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Retiring the State: The Politics of Pension Privatization in Latin America and Beyond

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framework adopted does not allow causal inference is that Kletzer is studying a general equilibrium question with a partial equilibrium approach (see p. 85). Furthermore, the fit of her model is rather poor: "about one-third of the variation in industry employment growth is explained by the included explanatory variables" (p. 117).

Whether or not one agrees with Kletzer's chosen approach, there is no doubt that she has undertaken a meticulous, thorough, and coherent study. The econometric analysis using a variety of estimation techniques and different groups of explanatory variables is laudable. The author compares the results when she uses data on trade flows and on import prices, and finds no important differences; in one regression, she distinguishes imports coming from low-wage countries from those coming from the industrialized countries, and finds that the latter have a larger negative effect on employment; she divides the data into several time periods, in order to separate the role of the cycle from the appreciation and depreciation of the dollar; she works on cross-section as well as panel data (with fixed effects for time and for sector); and she uses the instrumental variables method, following the work of Ana Revenga ("Exporting Jobs? The Impact of Import Competition on Employment and Wages in U.S. Manufacturing," *Quarterly Journal of Economics,* Vol. 57, February 1992). In short, Kletzer's empirical work is quite exhaustive. Trade economists may not be at ease with a study based on a partial equilibrium approach, but labor economists will certainly appreciate this substantial piece of work.

However, I think the author could have gone further in the treatment of the question addressed. Technical change, for example, is treated in a summary fashion. While Kletzer includes TFP and R&D in some equations, in general she considers technical change a factor that contributes to the unexplained variance of the equations. That is standard practice, but I find it a little disappointing. Kletzer ignores the principle of defensive innovation: technical progress induced in firms involved in international trade or anticipating it. In the latter case, the mere specter of trade can cause job loss. More generally, Kletzer does not take into account the reactions of firms facing an upheaval in their competitive environment due to trade liberalization. Nor does she consider the impact of market structure in the sectors concerned by the trade/employment link (as in Oliveira-Martins, "Market Structure, Trade, and Industrial Wages," *OECD Economic Studies*, No. 22, Spring 1994).

All of these indirect effects of trade shape firms' behavior in the global economy without necessarily entailing a rise in imports, and none of them are addressed in this book. That is a pity, because they are the focus of the most innovative literature on this topic, which has shown that the indirect effects of international trade are not captured by an increase in imports. Excluding these variables inevitably leads to an under-estimation of the effect of trade on employment.

Finally, it also is regrettable that job losses are not broken down by skill level, since the consequences of trade differ as much by skill as by sector. Kletzer shows very clearly which sectors lose and which gain from trade liberalization, but not which workers gain and lose. One naturally has in mind the skilled/unskilled labor distinction, since there can be zero loss of employment overall for a sector but major imbalances in the skill structure of earnings and job losses, generating greater inequality. Kletzer's work does not take into account the full societal effects of international trade.

Kletzer thus treats a *part* of the issue in a thorough and rigorous manner, but a part only. Her book constitutes a useful contribution to the debate and provides an excellent and accessible reference for anyone interested in the links between trade and employment.

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International and Comparative

Retiring the State: The Politics of Pension Privatization in Latin America and Beyond. By Raul L. Madrid. Stanford, Calif.: Stanford University Press, 2003. 312 pp. ISBN 0-8047-4706-7, $65.00 (cloth); 0-8047-4707-5, $27.95 (paper).

Profound disappointment in the performance of traditional pay-as-you-go retirement systems has prompted massive structural reform of pension systems in many countries over the past 20 years. Beginning with Chile's adoption

of a privately managed funded defined contribution (DC) pension in 1981, scores of other nations have followed suit with remarkable alacrity, offering a wide range of variants on this model. This is the topic of Raul Madrid's new book on pension privatization. As he points out, "Never in the history of social security had so much change taken place in such a short period of time" (p. 13). He seeks to explain why many countries, particularly those in Latin America, moved away from publicly managed, unfunded, defined benefit (DB) plans of the past and instead implemented the "neoliberal" pension model, which is associated with what he calls funded individual-account DC plans.

Madrid writes as a political scientist; in fact, this book was the basis for his Stanford political science Ph.D. dissertation. Put simply, his hypothesis is that "ideational" factors drove pension reform. In particular, Madrid points to the pervasive role of what he calls "neoliberal" economists trained in U.S. economics departments, many of whom worked with the support of the World Bank and its sister non-governmental aid organizations. The past two decades of pension reform, the author claims, flowed from the economists' pressure on developing countries to devote high priority to macroeconomic growth. This group of technocrats believed, he contends, that a funded pension system enhances growth prospects by increasing saving and reducing the fiscal drag of public pension spending. While Madrid acknowledges that the growth goal has a positive aspect, he also suggests that pension reform experts had another motive for advocating funded pension systems: many of these economists, he says, also "benefit personally from the privatization of the pension systems," since they work for international financial institutions and "may hope to do so [again] in the future" (p. 52).

This particular pension economist finds Madrid's conspiratorial allegations somewhat over-the-top. Nevertheless, the case studies may be useful reading for a student seeking to learn about the political economy of various countries' pension reforms. For example, the quite positive Mexican experience at the end of the 1990s showed how politicians were able to offset objections to the reform despite a prior unsatisfactory experience with a funded DC pension system. Madrid also sketches the less successful pension reform in Argentina, and describes how Brazil's initial reform efforts failed so sadly. Inevitably, however, a book on something as dynamic as pension reform will fall behind the times the moment it is published. Thus the book does not offer many insights on the debacle that befell Argentina's pension savers at the time of the peso crisis, nor on the recent developments in Brazilian pension reform initiated by President Lula.

In view of the author's negative view of economists, I find it ironic that he often assigns much of the blame for the weakness and fiscal problems of pension plans to powerful and entrenched political groups! For instance, a major construction union blocked effective reform of the Mexican fund to which all formal-sector workers are required to contribute 6% of pay. No proper accounting has even been done of contributions, and a major accounting firm recently admitted defeat after attempting for more than a year to document the program's assets. Had it been possible to re-dedicate that fund to retirement accumulation, the result might have been a substantial and positive impact on all Mexican workers' well-being in later life. The point is that if technocrats had controlled the numbers, they might have been able to help some of these programs avoid the pitfalls into which they fell. And going forward, having economists, actuaries, and accountants conduct a proper tally of pension liabilities and assets is essential if these systems are to be made sustainable for the long run.

A related difficulty with the author's rejection of economic analysis is that it sometimes gets in the way of accuracy. For example, the author states that "pension privatization measures have increased the financial risks borne by workers" (p. 247). But he does not define what financial risks were before and after the reforms, nor does he offer evidence in support of his statement. Those who know what the pre-reform scenarios looked like acknowledge that in several cases the pre-reform pension plans were flat broke. Surely a bankrupt plan imparts some substantial financial risk to participants and retirees! A good test of his hypothesis would have required carefully constructing counterfactuals to show what retirement income streams would have been without the reforms and then with them.

Pension economists also know that Madrid is wrong when he claims that pension "privatization"—by which he means adoption of private individual accounts—is the *source* of huge pension transition costs. Rather, most unfunded pay-as-you-go public plans already bear a burden of enormous unfunded liabilities inherited from politicians who made promises without

worrying about how to pay for them. In this case, personal account pensions cannot be the cause of the problem, and in fact some believe they may even be part of the cure. This is because old-system public pension liabilities already exist and must be dealt with, whether countries adopt individual accounts or not. The real issue is that unfunded pension promises have traditionally not been recognized in fiscal accounts, a sad fact that has allowed politicians to offer benefits without financing them. Hence, while it might seem that adopting a funded accounts plan "creates" new costs, in fact those costs were there all along, but not recognized. To illustrate using the U.S. case, for instance, the Social Security system currently is cash-flow solvent but it has an unfunded—and not widely appreciated—liability of around $10 trillion (and Medicare has a burden of more than $30 trillion). Individual accounts could be established without changing this unfunded liability one whit, as the recent Social Security Commission showed. In fact, these accounts can even be used as a means to reduce unfunded liabilities, as happened in several Latin countries, rather than expanding them.

In sum, I concur with the author that the past two decades have wrought great changes in the global pension arena, but I disagree that funded accounts are as bad as he argues. In my view, the evidence very much contradicts his claim that there is a general "absence of support for [the desirability of] pension privatization among the industrialized countries" (p. 239). The large scale and durability of pension privatization in some of those countries is strong presumptive evidence that it is viewed as an improvement over the old system. The funded pension program Australia adopted over a decade ago, for example, appears to be going strong still, and more recently Sweden, Germany, and Japan have included funded individual accounts as a valuable and integrated component of their national retirement systems. In the United States, more people now have 401(k) and related plans than any other sort of pension. While the new pension order is not perfect, even more worrisome are the problems we face in managing the burdensome and expensive legacy of nontransparent pension systems inherited from the past.

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Historical Studies

Building Movement Bridges: The Coalition of Labor Union Women. By Silke Roth. Westport, Conn.: Praeger (Greenwood), 2003. 224 pp. ISBN 0-313-31632-5, $64.95 (cloth).

> *Americans of all ages, all stations of life, and all types of disposition are forever forming associations.... In democratic countries knowledge of how to combine is the mother of all other forms of knowledge; on its progress depends that of all the others.*
>
> Alexis de Tocqueville, 1835

When de Tocqueville made that famous remark, he could not have foreseen the role this "mother of all forms of knowledge" would play in the twentieth century. America cannot be understood without understanding her social movements. Silke Roth's new book, *Building Movement Bridges: The Coalition of Labor Union Women,* focuses on an association described as a *bridge* between two of America's most important social movements: labor and the women's movement.

The Coalition of Labor Union Women (CLUW) was founded in 1974 by female trade unionists struggling to bridge their own political identities as simultaneous participants in these movements. CLUW is one of six organizations representing constituencies affiliated with the AFL-CIO. Others are the A. Philip Randolph Institute, the Asian Pacific American Labor Alliance, the Coalition of Black Trade Unionists, the Labor Council for Latin American Advancement, and Pride At Work. The AFL-CIO identifies these as "bridges to diverse communities, creating and strengthening partnerships to enhance the standard of living for all workers and their families . . . promot[ing] the full participation of women and minorities in the union movement, and ensur[ing] unions hear and respond to the concerns of the communities they represent."

In 1974 the labor movement paid scant attention to women's issues. Union women, particularly those of color, had little room to maneuver for influence, and the women's movement seemed tone deaf to their needs. Labor leaders were largely dismissive of the potential power of millions of working women, both union and non-union, facing discrimination and lack of opportunity every day on their jobs. Public stereotypes made alliance seem unlikely: by reputation, unions were dominated by conservative white male leaders and agendas, while