The Financial Crisis and Varieties of Pension Privatization Reversals in Eastern Europe*

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Abstract

Since the global financial crisis, those East European countries that had partly privatized their pension systems in the 1990s or early 2000s increasingly scaled back their mandatory private retirement accounts and restored the role of public provision. What explains this wave of reversals in pension privatization and variation in its outcomes? Proponents of pension privatization had argued that it would boost domestic capital markets and economic growth. By revealing how pension privatization helped increase sovereign debt and how large a part of pension funds' assets was invested in government bonds, the crisis strengthened the position of domestic opponents of mandatory private accounts. But these actors' capacity and determination to reverse pension privatization depended on the level of their country's public debt and on pension funds' portfolio structure. Empirically, the argument is supported with case studies of Hungarian, Polish and Slovak pension reform.

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Between the mid-1990s and early 2000s, more than thirty countries – predominantly in Central and Eastern Europe (CEE) and in Latin America – partly replaced their public pension systems with mandatory private retirement accounts managed by the financial industry (Müller 1999; Madrid 2003; Orenstein 2008, 2013; Guardiancich 2013). Yet, in the wake of the 2008 global financial crisis, policy-makers in those countries began scaling down these private accounts – known throughout CEE as "second pillars" – and restoring the role of public provision. By 2014, ten countries – seven of which were situated in CEE – implemented significant reform reversals, although they did so in different ways (cf. Table 1; Drahokoupil and Domonkos 2012; Price and Rudolph 2013; Casey 2014). Hungary *de facto* nationalized private accounts in 2010-2011, as did Argentina in 2008, Bolivia in 2010 and Kazakhstan in 2013-2014. Other countries kept their second pillars operational, but decreased the level of contributions paid into them, either permanently – as in Poland and Russia – or initially on a more temporary basis – as in Estonia, Latvia and Lithuania. Finally, Slovakia saw governments alternating between a willingness to weaken or to maintain private accounts. How can we explain this reversal of the earlier trend towards pension privatization? But also, why did countries' trajectories diverge so much?

According to an influential strand of the literature, the halt to pension privatization can be explained by an ideational change in *transnational* policy networks. Mitchell Orenstein (2008) has shown how such a network built around the World Bank (WB) helped diffuse pension privatization in middle-income countries from the mid-1990s. Inspired by Chile's 1980 pension reform, the WB published in 1994 a report suggesting that governments should cut their financially unsustainable public pensions and partly replace them with mandatory private accounts to create sounder "multi-pillar" pension systems. Together with allied Chilean economists and the U.S. Agency for International Development, the WB persuaded many policy-makers to partly privatize pensions and assisted them in doing so.

However, after pension privatization started suffering setbacks from the late 2000s, Orenstein (2011; 2013) has argued that the primary driver behind this new development has been an ideational change within the WB itself, which preceded the financial crisis. In the mid-2000s, WB officials critical of second pillars led their organization to consider the disadvantages of pension privatization more carefully. Consequently, the WB became more cautious in promoting private accounts and started recommending that governments "nudge" rather than mandate such plans. Orenstein (2013, 263, 269-271) notes that the WB's "apostasy" coincided with major defeats for the privatization paradigm, notably U.S. President George W. Bush's failure to privatize Social Security in 2005 and the 2006-2008 expansion of public pensions in Chile, the country that had pioneered mandatory private accounts. These developments sent a strong negative signal on the sustainability of pension privatization and led governments worldwide to lose interest in mandatory second pillars.

Although the WB's changing views constituted a permissive condition for the weakening of pension privatization, they fail to explain the varieties of reform reversals: For example, why did Hungary nationalize mandatory private accounts, whereas most CEE countries (CEECs) only reduced their role?

This article emphasizes the *domestic* coalitional and political-economic dynamics of these recent policy changes. Supporters of pension privatization in the 1990s and early 2000s – i.e. pro-market politicians, financial firms and finance ministries – argued that it would address the fiscal imbalances resulting from demographic ageing and simultaneously boost domestic capital markets and therefore economic growth. Yet the financial crisis highlighted how, by being introduced through a diversion of social security contributions towards mandatory private accounts, pension privatization had generated transition costs in the form of increased social security deficits and increased public debt. In addition, the crisis revealed that the newly created pension funds had invested a very large part of their assets in government bonds issued to finance this growing public debt. This cast doubts over the macroeconomic benefits of pension privatization and helped empower those domestic actors – i.e. more statist politicians and trade unions – who had historically opposed it. But finance ministries also increasingly lost faith in second pillars. Opponents of pension privatization were able to reverse earlier reforms when they were in power, but their incentives to nationalize private accounts' assets strongly depended on the level of their country's sovereign debt and on the share of domestic government bonds, as opposed to other instruments such as equities or foreign securities, in pension funds' portfolios.

The rest of the paper is organized as follows: section one sets out the theoretical framework. Section two presents the empirical evidence, which consists in case studies of pension reform in Hungary, Poland and Slovakia.[1] The last section concludes and suggests how the theoretical framework informs policy developments not only in CEECs, but also in Latin America.

TABLE 1

Pension Privatization's Contribution to Economic Growth, Transition Costs and the Disputed Welfare-Finance Nexus

Political scientists traditionally see social policies as a means to protect individuals against social risks. Consequently, they primarily analyze distributional struggles over social arrangements' generosity and costs, and strongly highlight how shifting alignments between public opinion and political parties drive welfare state reform (e.g. Esping-Andersen 1990; Häusermann 2010; Carnes and Mares 2013; 2014). Yet, depending on how social policies are

[1] News agency reports cited below were retrieved from the *Factiva* database.

financed, they can institutionalize what Margarita Estévez-Abe (2001) has called the "welfare-finance nexus": When social programs are funded through an accumulation of savings rather than through transfers between taxpayers and beneficiaries, they can generate large volumes of capital, which is injected into the financial system. This financial dimension of social policies has been at the center of debates surrounding pension privatization in CEECs and Latin America, and has largely contributed to the emergence of competing advocacy coalitions[2] – composed of party-political, socio-economic and potentially administrative actors – that have been either for or against mandatory second pillars well before the global financial crisis.

From the beginning, protagonists of pension privatization argued that, in addition to alleviating the impact of population ageing on rising pension expenditure, shifting the financing of pensions from the public to the private sector would generate capital that would boost economic growth (Müller 1999; Madrid 2003; Weyland 2007; Orenstein 2008; Brooks 2009). In capital-poor economies whose development had been traditionally state-led, pension privatization promised to increase the level of domestic savings and to create a stable base of institutional investors who would improve enterprises' access to equity capital and promote better corporate governance practices. Since pension privatization signaled governments' commitment to market-oriented reforms, it could also improve foreign investors' confidence and help attract investment from them (Brooks 2002).

The WB explicitly highlighted these benefits of pension privatization in the 1990s and early 2000s.[3] But domestic advocacy coalitions comprising pro-market politicians and the financial industry also stressed them. Politicians who supported market-oriented reforms were an important domestic protagonist of pension privatization. In CEECs, such politicians could

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[2] Cf. Sabatier (1988).

[3] The WB insisted that private accounts could "stimulate a demand for (and eventually supply of) long-term financial instruments – a boon to development" (World Bank 1994, 13).

be found on both sides of the political spectrum because, after the collapse of communism, left-wing – often ex-communist – parties had strong incentives to demonstrate their commitment to democratic capitalism by endorsing pro-market policies (Grzymala-Busse 2002; Tavits and Letki 2009)[4]. The other group of domestic actors most strongly supporting private accounts was the financial industry. Insurance companies, banks or stock exchanges were indeed clear winners of pension privatization since they were to be the main providers of private pension products (Kemmerling and Neugart 2009; Leimgruber 2012; Naczyk 2013).

Often, finance ministries initially joined advocacy coalitions for pension privatization because of their mandate to keep public finances in order and to promote economic growth – for example through an effective regulation of capital markets (Müller 1999; Weyland 2007). However, according to Sarah Brooks (2009), administrative actors – including finance ministries – often had an ambivalent attitude to pension privatization due to the "transition costs" it generated. Both in Latin America and CEE, pensions were privatized through a diversion of existing social security contributions towards private accounts. This diversion resulted in temporary revenue losses and increased deficits for public pension schemes as the latter had to continue paying the benefits of existing pensioners. Since the state budget would be expected to fund these transition costs, bureaucrats worried that pension privatization would increase sovereign debt and eventually harm sovereign creditworthiness.

As highlighted by Jan Drahokoupil and Stefan Domonkos (2012), transition costs – which ranged between 0.2 and 1.4 per cent of gross domestic product (GDP – see 2nd pillar contributions in Table 2) – played a crucial role in the reversal of pension privatization in CEE following the financial crisis. But this paper argues that this issue helped structure CEE pension politics – in particular advocacy coalitions *against* pension privatization – already well before the crisis. Not only did pension privatization result in direct losses for workers

[4] The notion of left-right partisanship traditionally used in the literature on economic policy-making in Western democracies (e.g. Hibbs 1977) is thus of limited relevance in a post-socialist context.

due to the replacement of their relatively predictable and redistributive public benefits by much more volatile and individualized private accounts, but governments' handling of transition costs was an equally controversial issue because it could impose additional losses on different socio-economic groups and concomitantly shaped private pension funds' contribution to economic growth.

In order to understand transition costs' political-economic impact, one needs to consider how policy-makers could theoretically plug the gap caused by the diversion of public pension contributions to private accounts. Faced with increased social security deficits, governments had four main options: (1) increase taxes, (2) cut spending on public pensions and/or on other policies, (3) borrow and therefore increase sovereign debt, or (4) use the proceeds from the privatization of state-owned enterprises (SOEs).

Each of these four options had a ripple effect on patterns of domestic opposition to pension privatization. The first two options – tax hikes and cuts in public expenditure – could strengthen mobilization against private accounts because they could result in additional losses for workers – whose pensions had already become less redistributive and predictable – and for groups that had been seemingly unaffected by pension privatization. Of these two options, cutting public expenditure would be the preferred one of pro-market protagonists of pension privatization since their goal was to *diminish* state intervention in the economy. But, given the political risks associated with these two alternatives, Drahokoupil and Domonkos (2012, 290) have claimed that they were unlikely to be used and that debt financing would be "a major implicit option" to cover transition costs. Nonetheless, another realistic alternative was to use proceeds from the privatization of SOEs.

Significantly, debt financing and the divestiture of SOEs had far-reaching consequences for the welfare-finance nexus and pension privatization's potential contribution to economic growth since recourse to these two options could provide a supply of securities for private pension funds. Whereas debt financing led to the issuance of government bonds, the privatization of SOEs – provided it was done through the listing of privatized companies on the stock exchange – could produce a supply of equities for pension funds, thereby allowing them to diversify their portfolios, but also to use their shareholder rights and engage in the governance of privatized firms. Unsurprisingly, this scenario would be favored by pro-market protagonists of private accounts because it would create a virtuous circle in which pension privatization would be fiscally more neutral and would simultaneously boost investment in domestic companies' equity capital. Yet this link between pension privatization and SOE privatization was politically contentious. Those domestic actors who considered that SOEs should be kept in state – or domestic – hands would oppose pension privatization if it could lead to SOEs being sold to foreign investors or to the newly created funds being controlled by foreigners. As with support for pension privatization, this type of attitude could confound the left-right divide because more statist and nationalist outlooks on economic policy could be found on both sides of CEECs' political spectra (Kitschelt 1992; Grzymala-Busse 2002).

To sum up the discussion so far: the paper argues that, from the very start and throughout the years following its introduction, pension privatization was supported domestically by advocacy coalitions comprising pro-market politicians and financiers. These actors argued that private accounts would help boost domestic capital markets and economic growth. Their preferred solution for dealing with transition costs was to privatize SOEs and/or decrease public expenditure. But pension privatization also encountered considerable resistance when it reached the domestic political agenda. Not only was it criticized by organized interests representing those social groups that were to lose out as a result of the reforms and of the transition costs they generated. But, since pension privatization was likely to go hand in hand with SOE privatization, more statist politicians were all the more critical about it. Between these pro- and anti-pension-privatization coalitions, administrative actors had an ambivalent attitude due to the issue of transition costs.

Why was the global financial crisis important for pension privatization reversal in CEECs? The crisis provided a new context, which dramatically changed the relative power of supporters and opponents of private accounts. Students of public opinion have shown how sharp drops in pension funds' rates of return following the crisis helped delegitimize private accounts and allowed politicians to re-reform pensions without fearing a major backlash from the public (Carnes and Mares 2013). Yet, more importantly, the crisis was accompanied by a severe economic slump that put public finances under strain and considerably increased the salience of the transition costs issue among policy-making elites. Critical voices could now credibly highlight that pension privatization was being implemented at the cost of increased public debt and that pension funds invested a much larger part of their assets in unproductive government bonds than in potentially growth-enhancing domestic equities. While these arguments against pension privatization could be credibly presented to the public, the actors most receptive to them were bureaucrats responsible for keeping the state and social security budgets balanced – including, increasingly, those employed at ministries of finance. These administrative actors were indeed under pressure to comply with the European Union's (EU) Maastricht convergence criteria on government deficits (maximum three per cent of GDP) and debt (maximum 60 per cent of GDP). Bureaucrats' changing views and increased emphasis on sound public finances would in turn encourage traditional left-wing or right-wing opponents of private accounts actually to reverse pension privatization. Administrative actors' changing opinion could also lead to some pro-market politicians, who had historically supported private accounts, becoming disenchanted with them.

While the crisis provided a window of opportunity for reform, the level of government indebtedness and the structure of pension funds' portfolios shaped the incentive for – and capacity of – pension privatization opponents to seize pension fund assets (see also Casey 2014). The greater the level of public debt and exposure of pension funds to domestic government bonds, the greater the incentive for – and technical capacity of – governments to nationalize private accounts. Seizing pension funds' holdings of domestic sovereign bonds would help policy-makers to decrease sovereign debt immediately without having to sell these securities on capital markets. Conversely, the more pension savings had been invested in equities or foreign assets, the greater the technical complexity of pension fund nationalization because the state would first have to find buyers on the market and negotiate a price for securities it had not issued itself.

Case studies

This section assesses how the paper's theoretical framework helps explain the Hungarian, Polish and Slovak pathways of pension reform reversals since the late 2000s. Hungary, Poland and Slovakia are selected because they constitute a priori very similar cases. These countries have relatively comparable patterns of democratic party competition (Bakke and Sitter 2005) and have followed similar models of economic development since the late 1990s (Nölke and Vliegenthart 2009; Bohle and Greskovits 2012). Most importantly, all three introduced mandatory private accounts with the WB's assistance (Müller 1999; Orenstein 2008) and decided to divert similar levels of social security contributions towards private accounts when they partly privatized their systems (see Tables 1 and 2). From 1998, all Hungarian workers had to put six per cent of their salaries into the second pillar, although those who had already accrued public pension rights were not mandated to join the private system. Similarly, in Poland, those workers who had to, or decided to, join the second pillar from 1999 paid 7.3 per cent of their gross salaries into it. Finally, in Slovakia, all new entrants on the labor market had to transfer nine per cent of their gross wages into the second pillar from 2005.

While sharing these similarities, the three countries significantly differed in their degree of public indebtedness and in the way the portfolios of private pension funds were allocated. As Table 2 shows, Hungary and Poland had the highest debt-to-GDP ratios among CEECs whereas Slovakia's was around the regional average. In addition, Hungarian and Polish pension funds' exposure to domestic sovereign bonds considerably exceeded that of Slovakian funds, which, like their counterparts in Bulgaria, Estonia and Latvia, allocated a greater part of their assets into foreign securities. Hungarian and Polish pension funds were, in fact, legally prohibited from holding more than thirty per cent and five per cent of their portfolios overseas, respectively. Hungary and Poland nonetheless differed in the extent to which their funds allocated their portfolios into domestic equities (approximately a tenth and a third, respectively). These cross-national differences in sovereign indebtedness and in pension fund portfolio allocations are crucial in explaining governments' radicalism in reversing pension privatization, and in particular their likelihood of seizing the funds' assets.

TABLE 2

Following the 2008 crisis, the three countries rolled back their second pillars, but in different ways. In late 2010, Hungarian Prime Minister Viktor Orbán and his Christian-conservative government decided that second pillar members – and their accumulated assets – would be automatically transferred back into the public pension system (Simonovits 2011; Fultz 2012; Datz and Dancsi 2013). Those workers who wanted to stay in the second pillar were allowed to do so, but they would not earn any further public pension rights despite having to continue paying contributions into public social security. Since 97 per cent of workers had transferred back to the public system by early 2011, the reform amounted to a quasi-nationalization of Hungary's second pillar.

Poland also scaled back pension privatization, but in a relatively more cautious way. In early 2011, Donald Tusk's liberal-agrarian coalition government cut second pillar contributions from 7.3 to 2.3 per cent of gross wages, while simultaneously increasing public pension contributions by the same percentage. However, by late 2013, the same government reversed pension privatization even further by making private pension accounts voluntary, by transferring all state bonds owned by second pillar funds into the social security institution and by banning the funds from investing in any state securities.

Whereas Hungary and Poland unequivocally retreated from pension privatization, Slovakia's reform trajectory was much bumpier. As of early 2008, a coalition government dominated by Robert Fico's left-wing Smer party made membership of the second pillar optional and forbade workers born before 1987 from joining the system. Moreover, during two short periods in 2008 and 2009, those who had become members of a private account before 2008 were given the right to leave it and to return to the state-run system. These decisions were, nevertheless, partially reversed by Iveta Radičová's 2010-2012 right-wing coalition government, which kept the second pillar voluntary, but reintroduced automatic enrolment of all young workers and restored the right to join for those born before 1987. Government support for pension privatization came to a halt once again after Fico's Smer party returned to power in early 2012 and made non-membership of private accounts the default option while lowering second pillar contributions from nine to four per cent of gross wages.

Although all these reforms happened after the WB had started modifying its own stance on "multi-pillar" pensions in the mid-2000s, this paper argues that it is pre-existing advocacy coalitions of domestic opponents of pension privatization that played a crucial role in bringing about these changes. Cross-national differences in sovereign indebtedness and pension fund portfolio allocations help explain why Hungary reversed pension privatization more radically than Poland and Slovakia did. The following country subsections nonetheless all follow the same structure. Each of them first presents the coalitional foundations of mandatory private accounts at the time they were introduced. It then shows how traditional opponents of pension privatization mobilized after the crisis and how they were increasingly joined by ministries of finance. Finally, it demonstrates that many of those domestic actors who had allied with the WB to introduce private accounts continued supporting pension privatization and thus opposed plans to reverse it.

Hungary.

When a mandatory second pillar was introduced in Hungary in 1997-1998, it could count on support from a strong domestic advocacy coalition. Although the reform was largely inspired by the WB's 1994 report, private pensions had been promoted in Hungary since the early 1990s. As early as 1993, Hungary introduced a system of tax incentives for voluntary private retirement accounts provided by mutuals (Orenstein 2008, 98). One actor that had pushed for such tax advantages was Hungary's nascent financial industry, particularly the Budapest Stock Exchange (BSE). Indeed, the BSE had high expectations about pension funds' potential role in stabilizing demand on the Hungarian capital market and in establishing Budapest as CEE's dominant financial center (MTI-Econews 1991; The Guardian 1991). The mandatory second pillar was put on Hungary's political agenda in 1995 by ex-communist – but pro-market – Finance Minister Lajos Bokros as he was introducing a comprehensive austerity package (Müller 1999). Between 1990 and 1995, Bokros had been the first chairman of the BSE and, in that capacity, had called for the development of private pensions.

However, when the second pillar was legislated in 1997 by a left-wing/liberal coalition, the main opposition party – the conservative Alliance of Young Democrats (Fidesz) – and its leader, Viktor Orbán, voted against the reform. After Fidesz came to power in 1998, pension privatization was slowed down. Although the 1997 reform stipulated that second-pillar contributions were to be gradually increased to eight per cent of gross salaries, the Orbán government froze them at six per cent. The government's Finance Minister between 1998 and 2000 and BSE chairman between 1996 and 1998 – Zsigmond Járai – argued that pension privatization had "triggered a very positive macroeconomic phenomenon: savings are growing" (Reuters 1998). But Orbán himself questioned private accounts' beneficial role. He described pension privatization as "premature" and doubted that private accounts could generate capital for Hungarian firms (Dow Jones Newswires 2002). Instead of privatizing SOEs in order to pay transition costs and to create a supply of equities for pension funds on the BSE, Orbán emphasized the importance of economic patriotism and the state's potential role in creating a strong base of Hungarian national champions (MTI 2002).

The first Orbán government only reduced the scale of the 1997 reform and did not attempt to reverse it. But the second Orbán government did so when Fidesz returned to power in 2010 and commanded a two-thirds supermajority in Hungary's Parliament. As Hungary was facing a severe economic and fiscal crisis since 2006, Finance Minister György Matolcsy started implementing what he himself called an "unorthodox" economic policy (Bohle 2013). Since the government wanted to slash personal taxes and simultaneously had to continue raising enough revenue to meet its own – and the EU's – deficit and debt targets (Simonovits 2011), Matolcsy proposed in October 2010 to redirect second pillar contributions and assets to the state. The negative impact of the global financial crisis on pension funds' performance allowed Orbán to delegitimize private accounts by comparing them to a "roulette table" (FT.com 2010). In his opinion, pension privatization had been an "irresponsible experiment" introduced under pressure from the WB and Hungary should return to "the family of West

European pension systems that have a state pension and voluntary pension funds" (MNO 2010).

The second Orbán government's radical reversal of pension privatization was received with skepticism by the international financial community (e.g. International Monetary Fund 2011). But the strongest, albeit unsuccessful, opposition came from the existing domestic advocacy coalition for mandatory private accounts. The Hungarian Socialist Party (MSzP), which was in government when the system was introduced in 1997, called Orbán's move a "hijacking" of future pensions and left the parliamentary session during the discussion of the reform bills (Népszabadság Online 2010). Similarly, former Finance Minister – and now liberal-conservative politician – Lajos Bokros called it "cynical blackmail" (FT.com 2010) and continued emphasizing the benefits pension privatization has for capital accumulation and economic growth (Bokros 2013, 138). The *Stabilitás* Association of Pension Funds denounced the "covert nationalization" of the second pillar and tried to block it by going to court (Reuters 2010). But, since the funds had invested more than half of their assets in Hungarian sovereign bonds, they were easy prey for a government intent on reducing public debt – which exceeded 80 per cent of GDP – in a technically easy fashion. The BSE – which throughout the 2000s had unsuccessfully pressed for pension funds to invest more heavily in domestic equities (BBJ 2005) – feared that the reversal of pension privatization might lead to the "end" of the Hungarian capital market (MTI-Econews 2010).

Poland.

As in Hungary, private accounts were introduced in Poland in the late 1990s through the efforts of a coalition of transnational and domestic actors. While pension privatization was proposed in 1994 by the Finance Minister of a left-wing/agrarian coalition government

(Kołodko 1994), the preparation of the 1997-1998 reform itself was outsourced to a task force headed by Michał Rutkowski, a Polish economist working at the WB (Müller 1999; Orenstein 2008). The financial industry strongly supported the reform (WSJE 1997). Like its Hungarian counterpart, the Warsaw Stock Exchange called for the creation of private pension funds because it considered that their shortage was a "bottleneck" for its own development (Reuters 1994; see also Gazeta Wyborcza 1995). But, contrary to Hungary, Polish pension privatization was also based on a cross-party agreement. The bills creating the second pillar were adopted in 1997 not only by the post-communist/agrarian majority but also by the liberal and conservative opposition. Once right-wing parties assumed power in late 1997, they continued preparations for reform and implemented it in 1999.

Pensions were thus privatized in a climate of relative consensus. Labor Ministry bureaucrats and the post-communist OPZZ trade union initially opposed the reform, but were quickly neutralized (Müller 1999). However, politically crucial was the fact that a special state-subsidized pension scheme for farmers was left untouched. Farmers were, at that time, an important social group since around one fifth of Poland's active population was employed in agriculture. Their exclusion from the 1997-1998 reform ensured that agrarian organizations, including the Polish People's Party (PSL), would not try to stop pension privatization. Agrarian politicians nevertheless became increasingly hostile to private accounts in the 2000s due to transition costs. Because these were financed to a large extent by increases in public debt, exponents of private accounts started calling for cuts in public expenditure and for a "completion of the pension reform" which, among other things, meant to stop subsidizing farmers' pensions (Rzeczpospolita 2003; Business Centre Club 2005, 271). This campaign for a reform of farmers' schemes, which intensified over the 2000s, increasingly antagonized agrarian politicians.

The financial crisis made transition costs a much more salient issue and strengthened the position of pension privatization opponents. As Poland was under pressure to reduce its budget deficit and public debt due to fiscal rules imposed by the Polish Constitution and the EU, Labor Minister Jolanta Fedak from the agrarian PSL party and liberal-conservative Finance Minister Jacek Rostowski – both of them members of Donald Tusk's government – proposed in October 2009 to reduce the share of contributions going to private accounts from 7.3 to 3 per cent. As they tried to delegitimize private accounts, senior PSL politicians argued that, instead of using Latin America as a model, Poland should take inspiration from the "culturally closer" and less privatized Swedish pension system (Gazeta Wyborcza 2009a). They were also keen on stressing private accounts' weak performance during the crisis (Gazeta Wyborcza 2009b).

Significantly, the attack on pension privatization also came from the Finance Ministry and from the liberal-conservative Civic Platform (PO) party – both of which had thus far been considered strong supporters of the second pillar. Jacek Rostowski suggested that, instead of increasing domestic savings, private accounts had been a major cause of mounting public debt. He considered it "absurd" that pension funds ended up investing most of their assets in government bonds, which were issued in order to finance the transition costs (Rzeczpospolita 2009a). Rostowski eventually described the second pillar as "a cancer that has grown to gigantic proportions" (FT.com 2011) and highlighted that transition costs had crowded out useful public investment in infrastructure or education (Rząd 2013).

Liberal-conservative PO politicians' changing stance on pension privatization was also related to their increased emphasis on economic patriotism following the crisis. Since 1998, Polish governments had linked pension privatization with the privatization of SOEs: Pension funds invested many of their assets in privatized companies while the proceeds of SOE privatization were used to pay transition costs.[5] However, although the Tusk government had embarked on an ambitious privatization program between 2007 and 2010, it became increasingly unwilling to sell SOEs remaining in its portfolio because it considered them as strategic for the Polish economy and did not want to see them fall into foreign hands (Naczyk 2014).

Poland's pension privatization reversal was nonetheless less radical than in Hungary. The pro-privatization advocacy coalition – including those policy-makers who had designed private accounts together with the WB (Chłoń-Domińczak, Góra, and Rutkowski 2010; Lewicka-Banaszak 2010; Hausner 2011) – waged a determined campaign against the Tusk government's reforms. The Polish Association of Pension Funds (IGTE) denounced any plans to decrease second-pillar contributions as a "nationalization" of pension accounts (Rzeczpospolita 2009b). In early 2011, it launched a nation-wide media campaign defending the second pillar. This counter-mobilization proved more successful than in Hungary because of Polish pension funds' much greater domestic equity holdings. Private accounts' portfolio structure made, for example, the Polish Confederation of Private Employers (PKPP Lewiatan) – a business group with close links to Donald Tusk's PO party – more credible in claiming that, without pension privatization, Polish GDP would have been 6.99 per cent lower than it was in 2012 (Gronicki and Jankowiak 2013). Even inside the state, the Polish Financial Supervision Authority (KNF) insisted that "the resources committed by open pension funds in the equity market have substantially contributed to (…) making the Warsaw stock exchange the region's leading financial center" (Rzeczpospolita 2013). Contrary to the Orbán government's decision to nationalize almost all second pillar assets, the Tusk government thus refrained from seizing the equities held by Polish funds and only seized domestic sovereign bonds.

[5] A law passed in 1997 stipulated that the two types of privatizations were to be linked.

Slovakia.

As in many other CEECs, pension privatization in Slovakia received technical support from the WB. But, domestically, it was pushed from the early 2000s primarily by liberal-conservative politician Ľudovít Kaník and by libertarian think tanks, e.g. the Slovak F.A. Hayek Foundation. When in 2002 Kaník became the Social Affairs Minister of Mikuláš Dzurinda's right-wing government and proposed introducing private accounts, he claimed that, without a reform, pensions and economic growth would decline (SITA 2002). Members of the team in charge of the reform – which included a financial industry executive (CTK Business News 2003a) –, as well as the Bratislava Stock Exchange, claimed private accounts would be a "motor for the development of the capital markets" (Švejna and Chren 2004, 24; see also BCPB 2004, 2). Since Slovakia's capital market was underdeveloped, the Dzurinda government allowed pension funds to buy foreign securities, but simultaneously talked about the possibility of publicly listing minority stakes in privatized SOEs in order to create enough domestic investment opportunities for private pension funds (Government of the Slovak Republic 2004). Reformers also decided to use the proceeds from the 2002 privatization of the national gas company – the SPP – to cover the first five years of transition costs resulting from pension privatization.

Kaník's reform package was firmly rejected by the Slovak Trade Union Confederation (KOZ) and by Smer, the main left-wing opposition party. Both organizations argued that private accounts would lead to lower and less safe pensions. But Smer leader, Robert Fico, already highlighted the issue of transition costs and argued that pension privatization was "threatening the future payment of pensions" (SITA 2003). In his view, pension privatization was only a pretext for transferring proceeds from the privatization of SPP to private hands.

Smer generally considered SOE privatization as "running counter to Slovakia's national interests" (CTK Business News 2003b). After an unsuccessful attempt to dismiss Kaník through a non-confidence vote in 2004, Smer announced in 2005 that, if in power, it would seek to make private accounts voluntary. The same year, when it appeared that the WB was financing a program to help the Dzurinda government explain its reforms, Fico accused the WB of advising the government "against another group of political parties" and denounced its "perverse interference (…) in Slovakia's domestic affairs" (AFP 2005).

After Smer won the 2006 elections and formed a new coalition government, the Finance Ministry initially agreed to use proceeds from SPP's privatization to pay transition costs (SITA 2006). However, in 2007 and 2008, when financial markets became increasingly unstable, the Fico government fulfilled Smer's earlier promises and made membership in private accounts optional. Fico claimed that he was "not opening the second pillar because we need money", but rather because of private accounts' poor performance following the crisis (SITA 2008a). This hostile attitude towards pension privatization was coupled with a considerable decline in the volume of privatizations – and potential public listings – of SOEs between 2006 and 2010. When Fico returned to power in 2012 in a situation where Slovak public debt reached 52.7 per cent of GDP that year (Eurostat 2014), Finance Minister Peter Kažimír agreed to decrease second pillar contributions to four per cent of gross wages. Since right-wing politicians had made enrolment in private accounts automatic in the meantime, Smer also made non-membership of the second pillar the default option again. However, contrary to the Orbán and Tusk governments, the Fico administration did not attempt directly to seize second pillar assets. Although Slovak pension funds held very little domestic equity and Fico questioned whether "there [is] any capital market in Slovakia where the money of people appreciates" (SITA 2008b), the fact that the funds invested only about one third of their portfolios in Slovak sovereign bonds and more than 40 per cent in foreign securities made their direct nationalization less useful – and technically more complex – in terms of immediately decreasing public debt.

As in Hungary and Poland, those domestic actors who had collaborated with the WB in introducing mandatory private accounts continued defending them. When the first Fico government started reversing pension privatization, the center-right SDKÚ-DS opposition party – of which both former Prime Minister Dzurinda and former Social Affairs Minister Kaník were members – unsuccessfully proposed a constitutional bill to protect private accounts. Kaník argued that "what is necessary is changes and adjustments to the first [state] pension pillar (…). The second pillar is healthy, functioning, and able to provide people with secure pensions" (TASR 2007). When SDKÚ-DS was back in power between 2010 and 2012, Prime Minister Radičová tried to switch the second pillar "back to where it started" (TASR 2011) and temporarily managed to reintroduce automatic enrolment in private accounts.

Rather than have their preferences changed by the WB's "apostasy" in the mid-2000s, opponents and supporters of pension privatization used the Bank's statements opportunistically. Thus, after a WB economist declared – during an international conference organized by the Fico government – that governments facing increased fiscal pressures could consider a *temporary* suspension of pension privatization, Fico said that the Bank had broken a "taboo" and had "advised redirecting payments from the second pension pillar to the state pay-as-you-go pillar" (SITA 2009). The Slovak Association of Pension Fund Management Companies (ADSS) soon retorted that "the World Bank didn't and doesn't recommend that Slovakia should cut [second-pillar] contributions" (TASR 2009), citing a letter from the WB's vice-president for Europe and Central Asia who had written that his team had "serious reservations about *prolonged* second pillar rate reductions, especially when combined with a voluntary opt-out option" (Katsu 2009; own emphasis).

Conclusion

This article has argued that the recent reversal of pension privatization in CEECs and variation in its outcomes are better understood as the consequence of ongoing conflicts between long-time opponents and supporters of mandatory private accounts, rather than purely as the result of the WB's partial backtracking from its earlier campaign for multi-pillar pensions. Mandatory private accounts were from the start supported at the domestic level by pro-market politicians and the financial industry. But, by highlighting private pension funds' disputed macroeconomic effects and their volatile returns, the global financial crisis strengthened the position of domestic opponents of pension privatization. In Hungary, a Christian-conservative – and statist – party that had opposed private accounts since the late 1990s used Hungary's sovereign debt problems and Hungarian pension funds' large holdings of domestic government bonds to *de facto* nationalize the second pillar. In Poland, agrarian organizations that had become increasingly ill-disposed towards pension privatization during the 2000s successfully pressed for change by allying with a number of liberal-conservative politicians who changed their views about private accounts following the crisis. But Poland only partially seized pension fund assets because of the funds' very strong presence on the domestic equity market. In Slovakia, two stable coalitions of largely left-wing opponents and liberal-conservative supporters of pension privatization reformed the second pillar according to their preferences whenever in power. Left-wing politicians had nonetheless limited incentives to nationalize Slovak pension funds because of their lesser exposure to domestic sovereign bonds.

While the paper has focused on pension privatization reversals in CEECs, its theoretical framework – in particular, its emphasis on the "welfare-finance nexus" – may help us understand similar developments in Latin America. To be sure, much of recent Latin

American pension reform has consisted in introducing non-contributory public benefits for workers with insecure jobs (Carnes and Mares 2014). But two countries – Argentina and Bolivia – nationalized their pension fund industries in 2008 and 2010 respectively. In both countries, pension privatization was reversed by left-wing forces – cf. the labor wing of the Justicialist Party and trade unions in Argentina (Brooks 2009, 252-259); indigenous groups and organized labor, including union leader Evo Morales in Bolivia – that had strongly opposed mandatory private accounts at the time of their introduction. Argentine private pension funds were nationalized by Cristina Kirchner's administration in a context of recurrent public debt problems and discontent with transition costs related to pension privatization (Datz and Dancsi 2013). Created in 1994, the funds had been pressured since the early 2000s to invest their assets in domestic government bonds and had had very few opportunities to invest in Argentine companies' equity capital because, contrary to neighboring Chile, the country had largely failed to link pension privatization with SOE privatization and to create a supply of shares in the domestic capital market (Kay 2009, 12, fn. 7).

In Bolivia, pension fund nationalization was also related to transition costs and to how SOE privatization was (not) linked with pension privatization in 1997. Indeed, in order to buy popular support both for SOE privatization and for private accounts, reformers had created a fully-funded non-contributory basic pension for all Bolivians born before 1975 (Müller 2009). The so-called "Bonosol" plan was administered by the same companies that managed the newly created private accounts. To fund Bonosol, these pension fund management companies were directly allocated 50 per cent stakes in the country's largest SOEs while the rest of these SOEs' shares were sold to foreign "strategic investors". This institutional choice had important consequences for the whole pension system. First, because SOE privatization was strongly opposed by trade unions and indigenous groups in the 1990s, Evo Morales and his

Movement for Socialism started renationalizing privatized oil and gas companies in 2006 and, to do so, seized the Bonosol plan's assets. Second, because of how SOEs had been sold in the mid-1990s, SOE divestiture neither resulted in the creation of a supply of equity on Bolivia's capital market, nor could its proceeds be used to pay transition costs related to pension privatization. Consequently, funds managing private accounts invested their assets mostly in Bolivian state bonds and did not hold any equities or foreign securities (cf. Mesa-Lago and Ossio 2012, 283). This portfolio allocation eventually made it much easier for Evo Morales to nationalize the funds in 2010. The Argentinean and Bolivian examples clearly illustrate that more research needs to be done on the oft-neglected welfare-finance nexus, not only in CEECs or Latin America, but also in more affluent democracies.

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Table 1: Key features of pension privatization and reform reversals in Eastern Europe

Country	**Initial reform**			**Reversal***			
	Year 2nd pillar started	2nd pillar contributions (% of gross wage)	Compulsory membership	***Year of reversal***	Reductions in 2nd pillar contributions (% of gross wage)	Changed membership rules	Scope of nationalization
Bulgaria	***2002***	2% to 5% by 2007	Born in 1960 or after	***(2014)***	-	(planned voluntary)	-
Estonia	***2002***	6%	Born in 1983 or after	***2009***	0% in 2009; gradually restored to 6% by 2012	-	-
Croatia	***2002***	5%	Born in 1962 or after	***(2011)***	-	(Older savers may leave the 2nd pillar)	-
Hungary	***1998***	initially 6%, 8% by 2004	Labor market entrants	***2011***	No min. or max. %-age	Very restricted	All assets
Latvia	***2001***	initially 2%, 10% by 2010	Born after July 1 1971	***2009***	2%; increased to 4% in 2013 and 6% by 2016	-	-
Lithuania	***2004***	initially 2.5%, 5.5% by 2007	None (fully voluntary)	***2009, 2012***	2% [2009]; gradually increased after 2012	-	-
Poland	***1999***	7.3%	Born in 1969 or after	***2011, 2014***	2.3% [2011]; 2.92% [2014]	Voluntary [2014]	Polish gov. bonds [2014]
Romania	***2008***	initially 2%, 6% by 2016	Born in 1973 or after	***(2009)***	(Planned increases delayed by 1 year)	-	-
Russia	***2002***	6%	Born in 1967 or after	***2013***	2%	-	-
Slovakia	***2005***	8%	Labor market entrants	***2008, 2012***	4% [2012]	Voluntary [2008]	-

Sources: ASISP country documents (socialprotection.eu); Investment and Pensions Europe (www.ipe.com); ISSA country reforms database (www.issa.int); Social Security Throughout The World reports (www.ssa.gov); Volskis (2012).
Notes: *Information in parentheses refers to minor (cf. Croatian and Romanian) or uncertain (cf. Bulgarian) reversals.

Table 2: Characteristics of private pension plans in East European EU members

Country	**Structural pressures (% of GDP)**			**Portfolio composition (% of total private pension assets)[1]**							
	2nd pillar contribution[a]	Government debt[b]		Domestic sovereign bonds[c,2]		Public administration bonds[d,3]		Equities[d,3]		Foreign securities[d]	
	2002-2010	2008-2010	2011-2012	2008-2010	2011-2012	2008-2010	2011-2012	2008-2010	2011-2012	2008-2010	2011-2012
Hungary	1.1	78.3	81.0	49.3		52.2	58.8	10.7	5.6	0.2[4]	
Poland	1.4	51.0	55.9	62.5	48.9	64.2	51.9	29.3	32.8		0.5[5]
Slovakia	1.0	34.8	48.2	27.1	32.0	42.3	40.6	1.4	0.7	46.5	44.6
Latvia	0.8	33.7	41.4			17.0[6]	18.5	0.9[7]	0.4	58.6[7]	64.1
Lithuania	0.6	27.5	39.4				35.1[8]				68.6[8]
Romania	0.2	22.5	36.4			64.6	71.8	7.8	11.1	17.6	8.5
Bulgaria	0.7	14.8	17.4			25.6	34.2	12.2	11.4	32.7	39.4
Estonia	0.6	6.1	8.0					4.4	4.4	78.7	75.9

Sources: [a]Price and Rudolph (2013, 46); [b]Eurostat; [c]Hungary: Financial Supervisory Authority (PSZÁF), Poland: Financial Supervision Authority (KNF), Slovakia: National Bank (NBS); [d]OECD pension statistics and Volskis (2012) for Lithuania.

Notes: [1]If not stated otherwise, data refer to 2nd and 3rd pillar funds; [2]Share of domestic sovereign bonds on 2nd pillar assets; [3]Figures include domestic and foreign securities; Data for: [4]2008-2009, [5]2011, [6]2009, [7]2009-2010, [8]2012.