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Pension Reform as a Crisis Management Instrument: The case of Peru's Private Pension System reforms

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Abstract

Calls to reform pension systems to avoid a pension crisis are frequent in political and academic circles, with papers and official reports scrutinising the pension systems to propose reforms. However, there is no standardized definition of crisis and literature on the effects of crisis on pension reform is scarce. Using as an appealing case the reforms made to Peru's Private Pension System (SPP), this dissertation explores whether crises are indeed a catalyst to pension reform. Furthermore, it also searches if Peru's SPP reform has been conceived as a crisis management instrument or if its aim was indeed improving the system.

Reform in Peru has been selected because of its unique pension system and the frequent reforms made to it. Using the relevant academic literature, government policy papers and congressional bills, official reports, and transcripts, the dissertation analyses the political and policy objectives policymakers had when they enacted the policy reforms. The findings showed that crises have been essential in catalysing SPP reforms. Moreover, it concludes that Peruvian policymakers have indeed increasingly used SPP reform as a crisis management instrument, especially during the COVID-19 pandemic, when the SPP was denaturalized to reduce COVID's economic impact.

Dedication

This dissertation is dedicated to my parents, who's unconditional love and starting me in the path of knowledge is the reason of whom I am.

To Aldo, Nicole, and Sebastian, who's unconditional support, and assistance has greatly helped me in this journey the MSc in Public Policy has been.

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Chapter 1: Introduction

Since the 1980's, pension systems worldwide have constantly been considered to be in crisis, with calls for comprehensive pension reform been repeated in academia, international financial institutions and political circles (Ambachtsheer, 2007; Marin, 2013). These calls are usually resisted by policymakers due to the technical and political complexities comprehensive pension reform entails, usually preferring to implement fine-tuning measures to improve the system.

This reluctance is explained by the fact pensioners, and pensioners to be, jealously protect their benefits, with the right to an adequate pension now considered to be human right in many parts of the developed world (Gómez Heredero, 2007). For that reason, reform needs to carefully thread between what is technically needed and what is politically possible, especially since pensioners tend to be active in electoral politics and thus may punish with their vote those parties that reduce their benefits (Bonoli, 2000; Henley, 2010).

However, during times of acute crisis countries have embraced more aggressive pension reforms, sometimes because of internal politics and others due to external pressures. This was clearly the case of the European Debt Crisis of 2009-2012, when international financial institutions (IFIs) such as the European Central Bank (ECB) and the International Monetary Fund (IMF) managed to impose certain pension reforms on debtor countries in an expedited political process (Diliagkja, 2018; Encinas-Goenechea, Menu-Gaya and de la Cruz del Río-Rama, 2020); these policies were the result of previous technical studies. Therefore, it can be argued that the policy development process was outsourced to IFIs, where the policies were prepared in regular fashion. While groups opposing these reforms have described them as imposed and painful, a careful analysis of them shows that these measures can be classified as fine-tuning policy changes with only some reaching the level of a proper policy reform. At the same time, political debate has tended to keep in line within the limits of such measures.

The Peruvian 1992 Pension Reform was a similar situation, where, although there were no external pressures pushing for reform, the acute economic and political crisis, together

with the lack of legitimacy of the existing pension system enabled a paradigm shift reform of the pension system.

1.1 The Case Study

Peru was not the first nor only country in Latin America to adopt including paradigm shift policies in its pension system. Beginning in the 1980's, Chile introduced its grand reform, under which the public-run state *Bismarckian* pension system was closed and replaced with a private pension system. This system was built on a private capitalization system with individual capitalization accounts managed by private companies, called *Administradoras de Fondos de Pensiones* (AFPs) (Mesa-Lago, 2004; Arenas de Mesa et al, 2007). Throughout the 1990s, this system spread through Latin America, with Peru adopting the system in the 1992 Pension Reform, creating the *Sistema Privado de Pensiones* (SPP) ran by the AFPs. However, unlike Chile, Peru doesn't have a unified private system as it maintains a public pension system, the *Sistema Nacional de Pensiones* (SNP) which competes with the SPP. This has made Peru's pension system, together with Colombia's, unique.

Since its inception, the SPP has been subject to many reforms, mostly fine-tuning legislation aimed at improving the system's efficiency. However, the most significant reforms have been adopted either during a combination of political and economic crisis, as was both the creation of the SPP and a series of reforms adopted during the 2020-2021 COVID-19 pandemic, or when there was a legitimization crisis of the SPP as a system.

1.2 Research Objectives

The fact that the most significant reforms to the SPP happened during a crisis is something that needs to be adequately studied. Specifically, this dissertation will seek to determine if crises were an important factor in catalysing reforms to Peru's SPP. Additionally, it will seek to determine if SPP reform was used by Peruvian policymakers as a crisis management strategy, with the stability of the political system in general as the central objective of the reforms rather than an actual improvement of the pension system.

While there is plenty of literature dealing with the alleged crisis of pension systems worldwide and why they need to be reformed, this literature cannot be applied to the Peruvian case as it focuses on the fiscal and financial sustainability of public *Bismarckian* systems (Devesa-Carpio, Rosado-Cebrian and Álvarez-García; 2020), which are not the main problems of Peru's pension system.

Literature dealing with the Peruvian pension systems fail to analyse the importance of crises as catalysts of reform and much less how it is used as a crisis management strategy, instead focusing in analysing the existing system and proposing policy reforms, generally either the expansion of the public system or the adoption of a unified multipillar system (Olivera, 2002; Kay, 2007; Rojas and Tavera, 2009; Olivera, 2009; Alza and Dyer, 2016; Mesa-Lago, 2016; Olivera 2016a; Olivera 2016b; CPS, 2017; Olivera, 2020; Jaramillo, 2021; Olivera 2021; Omonte Commission, 2021). There have even been some studies regarding the political consequences of the 1992 reform (Arce, 2001; Arce, 2006; Kay, 2007; Weyland, 2007). However, there have been no studies regarding two central points: What has been the impact of crises in the pension reform debate and to what extent pension reform adopted during times of crisis have not been centred in the pension system but rather used as a crisis management policy. These points are essential to understand Peruvian pension policymaking

This dissertation seeks to address this gap in the study of pension reform in Peru. To this objective, it shall focus on the 1992 creation of the SPP and the reforms to the SPP done during two specific periods: the 2011-2016 Humala administration and the 2020-2021 Covid Pandemic.

1.3 Structure

The remaining of this dissertation is structured as follows: Chapter 2 makes a review of the relevant literature. First it seeks to establish the importance of pension reform, followed by a revision of the most relevant academic works on Peru's pension system. The next subsection seeks to define crises, with further analysis of the literature on legitimacy crises. The chapter continues with a review of crisis policymaking, specifically on the impact of crises and the policymaking process and the role of Legislatures in it.

Chapter 3 explains the methodology used to fulfil the research objectives of this dissertation. Chapter 4 presents the case study and discusses the relevant concepts to answer the proposed research objectives while Chapter 5 gives the dissertation's conclusions.

Chapter 2: Literature Review

Before 1889, pensions were the privilege of very few individuals (Azra and Johnson, 2006; Thane, 2006) with government occasionally granting extraordinary non-contributory pensions to war veterans and widows, as was the case of the American Civil War (Eckstein, 1890; Dora, 1998; Wheaton and Crimmins, 2012). This made pensions the exception rather than the rule, with most senior citizens remaining in the work force for as long as they were physically able, albeit in less demanding, and less paid, jobs (Thane, 2006; Wheaton and Crimmins, 2012; Zickar, 2012).

This starts to change from 1889, when the modern public pension system arises with the so called Bismarckian model. This model is based upon compulsory enrolment and is financed by contributions by workers and employers in the form of a payroll tax (Azra and Johnson, 2006; Solimano, 2021). The guiding principle of this system, which continues to be the pillar of most pension systems worldwide is intergenerational solidarity (Solimano, 2021). With its spread in the industrialized world, pensions ceased to be the privilege of a few. In Great Britain, the proportion of the population aged 65 or above that was economically active reduced from 73% in 1881 to 47.9% in 1931 (Macnicol, 1998) while in the United States the proportion fell from 75% in 1850 to 58% in 1930 (Zickar, 2012). Nowadays, pensions are considered as a universal right.

Up until the 1980's, there was a consensus that the public Bismarckian model was strong and stable. However, from then onwards there were growing voices in both academic and political circles, especially in Europe and North America, that considered the pension system was in crisis, with the reducing birthrates, the longer life expectancy and the increased projected cost being the main arguments (Costa, 1998; Sinn, 1999; Azra and Johnson, 2006; Jackson, 2002; Schuldi, 2005; Palier and Martin, 2008; Mattera, 2020). Declarations of crisis and calls for reform have been common during electoral years and,

above all, during the 2008 Financial Crisis. This crisis was used by IFIs to promote pension reform in debtor countries such as Greece (Diliagka, 2018) to reduce unsustainable levels of public spending.

In Latin America, and Peru in particular, the problems are different. Like Europe, up until the 1980's, a public Bismarckian model was the norm and like in Europe, the Pension system is usually described to be in crisis in both academic and political circles. Unlike Europe, in the 1980's and 1990's several Latin American countries starting with Chile adopted a capitalization system based on individual capitalization accounts managed AFPs (Palacios, 2003). In addition to this game changing move, Latin American countries have three main problems: pension coverage, pension adequacy and the financial sustainability of the system (Mesa-Lago, 2004). This last problem is the only one in common with North America and Europe, with the other two being distinctly Latin American. Most Latin American literature is focused on how to provide with adequate pensions to all the eligible population, proposing schemes such as non-contributory pensions which have been enacted in several countries (Olivera and Zuluaga, 2014; Godfrey-Wood and Mamani-Vargas, 2017).

2.1. Peru's Unique Pension System

As previously mentioned, in greater part of the world versions of the Bismarckian state-ran system is the norm of pension systems. In Latin America, since the 1990's there was a wave of privatization of the pension system, with countries adopting a private-only pension system, like in Chile, or incorporating private elements within a unified multipillar system such as in Argentina (Palacios, 2003). However, Peru and Colombia adopted a different alternative. Rather than following the Chilean or Argentinian approach, or maintaining the public system as the sole alternative, Peruvian policymakers created the SPP while maintaining the public SNP, ran by the *Oficina de Normalización Previsional* (ONP), as a competing system. Workers could choose whether to join the SPP or the SNP. This approach was adopted due to the political resistance to an adoption of an all-private system (Mesa-Lago and Müller, 2002; MEF, 2004; Paredes, 2004; Rojas, 2014)

There has been a constant debate on the inconvenience of this approach. Defenders of the SNP argue that the creation of the SPP was a heavy blow against the SNP as a

significant number of affiliates chose to change to the SPP and thus stopped contributing to the SNP. As these affiliates tended to be the wealthier ones, this resulted in a second blow to the SNP as it could no longer count on wealthier individuals to redistribute wealth to the poorer affiliates. As a result, the state is forced to give greater financial transfers to the SNP to pay pensions due. (Mesa-Lago and Müller, 2002; Paredes, 2004; Olivera, 2009; Mesa-Lago, 2016).

While literature on Peruvian pension reform is extensive, it can be divided into two main groups. The first one, analyses the reform of 1992, with a particular emphasis on its effects (Arce, 2001; Arce, 2006; Carranza and Morón, 2007; Kay, 2007; Weyland, 2007; Rojas and Tavera, 2009; Alza and Dyer, 2016;). A second group is more focused in specific reform proposals. Most of this literature considers the main problem of Peru's pension system is its division, with two main parallel systems resulting in low pension coverage of 22% of the population and inadequate pensions (Olivera, 2002; Olivera, 2009; Mesa-Lago, 2016; Olivera 2016a; Olivera 2016b; Bernal, 2020; Olivera, 2020; Jaramillo, 2021; Olivera 2021)

Despite the literature's considerable extension, there has been little analysis on the policy formulation process of the 1992 reforms and the subsequent reforms, nor there has been an analysis on the political context and its influence on pension policy formulation, with some exceptions. Arce (2001) provides an excellent analysis on the political conditions that enabled the 1992 reform and how that context shaped the reform. Weyland (2007) introduces the concept of 'bounded rationality', under which Peruvian policymakers followed the Chilean reform model because at the time it appeared to be successful, effect that was compounded by the availability of Chilean policy advisors, who helped to implement the policy. Weyland argues that such availability of advice was essential in the adoption of the Chilean model, as not only the policy satisfied the Peruvian reformers ideological inclination, but the advice enabled the reformers to prescind of the analysis and advice from state institutions. Mesa-Lago and Müller (2002) provide with comparative analysis of the political considerations that led to the 1992 reform, with relevant analysis on why the Chilean model wasn't fully implemented. Finally, we have Alza and Dyer's study (2016) which focuses on the political strategies to implement a specific pension, the

closure of one of the SNP's special pension regimes for elite bureaucrats. This study combines the policy needs for such measures as well as analysing the processes that enabled to overcome seemingly insurmountable obstacles.

However, there is no literature that analysis the effects of crisis in catalysing pension reform in Peru nor there is literature on Peruvian pension policy as a crisis management instrument. This gap is significant as crises are a significant component of any political and intellectual context that puts an issue in the agenda, which are of great importance to understand the policy initiatives (Stern, 1997; Wenzelburger, König, and Wolf, 2019). Furthermore, we need to have a solid understanding on what a crisis is, especially since political and academic circles are very prone to declare the pension system in crisis. Therefore, our first step is to determine what is a crisis and then determine its impact upon policymaking.

2.2. Defining Crises.

Despite its widespread use, crises have no standard definition, in part due to a comparative lack of studies compared to other concepts (Hay, 1999; Walby, 2015; Gilbert, 2019). Indeed, the definition and classification of crises has been a constantly debated both by academia and policymakers (Kouzmin, 2008).

There are three academic perspectives regarding crises: the systemic/structural, the behavioral and the sociological. The systemic perspective, based upon the study of international relations, proposes that crises naturally occur and that to restore stability, structural change is required (Cross, 2017). It assumes that crises events are of an objective nature, in which perceptions don't matter and the origin of the crisis is in structural factors (Jo, 2007). The main drawback of this model is the fact that the events and conditions that start crises usually aren't as objective or easily identifiable as this perspective requires (Cross, 2017).

This perspective evolved into the behavioural perspective by including the policymaker's behaviour, treating them as rational and utility-maximizing. Under this perspective, crises are threaten a State's central objectives, are a surprise and must be swiftly dealt with (Hermann, 1972). Billings, Milburn and Schaalman (1980), add a fourth characteristic, the triggering event, defining a crisis as the consequence of the triggering event using factors

such as the likelihood of loss, the actual value lost and the impact of time pressure. Boin et al (2017) further develop this perspective by defining crises as unwanted and unforeseen event that threatens to do harm and urgent action is required to avoid such harm. They constitute a critical juncture for a system, be it social, political, or economic whose capacity to perform may not be guaranteed as its core features are questioned or threatened, making the need for action urgent. Summing up, crises are understood to be the consequence of multiple causes, whose interaction produce threats with devastating effects. Separately, each individual cause is incapable of creating a crisis, but their interaction transforms them into a disruptive force that endangers the system (Boin et al, 2017). Despite its uses, the behavioural approach has as a main limitation its underestimation of the role and impact social processes play in the modern crises (Cross, 2017)

Finally, there is the sociological perspective, which radically differs from the previous two by considering crises as a social construct in which narrative and perception are essential in defining a crisis event (Hay, 1999, Cross, 2017). This perspective, while not specifically rejecting the principles of the behavioural perspective, provides a broader understanding on what crises are and what they imply. Unlike the structural perspectives, which is based upon the objective nature of crises, the sociological perspective can be said to be subjective, as the shared narratives and perceptions of both key actors and society in general shape the nature of the crisis. Furthermore, it has the flexibility to factor in the increased complexity of the modern world and how it contributes to make crises increasingly transboundary interconnected and an integral part of modern societies (Boin and Lagadec, 2000)

Amongst the most respected academics dedicated to the study of crises we have Rosenthal, Charles and 't Hart, with their collective works being amongst the essentials for crises studies. Their classical 1989 work uses the sociological perspective to define a crisis "a situation in which there is a perceived threat to the core values or life-sustaining functions of a social system that requires urgent remedial action in uncertain circumstances" (Rosenthal, Charles, & 't Hart, 1989: 10).

Later, 't Hart develops the definition from what he calls the symbolic perspective, which has the political aspects of crisis management as central factor, defining crises as the breakdown of familiar symbolic frameworks that legitimize the existing socio-political order. As such, crises have four elements. First, they are a perceptual category, requiring that a significant portion of key political and social actors declare its existence. Second, they have multiple levels of conflict. Third, they are an affective category, with a high level of drama highlighting and amplifying personal and collective insecurities and vulnerabilities. Fourth, crises are perceived to delegitimize an existing order ('t Hart, 1993).

The symbolic crisis framework offers policymakers three crisis management strategies to influence the collective perception of the crisis: framing, ritualization, and masking. Framing seeks to control the narrative, defining the crisis is an essential element for crisis resolution. In this, language is the most important instrument of the framing strategy. Rituals are the symbolic behaviours society expects and are classified into rituals of solidarity and rituals of reassurance. Masking aims to control the narrative through denial and distortion, manipulating the situation to stop short of a critical crisis point ('t Hart, 1993). These crisis management strategies were central to the 2020-2021 SPP reforms.

A further development is the crisis approach (Boin, 't Hart and Kuipers, 2018), a multidisciplinary approach that recognizes crises as the result of shared perceptions and thus their outcomes are a social construct that will be challenged by the relevant stakeholders. Rather than focusing on the perceived threat against a system's core values, this approach focuses on threat, urgency, and uncertainty. Only threats perceived to require urgent action will constitute a crisis and that urgency will generate a high degree of uncertainty. Rather than identifying a crisis origin, it studies the "escalatory processes undermine a social system's capacity to cope with disturbances" (Boin, 't Hart and Kuipers, 2018: 27), as the authors consider that the ultimate cause of a crisis is a system's inability to resolve disturbances. This approach offers policymakers two crisis management options: further exacerbate the sense of crisis to advance changes that otherwise be unachievable or, alternatively, try to minimize such sense of crisis to maintain the status quo.

Defining the concept of a crisis is essential to establish parameters and specify the main components of a crisis, which are clearly centred around perceptions by policy actors and the public. Under this view, the perceived level of harm caused or threatened by the event is essential for it to qualify as a crisis. While there might be some warning that a crisis is imminent, generally it is a surprise. Furthermore, a crisis implies a departure from business as usual, shattering expectations and limiting the capacity to anticipate further developments (Sellnow and Seeger, 2013).

2.3. Classifying Crises

Crises can also be classified. Gundel (2005) proposes a four-type classification which is based on the crisis predictability and response capacity. These crises are: conventional crises, unexpected crises, intractable crises and fundamental crises. Conventional crises are predictable, and policymakers are well drilled in dealing with. Unexpected crises, while unexpected, can be influenced by policymakers. Intractable crises are predictable, but response is difficult due to limited influence on it available to policymakers. Fundamental crises are the most dangerous as they are both unpredictable and policymakers find them incomprehensible to deal with (Gundel, 2005). Other classification is offered by Kouzmin (2008), who includes the concept soft-core crises and creeping crises. These crises while not threatening the system with destruction, are a clear indication of ever-increasing economic, social, political and organizational weakness and decline.

2.4. Crisis of Legitimacy

As we have seen, under the sociological perspective the role of perception is central in defining a crisis. This perception, however, can be further developed and specified into the legitimacy of a political system, government or even a specific policy. There is an ample body of literature that defines a crisis as the questioning or breakdown of the legitimacy of the socio-political system, specifically caused by the breakdown of the symbolic frameworks that sustain the system ('t Hart, 1993, Boin and Otten, 1996; Lagadec, 1997; Stern, 1997; Brändström, Bynander, F. and 't Hart, 2004, Boin, McConnell, 't Hart, 2008a; Christensen, Lægreid, and Rykkja, 2018). Indeed, some authors further develop this up to the point in which crises are defined politically (Papadopoulos, 2001; Walby, 2015; Gilbert, 2019).

Boin and Otten (1996) define crises in terms of legitimacy, as a substantial damage to a system's legitimacy to the point in which immediate action is required. A crisis confirms, if not fuels, existing levels of conflict within the system (Boin and Otten, 1996; Lagadec, 1997) because they reveal asymmetries in power structures as well as a systemic failure of coordination amongst social and political actors, fuelling the existing power structures' legitimacy crisis (Stern, 1997). This position is based upon the assumption that public institutions require a certain degree of legitimacy to properly function.

We also have literature which argues that crises strike at the core of democratic governance, challenging at the same time capacity, legitimacy, and accountability (Christensen, Lægreid, and Rykkja, 2018). As such, the key challenge in a crisis involves the simultaneous objectives of maintaining governance capacity and legitimacy, as they are essential for effective crisis management, while continuing to be held accountable by both political institutions and the public. Since these objectives influence each other, the result are hybrid and complex relationships between them. A well-functioning crisis management system needs both governance capacity and governance legitimacy. While governance capacity relates to more formal accountability relations, *governance legitimacy* can involve what is called horizontal or societal accountability, meaning that the political and administrative leadership try to justify or win support for their actions from the population and the media without having any formal obligation to do so (Christensen, Lægreid, and Rykkja, 2018). This definition is consistent with previous literature (Brändström, Bynander, and 't Hart, 2004) that define crises as periods of deep uncertainty and urgent challenges to a socio-political order's capacity to solve problems.

International relations also provide an insight, based on the effects of political conflict, which can both trigger the collapse and transformation of a political system as well as being an ordinary aspect of a stable political system. (Ikenberry, 2008). However, an escalation in political crisis can escalate into a crisis, which Ikenberry defines as an exceptional juncture in which the continuity and sustainability of the political system itself is questioned by its operators. In a crisis, the interests and institutions that have shaped the system are no longer taken for granted, putting the system itself in risk. Therefore,

the system has three possible results: it regains its previous strength, it's substantially transformed, or it disappears.

We also have literature that links legitimacy to administrative capacity, proposing that legitimacy is the result of fulfilling felt needs and solving perceived problems. A legitimacy crisis can be caused by the discrepancy between the expectation created by political speech and the government's incapacity to deliver real and sustainable solutions to the perceived problems. As a result, policymakers need to constantly legitimize their policies as part of the policy process. (Hanberger, 2003).

While the traditional source of legitimacy are democratic institutions and processes, sometimes this isn't enough, especially when policymakers are unelected. Hanberger (2003) finds that policy making contributes to recreate legitimacy to institutions and that legitimacy increased when policies effectively solve problems, and this is felt by the public. This effectivity approach required an efficient civil service. Therefore, it is pertinent to review the literature that address the bureaucracy's legitimacy and how it can affect a crisis. Therefore, any modern and efficient public administration needs the public's trust since this trust is the basis of its legitimacy. Without it, the implementation of reforms or indeed the adequate administration of existing ones, might not be feasible. Due to its nature, bureaucracy is an unelected body, immutable from public opinion yet having real political power in the form of their high degree of discretionary power when designing, implementing, and evaluating public policies (Meier, K, Stewart, J. England, R., 1991; Keiser, L. and Soss, J., 1998, Rothstein, 2007). It is therefore essential that bureaucracies adopt practices that give them legitimacy. These practices involve including the public in the decision-making process, which vary from informal consultation up to formal representation in the relevant policy-making boards (Rothstein, 2007). This view can be combined with Hanberger's previous assertion, that success legitimacies policies and institutions include the bureaucracy. From our point of view, both precepts are of particular importance to this dissertation because, as we shall see, both the AFPs and the ONP, as well as the regulatory agencies can be in the middle of a legitimacy crisis.

2.5 Effects of crises on reform

The impact of crises in policymaking and policy reform has been the source of debate for many years. For much of the 20th century, crises have traditionally been regarded as golden opportunity for policy reform. Milton Friedman (1962) considered that crises are in general a matter of perception, that they change political conditions, and it is these new political conditions that enable change. In addition, crisis make possible radical reforms that have been previously developed. On the same line, more recent literature considers crises as learning opportunities for policymakers and thus conducive to policy innovation (Brändström, Bynander, and 't Hart, 2004).

However, there is much debate on the degree of influence crisis actually have upon policy reform. In the 1990's, this debate was revived with new research on the impact of drastic economic liberalization in Latin America and Eastern Europe, which used quantitative methods to analyse the impact of economic crises in the enactment of liberalization reforms (Alesina and Dazen, 1991; Rodrik, 1992; Drazen and Grilli, 1993; Rodrik, 1996; Drazen and Easterly, 2001).

Alesina and Dazen (1991) found that when a crisis requires stabilization policies that imply significant distributional implications, there is an internal struggle as to which group will have the burden of the new policies that delays the implementation of any reform as long as the cost of sustaining the present policies is higher than the cost of reform. This concept of reform cost is further developed by Rodrik (1992), who proposes the concept of the Political Cost-Benefit Ratio of Policy Reform (PCBR), concluding that when, in middle of a severe macroeconomic crisis, liberalizing reforms are adopted together with stabilization policies, then the value of the PCBR falls significantly. According to the author, when crisis becomes severe enough any other considerations that might have prevented the implementation of trade reforms are swept away because of the economic crisis (Rodrik, 1992). In a later paper (Rodrik, 1996), which became one of the most cited papers in later literature, Rodrik concentrates upon the effects of economic policies, arguing that good economic policy eventually comes good politics and policies that work indeed become popular, a position later developed by Hanberger (2003). Rodrik concludes that reform becomes natural when it becomes evident that the current policies

are not working and therefore crisis is just an extreme case of policy failure, concluding that an economy in crisis that hasn't reformed it is because crisis hasn't been severe enough (Rodrik, 1996).

The fall of communism in Eastern Europe and its transition to capitalism produced literature that conceptualizes from a political point of view, the effects on policymaking of periods with great economic and political upheavals. From these studies we have Balcerowicz's (1994) concept of a "period of extraordinary politics", during which the rules of mundane politics are lifted, enabling policymakers to adopt bold reforms that otherwise would have passed through a long political process. Despite this, Balcerowicz finds that, unlike stabilization and liberalizing measures, time-consuming institutional reforms fail to benefit from the period of extraordinary politics as they generate greater resistance. This concept is of relevance to this study as we can detect that 1992-1993 was indeed a "period of extraordinary politics in Peru and played an important role in the implementation of the 1992 pension reform.

In the early 21st century, a new generation of studies went beyond the limited scope of stabilization and macroeconomic policies (Pitlik and Wirth, 2003; Murillo and Le Foulon, 2006; Campos, Hsiao and Nugent, 2010; Angelo et al 2015). Pitlik and Wirth (2003) classify crises deep and moderate crises before studying their impact on reform, concluding that deep crises, especially deep inflation, and low economic growth are conducive to market-oriented reforms. In the case of moderate crises caused by low economic growth, they found that reform and liberalization efforts are weak, only intensifying when the crisis deepens. Unlike previous literature, it studies the impact of political factors, concluding that fractionalized governments have no lesser propensity to reform and that democratic parliamentary regimes are more inclined to adopt liberalizing reforms amidst crises (Pitlik and Wirth, 2003).

Using a larger data set with an increased variety of crises and reforms, continuous variables are used to measure both reforms and crisis measures and including diverse democratic governance and political crisis indicators, Campos, Hsiao, and Nugent (2010) found that economic crises have a weak effect upon reform and may inhibit reform. In contrast, political crises have a strong and positive influence in triggering economic

reforms, while it has a strong but negative effect in triggering labour reforms. This approach is followed by Angelo et al (2015), who further develop the crisis-induced reform hypothesis presented by Drazen and Grilli (1993) by using econometric methods for analyse crisis-induced reforms in 60 countries while classifying the reforms and crises, concluding that crises tend to hasten the implementation of structural reforms. They also conclude that external debt crises are determinant for financial and banking reforms, while inflation and banking crises cause external capital account reforms. Banking crises additionally accelerate financial reforms. Meanwhile, Gieve and Provost (2012) find that during a crisis policy changes because policymakers can use the new, crisis-agitated political environment to implement their reform ideas into policy.

2.5.1. Policymaking process during crises.

Crises generate a risk-seeking attitude in policymakers, leading them to implement audacious policy changes and to generate public and political support for them. Electoral competition puts pressures to have reforms with little technical complexity while countries that have crises without relatively close elections have had more innovative policy reforms (Murillo and Le Foulon, 2006). This is a factor that significantly influences the crisis policymaking process.

During a crisis the attention of policymakers is focused on the crisis, overshadowing any other issues, as the relevant actors can only deal with a limited number of issues at the same time (Vergari, 1996; Stern, 1997), resulting in an intense scrutiny by the public, media, and pressure groups. Additionally, during a crisis the normal policymaking process is not observed, as crisis imposes a new set of rules (Vergari, 1996; Stern, 1997; Wenzelburger, König, and Wolf, 2019). Political actors have the choice of either using the natural crisis solidarity that emerges to diffuse tensions and defend the status quo or they may build a narrative that reinforce their appeals for reform and even radical change (Stern, 1997; Staelraeve and 't Hart, 2008; Boin, 't Hart and Kuipers, 2018). At the same time, crisis conditions may cause political opponents to behave unpredictably, increasing political instability.

One of the most relevant works in the subject is that of Vergari (1996), which has gone a step further in defining policy crisis and their effects. She proposes that a policy crisis has

a fundamental effect upon those involved in the policymaking process, altering their strategies, incentives, and roles. Vergari's study is of particular interest because while it covers the effects upon the executive branch, it mainly focuses upon the effects of a policy crisis upon the Legislative branch.

Her study is based upon two key points. The first one is that it is policymakers who determine the existence of a policy crisis, keeping in line with other literature ('t Hart, 1993; Stern, 1997). The second key point relates that a policy crisis forces policymakers to act within a limited timeframe. Based on these points, she develops a definition of policy crises, which consists of three main characteristics. First, it is a situation which most policymakers recognize it as a threat to their priority objectives. Second, policymakers sense an urgent need to remedy it. Third, recognizing that the negative effects of the crisis will worsen, legislators have the motivation to promptly resolve the crisis. These characteristics lead to two consequences. First, lawmakers will use extraordinary mechanisms which otherwise would be unthinkable. Second, policy crisis opens a unique window for major policy change, both in the policy area affected by the crisis as well as in other unrelated areas (Vergari, 1996).

Due to its complexity and sense of uncertainty, ambiguity, and urgency (Wenzelburger, König, and Wolf, 2019) policymaking in a crisis is remarkably different from policymaking in normal situations as the crisis increases both the probabilities of policy reform and the influence of policy entrepreneurs. (Vergari, 1996; Wenzelburger, König, and Wolf, 2019). These conditions also increase the influence of international actors as policymakers will use solutions adopted in other countries as a reference point and because globalization has resulted in crises having transboundary effects. This was partly the case of pension reform in Latin America (and Peru) during the 1990s, where the Chilean experience served as a model for the region (Papadopoulos, 2001; Weyland, 2007; Adam, 2009; Weyland, 2009)

Wenzelburger, König, and Wolf (2019) have found that crises pose three challenges to decision makers. First, a crisis causes the policymakers attention to focus on specific events and demands, altering their agenda to deal with those issues. Second, the crisis context of complexity, uncertainty, ambiguity, and urgency alter the decision-making

process. Third, as crises challenge the system's legitimacy, new sources of policy proposals appear, with policy entrepreneurs, and their policy proposals, gaining legitimacy. At the same time, crises tend to reinforce partisan ideology, which depending on the crisis can be either an encouragement or a hinderance for policy reform.

Crises create the necessary upheaval for a potential transformation of the political scene, opening a unique policy window for the formulation of policy proposals, justified in the need to address the problems generated or exacerbated by the crisis (Boin and Otten, 1996; Vergari, 1996, Stern, 1997; Boin, McConnell and 't Hart, 2008a). Crises are a valuable opportunity to accelerate policy *learning* and change as policymakers are forced to face complex issues and decisions that otherwise they would avoid (Stern, 1997; Brändström, Bynander, Hart, 2004; Boin, McConnell and 't Hart, 2008a; Connolly, 2016; Boin et al., 2017). This attitude is due to the public's pressure for decisive action to deal with the crisis (Stern, 1997; Christensen, Lægreid and Rykkja, 2018). However, policy learning may be obstructed by both defensiveness and opportunism by policy actors, who will seek to limit access to information that might point out to their failures while exaggerating their role in any success (Stern, 1997).

2.5.2. The Role of Legislatures in crisis Policymaking

One of the main strengths of Vergari's (1996) study is its analysis of policymaking in the Legislative branch, albeit at a subnational level. Considering the vital role Congress played in both the 2016-2021 political crisis (León, R, 2019; Riepl, 2019; Sifuentes, 2019; Vásquez de Velasco et al, 2020; Paredes 2021; Hidalgo, 2021) as well as in the pension reforms passed in the same period (Merino, 2021), it is necessary to review further literature on the role of the legislature.

It is argued that the main function parliament has in crisis management is to legitimize crisis policies, thus strengthening the system resilience (Stark, 2010). This happens both at the individual as well as the institutional level. Individual parliamentarians can either galvanize support for crisis policies, or undermine it, through their constant contact with their constituents (Stark, 2010). This contact can also be used to transmit their constituent's concerns and needs, regarding the crisis, to policymakers, thus becoming a

conduct through which public opinion can be transmitted (Dogan, 2007; Staelraeve and 'tHart, 2008; Stark: 2009; Stark, 2010).

Institutionally, parliament can have authoritative and associated outputs to manage the crisis. In the authoritative output, legislation is enacted while in the associated output, reflects the nature of power and politics, enabling to generate support for policy through committee hearings, debates and inquiries, acting as a safety valve that permits a cathartic exercise that enables the system to release internal pressures through the airing of grievances (Staelraeve and 'tHart, 2008; Stark, 2009; Stark; 2010). Parliamentary inquiries can be a valuable crisis management instrument. They can also be used to reassure the public that policymakers are in control of the situation. It can help to shape the nature of the crisis and to draw the course of crisis policy. In cases of low institutional legitimacy, the inquiry's influence upon policymaking increases by giving new impetus to the crisis management (Resodihardjo;2006; Staelraeve and 'tHart, 2008).

Furthermore, in the post-crisis situation, parliamentary procedures may legitimize or delegitimize the actions taken during the crisis (Staelraeve and 'tHart, 2008; Stark, 2009; Stark; 2010). In light of this, Stark (2010) concludes that representative institutions, such as legislatures are an important element in crisis management, since effective crisis management requires a source of legitimacy that enables social order and control, and parliaments can provide such legitimacy.

Democratic institutions are a source of legitimacy. For them to be solid, they require strong political parties to operate within the constitutional rules of the political system, and thus ensuring stability and democratic governance (Resodihardjo;2006; Carreras, 2014). However, in Latin America in general, and in Peru in particular, there has been a phenomenon known as the Outsider, a politician that runs for President not being part of an established party but rather of an ad hoc one or *parachutes* into a *shell-party* (Carreras, 2014). This has been true for all Presidents elected in Peru from 1990 onwards with the unique exception of the 2006 election of Alan García, so this phenomenon requires some review as its consequences are clearly felt in all the Pension Reforms, done or attempted, since 1992 (Carreras, 2013; Torres, 2020; Hidalgo, 2021).

If such candidate wins, the risk of institutional paralysis, significantly in the form of executive-legislative confrontation, rises (Negretto, 2006; Carreras, 2014), with three main reasons being the principals. First, there is a high probability that he won't have a Congressional majority. Second, an outsider president, having created a party which he runs without checks and balances, lacks the political and democratic experience to compromise with other political forces. Third, outsiders usually lack the political skills and relationships to build up a stable, long-term coalition for support in Congress (Carreras, 2014). This institutional conflict and paralysis, increase the impact of political scandals and popular protests in the policymaking process, while the executive's success in pushing through its agenda, increasingly depends upon the President's popularity. A final consequence of this situation is that it increases the probability that the executive will attempt to dissolve Congress, be it in a constitutional or unconstitutional fashion. This final aspect was at the centre of the 2016-2021 Peruvian political conflict, with the executive and legislative branches following courses of action that sought each other's dissolution (Ripel, 2019; Sifuentes, 2019; Torres, 2020; Vásquez de Velasco et al, 2020;).

2.6. Classifying Reform

While the previous literature has provided us with a clear understanding of crisis policymaking, it is necessary to review the classification of reform. To this, we have the model proposed by Boin, McConnell and 't Hart (2008a) under which the effects on policies and institutions can be divided into three categories, each with an increased level of disruptiveness. The first one is fine tuning, which consists in specific and incremental changes that may increase its efficiency while otherwise not challenging its fundamentals. This policy option is the preferred one by policymakers as they will always prefer to maintain the status quo (Boin, McConnell and 't Hart, 2008b)

The second category is policy reform, which is a substantial change of policy principles and institutional values that otherwise would not be changed. This reform, however, leaves the key principles and institutions unchallenged. Policy reform will only occur when finetuning become politically untenable (Boin, McConnell and 't Hart, 2008b) Finally, we have paradigm shift, under which the fundamental structures of a policy or a political system, are abandoned as they become politically and socially unsustainable

An alternative model is proposed by Hall (1993). This model is very similar to the previous one discussed as it is also divided into three categories: First order, second order and third order changes. First order changes are adjustments made within a normal policy process, an incremental precision made in line with events and results recently transpired. Second order changes are of a more strategic nature, developing new policy instruments that nonetheless maintain the same policy objective. Third order changes refer to a paradigm shift, under which goals and processes are radically altered. As an example of third order changes, Hall presents the policy change done by Thatcherism in the United Kingdom. To this we can add the 1992 Peru pension reform, which was a complete change of paradigm in pension policy.

Chapter 3: Methodology

The present dissertation is based upon qualitative analysis to evaluate the impact of crises in the design and implementation of pension reform in Peru and to determine to what extent pension reform has been used as crisis management policy. As such, we need to analyse the political and intellectual context that put pension reform in the political agenda and how it was shaped by the policy process (Stern, 1997; Wenzelburger, König, and Wolf, 2019). To do this, we first need to classify the policy reform, both enacted and proposed.

To classify the pension reforms, both enacted and attempted, we shall use by Boin, McConnell and 't Hart (2008a) model with a modification: adding another category, masking. As we have previously seen, masking is a crisis management mechanism that seeks to manipulate the situation to avoid a critical crisis point ('t Hart, 1993). This addition is very important, because the Omonte Commission was a deliberate attempt to pretend action but achieved no results, while the Social Protection Commission (SPC) genuinely sought to achieve results but ended up as a masking operation. Both episodes were significant events in the Peruvian pension reform debate but can't be honestly classified in any of the three existing categories, thus requiring creating a fourth category. Thus, in the analysis of policy changes we have masking, fine tuning, policy reform and paradigm shift. Once a reform is classified, we need to determine if there was a crisis during the

process leading to its proposal and debate. For this we shall use the sociological approach.

Since 1992, when Decree Law 25897 established the current Peruvian pension system, there has been a constant move to reform the system. From July 1995 until July 2021, when constitutional rule was fully established, 1156 bills have been introduced to Congress addressing pension reform. Of these, 421 have been enacted into law, although it must be stressed that it doesn't mean that there are 421 pension laws. One of the characteristics of Peruvian legislative practice is that bills are usually merged, even if such action doesn't alter the content of the legal text submitted for a final vote in Congress, it is counted as an approved law for the congressperson that introduced it (Delgado-Guembes, 2012; Hidalgo, 2021). In fact, only 38 laws have been enacted (Comision Omonte, 2021), of which 6 correspond to the 2020-2021 period.

Given that pension reform and the effects of crisis upon pension policymaking is a vast subject, we have adopted a case study approach. First, we limit our research upon the effects of crisis on pension policymaking to the case of Peru. Secondly, as Peru doesn't have one unified pension system but rather has several, we further narrow this to the policymaking of the SPP. Third, the cases to be studied are three moments: the Reform of 1992, which established the SPP; the reforms of the SPP adopted during the Humala administration and the reforms adopted during the 2020-2021 COVID-19 crisis.

Document analysis was an essential element of the research methodology conducted in this dissertation, especially for the 2012, 2016 and 2020-2021 reforms. This method is particularly suited to this research as it is an efficient and effective method to gather data, especially on topics that haven't yet been subject to academic study (Bowen 2009). Bills and their explanatory notes were reviewed, together with Commission and Ministerial reports and debate transcripts from both Commission and Plenary Sessions. This procedure has the advantage that the file of each reviewed bill is not only well organized and integrated with merged bills but also it is available online in Congress's webpage. Additionally, Government and Parliamentary reports have the latest and most accurate data and statistics on the subject, thus increasing its value as a source material.

Nonetheless, a disadvantage faced during the research was that due to COVID restrictions upon congressional staff, since March 2020 there are no Congressional Committee transcripts while for the Plenary Sessions, transcripts are only available from November 15th, 2020, onwards. To cope with this disadvantage, the videos of the relevant sessions, available in the Congressional Facebook page, had to be individually visualised. While not the most efficient method as it is more time-consuming, it nonetheless proves to be as reliable as the transcripts.

Chapter 4: Findings and Discussion

The 1980's and the early 1990's in Peru were a period of almost constant economic and political crises, ranging from hyperinflation, economic collapse, a terrorist insurgency, natural disasters external wars and political instability. However, with this backdrop, the period of 1990-1993 was one of policy innovation and structural reforms, with the pension system not being an exception to this trend. As we have previously discussed, the 1992 pension reform was a paradigm shift in Peru's pension system, introducing the previously unheard-of private pension system. After the stabilization of the 1990s, from 2001 onwards there was a period of constant economic growth, which in some literature is called the Peruvian growth miracle (Rossini and Santos, 2015). In this period there were two economic crises, the 2008 recession and the 2020-2021 Covid-19 Depression. During both crises significant pension reform was enacted. In these three crises periods, the intensity of the crisis and the policy needs of the political actors greatly influenced the nature of the reforms proposed and enacted.

In addition to these problems, we must also consider the legitimacy crisis of the existing pension systems. We contend that the legitimacy crisis, although may be aggravated by political and economic crises, is a completely independent phenomenon.

To understand the effect of crisis upon these policies, as to determine whether they were enacted with pension reform as the central objective or if they were a measure of crisis management, we must first defect the urgency, uncertainty, complexity and ambiguity of the crisis and the policy environment (Wenzelburger, König and Wolf, 2019) as well as

determining the intensity of the reform enacted with the modified Boin, McConnell and 't Hart (2008a) model described in the methodology.

4.1. The Reform of 1992

The reform of 1992 was clearly a paradigm shift in Peru's pension policy. With a single legislative act, Peru enacted one of the most radical pension reforms in the world, establishing a private capitalization system with individual capitalization accounts managed by private companies, the AFPs, which directly competed with the public system. This system, based on individual accounts that would pay each affiliate directly from the sum up of his contributions and the investment yields of said funds, affiliate rather a common fund that paid for the pensions with the contributions paid by working affiliates and in case of a shortfall, from transfers from the public treasury. Thus, pensions in the private system would cease to be a financial burden to the state.

Many factors influenced this. Certainly, the state of the public pension system was one of bankruptcy, with hyperinflation minimizing the workers' savings, which in any case had already been spent by the state to finance ever-growing deficits (Arce, 2006). This factor, resulting in the payment of minimal pensions to pensioners in 1991, was a fatal blow to the legitimacy of the public system thus greatly reducing public resistance to the implementation of a private system. This failure can be seen with the figures for 1991, when the 475 thousand pensioners received an average pension of 31 dollars (Rojas, 2003). While success can legitimize a policy and its institutions (Hanberger, 2003), failure can delegitimize them. Considering the Fujimori government was a right-wing populist government, consolidation of power and popular support was of vital importance to him, thus if technocratic reformists offered him a policy that would give such results, he would enact it (Weyland, 1999; Barrenechea, and Dargent, 2020).

This was possible because 1992 can be explained, to a large degree, with the period of extraordinary politics model (Balcerowicz, 1994), as it largely fits the political situation in Peru in 1992. In addition to the existing crises, there was a clash between President Fujimori and the opposition-led Congress. This conflict was solved by a self-coup by the President, who unconstitutionally dissolved Congress, assumed full legislative power and called for the election of a Democratic Constituent Congress (DCC) charged with the task

of writing a new Constitution. Law 25897, which enacted the 1992 Pension Reform, was done days after the election of the DCC (where Fujimori won a majority) but before it was installed. Therefore, the reform was enacted without any counterweight other than the President himself and his cabinet.

The presidential counterweight was not symbolic. The reform was pushed through by reformist technocrats in the Ministry of Economics and Finance (MEF) led by minister Carlos Boloña. These reformists had intensive technical and policy support from Chilean experts, who were essential in crafting the reform, based on Chile's experience (Arce, 2006; Carranza and Morón, 2007; Weyland, 2007; Weyland, 2009). However, both the President and most of the cabinet were firmly against Boloña's objective of closing the SNP and even managed to impose restrictions on the SPP to make it less attractive than the SNP (Arce, 2006).

This opposition, and the closing of the period of exceptional politics, gave a sense of urgency to reformists to pass the reform before the new DCC was installed, and thus accepted a watered-down version of the reform than rather have no reform at all. This compromise is in line with Weyland's (1999) assessment that *neoliberal* reformists and populists may be allies of convenience during crisis periods to enact reforms the reformists want but at the same time increase the power of populist's presidents and enable them to show results, as successful policies are a legitimizing factor (Hanberger, 2003). The fact that Peru was emerging from a hyperinflation crisis further supports his position. At the same time, this compromise shows the limits of the technocratic-populist alliance, once populists feel themselves empowered, they may dispense of the reformist, as it happened with Boloña, who has dismissed in January 1993 (Weyland, 1999; Barrenechea. and Dargent, 2020).

4.2. Re-legitimizing Reforms 2012 and 2016

Ever since its inception, the SPP model was constantly criticised by the political opposition to the Fujimori regime, being called an attack on the working poor and only benefiting the rich. Further criticism developed over the lack of a minimum pension, lack of transparency, lack of coverage and the high costs of fees. This last grievance was one of constant political argument, as popular perception was that the AFPs always made a

profit while their pension funds were susceptible to losses. This was compounded with the fact that the Peruvian AFPs, on average, had the highest fee rates in Latin America (Rojas, 2003; Rojas and Távora, 2009) made this a political issue.

In 2011, left-wing politician Ollanta Humala was elected president. His initial electoral manifesto, *La Gran Transformación*, was based on left-of-centre proposals, centred around the reinvigoration of the state's role in the economy. In the case of pensions, the plan not only called for non-contributory pensions (*Pensión 65*) but also a unified pension system in which the private pension funds became a secondary extra component (Gana Peru, 2010). For the ballotage election, Humala modified his manifesto with the so called *Hoja de Ruta*, under which he ratified his *Pensión 65* scheme but guaranteed the intangibility of the AFP funds (Gana Peru, 2011). Both plans, together with his political campaign, capitalized on the dissatisfaction with the high fees charged by the AFPs. Once in power, his government sought to address it.

On June 8th, 2012, the Humala administration introduced Bill 1213/2011-PE, which put in legislation Humala's proposals for a reform of the SPP. This bill, which was promptly merged with other 10 bills which had been previously introduced by different congressmen, was passed by the Congressional Standing Committee (as Congress was in recess) on July 4th 2012, with 11 votes in favour and 10 against, receiving Presidential Assent on July 19th as Law 29903. This reform changed the fee regime of the AFPs and introduced regulation that tended towards fee rate reduction, has generally been described as a success, not only because it achieved its goals but also because it was a well-designed policy (Rojas, 2014; CPS, 2017).

From a crisis context, this reform would seem to be of little interest. After all, when the reform was enacted, there was no economic nor political crisis. However, as we have previously seen, crises are matter of perception and constant questioning of the legitimacy of a policy does constitute a crisis (Boin and Otten, 1996). In this case, there was an ever-increasing attack on the so-called abuses of the AFPs, expressed in the form of high fees, low pensions and perceived investment losses and this was made very clear in the parliamentary debate that approved Law 29903 (Congreso de la República, 2012). Although inadvertently, this reform addressed this perceived lack of legitimacy and

diffused an imminent legitimacy crisis, thus it can be classified as a crisis management policy. This law can also be classified as a fine-tuning reform because not only maintained the system, but it also made it more legitimate and made its functioning more efficient. As previously discussed, success legitimizes a policy (Hanberger, 2003) and this Law was a clear step in this direction.

Towards the end of the Humala administration, there was another law that further re-legitimized the SPP, Law 30425 of April 2016. This law introduced a new option for AFP retirees to choose when they retired. Before the Law, retirees could have two main alternatives: First, they could elect the Programmed Withdrawal option, under which the AFP would continue to invest their fund and pay a monthly pension until the fund ran out. Alternatively, their fund could be sold to an insurance company, who in turn would pay a monthly pension until the retiree died, with an option for continuing the payment to a surviving spouse or underage children. While the average pension paid by SPP, 1055 soles (approximately 330 USD) was significantly higher than the guaranteed minimum 400 soles paid by the ONP, or even higher than its 900 soles maximum pension, 72% of all SPP pensions were below the 1000 soles mark with 2% even below 100 soles (COEBFI, 2015). This feeling was used by activists and populist politicians to create the sensation of injustice, undermining the legitimacy of the SPP (Congreso de la República, 2016). What Law 30425 did was to create a third option upon retirement: the retiree could withdraw at once 95.5% of his pension fund and use it as he saw fit, with the remaining 4.5% being transferred to EsSalud, Peru's state-run Social Security, in return for life-long health insurance.

This reform, for which Congress overrode the Presidential veto 4 days after the first round of the 2016 Presidential Election, at first glance may seem a Policy Reform as it didn't change the fundamental core of the SPP system, as the affiliation system remained the same. However, a closer analysis of this law makes it clear its Systemic Change. The main objective of a pension system is to guarantee a certain degree of economic stability to retirees during their final years of life (CPC, 2017; Comisión Omonte 2021; Jaramillo, 2021). This law destroys this certainty, as the retiree can use the money as he sees fit, even spending it all in a few years. Furthermore, while the money was in the AFP, it was

legally protected from debt collection by financial institutions, once it is withdrawn it becomes fair game for debt collectors. As the Social Protection Commission later concluded, this Law destroyed the SPP as a pension system and transformed it into a compulsory savings scheme (CPC, 2017). This position was shared by the Executive Branch, when in its veto of the bill stated that it was a denaturalization of the pension system and that in the long run undermines the (Humala, and Cateriano, 2016). That is indeed a Systemic Change, even though most people and policymakers will not realize until much later.

However, from a Legitimacy point of view, this Law re-legitimized the SPP, specifically the Individual Capitalization System. Public approval of the law was high, with 90% of the SPP affiliates approving it (Bosch, Caballero and Keller, 2020). This has led to an entrenchment of the Individual Capitalization System, making a structural reform of it almost politically impossible. In a sense, it may be concluded that Law 30425 has at the same time destroyed the SPP as a proper pension system and strengthened it through a new dose of legitimation.

4.3. The 2020-2021 AFP and ONP Devolution Laws

On September 30th 2019, article 134 of the Peruvian Constitution was invoked for the first time ever and President Vizcarra dissolved Congress, calling for a special parliamentary election on January 26th 2021. With this, most analysts at the time thought that the cycle of confrontation between the executive and the legislative branches was finally over. With an approval rate nearing 90%, President Vizcarra appeared to be the final victor and would be able to implement his agenda without any restriction. The new Parliament was duly elected, with the parties that during the campaign had expressed support to President Vizcarra obtaining 115 of the 130 seats (Torres, 2020). However, before Congress could be installed on March 16th, the political agenda radically changed with COVID.

A pandemic theoretically should be classified as a *known unknown* crisis, as countries and institutions regular plan for diseases outbreaks and, in theory, know how to proceed when the crisis erupts (Boin et al, 2017). However, COVID-19 clearly breaks that model and rapidly became an *unknown unknown* (Boin et al, 2017), as not only it had been

unexpected but also governments no longer knew what actions were effective to address this crisis. Rather than a standardized global approach, each country experimented policies and approaches on their own, with some countries adopting strict lockdowns while others trying to keep activities as normal in hopes of swiftly achieving the so-called herd immunity.

In this regard, starting on March 15th 2020, the Vizcarra administration imposed one of the strictest lockdown policies in the planet (Hennan, 2020; Tegel, 2020; UNICEF, 2020; Alvarez-Antonio et al, 2021). This perceived firmness in dealing with the crisis once again soared Vizcarra's approval ratings as it fulfilled what the literature says people expect their leaders to do during a crisis, that is take control, lead and take measures to reduce the expected harm ('t Hart, 1993; Stern, 1997; Sellnow and Seeger, 2013; Boin et al, 2017; Cross, 2017; Christensen, Lægneid and Rykkja, 2018). At this point, pension reform started to enter the political discourse. On March 17th 2020, Bill 4856/2020-CR was introduced, authorising any AFP affiliate who hadn't made a single contribution to his fund over the previous 36 months to withdraw the totality of his fund. This bill made no reference to the COVID-19 situation and was more a bill designed to pander to specific pressure groups. However, it was the first of many bills. Between March 24th and April 3rd, over 10 bills authorising the withdrawal of up to 25% of the funds in each individual capitalization account were introduced by different congressmen, which was met with hostility by the Executive (Merino, 2020).

The Executive's reaction was twofold. First, the Prime Minister and the Minister of Economics and Finance met with Congress Spokespersons Junta. In this session, although the Executive mentioned that the proposed measure was a denaturalization of the pension system, its main arguments were not related to pension, but to public finance and investment. The MEF, as well as the Banking and AFP Regulator (SBS) and the Central Bank stated that a massive sale of AFP assets would affect the value of Peru's sovereign bonds, thus making future borrowing more expensive. They also pointed out that such sales would also have a negative impact upon the Lima Stock Exchange and, if the assets to be sold were foreign, a massive influx of dollars would severely affect the exchange rate. Finally, it was argued that the proposal would mainly benefit rich affiliates

when only those in dire need should receive help, and the government was already doing so (De Althaus, 2020).

The second reaction was political. On March 26th, Vizcarra announced that for April, no contributions for both the SPP and SNP would be collected from affiliates. This was followed on March 30th, with the announcement that SPP affiliates who hadn't contributed to their AFP during the previous twelve months would be authorized by decree to withdraw 2000 soles. On April 1st, this period was reduced to six months. At the same time, an intensive media campaign supported by both the Government and the AFPs was started to pressure Congress to accept Vizcarra's proposals, at least as the basis for a negotiation. It was not to be, as on April 1st, the Spokespersons Junta agreed to an amended text of the bill and exonerated it from the Commission stage, thus enabling it to go straight to the floor. The amended text refined the proposal into three levels of withdrawals: Those who had less than 4300 soles would be allowed to withdraw the totality of their fund; those with an accumulated fund between 4300 soles and 51600 would be allowed to withdraw a minimum of 4300 soles and up to a maximum of 25% of their fund. Finally, those who had more than 50400 soles would only be allowed to withdraw 12900 soles. These amendments had de objective to limit the total amount of capitalization funds that would be withdrawn and give a higher proportional help to those affiliated with lower funds. This bill was approved by Congress on April 4th.

The expectation was that the executive would veto the legislation. The Peruvian Constitution gives 15 working days to the executive to either sign into law or veto a bill approved by Congress, after which the executive loses control, and the bill is signed into law by the President of Congress. Political analysts expected the Executive to use those days to negotiate with Congress an alternative law, so when on April 14th, the Executive enacted Urgency Decree 038-2020, which implemented into legislation the proposals Vizcarra announced on April 1st, it was interpreted as an opening position for such negotiations. However, Congressional leaders announced that they would override any Presidential veto (Merino, 2021) and their position was strengthened when on April 23rd, an Ipsos poll was published which showed a 79% of support for the Congressional bill

(Guerra, 2020). Therefore, it was no surprise that no veto was issued, and Congress signed the bill into Law 31017.

Vergari's (1996) model is quite useful to explain the events that led to Law 31017. The first point, that policymakers decide when there is a policy crisis is fulfilled. While the existence of the general COVID-19 crisis is an objective fact, the crisis regarding the approval of Law 31017 was most certainly decided by policy elites, especially in its early stages. This policy crisis of Law 31017 also had a fundamental effect upon those involved in the policymaking process, altering their strategies, incentives, and roles (Vergari, 1996), with the most important one, transforming a Congress that was expected to be compliant with the Executive (Torres, 2020) into one that was in constant conflict with it (Hidalgo, 2021; Merino, 2021). The Policy Crisis made Congress adopt a populist approach to not be outshined by an ever-increasing perceived populism from the Executive, which was aimed at increasing its political legitimacy in its power struggle with the Executive. Having become an opponent due to the crisis, Congress became an unpredictable opponent for the executive, confirming Stern's (1997) analysis on the impact of crises upon political behaviour.

Policy crises are expected to be time constrained. On a first approach, it may be thought that Law 31017 had no such time concerns. However, this is when the informality of Peru's labour market comes into play, as over 70% of the labour force is in an informal labour relation, most of them earning on a daily basis. The quarantine imposed by the government on March 15th deprived of most of these people from their daily income. Even those on the formal labour market saw their incomes decline as companies started to reduce personnel or, after Urgency Decree 038-2020 was enacted, furlough it. By the time Congress voted Law 31017 on April 4th, a large part of the population hadn't had a regular income for nearly 20 days. Therefore, there was a time constrain. This was confirmed by a poll in May, which showed that in April, the money withdraw from the AFP was the chief source of income for 15% of the population and for 12% in May (Datum, 2020b). This proportion was higher than those who had government handouts as their main source of income (11% in April, 9% in May), so there was indeed a time-constrain in the form of the remaining available funds a large part of the population had. These

statistics, together with the 79% of support for the congressional legislation, indeed proves that Parliament can be an effective conduct of transmission of popular opinion into policymaking circles (Dogan, 2007; Staelraeve and 'tHart, 2008; Stark: 2009; Stark, 2010)

During a crisis, the normal parliamentary and policymaking process is suspended, with new rules and procedures installed rules (Vergari, 1996; Stern, 1997; Wenzelburger, König, and Wolf, 2019). This was indeed the case in the passage of Law 31017 as not only was it exempted from the Commission stage, but the Spokespersons Junta assumed the role of negotiating with the Ministers and presented the amended bill before the full Congress. This was in part justified by the fact that since Congress was installed on March 16th Commissions hadn't been installed so there was no Commissions ready to analyse the law. However, had there been the will, the relevant Commissions could have been installed. The fact that the Spokespersons Junta is made up by the most senior Congressional leadership confirms Vergari's (1996) assessment that during a policy crisis, decision-making in a legislature is centralized in the leadership.

Law 31017 wasn't the only time Congress authorized withdrawal from the Pension Funds, as it passed Law 31068 and Law 31192. Both laws allowed for the withdrawal of up to 17200 soles in 3 to 4 instalments but, while Law 31192, passed in May 2021 was open for all AFP affiliates, Law 31068, passed in November 2020, was based on the original Vizcarra proposal for Urgency Decree 038-2020 as it was limited to those affiliates who hadn't contributed to their AFP for at least twelve months. Unlike Law 31017, the final two AFP withdrawal laws had the full parliamentary procedure, including the debate and Report by the Economics Commission (COEBFI). These debates and reports are extremely useful for policy analysis, as they force the legislators to justify their policy proposals and to consider the arguments against them made by the Executive, the Central Bank, the AFPs and the SBS.

For these two laws the regular legislative procedure was able to be followed as the sense of urgency felt in March was no longer present. The COVID-19 crisis had become *normalized* in the policy process, but it was still present. Regarding Law 31068, one of the main objectors was the Central Bank, who argued that (i) there were early retirement alternatives to those unemployed aged 50 (women) or 55 (men) and above (ii) the

measure would negatively affect the yield of Peruvian bonds in the international markets (iii) it denaturalized the goals of the pension system and (iv) those who didn't contribute weren't necessarily unemployed, as they were most likely employed in the informal labour market, as is 70% of the labour force (COEBFI, 2020b). The only opinion in favour of the then bill was that of the *Asociación Peruana de Ex Aportantes de las AFPs* (APEAFP), a pressure group formed by men and women under 55 and 50, respectively, with the aim of getting an early release of their AFP fund, which stated that the effects of the economic crisis required them to have their funds immediately (COEBFI, 2020b). Unlike the previous law, this time COEBFI made an analysis of how many affiliates would benefit from the law and how much money was involved. It found out that 2.6 million affiliates hadn't contributed to their fund over the last 12 months, of which 2 million were under 50 years of age and 1.9 million would be able to withdraw 100% of their deposits. The total amount estimated to be distributed was 14.5 billion soles (COEBFI, 2020b). This law was passed by Congress on November 2nd, 7 days before Congress impeached President Vizcarra. As such it wasn't vetoed by the Executive but rather was signed into law by President Merino (who, as incumbent President of Congress, replaced Vizcarra on November 10th) in his final day in office before he was forced to resign by massive protests against his administration (Merino, 2021).

The process for Law 31192 was similar, with two differences. It was first passed on March 30th, 12 days before the first round of the 2021 General Election. President Sagasti (who replaced Merino on November 17th) vetoed the law on April 26th, 15 days after his *Purple Party* was wiped out in the election, with Congress overriding the veto 1 month before the ballotage election of June 6th. It is evident that electoral politics played a significant approach in this Law. While complex reform legislation is difficult to pass before an election, reform legislation that is very easily understood by the public has a higher chance to pass as it will generate public support (Murillo and Le Foulon, 2006) and that happened with Law 31192, which was very popular with the public. Like Law 31068, its COEBFI report provided solid analysis of the proposal, having received opinions and evaluation from the relevant stakeholders. Most importantly, it included an analysis of the previous withdrawal laws. In it, we find that 5 million AFP affiliates used those laws and decrees to withdraw a total of 60 billion soles from their AFP accounts, of which 1.9 million

had emptied them. It concluded that the unexpected input of 60 billion soles alleviated the effects of the economic collapse caused by COVID and helped many families survive the crisis (COEBFI, 2021a).

All three 2020-2021 AFP withdrawal laws represent, at the same time, a paradigm shift in pension policy and a relegitimization of the SPP. The paradigm shift has happened without policymakers trying to do so, as their main concern with these laws was to provide AFP affiliates with an extra income in the middle of an economic collapse and, at the same time, enable the consumption of those funds to alleviate the deep economic crisis (COEBFIB, 2020; Merino, 2021; COEBFI, 2021a). The opposition to these laws was also focused on its economic and financial effects rather than on the intangibility of social security and the denaturalization of the pension fund.

All three AFP withdrawal laws were only made possible by the crisis context in which Peru was. Congress entirely justified those laws in as a measure to alleviate the economic suffering of AFP affiliates and to stimulate the economy with an input of 60 billion soles into the economy. Amidst a GDP collapse of 40% in April (BCRP, 2021) there was a need of urgent cash injection to the economy. During 2020, Peru engaged in one of the most ambitious economic stimulus packages, with measures worth 142 billion soles, of which 35.7 billion were in the form of transfers from the treasury (MEF, 2021b). This expenditure was increased with an increase of public debt, from 201.3 billion soles in December 2019 to 245.821 billion soles in December 2020 (MEF, 2021a). This need of borrowing helps explain the opposition by the executive to the three laws, and its veto of Law 31191. A large portion of AFP funds are invested in Peruvian treasury bonds. The liquidation of a significant proportion of AFP assets would in turn lead to a massive sale of treasury bonds, reducing their market value. The MEF feared that such reduction would lead to an increase of the interest rate it would have to pay in new bond emissions. Furthermore, as AFPs are amongst the main buyers of treasury bonds, MEF feared these laws would make bond issuing harder. While indeed the AFPs reduced their participation in bond issuing auctions from 18 auctions in 2019 (MEF, 2020) to 2 in 2020 (MEF, 2021a) and the AFPs reduced their holdings of treasury bonds by 39.4% (MEF, 2021a), the value of bonds and the interest rates were not significantly affected, as demand for treasury bonds

soared in 2020 (MEF, 2021a). Negative effects were also neutralized by the Central Bank's decision to buy AFP assets at current market price, in effect preventing a devaluation of those assets.

This successful management of potential negative effects of AFP devolution were very clear to Congress. Hence, when for Laws 31068 and 31191 the MEF and Central Bank repeated the potential negative impact on asset values and treasury bonds, Congress cited the successful management of any impact of Law 31017 to disregard such concerns (COEBFI, 2020b; COEBFI, 2021a; COEBFI, 2021b). In a sense, its successful management deprived the MEF from what it had been using as its main opposition argument.

In our view, although the MEF public expressed its opposition to the AFP Laws, they not only didn't oppose them but welcomed it as an extra stimulus package, especially since they had the policy tools to reduce and even eliminate any negative effects upon the treasury bonds. This can be proven with two facts: Urgency Decree 038-2020 and the fate of Law 31083, passed with a veto override by Congress on December 4th. When Vizcarra's announcements on March 26th and 30th to enable certain affiliates to withdraw up to 2000 soles from their AFP fund, which were later implemented through Urgency Decree 038-2020, legitimized the concept of AFP withdrawal funds, emboldening Congress to pass its own law. The political debate between Congress and the Executive had turned from whether withdrawals were possible or not into a debate of what would be the desirable withdrawal amount and who should be allowed to withdraw. Once the Executive accepted the policy concept, it weakened its political position to oppose it.

Law 31083 ordered the ONP to return 4300 soles to each affiliate and pensioner, following the model of the AFP Laws. The justification used by Congress was the same as for the AFP Laws while the MEF's opposition included the direct cost to the treasury this law would entail, its arguments regarding the denaturalization of the pension system and the constitutionally mandated intangibility of pension funds were the same as in the AFP Laws (COEBFI, 2020a; COEBFI, 2020c; Vizcarra and Martos, 2020). There was also an argument about the cost. Congress estimated the cost of the bill to be 3.5 billion soles (COEBFI, 2020a) while the MEF estimated it to be 15.9 billion soles (Vizcarra and Martos,

2020). Congress also argued that while 3.5 billion soles was a high price, it was little compared to the amount the AFP affiliates had withdrawn and only represented 3.9% of the government's COVID stimulus packages (COEBFI, 2020a: p.35). Given the veto-override, the Executive did something it didn't do with the AFP laws, but it did with other laws passed by Congress: it sued Congress before the Constitutional Court arguing Law 31083 was unconstitutional. The Court's ruling, delivered on February 8th 2021, declared Law 31083 unconstitutional because it was a denaturalization of the pension system and violated the intangibility of all pension funds. This ruling clearly shows that had the Executive truly opposed the AFP Laws, it could have taken them to court and won.

4.4 Why crisis enabled an integral overhaul of the Pension System succeeded in 1992 but failed to do so in 2020-2021?

In 1992 Peru had an economic and political crisis, with the pension system having its own legitimacy crisis. In 2020 history repeated itself. While in 1992 there was an integral overhaul of the Pension system, there was no such result in 2020-2021. However, this was not because of lack of support and opportunity. In April 2020, an Ipsos poll showed that 72% deemed an integral reform of the pension system to be necessary, with only 20% defending the status quo (Guerra, 2020). So why did a crisis not generate such integral reform? The answer goes through crisis management and the SPPs re-legitimation.

With the polling results, President Vizcarra announced during a televised address that his administration would introduce a bill for the integral reform of the pension system. Although announced with much fanfare, Bill was much ado about nothing as rather than proposing an actual reform, it merely created a special commission made by representatives of 8 institutions (3 ministries, 3 Congressional Commissions, the Central Bank and the SBS) which would make a reform proposal within 180 days. Congress rejected it and instead created a special multiparty commission (Omonte Commission) to prepare an integral reform bill.

This was not the first Commission formed to propose an integral reform. In 2017 the MEF creating the CPS to propose an integral reform of pensions, health, and unemployment insurance, appointing as its members 6 of the leading academics on the subjects. The

CPS presented an excellent report, which has become an essential document for subsequent literature (Jaramillo, 2021), and solid proposals. However, as the minister who appointed the CPS had long been replaced by the time the report was presented, there was no political interest in sending, to the opposition-led Congress, in the middle of a political crisis a bill based on the CPS's proposals. The Omonte Commission, chaired by Congresswoman Carmen Omonte, while having a promising start, had a similar fate of academic importance and political irrelevance.

Unlike the CPS, the Omonte Commission held public hearings, with the leading academics and all the relevant stakeholders presenting their own analysis and proposals of reform. After nearly eight months of work, it produced its final report and a bill. The report used as explanatory notes of Bill 7042/2020-CR has an exhaustive analysis of the current situation of Peru's pension systems and gives solid arguments for the unified universal pension system it proposes. Like the CPS Report, the Omonte Commission's report will certainly be a mandatory reference for future pension reform study but, like the CPS, it had no real policy consequence. At the same time Bill 7042/2020-CR was introduced, Congress was considering the bills that would become Law 31192. Congresswoman Omonte requested the Congressional leadership to dispense Bill 7042/2020-CR from the Commission stage, arguing that the bill had already passed through a Congressional commission, albeit a special one rather than an ordinary one. Congressional leadership not only refused, but it gave priority to the bills for the third AFP withdrawal law. Bill 7042 died in the Commission stage, without any further hearings or debates.

One might consider that the Omonte Commission was a failure. It certainly was one if the intention was to pass an integral law. However, that wasn't the goal of the Omonte Commission. Rather, it was a crisis management tool which achieved its objectives. When President Vizcarra 5095/2020-PE he had no real intention of passing an integral reform bill. Had he had such intention, he would have sent a bill based upon the CPS's recommendations. By proposing a political commission to study the results, he was trying to capitalize on the April Ipsos poll to maintain his popularity and regain the political initiative on the subject from Congress. The bill was also a strategy to force Congress to

abandon its intentions of passing the bills that became Law 31017. In other words, Vizcarra used Bill 5095/2020-PE as an implementation of a framing and masking strategies. As we have previously seen, these are symbolic crisis handling devices that enable policymakers to appear to be taking bold action ('t Hart, 1993).

On the other side, when Congress ignored Bill 5095/2020-PE and instead created its own Commission, it clearly had two objectives. The first is to deny Vizcarra the initiative. The second one was to give the perception that Congress was taking pension reform seriously, having the public hearings and technical debate which the passage of the AFP and ONP bills lacked. The literature states that Congressional hearings and processes are ideal to frame the narrative of crisis management (Staelraeve and 'tHart, 2008), as well as providing for a safe environment to reduce the political system's tensions (Resodihardjo,2006; Stark, 2009; Stark, 2010). This certainly happened with the Omonte Commission

The reviewed literature states that near an election, legislators will push forward reforms that are easily understood by the public, with complex reforms left untouched (Murillo and Le Foulon, 2006). The literature also informs us that leaders who have recently faced elections are emboldened to push forward controversial policies while those who face nearby elections are more reluctant (Chiplunkar and Das, 2021). These situations happened with Peru's pension reform. When the first AFP bill was passed, Congress had just recently been elected, thus it felt empowered to push through its agenda and defy the Executive. By the time the Omonte Commission introduced Bill 7042/2020-CR, elections were 60 days away. The bill was most certainly complex, controversial, and hard to explain to the public and thus the Congressional leadership wanted to avoid the subject. At the same time, the bills that became Law 31192 were very simple for the public to understand, as its core element was to give each AFP affiliate up to 17600 soles.

Finally, we have the legitimacy issue. Before the COVID crisis, in May 2019 polling showed that 38% preferred the status quo while 33% wanted the ONP to replace the AFP and 12% wanted the AFP to replace the ONP while, at the same time 38% agreed that the ONP should be ran like an AFP (that is, with individual capitalization accounts) while 44% disagreed (Datum, 2019). In July 2020 an Ipsos nationwide poll showed a massive

change in public opinion, with 83% wanting their own individual capitalization account, with only 14% wanting a bismarckian model like the ONP (Miñán, 2020). In the same month, a Datum poll showed that while 18% trusted the ONP more than the AFP, 26% trusted the AFP more while 43% trusted neither (Datum, 2020d) Later on, in November 2020 and January 2021, Ipsos polls conducted amongst AFP affiliates showed that 93% preferred their own individual capitalization, 10% more than in July while 80% was against the State managing their pensions (Ipsos, 2020; Ipsos 2021). This polling shows that the legitimacy of the AFP in general and the individual capitalization accounts in particular has increased dramatically, during the COVID-19 crisis due to the legislation enacted by Congress that enabled AFP affiliates to access their funds while ONP affiliates saw no such rebate, which in turn further delegitimized state-ran pension systems as an alternative to the SPP.

This legitimation will have long-term consequences, as it will certainly become an obstacle in an integral pension reform, as most of the proposed schemes both in policy circles and the academia call for a unified system administered by the state (CPS, 2017; Comisión Omonte, 2021; Jaramillo, 2021). The laws and court rulings of 2020-2021 have created in the public the view that in the SPP they will get their money, be it upon retirement or during a crisis, while if their pension contributions are managed by a state-ran, they might only eventually receive an inadequate pension.

Chapter 5: Conclusions

From the study of the SPP reforms conducted in this dissertation, we conclude that crisis played an essential role in catalysing such reforms. While the nature of each crisis was different, with the 2011-2016 reforms, we can see that they were catalysed by the perceived SPP's crisis of legitimacy, rather than by an economic or politic crisis, as it was the case in both 1992 and 2020-2021 reforms. In all three cases, it was the existing crisis that made possible what previously had been deemed politically unfeasible.

As for the use of SPP reform as an instrument of crisis management by Peruvian policymakers, we can conclude that indeed SPP reform has been used as such instrument, but in varying degrees, depending on the crisis. In the case of the 1992 SPP

creation reform, the Fujimori administration did use pension reform to both reduce future government expenditure and increase its popularity by pushing a new and seemingly beneficial policy. Nevertheless, in 1992 the reform of the overall pension system and the creation of the SPP was the driving motivation of the policy, with crisis management being a secondary concern. However, in the 2011-2016 reforms, crisis management played a higher degree in the design and implementation of the reforms, although at the time policymakers didn't see it as such. This is because the policies they implemented addressed the SPP's crisis of legitimacy amidst the public.

In contrast, the 2020-2021 SPP policy reforms, both enacted and attempted, were exclusively a crisis management instrument. All the enacted reforms were deliberately designed to address the economic collapse generated by the COVID-19 pandemic, with the improvement or long-term sustainability of the SPP, as a viable pension system being of no concern to policymakers. In addition, the reforms were used by Congress as an instrument to increase its own political legitimacy during its power struggle with the Executive branch, and individual political parties saw in them an opportunity to increase their popularity in the upcoming 2021 General Election.

To these conclusions, we must add a third one. As a result of both the 2016 and 2020-2021 reforms, Peru's SPP has ceased to be a true pension system and is now, as the CPC concluded in 2017, a compulsory savings scheme with constitutionally mandated intangibility. However, paradoxically, these reforms have legitimized the central element of the SPP, the individual capitalization account, as they have ensured that the public sees that the funds deposited in them are really theirs. Furthermore, these reforms have shown that not only can they access those funds upon retirement but also in case of a severe economic crisis, as part of an economic crisis management strategy by policymakers. In turn, this legitimation of the SPP complicates the prospects of an integral reform, as the individual capitalization account has become entrenched amongst the public, who is firmly against its administration by a state entity.

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