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**Working Paper**

## The Political Economy of Pension Reform: Public Opinion in Latin America and the Caribbean

IDB Working Paper Series, No. IDB-WP-611

**Provided in Cooperation with:**

Inter-American Development Bank (IDB), Washington, DC

*Suggested Citation:* Machado, Fabiana V.P.; Vesga, Giselle (2015) : The Political Economy of Pension Reform: Public Opinion in Latin America and the Caribbean, IDB Working Paper Series, No. IDB-WP-611, Inter-American Development Bank (IDB), Washington, DC, <https://hdl.handle.net/11319/7258>

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# The Political Economy of Pension Reform:

Public Opinion in Latin America and the Caribbean

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September 2015

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## Public Opinion in Latin America and the Caribbean

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Cataloging-in-Publication data provided by the  
Inter-American Development Bank  
Felipe Herrera Library

Machado, Fabiana V.P.

The political economy of pension reform: public opinion in Latin America and the Caribbean / Fabiana V.P. Machado, Giselle Vesga.

p. cm. — (IDB Working Paper Series ; 611)

Includes bibliographic references.

1. Pensions—Political aspects—Latin America. 2. Pensions—Political aspects—Caribbean Area. 3. Pensions—Public opinion—Latin America. 4. Pensions—Public opinion—Caribbean Area. I. Vesga, Giselle. II. Inter-American Development Bank. Department of Research and Chief Economist. III. Title. IV. Series.  
IDB-WP-611

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## **Abstract**

Countries around the world are facing important challenges to the sustainability of their pension systems. Changing policies, especially those of large scope and financial magnitude, is a political challenge. It takes a combination of willingness, capacity and enough political support to change the status quo and avoid costly subsequent reversals. Taking advantage of several waves of public opinion data in Latin America and the Caribbean, this paper aims to identify and analyze individual-level factors that are relevant to gauging political support for pension reform.

**JEL classifications:** D72, H55, P16

**Keywords:** Political economy of reform, Pension reform, Public opinion

# 1 Introduction

Countries around the world are facing important challenges to the sustainability of their pension systems. People are living longer and healthier lives and, while this is good news, increasing longevity imposes a growing financial burden on retirement schemes. In less developed countries this phenomenon is accompanied by high rates of informality in the labor market which, coupled with poverty, contribute to low rates of coverage, in particular among the most vulnerable segments of the population. As Holzmann (2012) points out, needs have changed, and so should the objectives of pension systems. Recent decades have witnessed many attempts at pension reform. The objectives varied from achieving sustainability in times of crises to lowering old age poverty, and the modalities adopted changed from Funded Defined Contributions (FDC) to Matching Defined Contribution (MDC) and non-contributory schemes (prominent in Latin America).

Despite these efforts, many challenges remain in the region (Ribe et al., 2012). Among the most pressing are closing the coverage gap across income levels, generating the correct incentives to increase formal labor market participation, and decreasing the imbalances between contributions and benefits in retirement schemes. Thus the process of reform is still in its very early stages.

Changing policies, especially those of large scope and financial magnitude, is a political challenge. It takes a combination of willingness, capacity and enough political support to change the status quo and avoid costly subsequent reversals. Given the long-term reach of pension schemes, not only is the likelihood of change key, but also its sustainability. The political feasibility of reform and the chances it remains in place long enough are a function of a number of contextual, institutional and individual factors. Change can be a product of opportunity, but it is largely constrained by the rules of the political game and the preferences of actors operating within it.

Political Economy models of reform rely on simplified accounts of political processes and particular assumptions about actors' preferences and objectives. The challenges of applying the rigorous knowledge gathered by this vast field of analysis to the region are two-fold. On the one hand, the simplifications adopted in these models need to be adapted to the different and unique political realities of the region. On the other, while in many well-studied democracies the assumptions made in these models are often empirically substantiated, they are usually not in less studied regions such as Latin America. There is a need to better understand individuals' preferences, beliefs and objectives so that the right assumptions can be made, in particular those related to political support.

The aim of this project is to start building that knowledge. Taking advantage of a wealth of individual-level data from the Latin America Public Opinion Project (LAPOP), we seek to identify potential sources of political support for pension reform in the region. We do so through an analysis of individuals' preferences, patterns of political participation and perceptions of the

role and performance of governments. While the data were not collected to meet the specific needs of this project, they offer interesting insights and ideas for future research. Anticipating some of these insights, we find that Latin Americans, while very much concerned about unemployment, do not believe pension reform is an important issue facing their countries. Citizens in the region tend to be highly in favor of the government being responsible for providing this service, even in countries where privatization has been successful, such as Chile. General levels of respect and trust in public institutions seem to have little bearing on this position, unlike in the United States. When it comes to political participation, there is evidence that older citizens and those reporting making contributions to a retirement plan are significantly more likely to report voting.

The paper is organized as follows. We begin by exploring the political salience of the issue and how it varies across different groups in the population. Since political demands depend not only on preferences but on the perceived capacity of the state to carry them out, we proceed to an analysis of citizens' perceptions of the role and performance of their governments. We then move on to consider levels and patterns of political participation, without which preferences cannot be translated into actual policy support (or opposition). We conclude with a brief overview of the main results and considerations for future work.

## **2 The Political Salience of Pension Reform**

Analyses of reform, whether theoretical or empirical, are based on partial equilibrium models. The focus is thus on a limited number of policy issues, usually one or two, under the assumption that these issues receive the undivided attention of political actors. In the case of prominent policies, this assumption is a fair approximation of reality. In other cases, however, this assumption does not necessarily hold. With a multitude of issues competing for the attention of citizens and policymakers, not all will be a priority in the political agenda. Thus understanding the political salience of pension relative to other policy areas is a critical first step in assessing pension reform's likelihood and chances of survival.

As argued by Barr and Diamond (2008), political support is critical for reform, not only for undertaking it but also for sustaining it. The level of citizens' support or opposition to reforms depends not only on how they rank a policy relative to others, but also on how the policy affects them personally. Moreover, once preferences on specific policies are identified, levels of support are likely to depend on the perceived capacity of governments to carry them out. In the following sections we will look at each of these factors in turn.

### ***2.1 Retirement as a General Policy Concern***

Whether the intended policy changes are in the area of trade (Rodrik (1992), Alam and Rajapatirana (1993), Lora and Olivera (2004)), taxation (Bird (1992)), health (de la Jara and Bossert, 1995) or

pensions (Mesa-Lago and Müller, 2002), numerous studies have found a positive and significant association between crisis episodes and successful passage of important reforms. It is argued that the urgency imposed by crises gives reform political momentum, increasing the chances of proposals being presented and accepted. As suggested by Alesina et al. (2006), this is particularly true in the case of strong governments.

Crises can be either exogenous to the particular issue at stake or be imminent because current policies are unsustainable. While they present an opportunity, the costs associated with it tend to be quite high. In their absence, pressure for reform tends to be commensurate with the political salience of the issue it is intended to address. Issues that are a priority to voters are likely to attract more attention and affect their political decisions, such as voting, generating further incentives for them to be addressed. Policy priorities can vary greatly from country to country and across individuals and time.

According to data from the LAPOP, Latin Americans do not seem particularly concerned about pensions. In five waves of interviews across the region (2004, 2006, 2008, 2010, and 2012), nothing related to pensions or retirement ever reached the list of the top 30 issues facing the region in people's opinions. The top problems raised, with little variation over the years, are unemployment, violence and corruption (Figure 1).

Moreover, individuals in 10 countries were asked in 2012 about what government's investment priorities should be. They were presented with the following options: education, infrastructure, housing, retirement pension, assistance to the poor, the environment, health, or citizen security. On average, 4 percent of respondents named retirement pensions as the answer (see Figure 2). The top priorities for government spending were education, health and assistance to the poor.

The fact that very few people see pensions as an important problem facing the country can suggest a number of scenarios. One that has received some attention refers to the time horizon and complexity of the issue. Pension schemes are not easy to understand, and the benefits are only enjoyed in old age. Both could be important factors explaining the low political salience of pension issues.

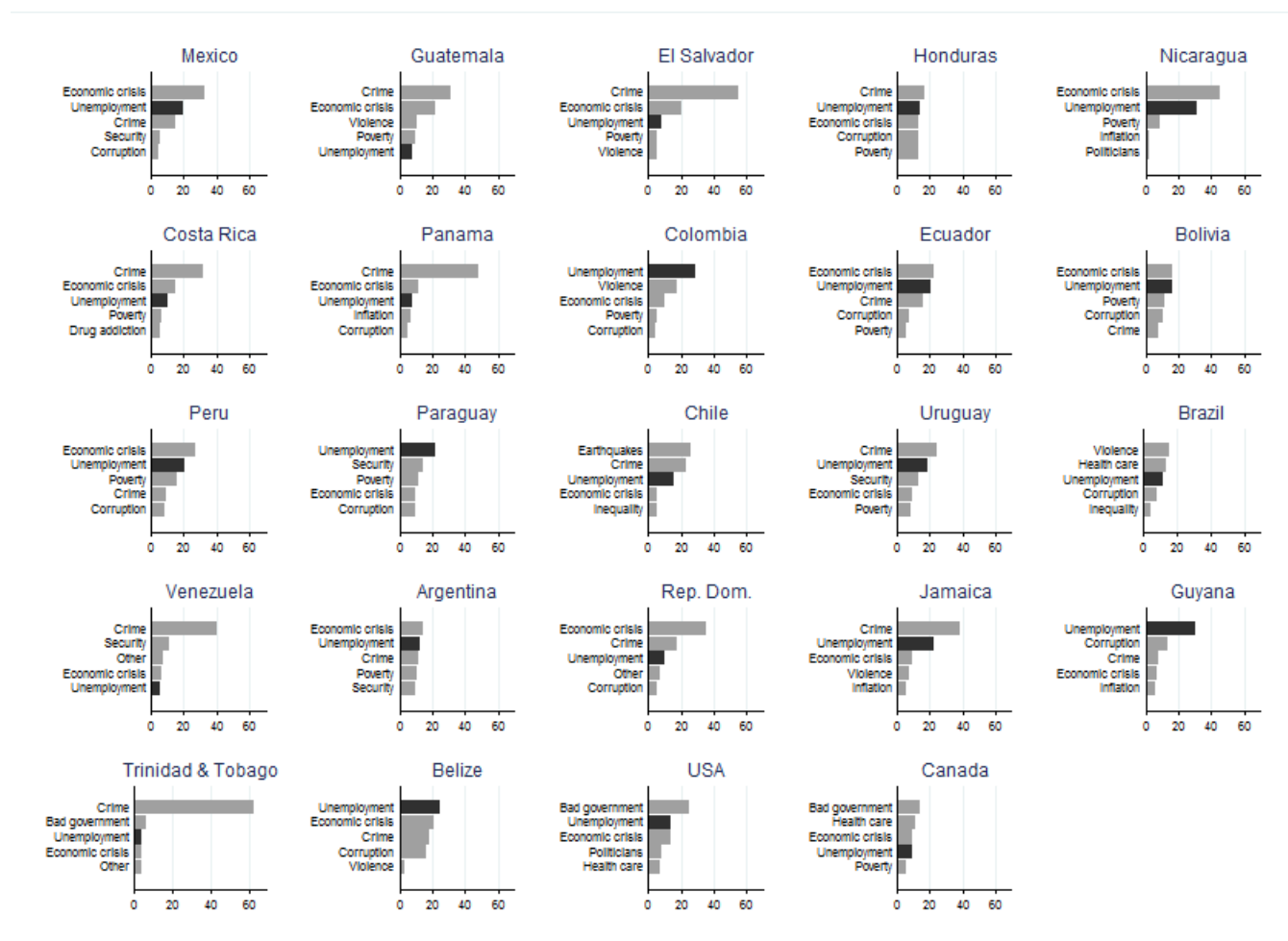
The literature offers some evidence, however, that when people become informed on pensions, they tend to act in support of reform (Boe, 2001), even if it means cutting some of their own acquired benefits (Baccaro, 2002). These results suggest that informing the public about the stakes and objectives of pension reform might prove to be a successful strategy in gaining support. Indeed, as Tito Boeri and Tabellini (2002) conclude from a survey about preferences for the current pension system and possible reforms to it, "there are more reformers among those who are aware of the crisis and care about the young generation."<sup>1</sup>

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<sup>1</sup> Page 400.

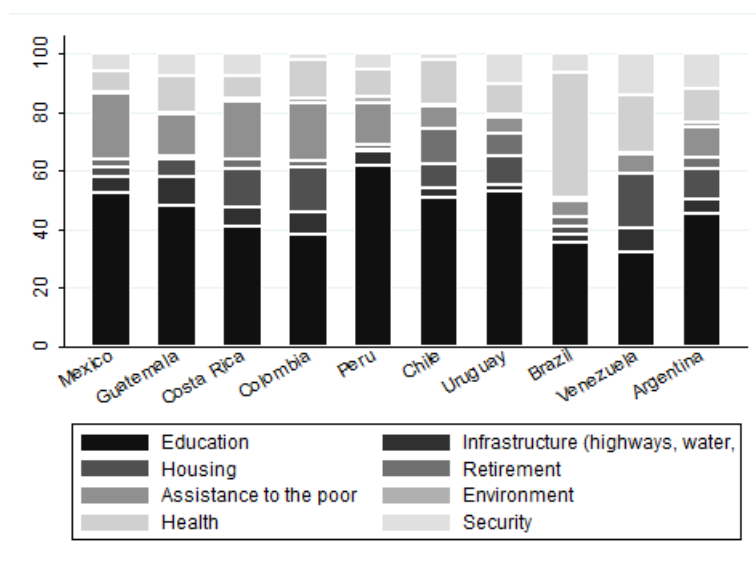


**Figure 1. The five most serious problems by Country**



*Source:* LAPOP 2010 *Note:* Figure displays the top five problems raised by respondents in each country when asked the open-ended question “In your opinion, what is the most serious problem faced by the country?”. Responses for that question (LAPOP-A4) are organized in 38 categories, which were ranked by the amount of citizens’ that were classified in each category. Bars correspond to the percentage of respondents naming each issue.

**Figure 2. Areas in which government should invest**



*Source:* LAPOP 2012 *Note:* Figure displays percentage of respondents choosing each area as a priority for government spending. Only one area was allowed to be named as a priority. With the exception of Brazil, this question was only asked to a random half of the sample in each country. Percentages were calculated excluding non-response.

Overall, the political salience of issues concerning retirement is low in the region. When asked to identify government investment priority areas, retirement ranks low and is not even significantly associated with age. On the other hand, educational attainment, a good proxy for levels of information, political awareness and insertion in the formal job market, is positively and significantly associated with prioritizing retirement.

## ***2.2 Retirement as an Individual Policy Concern***

Political polarization is mostly thought to originate from religious, ethnic, and income differences. In Latin American countries these traits tend to be highly correlated with each other, which can reduce political conflict to one dimension, usually captured by the socioeconomic class of an individual. Given the existing pension schemes and the trends of changes in the region's systems, this categorization seems to capture the essence of the political debate, as low, middle, and high income groups are each affected in a distinctive way.

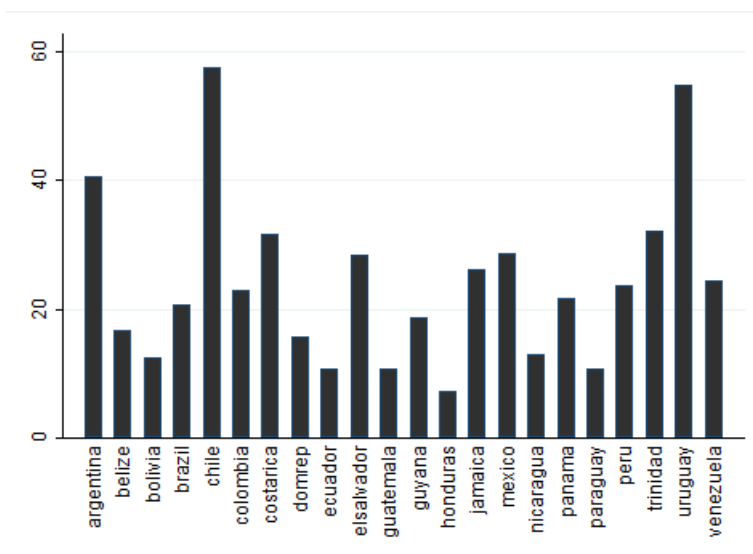
As shown in Figures 3 and 4, based on self-reported information on whether respondents are making contributions to some form of retirement plan, pension coverage is highly uneven across countries and unequal across individuals. In every country in our sample other than Chile, the probability that an individual with income below US\$10 a day is enrolled in a pension system is significantly less than one half. This probability is considerably lower (in most cases closer to 10 percent) when it comes to individuals living on less than US\$2 a day.

Clearly, low-income individuals are the ones who benefit the least from current pension systems in the region. Whether due to low valuation of, shortage of income to contribute to, or limited understanding of pension schemes, they tend either to lack coverage altogether in old age or receive insufficient benefits. If we add to that the fact that in some countries the pension system works as a regressive redistributive mechanism (Lindert et al., 2006), they are possibly the group that would benefit the most from reasonable changes in the status quo.

Translating these gains into political support, however, might not be that straightforward. While reforms such as the creation of a minimum universal benefit can be directly perceived and valued, changes intended to increase contributions and hence coverage might be complex to grasp. In a study of Brazil, Machado (2012) finds that support for non-contributory pensions to the old poor is indeed higher among lower-income groups and the old. Relative to other programs or policies against inequality, however, support is lower for extending it. Whereas the probability of a poor voter supporting expansion of conditional cash transfers ranges from 60 percent to 100 percent, in the case of the non-contributory pension that support ranges from 20 percent to at most 40 percent, short of a majority.

Individuals belonging to middle-income groups tend to contribute sporadically to pension schemes (see Figure 5). They face two problems. One is that low contribution can lead to sparse

**Figure 3. Self-reported participation in retirement plan**



*Source:* LAPOP 2010 *Note:* Figure shows percentage of respondents in each country who reported making contributions to a retirement plan.

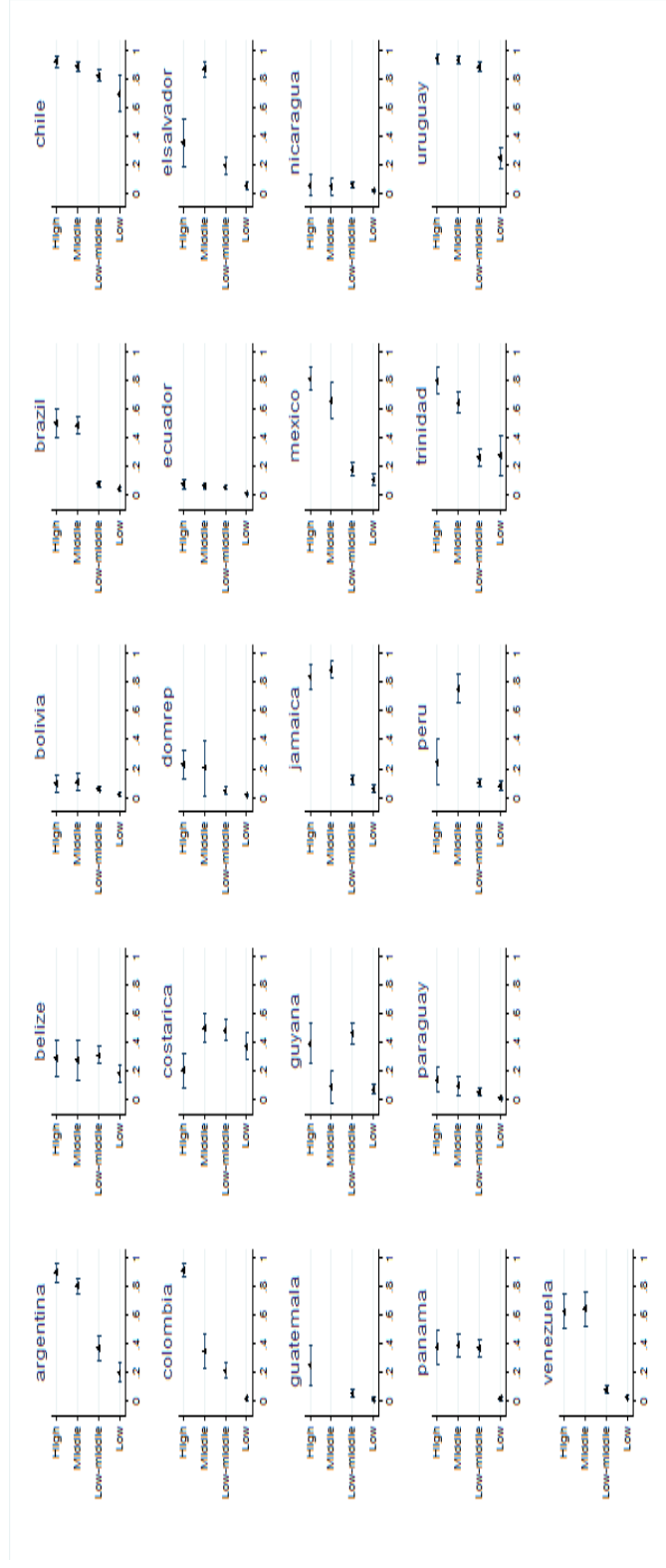
pension coverage, or worse, to non-eligibility in cases where the minimum necessary to qualify is not met. The other problem is the incentive to informality that mandatory contributions create.

A reform that introduces minimum coverage and matching of contributions could potentially gather their support. The same issues raised with respect to political support from the low-income group, however, remain valid in this case. Given that this group might be more likely not to rely primarily on the minimum universal benefit, but on a mixture of minimum coverage, matching, and individual contributions, the complexity of the system is higher and the perceived benefits more uncertain. Of course, this remains an open question to be investigated.

Finally, high-income individuals are the most likely to make contributions and to receive coverage when retired. The issue with respect to this group is one of sustainability of benefits relative to contributions. Pension schemes in the region are notoriously generous, in particular towards public employees. One possible implication of that fact, coupled with the observation that some schemes are regressive, is that this group might be paying less than it is receiving in return. Attempts at reform to fix this situation can thus spark opposition.

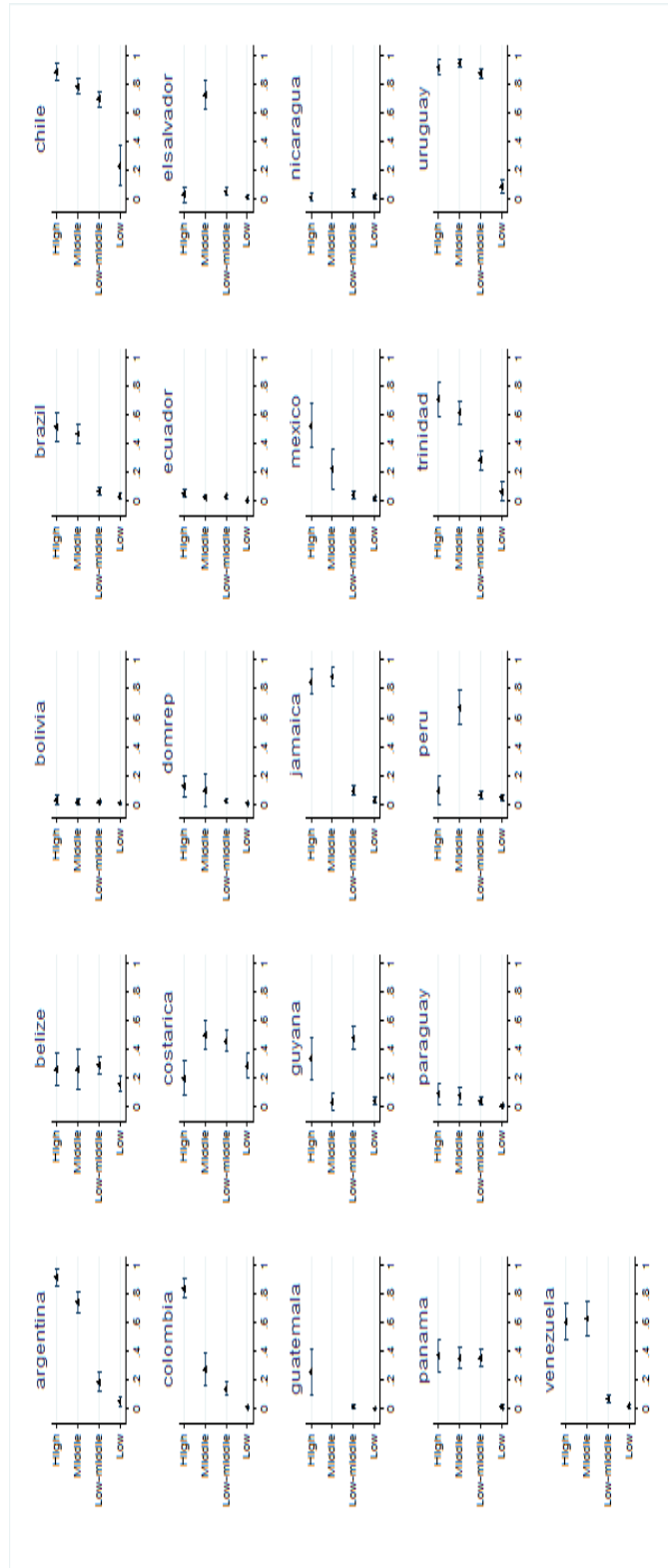
As has often been pointed out in the literature, when gains from reform are spread across a large group and costs concentrated on a small one, opposition can be very effective, as small groups face lower organizational costs. If the small group is additionally endowed with a wealth of resources, as is the case here, then their political clout might be even greater. Citizens are nonethe-

**Figure 4. Predicted Probabilities across income levels of participating in a retirement plan**



*Source:* Own calculations using the LAPOP 2010 *Note:* Predicted probabilities based on logit estimation of self-reported participation in retirement plan on educational attainment, age, gender, income, and occupation. Income is categorized into four levels where “Low” corresponds to income below 2 US dollars per-day, “Low-middle” to income between 2 and 10 US dollars, “Middle” to income between 10 US dollars and 95th percentile of the income distribution, and “High” to the top 5th percentile of the income distribution. Age and gender are set at the mean. Educational attainment and occupation are set at the mode (These values are specified in the appendix). Bars represent the 90% confidence intervals.

**Figure 5. Predicted probabilities across income levels of contributing monthly to a retirement plan.**



*Source:* Own calculations (LAPOP 2010) *Note:* Predicted probabilities based on logit estimation of declaring making monthly contributions in retirement plan on educational attainment, age, gender, income, and occupation. Income is categorized into four levels where “Low” corresponds to income below 2 US dollars per-day, “Low-middle” to income between 2 and 10 US dollars, “Middle” to income between 10 US dollars and 95th percentile of the income distribution, and “High” to the top 5th percentile of the income distribution. Age and gender are set at the mean. Educational attainment and occupation are set at the mode (These values are specified in the appendix). Bars represent the 90% confidence intervals.

less not always purely self-centered in their policy evaluations. In some instances they might have reasons to support policies that do not benefit them directly.

### **Non-Contributory Pensions in Brazil**

Parallel to the pension system, Brazilians who are 65 years or older or unable to work and who live on one-fourth of the minimum wage or less are covered by a social assistance program called the BPC (Benefício de Prestação Continuada a Idosos e Inválidos). This program started operating in 1996 with a threshold age set at 70 years old (notice that life expectancy in 2000 was 67 years old). This threshold was then reduced to 67 in 1998 and to 65 in 2003. This is considered a social assistance program in contrast to the Rural Pension (Providencia Rural) benefiting the old age population living in rural areas and producing for their subsistence, which is part of the pension system.

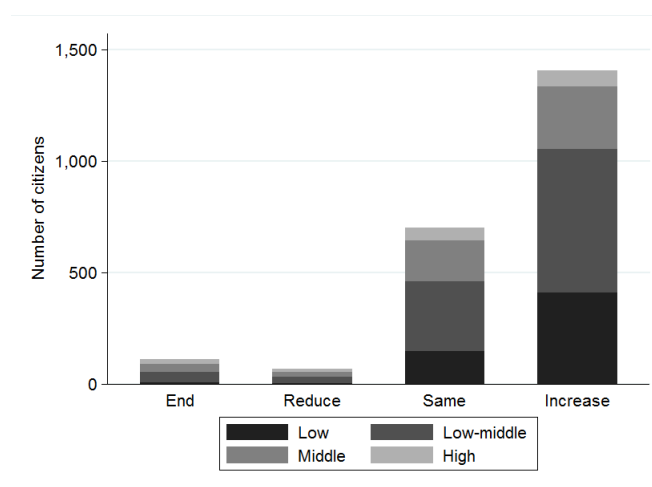
The benefit paid by the BPC was from the beginning tied to the minimum wage. At the onset of the program the minimum wage was relatively low (R\$112 in 1996, around R\$300 in 2012 after inflation adjustment). In particular after the government of Lula, where the minimum wage increased substantially (to R\$ 622 in 2012), BPC beneficiaries saw their benefit practically double. The individual beneficiary from the BPC receives anywhere from twice to 20 times as much as entire families receive from the conditional-cash-transfer program, the Bolsa Família (which varies from R\$32 to R\$306 depending on the monthly per capita income of the household and the number of children).

According to data from the Latin American Public Opinion Project (LAPOP) (see Figure 6), support for either the continuation or an increase of the benefit is high. As expected, older respondents support an increase in benefits significantly more than younger ones, and poorer ones more than the wealthier. Willingness to raise taxes to expand the BPC does not, however, garner the support of a majority in any socio-economic group considered. Most respondents prefer to keep the benefit as is.

### **2.3 Perceptions of Government Capacity**

In addition to political salience, the likelihood of a reform surviving the political process depends to a great extent on the institutions in place. One consideration is the set of formal rules guiding the interaction of political actors. Another important factor is how well these formal rules actually work and the capacity of the various actors to formulate, evaluate, and carry out public policies

**Figure 6. Support for Non-Contributory Pension in Brazil by income level**



*Source:* Own calculations (LAPOP 2010-Brazil) *Note:* Income is categorized into four levels where “Low” corresponds to income below 2 US dollars per-day, “Low-middle” to income between 2 and 10 US dollars, “Middle” to income between 10 US dollars and 95th percentile of the income distribution, and “High” to the top 5th percentile of the income distribution.



within the framework established by those rules and their functioning. These issues are likely to affect the support for a given reform proposal to the extent that actors evaluate proposals based on their perceptions of government capabilities both to design sound schemes and successfully implement them.

Government capacity to implement adopted reforms, in turn, hinges on a number of additional factors related in large part to the quality of the government's bureaucracy. These factors include, but are not limited to, the ability to keep good administrative records, to reach and monitor declared revenues from the more elusive sectors of the work force, such as the self-employed, and to count on high-quality technical staff to perform in-house projections and analyses. This is not a trivial set of abilities to acquire, and a big challenge to developing and sustaining it is corruption.

Reforms require implementation capacity not only because of their direct consequences for the sustainability and survival of reforms, but also for the expectations they generate. As shown in Figure 1, issues of governance are of high concern to individuals in the region. They include problems such as corruption, "bad government," "impunity," or simply "politicians." Common sense would make one expect these perceptions to reduce support for the government taking over certain responsibilities, especially for tasks that appear complex. This expectation seems to hold in Latin America, but only to a limited extent.

Latin Americans display average levels of trust in government institutions that are similar to those reported by citizens in the United States. The region's citizens tend to trust Congress and the National Government slightly more than North Americans do but trust the Judiciary somewhat less.<sup>2</sup> There are no perceptible differences in levels of trust across socioeconomic groups (income or education) within countries, with the exception of El Salvador, Bolivia, and Brazil, where richer individuals tend to report lower levels of trust.

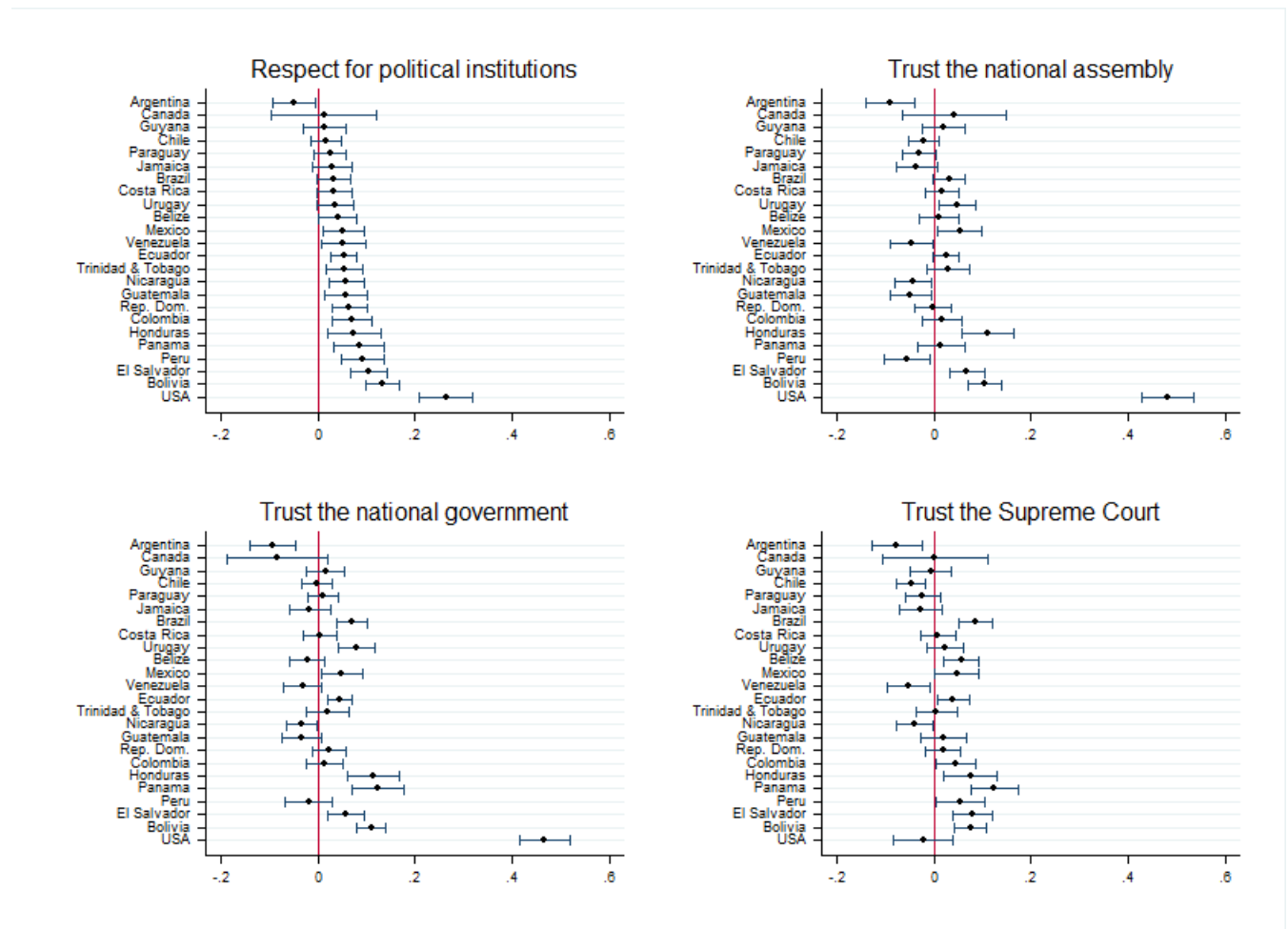
The degree of respect for political institutions and trust in different branches of government in the region is not strongly correlated with beliefs that the government, instead of the private sector, should be responsible for providing pensions. This stands in stark contrast with the United States, where these correlations tend to be positive and significant in strength. One reason for this weak correlation in the region is the relatively strong "statist" views its citizens tend to hold, especially when compared to the United States, or even Canada to a lesser extent (see Figure 8). Surprisingly, even in Chile, considered a success case of pension privatization, a great majority of individuals favor public management of pensions.

One might think, however, that it is one thing for individuals to attribute responsibility to the public sector for providing pension schemes and another for them to trust these schemes enough to actually take part in them. Skepticism about the private sector could lead citizens to

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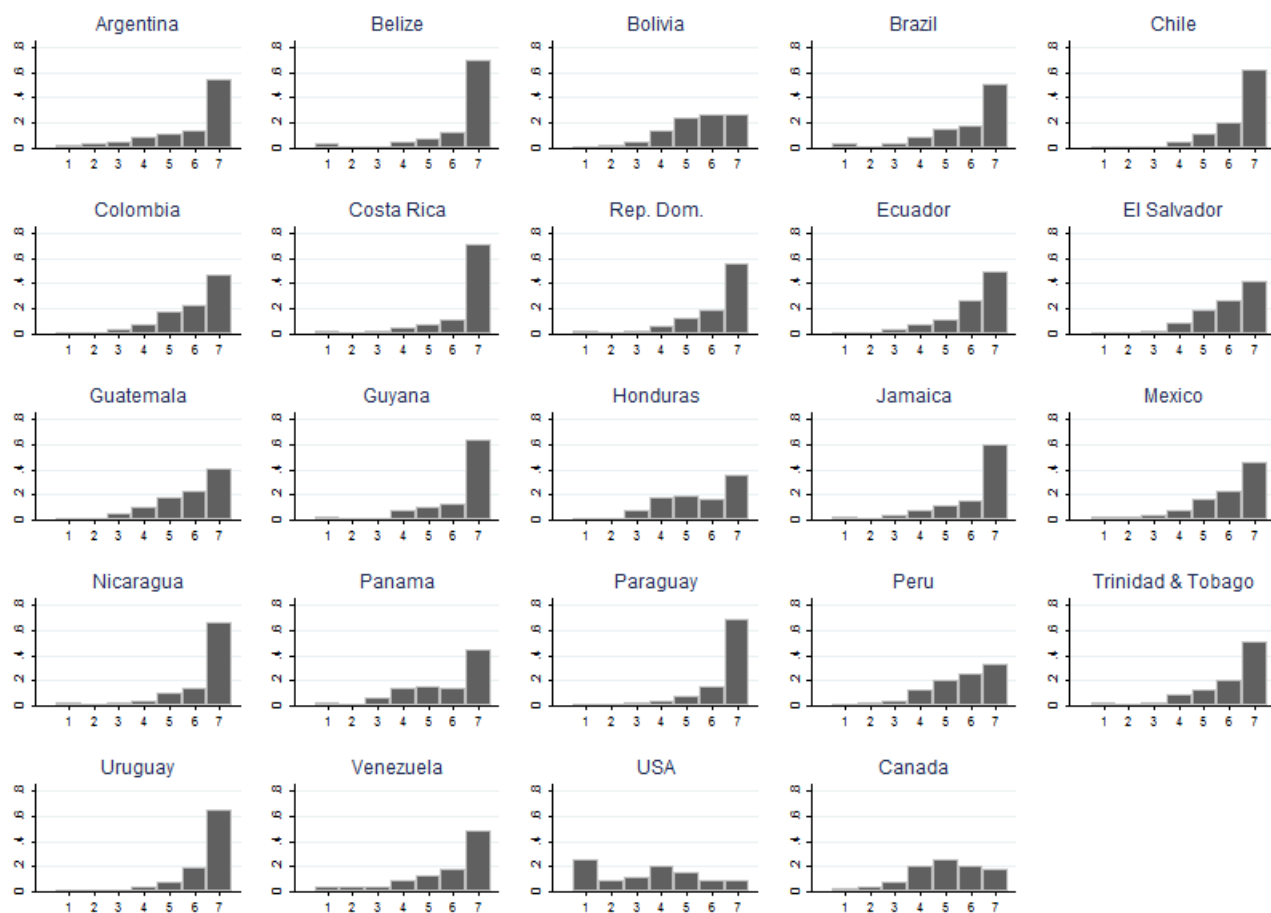
<sup>2</sup> On a scale from 1 "low trust", to 7 "high trust" the averages for LAC and the United States are: Congress (3.8 and 3.2), National Government (4.2 and 3.1), and the Judiciary (3.4 and 2.6).

**Figure 7. Relationship between different forms of trust in political institutions and the belief that the government should provide pensions**



*Source:* Own calculations (LAPOP 2010) *Note:* Figure displays simple bivariate association estimates between the belief that the government should be responsible for providing pensions and different measures of trust in the government. Higher values mean higher trust and higher reliance on the government for pension provision. Bars represent the 95% confidence interval around point estimates.

**Figure 8. Government should be the primary responsible for providing retirement pensions**



Source: LAPOP 2010 Note: Higher values indicate higher agreement with the statement.

believe the government should be responsible for the provision of retirement schemes independent of its capacity to do so. But once pensions are provided, the decision to enroll could depend at least in part on how much the individual trusts the government to make it work.

Pension schemes in Latin America are not always offered by the public sector. In one group of countries (Bolivia, Chile, Dominican Republic, El Salvador, Mexico, and Nicaragua) the system has been privatized. In another group (Argentina, Colombia, Costa Rica, Ecuador, Peru, and Uruguay) public and private systems coexist, while in a third group (Brazil, Cuba, Guatemala, Haiti, Honduras, Panama, Paraguay, and Venezuela) the pension system is under public management. Under these different case scenarios it is natural to expect the relationship between government evaluations and enrollment to differ as well. In countries where the system has been privatized, there is no reason a priori to expect perceptions of government capability to be associated in any significant ways with actual enrollment, as they are not related. The opposite should be true in the case of public provision. No clear pattern along these lines, however, is discernible from the data.

Higher perception of corruption among public servants is only significantly and strongly associated with a lower likelihood of enrollment in a few countries offering public schemes (Panama, Uruguay, Argentina, Guyana and Honduras). In two countries with a public system only (Guatemala and Brazil) the relationship is actually reversed. When it comes to respect for institutions, in five countries with public systems, higher respect is associated with higher probability of enrollment. But in two such countries, the relationship is again reversed. Guatemala is a puzzling case where the pension system is public and yet both personal experience of corruption and lower respect for political institutions are significantly associated with higher likelihood of enrollment. In contrast, Guyana and Venezuela seem to conform to the conventional expectation that higher trust and respect for political institutions should be associated with higher enrollment.

These figures, although preliminary and rather simplistic, paint a mixed picture. On the one hand, retirement plan coverage rates in the region are not only low, but also significantly unequal. On the other hand, retirement remains a policy issue that does not seem to occupy the minds of Latin Americans. Relative to concerns about jobs, violence and governance, retirement ranks exceedingly low in individuals' list of government policy priorities. It is, however, one additional service citizens overwhelmingly believe falls under the responsibility of the public sector.

Surprisingly, it is not always the case that negative evaluations of government quality (proxied by trust and respect for political institutions and experience and perceptions of government corruption) are associated with lower support for government participation in pension provision and lower probability of enrollment in public pension schemes. The relationship is rather tenuous and in some cases goes in the opposite direction. Even if we take into account whether governments de facto offer retirement schemes, this association can either be absent or go in different directions.

This heterogeneity could be a symptom of the low salience of retirement issues, or hint at more complex underlying dynamics that deserve careful theorizing and inquiry.

### **3 Citizens' Political Participation**

Pension coverage in Latin America varies substantially across individuals. This means different people have different issues at stake when considering reform to the status quo. Moreover, these various interests and demands are certain to play out in the political arena. The most important aspects of political institutions are the mechanisms for participation available to individuals and groups. It is through such channels that citizens have the opportunity to translate their preferences into demands and in some cases actual policy decisions. In evaluating the likelihood of reforms passing and being sustained it is thus important to understand patterns of citizens' political participation.

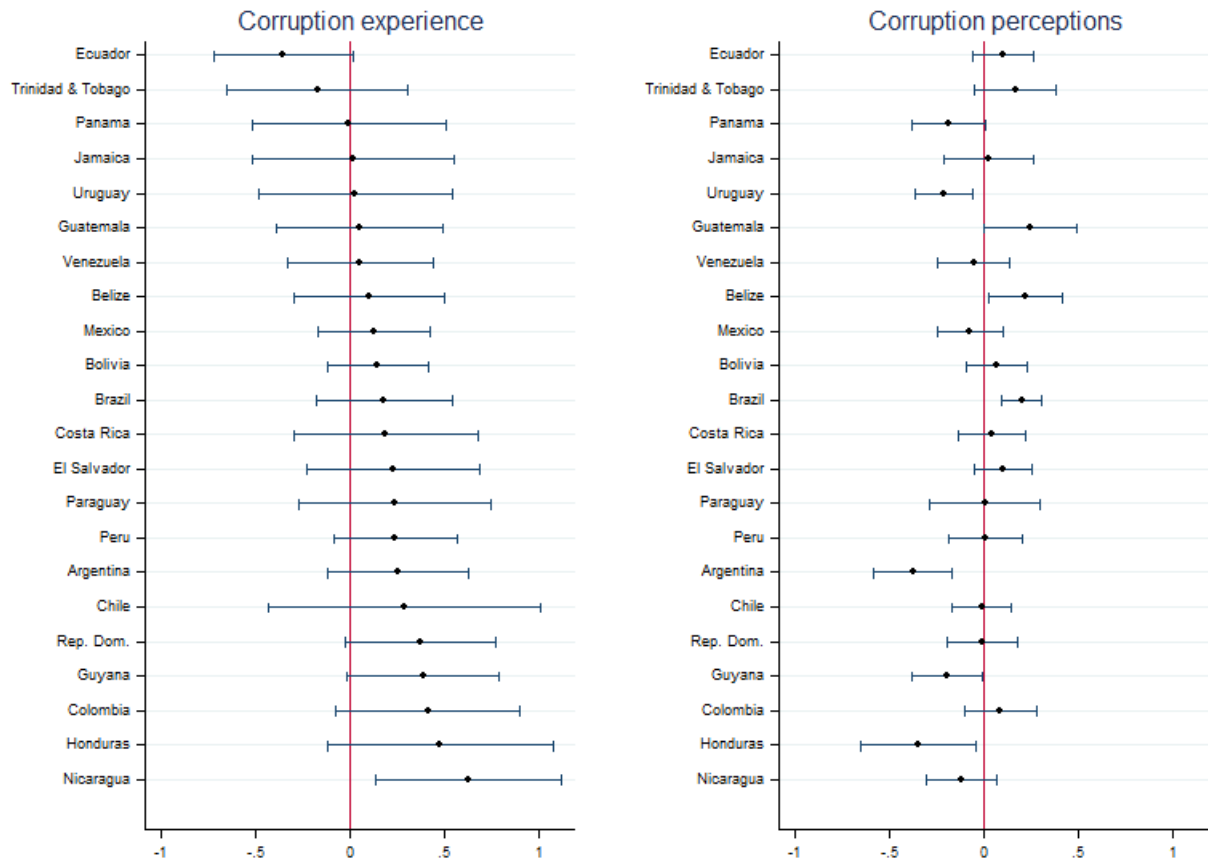
On the one hand, it is often argued that the aging population in Latin America could eventually pose serious threats to needed reforms in retirement schemes. This reasoning is based on the assumption that older individuals are more likely to vote, thus increasing their chances of becoming a majority among those who turn out at the polls. On the other hand, given that retirement schemes tend to be unequally distributed in the region, serious threats could come rather from minorities trying to retain their benefits. In this case voting is not the most effective means of effecting change, but instead more targeted forms of participation. In this section we explore patterns of engagement in important avenues for political influence in order to shed some light on these different prospects.

#### **3.1 Voting**

Democracies are representative forms of government where the most basic mechanism for political participation is voting. Through elections individuals chose their political delegates and also hold them accountable. Studies show that vote choice is affected by a number of issues that include individuals' personal characteristics (Silberman and Durden, 1975, Bartels, 1986), the policies candidates stand for (Boy and Mayer, 1993, Dalton et al., 1984, Norpoth, 1992, Flanagan, 1991, Kitschelt, 1994, Johnston et al., 1992, Alvarez, 1998, Baker, 2002), uncertainty about what policies candidates stand for (Shepsle, 1972), or even the form in which the ballot is presented to voters, in particular the effects of ordering on printed ballots (Scott Jr, 1972, Miller and Krosnick, 1998, Koppell and Steen, 2004, Ho and Imai, 2008).

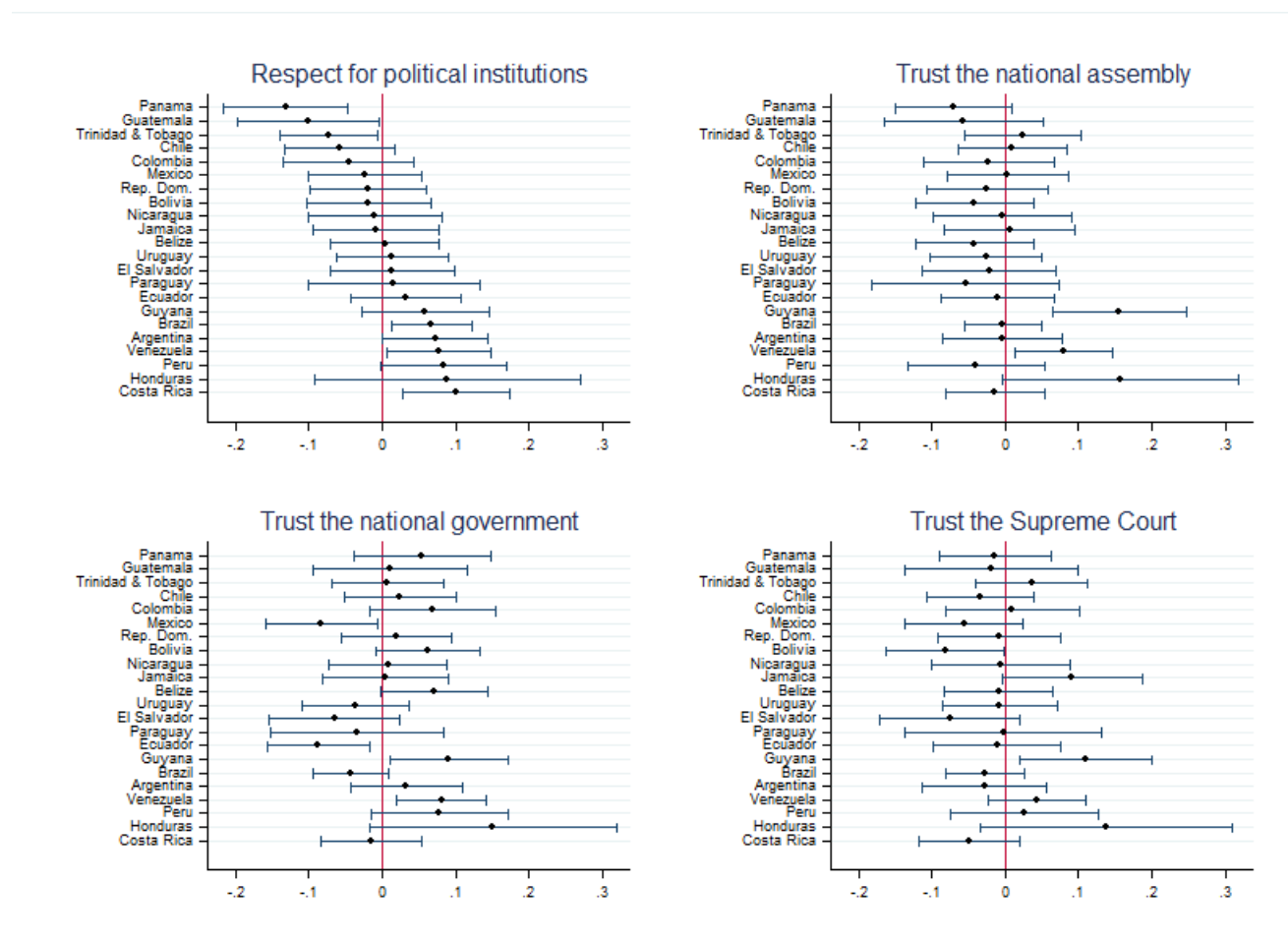
While there is some skepticism about the role of policy platform on vote choice in Latin America, there is evidence that when the issue addressed by the policy is salient to voters, they are likely to cast their votes for the candidates closest to their personal preferences on that issue (Ames et al., 2013, Manacorda et al., 2009, Zucco, 2011, 2012). Moreover, once reform is implemented,

**Figure 9. Pension enrollment and Corruption**



*Source:* Own calculations (LAPOP 2010) *Note:* Figures display the coefficient of bivariate logit estimations between corruption perceptions and experience and pension enrollment. Corruption experience is coded as a dummy on whether the respondent was ever asked for a bribe either from the police or from a public employee. Corruption perception is measured on a 4-point scale going from low incidence among public servants to high incidence.

**Figure 10. Association of Pension enrollment with Respect for and trust for Political Institutions**



*Source:* Own calculations (LAPOP 2010) *Note:* Figures display the coefficient of bivariate logit estimations between corruption respect for and trust in political institutions and pension enrollment. Level of respect and trust varies in a range from 1 to 7. Higher values mean higher trust and respect. Bars represent the 90% confidence interval around point estimates.

unsatisfied citizens can vote the responsible incumbents out of office and bring new ones in, most likely with a different mandate that can include the reversal of the previous decisions. This means elections are an important way for citizens to influence policy choices by generating incentives for the political survival of decision-makers.

When it comes to pension reform, the highest stakes are for those most directly affected: older citizens. Given that they are becoming increasingly numerous, the weight of their voice at the polls is also increasing. But how much so? In many Latin American countries voting is compulsory,<sup>3</sup> which makes turnout in the region relatively high compared to other places. The penalties, when they exist, vary from fines to imprisonment and disenfranchisement. They are, however, unevenly applied as suggested by the variation in official turnout rates across countries. While both Honduras and Chile have laws making vote compulsory, turnout in presidential elections in Chile averages 88 percent, and in Honduras 56 percent. Thus not everyone who should vote does so, and this which begs the question: who does?

Based on self-reported turnout data, even where compulsory voting laws are in effect, there seem to exist important differences in participation rates across groups within countries. Of particular relevance to pension reform, there is evidence that older citizens and citizens who report being part of a pension scheme are significantly more likely to show up at the polls (see Figure 12). The probability of voting seems to peak in most countries at ages 45 to 55 and then starts to decline (notice that compulsory voting does not usually apply to senior citizens). In order to understand the actual implications of this phenomenon for pension reform, the policy preferences of this segment of the population need to be investigated. In order to understand how aligned or in contradiction with the particular reform agenda they are, this agenda first needs to be clearly specified.

### ***3.2 Other Mechanisms and Forms of Engagement***

Besides elections, there exists more direct (and less inclusive) means to affect decisions. Where such mechanisms are present, passing reform can require garnering the support of a selected group of people as opposed to a majority. This is especially true where the political salience of the reform is low, making it less likely that citizens will take it into account when deciding whom to vote for during elections.

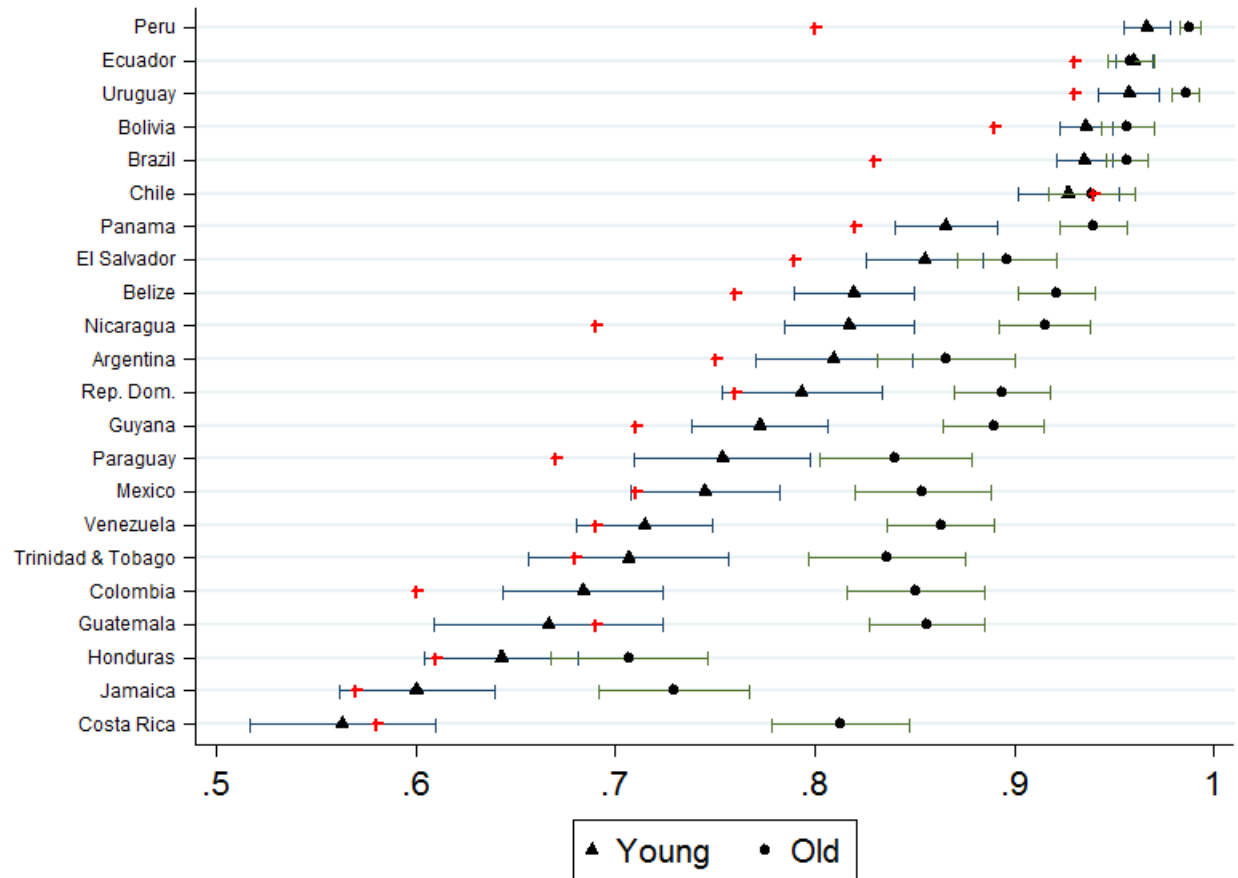
These alternative means of affecting political decisions can include direct contact with politicians and bureaucrats, whether at the local or national levels, or protesting. To what extent do people in Latin America engage in these forms of political participation, and who does? Very few people report engagement in these acts in the region. On average, protest participation was around 8 percent in 2010 (ranging from 3 percent in Jamaica to 15 percent in Argentina). Contacting

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<sup>3</sup> Argentina, Bolivia, Brazil, Chile, Costa Rica, Dominican Republic, Ecuador, Guatemala, Honduras, Mexico, Panama, Paraguay, and Peru. Source: [www.idea.int/](http://www.idea.int/)

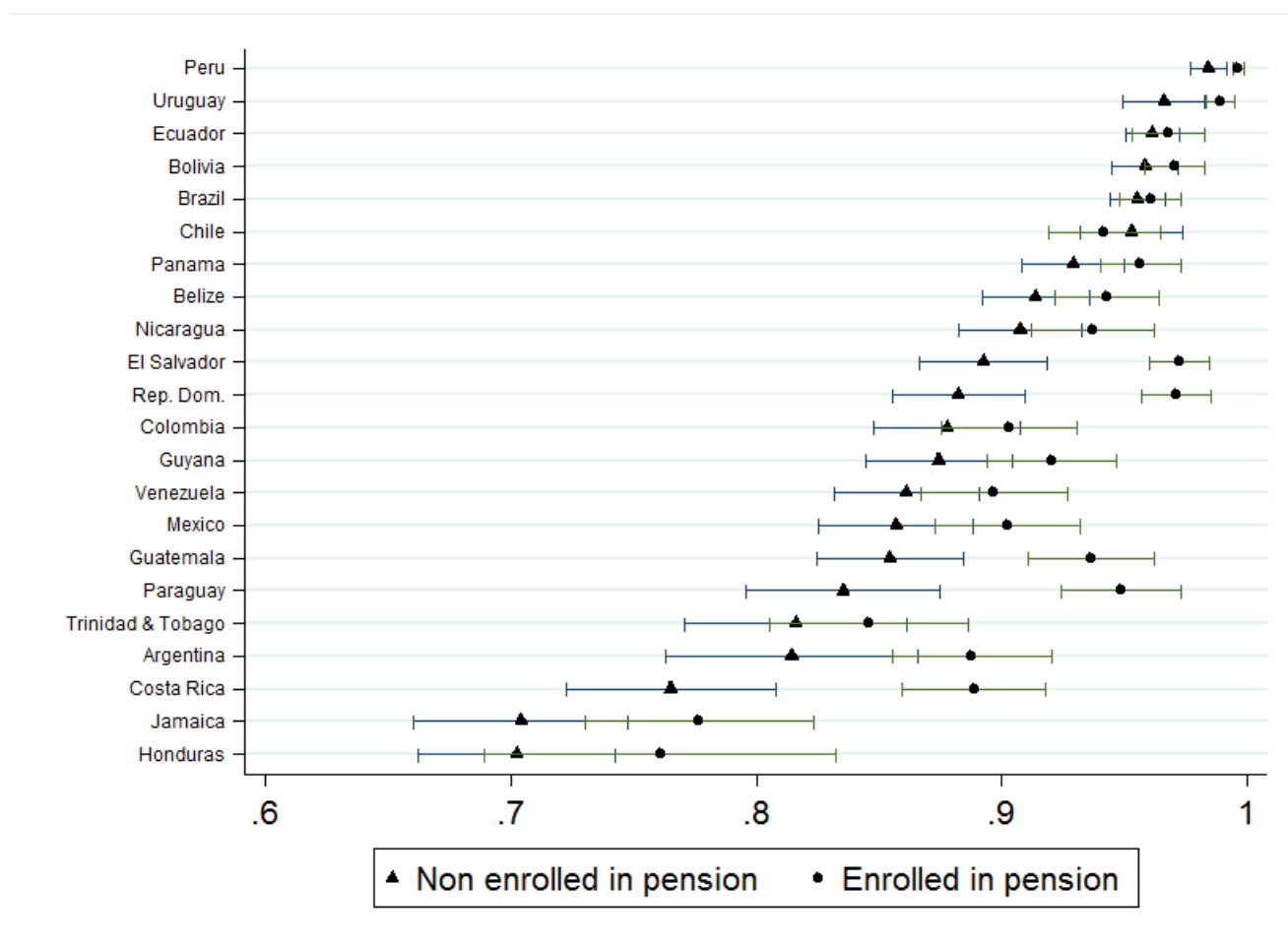


**Figure 11. Predicted probability of voting**



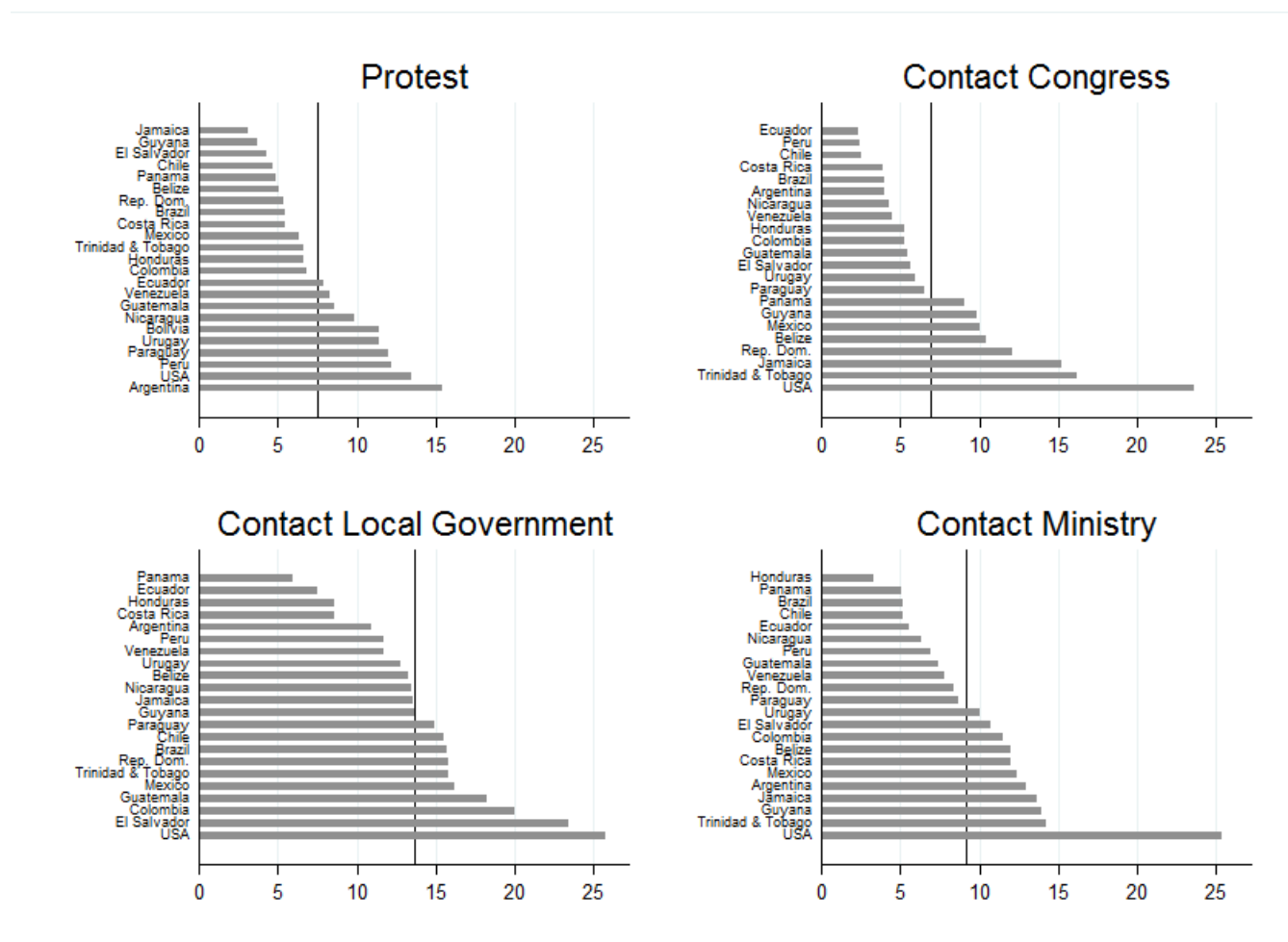
*Source:* Own calculations (LAPOP 2010) *Note:* Predicted probabilities based on logit estimation of self-reported turn out in previous elections on education level, age, income and gender. Younger profile is set to 25-45 years old, and older profile to 45-65 years old. Income level and education level are set at the mode in each profile. Gender is set at the mean. Bars represent the 90% confidence intervals. Cross markers represent the average self-reported turnout in each country.

**Figure 12. Predicted probability of voting for older people**



*Source:* Own calculations (LAPOP 2010) *Note:* Difference of Predicted probabilities based on logit estimation of self-reported turn out in previous elections on education level, age, income, gender and pension enrollment. The estimate point is the difference of predicted probability of voting between citizens that are enrolled in the pension system and the ones that do not. Both profiles are set at 45-65 years old, gender at mean, and income and education level at mode (values are specified in the appendix). Bars represent the 90% confidence intervals.

**Figure 13. Percentage of respondents reporting engagement**



Source: LAPOP 2010 Note: Figures display the percentage of respondents reporting participation or contact. The vertical lines represent the average in the region.

a Congress representative was reported by an average of 7 percent of respondents (ranging from 2 percent in Ecuador to 16 percent in Trinidad and Tobago). Contact with local government is slightly more frequent, averaging 14 percent and ranging from 6 percent in Panama up to 23 percent El Salvador. Finally, contacting a ministry or other government agency was reported by an average 9 percent of respondents in the region (the minimum was 3 percent in Honduras and the maximum was 14 percent in Trinidad and Tobago). For purposes of comparison, the rates reported by North Americans in 2010 were 13 percent protesting, 24 percent contacting congress or local government, and 25 percent contacting a ministry.

Despite much lower levels of participation in these more targeted acts than that observed in voting, the patterns of engagement look similar (See Figure 14). In 16 countries in the region

those contributing to a retirement plan tend to be significantly more likely to report participation in protest, even after controlling for other forms of civic engagement, as is common in the literature. A similar pattern is observed for the likelihood of contacting the local government. When it comes to contacting members of congress and ministries, results are more mixed. In some countries citizens enrolled in a pension scheme are more likely to do so, while in others the opposite is true.

Congress, while important, is not the only government branch through which groups and individuals can voice their opinions and try to affect decisions. The judiciary can be an important means for affecting policy, in particular the survival of decisions already made. Through courts, formal complaints against government decisions can be investigated, and in cases where they are ruled unconstitutional reversals may be mandated.

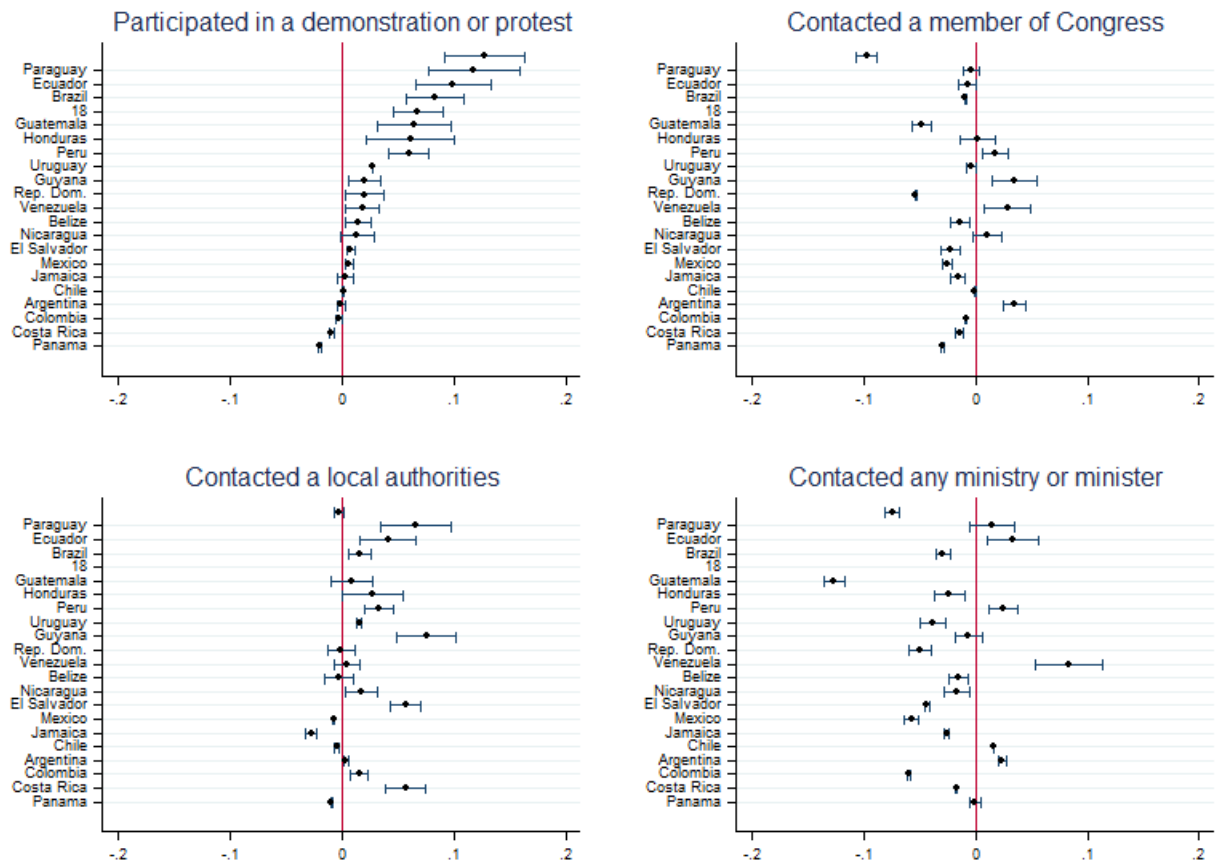
When it comes to the judicial branch, the most important mechanism is *Judicial Review*, or the power of courts to rule on the constitutionality of laws passed in Congress. Even though every country in Latin America allows for judicial review process, its strength varies according to a number of factors. A relevant one is the degree of independence of the judiciary, particularly in regard to the appointment and tenure of judges.

It is thus important that reforms be in accordance with constitutional rights and prerogatives to avoid opening up the opportunity for delays and subsequent reversals. In the case of pensions this has been an issue in both Colombia and Mexico, where alternative sources of funding for pensions were sought to relieve the burden on labor. In both countries, according to the constitution the proposed funding source, value added taxes, was not allowed to be earmarked or used to finance pension schemes. Attempts to privatize pensions in Peru towards the end of the 1980s represented another example of reform clashing with the constitution, which stipulated the state as the main provider (Mesa-Lago, 2008). In order to enact reform in such cases, a constitutional amendment, which requires considerably higher political support, is usually necessary.

## **4 Final Remarks**

Reforming existing pension schemes is a daunting task for governments. It requires considerable political support in order to be implemented and sustained for optimal results. Given that democracies are representative governments, individuals' attitudes, perceptions and preferences play a key role. The literature on the political economy of reform builds on key assumptions regarding these factors. Whether such assumptions hold in Latin America, however, remains largely unknown. This study sought to provide important preliminary insights on which to build more systematic and targeted analysis in the future, using public opinion surveys conducted with a nationally representative sample of individuals in 22 countries in Latin America in 2010 by the Latin American Public Opinion Project (LAPOP).

**Figure 14. Difference in the predicted probability of participating in protest**



*Source:* Own calculations (LAPOP 2010) *Note:* Graph display differences in estimated predicted probabilities between respondents who reported making contributions to a retirement plan and those reporting they do not. Positive values mean those making contributions were more likely to report engagement than those not contributing. Estimates are based on logit models of self-reported participation in protest, contact a member of congress, contact local authorities and contact ministry, on education level, age, income, gender, and retirement plan status. Age and gender are set mean. Education level and income are set at mode in each profile (Values are presented in the appendix). Bars represent the 90% confidence intervals.

Challenges individuals may pose to pension reform can come from different sources. This study focused on two of them. First, levels of support for reform depend on the extent to which citizens in the region are affected by current pension schemes and how important or urgent they believe the issue to be. Moreover, these considerations are taken within a given political context that shapes individuals' perceptions and expectations. Thus evaluations of government capabilities to implement and sustain reforms are equally relevant to their success. A reform that passes but leads to low enrollment rates because trust in government is low, for example, could be as detrimental as keeping the system unchanged.

Second, as with any policy area, conflict of opinions is bound to arise. These different views will matter to the extent that they guide and motivate political participation. Thus understanding Latin Americans' patterns of engagement in the different means of political participation available to them is crucial to assessing the likelihood of reforms' success.

The data analyzed in this paper corroborates the view of practitioners that retirement plan coverage rates in the region are not only low, but also significantly unequal. Retirement policy, however, remains a very low priority for citizens in every country surveyed. Moreover, perceptions of government capabilities is not strongly associated with either attributing responsibility to government for providing retirement plans or enrolling in such schemes.

One important concern in regard to pension reform is the potential opposition of older individuals currently enrolled in unsustainable plans. Given that life expectancy has been increasing considerably in the region, this group of voters is becoming increasingly numerous and therefore relevant for electoral results. Moreover, there is evidence that older individuals tend to be significantly more likely to vote. There are, however, countervailing forces to that trend. First, as shown, voter turnout in the region can be high due to laws making the act compulsory. This somewhat reduces the impact such a group could have at the polls by raising participation of other segments as well. Second, pension coverage is highly unequal in the region, and those who have a stake in defending the status quo are, in most cases, far from being a majority. Last, but not least, the low political salience of retirement is not likely to rally voters around that issue but around other issues that could split "winners" and "losers" along very different lines.

These general trends and patterns suggest that any opposition to reforming pension schemes in the region is likely to arise from a minority of citizens currently benefiting from the status quo. If that is the case, other forms of political participation, in particular those available to pressure groups and lobbyists, are likely to be used. Many important questions remain thus open to further research. Better-tailored data is needed to shed light on some important issues, in particular those concerning citizens' preferences for specific changes relative to the status quo and whether they trust the government to carry them out.

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## A Variables and Descriptive Statistics

The Data used in the analysis is the information from LAPOP 2010. It includes data for 22 LAC, Canada and USA. Description of the variables included in the document are available in the following tables.

**Table 1. Variable definitions**

| Variable                        | Description  |
|---------------------------------|--|
| <b>Personal Characteristics</b> |  |
| Gender                          | <i>dummy</i> == 1 if female  |
| Age                             | number of years  |
| Education level                 | level of education. Values: 0 (None), 1(Primary), 2(Secundary), 3(Superior studies)  |
| Income level                    | income level. Values: 1(Low-less than 2usd daily) 2(LowMiddle-between 2 and 10usd daily) 3(Middle-between 10usd and the 95th percentile daily) 4 ( High-upper top 5th percentile)  |
| <b>Participation mechanism</b>  |  |
| Voted                           | <i>dummy</i> == 1 if voted in the last elections   |
| Protest                         | <i>dummy</i> == 1 if in the last 12 months, have participated in a demonstration or protest march  |
| Contact congress                | <i>dummy</i> == 1 if have contacted a member of Congress   |
| Contact local government        | <i>dummy</i> == 1 if have contacted a local public official or local government  |
| Contact Ministries              | <i>dummy</i> == 1 if have contacted any ministry or minister   |
| <b>Trust and respect</b>        |  |
| Government pensions             | level of agreement with the statement: “the government should be primarily responsible for providing retirement pensions”. Values form 1 (Strongly disagree) to 7 (Strongly Agree) |
| Respect                         | Extent at which respect the political institutions of the country, Values from 1 ( Not at all) to 7 (A lot)  |
| Trust national Assembly         | Extent at which personally trust the Congress. Values from 1 ( Not at all) to 7 (A lot)  |
| Trust government                | Extent at which personally trust the national government. Values from 1 ( Not at all) to 7 (A lot)   |
| Trust court                     | Extent at which personally trust the Supreme Court. Values from 1 ( Not at all) to 7 (A lot)   |
| <b>Corruption</b>               |  |
| Corruption experienced          | <i>dummy</i> == 1 if had experienced a bribe from a police officer or government employee (In the last 12 months)  |
| Corruption perception           | levels of corruption among public officials, taking into account what have been experienced or heard. Values: 1(Very uncommon), 2 (Uncommon), 3(Common), 4(Very common)            |
| <b>Pension</b>                  |  |
| Pension affiliation             | <i>dummy</i> == 1 if have a pension plan or contributes to pension   |
| Continuous Contribution         | <i>dummy</i> == 1 if had made payments to the pension account every month  |

## B Methodology

Probabilities of enrollment, vote, and civic engagement were estimated using logit models, estimated separately for each country. Errors were assumed to have a normal distribution. The basic model considered in this analysis is based on the main socioeconomic variables.

$$Pr(y_i = 1) = \text{logit}^{-1}(\alpha_i + \beta X_i + \varepsilon_i)$$

for  $i = 1, \dots, N$ , where  $i$  indexes individuals and  $N$  is the total number of citizens interviewed,  $y_i = 1$  means whether the citizen is enrolled in a pension scheme, or voted last elections, or engage in protest, or contact a member of the congress or contact a member of the local government, or contact a member of the ministries.  $X$  is a matrix containing socioeconomic variables, which includes gender, age, education and income level. For the specific case of the probability of being contributing to pensions, occupation is an additional variable taken into account as another socioeconomic variable that explains it.

Additionally, extended models were estimated for pension enrollment in which variables for corruption and respect and trust for institutions were included. One of them correspond to the corruption experienced, which is a dummy variable that takes value of one if the citizen had experienced a bribe from a police officer or government employee. The second variable is the level of corruption citizens perceived among public officials. Levels of trust and respect for institutions were added individually, as well.

$$Pr(y_i = 1) = \text{logit}^{-1}(\alpha + \beta X_i + \gamma_1 G_i + \varepsilon_i)$$

for  $i = 1, \dots, N$ , where  $i$  indexes individuals and  $N$  is the total number of citizens interviewed,  $y_i = 1$  means that citizen is enrolled in a pension scheme,  $X$  is a matrix containing socioeconomic variables (gender, age, education, income level and occupation),  $G_i$  is each of the variables added.

Regarding civic engagement the basic model was extended with the addition of the citizen's enrollment status, controlling by other types of participation mechanisms:

$$Pr(y_i = 1) = \text{logit}^{-1}(\alpha + \beta X_i + \phi \text{Enrolled}_i + \delta \text{Meeting}_i + \varepsilon_i)$$

for  $i = 1, \dots, N$ , where  $i$  indexes individuals and  $N$  is the total number of citizens interviewed,  $y_i = 1$  means whether citizen voted last elections, or engage in protest, or contact a member of the congress or contact a member of the local government, or contact a member of the ministries,  $X$  is a matrix containing socioeconomic variables (gender, age, education and income level), *Enrolled* is a dummy variable that takes value of one if citizens are contributing to pensions, *Meeting* is a dummy variable that takes value of one if the citizen has participated in any other form of engagement different from the dependent variable.

Finally, for the analysis about the level of agreement with the idea that the government should be responsible for the provision of pensions were estimated several bivariate ols regressions:

$$y_i = \alpha + \rho G_i + \varepsilon_i$$

for  $i = 1, \dots, N$ , where  $i$  indexes individuals and  $N$  is the total number of citizens interviewed,  $y_i$  is the level of agreement,  $G_i$  is each of the variables for level of respect and trust for institutions.