

## **PENSION SYSTEM REFORM : THE DANGER OF OPTIONAL PROGRAMS IN LATIN AMERICA**

**Raúl Bustos\***

Chile was the first Latin American country to reform its pension system. Subsequently, several countries in the region have made changes to their pension regimes, although none has implemented the Chilean model of individual capitalization and private administration in its “pure” form.

This paper discusses the reforms carried out in Peru, Colombia and Argentina, and explains why, by maintaining the old entitlements (pay-as-you-go) system as an indefinite option, these new pension schemes run a high risk of failure. By comparison, the projected legislation in Bolivia seems promising.

According to the author, the Chilean experience shows that if affiliates are given the choice, the incentives to pay into one or the other system (pay-as-you-go or individual capitalization), are fundamental for successful reform. So-called “choice systems” (introduced in Argentina, Peru and Colombia) are very tempting insofar as they significantly alleviate natural resistance to radical and immediate change. However, they make it more difficult for the capitalization scheme to prosper and replace the pay-as-you-go system.

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In 1981 a new pension system began to be applied in Chile, based on individual capitalization and administered by private sector firms. In recent years several other Latin American countries have sought guidance from Chile's experience in solving the problems of their own pension systems. However, the changes finally approved and implemented in their pension schemes have been generally far less profound and radical than the reforms introduced in Chile. A regional perspective reveals a wide variety of situations with respect to the way in which countries have tried to move towards efficient and viable pension systems. At one extreme are countries that until now have only made minor adjustments to their old publicly administered entitlements systems; at the other extreme is the Chilean case, where radical reform led to replacement of the old system. There are other experiences located in a big intermediate area, with variations allowing both schemes to coexist.<sup>1</sup>

What are the results so far from the different systems that have been implemented? What are the chances of success for reforms that have settled on "choice systems" rather than seeking to replace the pay-as-you-go scheme? The following pages try to answer these questions, suggesting corrective measures that need to be taken to avoid possible failures. The first part of the paper describes the basis of the Chilean pension system reform, the mechanism by which the new system works and the results achieved over time. Subsequently, the results of so-called "choice systems" are analyzed in the countries that have applied them: Peru Colombia and Argentina. The paper then considers the model contemplated in the projected bill to reform the Bolivian pension system. The final section presents the conclusions and recommendations that can be drawn from the analysis.

### **The Chilean option**

In Chile a choice was made to replace the pay-as-you-go system—although not immediately— by an individual capitalization scheme. As well as capitalization, private profit-seeking administration was introduced, along with a subsidiary role for the State as regulator, inspector and body

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<sup>1</sup> Carmelo Mesa-Lago distinguishes five models: reformed public-sector programs; replacement private-sector programs; mixed programs; selective programs and complementary programs. "*La la reforma de la seguridad social en América Latina y el Caribe*", (Santiago de Chile: Ciedess, 1994).

responsible for minimum pensions and pension-fund profitability. An additional program was set up to provide assistential pensions for low-income and marginalized groups.

Various hypotheses can be put forward to explain the excellent results achieved in the thirteen years of the application of the new system. There is no doubt that having undertaken other reforms at the same time—capital market, insurance, regulatory entities, all of these with a consistent focus—is one of the reasons for success, but in the face of the initial unflattering results from reforms introduced in other countries, the “purity” of the Chilean reforms assumes greater importance.

Would the results have been similar if the reform had been carried out half-heartedly under an optional program?

As the reform was not undertaken in this way it is impossible to answer this question categorically. But several points can be made.

In the first place the Chilean reform brought the crisis in the entitlement system to an end. True, it was brought to an end in the future, but brought to an end it was.

In the second place, the key aspects were clearly identified: those which had to be imposed as well as those that needed to operate through incentives. Competition between the two regimes was limited to older workers, with workers being obliged to join the capitalization system; and where there was competition, each sub-system had to assume the real costs of the worker, thereby giving clear advantages to the capitalization system.

This advantage might be considered as unfair competition, but no other course was available if one started from the conviction that the old framework would have to die to prevent the crisis worsening. In addition, there was the simple recognition by workers that a mature entitlement system in crisis is so much more expensive than a capitalization system, both in terms of the contributions required and the benefits that it is able to provide, as the dependency ratio deteriorates. For workers to perceive the cost difference it was not sufficient for contribution rates to be different, but employer contributions also had to be brought to an end. It also had to be made clear that the burden of social security from an economic point of view should always be borne by the worker, whatever distribution the normative framework provides for. The lower cost to workers of the new scheme was crucial for the volume and speed of transfer from the old system, because cost was the only attribute which competition could be based on from the beginning: the other attributes (better pensions, better service) were still only promises.

In addition, for those who transferred from the entitlements system, acquired rights in the old system were respected, as the contributions they

had made in this system were transformed into a Treasury bond representing the pension that would have accrued if they had not transferred to the new system. At the same time, the State assumed responsibility for financing pensions that were in the process of being paid as well as those which were still accruable in the pay-as-you-go regime. Much has been written about the excessive fiscal cost of this reform. The truth is, however, that the State agreed to anticipate part of the cost that in any case it would have had to assume due to the bankruptcy of the old system —the so-called implicit debt— and which in any case, in absolute terms was less than the amount it would have been required to pay, as ultimately responsible, if capitalization models had not been created. In other words, the reform made it possible to quantify and cap the debt, so it will expire with the final payment of the recognition bond or when the final pension recipient dies. Put another way, the deficit that already existed in 1980 would have continued growing indefinitely, thereby adding to State's debt not only towards only current pensioners but also future ones.

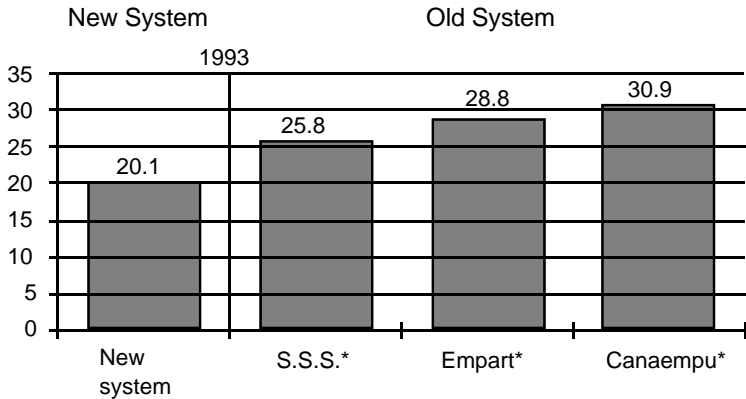
All the above made it possible for the vast majority of workers to affiliate to the new system, thus creating conditions for:

- the number of affiliates to approach the critical mass needed to permit the efficient operation of the system from the beginning;
- many operators to be willing assume the risks implied by the new system: investing in the new industry with significant capital and paying the costs associated with learning and successfully managing what, at that time, was an untried system;
- for a high degree of competitiveness to exist within the industry. The system came into being with twelve Pension Fund Administrators (AFPs); today there are more than 20, with the widest possible variety of ownership structures.

It is worth pointing out that the Chilean pensions regime is not limited to the individual capitalization system administered by private entities. There are other non-contributory benefit schemes, such as minimum pensions guaranteed by the State for affiliates in general, and assistential pensions for old and disabled people without private means. If a degree of author's licence may be permitted, using a three-pillar metaphor it can be said that the system's benefits ultimately correspond to a primary public-sector redistributive pillar; the benefits of an individual capitalization regime would form a second mandatory pillar administered by the private sector; and there would also be a third voluntary pillar administered by the same private entities, which based on tax incentives would stimulate higher saving in order to increase the benefits of the second pillar.

The success of the Chilean model can be appreciated in the following six graphs. Figure 1 shows that the cost borne by affiliates of the old system is on average 42% higher than that borne by members of the capitalization system. Figure 2 shows that pensions in the new system are on average 46% higher than those in the pay-as-you-go framework.

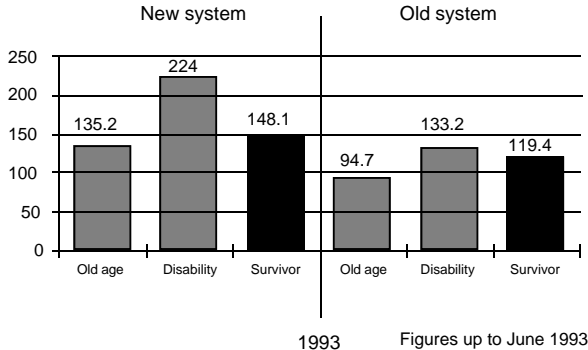
FIGURE N°1 COST OF FINANCING PENSIONS: OLD SYSTEM VS. NEW SYSTEM



\*To the month of September.

Source: Author's calculations based on statistics from the Superintendency of Social Security.

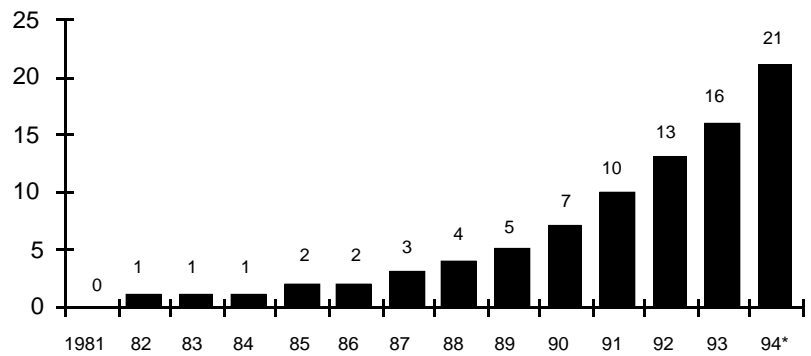
FIGURE N° 2VALUE OF PENSIONS PAID: OLD SYSTEM VS. NEW SYSTEM



Source: Boletín Estadístico N° 117, AFP Superintendency.

Figures 3 and 4 show the evolution and projection of the size of pension funds, which by December 1993 already amounted to US\$21 billion. This is slightly less than 50 percent of GDP and is expected to rise to more than 90% of GDP by the year 2002.

FIGURE N° 3            PENSION FUNDS - EVOLUTION  
(US\$billion)



\* To the month of September.

FIGURE N° 4            PENSION FUNDS - PROJECTION  
(% of GDP)

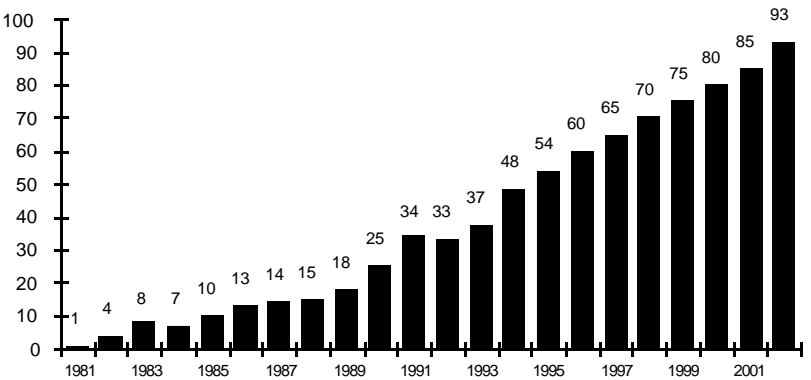
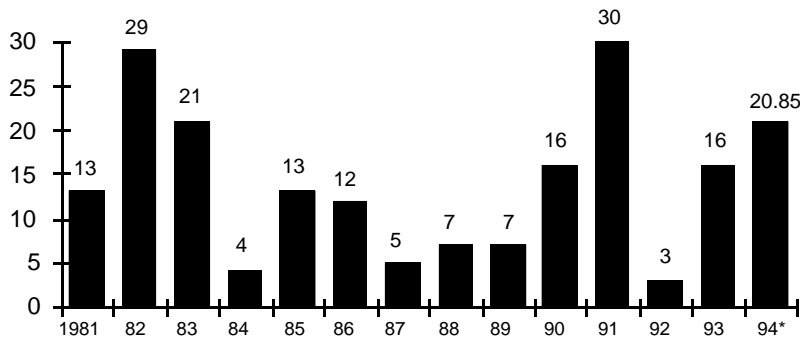


Figure N° 5 shows the real annual return on the Pension Fund unit, which on average has been above 13%. It should be pointed out that the “unit” is the indicator in which the value of the Pension Fund is expressed. It is measured in terms of *Unidades de Fomento* (UF): an indicator of inflation operating with a one-month lag compared to the Consumer Price Index (CPI).

FIGURE N° 5            PENSION SYSTEMS:  
REAL ANNUAL RETURN ON UNIT (U.F.)



\* To the month of September.

Finally, Table N° 1 shows the relative size of pension funds compared with the assets of other agents in the financial sector, expressed as a percentage of GDP. The expansion seen in Pension Funds and the Insurance Sector are outstanding, in both cases as a result of social security reform.

**Choice systems**

In these models, an entitlements framework administered by the State is maintained, while parallel individual capitalization schemes managed by the private sector are created. All affiliates, those with a social-security history and new workers, can choose between one or other system, and may even change from one to the other.

TABLE N° 1                      RELATIVE SIZE OF THE FINANCIAL SECTOR  
(% of GDP)

	1985	1986	1987	1988	1989	1990	1991	1992	1993
Banks	142	128	117	97	90	90	85	82	88
Share market	14	26	30	32	42	54	99	88	107
Pension Funds	11	13	16	17	20	27	35	35	39
Insurance Companies	3	4	5	5	6	7	7	7	11
Mutual funds	1	1	1	1	1	1	3	3	6
System	171	172	169	152	159	179	229	215	251

### The case of Peru

In Peru, the entitlements framework is not scheduled to come to an end, so in this country there is a choice system, with the two regimes —the old pay-as-you-go system and the new one— coexisting and competing. Unfortunately however, the law does not offer correct incentives, as the entitlements regime has clear advantages in cost, which is the only tangible attribute for affiliates. In this regime, contributions are 9% of wages, of which only 3% is the worker's responsibility, and the rest is a charge on the employer. In the capitalization system, on the other hand, the contribution rate is over 14% and is entirely the worker's responsibility. Moreover, this includes a contribution towards the old system.

The results of the capitalization subsystem are a reflection of coexistence and competition in unfavorable conditions: by the end of 1994, a total affiliation of 952,000 represented less than half of the potential market of about 2,300,000 workers. Furthermore, it seems that the figure is stabilizing, and may even fall relatively as the figures suggest that some affiliates return to the entitlements regime when they change employer, because of its lower contribution rate, or else join the expanding group of non-contributing affiliates. In any case, feasibility studies estimate that the private regime should by now have accumulated about 1,500,000 members.

Funds accumulated amount to US\$215 million, whereas estimates suggest these could have reached US\$330 million. As regards the number of Pension Fund Administrators, when the reform process started there were eight, and these have reduced to six through merger. As only two of them have managed to obtain positive cash flows, a pessimistic outlook could lead one to believe that the number of AFPs will continue to diminish.

Ramón Barúa points out that the system has developed more slowly than anticipated, with investment needs at least doubling, obliging AFPs to raise commissions and significantly cut costs.<sup>2</sup>

The above clearly affects affiliates, because it imposes a higher cost on them —higher commission— and they receive a lower-quality service.

The existence of a lower contribution rate in the entitlements subsystem means that no recognition has been given to the deficit which is bound to occur, and which, in the absence of alternative financing, the Treasury will have to meet. Otherwise, clearly lower pensions will be generated either by an explicit reduction of the amounts paid or through inflation. Here, implicitly, there is another example of unfair competition, because while affiliates of the capitalization system are financing their own future pensions through actuarially appropriate contribution rates, those in the pay-as-you-go regime are benefiting from state subsidy. The so far disappointing results appear to show that affiliates have already not only realized the current lower cost but also believe that in the future there will be a subsidy.

A positive aspect which is stressed by Jaime Cáceres S., is that “the payment of the first survival pensions to relatives of deceased affiliates, are dealt with by Pension Fund Administrators rapidly and very simply (...) in amounts that exceed the pensions that would have been received in the state system after endless red tape”.<sup>3</sup>

### The Colombian experience

In Colombia, reform has set up another choice system, which has the peculiarity that workers can move between the entitlements subsystem and the individual capitalization system as often as they wish, with no restriction apart from three years that must elapse between one transfer and another.

The Colombian system has one big difference from the Peruvian experience: the cost of social security is similar in the two subsystems.

Nevertheless, there are elements favoring the state regime that allow it to compete advantageously. In this regard, Ulpiano Ayala has argued that the advantages of a defined-benefit system here are not only in guaranteed pen-

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<sup>2</sup> Ramón Barúa, “*Realidades del Sistema Privado de Pensiones en el Perú*”, a paper presented at the international seminar “*El ahorro previsional: Impacto en los mercados de capitales y de la vivienda*”, organized by Ciedess, Santiago de Chile, November 1994.

<sup>3</sup> Jaime Cáceres S., “*A un año de implantar el sistema privado en Perú*”, Conferencia Habla Hispana (Santiago de Chile: Limra, Asociación de Aseguradores de Chile, October 1994).

sions,<sup>4</sup> but that "...unlike entitlements systems, the contribution rate has been set constant at 13.5% of wages, something which has temporary economic and financial rationality, possibly indicating postponement more than a definitive solution ..."<sup>5</sup>

To the above one should add, on the one hand, the support that in practice the authority has given to the entitlements subsystem, by appearing as its fervent supporter in public opinion, and, on the other hand, the low equilibrium level of the new industry, resulting from the effective limit on commissions caused by having legally fixed the global contribution rate.

In terms of results, out of a potential market of 4,800,000 workers, by October 1994 approximately 800,000 had affiliated. It is estimated that when the first year of operation is completed the membership figure could rise to 1,000,000.

Accumulated pension funds stand at more than US\$17 million, and it is estimated that if appropriate transfer incentives were to be found, the figure could rise to US\$60 million.

As regards administrating entities, at the present time there are nine Pension Fund Administrators, and so far no potential merger has been heard of. However, the commissions they charge to their affiliates amount to slightly more than 0.6% of the wage, whereas the operators estimate that to cover real expenses the figure ought to be around 1.5%.

The point of view expressed by David Bojanini could be more alarming: "There is still an atmosphere of distrust towards the funds, arising from a lack of information, and motivated by the defensive campaign waged by the ISS, aimed at running the new system down."<sup>6</sup>

## The Argentine reform

The reform undertaken in Argentina through Law N° 24.242, which became into force on July 1st. 1994, is also a choice program, although more complex than those described above.

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<sup>4</sup> In Ulpiana Ayala's own words: "...the defined benefit system has a guaranteed level of pensions which the capitalization subsystem would have difficulty matching for individuals contributing for less than 30 years; in other words roughly those over 35 years of age. Furthermore, it is too generous towards men over 40 and women over 35, who were already affiliated when the new system came into operation, for whom the current guaranteed pension levels are maintained".

<sup>5</sup> Ulpiano Ayala, "*La reforma pensional colombiana*", paper presented in the international seminar "*El ahorro previsional: Impacto en los mercados de capital y de la vivienda*", organized by Ciedess, Santiago de Chile, November 1994.

<sup>6</sup> David Bojanini, "*El sistema de pensiones en Colombia*", Conferencia Habla Hispana (Santiago de Chile: Limra, Asocación de Aseguradores de Chile, October 1994).

An integrated system of retirement and other pensions covering the contingencies of old age, disability and death, forms part of a single social security scheme. Within the integrated system, a public social security sub-regime, based on State-administered entitlements, coexists with an individual capitalization sub-regime, managed by profit- or non-profit-making private-sector entities.

A significant peculiarity that needs to be highlighted is that the public sub-system is more than the mere continuation of old pay-as-you-go schemes. It has, in fact, been subjected to significant changes, such as administration in the hands of a single state body (ANSES) and the unification of requirements to accede to old-age and disability benefits. In addition, this regime is responsible, as regards all affiliates, for the basic universal benefit which acts as a sort of minimum pension.

Competition between the two sub-systems arises from the right of all workers, old and new, to choose between one or the other, with the specific provision that to remain part of the entitlement system workers must expressly state their desire not to join the capitalization scheme. A choice in favor of the capitalization system is reversible on a single occasion.

As regards administration of the capitalization subsystem, private entities compete amongst each other and against other bodies such as provincial states, the Municipality of the City of Buenos Aires, and other corporations, bodies or associations of various sorts, profit-making or otherwise. Additionally, the law obliges them to compete with a state institution, since it has provided for the *Banco de la Nación Argentina* (Argentine National Bank) to operate as a Pension Fund Administrator, and this bank, also by law, grants a special profitability guarantee to its affiliates. This guarantee, which ought to operate on the basis of minimum interest rates in dollars and pesos, was partially altered to pesos only, but at a time when private operators had already taken their decisions. With this, the target market for the private sector has diminished, and an element of unfair competition has been created. The state AFJP had 249,699 affiliates by August 31st 1994.<sup>7</sup>

The contribution rate is the same in the two systems. However, a deficit aspect with immediate and future consequences is that for the capitalization system the law set a global contribution rate of just 11% of wages, a percentage which is supposed to cover the monthly amount destined to capitalization, the insurance premium for disability and death, and the commission

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<sup>7</sup> Bulletin of the Superintendency of AFJP.

needed to compensate the respective AFJP. This has meant less than 8% being destined to capitalization each month, despite the fact that it is quite clear that administrators are charging commissions below operating costs. The average commission, (including the insurance premium) on August 1994 31st. was 3.342% of wages, so on average only 7.658% remained for capitalization.<sup>8</sup> It is worth pointing out that although it is true that the entitlements subsystem offers all affiliates a basic universal benefit, consisting of a pension for anyone fulfilling certain requirements regarding age and years of contribution, it is also true that this is clearly at the cost of a higher global contribution.

The results in Argentina are not substantially different from those seen in Peru and Colombia. 26 AFJPs were set up on the basis of a potential market of 6,000,000 affiliates and, by August 31st. 1994, 2,242,188 affiliates had been gained.<sup>9</sup> Monthly intake of funds was US\$165 million in September 1994.

Some influence on these results can be attributed to a traditional distrust of management by private-sector operators and to deficient regulatory implementation, all of which initially generated additional uncertainty and difficulties. Aspects as important as the minimum profitability rate for the AFJP "Nación", and the treatment of affiliates who did not formally reveal their choice, were decided along the way.

In the light of these results, voices of alarm are being heard, and the first initiatives for AFJP mergers are beginning to appear.

### **The dangers of choice systems**

It is easy to see the most negative consequences of these experiences.

In the first place they prevent the capitalization scheme developing to its full potential because they constrain it to a smaller size than it could otherwise be. This not only damages the performance of the capitalization regime but related areas also, such as the markets for capital, insurance, housing, etc., and it clearly detracts from the country's economy.

Furthermore, it also affects the pay-as-you-go system, by deepening the crisis that already exists or bringing forward the future one. Indeed, either the crisis is ignored by raising real contribution rates and/or, with the transfer of part of its affiliates to the capitalization system, the dependency ratio deteriorates sharply. In addition, if the basic structure of the entitlements regime is maintai-

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<sup>8</sup> A calculation based on information from the Bulletin of the Superintendency of AFJP, Buenos Aires.

<sup>9</sup> Bulletin of the Superintendency of AFJP, Buenos Aires.

ned—even though only in the specific sector that will continue operate—nothing guarantees that pressure from interest groups will not continue to be brought to bear on it. Nor is it clear why political power should not accede to such pressure, as it usually provides such good electoral dividends.

It is tempting to think that reforms of the choice-type might simply be part of a strategy to move towards a replacement model, preempting natural opposition to radical and sudden reforms, and making time an ally in the task of convincing population, politicians and pressure groups. Such a strategy might have some validity, but only insofar as the capitalization system is allowed to demonstrate its strengths in fair competition.

### **Bolivia: An encouraging draft bill**

The model underlying the draft bill to reform the Bolivian pension system is of a high degree of purity, with most of its incentives correctly focused. This is a replacement system that forms part of a broader economic and social project involving the capitalization of state-owned firms, all of which operate in strategic sectors of the economy. These companies will be sold at their market value by auction, and their management handed over to private partners. All shares remaining in state hands will be distributed among Bolivian citizens over 18 years old, to be administered by an AFP with the aim of increasing the contributions of affiliates to the new pension system and, in the case of those who are not affiliates, providing some old-age support.

Among other qualities, this innovative model attenuates the natural restrictions implied by small markets such as Bolivia's. The AFP will administer two funds: a contributory one, with payments from affiliates; and a non-contributory one, consisting of the shares that citizens will receive, and which are expected to make it possible to accumulate the critical mass needed to give access to economies of scale, while at the same time supplying a substantial volume of resources to the capital market.

It is important to stress the creativity of this model, which is perhaps partly the result of a conviction, on the part of the team responsible, that the entitlements system is exhausted and unable to provide any alternative for solving the pensions problem.

Is also highly praiseworthy that the government has decided to present its project to the community and to potential operators of the future system before initiating parliamentary discussion, as this will make it possible to unify criteria and, by taking suggestions into consideration, achieve the best legislation possible.

Having said that, a worry remains regarding the similar cost that, according to the draft bill, the old and new systems will have, as this could have a big effect on the speed of transfer from the old system to the new one. This will prolong the crisis in the old regime and undermine the capitalization system. Even more so if, in the old regime, part of the contribution is provided as a subsidy by the employer, which still has some impact especially on people of lower educational levels.

### **The foundations for success**

Undertaking the reform implies a simple reasoning process. If the country comes to the conclusion that the current regime is not adequate for solving the pensions problem, and if the facts show that the system is already in, or irreversibly on the road to, a substantial crisis, with consequences not only for those directly involved —pensioners and their families— but for the entire community, then the logical thing to do is to bring the situation to an end as soon as possible.

The paradox is that the most logical thing to do is also the most difficult, because whereas it affects various powerful groups immediately, the fruits of reform will be seen only several years later, assuredly under another government. Not even an authoritarian regime such as the one Chile had at the time of reform could immediately abolish the entitlements regime: it was forced to opt for closing it to new affiliates.

The perspective given by the passage of time, together with the four experiences that are unfolding in the region, makes it possible to perceive that success in the reform process requires the presence of various elements. Below we present some which may be of interest, due either to their presence or absence from these experiences.

1. The first thing is to carry out an appropriate diagnosis. Analyzing in depth what is happening with the current system, deciding whether there is a crisis or whether one is on the way, and in the latter case estimating the social costs of a delay in taking the medicine. For this purpose, a technical team is required which is open to change and which, without being dogmatic, is able to identify the causes of the crises and has a commitment to a real and definitive solution, for “strong disease requires strong medicine.”
2. If the diagnosis is correct, the team responsible should have the capacity to identify the incentives that are functional to the model to

be proposed. Incentives are a key factor for the success or failure of the system, as in the end the behavior of different political and social sectors in the face of reform depend on them.

3. The working group should develop a battery of arguments to overcome the multiple objections that will be raised, and it should also have the capacity to convince the governmental authority regarding the problems of the pay-as-you-go regime and the need for reform, and on the basis of this commit it to making the tremendous effort implied by transmitting, explaining and convincing the proposed solution to the country and to the political class. Among the latter, special concern should be given to the opposition, who will necessarily participate in the discussion and the project's approval or rejection.

The political class must be brought into the process of diagnosis and analysis, so that it understands the depth of the change, evaluates it and commits itself to the new proposal.

Only commitment by the government and its decisive support for the reform project will be able to neutralize opposition from the pressure groups affected, and it is likely that they will have members of Congress as their spokesmen.

4. It is also important that on the basis of the diagnosis the country itself takes cognisance of the magnitude of the crisis —current or future, depending on the situation— and the consequences for pensioners and the community in general implied by delaying reform or implementing it in a half-hearted manner. The greater this understanding is among citizens —the electorate— the less will be the opposition of the political classes.

In this respect it is extremely important to carry out a clear and effective publicity campaign. To help in this, it is worth considering an action that the Chilean promoters did not include in their campaign —perhaps because the evidence of failure was a bitter reality in every family with a pensioner— and which it might be useful to have carried out when launching the reform. This involves explaining to the country —with figures— the loss, in terms of size of benefit, suffered by already retired workers having contributed to and drawn pensions in a pay-as-you-go system. This task was only undertaken years later by Hernán Cheyre, who showed that if contributions had been capitalized, the pensions being drawn by the current passive generation would have been significantly greater than they are.<sup>10</sup>

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<sup>10</sup> Hernán Cheyre V., “*La previsión in Chile ayer y hoy. Impacto de una reforma*”. (Santiago de Chile: Center for Public Studies, 1991).

5. Fifthly, it is necessary to convince the political authorities —both those in government and those opposition— that the project needs to be analyzed by projecting into the future, with a willingness to accept the reduction in their share of power that the reform implies. In the words of José Piñera, this requires politicians to show concern for the welfare of future generations rather than the next election.<sup>11</sup>
6. Throughout the whole process there is need for leadership by an authentic leader, with the ability to guide the working team and convince the government, the country and Parliament (especially the opposition benches) —in that order— of the need for reform. The task of the leader must be extended into the initial years of the working of the new system, to support it in its first faltering steps, unafraid of making assessments and pushing for the changes that such experience may suggest, but being careful to maintain the conceptual purity of the model.

In this leadership dimension, which is so important, there have been shortcomings in all the reform processes in the region. In Chile, there was genuine leadership until the reform's approval, but not afterwards; this does not imply ignoring the fine job done during the consolidation of the process by successive superintendents, as guardians of the system and promoters of its most important modifications. Neither in Peru nor in Argentina is there a leader recognized as such, and in Colombia there is a sensation that potential leaders are lining up in defense of the entitlements subsystem.
7. One should never lose sight of the fact that the aim of reform is to achieve good pensions for the maximum number of workers, at the lowest cost possible. Any other objective, however praiseworthy or advisable it may be to achieve, should be subordinate to this. If, as a result of the reform, one manages to raise net wages for workers through the effects of lower social security costs, as well as developing the capital market, achieving a higher level of domestic saving, undertaking new investment projects and, generally obtaining substantial improvements in the nation's economy, so much the better. The fundamental aim of the reform, however, is the one that has been indicated.
8. As in all reform processes, public trust is in play, and the State must look after it. It is a basic assumption that the State should provide clear and stable rules for all actors involved (workers, operators,

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<sup>11</sup> José Piñera, *"El Cascabel al Gato"*. (Santiago de Chile: Editora Zig-Zag, 1991).

employers) to allow them to take decisions that are binding and in their interest. The opposite is gratuitously to introduce elements of uncertainty and mistrust into a process which is already extremely difficult.

9. Finally, there is need a to shake off fear and to internalize the fact that the best reforms are those that are able to fulfil the stated objective —improved pensions— despite the fact that they may not be fully compatible with the postulates of old text books, which, though very well intentioned, are losing their validity in the face of new realities. □

