Introduction

Most Americans know of President George W. Bush's 2005 proposals for new pension reforms to privatize Social Security, but few are aware of a conversation that took place on September 11, 1997, between then Texas Governor Bush and José Piñera, a former Chilean Secretary of Labor and Social Security. Piñera is an internationally known advocate of private, individual pension savings accounts who led the effort to replace Chile's social security system with individual accounts in the late 1970s and early 1980s under the regime of General Augusto Pinochet. Pinochet's regime was highly controversial—as reviled by the left for its human rights abuses as it was lauded by the right for setting Chile on a course to strong economic growth and ultimately to democracy. After planning pension reform in Chile, Piñera made a career of spreading pension privatization throughout Latin America and worldwide. He met personally with numerous Latin American presidents as they contemplated reforms to their pension systems and advised organizations such as the World Bank and state officials in countries around the world (see Oravec 2006, 28–43, for a detailed account of his work in Slovakia). Piñera's meeting with President Bush took place at the governor's residence in Austin. Piñera portrayed pension privatization as a crucial element of an ownership society and helped to convince President Bush to embark on what now looks like a quixotic campaign to restructure Social Security and enact new pension reforms in the United States based on the Chilean model. Bush's campaign for pension privatization cost him a good portion of the political capital he gained in his 2004 re-election campaign and helped to send his popularity ratings plummeting in 2005. Given the high price he paid, it seems that President Bush acted out of conviction on this issue—a conviction that grew in part out of his meeting with Chile's pension reform guru.

This book analyzes the role of transnational policy actors in spreading pension privatization ideas and practices worldwide. Transnational policy actors are defined broadly as organizations (multilateral, state, or non-state) or individuals that seek to develop and advocate well-elaborated policy proposals in multiple national contexts. Through a detailed study of the privatization of state social security systems, this study seeks to answer several fundamental questions: Are national policy makers influenced by transnational policy actors who sell policy ideas from country to country? How much influence do transnational actors have on policies such as pension reform that have long been dominated by powerful domestic interest groups? If transnational actors are important, how are they important? What are the sources of their influence and when do they exert it?

This book addresses these questions by exploring the spread of pension privatization, which I also refer to as the new pension reforms, a set of policy reforms that have radically altered the post-war domestic social contract in more than thirty countries around the world. Pension privatization involves the partial or full replacement of social security type pension systems by ones based on private, individual pension savings accounts. Transnational policy actors, including the World Bank, the U.S. Agency for International Development (USAID), and other multilateral and bilateral aid agencies, transnational policy entrepreneurs, and expert networks, have been deeply involved in the development, diffusion, and implementation of these reforms. While pension privatization has affected mostly middle-income developing countries, these reforms also have been implemented in Sweden and the United Kingdom and proposed in the United States as well as in other developed countries.

Pension privatization represents an important example of the internationalization of public policy making in an area that I have had the opportunity to observe at close quarters over a number of years. In 1998, when I was invited to join a World Bank political economy research team investigating the politics of pension privatization in Europe, Central Asia, and Latin America, I found myself working among a core group of pension experts at the Bank who were advocating pension privatization in all corners of the earth. As a result of participating in a research project on the politics of pension reform worldwide, I had a unique opportunity to interview leading officials involved in pension reform processes in countries around the world. In 1999, I participated in a conference at the World Bank convened by then chief economist Joseph Stiglitz to critique and discuss the World Bank model for pension reform. This provided an opportunity to experience important debates within the Bank over pension privatization first hand. I later helped to edit a 2003 book, *Pension Reform in Europe: Process and Progress*, that brought together the results of a 2001 expert conference on the political economy of pension reform in Europe. This conference, sponsored by the World Bank, the International Institute for Applied Systems Analysis, and the government of Austria, was attended by scholars of the political economy of pension reform as well as pension officials from across the European Union 27 and a variety of international organizations. Between 1998 and 2004, I produced thorough case studies of pension reform in a number of Central and East European countries and Peru, conducting interviews with dozens of government officials, international advisers, and public interest group leaders. I also advised a Ph.D. dissertation by Ilian Cashu that undertook similar work in a different set of countries.

My close observation of the transnational campaign for pension privatization in the late 1990s and early 2000s seemed to contradict most of what I had been taught about the politics of welfare state development in graduate school. In political science, most accounts of welfare state development emphasize domestic political factors, such as labor mobilization and state political economic strategies. One school of thought suggests that domestic labor force mobilization encourages countries to develop welfare programs (Huber and Stephens 2001). Another emphasizes that welfare states represent national reactions to trends in the global economy. My own dissertation adviser at Yale, David R. Cameron, showed conclusively that smaller, trade-exposed states in Europe build larger welfare states to compensate workers for their greater vulnerability to external economic trends (Cameron 1978). This remains one of the classic statements in the literature and has been verified on a global scale by Rodrik (1998) and others. Pierson's (1994) work on path dependency suggests that national politics also determine the extent and nature of efforts to cut back or "retrench" welfare state institutions. This dovetails nicely with a prominent set of theories on "varieties of capitalism" that emphasizes that states choose a variety of different capitalist institutions and that these choices tend to constrain future behavior. Garrett (1998) and Swank (2002) further show that welfare state programs represent a state's reaction to international economic competition and that national, not international, politics drive their development and change.

Yet my observations of the campaign for pension privatization seemed to clash with this national perspective. I observed a core of pension reform advocates operating globally, advising top political leaders in dozens of countries around the world, and getting results. More than thirty countries around the world have implemented partial or full pension privatization, utterly changing preexisting systems and initiating a major path departure (Hering 2003) in welfare state structure for generations. In many cases, there appeared to be no domestic pressure or precedent for such changes; the ideas seemed to come from the outside, from these transnational actors. What was going on? Had the national perspective on welfare state development outlived its usefulness (Rodgers 1998; Clark and Whiteside 2003)? Had changes in the world system altered the politics of welfare state reform, making it more vulnerable to transnational influence? Was there a difference between the politics of reform in developed European countries, where most welfare state theories were hatched, and developing country welfare states that might be more vulnerable to transnational influences? Or was the transnational activity I observed simply a lot of sound and fury within international organizations that in the end signified nothing? How could one account for the new transnational politics of pension reform?

Transnationalization of Domestic Policy

In conducting further research for this project, I dug deeply into the growing literature on transnational public policy, a literature with roots in international relations theory and organizational sociology (DiMaggio and Powell 1983; Strang and Meyer 1993; Meyer et al. 1997; Strang and Soule 1998; Tolbert and Zucker 1983). In this literature, I found company with a group of scholars who argue that transnational and non-state actors are playing an increasing role in domestic policy development in countries around the world (Reinecke 1998). Pioneering works focused on transnational activist networks (Keck and Sikkink 1998), epistemic communities (Haas 1992), and a variety of other international actors that play a greater role than many scholars had previously thought in the making of domestic policy (Orenstein and Schmitz 2006).

National and transnational perspectives on policy are distinguished largely by their position on the autonomy of transnational actors. Transnationalist scholars believe that transnational actors and institutions play a fundamental and relatively autonomous role in policy making in multiple states (Reinecke 1998; Hewson and Sinclair 1999; Kaul et al. 1999; Stone 2003; Barnett and Finnemore 2004), while those working in a national politics or realist tradition see transnational actors as dependent on states that remain the final arbiters of policy decisions. Because the transnational actors that I observed seemed to have a great deal of control over their own agendas, I felt that it was important to integrate the transnational and national perspectives in order to explain the rise of pension privatization.

Ideas and Influence

If transnational actors are relatively independent, what is the source of their influence? One source is their normative and ideological influence. Transnational actors have become vessels for ideational influence on politics worldwide through the creation and diffusion of new policy ideas, norms, metrics, values, and technical expertise. Whereas many previous studies of transnational actors such as international organizations and multi-national companies have emphasized their ability to coerce countries into adopting certain policies, I emphasize their persuasive as well as coercive powers. It is often difficult to separate these two forms of influence, however. Following Jacoby (2004) and Epstein (2008), I question the usefulness of the "norms" versus "incentives" debate and instead focus on discerning specific mechanisms of influence that may combine both norms and incentives. Norms are defined here as principled ideas about how policies should be designed. Norms and ideas are said to be "new" to the extent they have not been previously adopted in a particular domestic context.

Studies that emphasize incentives and coercion, rather than norms and ideas, tend to start from a hard rational or materialist perspective on politics that assumes that the interests of policy actors are fixed. Therefore, actors must be coerced to change their positions. Ideational approaches to politics tend to start from the assumption that rational actors face considerable uncertainty about their interests or how to pursue them; their rationality is bounded by the limits of information and cognition (March and Simon 1993; Druckman 2004). Introducing new normative ideas or information can cause actors to reshape their policy preferences. As a result, interests are less stable than hard rationalists would predict (Druckman 2004). As U.S. Senator John Kerry famously said of a supplemental funding bill for the Iraq war, "I actually voted for the $87 billion before I voted against it." Likewise, in my study of pension privatization, I found many actors who initially opposed such reforms but later ended up supporting them because they gained new information or were persuaded of the normative case for these reforms by reform advocates. Some were also offered selective incentives to encourage compliance. As Juliet Johnson (2008) points out, some actors may be more influenced by norms, while others may only be influenced by material incentives. The most powerful transnational actors use a range of both ideational and material resources as circumstances permit. They apply all the tools they have in an effort to pursue their policy agendas to a successful conclusion.

In presenting an argument that combines both ideas and incentives, this work follows Blyth (2002), who argues that norms and ideas partly constitute actors' interests and policy preferences. Blyth suggests that ideas can help to reduce uncertainty in times of crisis by providing problem definitions that enable actors to understand the situation that they are in. Second, ideas can make collective action and coalition building possible by allowing agents to redefine their interests under conditions of uncertainty and to link up with other actors behind new programs. Third, ideas can be weapons in the struggle over existing institutions. They can help to delegitimize current institutions and the norms and ideas of opponents as well as justify policy preferences of reform advocates. Fourth, ideas can act as blueprints for new institutions, suggesting policies and methods of achieving stated goals. Finally, ideas can make institutional stability possible by providing justifications for institutions' existence and the policies that they transmit (Blyth 2002, 34–41).

Transnational actors, including international organizations, transnational non-governmental organizations (NGOs), expert networks, and individual policy entrepreneurs, have become leading sources of policy norms and ideas in countries worldwide in areas that often exceed their original mandate. Their ability to exercise normative influence depends on their organizational and institutional legitimacy. Barnett and Finnemore (2004) argue that transnational actors often have a unique authority to pursue their goals. International organizations often possess "delegated authority" explicitly granted by countries to pursue certain goals legitimately. Transnational actors may also have extraordinary "moral authority" by virtue of their mission to pursue legitimate and seemingly disinterested moral objectives, such as poverty alleviation or environmental protection. Finally, transnational actors often enjoy "expert authority" and are recognized as storehouses of global expertise in certain areas. Each of these sources of authority enables transnational actors to persuade other actors and organizations to accept their desired policy norms and ideas and join them in global campaigns.

Reshaping Preferences

In exerting their independent influence on policy, transnational actors use a variety of means to reshape the preferences of transnational and national policy makers. In the pension reform arena, transnational actors have successfully advocated new pension reforms that radically alter existing social contracts and affect the core material interests of numerous groups in society. Transnational actors have often been the first in a country to advocate pension privatization. By forging alliances with like-minded domestic partners (Jacoby 2008) and working with them to change the preferences of key veto players and other social groups, transnational actors have been highly successful in spreading pension privatization. Transnational actor interventions cannot explain all adoptions or non-adoptions of pension privatization. However, their role is crucial to explaining a very high proportion of existing cases. Transnational actors have been particularly influential in middle-income developing countries where domestic policy-making resources are relatively weak and the willingness to undertake risky reforms is relatively high. In such contexts, decision makers have been highly influenced by transnational actors, their normative policy ideas and campaigns, their legitimacy, and their resources.

Theoretical Contribution

This book contributes to two literatures. On the one hand, it contributes to the literature on welfare state development and change by introducing a transnational dimension. It challenges the national perspective that has dominated the welfare state literature and argues that major changes in welfare state structure cannot be explained without reference to transnational actors and their policy campaigns. On the other hand, this work contributes to the growing literature on transnational policy and global governance by providing a detailed study of the transnationalization of domestic politics. It does so in a core area of "domestic" policy that is thought to be subject primarily to domestic pressures. This study is based on a conceptual model of transnational actor influence presented in chapter 3 that provides new insight into the interface between transnational and domestic policy and is supported by extensive case study research. It seeks to transcend the debate between rationalist and constructivist scholarship by exploring mechanisms of transnational influence that combine both material and ideational elements.

Conceptual and Methodological Issues

Any study of the impact of transnational actors on policy faces serious conceptual and methodological challenges. While political science has refined methods for studying nation-state behavior over decades, methods for studying transnational actor influences on domestic policy remain in their infancy. One of the most fundamental problems in analyzing the role of transnational actors is that scholars often differ in their definitions of transnational actors. Many scholars tend to equate transnational influence with that of a single organization or type of transnational actor, such as international financial institutions, transnational activist networks, or policy entrepreneurs, while ignoring other transnational actors that may operate in the same policy domain or regime. Narrow definitions of transnational actors may obscure their influence. Similarly, scholars have a tendency to miscode organizations and individuals with deep transnational ties and activities as purely domestic. This suggests that identifying and distinguishing transnational and national actors can be a difficult analytical task. A second analytical difficulty is that since transnational actors necessarily act in partnership with domestic policy makers, it can be difficult to untangle the influence of transnational actors from that of the domestic actors they advise. This study provides evidence that transnational actors have not only been deeply involved in partnerships with domestic proponents of the new pension reforms, but they have been instrumental in putting these reforms on the policy agenda in country after country and providing the technical support to enable their domestic allies to push reform through. Finally, transnational actors tend to work together in global policy campaigns to advance policy reforms in multiple countries, often creating donor councils or meetings to divide responsibilities. This makes it difficult to analyze the impact of individual transnational actors.

Perhaps the best way to address these conceptual complications is to study the behavior of transnational actors in global policy campaigns through a case study method that allows close observation of the full range of transnational actors involved, their interventions in particular countries, and internal decision making. Such a method avoids making false or stylized assumptions about who transnational actors are and what they do. It allows for a more nuanced analysis of transnational actor behavior and its effects in particular countries and organizations. However, case study analysis also has its faults, creating the potential for observer bias and limited generalizability of findings. To remedy these problems, this study supplements case studies of organizations and country experiences with an analysis of the full range of transnational actor interventions in the pension reform arena. This is pursued through a comprehensive study of World Bank documents as well as through representative case studies of the full range of reform and non-reform cases. While most studies of the new pension reforms (Madrid 2003; Weyland 2005) and indeed of other transnational policy campaigns (Jacoby 2004; Kelley 2004) take either a regional approach or select a small number of representative cases for analysis, this study provides a comprehensive analysis of transnational actor involvement in the rise and spread of pension privatization worldwide. It studies their involvement over a broad scope of time, from agenda setting to implementation, and of space, from Central and Eastern Europe to Latin America to Asia to Africa. Taking such a comprehensive approach provides new perspective on the importance of transnational actors in setting domestic policy.

Generalizability

How easy is it to generalize conclusions about pension privatization to other areas of transnational public policy? Every policy area is somewhat unique. Developments may vary according to the nature of policy issues, the types of organizations involved in them, their motivations, and the intensity of domestic politics (Jacoby 2004). Nelson (2004) has argued that the pension policy area is unusual in being dominated by a clear set of ideas promoted by a powerful international organization and its partners. Other policy areas may display greater fragmentation in transnational policy advice, less focused transnational campaigns, and more resistant domestic politics. No doubt, the campaign for pension privatization has been particularly well organized and successful.

Yet in some ways, the campaign for pension privatization is typical of transnational policy making in the world today. Pension privatization typifies the spread of a vision of economic "best practice" by transnational actors. These reforms provide a technocratic fix to the problem of population aging and are part of a broader set of neoliberal economic policies that have spread worldwide (Biersteker 1990; Graham 1998; Campbell and Pedersen 2001; Fourcade-Gourinchas and Babb 2002). In nearly every public policy sphere, a variety of types of organizations—state, non-state, and intergovernmental—are active in global policy campaigns advocating economic reform solutions. They interact with domestic partners in broadly similar ways and seek to have similar impacts on national policy in multiple jurisdictions. While specific features of the pension privatization process are no doubt distinctive, the general model of the transnational policy process presented here should be relevant to other areas.

Pension privatization provides an appropriate and extremely useful venue in which to test the influence of transnational actors on national policy. Previous studies have attempted to evaluate transnational actor influence in areas where one would expect to find it. Environmental policies, for instance, often have externalities that invite transnational actor interventions (Young 1999). Human rights policies similarly carry strong rationales for transnational intervention, such as the potential for civil conflict that may spill over into international conflict (Risse et al. 1999). By contrast, pension policies of states rarely create problems that require outside actor interventions. Transnational actors do not need to get involved in national pension reforms because of their interests. They do so rather because of their normative beliefs and organizational priorities.

Pension privatization does not provide an open and shut case for demonstrating the impact of transnational policy actors. Quite the opposite, pension policy provides a particularly challenging venue for testing the influence of transnational actors, where most previous literature has emphasized domestic causes. To demonstrate that transnational actors have had a significant influence on the spread of the new pension reforms is to show that transnational actors have a far greater influence than is commonly understood on many areas of "domestic" politics. If transnational actors are important in shaping national pension policies, the domestic models of the policy process that are commonly employed to explain policy in a wide range of areas require substantial revisions. The findings of this study thus hold important implications for public policy research more generally.

Methods and Chapter Plan

This book employs detailed case study and process-tracing methods to provide a comprehensive analysis of transnational actor influence on the development, transfer, and implementation of new pension reform ideas in more than thirty countries around the world. It draws on a wealth of primary data from original documents and more than seventy interviews with key transnational and national policy makers to investigate the nature of transnational actors' role and the extent of their influence in spreading pension privatization. It analyzes the transnational campaign for the new pension reforms across a wide scope of time and space, from the development of new pension reform ideas in Chile and the United States to the implementation of these reforms in places as diverse as Sweden, Kazakhstan, Nigeria, and Taiwan.

I provide a particularly in-depth look at the activities of the World Bank and USAID in spreading pension privatization worldwide. The internal decision making of these organizations has an important influence on policy in multiple countries. Therefore, I aim to provide a careful analysis of their activities, the sources, mechanisms, and modes of their influence, and how their agendas change over time. I analyze the interactions between international and domestic actors in the new pension reforms through three detailed case studies of reform as well as shorter critical case studies of reform processes around the globe. I also take special care to analyze any negative cases, scouring the globe for instances of reform without transnational actor involvement and transnational actor campaigns that have failed to produce reform. By following these diverse lines of analysis, providing a wealth of new data, and taking a comprehensive approach across time and space, this study provides new insights into the extent and limits of transnational actor influence.

Chapter 1 explores the global spread of pension privatization and compares this to the spread of first pension systems worldwide in the period 1889–1994. This analysis suggests that pension privatization has spread more rapidly, particularly between regions of the world. The spread of pension privatization follows typical diffusion patterns and does not occur only in countries with similar demographic structures, economic conditions, or politics. Instead, pension privatization occurs in countries with very young and very old populations, with relatively small and very large shares of GDP spent on state pensions, and diverse political histories and institutional legacies. This analysis sets the stage for questioning the national approach to welfare state development and investigating the role of transnational actors.

Chapter 2 examines the methodological problems facing studies of the impact of transnational actors on policy reform and uses a study of World Bank project documents and USAID records to show that the impact of these transnational actors may be greater than previously recognized. This chapter presents the results of a comprehensive study of World Bank project documents that shows that most current measures of World Bank influence are insufficiently precise. Because the World Bank does not advise adoption of pension privatization in all countries in which it works, studies that assume the Bank provides consistent advice tend to underestimate World Bank influence. The World Bank may be influential in determining which countries do not reform, as well as those that do. This chapter suggests a research approach based on closer attention to the internal dynamics of transnational policy actors themselves, their policy objectives, and the specific mechanisms of their influence.

Chapter 3 presents a general model of the influence of transnational actors on domestic policy processes. This chapter explores the internal decision-making process of transnational actors involved in pension privatization, particularly the World Bank and USAID. It shows how internal processes have influenced the policies of these organizations and cooperation among them in the global campaign for pension privatization. Building on the bureaucratic approach to international organizations (IOs) (Barnett and Finnemore 2004), this chapter emphasizes that transnational actors use different modes and mechanisms of influence that vary across time, according to the phase of the policy process. It provides an explanation of why domestic policy actors seek out transnational partners and provides an analytic framework for explaining the distinctive influence of domestic and transnational actors on policy.

Chapter 4 provides a narrative account of the global campaign for pension privatization, a "campaign coalition" (Tarrow 2005), led by a loose network of transnational policy actors. It documents the launch of pension privatization in Chile in the early 1980s and the subsequent campaign by Chilean advisers to spread these reform ideas to Latin America and beyond. It shows how in 1994, the World Bank took a leadership role in the emerging transnational coalition for pension privatization with the publication of *Averting the Old Age Crisis*, which created a cadre of reform advocates at the Bank. Other organizations joined in the advocacy coalition for pension privatization, including USAID, the Organization for Economic Cooperation and Development (OECD), and the regional development banks. Typically, multiple transnational actors were involved in pension privatization advocacy work in each adopting country.

Chapter 5 analyzes the influence of transnational actors on domestic pension privatization policy through detailed case studies of reform in three postcommunist countries, Hungary, Poland, and Kazakhstan. Drawing on the veto players approach developed by Tsebelis (2002), this chapter explores the interactions of transnational "proposal actors" and domestic "veto" and proposal actors, providing a clear analytical approach to understanding the nexus of transnational and domestic political decision making. The chapter shows that transnational policy actors form strategic partnerships with domestic veto and proposal actors and seek to alter their political capabilities and preferences. It finds that transnational policy actors have used five main mechanisms of influence: conferences and seminars that teach officials about pension privatization, grants and loans to fund the activities of reform teams led by domestic partners, prereform technical assistance, technical assistance in reform implementation, and career path incentives for reform officials.

Chapter 6 tests the influence of transnational actors using a global sample of reforming and non-reforming countries. This chapter presents data on international policy actor involvement in pension privatization worldwide. It creates a typology of different levels and forms of transnational policy actor influence and presents case studies that explore examples of each type. These case studies show that transnational policy actor influence has been ubiquitous in the spread of pension privatization. Despite numerous claims, it finds only a handful of cases where transnational policy actor efforts to facilitate adoption of the new pension reforms have clearly failed (Korea, Slovenia, and Venezuela). Several OECD countries have implemented partial pension privatization without substantial transnational policy actor involvement. However, transnational policy actors have been directly involved in policy transfer and implementation in most reforming countries. This suggests that transnational policy actors are necessary to explaining the global spread of pension privatization, particularly in the middle-income and poorer developing countries where the World Bank and USAID focus their activity. Chapter 7 draws conclusions and implications from this research. The Appendix provides a primer on new pension reform issues and definitions.

Conclusion: Three Puzzles

The spread of pension privatization in a diverse group of countries and the seemingly ubiquitous involvement of transnational actors in this process raises three important analytical puzzles. First, what role do transnational actors play in the diffusion of policy trends from country to country? Second, how do we understand the influence of transnational actors when they necessarily interact with national actors in policy development? And third, when and under what conditions do transnational actors influence policy areas like pension reforms that are subject to strong domestic interests? In posing and answering these questions in a comprehensive study, this book highlights the growing transnationalization of domestic politics through an analysis of the global campaign for pension privatization, one of the most significant economic policy trends of our time that reshapes the intergenerational social contract in countries worldwide.