Theories of Policy Diffusion: Lessons from Latin American Pension Reform
Author(s): Kurt Weyland
Reviewed work(s):
Source: *World Politics*, Vol. 57, No. 2 (Jan., 2005), pp. 262-295
Published by: Cambridge University Press
Stable URL: http://www.jstor.org/stable/25054294
Accessed: 22/08/2012 15:07

THEORIES OF POLICY DIFFUSION
Lessons from Latin American Pension Reform

By KURT WEYLAND*

AMONG the most striking phenomena in the area of public policy are the waves of diffusion that sometimes sweep across important regions of the world (or across the states of a federal country, such as the United States). A bold reform adopted in one nation soon attracts attention from other countries, which come to adopt the novel policy approach. As such a wave gets under way, innovations often spread quickly to other countries following the trendsetter. Diffusion also tends to have a distinctive geographic pattern. The innovator's neighbors and other countries in the region are usually the first to emulate the new model; only after a while do nations in other regions begin to enact the change as well.

Interestingly, these waves of diffusion affect countries that are at very different levels of economic, social, and political development. This variety suggests that domestic functional needs alone cannot account for the rapid spread of innovations; external factors make a major contribution. But what external factors are most important? Do foreign actors, especially international organizations, promote certain reform approaches and successfully pressure countries to adopt these innovations? Or do domestic decision makers enjoy considerable autonomy and emulate foreign models on their own initiative? If so, are these emulation decisions driven primarily by the quest for international legitimacy and the resulting desire to comply with new interna-

*I gratefully acknowledge the excellent comments received from Daniel Béland, Jeffrey Berejikian, Catherine Boone, Sarah Brooks, Michael Coppedge, Henry Dietz, Robert Fishman, Kenneth Greene, Stephan Haggard, Frances Hagopian, Clement Henry, Juliet Hooker, Mala Htun, Evelyne Huber, Andrew Karch, Peter Katzenstein, Robert Kaufman, Marcus Kurtz, Scott Mainwaring, Covadonga Meseguer, Rose McDermott, Joan Nelson, Irfan Nooruddin, Guillermo O'Donnell, Mitchell Orenstein, Nita Rudra, J. Samuel Valenzuela, three anonymous reviewers, and especially Raúl Madrid and Wendy Hunter. I also thank the Kellogg Institute at the University of Notre Dame for offering a highly congenial research environment. Generous support for my field research was provided by the Teresa Lozano Long Institute of Latin American Studies at the University of Texas at Austin from funds granted to the institute by the Andrew W. Mellon Foundation.

World Politics 57 (January 2005), 262–95

tional norms? Or do policymakers mostly pursue self-regarding interests and adopt foreign models that promise to maximize their benefits? If so, how do they assess this promise—do they digest the relevant information in a comprehensive and balanced fashion, or do they pay selective attention and follow cognitive shortcuts that make information processing easier, but at the risk of substantial distortions? In sum, the present article asks what drives waves of diffusion most—foreign pressures, symbolic and normative imitation, rational learning, or cognitive heuristics.

These nested questions speak to three crucial theoretical issues. First, do international forces drive policy-making in the era of globalization, as the external pressure approach implies, or do domestic forces retain considerable independence, as the diverse theories of learning and mimicking claim? Specifically, how much effective sovereignty do poorer, less developed countries preserve? Second, are policymakers motivated mostly by formally utilitarian motives of goal attainment or by symbolic and normative concerns, fueled by the desire to gain international respect?[1] Does the impulse for policy-making arise primarily from interests—that is, completely self-regarding motives—or from the quest for legitimacy, that is, appreciation by others? Third, do actors process the relevant information in a systematic, unbiased way, or do they rely on cognitive heuristics that make it easier to select and digest an overabundance of information but that can also distort inferences significantly? To what extent do decision makers approximate the ideal type of comprehensive rationality, and to what degree are they subject to bounded rationality? The latter two issues speak to an especially important debate in the social sciences, one that focuses on the nature and role of rationality in politics (and economics).[2] Thus, by involving three major questions, the topic of international diffusion has substantial theoretical relevance.

Yet despite this great theoretical significance, most analyses of the spread of innovations have been empirically oriented. They have investigated whether external models affect policy-making and the channels through which they exert influence, but they have rarely focused on the

[1] See John Ikenberry, "The International Spread of Privatization Policies," in Ezra Suleiman and John Waterbury, eds., *The Political Economy of Public Sector Reform and Privatization* (Boulder, Colo.: Westview Press, 1990), 101–3, 107; and cf. John Meyer and Brian Rowan, "Institutionalized Organizations," *American Journal of Sociology* 83 (September 1977); and Martha Finnemore, *National Interests in International Society* (Ithaca, N.Y.: Cornell University Press, 1996).

[2] See, e.g., Daniel McFadden, "Rationality for Economists?" *Journal of Risk and Uncertainty* 19 (December 1999); Richard Thaler, "From Homo Economicus to Homo Sapiens," *Journal of Economic Perspectives* 14 (Winter 2000).

causal mechanisms that drive diffusion.[3] To help fill in the gap, this article conducts a theoretical analysis of policy diffusion. The empirical evidence comes from the area of social security reform, especially the diffusion of Chilean-style pension privatization since the 1980s.[4] After state-provided, intergenerationally redistributive old-age insurance schemes spread to more and more countries from the 1980s onward, the recent privatization wave has transformed these systems by instituting privately managed individual retirement accounts in the obligatory social security systems of a number of nations, first in Latin America and later in Eastern Europe.

The present analysis suggests that the cognitive-psychological approach, which emphasizes decision heuristics, offers a particularly good explanation for the spread of innovations in the pension arena. Contrary to the other approaches, it can account for all three of the distinctive features of diffusion, namely, its wavelike character, its geographical clustering, and its essential nature—the spread of commonality amid diversity. This result is corroborated by an examination of the policy process, based on field research in Bolivia, Costa Rica, El Salvador, and Peru and on published case studies of other Latin American countries.[5] Thus, contrary to the external pressure approach, domestic decision makers have significant latitude; contrary to the normative imitation approach, simple utilitarian goals guide policy formulation; and contrary to the rational learning approach, decision makers commonly use inferential shortcuts, especially the three principal heuristics documented by cognitive psychologists—availability, representativeness, and anchoring.[6]

[3] For exceptions, see Covadonga Meseguer, *Bayesian Learning about Policies* (Madrid: Instituto Juan March de Estudios e Investigaciones, 2002); Beth Simmons and Zachary Elkins, "The Globalization of Liberalization: Policy Diffusion in the International Political Economy," *American Political Science Review* 98 (February 2004). This article conceives of causal mechanisms as do Doug McAdam, Sidney Tarrow, and Charles Tilly, namely, as driving forces ("moving causes" in Aristotle's terminology) that operate in the same way in different settings but that may well produce different outcomes in these different settings; see McAdam, Tarrow, and Tilly, *Dynamics of Contention* (Cambridge: Cambridge University Press, 2001).

[4] Another case of diffusion that is strikingly similar to the spread of Chilean pension privatization is the emulation of Czech voucher privatization by former communist countries. See Hilary Appel, "Western Financial Institutions, Local Actors, and the Privatization Paradigm," *Problems of Post-Communism* 51 (September–October 2004).

[5] See, e.g., Gustavo Demarco, "The Argentine Pension System Reform and International Lessons," in Kurt Weyland, ed., *Learning from Foreign Models in Latin American Policy Reform* (Washington, D.C.: Woodrow Wilson Center Press, 2004); Raúl Madrid, *Retiring the State: Pension Privatization in Latin America and Beyond* (Stanford, Calif.: Stanford University Press, 2003); Katharina Müller, *Privatising Old-Age Security* (Cheltenham: Edward Elgar, 2003); Kurt Weyland, "The Diffusion of Innovations: How Cognitive Heuristics Shaped Bolivia's Pension Reform," *Comparative Politics* 38 (October 2005).

[6] Daniel Kahneman, Paul Slovic, and Amos Tversky, eds., *Judgment under Uncertainty: Heuristics and Biases* (Cambridge: Cambridge University Press, 1982); Thomas Gilovich, Dale Griffin, and Daniel Kahneman, eds., *Heuristics and Biases: The Psychology of Intuitive Judgment* (Cambridge: Cambridge University Press, 2002). As the assessment of the cognitive heuristics framework below shows, this conceptualization of inferential shortcuts differs from the analysis in Samuel Popkin, *The Reasoning*

This article proceeds in the following way. Section I establishes the main characteristics of diffusion waves. Section II presents the four theoretical frameworks that seek to explain the spread of innovations. Section III—the article's core—assesses the capacity of these four frameworks to account for the patterns discussed in Section II. Since this discussion finds a cognitive-psychological framework most convincing, the last part of Section III fleshes out this explanation by drawing on the literature on decision heuristics.[7] The conclusion, Section IV, discusses the broader implications of the findings.

I. Characteristics of Diffusion Processes

The literature on international policy diffusion and the spread of innovations across the U.S. states consistently stresses three major characteristics of these processes. In the temporal dimension, diffusion occurs in a distinctive wave; mapping the cumulative frequency of policy adoption over time thus yields an S-shaped pattern. In spatial terms, diffusion tends to have a clear geographic concentration, spreading first through the region in which the innovation was designed and only later reaching other areas of the world. And in substantive terms, diffusion entails the adoption of the same policy framework in varied national settings; thus, it produces commonality in diversity.

Diffusion tends to proceed in waves—starting slowly, then gathering speed, and eventually tapering off. The absolute frequency of reform adoption over time has a bell-shaped pattern. Mapped in terms of cumulative frequencies, this wavelike process yields an S-shaped curve.[8] Initially, few countries adopt the innovation. Gradually, diffusion gathers momentum as more and more nations jump on the bandwagon. Finally, it loses steam because it hits an insurmountable obstacle or because most countries have already emulated the model and the curve of cumulative frequencies levels off asymptotically.

This S-shaped temporal pattern is clearly visible in pension reform.

Voter (Chicago: University of Chicago Press, 1991); and in Arthur Lupia and Mathew McCubbins, *The Democratic Dilemma* (Cambridge: Cambridge University Press, 1998).

[7] Kahneman, Slovic, and Tversky (fn. 6); Gilovich, Griffin, and Kahneman (fn. 6).

[8] Everett Rogers, *Diffusion of Innovations*, 4th ed. (New York: Free Press, 1995), 11, 22–23; Frances Berry, "Sizing Up State Policy Innovation Research," *Policy Studies Journal* 22 (August 1994), 443; Mitchell Orenstein, "Mapping the Diffusion of Pension Innovation," in Robert Holzmann, Mitchell Orenstein, and Michal Rutkowski, eds., *Pension Reform in Europe* (Washington, D.C.: World Bank, 2003), 179–80; and Sarah Brooks, "Interdependent and Domestic Foundations of Policy Change: The Diffusion of Pension Privatization around the World," *International Studies Quarterly* 49 (forthcoming), 42. See also Richard Li and William Thompson, "The 'Coup Contagion' Hypothesis," *Journal of Conflict Resolution* 19 (March 1975), 65.

The spread of social insurance from the late nineteenth century onward, inspired by Bismarck's introduction of a pension system in Imperial Germany, occurred slowly as other countries came to find out about this innovation and assess its success.[9] Soon, however, more and more nations adopted similar schemes, leading to an upsurge in reforms. Once a high proportion of countries had instituted a social insurance scheme, diffusion eventually petered out.[10] The same S-shaped pattern is already discernible in the spread of pension privatization from the 1980s onward. Adopted first in Chile in 1981, the new system initially found few followers. But during the 1990s, a substantial number of countries, particularly in Latin America, came to emulate this change.[11] By early 2005 Argentina, Bolivia, Colombia, Costa Rica, the Dominican Republic, El Salvador, Mexico, Peru, and Uruguay had implemented pension privatization; Ecuador, Nicaragua, and Venezuela had passed reform legislation but shelved its implementation;[12] and Brazil, Cuba, Guatemala, Honduras, Panama, and Paraguay had maintained the prereform system. Thus, half the region soon followed Chile's lead; but as the hesitation of Ecuador, Nicaragua, and Venezuela suggests, the reform impulse has already crested in Latin America. Yet in the second half of the 1990s, the wave of pension privatization also reached the former communist countries, where it also unfolded according to the typical S-shaped pattern.

Diffusion also displays a typical geographic pattern. Models usually spread first in the region in which they originate and only later reach other areas. Thus, proximity prompts imitation.[13] This geographical clustering, which resembles the extending wave caused by a pebble tossed into a lake, is clearly observable in pension reform. The Bismarckian social insurance scheme was first emulated by other European countries, such as Sweden.[14] After spreading initially in the Old World, it reached the New World in the early twentieth century with the adoption of a pension system in Chile. As other Latin American countries soon began to adopt this innovation as well, diffusion underwent a

[9] Hugh Heclo, *Modern Social Policies in Britain and Sweden* (New Haven: Yale University Press, 1974).

[10] See especially Orenstein (fn. 8), 179–80.

[11] Brooks (fn. 8), 42; for the following point, see Orenstein (fn. 8), 185–86.

[12] It is not uncommon in Latin America for reform legislation simply to remain on the books. For a partial explanation of why governments get cold feet, see the discussion of the Nicaraguan case at the end of this article (p. 294).

[13] David Collier and Richard Messick, "Prerequisites versus Diffusion," *American Political Science Review* 69 (December 1975), 1311–13; Harvey Starr, "Democratic Dominoes," *Journal of Conflict Resolution* 35 (June 1991); Stephen Walt, "Fads, Fevers, and Firestorms," *Foreign Policy* 121 (November–December 2000), 41; Orenstein (fn. 8), 174, 178, 185–86.

[14] Heclo (fn. 9).

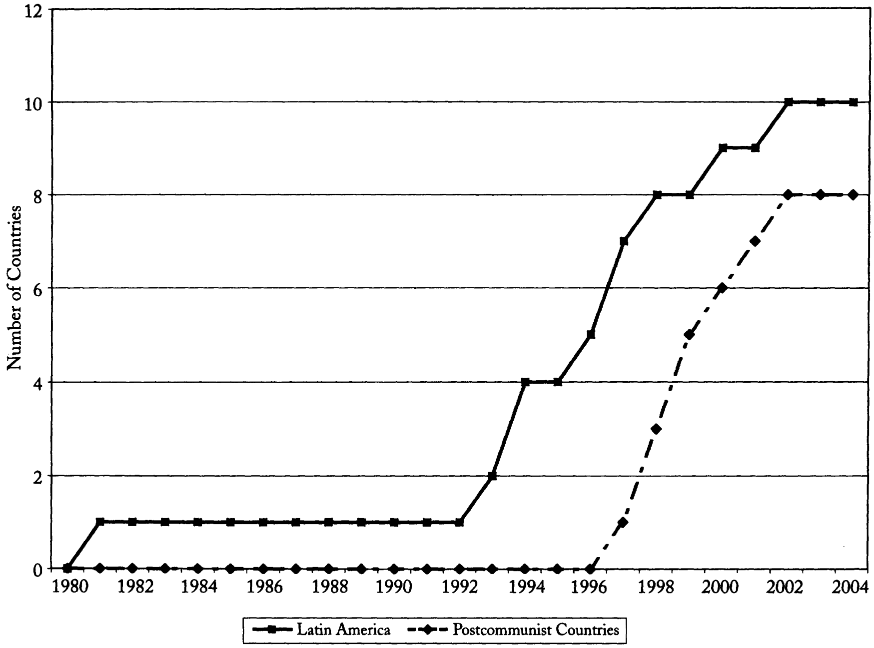

FIGURE 1
THE DIFFUSION OF PENSION PRIVATIZATION

SOURCE: Adapted with permission of the author, from Brooks (fn. 8), 42.

second regionally concentrated wave.[15] The spread of pension privatization displays similar regional clustering. After Chile introduced this change in 1981, it was emulated first and foremost in Latin America. In fact, two of the first three adopters, Argentina and Peru, bordered on Chile. After spreading initially in South America, pension privatization reached the Caribbean Basin. Only from the mid-1990s onward did nations in the former communist world begin to jump on the bandwagon.[16] (See Figure 1.)

Finally, diffusion is defined by a basic feature, namely, the adoption of the same innovation in diverse settings. While there often is some adaptation to specific national needs, all reforms enacted in a diffusion

[15] Collier and Messick (fn. 14), 1311–13.

[16] Orenstein (fn. 8), 185–86. Similar neighborhood effects and regional patterns consistently appear among the forty-eight contiguous U.S. states for a variety of issue-areas. See, e.g., Berry (fn. 8), 442; Michael Mintrom, "Policy Entrepreneurs and the Diffusion of Innovation," *American Journal of Political Science* 41 (July 1997), 756–59; Michael Mintrom and Sandra Vergari, "Policy Networks and Innovation Diffusion," *Journal of Politics* 60 (February 1998), 129, 139–44.

wave embody the original model's design. This basic likeness contrasts with the important dissimilarities among the nations emulating the model. While those countries often share background factors associated with the geographical clustering of diffusion, they diverge substantially—sometimes starkly—along other dimensions that in principle could affect the likelihood that the reform would be adopted. For instance, social insurance schemes were instituted in the late nineteenth and early twentieth centuries not only in countries with large industries and a numerically and organizationally strong working class (such as Germany) but also in nations with very little of either (such as Uruguay). Similarly, pension privatization was enacted not only in countries with a fairly large formal-sector workforce that could join private pension funds (such as Chile and Argentina) but also in nations where the informal sector predominated and the market for private pension funds was limited (such as Bolivia and El Salvador). This spread of similar reforms in dissimilar settings is noteworthy.[17]

Specifically, countries that enacted pension privatization replicated the core features of the Chilean model. As they instituted privately managed individual retirement accounts in the obligatory social security system, they shifted social protection from a defined-benefit scheme, in which contribution payments entitle an individual to a guaranteed percentage of former income, to a defined-contribution scheme, in which the value of pension benefits depends on accumulated contributions and their uncertain investment returns. Pension privatization also transformed the established pay-as-you-go system, in which current workers' social security contributions were used for paying the retirement benefits of the elderly, into a capitalization system, in which individuals save for their own pensions. Finally, the state ceded the administration and payment of retirement benefits to private entities but created a supervisory agency to enforce the rules and regulate competition. All countries that followed Chile's lead instituted these core features of the privatization model. Thus, similarity spread amidst diversity.

II. Competing Explanatory Frameworks

What accounts for the three features that characterize the spread of innovations? Extant explanations can be classified into four theoretical frameworks, which emphasize external pressure, symbolic or normative imitation, rational learning, and cognitive heuristics, respectively. (See Figure 2.)

[17] See in general Finnemore (fn. 1), 43–44, 137–39.

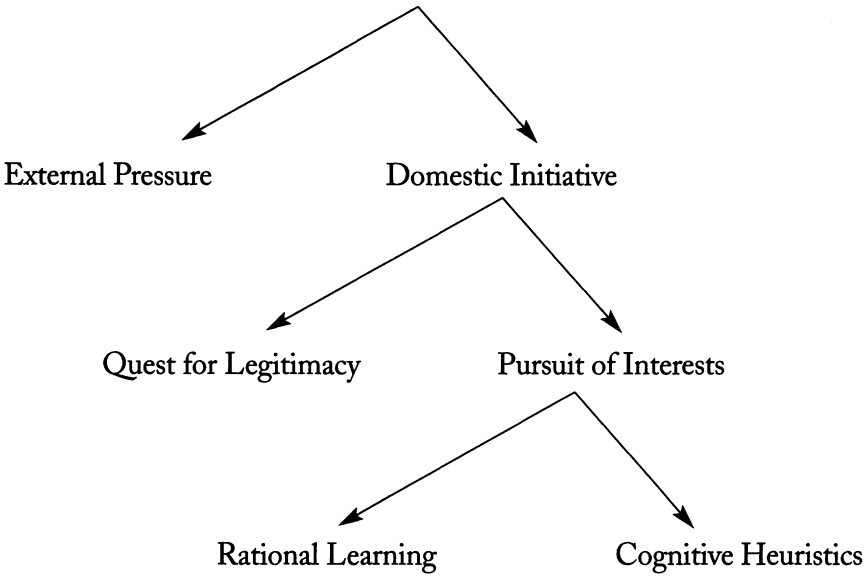

FIGURE 2
CAUSAL MECHANISMS DRIVING DIFFUSION

The external pressure framework attributes the rapid adoption of similar reforms in dissimilar settings to vertical imposition emanating from the center of the international system.[18] In this view, powerful external actors—especially international organizations (IOs)—promote an innovation and use the carrot and stick to induce countries to adopt the reform. IOs control important means of influence, ranging from the dissemination of information to strong economic incentives and painful sanctions. Economic globalization has given the international financial institutions (IFIs) special clout because they make decisions about much-needed aid and certify a country's standing with the international investment community. Many scholars therefore depict the IFIs as central actors in the diffusion of innovations.[19] Some even use the term "coercion."[20]

[18] E.g., Beth Simmons, "The International Politics of Harmonization: The Case of Capital Market Regulation," *International Organization* 55 (Autumn 2001).

[19] See especially Barbara Stallings, "International Influence on Economic Policy," in Stephan Haggard and Robert Kaufman, eds., *The Politics of Economic Adjustment* (Princeton: Princeton University Press, 1992); see also Ikenberry (fn. 1), 99–101; Wade Jacoby, *Imitation and Politics* (Ithaca, N.Y.: Cornell University Press, 2000), 28–30; Appel (fn. 4).

[20] See, e.g., Witold Henisz, Bennet Zelner, and Mauro Guillén, "International Coercion, Emulation and Policy Diffusion: Market-Oriented Infrastructure Reforms, 1977–1999" (Manuscript, Wharton School, University of Pennsylvania, 2003); Alexandra Guisinger, "Patterns of Trade Protection and Liberalization: Is There a Role for Diffusion?" (Paper presented at the conference on the International Diffusion of Political and Economic Liberalization, Harvard University, October 3–4, 2003).

While acknowledging the significance of external pressures,[21] the other three frameworks emphasize that domestic decision makers retain significant latitude, even in the era of globalization. Why, then, do so many countries enact similar reforms at roughly the same time? If central imposition is not decisive, what accounts for this striking horizontal contagion? The three remaining frameworks stress different forms of learning that quickly make a foreign model attractive to large numbers of countries and induce decision makers to adopt the innovation on their own initiative. But the three theories diverge on the main motive driving emulation. The normative imitation framework stresses the quest for legitimacy, whereas rational learning and cognitive heuristics theories emphasize self-regarding interests.

According to the normative imitation approach, decision makers attempt to gain international legitimacy by importing advanced innovations and thus demonstrating the emulating country's modernity and compliance with new international norms. Governments dread the stigma of backwardness and therefore eagerly adopt policy innovations, regardless of functional needs. A new model quickly finds many imitators because its appearance raises the standard of modernity and appropriate behavior. The desire to impress global public opinion thus drives the rapid spread of innovations.[22] Where international society has a clear opinion leader that sets the norms for advanced, appropriate behavior, that agent fulfills an important "teaching" role. Thus, normative imitation arguments also emphasize the role of IOs, especially the World Bank. But contrary to the external pressure framework, they depict the emulating countries as eager followers of international trends, not as hapless victims of IFI imposition.[23]

The rational learning and cognitive heuristics frameworks, by contrast, see decision makers as driven mainly by self-regarding interests, rather than by the quest for legitimacy. But these utilitarian theories diverge on the ways and means by which policymakers pursue their interests. The rational learning approach assumes that decision makers can approximate the principles of comprehensive rationality. In this view, the appearance of a problem triggers a wide-ranging search for a solution, which

[21] Certainly, forceful pressure is not the only way in which the IFIs can, in principle, contribute to policy diffusion. As the discussion of normative imitation immediately below shows, for instance, the IFIs may "teach" new norms. By providing objective information, they may also influence rational learning, and by calling attention to a novel policy model, they can shape the inferences of boundedly rational decision makers. Yet in the extant literature, IFI pressure ("coercion," conditionality) has attracted the most attention.

[22] Meyer and Rowan (fn. 1); Paul DiMaggio and Walter Powell, "The Iron Cage Revisited," *American Sociological Review* 48 (April 1983).

[23] Finnemore (fn. 1).

nowadays includes scanning the international environment. If this proactive information gathering identifies a promising foreign model and if systematic, thorough cost-benefit analysis demonstrates its superiority over established policies, numerous countries maximize their utility by adopting this innovation. Rational learning thus produces policy convergence.[24]

Whereas this framework invokes the postulates of economic rationality, the cognitive heuristics approach draws on empirical findings about bounded rationality. Psychological experiments show that rather than digesting the relevant information in a thorough and balanced way, humans commonly resort to inferential shortcuts, which make it much easier to process an excess of information to arrive at decisions—but at the risk of succumbing to systematic distortions and biases. Thus, these widely used heuristics can significantly impair decision quality[25]—a danger that rational learning has difficulty accommodating.[26] According to the cognitive heuristics explanation, a bold innovation attracts disproportionate attention from neighboring countries; it is then widely adopted on the basis of its apparent promise, not its demonstrated success. Large numbers of countries also import the basic policy framework without thoroughly assessing its fit with their specific requirements and needs. Thus, the cognitive heuristics framework argues that diffusion is shaped by the inferential shortcuts of bounded rationality.

III. Assessing the Four Frameworks

The External Pressure Approach

Which one of these four frameworks offers the best explanation for the three patterns characterizing the spread of pension reform and for the process of policy diffusion? Since it is likely that several theories make contributions, the following assessment focuses on relative strengths and weaknesses in seeking to establish which approach offers a particularly good account of the diffusion of Chilean-style pension privatization.

The external pressure approach seems to account well for the adoption of similar reforms in a wide range of countries and for the speed of

[24] See especially Meseguer (fn. 3); also Jacoby (fn. 19), 9, 24.

[25] Kahneman, Slovic, and Tversky (fn. 6); Gilovich, Griffin, and Kahneman (fn. 6); Rajeev Gowda and Jeffrey Fox, eds., *Judgments, Decisions, and Public Policy* (Cambridge: Cambridge University Press, 2002).

[26] Advocates of rational learning have argued that the mass public can use simple cues to make reasonably good political choices, at least in the aggregate; see Popkin (fn. 6); Lupia and McCubbins (fn. 6). But this argument holds when actors are asked to choose between "given" options and when there is access to long-established cues (such as partisanship) that have over time proven to be good predictors of outcomes. These preconditions are clearly not fulfilled when actors face a unique momentous decision on whether to adopt and to adapt a novel model with little track record, such as pension privatization.

policy diffusion. But given the global reach of the most powerful IOs, it has difficulty explaining the geographical clustering in the spread of innovations. Vertical imposition offers the most straightforward explanation for the enactment of the same policy model in varied settings; such commonality in diversity seems to suggest central coordination. Furthermore, the powerful means of influence that IOs such as the IMF and World Bank command seem to account for the rapid spread of innovations; in this view, when the IOs push for a reform, numerous countries soon feel compelled to enact it.

But external pressure cannot easily account for the geographic clustering of diffusion, especially the pronounced neighborhood effects. The most important IFIs, the IMF and World Bank,[27] have a global perspective and promote models all around the planet. For instance, the 1993 *World Development Report* highlighted health reforms in a wide range of nations, including Chile, Korea, Russia, Tunisia, and Zimbabwe;[28] and the World Bank's manual on pension privatization was targeted at a global audience.[29] While IFI influence helps explain why policy diffusion eventually travels to other regions—as pension privatization did in the mid-1990s[30]—it cannot explain why an innovation spreads first and foremost inside one region. This geographic clustering is especially puzzling because the IFIs' predominantly socioeconomic—rather than cultural—perspective highlights the considerable diversity inside many regions. In terms of socioeconomic development, countries may have more in common with nations in other areas of the world than with their neighbors. Bolivia, for instance, may do better by adopting innovations designed in Asia or Africa than by following its much more developed neighbor Chile, as it did in privatizing its pension system.

Analysis of the reform process casts even more doubt on the explanatory power of the external pressure framework. The IFIs' seemingly impressive arsenal does not necessarily enable them to exert effective influence: governments frequently fail to enact or implement IMF and World Bank recommendations. Compliance problems are especially pronounced when complicated institutional issues are at stake; when reforms require parliamentary deliberation and approval; and

[27] Headed by officials from the target region, the regional development banks, such as the Inter-American Development Bank, are less powerful and less insistent on conditionality than the IMF and the World Bank, as numerous Latin American policymakers indicated in interviews.

[28] World Bank, *World Development Report, 1993: Investing in Health* (Washington, D.C.: Oxford University Press, 1993), 161–71.

[29] World Bank, *Averting the Old Age Crisis* (Washington, D.C.: Oxford University Press, 1994).

[30] Orenstein (fn. 8), 185–86.

when numerous sociopolitical forces can therefore gain access to the decision-making process. Under those circumstances, all of which apply to pension reform, IFI conditionality often carries little weight. Loans are difficult to tie to the lengthy process of discussing and passing complex laws. And, influential actors fail to be impressed by IFI conditions that do not directly affect their interests. Thus, patronage-obsessed politicians worry first and foremost about pork for their bailiwick, not about the fiscal position of the country. For these reasons, loan conditionality—the IFIs' most forceful means of pressure—turns out to have little effectiveness for pushing major institutional innovations.[31]

As a result, even seemingly weak countries have successfully resisted IFI pressure. Bolivia, for one, refused to heed IMF and World Bank demands that it use the proceeds from public enterprise privatization to cover the fiscal transition costs of pension reform. As the former national pension secretary reported,[32] the government simply invoked its national sovereignty and insisted on the right to make decisions as it pleased. Thus, this aid-dependent nation dared to face down strong IFI pressure on an issue that was crucial for fiscal stability. In a similar vein, Costa Rica resisted persistent World Bank pressure to pursue a more radical pension privatization scheme.[33]

In fact, IFI conditionality need not even constitute an *external* effort at exerting influence. Instead, to enhance their bargaining leverage with domestic opponents or hesitant political leaders, reform-minded experts often ask IFIs to "impose" conditions on their country. For instance, the initial leader of Bolivia's pension reform effort reported that she asked World Bank officials on several occasions: "Póngame esta condición, por favor," that is, "Could you please impose this condition on us?" And the key adviser to Peru's economy minister mentioned that his team had asked the IFIs to impose conditions that they could then use to coax President Alberto Fujimori (1990–2000) into supporting their reform goals.[34]

[31] Joan Nelson, "Promoting Policy Reforms," *World Development* 24 (September 1996); Wendy Hunter and David Brown, "World Bank Directives, Domestic Interests, and the Politics of Human Capital Investment in Latin America," *Comparative Political Studies* 33 (February 2000); Sarah Brooks, "International Financial Institutions and the Diffusion of Foreign Models of Social Security Reform in Latin America, " in Kurt Weyland, ed., *Learning from Foreign Models in Latin American Policy Reform* (Washington, D.C.: Woodrow Wilson Center Press, 2004); Appel (fn. 4), 4–7, 9.

[32] Author interview with Alfonso Peña Rueda, former national pension secretary (1995–97), La Paz, July 24, 2002.

[33] Author interviews with Fabio Durán, former actuarial director, Costa Rican Social Security Institute, San José, Costa Rica, June 25, 2004, and with Adolfo Rodríguez Herrera, general superintendent of securities and former leader of first pension reform team (1995–98), San José, Costa Rica, June 21, 2004.

[34] Author interviews with Helga Salinas, former vice-minister of finance and leader of first pension reform team (1991–93), La Paz, July 26, 2002, and with César Peñaranda, former head adviser to Econ-

Thus, closer inspection of the policy process suggests that diffusion does not result primarily from external imposition. IFI admonitions and pressures certainly constrain the options available to national policymakers and influence their choices among those options; but by no means do they determine those decisions. Frameworks that acknowledge the significant autonomy of domestic decision makers need to be considered as well.

The Normative Imitation Framework

The normative imitation approach has some affinity with the external pressure framework. IFI promotion may turn an innovation into an attractive symbol of modernity or a normatively appropriate model and thus induce many countries to enhance their legitimacy by importing the new policy scheme. Thus, the IFIs may exert influence less by pressuring countries to adopt unpalatable changes than by convincing decision makers that those changes are actually palatable. While IFIs cannot impose innovations on governments against their will, they may make them willing to adopt models by reshaping their preferences. The normative imitation approach thus claims that the IFIs profoundly influence policymakers—not from the outside, via carrots and sticks, but from the inside, by persuading them about what they themselves should want.

This constructivist view differs starkly from an important premise of the rational learning framework, which takes actor interests as given and, in its methodological individualism, does not consider the possibility that they may be socially constituted. Whereas rational choice depicts decision makers as atomistically autonomous, the normative imitation approach conceptualizes them as members of an international society, which also exerts central coordination, though in a looser, less heavy-handed way than the IFIs do according to the external pressure approach.[35]

By stressing the quest for legitimacy, the normative imitation framework diverges from the interest-based foundation of the two learning theories, especially rational choice. Contrary to those approaches, it depicts the adoption of a model not as the result of a goal-oriented choice but as the result of magnetic attraction. Rather than seeking a promising solution to a previously identified problem, decision makers in this

---

omy Minister Carlos Boloña, Lima, July 12, 2002; similar author interview with Pablo Gottret, superintendent of pensions, securities, and insurance, La Paz, July 30, 2002; see also Meseguer (fn. 3), 13–14.

[35] Meyer and Rowan (fn. 1); Finnemore (fn. 1); Martha Finnemore, "Norms, Culture, and World Politics," *International Organization* 50 (Spring 1996); Martha Finnemore and Kathryn Sikkink, "International Norm Dynamics and Political Change," *International Organization* 52 (Autumn 1998); Ellen Lutz and Kathryn Sikkink, "International Human Rights Law and Practice in Latin America," *International Organization* 54 (Summer 2000).

view are drawn to an innovation that looks modern and appropriate and therefore attractive; and the more followers it finds, the more attractive it becomes. Indeed, the solution may well appear before the problem and, in some sense, seek out a problem that can justify—that is, rationalize—its adoption.[36]

This approach seems well suited for explaining both the adoption of the same model by variegated countries and the rapid spread of innovations. Indeed, the normative imitation approach emphasizes the puzzle of commonality amid diversity, which it invokes to debunk rational learning arguments: why would countries with starkly different characteristics and therefore divergent functional needs embrace the same model? As such striking commonality seems to lack a rational justification, advocates of this framework infer the predominance of symbolic or normative imitation.[37] In this view, the desire for enhancing legitimacy is also the driving force of the remarkably rapid diffusion. As new fashions spread like wildfire,[38] so innovative, modern, and normatively appropriate models may quickly find supporters—and much faster than a cost-benefit analysis would suggest. The desire to appear modern and comply with new norms induces governments to emulate innovations even in the absence of a sufficient track record for assessing their advantages and problems. Countries rush to keep up with new trends before they have the relevant information to ascertain the reform's likely effects.

But the geographical clustering of diffusion, which is clearly visible in the wave of Chilean-style pension privatization, is more difficult for the normative imitation approach to explain. International prestige should have induced Latin American countries to import the notional defined-contribution scheme of pension reform developed in Europe[39] rather than emulating the privatization proposal designed by their underdeveloped neighbor, Chile.[40] Also, as mentioned above, the leading IFIs, especially the World Bank, promote worldwide learning about policy models. Thus, legitimacy is increasingly defined at a global level. Why should decision makers continue to pay attention primarily to innovations developed by their neighbors? In the era of globalization, the normative imitation framework cannot easily account for this limited perspective.

Moreover, given modern means of instant communication, the nor-

[36] Cf. James March and Johan Olsen, *Ambiguity and Choice in Organizations* (Bergen: Universitetsforlaget, 1976); John Kingdon, *Agendas, Alternatives, and Public Policy* (Boston: Little, Brown, 1984).

[37] See, e.g., Finnemore (fn. 1), 42–47.

[38] Stanley Lieberson, *A Matter of Taste* (New Haven: Yale University Press, 2000).

[39] Michael Cichon, "Notional Defined-Contribution Schemes," *International Social Security Review* 52 (October–December 1999).

[40] Cf. Orenstein (fn. 8), 183; see in general Albert Bergesen, ed., *Studies of the Modern World System* (New York: Academic Press, 1980).

mative imitation framework would expect an even faster diffusion of innovations than is captured in the slow initial upswing of the S-shaped pattern. If the quest for legitimacy drives policy choice, the appearance of a novelty should immediately trigger emulation. Since it takes little time to recognize a new model as cutting edge, diffusion should get under way in a more explosive fashion. And since there is an incentive to appear more advanced than one's neighbors, countries should enact the legitimacy-enhancing reform very quickly. Moreover, the rapid spread of reforms would put increasing pressure on laggards to jump on the bandwagon in order to avoid the stigma of looking backward. For these reasons, the normative imitation framework would predict that diffusion would follow an exponential trajectory.[41]

But rather than sweeping across the world like a tsunami, diffusion follows a well-behaved wave pattern. It takes most countries some time to adopt a foreign model, with novelty as such not sufficient for triggering imitation. Decision makers seem to wait for an innovation to attain a minimal track record before they consider emulating it. The desire to enhance one's legitimacy quickly does not carry the day; some assessment of experience is also required before policymakers are willing to incur the political costs and risks involved in enacting a significant change. This insistence on some track record seems to be particularly pronounced where adoption of an innovation would affect powerful sociopolitical forces. Such an impact is much more likely in "redistributive" policy areas such as pension reform, where decisions have broad categories of winners and losers, as opposed to "distributive" decisions that have concentrated winners, yet diffuse losers.[42] Distributive decisions are politically attractive because they make some constituents happy but do not make anybody unhappy (except for the finance minister). Thus, distributive decisions are easily triggered by symbolic or normative concerns. For instance, governments eagerly demonstrate their modernity by creating a science institution, even if there is no domestic scientific community.[43] It is a decision that imposes no visible cost on powerful constituencies but allows political leaders to make patronage appointments in the new agency.[44]

[41] In fact, adherents of this framework depict the spread of norms and models as a "cascade" that quickly gathers momentum. See Finnemore and Sikkink (fn. 36), 902–4; Lutz and Sikkink (fn. 36), 638, 655–59; see also, on reputational cascades, Timur Kuran and Cass Sunstein, "Availability Cascades and Risk Regulation," *Stanford Law Review* 51 (April 1999), 687, 714, 728–31.

[42] Cf. Theodore J. Lowi, "American Business, Public Policy, Case-Studies, and Political Theory," *World Politics* 16 (July 1964).

[43] Finnemore (fn. 1).

[44] Its official purpose—to plan and coordinate scientific activities—would place such an institution

Decision making tends to be very different in redistributive policy areas because the losers are clearly defined, large groups of people who will resist having their interests sacrificed on the altar of international legitimacy. Trying to overcome this opposition, reformers need to invoke the track record of a given innovation to prove its beneficial net result. Thus, the absence of an easy political consensus makes redistributive policy areas inhospitable territory for the purely legitimacy-enhancing emulation of innovations. The clash of interests subjects external models to close scrutiny, making decisions dependent on the evaluation of some amount of experience with the new policy approach. As a result, redistributive policy-making is a goal-oriented activity in which interests and power take on great importance. While concern for legitimacy may well restrain the pursuit of interests and influence the outcome of power struggles,[45] the desire to appear modern or to comply with new international norms does not seem to be the main motivating force in such conflict-ridden issue-areas.

An examination of the policy process shows indeed that in the redistributive field of pension reform, diffusion proceeded differently than is predicted by theorists of symbolic or normative imitation. Rather than a new policy approach looking for a problem that could rationalize its adoption, the Chilean model attracted attention and support by promising to resolve serious difficulties that had been identified long before. In particular, pension privatization claimed to overcome the worsening actuarial disequilibria plaguing social security systems in many Latin American countries.[46] In Bolivia, for instance, the privatization project was initiated by the budget director of the Finance Ministry, Helga Salinas, who had become increasingly concerned about the fiscal drain created by the established social security system and who came to see pension privatization as way to resolve this looming crisis.[47] And in El Salvador, the reform proposal emerged from efforts to combat the administrative and financial problems plaguing the public social security institutes.[48] Financial difficulties played a similar motivating

under Lowi's (fn. 42) category of "regulatory" decisions, but in most underdeveloped countries—especially those without a significant science community—it simply allowed government leaders to make additional patronage appointments, which turned this innovation into a distributive decision.

[45] See Daniel Kahneman, Jack Knetsch, and Richard Thaler, "Fairness as a Constraint on Profit Seeking," *American Economic Review* 76 (September 1986).

[46] Carmelo Mesa-Lago, *Ascent to Bankruptcy* (Pittsburgh, Pa.: University of Pittsburgh Press, 1989).

[47] Author interviews with Salinas (fn. 34) and Alberto Bonadona, former leading pension reform team member, La Paz, August 9, 2002.

[48] Author interviews with Víctor Ramírez, intendent of the public pension system and leading reform team member, San Salvador, July 8, 2004, and with Ruth Solórzano, leading pension reform team member, San Salvador, July 7, 2004.

role in Peru.[49] Thus, decision makers saw pension privatization as a new means of addressing clear, previously identified problems. The Chilean model appeared as an instrument to pursue given interests, especially fiscal equilibrium, an inherent core goal of the state.

In fact, the domestic and international promoters of pension privatization advertised this change primarily in instrumental, rather than normative, terms. The World Bank, for instance, depicted the reform scheme that it advocated in its important primer of 1994 as a means of attaining the established goals of social security systems in a more efficient and transparent fashion. It did not plead for a move away from social solidarity and a strong emphasis on individual responsibility. Instead, it claimed that structural pension reform would more clearly advance both goals as the new private pension funds would be complemented with poverty-alleviating social protection guaranteed by the state. Also, while there were some ideologically driven neoliberals among pension reform team members, my interviews suggest that other experts collaborated in these efforts for essentially pragmatic reasons, such as combating fiscal problems, raising the value of people's pension benefits, and increasing domestic savings. These instrumental considerations, which linked social security reform to established development goals, were especially important for inducing the government leadership and party politicians to support this drastic change. President Fujimori, for instance, was reluctant to introduce market principles into the social sectors and accepted pension privatization only because his key economic advisers stressed its presumed macroeconomic benefits.[50] In these broader political debates, normative arguments played little role.

In sum, the general validity of the normative imitation approach is questionable, especially for the analysis of redistributive policies. While the quest for legitimacy may shape distributive decisions, which look politically cost free, contending interests override this motivation in issues such as profound social security reform. Where major benefits and losses for powerful sectors are at stake, the desire to look advanced cannot easily carry the day.

The Rational Learning Framework

Given the insufficiency of the approaches discussed so far, can the rational learning framework convincingly explain waves of diffusion? De-

[49] Author interview with Alfonso de los Heros, former labor minister and prime minister, Lima, July 8, 2002.

[50] Interviews with De los Heros (fn. 49), Peñaranda (fn. 34), and Fritz Du Bois, former adviser to Economy Ministers Carlos Boloña (1991–92) and Jorge Camet (1993–97), Lima, July 2, 2002.

rived from rational choice assumptions, this approach emphasizes the autonomy of decision makers and thus diverges from the external pressure framework. In contrast to the normative imitation framework, rational learning sees political action as a goal-oriented choice driven by interests. Thus, the deficiencies of the other two approaches make rational learning look like a promising alternative.

Upon closer inspection, however, this framework confronts great difficulties in accounting for the three characteristics of diffusion. Above all, commonality in diversity poses a serious puzzle for rational choice. Why would countries of such different characteristics adopt the same policy paradigm? The emulators of Chilean privatization differed in a number of ways: in the urgency and severity of the financial and actuarial disequilibria plaguing their established pension systems; in the weight of pension spending as a share of gross domestic product; in the share of pension recipients among the aged population; in the size of the formal-sector workforce, which could contribute to individual retirement accounts; and in the development of their capital markets, which needed to manage the investment of voluminous pension funds (see Table 1).[51] Given these divergences, functional need does not seem to account for the uniform spread of innovations. While diffusion is triggered by preexisting problems, it seems questionable that the same reform approach would offer the best possible solution to these problems in a great variety of countries, as rational choice with its utility maximization postulate would argue.

It is similarly difficult for the rational learning framework to explain the geographical clustering of diffusion. To maximize utility, decision makers should scan the entire world for promising innovations, rather than paying attention primarily to models designed in their own region. Striking improvements in communication and transportation facilitate the exchange of information on a global scale, allowing for a comprehensive search for information. And due to the internal diversity of many regions—for instance, the stark differences between Chile and Bolivia—countries may well have greater similarities in functional needs with nations in other regions than with their neighbors. As a result, policymakers have the opportunity and incentive to search for in-

[51] Reliable cross-nationally comparable data on the financial and actuarial difficulties of social security systems are unavailable, as confirmed by personal communications from Sarah Brooks, Department of Political Science, Ohio State University, January 22, 2005, and from Raúl Madrid, Department of Government, University of Texas at Austin, January 24, 2005. In fact, several aspects of expenditures and revenues—for instance, what counts as the system's revenue sources—were contested in a number of countries. The strength of IFI pressures also differed from country to country. But whereas adherents of rational choice tend to take external constraints as a given and focus on the margin of choice that actors retain, my classification of theoretical frameworks sees the extent of actors' choice as an issue to be explained and therefore treats it as the first step in my nested theoretical analysis.

TABLE 1
DIVERGENT CHARACTERISTICS OF LATIN AMERICAN PENSION REFORMERS

	Year of Implementation	*Pensioners in % of Population above 65 Years*	*Coverage Rate (Contributors in % Workforce)*	*Pension Spending in % of GDP*
Argentina	1994	66.2	53.0	4.1
Bolivia	1997	11.9	11.7	2.5
Chile	1981	41.4	70.0	5.9
Colombia	1994	15.2	33.0	1.1
Costa Rica	2000	33.2	47.0	3.8
Dominican Rep	2002	14.6	n/a	n/a
El Salvador	1998	8.8	26.2	1.3
Mexico	1997	n/a	30.0	0.4
Peru	1993	23.5	20.0	1.2
Uruguay	1996	n/a	82.0	8.7

SOURCES: Indermit Gill, Truman Packard, and Juan Yermo, *Keeping the Promise of Social Security in Latin America* (Washington, D.C: World Bank, 2004), 23–26, 104; Müller (fn. 5), 23.

novations worldwide. There is no rational justification for the limited, regional perspective that they do in fact apply.

Diffusion's S-shaped temporal pattern also diverges from rational choice predictions. Certainly, this approach *would* expect the slow start of diffusion, that is, the absence of the explosive pattern implied by the normative imitation framework. But the subsequent upsurge, during which many countries adopt a model fairly soon after its first appearance, deviates from rational learning, which requires a careful cost-benefit analysis that considers a longer track record. Given significant cross-country differences in functional needs, the fairly quick adoption of the same policy framework by a variety of countries does not seem to result from rational learning.

The eventual slowdown of diffusion also contradicts some rational learning theories, especially arguments emphasizing economic competition.[52] If diffusion were driven by decision makers' belief that a new model was important for enhancing competitiveness or for attracting foreign capital, then competitive pressures should cause it to keep accelerating, rather than to peter out. The more countries adopt a promis-

[52] Cf. Ikenberry (fn. 1), 101–2. There are some rational learning arguments that predict an S-shaped pattern for adoption of decisions, but these arguments focus on learning from experience in each separate case and do not consider learning among cases, that is, diffusion. See, e.g., Daniel Carpenter and David Lewis, "Political Learning from Rare Events: Poisson Inference, Fiscal Constraints, and the Lifetime of Bureaus," *Political Analysis* 12 (Summer 2004).

ing innovation, the greater the competitive pressure on laggards to follow suit. Accordingly, diffusion should follow an exponential curve. The actual observed S-shaped pattern, especially the eventual deceleration of diffusion, contradicts this prediction and casts doubt on economic competition arguments, a subset of the rational learning approach. In sum, this framework has difficulty accounting for all three characteristics of diffusion.

Analysis of the reform process also fails to confirm the rational learning approach. As we see from investigations of policy-making and as leading decision makers stress, policy-making in the real world diverges starkly from rational information processing.[53] Rather than systematically assessing the relevant information and performing careful, balanced cost-benefit analyses, policymakers often have a skewed focus of attention, process information in a logically haphazard fashion, and draw problematic inferences from it. In fact, numerous interviews and the paper trail of documents suggest that Latin American pension reformers did not search widely for promising options but were attracted by the Chilean model and focused their attention there almost exclusively.[54] In addition they did not conduct a comprehensive assessment of its strengths and weaknesses but eagerly accepted the promises of success attached to it.

In sum, actual decision making diverges significantly from the norms of comprehensive rationality, approximating instead the empirical patterns of bounded rationality. Field research thus points the analyst of diffusion to theories that invoke cognitive-psychological insights on decisional inferences and heuristics.

The Cognitive Heuristics Framework

Like the rational learning approach, the cognitive heuristics framework sees diffusion result from goal-oriented activities driven largely by actor interests. In this view, external models are attractive because they promise to resolve real, given problems. Yet despite agreement on the motives that propel the spread of innovations, cognitive-psychological theories disagree with rational choice on the ways and means by which

[53] See, e.g., author interview with Moisés Naím, Venezuela's former economy minister (1989–90), Washington, D.C., March 30, 2000; Kurt Weyland, ed., *Learning from Foreign Models in Latin American Policy Reform* (Washington, D.C.: Woodrow Wilson Center Press, 2004), chaps. 4–9.

[54] For instance, Price Waterhouse, *Proyecto de Reforma del Sistema Previsional Boliviano* (Project for a reform of Bolivia's social security system) (N.p., 1993), an early version of Bolivia's privatization project, lists in its short two-page bibliography twelve consultant reports by Chilean experts. And a succinct analysis of the Salvadoran reform process, written by a member of the small domestic reform team, "Proceso de Implementación de la Reforma al Sistema de Pensiones de El Salvador" (N.d.), refers to Chilean—and only Chilean—consultants in many places.

actors pursue their goals. Rational choice starts from simplifying ideal-typical premises, especially utility maximization and the systematic, thorough, and even-handed processing of the relevant information. While there may be idiosyncratic deviations from complete rationality, they cancel out in the aggregate and diminish over time due to individual learning and "natural" selection.[55] The "rationally ignorant" mass public may dispense with complicated probability calculations and use shortcuts to make political choices on issues that are of low salience to each individual,[56] but expert policymakers who are given considerable time and resources to elaborate momentous decisions on high-salience issues are expected to approximate rational decision making. Their decision making should not be affected by systematic, lasting divergences from cost-benefit calculations.

By contrast, cognitive-psychological theories start from the robust empirical finding that human rationality is inherently bounded by innate, insuperable limitations on information processing and memory capacity. Since attention is finite and scanning the environment for relevant information is costly, people simply cannot meet the ideal-typical standards of rational choice. To proceed efficiently despite the inherent limits on information processing, they commonly resort to inferential shortcuts. These heuristics make it much easier to arrive at decisions, especially on novel, unprecedented reforms with uncertain benefits and costs, such as pension privatization. Only the cognitive shortcuts, with their efficiency gain, allow people to cope with all the demands and challenges they face. But these heuristics also risk causing significant, systematic, and lasting biases in human inference. While rational choice can incorporate issues of imperfect information within its framework, it cannot accommodate the selective focus of attention—skewed by logically arbitrary factors—and the systematically unbalanced, distorted processing of information that cognitive psychologists have found. The logically problematic inferences that people commonly draw from the uncertain information they have leads human decision making to diverge significantly from rational choice postulates.[57]

Moreover, since different people tend to apply the same heuristics, these deviations from fully rational calculations often do not cancel out; widely shared, they may shape aggregate outcomes as well. Indeed, most pension reforms—as in Bolivia, Colombia, the Dominican Re-

[55] George Tsebelis, *Nested Games* (Berkeley: University of California Press, 1990), 32–38.

[56] Popkin (fn. 6); Lupia and McCubbins (fn. 6).

[57] Herbert Simon, "Human Nature in Politics: The Dialogue of Psychology with Political Science," *American Political Science Review* 79 (June 1985).

public, El Salvador, Mexico, Nicaragua, and Peru—were elaborated by small teams that gained increasing cohesion as members who rejected privatization quit or were forced out.[58] The limited size and relative homogeneity of the reform teams allowed the problematic inferences and judgments that various members derived through cognitive heuristics to reinforce rather than counterbalance each other.[59] Thus, the closed decision-making process often led to a cumulation of distortions,[60] not a mutual correction of individual deviations from full rationality, which collective decision making could in principle produce. By contrast, where for specific institutional reasons an unusually wide range of experts participated in the discussion on social security reform, as in Costa Rica, cognitive heuristics held less sway at the aggregate level. Indeed, the country ended up enacting a distinctive privatization scheme that diverged much more from the Chilean model than did the reforms adopted by other Latin American countries. Thus, the technocratic policy-making style prevailing in the region[61] gave cognitive heuristics great influence on the processes and outcomes of pension reform. Insights on these individual-level cognitive shortcuts are therefore crucial for understanding public policy-making in those countries.[62]

The three principal shortcuts documented by cognitive psychologists are the heuristics of availability, representativeness, and anchoring.[63] The availability heuristic refers to people's tendency to place excessive

[58] As reported, e.g., in author interviews with Sergio Tamayo, pension reform team member, San Salvador, July 6, 2004, and with Bonadona (fn. 47); for other Latin American countries, see Müller (fn. 5), 121–22; Madrid (fn. 5), 49–52, 79, 113, 181–83.

[59] See John Steinbruner, *The Cybernetic Theory of Decision* (Princeton: Princeton University Press, 1974), 121–22.

[60] Particularly contagious were team members' focus on the Chilean model and neglect of other reform experiences, as well as their overextrapolation of the Chilean model's success, which the following pages discuss and document. As a result, team members who had initially been more skeptical came to endorse the Chilean model wholeheartedly. In El Salvador, for instance, a leading pension reformer had initially advocated a mixed public/private system but soon embraced a full-scale reform modeled closely on the Chilean original. Compare the following: Víctor Ramírez, "El Sistema de Pensiones de El Salvador: Un Acercamiento al Problema," in Víctor Ramírez and Mauricio Chavarría, *Diagnósticos sobre la Seguridad Social en El Salvador* (Assessments of social security in El Salvador) (San Salvador: Fundación Dr. Guillermo Manuel Ungo, 1994), Documento de Trabajo: Serie Seguridad Social 94–1 (January), 16–17; and Víctor Ramírez, "El Sistema de Pensiones de El Salvador: Un Acercamiento al Problema," in Centro Internacional para el Desarrollo Económico (CINDE), ed., *Soluciones Descentralizadas/Privadas a Problemas Públicos* (Decentralized/private solutions to public problems) (San Salvador: CINDE, 1994), 100–102.

[61] Judith Teichman, *The Politics of Freeing Markets in Latin America* (Chapel Hill: University of North Carolina Press, 2001); Robert Kaufman and Joan Nelson, "Introduction," in Kaufman and Nelson, eds., *Crucial Needs, Weak Incentives: Social Sector Reform, Democratization and Globalization in Latin America* (Washington, D.C.: Woodrow Wilson Center Press, 2004), 6–7.

[62] See in general Bryan Jones, *Politics and the Architecture of Choice: Bounded Rationality and Governance* (Chicago: University of Chicago Press, 2001); and Barbara Levitt and James March, "Organizational Learning," *Annual Review of Sociology* 14 (1988).

[63] Kahneman, Slovic, and Tversky (fn. 6); Gilovich, Griffin, and Kahneman (fn. 6).

importance on information that—for logically accidental reasons—is especially immediate and striking, grabs their attention, and is therefore uniquely "available." Thus, they do not pay balanced attention to all the relevant information, as strict rationality would require, but are drawn in particular to vivid, drastic events. This skewed attention causes distortions in judgment. For instance, after seeing a car crash, most drivers slow down and proceed more cautiously for a while. In logical terms, witnessing a single car crash should not change people's assessment of the likelihood of accidents and alter their driving behavior. But in fact, such an experience has precisely that effect.[64] In allowing dramatic incidents to shape their actions, people overrate the importance of directly available information. They seem to infer that the idiosyncratic experience they witness is applicable to themselves ("oh no, this could have been *me*!") and therefore modify their own behavior. Cognitive psychologists call this automatically and unthinkingly used, yet logically problematic strategy of inference the availability heuristic.

Whereas the availability heuristic skews primarily people's attention and memory, the representativeness heuristic shapes their evaluation of experience. This cognitive shortcut induces people to draw excessively clear, confident, and firm inferences from a precarious base of data. Accordingly, they overestimate the extent to which patterns observed in a small sample are representative of the whole population. People commonly generalize from a narrow set of observations and prematurely infer a broad regularity.[65] For instance, they see a powerful long-term trend in a limited series of data. The representativeness heuristic makes people eager to extrapolate from conjunctural upswings or downswings and interpret them as clear evidence of structural developments that will persist. As people overestimate the systematic component of observable processes and neglect random factors, such as regression toward the mean, they place undue weight on short-term successes or failures, which they mistake for proof of the inherent quality of the underlying program or model.

While the representativeness heuristic guides people's evaluations of success and failure and their decisions on whether to *adopt* a model, the heuristic of anchoring limits the extent to which they *adapt* this model to their specific needs. Anchoring induces people to attach undue weight to an initial value, which strongly affects their subsequent judg-

[64] Kahneman, Slovic, and Tversky (fn. 6), chaps. 1, 11–14, 33; Gilovich, Griffin, and Kahneman (fn. 6), chaps. 3–5.

[65] Kahneman, Slovic, and Tversky (fn. 6), chaps. 1–6; Gilovich, Griffin, and Kahneman (fn. 6), chaps. 1–2.

ments. This inferential "stickiness" appears even if the initial value is produced arbitrarily. For instance, after being asked in the early 1970s whether Turkey's population exceeded five million, experimental subjects gave much lower estimates of the country's number of inhabitants than when the initial question asked whether it was lower than sixty-five million (namely, seventeen million versus thirty-five million).[66] Thus, while by no means precluding adjustments, initial values have a strong impact in limiting the range of such modifications. They exert a gravitational pull that substantially affects subsequent assessments. Decision makers are reluctant to diverge radically from this starting point. To save computational effort, they orient their judgments by any available piece of information.

These three heuristics, whose widespread usage cognitive psychologists have documented in innumerable experiments and field studies, shaped the diffusion of pension reform because the Chilean model was so novel. As broadly vetted, confirmed information on this innovation did not exist, decision makers had virtually no "priors" to guide their judgments. The unprecedented nature of Chile's bold reform, which made the benefits and costs of its adoption uncertain, therefore allowed cognitive heuristics to shape expert judgments and decision making.

Indeed, the heuristics of availability, representativeness, and anchoring provide a good explanation for the basic features of diffusion, namely, its geographical clustering, its S-shaped temporal unfolding, and its substantive characteristic of creating commonality in diversity. The availability heuristic seems to underlie the regional pattern of the spread of innovations. As people are disproportionately influenced by events they witness directly, so drastic policy change enacted next door has particular immediacy, salience, and, thus, availability. Decision makers cannot fail to pay attention to a bold reform adopted by a neighboring country. Such a nearby innovation is on their mind, whereas a change occurring halfway around the globe usually escapes their attention. Thus, geographic and cultural proximity give salience to a new foreign model, and policymakers will tend to study it closely. As decision makers do not scan the environment systematically and comprehensively for the relevant information but more passively let themselves be influenced disproportionately by experiences that happen to grab their attention, the unique availability of a reform enacted in a neighboring country often puts that innovation on the policy-mak-

[66] Daniel Kahneman and Amos Tversky, "On the Study of Statistical Intuitions," in Daniel Kahneman, Paul Slovic, and Amos Tversky, eds., *Judgment under Uncertainty* (Cambridge: Cambridge University Press, 1982), 503; see also Gilovich, Griffin, and Kahneman (fn. 6), chaps. 6–8.

ing agenda in a whole region.[67] Thus, the availability heuristic helps explain why diffusion first gets under way regionally and why it displays strong neighborhood effects.

Once the availability heuristic has placed a new foreign model on the agenda, the representativeness heuristic influences the assessment of this bold innovation, giving rise to diffusion's S-shaped temporal pattern. This inferential shortcut induces decision makers to jump to conclusions and overestimate the evidential value of a very limited base of experience. This tendency to overemphasize recent trends leads policymakers to attribute great inherent value to innovations that attain initial success, even though this short track record may well have been distorted by chance factors. The representativeness heuristic thus fuels the rapid emulation of a seemingly successful innovation and produces the dramatic upsurge in the S-shaped pattern. If a bold change—via the availability heuristic—has attracted regional attention and if early signs of success—via the representativeness heuristic—turn it into a hit, it may spread like wildfire. But the unfounded expectations of long-term success that fuel this upsurge are soon revised in light of experience, dampening enthusiasm for the model and slowing down its further spread.[68] The representativeness heuristic therefore leads to exaggerated hopes, which eventually give way to greater realism as more information becomes available.[69]

Thus, the representativeness heuristic can account for all three phases of the S-shaped curve. The relatively slow start of diffusion reflects decision makers' insistence on some performance evaluation, which requires a minimal track record. Therefore, innovations do not spread instantaneously, as the normative imitation framework implies. But these performance assessments are less careful and systematic than strict rationality demands; instead, decision makers eagerly act upon early signs of success. The representativeness heuristic thus speeds up diffusion soon after it gets under way. Finally, diffusion peters out as more evidence about the reform's actual performance becomes available and the initial enthusiasm wanes. Thus, as time wears on, countries that had hitherto failed to adopt the new policy approach become ever less

[67] Interestingly, Mintrom (fn. 16) found that among the U.S. states, neighborhood effects are especially influential in agenda setting (pp. 756–59, 761).

[68] Moreover, countries that did not suffer from the problem that the new model promises to resolve may well refuse to adopt the innovation, regardless of its performance. Thus, there are additional reasons why the wave of diffusion may not affect the universe of cases.

[69] Thus, bounded rationality arguments do not deny that actors can modify their initial judgments as more information becomes available. But they disagree with rational choice arguments that such adjustments optimally process the relevant information in a systematic and unbiased fashion.

likely to do so. The representativeness heuristic thus seems to underlie the wavelike pattern of diffusion—its slow start, sudden upsurge, and eventual decline.

Finally, the heuristic of anchoring helps explain the substantive nature of diffusion, namely, the spread of commonality amid diversity. Once a government has decided to adopt a foreign model, anchoring limits the adaptation of the outside policy approach to the specific needs of the importing country. While anchoring by no means precludes such modifications, it limits their range and preserves the basic nature of the imported model—in this case, the introduction of privately managed individual retirement accounts in the obligatory social security system. Comprehensive rationality would call for more profound adjustment, potentially including alterations of a model's fundamental design. But anchoring confines changes to more peripheral modifications. In particular, an innovation's domain of application may be delimited differently, and the new model may be combined with other reforms to make it more palatable. In this vein, pension privatization was not always as radical as in Chile; Argentina, for instance, created a mixed system that maintained a basic public "pillar" to provide some protection to all contributors. Thus, Argentina faithfully instituted the new design principle developed by its neighbor, but in a narrower domain. Other countries complemented a Chilean-style radical reform with additional measures tailored to their specific needs. Given large-scale poverty, for instance, Bolivia combined pension privatization with the introduction of a universal pension benefit designed to guarantee the basic livelihood of all elderly people, including those not covered by social security.[70] Thus, while anchoring does not predict apish mimicking, it restricts adaptations to nonessential elements—such as the range of an innovation's application—and maintains the core of the foreign model. This heuristic thus helps explain the spread of the same policy approach to a wide variety of countries.

In sum, the heuristics of availability, representativeness, and anchoring offer good explanations for the three main characteristics of diffusion, namely, its geographical clustering, temporal sequence, and substantive nature. Since none of the other approaches can account well for all three features, the cognitive heuristics framework appears superior. Analysis of the policy process provides further corroboration.[71] Field research suggests that deliberations and decisions on pension re-

[70] On these variations, see Carmelo Mesa-Lago, "Social Welfare Reform in the Context of Economic-Political Liberalization," *World Development* 25 (April 1997); and Madrid (fn. 5), 14–21.

[71] See Richard Rose, "What Is Lesson-Drawing?" *Journal of Public Policy* 11 (January 1991), 10–11.

form in Latin America were deeply shaped by the heuristics of availability, representativeness, and anchoring.

A wealth of documents and interview data as well as published case studies show that Chile's unprecedented, radical pension privatization was uniquely available to decision makers throughout the Latin American neighborhood. No pension expert in the region could fail to pay attention to this bold innovation.[72] The fact that a fellow Latin American country was trying out such a novel scheme gave it particular salience and relevance to neighboring countries. Many Latin American nations sent their own pension experts to Chile to examine the new policy. Reform team members from Argentina, Bolivia, Colombia, El Salvador, Mexico, and Peru undertook numerous study trips to Chile, and even Costa Rica sent a high-level delegation in 1989.[73] Governmental officials and experts invariably referred to the Chilean model in their planning and decision making.[74] Business and financial interests commonly invoked the Chilean model to support their advocacy of privatization, while labor unions and leftist parties used it as a deterrent example of policy changes they were committed to obstruct. In Bolivia, for instance, opponents of full-scale privatization—including the president of the Congressional Committee on Social Policy—invited a Chilean critic of the Chilean model to legitimate their own skepticism.[75]

The availability heuristic helped to put decision making on a specific track. Without the Chilean precedent, for instance, Argentina would not have enacted such a drastic change in its own social security system, which in preceding decades had proven resistant to reform.[76] As an important reform team member stressed: "If the Chilean case had not existed, it's probable that we still wouldn't have the reform [in

[72] Joan Nelson, *Reforming Health and Education* (Washington, D.C.: Overseas Development Council, 1999), 22–24; Nelson explains why Chile's health and education reforms were not sufficiently comprehensive, integrated, and bold to turn into similarly "available" models.

[73] Author interviews with Bonadona (fn. 47), Ramírez (fn. 48), Alfredo Romero, former leader of pension reform team (1992), Lima, July 17, 2002, Salinas (fn. 34), and Tamayo (fn. 58); "Proceso de Implementación" (fn. 55); Comisión Técnica de Pensiones, *Sistema de Pensiones en Chile: Informe de la Visita Efectuada a Chile* (The pension system in Chile: Report on the trip to Chile) (San José: Caja Costarricense de Seguro Social, 1990).

[74] Author interviews with Celecino de Carvalho Filho, secretary of special studies, Ministry of Social Security and Assistance, Brasília, July 12, 1989, and with Celso Barroso Leite, former secretary of social security, Ministry of Social Security and Assistance, Rio de Janeiro, February 19, 1990.

[75] Author interview with Luis Fernández Fagalde, former president, Social Policy Committee, Chamber of Deputies, La Paz, July 25, 2002; see also Andrés Bustos González, "A Previdência Social no Chile. Enfoque dos Trabalhadores," in Associação Nacional dos Auditores Fiscais de Contribuições Previdenciárias (ANFIP), *Ciclo de Estudos sobre Seguridade Social: Seminário Internacional sobre Seguridade Social* (Series of studies about social security: International seminar on social security) (Brasília: ANFIP, 1995).

[76] Demarco (fn. 5), 86–89.

Argentina]."[77] The "availability" of the Chilean model thus provided a decisive impetus for the transformation of Argentina's pension system. Chile's reform was also a key source of inspiration for Bolivia, Colombia, the Dominican Republic, El Salvador, Mexico, Nicaragua, Peru, and Uruguay. The budget director of Bolivia's Finance Ministry, Helga Salinas, for example, turned into the main promoter of pension privatization after she heard a speech by the father of the Chilean model, José Piñera. This rather accidental encounter led to an ongoing exchange with Piñera and other Chilean experts, who contributed significantly to the initial design of the Bolivian reform.[78] Chilean consultants participated in the elaboration of privatization proposals in a wide range of other Latin American countries as well.[79] The prominence of the Chilean model was also a critical factor in putting pension privatization on the Brazilian political agenda during the early 1990s. The experts and interest groups that advocated such a drastic overhaul commonly invoked the Chilean example.[80] As officials of the Social Security Ministry were forced to respond, pointing to flaws and problems in the Chilean reform, the policy debate focused on this model.

By capturing people's attention and pointing decision making in a certain direction, a uniquely available model forestalls the pursuit of other options. The availability heuristic helped to keep the Latin American pension reform debate centered on privatization, whereas European countries—far removed from Chile—experimented with a wider range of options.[81] For instance, the notional defined-contribution (NDC) scheme designed in Europe—an innovative mixture of a state-run solidaristic system and a privatized individualistic scheme[82]—was for most of the 1990s not cognitively available in Latin

[77] Interview with Mauricio Barassi, one of the architects of Argentina's pension privatization, reported in Madrid (fn. 5), 114–15.

[78] Author interviews with Salinas (fn. 34), Bonadona (fn. 47), and Teresa Vargas, former core member of pension reform team, La Paz, July 31, 2002; similarly author interviews with Ramírez (fn. 48) and Tamayo (fn. 58) for El Salvador; and with De los Heros (fn. 49) and Mario Roggero, former deputy of the Democratic Front (FREDEMO) and initiator of pension reform project, Lima, July 11, 2002, for Peru. For Colombia, Juan Manuel Santos, "La Reforma de las Pensiones en Colombia," in José Piñera, ed., "La Revolución Latinoamericana de las Pensiones" (The Latin American pension revolution) (book manuscript) reports a very similar experience. On Colombia, Mexico, and Uruguay, see also Madrid (fn. 5), 173–75; and Müller (fn. 5), 34–38.

[79] This included not only additional nations that enacted pension privatization, such as Ecuador and El Salvador, but also a number of countries that ended up rejecting reform, such as Guatemala, Honduras, Panama, and Paraguay; Madrid (fn. 5), 173–74.

[80] See, e.g., Instituto Liberal (IL), *Previdência Social no Brasil* (Social security in Brazil) (Rio de Janeiro: IL, 1991), chap. 4; Clovis de Faro, ed., *Previdência Social no Brasil* (Social security in Brazil) (Rio de Janeiro: Editora da Fundação Getúlio Vargas, 1993).

[81] Evelyne Huber and John Stephens, *The Political Economy of Pension Reform* (Geneva: United Nations Research Institute for Social Development, 2000), 2, 22–29.

[82] Cichon (fn. 39).

America.[83] Therefore, Bolivia, which for complicated political and financial reasons[84] would have benefited from the institution of an NDC system, opted for Chilean-style privatization, yet at much greater fiscal cost to the state. This resource drain[85] later required adjustments that set in motion the political crisis that triggered the downfall of President Gonzalo Sánchez de Lozada in 2003 and festers to the present day.[86] The unavailability of the NDC option thus ended up having deleterious repercussions. In sum, the availability heuristic limits policymakers' range of attention and restricts the options they consider. In this way, it can diminish the quality of decisions.

The representativeness heuristic also shaped the diffusion of pension privatization. The unusually high rates of return achieved initially by Chile's private pension funds quickly gave the new system an aura of success. Indeed, as its institution coincided with a substantial increase in savings and investment and a stretch of high growth in Chile, it became a virtual miracle cure. Following the representativeness heuristic, the governments of Argentina, Bolivia, Colombia, Costa Rica, the Dominican Republic, El Salvador, Mexico, Nicaragua, Peru, and Uruguay therefore adopted the model with high hopes for macroeconomic success.[87] For instance, El Salvador's former finance minister and the chief adviser to the Peruvian economy minister who was the driving force behind that country's pension reform stressed Chile's success in raising

[83] Author interviews with Rodríguez (fn. 33), Salinas (fn. 34), Solórzano (fn. 48), Tamayo (fn. 58), and Vargas (fn. 78); Sarah Brooks and Kent Weaver, *Lashed to the Mast? The Politics of Notional Defined Contribution Pension Reforms* (Chestnut Hill, Mass.: Center for Retirement Research at Boston College, 2005), 24–25. There is no trace of the NDC scheme in the mass of primary documents that I collected in Bolivia, Costa Rica, El Salvador, and Peru, nor in published case studies by other authors, such as Madrid (fn. 5); Müller (fn. 5); and Demarco (fn. 5). As the only exception, Uruguay, with its wealth of pension expertise, considered a notional defined-contribution scheme in 1991–92 but discarded it under the influence of the Chilean model; Müller (fn. 5), 35–36.

[84] Pablo Gottret, "Bolivia: Capitalisation, Pension Reform and their Impact on Capital Markets" (Paper prepared for Organisation for Economic Co-operation and Development, Advisory Group on Privatisation, Paris, September 21–22, 1999), 15–16.

[85] World Bank, *Bolivia: Public Expenditure Review,* Report no. 19232-BO (Washington, D.C.: World Bank, 1999), 10, 22.

[86] Manuel Arellano, "Natural Gas, Social Unrest, and the Ousting of a President" (Talk presented at the panel "Are Latin American Presidents Living Dangerously?" University of Texas at Austin, April 8, 2004); Roberto Laserna, "Bolivia: Entre Populismo y Democracia," *Nueva Sociedad* 188 (November–December 2003), 13.

[87] As Madrid (fn. 5) argues in general (pp. 31–40), documents for Mexico (pp. 73–76), Argentina (pp. 109–10), Brazil (p. 145), Bolivia, Colombia, Costa Rica, the Dominican Republic, Nicaragua, Peru, and Uruguay (pp. 170–73), and confirms through a wide-ranging quantitative analysis (pp. 192–200), the claim that pension privatization would raise domestic savings, which experts and decision makers inferred in a logically problematic fashion from the Chilean experience, was a decisive motive for enacting structural social security reform in Latin America. Sarah Brooks establishes the same point through a sophisticated statistical analysis; Brooks, "Social Protection and Economic Integration: The Politics of Pension Reform in an Era of Capital Mobility," *Comparative Political Studies* 35 (June 2002).

savings and investment.[88] In a similar vein, Bolivia's former national pension secretary invoked the high rates of return that Chilean pension funds had initially achieved (13.81 percent on average from 1981 to 1994)—only to add that their performance had significantly worsened in recent years (6.37 percent from 1994 to 2003).[89]

As this last comment shows, news about diminishing rates of return in Chile and more careful investigations of the net impact of privatization on savings eventually led to more sober assessments.[90] In fact, a leading expert of the World Bank, which had most powerfully promoted pension privatization in preceding years, claimed in 1999 that advocacy of this model had been based on ten myths that could not withstand rational scrutiny in light of experience. Myth 1 was the widespread belief that "individual accounts raise national saving"; myth 2, the assumption that "rates of return are higher under individual accounts."[91] Thus, two of the principal selling points of pension privatization were soon unveiled as products of problematic inferences, such as the representativeness heuristic. The finding that these "myths that have dominated public discussions [have] derailed rational decision-making"[92] corroborates this article's basic claim that cognitive heuristics, not rational learning, drove the diffusion of innovations in social security.[93]

As additional, more reliable information on the performance of privatized pension systems in a range of countries has become available, enthusiasm for such programs has ebbed in Latin America. Nicaragua, for instance, which passed a privatization law in 2000, has hesitated to implement it for years; in mid-2004 the country's finance minister, Ed-

[88] Author interviews with Juan José Daboub, former finance minister, San Salvador, July 9, 2004, and with Peñaranda (fn. 34); similar interviews with Du Bois (fn. 50) and Solórzano (fn. 48). The team of Costa Rican experts that visited Chile in 1989 also emphasized the impact of pension privatization on domestic savings as a major attraction: Comisión Técnica de Pensiones (fn. 73), 14–16.

[89] Interview with Peña Rueda (fn. 32); similar interviews with Du Bois (fn. 50) for Peru and with Tamayo (fn. 58) for El Salvador; data computed from Superintendencia de Administradoras de Fondos de Pensiones (Santiago de Chile), *Rentabilidad Real Anual del Fondo de Pensiones*, www.safp.cl/inf_estadistica/index.html (accessed May 12, 2004).

[90] Andrew Samwick, "Is Pension Reform Conducive to Higher Saving?" *Review of Economics and Statistics* 82 (May 2000); Joseph White, "Looking in the Wrong Place: Why Chile Provides No Evidence for Social Security Privatization," *Public Budgeting and Finance* 20 (Winter 2000).

[91] Peter Orszag and Joseph Stiglitz, "Rethinking Pension Reform" (Paper presented at the conference on "New Ideas about Old Age Security," World Bank, Washington, D.C., September 14–15, 1999), 8; similarly, see Nicholas Barr, *Reforming Pensions: Myths, Truths, and Policy Choices* (Washington, D.C.: International Monetary Fund, 2000), 12–13. See also the World Bank's new skeptical assessment of pension privatization in Indermit Gill, Truman Packard, and Juan Yermo, *Keeping the Promise of Social Security in Latin America* (Washington, D.C.: World Bank, 2004).

[92] Orszag and Stiglitz (fn. 91), 4.

[93] A similar sequence of initial enthusiasm and later disappointment occurred among former communist countries: the World Bank initially embraced Czech voucher privatization firmly and pushed it on other nations but later recognized its serious flaws; see Appel (fn. 4), 3–4.

uardo Montiel, shelved the new system as financially and socially unviable: "We were all wrong" in enacting this drastic change.[94] As the country continues to rethink its options, it may well back away from pension privatization. Thus, as experiences with this bold reform have accumulated and uncertainty has diminished, the enthusiasm stimulated by the representativeness heuristic has faded and the wave of diffusion has crested and perhaps begun to recede.

Finally, anchoring induced Latin American countries that instituted structural pension reforms during the last two decades to follow the Chilean model closely. In fact, the initial reform projects in several countries were virtual carbon copies of the Chilean system.[95] "The original Colombian reform proposal, for example, was so close to the Chilean model that one World Bank adviser joked that they had taken the Chilean legislation and used a search and replace function to substitute the word 'Chile' with 'Colombia.'"[96] Certainly, in the course of the decision-making process, many nations introduced some changes to adjust this foreign import to their own needs; some even created parallel or multipillar schemes that maintained components of the preexisting public system for certain income levels or types of workers. But these modifications affected the scope of privatization, not its nature. A parallel scheme allows affiliates to choose between joining a new private pension fund and staying in the established public system; it thus faithfully embodies the neoliberal principle of freedom of choice, as its main advocate in Peru emphasized.[97] And a mixed system institutes private retirement accounts à la Chile above a certain income level while maintaining a public pension system for providing basic social protection. (See Table 2.) [98]

[94] As reported in Octavio Enríquez and Juan Carlos Bow, "Réquiem a nueva Ley de Pensiones," *El Nuevo Diario*, July 22, 2004. On the possibility of Nicaragua backing away from pension privatization, see author's telephone interview with Alejandro Bonilla chief, Studies and Operations Branch, International Social Security Association, Geneva, January 25, 2005.

[95] See, e.g., Banco Mundial—Proyecto de Reforma al Sistema de Seguridad Social de Largo Plazo en Bolivia, *Restructuración del Sistema de Seguridad Social de Largo Plazo en Bolivia* (The restructuring of Bolivia's social security system) (La Paz: CIEDESS, December 1993); Comisión para la Reforma al Sistema de Pensiones, "Propuesta de Reforma al Actual Sistema de Pensiones" (San Salvador: Comisión para la Reforma, 1996); "Créase Sistema Privado de Pensiones complementario al Sistema Nacional de Pensiones a cargo del IPSS. Decreto Legislativo N° 724," *El Peruano* (November 11, 1991). For Colombia, see Santos (fn. 78), 42; for Mexico, Argentina, and Colombia, see Madrid (fn. 5), 79, 116, 175.

[96] Raúl Madrid, "Ideas, Economic Pressures and Pension Privatization," *Latin American Politics and Society* 47 (forthcoming), 14–15, based on an interview with Hermann von Gersdorff, World Bank staff economist, Washington, D.C., May 15, 1998.

[97] Mario Roggero, *Escoja Usted* (You choose!) (Lima: N.p., 1993), 22–24, 58–59, 185, 190, 200–202.

[98] In a substitutive model, the new private pension scheme completely replaces the old public social security system. On similarities and differences of Latin America's reformed pension systems along a number of specific rules and issues, see especially Stephen Kay and Barbara Kritzer, "Social Security in Latin America: Recent Reforms and Challenges," *Economic Review* (Federal Reserve Bank of Atlanta)

TABLE 2
TYPES OF PENSION REFORM IN LATIN AMERICA

Substitutive Model	*Parallel Model*	*Mixed Model*
Bolivia	Colombia	Argentina
Chile	Peru	Costa Rica
Dominican Republic		Uruguay
El Salvador		
Mexico		
(Nicaragua)		

SOURCE: Adapted from Carmelo Mesa-Lago, "Evaluacíon de un cuarto de siglo de reformas de pensiones en América Latina," *Revista de la CEPAL* 84 (December 2004), 61.

Thus, all Latin American countries that enacted structural pension reform during the last two decades imitated Chile's crucial innovation by creating privately administered individual retirement accounts in the obligatory social security system. They all followed Chile in instituting a defined-contribution scheme, the capitalization of social security contributions, and the supervision of the new system through a regulatory agency. Indeed, Bolivian, Peruvian, and Salvadoran pension reformers whom I interviewed stress how much they absorbed—even copied—from Chile: "We took virtually the whole [new pension] system from Chile";[99] "the Chilean consultants contributed everything," from basic reform principles to many specific rules.[100] As a result, the new pension systems hewed to the line of the original.[101] Thus, rather than designing their own reforms, decision makers found it easier to import an existing model. In preferring emulation over innovation, they applied a typical strategy of bounded rationality to save computational effort.

Anchoring thus induced Latin American pension reformers to follow the Chilean model closely and limit the depth of adaptations. Whereas European countries in the 1990s began to experiment with new ideas, especially notional accounts, Latin America remained hooked on privatization. Anchoring thus tied decision makers' hands and restricted the range of modifications they enacted. This unwillingness to adapt the Chilean

86 (first quarter 2001); José Devesa-Carpio and Carlos Vidal-Meliá, *The Reformed Pension Systems in Latin America* (Washington, D.C.: World Bank, May 2002), 47–59; and Robert Palacios, "Pension Reform in Latin America: Design and Experiences," in International Federation of Pension Fund Administrators (FIAP), ed., *Pension Reforms: Results and Challenges* (Santiago de Chile: FIAP, 2003).

[99] Author interview with Alberto León, pension reform team member, Lima, July 2, 2002.

[100] Interview with Salinas (fn. 34); similar interview with Ramírez (fn. 48).

[101] See, e.g., for El Salvador: Carmelo Mesa-Lago and Fabio Durán, *Evaluación de la Reforma de Pensiones en El Salvador* (Evaluation of El Salvador's pension reform) (San Salvador: Fundación Friedrich Ebert, 1998), 6–7.

model more thoroughly to domestic needs created problems. For instance, the limited size of El Salvador's formal-sector workforce made the insurance market so small that only two private pension fund administrators (AFPs) managed to survive. This insufficient competition provided little incentive for expanding coverage and improving service while allowing the AFPs to charge high administrative commissions and make fabulous profits.[102] Similar problems have plagued Peru's new social security system.[103] As a result, pension privatization failed to fulfill some of its main promises. Less reliance on the free market and stricter government regulation—that is, greater deviations from the Chilean model—could have produced better outcomes. In fact, some leading reform team members wondered in retrospect whether a more moderate, less purist, and less Chile-inspired privatization scheme might have been preferable.[104] In sum, anchoring produced deleterious effects that the more significant adjustment demanded by comprehensive rationality could have minimized.

IV. Conclusion

This article shows that for the area of social security reform, arguments stressing external pressure, symbolic or normative imitation, and rational learning—while making important contributions[105]—cannot fully account for the three main features of diffusion, namely, its S-shaped temporal pattern, its geographical clustering, and its substantive nature of spreading commonality amid diversity.[106] An approach based on cognitive-psychological insights, especially decision heuristics, is more convincing. Specifically, the availability heuristic seems to underlie the regional concentration and neighborhood effects that characterized the spread of pension privatization. Bold changes that happen next door are immediately available and thus grab the attention of decision makers; there is no way *not* to consider such a reform. After the availability heuristic has placed a new model on policymakers' radar screen, the representativeness heuristic shapes—and distorts—assessments of the

[102] Interview with Ramírez (fn. 48).

[103] Eduardo Morón and Eliana Carranza, *Diez Años del Sistema Privado de Pensiones* (Ten years of the private pension system) (Lima: Centro de Investigación—Universidad del Pacífico, 2003), chaps. 4–5. For a comprehensive assessment of these kinds of problems in all of Latin America's private pension systems, see the new World Bank study by Gill, Packard, and Yermo (fn. 91).

[104] Author interview with Francia Brevé, former political leader of pension reform team (1995–97), San Salvador, July 7, 2004.

[105] For instance, the IFIs make extraregional models available. In this way, they facilitated the relatively rapid "jump" of pension privatization to Eastern Europe; see Orenstein (fn. 8), 185–90.

[106] These arguments may be more persuasive in other policy areas, however, such as highly competitive economic markets (Simmons, fn. 19) or (effectively) distributive decision making (Finnemore, fn. 1).

innovation's performance and promise. Above all, people overinterpret short stretches of success as proof of the intrinsic superiority of the new model. Jumping to conclusions, they rush to emulate a seemingly successful policy scheme, giving rise to the upsurge of diffusion that is captured in the S-shaped curve. Finally, anchoring induces governments that have decided to adopt a foreign model to limit its adaptation to the specific characteristics of their own country. They confine modifications to peripheral aspects and retain the innovation's design principles. As a result, diffusion entails the spread of commonality in diversity.

The conclusion that cognitive heuristics account especially well for the diffusion of social policy innovations has broader theoretical significance. It shows that cognitive-psychological findings can shed important light on political phenomena in the real world outside the laboratory.[107] In fact, such insights may be indispensable for a comprehensive understanding of political decision making. The currently prevailing approaches in political science, such as rational choice, economic structuralism, "culturalism," and constructivism,[108] make important contributions but do not offer fully satisfactory explanations: cognitive-psychological insights also need to be considered. In particular, rational choice, which has been advancing in the discipline in recent years, has opened itself up to criticism from cognitive psychologists through its insistence on microfoundations as the starting point of political analysis. As innumerable experiments and field studies suggest, cognitive psychology offers much more solid empirical microfoundations for political analysis than does rational choice, which starts from ideal-typical simplifications that do not capture the important complexities of human decision making. In fact, important deviations from strict rationality postulates documented by cognitive psychologists seem to be systematic and have structural roots; they therefore do not cancel out in the aggregate and cannot easily be eliminated by learning.[109] In their quest for microfoundations, then, conventional rational choice models do not seem to stand on strong empirical ground. But for an empirical discipline such as political science, it makes sense to start from empirically corroborated premises, not ideal-typical postulates. Therefore, political science may soon be in for a cognitive-psychological turn.

[107] See recently Gowda and Fox (fn. 25).

[108] The other leading approach, institutionalism, cannot offer a satisfactory explanation of diffusion because it focuses on actors' institutionally defined capacities and the constraints they face, but—unless combined with rational choice or culturalism—lacks an account of actors' motivations.

[109] Contra Tsebelis (fn. 55), 32–38.