

Juan Carlos Boué: Investor tribunals make reversal of pension privatizations expensive

13 April 2021 | [Many poor countries were pushed to privatize their pension systems to the benefit of international pension funds and insurance companies. After reversing this costly failure, they are sued by financial companies who want their expected profits guaranteed.](#)

Juan Carlos Boué. Between 1973 and 1990, the Pinochet dictatorship ran Chile with an iron fist, and a Chicago economics textbook in hand. This afforded the academic zealots who ran the country's economic policy the opportunity to bring undiluted Chicago dogmas to bear on all kinds of areas which, in most places (and for good reasons), it was considered unwise to leave to the mercy of unfettered market forces.

One such area was the responsibility of governments to guarantee income security in old-age; that is to say, pensions. In 1981, Chile became the first country in the world to privatize its pension system. Subsequently, other poor countries faced vigorous lobbying from pension fund firms and strong pressure (not to say extortion) from international financial organizations, above all the World Bank, to do the same. As a result, Chile's example was followed by 13 other Latin American states, fourteen Eastern European or former Soviet countries and two African countries.

Overall, it is fair to say that, from the very beginning, the pension privatization experience has not been a happy one. Coverage rates and benefit levels were promised to increase, administrative costs and gender inequalities to decrease, governance of pension management to improve, and capital markets to deepen. What happened instead was that the privatized systems shifted the risk of financial market fluctuations unto individuals, increases in administrative costs reduced pension benefits and the costs of transition created huge fiscal pressures.

As a result, 18 out of the 30 countries which tried this experiment have reversed course, the majority of them after the 2007-2008 financial crisis laid bare the drawbacks and immense social costs of the private pension systems. But in a world where investment treaties hold sway, governments often find that correcting the catastrophic errors of their predecessors is an expensive business in itself.

Thus, Argentina and Bolivia (which reinstated their respective public pension systems in 2008-09) now find themselves being sued by private insurance corporations. Metlife and NN Insurance are suing Argentina, BBVA Bank is suing Bolivia over the loss of their potential profits due to the reversal of pension privatization.

The cases will be heard at the World Bank's international arbitration forum, ICSID, where three tribunals composed overwhelmingly of jurists from developed countries (with public pension systems) will decide just how much international law demands that these countries should pay for acting on the belief that the point of pension policy is to provide income security in old age, as opposed to securing profits for insurance corporations.

Report on *Global Issues*

[Nobel Economist and 100 Experts Condemn Corporate Action against Argentina and Bolivia after Rollback of Failed Pension Privatization](#)

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academic career with a decade at the helm of the international trading arm of Mexico's state oil company, PEMEX, overseeing commercial aspects of all of Mexico's crude oil exports. He also served on the committee which reviewed the country's oil export pricing and policies, among other strategic roles in the oil industry, was a special adviser to the Ministry of Energy and Petroleum of Venezuela and sat on the boards of various oil refining companies. From 2010 to 2018, Mr. Boué was a senior research fellow at the Oxford Institute for Energy Studies. He has written widely on the industrial economics of oil and gas exploration and production, petroleum refining, auction design for oil and gas bidding rounds and the taxation and general political economy of oil.