old to the new scheme. It will also be responsible for keeping the old program in place for the next forty or fifty years by covering its deficits.

The government’s role in the new pension system is to regulate, oversee, and audit the private institutions responsible for managing the retirement fund moneys. It provides guarantees in the event that some of these institutions become insolvent. It is also up to the state to provide a minimum protection against poverty during old age by guaranteeing to supplement the pensions of workers whose individual accounts have not reached a specified minimum amount when they reach retirement age. This benefit
is contingent upon their being age 60/65 and having contributed to the system for twenty
years or more (Scarpaci and Miranda-Radic 1991, p. 31).

The state is responsible for some other assistance benefits as well, the most important
of which are: (1) the assistance pension, a means-tested allowance for the destitute who
arc invalids or age 65 and over; (2) the family assistance allowance, a universal form
of financial aid to all of those insured under any pension scheme who have dependent
children under age 18, non-working spouses, widowed mothers, parents above age 65,
or orphaned children; (3) the sole family subsidy, a means-tested monetary benefit for
destitute parents or guardians with children under age 15 who do not belong to the
pension system. The pensions and benefits paid in connection with these programs are
generally very small (Mujica and Larrañaga 1992, p. 85).

In connection with this shift from a social insurance based old-age security scheme
to this largely privatized alternative, a number of private institutions were set up to
compete with one another for the right to manage workers' pension funds. They compete
much as mutual funds in the United States compete for Individual Retirement Account
(IRA) moneys (Scarpaci and Miranda-Radic 1991, p. 31). Workers are free to shift
their account from one fund to another in an effort to maximize the return earned
on their pension investment (Arnold 1982). The new Chilean system differs from the
provident fund approach found in many developing nations in that the retirement funds
are administered solely by private institutions, not by the government and without any
direct input from organized labor or other agents representing the interests of various
categories of workers. Investment decisions are based on the fund managers' assessments
of the best interests of the fund's investors. These interests may not be consistent with
the short-term needs or interests of the state. If the government wants access to these
moneys, as it frequently does, it must bid along with various private interests and pay
market rates of return (Williamson and Pampel 1993, pp. 135-136). However, the
government does have influence with respect to how these moneys are invested in that
it sets limits with respect to the share of funds that can be invested in various categories
of securities including government bonds. The social insurance deficit, for example,
is partly financed through the sales of public debt bonds and stocks in public companies
auctioned off to private interests. Investments in other countries have recently been
authorized, but with strict limits as to how much of a portfolio can be so invested (Gillion
and Bonilla 1992, p. 177).

In its twelve years of existence the new system has been well received by both workers
and employers. Many observers from other countries have likewise been impressed with
the system's initial performance. The Chilean economy did very well during the 1980s
and many have argued that a factor contributing to the success of the economy has
been the macroeconomic effect of the investment of these moneys (Gillion and Bonilla
that a substantial fraction of these moneys are invested in job-creating and wealth-
creating private sector projects. The original plan projected a real return of 5.5 percent
per year and for the first ten years the actual real rate of return turned out to be closer
to 13 percent per year (Koselka 1991, p. 160).

One advantage of the new Chilean scheme is the transparency of the accounts. Each
individual can to some extent control the way the money is invested and can keep track
of how much is in the account at any one moment. The amount of money in these
pension funds is growing rapidly, and by 1991 the amount held was equivalent to 25 percent of the Chilean GNP.

Some recent analyses, however, give cause for curbing this initial enthusiasm. In the first place only 64 percent of the labor force was covered by the old and new systems in 1990. That means that more than one-third of Chilean workers are without old-age pension coverage; this figure does not compare favorably with coverage rates under the old system during the early 1970s. The bulk of those not insured appear to come from the poorer sectors of the population.\(^\text{18}\) The largest number of non-covered workers are the self-employed and household servants, of whom only 30 percent and 45 percent respectively enjoy coverage. By sector of activity, agriculture displays the lowest coverage with 49 percent not insured; it is followed by commerce with 43 percent not insured. Both of these sectors offer a great number of temporary and informal jobs. The biggest problem is bringing the medium and low-income self-employed into the system. Joining can place a heavy economic burden on these workers since the packages of benefits require contributions of close to 20 percent of gross earnings. Additionally, the fixed commission charged by most AFPs is regressive, augmenting the problem (Arellano 1989, pp. 66-69; Mujica and Larrañaaga 1992, pp. 49-51). The challenge is thus to expand coverage to the lower-income population, especially to independent low-income workers and those in the informal sector, the latter estimated to account for 35 percent of the economically active population.

Upon retirement these non-insured workers depend upon the state's assistance pension as their main source of income. Here another hitch arises. Since the state must promote the new system while guaranteeing pensions for those in the old system, there are generally not enough funds to increase assistance pensions and health services to the poor. The loss of revenue under the old system occasioned by the massive shift into the new one, plus the cost of the bonus system deficit came to 3.4 percent of the GNP in 1990. Only after 2014 is this deficit projected to drop to 1 percent (Mujica and Larrañaaga 1992, p. 47). Reflecting the state's commitment to maintaining the old system while promoting the new, the deficit puts constraints on other possible social policy initiatives.\(^\text{19}\)

The new system has not yet matured and it may not be until 2026 or so that its long-term efficacy and fiscal viability can be adequately assessed (Arellano 1989, pp. 70-77; Mujica and Larrañaaga 1992, p. 44). In 1991 the new system had a contributor base of over 4 million and was paying out approximately 100,000 pensions per month. At the same time the old system had a base of 350,000 insured workers and was paying benefits to approximately 1 million pensioners. Thus compared to the old system the new system has a small volume of payments relative to total funds taken in. Since the members of the new system tend to be younger (many workers who were close to retirement age opted to stay in the old system), the macroeconomic effect of what will inevitably be a much greater ratio of withdrawals to investments has yet to be experienced and assessed.

As one example of the kind of issue that may become increasingly problematic, there are indications that poorer workers tend to quite making contributions as they get close to retirement, preferring to rely on the minimum pension subsidized by the state and on the health-care assistance provided to the destitute. If this level of default continues, it will produce growing pressure for state-subsidized minimum pensions
and it may produce serious fiscal problems as well (Arellano 1989; Mujica and Larrañaga 1992).

The future of the system depends on the rate of return for the various pension funds. The returns were very good between 1981 and 1990, but there is some evidence that returns have been moderating since 1987. The original very substantial rate of return seem to have been the result of several factors that may not be present in the future: the generous government-backed incentives to shift from the old to the new scheme; the privatization program involving the sale of many public enterprises which opened up big investment opportunities; and falling real interest rates. If these positive factors are not replaced by other factors with similar positive effects, it probably will not be possible to sustain the high rates of return experienced during the 1980s (Gillion and Bonilla 1992, p. 180). The new pension approach is thus heavily dependent upon the overall performance of the Chilean economy and on the international economy more generally. At the same time the remarkable growth and the size of these private pension funds makes the Chilean economy very sensitive to their performance. It is hard to say what long-run effects this interdependence will have on the pension system.

The Chilean model has not gone unnoticed by policy makers in other nations. Certain aspects of this scheme are being given very serious consideration in several countries (Hansell 1992, p. 78; Koselka 1991, p. 160). However, certain major risks associated with this model will not be fully appreciated until the Chilean economy has experienced a long period of economic stagnation (Williamson and Pampel 1993, p. 136). The Chilean model presents challenges and some unanswered questions around such issues as long-term financial stability, the need to extend coverage to a much greater proportion of the population, and the need to provide more adequate minimum pensions for the least affluent workers as they retire.

**BRAZILIAN AND CHILEAN OLD-AGE SECURITY POLICY: MODELS FOR OTHER DEVELOPING NATIONS?**

Brazil and Chile offer two very different models of old-age security policy for the Third World. Brazil offers a model that points to what is possible when an effort is made to adapt universalistic policy goals to the social and economic realities of a Third World nation. The Brazilian case illustrates that it is possible to provide at least minimal old-age pension coverage to most of the population including the rural population even in a developing nation. The Brazilian scheme also does more to reduce income inequality than does the Chilean alternative. If we were comparing these two policy models twenty years ago when there was much more optimism than there is today about policies linked to the social democratic model, it is possible that the Brazilian scheme would be getting much more attention than Chilean scheme. Instead it is getting relatively little attention from international social policy experts.

In this era of welfare state retrenchment, increased international competition, and slow economic growth, neoliberal ideology and policies linked to this ideology are getting increasing attention in many countries including the United States. The well-developed, but costly social welfare programs found in many European nations are proving to be major economic burdens. The same is proving to be true in many developing nations which have more modest social programs in place, but these too
are turning out to be increasingly expensive relative to national income. In many of these countries policy experts have been turning to reforms derived from neoliberal ideology in an effort to reduce the burden associated with social programs such as public pensions and national health care systems.

The increase in receptiveness to social policy reforms derived from neoliberal ideology is not restricted to the industrial nations. The interest policy experts from many developing nations have been showing in Chile's largely privatized old-age pension scheme illustrates the attention that neoliberal policies are getting in the Third World as well (Hansell 1992). The Chilean model is getting a lot of attention because it is very distinctive, because it represents such a dramatic shift from prior policy, and because so far it seems to be working well, at least for those in the formal labor market. But as we have tried to show in the analysis we have presented, there is good reason to reserve judgment about the Chilean model until we have more evidence about how well it works during periods of prolonged economic stagnation and until we know more about the fate of workers in the informal sector as well as the poor more generally (Gillion and Bonilla 1992).

A concern we have is that policy makers in many developing nations will attempt to follow the Chilean model without giving adequate attention to the potential downside of that model. We are in an era when neoliberal ideology and policy models are being given the benefit of the doubt much as social democratic ideology and policy models were twenty years ago; more caution about the potential downside of policy models derived from social democratic ideology would have been useful twenty years ago and similar caution is called for with respect to various policies derived from neoliberal ideology today.

As the Chilean model would represent a radical change for most developing nations, it is unlikely that it will be widely adopted in the near future. Key to the policy shift in Chile was the combination of Pinochet's strong commitment to neoliberal social and economic policies and the power of his dictatorial regime to impose his policies in the face of opposition from many in the government bureaucracies associated with the social insurance based scheme and from workers who had been making contributions to that scheme for many years. Most leaders, even authoritarian leaders, in developing nations do not have as much by way of resources and power to impose their own social policy ideas independent of opposition from affected interest groups and few have his level of commitment to neoliberal social and economic policies.

To the extent that policy changes derived from the Chilean model are adopted in other nations that currently have social insurance programs in place, it is more likely that it will take the form of a second tier scheme as in the Mexican case. It will be a lot easier to add on a privatized component than to entirely replace an existing social insurance program.

Very little attention has been given to the idea of replacing provident fund schemes with a privatized schemes along the lines of what Chile now has. We believe that policy experts in nations with provident fund schemes would do well to take a close look at the Chilean scheme. Again there will be strong vested interests to overcome. In many countries there will be opposition from the bureaucracies administering the provident funds (Williamson and Pampel 1993, pp. 155, 174). Also most governments will be reluctant to give up what has become a major source of investment capital. The shift
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from these moneys being a source of public sector investment capital to being a source of private sector investment capital will not be easy. Views as to the desirability of such a shift will depend on beliefs about the efficiency with which these funds would be used in each sector.

If, as many neo-liberal analysts argue, money invested in the private sector generally does more to promote long-term economic growth, this growth may make it possible to eventually pay better returns (in the form of more substantial pensions) than would be the case were the same funds allocated to public sector spending. Furthermore, if workers were to be regularly informed about exactly how much was in their accounts, if they were assured a market rate of return on those moneys, and if they were assured timely access to those moneys at retirement, these programs might come to be viewed as old-age security schemes rather than just another tax.

While the Chilean scheme has been getting a great deal more attention in recent years than the Brazilian scheme, we believe that certain aspects of the Brazilian scheme deserve more attention than they have been getting. The coverage of almost the entire rural population is something that policy makers in most developing nations would consider an impossible goal. While the Brazilian model will not prove feasible for the poorest of the Third World nations, it should prove feasible for the more affluent Third World nations. Similarly the provisions that call for at least minimal old-age pension coverage for most of those in the informal sector of the urban economy and the destitute elderly is worth a close look by policy experts in the more affluent developing nations.

In recent years the Brazilian economy has experienced serious problems with inflation and it has not been growing at the rate of the 1970s. Due to the adverse macroeconomic impact spending on the social security system has had on the Brazilian economy, it is likely that Brazil's old-age pension system will not get much attention from international pension policy experts until the economy is again strong. However, after the economy does recover, we expect that policy experts will be taking a close look at old-age security policy developments in Brazil. Of particular interest will be those aspects of the scheme that provide universalistic coverage including coverage to most of the rural and urban poor.

One possible scenario is that over the next few years in the international arena there will be a shift away from the current level of attention to neoliberal social policy models back toward models linked more closely to the social democratic tradition. However, it may take a few more years for the limitations of programs and polices based on neoliberal assumptions to become widely recognized. As this shift starts to take place, the new trend will stimulate policy alternatives reflecting the more universalistic thinking associated with the social democratic tradition.

A second possible scenario is that the swings between neoliberal and social democratic social policies will take place within individual countries relatively independent of what is going on in other countries. When problems with an existing social program become severe, the regime in power often ends up taking the blame. When the problems are sufficiently severe they may contribute to the eventual replacement of that regime with another that is committed to a new set of reforms derived from a somewhat different set of ideological assumptions. When the Chilean economy shifts into a period of prolonged economic stagnation, as all market economies periodically do, we may start to hear more favorable comments from Chilean policy experts about Brazil's old-age.
pension system. Similarly, when the Brazilian economy improves, we will in all probability start hearing less from Brazilians about the possible utility of adopting some components of the Chilean model.

The Chilean model will be more feasible and more likely to be adopted in countries without social insurance schemes and countries in which existing social insurance schemes cover a relatively limited portion of the population (as in Bolivia or Peru). In countries with social insurance schemes in place that provide extensive coverage, there may be strong resistance to change from a variety of groups that have a vested interest in maintaining the status quo. Opposition may come from pensioners, those near retirement, and those employed in the social insurance bureaucracy. In particular it includes those who are privileged in one way or another in connection with the current scheme; in Brazil this includes a number of powerful special interest groups including the unions and the rural population.

Should policy makers in other developing nations turn to Chile or to Brazil for ideas about how best to structure their old-age security programs? The evidence suggest that neither of these schemes is without its flaws, but each does have important strengths that do deserve careful consideration. For many developing countries some combination of the two would probably make the most sense. It would be potentially useful to closely track old-age security policy developments in countries such as Mexico that are attempting to combine the two models (Hansell 1992). But here too it would be important to keep in mind that the Mexican scheme illustrates only one of many ways in which the social insurance and the privatized approaches to old-age security can be combined. The utility of each of these models will vary from one national context to another. Among the factors relevant to any assessment as to which approach to emphasize are: the level of economic development, the structure of any programs currently in place, and the level of trust of the government. Also important will be judgments about the relative impact of these pension moneys being invested in the private as opposed to the public sector, judgments about the impact a privatized scheme will have on individual initiative as well as judgments about the appropriateness of using old age security policy as a way to reduce poverty and the extremes of income inequality. In many Third World nations, including Chile and Brazil, the level of income inequality is high. In some of these countries public policy experts debate about whether or not the social security system should be used to help reduce the degree of income inequality. Today in Brazil the answer is yes; in Chile it is no.

NOTES

1. For a detailed comparative historical analysis of the emergence and development of old-age security policy in Brazil see Williamson and Pampel (1993). For a detailed historical analysis of the evolution of old-age security policy in Chile see Mesa-Lago (1978).

2. Given Brazil's large rural population, it is reasonable to ask why coverage was not extended to the rural sector at an earlier date. One reason was that it was not until the 1960s that elites became concerned about the possible consequences of mobilization of the rural population (Williamson and Pampel 1993, p. 131). Another factor is that in rural areas there were alternative means of providing minimal support to the elderly. Many were given access to small plots of land for subsistence farming (Mallet 1980, p. 380; Gersdorff 1962, p. 203).
3. In 1980 the secondary sector was already contributing 38.1 percent of the GNP and the primary sector 9.8 percent (Santos 1990, p. 36). The modernization process had important political effects, such as spawning the "new union movement" which emerged amongst the most modern industrial sectors plus growing activism on the part of the middle class, both key actors in redemocratization (Santos 1987, part 2).

4. In 1982 Brazil spent US$ 10.9 billion on benefits; in 1985 the figure dropped to US$ 7.0 billion, a low for the decade. Under the 1988 Constitution spending reached US$ 14.6 billion in 1992 (Britto 1993, p. 7). In 1982 the ratio of pension spending to the GNP was 3.9; by 1985 it was 3.1 (Britto 1992, p. 21).

5. In 1970 there were 4.2 contributors for each pensioner. By 1980 the ratio had dropped to 3.2, by 1985 2.4, and in 1990 it was 2.5 (Britto 1993, p. 11). The current Social Security Ministry claims that a ratio of 4.0 would provide adequate funding (Carta do MPS 1993, p. 2).


7. The Brazilian Constitution goes well beyond a set of basic principles and definitions of functions and powers, entering into considerations usually left to the domain of lawmaking. For example, it determines that contributions to the system should be paid by the employers and by the insured; the precise percentage of each party's contribution is, however, left to the discretion of legislators, who define these values through "supplemental laws."

8. The monthly minimum wage (MW) averaged US$ 62.52 between January and October of 1992 (Vianna 1992). The MW is a benchmark used for many purposes that is adjusted periodically to offset inflation.

9. While a high proportion of the elderly receive some form of old-age pension, 72 percent of retired people receive the smallest pension benefit permitted by law (Haddad 1992, p. 13).

10. Pensioners went to court to force the government to comply with Constitutional provisions whether they had already been enacted into law or not. A major impasse was reached when the court ruled in favor of the pensioners, because the government alleged it had not resources to pay. A part of the business community also went to court to challenge payment of taxes on profits and earnings that would be earmarked for the Social Security budget.

11. It is hard for the low-income population to maintain or prove a formal working relationship covering 30/35 years.

12. A reason for the lower Gini for the pension system is that it is based on 10 minimum incomes, a much more restricted income range than found among incomes more generally. The amount paid out by the pension system is quite low. In early 1993 87 percent of all benefits were under three minimum incomes (i.e., under US$180) (Britto 1993, p. 12).

13. For a description of the system that was in place prior to 1981 and is still in effect for many workers see U. S. Social Security Administration (1990, pp. 52-53).

14. For an account of the battle to enact the new social insurance system by the person who was the nation's Minister of Labor and Social Security at the time, see Piñera (1991).

15. Chilean workers are required to contribute 10 percent of their wages, up to a certain limit, into an old-age pension fund. They have the option of making additional tax-free contributions up to a limit that varies with income (International Benefit Guidelines 1989, p. 50). Covered workers are also required to make an additional contribution that varies from one fund to another, but ranges between 2.5 and 3.7 percent of wages, to pay for disability and survivors pension insurance. In this case the AFP reinsures these risks through an insurance agent, deducting a commission (Pension System in Chile 1990, p. 10; Gillion and Bonilla 1992, p. 182-183).

16. As of 1983 Chilean workers entering the labor market for the first time have been obligated to join the new system. Those already enrolled in the old system were given a deadline of five years to opt for the new scheme and incentives to do so (Gillion and Bonilla 1992, p. 178).
17. A criticism of the prior system was that the pension institutions were often required to invest in specified government projects which paid below market rates of return.

18. Half of the poorest sectors make up 55 percent of those not insured.

19. Social insurance spending as a share of total social spending grew from 27 percent in 1978 to 49 percent in 1988, while health spending dropped from 13.6 percent to 7 percent (Gillion and Bonilla 1992, p. 192).

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