

Economies of Scale and Barriers to Entry in the Argentinean Pensions Market

Ignacio Apella and Daniel Maceira
CEDES¹

Abstract

In July 1994, the new Integrated Pension System was divided into two regimes: A public pay-as-you-go system, and a regime based on individual capitalization, managed by private firms, called AFJPs. By June 2003, the main four firms concentrated 70% of the 9 millions affiliates of the private system.

The present document analyses the presence of economies of scale in the industry, and the role they played as barriers to entry to the pensions market. From a quarterly panel data by firm between 1995 and 2003, a cost function stemmed from a Cobb Douglas specification was estimated by using corrected ordinary least squares.

Costs are a result of both operative expenditures and a measure of the opportunity cost of capital, which was estimated using a Capital Price Model. The estimation considers the potencial effects of some micro as well as macroeconomics estructural changes on the market.

Results support the hypotheses that postulates the existence of economies of scale in industry. However, this fact not neccesarily has been a barrier to the entry of new competitors: until December 2001 the premia defined by the AFJPs were non lineal, with a fixed contribution and a variable component, proportional to the affiliate's income. Given the demand price elasticity respect both components is different among consumers'types, firms discriminated prices by incomes level, establishing a combination of premia that allow them to capture high incomes affiliates. Since December 2001, the regulatory institution forbade the charge of fixed prices, eliminating the possibility of segmentation. Therefore, average costs are decreasing, becoming a strong barrier to the entry of potencial participants.

¹ Center for the Study of State and Society, CEDES, Argentina.