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Social policy learning inside the World Bank: The case of multi-pillar pension reform

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Abstract

This paper analyses the process of policy learning that has taken place inside the Social Protection and Labor Department of the World Bank after the large-scale abandonment of its flagship pension programme. It draws on a set of elite interviews with present and former senior policy actors at the World Bank, alongside other key transnational actors to assess the Bank's response. It utilises the policy learning literature, in particular Hall's (1993) policy paradigm approach, to analyse the scope of learning that has been undertaken. The analysis shows that policy learning is a central activity within the Social Protection and Labor Department. From the moment the World Bank entered the pensions field in 1994, it continually updated its policy advice as a result of 'rational updating' (Blyth, 2013) or first and second order change (Hall, 1993). However, after the global economic crisis, the dominance of the Bank in the field waned, which opened it up to new ideas and rival paradigms. This has led to a policy conversion at the World Bank. Whilst not fully abandoning its pension model from the 1990s, it now emphasises the role of public pensions and poverty relief with less of a focus on funding and sustainability. The paper argues this change borders on paradigmatic change at the Bank. It has led to a closer working relationship with the International Labour Organization as both organizations focus on the issue of pensions coverage.

1 | INTRODUCTION

Throughout the 1990s and 2000s, more than 30 countries carved out a private pension pillar from their public pension system (Drahokoupil & Domonkos, 2012; Nackzyk & Domonkos, 2016; Orenstein, 2013). This entailed diverting a proportion of contributions into individually funded accounts (IFAs). This so-called "multi-pillar pension reform" or "pension privatisation" was vigorously promoted across the globe by a coalition led by the World Bank (Müller, 1999; Orenstein, 2008). It had been inspired by the privatisation of the Chilean pension system in 1981. Its impressive economic performance, in the years that followed, was argued by proponents to have been in a large part a result of the capital market development its pension privatisation had stimulated (Holzmann, 1997). Chile's reform had been influential across Latin America, inspiring several countries in the region to emulate its example. Rather than a full privatisation of their pension systems they opted for a partial-privatisation.

Following the publication of the World Bank's seminal document on pensions in 1994: *Averting the Old Age Crisis: Policies to Protect the Old and Promote Growth* (Averting hereafter), the Bank set about promoting a variant of Latin American pension reform across the globe. The model it promoted was a three-pillar pension system. A scaled down public first pillar focusing only on poverty relief would be supplemented by a larger mandatory private second pillar to smooth consumption over the life course. The second pillar would be funded by diverting contributions from the first pillar into the second pillar. The third pillar consisted of voluntary pensions for those who wanted a larger income in retirement.

The World Bank was joined by the Cato Institute, the United States Agency for International Development (USAID) and the pensions industry in a transnational campaign for multi-pillar pension reform (Orenstein, 2008). The campaign had been deeply opposed by a rival coalition of the International Labour Organisation (ILO) and International Social Security Association (ISSA) (Beattie & McGillivray, 1995). However, the Bank had been able to gain leverage in the region of Central and Eastern Europe and other post-socialist countries because of their dependence on International Financial Institutions (IFIs) for capital (Appel & Orenstein, 2018; Müller, 1999). Through a mixture of conferences to promote reforms, loans, and the dispatching of staff to assist in policy development and implementation, the campaign was highly successful. Except for Slovenia and Serbia, every country in the region enacted the World Bank's model at the end of the 1990s and throughout the 2000s (Müller, 2003; Orenstein, 2008). It was able to build on the dominant global discourse of influential development organisations at the time, which favoured market-oriented solutions to economic development (Heneghan, 2019).

The reforms across post-socialist countries would only be the first chapter in the story. At the onset of the global economic crisis, the trend went into reverse (Heneghan & Orenstein, 2019). In 2008, Argentina renationalized its system when President de Kirchner authorised the nationalisation of $30bn of pension assets (Datz & Dansci, 2013). In 2010, Viktor Orbán of Hungary did the same thing. At first this looked like the isolated actions of two populist leaders struggling to raise international finance (Arza, 2012). However, the trend spread. Bolivia, Kazakhstan, and Poland renationalized their private pillars in the years that followed (Nackzyk & Domonkos, 2016). Moreover, the Baltic States and Russia suspended payments into the second pillar, diverting the contributions back into the public pillar to alleviate the fiscal crisis (Drahokoupil & Domonkos, 2012). Slovakia did the same but on a permanent basis. In addition, Estonia has since announced plans to full close its second pillar. The Czech Republic introduced the reforms much later, in 2011, but reversed them entirely 2 years later.

This article analyzes the social policy learning that has taken place inside the World Bank as a consequence of the large-scale abandonment of its flagship policy. Despite an extensive exploration of the reversals in the literature (Arza, 2012; Datz & Dansci, 2013; Nackzyk & Domonkos, 2016; Orenstein, 2013), the viewpoint of the transnational actors who were at the forefront of the policy diffusion is underexplored. Moreover, the policy response of the World Bank's Social Protection and Labor Department has not been extensively analysed after the failure of its campaign. This analysis draws on elite interviews with past and present senior policy actors in the World Bank's Social Protection and Labor Department. In addition, policymakers from the ILO and from Central and Eastern Europe were also interviewed. Its major contribution is to set out the policy learning process of a department within a major international organisation

(IO). It traces the process of policy learning inside the Social Protection and Labor Department over a long period of time. The focus is on the World Bank because this was the dominant and instrumental global actor in the field of global pension reform for over a decade (Holzmann & Hinz, 2005; Müller, 2003; Orenstein, 2008).

Drawing on the policy learning and policy paradigms literature (Blyth, 2013; Hall, 1993) and policy change within international organisations (Vetterlein & Moschella, 2014), the article traces the various orders of policy change that have taken place. Like Blyth and Hall, it places authority at the centre of the learning process. During the period in which the World Bank was dominant in the field of pension reform, the policy change was undertaken through a process of what Blyth calls rational updating or Bayesian learning, akin to Hall's first- and second-order change. However, the waning expert authority of the Bank in the pension reform arena after the rejection of its flagship pension model, the rise of the ILO's authority and the shifting of the discourse in the wider development agenda away from market-oriented approaches to rights-based social assistance, led to a process of "constructivist" learning at the World Bank towards a more radical third-order change in its pension policy—moving away from pensions performing a macroeconomic function of capital market development, towards their earlier core purpose of income security in old age.

The article now proceeds as follows: The next section develops its theoretical framework drawing on the policy learning and policy change literature. Following this, the methods used for the research will be outlined. The analysis then moves to the policy development inside the World Bank from the publication of Averting in 1994 to the present day, setting out the various types of policy change that have been undertaken the final analysis discusses how this is approaching paradigmatic change (World Bank, 1994).

2 | POLICY LEARNING AND THE ORGANISATIONAL FIELD

Heclo's classic study of policy learning outlined how "government's not only power…they puzzle" (Heclo, 1974 p. 305). This is true of IOs whose bureaucracies give them sufficient insulation to puzzle on policy (Barnett & Finnemore, 2004). The article distinguishes between different types of policy change by using Peter Hall's (1993) policy paradigms approach. Hall defined a paradigm as a "framework of ideas and standards that specifies not only the goals of policy and the kind of instruments that can be used to attain them, but also the very nature of the problems they are meant to be addressing" (Hall, 1993 p. 279). He outlined three distinct orders of change. First-order change involves changes in the settings of the policy. For instance, Hall gives examples of changes in policy settings that remained within the Keynesian framework such as fiscal and monetary policy that were adjusted to attain a specified set of macroeconomic targets. Second-order change involved new instruments, but the hierarchy of goals remained unchanged. Changes to the monetary system through the introduction of Competition and Credit Control and a new system for controlling public expenditure are examples given. Third-order change is more radical. Not only are the settings of policy changed, but the hierarchy of goals and the instruments employed to guide them shift radically as well. The shift from Keynesian economics to monetary economics made price stability the central economic policy target. Monetary policy replaced fiscal policy as the main instrument of economic policy, with a reorientation to control the money supply. A host of Keynesian policy instruments were also abandoned.

In the case of the World Bank's pension policy, its flagship pension instrument was a mandatory private pension pillar that diverted funds from the public pillar into individually fully funded accounts. This instrument had the explicit

TABLE 1 Type of policy change within IOs based on their relationship with the policy field

		Central position Slow change	Peripheral position Rapid change
Low openness	Incremental change	Layering	Displacement
High openness	Radical change	Conversion	Dismantlement

Note: The source is Vetterlein and Moschella (2014).

goal of pension sustainability, with a secondary goal of economic development through development of domestic capital markets. The precise settings could be calibrated around the size of the second pillar in comparison to the first pillar, and the composition of pension portfolios.

Blyth (2013) advanced Hall's theory by highlighting some of its paradoxes and better elaborating the difference between normal and radical policy change. He distinguishes between two types of policy learning. What he coins Bayesian learning is a process of "rational updating". This is where policymakers update their policies as anomalies build up and that lead to changes in the settings, instruments and goals. This is what Kuhn called "normal science" (Kuhn, 1962). The second type of learning is what he calls sociological or constructivist. Unlike policy change through rational updating, this type of change results from political struggles where the very nature of what constitutes failure is not agreed upon because it is discursively constructed. It is a dispute between a rival paradigm.

In the case of pension reform, the World Bank's paradigm positioned itself in opposition to the traditional IO concerned with pension provision: the ILO. The ILO's primary goal was pension adequacy in old age and its main instrument was the public pension system funded on a Pay-As-You-Go (PAYG) basis. The important distinction for Blyth—and in a clarification or contestation of Hall's position—is that the knowledge claims of rival paradigms are incommensurate with each other. This means the very notion of a successful pension system is contestable and the ontological foundation of a private pension is contestable.

Changes to the external environment will also affect the power balance between rival IOs in the field. Vetterlein and Moschella (2014) outline four types of policy change that happen inside an IO based on its position within its policy field (Table 1). Borrowing concepts from historical institutionalism they set out the types of change determined by the level of openness of the IO's bureaucracy and its position in the field. Drawing on Hall (1993) they define first- and second-order change as incremental, and third-order change as radical.

In the Vetterlein and Moschella model, layering is incremental policy change where the IO is in a central position in the field and has a closed policy subsystem. Conversion, on the other hand occurs when an IO has a central position in the field and high openness. It describes policy change that consists of shifting existing instruments and practices over time to serve new goals. Like layering, it entails policy change that occurs over a relatively longer period of time. Conversion is more extensive though because the overall goals of the policy are changed. Dismantlement is a policy change that involves policies being completely dismissed and replaced with new ones. The policies will consist of new instruments, settings and goals. Displacement is same, but it is more incremental than dismantlement.

3 | OPERATIONALISING POLICY CHANGE

Using the frameworks set out above it is possible to operationalise policy change and to assess its scope as well as its presence. Policy change is argued to have occurred when the instruments change alongside the goals of the instruments (Hall, 1993; Vetterlein & Moschella, 2014). However, drawing on Blyth the condition for radical or paradigmatic change is that it creates incommensurate bodies of knowledge. It is on the basis of these two types of policy learning that the article seeks to analyse the policy development inside the World Bank. Has the World Bank simply undertaken a rational updating of its pension policy because of the anomalies of so many countries abandoning its model? Or did the discursive struggles with the ILO and other transnational actors shape the World Bank's pension policy in a more radical direction, creating ideas that are commensurate with its old beliefs?

4 | METHODS

The empirical component of this article consists of a series of in-depth interviews with current and former World Bank professionals in the Social Protection and Labor Department, and current and former professionals in the Social Protection Department at the ILO. The Head of Social Policy at the OECD was also interviewed. In addition, regional staff from the field offices in Central and Eastern Europe of the ILO and World Bank also interviewed alongside domestic policy actors, such as the finance minister of Poland (who nationalised the Polish pension system) and domestic policy experts working with IOs on pension policy. In total, 25 elite interviews were conducted. The interviews were semi-structured, yet fairly open-ended. Interviewees were recruited using non-random sampling methods, utilising purposive sampling (Tansey, 2007). The aim was not to draw a sample from a larger population of actors and to generalise the findings. Instead, the aim of the interviews was to speak to the key actors in the field who had participated in pension reform at the domestic level, global level or in many cases transnational actors that traversed both the national and the global. In most research methods, the aim is to homogenise variables and treat all respondents equally. However, in elite interviewing, not all respondents can be treated equally and therefore standardisation is not a priority like in other techniques (Tansey, 2007). More senior respondents have greater knowledge of the decision-making process and therefore can offer insights that less senior ones can. However, elites may also be dishonest for political reasons or seek to embellish their role in a process (Berry, 2002). To alleviate this threat to validity all claims were corroborated with other sources.

The interviews were augmented by an extensive review of the pension documents of both the World Bank and ILO. Every document with a major pension component over the past 25 years was analysed. The policy discourse of the ILO and World Bank is represented in a range of different types of documents. These include official reports, working articles, thematic or special issue reports, press releases, briefings, technical notes, recommendations, conventions and guides for policy makers. This amounted to a reading of 104 pension documents from both organisations. A close reading of the documents had several aims. It sought to examine the framing of pension problems and the policies promoted to tackle them. It also sought to discern degrees of alignment between the two organisations. A consultation of the wider sample and the information from the elite interviews also helped determine which lines of contestation between the two organisations were present and where the field was developing away from contestation. The analysis therefore picked out the key framing of the problem and whether solutions offered lay on an imagined axis between state and market provision. It enabled the analysis to discern whether Bayesian or constructivist learning was taking place (Blyth, 2013).

5 | THE CENTRAL ARGUMENTS OF AVERTING

There are extensive analyses of Averting (Beattie & McGillivray, 1995; James, 1996; Holzmann, 2000; Orenstein, 2008;). The purpose here is not to go over old ground, but rather to outline its main points to demonstrate how policy has developed and changed. The central message of Averting was population ageing rendered generous public pension systems unsustainable (1994, pp. 25–48). In addition, a private pension pillar could assist developing countries in developing capital markets (pp. 208–213). Alongside the main macroeconomic assumptions, Averting rested on a set of microeconomic beliefs. It argued that individual pension accounts would be treated as private property. This would make it difficult for policy makers to interfere in the system like they do with public provision (p. 215). Moreover, because the contributions were viewed as private property, it was believed they would not distort the labour market in the same way that taxes do (p. 214) As a result of these assumptions it was also believed that pension coverage would improve because individuals would see a direct link between savings and benefits and have personal ownership of it.

6 | FIRST- AND SECOND-ORDER POLICY CHANGE AT THE BANK (1994–2007)

Internal debates at the World Bank and evaluations of its pension reforms have been a characteristic of the policy process ever since it became in involved in pensions in the early 1990s. Long before the reversals took hold, the

World Bank was engaged in a protracted internal debate on policy. These debates represent the Bayesian model of policy learning or rational updating of policies. Despite external debates with the ILO on the merits of the model, the World Bank's dominant position in the field meant that policy development was more likely to take place during this period through internal dialogue, rather than external influences.

The first internal criticisms of the pension model came from the controversial chief economist at the Bank, Joseph Stiglitz (see Wade, 2002). He used his position to critique many of the Bank's activities, in particular its role in assisting the transition economies (Stiglitz, 2002). In 1999, he and a colleague turned their attention towards its pension model. The central crux of the Orzag and Stiglitz (1999) critique was that designing a pension system from scratch was not the same as transitioning to a new one from an existing one. They argued that whilst politicians focus too exclusively on the short-run, Averting focused too much on the long-run. In addition, it was contended that many of the macroeconomic assumptions in Averting about the effect of private pensions on capital accumulation and microeconomic assumptions on labour supply were unfounded. The intervention stimulated debate but did not lead to policy change at this stage. Not least because Stiglitz did not consult with the Social Protection and Labor Department before his intervention (Interview with Emily Andrews).

In 2005, the World Bank issued an update to Averting. *Old Age Income Support in the 21st Century* (Holzmann & Hinz, 2005). Its purpose was to communicate to internal and external stakeholders how the pensions stance had evolved since Averting. It broadly continued its support of a multi-pillar system but focused more on the other pension pillars rather than an extensive focus on the private pillar, like Averting did. The analysis was more nuanced than Averting, devoting sections to outlining the limits to what can be achieved with mandatory second pillars. The introduction sets out the new contours:

> "The main changes to the Bank's perspective concern the enhanced focus on basic income provision for all vulnerable elderly as well as the enhanced role for the market-based, consumption-smoothing instruments for individuals both within and outside mandated pension schemes. The Bank increasingly recognises the importance of initial conditions and the extent to which conditions in a particular country necessitate a tailored or tactically sequenced implementation of the multi-pillar model".

This update came from supporters of Averting. At the same time critiques were coming from others inside the Bank. While the Social Protection and Labor Department was beginning to see the virtues of the other pension pillars, others were explicitly attacking the second pillar. *Keeping the Promise of Social Security in Latin America* (Gill et al., 2005) represented the first evaluation of the Bank's pension model. The region was chosen because it had the longest experience with multi-pillar systems. Latin America had over a decade's experience in 12 countries, and in Chile, two decades. The report did not advocate the full-scale reversal of the policy but did highlight issues where the reforms had failed to fulfil their promise. It argued reforms had not led to an increase in pension coverage in a way that its proponents promised. It also attacked the exorbitant administration fees on private pillars. It was supported by some of the World Bank's critics such as Nicholas Barr:

> The other one I respect is Keeping the Promise…I mean it had exactly the right messages: Individual accounts all fine and dandy what about poverty relief? Answer is, the Bank was not monolithic. Even within the Bank there was hostility towards multi-pillar pension schemes.

However, to illustrate the nature of the internal debate at the Bank during this time, Robert Holzmann, the Director of Social Protection and Labor at the time of its publication was critical of the publication:

> I was highly critical of the Latin American piece, most importantly because those who wrote the book did it essentially without consulting with the industry there.

Alongside *Keeping the Promise* further critiques of the second pension pillar came from inside the Bank a year later (Independent Evaluation Group, 2006) (IEG). The main contentions of the IEG were that greater attention needed to be paid to initial conditions (such as inflation, a sound financial sector and fiscal capacity) before recommending multi-pillar reform.

As well as cautioning against the Bank supporting multi-pillar reforms where initial conditions were not agreeable, the evaluation also suggested that the Bank should be careful not to oversell its benefits. It pointed to the disappointing diversification of pension portfolios, demonstrating that most assets were in government securities. The report presciently notes how these are vulnerable to political interference.

> "But pension portfolios in many countries are concentrated in government securities. Only the Chilean, Colombian, and Peruvian pension portfolios are relatively well diversified. While parametric and multi-pillar pension reforms have improved the financial balance of PAYG systems, additional reforms are often needed. Multi-pillar systems remain open to political influence, especially in times of economic crisis." (IEG, 2006 p. 41)

This led to the Bank intervening in the Hungarian pension system in 2006 advising it to diversify its pension portfolios in the second pillar. One of the key advisors to the Hungarian government made the following observations on Hungary and other countries in Central and Eastern Europe:

> Hungary was dominated by government bonds and it didn't need to be that way. I think it's fair to say many of the countries were too deep in bonds…I'd say there's a thin line between having long-term debt and the government becoming dependent on an easy source of financing. It's likely that governments that have easy access to government bonds are likely to consume more than they otherwise would (Interview with Robert Palacios, World Bank lead economist, Social Protection and Labor Department).

In addition, to changes to the "settings". The World Bank also became interested in new instruments to further its goal of pension sustainability. Innovations in the late 1990s included Notional Defined Contribution (NDC) schemes that mimicked private provision in that they tied benefits to contributions, but they also operate on a PAYG basis. Contributions are accumulated using a notional interest rate related to the country's demographic conditions. Benefits are related to contributions and so by default are fully sustainable. Whilst for some in the Bank NDC schemes represented a second-best option as they did not allow capital markets to develop, for others they were an important innovation that would have played a larger role had they been developed sooner:

> If the NDC system would have already been as elaborate as it is now perhaps the move towards fully funded systems would have been less stark. I would have certainly in some cases tried to introduce an NDC system instead…but some World Bank colleagues in the financial sector hate NDCs. And they still believe in Averting so there is no homogenous position in the Bank (interview with Robert Holzman, World Bank).

In summarising how policy learning led to first- and second-order change at the Bank between the publication of Averting and the global economic crisis, the analysis suggests a process of rational updating was taking place. The inconsistencies with the promises set out in Averting and the reality on the ground led to incremental changes to the settings of the multi-pillar framework. Changes to the settings included advising countries like Hungary to diversify their pension portfolios to take on more risk and stop the system behaving like a PAYG one in all but name. The Bank also became open to new instruments such as NDC pension systems. The strong support for fully funded private pension provision in the financial market sector of the Bank meant that NDC provision would never become its dominant policy position because second pillars offered the chance to develop capital markets.

The main driving force behind updates to Averting were internal and the overall goal of the system never changed—pension sustainability. The global economic crisis would initiate a more radical change to the policy position of the Bank.

7 | TOWARDS A THIRD-ORDER POLICY CHANGE?

The large-scale abandonment of the World Bank's pension model after the global economic crisis unsurprisingly had a significant impact on its pension policy. However, whilst often a prerequisite, crisis and failure does not always lead to paradigmatic change (Blyth, 2013). This section will show that the process of third-order change in the Bank's pension policy has been brought about not only because of the crisis and the perceived failure of its pension model, but also because of wider processes taking place in the broader field of development. These changes were underway before the crisis and would culminate in an enhancing of the authority of the ILO in the field of social protection. This coincided with a challenge to the expert authority of the World Bank as its pension model was rejected across Latin America and Central and Eastern Europe. The process of having the Bank's expert authority challenged opened it up to rival paradigms, reorienting the goals of the pension policy and more importantly redefining what a pension system is—tipping the policy change from a process of rational updating towards constructivist policy learning. This process is not (yet) complete. The World Bank displays elements of continuity and change.

7.1 | More rational updating of the world bank's pension model

The global economic crisis created the conditions for policy change at the Bank as it caused several problems for multi-pillar systems. The most common theme from interviews with past and present actors at the Bank on the pension reform reversals was that transition costs represented a significant obstacle in moving towards a multi-pillar system from a mature public pension system. These occur when moving from a PAYG system to a funded one. Where contributions from workers had previously funded the current generation of retirees, diverting some of those contributions to individual accounts leaves a short fall that must be made up. Most governments made up the shortfall by borrowing, which became highly problematic during the crisis:

> Transition costs are something that was underestimated and should have been given more attention than they have been. Perhaps those who were negotiating on the ground were afraid if you push too much with the transition costs, the country wouldn't do the reform (interview with Robert Holzman, World Bank).

This acknowledgement of the huge obstacle of transition costs was also shared by the actors from the ILO in their interpretation of the pension reform reversals:

> It depends, there are differences from country to country, but generally, the main reason for the reversals or temporary reversals in some cases was the fiscal situation and fiscal concerns, so the transition costs of the reforms resulting in additional deficit in the public finances (interview with Krzysztof Hagemejer, International Labour Organization).

One of the only differences was staff at the World Bank were more likely to portray the Maastricht criteria,[1] as unaccommodating of the pension reforms in Central and Europe, which made the reversals more likely. Staff at the ILO viewed it as an inevitable consequence, regardless of Maastricht.

There is also an acknowledgement at the World Bank that the second pillars had not performed as well as they were promised, the returns had been poor and administration costs too high:

> Success of the (multi-pillar) reforms was predicated on a good performance of financial markets, which should be measured in the long term, but nonetheless, the performance after the crisis, and in general, meant that opponents of the reforms had ammunition to criticise the pension system (interview with Michal Rutkowski, Director of Social Protection and Labor, World Bank).

> I think there were unrealistic promises made. People expected to get a lot of money out of the second pillar really quickly and of course that wasn't possible because the contributions were too small to produce something big. The administration costs were enormous, we spent a lot of time talking to the Poles, even the pension managers themselves saying you can't really make a credible argument to continue doing this if we don't get the administrative costs down (interview with Monika Queisser, Head of Social Policy, OECD and former member of the pensions and insurance group in the Financial Sector Development Department, World Bank).

Whilst these examples point to a candid acknowledgment of the failures of the World Bank's model, they do not amount to a radical change. Assessments framed in these terms point to issues of implementation rather than a full-scale paradigmatic change. From the perspective of many of the proponents, issues of transition costs and administration costs could be tackled by a better implementation, and in the case of Central and Eastern Europe, a better understanding of transition costs by the EU Commission. It amounts to a change in the settings in Hall's terms. The transition costs could have been managed with reductions in public spending elsewhere. Administration costs could have been better managed by regulation of pension funds.

7.2 | Shifting goals and the waning authority of the bank

The assessments of policy failures outlined above do not encompass the entire policy response of the World Bank to the reversals of its pension policy. Alongside the critical assessments of the performance of the multi-pillar systems the overall goals of the Bank's pension policy also changed in the years after the global economic crisis. Its preoccupation with pension sustainability—in the context of population ageing—gave way to a focus on pension coverage as the strategy article below outlines:

> The first (challenge) is addressing the coverage gap, defined as the share of workers that will not be able to count on any kind of pension income. In low-income countries (LICs), roughly one in ten workers contribute to a pension program and this level has remained stagnant for decades. (Dorfman & Palacios, 2012, p. 4)

The prioritisation of coverage was evident in the World Bank's Social Protection and Labor strategy: Resilience, Equity and Opportunity (2012). This report set the goals of the department for the next decade emphasising the extending of coverage as its main aim:

> "The central challenge of fragmentation and the global gaps in coverage, responsiveness, and opportunity identified in the previous section establish a clear strategic direction for the World Bank's SPL practice in the years ahead" (World Bank, 2012 p. 29).

The shifting of the overall goal of the World Bank's pension policy towards pension coverage (as opposed to sustainability) brought the World Bank into line with the ILO, which had made extending pension coverage its primary goal in the early 2000s. The ILO had accepted that it could no longer influence the pension policies of Central and Eastern Europe who were following the World Bank's prescriptions (Heneghan & Orenstein, 2019). To remain influential it switched to focus on the developing world. Or to use the more colourful language of one of its former branch directors:

> We had lost the battle and there was not a possibility to get back on the battlefield and so my strategy was to change the battlefield (interview with Emmanuel Reynaud, International Labour Organization).

The theme of its 2001 International Labour Conference was "extending social security to all". The main conclusion was "highest priority should go to policies and initiatives to extend social security to those who have none" (ILO, 2001: v). Its previous social security policies had been predicated on promoting social insurance across the globe. It had envisaged that economic development would lead to an increase in the number of workers in the formal sector of the economy. However, this had not materialised and there were signs that formalisation was going backwards (Reynaud, 2002).

The shifting goals of the ILO came at a time when wider development discourses were changing. As Leisering (2018) notes, dominant ideas on poverty had moved from a focus on increasing GDP with market-oriented solutions—to tackle poverty—towards focusing on poverty at the individual level. International organisations began to frame social protection in the language of social rights. This became the approach of the ILO, representing a break from its tripartite/corporatist heritage (see Cichon & Hagemejer, 2007). The ILO's policy shift was complete with its flagship social protection floors policy, which called for a nationally recognised minimum level of social protection for all, including pensions.

The ILO's authority was enhanced in the aftermath of the global economic crisis. As governments across the globe used fiscal policy to stimulate aggregate demand, it shone a different light on social protection, which had previously been framed as unsustainable by the World Bank and OECD (Heneghan, 2021). It crystalized the process of moving away from market-oriented solutions, which Leisering argued had been underway since the turn of the millennium (2019, pp. 253–276).

In the immediate crisis period, the role of social protection was reoriented to focus on its properties as an automatic stabiliser in the economy. This was coordinated at the global level through the G20, giving the ILO a mechanism for its policies on social protection to gain traction (Deacon, 2013). The United Nations (UN) developed a series of coordinated responses to the crisis establishing the Social Protection Floor Initiative (SPF-I) to be chaired by the ILO and World Health Organisation (WHO) to coordinate efforts to expand coverage of social protection and basic healthcare. This meant the ILO's social protection floor idea had officially become UN Policy, granting the ILO was authority to develop it. It was given further impetus when the French Presidency of the G20 was sympathetic to social protection floors. Consequently, the G20 created the Social Protection Inter-Agency Cooperation Board (SPIAC-B). It recommended the "World Bank and ILO, in consultation with other relevant IOs, develop a mechanism to improve inter-agency coordination (on social protection)" (G20 DWP, 2011: paragraph 55).

SPAIC-B is chaired by the World Bank and ILO, and before Covid, met biannually. It represents an enhancement of the authority of the ILO since the World Bank has been tasked to work on an ILO flagship policy. The rivalry between the two organisations of the 1990s has given way to cooperation on a shared goal of extending coverage. Interviews with current staff at the Bank confirm the approach is now cooperation with the ILO.

In addition, the World Bank's authority has waned because of changes to the global economy. In particular, the integration of Central and Eastern Europe into the European and global economy, has meant that the composition of its client base has changed. Whereas in the 1990s and 2000s, middle-income countries represented a significant proportion of countries seeking assistance on pension reform, now most of the client base is developing countries who are much more likely to pursue assistance with publicly provided poverty relief:

> In the last few years, demand from younger and poorer countries as well as non- traditional pension clients has been increasing while considerable ongoing demand for pension advisory assistance continues. For several years, the largest number of participants attending the Bank's pension course has been from Sub-Saharan Africa…Perhaps the most often cited issue, however, is coverage. (Dorfman & Palacios, 2012, p. 29).

The preoccupation of Averting with sustainability meant that these types of pensions did not get the same focus as the second pillar as one of its co-authors acknowledged:

> And I would even go as far as say that out of the 415 pages of Averting, with hindsight I would like to have seen more on in retrospect is a detailed discussion of the options for non-contributory pensions. (interview with Robert Palacios).

In addition to growing demand from developing countries the demand from middle-income countries was also diminishing, as was the influence of the Bank over their policies as this quote from the former finance minister of Poland, Jacek Rostowski, demonstrates:

> The World Bank is far less important than it used to be. The EBRD (European Bank for Reconstruction and Development) is much more important. The World Bank was keen to lend us money, we were encouraged to borrow some for a particular scheme and the rate was below market rates, so we took advantage of that, but it was only a small amount.

The aligning of the two agendas was put on a firmer footing in 2016 when the World Bank and ILO launched the global partnership for social protection. This partnership embeds social protection within the Sustainable Development Goals of the UN. In a concept note released alongside the signing of the partnership the alignment is firmly embedded in the rationale for the partnership:

> For the World Bank and the ILO, universal social protection refers to the integrated set of policies designed to ensure income security and support to all people across the life cycle–paying particular attention to the poor and the vulnerable. Anyone who needs social protection should be able to access it." (ILO, 2016)

In sum, the cooperation of the World Bank and ILO on the latter's social protection floor initiative has been a result of the enhancing of the authority of the ILO after the global economic crisis and the waning of World Bank's expert authority. However, a rational assessment of the model and a shifting of goals does not amount to paradigmatic change. As Blyth points out, this is something more fundamental. It amounts to incommensurate bodies of knowledge between each paradigm. Some of the lesson-drawing by the World Bank on the failure of its policy has nudged it in this direction.

7.3 | A new pension paradigm?

The critique of the implementation of the reforms and the focus on social pensions because of a change in goals is not the only change that has taken place at the Social Protection and Labor Department. A more fundamental change has taken place in the ontology of many actors who were interviewed on their perception of private pension systems.

A consensus has developed on the temptation for governments to nationalise accumulated pension assets. Transition costs raise the budget deficit for several years. In parallel to this, accumulated assets increase every year. The larger the assets get, the greater the temptation for the government to renationalise them and use them for current expenditure – particularly during an economic crisis. Proponents of multi-pillar pension reform had not foreseen this issue arising:

> Yes, I have to say this is something, frankly speaking, why it [the temptation for governments to nationalise accumulated assets] didn't come up, we didn't think there would be political support behind such actions (interview with Robert Holzmann).

One of the major assumptions in Averting was that private pillars would be thought of as individual private property. By endowing property rights on individually accumulated assets, it was understood that any attempt to seize them would result in a mass mobilisation against the measures. However, the ease with which governments were able to nationalise them suggests contributors never thought of them as private property. Peter Holtzer, a World Bank consultant and Hungarian pension expert was sceptical of the idea that individuals ever took ownership over the second pension pillar:

> First of all, I think this important, such a reform where you start to have second pillars, most of the people don't even realise that this has happened. Of course, they receive a statement each year, which they may or may not open, but there was no ownership, even at the end when the government closed it down there was no ownership.

This has several implications for the nature of the reforms advocated in Averting. If contributors do not have a sense of ownership over their individual fully funded accounts, it invalidates microeconomic arguments on labour supply and the level of taxation to finance public pension systems. If contributors view contributions to the private pillar as a tax, then there is not the qualitative difference that the proponents of multi-pillar systems suggested. In addition, there will also not be the mobilisation of contributors to resist nationalisation. The experience in Central and Eastern Europe, and beyond, demonstrates that the second pension pillar is as vulnerable, if not more vulnerable, to political manipulation than the first. Once the sense of ownership is absent it is no longer fundamentally different to a public pension, just different intermediaries.

However, it would be wrong to assert this means the entire message of Averting has been abandoned. From the perspective of those involved in Averting, its message was always about more than privatisation and the second pension pillar. It was also about tightening the link between contributions and benefits as well as diversifying risks:

> There are three major messages from Averting and unfortunately two of them because they were controversial to begin with and people in the pensions world didn't like them. Those two things: the role of the private sector in provision and the role of funding versus PAYG and because of those for many years it was really about that. But the third important message was separating redistribution and poverty relief from insurance, and doing that in a clean way, that message is extremely relevant today and we're gravitating back to that rather than continuing a very stale debate on funding versus PAYG.

From this perspective there is no need to abandon Averting but rather focus on other aspects of its message. In essence, there has been a policy conversion at the World Bank, the existing policy has been reoriented to focus coverage through the first pillar rather than sustainability and investment through the second. This shifting focus has been the result of both rational updating and constructivist learning. The twin process of its multi-pillar pension system being abandoned by many countries and a more confident and assertive ILO pushing its agenda on the global social protection debate has led to the World Bank reformulating its stance. The result has been an incremental shifting of the goal from sustainability to coverage and a refocusing of the instrument from the private second pillar to the public first.

The policy conversion was confirmed by the current Director of Social Protection and Labor at the World Bank:

> At this point in time, I would say the Bank is in search of a paradigm for the future. Because a lot of things happened in parallel. For instance, a lot in Chile is blamed on the second pillar when it fact it has nothing to do with that and is in fact to do with low coverage. Low pensions happen because they were in the labour force for a few years. Low participation in the labour market is the reason. Not the funded pillar, but the funded pillar takes the blame. So, because of those things we work closer (with the ILO) and are now much more concerned with coverage, social pensions and poverty relief. Because we supported funding and it is blamed for things it shouldn't be, maybe because we neglected other things, that's how I see it.

This analysis suggests that the policy conversion has happened because of the controversy surrounding the second pillar. The World Bank believes that it has often been wrongly associated with some of the poor examples of pension reform and that some of the outcomes are not a result of the second pillar but because of the functioning of the labour market. Nevertheless, the reputational damage has led to a policy conversion. The Bank is able to act within the parameters set out in Averting, but to use those to focus on the poverty relief aspect of pension policy rather than its secondary macroeconomic functions such as capital market development.

One final note of caution must be added for consideration. The World Bank is not a monolithic bloc. It is a disparate organisation with five organisations forming the World Bank Group. Its five organisations are the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for Settlement of Investment Disputes (ICSID). The first two are often collectively referred to as the World Bank. The focus of this analysis has been on the Social Protection and Labor Department that led the campaign for multi-pillar reform. This falls primarily within the IBRD and IDA arms of the Bank. However, there were other policymakers from the Bank involved in the formulation of Averting, namely those interested in financial markets from the IFC. Whilst the Social Protection and Labor Department may have abandoned its commitment to develop private pensions, the efforts may live on in another form headed this time by the IFC.

8 | CONCLUSION

The Social Protection and Labor Department of the World Bank has shown itself to be an open system, responding to anomalies and engaging with rival ideas. Many of the rival ideas have been filtered through the prism of the Bank's approach. A focus on public pension provision was not incommensurate with the original policy of the Bank, which emphasised public provision in its seminal text to alleviate poverty in old age and provide for those unable to save. However, it would be wrong to dismiss this shape-shifting around the three-pillar pension model as a simple tinkering around a dominant paradigm. The campaign for multi-pillar reform was predominantly focused on the second private pillar (Orenstein, 2008). It was this that distinguished itself against rival approaches such as the ILO's. The Social Protection and Labor Department no longer actively campaigns for a private pillar. It pensions advice focuses almost exclusively on assisting countries to develop a public pension program. This is because of a series of problems with the second pillar, some of which have changed the ontological status endowed onto private pillars.

The failure of the World Bank's pension model has not led to the development of a distinctive new model. The words of the Director of Social Protection and Labor are telling in that the Bank is searching for a new paradigm. It suggests the old one is dead but the new one is yet to be born. However, by operating in the territory carved out by the ILO the Bank is already working in a new paradigm. Both organisations have moved from a position of rival paradigms where the ILO advocated social insurance style pensions that were primarily concerned with adequacy and the World Bank advocated mandatory private pensions that were focused on sustainability and economic development. The shift to a focus on coverage necessitates prioritising public pension systems through social pensions and social assistance programs. Whilst this does not violate the positions on these pensions set out in Averting, it violates the purpose Averting was written for and therefore subtly nudges the Bank into a different paradigm albeit one that is different to the social insurance paradigm Averting had set out to challenge.

The World Bank operating in the ILO's paradigm is also indicative of the waning of its authority in the field of pensions. Its rise to ascendancy in the mid-1990s was driven by its expert authority, Averting the Old Age Crisis proved to be an influential critique of public pension systems. The failure of its pension model dented the authority of the Bank. The openness of the Bank allowed its policymakers to absorb new ideas from rival organisations. The re-entry of the ILO in this field with a new authority meant the Bank would inevitably engage with the concepts and ideas produced by the ILO. For its part, it had also abandoned an exclusive focus on the social insurance thus making it easier for the World Bank to come on board with its ideas. Whilst the ILO's critique of the Bank's multi-pillar framework was well-known, its social protection floor model avoids the need to leap too far from its original position. It has moved on from the debate of the 1990s of PAYG versus funding towards dialogue on how to bring social protection to those who do not have it. This suggests the creeping of the Bank into a new paradigm was enabled by elements of it being intelligible to the old paradigm.

Averting the Old Age Crisis is synonymous with the Bible for some in the pension reform arena. But like any religious text, it is open to interpretation. Despite the abandonment of the World Bank's three-pillar pension model, the Bank has not abandoned its seminal pension text. Instead, a policy conversion has taken place that emphasises different aspects of the text than its proponents in the 1990s. There are elements of continuity and change in the World Bank's approach to pensions some of the change has been argued here to be approaching paradigmatic, as a change in beliefs by the proponents of private pension provision has significant consequences for the policy that are incommensurate with the previous paradigm. Policy learning has been shown to lead to paradigmatic change when steps towards the new paradigm could be taken that did not immediately violate core beliefs.

ENDNOTE

[1] The Stability and Growth Pact stipulates that countries must not have a budget deficit higher than 3% of GDP and the national debt to GDP ratio must not exceed 60% of GDP. This made the partial privatisation of the pension system problematic because in some cases it cost as much as 1.8% of GDP each year.

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