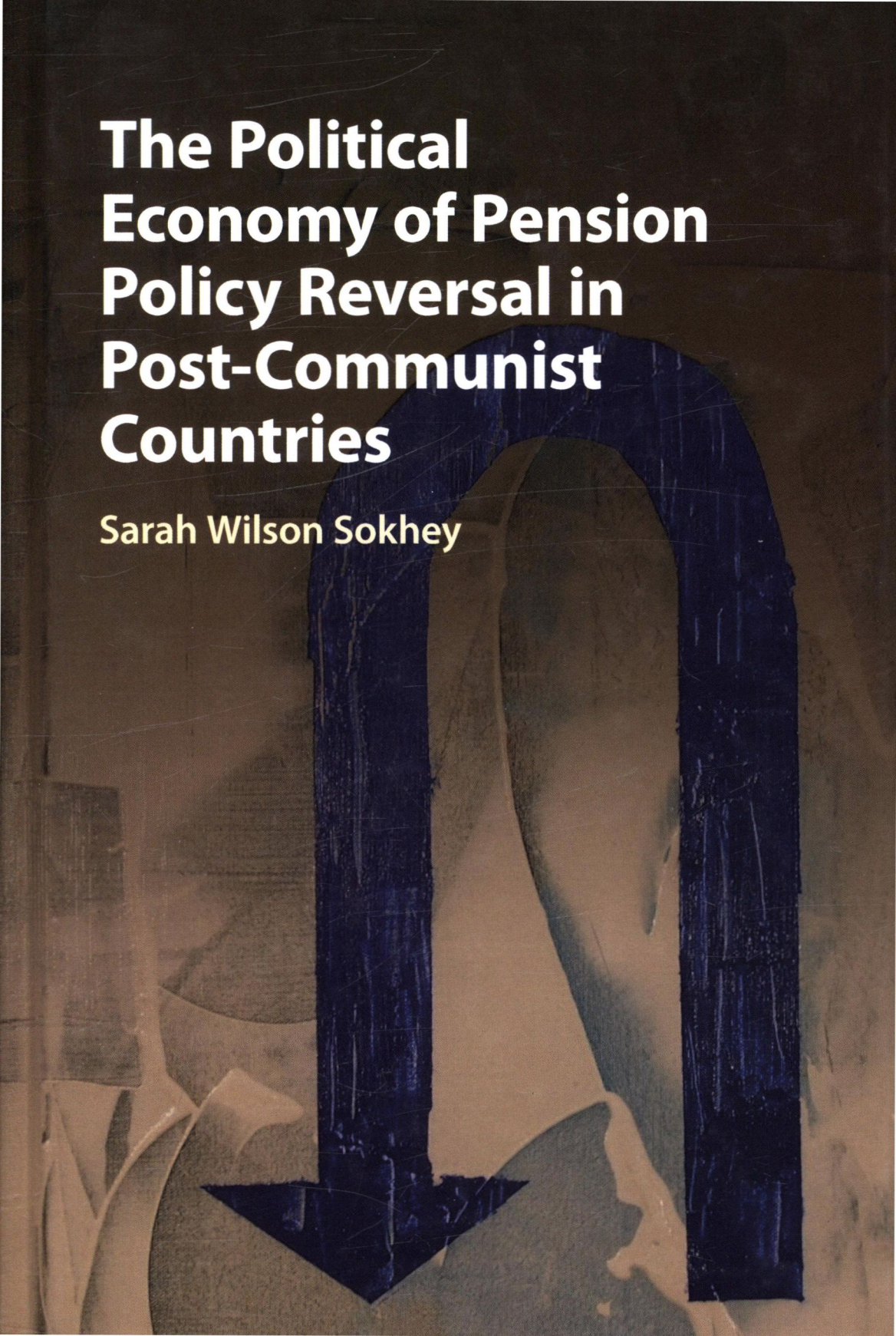


The Political Economy of Pension Policy Reversal in Post-Communist Countries

Sarah Wilson Sokhey



"Beginning in the 1980s, some thirty countries in Latin America and Eastern Europe adopted major pension reforms incorporating substantial private retirement savings components. Observing that around a third of them subsequently reversed those reforms after the global financial crisis of 2008-2009, Sokhey asks why some countries reversed while others did not. Sokhey develops a convincing explanation based on large-N quantitative analysis combined with careful case studies of Russia, Poland, and Hungary. She shows why it was countries where the reforms had been moderate in scope in the first place that were more likely to undergo reversals later on than those where reforms had been comprehensive or only very limited. Her book is not only a valuable contribution to the literature on pension reform, it is also a model of cross-national comparative policy analysis."

Thomas F. Remington, *Goodrich C. White Professor of Political Science, Emory University*

"From its origins in Chile under Pinochet, pension privatization spread to much of the world, only to be reversed in many countries that adopted it. What explains the failure of this market-oriented reform to stick?

Sarah Wilson Sokhey's provocative argument—that moderate reform is most vulnerable to reversal—carries well beyond the postcommunist context that she so persuasively examines. This is a book to be read by scholars and practitioners of economic reform everywhere."

Scott Gehlbach, *Professor of Political Science, University of Wisconsin-Madison*

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The Political Economy of Pension Policy Reversal in Post-Communist Countries

Why do governments backtrack on major policy reforms? Reversals of pension privatization provide insight into why governments abandon potentially path-departing policy changes. Academics and policy-makers will find this work relevant in understanding market-oriented reform, authoritarian and post-communist politics, and the politics of aging populations. The clear presentation and multi-method approach make the findings broadly accessible in understanding social security reform, an issue of increasing importance around the world. Survival analysis using global data is complemented by detailed case studies of reversal in Russia, Hungary, and Poland including original survey data. The findings support an innovative argument countering the conventional wisdom that more extensive reforms are more likely to survive. Indeed, governments pursuing moderate reform – neither the least nor most extensive reformers – were the most likely to retract. This lends insight into the stickiness of many social and economic reforms, calling for more attention to which reforms are reversible and which, as a result, may ultimately be detrimental.

Sarah Wilson Sokhey is an Assistant Professor in the Department of Political Science at the University of Colorado, Boulder, a Faculty Associate at the Institute of Behavioral Science, and an Associate Fellow at the International Center for the Study of Institutions and Development at the Higher School of Economics in Moscow. Her work on comparative political economy and post-communist politics has appeared in *Party Politics*, *Europe-Asia Studies*, *Business & Politics*, and *Economics & Politics*. Her research has been funded by the International Research & Exchanges Board (IREX) and the Social Science Research Council (SSRC).

*For my parents, Eugene C. Wilson, Jr. & Julia A. Wilson who always
care, a whole awful lot*

But Mousie, thou art no thy lane,
In proving foresight may be vain:
The best-laid schemes o' mice an' men,
Gang aft agley,
An' lea'e us nought but grief an' pain,
For promis'd joy!

To a Mouse, Robert Burns

Preface

Scholars have debated whether politicians and citizens can possibly back the right policy options given their own relatively short timeframes and perhaps limited ability to think ahead. Pension politics put the dilemma of long-term planning in stark relief: politicians must adopt policies to solve problems that are several generations away.

I began researching the politics of a particular pension reform – often referred to as pension privatization – in 2005. Pension privatization caught my interest as a unique type of social reform, but also as one that had similarities with other market-oriented reforms. This reform directs mandatory retirement contributions to individual accounts which are privately invested. A citizen's future benefits depend on returns to this account, be they negative or positive. The introduction of pension privatization – to date in 30 countries around the world – represented a fundamental shift in thinking about social security. No longer were national retirements systems based on the principle that workers were entitled to benefits earned over their career; instead they were based on the idea that workers themselves were responsible to invest and plan for their own old age.

Since the first introduction of pension privatization in Chile in 1981, much has changed. In the summer of 2008, a Russian expert on pension reform noted that it was a shame that I was nearing the end of my dissertation research: big changes in the pension system were on the horizon. Although his references to big changes was ambiguous at the time, he was ultimately proved right. Despite the potential costs and the presence of several alternative reform options, Russia adopted a radical market-oriented pension privatization reform in 2001. The next ten years saw the implementation of the reform and then its subsequent reversal. In December 2012, the Duma voted to begin backtracking on the system. Today the system adopted in 2001 is virtually gone. And the

Russian reversal was ultimately part of a larger global trend in backtracking on what had been intended to be a fundamental restructuring of pension systems.

My research on pensions began – albeit in a very different form – as a dissertation written at The Ohio State University. As I was concluding my dissertation research on the influence of corporate lobbying on pension privatization, a global financial crisis was in full swing and governments were beginning to cut and eliminate contributions to individual accounts set up as the second tier of national social security systems. At the University of Colorado, I shifted my research to explain the surprising turnaround in social policy reforms. Although pension privatization did fundamentally redefine social security in some countries, in others it clearly did not.

I received a tremendous amount of help and encouragement along the way. At Ohio State, I am grateful for a supportive and encouraging committee that helped me approach a challenging topic. I owe Sarah Brooks a great deal of gratitude not only for introducing me to the world of pension politics, but also for her guidance along the way. Her uncanny ability to both simplify or complicate issues at the right time of a project structure the way I think about research in general. Timothy Frye introduced me to the world of post-communist politics, generously lending his time even after leaving Ohio State. His invaluable help with field research, his understanding of the nature of Russian and post-communist politics, and the community of scholars he has fostered have strengthened all parts of my research. Marcus Kurtz always offered insightful comments and questions urging me to consider all possible alternative explanations and the larger implications of the project. His ability to see the big picture helped me to better understand why my own research was interesting. Last in alphabetical order, but very certainly not least, Irfan Nooruddin has gone very far above and beyond in mentoring me as an early graduate student and throughout my time as a faculty member. His own work has played a central role in how I think about politics, and his willingness and ability to offer professional advice has repeatedly proven essential in helping me navigate academic waters. I doubt I can fully live up to the model of mentorship or research embodied in any of my advisors, but at least I know the standard to which to aspire. If I succeed even partially in emulating them, I will be very glad.

I also benefited from a network of then graduate students at Ohio State who have gone on to great things. I am grateful to Quintin Beazer and Dinissa Duvanova, my fellow Buckeyes who also work in the world of political economy and Russian politics. They have seen parts of the book presented at various times and in various stages and have also offered helpful comments and insights. Their own work has been inspiring and has helped focus my own thinking on the nature of post-communist politics. Quintin's work on bureaucratic politics across the regions on Russia has made me think more seriously about the role of political institutions and bureaucratic discretion in influencing economic outcomes. Dinissa's research, including her book *Building Business in Post-Communist Russia, Eastern Europe, and Eurasia* (Cambridge University Press,

2013), pushed me to consider more seriously the role played by businesses and business associations in Russian policymaking.

As I was completing the final draft of this manuscript, a good friend from graduate school – Danielle Langfield – passed away very suddenly and unexpectedly. Danielle was a smart, funny, and caring friend; it is a great tragedy that her own time was cut so short.

Finally, Delia Dumitrescu is the best friend I could have found in graduate school; among her many great qualities no one has ever been quite so good at convincing me that I just might be right about something!

I am especially appreciative of scholars who have taken an active interest in the project and generously shared their own research in addition to providing detailed comments about the work. Thomas Remington has been incredibly supportive of this work. His own current research comparing welfare state politics in Russia and China has been very beneficial in influencing my thinking about my own work. I also benefited from a conference at Emory University, organized by Thomas Remington, in the fall of 2015 at which I was able to present research related to the book. Linda Cook has also been supportive of this project throughout its development and offered useful comments and suggestions at different stages. Her extensive body of work on the communist and post-communist social contract contain ideas which are central to the development of my arguments here. Israel Marques provided helpful comments on a portion of this work presented in Moscow in the summer of 2015. His own research about which individuals and business support social policy is insightful and innovative and is inspiring exciting new research into these questions.

In Russia, I have benefited from the support of a wide array of wonderful and helpful people. I am grateful to Sergei Guriev and the Center for Economic and Financial Research (CEFIR), which hosted me while I was conducting the dissertation research which inspired this project. At CEFIR, I received feedback and encouragement from Markus Eller, Scott Gehlbach, Irina Denisova, Natalia Volchkova, and Ekaterina Zhuravskaya. I am also grateful to Timothy Frye and Andrei Yakovlev for establishing and directing the International Center for the Study of Institutions and Development (ICSID) at the Higher School of Economics in Moscow which has hosted me during recent research trips to Russia and which holds regular conferences that have allowed me to collaborate and receive feedback in a very intellectually stimulating network of scholars.

I owe an enormous debt of gratitude to the Russian experts who met with me – sometimes on multiple occasions over several years – and provided invaluable insight into the workings of the Russia pension system and its reform. To maintain their anonymity and confidentiality, I do not identify them by name here. This does not, however, in any way diminish my enormous appreciation for their help without which this project would certainly not have been possible.

I have benefited from a stellar group of colleagues at the University of Colorado. A number of my colleagues read parts of this book at its various stages of development and offered helpful comments and advice, including Scott

Adler, Andy Baker, Carew Boulding, David Brown, Jennifer Fitzgerald, Joseph Jupille, and Amy Liu. Amy Liu read and commented on drafts, and endured more conversations about pensions than might be reasonable. I also owe a special thanks to Andy Baker who went far beyond the typical collegial obligations and read the entire manuscript and provided detailed comments. Gathering these perspectives and comments on the project has made this final product much better than it would otherwise have been. I am also grateful to the Institute of Behavioral Science (IBS) at the University of Colorado, Boulder for providing support and resources for my research during my time in Colorado.

Others have made the process of completing the book a much easier one. Joseph B. Schaffer provided early research assistance on the project, for which I am grateful. Eve Baker and Timothy Passmore provided incredibly helpful editorial assistance in thoroughly proofreading the manuscript and doing so on a short timeline. At Cambridge University Press, I am grateful to Robert Dreesen who made the review and publication process a pleasant experience. I would also like to thank two anonymous reviewers for Cambridge University Press who provided thoughtful and constructive comments which have greatly improved the manuscript. All errors – substantive, methodological, typographical, and otherwise – are, of course, my own.

I thank *Europe-Asia Studies* for permission to reprint portions of the following article: Sarah Wilson Sokhey, 2015, “Market-Oriented Reforms as a Tool of State-Building: Russian Pension Reform in 2001,” *Europe-Asia Studies*, Vol. 67(5), pp. 695–717, copyright by the University of Glasgow and reprinted by permission of the publisher Taylor & Francis Ltd (www.tandfonline.com) on behalf of the University of Glasgow. Parts of this article, specifically the sections discussing the politics behind the adoption of Russia’s pension reforms, appear in Chapter 5, “Russia’s Staggered Reversal of Pension Reform.”

The Skvortsov family has been part of my Russian life since I first visited the country with an undergraduate study abroad program in the fall of 2002, and is responsible for introducing me to Russian life and a country very dear to me. Larissa Skvortsova, Anna Skvortsova, Alexei Skvortsov, and Andrei Skvortsov are now a very welcome and regular part of my trips to Russia. And they have continued to graciously let a strange American student come stay with them over the years and throughout the research done for this book. Спасибо большое за все!

This book is dedicated to my parents – Eugene C. Wilson, Jr. and Julia A. Wilson – who have stood behind me in all of my endeavors. They have had more influence on this project, and all of my work, than they likely realize. From a very young age, they taught me through their words and deeds that “unless someone cares a whole awful lot, nothing’s going to get better, it’s not.” This sentiment has inspired me to pay attention to issues like pensions for which the consequences may seem far down the road but for which we must plan today. A book on pension reform is perhaps a strange way to thank them for all of their years of love and support; nonetheless – thank you!

Finally, I could not ask for a better partner than Anand whose love, humor, generosity, and artistic abilities including and extending far beyond book covers – not to mention his intellectual support of this project – make everything possible and for which I am grateful, always forever. Although the research began long before, this version of the manuscript was written almost entirely after the arrival of our son, Ronan. How lucky I am to have had such a delightful and welcome companion while finishing this project!

Note on Transliteration

I transliterate Russian-language sources using the Modified Library of Congress system recommended by the Department of Modern Languages at Cambridge University. This transliteration system is used by all major libraries in the United Kingdom and the United States of America. I make a few exceptions to this system. I use common spellings of names (as in Yeltsin instead of Yelt'sin) or the spelling used by the author. I also make exceptions for Russian words that are commonly used in English-language texts to follow existing conventions (such as *Kommersant* instead of *Kommersant'*).

