

# PENSION REFORM IN ARGENTINA AND MOLDOVA: SEARCHING FOR NEW MEANINGS

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The 1980s and 1990s saw active debates worldwide on the need to reform public pension systems. In the context of changing demographic factors such as increasing life expectancy, falling birthrates, and decreasing economic growth, some started questioning the “fundamental normative and political assumptions underlying public pension arrangements” (Immergut and Anderson 2007). Pension systems have been classified into two types: social insurance, which involves a significant intergenerational transfer as the working-age population finances the pension payments of current retirees—the principle known as “pay-as-you-go” (PAYG)—and multipillar systems that combine a universal public pension scheme with occupationally-based or private individual alternatives to it (Bonoli and Shinkawa 2005). In multipillar countries, the PAYG instrument also exists, but the major pension benefits come from funded schemes (private or public).

The influential 1994 World Bank report *Averting the Old Age Crisis* can be considered the starting point of debates on the optimal pension system. The report predicted a financial crisis in pension systems of developed and developing countries, and called for a restructuring of the existing framework for public PAYG pensions. Often criticized for being too costly, the PAYG model, it was argued, had to be replaced with a multilevel system, in which the first (public PAYG) pillar provides a minimal mandatory pension, the second provides funded mandatory and earnings-related pensions, and the third is covered by private and voluntary pensions. In order to avoid the collapse of pension systems caused by aging populations, the report suggested urgent pension reforms along the lines of the Chilean model, in which the public PAYG system was replaced by a funded, defined contribution system.<sup>1</sup>

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1 Since then, it has been recognized that reforming the way in which the pension system is financed does not change the fact that pensions remain a “burden” for the economy, being supported by current GDP regardless of the type of pension regime (Fultz 2003).

Although controversial, this structure, which mixed public and private components, was supported by a majority of international organizations (IMF, OECD, ILO) and applied to developing countries.<sup>2</sup> Numerous Latin American countries and former Soviet republics launched pension reforms, thereby becoming a laboratory for pension experiments. Among these, Argentina and Moldova both implemented pension reforms in the same decade. We will analyze the implementation, dynamics, and main outcomes of pension reforms inspired by the same debates in the contrasting cases of Argentina and Moldova.

Dissimilar at first sight, Argentina, a Latin American country marked by years of political instability, and Moldova, a European republic with a long communist past, seem an unusual choice for a comparative study. Any attempt to compare the reform process in countries with such different socio-economic histories and organizational frameworks of social security system is likely to raise concerns regarding methodological feasibility. Yet in fact, the countries have many features in common: both experienced deep economic and social crises preceding the pension reforms, both were seeking to establishing a long-term economic equilibrium, and both have redefined the role of the state and the scope of its involvement in society and the markets. Moreover, both countries to some extent became laboratories of experimentation with neoliberal social protection policies. The influence of the international financial organizations was strengthened by the emerging debt crises and the growing dependence of the two countries on the international credit system. Reforms in both Argentina and Moldova were marked by the presence of international credit institutions, specifically that of the World Bank (WB), an organization that played an important role in the reforms.

We argue that the comparative analysis of pension reforms in Argentina and Moldova can give us a better understanding of the general mechanisms of institutional transformations. Indeed, pension reforms initiated and directed by supranational actors such as the World Bank and the International Monetary Fund in these countries followed quite an unusual path. The convergence of reform prescriptions, dictated in both cases by the same experts of the “new pension orthodoxy,”<sup>3</sup> did not lead to convergence in terms of choices of systems and reform trajectories. In order to elucidate this phenomenon, we analyze the decision-making processes in the area of the pension system, paying particular attention to social interactions that result in the emergence and diffusion of ideas and representations about the “best way.” This analysis considers the interaction between the system inherited from the past and the continuity of social policies and modes of public intervention. Does path dependence explain the key differences between the outcomes in the two countries? To what extent did institutions and local actors determine the trajectories of their reforms? Answering these questions requires us to reflect on the capacity of the state to institute new modes of action and policy paradigms.

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2 Pension debate that followed the publication of this report has been centered mostly on benefits and financing issues, such as pay-as-you-go financing and “defined-benefit” versus “defined-contribution” benefit schemes; other issues have been neglected.

3 This concept refers to the diffusion of pension funds as suggested by the World Bank.

Given the scope of existing comparative studies in social policies of the developing world (Barrientos 1998; Holzmann and Stiglitz 2001; Müller 2003; Gil, Packard, and Yermo 2005; Mesa-Lago 2008), we consider it important to diversify the choice of countries for comparison, even if this means taking additional methodological risks (Lallement and Spurk 2003).<sup>4</sup>

This paper grew out of two separate studies of Argentina and Moldova that were not originally part of a comparative project (Eleta de Filippis 2000; Mascova 2005). Thus the comparison took place *a posteriori*, which imposes significant methodological limitations. Nevertheless, our country-specific work was informed by a common methodological perspective based largely informed by a cognitive approach to public policies (Muller and Surel 1998; Surel 1998; Muller 2000) and a neo-institutional analytical framework for the study of public policies and their evolution (Hall and Taylor 1997; Palier and Bonoli 1999; Pierson 2000; Campbell 2004). A cognitive approach views public policies not only as a decision-making process, but more globally as processes by which a given society elaborates its representation of reality and of itself. The study of the cognitive function of public policies allows us to estimate the role of ideas and conceptual "framing" among decision-makers and in public opinion. In these theories, mental models or referents are most important. It then becomes necessary to analyze national discourse on pensions and its evolution over time, as well as the mental frameworks of key actors.<sup>5</sup> In addition, historical neo-institutionalism as applied to the analysis of public policies suggests that the existing institutions also contribute to structuring actors' decisions. Formal political rules and existing public policies may be considered a source of institutional constraints affecting the strategies and decisions of political actors. Combining these two approaches, the research agenda in both our studies took into account three factors: ideas, interests, and institutions (Hall 2000).

The analysis of the transformations resulting from the revision of principles governing the financing of the pension system will help us better understand the outcomes of the implemented reforms. Another benefit of this exercise will be to see if the proclaimed disengagement of the state inspired by neoconservative discourse contributed to the emergence of new actors and institutions in the area of social security. Thus, we will also analyze the specific configurations of actors and new contours of the state in both countries. Without falling into the trap of oversimplifying nationally-specific situations, it appears to us that the comparison of reforms in Argentina and Moldova could offer new insights and perspectives on the processes governing social, political, and economic change.

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4 Bruno Jobert (1994) called this phenomenon a "provincialism of comparative studies." While globalization brings economies and nations together, the trajectories of developing countries are often ignored in comparative studies. There are several reasons for this: the difficulty of collecting and consolidating information, differences in statistical categories, and the developed countries' hegemony of development ideology.

5 National and, when possible, international decision-makers who had participated in designing the reforms were identified and interviewed by the authors.

## THE ECONOMIC CONTEXT AND THE CRISES OF SOCIAL PROTECTION SYSTEMS

Policies of structural adjustment adopted in the mid-1980s in Latin America and during the 1990s in Eastern Europe were at the core of reforms of the state. The crises of pension systems in Argentina and Moldova coincided with the deterioration of overall economic conditions, including the explosion of national debt, the reduction of state revenue, and a steadily growing inability to finance public programs. Therefore, the principles of social protection systems were greatly undermined in both countries.

In Argentina, the economic chaos following the crisis of the model of import-substituting industrialization paralyzed the search for a long-term solution. Growing debt, mounting unemployment, widening social inequality, and poverty threw the welfare state into crisis and halted the transformation of social and economic paradigms embodied in the "Washington consensus."<sup>6</sup> The promoters of neo-conservative principles succeeded in imposing their views and conditions.<sup>7</sup> Pension reforms were implemented first in Chile (1981), followed by other countries in the region such as Bolivia (1997), El Salvador (1998), Nicaragua (even though this reform was declared unconstitutional in 2000), and the Dominican Republic (2003). Pre-existing public systems were replaced (fully or partially) by private pension funds. One dimension of these reforms in Latin American countries was the transformation and decline of the role of the state in the regulation of the social and economic spheres.

## THE VICIOUS SPIRAL OF NATIONAL ECONOMIES AND PENSION SYSTEMS

The shockwave that affected a majority of developing countries originated in economic recession, excessive state debt, unemployment, corruption, capital flight, declining rates of return to economic activity, fiscal evasion, and impoverishment. The number of those denied social benefits remained high and the ideal of universal provision of social protection was far from being realized. It appears that the development of the social benefits systems in the two countries benefited neither the poorest strata nor those exposed to the economic shocks. The state failed to satisfy the growing demand for social protection.

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6 This term refers to policy advice addressed to Latin American countries by Washington-based international financial institutions. This common denominator included: fiscal discipline; a redirection of public expenditure priorities toward fields (such as primary health care, primary education, and infrastructure) offering both high economic returns and the potential to improve income distribution; tax reform (to lower marginal rates and broaden the tax base); interest rate liberalization; a competitive exchange rate; trade liberalization; liberalization of inflows of foreign direct investment; privatization; deregulation (to abolish barriers for imports and exports); and secure property rights.

7 Some analyses (such as those of Carmelo Mesa-Lago) then influential in academic circles emphasize the inherent defects of pension systems, which could explain the inevitable character of the upcoming crisis and reforms (Mesa-Lago 2005).

In Moldova, the crisis of the pension system in the mid-1990s and its subsequent reforms were linked to the disintegration of the USSR and the economic crisis that hit former Soviet republics after their independence. The transition from planned to market economy was accompanied by a disruption of the economic infrastructure and had devastating consequences for the population. Price liberalization in 1992 reduced real wages and savings to almost nothing. These growing economic difficulties were aggravated by massive unemployment and a progressive restructuring or closing of most large enterprises. In order to mitigate the effects of socio-economic instability, the Moldovan state allowed early retirement and lowered the already low retirement age.<sup>8</sup> Thus between 1990 and 1996 the number of retirees continued to increase, while the development of the shadow economy and fiscal evasion affected the funding of the public Pension Fund. Created in 1991, the Social Fund had been facing chronic deficits.<sup>9</sup> In fact, the first national pension law adopted in 1990 did not provide an adequate solution for ensuring financial stability in the new economic environment.<sup>10</sup> The general perception was that the burden of the economic transition was unbearable for the older generations (UNDP 1997).

In Argentina, the postwar period was characterized by accelerated industrial development and the growth of institutions providing social protection based on insurance principles, the promotion of preventive care, and collective mechanisms of old-age risk management.<sup>11</sup>

The situation changed radically starting in the 1970s (Feldman, Golbert, and Isuani 1988). In the 1990s only 50% of the elderly had retirement pensions, and pension provision levels were very low. The 1980s were marked by hyperinflation that caused the real value of pensions to fluctuate, with a general tendency toward negative growth. In March 1990, the real value of monthly pensions declined twofold relative to its 1989 level; this occurred despite the introduction of laws guaranteeing inflation indexation of retirement income (some retiree associations even took the state to court on this basis). The outcome of hyperinflation was the creation of "provisional debt," or debt of the public pension system to retirees.

The evolution of pension systems influenced by radical transformations of national economies coincided with the disintegration of the communist welfare state in Moldova and the implementation of structural adjustment policies in Argentina.

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8 The legal age of retirement in the Soviet Union was 55 for women and 60 for men, with many exceptions and privileges for certain professional categories.

9 In 1996 the total of these debts absorbed 51% of the Social Fund's budget and resulted in arrears in pension payments.

10 Before 1991 deficits could be subsidized by the public budget of the USSR. After independence this problem had to be resolved by the new Moldovan government.

11 For insights into the social history of the social protection system in Argentina see: Isuani 1985; Mesa-Lago 1983; Oszlak and O'Donnell 1976; Tenti Fanfani 1987.

### THE STAKES OF PENSION REFORMS AND THEIR FORMULATIONS

The crises encountered by both countries at the end of the 1980s occurred in the context of worldwide economic and welfare state crises affecting other developing nations. This process was even more dramatic for an ex-Soviet country. In both Argentina and Moldova, pension reforms were intended to institute changes in social policies in the hope of social justice and equity for the population. In both countries, the stakes of the reforms were presented on the one hand as eliminating deficits and restoring short-term solvency, and on the other hand as the long-term promotion of old age insurance. One of the additional objectives of the reforms in both countries was to make individuals more responsible for their future and to incentivize their participation in social insurance systems.

In Moldova, the first national pension law adopted in 1990 was inherited from the Soviet past and proved unable to endure the emerging economic challenges. Its declarations and promises of a “convenient income level for the elderly” remained on paper. Moreover, the newly created pension system based on principles of intergenerational solidarity did not take into account key characteristics of the economy or alarming demographic trends. The combination of these economic and demographic factors contributed to the growing malaise and deterioration of the social insurance system. Public pronouncements throughout 1992–96 attest to the fact that this issue was never entirely abandoned by politicians, although their actions produced adverse consequences. Despite public finance deficits, the state continued to take measures aimed to reduce poverty among retirees. The loss of real value of pensions was partially offset by government transfers. Pensions progressively became the principal social policy instrument designed to protect vulnerable strata of the population and to mitigate the negative consequences of the transition. Since the adoption of the national pension law in 1990, more than fifty adjustments that changed the parameters of old-age security were introduced, as well as a series of indexations. However, formulas for calculating pensions were frequently revised to the disadvantage of those newly retired.

Financial problems encountered in the Moldovan pension system were attributed to poor economic conditions, and the crisis was expected to disappear with the improvement of the general situation. However, the situation deteriorated every year. Citizens’ trust in state institutions was undermined once again in 1995 by a series of scandals implicating managers of the social fund. Public debate on pensions became more intense in 1996 when the deficit of the social fund resulted in multiple-month pension arrears. At the core of the crisis was the government’s decision authorizing companies to pay social taxes in kind—for example, in goods such as sugar and clothing.<sup>12</sup> Pensions were also partially paid in kind. This system resulted in numerous abuses in the valuation of goods. The Moldovan state’s capacity to find a solution to the pension arrears problem was thereby gravely undermined. Delays in pension payments provoked protests among the population.

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12 Government decree no. 403, June 16, 1995.

Many employers saw taxation as excessive and preferred to operate in the informal sector of the economy to avoid the onerous tax burden. Moreover, periodical modifications of the legal code and fiscal structure reinforced many citizens' conviction that the entire system was arbitrary and unjust. The inadequate amount of pension income and the disproportion between previously earned wages and retirement pensions fueled skepticism of the pension system. Thus, the Soviet system, despite all its disadvantages, came to be perceived as ideal by the majority of the population, including officials.

Poverty among retirees became a common subject of newspaper articles, with a widely used rhetoric of failure on the part of society and the state to provide the elderly with basic necessities. References to traditional national values of dignity and respect for the elderly served to highlight the pension problem. The pension crisis could be interpreted as the inability of the new state to effectively provide social protection in the context of changing times. Moreover, the proliferation of public interventions in the area of social protection contributed to a general confusion between state's insurance and assistance roles. The problems were exacerbated by the inefficient system of public management inherited from the Soviet state, poor administrative capacity, the fragmented institutional structure, corruption, and fraud. Still, we should note the Moldovan authorities' reluctance—despite the accumulated challenges—to radically change the existing system. The outdated Soviet system was not entirely discredited in the opinion of sectors of the population for whom pensions remained a “matter for the state.”

Pressure to start a reform process came not from domestic but from international actors. While local authorities were aware of the need for change, institutional and ideological resistance contributed to postponing reforms. Initially suggested solutions included raising the retirement age, increasing taxes, and reducing public expenditure on social transfers. The participation of international organizations set the political agenda of the reform process and influenced the implementation of new reforms. Criticizing the system for promising much to many and revealing social and economic defects of the outdated Soviet system of transfers, the experts at the World Bank emphasized the urgent need for radical reforms, which included shock therapy<sup>13</sup> as well as a total revision of the pension system structure.

In a similar manner, conditions for reforms in Argentina were set in Washington, where IMF officials and Argentina's finance minister Domingo Cavallo negotiated borrowing conditions. The diagnosis established at those meetings implied that the country was in need of investments and that private pension funds would be instituted to help finance the economy.<sup>14</sup> The experts were inspired by the Chilean model. The stagnation of salaries, labor market flexibility, and uncertain legitimacy of the state contributed to instability. But the crisis of the insurance system was political as well as social: it was the crisis of a compromise and of a mode of

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13 This proposal was made by World Bank expert Louise Fox, known for her partisan involvement in pension reforms in East European countries.

14 For more information see: *Diario de sesiones* 1993.

legitimation linked to “political corporatism.” These were the major reasons leading to the pension reforms that became, contrary to the Chilean system touted by the IMF, a mixed system with two pillars.<sup>15</sup> One component of the new system was a private regime with defined contributions, administered by private firms called *Administradoras de fondos de pensiones y jubilaciones* (AFJP) but “regulated” by the state. Promoters of this reform emphasized its benefits: lower public expenditures, higher rates of return offered by the financial markets, and a higher correspondence between individual savings and individual benefits. These goals implied that political reform produced a mechanical and functional effect, a dynamic response to changes in the economic and social environment. The transition to the privatization of the Argentine public pension system could not be explained by an “institutional deficit of the old system” alone. The reform appeared as a means to justify the state in the face of crisis. But given the state’s disengagement from social protection, it was necessary to identify new actors who would make “essential” decisions concerning social protection. Moreover, pension reform shows that there were winners and losers, a situation that evidently had social and political effects.

### ACTORS AND VISIONS OF REFORMS

In Argentina as well as in Moldova, new international actors emerged on the public policy arena. Moreover, the active participation of these actors was a dominant factor for settling and determining the pension questions on the governmental agenda. The role of new concepts and approaches to pensions should not be underestimated. At the same time, the power of ideas is not sufficient to modify previously-established policies. As Merrien, Parchet, and Kernén (2005) have argued, ideas could be influential only in the specific context of crisis. In the case of both countries, this crisis was accompanied by a certain dependency on international credits.

The rules for elaborating public policies evolved, and national politicians and administrators had to defer to the experts from international institutions at forums for public policy discussions. At the same time, despite proposals to open the debate to civil society, international organizations only marginally contributed to the democratization of the policy-making process. Despite general similarities between actors in Argentina and Moldova, we could note some substantial differences in their roles and visions. First of all, while World Bank pressure was strong in Moldova, consensus on the scale of the reforms was not easily achieved, as political actors were reluctant to conduct radical reforms. This hesitation was even greater given the

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15 The mixed character of the system is also reflected in the fact that it brings together family and community solidarity, cooperative solidarity, market solutions, and systems managed and partially financed by the state. This mixed configuration anticipated the World Bank’s change in position. Since 2003 the international organizations suggest the development of “cash transfers.” The renewal of the World Bank’s interest in social protection could be deduced from the creation of a special department. For more insights see: Holzmann, Sherburne-Benz, and Tesliuc 2003.

difficulties of predicting the effect of these policies on welfare and their reception by the population.

#### INTERNATIONAL ORGANIZATIONS AND THEIR ROLE IN PENSION REFORMS

Since independence in 1992, along with many other former socialist countries, Moldova began actively cooperating with the West through international organizations such as the International Monetary Fund, the World Bank, and the International Labor Organization, to name just a few.<sup>16</sup> The World Bank became an active promoter of pension reforms, as was the case in Latin America and other developing countries. It upheld the model of the three-pillar pension system in 1994 during the Annual Assembly in Madrid in the influential report *Averting the Old Age Crisis*. This vision was widely disseminated in Moldovan mass media (Fox 1996; Cantemir 1998; Oala 2002; Donos 1998). However, it took more than two years for policy-makers to make a choice on the matter, a fact that could be attributed to the technical complexity of the issue, and to their lack of experience with such projects.

Consultations with World Bank experts<sup>17</sup> were part of the Bank's technical assistance to the country.<sup>18</sup> The same process was launched in other post-communist countries as series of seminars and conferences were organized in Russia, Armenia, Ukraine, Central Asian republics, and Washington to discuss the urgency of reform. The effects of these conferences cannot be precisely measured in the case of Moldova, but meetings organized in Chişinău in 1996 under the title "How do you envision the future of the pension system?" produced some substantial results. Gathering representatives of civil society and the principal political authorities, the meetings became successful brainstorming sessions that combined a pragmatic American approach with local initiative. In addition, the World Bank contributed to the enlargement of networks as these meetings brought together important actors, including key ministry officials and participants from nearby countries such as Slovenia, Poland, and Hungary, that shared concerns about pension reform and had a strong interest in exchanging their experiences.

Of course, these public seminars—as well as foreign trips by high-ranking officials in search of useful models—were not the only way in which the World Bank guided reform. In addition to technical assistance with pension legislation and models, World Bank managers apparently adopted a micromanagement strategy, since pension reform was declared a condition for future credit to the country. Any decision in regard to pensions had to be discussed and negotiated with the Bank's represen-

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16 Moldova joined the World Bank and the International Monetary Fund (IMF) on August 12, 1992.

17 The human factor was also important, as the World Bank's genuine professionals in the area of pensions succeeded in gaining respect from their Moldovan colleagues, highlighting the importance of mutual recognition at professional forums.

18 The World Bank was not the first to develop this topic in Moldova. At the beginning of the 1990s a European program, TACIS, emphasized the importance of social protection reforms, and even granted a credit for restructuring the sector.

tatives, as was the case, for example, with the decision to freeze the retirement age. The World Bank agreed to this proposal by the newly-elected government in exchange for the adoption of new pension legislation for rural workers.

The World Bank evaluated the work carried out in Moldova as follows:

This was another example in which very modest AAA [analytical and advisory activities] and very limited lending seemed to yield a major impact. Bank staff were crucial for the design of a new pension system as well as new pension legislation and procedures; they also encouraged the virtual end to pension arrears (World Bank 2004).

### POLICY-MAKERS

Public authorities in Argentina denounced the “social benefits” to which certain groups of employees were legally entitled. Expert reports and assessments (some of them initiated by the World Bank) showed that corporatist privileges had increased the level of inequality between benefit recipients and non-recipients, while the overall poverty rate had increased. Income gaps between “protected” people and those without protection provided the impetus for implementing a pension reform in the 1990s under the neoliberal Menem government. Since then, the new configuration of social protection has been declared by the international financial institutions and local experts alike to be “distortionary, insufficient, and socially unjust.” The failure of the pension reform stemmed from the state’s incapacity to provide employees with guaranteed life-long pensions that would both be secure and satisfy the recipients’ basic needs. The system’s legitimacy was questioned. The terms “actuary fairness,” “financial viability,” and “economic efficiency” were omnipresent in the reformers’ discourse and had a significant impact on the policies implemented. The definition of an “acceptable level of pensions” was another controversial issue that became the subject of numerous debates. The basic issue in these debates was the need to redefine the distributional role of the state, as well as to address the lack of trust in the state among members of the Argentinean elite. The liberal critique became more and more compelling as the pension rates became less and less adequate to satisfy basic needs.

There was less consensus in Moldova. Despite the catastrophic financial situation of Moldova’s pension system, government officials were reluctant to initiate radical changes for a number of reasons, including political constraints and lack of technical expertise, to name just a few. In the context of mounting economic problems, officials initially had an incentive to postpone unpopular measures such as an increase in the retirement age, a reduction of retirement benefits, and special entitlements for such groups as military personnel, various civil servants, and government officials. However, faced with the risk of a serious social crisis, the political cost of non-action became too high. The debate increasingly focused on demographic developments, the need to increase the retirement age, and structural reforms. The rhetoric was based on traditional values, respect for the elderly, and the incapacity of the state Social Fund to deal with pensions. Radical reforms following the example of developed countries were viewed as the only way to improve the country’s economic and social prospects.

Another peculiarity of the reform dynamics was the fact that the administrative apparatus did not undergo any significant change from Soviet times. This personal continuity attested to the general difficulty of renewing modes of public action, and in particular of improving the efficiency of inter-ministerial cooperation on pension issues (Duran 1990). Although the new international mediators raised questions regarding the efficiency of the decision-making process in the ministries and the need to reform the existing institutions, the reform process was generally characterized by an absence of organized professional forums at which the pension reform could be openly discussed. In addition, lack of technical actuarial expertise at the national level could partially explain the dominance of international experts in the debates. Nevertheless, local actors demonstrated their resistance to the Western experts by promoting a rhetoric highlighting “unique features” of the post-Soviet country and argued that the government should design new policy programs because the models proposed by the West were not suited for the Moldovan socio-economic context. On the whole, models proposed by the international organizations were criticized by many on the grounds of being “incoherent and not well suited to the economic and social realities” in Moldova. This allowed national actors to maintain a certain critical distance and to use this argument in their exchanges with the foreign experts.

#### **SOCIAL DIALOGUE AND REFORMS**

The differences in the stances of trade unions and employer organizations on the pension reforms in Argentina and Moldova were influenced by their specific historical conditions.

The introduction of private pension funds in Argentina under the national-populist Peronist regime resulted in a shift in the balance of power that allowed the establishment of a public pension policy in the country. The decline of the global development model adopted in the 1940s and the weakening and transformation of the trade unions contributed to the decline of the unions’ influence on state policies and workers’ right to retirement. Some trade unions supported pension reforms, a move which could be interpreted as a defensive withdrawal of opposition in order to preserve existing rights. Pension funds were perceived by that time by many unions and employers’ organizations as a unique solution to the problem of inadequate pension income.

In addition, employers and some union factions treated these developments as a new source of capital. Emerging simultaneously with the possibility to constitute pension funds, a new sort of collaboration between businesses and unions resulted in an enhanced capability to involve financial markets in the pension system. This was not new; since the 1940s the activities of the *Confederación General del Trabajo* (CGT) of Argentina in the area of pension reform were oriented toward an accumulation of organizational and financial capital in order to reinforce its capacity for negotiating with the state and participating in the decision-making process. Unions’ demands in the area of pension reform were centered on creating a system of resource distribution and defining criteria for pension rights, such as reducing the retirement age and raising income replacement rates. The success of the unions in improving their

bargaining position during Peronism reduced the debate on aging to the issue of changing the income replacement rates for workers. Inadequate income amounts made it easy to question the whole system.

In Moldova, the end of the Soviet era signified a dramatic transformation of the existing state-organized unions and led to the creation of new pathways for social dialogue.<sup>19</sup> The difficulties encountered by many trade unions were related to poor representation, especially in the emerging private sector where small firms dominated, as well as to the predominance of unions in sectors or firms under state control (with vague differentiation between the interests and roles of employers and workers).<sup>20</sup>

The propositions made by Moldovan trade unions to the government on pensions demonstrate their recognition of a need for reform, yet the details remained unclear. Criticisms raised by the trade unions to the government mainly concerned the arrears of the system and the non-equitable mechanism for calculating pension amounts for different occupational categories. However, the content of the reform itself was not questioned. Lack of opposition and discussion of alternative solutions could be explained by several factors, including the weakness of trade unions suffering from internal contradictions and the shortage of expertise on the part of employer organizations and trade unions in debates which tended to be dominated by economists and insurers. This expertise deficit further marginalized trade unions and employers at public forums on the pension system. In addition, trade unions inherited from the Soviet era a strong tendency to side with the government on issues of social and economic reform. However, during the discussion process formal rules were observed that allowed employer organizations and trade unions to participate. For example, their representatives were invited to seminars and discussions on pensions organized by the World Bank, which tried to make the reform process democratic. At the same time, the World Bank demanded an acceleration of the reform process. As a result, a social consensus among the different parties on the decision-making process was never attained (Fultz and Ruck 2001).

### CIVIL SOCIETY

Even though society as a whole had a stake in the reform process, the lack of activism on the part of civil society throughout numerous debates and discussions was rather surprising. In fact, the term “civil society” could hardly be applied in the social context in the cases of Argentina and Moldova in the mid-1990s. One could note a general passiveness of the population probably inherited from the Soviet or authoritarian past and an absence of mechanisms that would integrate different social groups into decision-making processes.

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19 Moreover, newly created unions and employers' organizations were affected by property structure modifications and the reorganization of big companies.

20 Another problem of social dialogue indicated by Valentina Teosa from the Moldovan Labor Institute (personal communication) was the lack of initiatives and efficiency on the part of employers' organizations. Moreover, employers often opposed the activity of trade unions in the companies, thus the rate of union adhesion was 8.5% for state-owned companies, and 11.5% for private sector firms.

In Argentina, the privatization of pensions did not trigger substantial social or political unrest, as the poorest did not receive any pensions<sup>21</sup> while the majority of beneficiaries were receiving only modest amounts. Of course, the old system covered around 70% of the Argentinean elderly, but before the reform 80% of retirees were paid replacement revenue, which was substantially lower than the 350 pesos per month they received under the current regime. The disparity between the retirement pensions and the earned wages all but disappeared, as did discourse on the inequality of the system. The amount of the benefit paid became more uniform, but for the lowest income levels the change was perceived as an additional source of inequality. The search for solutions to income deprivation coincided with the impoverishment of the middle class but also with various difficulties encountered by social actors in forging alliances and solutions other than those driven by the market. The irony of social relations was that the very social security system created at the beginning of the century in order to reduce social conflicts had in fact provoked deep social unease. The decline in traditional forms of mobilizing public opinion, the accelerated degradation of social protection and global development policies, and the indebtedness and trauma of hyperinflation during this period contributed to the emergence and reinforcement of the neoconservative ideas that were already popular in other countries in the region.

In Moldova, the population was largely excluded from discussions about the pensions. There were some demonstrations by retirees against the pension payment arrears, but these protest actions did not result in active discussion and public debate. It seemed that the active population was not concerned with pension reform. However, was this lack of involvement a sign of agreement? It would be more accurate to view non-participation as indicative of the character of relations between society and its elites. The transition period was characterized by a general crisis of popular trust in public and state institutions, which was continuously undermined by corruption scandals and revelations of fraud by high officials. Since 1991 there was a general attitude of skepticism and powerlessness with regard to the initiatives and intentions of the state, thoroughly discredited in the eyes of the electorate. Another reason for the exclusion of civil society was the technical complexity of the subject. Only measures such as the rise in the retirement age and in the number of contribution years were debated in the press, without, however, leading to more protest.

## TESTING THE PATH DEPENDENCY HYPOTHESIS

Neo-institutional analysis of public policies suggests that reforms of the social protection system and, in this case, of the pension system are constrained by formal political rules and by the configuration of pre-existing policies. This analytical

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21 The poorest do not get retirement pensions but social pensions. Allocated on an arbitrary basis, these social pensions were far from being sufficient for living. In 2007 they were allocated to more than 500 million Argentines; of these, 20 million were military retirees, and pensions for the elderly and for indigenous peoples were received by 400 million people. The tendency is on the rise. See *Boletín de la Seguridad Social*, December 2007.

framework could also be tested in the case of pension reforms in Moldova and Argentina. To reach a better understanding of the reforms and their course we suggest exploring the national situations in both countries in greater detail.

### ARGENTINA

Public management of aging in Argentina was focused on the public pension system. It was based on an insurance model that went through several successive modes of administration: first the fully-funded systems at the beginning of the twentieth century, then the pay-as-you-go system in the 1940s, and lastly the mixed model in the 1990s. The expansion of retirement coverage to new professional categories was carried out on the basis of political compromise with the state.

The colonial heritage was very important in the elaboration of this model. The very first pensions were created by the state for civil servants in key administrative positions. The pensions of military officials, royal marines, judges, and civil servants were paid by the King's Treasury. This pattern persisted after national independence with the institution of the republic. Judges and lawyers were the new republic's central advocates for pension benefits. From 1900 to 1944, social protection schemes in the area of old-age, disability, and survivor pensions were broadened to include the working class. Similarly as in Europe, the goal of these policies was to reduce the probability of social conflicts, prevent strikes, and foster a capitalist attitude toward the means of production. Following this period, as salaried jobs became the norm, Argentina introduced a social security model. This produced an atomized retirement system based on the idea of saving for old age. Initially applied to civil servants, in the 1940s and the 1950s the distributive pension system was extended to employees of private companies in strategic sectors.<sup>22</sup>

The state began to pay more attention to workers in the agro-export sector compared to the public management of aging. Social rights were mostly linked to work, or rather to a certain type of work. During this period, the question of retirement benefits for peasants was not discussed. Yet the agro-export model does not apply to the rural part of the country. The *latifundia* system and the concentration of land in the hands of an oligarchy constituted a barrier for access to land and excluded owners of small plots of poor-quality land, farmers, and workers without land, as well as European immigrants attracted by the growing development of the internal market centered on Buenos Aires.

The emerging workers' movement inspired by socialist, anarchist, and unionist ideas was actively opposed to full state funding of the retirement system without rejecting the idea of a replacement salary based on the insurance principle. But while at the beginning the existing modes of pension retirement reflected a balance of power favorable to the emerging employers' organizations, in the 1940s the balance of power shifted in favor of the working class. Perón wanted to institute a general obligatory regime for all Argentineans, but his initial project failed under pressure from the trade unions. By that time the public pension system served to support

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22 For further insights on social security for corporations see Mesa-Lago 1978.

organized workers, the middle class, and some sectors of the industrial modern bourgeoisie. The institution of retirement agencies for statutory employees of Perón's national populist government might be interpreted as a mechanism of integration, but was primarily designed to prevent social conflicts and to develop an accumulation model of pensions. Perón was seeking to achieve what Robert Castel has called the "state of growth" of a salaried society, and to realize Beveridge's goals with Bismarckian methods (Castel 1995)<sup>23</sup>. The main idea was to combine economic growth and the development of social-state strategies without any major contradictions. The transition undertaken during this period from the funded/defined-contribution model to the PAYG model could be interpreted as part of a project to create a unique system of solidarity, or as a response to a demand for durable consumer goods on the part of protected social strata. Whichever explanation is accepted, it appears that despite the introduction of the distribution model, the link between social contributions and benefits was perceived as instituting a right to a replacement salary based on contributions made during one's working years and guaranteed by the state. When that link ceased to be honored in the 1980s, retirees went to court in order to obtain their benefits from the state. This contributed to the return to a funded/defined-contribution model in the 1990s.

At the same time, the fragmentation of the right to retirement pensions and the individualization of the right to private pensions reflected a shift away from working-class in favor of middle-class and employers' retirement preferences.

These two phenomena emerged at the end of the 1960s with the onset of the period of military dictatorship. In the 1960s, under General Onganía, pension reforms were conducted during a period when the state was relatively autonomous, at least with regard to pensions. On the one hand, there was a unification of old-age pension funds and homogenization of retirement rules. The state played the role of a rational agent whose main concern was to delegate and redistribute power among different social actors. This project, however, turned out to be unstable. Despite the dictatorship, subsequent military regimes had difficulty transforming social dynamics and public old-age policies. The alternative to Peronist working-class corporatism was the corporatism of employer organizations of the 1970s military state. The lowering of employer contributions to the pension system in 1980 confirmed the shift of the balance of power back to employers. The state was unable to formulate new principles of pension solidarity and preserve the balance of power.

On the other hand, it became impossible to eliminate what some social actors considered part of their contract with the state. This was the main conclusion drawn by Raúl Alfonsín's government. The project of universal social security and an autonomous pension system was quickly dismissed as utopian, since the "state of growth" that allowed the development of social security could not be brought back.

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23 In the literature on the welfare state and social protection, the Beveridge model stands for unmediated universal coverage, whereas Bismarck is associated with a system based on individual contributions and the distribution of benefits through corporations such as medical insurers or trade unions.

The social, economic, and demographic crisis could not be resolved by institutional and political means alone. Arrangements that were internal to the system and arose from its own logic were progressively set aside as inadequate for confronting the growing challenges. New methods were needed, and their choice was determined by how the main actors diagnosed the problems in the pension system. They came to question the pension system as a whole, both its founding principles and the results it produced.

Instead of revising the terms of the contract underlying pensions, the Menem government, with the support of allied unions and employers, defended the reforms inspired by the World Bank economists. European social protection models underwent dramatic changes in a neoconservative direction. From this viewpoint, the actions of the IMF and the World Bank should be considered vehicles of the so-called new orthodoxy of pensions.

#### MOLDOVA

Soviet ideas regarding the role of the state persisted long after Moldovan independence, despite radical social and economic changes that occurred after the collapse of the USSR. These mental “habits” generally determined the conditions of emergence and the development of certain paradigms, impeding the development of alternatives. During the Soviet period social protection had been guaranteed by the state, and popular expectations were deeply anchored in this tradition. Even after the reforms of the system of social protection in 1990–2000, around 48% of Moldovans believed that the provision of basic income to retirees was the responsibility of the state.<sup>24</sup>

But what was the Soviet system of social security really like? It can be said to have been “based on ostensibly Beveridgean principles and an actual Bismarckian functioning” (Lefèvre 1995). The system appeared profoundly universal in its principles, but in reality the bulk of social protection was linked to employment history and was distributed through enterprises.<sup>25</sup> Another peculiarity of the Soviet system was the low average retirement age—sixty for men and fifty-five for women.<sup>26</sup> For certain categories of people this age was even lower, for example for those working under dangerous conditions or for women with many children. It is

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24 According to a public opinion poll conducted by the Social Policies Group in 2001.

25 The majority of social benefits (sick benefits and family benefits) were distributed at the workplace through enterprises’ union committees. Moreover, social and medical services for workers were managed by the enterprises. Therefore, social benefits for consumption distributed by social funds were allocated to employees in return for their economic participation, implying that Soviet social protection was linked to professional status. The system was characterized by the existence of social funds for consumption, including expenditures related to social benefits (such as retirement pensions, sick benefits, disability benefits, and family benefits, to name a few), a publicly-funded education system, health care, and housing, as well as a diverse range of opportunities for workers.

26 According to Oksana Siniavskaia (2001), the early retirement age made workers tolerate low wage levels.

important to note once more the absence of schemes other than those managed by the state. The new pensions systems in the late 1980s emerged in a context where economic relations were determined by state property and the state regulated all spheres of social life (Romanov 1999). Thus, this system was based on the principle of intergenerational solidarity justified by the economic growth of the postwar years. Financial resources came from enterprises' contributions and from the state. The first national law on pensions in Moldova was adopted just after independence in 1991 and was inspired by the last Soviet pension law adopted earlier that same year. Though some national peculiarities were taken into account, the general approach to the provision of social security was maintained, and the system remained redistributive, displaying a certain continuity with the past. It created a social security system not dependent on the nature of the recipient's occupation, which signified the end of the classification of occupations according to their "public usefulness to Soviet society." A pension fund as part of the Social Fund was instituted on February 1, 1991, and separated from the state budget by a decree of the Moldovan government (decree no. 52). For the first time, workers had to pay social contributions (even though they remained symbolic, at 1% of their salary, compared to 32% paid by employers). The indexation mechanism was instituted at the same time and the right to a full pension was proclaimed for retirees who continued to work. But other parameters remained the same, including the retirement age, a roster of professions with special provisions for retirement, and an exit age that varied from forty-five to fifty-nine years. Certain "non-insured" periods during which a person did not work (such as military service, education, maternity leave, or care for a disabled person) were also included in the contribution period. In the new system the level of pensions could not be lower than the minimum cost of living. The minimum old-age pension was fixed at 55% of the average wage and 1% for each additional year of employment (after twenty-five years for men and twenty for women).

Preparations for pension reforms in 1997–8 resulted in a strategy adopted by the parliament on September 23, 1998. The strategy was ambitious as it aimed to improve the situation within a short timeframe, relying on strong financial discipline mechanisms and strict control over the payment of social contributions. This necessitated a change in employers' and employees' behavior and their full participation in the insurance system following the new imperative of "optimization of individual and collective responsibility." The link between the amount of contributions and pensions followed the "you get what you pay for" principle. The state wanted to limit its role in the management and regulation of the system. A new law adopted in October 1998 and enacted in 1999 maintained the distributive basis of the pension system. Intergenerational solidarity was invoked to underscore society's obligation toward current retirees. The system of social insurance became mandatory for all. The pension system introduced a minimal pension for old age and a pension linked to social contributions. The pension level was linked to social contributions and financial incentives introduced to maintain workers in the labor force.

## PARTIAL RESULTS OF PARTIAL REFORMS

An analysis of the outcomes of reform shows that in both countries, the terms of the ambitious initial projects were progressively revised and modified. The role of veto actors such as parliament has to be mentioned in this regard. Pushed to search for compromises, the reformers were compelled to come up with their own strategies and to adjust them to different degrees. Thus, in Argentina in the 1990s, the newly announced logic of state intervention was supplemented with a restatement of the compromise between unions and employers upon which the pension system was based. Yet a careful analysis of discussions held at the National Congress shows that reform plans shifted from a fully privatized to a mixed system (Diario de sesiones 1993). The resulting system could be best characterized as a hybrid model incorporating some elements of social conservatism. In a similar manner, in Moldova the political configuration was conditioned by a set of compromises and modifications that threatened the initial logic of reforms and their coherence. In the same way, the pension system combines elements inherited from the post-Soviet system with new approaches. It could be considered a pure product of the transitional economy, requiring constant adaptations to emerging economic and social realities.

The main goal of the reform in Moldova was announced as the "adaptation of the system to the new market relations and provision of insurance principles to guarantee the well-being of present and future retirees" (Moldovan Ministry of Labor and Social Affairs 1998). Moldovan reforms attempted to introduce new principles and measures, but their coherence and continuity were questioned by subsequent legislative changes and modifications. Political pressure resulted in numerous modifications of the initial pension law. For instance, the progressive increase of the retirement age was halted by the communist majority in 2004 at the age of 62 for men and 57 for women, resulting in a dramatic increase in the number of new retirees (otherwise the retirement age would have become 65 for men and 60 for women by 2008). The attempt to introduce the same pension norms for different categories of workers failed in a similar manner. Although the majority of provisions were annulled, the continuous pressure of interest groups resulted in additional favorable conditions being granted.

At present the system of social insurance in Moldova could best be described as fragmented and complex. Rates of social contributions fixed annually by the parliament vary between professional categories (for example, they are not the same for freelance workers, farmers, employees, and civil servants). The distribution of social contribution rates shifted from employers to employees (31% for employers and 1% for employees in 1999, 23% and 3% respectively in 2006). The agricultural sector benefited from advantageous rates based on soil fertility and land surface.

Since the beginning of the 2000s reformers have denounced as unjust the high share of benefits received by agricultural workers (40%) relative to their low contribution to the pension system (8%). As a matter of fact, this ratio illustrates the contradiction between the redistributive nature of the system and the principle of earnings-related pensions. In addition, individuals' responsibility for their old-age income (as intended by the insurance system) appears superficial since the

“contributational wage” used as a basis for calculation has been capped at three national-average wages.

At present, the pension system is once again on the public agenda. The national economy’s poor performance, aggravated by the recent financial crisis, emphasized Moldova’s financial instability. Migration and unemployment have had a negative impact in terms of contributions. Demographic trends do not inspire optimism as far as low birthrates and massive migration are concerned. According to projections by the United Nations Population Fund, by 2050 one-third of the population of Moldova will be 65 or older. The introduction of a privately funded pension scheme is suggested by many as an alternative to the existing public pension system seen as unable to provide old-age income security. This idea is supported once again by international pension experts as well as lobbies representing the national insurers’ union and European insurance companies. The initiative is not new; the first attempt to introduce private pension funds was undertaken in 1999 with the adoption of the law on private pension funds.<sup>27</sup> However, the law had little impact on participants’ inability to meet all the conditions. The new, “liberal” government seems to be ready to review the law and to opt for the development of the mandatory-funded, privately-run scheme.

The model that emerged from the reforms in Argentina could be considered conservative on three counts: the introduction of private pension funds, the transformation of the role of the state from direct service provider to manager of contract with private service providers, and the emergence of new forms of social intervention, especially the development of targeted means-tested benefits. Before the reform, the system consisted of twenty retirement regimes, and each province of the federation had at least two retirement regimes—one for civil servants and another for employees of the public sector. The reform unified eighteen regimes, and provincial governments could choose to transfer their regimes to the federal agency responsible for the administration of the new regime. Eleven out of 24 provinces chose to do so. In order to reduce the cost of the transition from the old regime to the new, the criteria of access became stricter in terms of retirement age (65 years for men and 60 for women) and number of contribution years (30 for men and 25 for women). The minimum retirement age grew, and the basis for pension calculation changed from the average of the three highest salaries of the last ten years to the average of all salaries of the last ten years. For the state, however, the privatization of pensions meant that revenues were decreasing at a higher rate than pensions. According to Joseph Stiglitz (2002), during the Argentinean crisis in 2001 the deficit could have equaled zero if pensions had not been privatized.

The structure of the new regime combines capitalization and distributive elements. In the first pillar, the state manages the pension/defined benefits regime with the distributional principle that gives a retirement pension to any worker having contributed for thirty years. Participation is compulsory for all. This pension is financed by taxes and transfers from general revenue but also by special taxes. The

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27 Legea cu privire la fondurile nestatale de pensii, no. 329-XIV, March 25, 1999.

second pillar includes two components: a regime of integral capitalization with defined contributions managed by private companies (AFJP); and one public component with defined benefits operating on a distributional basis for employees who prefer to stay within the old regime. This component is managed by the National Agency for Social Security (ANSES) and is financed by employees' contributions of 11%. Since September 15, 2007, the pension system has included a guaranty fund created for the distributive part of the system. Its mission is to secure the pension system in case of an unfavorable financial situation. Participation in the new regime is mandatory for all Argentineans aged 18 and up, and employees can choose between public and private components since 2007.<sup>28</sup>

In Argentina, negotiations between social partners resulted in the creation of a system of facultative funded regimes that risks producing inequalities in old age. This dimension refers to the content of social policies rather than simply insurance methods. It remains to be seen whether the system will benefit all citizens.

For account management within the funded pension scheme, employees can also choose a private firm that they can change at any moment. At the beginning there were twenty-five firms operating on the market. Today there are eleven, with five big companies covering 51% of affiliates. Thus, for example, if the *Origenes* pension fund were to fail, 19% of affiliates would fail to get their pension money back.

The PAYG scheme includes 1.5 million affiliates, and the funded defined-contribution scheme about 6 million people (the number has been falling since the last reform in 2007). According to the last social security bulletin, the active population in Argentina constitutes about 16 million people. The pension system accounts for a total of 14 million affiliates. Only half (a little more than 7 million) of them actually contribute: less than 5 million men and 2 million women. "Fraud" could thus be estimated to be as high as 50%.

## CONCLUSIONS

The present article examines the trajectories of pension system reform in Argentina and Moldova. Although our separate research on pension reforms in each country was not initially aimed at comparison, we have taken the risk of comparing the reform processes in both countries. This exercise has helped us question the meaning of social policies in developing countries and the categories implicit in them.

One of the key questions raised concerns the optimal configuration of reforming pension systems and the dilemma of incremental changes versus radical transformations. An analysis of the reforms in these two developing countries shows that the context of economic crises *per se* does not necessarily lead to radical change. The initial strategies for the reforms were progressively revised and tended to be

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28 In 1994 all affiliates were automatically enrolled in the private funded scheme. The rule changed in 2007: all new subscribers are now automatically included in the PAYG scheme. Moreover, workers can change their scheme after five years of affiliation.

more moderate, hybrid models. A neo-institutional approach along with a recognition of the cognitive dimension of public policy makes it possible to demonstrate different stages of the reform process and the structuring influence of paradigms and inherited institutions. This shows the great importance of a historical analysis of the development of the welfare state.

In a study of pension reforms in Western European countries, Immergut and Anderson (2007:17) found that the impact of ideas or learning *per se* was not visible:

Policy makers were certainly influenced by the international debate about public pensions [...] But rather than observing either a process of national policy-makers suddenly discovering new ideas about how to solve their problems or a process of regional diffusion of policy ideas, we observed national policy-makers drawing on ideas and solutions from the history of their own country, using pre-existing policies and existing policy ideas as institutional templates, and combining these with internationally-discussed proposals. Thus we witnessed national proposals emerging as a kind of collage pasted together from national and international proposals which in turn were revised and modified during the political process.

This was also verified in the case of the Argentinean and Moldovan pension reforms.

An analysis in terms of “veto players” also appears appropriate and brings specific insights on points of tension within the reforming process. From this perspective, recent findings of Immergut and Anderson’s comparative research on pension politics suggest that a single “veto points” and “veto players” approach cannot provide an answer to questions of pension politics but should be supplemented by a theory of political competition.

Political competition is a complex variable that depends upon a number of features of political systems, and on what we call “electoral maps.” Moreover, the impact of competition is also complex: if there is too little competition, governments may have little incentive to reform; too much, and they become paralyzed, because they fear the electoral costs linked to cuts in popular government benefits (Immergut and Anderson 2007:i).

In both countries, new arrangements resulting from implemented pension reforms are far from being coherent and reflect past choices and the power of inherited representations. For example, the Moldovan state demonstrates continuity with the Soviet past by using pensions as an instrument to regulate labor markets and protect the impoverished strata of the population. Expenditures are expected to increase over the coming years at a significantly higher rate than receipts, and the key objective for managers remains to guarantee a mid- and long-term solvency of the scheme. The introduction of a private funded scheme promoted by World Bank representatives is still being debated.

Financial problems and the depth of the crises in both Argentina and Moldova exacerbated existing difficulties in the pension system and contributed to the exclusionary nature of the coverage, as the system of social protection experienced a sustained reduction over the past decade. The reduction in coverage coincided with the growing demand for protection as levels of social inequality increased in the two countries. The problems of economic efficiency and social equity not only affected the benefits of the retiring population but also impacted the nature of the social contract, raising questions on the relationship between the state and market institutions. At the same time, the underdevelopment of capital markets and the absence of regulatory mechanisms pose challenges for old-age income in the two countries.

Other problems that continue to affect both systems include high administrative costs and the need to improve coverage for the population, as well as informal aspects of labor market participation. The growing size of the shadow economy and the number of informal sector workers has implied that a growing share of the population has lower access to social security benefits and old-age income. The growing discrepancy between protected workers and unprotected individuals raises concerns about growing poverty among the elderly. While these problems pose serious risks for society, their consequences can be mitigated if adequate policies are developed by the government, which remains a key challenge.

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