1. Introduction

The first pension related policies appeared at the end of the 19th century and the first states where such policies were introduced were Germany (in 1889) and Denmark (in 1891). Life expectancy was low and, as such, the period over which the pensioners benefited from their pensions was similarly brief. As a result, pension expenses were small (Kohli, 1987).

The idea to reform the pension systems in Europe came much later, but Arza and Kohli (2008) argue that the preference for the term "pension reform", to the detriment of more neutral notions such as "change" or "transformation" is not coincidental. Whatever the case may be, the process involves reducing some of the funds allocated to social protection so that pension schemes could be financially sustainable. Still, according to Vivien Schmidt, "*any unpopular measure within the welfare state will not be successful if it fails to convince the population that it is also morally necessary*" (Schmidt, 2000). In addition, the term "reform" is more easily accepted among citizens than the notions of "change" or "transformation", so implicitly the "reform" measures are more easily accepted. In general, the reform of the pension system in Europe, meant, in addition to certain parametric changes and pension privatization, that the fiscal pressure on the insurance budgets of the states already in a global economic competition would diminish. However, the transfer of pension funds from the state administration to a private one is not a European invention. Chile implemented such a system already in the 1980's and those kinds of changes were later adopted by many of the South American countries (Weyland, 2005).

Still, as with the adoption of the Chilean model in South America, this institutional change, which came as a result of the privatization, didn't take place at the same rate throughout Europe. Although the logic of these privatizations remained the same (the creation of at least two pension pillars, one state-administered, the other privately administered), the moment this privatization initiative was implemented, as well as its

amplitude, varied greatly in the countries on the Old Continent. At the beginning of the 1990s, the World Bank published a series of recommendations for reforming the pension systems in a publication entitled *"Averting the Old Age Crisis*". This publication had a major influence on Eastern European countries. The major effect which consequently propagated in Eastern Europe, can be seen in a broader context of economic reforms; in this region, there was an unjustifiably high trust among both the governors and the citizens, in the Western models as well as in their applicability to the Eastern world realities. More specifically, the East European officials assumed that "*by introducing a strict monetary policy and by diminishing the role of the state, the capitalist economy will quickly be installed without any adverse effects; capitalism was regarded as a solution of the deus ex machina kind*" (Wesolowski, 1995, p. 117).

However, the reality of the first years after 1990 showed that the implementation in Eastern Europe of models validated in the West didn't solve all the problems in the socio-economical spectrum (Misztal, 1996). Moreover, this transition process from the planned economy to an economy dictated by market rules involved far more obstacles than previously estimated, an endeavor which is comparable to the attempt of "*repairing a car which runs at full speed*" (Dobryznska, 1994, p. 139).

An important aspect of this transition process was the attempt of the government to diminish the role of public property in economic activity, favoring the development of private property. Given that the proportion of the latter was greatly diminished during the communist period, after the revolution waves of 1989, we witnessed the reverse process, more precisely the attempt to "*liquidate public property*" (Kornai, 1990). An option for balancing the situation, proposed by the contemporary researchers analyzing this process, was creating a competition between the two sectors. According to this approach, the private sector should have grown directly in proportion with its capacity to "*prove its superiority over bureaucratic public property. Private entrepreneurs should have the opportunity to buy units from the state sector, but only at the rate at which they can afford to do so, relying on their own funds and the credit they can get (by pledging their wealth)*" (Kornai, 1990).

In the literature, this uncertainty regarding the output of the economic reform process implemented in Eastern Europe after the fall of communism received the title of liminality (Misztal, 1996): *"an unstructured state, without a form, in which neither the old nor the new rules apply, in which the existence is improvised, and the few symbols that made the transition from the old to the new regime are deficient in terms of their accepted meaning"* (Bauman, 1994, p. 16). The same author described the transition chaos in Eastern Europe very metaphorically, a transition which was characterized by ambiguity and ambivalence and by the lack of a normative system to guide the processes (Misztal, 1996): "*The state of liminality, in which all post-communist regimes remained, is a state in which anything can happen, but in which nothing can be done; the absence of a strong government and a stable set of regulations regarding political leadership, gives way to the possibility of the emergence of a set of alternative scenarios, while at the same time depriving those forces of the necessary efficiency that would see them carry out any of the scenarios*" (Bauman, 1994, p. 32) .

Although, in the 1990s, the privatization of the public system was seen as the mainstream in the field of pension reform, this perception existed because of the support that privatization enjoyed among international financial institutions - the "*new pension orthodoxy*" (Muller, 1999). Privatization, however, isn't the only possible method of pension reform, just like, in the 90s, neoliberalism wasn't the only perspective of economic transition that could have been implemented in the Eastern European countries (Ban, 2016). The World Bank and the IMF regard the pension crisis as vulnerability within the prospects of budget deficits and thus "*grant loans conditioning the governments to privatize the state pension system*" (Armeanu, 2010 b, p. 3). Yet, the reformed pension systems needed to counteract the problems the systems were facing before implementing the reforms: the effects of population ageing, the difference between contributions and benefits or the underfunding of pension funds. In addition to the fact that privatization didn't solve all these problems, it also brought about further issues.

Thus, in the first place, the costs of privatization were very high, and the private pension system certainly didn't ensure a greater amount of benefits when compared to the public system. This was because financial

markets were poorly developed in Eastern Europe and couldn't take over the entire amount of private funds. Private administrators invested in government securities, which provided lower returns than investments in other fields. (Armeanu, 2010 b, p. 4). Privatization involves mobilizing a capital that returns only partially to the pensioner's pocket. An important percentage of the amounts transferred from the state pension budget were reserved for the administration of private pension funds, which gave rise to a competition between different banking institutions, insurance companies, managers or supervisory authorities. In Latin America there were cases in which the percentage dedicated to the administration of private pension funds reached up to 40% of the amount transferred from the public pension budget (Armeanu, 2010). The interests of the entities mentioned above may come into conflict with the interests of certain special categories protected through special pensions, both sides having representation in Parliament, even within the same party. The main challenge of the Eastern European governments was "*to strike a balance between the openness necessary to obtain legitimacy and accountability with the citizens on the one hand, but also to isolate the process of public decision making in different areas (such as social policies) so that no part of society should obtain sufficient power (from which the state delegates formally or informally) so as to endanger the interests of other groups by promoting their own goals*" (Misztal, 1996).

Then again, the political consensus on the privatization process is difficult to maintain in the long run. Government changes were a common reality in the countries of the former Warsaw treaty and the controversial nature of pension privatization may have affected the continued application of measures in this area. That is why there was a risk that a newly installed prime minister and his cabinet would reduce the transfer rate between the state and the private pension funds.

Last but not least, the private pension system didn't solve the problem of special pensions. There were countries in which such privileges were abolished before privatization (Czech Republic, Lithuania, Slovenia) and there were countries where special pensions continued to exist even after privatization (Poland, Romania) (Armeanu, 2010 b, p.4).

Therefore, privatization critics proposed, as a replacement of this measure, a deeper reform of the state pension system, whose aim would be to increase the proportionality between contributions and benefits. This increase could be achieved by implementing four types of measures: increasing the retirement age, changing the benefits calculation formula (in order to reduce the redistributive nature of state pensions), indexing in accordance with price increases (not with salary increases) and including special pension schemes into the general scheme. In addition to the advantages in terms of net amount of pensions, sustainability and proportionality between contribution and benefits, a public pension system would no longer bear the cost of the transition to private funds and thus it wouldn't create a deficit that would need to be covered by transferring money from other areas. Last but not least, the administration costs of the state pension funds would be much lower compared to those incurred by the private funds, which would be reflected in the pensioner's cumulated benefits. (Armeanu, 2010 b, p. 5).

2. The Privatization of Pension Systems in the Context of Economic and Political Reforms in Eastern Europe After 1990

During the communist period, in the Eastern European countries, the market economy from the interwar period was transformed into a centralized one, where prices, as well as the allocation of resources and services, were not determined by economic mechanisms, but by the state. Although it is common ground to assert that private property was eradicated during that time, some researchers argue that it continued to exist in such a way that it didn't interfere with the state's coordination of the economy (Rose, Mischler and Haerpfer, 1993).

Moreover, according to the same authors, the forced industrialization was a consequence of the fact that before World War II the economy in the respective territories was predominantly based on agriculture (here, the notion of territories is preferred and not the notion of countries, because in 1939, the borders of the future communist European countries were not identical to the ones in 1947). The decisions regarding the investment and development fields were made from a political standpoint, not from a market perspective. In addition, this type of political decision-making also included prioritizing investments in industrialization and not in consumption (Rose, Mischler and Haerpfer, 1993). As the planned economy was established in Eastern Europe immediately after World War II, its progress (defined as the difference between present and past - representing the baseline) started to show in statistics. Still, this differentiation was also significant because the baseline for comparison was a war-torn Europe. Therefore, the level of comparison set for the then present time was very low. An argument supporting this assertion is that the largest economic growth was recorded during the 1950s and 1960s, that is, in the first decades after the war (Rose, Mischler and Haerpfer, 1993). During these two decades, economic growth had been constant

throughout all Eastern European countries, although the development rates varied. However, in the absence of any indexes of market demand for certain products, some industrial sectors were supported without the possibility of exporting their products or boosting the economy whatsoever. If during the period when the economy was centralized, such sectors could be capitalized on the internal market, the transition to the market economy meant that the spectrum of bankruptcy became more and more actual for these sectors of industry.

In the mid-1990s, the economies of the former communist countries were far from upholding the criteria of functional market economies: the privatization of state-owned companies was slow and most often had uncertain outputs, both economically and legally, which led some researchers to define the global economic context in Eastern Europe as a "mutant capitalism" (Friedman and Rapaczynski, 1994). Although returning to communism never represented an alternative for Eastern Europe, when it came to the financial systems of the countries in this region, the prospects of returning to the mechanisms of the planned economy from the socialist period were real and the pressure for adhering to this scheme came from two sides. First of all, it was natural that in a post-communist state, the tendency towards a centralized economy would be noticed, because for 5 decades the economic activity had been carried out on the basis of planned fiscal and budgetary strategies and not dictated by the market (Misztal, 1996). Secondly, there was pressure from the civil society for policies to include a better income distribution and to take into consideration more carefully the costs, nature and speed of privatization (Misztal, 1996). As Kowalik stated, these Eastern-European economies represented the natural consequence of "*the population's failure and resistance to a new socio-economic order created by the state*" (Kowalik, 1994, p. 142). In order to overcome these pressures, there was a need for "*a strong state that could take on the role of a leader in formulating cohesive reform programs in line with collective aspirations, while at the same time continuing to be a neutral arbitrator of the financial system*" (Misztal, 1996, p. 116).

From an economic point of view, Eastern European countries can be characterized by the survival of certain old institutions in the context of the

emergence of new ones. As Rona-Tas (1994, p. 65) stated, the respective societies can be described "*not as maturing markets, but as tripartite economies in which the traditional and corporate segments of the private sector coexist with the public sector*". The notion of tripartite refers to the three components existing in the economy of all the countries in Eastern Europe at the beginning of the 90s. The first component refers to the people engaged in independent activities which emerged as a result of an increase in unemployment rates as a consequence of replacing the five-year plans with the market economy. The second component came into being during the transition period, as a consequence of privatization. More precisely, in the early 1990s "*state ownership was redistributed between the survivors of the former regime and the representatives of the new elite*" (Kiss, p. 151), a process that was made possible by "*creating a legal framework for a new form of entrepreneurship that allowed private companies to accumulate capital*" (Rona-Tas, 1994, p. 47). The third component becomes apparent through the enterprises that had not yet been privatized, completing the general picture outlined by the state sector, the quasi-private economy and the private sector (Misztal, 1996). Despite the establishment of the market economy, the state retained an important influence on the decision-making process in this sector. Thus, the authority (or authorities) that designated the winners of auctions (or competitions for projects in the economic field) was represented by the government, the different decentralized institutions or various other agencies subordinated to the first two. The state's possibility to allow monopoly for certain companies or to relax certain criteria or requirements meant to place companies in a more favorable position can also be mentioned here; last but not least, governments could establish a multitude of conditions for the buyer when a state-owned enterprise was privatized. For example, in Romania, in the specification for the privatization of some state-owned companies, the government imposed conditions such as keeping a minimum number of jobs or imposed restrictions regarding the sale of immovable property belonging to the companies' assets (Misztal, 1996). These links between the private and public sectors, together with the state's intervention in the economy, as well as the slow pace of

privatization, led some researchers to assert that in Eastern Europe "*the impact of market mechanisms on production was very limited*" *(*Kowalik, 1994). This influence that the state had on the economy didn't yield the expected beneficial effects, because the Eastern European governments didn't have a coherent industrial policy in place, but they acted in a punctual way (and not necessarily in accordance with a plan), whenever they had to deal with specific problems (Nielsen, 1995).

This coexistence between the elements that the old centralized economy left behind and the ones that appeared in the early 1990s was also visible in the industrial structure of the Warsaw Pact countries. More precisely, the heavy industry still dominated the production sector in the region at that time and the technology was inherited from the communist period; that is why the industry didn't meet the competitiveness criteria when entering competition with companies from the rest of Europe (Misztal, 1996). Yet, it was not only the "heavy inheritance" which was responsible for this situation. As Campbell points out, "*the conservative and neo-liberal economic stabilization policies that many of the countries in the region initially adopted have done very little toward achieving this goal (increasing competitiveness, and in some cases they seriously jeopardized it, as the respective policies disproportionately affected the industrial sectors which were just beginning to exist, greatly narrowing the variation area of the national product mix and making unnecessary efforts in the areas of research and development"* (Campbell, 1995, p 671). It needs to be mentioned that, in the field of industrial restructuring, even the developed countries of Central and Eastern Europe experienced more difficult beginnings in the early 1990's. To this, we can add the decisions of the management or of the employers in the respective countries, who preferred to adapt the five years production plans to capitalism, rather than invest in new technological equipment (Misztal, 1996). As a consequence the production was set mainly for internal use: in Poland, only 15% of all production was exported in the early 1990s (in the West this percentage rose to 40% on average). In addition, many companies in the region were in danger of bankruptcy or insolvency, which shows how vulnerable the respective national economies were in the period following the 1989 revolutions.