Similar Cases?

Pension Reforms in France and Mexico

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1. Introduction

Population ageing and a slower economic growth have led multiple governments across industrialized countries and Latin America to reform their pension system. Even though the main objective – reducing long term growth in public spending – has been fairly similar in both regions, the literature stresses that the politics surrounding pension reforms differ substantially. The literature on industrialized countries focuses primarily on the multiple stumbling blocks faced by reformers and their inability to introduce overarching reform (Bonoli, 2000, Pierson, 1996). Bismarckian welfare states (such as Germany and France) have been cited as the most "frozen" because of their strong reliance on contributions to finance social security, which results in higher labour costs (Green-Pederson and Haverland, 2002). In stark contrast, the Latin American literature emphasizes the privatization of pensions inspired by the Chilean example (Mesa-Lago and Muller, 2002, Müller, 2002) resulting in debates on the sources and mechanisms of diffusion (Brooks, 2005, Weyland, 2007, Weyland, 2005).

The aim of this contribution is to demonstrate that, contrary to the divergent literature on pension reform that characterizes Latin America and Bismarckian countries, the politics of pensions can be quite similar across regions. Relying on a most different system design (MDSD) (Przerworski and Teune, 1970), we argue that the strategies employed by governments in fragmented pension systems follow a distinctive pattern. Relying on a French-Mexico comparison, we demonstrate that the substantial pension reforms can be achieved across all occupational sectors resulting in a final reform outcome that can be as overarching as those introduced in countries with universal programs. The key to this outcome is the sequence in which individual public programs are reformed.

2. Pension Reforms in Latin American and Continental Europe.

The future of public pension systems has been one of the most hotly debated policy issues in contemporary democracies. Regardless of actuarial reports, economic figures and demographic data pointing towards a "pension crisis", pension reform remains primarily a political problem. Political factors explain why public pension systems are often cited as being notoriously resistant to change, regardless of the paradigm and methodology used to examine them. For example, Pierson (1996) demonstrates that social policies have generated powerful organized interests that defend the continuation of their benefits. Schneider and Ingram (1993) presents similar conclusion, but attribute the status quo to the positive construction of elderly. As a result, strong political will is required on the part of decision-makers in order to overcome this opposition and proceed with a public pension scheme reform.

Interestingly, there is currently a wide canyon between analyses focusing on industrialised and developing countries. These differences are reflected clearly when we compare Continental Europe and Latin America. In the former case, multiple countries are on the verge of experiencing a decline in the labour force due to population ageing (Italy and Spain are two noticeable cases). This state of affairs combined with continuous slow economic growth and the maturation of pension programs, have led governments to introduce measures to reduce future public spending associated with pensions. In spite of strong financial pressures to reform, most accounts of welfare state retrenchment in Continental Europe stress limited policy change. Adjustment costs have mostly targeted workers who do not have an occupational affiliation (mostly part-time and temporary workers) and the unemployed, whose access to the labour market remains limited due to high non-wage costs (Esping-Andersen, 1996, Huber and Stephens, 2001, Pierson, 2001). In a nutshell, continental European countries have failed to adapt their welfare state to new social risks, such higher wage inequality and family instability (Bonoli, 2007), and, as a result, have remained fairly static.

There are at least three key reasons behind this outcome when it comes to public pensions. First, while accepting Pierson's conclusions that the creation of public programs result in the formation of groups representing the beneficiaries, which in turn makes it difficult to retrench them, the "European critic" has stressed the influence of a different actor than elderly based groups. Unions have played a substantial role in either stopping reform efforts or obtaining concessions for their political support (quid pro quo) (Natali and Rhodes, 2004, Pitruzzello, 1997, Reynaud, 1998, Bonoli, 2000). Second, continental countries, with few limited exceptions such as the Netherlands and Switzerland, have limited or no funded component in their systems limiting reform possibilities since governments can not easily displace pension responsibilities (Myles and Pierson 2001, Bonoli 2003). Third, Bonoli (2007) stressed that the adaptation of the welfare state to cover new social risks occurred much earlier in Scandinavia than in continental

Europe. As a result, it faced little competition from an aged population that had limited claims to the welfare state at that time. Continental European countries are currently facing the opposite situation: an aged population with strong claims to welfare state benefits that take primarily the form of generous public pensions.

The static picture of continental European countries has been the object of criticism in the literature (Hinrichs and Kangas, 2003, Palier and Martin, 2007, Ross, 2008), which is related to broader welfare state debates on the dependent variable (Green-Pedersen, 2004). For example, Hinrichs and Kangas (2003) emphasise that the incremental measures introduced in various pension reforms in Germany and Finland, as opposed to an overarching reform like the one introduced in Sweden, actually result in substantial retrenchment for future retirees. In a stark critic of path dependence, Ross (2008) claims that the British and German welfare state has been transformed into “an enabler of self-sufficiency” (380) due to a series of multiple reforms seeking to reduce the rigidity of their labour market.

In the latter case, Latin America is faced with the prospect of having a more rapid shift in its demographics. While population ageing took fifty to sixty years in Western Europe, it will likely take twenty to thirty years in LA. In addition, this region is characterized by a significant and growing informal sector, in which up to 60% of new jobs are created –depending on countries—and in which workers do not contribute to pension schemes nor receive benefits from them. These elements accentuate Latin American governments’ difficulties in adequately financing the needs of their growing population of older people in a constrained fiscal environment following the liberalization of the economy (Segura-Ubiergo, 2007). Moreover, LA is subject to a volatile economy and its public pensions generally accentuate inequalities, as they often grant generous benefits to (mostly) state employees while a substantial number of private and informal sector workers are left without coverage (Wodon, 2003). Thus, public pressure is to expand the coverage and benefits of the latter group, as opposed to restructure their already inadequate benefits.

In spite of these hurdles, Latin American countries have gone through a wave of pension reforms since the early 1980s. What are the main factors that determine the success or failure of pension reform schemes in Latin America? Three sets of literature attempt to provide an answer to this question. The first set of literature has underlined that the limited democracies and authoritarian regimes often found in Latin American countries until the 1980s facilitated the passing of unpopular socioeconomic adjustment and restructuring measures (Haggard and Kaufman, 1995). The logic behind this line of argumentation is that citizens of these countries typically feared stark reprisals from authoritarian governments if they dared to organize in opposition to such policies. There is strong support for this argument in the field of pension reform literature, which often utilizes as its point of reference the pension restructuring that occurred in Chile in 1981, during the Pinochet dictatorship (Brooks, 2002, Huber and Stephens, 2000). This pension reform abolished the existing public system in favour of a fully funded private one. Despite the scope and importance of this reform, no external consultations took place and Pinochet easily disregarded the few criticisms that arose from within his administration. A nine country study conducted by Mesa-Lago and Müller (2002) similarly concludes that the degree of democratization of a political regime represents the most important variable explaining the degree of privatization of pension systems in Latin America. Whereas this body of research can easily explain the best known case of pension restructuring in LA (Chile), it cannot account for the numerous reforms that took place in LA countries under democratic governments. For instance, the most comprehensive case of pension system privatization in LA occurred in Bolivia in 1996/97 under a democratic regime.

A second set of literature emphasizes the role played by international financial institutions (IFIs) (such as the World Bank and the Inter-American Development Bank) that monitor closely LA economies. They have exercised strong pressures to encourage the privatization of public pension systems, going as far as including pension reform as a condition for LA countries to obtain financial and administrative assistance (Bertranou and Rofman, 2002, Brooks, 2002, James and Brooks, 2001, Weyland, 2005). Most (if not all) LA countries have had substantial dealings with IFIs. Thus, this variable cannot explain divergent pension reform outcomes. A third set of literature on welfare state retrenchment has stressed the impact of organized labour on welfare reforms. For example, Madrid (2003) argues that LA unions have focused their energy on vigorously protecting certain well-defined labor rights and social benefits rather than seeking to fight broader political battles. However, the power of unions to stop reform has produced mixed results. Madrid’s generalization can explain why opponents of pension reforms unions were successful in maintaining public options in countries such as Peru and Brazil, but not why unions were unable to replicate this outcome in countries such as Bolivia and Mexico.

3. Sequence and Welfare State Reform: Pension Reform in "Exception Schemes"

Sequence and Pension Reform

The consequences of timing and sequence on outcomes have returned to the forefront of social science research (Pierson, 2004, Abbott, 1995, Fenno, 1986, Rueschemeyer and Stephens, 1997). In political science, the focus has been mostly on the concept of path dependence, which assumes that the early adoption of a policy or institution can have long lasting effects due to the rising costs of alternatives. Once adopted a policy generates a path and, as it matures, it becomes highly unlikely that it will shift (Pierson, 2000, North, 1990). As a result, a key aspect of this type of research is the "formative moment" (see for example Rothstein, 1992) or "critical juncture" (Collier and Collier, 1991) because these moments in time pre-determine upcoming events in a sequence. For example, in the field of pension policy, it has been hypothesized that the late introduction of public programs explains the extent to which the private sector was allowed to thrive. Thus, latecomers like Canada and the Netherlands have developed a strong private pension sector while others such as France and Germany rely predominantly on public schemes (Myles and Pierson, 2001).

Recent contributions have raised interesting critiques of path dependence and its applications. First, a set of critique have questioned the extent to which there is an increasing return generating an irreversible trajectory with most public policies (Howlett and Rayner, 2006, Ross, 2007). Second, and related to the first objection, few have questioned the stability and lack of change resulting from path dependency and whether it is falsifiable (Peters et al., 2005, Boas, 2007, Schwartz, 2004).

This paper seeks to contribute to on-going debates on pensions and sequencing by demonstrating that the structure of the French and Mexican pension systems, which are representative of their respective region, have enabled politicians to alter it significantly. As such, we make the argument that path dependency has actually facilitated reforms as opposed to prevent them. Once it became clear that reforms were needed to ensure that long-term financial viability of the system and that politicians and bureaucrats shared this assessment, the same occupational structure that prevented the universal transformation of the French and Mexican pension systems (Segura-Ubiergo, 2007, Mares, 2003, Ashford, 1986, Palier, 2005) made it easier to introduce reforms by first targeting workers with the least amount of resources to fight governmental proposals. The introduction of the first reform resulted in a domino effect, which eventually led to reforms among the most privileged group: civil servants.

Prior to discussing how sequencing has facilitated reforms, it is imperative to demonstrate how France and Mexico are comparable cases. As this is a classic MDSD, it is imperative to mention briefly, the key differences between both countries. First, their political systems vary greatly. Mexico has a presidential system that has had a brief experience with democracy following decades of authoritarianism in the hands of the PRI while France is a semi-presidential system with a weak party system. Moreover, Mexico is a federal country while France's is notorious for being a highly centralized state. Second, there is a large gap in their economic situation. Mexico's GDP per capita was at $13,331 compare to France's $31,055 in 2006 (OECD). Third, income inequalities between the two countries are also very substantial with France's GINI index at 32.7 compared to Mexico's 54.6 (US department of Labor). Fourth, under the dictatorship, Mexico's bureaucracy was controlled by the PRI, which hence gained access to the state's financial resources and utilized the civil service as a source of jobs to reward party faithfuls or co-opt opponents (Camp 2007, 155). This situation changed somewhat with the transition to democracy, but the Mexican bureaucracy remains fairly inefficient and overly politicized. This is in stark contrast to France, where its bureaucracy has a long history of standing up to the government and expressing its wishes, especially in the aftermath of the Fourth Republic (Peters, 1995). Fifth, corruption was used by the PRI to stabilize its regime. Presidents Fox and Calderón have made important efforts to enhance transparency and accountability in public institutions. However, politicians and public servants are still generally seen as seeking to advance their own interests first, rather than those of the population at large (Camp 2007, 293; Levy and Bruhn 2006, 273). As such, trust in public institutions remains relatively low in Mexico.

Sixth, one of the main structural differences between the French and Mexican cases resides in the latter's regime transition from authoritarian rule to democracy, which occurred in 2000. Indeed, whereas France has been under a democratic regime since the end of World War II, Mexico has only recently acceded to democracy. Although this significantly affected many aspects of the political dynamics at the national level, the general economic orientation of successive federal governments since 1988 remained rather similar, regardless of the party in power (Dion 2008). In particular, the resolve to proceed with social insurance retrenchment stayed the same, no matter whether power was held by the authoritarian PRI (in power between 1929 and 2000) or by its democratic successor, the PAN. In the French case, the resolve to reform the pension system has been weaker with Socialist governments than with Right-Wing governments.

Seventh, the nature of relations between the state and labor unions is different. Both countries have patterned their state-labor exchanges on a variation of the corporatist framework. Whereas France's system was closer to the societal or neo-corporatist model, Mexico relied on a state corporatist model (Collier and Collier 1977; Schmitter 1974-1982; Stepan 1978). Once the PRI lost the presidency, and the authoritarian regime formally collapsed, Mexico's state corporatist framework was hence destroyed. Nevertheless, corporatism has left a heavy legacy. For one thing, the country's Labor Code has remained in place after the democratic transition, and still limits unions' freedoms of association and organization, as well as their right to strike. Also, state-labor relations are marred by clientelist practices favoring union leaders to the detriment of their memberships (Mayer 2006).

The key similarity between both cases lies with their pension system. As stated by Segura-Ubiergo (2007), the pension structure of most Latin American countries have been strongly influenced by Bismarckian ideals. Thus, as in France we are faced with a Mexican pension system that has adopted "exception pension schemes" where occupational divides matter greatly. Under this type of pension system, civil servants have benefited the most with strong replacement rates and early exit options (Esping-Andersen, 1990). The main difference between France and Mexico resides in the fact that close to 40% of labour market participants in the latter case works in the informal economy and, as a consequence, do not receive any social benefits. This marginal position within the labour market translates into a similar situation in the political arena.

In both France and Mexico, most private sector workers in the formal economy originally belonged to various occupational schemes often organized at the sectoral level. However, after successive re-organizations, most private sector workers are now covered by a single pension scheme (*caisse national d'assurance vieillesse* and *Instituto Mexicano del Seguro Social)*. Public sector workers, who do not work for a state company, are usually members of civil service scheme (*régime des fonctionnaires* and *Instituto de Seguridad y Servicio Social de los Trabajadores del Estado*). The remaining civil servants are part of what the French call *régimes spéciaux* (such as RATP and SNCF in the French case and Petromex in Mexico). In both cases, it is worthwhile stressing that these public schemes offer far more generous benefit than similar schemes in the private sector. For instance, Mexican health care workers used to receive 130% of their final monthly salary as their starting monthly pension payment (indexed periodically), which was not the case with other funds.

Interest Groups and Pension Reform

As stated earlier, critics of Pierson (1996) have stressed the continuous influence of unions within the politics of retrenchment. However, the way unions exercise this influence vary according to two key principles: 1) the ways in which they are institutionalized within the state and their role (or lack thereof) in managing public pensions and 2) how they are, themselves organized to represent workers and/or pensioners. First, the responsibility to manage public pensions has long been a point of contention between the government and social partners (Baldwin, 1990, Ashford, 1986). On one hand, in social democratic and liberal welfare regimes (Esping-Andersen, 1990), the state has been the primary 'pensiongiver' and, as a result, has most management responsibilities. Unions and employers play a role in guaranteeing additional pensions via collective agreements, but their influence on the public pensions is usually filtered through the parties. This portion is far more important in liberal welfare regime due to the lack of generosity of the public system. On the other hand, Bismarckian countries have built social insurance schemes "outside the state" (Ashford, 1986) with social partners playing a key role in expanding coverage and benefits within occupational boundaries. Despite years of integration where, for example, most private sector workers are now covered by a single regime in countries like Belgium and France, social partners continue to be strongly associated with the management of pensions. In agencies such as the ONP and CNAV, social partners control the administrative council and continue to identify with pensions. This results in their involvement in reform discussions with the government (Marier, 2008). In his comparison of French and American pension reform, Béland (2001) claims that this role is equivalent to "an ideological veto". This difference is substantial in considering the expansion of pension insurance. While unions in Scandinavia were a strong vehicle to promote the universal pensions (see for example on Sweden Esping-Andersen, 1985: 108), they did the exact opposite in France by being consistently against any attempts made to turn social insurance into a general social policy instrument (Palier, 2005).

Variation in interest group structure alters significantly retrenchment dynamics because the costs and benefits associated with reforms generate different redistributions (Anderson, 2001). As a result of its fragmented nature, the bismarckian pension systems are conducive to divide and conquer retrenchment strategies since governments can easily target specific groups while benefiting or ignoring others (Pierson, 1994). This strategy results in diffuse costs and benefits since both losers and winners are divided into rival groups. Interestingly, according to Anderson (2001), this makes it more difficult for governments to enact retrenchment plans (1073) and not less because unions highly value their administrative functions and would, thus, prefer retrenchment measures to other policy sectors. This was the case in Sweden with cuts being made primarily in pensions as opposed to unemployment.

Contrary to the Swedish case, however, governments in Bismarckian countries cannot escape confrontation with unions[1] because they face similar social insurance arrangements across policy sectors. Therefore, governments must devise strategies that will minimize the opposition from occupational groups and their unions. Within such a context, retrenchment strategies are much more about avoiding protest from unions rather than avoiding blame (Beland and Marier, 2006).

Second, the link between occupational pension schemes and unions is further strengthened in countries with bismarckian social insurance by the inclusion of retirees within their membership. In some cases, such as Italy, retirees represent more than 50% of union members (Campbell and Lynch, 2000). This has the effect of creating a strong link between pension benefits and the administering union(s). Therefore, since unions have no interest in creating a universal scheme that would break the linkage between union membership and social

[1] This can also involve employers. For example, measures aimed at reducing the generosity of some benefit can add pressure onto employers to provide a similar compensation via wage bargaining sessions. This has been the case of the Netherlands where the generosity of the basic pension has been reduced, which has been compensated by an increase in occupational pension costs and benefits.

insurance and since there are institutional structures reinforcing this linkage, organizing a concerted effort to oppose the government becomes difficult.

We expect that governments will attempt to introduce measures that are first targeting a pension scheme(s) that includes members with limited mobilization capacity, due to factors such as low unionization rate and precarious employment. By splitting individual covered by pension schemes, the government can hope to achieve retrenchment one step at a time. Within the context of bismarckian pension systems, this would likely translate into targeting private sector workers who have lower unionization rates and less stable employment, followed by public sector employees.

H1: Unions in Bismarckian pension system are unlikely to orchestrate a successful & co-ordinated opposition to the introduction of retrenchment measures.

Universal Retrenchment – How governments succeed to retrench in Bismarckian countries.

The lack of conformity within the pension system enhances the power of government who can claim to represent the common interest. Politicians possess two important tools to introduce retrenchment measures. First, they can, to borrow Levy's (1999) words, turn "vices into virtue" by extending the coverage and generosity of social benefits to marginal groups while seeking to reduce the generosity of social insurance benefits received by members of occupational schemes. In the field of pensions, this can take the form of increasing the floor of minimum pensions (usually financed by the state) and extending the coverage to contractual and/or part-time employees operating in vulnerable sectors while seeking to reduce pension generosity for members of particular schemes.

Second, the social construction of a reform also represents a powerful tool to circumvent opposition. Contrary to approaches emphasizing that the social construction of a group and their policy implications are quite rigid (Schneider and Ingram, 1993), Cox (2001) claims that politicians can successfully tie national values or symbol to a retrenchment measure to make it popular and acceptable. In this vain, politicians can appeal to a notion of social justice or universal principles to justify the introduction of reforms to one or some of the public pension schemes. Moreover, pnce an occupational scheme has been reformed, it becomes far easier for a government to introduce reforms elsewhere because the popular appeal to universal treatment becomes stronger and members of reformed schemes are unlikely to be highly supportive of members who are facing reforms.

H2: Politicians are likely to gather increasing substantial support in advocating universal claims in the aftermath of the first reform. These are expected to increase throughout a sequence of pension reform.

4. Empirical Evidence

This section presents a comparative and sequential analysis of pension reform in both France and Mexico. Rather than presenting a successive discussion of both cases, they have been regrouped by types of reform. The first part discusses reforms to the private sector and the second analyses expansion into the public sector.

4.1. Reforming the Private Sector – Where Solidarity Begins to Crumble.

Instead of resulting in a strong mobilization and strikes, the first major French pension reform was adopted with a whisper. Following an impressive electoral victory in April 1993, where 81.8 percent of all seats belonged to the right, the Balladur government wasted no time in tackling the issue of pension retrenchment. A few weeks into its mandate, the government convened the social partners to discuss the issue. After the meeting, the social partners were surprised by the clarity of the government's intentions. Other meetings followed in May between the social partners and the Minister of Social Affairs, Simone Veil. According to a student of French social policy (Vail, 1999), Prime Minister Balladur wanted to give the illusion of creating consensus, and this reality did not dupe union officials. Blondel, leader of FO, stated that “in a soft, mild way, the Prime Minister is trying to impose an austerity plan on us” (Vail, 1999: 321).

The government opted first to send flowers to the social partners by introducing a good will measure in June, which was followed by the vase in mid-August during the summer holiday season. The *Fonds de solidarité vieillesse* (FSV) would come to life in early June to finance solidarity measures for the *régime général*, which would be raised by the increase in the special health care tax (Contribution Sociale Généralisée) (from 1,1 percent to 2,4 percent) and a new tax on alcoholic and non-alcoholic beverages. A fraction of contributions would also be re-directed to this fund (Ruellan, 1993: 917). This plan had long been supported by unions, which demanded a clearer separation between contributive and non-contributive aspects of the *régime général*. This recognized the role of social partners in the management of social security, and can be considered as part of a non-confrontational stance vis-à-vis the unions (Bonoli, 2000: 138). Even though~~,~~ this measure did nothing to reduce the costs of pensions, it nonetheless provided new sources of financing. A few days later, social partners convened and met with the Minister of Social Affairs in June and were then received individually by Balladur at the end of the month. The outcome of these meetings received strong public reactions from the three main unions (FO, CGT, CFDT), who claimed that there were no real consultations (Vail, 1999: 321).

The government would go ahead with other aspects of its plan and introduced the first retrenchment measures on pensions. First, along with the legislation creating the FSV, the government included a legislation indexing pensions on price, a measure that would have to be renewed in five years by decree.[2] This made law a practice that had occurred since 1987 (Ruellan, 1993: 919). A decree (No 93-1023) adopted later (August 27), would set an increase in the amount granted to pensioners based on the expected inflation (average price increase excluding tobacco products). Any discrepancies between the expected and real inflation would be corrected the following year.

Second, two other measures would be instituted via Decree No. 93-1024 (August, 27). The length of the contribution required in order to obtain a full pension was increased from 150 quarters (37.5 years) to 160 quarters (40 years) progressively starting in 1994. The reform will be implemented over a period of 10 years, by adding a quarter every year until 2003. The other measure tackled the period under which the pension is calculated, which was based under the 10 best years. The number of years was increased to 25 very progressively, by adding a year starting in 1994 for the next 15 years (or until 2008).

[2] Which the Socialists did in 1998.

Contrary to many expectations, the reform did not generate a widespread backlash against the government, or a strong negative reaction from the social partners besides the CGT, which could not mobilize its members at this specific time of the year.

Mexico's Private Sector Reform.

Beginning in 1995, Mexico engaged in a reform of its pension system and private sector workers were targeted first. The 1997 pension reform had been planned for several years. Indeed, the Salinas government (1988-1994) had prepared a strategy to proceed with a sweeping reform of the two principal public pension institutes: the *Instituto Mexicano del Seguro Social* (Mexican Institute for Social Security, IMSS), which provided pensions mostly to private sector workers, and the *Instituto de Seguridad y Servicio Social de los Trabajadores del Estado* (Institute of Social Security for State Workers, ISSSTE), in charge of the civil servants' retirement fund. Nevertheless, the Salinas administration chose to delay this reform, as it expected very aggressive resistance from unions to this project, and needed their support to–or at least tacit compliance with—the passing of the North American Free Trade Agreement (NAFTA) by the Mexican Congress in 1993 (Dion, 2008: 438).

The stage was set for Salinas' successor to implement the projected pension reform. The Zedillo government (1994-2000) hence embarked on the process of restructuring the private workers' pension system –and only that system. This is due, among other things, to the federal administration's reluctance to take on the powerful public servants unions (Madrid, 2003: 84). This imperative was made particularly pressing by the severe economic crisis faced by Mexico at the time, and which Zedillo's government tackled through a vigorous economic adjustment package (González Gómez, 1998: 50-1). As this package already implied significant economic sacrifices on the part of the workers, Zedillo did not wish to further alienate organized labor with a pension reform plan that would be unanimously condemned by both private and public sector workers organizations. Private sector unions were considered to be more likely to yield to governmental pressures and accept such a reform, given their strong institutional ties with the governing PRI. Furthermore, the proposed reform distinguished clearly between public and private sector workers' pensions, a factor that sought to weaken inter-union solidarity in the context of the 1994-1995 economic crisis. As such, the 1995 pension reform focused exclusively on private sector workers and its provider, the IMSS.

The federal government justified the 1995 reform to the Mexican population by referring to several factors. First, the IMSS was responsible for the management of several funds, which dealt with: work-related injuries, health care, child-care, and pensions. The IMSS had a tradition of utilizing workers and employers' pension contributions in order to finance recurring deficits in health and child-care insurances, as well as infrastructure spending (IMSS, 2001). This was leading to a situation where reserves of available moneys for the pension funds would run dry by the 2004. Second, the high rates of inflation that affected Mexico in the 1980s and 1990s affected negatively the real value of pension payments (Cerda, 1996). This led to pension payments that were not sufficient to guarantee basic living conditions to its beneficiaries. Third, a significant number of workers and employers resorted to "exit strategies" in order to avoid paying into the IMSS' pension fund. This is mostly attributable to the disconnect between the high levels of contributions and low levels of benefits that characterized the IMSS' pension system for private workers. Indeed, workers needed to contribute for 500 weeks before reaching the mandatory minimum to qualify for benefits. However, once this threshold was attained, continued contributions in this system ameliorated only marginally the workers' prospective pension payments. As a result, once they reached this threshold, many individuals resorted to working unofficially –i.e. without appearing on their employers' payroll—or migrated to the informal sector. For their part, employers often did not declare the real number of workers they employed, so as to reduce their mandatory payments to the IMSS' various social funds (Espinosa-Vega, 2000, Cerda, 1996). The government insisted that these dysfunctions of the existing system seriously threatened its solvability as well as its ability to provide quality health and child-care.

The projected reform sought to convert the previous PAYG pension system to a model characterized by individual retirement accounts. The new model featured a minimum pension (equal to one minimum salary) guaranteed by the state for workers who had contributed during at least 25 years. The new system was to be administered by private pension fund administrators called AFORES. Salary deductions for workers remained the same (4.5%), but employer contributions were to be raised by 2% (to roughly 4% of the worker's salary in total). The minimum threshold on weeks of contributions was removed (Carstens, 1997: 154). The other areas of services provided by the IMSS –health care, child-care and disabilities—were not affected by the reform, and workers were to continue with contributions equivalent to 4% of their salary.

The reform was tabled only a few months after Zedillo took office, in early 1995. Since the president's party controlled both houses of the Mexican Congress, political parties from the opposition were unsuccessful in defeating the project. Resistance to the restructuring plan came mostly from organized labor, and in particular from the *Sindicato Nacional de los Trabajadores del Seguro Social* (the National Union of Workers of the Social Security, SNTSS). This union was directly involved in the administration of the IMSS pension scheme in place, and its leadership stood to lose the privileges linked with this position in the eventuality that the reform would be adopted. Interestingly, the SNTSS belonged to a cluster of labor organizations –called "official unions"**—**that were institutionally linked to the governing PRI, and were grouped under an umbrella organization called the *Congreso del Trabajo* (Labor Congress, CT). The CT leadership nevertheless considered that the interests of private sector workers were not affected negatively by this reform, and disassociated itself as well as the great majority of its members from the SNTSS' protests (Mesa-Lago and Muller, 2002: 698-9).

4.2. Moving to the Public Sector – Seeking to Avoid Specific Groups of Employees

In France, the election of right-winger Jacques Chirac as President in 1995 marked the end of the "cohabitation" between the left and the right. In order to distance himself from Balladur (a right wing Prime Minister and presidential candidate), Chirac's campaign geared itself towards the middle of the political spectrum by promising to repair the apparent "social fracture" that France had been experiencing. He even went as far as to argue that economic growth could ensure a freeze on social security cuts (Bonoli, 2000: 142).

Seven months following the Presidential election, France entered into a severe economic recession resulting in speculative attacks on the Franc and public doubts that it could join the Economic and Monetary Union (EMU) (Pitruzzello, 1997). During the summer of 1995, the newly created Juppé government admitted that it was studying proposals to reform the social security system. However, Juppé stressed that he would have broader consultations than previous French governments. He met the social partners in September and underlined the unfairness of the pension system with civil servants having to contribute "only" 37.5 years for a full pension as opposed to 40 years for private sector workers. The Briet report, commissioned by Balladur~~,~~ but concluded under Juppé**,** presented a bleaker picture than earlier reports on pensions claiming that an increase in contribution of 2.4 percent was necessary. It was also quite critical of the disparities between the regular civil servant schemes and the so-called *régimes spéciaux* (Briet, 1995).

Following the announcement of a wage freeze in the public service, the seven major labor unions agreed on a day of strikes on October 10, thus sending a serious warning to the government in the midst of rumors that it was considering increasing the length of contributions for public sector workers to reach 40 years as in the private sector. Following a meeting with Chirac on November 12, the social partners were positive about the prospects of maintaining the status quo (Marier, 2008: 59). Further, unions were informed on a non-official basis that the pension reform was left off the agenda (Bonoli, 2000: 143). Surprisingly, even to some of his own ministers, Juppé announced the most drastic changes to the whole security system on November 15. The Juppé Plan tackled pensions, health**,** and family benefits. The key feature of the reform was the universalization of health insurance by increasing the reliance on taxation for its financing while eliminating the social contributions and the various health schemes.

With regards to pensions, the most controversial aspect of the plan was the lengthening of contributions for public sectors workers from 37.5 years to 40 years. Despite the way the plan was introduced and the severity of the changes, the opposition and the social partners were very slow to react. Unions divided rapidly with the announcement that the CFDT supported the direction of the reforms. With high stakes in the administration of health schemes and a strong membership within the civil service, FO asked for the immediate removal of these measures. The CGT shared similar views. While the CFDT remained in favor of the changes in health, it would eventually present its opposition to the pension reform creating the opportunity for a strong common front among the unions. The business lobby (*Conseil National du Patronat Français*) underlined the courage of the government and the necessity to reform the pension system (Marier, 2008).

Starting with railway workers and followed closely by subway workers, a strike movement gathered momentum at the end of November. Despite the above-mentioned split in the union movement, the protest wave grew larger with the addition of teachers on December 7 and a strong support from the population. On the 10th, Juppé surrendered on the pension front by suspending the newly created commission and stating that he never meant to dismantle the *régimes spéciaux*. The unions received a letter stating that reforming public sector pensions was now off the agenda. The strikes would continue for another week concerning the other aspects of the plan, reaching a climax on December 12 with between one and two million protesters in the streets.

The Jospin years (1998-2002) would not yield anything related to pension with the exception of a (controversial) report published by the head of the *Commissariat Général du Plan*, an influential planning agency associated with the office of the Prime Minister, and the creation of the *Conseil d'orientation des retraites* (COR) to consider pension reform in greater perspective. Early in 2003, the new right wing government of Jean-Pierre Raffarin hinted that it was studying reform scenarios. In mid-April, the Civil Service and Social Affairs Ministers (Jean-Paul Delevoye and François Fillon**,** respectively), met the social partners to open discussions on the subject of pension reforms. They presented a text that contained a draft of possible reforms to the pension system. Interestingly, the so-called *régime spéciaux* were absent from the discussions. Among the key proposals presented were an extension of the contribution period in the public sector scheme so that a contribution period of 40 years would be required in both private and public sectors by 2008. The government also planned to abolish the measure granting full pensions to women that have fifteen years of contributions and three children. Still**,** with regards to public sector workers, in order to discourage early retirement the government was planning to add a 3 percent penalty per non-contributed year and add up to 2-3 percent for each supplementary year worked after the age of 60. As compromises, the government presented a plan to reduce the 10 percent penalty for each year retired prior to 60 in order to harmonize the penalties. Further, the government planned to promote individual savings, raise the level of the minimal pensions for those who have consistently contributed with a low wage**,** and grant full pensions to individuals that have met the contribution requirement prior to age 60 under specific conditions (workers with careers that began at age 14 or 15). The latter measure was seen as a way to obtain the support of the CFDT since it had been one of their key demands in the past 15 years.

The response from the unions was swift and decisive. Not surprisingly, more radical unions such as FO, CGT, UNSA (*Union Nationale des Syndicats Autonomes*)**,** and FSU (*Fédération Syndicale Unitaire*) stressed the social regression apparent in the measures and quickly condemned them as being purely financially motivated. More surprising, however, was the opposition of the CFDT, which had approved the orientations of the governmental policy on retirement in March. It argued that the counter measures (*quid pro quo*) were insufficient and that most of these measures represented short-term solutions. Its leader stated that "the total does not add up" (Le Monde, April 18, 2003). The increasingly powerful new employers' lobby created in 1998 (*Mouvement des Employeurs de France*) was happy with the orientations of the reform since it avoided contribution hikes (Le Monde, April 23, 2003).

Despite the united opposition to the reform among the unions, the organization of a common action proved difficult, but they eventually agreed to strike on May 13 and presented a common text that included a line on the need to reform pensions at the request of CFDT (Le Monde, April 24, 2003). One week prior to the strikes of May 13, Raffarin was defiant and even stated publicly that "the street can give its views, but the street does not govern" (Le Monde, May 8, 2003). The strikes of May 13 sent a chilling message to the government. With more than 60 percent of workers on strike (compared to 30 percent in 1995) and one to two million~~s~~ citizens in the street, the opposition to the reform proposals gathered strength (Le Monde, May 14, 2003). Fillon contacted the CFDT and CFE-CGC**,** and a negotiation session lasting more than 10 hours occurred between the parties (Le Monde, May 14, 2003). Following the promise on the part of the government to increase the minimal pensions for low wages (from the proposed 75 percent of minimum wage to 85 percent), increase pensions beyond inflation, increase pensions for the so-called *pluri-pensionnés* (those who belong to multiple schemes)**,** and solidify the commitment to grant full pensions to those who started contributing at the age 14, 15**,** or 16 with a full career,[3] the CFDT and CFE-CGE announced their support to the reform on May 15. The CFTC did not formally endorse the plan, but stopped its (active) opposition (Le Monde, July 23, 2003). Other strikes followed on the part of the other parties, but they eventually lost momentum and stopped by mid June. The bill was adopted on July 24.

Four years later, the entire French pension system was successfully reformed with the introduction of a reform to the *régimes spéciaux*. On September 18 2007 Sarkozy announces that the labour minister (Xavier Bertrand) will begin discussions to harmonize them with the *reformed* civil servant scheme. A coalition of unions (CGT, FO, CFTC, SUD-Raail, CGC, and

[3] The CFDT also 'obtained' the assurance that the penalty of 10 percent applied to those who retire before 60 years old without a full career would be reduce to 5 percent**,** and the so-called *primes* (added wages to the official rank granted to many civil servants, which does not carry benefits) would be taken into account for the calculation of pension benefits.

CFDT) responded in the following days by enacting a strike call for October 18 for both SNCF and RATP. The strike, with a 73% participation rate, paralysed transportation in Paris and in many French regions. Another strike movement was launched in early November, which also included EDF (electricity sector), and lasted 10 days, which represented the longest strike since the 1995 mobilization. Sarkozy claims that the strike is “a law imposed by a minority” (Le monde, 20 November 2007) and calls to continue the dialogue. Following the November 21 meeting, few unions opt to stop the strike, which effectively ends on the 24th. Negotiations are progressing on a case by case basis. They would be concluded in early January 2008 for both RATP and SNCF and result in a progressive harmonization of the *régimes spéciaux* with the civil servant scheme. Contrary to the 1995 mobilization, the unions were simply unable to receive sufficient public support to force the government to cancel this reform.

Mexico

The 2004 pension restructuring targeted only a small segment of public sector workers, i.e. those working for the IMSS, or about 370,000 people (out of a workforce of roughly 42 million at the time). Nevertheless, this reform holds a particular significance in the unfolding of the pension retrenchment process in Mexico. This is due to three main factors. First, this was the first welfare policy reform project of importance to be adopted and implemented in Mexico after the country’s transition to democracy, embodied by the victory of the PAN’s Vicente Fox to the 2000 presidential election. Second, the coalition of social forces that supported this restructuring represented both a continuation and an expansion of its contributing actors from the 1995 reform. Third, the governmental strategy utilized to introduce and justify the 2004 reform would constitute the blue prints of the approach used in 2007.

The Fox government (2000-2006) presented this reform as a necessity. Again, the federal administration claimed that this reform was unavoidable, in order to safeguard the ability of the IMSS to provide adequate health and child-care to its 45 million beneficiaries. Documents produced by the IMSS administration indicated that this problem was due to the generous retirement plan enjoyed by the Institute’s employees (IMSS, 2003). IMSS workers on average retired at age 53, with 130% of their final salary as pension benefit –an amount that was indexed when the salaries of active workers were increased. By comparison, official retirement age in

Mexico is 65, and private sector workers earning the same salary as IMSS workers at the time of their retirement would earn $210 per month, as opposed to $1,500 for IMSS retirees. As a result, Levy argued that the IMSS used its reserves to finance this pension system, thus sacrificing moneys that were intended to be invested in infrastructure and services to beneficiaries (IMSS 2004). This line of argumentation was recuperated by the Fox administration, which made it into its leitmotiv, arguing that it was unjust that 45 million people had to suffer because the 370,000 IMSS workers (as well as the 120,000 retirees) were enjoying disproportionate benefits that sucked funds away from the Institute's health and child-care programs (Orihuela and Pérez, 2004).

The reform project sought to create a new pension fund for new IMSS workers. Existing workers would continue to contribute to the collective pension system in place –the solvability of which would be guaranteed by the state—while newcomers to the IMSS would contribute to an individual account system managed by AFORES. Under the new scheme, workers would contribute at least 10% of their salary (instead of the 3% they previously paid) towards their pension fund, retire after 35 years of service (instead of roughly 28), and receive 100% (instead of 130%) of the value of their last monthly salary in pension payments. The reform also made it illegal for the IMSS to divert funds from the contributions of private sector workers and their employers to cover the pension benefits of new workers.

Among labor unions, the SNTSS opposed the reform, along with its allies from the two main independent union confederations –the UNT and the FSM. These groups claimed that: the reform was illegal, as it effectively broke the existing collective agreement between the IMSS and its employees; the reform was an attack on independent unionism and the SNTSS in particular, resulting from their critiques of the Fox administration; the IMSS' dire financial situation was a result mismanagement on the part of its administrators, rather than due to a too generous pension scheme; this reform represented only the initial step in the process of privatizing the remaining Mexican public pension schemes (UNT 2004; MLNA 2004). Nevertheless, the CT chose to support the pension restructuring and adopted the government's line by stating that the IMSS reform was necessary to offer proper care to private sector workers as opposed remaining with the status quo favoring unduly a small minority of public sector workers. Since the great majority of unions representing private sector workers were affiliated with the CT, and since the CT supported the reform, this undermined greatly the legitimacy of claims made by the SNTSS and its allies in resisting the pension restructuring. In fact, public opinion surveys suggest that the Mexican public generally accepted the logic of the argumentation set forth by the CT and other reform supporters. This reform was easily adopted by Congress in 2004.

Along the IMSS reform, the basic civil service scheme (ISSSTE) was under scrutiny. The Secretariat of Finance hammered out a project in 2003 and negotiated over a period of two years with the main public servants unions to obtain their support, but Fox ultimately shied away from this project because of strategic calculations very similar to those made by the Zedillo government several years before (Martinez, 2004, Robles de la Rosa, 2005). Specifically, both governments sought to avoid a direct conflict with the powerful *Federación de Sindicatos de Trabajadores al Servicio del Estado* (Federation of Public Servants' Unions, FSTSE), itself attached to the CT.

In that context, a project to restructure the ISSSTE pension fund was introduced to Congress just a few short months after new president Felipe Calderón (PAN) took office. Just as was the case with the 2004 IMSS reform, this restructuring project was prepared and set forth by a member of the PRI. In this case, however, the PRI legislator in question –Joel Ayala—was also the leader of the FSTSE. In December 2005, after sustained behind the scene negotiations with the Fox administration, Ayala introduced a reform project seeking to privatize the ISSSTE pension fund based largely on the government's 2003 proposal (Becerril and Cruz, 2005).

The proposed reform was broadly similar to the 1995 IMSS restructuring in that it sought to privatize the ISSSTE's pension fund, but with some differences. First, although all new public sector workers would have to join a new individual accounts system, existing workers under age 46 would have the choice of migrating towards that system or remaining with the existing PAYG system. Also, workers choosing to stay with the public system would see their retirement age gradually increase from 50 to 60 for men, and 48 to 58 for women. In addition, by the year 2012, public employees will see their monthly account contribution rise gradually from the current 3.5% to 6.125% of their salary, over a period of 5 years (USSSA 2007).

New public sector workers, as well as those existing workers who elected to adhere to the new system, have their individual accounts administered by *Pensionissste*. Contrarily to the AFORES created around the time of the 1995 IMSS reform, and which are private retirement fund administrators, the *Pensionissste* is a public pension fund, which will administer the public sector workers' individual accounts during the 3 years following the adoption of the pension reform –i.e. 2008-2010. Afterwards, workers will be free to remain with the *Pensionissste* as their pension administrator, or to change to a private AFORE of their choice. This is unlikely to occur since the *Pensionissste* has resolved to charge only 1% in annual commission fees, making it the cheapest retirement fund administrator in Mexico (CEFP 2007; El Excelsior 2008; USSSA 2007).

The most important argument used by the federal government in its promotion of the reform was taken directly from the 2004 IMSS reform. This line of argumentation maintained that without the proposed restructuring, the ability of the ISSSTE to deliver the health, disability and child-care services that it offers to its 10 million beneficiaries would be greatly compromised. In fact, President Calderón insisted that the reform sought to save the ISSSTE, as the Institute's existing pension system was no longer sustainable. This point of view was reiterated by Miguel Ángel Yunes, director of the ISSSTE, who contended that the Institute had to channel moneys away from its health services in order to meet its financial obligations towards the existing public servants' pension plan (Herrera Beltrán 2007; Merlos and Gómez 2007; ISSSTE 2007). Indeed, Calderón and Yunes claimed that that the ultimate goal of this reform was to redesign the ISSSTE so that it would extend the benefits of social insurance to the 40% of the Mexican population that did not enjoy coverage (ISSSTE 2007). In other words, issues of social justice were evoked in order to justify the 2007 ISSSTE pension retrenchment, just as they were for the 2004 IMSS pension reform. The reform project was introduced to Congress on 15 March 2007, approved by the Chamber of Deputies on 22 March, approved by Senate on 28 March, and promulgated by President Calderón on 31 March.

Labor unions opposed to the reform appeared rather inefficient in their efforts. This is mostly attributable to the fact that the leaders of the largest public servants unions and union confederation had declared themselves in favor of the reform. As such, Joel Ayala, leader of the FSTSE, claimed that he would try to stop demonstrations against the reform. Furthermore, the rival public servants federation, the FEDESSP, also supported the reform (MLNA April 2007). In addition to these two umbrella organizations of the public sector workers, the CT –the main private sector labor confederation—also pronounced itself in favor of the restructuring. In that context, the main opposing groups were the “usual suspects”: the independent union confederations (the UNT and the FSM), a dissenting labor confederation of teachers, the National Peasant Confederation (CNC), and various minor groups (MLNA May 2007).

Opponents to the reform claimed that the restructuring would harm the workers’ interests, as it would essentially half the value of the pension received by public sector retirees. Furthermore, they objected to the reform as misguided, since they argued the problems came from the administration of the pension system itself, instead of from the benefits received by retired workers. At any rate, these arguments found little resonance among the population. In fact, opposing unions stages several marches of protests around the time of the discussion of the reform in Congress, and threatened to strike in opposition. But these groups eventually cancelled their strikes, claiming that divisions within the labor movement and lack of solidarity were making it impossible to hold a national movement of strike.

5. Discussion/ Conclusion

The comparative analysis of successive pension reforms in France and Mexico yields strong support for the hypotheses introduced in the second section. Following the introduction of the first pension reform in a weakly organized sector (private sector), a domino effect ensued resulting in additional reforms in the public schemes.

H1: Unions in Bismarckian pension system are unlikely to orchestrate a successful & co-ordinated opposition to the introduction of retrenchment measures.

As expected, unions were unable to muster a long lasting concerted effort against reform proposals in both countries. Key was the initial reform to reform the *régime général* in France and the *IMSS* in Mexico. Public sector unions were not very active in opposing these measures with private sector unions, who were already relatively weak due to a limited membership. Once this measure was adopted, it was very difficult to claim that reforms to public sector schemes were unfair. It should be noted that while French unions were successful to stop the proposed reform to the pension schemes of civil servant contained in the Juppé Plan in 1995, they could not stop the drastic reforms related to health insurance. Once the government opted to alter its strategy by dealing with the *régimes spéciaux* separately, the defense of the *régime des fonctionnaires* was seriously compromised due to a lack of solidarity between workers who had already experienced a reform in 1993 and those covered by the *régimes spéciaux* could no longer justify going on strikes. Following the adoption of the 2003 reform, unions representing members involved in the *régimes spéciaux* were left without substantial support to counteract the campaign started by the government.

In Mexico, the CT's support to the 1995 reform reduced the legitimacy of the SNTSS' claims that this restructuring was harmful to the interests of workers, and made it seem like the union was only acting to defend its own limited interest. The SNTSS found allies among the "independent unions" movement –i.e. those unions that did not have a direct tie with the PRI— but that movement was in a position of relative political marginality at the time and did not help much the SNTSS. The reform of the ISSSTE was facilitated by the introduction of a reform that targeted a vulnerable group of civil servants (IMSS employees). It became very difficult for private sector unions to support the strong inequities of the pension system. Moreover, by having the ISSSTE reform plan endorsed by the leader of the main union in the civil service (FSTSE), the government seriously compromised the possibility of a common union front.

H2: Politicians are likely to gather increasing substantial support in advocating universal claims in the aftermath of the first reform. These are expected to increase throughout a sequence of pension reform.

Throughout the reform cycle, governmental authorities did not hesitate to utilize the variation of benefits among the public schemes to justify the implementation of reforms. In the Mexican cases, politicians attributed the financial difficulties of social services to the high costs of pensions received by providers. This was the case for both IMSS and ISSSTE. Moreover, maintaining a generous payg system was difficult to justify in light of the privatization of the

IMSS scheme for private sector workers. Thus, rather than seeking to avoid blame, politicians sought to gain credits for adopting reforms in an effort to demonstrate their capacity to govern efficiently and make difficult decisions (Marier and Mayer, 2007).

In the French case, the amalgamation of all schemes has always been considered too difficult to implement in light of the failure to create a universal public pension scheme in the aftermath of World War II. However, this did not result in an absence of comparison among the various schemes, especially after actuarial analysis began to report long-term problems with many occupational schemes. It is within this context that multiple reports emphasised the widening gap between various schemes, which were accelerated by the 1993 reform to the *régime général* (Conseil d'orientation des retraites, 2001, Briet, 1995, Charpin, 1999). Thus, the government pointed to the need to harmonize key principles, such as length of contribution, while acknowledging occupational differences. Successive governments were eventually successful at marginalizing members of the *régimes spéciaux*, who could not maintain the support they first experienced in 1995. By 2008, they were the only ones who had not faced a reform and their working conditions, which formed the basis of a different treatment in transportation, had changed dramatically to the point that it was untenable to warrant a special treatment.

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