

## CHAPTER IV

### UPDATING THE PENSION REFORM DEBATE IN NORTH AMERICA: LESSONS FOR THE UNITED STATES

“[w]e have reason to worry about the balance between individualism and civic virtue in the United States today. American ‘habits of the heart’ have evolved in the direction of less understanding of the social ties that bind us together in a common democratic society and a more selfish preoccupation with our individual selves.”<sup>1</sup>

During the 1980s and 1990s, the three governments of the North American region were faced with future fiscal problems related to the inviability of state-run PAYG pension schemes. The three countries started evaluating the possibility of reform and furthermore, the possibility of privatizing their pension system. Of the three, the only one that decided for a fully-fledged privatized system was Mexico. Canada elected to resolve its future fiscal problems by reforming some rules of PAYG without actually transforming its scheme into an IA system. The United States’ government started to gravitate towards the possibility of privatization during the 1980s. But it was not until the administrations of George W. Bush that a concise privatization bill was introduced in Congress for deliberation.<sup>2</sup> The political costs of passing such a bill were of such magnitude that it was never passed, and the decision of pension reform was put on hold. During his presidential campaign, Barack Obama stated that privatization was not part of his agenda and that he would look for another solution.<sup>3</sup> The decision has not been made yet, however right wing advocates continue to recommend pension privatization as an adequate possibility for the United States.

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<sup>1</sup> William Hudson, *American Democracy in Peril* (Chatham, NJ: Chatham House, 1998), 82.

<sup>2</sup> Greg Arnig Jr., “The Best and Worst in Social Security, 2005” *The Social Security Network* (2006 [cited 27 April 2006]): available from <http://www.socsec.org/commentary.asp?opedid=1170>

<sup>3</sup> “Seniors and Social Security,” *Organizing for America* ([cited April 21, 2009]): available at <http://www.barackobama.com/issues/seniors/>

According to R. Kent Weaver, some of the most important groups that are constantly and currently pushing the privatization movement in the United States, are the business and conservative communities such as the Cato Institute and the Heritage Foundation.<sup>4</sup> Economic scholars have also argued for the urgent privatization of pension schemes. Most of the arguments from these institutions range from fiscal viability to the enlargement of investment portfolios in the United States.<sup>5</sup> Nevertheless, there is an inherent need for the social justice perspective, argued for throughout this dissertation, within this debate. Not only is social justice critical for the continuity of social cooperation, but also for the welfare of individuals. As such, this chapter hopes to show that the Mexican case, the projected results of privatization are far from being satisfactory. It is, in this sense, that this chapter finds its objective. The presentation of the Mexican case can be an important lesson for the United States, and furthermore an important contribution to their ongoing debate. To eliminate social justice considerations from their possible reforms can have a negative impact on the welfare of America's elderly, especially when there is an important dependency of the elderly on social security benefits.<sup>6</sup>

I begin with the presentation of the presentation of the United States case, its PAYG demographic and fiscal problems. The United States has not been able to pass such a reform because of the persistent lobbying against it on the part of elderly and other groups. Nevertheless, further economic institutional pressures might overcome citizen lobbies, allowing the introduction of a privatized scheme. The social consequences of which, range from social irresponsibility to radical individualism, as presented in the previous chapter. The

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<sup>4</sup> R. Kent Weaver, "The Politics of Pension Reform in Canada and the United States," *Center for Retirement Research* (1999 [cited on March 13, 2009]): available at [http://escholarship.bu.edu/retirement\\_papers/29](http://escholarship.bu.edu/retirement_papers/29)

<sup>5</sup> See Laurence Kotlikoff, Alexander W. Blocker and Stephen A. Ross, "The True Costs of Social Security," *National Bureau of Economic Research* (October 2008 [cited March 13, 2009]): available at <http://www.nber.org/papers/w14427>

<sup>6</sup> Kotlikoff, Ben Marx and Pietro Rizza, "America's Dependency on Social Security," *National Bureau of Economic Research* (November 2006 [cited March 13, 2009]): available at <http://www.nber.org/papers/w12696>

United States should also draw lessons from its North America neighbor, Mexico, who implemented the privatization in 1995. In the second section I analyze the Mexican case and the reasons that led to the final decision to privatize the pension system. I argue that most of the reasons given by Mexican politicians, if not all, left aside the necessary considerations of social justice presented in the second and third chapters. Furthermore, I will argue that this blatant disregard of social justice led to the unsatisfactory projected results in the Mexican case. Finally I present the Canadian case, where privatization was not implemented. Several adjustments to PAYG were made, including the creation of programs that would help sustain PAYG through the years. The United States therefore has two options to deal with the financial problems posed by the state-run pension scheme. The lessons of Mexico and the possible social consequences of IA (presented in the previous chapter), might be a substantial contribution to the American debate on which policy to adopt in the near future. It would do well to listen.

### **Debating Possibilities in the United States**

In the case of the United States, the state-run PAYG program was put into place with the New Deal legislations of Franklin Delano Roosevelt in 1935, with the approval of Congress of the Social Security Act. With several changes over the years, the program became the Old-Age, Survivors and Disability Insurance program (OASDI), as it is known today.<sup>7</sup> Furthermore, the United States government implemented other programs that would target poverty in old age, like the Supplemental Security Income (SSI), awarding a means-tested pension benefit to disabled low-income workers, as well as the blind.<sup>8</sup> In addition to these programs, welfare policies were created and expanded during the 1960s. Social programs were expanded but not to the extent of Scandinavian countries. One reason that

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<sup>7</sup> "Historical Development," *Social Security on Line* (1997 [cited 24 March 2006]): available from <http://www.ssa.gov/history/pdf/histdev.pdf>

<sup>8</sup> Weaver, "The Politics of Pension Reform."

underpinned the limits on social programs in the United States was the inherent social belief on an individualism,<sup>9</sup> that empowered members of society to overcome the strains of life by themselves. Under these circumstances, social policies were meant to decrease the effects of morally irrelevant features as barriers to individual freedom. These particular values were identified and advanced by Rawlsian liberalism, therefore social policy did not reach the extension of Scandinavian countries. Even though social programs, in particular the two-tiered old-age program which considerably decreased poverty in old age,<sup>10</sup> have worked efficiently, the constant pressures of the economy and the changing demographic constitution of society have begun to make a dent in the values promoted by Rawlsian liberalism.

In the case of OASDI, several events such as demographic change and high rates of government debt, interplayed to question the financial viability of the programs, and therefore search for a comprehensive reform that would, if not completely eliminate, at least limit the negative financial effects of PAYG.

Demographics started to change after the baby boom generation, bringing a severe intergenerational unbalance. With the exception of the baby boom generation, the birth rate in the United States started to decline continuously within the period of 1820 to 1975.<sup>11</sup> Furthermore, by the beginnings of 1980, the total fertility rates was below 2.08 children per woman, which is not high enough for replacement rates.<sup>12</sup> OASDI benefits had increased over the years, and the younger population that would have to sustain those large benefits would be too small. One possible solution was to draw the benefits from the surplus that OASDI had produced over the years where the baby boomers were active workers. Nevertheless, this

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<sup>9</sup> Hudson, *American Democracy in Peril*, 82.

<sup>10</sup> See Gary Engelhardt and Jonathan Gruber, "Social Security and the Evolution of Elderly Poverty," *National Bureau of Economic Research* (May 2004 [cited April 21, 2009]): available at <http://www.nber.org/papers/w10466.pdf>

<sup>11</sup> Samuel Preston and Caroline Hartnett, "The Future of American Fertility," *National Bureau of Economic Research* (November 2008 [cited April 21, 2009]): available at <http://www.nber.org/papers/w14498.pdf>

<sup>12</sup> Preston and Hartnett, "The Future of American Fertility."

surplus is invested in government bonds that do not necessarily represent an investment. This capital has been used by different administrations to fund a number of different things.<sup>13</sup> Therefore, the bonds represent more government IOU's, as R. Kent Weaver puts it, than an actual saving.<sup>14</sup>

After several studies of the Social Security status, research by Kotlikoff has shown that the difference between government pension obligations and the actual worker-employer contributions it will receive, amount to 60 trillion dollars.<sup>15</sup> The fiscal urgency of Social Security brought about the need to reform the system. Since the administration of Jimmy Carter, efforts to contract benefits started to override government. The changes that were made during these years and years later with Ronald Reagan, George Bush Sr., and Bill Clinton were only adjustments of levels of benefits and contributions. However, a proposal that would completely change the face of pension programs and would also start to erode the values of Rawlsian liberalism was already gaining strength within several sectors in government, as with senator Kerry and Danforth, and think tanks like the Cato Institute and the Heritage Foundation; who openly advocated for the privatization of Social Security. During the years of Ronald Reagan and George Bush Sr., the proposal to privatize pensions was not popular enough for these presidents to act on individual accounts. The political costs of reforming the system was too high, therefore, they limited their actions to the adjustment of benefit levels and the level of contributions, only.<sup>16</sup>

The political situation changed dramatically when president George W. Bush entered the presidency in 2000. He endorsed a substantial reform of OASDI into a new privatized

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<sup>13</sup> "Status of the Social Security and Medicare Programs," *Social Security Online* (23 March 2005 [cited 20 March 2006]); available from <http://www.ssa.gov/OACT/TRSUM/trsummary.html>

<sup>14</sup> Weaver, "The Politics of Pension Reform."

<sup>15</sup> Kotlikoff, Marx and Rizza, "America's Dependency on Social Security."

<sup>16</sup> Weaver, "The Politics of Pension Reform."

scheme of individual accounts.<sup>17</sup> Even though pension privatization had already been mentioned in the political arena years before, the social meaning and the possible effects of its enactment were not revealed. Therefore, during his reelection campaign, Bush continued to advocate the reform, basing his support on enhancing “ownership society.”<sup>18</sup> It follows that Bush’s discourse assumes that pension privatization is the adequate policy to promote an “ownership society.” If this is the case, then he is suggesting that a Nozickean-founded policy is the promoter of a society of ownership, which necessarily entails a society of Nozickean self-ownership and extensive property rights. After a concise analysis of Nozickean self-ownership and the pillars of pension privatization, it is not far-fetched to suppose that Bush was supporting, inadvertently maybe, a system of selective individuality that does not render individuals as equals and therefore allows certain levels of slavery. Thus inherently contradicting previous policies of a Rawlsian nature, such as pension programs, public schools and policies directed to aid least advantaged in general.

Bush never achieved the implementation of a pension reform. Currently, president Barack Obama has established his position on pension reform, advocating a major change on taxes, but not supporting any privatization idea.<sup>19</sup> Still, there are political forces such as the mentioned think tanks and Republican Paul Ryan (Member of the House Committee on the Budget), that still consider privatization the best option, and that continue to argue that the fiscal urgency of Social Security is dead-weight on the pressing economic situation of the United States.<sup>20</sup> Yet, economic urgency cannot be the only basis of decision. Rawls’ theory of justice was based on American institutions. The reform of Social Security would not only

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<sup>17</sup> “George W. Bush Latest Presidential Candidate to Endorse Social Security Privatization,” *CATO Institute* (June 16, 1999 [cited March 21, 2009]): available at <http://www.socialsecurity.org/daily/06-16-99.html>

<sup>18</sup> “Social Security at Risk in a Bush Second Term,” *Steellabor* (Fall 2004 [cited March 21, 2009]): available at <http://legacy.usw.org/usw/program/adminlinks/docs/socialsecurity.pdf>

<sup>19</sup> Jackie Calmes, “Democrats Resisting Obama on Social Security,” *The New York Times* (February 22, 2009 [cited March 22, 2009]): available at <http://www.nytimes.com/2009/02/23/us/politics/23social.html?ref=us>

<sup>20</sup> “Obama’s Blueprint for Growing the Welfare State,” *CATO Institute* (March 31, 2009 [cited March 31, 2009]): available at <http://www.cato.org/event.php?eventid=6017>

entail a change of policy, it would also demand a change of social values inherent in American society. Furthermore, it is critical for the United States government to strongly consider the impact of pension privatization on the welfare of its citizens. For this, it can draw important lessons from the Mexican case, where the urgent solvency dilemma, brought about pension reform into IA; which in turn, has not reflected promising results.

Even though the political interaction of the United States government is considerably different than the Mexican, and a structural policy, such as the privatization of pensions, is difficult to accept, it is nevertheless fundamental that the Mexican case is analyzed, to give a comprehensive contribution to the United States debate on Social Security, and the possible consequences of accepting the privatization of pensions; whether now or in years to come.

#### **The Case of Mexico: International Financial Institutions vs. Mexican Elderly?**

In Mexico, a number of phenomena interplayed to promote the privatization of state-run pensions. However important these phenomena were for the financial viability of the state-run system, the main reasons that led to the privatization of pensions did not introduce a discussion of social justice considerations when the reform bill was elaborated, therefore disregarding the importance of old-age as disadvantaged group. As we shall see, international and national pressures drove the Mexican government to make a quick and unrevised decision about pension reform.

Mexico cannot be characterized as a country that necessarily promotes the values of Rawlsian liberalism, which are primarily American and which require a stable and open democracy.<sup>21</sup> Much of the Mexican Welfare structure evolved as a part of the moderate left-wing ideology of the hegemonic party that ruled in the twentieth century, as is the case of *Instituto Mexicano del Seguro Social*(IMSS, Mexican Institute of Social Security), the main social provision institution in Mexico which provides healthcare, housing and pensions. This

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<sup>21</sup> Rawls based his theory on American institutions of government and society.

is primarily the institution that is under financial pressures, and of which the pension program had to be privatized in 1995. The rest of the benefits awarded by the IMSS continue to be state-run. It is important to understand that welfare policies in the Mexican case may compare in structure with the United States, but not in the values promoted. While in the United States, social policies created during the 1660s responded to the values of Rawlsian liberalism, in Mexico things were quite different. In the 1660s, Mexico continued to be ruled by the commonly undemocratic *Partido Revolucionario Institucional*. Furthermore, the 1960s represented for Mexico a decade of social crisis that ended in the student massacre of Tlatelolco in 1968. In this sense, it is difficult to compare the ideologies that were being advanced in American and Mexican societies. Nevertheless, it is critical to analyze the case of pension privatization in Mexico, to determine the reasons for the reform, and the projected results of its enactment.

After the creation of *Instituto Mexicano del Seguro Social* in 1944, this institution went through a period of important growth. The surplus derived from the contributions of employers and workers to the PAYG scheme, was used by IMSS to cover not only the benefit of old-age pensions, but also maternity, illness, risks in the workplace, medical expenses for retirees and also day care for children.<sup>22</sup> Even though these benefits were not particularly embedded in the design of PAYG, they were considered by the Mexican government to be of critical importance for the welfare of workers contributing to the system.<sup>23</sup> The surplus generated by contributions was also used by the institution to join forces with the federal government in the battle against poverty, particularly in the regions IMSS had not yet reached.<sup>24</sup>

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<sup>22</sup> “Primeros Años,” *Instituto Mexicano del Seguro Social* (2003 [cited march 9, 2009]): available at [http://www.imss.gob.mx/IMSS/IMSS/IMSS\\_HIS/Prim\\_001\\_2003\\_12.htm](http://www.imss.gob.mx/IMSS/IMSS/IMSS_HIS/Prim_001_2003_12.htm)

<sup>23</sup> “Primeros Años.”

<sup>24</sup> “Primeros Años.”

The evident growth of IMSS started to slow down due to the economic crisis that impacted Mexico at the beginning of 1980, and all through that devastating decade. One of the most important effects of the crisis was the limited possibility of the Mexican government in the creation of employment.<sup>25</sup> The immediate consequences of this effect were portrayed in the levels of unemployment which started to increase dramatically in the 1980's, reaching an unacceptable high in 1983, with a 6.8% of unemployment.<sup>26</sup> Consequently, young workers started employing themselves in informal jobs, where contributions were not mandatory. The number of younger workers, still paying into the system lessened considerably to a point where their numbers were insufficient to pay the current pension of retirees. Even though these results are similar to those of an unhealthy demographic pyramid like in the case of the United States, Canada, England and Germany, in Mexico demographics played a smaller role since fertility levels started to decrease until the 1980s, and the change has been slow and basically undramatic.<sup>27</sup> The more pressing problem was derived from unemployment levels.

In addition, the high levels of spending that IMSS engaged in during its years of sustained growth, affected social security when the surplus that would have been used to compensate for the loss of contributions, was almost extinct. The viability of PAYG to pay pension obligations was severely questioned and the state-run PAYG was considered to follow a path of self-destruction.<sup>28</sup>

Due to these problems, the state-run PAYG scheme was in need of a reform to avoid its future collapse. However, the design of the reform required the introduction of social justice pillars, particularly, a comprehensive understanding of the moral relevancy of old age. This would have allowed the design of reform that targeted poverty in old age and the

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<sup>25</sup> Asa Cristina Laurell, *La Reforma Contra la Salud y la Seguridad Social* (México: Ediciones Era, 1997), 33.

<sup>26</sup> "Tasas de Desempleo Abierto," *Instituto Nacional de Estadística, Geografía e Informática* (2004, Banco de Información Económica [cited march 9, 2009]): available at <http://dgcnesyp.inegi.gob.mx/cgi-win/bdi.exe>

<sup>27</sup> Laurell, *La Reforma Contra la Salud*, 32.

<sup>28</sup> Laurell, *La Reforma Contra la Salud*, 33.

increment of welfare among this age group. Nevertheless, the Mexican government at the time went on to implement privatization without regards of the eventual effects on the elderly. The decision to implement privatization was pressured by other kinds of considerations that did not have anything to do with old age welfare; and have everything to do with international and national economic pressures. The roots of such an uninformed decision can be found in the decade of 1980, and half of 1990, when Mexico started to welcome neoliberalism ideologies with open arms.

The radical change from revolutionary governments towards neoliberal ones can be identified particularly with the presidency of Carlos Salinas de Gortari, who entered the presidential chair in 1988 and left in 1994. At the beginning of his administration, Salinas de Gortari's agenda was specifically focused on the liberalization of Mexican markets, based on the Washington Consensus<sup>29</sup> which was strongly supported by international financial organizations like the World Bank (WB), and the International Monetary Fund (IMF). However, this liberalizing agenda would be confronted with years of patronage and clientelist nets woven by Salinas' party (*Partido Revolucionario Institucional*) years before.<sup>30</sup> The Salinas' administration therefore opted for a selective liberalization, where he would follow the recommendations of international financial organizations through the implementation of important policies, like the privatization of state enterprises and the eventual ratification of the North American Free Trade Agreement (NAFTA). At the same time, Salinas disregarded the Washington Consensus and implemented compensation policies. His main intention was to

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<sup>29</sup> The Washington Consensus is a group of policies recommended by Washington-based International Financial Institutions, to stabilize the economies of underdeveloped countries, through liberalization means. Some of these policies include, fiscal discipline, tax reform, privatization, state deregulation, trade liberalization and the decrease of social expenditure. See "Washington Consensus," *Center for International Development at Harvard University* (April 2003 [cited march 10, 2009]): available at <http://www.cid.harvard.edu/cidtrade/issues/washington.html>

<sup>30</sup> Denisse Dresser, "Falling From the Tightrope: The Political Economy of the Mexican Crisis," in *Mexico 1994: Anatomy of an Emerging-Market Crash*, eds. Sebastian Edwards and Moisés Naím (Washington D.C.: Carnegie Endowment for Peace, 1997), 55.

avoid uprisings and his loss of popularity within the sectors that would necessarily lose, due to neoliberalism.<sup>31</sup>

Salinas' two-faced agenda presented, on one hand, neoliberal action and policies to the World Bank and the International Monetary Fund. On the other hand, Salinas was implementing compensation policies that did not follow the Washington Consensus. In this framework of policies, in 1991 Salinas attempted to privatize the state-run PAYG scheme with a similar system to that of Chile. This policy was a continuity with IMF and WB recommendations. However, the double game played by Salinas did not allow him to privatize the pension system completely,<sup>32</sup> and therefore he left the presidency after considerably decreasing social spending for social security, whereby planting the roots that would inevitably lead to the privatization of pensions.<sup>33</sup>

The two-faced agenda of Salinas' eventually collapsed resulting in the 1994 peso crisis, right after Salinas had left the presidency.<sup>34</sup> Ernesto Zedillo Ponce de León received the crisis in the first days of his administration. His agenda would no longer follow the footsteps of the former president. Zedillo decided that Mexico had to reinvent itself and allowed neoliberal ideologies to come into the country in a more pure form. Denisse Dresser adequately describes the road Zedillo decided to take. "Zedillo's substantive preference was to achieve economic stabilization, and as a result he tended to neglect the political and economic needs of the unstable coalition on which his power was based...[e]conomic adjustment should be implemented without compromise to social groups, electoral

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<sup>31</sup> Dresser, "Falling From the Tightrope," 57.

<sup>32</sup> Salinas started the program of Sistema de Ahorro para el Retiro in 1992, with the support of the financial sector in Mexico. However, the program was unsuccessful. See Evelyne Huber and John D. Stephens, "The Political Economy of Pension Reform: Latin America in Comparative Perspective," *United Nations Research Institute for Social Development* (May 2000 [cited March 10, 2009]): available at [http://www.unrisd.org/80256B3C005BCCF9/httpNetITFramePDF?ReadForm&parentunid=8B4547EB0B94076480256B67005B742A&parentdoctype=paper&netitpath=80256B3C005BCCF9/\(httpAuxPages\)/8B4547EB0B94076480256B67005B742A/\\$file/huber.pdf](http://www.unrisd.org/80256B3C005BCCF9/httpNetITFramePDF?ReadForm&parentunid=8B4547EB0B94076480256B67005B742A&parentdoctype=paper&netitpath=80256B3C005BCCF9/(httpAuxPages)/8B4547EB0B94076480256B67005B742A/$file/huber.pdf)

<sup>33</sup> Laurell, *La Reforma Contra la Salud*, 28.

<sup>34</sup> Dresser, "Falling From the Tightrope," 70.

imperatives, or the ebbs and flows of politics.”<sup>35</sup> This uncompromising government’s policies were directed to follow IMF, WB and United States recommendations, one of which was the final privatization of the state-run PAYG to “enhance the country’s capacity for domestic savings over the long term.”<sup>36</sup> Finally, *Sistema de Ahorro para el Retiro* (Savings System for Retirement), was born in 1995, and started its operations in 1997; without effectively debating the possibilities of other reforms that might enhance the welfare of the elderly.

Overall, the main focus of this Mexican political decision was based on financial reasons that, although important, did not struggle to include the much needed considerations of social justice, social cooperation or moral relevancy of age groups into the pension reform policy. Even though the United States has not yet decided on pension privatization, several actors, like in the case of Mexico are also interplaying to implement such a policy.

While the Mexican model did separate itself from the original Chilean model on a number of levels,<sup>37</sup> the pillars on which IA is built were reproduced by *Sistema de Ahorro para el Retiro* (SAR). Due to the fact that SAR was only implemented 12 years ago, there are no real results of welfare levels within the old age group. However, some projections have shown that SAR will not have promising results for this age group, particularly in decreasing poverty; and will eventually increase inequality gaps within the female/male worker sectors.

A study by Huber and Stephens has shown that the projections for the IA system in Chile are not promising, and since Mexico implemented a very similar system, it is possible to expect the similar results.<sup>38</sup> One of the first criticisms of the IA system regards to administrative costs. Due to the privatized foundations of the scheme, the creation of

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<sup>35</sup> Dresser, “Falling From the Tightrope,” 70.

<sup>36</sup> Dresser, “Falling From the Tightrope,” 70.

<sup>37</sup> The Mexican government decided to implement a selective privatization where the role of the state would be much larger than in the Chilean IA system. The Mexican federal government as well as the employer continue to contribute to the worker’s account. Furthermore, contingencies such as risks and accidents in the workplace and illness remained responsibility of the state, and were not privatized. See Laurell, *La Reforma Contra la Salud*, 54.

<sup>38</sup> Huber and Stephens, “The Political Economy of Pension Reform.”

institutions and the hiring of extensive personnel is required, the cost of which turns out to be quite high, eventually having a regressive effect. According to Huber and Stephens, the fee charged by pension funds is the same for every worker, independent of their income. Therefore, those workers that have a larger income will not feel the impact of the fees so much as those who have a smaller income.<sup>39</sup> At the end of productive life, fees will decrease considerably the savings of those workers that earned smaller incomes. From the perspective of the theoretical analysis presented in chapter three, this impact represents a (dis)regard for the moral relevance of the disadvantaged positions in society, which derives from a lack of identification of advantaged/disadvantaged positions required for social justice purposes and to avoid the further disadvantage of the already disadvantaged members of society. This particular case refers to individuals who are actively contributing to the system, and not to those who work in the informal sector.

One of the problems that precipitated the financial inviability of PAYG in Mexico was the decrease of the younger population in the formal sector. This problem eventually affected the contribution and dependency ratio, not because of unhealthy demographic pyramids, but because not enough people were being employed in formal jobs where contributions were mandatory.<sup>40</sup> Another problem that derives from the growth of the informal sector is that since individuals employed in this sector do not contribute to the system, they do not receive the benefits of social security when old age arrives. The state, therefore, is faced with an important number of individuals that might fall into poverty in their old age. IA was thought to solve this problem by allowing informal workers to enter the system. However, the informal worker would have to compensate for the contributions of the employer and the

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<sup>39</sup> Huber and Stephens, "The Political Economy of Pension Reform."

<sup>40</sup> Fernando Solís and Alejandro Villagómez, *La Seguridad Social en México* (México: Fondo de Cultura Económica, 1999), 130.

state<sup>41</sup> and therefore she would not find the system appealing enough. The result is a very low number of informal or self-employed workers in the system, which will eventually translate in an increasing number of elderly without a sustained pension.<sup>42</sup> Since IA does not solve the problem of the link between unemployment and pension reception, some authors including Armando Barrientos, have argued that pension privatization did not prioritize the importance of reducing poverty in old age, and therefore it is fundamental that countries that have already privatized their pension system, include cash-transfer policies that target this important issue.<sup>43</sup> The Mexican government will have to implement redistributive policies that aid the elderly, in order to decrease high levels of poverty within this age group. Unfortunately, only Mexico city has designed and implemented aid policies for the elderly that entail a 700 pesos monthly stipend, for individuals of 70 years of age, or older,<sup>44</sup> which is far from being sufficient.

There is also another problem that arises in the new privatized system, which deserves considerable attention. In Mexico, there is an important gender gap in salaries, where women, who comprise 35% of the work force, tend to receive smaller salaries than men do.<sup>45</sup> The effects of women receiving less than men can be best perceived in their decreased capacity to save in IAs. Furthermore, the role of women played in the Mexican society also has important impacts on their savings possibilities. Due to women's household obligations, the amount of weekly work hours is decreased to less than 40, which places them in the informal

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<sup>41</sup> In the case of Mexico, contributions are not only given by the worker, but also by the employer and the state. However, this three-tiered contribution system applies only to the formal sector employees.

<sup>42</sup> Huber and Stephens, "The Political Economy of Pension Reform."

<sup>43</sup> Armando Barrientos, "Poverty Reduction: The Missing Piece of Pension Reform in Latin America," *Social Policy and Administration* 40, no. 4 (August 2006): 370.

<sup>44</sup> María Luisa González Marín, Patricia Rodríguez and Nadima Simón Domínguez, "Los Cambios en los Sistemas de Pensiones y sus Efectos en las Condiciones de Retiro de las Mujeres en México," *Instituto de Investigaciones Económicas UNAM* ([cited March 10, 2009]): available at [http://www.unizar.es/economiafeminista/comunicaciones/area\\_4\\_poiticas\\_publicas/M\\_Luisa\\_GONZALEZ\\_MARIN\\_comunicacion.pdf](http://www.unizar.es/economiafeminista/comunicaciones/area_4_poiticas_publicas/M_Luisa_GONZALEZ_MARIN_comunicacion.pdf)

<sup>45</sup> González Marín, Rodríguez and Domínguez, "Los Cambios en los Sistemas de Pensiones."

sector.<sup>46</sup> This, in turn, translates to an important number of women (38% of the informal sector) that do not receive the benefits of Social Security due to their informality, and therefore are not going to necessarily participate in the privatized scheme.<sup>47</sup>

Finally, women that do participate in the formal sector can be affected, also, by the roles of motherhood which create gaps in their labor participation due to the months of maternity leave. If they are active contributors to the IA system, they will miss a number of contributions that will eventually lessen their total savings. The consequences of these negative effects are wider when taking into consideration the increased life expectancy of women over men.<sup>48</sup> Their total savings will have to be further divided, therefore lessening their old age income. Under these circumstances, it would not be exaggerated to suggest that IA is not a program that prioritizes gender-equity. On the contrary, it deepens the gap between men and women, specifically in their old age. This impact on women clearly contradicts Rawlsian justice, since gender is a morally irrelevant characteristic that cannot be perceived as a basis for economic inequality. Not only is pension privatization clearly disregarding the advantaged/disadvantaged distinction necessary to comply with the principles of justice, it also enhances inequality on the very features Rawls meant to discard as morally irrelevant. To create inequality on the basis of gender, is the same as to promote inequality on the basis of race, or other features that are no fault of the individual. Women did not choose to be born female, therefore it is inherently unjust to punish them on the basis of the biological characteristics that make them female and allows them to bear children and live longer.

Undoubtedly, the economic, as well as the social circumstances of the United States differ considerably from Mexico. Pension programs in Mexico had a number of flaws that did not allow them to universally cover the Mexican citizenry. However, the crisis that

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<sup>46</sup> González Marín, Rodríguez and Domínguez, “Los Cambios en los Sistemas de Pensiones.”

<sup>47</sup> González Marín, Rodríguez and Domínguez, “Los Cambios en los Sistemas de Pensiones.”

<sup>48</sup> Huber and Stephens, “The Political Economy of Pension Reform.”

precipitated the reform, should have been perceived as an opportunity to reevaluate the values and principles inherent in social policy to improve them, not to change them beyond recognition. Yet the unfortunate economic and international pressures that drove the Mexican government towards privatization did not allow a further thought on the matter. The effects that were presented earlier in the Mexican case might not be as severe in the case of the United States, where a much wider net of social policies is already in place. This might help soften more or less the detrimental effects of pension privatization. Yet the results projected for Mexico can serve as an example to draw lessons and to support the further search of other options for the American people.

### **Canada: Rejecting Pension Privatization**

It is important to note that pension privatization is not the only option. The Canadian government did not implement IA as a reform for their state-run PAYG system. Even though the proposal did reach Canada during the 1980s and 1990s, the Canada Pension Plan, as well as the Quebec Pension Plan were not reformed into an Individual Accounts scheme. In the case of Canada, the retirement scheme is based on three main pillars: one is a basic pension for all elderly people over 65 years of age, independent of their earnings. The second is private accounts provided by the employer; and finally the third is the Canada Pension Plan, which is the state-run PAYG system.<sup>49</sup> In this particular case it is important to stress that welfare benefits are much more extensive than in the two previous cases of Mexico and United States, particularly because of the program that is intended to universally benefit all Canadians. Furthermore, this can be partially explained by the inherent values of Canadian society. As in the case of Mexico, the Canadian Welfare system was not necessarily developed under a Rawlsian understanding of social justice, since Canadian values are not

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<sup>49</sup> Weaver, "The Politics of Pension Reform."

based on the necessary promotion of individualism.<sup>50</sup> On the contrary, the very Canadian nation was founded on values like strong government which in turn, places much more attention on the rights of groups and communities than on the individual.<sup>51</sup> These precise values permitted Canada to be tolerant in accepting a continuous flow of immigration, which has filled its society with a number of minorities. Due to this, Canada has been extremely careful of not creating policies that do not include these minorities, as citizens. Canadian values therefore advanced the creation of a much more extensive Welfare State that is primarily universal and not selective. Considering these features that characterize Canada, one stops to wonder whether it is much more common for Canadian individuals to further their individualism than in the United States, which is a country based on individualistic values. If this is the case, then Rawlsian liberalism was right to award considerable importance to the collective, as do Canadians. However, the difference is that the emphasis on the individual is much smaller than Rawlsian liberalism would like.

Even though Canada is getting up to speed with globalization and free-markets, given Canadian values and ideologies it is not difficult to understand the reasons that underlie the rejection of pension privatization. We cannot be quite certain that the Canadian parliament and the cabinet sat down to debate the inherent libertarian roots of IA, nevertheless the values that characterize Canada contradicted a system that was merely based on the individual, and depended on the individual's ability to pay/contribute.

In the specific case of the state-run PAYG, the privatization of the scheme was presented as a probable solution. Nevertheless, the Canadian government opted out of this possibility, and decided to implement a different kind of solution. In 1996, legislation to reform the Canadian Pension Plan was accepted in the Canadian parliament. The main

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<sup>50</sup> Seymoure Martin Lipset, *Continental Divide: The Values and Institutions of the United States and Canada* (London: Routledge, 1990), 9.

<sup>51</sup> Lipset, *Continental Divide*, 3.

restructures were geared towards an considerable increase in taxes payed into the program, and finally the use of the surplus. In the first case, the contributions of workers and employers would have to be considerably elevated, from 5.6% of their earnings, to 9.9%; this came along with some minimal decrease in benefits.<sup>52</sup> The contribution increase was not designed only to fund current pension obligations, but also to create a surplus. The second important change is the use and availability of that surplus. According to this new legislation, the surplus cannot be invested in government bonds, where the actual surplus is lost after governments use that money to fund other things. The surplus has to be invested in private instruments. To guarantee the viability and growth of the surplus, the government created a regulatory private institution. Even though, it is a private entity, all the provinces of Canada have the duty to oversee the activities of this institution, and to approve investment decisions.<sup>53</sup>

These changes in the Canadian system were certainly important to give continuity to the state-run PAYG system but further than that, it allowed the continuity of social justice purposes, demonstrating that privatization is not the only option. Even though the increase of taxes might be considered an extreme decision, it is not as extreme as disregarding the least advantaged altogether. The creation of the separate private entity might seem as a form of privatization of the system. Nevertheless, birth cohort cooperation is maintained, and the surplus serves the needs not only of those who can afford higher contributions, but also those who cannot. The surplus generated by this reform has created great expectations. It has worked very well, and the government is not expecting to use the surplus until 2022.<sup>54</sup>

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<sup>52</sup> Weaver, "The Politics of Pension Reform."

<sup>53</sup> Weaver, "The Politics of Pension Reform."

<sup>54</sup> "The Canada Pension Plan: A Model of Reform," *AARP International* (April 19, 2007 [cited March 29, 2006]): available at [http://www.aarpinternational.org/resourcelibrary/resourcelibrary\\_show.htm?doc\\_id=578480](http://www.aarpinternational.org/resourcelibrary/resourcelibrary_show.htm?doc_id=578480)

## CONCLUSIONS

Of the three countries that comprise the North American region, Canada and the United States are the two most closer to Rawlsian liberalism. Unfortunately, Mexico went immediately from moderate left-wing governments to presidential administrations that advances neoliberalism. The poor continuity of values promoted by the Mexican government might have been one of the reasons that explains the fast acceptance of pension privatization in addition to the political circumstances of the time. Independently, Mexico is now faced with a critical need to fill the gaps that pension privatization will eventually leave. It can be an opportunity to expand social provision in Mexico, however before any decisions are made, it is important to take into account, not only economic issues, but also questions of social justice that might provide insight on the possible effects of determined policies.

Canada decided against privatizing its PAYG pension scheme. There are several political as well as economic reasons that might further explain Canada's decision. Nevertheless, one need not underestimate the importance of the values that are inherent in Canadian society. They are not necessarily Rawlsian, since the recognition of individuality is not the main objective of Canadian values. Nevertheless, they do comply with Rawlsian parameters, therefore doing a good job in the recognition of individuality. This is probably one important reason why Canada decided not to subject its citizenry to libertarian policies, that would eventually destroy the objectives of the Canadian Welfare State.

Under this scenario, it is interesting to see that the only country that has not made a decision yet, is the United States. As I mentioned in this chapter, Rawlsian liberalism is a primarily American theory, that is based on American institutions of democracy. Therefore, one stops to wonder whether these values promoted by Rawls do no longer hold within American society, as they used to. Is it possible that American are leaning towards a much libertarian values? Even though I cannot provide a concise answer now, the question

continues to be open until decisions are made in the United States with important public support.

After seeing the ideologies that underlie each society in North America, it was important to present the position of the three countries on pension privatization. In the case of Canada and Mexico, apart from the ideological/value system, there are other differences that need to be taken into consideration and which also shed light over the reasons of privatizing or not. The first is that Canada was not under the international and national pressures that were being exerted in Mexico. Furthermore, Canada has developed over the years a large Welfare State, that provides universal healthcare, and universal pensions (with the first pillar of the Canadian retirement scheme). These generous policies can help break the economic and social impacts that derive from privatization of pensions, in the case of it ever being implemented. Nevertheless, Mexico has not developed universal healthcare, although IMSS also provides healthcare as well as ISSSTE (*Instituto de Seguridad y Servicios Sociales para los Trabajadores del Estado*); and it does not provide an universal pension system. These differences make Mexico much more vulnerable to the individualistic and economically negative impacts of IA.

In the case of the United States, it would be appropriate to reassess the consequences of pension reform into an Individual Accounts privatized scheme. Even though, the subject is not supported by president Barack Obama, the urgency of reforming the system, coupled with an economic crisis, may be forces strong enough to increase support for privatization. If this is the case, it is important to note that even though the United States Welfare State is not as large as that of Canada, here are several programs such as Medicaid, food stamps, stipends for children of low resources, that have had important results over the years. The United States has not reached a Welfare State as that of Canada, therefore the impacts of IA would also be greater in the United States than in Canada, and lesser than in Mexico.

Furthermore, the United States debate must include the social impacts of IA, and the promotion of radical individualism in social policy. Radical individualism, or egoism as Alexis de Tocqueville called it, is a feature derived from American behavior. The progression of such a behavior can have detrimental results in society. The battles for resources can be more fierce due to the availability of other social programs.