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ABSTRACT While scholars and practitioners are often concerned about why policy change occurs so rarely, a phenomenon known as policy gridlock, the opposite is mentioned less often: too much policy change. Building on the recent literature about disproportionate policy change and policy bubbles (Jones, Thomas, and Wolfe 2014; Maor 2014a), we study the long term durability of reforms with particular interest in cases where policy change occurs with high frequency and amplitude, processes we label 'excessive policy volatility' (EPV). We develop a theoretical framework to understand the factors that produce EPV after major reforms and outline different forms of it, including pendulum swings and bubbles. Such forms of excessive instability are often the consequence of a 'perfect storm' coming from outside pressure in permissive domestic structures. To illustrate, we primarily rely on examples from the last three decades of pension reform focusing on the rise and fall of mandatory private pension schemes in Eastern Europe and Latin America, but also briefly show instances of EPV in other policy areas.

Introduction and Motivation

Policy reversals are usually not very remarkable, especially once an opposition party is voted into government and then undoes whatever its predecessor implemented. It is more remarkable though, if the same ministers and key decisions makers who first advocated the reform are also those who later take it back. Such a case is Jacek Rostowski, the former Polish finance minister who not only assisted with the introduction of a private pension pillar in the late 1990s, but was also instrumental in gradually removing it from the system some 15 years later. And this is just one example for a contagious trend in many countries to (completely) undo costly reforms. It is interesting to note that as academics we still know less about the origins of such seemingly volatile policy cycles than about its opposite: stability.

Ever since the big oil shocks of the 1970s much policy discussion has focused on the problems of encompassing structural reforms. International organizations such as the International Monetary Fund (IMF) or the Organization for Economic Cooperation and Development (OECD) have repeatedly worried about lack of reforms around the globe: problems of structural adjustment in Latin America after the debt crises, problems of labour markets and demography in Europe in the

1980s and again after the global financial crisis, problems of transition in post-communist countries, or problems of crony capitalism in Asia after the 1998 crisis. This constant talk about policy gridlock, in Europe also known as Eurosclerosis or the German word Reformstau, also informed academic discussions about policy stability (Tsebelis 2002; Immergut 1990). Why political systems can't make faster decisions and why they produce little or delayed output have been important guiding questions for much research on comparative and international policy research (e.g. Falkner, Hartlapp, and Treib 2007).

Yet, as the previous example of pension reforms showed, a lot of substantive reforms have been undertaken in many policy areas, and not few of them have been reversed, severely diluted or aborted again. Such cases raise the opposite question: what happens if there are too many, instead of too few, reforms, especially, if these reforms are not sustainable in the long run?

This relates to a much older academic literature on policy instability. When do policies fail to stabilize? When do they cycle or drift aimlessly? Starting from classic rational choice approaches to modern management techniques, many somewhat disjointed research traditions have looked into these problems. In policy sciences, there is a huge literature on policy failure that draws together general lessons across different policy areas (Patashnik 2008; Howlett 2012). Most recently, there is a rapidly expanding literature on disproportionate policy responses (Maor 2012, 2014a), policy bubbles (Jones, Thomas, and Wolfe 2014) and policy churn (Marschall and Shah 2005; Monios 2017).

This literature on disproportionality mainly focuses on the size of a policy response relative to the underlying policy problem: overreactions and bubbles are an overinvestment into a policy usually with a limited life span. We contribute in two ways to this literature. First, what this literature, so far, addresses to a lesser degree is problems of frequency, time and instability. But we can only really think of disproportionality if we include the time dimension: what makes an under-reaction an under-reaction is time, such as a delayed reaction, and what makes a bubble a bubble is a disproportionate change over time often in conjunction with a (potential) punctuation.

Second, this literature struggles with the classic valuation problem, i.e. how do we know that policy responses are clearly disproportionate. In this sense, the debate on policy bubbles has similar challenges as the debate on bubbles in financial markets: their existence depends on the underlying positive, or sometimes even normative assumption a researcher has.[1] In a deeper sense these normative issues are insurmountable challenges to policy sciences. However, if one not only focusses on the size of policy changes, but also their frequency, the valuation problem loses some of its 'bite'.

To show this we introduce or rediscover a complementary concept of policy change which we dub *excessive policy volatility* (EPV). EPV highlights the idea that policy responses can not only be problematic in their amplitude, but also in the frequency of change. We will see that in such (ideal) cases normative issues become less controversial and instances of policy failure are easier to identify. We will illustrate this insight with examples from recent pension reforms in Latin America

[1] Just think about the fact that two out of three 2013 Nobel prize winners in economics, Robert Shiller and Eugene Fama, diametrically disagree on this issue (Allen 2013).

and Eastern Europe that exhibit elements of a bubble, but also other forms of instability such as classic stop-and-go patterns or even policy cycles. We extract insights from a wide range of academic approaches to understand the factors that drive EPV in general. Applying the idea of EPV to the recent cycle in privatization and nationalization of pension systems we see how bubbles and cycles are closely related to each other and how they are shaped by common factors. Some factors explain the occurrence of EPV; while others influence the form that EPV takes, i.e. whether it takes the form of a bubble or an oscillation.

In section 2 we introduce the basic ideas illustrating different forms of volatility and how they relate to the traditional literature on instability and disproportionality. In section 3 we will draw on several very different strands in the literature to expose potential causes for excessive policy volatility ranging from rational choice to the politics of emotions. Section 4 illustrates the usefulness of EPV as a concept by looking at instances of recent pension reforms across the globe. Section 5 discusses the implications of EPV. On the one hand we will use some stylized examples from other policy areas to see that pension reforms are just an illustration for structural problems which are visible in many other policy areas. On the other hand we will also briefly venture out to the consequences of EPV for questions of legitimacy and external interventions.

Forms and Types of EPV

There is a large policy literature with a normative bend focusing on structural reforms. This is often related to major economic crisis such as the Latin American debt crisis (Edwards 1995), economic stagnation in European labor markets (Siebert 1997), the Asian crisis of 1998 (Berg 1999), or the aftermath of the global financial crisis (OECD 2012). A common concern in most of these contributions was and is the lack of reforms and the 'institutional rigidity' of polities and policies. This rigidity has in various ways been called Eurosclerosis, policy gridlock or, to use a German expression, Reformstau (literally reform jam).

This literature has re-invigorated the study of policy stability among political scientists and policy experts alike. A good representation of this renewed interest is Georg Tsebelis' veto players theory (2002) which aims at explaining policy stability as a result of the number and heterogeneity of veto players. Tsebelis' theory builds on insights of classic rational choice approaches which, somewhat ironically, traditionally focused much more of issues of instability (see below). Policy instability, in turn, is a phenomenon that has only recently re-attracted scholarly interest from various academic perspectives. A good illustration for such an approach is Lindvall (2017) who argues that stable long-term reforms are often the product of power-sharing arrangements that anticipate informal vetoes from interest groups.

Most recently, policy scholars have identified one key form of instability, policy bubbles (Jones, Thomas, and Wolfe 2014); Maor 2014a, 2012). Such cases often represent a form of policy overreaction in which a decision maker overinvests time and resources in a policy problem, given its relative nature. Similar to financial market bubbles, these overreactions can lead to boom-and-bust cycles and ultimately constitute policy failure (Howlett 2012). Some scholars have also related the problem of overreactions to the phenomenon of reform activism or policy churn, i.e. constant

innovation in fields in which effectiveness of interventions is either poorly understood or very controversial (Marschall and Shah 2005; Monios 2017).

This literature has proved remarkably successful at accounting for a very diverse set of policy areas from budgeting to environmental policies. What this literature, so far, deals less with is the temporal dimension of such oversized reactions (Grzymala-Busse 2010; Jacobs 2016). For a policy problem time scale can be crucial, a bubble can look like incremental change if spread out over many years, for instance. The temporal dimension is also essential for any form of over- or under-reaction (Howlett and Kemmerling 2017; Maor 2014b). Specifically, when is a delay of a change so much that one can speak reasonably of an under-reaction? And how do we see a bubble, if we don't account for the time scale in which it builds up?

Some scholars have argued that over-reaction is not related to the idea of instability and hence the fact that eventually a bubble has to burst, but that it is an over-investment relative to the 'instrumental value' of a policy. Hence, a second issue with which the disproportionate policy response model struggles is the underlying issue of valuation (Zuckerman 2012): how can a researcher technocratically fix the optimal quantity of a policy response or the optimal qualitative shape of such a response?

Both problems are related. First, as with the controversy about whether bubbles in financial markets exist, policy bubbles are hard to spot if one focusses primarily on the scale of the underlying dynamics, but ignores its temporal dimension. Second, bubbles as well as other forms of instability reveal underlying, and profound normative challenges for which there is no simple answer. However, if you combine both problems, i.e. if one not only focusses on the size of the response, but also its frequency and timing, the valuation problem loses some of its grip. Think about the above-mentioned issue of pension reform for a moment. Lay people and scholars may have very different ideological predispositions for what kind of pension system should be considered 'optimal'. Some prefer public solutions, others private savings. And yet, if big, paradigmatic changes are introduced too often into whichever pension system, this constitutes a clear policy failure regardless of one's ideological preferences. Pension systems need maturation, i.e. they need to operate for some time to reach benefits for the insured. Too frequent a change is therefore arguably bad no matter what system people prefer. For this reason we argue it is important not only to look at the amplitude of policy change, but also the frequency.

To mark this distinction, we will call instances of excessive policy volatility (EPV) cases in which policy responses are either large in amplitude or extreme in frequency. In the extreme case they might be both. The ideal case of a case with large amplitude but low frequency constitutes the already mentioned idea of a bubble (see figure 1 below). Such cases can be found in very large policy reforms that also lead to very large reversals. But it also may be that a lot of policy makers follow very similar rationales, forming, like herds of speculators in a financial market, a bubble, which may burst if expectations will suddenly deflate. The other main ideal case of a high frequency a perfect oscillation between policy response that go into very different, if not opposite directions. Such back-and-forth patterns are well known in many different policy areas (for an early example see Downs 1972). What is less well understood is that oscillations or swings are clearly related to excessive policy

changes such as bubbles. As a matter of fact, they may be related to each other in similar ways Baumgartner et al. (2003) relate incremental and non-incremental policy changes (i.e. reforms) to each other as two sides of the same coin: while both are forms of excessive instability, different institutional or informational context will decide which form the instability takes. To understand this better this we look into the literature on the potential causes of instability.

Causes of EPV

A focus on EPV is obviously not something completely new, but a different repackaging and amalgamation of what is a disparate set of academic approaches all dealing with forms of excessive instability and cycles. Drawing these literatures together helps us understand how such forms of instability may arise and, eventually, what their consequences will be. It is impossible to do justice to all approaches dealing with instability. For the sake of simplicity we will briefly distinguish five types of approaches: rational choice, psychological approaches, policy sciences, policy diffusion & transfers, and organizational theories.

Beginning with the first, *rational choice*, we can see interesting intellectual changes across the years. In its infancy, rational choice explanations often put instability into the core of the analysis, very much inspired by 19th century philosopher Marquis de Condorcet. The idea was that instability arises even under relatively simple assumptions such as insincere voting (for a summary see Mueller 2003). Yet, it soon became clear that there is a lot more stability in political systems than expected (Mackie 2003), and so rational choice theory became a theory of (stable) political equilibriums. Somewhat counterintuitively, even political phenomena such as voter polarization are not sufficient to expect political instability. In more recent years, however, theorists have renewed their interest in instability, for instance by looking at policy processes creating several equilibriums (e.g. Hefeker and Neugart 2017) and distinguishing forms of change (Streeck and Thelen 2005).

Perhaps naturally, problems of excess and instability have long attracted the interest of *psychologists* and behavioral scientists. Already the simple idea of pig cycles in economics, i.e. the constant under- and overshooting of price-quantity relations, is ultimately based on humans' limited capacity to process information in time. Psychological approaches go far beyond this simple criticism of rational choice, highlighting the role of cognitive biases and emotions in human decision making. This line of reasoning has been used by behavioural economists to explain herd behavior in financial markets (Bikhchandani and Sharma 2000). Maor (2012), for instance, draws heavily on the politics of emotions arguing how strong negative events such as 9/11 can lead to excessive forms of reactions (also Maor and Gross 2015). Perhaps the most important application of such approaches lies in the field of public opinion research. Mood cycles in public opinion have long been noted for many different policy issues and linked to changes in policy making (Jones and Baumgartner 2005; Downs 1972; Stimson 1999).

Policy sciences have often built on these insights. A popular example is the idea of punctuated equilibrium (Baumgartner et al. 2009). Cognitive 'friction' leads Baumgartner et al. to expect large policy changes to occur abnormally[2] often. As such this approach might lend itself to explain

[2] Abnormally often here means more than expected in a statistical sense by the normal distribution.

(partially) boom-and-bust cycles as readjustments to new equilibriums, but it perhaps less apt to explain other forms of cyclical instability. A good example here is the recent work on media storms and how they lead to disproportionate information processing (Walgrave et al. 2017). Similar to Tsebelis and others a second reason for this delayed adjustment lies in institutional 'friction', i.e. the degree to which political and administrative institutions can halt or delay policy change. Other approaches highlight the role of interest group mobilization and counter-mobilization (McFarland 1991) or the role of policy specific characteristics that make reforms erode or implode (Patashnik 2008).

Closely related to these approaches is the literature on international *policy transfer* and diffusion. Even if it is rarely applied to issues of instability, it quite naturally inserts itself into the reasoning about herd behavior and naïve forms of policy learning on the international level (Meseguer 2005; Weyland 2005; Dolowitz and Marsh 1996). External influence can accelerate such forms of excessive instability by giving money, expertise or exercising political leverage over countries which may or may not have the administrative capacity and political will to durably implement such policy changes in the long run (Kemmerling and Makszin f.c.).

The last academic tradition also fits well into this line of thinking. Management and *organizational studies* have long highlighted the fact that a lot of decision making is the consequence of vogues and fashions, especially if the underlying problem does not lend itself to a simple optimal solution (Kuhl 2009). A good example for this approach is the aforementioned work on policy churn. These approaches also have resonance with theories on (international) policy learning highlighting the often ideational or even ideological waves in learning (Simmons and Elkins 2004; Blyth 2013). It also complements approaches that deal with instability as a consequence of capacity and implementation issues (Kemmerling 2016b).

All things considered, this far from complete list of approaches shows that parallel theory development can be fruitfully exploited and that these approaches can complement each other. Rational choice theories highlights the basic fragility of stable solutions, but often some of their core assumptions need to be relaxed to get interesting cases of excessive instability. A combination between rational and psychological approaches is often very useful in explaining the complex, and sometimes, contradictory dynamics among decision makers and in relation to their support base.[3]

These different approaches help to answer two fundamental questions about EPV: First, when does EPV happen? And second, once it happens, what form does it take? Starting with the first, EPV arguably can have many roots, but, as the pension case will show, when several of these factors come together, they may create a 'perfect storm' which increases the odds of drastic forms of policy change dramatically. In particular, we will see that international policy diffusion can enhance EPV, especially, when they tip the balance and when the domestic institutions are permissive for drastic changes in either direction.

[3] E.g. a model assuming a salience-based and a rational voter type would go a long way to explain oscillations and big swings in policy making across time (Kemmerling 2016a)

Another set of, very often, internal factors, is arguably better suited to determine which form of EPV will take: a bubble, oscillations or mixtures of the two. As Maor and others have laid out institutional context may be very important in this respect: Bubbles can develop when there is a lack of transparency in the regulatory system, for instance. Other types of 'institutional friction' and feedback loops may enhance the bubble. Where such internal factors are absent instability may still arise, but more in the form of smaller oscillations and pendulum movements.

Such a synergetic view on excessive instability is useful in accounting for the complex variation we often observe: some regions are sometimes engulfed in policy instability whereas others are not, within regions, some countries are notoriously more prone to excessive instability than others, and within countries it is not only specific periods, but also specific policy areas that are susceptible to instances of EPV. Each of the theoretical camps has different strengths and weaknesses in addressing these different forms of variation. To illustrate this, we will now turn to the case of pension reform reversals.

Some Application from Recent Pension Reforms

Let us first summarize the patterns of instability in private pensions with the help of some data we collected from various sources.[4] This will allow us to see different forms of EPV in operation. After that we explore sources for the instability, focusing on two categories: those better suited to explain (1) the timing of EPV and (2) its form. Clearly this is merely a case study for illustrative purposes. We do not claim that we can lay down the exact causal path. Instead, we would like to highlight some potential drivers of instability consistent with the previous section when applied to the case of pensions.

Patterns of Instability in Pension Reform

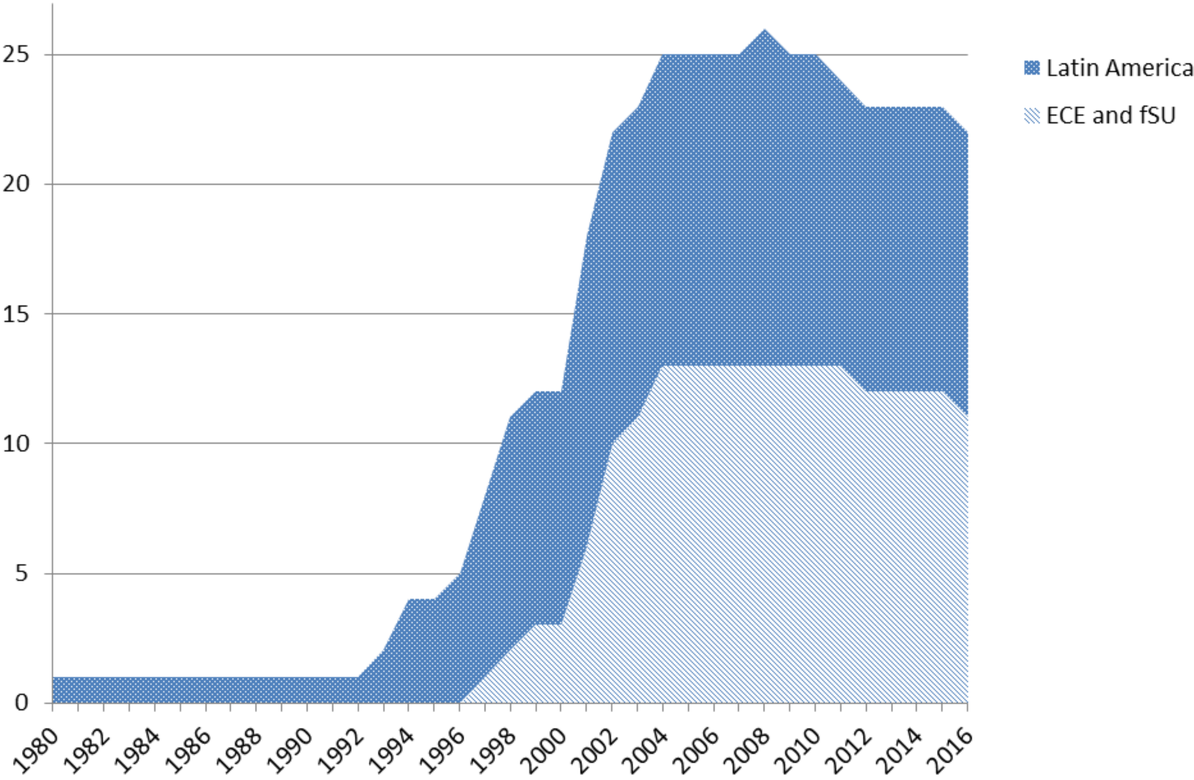
The introduction of privatized pension systems spread rapidly to over 25 countries in ECE and Latin America since the 1990s, as demonstrated clearly in research focused on policy diffusion (Brooks 2005, 2007; Orenstein 2008). We define privatized pension systems as those that mandate savings into individual private pension accounts known as the 'second pillar', following the World Bank framework (World Bank 1994). Since 2007, we observe another wave of reforms, but this time the reforms are reversing the pension privatization. Below we summarize the patterns of instability in pension privatization. Since the majority of pension privatization reforms took place in Latin America and East Central Europe and the former Soviet Union (ECE/fSU), we focus on these two regions for the time being (cf. Brooks 2005). These regions are also the most prolific regions in reversing privatizations so far. Though fewer in number, the pension privatizations that took place in advanced, Asian, or African countries were not (yet completely) reversed.

Figure 1 shows the number of countries with existing mandatory private individual pension accounts for ECE/fSU and Latin America. In this figure, only countries that were considered a complete reversal are removed from the count. Eyeballing suggests that this figure questions the well-known 'S' curve (Kemmerling 2008; Volden, Ting, and Carpenter 2008) which is frequently related to the

[4] The evidence was compiled using Social Security Programs Throughout the World International Updates (https://www.ssa.gov/policy/docs/progdesc/ssptw/) by searching reports for reforms to second pillars or private pensions.

spread of pension privatization reforms, or, indeed, any type of diffusion process. A diffusion process suggests that the more countries join a policy innovation the more the pressure increases for the remaining countries to join, up until a point where only few 'stubborn' cases remain unreformed. However, we see that the figure one exhibits perhaps more of a bubble pattern than the paradigmatic S-curve. And the figure still underestimates the true level of changes: the total number of countries adopting the private pension system hides the numerous and at times hectic activities of others to take it down, while others still join 'the club'.

Figure 1: Number of countries with mandatory private pension accounts in Latin America and ECE/FSU over time



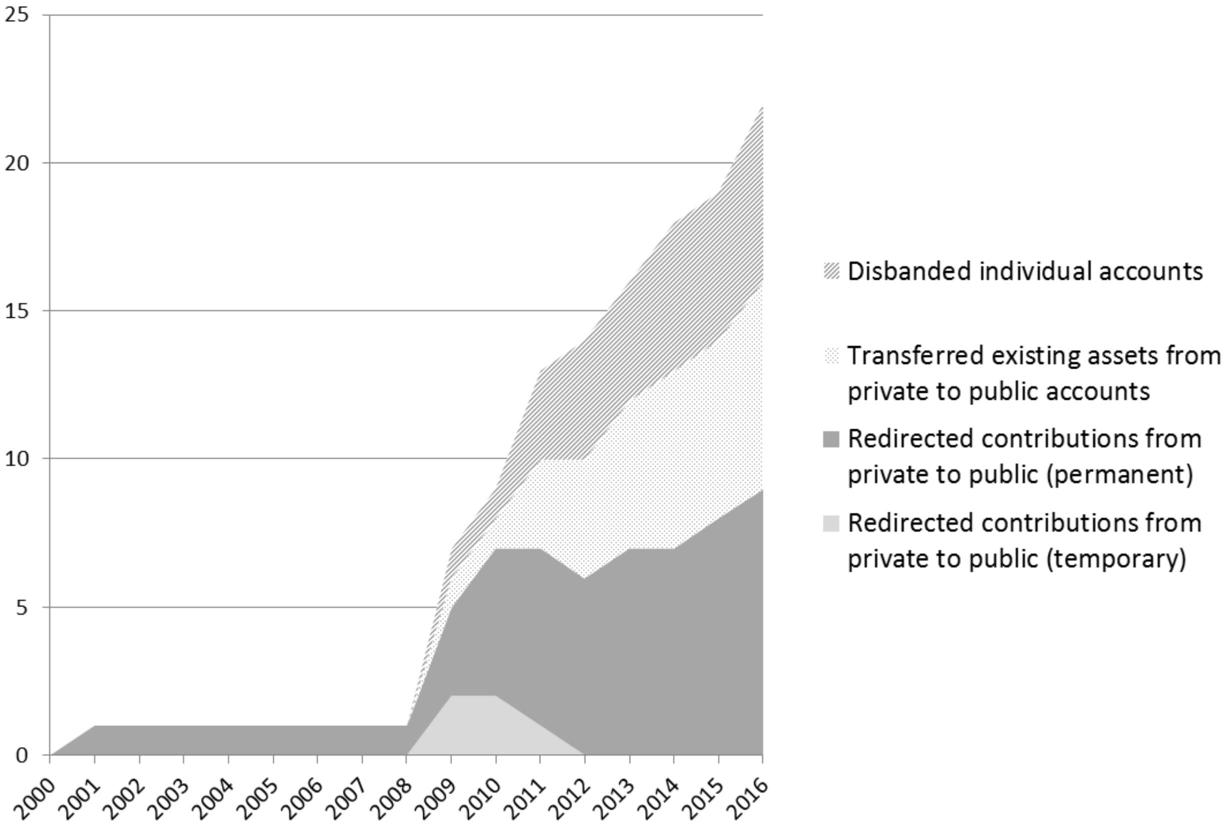
Source: Authors' coding based on Social Security Throughout the World International Updates

If we zoom in further we see that many more countries have recently engaged with partial forms of reversals, which transfer existing or future pension savings from the private to the public pillar. For this purpose, we collected evidence on three types of reversal reforms: (1) complete reversal where the government disbands existing private individual accounts, (2) when governments transfer existing assets from private accounts to the public PAYG system, and (3) when governments lower the contribution rate for private pension accounts. Here we distinguish between temporary reductions in contributions and permanent ones (which include ones framed as temporary, but

continue beyond three years). The second and third represent both increase the reliance on the PAYG system.

Figure 2 shows the number of countries that implemented each type of reversal over time, starting from 2000. Almost all reversals detected occurred after 2008. The earliest reforms were mostly redirecting contributions from the second to the first pillar, but the number of countries that transferred existing assets from private to public accounts and those completely reversing the second pillar system increase over time. Figure 2 also creates new questions: why did some countries became prone to EPV in different ways? It is clear that countries differ very much in how they reversed their pension systems.

Figure 2: Number of countries with pension reform reversals by type



Source: Authors' coding based on Social Security Throughout the World International Updates

Finally, if we zoom in even further, we see that not only countries have engaged with partial or complete reversals, some countries have also been quite prolific in chronic instability, changing their pension system several times, back and forth. Given the many different forms of small-scale reforms possible, this is hard to systematically quantify for all countries, but table 1 illustrates four different

ideal-type scenarios of pension reform. It differentiates two cases of reform stability. Chile and Mexico are well-known cases for relatively large-scale reforms in the pension systems. To be fair, the two models are very different (Mesa-Lago 2002; Brooks 2009), but compared to other countries the initial introduction of private pension systems was relatively drastic, but stable. It is also clear that even in these cases there are still policy changes. But even the latest changes in, say, Chile are nowhere near as drastic as the reversal of private pensions in Argentina or Bolivia, for instance (Pribble 2013).

Compared to countries like Chile or Mexico, other countries saw smaller forms of incremental or partial changes. Uruguay, for instance, introduced its private pension pillar relatively late (1996), and in a much more modest way. Especially the overall contribution rate is still small compared to the public pillar, and Uruguay adopted a mixed system instead of the radical Chilean abolition of the public pillar (Kemmerling 2016a). In Czech Republic, the 'second pillar' had such extensive opt out possibilities that it arguably only qualifies as a partial privatization.

Table 1 shows the two types of EPV in the rows: one in amplitude, and the other in frequency. Big swings were observable in both Argentina and Hungary. In both cases the initial introduction of the private pension system was relatively ambitious in terms of contribution rates being rechanneled into the private system. In both cases the private systems have been all but reintegrated into the public system. This compares to cases like the Czech Republic, which almost exhibits a perfect cycle. The initial introduction of the private system in 2013 was modest, an optional model to which, initially, relatively few people subscribed. The reversal came quickly and easily after a change in government. We also detect cyclical tendencies in the Slovak Republic where each incoming left-wing government tried to make the transfer to the private system increasingly difficult, whereas each incoming right-wing government aimed at the opposite (Makszin 2013).

Table 1: Different Scenarios of EPV in Pension Reforms

	Stable (i.e. one-off)	Unstable (EPV)
High Amplitude (low frequency)	e.g. Chile or Mexico	Argentina or Hungary
Low amplitude (high frequency)	e.g. Uruguay	e.g. Czech Republic, Slovak Republic

These four scenarios illustrate an important initial lesson: frequency and amplitude are related. If a country cannot implement drastic swings, it might still be prone to oscillations and gradual reversals. For this reason, in our analysis we explore factors that explain both the occurrence and the form of EPV. The sources of instability and their influence on EPV are summarized in the next section.

Why Excessive Instability in Pension Reforms Happens

Most of the literature is interested in the causes of either the move towards privatization, or its reversal. Nonetheless this literature can also be helpful for understanding chronic and excessive forms of instability. For instance, the rapid spread of mandatory private pension accounts in the

1990s and 2000s is considered a prime example of policy diffusion (Brooks 2005, 2007; Orenstein 2008). Chile set a precedent with its pension privatization reform in 1980-81. Later the World Bank developed a model meant to be a standard for "Averting the Old Age Crisis" (World Bank 1994), which included mandatory defined contribution individual private pension accounts. The main thrust of the wave of diffusion of this model lasted until the mid-2000s (with some cases introducing the model even later). Diffusion can be clearly observed in the wave of adoption of private pension systems in the 1990s and 2000s (Brooks 2005; Müller 1999). Somewhat ironically, also the reversals of pensions could be the result of policy learning. Orenstein (2013) suggests that it relates to a broad paradigmatic shift away from privatized pensions and neoliberalism more broadly. Indeed some earlier advocates of privatized pensions, most notably policy advisors at the World Bank, revised their stance on pension privatization or at a minimum moderated their support (Orszag and Stiglitz 1999; Stiglitz and Holzmann 2001; Holzmann, Paul, and Dorfman 2008). Even from the study of the pension privatization campaign, the World Bank demonstrated significant flexibility (Béland and Orenstein 2013). As the wave of pension privatization reversals began, it is remarkable to note the shift in relative influence in this policy area from the World Bank to the International Labor Organization (ILO) which had been much more critical about these privatizations. For example, while World Bank advisors were involved in the pension privatization reform in Argentina in 1993, there were advisors from the ILO that were active in advising the privatization reversal in 2008.

Issues of public management in particular, and of state capacity in more general, also mattered a lot in channeling diffusion pressures. In Uruguay, for instance, various governments resisted World Bank pressure to introduce a sweeping privatization in pensions (San Martino 2007). Instead, Uruguay insisted on introducing a smaller reform, but one negotiated with key social stake holders. Remarkably, even a newly incoming opposition government of the Frente Amplio, which previously had rejected this partial privatization while running its electoral campaign, left it untouched, once in office from 2004 onwards. This is in contrast with such cases as the Slovak Republic, where the World Bank had tipped the balance in favor of privatization and this turned out to be insufficient in the long run (see below).

Diffusion of reversals was greatly pushed by the global financial crisis, which appears to be an important trigger or focal point for many governments in Eastern Europe. While most countries experienced economic recession during this time, we find some evidence of policy learning in the reform reversal process. At a minimum some countries modeled private pension reversals off of other countries that utilized this approach as a response to addressing debt in the crisis. For example, based on evidence from a debate before the major reversal reform in Poland, it seems that the Polish policy-makers felt emboldened by the Hungarian reversal (Ostrowska 2011). Other countries were also likely inspired by the example of Hungary or Argentina who addressed severely high debt levels by nationalizing private pension assets. We also find evidence of policy learning for non-reversal, such as in Croatia where the current government, who supports the privatized pension system, gives the examples of Hungary and Poland as failing in private pensions and assures that Croatia will not go down that road. Like the case in the spread of private pensions, countries are clearly observing and learning from the reversal reforms. In this respect, the global financial crisis just triggers the salience of a larger issue of pension reforms: public debt.

Similar to the literature on policy diffusion, explanations using weak economic conditions, and debt in particular, have been used for both the rush to privatization and for its reversal. While initially the idea was to reduce public debt in the long run, the global financial crisis heightened concerns about the double burden[5] of financing the second pillar accounts parallel to the PAYG system (Holzmann 2013; Drahokoupil and Domonkos 2012). In many cases, the double burden added to the existing strain that PAYG pension systems faced due to ageing populations and deteriorating dependency ratios. The pressure to address rising government debts escalated while partially privatized pension systems were still facing transition costs, creating a strong incentive to redirect pension contributions to finance current pension payments. This suggests that the degree to which the initial reform addressed transition costs influences the long term stability of the reform (Kemmerling 2016a; Naczyk and Domonkos 2016; Wilson Sokhey 2017).

In the original reforms introducing second pillars, there was great variation in the degree to which countries took measures to finance the transition costs (Drahokoupil and Domonkos 2012). For example, Hungary's 1997 reform relied only on future economic growth with no additional measures to finance transition; whereas in Slovakia's 2003 reform, the privatization of the national gas company and an extra social contribution of 4.75% to a special account were intended to cover the transition costs. In Poland, revenues from privatization were intended to finance the transition costs, but those proved to be insufficient. As debates ensued within the Polish government about pension privatization reversal measures, tension resulted between those who supported the private pension system and those that rather emphasized the need to reduce the deficit. Eventually the minister of finance seemed to be persuaded to support private pension reversals based on the debt reduction rather than aversion to private pension systems more broadly. Within these country-level debates about how to handle the double burden of financing the transition to a partially privatized pension system, the case for reform reversal was clearly strengthened when overall pressure to reduce government debt was higher.

The exact source of the fiscal pressure may differ across countries. For example, although Poland did not experience recession during the global financial crisis, the pressure to reduce government spending escalated as government debt approached the constitutional limit. In Hungary fiscal pressure to address rising debt was exacerbated by conditionality of the IMF loan agreements and pressure from the EU to keep the deficit under 3%.[6] In Argentina, the increased interest rates following the 2001 sovereign debt default meant that deficits resulting from pension privatization increased from 1% of GDP from 1993 to 3% in 2001 (Datz and Dancsi 2013). Despite varying sources of fiscal pressure, country level responses to rising debt levels, often exacerbated by the crisis, are an important factor for explaining reform reversals. And again it is remarkable to observe that debt

[5] Double burden refers to the fact that in the transition to a PAYG system to one that also includes a private pillar, the contributions from current employees must finance both current (though PAYG) and future (through the second pillar) pensioners.

[6] When the Hungarian government requested that the deficit resulting from pension privatization be excluded from the calculation of government debt for Maastricht criteria, this was refused and the de facto pension nationalization took place shortly thereafter. Poland persisted and eventually received permission, which took place after Hungary had already nationalized its pension.

levels seem to be a systematic driver both into privatization(Brooks 2005; Myles and Pierson 2001) and out of it (Kemmerling 2016a; Kay 2009).

What Form Excessive Instability in Pension Reforms Takes

As argued above, another important question about EPV is not only when or why it happens, but also what form it takes. In the pension case it is quite plausible that several factors contributed to systems either experiencing large swings or smaller oscillations.

One important explanation comes from politics. These explanations have been used, with mixed success, to explain the spread of private pensions and its demise. Politically, pension privatization should be difficult to reverse, as it generates actors (fund managers, banks, individuals holding private accounts) with a stake in the maintenance of the system and a 'paradigmatic policy change' (which often took years of negotiation) is not easily undone (Wilson Sokhey 2017; Pribble 2013). However, based on our review of these arguments, political explanations are particularly helpful in explaining different *forms of EPV*: large scale reversals or pendulum swings. In cases where political power is more concentrated, which clearly depends on political institutions, such as the electoral system, we detect large scale reversal. This was the case in Hungary where the ruling party FIDESZ controlled two-thirds of the parliament at the time when the de facto nationalization took place. Where we detect more fragmentation or polarization between political actors, we are more likely to see pendulum swings, as was the case in Slovak Republic where subsequent governments limited and expanded the private pension system.

The centralization of decision making power is an important determinant in passing large scale reforms, including reversal reforms. In Argentina, the governing party reversing the pension system had enough of a majority in both chambers of the parliament to push through such a far-reaching reform, whereas the private pension system was deeply entrenched in the Chilean political system (Pribble 2013) and hence much harder to change (Kemmerling 2016a).The Hungarian FIDESZ party, a party that had always opposed the partial privatization of the pension system, came into government with over two-thirds of the seats in parliament after the 2010 election. This enabled them to pass major reforms with ease. It also meant that the reform took place quickly without much debate, unlike in Poland where many within the government resisted the reform, meaning that the reversal reforms stretched out over 5 years, as opposed to about three months in Hungary.

Polarization between parties seems to increase the likelihood of pendulum swing reforms. Higher polarization makes reform more difficult in the first place and often leads to more moderate forms of privatization than the World Bank or original reformers proposed (Makszin 2013). The presence of a government that does not support pension privatization would clearly be expected to increase the likelihood of reversal. In Hungary and Slovakia, for example, political parties were polarized on the private pension system and a change in government often led to a change in the criteria for mandatory contributions to the private system. While these reforms were frequent and oscillating, their impact was very small, especially since few participants utilized the opportunity to opt out. In contrast, in Poland, the major parties on the left and right supported the privatized pension reform, but nevertheless, fiscal pressure and transition debt induced reversal reforms in later years. In the Polish case, the frequent policy change represented a gradual dismantling of the private pillar similar

to what Patashnik (2008) calls the erosion of reforms. The rhetoric behind the reform differed greatly from that in Hungary and Slovakia, as reversal reforms were framed as effort to 'save' the private pillar, suggesting that reducing the contribution rates made it fiscally sustainable (Rae 2011).

Issues of public management, broadly construed, seem also important to understand the different forms of EPV in pensions. Ineffective regulation often resulted in poor performance of funds. Contrary to the initial hope by international organizations poor regulation of pension systems affected public and private solutions alike (Kay 2009). In the case of Argentina, coverage rates experienced significant declines from over 70% of salaried workers in 1993 to under 50% in 2003 (Rofman and Mitchell 2015). Returns on private pension funds were often low. Similarly, because of the regulations governing private pension systems in Hungary and Poland, a large share of the assets in the private pensions accounts were held in government bonds, which essentially amounts to an alternative form of public finance. In Hungary, between 2002 and 2007 75% of assets from private pension funds were invested in government bonds which contradicted the initial idea of spurring private capital markets (Bohl *et al.* 2011, 83). For the same time period in Poland, government bonds represented 64% of pension asset investments. As for those investments in equity, 70% were restricted to Poland's own stock market, which tended to dampen pension fund performance (Zalewska 2006). As a result, the performance and perception of the systems were not impressive. These problems may explain why the public outcry against reversals was in most cases very moderate.

For example, the public perception in Argentina about pension matters was so low that in 2008, Kirchner's government renationalized the funds using rhetoric about the broad delegitimization of neoliberalism, which was more convincing to the public in the wake of the global financial crisis. This happened despite the fact that despite many struggles resulting from government regulations forcing investment in sovereign debt and private mismanagement, in 2006 the performance of the private pension accounts improved dramatically (Datz and Dancsi 2013). Where public opinion was more polarized, as in the case of the Slovak Republic, incoming Smer-SD-led governments who opposed privatized pensions had a hard time persuading people in the private system to return to the public system, despite extensive advertising campaigns about the dangers of the private pillar in 2008 and 2013. The result was much more of an oscillation path than the big Argentinian swing.

Summary

What we can learn from the pension case is that many factors which supposedly 'drive' or influence privatization, such as policy diffusion and debt, also influence its opposite, reversal. These emerge as overall drivers of EPV, as they are very suitable for explaining when or whether instability in any direction might occur. Similarly, a lot of literature has highlighted the role of political or policy institutions sometimes arguing both for privatization as well as the later reversals. Again, this might make them better suited to explain EPV. More specifically, such factors can help explaining why EPV sometimes happens in large swings, and sometimes in chronic oscillations.

It goes without saying that this is a very stylized analysis for several reasons. One challenge of evaluating the causes of reversals is that it is an ongoing process. For instance, it remains to be seen whether the Croatian government manages to defend a second pillar which continues to produce large deficits and attracts the scrutiny of the political opposition. And yet, despite the fact that some characteristics of pension reform are hard to generalize for other policy areas, the discussion has implications which go far beyond the narrow field of pensions.

Discussion: Extensions and Consequences

The previous section has illustrated how EPV is a real concern which merits much more systematic scientific inquiry. The pension case underlines how bubbles and cycles are often sides of the same coin, a coin which we dubbed EPV. Depending on the country context what happens as a bubble in one case, manifests itself as a cycle in another. Looking at recent reforms in pensions helps us to see the usefulness of combining different academic traditions. It is obvious that a lot of impulse for pension systems came in the form of (international) policy diffusion, either in an ideational or even ideological sense, or in forms of economic pressure. However, to clearly manifest itself as EPV it is important to look at the country political and socio-economic structures. Some countries proved much more resilient to EPV than others, for example by adjusting international impulses to local needs. Where diffusion factors were combined with particular domestic conditions (e.g. a strong government majority or another type of window of opportunities) drastic forms of EPV can arise.

It is clear that our approach to EPV still leaves much room for further research. For instance, it seems important to further differentiate the sources of EPV in those exogenous to the policy problem and endogenous factors. We also couldn't do justice to the rapidly evolving literature on disproportionate information processes, the role of information and other aspects. And yet, we believe that our focus on EVP is not only useful for a) studying pensions and b) studying Latin America or Post-Communist countries.

Let's start with the external validity of our claims by looking at some Asian countries. This continent is particularly insightful for studying EPV since negative cases abound: few countries adopted privatized systems, even fewer reversed privatization. For a variety of reasons, very few countries in South-East and East Asia have followed the World Bank's recommendations. In the same vein, it is no coincidence that some of the same countries also rejected other policy recommendations which diffused across the globe such as abolishing capital controls. By studying cases of non-diffusion we will be able to understand not only why the spread of reforms happens, but also why there is more stability to them in some countries or regions than in others. Where the diffusion happened, however, such as the in case of Indonesia EPV was soon around the corner. The Indonesian attempts to introduce a very limited private pension schemes got stuck very early in the implementation stage (Betz and Theunissen 2013).

Another concern of external validity applies to the policy area chosen. Some critics may argue that EPV only really works when there are huge problems of debt due to the pension systems or maybe that pension reforms are very special types of policy changes. However, if we look at another region,

one that is traditionally prone to a lot of policy instability, we see that EPV also happens in many other policy areas. Some Latin American countries have seen cases of policy bubbles and oscillations in many different subfields apart from pensions. For instance, the privatization-nationalization cycles in the utilities and mining sectors in Bolivia and other countries are famous instances for a notoriously unstable policy outcome (Kemmerling 2016b; Doyle 2014).

The consequences of EPV also would merit much further discussion than possible in such a confined space. The pension case has raised the issue of overall legitimacy of the policy and the entire political system. A political system characterized by repeated episodes of EPV will naturally see a deep public disorientation and a loss in public trust. This will affect the way how policy making can operate in the long run. In the case of pension reforms, the new system needs decades to mature. Other policy areas might have other time horizons against which EPV would have to be evaluated.

A final consequence lies in the role of external expertise and influences. As long as international organizations, for instance, focus more on the content than the durability of reforms their impact might be much more pro-cyclical and much more short-lived than hoped. In this sense, EPV clearly speaks to the issue of managerialism. A lot of expertise and advocacy is often built around innovations and policy reforms, neglecting openness to all possible options in a reform process, including the option of doing nothing at all. It turns out sometimes doing nothing would have been the best option available.

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