

The Reform of Bismarckian Pension Systems

A Comparison of Pension Politics in Austria, France, Germany, Italy and Sweden

Dissertation

zur Erlangung des akademischen Grades

**doctor philosophiae
(Dr. phil.)**

eingereicht an

der Philosophischen Fakultät III
der Humboldt - Universität zu Berlin

von Diplom-Verwaltungswissenschaftler Martin Schludi, geb. 30.09.1968 in Augsburg

Präsident der Humboldt-Universität zu Berlin
Prof. Dr. Jürgen Mlynek

Dekanin der Philosophischen Fakultät III
Prof. Dr. Ingeborg Baldauf

Gutachter: 1.
2.

Tag der mündlichen Prüfung:

Abstract

This study analyzes national processes of pension reform in countries with systems of old-age provision largely following the Bismarckian type (Austria, France, Germany, Italy, and Sweden). Operating on a defined benefit/pay-as-you-go basis and mainly financed out of wage-based social contributions, pension systems in these countries are highly vulnerable to demographic and economic pressures. Therefore, pension reform has emerged as a major issue in these countries since the late 1980s. Although there are substantial similarities in the direction of reform, the degree of policy change varies considerably even among countries with similar legacies in pension policy. A closer inspection of national patterns of pension policy making shows that the political feasibility of pension reforms and the degree of adjustment in pension policy critically depends on the government's ability to orchestrate a reform consensus either with the parliamentary opposition or with the trade unions. The study tries to identify the conditions under which a "pension pact" between those actors is likely to emerge¹.

¹ I am particularly grateful to Karen Anderson, Lucio Baccaro, Guiliano Bonoli, Agar Brugiavini, Bernhard Ebbinghaus, Maurizio Ferrera, Steffen Ganghof, Antonia Gohr, Christoffer Green-Pedersen, Miriam Hartlapp, Markus Haverland, Martin Hering, Ellen Immergut, Matteo Jessoula, Sven Jochem, Herbert Kitschelt, Bernhard Kittel, Anders Lindbom, Margitta Mätzke, Bruno Palier, Edward Palmer, Birgitta Rabe, Anika Rasner, Bo Rothstein, Fritz Scharpf, Isabelle Schulze, Eric Seils, Christian Toft, Christine Trampusch, Axel West Pedersen and Harold Wilensky for constructive criticism and useful hints.

TABLE OF CONTENTS

List of tables	4
List of figures	5
Introduction	6
Chapter I: The need for pension reform – a problem-oriented perspective	10
1.1 Public pension arrangements under adaptational pressures	
1.2 Specific vulnerabilities of Bismarckian pension systems	
1.3 Options for reform	
1.4 Varying degrees in the need of adjustment	
Chapter 2: An empirical overview of policy change in Bismarckian pension regimes	50
Chapter 3: The politics of pension reform – an actor-centered explanatory framework	59
3.1 Social policy-making in an era of retrenchment – a review of theoretical approaches	
3.2 The concept of actor-centered institutionalism	
3.3 The politics of pension reform	
Chapter 4: Sweden - Policy-oriented bargaining	92
Chapter 5: Italy - Corporatist concertation in the shadow of EMU	115
Chapter 6: Germany - From consensus towards conflict	137
Chapter 7: Austria - Reform blockage by the trade unions	176
Chapter 8: France - Adverse prerequisites for a pension consensus	201
Chapter 9: Conclusion	229
Appendix I: Summary description of retirement systems (1986)	257
Appendix II: Chronology of national pension reforms	269
Appendix III: Glossary of terms	277
Bibliography	280

LIST OF TABLES

1.1	Replacement rate of public pension programs	13
1.2	Advantages and disadvantages of various pension reform options on the revenue side	22
1.3	Advantages and disadvantages of various pension reform options on the expenditure side	33
1.4	Strengths and weaknesses of pay-as-you-go versus fully-funded schemes	34
1.5	Strengths and weaknesses of various options to encourage supplementary old-age provision	37
1.6	Selected indicators for the magnitude of challenges in pension policy in the 1990s	47
2.1	Change in public pension expenditures between 1993 and 1999	50
2.2	Estimated change in pension expenditures according to different projections (in % of GDP)	52
2.3	Private pension benefits as a % of GDP	56
3.1	Likelihood of a partisan consensus on pension reform	81
3.2	Power resources of trade unions and their bargaining position vis-à-vis the government	88
4.1	Chronology of the “big” Swedish pension reform	113
6.1	Projected contribution rates for statutory pension insurance	139
6.2	Change in vote shares at the federal election 1998 (compared to 1994 election)	154
6.3	The German pension reform 2001 - the major stages of the reform process	175
7.1	Share of trade union functionaries in the Austrian parliament	180
7.2	Cost containment effects of recent Austrian pension reforms	194
7.3	Unions’ influence on political decision making in Austrian pension policy	197
8.1	The basic structure of the French pension system	201
8.2	Projected development of the equilibrium contribution rate ¹ to the general regime before a after the 1993 reform	209
8.3	Projections of gross replacement rates for three typical cases	218
9.1	Power configurations between government and trade unions and their likely effects on unions’ bargaining position	239

LIST OF FIGURES

2.1	Directions of national pension reforms	58
3.1	The theoretical framework of actor-centered institutionalism	67
3.2	Goals of political parties	68
3.3	Policy positions towards pension reform in the context of demographic aging and fiscal austerity	70
3.4	Sequential game between government, opposition and voters	75
3.5	Bargaining constellation between government and trade unions	86

Introduction

The 1990s have been a decade of fundamental challenges to the welfare states in Western Europe. Rising unemployment has put them under growing financial pressure, while unrestricted international capital mobility and intensified international competition have rendered existing welfare state commitments increasingly costly. Moreover, the legally binding criteria of the Maastricht treaty have forced most European governments to adopt tight budgetary policies. The ageing of the population in virtually all European countries over the next decades will reinforce these pressures even further.

Due to these developments, the reform of the welfare state figures prominently on the political agenda of all European governments. As Bonoli (2000) has argued, welfare retrenchment is no longer an Anglo-Saxon idiosyncrasy. However, the process of welfare state restructuring has been accompanied by severe political and societal conflicts. Powerful pressures for cost containment collide with equally powerful forces defending existing welfare state arrangements. This struggle also left its imprint on the scholarly debate about the welfare state. One strand of current welfare state research emphasizes the profound alteration of traditional social policy programs in response to the above-mentioned pressures and points to the inevitability of welfare retrenchment under changed economic conditions. Another strand diagnoses a remarkable resilience of the welfare state and highlights the political difficulties of carrying out retrenchment policies.

This academic dispute is unlikely to be settled at a general level. In recent years, numerous authors have contributed to this debate and put forward a variety of theoretical propositions about the factors which facilitate or impede welfare retrenchment. While the empirical findings emerging from this body of literature are still rather inconclusive, a strong case can be made that the degree of social policy retrenchment and welfare restructuring appears to be highly contingent. In this respect we can divide the existing explanatory approaches in the retrenchment literature into at least three broad categories. One strand of explanation focuses on the strength of adaptational pressures arising from external constraints on welfare state policy as the most important predictor for the degree of retrenchment. Another line of argumentation

points to differences in the institutional design of social policy programs which will determine the degree of political and societal resistance to retrenchment arising from the structure of affected interests in distinct social policy areas. Other scholars emphasize the importance of general political factors such as the partisan complexion of government or the role of political institutions as the crucial explanatory variables for the extent of social policy cutbacks.

Apparently these explanatory dimensions are not mutually exclusive. More often than not it will be difficult to assess the relative importance of these factors for retrenchment outcomes. By the same token, empirical studies on welfare retrenchment are frequently confronted with the problem of over-determination. In order to get a grip on this problem I have chosen a “most-similar-case” design. This study investigates the reform of social insurance-based pension systems (henceforth referred to as “Bismarckian pension systems”) in five West European countries (Austria, France, Germany, Italy and Sweden) since the late 1980s. This case selection is suited to hold a number of potential explanatory variables for different degrees of retrenchment (relatively) constant. Most importantly, by focusing on Bismarckian pension systems I can control for a great deal of program-specific variations. For a number of reasons these pension systems are more vulnerable to demographic and economic pressures than other pension arrangements. At the same time, the political resistance to retrenchment is particularly strong for this type of social policy programs. I will discuss these aspects in more detail in the following chapter. Moreover, all the countries under study had to cope with severe economic and fiscal crises in the early and mid 1990s. In addition, as (potential) candidates for the European Monetary Union these countries were under extraordinarily strong pressure to consolidate their public budgets. Finally, they are subject to massive demographic changes arising from a rapidly ageing population over the next decades. In sum, pension policy-makers in the countries under study face *relatively* similar challenges at least since the early 1990s. This study tries to answer the question whether these countries have been able to cope with these challenges and adjusted their national retirement systems accordingly. More specifically, it seeks to investigate the political conditions under which the national governments were able to carry out the necessary reforms of their pension systems and initiated measures that prevent a spiraling of pension costs in the future.

The dissertation is organized as follows. In chapter one I provide a problem-oriented analysis of pension policy in the context of fiscal austerity and demographic ageing. The chapter briefly sketches the socio-economic pressures on public pension systems in general and on Bismarckian pension systems in particular. Moreover, it discusses the various options for pension policy-makers to put these systems on a more sustainable basis. Finally, it seeks to assess empirically the differences in the type and magnitude of challenges between the national pension arrangements analyzed in this study. While these differences are less pronounced than the differences between Bismarckian and Beveridgian pension systems, they still must not be neglected².

Chapter two provides an empirical account on the reforms of Bismarckian pension schemes since the late 1980s. While there have been a number of commonalities in the general direction of reform we also observe substantial cross-national variation in the degree, to which the pension systems under study have been transformed. For instance, among the five countries under investigation only Italy and Sweden brought about a changeover from a defined-benefit to a defined-contribution scheme, and only Sweden implemented a new fully-funded private pillar on a mandatory basis.

Chapter three develops a theoretical framework, which allows us to account for the variations in pension reform outcomes. First, the chapter reviews the theoretical approaches dealing with social policy-making in an era of retrenchment. Second, it briefly portrays the theoretical concept of actor-centered institutionalism and seeks to adopt this concept to explain the politics of pensions in the Bismarckian countries. Starting from the assumption that pension reforms are politically risky as they impose tangible losses on large sections of the electorate I argue that governments have a fundamental interest in achieving the political support or at least the acquiescence of potential reform opponents, most notably of the parliamentary opposition and/or the trade unions. Subsequently, I analyze from a theoretical viewpoint the conditions under which these actors are likely to cooperate with the government or not.

On the basis of this theoretical framework, chapters 4 to 8 provides national accounts of the political decision-making process in Sweden, Italy, Germany, Austria and France. The sequence of the national case studies largely reflects the degree to which these countries have succeeded in adjusting their arrangements of old-age

² The most important technical terms used to describe the design of various pension systems are explained in the glossary (appendix 3).

provision to the challenges described in chapter one. Within the individual country chapters I will first sketch the key features of the national pension systems in the late 1980s. Thereafter, I will briefly summarize the country's recent achievements in pension policy. I will then turn to the description of the political reform process, which in principle will follow a chronological order, starting in the late 1980s and ending in 2001. At the end of each country chapter I provide summaries of the national reform process, which try to assess more systematically the country's institutional capabilities to deal with the pension problem and at the same time highlight the factors which may explain possible differences in the country's reform success over time.

Chapter nine summarizes the empirical findings that emerge from the comparison of the case studies and discusses them in the light of the theoretical approach outlined in chapter three.

Chapter 1

The need for pension reform – a problem-oriented perspective

1.1 Public pension arrangements under adaptational pressure

Pension systems in Western welfare states are exposed to a number of serious pressures and external constraints, some of which will unfold their full effect only over the next decades. Depending on the specific institutional set-up of retirement income policies, their relative impact is likely to differ from one country to another. Broadly speaking, we may distinguish between economic, fiscal and demographic pressures, all of which challenge the sustainability of national pension arrangements. In the following, I will briefly portray the variety of strains with which pension policy makers in advanced welfare states have to cope.

Economic and fiscal pressures

The economic slowdown since the mid 1970s and - related to that – sluggish wage growth and shrinking employment has significantly weakened the revenue basis of public pension schemes. At the same time, public pension systems themselves were increasingly used as an instrument for early exit from the labor market, especially in the Continental welfare states. In addition, regular jobs drifted increasingly to the shadow economy in recent years or were crowded out by various forms of “atypical” employment, which were often not subject to social insurance contributions. As a consequence, public pension arrangements were faced with a growing gap between revenues and expenditures.

Initially, most governments closed this gap with an increase of pension contributions rates, which at the time was a politically more feasible strategy than cut-backs of pension entitlements (Palier 2002). However, in the context of economic internationalization this option turned out to be increasingly costly. Intensified competition on product markets puts a severe constraint on the capacity of domestic producers to shift any increase of labor costs onto domestic consumers. Therefore, the economic leeway for increases in social contribution rates has diminished considerably. At the same time, the globalization of capital markets and the European Growth and Stability Pact impose tight constraints on fiscal policies and thereby limit the possibilities to

bail out financial shortfalls in public pension schemes through higher state subsidies. Moreover, even the political costs of frequent increases of contribution rates or higher taxes have become much higher than in the past. In a context of stagnant or even falling real wages, wage earners are increasingly unwilling to accept rising fiscal charges.

Demographic pressures

The economic and fiscal strains on public pension schemes will become even more severe in the future, since demographic developments will lead to a massive ageing of the population from 2020 onwards. Two demographic trends are particularly important in that respect: increasing life expectancy and declining fertility rates. Due to both factors, the share of elderly persons (65 years and over) will rise dramatically relative to the working age population (15 to 64 years). Within the European Union the age dependency ratio is projected to increase from a current level of 24% to 49% in 2045 albeit with significant variations across countries. Hence, the share of transfers that is channeled from the working age population to the elderly must double over the next decades if future pensioners are to maintain their living standard. However, for the reasons sketched above it is rather unlikely that this increase of inter-generational transfers can be achieved by doubling contribution rates. Other measures have to be considered in order to come to grips with the consequences of demographic aging for national pension schemes.

1.2 Specific vulnerabilities of Bismarckian pension systems

The above-mentioned pressures have particularly detrimental effects on the pension arrangements that exist in the countries under study. Austria, France, Germany, Italy and - with some qualifications - Sweden belong to a cluster of countries whose pension systems are relatively similar in their basic structures. In the following, I will sketch the common features of these pension schemes. In the next step, I will expound the specific problems associated with this type of pension arrangements.

Pension arrangements in Western democracies differ greatly in their institutional design. Broadly speaking, we can identify two distinct models of pension provision, often referred to as the Bismarck and the Beveridge model (Myles and Quadagno 1997; Bonoli 2000; Hinrichs 2000a; Myles and Pierson 2001). Pension systems of

the Beveridgian type are typically aimed at poverty prevention and provide either universal flat-rate or means-tested benefits. Bismarckian pension schemes, by contrast, are based on the social insurance principle and provide for earnings-related benefits aimed at status maintenance during old-age. Among the cluster of countries with a Beveridgian tradition in pension policy, a number of countries (such as Sweden, Finland, Norway and Canada) moved towards the Bismarckian model in the late 1950s and 1960s by topping up their basic pension schemes with a second public pillar. This second pillar is typically financed out of social contributions, operates on a pay-as-you-go³ basis and provides for income-related benefits. With the maturation of the supplementary pillar the relevance of the basic pension in these countries declined gradually (at least in relative terms). As a consequence, pension arrangements in these countries have become more similar to the Bismarck model, which prevails traditionally in countries such as Germany, Austria, France and Italy. At the same time, countries belonging to the Bismarckian tradition have broadened the coverage of their pension systems and – at least partly – established elements of minimum protection (Hinrichs 2000a). Hence, the countries under study nowadays display a number of strong similarities concerning the basic set-up of their pension edifice: the (quasi) universal character of social insurance pensions, the integration of the earnings-replacement function into the public pillar and hence an only limited significance of private and occupational pensions, the strong reliance on wage-based contributions and the relative dominance of pay-as-you-go financing within the overall system of old-age provision. The relative similarity of pension arrangements in the countries under study is also reflected in the level and in the structure of benefits. As table 1.1 shows, net pensions for an average earner amount to circa 80 to 90% of previous (net) earnings. At the same time, pensions are roughly proportional to previous earnings, although replacement level for high-wage earners are typically lower due to the existence of a benefit ceiling. In Beveridgian systems, by contrast, replacement levels are on average much lower and fall sharply with rising income levels.

Pension arrangements of the Bismarckian type are particularly vulnerable to the economic and demographic pressures sketched above (Hinrichs 2000a). By the same token, the national pension systems under study share at least four problematic features.

³ An arrangement under which benefits are paid out of current revenues and no funding is made for future liabilities.

Table 1.1: Replacement rate of public pension programs

Country	Gross replacement rate		Net replacement rate	
	% of average earnings			
Austria	80%	80%	-	-
France	65%	65%	86%	84%
Germany	56%	54%	84%	74%
Italy	80%	80%	89%	90%
Sweden	69%	66%	79%	70%

Source: Blöndal and Scarpetta 1998; Weaver 1998

The first problem results from their mode of financing. As already noted, the public pension systems in Austria, France, Germany, Italy and Sweden provide relatively generous earnings-related benefits primarily financed out of social contributions. As a consequence, pension contribution rates are comparatively high by international standards, thereby boosting non-wage labor costs. This mode of financing has a particularly detrimental effect to employment at the lower end of the earnings scale, where social assistance arrangements set a reservation wage, below which net wages cannot fall (Scharpf 2000a). This effect is further aggravated by the fact that covered earnings are often limited to the bottom two-thirds of the earnings scale. As a result, rising pension costs fall disproportionately on middle and low wage earners (Myles and Pierson 2001). In addition, the strong reliance on *wage*-based social contributions renders Bismarckian pension systems particularly vulnerable to fluctuations in labor's share in national income.

Second, public pensions (making up the bulk of total retirement income in the Bismarckian countries) are traditionally of the defined-benefit type. Under a defined-benefit arrangement it is the benefit level rather than the contribution rate that is prescribed by a formula. This construction has at least two problematic effects. On the one hand, defined-benefit arrangements often imply only a loose connection between contributions and benefits and thus tend to distort the supply for labor. For instance, the pension systems under study typically used to allow for early retirement without

actuarially fair benefit reductions. Hence, within these systems there may be an in-built incentive for the insured to withdraw early from the labor market. On the other hand, defined-benefit regulations impose a quasi-contractual obligation on policy makers to increase contribution rates, whenever pension outlays exceed revenues (Myles and Pierson 2001)⁴. A growing share of pensioners will therefore automatically lead to higher contributions as long as pension policy-makers are unwilling to renege on the benefit commitments entrenched in defined-benefit schemes.

Third, among the countries under study the overall system of retirement income is predominantly based on the pay-as-you-go principle. In a pay-as-you-go funded system current contributors are obliged to pay the pensions for the contemporary generation of retirees. Whenever the numerical relationship between contributors and beneficiaries is declining, a pay-as-you-go system will come under fiscal strain. In order to restore the fiscal balance, either benefits have to be cut or more financial resources need to be diverted to the system. Thus, pay-as-you-go financed systems are highly vulnerable to demographic shocks. It has been argued, that fully-funded pension schemes are better suited to cope with the consequences of demographic ageing (Bovenberg 1996; Siebert 1998). In a fully-funded scheme, current contributions are set aside and invested in order to finance the pensions of current contributors. In contrast to a pay-as-you-go financed system a fully-funded scheme is not confined to the realm of a single national economy and thus may take advantage of the potentially higher growth rates in countries with a more favorable age structure. By investing capital in countries outside the OECD with relatively young populations and abundant labor, fully-funded pension systems may exploit the phasing differential in the ageing process that exists between OECD and non-OECD countries (Bovenberg 1996). Moreover, pay-as-you-go systems are often considered to yield a lower rate of return than fully-funded systems, as the latter tend to profit from the growing share of capital incomes in the national product (whereas the wage share has faced a commensurate decline due to the sluggish growth of real wages). Hence, throughout the 1980s and 1990s pay-as-you-go systems typically faced greater financial difficulties than fully-funded systems (Scharpf 1997a). In addition, proponents of fully-funded old-age provision have pointed to the potential growth effects for a national economy. Their (albeit contested) assumption is that fully-funded systems lead to a

⁴ It should be kept in mind that this does not apply to the complementary schemes in the French pension regime that are typically based on a defined-contribution design.

higher level of national savings that would contribute to a higher investment ratio which again would result in a higher national income in the future. In short, all arguments in favor of a stronger capitalized component predict that the level of contributions in a pay-as-you-go system that is needed to finance a given level of retirement income is higher than in a fully-funded system. What is more, the mere assumption of a lower “performance” of pay-as-you-go systems is likely to diminish public confidence in the system and reinforces the general perception of pension contributions as a kind of “implicit tax” with potentially detrimental consequences for the supply of labor.

But fully-funded forms of retirement provision are also afflicted with specific risks and problems. In particular, fully-funded pensions are more vulnerable to investment risks on the capital market⁵. Following Krupp (1997), the investment risks associated with capitalized old-age provision are likely to grow in the context of demographic ageing. The internal rate of return that can be achieved in a fully-funded system is likely to decrease, when a growing share of the population enters the retirement age and therefore starts to clean out its savings while at the same time an ever smaller share of the population will accumulate capital. Several economists (Orszag and Stiglitz 1999; Barr 2000) even argued that in economic terms there is little difference between pay-as-you-go and fully-funded schemes, as both are equally vulnerable to a shortage of economic output caused by demographic changes. However, as Barr (2000:98) points out, politicians are still likely to prefer funding over pay-as-you-go, “*since that way bad news would be seen to arise through the market outcomes rather than political decision*”. Capitalized systems also require higher administrative costs than publicly managed pensions on a pay-as-you-go basis⁶.

The bottom line is that both pay-as-you-go and fully-funded schemes feature specific strengths and weaknesses. Therefore, a more balanced mix between pay-as-you-go and fully-funding, typically prevailing in countries with multi-pillar pension systems, is better suited to diversify the specific risks associated with either of these financing

⁵ This is illustrated by the recent developments on international capital markets. For instance, pension funds within the European Union have on average lost more than 25% of their value in 2000 and 2001 (Towers Perrin 2002: Global Capital Market Update 2001).

⁶ These differences are by no means negligible. In the Netherlands, for example, it has been calculated that only 1.2% of revenues are needed to finance the administrative expenses of the public pension system. By contrast, these costs amount to 4.4% in the case of occupational pension funds, 7.2% in the case of private group insurance and 21.1% in the case of private individual pension plans (Schmähl 1999).

mechanisms than is true for the overly one-sided reliance on pay-as-you-go financing typical for Bismarckian pension systems.

A fourth design feature that has put Bismarckian pension arrangements under increasing fiscal pressure results from the fact that benefit entitlements are typically derived from an employment relationship. This has an expansionary effect on pension spending in the context of rising labor force participation. In virtually all advanced welfare states female participation rates have risen considerably over the last decades. In an earnings-related pension system this trend translates into a gradual augmentation of accrued benefit entitlements among female retirees and thus into higher pension costs in the future. Hence, as long as the tendency towards rising female labor force participation persists, earnings-related pension systems have to serve growing pension claims among women. By contrast, a pension scheme granting universal flat-rate benefits is immune to this development. A means-tested pension system may even profit from this development since a rising level of gainful employment among women is likely to reduce the number of potential beneficiaries.

1.3 Options for reform

The previous section has highlighted the fact that public pension systems in advanced welfare states – in particular those of the Bismarckian type – are challenged by a variety of economic and demographic pressures to which national policy-makers have to respond. This raises the question from which options for reform policy-makers can select in order to put their national pension systems on a more sustainable footing. This section briefly discusses the strengths and weaknesses of various reform options. In general, I will focus on four criteria of evaluation:

- First, the economic consequences of certain reform approaches, in particular for the employment system.
- Second, the fiscal implications of various measures, both for the state budget and for the financial sustainability of the pension system itself.
- Third, the redistributive effects of specific reforms in particular with respect to aspects of intra- and intergenerational solidarity.
- Finally, the political and legal feasibility of various reform options.

As suggested above, the strategy to address the fiscal problems of public pension schemes by raising contribution rates has turned out to be increasingly costly both in economic and in political terms. However, in recent years a number of alternative strategies have been employed in order to restore or to maintain the fiscal equilibrium of public pension schemes. These measures may apply either on the revenue or on the benefit side. At first, I will discuss those reform options which primarily concern the revenue side of public pension schemes (see table 1.2).

Broadening the coverage of the pension system

In many cases, Bismarckian pension systems have excluded certain types of employment from compulsory coverage such as self- and low-paid employment. Their inclusion would broaden the revenue basis of the public pension system and render it less vulnerable to changes in employment patterns (Schmähl 1999). Moreover, the level of old-age protection for persons with long records of atypical employment can be improved. Initially, the inclusion of new groups of contributors in a pay-as-you-go financed pension scheme will augment the level of contributions without increasing the level of expenditures. In the long term, however, these groups will become beneficiaries, too, and aggravate rather than mitigate the financial problems resulting from population aging (Merten 1999). The same is true for an increase in the contribution ceiling, a measure which will improve the financial outlook of the system in the short run but create new benefit entitlements and thereby higher expenditures in the future.

Shifting from contribution to tax financing

Another reform option consists in the (partial) refinancing of public pension schemes from wage-based contribution to general taxes. In general, a stronger shift towards tax-financing has a number of economic and distributive advantages. On the one hand, this move would imply a broadening of the revenue basis and reduce non-wage labor costs. To the extent to which social contributions (which have a slightly regressive effect due to the existence of a contribution ceiling) are substituted by higher income taxes (which tend to be highly progressive), employment at the lower end of the income scale will be unburdened disproportionately, whereas the additional burden for high wage earners is likely to increase. This may not only be justified with

reference to the ability-to-pay principle but also with respect to the fact that taxes on labor have the most detrimental employment effects in the lower income brackets.

At the same time, however, a radical refinancing of contributory pension schemes towards more tax financing is likely to trigger fierce political resistance and will be extremely difficult to legitimize. In Bismarckian countries pension coverage is typically not fully universal, i.e. the collectivity of potential beneficiaries is smaller than the collectivity of tax-payers. In this case, a pension system largely funded out of general revenues would lead to the consequence that some taxpayers (not necessarily belonging to the better-off stratum) would have to subsidize other peoples' earnings-related pensions (even those of highly paid employees) without having any own entitlements to the system. As Miegel and Wahl (1999) have correctly pointed out, this is not only questionable from a normative point of view but may also raise serious constitutional problems. Hence, the scope of tax-financing within a non-universal Bismarckian pension system is typically confined to the realm of non-contributory benefits (even though the definition of "non-contributory benefits" is far from clear-cut).

Introducing a universal tax-financed basic pension

This dilemma could be solved through the introduction of a tax-financed and universal basic pension. In Germany, scholars such as Miegel (1999) have propagated a complete displacement of contributory social insurance pensions by a public basic pension providing flat-rate benefits for the whole population and financed out of general taxes. Apart from its more employment-friendly revenue structure a universal basic pension has been considered as an effective instrument to prevent old-age poverty. Moreover, it has been argued that this solution is less costly than the retention of an earnings-related pension system and therefore better suited to weather demographic shocks.

However, a number of serious objections have been raised against this approach (Müller and Tautz 1996; Krupp 1997; Maydell 1998; Rahn 1999). First, in a flat-rate system the link between individual payments and benefits no longer exists. Hence, economists like Krupp (1997) have argued that this may weaken work incentives and encourage dodging reactions such as a flight into clandestine employment. It is debatable, however, whether the effect of the benefit structure of pensions on labor

supply really carries weight in comparison to other factors such as the size of the tax wedge, which has a much more immediate impact on work incentives.

Second, the expected savings associated with a system change from a contributory social insurance pension to a (typically less generous) universal basic pension will only accrue in the long run. When a universal flat-rate system is introduced, the overall costs of the pension system will initially be higher than before. On the one hand, the inclusion of hitherto uncovered groups and the upgrading of very low pensions to the level of the new basic pension will cause additional expenditures. On the other hand, the pension claims built-up in the old contributory system that exceed the level of the basic pension still have to be served and will only run down very gradually⁷.

Third, concerns are raised about the fiscal implications associated with such a system change. If pensions are entirely financed out of the state budget, governments may become more restrained in their capacity to deliver other essential public services (Krupp 1997). Conversely, in a tax-financed system pension benefits are not acquired as contributory entitlements and may thus become more easily the target of fiscal consolidation measures. In other words, tax-financed pensions will enjoy a lower degree of 'legal safeguard' than pension claims acquired on the basis of individual contributions.

Fourth, the distributive superiority of a universal basic pension scheme providing flat-rate benefits has been questioned. By its very nature, such a system does not allow for a differentiation of benefits according to political priorities. For instance, flat-rate benefits do not offer any possibility to credit periods of child rearing or elderly care (as can be done easily in a contributory pension system where activities of that kind may be honored by additional benefit entitlements). Moreover, if the earnings-replacement function is completely left to the market income inequality among pensioners may even increase as low-income earners have only limited capacities to pursue individual old-age provision.

⁷ According to a simulation study by Müller (1996) the introduction of a general basic pension as suggested by Miegel (1999) would initially cause additional costs of 12%. Only after 20 years the costs of the contributory system will surpass those of the basic system. Further 20 years later, the costs of the basic pension are calculated to be about 15% lower than they would have been if the contributory system was retained.

Fifth, a changeover from social insurance pensions basically covering dependent employees towards a universal pension system may require the inclusion of occupational groups (in particular many self-employed) that hitherto have been covered by private mandatory schemes. In any case, the pension claims that have been built up within these schemes need to be warranted. By the same token, many self-employed have incurred sizeable financial obligations for the purpose of individual old-age provision (such as insurance contracts or the purchase of real estates). If these groups must also co-finance the public pension system through higher taxes, their overall financial burden may become unduly. Hence, long-term transitory rules would have to be established for these groups (Merten 1999).

Sixth, it is politically difficult to master a changeover from a contribution-based to a tax-based system. In general, there will be a higher readiness to pay social contributions than to pay taxes and “tax” resistance will be lower in a system based on contributions for which receive something in return. More importantly, people are keen on maintaining their previous standard of living during old-age. As a consequence, they are likely to regard any shift from earnings-related social insurance to basic security with great skepticism. In Germany, for instance, opinion polls suggest that a broad majority of citizens refuses the displacement of the existing pension system by a flat-rate basic pension⁸. Hence, the electoral costs of such a changeover will be in most cases prohibitive.

In addition, the introduction of a tax-financed basic pension may require a fundamental restructuring not only of the tax system but also of the system of financial relations between central, regional and local authorities as well as between the state and the other branches of social insurance. For all these reasons, it should not come as a great surprise that we cannot detect any empirical instance among OECD countries where a mature earnings-related pension system was replaced by a tax-financed basic pension.

Some of the problems mentioned above may be avoided or at least alleviated if the earnings-related pillar was split into two functionally separate pillars. The first pillar would consist in a universal and tax-financed basic pension aimed at minimum protection. This pillar would be complemented by a second tier that serves the exclusive

function of income replacement and that would be relieved of non-contributory benefits. This pillar would be exclusively financed out of social contributions. Hitherto, Bismarckian pension systems typically intermingle in a rather unsystematic fashion elements of redistribution (such as non-contributory benefits) with elements of insurance (i.e. income replacement). By contrast, due to the clear assignment of different redistributive functions to organizationally distinct pillars in a two-tier public pension system the redistributive rationality of the overall pension system would be enhanced. What is more, a sizeable share of total pension costs would be shifted away from wage-based contributions which would again contribute to a more employment-friendly financing structure.

However, the major problem associated with this changeover lies on the cost side. The necessary expenditures would most likely exceed those of the existing system, especially in the introductory phase. As pointed out above, the inclusion of hitherto uncovered groups and the upgrading of very low pensions to the level of the basic pension will inevitably cause additional expenditures. To some extent, this might be refinanced by the abolition of non-contributory benefits. However, even if this was considered as acceptable, it could only be implemented very gradually, as a radical reduction of these benefits for the current generation of pensioners would be politically unfeasible and legally problematic.

In sum, an expansion of the tax-financed share in order to cover non-contributory benefits appears to be a both economically efficient and politically feasible reform option. A tax-financed basic pension might also be considered as an economically more robust arrangement than earnings-related social insurance. However, the *changeover* of the system will be associated with substantial transition costs and is likely to face virtually insurmountable political obstacles. Hence, changes in revenue levels alone will hardly suffice to maintain the fiscal equilibrium of public pension systems in the long-term and to avoid harmful labor market effects (Pierson 1998). Therefore, pension policy-makers also have to develop policy responses that effectively curb the growth of public pension outlays, promote the compensatory establishment of fully-funded old-age provision and at the same time prevent a large increase in old-age poverty.

⁸ Depending on the respective opinion poll, only between 20 and 37% of German citizens would welcome a tax-financed basic pension as an alternative to contributory pension insurance (FORSA 1997a; FORSA 1997b; FORSA 1997c).

Table 1.2: Advantages and disadvantages of pension reform options on the revenue side

Reform option	Economic effects	Fiscal effects	Redistributive effects	Political/legal feasibility
Higher contribution rate	- increase in non-wage labor costs	+ higher revenues for the pension system	- regressive effect	- tax resistance
Inclusion of hitherto non-covered employment groups	+ revenue basis of pension system broadened and made less vulnerable to changes in employment patterns - additional expenses during the demographic peak		+ improved old-age protection for certain groups	- resistance by the affected groups
Shift towards more tax financing	+ reduction/ stabilization of non-wage labor costs	+ broadening of revenue basis	(+) reduced tax burden for low income earners	- tax resistance - only feasible for non-contributory benefits
Replacement of contributory pension insurance by tax-financed basic pension + private pensions	+ strong reduction of non-wage labor costs - weaker work incentives as the link between contributions and benefits is dissolved	+ lower expenditures in the long-term + broader revenue basis - higher expenditures in the short- and medium term - higher pressure on public budget	+ prevention of old-age poverty + reduced tax burden for low income earners - rising income inequality among the elderly	- less protection against state intervention - political costs of changeover very high
Tax-financed basic pension + earnings-related pension	+ reduction of non-wage labor costs - weakening of work incentives	+ broader revenue basis - higher expenditures - higher pressure on public budget	+ prevention of old-age poverty and rising income inequality + reduced tax burden for low income earners	- strong tax resistance

With respect to cost containment reforms we need to distinguish between measures aimed at achieving short term budget relief on the one hand and more structural reforms, on the other, designed to dampen the expected increase in contribution levels and to secure the fiscal sustainability of public pension schemes in the long-term, in particular with respect to the challenge of demographic ageing. This analytical distinction appears necessary, although in practice the borderline between the two reform approaches may be blurred. Each type of retrenchment is likely to conform to a different political decision-making logic (Anderson 1998). Typically, short term pension cuts are primarily inspired by acute budgetary crises. Their major objective is to achieve relatively modest but immediately effective savings for the public budget. By their nature these measures affect primarily current pensioners. Structural reforms, by contrast, typically become effective only over a long time horizon but may imply a radical reduction of benefit levels as well as a major restructuring of the contemporary design of pension system, in particular with respect to the balance between public and private sources of retirement income. Moreover, in contrast to short term cuts,

long term structural reforms typically affect future pensioners to a much greater extent than current retirees. Thus, pension policy-makers are likely to pursue distinct purposes with either of these reform strategies. This needs to be kept in mind, when we try to assess the scope of single reform efforts in a comparative perspective. In the following section, I will discuss those reform options which may be deployed to curb the growth in public pension expenditures (see also table 1.3)⁹.

Targeting of benefits

In countries relying on flat rate public pensions the introduction or the tightening of means-, income- or affluence tests is a widely used instrument to curb pension spending. Typically, this strategy has been justified on the grounds that public social benefits should be confined to the “really needy” or at least exclude the rich. Such a strategy has also been applied in Sweden where the universal basic pension was transformed into a “guarantee pension” provided for those who have no or only a small pension from the ATP scheme. However as Bonoli (2000) and Myles/Pierson (2001) point out this option is politically unfeasible or even legally restricted in contributory earnings-related schemes where pension entitlements are typically considered as “acquired rights”. One important exception is survivors’ pensions, which are typically derived from the beneficiary’s family status rather than his/her own entitlements. This fact allows for arrangements in which eligibility for survivors’ benefits is (at least) partly set off against own income. However, stronger means-testing may weaken individual work incentives as well as incentives for private retirement saving.

Increasing the retirement age

Pension policy-makers in most OECD countries have in recent years also sought to increase the entry age of retirement and to remove incentives for early retirement. The fiscal effect of this approach on public pension arrangements is two-fold. The revenue basis of the pension system will be strengthened as people will work longer. At the same time, expenditures will decrease as less people will draw pensions. In Bismarckian countries, in particular, the regular retirement age for women has been

⁹ The repertoire of measures discussed below is explicitly confined to the area of pension policy. To be sure, legal steps taken in other policy areas such as immigration policy, family policy or employment policy may be important or even necessary in order to alleviate the demographic and economic pressure on national pension systems. However, I will not address these aspects within the scope of this study which is aimed to analyze the politics of *pensions*.

traditionally lower than for men. Hence, aligning the retirement age for women with those of men was an obvious starting-point for cost containment reforms. This move was also enforced by a decision of the European Court of Justice, which demanded a gradual harmonization of retirement ages for men and women. In addition, generous access to various forms of early retirement especially in the Continental welfare states has become a key target for reform. In order to be effective, an increase in the pensionable age needs to be accompanied by actuarial reductions if an insured person retires prior to the regular retirement age. Conversely, an actuarial premium may be paid in order to encourage work beyond the normal retirement age. In other words, pension policy-makers try to move the pension system closer towards actuarial neutrality, i.e. rendering the system neutral with respect to the retirement decision. A major difficulty associated with an increase in the retirement age concerns the effects of this strategy on the labor market. In national economies plagued by high levels of unemployment an increase in the retirement age may at least temporarily aggravate labor market problems. Moreover, steps to increase the retirement age are bound to be extremely unpopular, especially among the age cohorts close to retirement.

Tightening the link between contributions and benefits

A frequently applied reform strategy in earnings-related pension systems is the reinforcement of the so-called equivalence principle. This principle suggests an approximate symmetry between individual contributions and individual benefits. However, as Myles and Pierson (2001) point out even ostensibly earnings-related systems typically incorporate design features that deviate from this principle and entail significant inter-personal transfers. To the extent to which these features are considered to generate “inequitable” or even “perverse” distributive outcomes their abolition or reduction would not only help to contain pension spending but also “rationalize” the redistributive character of the pension system. Basically, strengthening the equivalence principle can take two forms. First, non-contributory benefits such as credits for periods of schooling or unemployment may be curtailed or eliminated completely. Arguably, these measures are unlikely to trigger major political controversies. Due to their selective nature, they will only affect a limited segment of the insured population. Moreover, these benefits are less likely to be perceived as “well-earned rights” and enjoy a lower level of “legal safeguard” than contribution-based entitlements. Hence,

this form of retrenchment appears to be relatively unriskey for pension policy-makers. However, the limits of this strategy are also evident. Due to their relatively modest quantitative significance, a reduction of non-contributory benefits alone will hardly suffice to maintain the fiscal equilibrium of public pension schemes. Moreover, in most Bismarckian countries we also observe a countervailing tendency with respect to certain types of non-contributory benefits. In particular, many countries have introduced or increased pension credits for child and elderly care entailing an expansive effect on pension spending¹⁰.

However, a tighter link between contributions and benefits and thereby a potential for far reaching expenditure cuts can also be achieved through changes in the pension formula. Traditionally, the pension formulas in all Bismarckian countries but Germany more or less deviate from the strict principle of lifetime earnings. Hence, changes in various parameters of the benefit formula may be employed to strengthen the equivalence between contributions and benefits. At the time of retirement, benefits in an earnings-related pension scheme are basically calculated on the basis of three variables: the reference salary, the period of assessed contributions, and the accrual factor¹¹. Hence, the benefit formula for earnings-related old-age pensions can be presented in a stylized form:

$$B = y * t * c$$

With

B = Benefits

Y = Reference salary

T = Period of assessed contributions

C = Accrual factor

All three parameters can be adjusted in order to strengthen or weaken the relationship between total lifetime contributions and pension benefits and thereby affect the level of aggregate pension expenditures. In so far, the distinction between defined

¹⁰ Following Hinrichs (2000) this move is probably not only inspired by a notion of gender equity according to which women should not suffer from reduced pension entitlements resulting from their overwhelming contribution to unpaid family work. It may also be driven by an implicitly pronatalist impetus considering the raise of children as an essential prerequisite to maintain a pay-as-you-go based pension system in the long run.

¹¹ The following description draws mainly on Bonoli (2000), Myles and Quadagno (1997) and OECD (1988).

benefit and defined contribution plans should be seen as a continuum rather than a dichotomy. Many public pension schemes are in fact hybrid pension plans that combine some features of the defined-benefit approach and some aspect of the defined-contribution method (see box 1). The reference salary typically varies between total career earnings and earnings based on a number of 'best' or last years. The shorter the period, on the basis of which the reference salary is assessed, the weaker is the relation between contribution and benefits. Hence, in a system where the assessment period for the reference salary is short, employees with a steep earnings career will receive a higher pension than employees with a flat earnings history even if the overall amount of lifetime earnings is the same.

Once the reference salary is established, the result is then multiplied by the number of contribution-years. However, the number of contribution-years that is taken into account differs from one country to another. In general, the time required to reach a full pension (often referred to as the qualifying period) varies between countries from 30 to 50 years. Shorter qualifying periods tend to favor individuals with fewer years of labor force participation.

The accrual factor determines the percentage of relevant earnings that enters into the pension formula per each contribution year. In most countries, the accrual factor for one additional year of contribution ranges between 1 and 2 percent of assessed earnings determining the replacement rate of the system. More often than not, the structure of this factor is proportional but it may also vary with the length of contributions or with the size of the assessed income.

Box 1: Defined-benefit versus defined-contribution plans

In the classification of various pension arrangements often a distinction is made between defined-benefit and defined-contribution plans. The bottom line is that in a defined-benefit plan the amount of benefits to be paid determines the level of contributions. By contrast, in a defined-contribution plan the amount of contributions that have been paid determines the level of benefits.

In defined-contribution plans a system of contributions is set up in which members build up individual credits. When the pension is calculated, these credits are assigned a value based on the scheme's financial resources, which depend upon the flow of contributions collected. The total amount of contributions calculated under the scheme's rules is distributed to the

beneficiaries in proportion to the credits they have acquired (thereby applying strict equivalence between contributions and benefits). At retirement, the balance in the account is converted into a life annuity based on estimates of the cohort's expected life-span. Thus, in a defined-contribution scheme the risk that contributions fall short of benefits (due to demographic or economic developments) is entirely imposed on beneficiaries since any shortfall will be made up by adjusting the value of pensions. By the same token, there is no element of redistribution in defined-contribution plans, neither within nor across generations.

By contrast, in a defined-benefit plan benefits are prescribed by a benefit formula. This formula may or may not imply a strict equivalence between contributions and benefits. As a rule, defined-benefit plans contain more or less strong elements of redistribution within and across generations. Depending on the benefit formula, shortfalls will be made up either by altering the contribution rate or by adjusting the value of pension or both.

Defined-contribution plans may be either fully-funded or pay-as-you-go. In a fully-funded defined-contribution plan, a periodic contribution is prescribed and the benefit depends on the contributions paid in plus the return on investment.

In a pay-as-you-go defined-contribution plan (often referred as a *notional* defined-contribution plan) each participant has an individual account in which benefit rights are accounted in a similar manner to that in a fully-funded defined-contribution scheme. The worker's contributions are credited to his or her account but no funds are deposited in the account. The worker's account balance is periodically revalued upwards, just as if a funded account were being credited with interest. In sum, a pension paid on the basis of a notional defined-contribution plan

- (a) bears an explicit relationship to contributions,
- (b) is based on lifetime contributions, and
- (c) is adjusted for the life expectancy of the cohort and
- (d) economic developments. Moreover, it
- (e) allows for a flexible retirement age with the pension being actuarially adjusted.

Either of these features may to a greater or lesser extent also apply in a defined-benefit plan. In a notional defined-contribution (NDC) plan, however, all these parameters are constructed in a way that any shortfall will be avoided in advance by an automatic adjustment of the value of pensions (rather than by an increase of contribution rates). Insofar, the distinction between defined-benefits and defined-contribution plans is a continuum, not a dichotomy. A NDC plan can thus be regarded as a special case of a pay-as-you-go defined-benefit system (Myles and Quadagno 1997; Barr 2000; Gillion et al. 2000; Settergren 2001).

The stronger these parameters deviate from the principle of lifetime earnings, the greater is the scope for austerity measures that can be justified with reference to the equivalence principle. Nevertheless, insured persons with a long contribution record and a flat earnings career may still profit from a tighter link between contributions and benefits. In countries where the period of assessed earnings is comparatively short, future benefits can be more closely tied to contributions by bringing assessed earnings closer to lifetime income, i.e. increasing the number of “best years”. *Ceteris paribus*, this will result in a sharp reduction in pension entitlements for workers with many years of low earnings and a few years of high earnings. In addition, governments may also extend the qualifying period, i.e. raise the number of contribution years required to draw a full pension¹². Finally, in those countries where the accrual rate is differentiated according to the length of contribution or to the size of the assessed income the unification of this rate at a lower average level may also yield substantial savings¹³.

Lowering the overall generosity of the pension system by reinforcing the equivalence principle in the calculation of benefits appears to be a quite obvious route of adjustment in the Bismarck regimes. This may even take the form of a complete change-over from a defined-benefit towards a defined-contribution system, in which – broadly speaking – contribution rates are fixed and benefits will be adjusted accordingly (see box 1). Most importantly, this strategy reduces “inequitable” redistribution between workers with a flat earnings history and workers with a steep earnings career as well as between workers with a long employment record and workers with shorter periods of labor force participation. This does not necessarily imply that any gap in the work history of an insured person will automatically lead to lower pension entitlements. Instead, social protection may be targeted more specifically towards “legitimate” forms of labor market exit. For instance, pension credits may be granted for periods such as parental leave, illness and unemployment (Myles and Pierson 2001). A tighter link between contributions and benefits will also strengthen work incentives by

¹² In effect, this measure boils down to a lowering of the accrual rate.

¹³ In principle, a lower average accrual rate (and thus a reduction in overall pension outlays) might also be realized by a *stronger* differentiation of accrual rates according to income rather than their harmonization at a single level. Typically, this would imply that higher incomes are revaluated at a lower rate than low incomes. In Italy, for instance, the indexation of those parts of the pension income exceeding the eightfold amount of the minimum pension was suspended in 1998 (Hohnerlein 2001).

reducing the negative impact of the “tax wedge” on labor supply (Schmähl 1999)¹⁴. In particular, this approach may help to contain tendencies toward illegal employment and early labor market exit. However, there is less room for adjustments of this sort (and therefore less radical reforms) in countries such as Germany where benefits have traditionally been calculated on the basis of lifetime earnings. As a result, changes in the pension formula enacted in these countries are likely to take the form of lowered accrual rates, typically implying a general reduction of the replacement ratio. In many cases this is achieved by shifting to a less generous indexation mechanism.

Changing the indexation mechanism

In recent years most OECD countries have modified their indexation procedures to slow down the growth of pension outlays. For a number of reasons changes in the indexation mechanism appear to be a quite powerful tool to curb pension spending. First, this instrument can also be employed in the short term. As opposed to more fundamental changes in the pension formula such as a shift from ‘best years’ to lifetime earnings, changed indexation procedures cannot be said to be a radical intervention in individual pension entitlements and thus do not require lengthy interim regulations to be implemented. Moreover, this kind of reform can in principle be applied to all types of pensions and to the population of pensioners in their entirety, hence allowing for larger savings than is true for cutbacks that affect only a limited segment of beneficiaries. In addition, once a less generous indexation mechanism is established on a permanent basis, this measure may yield ongoing and thereby very substantial long-term savings without repeated discretionary interventions by the government that are more likely to attract public displeasure.

The possibilities to switch towards a less generous adjustment coefficient are manifold. Their effectiveness will often depend not only on the indexation mechanism itself but also on the development of certain macro-economic factors which may change considerably over time. Many countries have switched from a wage to a price index (or a mixed wage/price index) as wages usually grow more quickly than consumer

¹⁴ The reinforcement of work incentives was also an important criterion behind the recent pension reform in Sweden, although employment ratios are still very high by international standards. As Wadensjö (2002) points out, a tighter link between contributions and benefits is expected to increase the number of years in employment (by fewer interruptions and later exit from the labor market) and to encourage full-time rather than part-time employment.

prices. However, in periods of declining or stagnating real wages or severe economic and budgetary crises even price indexation may be regarded as too costly. Under these circumstances, pension policy-makers are likely to consider ad-hoc interventions into the indexation mechanism, such as a temporary or partial suspension (or a delay) of pension adjustment, as a necessary evil to avoid an imminent or to reduce an existing fiscal deficit in the pension system. Some countries have changed the indexing formula from gross to net wages in order to distribute the burden of higher taxes and social contributions more evenly between the gainfully employed and the retired. However, such a change may also turn out to be problematic as soon as tax reductions for the gainfully employed are implemented. In this case, indexation based on the development of net wages would lead to increased pension spending and perhaps to rising contribution rates. For this reason, Germany has recently switched to a modified net wage indexation which no longer takes into account changes in income tax rates. Instead a notional contribution to private old-age provision is subtracted from the assessment basis (Schmähl 2001). In so doing, current pensioners automatically take a share in the financial burden that the gainfully employed are expected to shoulder through the necessity of increased private retirement provision. An alternative but functionally equivalent strategy of dampening the yearly increases of pension payments was applied by the Kohl government, which integrated a “demographic factor” into the adjustment formula. In so doing the (increasing) life expectancy of German citizens was at least partly taken into account in the calculation of benefits.

Harmonization of different benefit regulations

As pointed out above, pension systems in the Bismarckian countries are typically fragmented along occupational lines. If this fragmentation goes along with differences in the generosity of benefits, “privileges” for certain groups of pensioners may be considered as a legitimate target for retrenchment. Typically, this concerns employees in the public sector who often enjoy more favorable benefit regulations than workers in the private sector. For instance, the calculation of the reference salary or the possibilities for early retirement without benefit deductions are often more advantageous for public employees.

From a budgetary perspective, the need to control pension spending is particularly pronounced for pension schemes covering employees in the public sector. Most countries massively expanded the share of public employment in the 1960s and 1970s. Hence, in the years to come a rapidly growing share of public employees will reach the retirement age and impose an increasingly heavy burden on the public budget¹⁵. This makes a gradual downward-adjustment of pension benefits for this group particularly urgent. However, a complete harmonization of pension benefits between state employees and workers in the private sector is not an easily available policy option. In Germany, for instance, a changeover of civil servants pensions from “final salary” towards “lifetime earnings” would require a change of constitutional rules and thus a two-third majority in both the *Bundestag* and the *Bundesrat*. Therefore, savings in the German system of *Beamtenversorgung* typically take the form of across-the-board reductions in benefit levels rather than of fundamental changes in the principles of benefit calculations.

Establishing a stable system of means-tested minimum protection

The reform options discussed above are aimed at containing the increase of public pension expenditures. Hence, pension policy-makers must develop strategies to ensure that (future) pensioners will not suffer serious losses in their living standard or sink into poverty as a consequence of benefit reductions. In a pension system where benefits are strictly tied to individual contribution records, pension cuts are likely to drive an increasing share of persons with low income and/or incomplete working careers into old-age poverty. Therefore, pension policy-makers in the Bismarckian countries need to make sure that old-age poverty is effectively prevented by a functioning system of means- or income-tested minimum protection. It is an open question though whether such an arrangement should be established within the pension system itself or within the framework of social assistance. Among the countries under study all have chosen the first option with the notable exception of Germany, which is the only OECD country lacking a (means-tested) minimum pension. In Germany, plans to establish a means-tested minimum protection within the statutory pension insurance have encountered strong criticism. In particular, fears were raised that

¹⁵ The German pension scheme for civil servants is a case in point. According to model calculations carried out in 1995 expenditures for civil servants pension will increase from 1.46% of GDP in 1990 to 3.18% in 2040 (Färber 1998). Thus, the imminent increase in pension outlays for civil servants is, at least in relative terms, far more pronounced than in the general statutory pension insurance.

such a measure would undermine the strictly earnings-related character of the pension system and in the long run favor a shift towards a basic pension (Ruland 1999). Hence, German pensioners lacking sufficient resources to reach the subsistence level have to rely exclusively on social assistance benefits. There is some reason to believe that this construction may be ill-suited to protect all pensioners effectively against the risk of income poverty. To the extent to which the combined effect of cuts in the generosity of the pension system and the growing share of atypical employment increases the number of very low pensions and thus the number of pensioners with a formal claim to social assistance, disguised old-age poverty is likely to gain in significance. The reason is that the receipt of social assistance benefits is often experienced as a stigmatizing procedure, in particular by the elderly population. Hence, a certain percentage of potential beneficiaries is likely to refrain from making use of their claims. Germany has attempted to tackle this problem by improving the cooperation between pension insurance associations and social assistance agencies and by loosening the eligibility criteria for old-age pensioners claiming social assistance. In particular, the liability of adult children vis-à-vis their needy parents was largely abolished. It remains to be seen, however, whether this approach will help to contain the problem disguised old-age poverty.

Shifting from pay-as-you-go toward fully-funding

If the living standard of old-age pensioners is to be maintained in the future, the gap resulting from cuts in the public pension system needs to be filled by fully-funded old-age provision either in the form of private or occupational pension plans. As pointed out above, a multi-pillar pension system distributing the costs of an ageing population more evenly between pay-as-you-go and fully-funded schemes is considered to be less vulnerable to demographic shocks than pension systems overwhelmingly based on pay-as-you-go financing. A second argument put forward in favor of multi-pillar systems is that payments to non-public forms of old-age provision are not part of the tax wedge and therefore have less detrimental effects on employment than wage-based social contributions. Hence, for pension policy-makers in the Bismarckian countries the main challenge is to set in motion a process at the end of which the capitalized component of old-age provision is much more significant than today. In the following, I will briefly discuss the various options to bring this changeover about.

Table 1.3: Advantages and disadvantages of various pension reform options on the expenditure side

	Economic effects	Fiscal effects	Redistributive effects	Political/Legal feasibility
Increased targeting	- weaker incentives to work and to pursue private retirement saving	+ lower expenditures + higher administrative costs	+ concentration on the truly needy - "violation" of actuarial fairness	- not feasible for contributory benefits
Increased retirement age	+ reduction of non-wage labor costs - higher pressure on the labor market in the short run	+ lower expenditures + higher revenues + lower pressure on public budget	- one-sided burden on the active population	- highly unpopular
Shift towards lifetime principle	+ reduction of non-wage labor costs + stronger work incentives	+ lower expenditures + lower pressure on public budget	+ greater actuarial fairness - rising poverty among groups with incomplete work careers or low income	- resistance by affected groups
Reduction of non-contributory benefits	+ reduction of non-wage labor costs + stronger work incentives	+ lower expenditures + lower pressure on public budget	+ greater actuarial fairness - potential hardships for groups with discontinuous employment careers	+ political resistance limited + no major legal restrictions
Less generous indexation	+ reduction of non-wage labor costs	+ lower expenditures + lower pressure on public budget		- political resistance
Harmonization of pension schemes	+ reduction of non-wage labor costs	+ lower expenditures + lower pressure on public budget	+ greater intra-generational equity	- resistance by affected groups - legal restrictions possible
Introduction of (means-tested) minimum pension	- weaker incentives to work and to pursue private retirement saving	+ higher expenditures + higher pressure on public budget	+ better prevention of old-age poverty - "violation" of equivalence principle	- political resistance among the proponents of strictly contribution-related benefits

It is debatable *how* large the fully-funded component should be. On the one hand, a majority of economists advocates an expansion of capitalized elements within the overall system of old-age provision. On the other hand, there is broad agreement among pension policy experts that a complete changeover from a fully-fledged pay-as-you-go system to a purely capitalized system is neither economically desirable nor politically feasible (DIA 1999). As suggested above, even a fully-funded system is associated with certain risks, in particular as the future development of capital markets is concerned (see table 1.4). A complete replacement of a pay-as-you-go financed system by a fully-funded system would aggravate these risks because such a dramatic shift is likely to have a depressive effect on the rate of return on financial capital. Moreover, a shift from a pay-as-you-go towards a fully-funded system will always impose a serious double payment problem. In the transition period from the

old to the new system the gainfully employed would have to shoulder a more or less heavy additional financial burden. Throughout the transition phase they would be still obliged to pay the benefits for current pensioners in the pay-as-you-go system while at the same time save for their own retirement. Hence, for both economic and political reasons there is neither the necessity nor the possibility to radically abolish the existing pay-as-you-go systems in the Bismarckian countries. As Myles and Pierson (2001) point out, the adoption of the World Bank's three-pillar- model of old-age income security is therefore largely irrelevant to countries with a mature pay-as-you-go system¹⁶. However, for politicians within democratic polities, typically orientated towards short-term election cycles, even a modest and incremental switch towards a higher capitalization of old-age provision may be politically costly, given that the costs of transition accrue immediately, while the (potential) benefits of a system change will only accrue in the long run.

Table 1.4: Strengths (+) and weaknesses (-) of pay-as-you-go versus fully-funded schemes

	Retention of a pure pay-as-you-go system	Combinations between pay-as-you-go and fully-funding		
		Pay-as-you-go with internal capital stock	Pay-as-you-go + occupational pensions	Pay-as-you-go + private pension plans
Protection against demographic risks	-	+	+	+
Protection against investment risks	+	-	-	-
Protection against political risks	-	--	+	+
Administrative costs	++	+	0	--
Redistributive capacity	+	+	0	-
Double payment problem	+	-	-	-

In principle, a changeover from a pay-as-you-go to a (partially) capitalized system can be implemented both within the public and within the private or occupational tiers

¹⁶ The World Bank (1994) recommends a publicly managed and tax-financed first pillar providing for basic security needs. This is to be supplemented by a mandatory, privately managed and fully-funded second pillar, which again might be topped up by voluntary occupational or individual savings plans as the third pillar.

of old-age provision. However, the economic, distributional and political implications are different (see table 1.5).

Setting up a capital stock within the public pillar

One option to buttress the fully-funded elements of old-age provision is to build up a capital stock within the public pension system. In this case, the contribution rate is set higher than would be necessary to cover current pension payments. A part of the accumulated capital reserves may be invested in high-yield instruments in order to exploit the potential of the capital market to the financial advantage of a basically pay-as-you-go based public pension system. What is more, a capital stock within the public pension system may also serve to distribute the fiscal burden resulting from the demographic shock more evenly over time and across generations. By gradually melting off the accumulated reserves at the time when the demographic burden hits its peak the future increase in contribution rates can be kept lower than would be necessary otherwise (Hinrichs 2000a). Moreover, as opposed to private or occupational pensions, a fully-funded component within the public pension system enables pension policy-makers to maintain the redistributive character of social policy. By the same token, public arrangements are better suited to deal with the problem of adverse selection typically prevailing in the realm of private insurance. For instance, by its very nature a public pension system allows for a pooling of risks between persons with different life expectancies. Hence, in a public pension system the higher average life expectancy of women (as compared to men) does not translate into lower pension payments (as would be typically the case within individual pension plans).

However, the creation of a state-controlled trust fund within the public pension system also entails a number of serious problems. In the short run, the creation of the capital stock would require additional resources and thus lead to a higher tax wedge and increased budgetary pressures. Furthermore, a state-controlled pension funds may be used for purposes other than augmenting the invested capital assets such as purchasing government or public enterprise bonds or financing housing loans at low rates of return. As the World Bank (1994) has pointed out, most publicly managed pension funds have lost money in the 1980s dissipating the accumulated reserves through negative real interest rates. Even if the problem of public misinvestment could be resolved, there is still a considerable political risk associated with this op-

tion. Whenever a capital stock has been accumulated within the public pension system, governments may be tempted to grab at this money prematurely in order to unburden their own budget or to spend the money for current pensioners in order to improve their electoral standing (Sinn 1999)¹⁷. Even if the state has no direct access to these reserves, it may draw on the capital stock in an indirect way by lowering the inflow of tax money into the pension system without commensurate reductions in pension expenditures. The resulting deficiencies in receipts would thus lead to a diminution of the capital stock.

Strengthening of occupational and private pension plans

The latter problems are of minor relevance if fully-funding takes the form of private or occupational pension plans. These arrangements are less vulnerable to the political risks described above since the state has no legal power and no fiscal incentives to cut non-public pension benefits. Moreover, contributions to private or occupational pensions do not amplify the tax wedge as long as they are paid on a voluntary basis. Hence, they have no distorting effects on labor supply. Finally, they offer greater possibilities for individual choice than the uniform benefit regulations characteristic of the public pension system. For all these reasons most pension experts advocate an expansion of fully-funded old-age provision outside rather than within the public pillar.

However, private or semi-private forms of retirement provision are also associated with certain risks and weaknesses. In particular, they come off worse than public pension systems with respect to their redistributive capacity and their administrative costs. Moreover, they are exposed to the danger of private mismanagement. As the Maxwell scandal in the UK or the Enron scandal in the US have shown, private or occupational pension plans may be associated with enormous investment risks which may even lead to a virtually complete loss of the invested capital. However, by providing an appropriate regulatory framework establishing a number of minimum standards with respect to the investment criteria the state will be able to contain such problems¹⁸.

¹⁷ This problem has emerged in Germany, where the federal state *Schleswig-Holstein* had recently set up a reserve fund designed to cover a certain share of expenditures for civil servants pensions during the demographic peak. Shortly thereafter this reserve fund was dissolved again in order to cover the general deficit in the public budget (Färber 1998).

¹⁸ For instance, such a legal framework may stipulate that only a certain share of the investment capital may be placed within one company.

The specific strengths and weaknesses of private or occupational old-age provision also vary with the concrete design of these schemes. Concerning their organizational form, supplementary old-age provision may be pursued on a purely individual or on an occupational basis. Occupational pensions may be further distinguished between employer-sponsored fringe benefits and collectively negotiated pensions on the one hand, and between defined-contribution and defined-benefit schemes on the other. Finally, a distinction can be made between mandatory and voluntary pension arrangements. In principle, these design features can be combined in various ways with one another leading to a large pool of theoretically possible pension arrangements. Pension policy-makers have to ponder carefully the advantages and disadvantages of each arrangement (see table 1.5).

Table 1.5: Strengths (+) and weaknesses (-) of various options to encourage supplementary old-age provision

Impact on	Mandating		Tax incentives/ subsidies to	
	occupational pensions	private pension plans	occupational pensions	private pension plans
Demand for labor	-	o	o	o
Savings ratio	++	++	+	+
Labor supply	-	-	o	o
Public budget	o	o	-	-
Coverage rate	++	++	+	+
Risk-sharing capacity	+	+	o	-
Political feasibility	-	-	+	+

+ Beneficial impact; - Detrimental impact

In general, pension policy-makers have two options at their disposal to broaden the scope of supplementary retirement provision. They may establish a legal obligation to insure, which is clearly the most effective strategy to ensure the quasi-universal coverage. Alternatively, they may promote the development of supplementary old-age provision on a voluntary basis through financial incentives such as tax reliefs or direct state subsidies¹⁹. However, the coverage rates attainable on the basis of purely vol-

¹⁹ Occupational pensions may also be encouraged through labor law measures in order to enhance the attractiveness of these schemes for both employers and employees. For instance, a shortening of vesting periods for occupational pensions will enhance the portability of claims and hence increase the coverage among persons with high rates of job turnover. For a more detailed analysis see Griebeling

untary solutions may often be lower than intended by the government. First, especially among the younger generations there will be some shortsightedness with respect to the perceived necessity to pursue supplementary old-age provision as a means to maintain a proper standard of living during old age. Secondly, low-income households have on average a lower savings ratio (and thereby a lower capacity to pursue private old-age provision) than middle and high-income households. At the same time, the need for additional private old-age provision is most pronounced just for this group. To the extent to which public pensions are curtailed, low-income earners will have a hard time to build up pension entitlements that are sufficient to guarantee a decent standard of living. Hence, insufficient supplementary old-age provision among the low-income brackets may increase the demand for means-tested minimum pensions or social assistance benefits and thereby burden the public budget. Such problems will become less grave if supplementary old-age provision is made mandatory. In addition, this option is less costly for the public budget than a large-scale promotion through fiscal incentives. Finally, mandatory solutions allow – at least in principle – for a certain degree of cross-subsidization between high- and low-risk individuals since the former cannot opt out from a compulsory system.

However, mandatory solutions are also associated with specific problems. From an economic point of view, the introduction of compulsory levies for private or occupational old-age provision entails some of the problems as they also occur in the case of statutory social contributions. Compulsory levies constitute a part of the “tax wedge”, thereby aggravating the distorting effects on labor supply. However, to the extent to which mandatory levies for private old-age provision yield a higher rate of return and imply a higher degree of *actuarial fairness* than contributions to the statutory pension insurance, these distorting effects are likely to be manageable.

The key problem of mandatory occupational pensions is the potential impact on overall labor costs. In this case, employers will be legally obliged to offer and to (co)finance occupational pensions for their employees. In Switzerland all employers are required by law to top up state pensions by occupational pension benefits. In the

(1998). Moreover, the institutional framework for an expansion of occupational old-age provision may be improved through a change in accounting regulations. For instance, the recent German pension reform has newly introduced the legal option to set up occupational pension funds. As compared to the traditional forms of occupational pensions in Germany, the model of pension funds is particularly suited to use the full potential of the capital market, in particular with respect to its potentially higher yields and its ample possibilities for diversification (Bank 1999).

Netherlands and Denmark a broad coverage by occupational pensions has been achieved by collective agreements between the social partners often made mandatory by the legislator via extension clauses. However, both approaches may have a negative impact on overall labor costs as long as employers are unable to shift the expenses for occupational pension schemes entirely onto employees.

Mandatory solutions also entail substantial political risks. Rendering individual old-age provision mandatory will reduce workers' disposable income and may therefore trigger resistance among workers and their representatives. By contrast, the introduction of compulsory occupational pensions is likely to evoke conflicts with employers, who fear a general increase of overall labor costs. By contrast, mobilizing political support for an expansion of supplementary old-age provision will be much easier if this takes place on a voluntary basis, in particular if the state provides for generous financial aids.

Another crucial issue is the question whether the promotion of supplementary old-age provision should focus on occupational or on private pension plans. In principle, both tiers may either complement or replace public pensions. Depending on the concrete design of the respective arrangement each tier has specific advantages and disadvantages in economic, distributional and political terms. It would go beyond the scope of this study to discuss this problem in detail. However, I will briefly highlight three crucial aspects:

First, occupational pension arrangements based on industry-wide agreements may be better suited to achieve high rates of coverage among dependent workers than private pension plans, especially if workers are legally entitled to convert part of their salary into an occupational pension. This holds particularly true for low-income earners whose individual capacity for private retirement saving is often very limited and who may profit from the collective establishment of occupational pension plans. However, occupational or collective solutions are not applicable to occupational groups outside an employment relationship such as the self-employed. For these groups private retirement provision will remain indispensable.

Second, occupational pensions on a collective basis allow for the integration of "bad risks" without actuarial surcharges. This is not possible with private pension plans. For instance, premiums to private life insurances will typically reflect the individual risk of longevity. Hence, due to their higher average life expectancy women will have

to pay higher insurance contributions than men. Thus, if individuals can freely choose their own pension packages, adverse selection will undermine intra- and intergenerational risk sharing and redistribution. Under a collective arrangement the problem of adverse selection can be handled more easily (Bovenberg 1996).

Third, the costs for the administration of collective pension plans are much lower than those of private pension plans. While the latter are able to offer pension packages tuned to specific individual needs and hence allow for greater individual choice²⁰, they cannot take advantage of the economies of scale characteristic to uniform pension plans based on collective agreements. This again will substantially reduce the rate of return of private pension schemes.

1.4 Varying degrees in the need of adjustment

In the previous section I have discussed the most important reform options that are available to pension policy-makers to deal with economic and demographic challenges. As argued above, these challenges are more severe in the Bismarckian countries than in countries with a multi-pillar pension system. Nevertheless, even within the cluster of Bismarckian countries the magnitude of pressures and challenges differs significantly. Hence, even among the countries under study pension policy makers have different starting points for their reform efforts. In the following section, I will try to assess how great the need for adjustment is for each country with regard to different kinds of challenges. To this end, I will present a number of empirical indicators that allow for a comparison of reform pressures across countries (for an overview see table 1.6 at the end of this chapter). Only on this basis can we judge whether the reforms enacted in these countries are sufficient to put their pension systems on a more sustainable basis. By the same token, the relative “progress” of pension reform policies within a country cannot be judged primarily with reference to the absolute magnitude of changes associated with legislative actions. Instead I will take the magnitude of legislated changes relative to the respective size of challenges (at a certain point in time) as the crucial yardstick to assess in how far the measures adopted in pension policy can be considered as successful. For instance, a reform reducing the projected increase in pension outlays by, say, 5% of GDP may be con-

²⁰ Limitations on individual choice amount to an implicit tax and may generate welfare losses. Hence, there is a trade off between economies of scale in uniform pension plans and tuning pensions to the specific needs through product differentiation (CPB 1997).

sidered as sufficient in a situation where the projected increase in pension spending prior to legislation was relatively modest while the same reform must be regarded as insufficient if pension expenditures had grown dramatically without any reform. Here again, we should distinguish between short-term pressures largely driven by acute budgetary crises and long-term challenges primarily resulting from the problem of demographic ageing. A reform might be appropriate to cope with short-term pressures on the public pension system without really addressing the long-term challenges. Conversely, pension reforms may turn out to be very effective in the long run, but may not tackle the acute fiscal problems of the pension system.

Variations in short-term pressures

The most immediate pressure for changes in pension policy emerges from acute or imminent financial deficits within a social insurance-based pension system. Social security schemes outside the general government cannot borrow to finance current expenditures. Hence, differences between revenues and outlays must be (temporarily) made up with government money (Bonoli 2000). Therefore, any fiscal shortfall in a public pension scheme lacking a buffer fund to iron out short-term imbalances will immediately affect the public budget. This problem has been most severe in France and Italy. Both countries displayed huge (and in the Italian case chronic) deficits in their public pension schemes in the early 1990s, which imposed an increasing burden on the state budget²¹. However, even the other countries frequently faced situations in which pension outlays exceeded revenues, which again created a need for repeated short-term adjustments.

Short-term pressures towards the reduction of pension costs also result from large deficits in the state budget. The reason is that a sizeable share of public pension expenditures is financed out of the state budget, even in contribution-based pension systems. Hence, public pension schemes are a privileged target of government's attempts to consolidate the public budget. Fiscal pressures have been strongest in Italy, which suffered from chronically huge (often two-digit) public deficits up to the early 1990s. This again jeopardized Italy's compliance with the convergence criteria

²¹ In France, the deficit in the *régime général* had increased from 4.6 to 39.5 billion franc between 1989 and 1993, which corresponds to about 0.56% of GDP (Bonoli 2000). In Italy the accumulated deficit within the largest single pension scheme FPLD has amounted to 57358 billion Lira in 1991, corresponding to roughly 4% (!) of GDP (Klammer 1997:195).

of the Maastricht treaty. Budgetary pressures were similarly strong in Sweden during the first half of the 1990s, when the public budget turned from a surplus of 4.2% in 1990 into a deficit of 12.3% of GDP in 1993. Hence, substantial spending cuts in the public pension system were necessary to balance the public budget. Public deficits were also quite large, albeit somewhat less dramatic, in Austria and France and hit a peak of 5.1 and 6.1% of GDP in 1995 and 1993, respectively. Among the countries under study, budgetary pressures were comparatively modest (albeit by no means absent) in Germany. Despite the costs of unification fiscal deficits did never exceed 3.5% of national income in the 1990s. It should be noted, that high public deficits are at least ambivalent in their effects on the capacity of national policy-makers to reform the pension system. While high public deficits increase the economic and fiscal pressure to cut public pension benefits, they also restrict the fiscal leeway for side payments to potential reform opponents and thereby endanger the political feasibility of pension reforms. In particular, large fiscal deficits narrow the scope for a large-scale promotion of fully-funded old-age provision through tax incentives and direct state subsidies.

As noted above the high level of non-wage labor costs in Bismarckian countries requires a stabilization of pension contributions. In the face of steeply rising unemployment rates this goal gained increasing priority among governments in the 1990s. However, the current contribution rates differ significantly from one country to another, indicating varying degrees of problem load: With a level of about 30% the pension contribution rate is clearly highest in Italy, followed by Austria with a contribution level of 22.8%. In France, Germany and Sweden contribution rates are more modest and oscillated around 20% in the 1990s. Looking at aggregate spending figures we obtain a relatively similar ranking. In 1993 pension spending peaked out in most European countries. Again, Italy stood out as the highest spender with pension outlays amounting to 14.9% of national income followed by Austria (14.2%), Sweden (13.7%), France (13.4%) and Germany (12.5%). Irrespective of these differences all five countries display pension contribution rates and expenditure levels far above the OECD average. Therefore, these countries have to cope with disproportionably high levels of non-wage labor costs. In sum, the countries under study were under acute adaptational pressures in the 1990s with respect to the financial position of their public pension systems. These pressures were most pronounced in Italy, somewhat less

severe in Austria, France and Sweden and – compared to *these* countries – least marked in Germany.

Variations in long-term challenges

We can also identify significant cross-country variation with respect to the long-term challenges for public pension arrangements. The most severe challenges result from the impact of demographic ageing. As noted above, the overall trend is relatively similar across OECD countries. However, there is significant variation around the general trend line even among the countries under study. In 2000 all the countries under study displayed old-age ratios²² around 25%. According to EU projections this ratio will increase to 62% in Italy (2045), 54% in Austria (2040), 50% in Germany (2035), 46% in France (2050) and 42% in Sweden (2045).

The demographic shock is also reflected in gloomy scenarios concerning the long-term growth of pension expenditures. OECD calculations (1988) based on the legal status quo of the mid 1980s (reflecting the situation prior to the period under study) projected dramatic increases in pension expenditure ratios as a result of these demographic changes. Until 2040 pension spending levels would reach more than 35% of GDP in Italy, more than 30% in Austria and Germany²³, about 27% in France and about 18% in Sweden. Although these figures need to be treated with great caution they give some indication about the extent of policy changes that at the time was required in order to put the public pension systems in these countries on a more sustainable basis.

Thus, there is a strong need to reduce the huge implicit debt accrued in these pension systems (corresponding to the value of outstanding pension claims minus accumulated capital reserves). This pressure is further amplified by the fact that the countries under study have also accumulated a sizeable explicit public debt, which hit its peak in the 1990s. From an economic point of view both the implicit pension debt and the explicit state debt constitute a liability that needs to be served in the future and therefore restricts the budgetary leeway of future governments. Here again, Italy is in the most unfavorable position as the level of explicit state debt is considerably higher than in the other countries under study.

²² Share of persons aged 65 and older relative to the population between 15 and 64 years

The above indicators illustrate the long-term need of adjustment primarily with respect to the containment of aggregate spending levels in the face of rapidly graying societies. With respect to this challenge, Italy appeared to be under the greatest pressure for reform at least until the mid 1990s, followed by Austria, Germany and France. In Sweden, by contrast, the magnitude of these pressures was more modest. However, apart from the need to contain aggregate pension spending in the long-term, pension policy-makers in the Bismarckian countries also must deal with a number of structural deficiencies in the overall system of old-age provision in order to improve its distributive and economic efficiency.

Among those deficiencies the extensive misuse of early retirement options has become a major concern for pension policy makers. Here, the challenge consists in increasing the effective retirement age and thereby enhancing employment rates for elderly workers. In that respect, the need of adjustment was (and still is) greatest in Austria and Italy. In both countries the effective retirement age and the employment level among elderly workers is very low by international standards. This is primarily due to a generous system of seniority pensions allowing for early labor market exit at a very low age, or like in Italy even without any age limit (provided a contribution record of at least 35 years or 15 to 25 years for public sector employees in Italy). France and Germany also have to cope with a serious problem of early labor market exit even though the situation appears to be less dramatic than in Austria or Italy. In Sweden, by contrast, the effective retirement age and the average employment ratio for older workers are comparatively high by international standards²⁴. Nevertheless, even in Sweden employment ratios among older workers fell substantially in the early and mid 1990s. Hence, as Wadensjö (2002) points out, in Sweden it is the decline rather than the still high level of labor market participation among the elderly that has been a matter of major political concern.

²³ Please note, that in the German figures the huge savings effects resulting from the *Pension Reform Act 1992* (legislated in 1989) are not yet taken into account.

²⁴ In Sweden, the high level of labor market attachment of older people can be attributed to a number of different factors. First, until the early 1990s the labor market situation was characterized by a high demand for labor contributing to high employment levels in general. Second, in Sweden social security programs have been less geared towards early labor market exit than in most other countries. For instance, part-time employment has been (and to some extent still is) relatively widespread among elderly workers due to the existence of a relative attractive part-time pension scheme for those aged between 60 and 65. What is more, in contrast to the situation in other countries, older workers in Sweden are also covered by active labor market programs, in particular by programs targeted at disabled workers. Finally, Sweden is the only country under study, where the retirement age for men and women has been traditionally the same (Wadensjö 2002).

Another major challenge for the reform of Bismarckian pension systems is the need to create a stronger link between contributions and benefits. This implies primarily a tighter link of pension benefits to lifetime earnings. As mentioned previously, such a reform approach would not only dampen the growth of pension expenditures and strengthen work incentives but also remove distributional deficiencies resulting from different earning careers. Traditionally, only Germany has a benefit formula entirely based on lifetime earnings. In the other countries benefits are traditionally based on a number of “best” or last years and on a limited number of contribution-years required to be entitled to a full pension. Thus, in Austria, France, Italy and Sweden pension policy-makers sought to modify the benefit formula towards a closer link to lifetime earnings.

As suggested above, the categorical fragmentation of public pension schemes in the Bismarckian countries is often associated with marked differences in the generosity of benefits across these schemes (in particular between the public and private sector). This fragmentation is most pronounced in France and Italy where a multitude of pension schemes with strongly diverging benefit regulations exist side by side (Bonoli 2000; Ferrera and Gualmini 2000a). To a lesser extent, distributive disparities resulting from an institutionally fragmented pension system also exist in Austria and Germany where civil servants are covered in separate pension schemes and enjoy a number of privileges concerning their benefit entitlements. By contrast, there is no need for a harmonization or alignment of pension schemes in Sweden, because there a universal pension system covering the entire population is already in place.

Finally, as suggested above, the reduction of public pensions needs to be accompanied by the promotion of supplementary retirement provision. Thus far, the overall system of retirement income provision in the countries under study is largely considered as undercapitalized. This problem is particularly pronounced in Austria, France, Italy and Germany where the volume of pension fund assets (relative to GDP) is virtually negligible. Sweden is in a somewhat more favorable position due to the existence of quasi-universal and fully-funded occupational pensions and due to its higher share of funding within the ATP system. In combination, these assets amounted to roughly 43% of GDP in 1999.

In sum, the structural deficiencies of the pension system used to be most pronounced in Italy. The pension systems in Austria and France also featured a high

degree of misfit in virtually all relevant reform dimensions. The structural deficiencies were somewhat less pronounced in the German and in the Swedish pension system, since both systems are traditionally characterized by a number of features that appear to be relatively unproblematic with respect to some of the above-mentioned challenges. In particular, Germany is distinct from the other countries under study, as the principle of lifetime earnings is traditionally established in the benefit formula. Sweden has also been in a more favorable starting position, due to its higher effective retirement age, its higher share of funding and the presence of a unified pension system without systematic disparities across different occupational groups.

Table 1.6: Selected indicators for the magnitude of challenges in pension policy in the 1990s²⁵

Larger challenge	Moderate challenge	Smaller challenge	No challenge
------------------	--------------------	-------------------	--------------

A) Short-term pressures

Reform goals/Challenges	Indicators for the size of challenges	Austria	France	Germany	Italy	Sweden
Lower the burden on the public budget	Budget surplus/deficit as % of GDP (average for the 1990s)	-3.0	-3.5	-2.2	-6.5	-3.1
Stabilization/Reduction of social contributions	Pension contribution rate as % of wages (1995)	22.8%	19.8%	18.6%	29.6%	19.8%
Containing the growth of pension outlays	Pension expenditures as % of GDP (1993)	14.2	13.4	12.5	14.9	13.7

²⁵ For definitions and sources see following page.

B) Medium- and long-term challenges

Reform goals/Challenges	Indicators for the size of challenges	Austria	France	Germany	Italy	Sweden
Coping with the impact of demographic ageing	Projected change in old-age ratio (65+/15-64 years): 2000 -> peak year	23 → 54	24 → 46	24 → 50	27 → 62	24 → 42
Containing the growth of pension outlays	Peak in future pension outlays (as % of GDP) according to OECD projections from 1988	31.7	27	31.1	35.7	18
Lower the burden on the public budget	Gross public debt as % of GDP (peak in the 1990s)	69.7	65.2	63.3	124.0	78.3
Raising the effective retirement age	Effective retirement age (average for men and women, 1995)	57.6	58.8	59.5	58.9	62.7
Raising the effective retirement age	Employment rates for workers aged 55 to 64 years (1995)	29.0	33.5	37.5	27.0	61.9
Changing the benefit calculation to career earnings	Number of "best years" on which reference salary is based (1990)	10	10	Career earnings	5	15
Changing the benefit calculation to career earnings	Number of contribution-years required for full pension entitlement (1990)	45	37.5		40	30
Harmonization of benefit regulations	Percentage of insured persons covered by the largest single scheme	80 to 90% (?)	ca. 65%	82%	ca. 54%	100%
Promotion of fully-funded pensions	Pension fund assets as % of GDP (1999)	3.3	5.1	6.8	6.7	42.7

Definitions for table 1.6:

Reform goals	Indicators for problem load/ need of adjustment	Definition of the size of challenge
Lower the burden on the public budget	Budget surplus/deficit as % of GDP (average for the 1990s)	Relatively large challenge: 5% or over Relatively moderate challenge: 3 to 5% Relatively small challenge: under 3%
Stabilization/Reduction of social contributions	Contribution rate (1995)	Relatively large challenge: 20% or higher Relatively moderate challenge: 15 to 25% Relatively small challenge: under 15%
Containment the growth of pension outlays	Pension expenditures as % of GDP (1993)	Relatively large challenge: 14% or higher Relatively moderate challenge: 12 to 14% Relatively small challenge: under 12%
Containing the growth of pension outlays	Peak in future pension outlays (as % of GDP) according to OECD projections from 1988	Relatively large challenge: 30% or more Relatively moderate challenge: 20 to 30% Relatively small challenge: under 20%
Containing the growth of pension outlays	Projected peak in old-age ratio (65+/15-64 years) up to 2050	Relatively large challenge: 60% or more Relatively moderate challenge: 50 to 60% Relatively small challenge: under 50%
Lower the burden on the public budget	Gross public debt as % of GDP (peak in the 1990s)	Relatively large challenge: 100% or more Relatively moderate challenge: 50 to 100% Relatively small challenge: under 50%
Raising the effective retirement age	Effective retirement age (average for men and women, 1995)	Relatively large challenge: under 59 years Relatively moderate challenge: 59 to 62 years Relatively small challenge: 62 years and over
Raising the effective retirement age	Employment rates for workers aged 55 to 64 years (1995)	Relatively large challenge: under 30% Relatively moderate challenge: 30 to 50% Relatively small challenge: 50% and over
Changing the benefit calculation to career earnings	Number of "best years" on which reference salary is based (1990)	Relatively large challenge: under 5 years Relatively moderate challenge: 5 to 20 years Relatively small challenge: more than 20 years No challenge: life-time principle
Changing the benefit calculation to career earnings	Number of contribution-years required for full pension entitlement (1990)	Relatively large challenge: under 35 years Relatively moderate challenge: 35 to 40 years Relatively small challenge: 40 years and over No challenge: life-time earnings
Harmonization of pension benefits	Percentage of population covered by the largest single scheme	Relatively large challenge: under 70% Relatively moderate challenge: 70 to 80% Relatively small challenge: more than 80% No challenge: 100%
Promotion of fully-funded pensions	Pension fund assets as % of GDP (1999)	Relatively large challenge: under 10% Relatively moderate challenge: 10 to 20% Relatively small challenge: more than 20%

Source: OECD 1988; Klammer 1997; Blöndal and Scarpetta 1998; Gern 1998; Neumann 1999; Economic Policy Committee 2000; OECD 2000a; Mantel 2001; Abramovici 2002

Chapter 2

An empirical overview of policy change in Bismarckian pension regimes

In this section I will briefly analyze in how far the countries under study have adjusted their pension systems along the lines sketched above. At first, I will present a number of empirical indicators measuring the degree to which national pension policy-makers have successfully addressed the short-term problems of public pension schemes. As pointed out above, governmental actors typically pursue at least three short-term goals in pension policy: eliminating or avoiding fiscal imbalances within the public pension system, relieving the fiscal pressure on the state budget and stabilizing pension contributions in order to contain the growth of non-wage labor costs. Thus, in the short run governments are primarily concerned with the aim to curb the growth of pension outlays and – albeit to a lesser extent – to stabilize or augment the revenue basis of the pension system by various measures.

To which degree have Austria, France, Germany, Italy and Sweden accomplished the goal of containing pension costs in the 1990s?

Table 2.1: Change in public pension expenditures between 1993 and 1999

	Austria	France	Germany	Italy	Sweden
As % of GDP	14.2→14.0	13.4→13.5	12.5→13.0	14.9→15.1	13.7→12.2
Standardized expenditure ratio*	95 → 90%	91 → 85%	80 → 77%	96 → 87%	78 → 69%

Source: Calculations by the author, based on Abramovici (2002) and OECD, Labor Force Statistics 2001

* = Expenditures in % of GDP/ share of persons aged 65+ (100% = GDP per head of population)

Due to the economic recession and the concomitant expansion of early retirement, pension outlays increased relative to GDP in the early 1990s. Thereafter, the pension expenditure ratio remained relatively stable in Austria, France and Italy (see table 2.1). In Germany pension expenditures increased by about 0.5% of GDP, whereas they fell by 1.5% of GDP in Sweden. At first sight, these figures suggest that governments have done relatively little to curb the growth of pension expenditures in the 1990s. This impression is quite misleading, however. A number of intervening factors

has to be taken into account in order to assess the “real” magnitude of pension cut-backs on the basis of aggregate spending data. First, due to their increasing labor force participation, women have accumulated ever higher pension entitlements in recent years. Moreover, the share of persons above 65 (and thereby the number of pension beneficiaries) has increased between 1993 and 1999 by 1.1% in Sweden, 4% in Austria, 7% in Germany, 8.2% in France and 12.3% in Italy. Obviously these trends had an expansionary effect on total pension outlays. Without this effect the share of national income devoted to public pension benefits would have declined significantly in all of the five countries. Table 2.1 also displays a standardized pension expenditure ratio. This indicator clearly demonstrates that pension payments per head of the older population has (at least in relative terms) decreased by about 9 percentage points in Italy and Sweden, 6 percentage points in France, 5 percentage points in Austria and 3 percentage points in Germany. Note, however, that the only modest decrease in German spending figures is also caused by the gradual upgrading of pensions in East Germany towards the level existing in the West German *Länder*. Thus, empirical evidence suggests that the countries under study have been relatively successful in recent years in stabilizing the level of pension expenditures despite significant countervailing pressures.

The quantification of the long-term savings effects of recent pension reforms on a comparative basis runs into even greater difficulties than the quantitative assessment of pension cuts, which already have become effective. The reason is that highly speculative projections about future growth rates, wages and rates of labor force participation and a host of behavioral responses to these reforms would have to be made. Predictions about the long-term development of these parameters are associated with massive uncertainties. Moreover, due to the enormous complexity of pension systems accurate projections about the financial impact of single pension reforms have to be based on a multitude of data and institutional knowledge which so far only national institutions are able to provide (European Commission 1996; Myles/Pierson 2001). However, recently published reports by the European Commission (Economic Policy Committee 2000; Economic Policy Committee 2001) provide empirical data about the projected growth of pension expenditures that are based on broadly similar macro-economic and demographic assumptions and thus at least partly allow for comparisons across countries. While these figures do not allow the

assessment of the magnitude of *single* reform measures on a quantitative-comparative basis, they give some indication on whether the legal actions taken in pension policy have been sufficient in order to stabilize pension outlays in the future (see table 2.2).

Table 2.2: Estimated change in pension expenditures according to different projections (in % of GDP)

Country	Spending level in 2000	<u>Estimated</u> change from 2000 to peak year (1)				
		EPC Standard scenario (2)	EPC Optimistic scenario (3)	CSIS Projection (4)	Average	Projections made in 1988 (5)
Austria	14.5	+ 4.2	+ 1.4	+ 6.2	+ 3.9	+ 14.1
France (6)	12.1	+ 4	+ 2.8	+ 7.3	+ 4.7	+ 10.5
Germany (6)	11.8	+ 4.9	+ 2.8	+ 6.8	+ 4.8	+ 14.7
Italy	13.8	+ 2.1	+ 0.9	+ 5.1	+ 2.7	+ 18.8
Sweden (6)	9.0	+ 2.6	+ 1.6	+ 4.2	+ 2.8	+ 5.9

(1) Between 2000 and 2050

(2) Economic Policy Committee baseline scenario

(3) Economic Policy Committee "Lisbon" scenario

(4) Center for Strategic and International Studies (based on "pessimistic" assumptions)

(5) Figures in brackets display the expenditure increases projected by the OECD in 1988.

(6) Please note that the figures for France, Germany and Sweden do not fully cover total pension outlays (such as disability pensions). The percentage covered in the simulation models is 95% in France, 91% in Germany and 83% in Sweden.

Source: Economic Policy Committee 2001; Werding 2001; Jackson 2002

Table 2.2 shows the level of public pension spending in 2000 as well as the peak increases in pension outlays as a share of GDP²⁶ according to different simulation scenarios taking into account the effects of the reforms adopted until 2001. The share of public pension expenditures is most likely to increase in all five countries under study. The expenditure peak will be reached between 2030 and 2050. Even in the most optimistic scenario the increase in pension outlays ranges from 0.9% (Italy) to 2.8% of GDP (France, Germany). The projected increases are significantly higher under the assumptions of the EPC baseline scenario, ranging between 2.1% in Italy and 4.9% in Germany. A more pessimistic scenario calculated by the Center for Stra-

²⁶ EPC figures on public pension expenditures are based on a less encompassing definition than the EUROSTAT data presented above. Hence the expenditure ratios displayed in table 2.1 and 2.2 are not comparable.

tegic and International Studies predicts increases that vary between 4.2% of GDP in Sweden and 7.3% in France. However, even in the worst case scenario the expected growth in pension outlays will be far more modest than had been predicted in the mid and late 1980s by the OECD under the assumption of an unchanged legal status quo. Hence, there is clear empirical evidence that the pension reforms undertaken in the late 1980s and 1990s have effectively curbed the imminent escalation of pension costs in the face of an increasingly ageing population. For the time being, the strongest expenditure dynamics is predicted for France and Germany. For these countries the projected growth rates vary between 2.8% in the optimistic scenario and 6.8 and 7.3%, respectively, in the CSIS scenario and may therefore reach a total well above 15% of GDP. For Austria, prospects are hardly less gloomy as the projected bandwidth of spending increases ranges between 1.4 and 6.2% of GDP. Hence, due to its high starting level Austria may end up in a position where it will spend about one fifth of its national income or even more on public pensions if further reforms remain undone. Italy, by contrast, albeit starting at a roughly similar level, will most likely keep the expenditure ratio below 20% of GDP even under unfavorable economic and demographic conditions. Sweden will also experience only a comparatively modest growth in pension expense ranging between 1.6 and 4.2% of GDP and is therefore unlikely to reach an expenditure ratio above 15%.

The countries under study also differ in the degree to which they have addressed the structural deficiencies of their pension systems. As pointed out in the previous section, a major weakness of these systems consists in the rather loose and unsystematic connection between contributions and benefits. Thus far, only Italy and Sweden have engineered a complete changeover from a defined-benefit to a (notional) defined-contribution scheme. Once in place, such an arrangement effectively ensures that contribution rates can be held stable in the future, as benefits will be adjusted downwards if contributions fall short of pension outlays. However, especially Italy will apply very long transition periods to implement the change towards the new system. In Germany, benefits are traditionally based on lifetime earnings. However, German pension policy makers have thus far avoided a clear move towards a defined-contribution system as the pension formula still entails a target replacement ratio²⁷. In

²⁷ Technically speaking, the accrual rate entering the pension formula does not fully take into account changes in the development of wages and of average life expectancy and thus does not ensure a stable pension contribution. While the most recent pension reform law envisages a maximum contribu-

Austria and France the link between contributions and benefits has been tightened somewhat, however, without mastering a complete changeover to lifetime earnings. In France, the qualifying period for a full pension has been extended from 37.5 to 40 years, while the period, over which the reference salary is calculated, has been increased from the best 10 to the best 25 years. In Austria, the calculation of the reference salary has only been increased to the best 18 years. At the same time, a more generous (sic!) accrual rate has been established effectively lowering the qualifying period for a full pension from 45 to 40 years²⁸.

The countries under study also differ in the extent to which they have raised the retirement age in order to improve the numerical relation between contributors and pensioners. France stands out as the only country under study that left the formal retirement age untouched. All other countries have increased the retirement age, especially for women. However, only Sweden and Italy will gradually introduce a pension system in which incentives for early retirement will be completely abolished. The reason is that in both countries the change from a defined-benefit to a defined-contribution system is associated with the introduction of a flexible retirement age based on actuarial principles. By its nature, such a system is fiscally immune to premature exit from the labor market since the additional costs of early retirement will be completely individualized. It should be noted, however, that the implementation of these changes is extremely slow in the Italian case and will only become fully effective in the remote future²⁹.

As pointed out above, pension policy-makers in the Bismarckian countries also have to deal with the problems resulting from the categorical fragmentation of the pension system, in particular as the pension privileges for public sector employees are concerned³⁰. In that respect Austria and Italy were most successful. Both countries will largely harmonize the different benefit regulations between the private and the public sector albeit with long transition periods. In Germany no serious efforts were under-

tion rate of 22% until 2030, it also states, that the replacement rate for a standard pensioner must not fall below 67% of previous wages. A very vaguely formulated clause has been incorporated in the law stating that the government has to take *appropriate* measures if compliance with one of these criteria is jeopardized.

²⁸ Until recently, Austrian pensioners were credited an accrual rate of 1.9% per contribution year for the first 30 years and 1.5% for 31 to 45 insurance years. With the 1997 pension reform a uniform accrual rate of 2% for all contribution years has been established leading to a full pension of 80% after 40 rather than 45 contribution years.

²⁹ For a more detailed description of the changes in retirement ages see appendix two.

³⁰ As already noted, this problem is of no relevance for Sweden with its universal pension system.

taken to arrive at more uniform benefit provisions between the public and the private sector. Nevertheless, pension cuts in the general scheme were typically applied to civil servants' pensions as well. However, while the overall volume of cutbacks was largely similar in both systems, these measures will not challenge civil servants' pension privileges. In France, the benefit gap between public and private sector employees has even widened due to a failed attempt to reform public sector pensions (Jolivet 2002).

Finally, national pension reform records vary in the degree to which they have strengthened elements of capital funding (Leinert and Esche 2000). In that respect, Germany, Italy and Sweden have implemented the most far-reaching reforms. In Germany and Italy, recent reforms have encouraged the development of private or occupational pension plans on a voluntary basis by means of (relatively generous) state subsidies and tax advantages. In Germany, an albeit very modest public reserve fund will be build up in order to smooth the fiscal burden resulting from the imminent cost explosion in the area of civil servants pensions (Färber 1998)³¹. In Sweden, a new fully-funded pillar has been established recently, whereby the insured persons are obliged to invest 2.5 per cent of their income into a pension fund at their option (which can be either private or public). In Austria and France, by contrast, the promotion of fully-funded pension plans has thus far only proceeded at a very slow pace, albeit there is a growing consensus among pension policy makers in these countries that major steps in this direction are necessary or at least desirable. France confined itself to establishing a small buffer fund within the public pension system. Austria introduced only very modest tax incentives to promote private or occupational pension schemes. In short, among the countries under study only Germany, Italy and Sweden have taken substantial steps to promote supplementary old-age provision, whereas Austria and France lag behind in this regard. This is also reflected in recent projections about the future growth of private pension benefits (see table 2.3).

In the following, I will try to summarize the major empirical findings emerging from this brief account of pension reforms in the Bismarckian countries. To begin with, a radical change of these pension systems towards the three-pillar model advocated by

³¹ Between 2001 and 2015 0.2 percentage points of every annual increase in salaries and pensions for civil servants will be directed into a public reserve fund. From 2020 onwards the accumulated capital reserves will be used to keep the burden for the public budget lower than it would have been otherwise.

the World Bank (in particular a full privatization of the earnings-related pillar) has never been a serious policy option in these countries. As Myles and Pierson (2001) correctly point out, the inherited pension policy profile, in particular the presence or absence of a mature earnings-related public pension scheme on a pay-as-you-go basis, represents the single best predictor for the basic pathway of national pension reforms. These policy legacies constitute powerful political constraints, which are extremely difficult to overcome in democratic polities.

Table 2.3: Private pension benefits as a % of GDP*

	2000	2010	2020	2030	2040
Austria	n.a.	n.a.	n.a.	n.a.	n.a.
France	0.1%	0.1%	0.2%	0.2%	0.3%
Germany	0.9%	1.2%	1.8%	2.9%	3.4%
Italy	1.3%	1.7%	2.1%	3.2%	4.3%
Sweden	2.2%	2.7%	3.5%	4.5%	5.3%

Source: Jackson and Howe 2002

* Includes all funded employer pensions, personal pensions, and severance pay schemes

However, while radical reform is unlikely for precisely this reason, we can detect remarkable examples of “transformative” (Brooks 2000) or “path-departing” (Hering 2000) change even within the cluster of Bismarckian pension system. Figure 2.1 depicts in a highly stylized manner in how far the countries under study have reformed their pension systems in recent years. The diagram displays the extent to which national pension systems (both for private and public sector employees) have moved closer towards a defined-contribution design and the degree to which the countries under study have expanded or reduced the share of fully-funding (either within or outside the public tier). In all countries under study the benefit commitments made under the conditions of economic prosperity have been considerably downgraded since the late 1980s. More importantly, a number of structural innovations have been inserted into the pension edifice of Bismarckian countries, such as the gradual switch to a defined-contribution design in Sweden and Italy, the establishment of a fully-funded pension pillar in Germany, Italy and Sweden or the large-scale harmonization of benefit regulations between public and private employees in Austria and Italy.

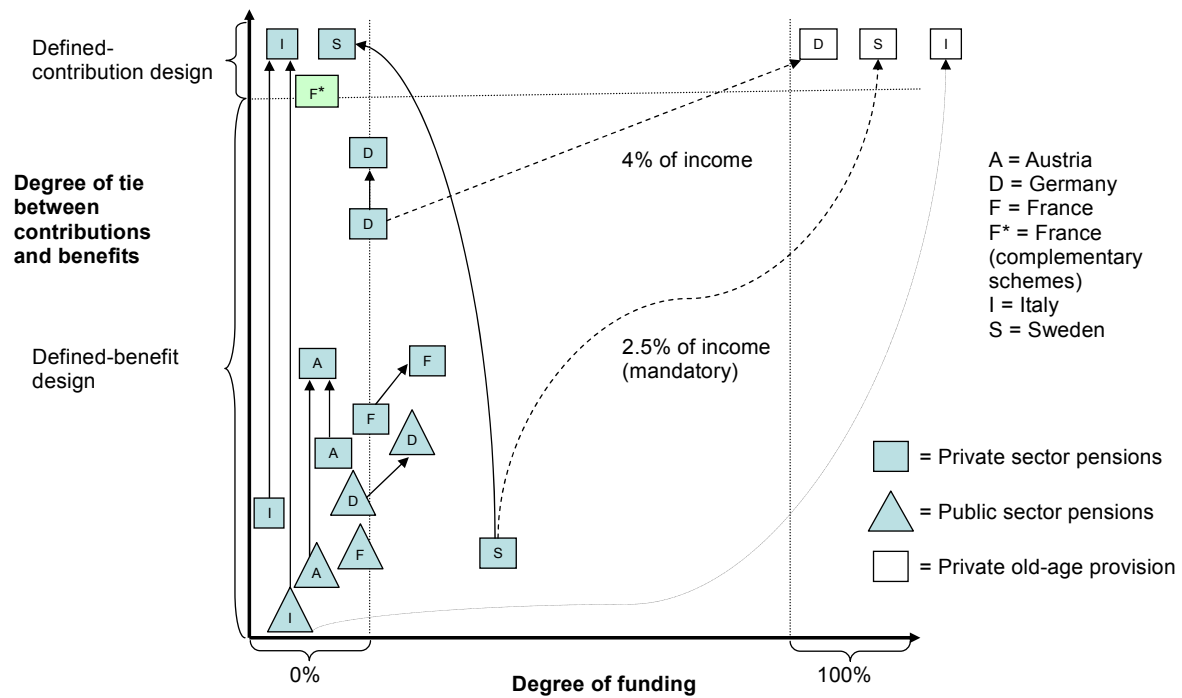
Even if these changes might not be considered radical, it appears that welfare state reform even in continental Europe may well go beyond “marginal adjustments” (Esping-Andersen 1996:82). By the same token, the capacity for effective policy responses in these countries may not be as restricted as authors such as Scharpf (2000a:124) have suggested. This finding highlights a major shortcoming of the contemporary literature on welfare state retrenchment. As Green-Pedersen/Haverland (2002) and Palier (2002) have correctly argued, most scholars (Pierson and Weaver 1993; Pierson 1994; Pierson 1996; Pierson 1998; Weaver 1998; Myles and Pierson 2001) have so far directed their attention primarily to the relative stability rather than to the change of welfare state arrangements. This paper presents a more dynamical perspective and seeks to explore the conditions under which welfare reform is possible.

The empirical account of pension policy changes in the Bismarckian countries also suggests that the reform capabilities seem to differ substantially across countries. By and large, Sweden has been most successful in placing its pension system on a more sustainable basis. To some extent, this also holds true for Italy albeit the reforms will only become fully effective in the remote future. Germany and Austria have made less progress in pension reform than Italy and Sweden although they still rank better than France, which so far has adopted only marginal adjustments.

However, the degree of adjustment also varies within countries. As shown above, pension policy-makers in the Bismarckian countries have to tackle different tasks at the same time and they may be more successful in one reform dimension than in another one. Moreover, a country's overall record in adjusting its pension system is typically the result of successive reform efforts that may differ considerably among one another in their ambitions and in their effective scope. As we will see, in most countries under study we find legislative decisions that have been quite successful and relatively far reaching as well as reform efforts that clearly missed their target or even failed completely. In other words, the conditions for successful adjustment in pension policy are likely to vary over time. Hence, the relative progress of a country in reforming its pension system can only be explained with reference to single decision periods and with respect to specific dimensions of reform. In the following section, I will therefore put forward a theoretical framework which tries to set out system-

atically the conditions which facilitate or impede the implementation of effective pension policy responses in concrete decision situations.

Figure 2.1: Directions of national pension reforms



Chapter 3:

The politics of pension reform – an actor-centered explanatory framework

In the previous sections I have shown that the interplay of economic, demographic and political pressures on Bismarckian pension schemes has triggered a multitude of reform measures throughout the 1990s, which were primarily but not exclusively aimed at curbing the growth of pension spending. This development has also left its mark on the scholarly debate about the welfare state. In recent years, welfare state research has gradually shifted from studying welfare state expansion to studying the retrenchment of welfare state arrangements (Green-Pedersen and Haverland 2002). In this chapter I will first provide a brief survey of the most important theoretical approaches to welfare state retrenchment. Subsequently, I will discuss the usefulness of these approaches for the study of pension politics and develop an own theoretical framework based on the concept of actor-centered institutionalism. This framework establishes a number of heuristic hypotheses that allow us to identify the political and institutional conditions facilitating or impeding the problem solving capacity of national pension policy-makers.

3.1 Social policy-making in an era of retrenchment – a review of theoretical approaches³²

The new politics of the welfare state

In his seminal 1994 work Paul Pierson has pointed to the remarkable resilience of welfare state arrangements in spite of an increasingly fierce climate of fiscal austerity. Following Pierson, the politics of retrenchment is qualitatively different from the politics of expansion. While the “old politics” of welfare expansion is seen as a strategy of “credit claiming” for highly popular initiatives, the “New politics of the welfare state” is regarded as an attempt to avoid blame for unpopular policies. Once social policies have become established in a society, a powerful network of interests is likely to evolve around these arrangements trying to avert any efforts aimed at rolling back

³² This section draws heavily on Green-Pedersen and Haverland (2002).

the welfare state. As Pierson has argued in his earlier work (1994; 1996), these client-based policy interest groups have to a large extent replaced left parties and trade unions as upholders of welfare objectives. Their impact on the success of governmental retrenchment efforts will primarily depend on the specific structure of welfare programs. According to Pierson, the inherited profile of social policy programs is the most important predictor for the relative resilience of welfare arrangements. From that point of view, welfare state trajectories appear to be highly path-dependent rendering radical institutional change and sweeping retrenchment extremely unlikely. This holds particularly true for mature pay-as-you-go financed pension systems in which benefits are earnings-related, cover a large sections of the population and are perceived as 'acquired rights' by the (potential) beneficiaries. Hence, under the conditions of democratic party competition benefit cutbacks tend to be very incremental and will only be brought about if governments are able to devise strategies that reduce the political costs of welfare retrenchment. Following Pierson, the relative strength of organized labor has lost a great deal of its explanatory power with respect to welfare state developments as representatives of the power resources approach still had argued in their studies investigating welfare state expansion (Stephens 1979; Korpi 1983; Esping-Andersen 1990).

Partly in reaction to Pierson's work a large number of studies have been published in recent years trying to improve our empirical and theoretical knowledge about the factors that explain different degrees of retrenchment in advanced welfare states³³. These scholars have emphasized competing or at least additional explanatory factors relating to the socio-economic, partisan and institutional context in which retrenchment efforts take place.

Some authors (Castles 2001; Huber and Stephens 2001) have stressed the impact of macro-economic pressures, especially of rising unemployment and increasing public deficits, as the major driving force behind welfare state retrenchment. Another strand of the literature emphasizes the importance of economic internationalization for recent welfare state developments. For instance, Scharpf (2000a) has argued that increased competition on product markets constrains the possibility for national policy-makers to increase non-wage labor costs, thereby limiting the scope for an expan-

³³ A useful and critical overview on quantitative studies about welfare state retrenchment is provided by Kittel and Obinger (2001).

sion of welfare programs financed out of wage-based social contributions. Pierson (1998) himself has drawn our attention to other socio-economic developments that are at least equally important as push factors for welfare retrenchment such as the relative growth of the service sector and population aging. However, there is a growing consensus within the retrenchment literature that economic and demographic pressures are not automatically translated into retrenchment. Hence, most studies of welfare state retrenchment emphasize political factors. These approaches stress the role of political parties and political institutions.

The role of political parties in welfare retrenchment

With respect to the influence of political parties on welfare state development in the context of fiscal austerity various scholars have arrived at strikingly contradicting findings. In accordance with Pierson a number of welfare state researchers (Wagschal 2000; Castles 2001; Huber and Stephens 2001; Kittel and Obinger 2001) have diagnosed a declining importance of partisan politics or even the absence of any significant partisan effects on welfare spending in recent years. Theoretically, this empirical finding is typically explained with reference to the growing economic and political constraints to which governments of all partisan stripes are exposed. Economic constraints have increasingly curtailed the capacity of leftist governments to expand social policies, whereas political constraints have seriously hampered the capability of market-liberal governments to cut back welfare entitlements.

Other authors (Hicks 1999; Siegel 2002), by contrast, have found empirical evidence that the positive correlation between left party incumbency and changes in social expenditure ratios, which has been characteristic of the 1960s and 1970s, is still confirmed for the 1980s and 1990s. Again others have suggested a completely reverse logic. In electoral terms it may appear easier for left governments to curtail welfare entitlements than for bourgeois ones, as the latter are unlikely to represent a serious alternative for voters seeking to express their dissatisfaction with welfare cutbacks enacted by a leftist government. Conversely, a left opposition party may find it relatively easy to accuse a right-wing government for dismantling the welfare state. Hence, a bourgeois government cutting back popular social benefits will run a great risk to trigger off a drain of voters to the left camp. As the Nixon-goes-to-China the-

sis³⁴ this argument has found its way in recent welfare state research (Haverland 2000; Ross 2000; Kitschelt 2001).

As Kitschelt (2001) has suggested, the relevance of this mechanism is contingent on the configuration of the party system. In a constellation, where the major parties on both sides of the political center are equally acknowledged as supporters of existing welfare arrangements, even a bourgeois opposition party may successfully exploit the issue of social policy cutbacks in the electoral arena. Thus, Christian Democratic parties can more credibly denounce welfare cuts adopted by left governments as “socially unfair” than is true for bourgeois parties with a distinctly market-liberal ideology. Following Kitschelt, the latter cannot exploit the issue of pension cutbacks electorally since voters alienated by benefit cuts will not turn to a party known as critical of a large welfare state. From this perspective, we would expect the political costs of retrenchment, and thereby the obstacles to social policy reform, to be highest in countries with weak market-liberal parties and strong centrist (e.g. Christian Democratic) and Social Democratic parties.

The institutional structures of welfare state arrangements

Another broad strand in the retrenchment literature emphasizes the role of institutions as a crucial factor mediating adaptational pressures on the welfare state. Here, a clear distinction needs to be made between the institutional structures of welfare state arrangements itself and the institutional set-up of the political system. With respect to the institutional legacies of welfare state programs authors such as Swank (2000) have found empirical evidence that liberal welfare states appear to be more vulnerable to downward pressures than is true for Social Democratic or conservative welfare regimes. Governments in liberal welfare state can cut more easily since they have a higher discretionary power over social policy programs if these are based on the criterion of need (rather than contributory entitlements) and funded out of general taxation (rather than earmarked social contributions)³⁵. As far as pension systems are

³⁴ As Kitschelt (2001) puts it, “an anti-communist Republican with a hawkish reputation in foreign policy could initiate reconciliation with communist China more easily without raising suspicions of “selling out” America than a liberal Democrat in the presidency”.

³⁵ Interestingly, Kittel and Obinger (2001) found contrary empirical evidence according to which countries that largely rely on a contribution-based revenue structure display a smaller growth rate in social expenditures. The authors’ somewhat speculative explanation for this counter-intuitive finding is that financial problems within social insurance funds (rather than within the government budget) are likely to appear at a fairly early stage through the need to formulate demands on the government budget for additional funding in public.

concerned, Siegel (2002) developed an institutional index of reform elasticity in order to assess the degrees of freedom for policy-makers to embark on retrenchment policies. According to this index, pension systems providing for means-tested minimum protection (like in Australia or New Zealand) display the lowest legal and political barriers against governmental interventions. Pension arrangements granting universal flat-rate benefits appear to be somewhat less vulnerable to governmental retrenchment strategies since their political support basis is much broader. However, they lack the high degree of legal safeguard entrenched in earnings-related social insurance pensions where contributory entitlements constitute quasi-property rights.

Myles and Pierson (2001) pointed to an additional factor accounting for the strong resilience of Bismarckian pension arrangements. The higher the degree of system maturation the higher will be the share of persons who have built up substantial benefit entitlements and who are therefore likely to oppose benefit cuts. In this study, I have deliberately selected countries where public pension schemes are organized around the social insurance principle and display a high degree of system maturation, and thereby countries in which the legal and political reform constraints embedded in the pension system itself are particularly tight.

In the retrenchment literature two further program variables are thought to have an impact on the resilience of welfare arrangements: the degree to which social policy programs are split along occupational lines and the extent to which administrative and regulative competencies are delegated to quasi-public institutions managed by the social partners (Palier 2002; Siegel 2002). As Swank (2000) has pointed out, conservative welfare states tend to fragment program constituencies on the basis of occupational status. Compared to a universal program-design this institutional feature may allow for a more targeted retrenchment strategy excluding occupational groups with a high potential for political conflict. Thus, while corporatist conservative welfare states accord both working and middle class groups relatively generous social insurance benefits (and therefore generate a very broad political support basis) the political division of constituencies in these countries may narrow the number and strength of potential reform opponents. This again may amplify the possibilities for policy-makers to tailor politically feasible reform packages.

Another characteristic feature of corporatist conservative welfare states is a partial decentralization of authority to quasi-public administrative bodies often controlled by

labor and business representatives. As several authors (Swank 2000; Palier 2002; Siegel 2002) have suggested, this organizational structure increases the number of key players in the realm of social policy and provides them with notable opportunities to slow down or to block adverse policy change. In a similar vein, Palier (2002) has argued that union involvement in the management of social security grants unions a de facto veto power against welfare state reforms.

The institutional structures of the political system

As mentioned above, a second strand of institutional analysis focuses on the specific institutional structure of democratic polities as the crucial factor determining government capabilities of pursuing welfare reform. These structures vary considerably across countries providing governments with different degrees of control over the policy-making process. It has been suggested that government's ability to achieve its preferred policy outcome is primarily dependent on the existence or absence of veto points in the political system (Immergut 1990; Immergut 1992; Bonoli 2000). To a varying extent these veto points allow interest groups to get access to the political decision-making process³⁶. By forging (ad-hoc) alliances with actors that occupy formal veto positions in the political process or by influencing the policy preferences of formal veto players³⁷ various interest groups may be able to block legislation that runs contrary to their interests. The higher the number of veto points, the more restricted will be the political leeway for governments to influence policy outcomes. For a government trying to expand social benefits the presence of multiple veto points is most likely to retard policy change. It is less clear, however, whether the same logic will also apply when welfare retrenchment is on the political agenda. As a number of authors have suggested, a high degree of power concentration resulting from the absence of major veto points, is a two-edged sword for governments committed to curtail welfare spending (Pierson and Weaver 1993; Pierson 1994; Bonoli 2000). While potential reform opponents cannot formally block legislative decisions if policy-

³⁶ It should be noted that veto points may also have an informal character. For instance, a number of countries have - irrespective of their constitutional provisions - established systems of social corporatism in which legislation in economic and social policy is negotiated with or even by the social partners in advance. Such arrangements of social partnership allow trade unions to articulate their claims on national policy makers. More importantly, the government may also consider unions' approval to social policy legislation as indispensable, in which case union will possess a de facto veto power to block welfare retrenchment (Bonoli 2000; Swank 2000; Obinger 2001).

³⁷ According to Tsebelis (1995; 1999) a veto player is defined as an individual or collective actor whose agreement (by majority rule for collective actors) is required for a change in policy.

making authority is concentrated in the hands of government, the concentration of power will also enhance government's accountability for unpopular measures and thereby increase its electoral vulnerability. As Bonoli (2000) has argued, the relative importance of these two countervailing effects is dependent on at least three distinct factors:

First, the strength of the accountability effect hinges on the intensity of party competition in a certain political context. The fear of electoral retribution will only be of subordinate importance to the strategic calculus of governments, if the likelihood of a change of government is comparatively low. For instance, the risk of electoral punishment is less pronounced for a government facing a weak and internally divided opposition.

Second, policy-makers are likely to attach greater importance to the accountability effect in a first-past-the post electoral system, where even modest losses in votes may be transformed into dramatic losses of parliamentary seats³⁸. By contrast, this amplifying effect is more or less absent in electoral systems characterized by proportional representation. Nevertheless, in the face of an increasingly volatile voting behavior even parties in a proportional electoral system run the risk of a massive deterioration of their parliamentary representation.

Third, the intensity of the accountability factor will also reflect the electoral cycle. At the beginning of an electoral term politicians are more likely to adopt unpopular measures than in the run up to an election. By the same token, the electoral costs of such measures are likely to be higher in countries with a high frequency of elections.

This list can be completed by a fourth factor, namely trade union strength. As Scarbrough (2000) points out, labor unions in most West European countries still play a key role as defenders of existing welfare arrangements. In a number of countries their mobilization capacity is considerable. In many cases the organized labor movement has taken a leading role in organizing popular protest against programmatic cutbacks including mass demonstrations and large-scale strikes. Thus, the presence of powerful trade unions is likely to amplify the accountability of governments for unpopular cuts in social benefits.

³⁸ The French majoritarian electoral system is a case in point. At the 1993 election, for instance, the bourgeois UDF and the Gaullists attained together 39.5% of votes, but 79.7% of mandates. By contrast, in the 1988 election their common vote share was hardly lower (37.7%), whereas the share of parliamentary seats amounted to 44.9% only (Nohlen 2000).

As Tsebelis (1995; 1999) has argued, the potential for policy change will not only depend on the number of veto players but also on the dissimilarity of policy positions among veto players. Therefore, the presence of a veto player strongly committed to defend the current status-quo in social policy will mostly suffice to prevent major benefit cutbacks.

3.2 The concept of actor-centered institutionalism

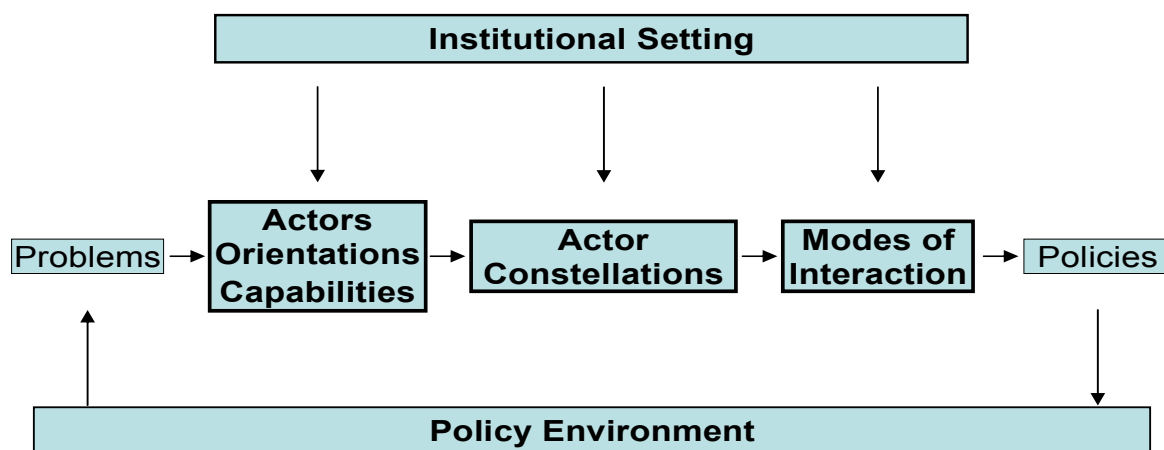
The previous section has highlighted the plethora of theoretical approaches to analyze welfare state development under the conditions of economic and fiscal crisis. In the following, I will employ a conceptual framework that tries to combine and to integrate the various theoretical perspectives in order to explain particular empirical outcomes in pension policy. This framework largely draws on the heuristics of actor-centered institutionalism, which combines actor-centered and institution-centered approaches and thereby seeks to overcome the prevailing analytical dichotomy between the two theoretical strands. As Scharpf (1997b:36) puts it: *'What is gained by this fusion of paradigms is a better "goodness of fit" between theoretical perspectives and the observed reality of political interaction that is driven by the interactive strategies of purposive actors operating within institutional settings that, at the same time enable and constrain these strategies.'* Thus far, only few scholars have explicitly applied the concept of actor-centered institutionalism to analyze political decision-making processes in pension policy³⁹.

The basic explanatory framework of actor-centered institutionalism is depicted in figure 3.1. As Scharpf (1997b) points out, the starting point of analysis consists in the identification of the set of interactions that produces the policy outcomes that are to be explained. In the next step we need to identify the *actors* who are involved in the policy process and whose choices will ultimately generate specific policy outcomes. These actors are characterized by specific *capabilities* (such as legal competencies defined by institutional rules), specific *perceptions*, and specific *preferences* (including both institutional self-interests and normative orientations). These actors face specific policy problems and operate in a specific socio-economic and institutional context. In most cases, policy outcomes are not determined by a single actor. These

³⁹ One example is a recent publication by Katharina Müller (1999), where the theoretical approach of actor-centered institutionalism is used to explore the political conditions under which countries in central and Eastern Europe have been able to privatize their public pay-as-you-go schemes.

outcomes are typically generated by a plurality of actors which interact in specific ways. Hence, we need to analyze the *actor constellations*, describing the actors involved, the actors' strategic options, the policy outcomes generated by strategic combinations and the preferences of the players over these policy outcomes. A certain constellation may then allow for different *modes of interaction*, denoted as “unilateral action”, “negotiated agreement”, “majority vote” and “hierarchical direction”. These interaction modes are again shaped by institutional rules. In the following section, I will draw on these theoretical categories in order to expound the political context in which pension policy outcomes are produced.

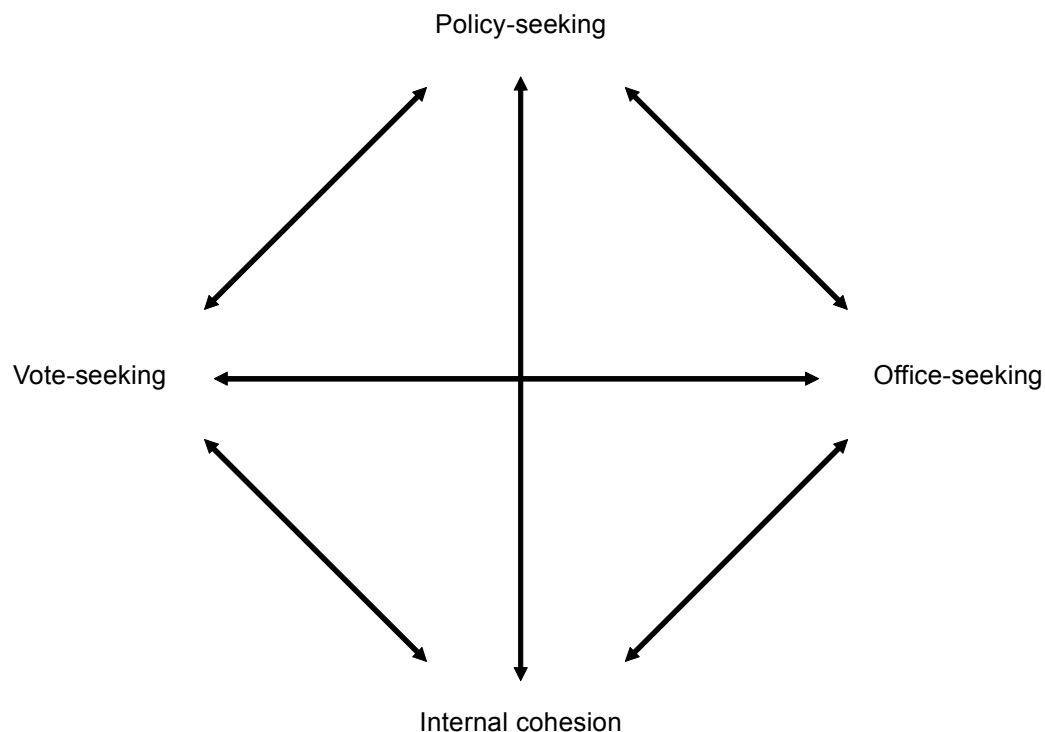
Figure 3.1: The theoretical framework of actor-centered institutionalism



As a first step in our analysis we have to specify the key actors in pension politics and their preferences. To begin with we can plausibly assume that the government is the most important actor in pension policy (at least this holds true for the Bismarckian countries where income security in old-age is largely provided by the state). After all, it is the government which decides whether the issue of pension reform is put on the political agenda or not. I assume that the parties in government (as well as political parties in general) have multidimensional preferences. Typically, parties within democratic polities are policy seekers and political entrepreneurs at the same time. In the first dimension, political parties represent the interests of their core constituencies (in particular of specific socio-economic groups) and pursue appropriate policy goals

irrespective of their organizational self-interests (Lipset and Rokkan 1967). To a certain degree, the policy goals of political parties (in particular of large catch-all parties) may also be inspired by the notion of 'public interest', at least at the level of public discourse. As Scharpf (1997b) points out, party politicians are more likely to argue in categories of 'public interest' or 'social justice' in order to justify their actions than is true for representatives of interest groups whose basis of legitimation is primarily the engagement for the collective interest of their own members. In the second dimension, typically emphasized by rational choice theorists, party leaders strive first and foremost for the maximization of their individual gains. From this perspective, party leaders seek to maximize their chance to hold office and to win votes (Downs 1957). In addition, they must ensure the long-term continuity of the party and hence a minimum of internal cohesion within the party organization (Bergmann 1999). As Mulé (2000) points out, these goal dimensions are not mutually exclusive. Party leaders typically must pursue *each* of these aims. However, their relative weight is likely to depend on specific institutional context factors (Strøm and Müller 1999) (see figure 3.2).

Figure 3.2: Goals of political parties



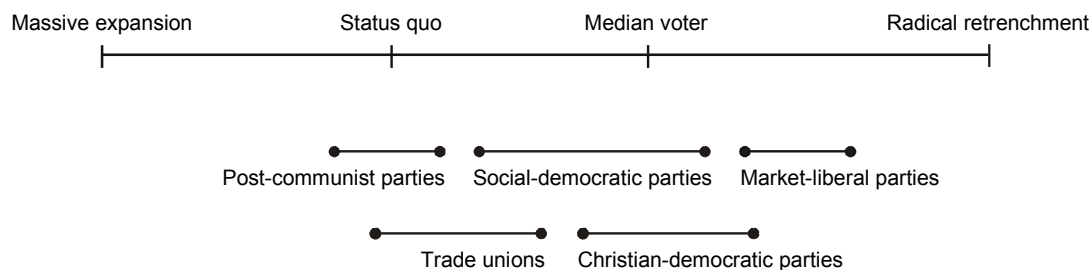
3.3 The politics of pension reform

The convergence of pension policy positions

At first, I will try to discuss policy interests that governments are likely to pursue with respect to pension policy. As argued before, economic, demographic and political factors have put public pension schemes under increasing adaptational pressure. Against this background pension retrenchment has become a major political issue in practically all advanced welfare states throughout the 1990s. Policy makers have become increasingly aware of the necessity to curb the growth of pension spending. Basically this holds true for governments irrespective of their general ideological orientation. At the same time, however, market-liberal governments face severe political and legal constraints to radically dismantle mature social insurance-based pension systems, which grant contribution-related benefits that are perceived as “acquired rights” on the part of the (potential) beneficiaries. Thus, the viable space for reform in pension policy is tightly constrained in the contemporary policy environment. Pension policy positions of left and right parties have therefore converged considerably in recent years (Bonoli 2000). In other words, neither an increase nor a radical dismantling of pension benefits appears to be a politically feasible option for pension policy-makers in Bismarckian countries. This constellation is depicted in figure 3.3, displaying a continuum stretching from a leftist agenda of benefit expansion to a neo-liberal agenda of radical retrenchment⁴⁰. To simplify matters, I assume that the retention of the status quo in pension policy is identical with the preservation of current benefit levels and more or less rapidly rising contribution rates. This assumption is justified by the fact that the traditional defined-benefit design of public pension schemes requires an increase in contribution levels, whenever outlays exceed revenues (as will be most likely the case in the context of a sharp increase of old-age dependency ratios). On that basis, we can establish the following theoretical propositions:

⁴⁰ The figure is supposed to display a one-dimensional policy space indicating policy positions with respect to the aspired degree of benefit retrenchment or expansion. It is not aimed at making statements about the extent to which various actors prefer an expansion of fully-funded old-age provision or a shift from contribution- to tax-financing.

Figure 3.3: Policy positions towards pension reform in the context of demographic aging and fiscal austerity



First, due to the demographic, economic, and fiscal strains pension policy positions in general have gravitated increasingly towards cost containment rather than benefit expansion.

Second, the constituency of most political parties has an age structure that does not deviate dramatically from the general age distribution within the electorate⁴¹. This is especially true for catch-all parties, which cannot afford to disregard the interests of single age cohorts completely. By the same token, these parties need to adopt pension policy positions that can be presented as a fair compromise between the interests of young, medium-aged and older voters (and thereby between contributors and pensioners). This compromise will come relatively close to the pension policy positions of the median voter, who is in most Western democracies roughly in the mid forties⁴². Most persons within this age group have built-up substantial benefit entitlements in the public pension system, but still have to pay pension contributions for another 10 to 20 years. In line with Pierson (1998), I would expect the median voter to be at considerable distance both from the status quo and from a position of radical retrenchment. The reason is that neither the retention of the status-quo (possibly leading to exorbitant increases in contribution rates) nor a dismantling of pension entitlements will be acceptable to the median voter (all the more since the time to compensate these cuts by an increase in private savings is relatively limited). If faced with a tragic choice between exploding contributions on the one hand, and sharp

⁴¹ Green parties are a clear exception to the rule. For instance, about 10% of voters between 18 and 44 years voted for the Green party in the 1998 federal election in Germany as opposed to only 2.3% of voters above 59 years (Klein and Ohr 2001).

⁴² In Germany, for instance, it has been estimated that the median voter age is currently about 47 years (Weizsäcker 2000).

pension cuts on the other, voters in this age group are likely to regard a mixed solution (somewhat higher contributions and somewhat lower public pensions) as the comparatively least evil, as this allows to smooth the financial burden over the individual life-cycle. This medium position is reinforced by the fact that the median voter is typically a member of the middle class and has no clear preferences in the socio-economic dimension. It is important to note, however, that this policy position reflects the 'objective' interest of the median voter, who still may ignore the inevitability of adjustment measures and react negatively to both benefit cuts and higher contributions. Nevertheless, a strong deviation from this policy position both to the left and to the right will be even less attractive to the median voter. Therefore, the parties of the political centre (in particular Social and Christian Democratic parties) will have a strong interest in approaching a "medium" policy position in order to optimize their electoral standing and to occupy the pivotal position in the party system.

Third, radical retrenchment of pension entitlements (let alone a complete privatization of the pension system) is neither a politically nor a legally feasible reform option, even for parties with a market-liberal orientation (which in principle may prefer private over public old-age provision). However, for ideological reasons market-liberal parties are likely to reject any increases in taxes or social contributions, the more so as their core clientele usually can be found mainly among the higher income strata. Hence, they will advocate stronger pension cuts than centrist parties. Thus, liberal parties are most likely to place themselves in some distance from the both median voter and from the position of radical retrenchment.

Fourth, communist or post-communist parties position themselves far left to Social Democratic parties. Typically, these parties do not aim at occupy the position of the median voter but try to represent the interests of the low-income strata. At the same time, even these parties would not advocate a large increase of pension benefits, which would unduly shift the burden of adjustment to the working generation. At best, they may present themselves as defenders of the status quo in pension policy.

Finally, political parties cannot be assumed to be unitary actors and therefore represent a certain bandwidth of policy interests rather than a fixed point on the left-right spectrum. For communist as well as market-liberal parties this bandwidth will be comparatively narrow, as these parties are typically characterized by a relatively coherent ideological profile and represent only a relatively small constituency with com-

paratively homogeneous social policy interests. Hence, the leadership of these parties will have little problems to organize an intraparty consensus on the party's overall standpoint in pension policy. By contrast, centrist catch-all parties such as Social or Christian Democratic parties must aggregate relatively heterogeneous (or even diverging) social policy interests, since their constituency is composed of quite different socio-economic groups. Typically, these parties comprise different ideological wings with respect to their profile in social and economic policy. Christian Democratic parties, for instance, must incorporate wage earner and employer interests alike. In Social Democratic parties we can diagnose tendencies of increasing conflicts between an ideological membership with a traditionally leftist orientation in social policy (including many trade unionists) and a more pragmatic, office-seeking leadership trying to shift the party towards the political centre in order to occupy a pivotal position in the party system. Thus, in both cases the party leadership will have a hard time to generate intraparty consensus on a well-defined position in pension policy⁴³. These intra-party tensions will become particularly severe, as soon as the party takes governmental responsibilities. In this case, budgetary constraints will force the party leadership to accept the necessity of cost containment reforms in pension policy and to adopt a policy that is at odds with the policy preferences of the traditionalists within the party. By contrast, a party in opposition can more easily ignore "factual constraints" in pension policy and is thus likely to maintain more "leftist" or "populist" positions.

The political risks of pension reform

Welfare retrenchment even if justified with reference to fiscal or economic 'factual constraints' is a highly unpopular undertaking. This holds especially true for public pensions, in particular those based on individual contribution payments. However, there is no unanimous opinion among welfare state scholars about the underlying reasons for the unpopularity of social benefit cutbacks. For instance, Pierson and

⁴³ These difficulties will be most pronounced for Social Democratic party leaders, who have to move the pension policy position of their party to the right in order to move it closer to their own ideal point. By contrast, the ideal point of Christian Democratic party leaders in social policy issues is less likely to deviate substantially from the ideological centre of gravity of the party as a whole. Thus, the leadership of Christian Democratic parties may often confine itself to hammer out a compromise between the left and the right wing of the party. This compromise again may be relatively close to leaders' own ideal point. Hence, intraparty conflicts over the course of pension policy will be solved somewhat more easily for Christian Democratic than for Social Democratic parties.

Weaver (Pierson and Weaver 1993; Pierson 1994) have attributed the unpopularity of benefit cutbacks to their high visibility and their concentration on specific groups. By contrast, the benefits of welfare retrenchment are considered as rather diffuse as they spread over the entirety of tax payers.

As Anderson (2000) points out, however, this argument is only applicable to tax-financed programs for a relatively small group of beneficiaries⁴⁴. In this case, the median voter argument needs to be modified. Welfare beneficiaries will not face any trade-off between contributions and benefits if the latter are completely financed by the tax payer. However, this reasoning does not apply to contribution-financed pension systems. In this case an increase of contributions is not necessarily less unpopular than a reduction of benefits. Opinion surveys indicate little popular support for cuts in social benefits, but an equally low level of willingness to pay the extra taxes and social contributions required to maintain current welfare standards in the face of rising demographic and economic pressures on the welfare state⁴⁵ (Taylor-Gooby 2001). The same holds true for increases in retirement age. Thus, in the context of fiscal crisis and population aging pension reform basically boils down to the highly unpopular imposition of welfare losses. In recent years pension cuts have been enacted on a large scale, whereas pension contribution rates still remained at a high level or even increased further. Similarly, a rapidly ageing population will require benefit cuts which will, however, only result in a *slower increase* rather than in *falling* contributions levels. By the same token, a delay of pension reform may stabilize benefit levels for some time, but also result in a sharper rise of contribution rates and/or levels of taxation. This may have been politically acceptable in an era of high economic growth and rising post-tax salaries. However, voters are unlikely to accept a growing contribution burden in the context of stagnant or even falling real wages. Hence, governments cannot avoid unpopular and perhaps electorally detrimental choices in pension policy even if they opt for the retention of the status quo. They are

⁴⁴ The German system of civil servants' pensions is a case in point. While benefits are concentrated on the relatively small group of civil servants, the costs accrue completely on the diffuse mass of taxpayers.

⁴⁵ This argument may be less valid in the case of social service programs such as health insurance. Here, the group of beneficiaries and the group of contributors is largely identical. Nevertheless, there seems to be a greater willingness to pay higher health insurance contributions than to accept cuts in health care benefits.

likely to be punished for whatever they do (Scharpf and Schmidt 2000:334)⁴⁶ unless they are able to convince the median voter about the inevitability of loss-imposing reforms.

The political salience of pension policy is enhanced by the fact that an overwhelming majority of citizens still considers old-age provision to be primarily a government task. This is for instance indicated by attitude surveys from the International Social Survey Project (ISSP). According to most recent ISSP figures (1996) about 97% of respondents in Germany and about 98% of respondents in Sweden shared the opinion that it is government's responsibility to provide for a decent standard of living for the old. By contrast, there is less support for public provision for the unemployed (84% and 90%, respectively) or the reduction of income differences between rich and poor by the state (69% and 71%, respectively) (Taylor-Gooby 2001). By the same token, the acceptance of benefit cuts is significantly lower in the area of pensions than is true for other social policy programs. For instance, according to a German opinion survey conducted in 1993 (Roller 1999) only 3% of German citizens would approve cuts in old age pensions. With respect to other social policy programs the share of respondents favoring cutbacks is reported to be higher. For instance, 30% of respondents regarded unemployment benefits as the main target for social spending cuts (for comparison: benefits for asylum seekers 21%, health services and child benefits 13%)⁴⁷. In electoral terms, the salience of the pension issue is amplified by the clear over-representation of middle- and higher age cohorts within the group of active voters⁴⁸. These age groups, however, are much more likely to resist pension cutbacks than is true for younger age cohorts. For these reasons, pension policy implies con-

⁴⁶ One important qualification has to be made, however. While a vast majority of citizens rejects both higher contributions and lower pensions as means to secure old-age provision in the future, there is a relatively great readiness to pursue supplementary old-age provision, especially among younger age groups. While most citizens do not want additional private pension provision to become mandatory, they welcome the promotion of private and occupational pensions through favorable tax treatment or direct state subsidies. Thus, the large-scale subsidization of supplementary old-age provision is relatively popular and may also facilitate the acceptance of benefit cuts in the public system.

⁴⁷ In recent years, the readiness of German citizens to accept pension cuts seems to have increased somewhat, although the level is still very modest and lower than in other social policy areas. In a 1998 opinion survey 16% of respondents stated that they would accept pension cuts, whereas 25% would accept cuts in unemployment compensation (FORSA 1998).

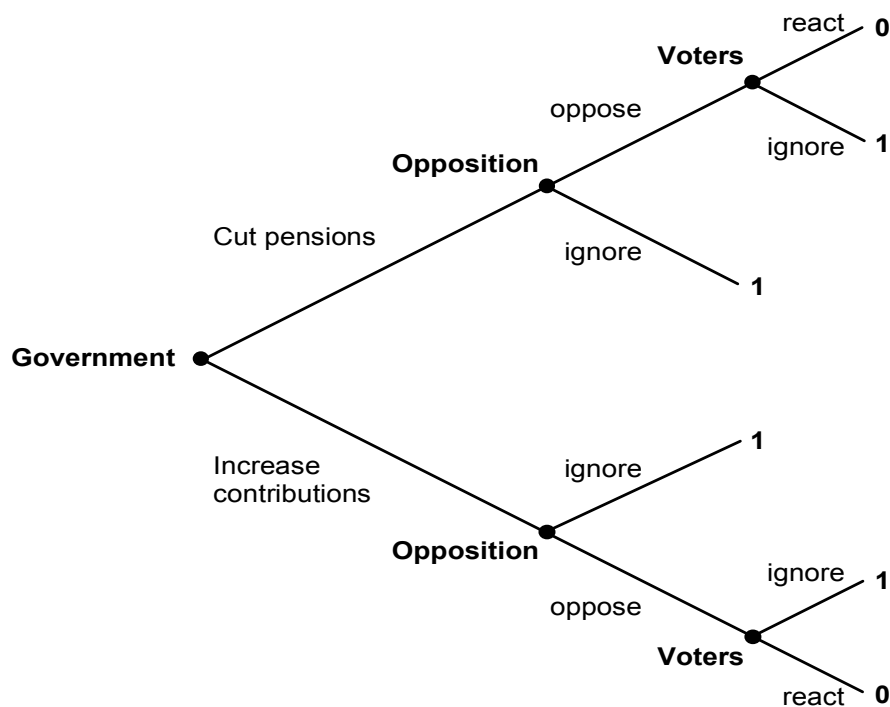
⁴⁸ In the UK, for instance, the median age of *active* voters is estimated to be around 55 years (Handelsblatt, 27th June 2002)

siderable electoral risks for democratic governments operating in the context of tight fiscal and demographic pressures⁴⁹.

The political advantages of concerted pension reform

Despite the general unpopularity of pension cuts governments will not inevitably become subject to electoral retribution when they opt for pension retrenchment. The reason is that voters will only react to government actions in pension policy if political actors outside the government are willing and able to mobilize the public against it. In line with Scharpf (1997b) this process can be modeled as a sequential game between three players (see figure 3.4). The government is the first mover and has to decide whether it launches a major legislative initiative in pension policy or not. If sig-

Figure 3.4: Sequential game between government, opposition and voters



0/1 = electoral retribution/ no electoral retribution of government

⁴⁹ By contrast, in an era of high economic growth governments were able to design pension reform packages that offered substantial benefit increases to current and future pensioners while wage earners still saw their post-tax wages rising. Under these conditions expansionary pension reforms clearly favored the electoral prospects of governing parties. In Germany, for instance, two major expansionary pension reforms were adopted in the post-war period, the first under a government led by Christian

nificant cost containment measures remain undone, the government will often be forced to increase contributions or taxes in order to avoid financial deficits in the pension system. Given the particular choice by the government, the opposition must then decide whether to ignore the issue (or even support the proposal) or to use its limited resources to oppose the initiative and to mobilize voters on a large scale⁵⁰. In the former case, we can plausibly assume that voters will largely ignore the issue. In the latter case, the swing voters may either ignore the issue or pick up the criticism uttered by the opposition and vote against the government in the next election.

To be sure, this kind of game is largely irrelevant in consociational democracies where all major political parties are represented in government and where party competition is therefore largely disabled as a mechanism of democratic accountability. As a rule, however, most democratic polities display a more or less strong element of party competition (Lijphart 1984; Scharpf 1997b). In this case, there will always be the risk for the government that pension reform emerges as a major electoral issue. Moreover, given the extraordinary significance of pension policy for the income position of large sections of the population, there is a great chance that voters will respond to this issue. Hence, faced with the threat of electoral retribution, governments tend to seek a consensus with those political actors that are most capable of mobilizing large sections of the electorate against its pension reform plans.

Typically, this applies not only to parliamentary opposition parties but also to trade unions. At least in continental Europe trade unions still play a crucial role as defenders of earnings-based social insurance schemes and may have the capacity to mobilize their members against adverse welfare reforms. Conversely, unions' approval or at least their acquiescence is likely to reduce the general political resistance against unpopular pension reforms (Anderson 2000; Palier 2002).

However, governments may have additional reasons to seek consensus with these actors in pension policy. First, both the opposition and the trade unions may – at least indirectly - occupy veto positions in the decision-making process allowing them to block governmental pension reform initiatives. Second, policy-oriented governments must have an interest in sustaining the durability of enacted reforms by assur-

Democrats (1957), the second under a government led by Social Democrats (1972). In both cases the ruling parties achieved the best election result in their history.

⁵⁰ The opposition may also criticize the lack of initiatives at containing rising pension costs by arguing that the government has done nothing to prevent higher pension contributions rates.

ing that these are not overturned after the next election⁵¹. Third, predictability and reliability of pension policy (as opposed to frequent and unexpected ad-hoc interventions by the government) constitute a value in its own. By their very nature pension reforms imply more or less profound changes in the retirement income package, in particular for future pensioners. As current contributors have to adjust their employment biographies and their savings behavior for a long time in advance, they have a genuine interest in the long-term predictability of pension policy and thus in a broad political and societal consensus on pension reform. Finally, by striking agreements with external political actors the government may neutralize internal reform opponents more easily. For instance, a broad cross-party agreement will generate broad parliamentary majorities and thereby disable the potential veto power of reform adversaries within the government factions. By contrast, a pension consensus between government and trade unions will facilitate the acquiescence of left-wing deputies in Social and Christian Democratic parties, who otherwise may have resisted governmental plans to curtail pension benefits.

For these reasons, it should not come as a surprise that successfully implemented pension reforms are mostly concerted reforms (Pierson 1998; Baccaro 2000; Hinrichs 2000a; Hinrichs 2000b; Council of the European Union 2001; Myles and Pierson 2001). By the same token, the efforts of governments to form a broad pension consensus typically go above and beyond the search for a simple parliamentary majority (Hinrichs 2000a). At least, the government will have an interest to ensure the acquiescence of trade unions and try to avoid a situation in which the opposition parties mobilize against its pension reform initiatives. If governments attempt to impose pension reforms unilaterally or fail in their effort to bring unions and opposition parties on board they will run the risk to be voted out of office or may be forced to withdraw their reform plans.

In the following, I will therefore focus on two crucial arenas of pension politics: the partisan arena as a potential platform for a pension consensus between government and opposition, and the corporatist arena as a potential platform for a pension consensus between government and trade unions (possibly including the employer organizations). In most cases, each pathway of concertation will be sufficient to gener-

⁵¹ Many changes in pension legislation only become fully effective after very long transition periods. As a consequence, the full implementation of pension reform will only be guaranteed if subsequent governments are willing to retain these measures.

ate a stable political support basis for pension reform. In the case of a broad partisan consensus pension reform will be politically feasible even if unions oppose the reform. First, a consensus backed by the major political parties would provide for a stable parliamentary majority, which trade unions could set little against. By contrast, if government parties with a slim majority in parliament do not have the parliamentary support by the opposition, even a comparatively small faction of trade unionists and other internal opponents to reform may have a sufficient blackmail potential vis-à-vis the government. Second, a broad cross-party agreement would deprive unions from the possibility to exploit the electoral competition between government and opposition parties.

Conversely, the parliamentary opposition will face greater difficulties in blaming the government for unpopular pension cuts, if the reform is supported by the trade unions, which enjoy a strong reputation as defenders of existing welfare state arrangements. Moreover, support by the unions would it make easier especially for a left-wing government to organize consensus within its own ranks. To be sure, in cases where the opposition party has institutional veto power (e.g. by controlling a second chamber whose agreement is necessary to adopt pension legislation) trade unions' support will not suffice to bypass the opposition.

Pension politics in the partisan arena

As Pierson (1998) has pointed out, we still know relatively little about the circumstances which facilitate or impede the negotiation of substantial adjustment. Therefore, we need to ascertain more systematically the positive and negative incentives for both trade unions and opposition parties to arrive at a consensus with the government. I will deal with this question in the following sections.

The opposition, to begin with, will not only have a substantive interest in pursuing its own policy goals through favorable compromises but also a competitive interest in defeating government initiatives in order to undermine the government's political reputation (Scharpf 2000b). Opposition parties may therefore be tempted to denounce the government for "unfair" pension cuts or "breached election promises" in order to improve their own electoral standing, even if they do not deviate very much from the government's position in substantive terms (Kitschelt 2001). However, opposition parties have to mediate between their substantive policy interests on the one

hand and their interest to maximize their chance to hold office and to win votes on the other hand. In principle, the opposition has three strategic options at its disposal in reacting to a pension reform plan presented by the government:

- a) It may try to negotiate a pension compromise with the government in order to move the reform output as close to its ideal point as possible. In this case, however, the opposition would forego the opportunity to exploit the pension issue in the electoral arena (as it cannot longer attack the government on this issue).
- b) Alternatively, the opposition may refuse its support though without promising to undo the cutbacks after a change of government. In this case the opposition would profit from the long-term economic benefits potentially resulting from reform (such as higher economic growth and higher employment). On the other hand, it would have no possibility to influence the content of the reform and forego the possibility to fully exploit the potential electoral gains that may accrue by the promise to reverse the government's benefit cuts. To be sure, this strategy would only be available if the opposition has no veto point in the decision-making process.
- c) Finally, an opposition party may conduct a large-scale election campaign against a government's pension reform including the promise to reverse the cutbacks after a change of government. In the short term, this strategy may be the most promising for a vote and office-seeking party. However, if it does not stick to its election promise after taking office, it will seriously damage its credibility in the eyes of the electorate. If it sticks to its promise by undoing the cutbacks of the preceding government, it still has to solve the problem of rising pension costs and may then find it even harder to legitimate the necessity of pension cuts.

How does an opposition party solve this strategic dilemma? Table 3.1 depicts in a highly stylized manner the constellations under which an opposition party is likely to cooperate with the government.

As I argue, the opposition's willingness to enter into a pension consensus with the government depends on the interaction of two factors, which may be denoted as "policy distance" and "positional conflict". This conceptualization is different from Tsebe-

lis' (1995; 1999) veto player model in which both dimensions are not treated separately. Within my theoretical framework I define the "policy distance" between two actors as the distance between their 'true' normative policy preferences, i.e. the policy positions they would adopt as mere policy seekers (and thus without considering the policy positions of other actors). By contrast, Tsebelis' notion of "policy position" describes the position of an actor's ideal point in the policy space regardless of the extent to which the location of the ideal point reflects its normative policy preferences or its (institutional) self-interest. Based on the former definition I distinguish three possible graduations of policy distance (see also figure 3.3):

- We may define the policy distance between government and opposition as large, if these actors position themselves at opposite sides of the status quo.
- The policy distance between two actors is denoted as significant, if the respective ideal points are at some distance from one another, but are still placed on the same side of the status quo.
- The policy distance is defined as small, if two actors occupy relatively similar positions on the continuum.

The second dimension of "positional conflict" tries to measure the degree to which institutional or situational factors strengthen or weaken the incentives for a political party to improve its *relative* position vis-à-vis another party. In other words, the degree of "positional conflict" determines the extent to which cooperative or conflictual strategies improve or diminish a party's chances to maximize votes and its likelihood of winning office. Analytically, we may again distinguish three levels of positional conflict:

- The degree of positional conflict can be classified as "high" in the context of fierce party competition. As a rule, this will be the case for political parties competing against each other for office. More specifically, positional conflict in the area of pension policy is assumed to be high if an opposition party is likely to gain substantially in the vote- and office dimension by mobilizing against the pension reform plans of the government.
- We may assume a "medium" level of positional conflict if competitive incentives between political parties are existent, but pushed into the background due to specific context factors (see below).

- Finally, positional conflict between the government and an opposition party is denoted as “low”, if this opposition party has an interest in preserving the existing government constellation or in becoming a potential coalition partner to the parties in government. For instance, it cannot be in the interest of a communist opposition party that a Social Democratic government is replaced by a bourgeois one. Thus, in this case government and opposition parties will compete for votes but not for office.

The opposition is unlikely to cooperate with the government if both its policy distance to and the degree of positional conflict with the government is high, hence a cross-party pension consensus will not emerge. Conversely, a constellation of “low positional conflict” and “small policy distance” will be highly conducive to a pension consensus.

Table 3.1: Likelihood of a partisan consensus on pension reform

		Policy distance between parties		
		Large	Significant	Small
Positional conflict	High	-	-	-
	Medium	-	(+)	+
	Low	(-)	+	+

+ Emergence of consensus likely; - Emergence of consensus unlikely

However, the opposition is faced with a strategic dilemma if policy interests and competitive incentives operate in opposite directions. For instance, a small distance between the policy positions would allow for a cross-party consensus, although this could be countervailed by strong competitive incentives for the opposition not to cooperate. To the extent to which disagreement with the government strengthens not only its electoral prospects but also its chance to replace the government, an opposition party will be unlikely to support a government’s pension reform. Thus, in a situation of strong positional conflict I would expect an opposition party to thwart a pension consensus with the government irrespective of its material policy goals⁵². Hence, even a negligible policy distance is not a sufficient condition for the emergence of a

⁵² This is in accordance with the general assumption in the organization-theoretic literature that self interests usually take precedence over normative aspirations.

cross-party pension consensus in the context of fierce party competition. In this situation, opposition parties are likely to opt for *strategic disagreement* (Gilmour 1995).

Conversely, a low level of positional conflict between government and opposition clearly facilitates negotiated adjustment. In this constellation strategic considerations do not only enable but *reinforce* the search for consensual policies. For instance, an opposition party may try to demonstrate its cooperativeness vis-à-vis the government by supporting it in enacting unpopular welfare reform. In doing so, it may recommend itself as a future coalition partner⁵³. Nevertheless, even in the context of low positional conflict between the government and an opposition party we cannot generally assume that the latter will be prepared to support government policies that are diametrically opposed to its own policy interests, as this may drastically harm its chances to maximize votes.

Finally, in configurations of positional conflict being at a medium level strategic considerations enable a relatively policy-oriented bargaining process. In this case, the likelihood of a pension consensus is largely dependent on the policy distance between government and opposition. I expect a policy-oriented opposition party not to join forces with the government, if its policy distance from the government is large. If it is confronted with a policy outcome that is (from its own perspective) inferior to the status quo, an opposition party will either try to block the reform or to reverse it after the government constellation has changed. If a medium level of positional conflict is not combined with a large policy distance, a negotiated solution will be basically within reach. The reason is that this constellation will allow for policy outcomes that are superior to the status quo for both sides, while the absence of strong competitive incentives facilitates policy-oriented bargaining.

Pension politics in the corporatist arena

As suggested above, a consensus between government and trade unions will in many cases create a stable political support basis for pension reform even if the reform is not backed by the parliamentary opposition. Unlike the opposition parties, trade unions have basically no competitive incentives vis-à-vis the government. Their

⁵³ In principle, the members of a coalition government have similar (or even stronger) incentives to find negotiated compromises as they share a common interest in retaining office. For a small coalition partner this may even imply the reluctant acquiescence in a reform that runs against its policy interests.

primary interest revolves around substantive policy solutions rather than electoral competition (Scharpf 2000b). Given that trade unions and the government do not compete with each other in the electoral arena, none of these actors has a genuine interest in engaging in conflicts with the other side. Both the government and the trade unions are likely to prefer a joint solution to social conflict, which may be costly for both sides. This holds particularly true for the government, for which a massive conflict with the trade unions may harm its electoral prospects.

Although this may favor a pension consensus between these actors, the pension policy goals of government and trade unions often diverge considerably. In principle, this also holds true for left-wing governments. Under conditions of fiscal austerity, unions can no longer count on the uncompromising political support by labor governments (Ney 2001a). Trade unions, by contrast, tend to adopt a position in pension policy that is much closer to the status-quo. In particular, trade unions will often resist major pension cuts even if this comes at the price of higher contribution rates. Given the common ideological roots of trade unions and Social Democracy, the increasing divergence of their pension policy positions is remarkable. We can identify a number of reasons which may help to account for this phenomenon.

First, the membership of most trade unions is characterized by a relatively pronounced seniority bias. As a consequence, trade union leaders are likely to defend primarily the interests of elderly workers. In principle, trade unions face a trade-off between the interests of contributors and beneficiaries, when they develop their own approach to pension reform. However, this trade-off is moderated by the fact, that current contributors are also the future pensioners. With increasing age contributors to public pension insurance become less likely to accept the scaling down of their own pension claims. Hence, it will be particularly the elderly workers who resist pension cuts. By the same token, elderly workers are most likely to reject efforts to increase the retirement age (for the same reason elderly workers may be even more sensitive to changes in pension law than current pensioners)⁵⁴. At the same time, it is exactly this age-cohort that is most influential among trade unions' rank and file

⁵⁴ According to an opinion survey carried out in Germany (DIA 2000), about two thirds of those aged between 18 and 24 would be willing to retire later in order to keep pension contribution rates stable. By contrast, hardly more than a fifth of those aged between 45 and 64 would accept this.

(Brugiavini, Ebbinghaus et al. 2001)⁵⁵. What is more, in some countries pensioners account for a sizeable share of union members. In Italy, for instance, about half of the union membership consists of pensioners (Fargion 2000). Thus, more often than not trade unions' rank-and-file typically displays a stronger age-bias than the electorate at large. One reason may be, that trade unions have a hard time to recruit new members (in particular among the younger generation) leading to a disproportionably high share of older members.

Second, by their very nature trade unions represent the interest of wage earners (or in the case of a particularistic union only of a certain segment of wage earners) rather than those of society as a whole. At the same time, they tend to regard contributory pension entitlements as a form of "deferred wage". Hence, from unions' point of view pension politics primarily reflects a distributive conflict between capital and labor rather than between older and younger generations. This is also the reason why trade unions press strongly for a participation of employers in the financing of old-age provision. In addition, trade unions typically call for a stronger state involvement in the financing of public pensions, which would mitigate the potential conflict of goals between the interests of contributors and the interest of pensioners. By contrast, even left-wing governments cannot confine themselves to represent the 'narrow' interest of wage earners and pensioners. Political parties also have to pay attention to the interest of societal groups other than wage earners and pensioners, such as unemployed, students, single mothers or self-employed persons. To the extent, to which an increasing share of public resources is devoted to the payment of pensions, tight budgetary constraints will force governments to cut expenditures in other areas of public provision such as family benefits, education and public infrastructure. This again would seriously violate the interests of groups which are not represented by the trade unions but which may nevertheless be crucial for the electoral prospects of political parties.

Third, trade unions also tend to defend existing pension arrangements as an instrument that offers relatively attractive pre-retirement options to older workers to be paid by the active population and by tax payers. The accessibility of this 'exit option' also increases unions' bargaining power vis-à-vis the employers. In other words, the ac-

⁵⁵ In the German trade union for metal workers (*IG Metall*) the median age is about 53 years (Streeck 2002)

cess to generous soft landing options via the public pension system will reduce the pressure on unions to moderate their wage demands (Brugiavini et al. 2001). By contrast, governments have become increasingly aware of the fact that a continuation of generous pre-retirement options will impose an unbearable burden on the public budget.

Despite the differences in the pension policy positions of governments and trade unions the latter are likely to give preference to a negotiated reform (in which they have at least a say in the implementation) over a reform, which is imposed unilaterally by the government (or by a “grand coalition” between government and opposition). For the government the first preference is typically a negotiated reform, in which trade unions signal “green light” for unpopular welfare cutbacks. However, the government has to balance its desire to obtain the consent of unions with its desire to implement real changes. If consensus with the unions is its primary goal (rather than the implementation of reform itself), it hands unions a de-facto veto power (Wijnbergen 2000).

To sum up, trade unions’ main interest is to attain a reform outcome that is as close as possible to their ideal point (typically located somewhere between the status quo and the government’s ideal point). The government will also seek to move the status quo towards its own ideal point, but at the same time try to obtain the approval from the trade unions in order to lower the political costs of reform. This raises the question under which conditions both actors will arrive at an agreement on pension reform and where the bargaining outcome will be situated. Figure 3.5 depicts in a highly stylized manner the possible bargaining constellations between the government and the trade unions assuming that the pension policy preferences of the relevant actors can be depicted on a one-dimensional policy space (indicating the degree to which a reduction in pension spending is seen as necessary).

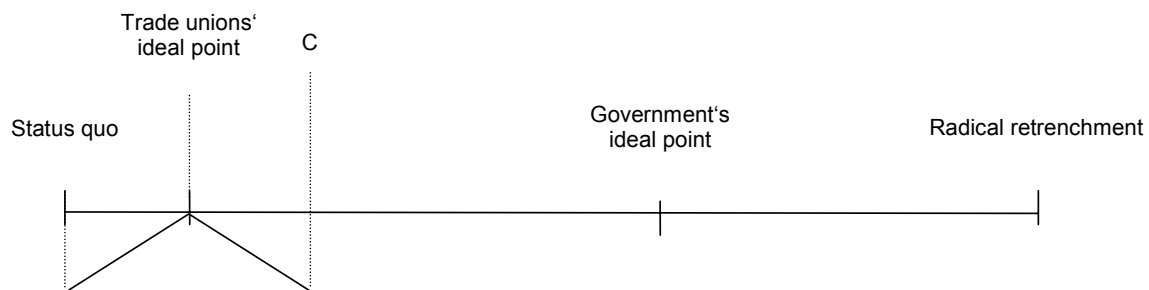
The bottom line is that three factors will determine the policy outcome:

- First, the location of the government’s preferred policy outcome, i.e. its ideal point in a given policy space.
- Second, the location of trade unions’ ideal point.
- Third, the location of the non agreement point, i.e. the location of the policy outcome that occurs if no agreement is achieved. Non-agreement between trade unions and the government will result in the retention of the status quo, if the

government is either not willing or not capable of imposing the reform against the trade unions. Conversely, non-agreement may also lead to a policy outcome that is identical with (or at least close to) government's ideal point, if the government is both willing and capable of imposing the reform even without unions' approval.

Thus, in order to assess the final position of the policy outcome we have to proceed in two stages. In the first step we need to localize the ideal points of the government and of the trade unions. In that respect, we can identify a number of factors which influence the preference formation of these actors in pension policy. Once their ideal points have been established, we must assess the position of the non-agreement point.

Figure 3.5: Bargaining constellation between government and trade unions



The government's ideal point in pension policy is likely to reflect the strength of adaptational pressures. The stronger these pressures are and the more vulnerable a pension system is to these pressures, the stronger is the necessity of cost containment reforms and the more the government's ideal point will move away from the status quo. As argued in the previous section, cost containment pressures vary significantly across as well as within countries (even within the cluster of Bismarckian countries). By the same token, governments are likely to diverge in the extent to which they regard pension cuts as necessary.

The intensity of adaptational pressures will also have an impact on the pension policy outcome preferred by the trade unions. Net of other factors, unions' willingness to reform will co-vary with the intensity of adaptational pressures, since trade unions also must have a fundamental interest in the long-term sustainability of public pension arrangements. In addition, however, specific features of trade unions them-

selves (such as their traditional ideological orientation, the relative share of elderly workers and pensioners within their rank-and-file or the encompassingness of their organizational structures) may have a considerable impact on their preferences in pension policy. In sum, unions' ideal point cannot be assumed to be fixed but will vary considerably across countries and over time as well as from one union to another. This aspect will be explored in more detail in the country sections. The bottom line is, however, that in the vast majority of cases trade unions will have a more leftist position in pension policy than the government.

Finally, the policy outcome resulting from the interaction process between government and trade unions will depend on the location of the non-agreement point. As mentioned above, the position of the non-agreement point indicates whether or not a government is willing and capable of enforcing a reform even without trade union support. Hence, the location of the non-agreement point reflects the relative balance of power between these actors. In that regard two crucial aspects need to be distinguished. First, trade union representatives and their allies may be able to block pension reform legislation formally, especially if the government is institutionally weak and ideologically fragmented. Second, trade unions may mobilize their members against the reform plans and thereby increase the political costs of pension reform for the government. Both factors are likely to have a considerable impact on unions' bargaining power vis-à-vis the government (see table 3.2). In the following, I will discuss these factors in more detail.

Governments differ in their institutional capacity to impose a pension reform even without unions' consent. Trade unions and their allies may occupy veto positions in the political decision-making chain allowing them to block pension reform legislation. In particular, under certain conditions trade unions may be able to block a pension reform bill in parliament. This will depend on at least four partly interrelated factors:

- First, the extent to which trade union functionaries are represented within the government parties. For instance, a sizeable share of deputies within the governmental factions may consist of trade unionists. This is especially the case for leftist and - to a lower extent - for Christian Democratic parties. Moreover, trade unions may even exert a dominant position within the party elite by controlling key appointments or by placing their own leadership in important executive and legislative party offices (Kitschelt 1994:225). In the latter case

trade unions will dispose of a strong veto power within the party, which cannot even be bypassed through a broad cross-party alliance.

Table 3.2: Power resources of trade unions and their bargaining position vis-à-vis the government

		Mobilizing capacity of trade unions	
		Limited	High
Weak and ideologically fragmented government	Yes	Very strong bargaining position	Very strong bargaining position
	No	Weak bargaining position	Strong bargaining position

- Second, the extent to which trade unions are able to forge a strategic alliance with other reform opponents within the government camp. This concerns especially center-left governments relying on the support of Communist parties or left-wing Social Democrats, who often share unions' policy positions towards pension reform.
- Third, the strength of government parties in parliament. Minority governments and governments with thin parliamentary majorities will have a more difficult time to assert themselves against the reform opponents in their own ranks than governments relying on a large majority of seats in parliament.
- Fourth, the degree to which governments can rely on the parliamentary support of opposition parties. If government leaders are able to muster a broad cross-party pension consensus, they are likely to generate a stable parliamentary majority against which even trade unions will be relatively powerless.

Even if trade unions are unable to exercise veto power in the parliamentary arena, they still may exploit their mobilizing capacity in order to thwart the governmental pension plans. The rationale behind this strategy is to enhance the political costs of reform to a point where the government will feel impelled to withdraw the envisaged measures. Trade unions dispose of manifold means of exerting political pressure on the government allowing them to gradually escalate the level of conflict. For instance, trade unions may call upon their members to express their displeasure with the reform plans of the government at the ballot box. At the extreme, unions may be capa-

ble of paralyzing strategic sectors of the economy through large-scale and prolonged strike actions, which may put even institutionally strong governments under enormous political pressure. However, whether massive protests by the trade unions will prompt a government to withdraw its reform plans will also depend on its electoral vulnerability. In the run-up to major elections and in the absence of political support by the parliamentary opposition, governments will often be more responsive to trade union demands than would be otherwise the case.

In a constellation where unions can hope to defend the status quo in the case of non-agreement unions will not accept an outcome that is from their point of view inferior to the status quo (see figure 3.5). Given its agenda-setting power the government will in this case propose a reform located at C. C will be to the right of unions' ideal point and at the same distance from unions' ideal point than the status quo. Provided that the trade unions would be able to impede the reform, unions will oppose any outcome to the right of C. Thus, within this power constellation the location of the final bargaining outcome can be directly derived from unions' ideal point and its distance from the status quo. This also means that even a "weak" government can achieve more far-reaching pension cuts if a trade union is relatively reform-oriented and acknowledges the need of cost containment measures.

The bargaining constellation looks different, if the non-agreement point is identical with government's ideal point. Here we assume that a "strong" government has a credible threat to impose painful pension cuts even against unions' resistance. In this case, a policy-oriented union will always be prepared to accept even an outcome inferior to the status quo (to the right of C) as long as the government is willing to make at least some concessions. In doing so, the unions can avoid an even worse outcome that may be produced if the government acts unilaterally.

Strategic choices of the government concerning the sequencing of negotiations

While governments want to see their pension reform initiatives supported by other political parties and trade unions, they also must achieve an internal consensus on pension reform, both between the partners of a coalition government and within party organizations. Hence, the leadership of government parties is likely to negotiate over the content of pension reform in several arenas and with different actors. As suggested above, there may be considerable disagreement within a government over

the direction of pension policy. This may have important implications for the government's strategic course of action with respect to the sequence of negotiations that is best suited to move the final reform outcome as close as possible toward its own ideal point. As Tsebelis (1995) has pointed out, party leaders can basically choose between three different bargaining strategies. First, the leaders of a ruling party may try to hammer out an agreement with the leadership of other parties (which may be within or outside the government) without referring back to their own party. Second, the party discusses the issues first, reaches an agreement close to the ideal point of the whole party and then negotiates with the other parties. Third, the leaders of the different parties meet, arrive at an agreement, and then submit it as a whole to their own parties. The number of potential bargaining strategies will increase further, if the trade unions are also considered as an important partner for negotiation. Party leaders will try to achieve the first agreement with an actor whose policy position is closest to their own ideal point. For instance, Social Democratic party leaders are likely to choose the third method of negotiation if available. By firstly negotiating with a bourgeois party located at the center of the policy space they may hammer out an agreement that is relatively close to their own ideal point and that can be presented as a more or less accomplished fact vis-à-vis their own rank-and-file and vis-à-vis the trade unions. Similarly, a bourgeois government is likely to seek a consensus first with the leadership of the Social Democratic opposition before referring to the trade unions (provided that the former option is available).

In this section I have presented a stylized theoretical framework to analyze the strategic context in which pension politics takes place. Different actor constellations both in the partisan and in the corporatist arena shape the government's capacity to negotiate a consensus on pension reform. In the following country-specific chapters, I will not only describe various instances of the political reform process in the area of pension policy but try to locate the individual decision-making processes into the broader theoretical context outlined above. The sequence, in which the country chapters are ordered, loosely reflects the relative success of a country in placing its pension system on a more sustainable footing.

A further remark has to be added. The countries under study have adopted a multiplicity of legislative measures in pension policy since the late 1980s. It would go beyond the scope of this study to analyze exhaustively the political decision-making

process with respect to all changes that have been relevant in pension policy. Instead I will focus on selected instances of pension reform efforts for each country. I will concentrate on reforms attempts which have brought about (or which were supposed to bring about) major changes and which have been an important source of conflict among political actors⁵⁶.

⁵⁶ A chronological synopsis of the most significant changes in pension policy since the late 1980s is provided in appendix II.

Chapter 4

Sweden: Policy-oriented bargaining

*Key features of the Swedish pension system in the late 1980s*⁵⁷

Traditionally, the Swedish pension system differs from pension arrangements in the other countries under study, in so far as it provides for a basic pension covering all persons resident in Sweden over 16 years of age (including most foreigners)⁵⁸. The National Pension System includes three schemes:

- The basic pension (*folkspension*), which consists of a universal flat-rate pension, supplemented by various partially income-tested benefits (such as housing allowances)
- The earnings-related supplementary pension (*allmän tilläggspension, ATP*)
- The partial pension (*delpension*) consisting of a part-time early retirement pension.

Both the basic and the supplementary pension schemes provide for old-age, invalidity and survivors' pensions.

All pension benefits are indexed in accordance with the so called "base amount" which is typically linked to the consumer price index⁵⁹. A single pensioner is entitled to a guaranteed 'minimum pension' which amounts to 144% of the base amount (consisting of a basic pension which equals 96% of base amount, and a pension supplement which equals 48% of the base amount).

The old age basic pension is normally payable from the age of 65. However, it may also be drawn from the age of 60, in which case the pension is reduced by 0.5% for every month under the age of 65. The basic pension scheme is financed by contribu-

⁵⁷ The introductory descriptions of national pension systems refer to the legal situation in the late 1980s in order to pinpoint the status quo in pension policy at the beginning of the period under investigation (see also the summary synopsis in appendix I).

⁵⁸ Until 1993 all persons with at least 5 years of residence in Sweden were entitled to a full basic pension. Thereafter this has been changed to 40 years of residence or 30 contribution years in the ATP system.

⁵⁹ ¹⁶The base amount (*basbelopp*) is an accounting unit used to calculate qualifying income and benefits in all social insurance schemes (Anderson 1998).

tions from employers, central government and local government⁶⁰. The employer contributions are not earmarked for the pension but are in fact a payroll tax.

The general supplementary pension scheme (*ATP*) covers all economically active persons over 16 years. Self-employed persons have the right to contract-out of the scheme. The supplementary pension is earnings-related, and is payable to persons who have earned more than the 'base amount' for at least three years. The amount of the supplementary pension scheme depends on the 'average pensionable income' earned in previous years and on the number of years of gainful activity. For each year, a ratio is calculated by dividing the individual income (up to 7.5 times the base amount) by the general base amount for the respective year ('pension points'). The average number of pension points for all years of gainful activity (for a period of more than 15 years, the average is calculated for the 15 best years) is then multiplied by the base amount for the month/year in which a person retires resulting in the average pensionable income. A full supplementary old age pension amounts to 60% of the average pensionable income and requires a 30 years' record of accumulated pension points. For each missing year the pension is reduced by 1/30 or 2 percentage points. For the supplementary old age pension the normal retirement age is 65, with the same possibilities of early or deferred retirement as in the case of the basic pension. The ATP scheme is financed by contributions from employers (about 10% of wages without any ceiling) and, to a lesser extent, from the self-employed (Olsson 1987). In principle, the ATP system works on a pay-as-you-go basis. In addition, however, the ATP scheme relies on five trust funds (AP funds) separate from the state budget and invested in stocks and bonds that were built up during the first 30 years of the system's operation because the revenues from contributions exceeded pension outlays (in the beginning, contribution rates were deliberately set up to 3 percentage points higher than would have been necessary to cover current pension payments). In the short run these funds were designed as a buffer fund that would offset temporary deficits in the ATP system. In the long term perspective, the AP funds should also cover the expected increase in ATP expenditures (Finansdepartement 1998). At the same time, the AP funds were supposed to increase public savings in order to compensate for the expected decline of private saving triggered off by the establishment

⁶⁰ Until 1989 the financing share covered by state grants had fallen to about 12% of total outlays.

of the ATP system. In 1986, the value of these funds corresponded to six times the yearly expenditures of the ATP system (Anderson 1998).

Employees between the age of 60 and 65 can combine part-time work with a partial pension (*delpension*). After July 1987 this scheme compensates for 65% of the loss of income resulting from the reduction of working time. It is financed by employer contributions equaling 0.5% of the wage sum.

In addition to the major public schemes there are four important occupational pension schemes established by collective agreements covering all public employees and the majority of workers in the private sector. These schemes compensate about 10% of earnings up to the benefit ceiling in the ATP system and a higher share for those parts of income exceeding this ceiling (Wadensjö 2002).

Sweden's pension reform record in the 1990s

Among the five countries under study, Sweden adopted the most far-reaching measures in pension policy. In the 1990s Sweden was extraordinarily successful in restoring the fiscal soundness of its public pension system, which had come under massive cost containment pressure due to the severe recession in the early 1990s and the concomitant deterioration of public finances. More importantly, apart from Italy, Sweden is the only country under study in which the public pension system will gradually be converted from a defined-benefit into a defined-contribution scheme. In the process the long-term growth of public pension outlays will be contained effectively. Moreover, most recently a private and fully-funded pillar has been introduced on a mandatory basis. In this chapter I will attempt to identify the political conditions under which Swedish pension policy-makers were able to carve out a fundamental restructuring of the pension system.

In order to flesh out the general course of Swedish pension policy in recent years, we need to recall an important distinction made in the first chapter. On the one hand, we can identify instances of pension retrenchment primarily geared towards short term budget relief and towards a stabilization of non-wage labor costs in the face of acute economic and fiscal crisis. A different type of pension retrenchment is 'long term structural reform' typically aimed at addressing the problems emerging from the dramatic change in the population's age structure that looms large in the decades to come. As opposed to short term cuts, this type of reform is as a rule not exclusively

geared towards cost containment but typically comprises measures to remove inefficiencies in the overall design of the pension system. In addition, structural reform may also contain steps towards reinforcing second and third pillar arrangements. Such reforms typically require extraordinarily long time-horizons and a stable and sustainable political support basis in order to become fully implemented. In the Swedish case, the distinction between the two reform approaches appears to be particularly applicable. Both types of pension reform were pursued simultaneously, but relatively independent of one another. By the same token, the decision-making logic of the two approaches differed greatly. Hence, despite their temporal coincidence I will discuss both strands of pension reform separately in this chapter.

Short term cuts

Throughout the 1980s changes in Swedish pension policy remained very modest. A first attempt at retrenchment in pension policy was made by the bourgeois government in the early 1980s. In the face of high inflation (exceeding increases of wages) and a severe budgetary crisis the government had decided to change the indexation of pensions temporarily so that pensioners would only be partly compensated for rising prices (by disregarding changes in energy prices). This measure caused a public outcry, and the Social Democratic opposition promised to restore the full value of pensions after the election in 1982⁶¹. However, the SAP fulfilled its promise only partly, as pensioners were not fully compensated for the loss in purchasing power resulting from the strong currency devaluation that had been decided by the new government. As a consequence, the bourgeois press fiercely accused the Social Democrats of having stolen the election victory with false promises to pensioners. In the late 1980s, however, most of the effects of the devaluation cut have been restored. The powerful blue-collar union federation LO and the Left Party Communists, on whom the SAP depended for support in parliament, effectively blocked any attempts at retrenchment by the Social Democratic government (Pierson and Weaver 1993; Anderson 1998; Lundberg 2001)⁶². In the 1985 and 1988 elections the SAP even sought to present itself as the defender of the existing pension system vis-à-vis the bourgeois parties, which had suggested moderate welfare cuts, among others in

⁶¹ Among the politicians involved some have even argued that without this promise the election victory of the Social Democrats in 1982 would have been in danger (Lundberg 2001).

pensions. This strategy clearly made it possible for the SAP to maintain its strong electoral position in the Swedish party system. At the same time, however, the Social Democratic government increased the rate of contributions only modestly in order to cover the explosion of ATP (= General supplementary pension) expenditures in the 1980s. Instead, the SAP opted to make the AP funds (= public pension funds) bear some of the burden of pension payments in order to contain increases in labor costs for employers⁶³. As Pontusson (1997) points out, this policy may have reflected a growing recognition within the Swedish labor movement that the AP funds are an inadequate instrument to influence industrial restructuring.

In striking contrast to the mid and late 1980s, a multitude of pension cuts were enacted in the 1990s. These cuts were first and foremost triggered by the severe economic recession in the early 1990s. From 1991 to 1993 the Swedish economy suffered three consecutive years of negative growth rates. This had disastrous consequences for public finances. The state budget, still displaying a sizeable surplus of 4.2% of GDP in 1990, turned into a deficit of 12.3% in 1993. By the same token, two major currency crises in 1992 and 1995 put the Swedish Crown under enormous pressure. Thus, Swedish governments had no choice but to adopt a policy of fiscal austerity in order to restore sound public finances. As the largest single item of public social spending the pension system became an important target for retrenchment both for SAP and bourgeois governments⁶⁴.

Between 1991 and 1997, the so-called base amount (used to calculate most social transfer payments including pensions) was repeatedly not adjusted for the development of consumer prices. As part of the tax reform negotiated between the Social Democratic government and the Liberals in 1990, the base amount for 1991 and 1992 did not take into account all price increases. Nevertheless, until 1992 net pensions still increased significantly in real terms (Socialdepartementet 1996). While the recipients of middle and high pensions profited from lower taxes, persons with a low income from pensions were compensated by a higher pension supplement (only to

⁶² For instance, a governmental initiative to replace widows' pensions with a means-tested benefit was withdrawn before it came to a vote in parliament (Pierson and Weaver 1993).

⁶³ Although yearly ATP expenditures rose from about 27 billion Swedish Crowns in 1982 to almost 70 billion in 1989, employer contributions were only raised from 9.4 to 11% of the wage sum during the same period. At the same time, the strength of AP funds (expressed as the value of funds divided by expenditure for the year) diminished from 7.4 to 5.5 (Anderson 1998).

⁶⁴ The SAP was in office until 1991 and again from 1994 onwards (interrupted by the incumbency of a minority government consisting of four bourgeois parties).

be paid to persons whose ATP pensions are below a certain ceiling) and higher (means-tested) housing benefits. From 1993 onwards, however, direct pension cuts as well as higher taxes for pensioners led to a decrease in real benefit levels. Most importantly, during the currency crisis of November 1992 the bourgeois government arrived at an agreement with the Social Democratic opposition over a consolidation package which also included tangible cuts in pension benefits. For one, a reduced base amount has been introduced (corresponding to 98% of the “normal” base amount) applying both to the basic and to the ATP pension. As a consequence, pensioners were virtually not compensated for the strong devaluation of the krona in the wake of the 1992 currency crisis. Recipients of low pensions received compensation, however, by increases in means-tested benefits. In addition, it was decided to increase the retirement age from 65 to 66 years (to be phased in between 1994 and 1997)⁶⁵. The crisis package had been negotiated behind closed doors by party leaders in a desperate (albeit unsuccessful) effort to avert a devaluation of the Swedish krona. As Anderson (1998) points out, the atmosphere of crisis as well as the cross-party agreement allowed politicians to withstand the inevitable protests from unions and pensioner associations.

The bourgeois minority government also enacted significant cutbacks in the partial pension system. However, in this case it proved much more difficult for the Bildt government to orchestrate a parliamentary majority for its retrenchment ambitions. In the face of severe budgetary constraints the government had proposed to eliminate the program in the spring of 1992. The employer contribution of 0.5% of payroll was to be shifted to work injury insurance, which was running a deficit. Thus, the government's intention behind the proposal was to keep employer contributions stable while at the same time not burdening its own budget. However, the initiative met with fierce criticism by the SAP and the Left Party. At the same time, New Democracy (a right-wing populist party outside the government) opted against eliminating the partial pension scheme, arguing that this measure would primarily shift the costs to long-term sick pay and disability pensions. Hence, the government only achieved support for a reduction in the partial pension contribution from 0.5% to 0.2% with the difference being transferred to work injury insurance (Anderson 1998).

⁶⁵ The latter measure was postponed, however, when presented to Parliament in spring 1993 in the face of continued rising labor market slack. Hence, it was instead scheduled to be implemented as part of the new pension system (OECD 1994).

Another attempt to cut partial pensions was made in the following year (1993). The proposal envisaged an increase in the qualifying age from 60 to 62 years and a reduction in the replacement level from 65 to 50%. Again, this proposal did not gain a majority in the Riksdag, because both the left opposition and New Democracy (which initially had agreed to the cuts in the committee) opposed it. However, gradually the Social Democrats shifted course and signaled their readiness to support savings measures in the partial pension system. Their key concern was to retain a fairly low age limit of 61 years (rather than 62 years as envisaged by the government). In return, the SAP made far reaching concessions with respect to the replacement level which was reduced from 65 to 55% (the government had aspired a level of 50%). Thus, after two failed attempts, the bourgeois party leaders managed to hammer out a compromise solution with the Social Democratic opposition (Anderson 1998).

Another important change in pension legislation adopted during the incumbency of the Bildt government refers to tighter eligibility criteria for the basic pension. Before 1993 all persons with at least 5 years of residence in Sweden were entitled to a full basic pension. After 1993 new rules were gradually introduced, according to which a full basic pension can only be drawn after 40 years of residence or after 30 contribution years in the ATP system. This move was motivated by Sweden's entry in the European Union in 1995. On the basis of the previous rules, EU foreigners moving to Sweden would have become immediately entitled to a full basic pension. The same would have been true for people who had been resident in Sweden for five years, although they left the country a long time ago. Under these conditions, retaining previous regulations might have induced considerable additional expenditures for the public budget. Thus, faced with the potential threat of growing "welfare tourism", Sweden felt impelled to partly dissociate itself from the traditional model of a universal welfare state.

The reform of partial pensions highlights that even in opposition the SAP had a crucial impact on social policy outcomes. This can be attributed to three factors. First, without support by New Democracy the bourgeois minority government was inevitably dependent on the Social Democrats in order to gain a parliamentary majority. Second, the bourgeois Bildt government strove for the consent of the SAP in order to contain the political costs of welfare retrenchment. In particular, due to backing by the Social Democratic opposition the government could more easily withstand the vigor-

ous protests of LO and TCO (confederation of white-collar unions) against the curtailments of partial pensions. Third, collaboration with the SAP was necessary if the cuts were to be sustained even after a change in government. This again was a rather likely scenario, given the strong electoral position of the SAP in the Swedish party system. By the same token, with a high probability to resume government after the 1994 election, it could not be in the interest of the SAP that the bourgeois government would leave public finances in disorder.

After their reelection in 1994 the Social Democrats launched a multitude of measures in order to restore sound public finances as quickly as possible. In contrast to the previous government they adopted a two-pronged strategy of fiscal consolidation which also included substantial increases in taxes and social security contributions for the insured persons. To get these tax increases adopted in parliament the SAP minority government relied on the support of the Left Party. On the expenditure side, the Social Democrats took up forcefully the policy of benefit cutbacks pursued by its predecessor. This also holds true for pension policy. Most importantly, in 1995 a temporary change in indexation rules was established according to which the adjustment of the base amount will only take into account 60% of changes in consumer prices as long as the public budget deficit exceeds a certain level. Quite remarkably, the pension cuts by the left government did not even omit pensioners with very low income. Hitherto this group had been largely compensated for general pension cuts by an expansion of means-tested benefits (such as a higher pension supplement and improved housing benefits). By contrast, the SAP government even opted for a tangible reduction of pensioners' housing supplements in 1997. Other changes concern reducing the basic pension for persons married to a non-pensioner and the introduction of an income-test for widow pensions paid to persons below the normal retirement age, a measure that triggered a heated public controversy. In sum, between 1994 and 1998 the SAP government enacted a number of substantial savings measures in pension policy on top of the cutbacks adopted by the previous bourgeois government. These cuts were primarily implemented with the parliamentary backing by the bourgeois Center party, which - in exchange for its support - was among others conceded to have a say in the decommissioning the country's nuclear power industry (Palme and Wennemo 1997; Schludi 1997).

It is interesting to note the electoral repercussions of the harsh austerity policy adopted between 1994 and 1998. In the 1998 election, both the SAP and the Center Party suffered an extraordinarily sharp decline. SAP's vote share fell from 45.3% in 1994 to 36.6% in 1998, which was its worst result for 77 years, whereas the Center party had declined from 7.7 to 5.1%, which was the worst result in its history. Most voters lost by the Social Democrats (in particular members from the trade union confederation LO) turned to the Communists, which almost doubled their vote share to 12% (the best election result ever achieved by this party). About 30% of the party's voters, most notably LO members, were poached from the SAP. A sizeable share of the electorate also abstained from voting as is indicated by a fall of voter turnout from 86.8 to 78.6% (the lowest since 1958). Among the bourgeois parties it was only the Christian Democrats which emerged as the big winner and almost tripled its share (11.8% in 1998 as opposed to 4.1% in 1994). In contrast to the (market-liberal) Moderates, which could only stabilize their relative electoral position⁶⁶, the Christian Democrats had repeatedly emphasized the need to increase social spending, including pensions. This may also explain why this party gained most strongly among older voters. In 1994, only three per cent of those aged 65 or higher voted for this party, whereas 17 per cent opted for the Christian Democrats in the 1998 election (Arter 1999; Madeley 1999; Möller 1999).

Despite their landslide defeat in the 1998 election, the result has not altered the pivotal position of the SAP within the Swedish party system. Due to the existence of a strong party to the left of the SAP, many disappointed Social Democratic core voters had a partisan alternative to which they could turn. As a consequence, the left camp as a whole has lost less dramatically than the SAP taken by itself. Hence, in the absence of this alternative probably even more leftist voters would have switched to the camp of non-voters (or even to bourgeois parties) and with this most likely have paved the way for a bourgeois government. Thus, the presence of a powerful leftist competitor may facilitate rather than hamper retrenchment efforts by a Social Democratic government (even if this will run contrary to its vote-seeking preferences).

In their 1998 election campaign the Social Democrats promised improvements in pensions and other social benefits. To a large extent they kept this promise. From 1999 onwards, pensions were again calculated on the basis of a full base amount

⁶⁶ In absolute terms even the Moderates suffered tangible losses.

(rather than 98% of it, as had been the case after 1993). Moreover, due to the disappearance of budget deficits pension benefits were again fully indexed to inflation (by contrast, they had been automatically adjusted by a lower rate between 1995 and 1998). Finally, housing supplements for needy pensioners, which had been lowered from 85% to 83% of housing costs in 1997, were raised to 90% in 1999. To a large extent, the return to an expansionary social and pension policy became possible due to a drastically improved economic environment and a concomitant recovery of public finances⁶⁷. Moreover, in the face of the dramatic decline among its core constituencies in the previous election and pressed by a strong Communist party, the SAP was in strong need to restore its reputation as guarantor of the Swedish welfare state model.

The “big” Swedish pension reform

Besides the short-term pension cutbacks, which were largely enacted as a response to the dramatic economic and fiscal crisis in the early and mid 1990s, Swedish pension policy makers also launched an encompassing structural reform of the country's overall pension system, aimed at rendering the system less vulnerable to economic and demographic changes and to enhance its redistributive efficiency. In a nutshell, the reform implies a shift from a defined-benefit towards a (notional) defined-contribution design as well as the creation of an additional private mandatory pillar on a fully-funded basis ('premium reserve system'). The key features of the new Swedish pension system can be summarized as follows (Finansdepartement 1998; Ministry of Health and Social Affairs 1998)⁶⁸:

- The new system will be based on lifetime income rather than on income for the best 15 years with the qualifying period for a full pension only amounting to 30 years of contributions (15/30 rule).
- Basic security for those with low or no income-related pension is provided by a tax-financed guarantee pension (thereby replacing the universal basic pension, which until the late 1980s was predominantly financed by employer contribu-

⁶⁷ In 1998, Sweden again displayed a budget surplus amounting to more than 2% of GDP (OECD Economic Outlook).

⁶⁸ Given the multitude and the complexity of changes as well as the given the paradigmatic character of this reform for other Bismarckian countries, I will describe the contents of this reform in somewhat more detail.

tions, as well as the pension supplements for those with no or low ATP pensions). For a single pensioner who has earned between 1.26 and 3 base amounts, the guarantee pension is only partly offset against the earnings-related pension (leading to a transfer withdrawal rate below 100%). No deductions are made in the case of capital income, occupational pensions, private pension insurance or care allowances. A full guaranteed pension requires 40 years of residence in Sweden.

- 18.5% of income is paid to the new system, equally split between employers and the insured persons (hitherto the ATP system has been financed exclusively and the basic pension largely by employer contributions). 16% will be used to finance current pension payments, 2.5% is diverted into pre-funded individual pension accounts (“premium reserve system”).
- The new pay-as-you-go system is linked to economic growth and responsive to demographic variations. The value of the pension rights grows along with the general income development. On retirement, the accumulated pension rights are divided by a factor reflecting the average remaining life span of the respective age cohort as well as the assumed future growth in real wages (for the time being the assumed growth rate is 1.6% per year). Payable pensions are pegged to an economic adjustment index according to which pensions will be fully compensated for inflation if real average income growth is 1.6%, whereas they will increase/decrease in real value if real wage growth is higher/less than 1.6%.
- In contrast to the old rules, periods of child rearing, military service and – to a lesser extent – higher education are credited under the new system. The respective pension entitlements will be financed completely out of the state budget. The same is true for periods, in which income replacement benefits (such as sickness benefits, parental benefits or unemployment compensation) were drawn.
- A flexible retirement age as of 61 years is introduced on a strict actuarial basis.
- 2.5% of income is channeled into a mandatory premium reserve system which is administered by a new authority. The individual can choose whether his/her money is invested into a private or a public fund.

- The new system is phased in gradually with transition rules on a pro-rata basis for those born between 1938 and 1954.

In sum, the state assumes greater financial responsibility under the new system, as all non-contributory benefits as well as pension contributions on social transfers are henceforth financed out of the public budget. This also holds true for early retirement and survivors' pensions, which will be phased out gradually, but still are a significant expenditure item. In return, the state withdraws from the co-financing of the gradually phased-out universal basic pension (yet finances the new "guarantee pension" which tops low ATP pensions up to a certain minimum level). Nevertheless, in particular during the transition period a higher fiscal burden will be imposed on the state budget. In return, however, a sizeable share of money from the AP funds is channeled to the public budget to limit the strains on public finances. Conversely, the size of the AP funds is going to decrease substantially which will restrict their role largely to a buffer function for the new pension system (Finansdepartement 1998).

As this review of the new Swedish pension system shows, Swedish policy-makers have addressed many of the critical issues and implemented a host of structural changes to existing pension arrangements, which also helped containing future pension costs. As a consequence, in 2040 the contribution rate under the new system is likely to be between 3.1 and 9.4 percentage points lower than it would have been without reform (Palmer 2000). As measured by the changes adopted in other Bismarckian pension regimes the Swedish pension reform can be said to stand out with respect to the degree and scope of changes enacted. This is all the more surprising, as the long-term challenges to the Swedish pension system are less dramatic than in some other countries under study. For instance, the need for reform was – and still is – far more pronounced in countries such as Austria or Italy, where public pay-as-you-go financed pensions absorb a substantially higher share of GDP. To be sure, the technical difficulties as well as the political resistance associated with such a large-scale reconstruction of the Swedish pension system could not be overcome easily. Hence, the political reform process was bound to be protracted. As a matter of fact, the reform process was initiated by the appointment of a pension commission in 1984, while the final legislation on the pension reform was only settled in 2001 (see table 4.1). Various governments of different political orientation have been involved in

the decision-making process. Which factors are responsible for the eventual success of the reform package?

Before I enter into this question, I will briefly sketch the chronology of the political reform process⁶⁹. Basically, we can identify three distinct time periods within this process (see also table 4.1). The first period runs from 1984 to 1991, a time of Social Democratic minority governments. In October 1984 the government charged a parliamentary expert commission to develop recommendations for a reform of the Swedish pension system. The installation of this committee was primarily motivated by the endeavor to get a grip on the growing shortfalls in the ATP system and to address the problems resulting from the expected steep increase in the share of the elderly population. The commission had roughly 30 members covering representatives of all political parties, trade unions, employer organizations and pensioner organizations. Moreover, experts from the social insurance administration and from various ministries as well as academic experts were represented. The final report (SOU 1990:76), published in November 1990, did not contain concrete proposals for reform but confined itself to pinpoint some weaknesses of the existing pension system (such as the weak link between contributions and benefits) and to put forward various alternatives for reform to be discussed. Given its sheer size and its heterogeneous composition, the commission proved unable to agree on a common standpoint. By the same token, the Social Democratic government showed only limited interest in pushing the pension issue in the run-up to the 1991 election. Hence, the government opted for a long period for comments on the report that only would be finished after the election (Haag 2000).

The reform process gained momentum under the incumbency of the bourgeois minority government between 1991 and 1994. As early as November 1991 the Bildt government appointed a parliamentary working group to be chaired by the Minister of Health and Social Affairs. The group included members of all parties represented in the Riksdag and experts from the National Social Security Board and from the Ministries of Finance and Social Affairs. The working group was expected to develop concrete proposals for a new pension system. In a remarkable break with earlier traditions, however, representatives of the social partners were not included into the

⁶⁹ For an in-depth analysis of the Swedish pension reform process see Anderson (1998), Haag (2000) and Wadensjö (2000).

working group. In August 1992 the working group issued its first report, in which some of the key principles of the new pension system have been sketched already (Ds 1992:89). Among other things, the report suggested a tighter link between contributions and benefits by calculating pensions on the basis of lifetime earnings. However, both the Left Party and New Democracy were opposed to the proposals made in the report. As a consequence, their representatives were at a certain stage excluded from the working group, which henceforth only included representatives of the four bourgeois government parties and of the SAP (as well as the experts from the above-mentioned institutions). However, even between the SAP and the bourgeois parties a number of issues were still heavily disputed. In particular, serious disagreement emerged about the issue whether to insert an individualized premium reserve system into the ATP system and whether contributions should be levied on income above the benefit ceiling in the ATP system. Another contentious point was the demand by the bourgeois parties to split pension contributions evenly between employees and employers and the procedure with which this fee swap should be organized in order to secure the full compensation of wage earners. After protracted negotiations a compromise was reached resulting in a final report presented in February 1994 (SOU 1994:20). On the one hand, the bourgeois parties achieved the introduction of a premium reserve system. Of the total 18.5% in pension contributions, 2% were to be diverted into this scheme. On the other hand, the SAP successfully pushed for the retention of pension levies above the benefit ceiling, albeit only at a rate of 50%. As a pure “tax” this money will be transferred to the state budget. Moreover, the SAP grudgingly accepted the parity financing of pension contributions. Other elements of the proposed reform package remained relatively uncontested among the five parties, such as the introduction of real wage indexation and the switch to lifetime earnings. The Pension Working Group stipulated a comment period on its final report issued in February 1994, which only lasted until April 15, 1994⁷⁰. The motive behind this provision was to present the proposal to the Riksdag in spring in order to keep the issue out of the election campaign which would hit its peak in the fall of 1994 (Anderson 1998; Haag 2000).

The reactions to the report were mixed. Unions’ responses to the proposed changes ranged from cautious approval to fierce criticism. In general, Swedish trade unions

⁷⁰ During that period various societal interest groups had the possibility to submit official statements on the bill.

accepted the need for reform. In particular, all unions embraced the idea that pensions should be indexed to changes in wages rather than to changes in consumer prices in order to enhance intergenerational equity. At the same time, all unions welcomed the fact that even the future Swedish pension system will be largely based on a public and earnings-related pillar. By the same token, unions generally agreed with the proposal to raise the hitherto fixed benefit ceiling within the ATP system, in line with wage developments, in order to retain the earnings-related character of the pension system. Conversely, Swedish trade unions jointly criticized their exclusion from the working group and the short period for comment as well as the planned fee swap. In particular, trade unions feared that a gradual transition from employer contributions to parity financing by employers and employees (as proposed in the final report) may imply the risk that wage earners will only get insufficient compensation by employers⁷¹. In other respects, Swedish trade unions differed in their attitude towards the reform proposals outlined in the report. LO, the peak organization of blue-collar unions, for instance, was basically in favor of the proposed shift towards lifetime earnings (and even of a changeover from a defined-benefit to a defined-contribution scheme), as many LO members displayed a contribution record of more than 30 years, for which no pension rights are granted under the old system. By contrast, the white-collar unions TCO and SACO were more critical of the switch towards lifetime earnings, since their members have on average longer spells of higher education, relatively short periods of labor market participation and a more steeply rising earnings profile during their career and thereby profited from the existing 15/30 rule. Thus, a shift to the lifetime principle for the calculation of benefits would only have been acceptable to white-collar unions, if periods of education were credited much more strongly than suggested in the proposal. By contrast, LO strongly opposed the idea of a privatized premium reserve system, whereas TCO (Confederation of White Collar Employees) and in particular SACO (Confederation of Academics) were less critical of this reform element (LO 1994; SACO 1994; TCO 1994). In sum, the reform package contained both elements that were favored or at least accepted and elements that were fiercely rejected by the unions. Hence, the Swedish trade union

⁷¹ One reason why trade unions were highly critical of the fee swap was the recent breakdown of centralized wage bargaining, which would have been the only way to ensure that wage earners could be compensated through an increase in gross wages (Haag 2000).

movement (as well as LO itself) was internally split in their attitude and proved unable to sustain a unified front against the proposal (Anderson 1998; Haag 2000).

In response to the criticism raised by trade unions a few elements of the proposal were modified. Most importantly, in the subsequent bill presented to the Riksdag in April 1994 a changed procedure with regard to the envisaged fee swap was suggested. Rather than phasing in the shift to parity financing gradually, the fee swap was supposed to be implemented completely in one step. In doing so, employers would arguably find it more difficult to withhold full compensation from wage earners (Anderson 1998).

In June 1994 (i.e. before the election) the bill was adopted by Parliament (against the votes of New Democracy and the Left Party) stating the major principles of reform. However, a number of issues still remained unresolved. This concerns, among other things, the fee swap, the economic adjustment index (used to calculate yearly adjustments), and pension entitlements for years spent on higher education. Moreover, it was still undecided how the premium reserve system should be administered and whether income from collectively agreed pensions should be offset against the new guarantee pension. By the same token, a vast array of technical questions still needed to be tackled. In order to handle these problems, an implementation group was created which consisted of representatives of the same five parties that had supported the proposal in the Riksdag (Anderson 1998).

The third phase of the pension reform coincides with the incumbency of SAP minority governments again. The implementation group, now chaired by a Social Democrat, still had to solve a number of technically difficult and politically contested questions. As a consequence, the introduction of the new system had to be postponed several times. The bulk of legislation was only passed in June 1998 (to become effective in 1999), whereas the final legislation (concerning the automatic balance mechanism) was even adopted as late as May 2001. Apart from the immense technical problems associated with the creation of a new premium pension authority (*premiepensionsmyndigheten*), it was mainly political conflicts within the government which led to a massive delay in the reform process.

First, large parts of SAP's rank-and-file (including many LO members) criticized the contents of the reform. As a matter of fact, the strongest opposition to reform came from the Social Democratic party basis. Many party members did not acknowledge

the necessity to change the old system (Palmer 2000). In particular, they fiercely opposed the planned shift to parity employer-employee financing and the introduction of the premium pension scheme. At a party congress in September 1997 the majority of members called even for a rejection of the five-party agreement. While the SAP leaders largely resisted these pressures, they demanded a partial renegotiation of the cross-party agreement. While the bourgeois parties fiercely criticized this demand, they achieved a new compromise with the SAP after hard negotiations in early 1998. Wage earners would obtain a tax relief rather than a wage increase as a compensation for the introduction of individual pension contributions⁷². Moreover, the SAP enforced a provision, according to which a public fund will be established as part of the new premium reserve system for those who do not choose any of the private funds. In return, the bourgeois parties asserted an increase in the premium reserve contribution from 2 to 2.5% (Haag 2000; Lundberg 2001).

Second, the reform process was retarded by conflicts between the Ministry of Finance and the Ministry of Social Affairs. While the former was eager to keep the burden on the public budget resulting from the extension of tax-financed pension benefits as low as possible, it was the primary interest of the latter to create a financially robust pension system providing for adequate benefits. As a consequence, a protracted tug of war developed between these departments around the volume of financial means that were to be channeled from the AP funds (expected to maintain a buffer function even for the new pension system) to the state budget (Haag 2000).

Explanatory factors for the political success of the Swedish pension reform

The portrayal of the political decision-making process that led to a far-reaching restructuring of the Swedish pension system raises two interrelated questions. First, why have various political parties with clearly different ideological orientations in social policy been able and willing to arrive at a formal consensus on pension reform? Second, given the pronounced diversity of social policy ideas among the parties concerned, why led this consensus to a significant deviation from the status-quo in pension policy rather than to an agreement based on the least common denominator (as we might have expected from Tsebelis' veto player approach). Quite clearly, a range

⁷² The largest part of the compensation had been realized already by a commensurate reduction in employees' sickness insurance contributions.

of different factors accounts for this policy outcome. Taken by itself, none of these factors can be said to be a sufficient condition for this reform to be brought about. However, at least in hindsight most of these factors appear to be necessary conditions for the emergence of this policy outcome.

The existence of a mature earnings-related public pension system was a crucial precondition for the emergence of a broad cross-party consensus on the design of the new pension system. Given the serious 'double payment problem' associated with a changeover from a public pay-as-you-go financed pension system to a private fully-funded system, a radical switch towards a public basic pension (to be complemented by private old-age provision) was de facto ruled out from the policy menu. In the 1950s the bourgeois parties and the Social Democrats still had fought out fierce ideological battles over the question whether the state should introduce an earnings-related pension system to provide for income security during old-age or confine itself to provide for a universal system of basic security. In the meantime, a large share of the population has built-up sizeable benefit entitlements within the ATP system. As a consequence, all bourgeois parties in Sweden have arrived at the insight that even a gradual abolition of this scheme in favor of private old-age provision would be economically and politically unfeasible. Hence, they abandoned the idea that more than 15% of contribution revenues should be used to build up the premium reserve system. In this case, the overall contribution burden would have become much higher than was considered acceptable. In short, the fact that the ATP scheme has been in place for several decades created 'factual constraints' which bourgeois politicians could not ignore and which therefore reduced ideological conflicts between the parties (Lindbom 2001).

On the other hand, even the SAP as one of the most powerful proponents of earnings-related social insurance in Swedish politics had become increasingly aware of the distributive and economic weaknesses of the existing pension system. In the face of severe fiscal and demographic pressures (strongly amplified by the sharp economic recession in the early 1990s), even Social Democratic policy-makers in principle acknowledged the need for pension reform including measures at cost containment. Thus, both in the bourgeois and in the Social Democratic camp pragmatic considerations have increasingly pushed ideological debates on basic principles into the

background and thereby facilitated the common search for adequate problem solving.

Furthermore, given persistent minority governments multi-party cooperation proved to be necessary to bring about policy change. The bourgeois minority government, eager to advance with a reform of the pension system, was essentially reliant on SAP's cooperation in that respect. On the one hand, on several occasions the populist right-wing New Democracy had proven itself as an unreliable ally, with whom a stable political platform for pension reform could hardly be created. On the other hand, SAP's support was needed to ensure the durability of reform even after a (likely) change in government. Conversely, even the SAP government would not have been able to enact a pension reform unilaterally. Moreover, it would have been virtually impossible for the Social Democrats to implement major changes in pension policy (such as the shift to a defined-contribution system) in cooperation with parties to their left, i.e. the Greens or the communist Left Party. Hence, the SAP would have needed at least one ally from the bourgeois camp to obtain a parliamentary majority for pension reform.

In addition, both the SAP and the bourgeois parties shared a common interest to keep the pension issue out of the electoral arena, which again favored a policy-oriented bargaining process. On the side of the Social Democrats, incentives for electoral competition were softened by their expected return to government after the election in 1994. As Ingvar Carlsson, former leader of the SAP, pointed out, participation in the five-party agreement was no electoral sacrifice for the Social Democrats as the economic crisis and the austerity measures by the bourgeois government had paved the way for an election victory of the SAP (Lundberg 2001). The Conservatives on their part had little incentive to break up the five-party agreement with the SAP for electoral reasons, as their market-liberal profile did not allow them to present themselves as defenders of the existing pension system in the eyes of the electorate (Kitschelt 2001).

The timing and the procedure of the bargaining process have also facilitated consensus-building across the five key parties and favored the accomplishment of a far reaching package deal. As noted above, the bourgeois government shortly after the 1991 election installed a parliamentary pension working group, in which the social partners and other interest groups were not represented. As Lundberg (2001) points

out, it would have been much more difficult for a SAP government to keep the social partners out. Moreover, at a later stage also the Left Party and New Democracy were excluded from the working group. As a consequence, the number of participants in the working group was manageable and several (potential) reform opponents had no opportunity to block or to delay the negotiations, while the remaining five parties had evinced their interest in arriving and sticking to an agreement. In addition, negotiations took place in the form of closed sessions in order to avoid major public debates about the issues discussed in the working group. These conditions combined to create an institutional setting, which allowed for package deals that facilitated mutually acceptable and welfare-increasing solutions even if quite a number of single elements (such as the premium reserve system), taken by itself, would not have been acceptable to a single party (Scharpf 1997b). What is more, the short comment period after the issue of the final report additionally limited the possibility of interest groups, most notably the trade unions, to fundamentally alter the content of the reform package. Only after a consensus had been established within the working group, the bargaining results were discussed and anchored within the respective party leaderships and party organizations (Lundberg 2001). As a consequence, the traditionalists within the SAP party organization could only assert minor belated changes to the reform package rather than restricting the room to negotiate available to the SAP representatives in the working group beforehand. In so far, the five-party agreement made it easier for the reformist forces within the SAP to achieve more far reaching changes than they would have obtained within their own party.

Although the dissatisfaction about the pension reform package within the Social Democrats' party basis was great, the SAP did not defect from the five-party agreement. To a great extent, this may be attributed to the tacit agreement by LO with its strong linkages to the SAP. For one, LO's leadership had a basic interest in the sustainability of the pension system and feared a potential breakdown of the ATP system as a consequence of Sweden's dramatic fiscal crisis in the early and mid 1990s. It therefore came to accept the reform package by and large. Moreover, LO was internally split at the level of single unions. Depending on their specific earnings career quite a number of LO members would even profit from the shift to lifetime earnings and by a higher guarantee pension. In other words, resistance to the reform was lowered by the fact that it created losers and winners and that the sheer complexity and multi-

tude of changes did often not allow to clearly specify, which groups would profit or loose under the new system.

Finally, two specific factors facilitated the establishment of the premium reserve system. First, the bourgeois parties had made clear, that this element of the reform was not negotiable. As Lindbom (2001) points out, the bourgeois parties arguably expected that the expansion of private fully-funded pensions would foster a public climate in which higher priority is given to the fight against high inflation. Second, the partial switch towards a fully-funded system based on individual accounts was facilitated by the fact that considerable capital reserves accumulated by the public AP funds could be used to finance the costs of transition (Myles and Pierson 2001).

Table 4.1: Chronology of the “big” Swedish pension reform

Reform phase I: 1984-1991 (Social Democratic governments)	
October 1984	The government sets up a pension reform commission (<i>pensionsberedningen</i>) consisting of representatives of all major parties and societal interest groups as well as pension experts.
November 1990	The commission presents its final report (<i>SOU 1990:76, “Allmän pension. Huvudbetänkande av pensionsberedningen”</i>) suggesting a number of different reform alternatives. However, no agreement is reached within the commission and no political decisions are made.
Reform phase II: 1991-1994 (Bourgeois government)	
November 1991	A pension working group (<i>pensionsarbetsgruppen</i>), chaired by the Minister of Social Affairs, is nominated, in which all parties in parliament (but no interest groups) are represented.
August 1992	The pension working group presents a report laying out the major principles for reform (<i>“Ett reformerat pensionssystem – bakgrund, principier, skiss”, Ds 1992:89</i>).
End of 1993	A new pension working group is established from which the Left Party and New Democracy are excluded.
January 1994	Agreement among five parties (SAP, Moderates, Christian Democrats, Centre Party, Liberals) about the key features of the new pension system (The Left Party and New Democracy vote against). The agreement is aimed to endure beyond the election.
February 1994	The pension working group presents its final report (<i>“Reformerat pensionssystem”, SOU 1994:20</i>). The concerned interest groups are asked to comment on the report until April 15, 1994.
April 28, 1994	The government presents the bill “Reform of the general pension system” (<i>Prop. 1993/94:250: “Reformering av det allmänna pensionssystemet”</i>) to Parliament, in which the underlying principles of the new pension system are laid out.
June 8, 1994	The proposal is adopted by the Riksdag with the votes of the SAP and the four bourgeois parties.
June 23, 1994	The government nominates an implementation group (<i>Genomförande-gruppen</i>), in which only the five parties in favor of the reform are represented. The group is commissioned to work out a concrete reform based on the principles adopted by the Riksdag.

Reform phase III: 1994-2001 (Social Democratic governments)	
January 1, 1995	Individual contributions of 1 percent to the old-age pension system introduced. Contributions start being transferred to the premium reserve system.
June 28, 1995	Ministry memorandum "A Reformed Pension System – Income-Related old-Age pension Act" ("Lag om inkomstgrundad ålderspension", Ds 1995:41).
1995 Budget Bill	Entry into force of the Act is deferred until January 1, 1997
1997 Budget Bill	The government proposes that entry into force be deferred until January 1, 1999
March 1996	Emergency party conference of the SAP. The party leadership is heavily criticized for the content and the precipitate adoption of the five-party-agreement. As a consequence, a broad intra-party consultation of the reform is launched. About 500 items of written comments from the party rank-and-file are handed in, largely very critical of the reform proposal.
December 1996	In response to the strong criticism of the party basis, the SAP demands a re-negotiation of the five-party-agreement in particular with respect to the envisaged change from employer contributions to parity financing between employers and employees and the establishment of a premium reserve system. While this resolution is welcomed by LO, the bourgeois parties react angrily and insist on its introduction. The five-party-agreement is seriously at stake.
September 1997	Party congress of the SAP, where the pension issue is discussed anew. The congress resolves up on the denunciation of the five-party-agreement. Yet the party leadership continues its work in the implementation group.
Beginning of 1998	The controversy about the fee swap comes to a head and is solved by a compromise. The SAP enforces that employees are compensated for higher pension contributions by the abolition of employees' sickness insurance fees and by lower taxes rather than by an adjustment of gross wages. In exchange, the bourgeois parties assert themselves with an increase in contributions to the individual account system from 2 to 2.5%.
June 8, 1998	The new pension system is adopted by Parliament. A number of financial questions still have to be solved.
May 2001	Final pension reform legislation (Automatic balance mechanism) adopted by the Riksdag.

Source: Ministry of Health and Social Affairs 1998; Haag 2000; Settergren 2001

Chapter 5

Italy: Corporatist concertation in the shadow of EMU

Key features of the Italian pension system in the late 1980s

The Italian pension system provides for old age, disability and survivors' benefits. The system is divided into a number of mostly public occupational schemes. Typically, private schemes are only of rudimentary significance. There are four types of public schemes:

- A general scheme for dependent workers
- Schemes for the self-employed
- Schemes for civil servants
- Schemes for special occupational groups, some of which complement the general scheme

In addition, there is a means-tested social pension for persons over 65 with insufficient resources who are not eligible for benefits under any other scheme.

The benefit structure and the level of benefits vary a great deal from scheme to scheme. Dependent workers insured under the general scheme receive a maximum pension of 80% of their earnings during the last five years up to a certain ceiling, after 40 years of contributions. The minimum contribution period is 15 years. The standard retirement age is 55 for women and 60 for men. However, persons with a contribution record of at least 35 years are entitled to a "seniority pension" irrespective of their age.

The self-employed are not entitled to earnings-related pensions. Instead, their pensions are based on the actuarial revaluation of their contributions. No pension, however, can be lower than a certain minimum. The age requirement is 65 for men and 60 for women, and the minimum contribution period is 15 years.

Civil servants enjoy earnings-related pensions, with a replacement rate of 80% after 40 years service; this rate may reach 100% for certain categories. Civil servants must retire at 65, but a pension may be claimed, regardless of age, after 20 years service, and in some cases after only 15 years service.

All pensions are linked to the minimum contractual industrial wage.

The general scheme operates on a pay-as-you-go basis and is financed through earnings-related contributions paid by employers (two-thirds) and employees (one-third). Together these amount to about 24% of earnings. The self-employed pay a flat-rate contribution, whereas civil servants pay an earnings-related contribution of around 7%. Financing conditions are more varied for the special schemes. The state covers any deficit with special contributions that are particularly heavy in the case of schemes for the self-employed.

The main administrative agency of the Italian pension insurance system (*Istituto Nazionale della Previdenza Sociale, INPS*) is governed by a board consisting of eighteen representatives of the workers' trade unions', nine employers' representatives, nine representatives of the self-employed and three state officials (Ferrera 1987).

Italy's pension reform record in the 1990s

In Italy, the long-term cost-containment effects of the recent pension reforms are roughly comparable to those of the Swedish reform. Like Sweden, Italy has initiated a shift from a defined-benefit towards a defined-contribution system. However, the transition period in which the new rules are phased-in is much longer⁷³. Italy has also harmonized the different pension provisions between the public and the private sector. Moreover, significant steps were taken to promote fully-funded forms of old-age provision, albeit with thus far rather limited progress.

Pension politics throughout the 1980s

Given the marked resistance to reform of the Italian pension system throughout the 1980s, the scope of reforms adopted in the 1990s is remarkable. In contrast to the other countries under study, public pensions in Italy were still massively expanded until the early 1990s. Between 1980 and 1992 public pension expenditures climbed from 9 to almost 15% of GDP (for comparison only: Germany – 0.6%, Austria + 0.9%, Sweden + 1.8%, France + 2%; OECD 2000a), contributing to a rapidly growing deficit between contributions and outlays. Measures aimed at containing pension costs

⁷³ In Italy, it is only workers hired from 1996 to which the new rules are fully applied. In Sweden, by contrast, all persons born in 1954 or later will receive their pensions entirely from the new system. (Lißner and Wöss 1999).

such as the introduction of tighter eligibility criteria for minimum pensions in 1983 were exceptions to the rule (Klammer and Rolf 1998). While virtually every Italian government tried to cost contain the explosion of pension outlays and to strengthen private fully-funded pensions, all these efforts were stalled by an “iron triangle” consisting of members of the Parliamentary Commission on Pension reform, various interest groups, and managers of the INPS, the main state pension body managing about two thirds of pensions (administered by a board composed of representatives of trade unions, employers, self-employed and the Labor Ministry).

What is more, until the early 1990s quite a number of reforms enhanced the generosity of the system and thereby led to even higher pension costs. For instance, in 1988 the benefit ceiling for high incomes was abolished (hitherto only a contribution ceiling had been in place). In 1990 benefits for self-employed persons were substantially improved. Hence, the dynamics of growing pension expenditures remained unbroken throughout the 1980s and early 1990s (Klammer 1997). To a large extent, this worrying development was caused by the coexistence of a highly particularistic-clientelistic party system and an extremely fragmented social insurance system, which offered manifold possibilities to distribute differentiated benefits to specific party constituencies. This also gave rise to pronounced distributive disparities across sectors and occupational categories, in particular between private and public sector employees (Ferrera and Gualmini 2000a; Franco 2000).

In the 1990s this unfortunate dynamic was largely brought to a halt. After 1992 virtually all governments were determined to scale back Italy’s hypertrophic pension system. However, not all reform initiatives met with success. Quite the contrary, while some reform efforts were crowned with success, others failed almost completely. In the following, I will sketch the politics of pensions leading to these different outcomes. Four major reform attempts can be identified in the 1990s:

- The Amato reform (“riforma Amato”) in 1992
- A failed reform attempt by the Berlusconi government in 1994
- The far reaching pension reform of the Dini government (“riforma Dini”) in 1995 and
- A follow-up to the Dini reform in 1997 adopted by the Prodi government

The Amato reform (1992)

In 1992 the first successful effort was made to curb the rising costs of public pensions on a broad scale. Faced with a serious fiscal crisis and Italy's involuntary exit from the European Monetary system in September 1992, the Amato government sought to adopt a tight budgetary policy in order to restore the confidence of international financial markets. To that end, the Amato government⁷⁴ launched an "emergency plan" which also included a number of austerity measures in the realm of pension policy:

- A gradual increase in the retirement age to 65 years for men and to 60 years for women
- A gradual increase in the number of "best years" on which the reference salary is based and - for younger workers only - a shift to lifetime earnings
- A change of indexations of current pensions from wages to prices
- A stepwise tightening of eligibility criteria for seniority pensions in the public sector by raising the number of minimum contribution years (prior to the reform between 15 and 25 years) to 35 (as had been already the case for private employees)
- The suspension of new seniority pensions for workers in the private sector for one year

The long-term impact of these measures on pension spending is significant. In the absence of this reform, treasury forecasts suggested that pension outlays would have increased from a level of 14.2% in 1998 to more than 23% of GDP around 2040. With the Amato reform, the expected peak in pension outlays is projected to remain below 19% of GDP (OECD 2000b). By the same token, income replacement rates will be much lower for future pensioners, when the changes by the Amato government have become fully operational. For instance, a private sector employee with a contribution record of 35 years, who would formerly have received about two-thirds

⁷⁴ The Amato government was composed of four parties of the political centre albeit a sizeable share of ministers was not affiliated to political parties.

of his final salary, would only have received 47% under the rules applying after the Amato reform (Antichi and Pizutti 2000).

Although the reform was a first significant step to contain pension costs in the long run, it was clearly not sufficient. First, many changes were phased in very slowly, thereby limiting the reform's short-term impact on the public budget. Second, it did not touch the most salient (and probably most problematic) features of the old system. For instance, the accrual factor (i.e. the percentage of relevant earnings that enters into the pension formula per each contribution year) was kept at 2% per annum. More importantly, the original plan to raise the number of minimum contribution years for entitlement to a seniority pension from 35 to 36 was withdrawn after informal consultations with the unions. This led to the counterproductive situation that elderly workers henceforth tried to retire as early as possible. The reason is that for this group a postponement of retirement would have resulted in lower rather than higher pension payments (Antichi and Pizutti 2000; Baccaro 2000).

Despite these shortcomings the Amato reform constitutes a remarkable and decisive turning away from the previous policy of unchecked benefit expansion. This was among other things facilitated by changes in the political reform process. Against the background of a severe economic and political crisis⁷⁵, the Parliament had empowered the Amato government to adopt legislative decrees (*legge delega*). This instrument allowed the executive to change legislation without approval by Parliament. The only way for the Parliament to prevent these changes would have been to overthrow the government.

At the same time, the Amato government sought to back up the reform through informal consultation with the trade unions in order to obtain at least their tacit consent. Although the unions had launched general strikes in the fall 1992 against the policy proposals of the Amato government, they simultaneously signaled their cooperativeness at the peak level⁷⁶. The government entered into informal consultations with the trade unions and made concessions in certain areas, most notably with respect to the

⁷⁵ In the early 1990s Italy's party system was shaken by a political turmoil triggered by the 'clean hands' (*mani pulite*) investigations against the old party establishment. As a consequence, the core parties of the First Republic (the Christian Democrats, the Socialists, the Social-Democrats, the Republicans and the Liberals) virtually vanished from the political scene after the 1994 election.

⁷⁶ In Italy, three major trade union confederations exist side by side: The CISL with a formerly Christian Democratic orientation, covering about 3.5 million members (in 1990), the formerly Socialist-oriented UIL representing about 1.5 million members and the formerly Communist-oriented CGIL with more than five million members (Rosanelli and Wolf 1994).

eligibility criteria for seniority pensions. Hence, trade unions did not oppose the final reform package, although they did not formally approve the proposal. The suitability of Amato's strategy is illustrated by his following statement:

"I was aware it was increasingly difficult to build consensus through party channels and for that matter even through Parliament itself; I resorted to the social partners as an alternative channel which, at that time, was more directly in touch with public opinion. In a number of cases this allowed me to follow a totally new procedure in pushing through my policy measures: I discussed them with the unions; on the basis of their total or only partial consent I drafted a text which I then presented to Parliament, and - building on the consensus I had reached out of Parliament - asked for a vote of confidence." (Fargion 2000).

The failed Berlusconi plan (1994)

As noted above, the Amato reform had only partly addressed the structural deficiencies of Italy's fiscally unsustainable and highly inequitable pension system. Moreover, despite the reform the public deficit fell only modestly in the early 1990s and still amounted to more than 9% of GDP in 1994 (OECD 2001). As a consequence, the issue of pension reform still figured prominently on the political agenda. Hence, in 1994 the conservative Berlusconi government made a further attempt at pension reform.

The government appointed an expert commission in summer 1994 to put forward proposals for a reform of the pension system, which then was included in the Finance act (*Finanzaria*) for the period between 1995 and 1997. The Commission also covered representatives of the trade unions and employers' organization. However, the commission members proved unable to arrive at a consensus and hence did not present a common final report. Irrespective of its disagreement with the trade unions, the government put forward its own reform proposal in the finance bill (Antichi and Pizutti 2000).

The reform proposal comprised quite a number of harsh austerity measures (EIRR 1994; Pitruzello 1997; Baccaro 2000):

- A quicker increase of the retirement age than had been called for by the Amato reform (now to be fully implemented until 2000)

- Cuts in seniority pensions through an increase in the number of minimum contribution years from 35 to 40 and a reduction of 3 per cent for each year preceding the legal age limit
- A reduction of the accrual factor from 2 to 1.75 per cent
- A switch to a less generous indexation method (projected rather than actual inflation), including a freeze of indexation in 1995
- The abolition of all pension privileges for public employees

Taken as a whole, the proposed measures would have drastically reduced the generosity of the existing pension system. What is more, the Berlusconi government was also keen on phasing in these changes very quickly in order to achieve tangible budgetary relief in the short run, thereby contributing to the fulfillment of the Maastricht criteria. At the same time, Berlusconi made no serious attempts to include the trade unions and the left opposition in the reform process.

Italian trade unions and their parliamentary allies had confirmed repeatedly that they basically acknowledged the need of pension reform. However, they fiercely opposed Berlusconi's radical and hegemonic reform approach. In particular, they criticized the size and the rapid phasing-in of the pension cuts as well as their exclusion from the policy-making process. Instead, they demanded direct negotiations with the Prime Minister. What is more, they called for decided measures against fiscal evasion.

The three major trade union confederations mobilized forcefully against the Berlusconi plan. Throughout the process trade unions organized quite a number of strikes against the pension reform package, including a four-hour general strike on 14 October. Moreover, unions launched massive street demonstrations in all major cities mobilizing about three million participants. For instance, about 1.5 million people took part in a demonstration in Rome (at that time Italy's largest post-war demonstration).

Faced with the constant threat of an even longer general strike, Berlusconi entered into negotiations with the trade unions and offered smaller cuts than initially envisaged as well as additional taxes on business as a contribution to reduce the public deficit. However, serious disagreements persisted and trade unions again announced a general strike against the governmental pension plans.

Against the background of an increasingly militant labor movement the parliamentary coalition supporting the Berlusconi administration started to crumble. From the outset the parliamentary weak and internally fragmented government had great difficulties to present a unified front vis-à-vis the trade unions. For instance, Labor minister Mastella, member of the centrist Christian party CCD, argued for a different approach both with respect to the contents and the method of reform. In contrast to Finance Minister Dini, Mastella favored modest and gradual cutbacks over an abrupt policy shock and emphasized the need for social equality and cohesion. By the same token, he pleaded for cooperation with the unions and the parliamentary left (Pitruzzello 1997).

The eventual failure of the reform package was caused by the defection of Berlusconi's coalition partner *Lega Nord*. Faced with massive public protests, the *Lega Nord* broke ranks with the coalition partners and opposed the swift increase in the retirement age and the reduction of the accrual rate. Berlusconi sought to reunite the government coalition by a vote of confidence, whereas the Lega had promised the trade unions to postpone the reform and to include them in the negotiations. Moreover, even Dini and the employers' confederation Confindustria, fearing the disastrous economic consequences of continued strikes, now came to favor direct negotiations with the trade unions. Finally, the government approved the postponement of pension reform, and trade unions withdraw their plans for a further general strike (Pitruzzello 1997). In an agreement between the government and the three main trade union confederations it was stipulated that only very marginal pension cuts would be included in the 1995 budget. Moreover, the agreement set out broad guidelines for an encompassing pension reform to be negotiated between the government and the social partners in the next year (EIRR 1996a). Thus, after several months of severe political confrontation the Berlusconi plan had failed, which again led to the government's resignation only a few days later.

The Dini reform (1995)

After the fall of the Berlusconi government, a caretaker government led by the former Finance minister Lamberto Dini took over. After three months of negotiations with the three trade union confederations the new government hammered out a pension reform proposal, which was sent to Parliament for approval. The reform package com-

prised a number of substantial structural changes (EIRR 1996a; Antichi and Pizutti 2000):

- A separation of the public pension system from the rest of the social security system, including a more strictly division between “insurance” and “assistance” benefits (the former to be financed by social contributions, the latter out of the general state budget)
- A progressive harmonization of the multitude of separate pension schemes leading to a unified system for all employed persons
- A gradual changeover from a defined-benefit to a (notional) defined-contribution design
- A gradual abolition of the different retirement ages for men and women and the introduction of a flexible retirement age between 57 and 65 on a strict actuarial basis
- A gradual phasing out of seniority pensions. Workers with more than 17 years of contributions (at the end of 1995) will be able to draw a seniority pension at the age of 57 and 35 years of contributions or, alternatively, with 40 years of contributions (after date: 35 years of contributions without age-limit)
- A homogenous contribution rate of 32% of employees’ gross salary for all categories of private and public sector workers
- Extension of compulsory insurance for certain occupational categories
- Establishment of a legal framework (including tax incentives) for supplementary pension funds, to be set up primarily on the basis of collective agreements⁷⁷

Like the Amato reform, the Dini reform will effectively curb pension spending in the long-term. It has been estimated that the reform will keep the pension expenditure ratio below 16% of GDP even during the demographic peak. Thus, compared to the projections made on the basis of the Amato legislation the Dini reform is expected to dampen the increase in pension costs by additional 3% of GDP (OECD 2000b).

⁷⁷ The agreement states that employers and employees should each divert 2% of salary into these funds, with further 2% made up of money hitherto used for severance pay (*trattamento di fine rapporto*, or TFR). Under this arrangement, employers are legally obligated to pay around 7% of gross salary into a fund designed to finance a lump sum for each employee after the termination of his/her job (EIRR 1996).

In sum, both reforms entail drastic reductions in replacement levels for future pensioners. It has been estimated that actual pensions for this group will vary between 40 and 50% of last salary (as compared to a current level of 80%; (Cioccia et al. 2001))⁷⁸. For current pensioners and elderly workers, however, the measures are clearly less harsh than those envisaged by the Berlusconi government. The provision of extraordinarily long transition periods ensures that the rules of the new system do largely not apply to older and even middle-aged workers (at least 18 years of contributions at the end of 1995) and only partly apply to younger workers (less than 18 years of contributions). Only those hired in 1996 or thereafter will be entirely covered by the new system (OECD 2000b).

The establishment of very generous “grandfather clauses” can be largely attributed to the fact that Italian trade unions pressed for a preservation of benefit entitlements that had been built-up prior to the reform. Another measure that was included in the reform package in response to strong trade union pressures is the introduction of a “strenuous work” (*lavoro usuranti*) clause, according to which workers performing particularly arduous work are allowed to retire five years below the normal retirement age. The social partners decide which workers are to be covered by this provision in each sector and propose an exemption to the Labor Minister, who will adopt a corresponding decree. In return to these concessions, unions came to accept a gradual phasing out of seniority pensions (EIRR 1996a).

The Dini reform was highly contentious among workers. Most notably, the tighter eligibility criteria for seniority pensions triggered strong criticism. However, the three trade union confederations proved able to generate a sufficient degree of consensus among their rank-and-file. The preliminary accord between government and trade unions was subjected to a referendum by workers and pensioners (both union and non-union). About four and a half million people participated in the ballot. 64% of them voted in favor for the reform proposal (Baccaro 2001). It should be noted, however, that the level of agreement was much higher among pensioners (91%) than among active workers (58%).

⁷⁸ It should be noticed, however, that the reduction in replacement rates resulting from the Dini reform will only concern workers who opt to retire early. Therefore, the Dini reform created a strong incentive to stay longer in work than hitherto. For instance, an industrial worker retiring at the age of 57 with 35 years of contributions will – under the rules applied by the Dini reform – draw a pension that is 12% lower than under the previous Amato regime. By contrast, if the same worker decides to postpone retirement until the age of 65, his pension will be 27% higher (Baccaro 2002).

Following the referendum, the reform proposal was presented to Parliament. The government had made clear that major changes to the proposed reform would be unacceptable. Nevertheless the opposition sought to make amendments leading to protracted negotiations with the government, which made the bill subject to a vote of confidence. Given its skimpy majority the government successfully tried to win the vote of confidence by striking a deal with Berlusconi's *Forza Italia*⁷⁹. The latter succeeded in accomplishing a greater role for private insurance companies in offering supplementary pension funds, whereas the left-wing parties obtained certain guarantees for workers suffering hardships. In the end, the legislation was adopted without fundamental modifications to the original proposal. Only the Communists and the ex-fascist *Alleanza Nazionale* voted unanimously against the bill (EIRR 1995a; EIRR 1996a).

The employer confederation *Confindustria* had at an early stage withdrawn from the bargaining table and did not sign the agreement, as it did not see the reform to go far enough. In particular, it criticized the overly long period for the phasing-in of the changes and the non-reduction of social contributions (the bulk of which is financed by employers). Moreover, it was critical of the plan to use parts of the severance pay funds, providing employers with cost-free working capital, to finance capitalized supplementary pensions (EIRR 1996a; Baccaro 2000; Cioccia, Turcio et al. 2001; Economist 2002).

The Prodi amendments (1997)

As noted above, the Dini reform would only unfold its full effect after a lengthy transition period. At the same time, Italy had come under extraordinarily strong short-term pressure to meet the fiscal convergence criteria laid down in the Maastricht treaty, which only allowed for a maximum budget deficit of 3% of GDP from 1997 onwards. Given the fact, that Italy's budget deficit in 1996 still exceeded 7% of GDP (OECD 2001), drastic steps were needed to consolidate the budget, including new cuts in pensions, most notably seniority pensions. A re-opening clause established in the 1995 accord provided for a joint revision of the Dini reform in 1998 in the case of fis-

⁷⁹ Part of the parliamentary group of the *Forza Italia* voted against, whereas others abstained from voting (personal communication to David Natali).

cal imbalances. Faced with the extraordinary fiscal pressures imposed by the Maastricht treaty, the re-examination was conducted one year earlier (Baccaro 2000).

In January 1997 the government set up a special commission (the Onofri Commission) to propose measures for a comprehensive reform of welfare programs. With respect to pensions the Commission recommended a fortification of the Dini reform. The key proposals were (D'Ercole and Terribile 1998):

- A clearer separation between social assistance and old age pensions, with the former financed by general taxation and the latter by individual contributions
- A complete harmonization of different pension schemes
- A more rapid changeover to the new defined-contribution system (also including workers with more than 18 years of contributions)
- Tighter rules for seniority pensions (such as the immediate application of the eligibility requirements foreseen by the Dini reform for 2008)
- Higher contribution rates for the self-employed
- Increase in the minimum retirement age

On the basis of these proposals the government entered into negotiations with the unions. Like in 1995, Italian trade unions in principle signaled their readiness to support further adjustments if necessary. For instance, they proposed the introduction of a “solidarity contribution” to be paid by pensioners as a contribution to the fulfillment of the Maastricht criteria (Baccaro 2000). In September 1997 the government arrived at an understanding with the unions on several welfare reforms to be included in the finance act for 1998. Moreover, they were about to arrive at an agreement on changes in pension legislation after the government had made a number of concessions. For instance, the extension of the pro-rata-system to workers with a contribution record of more than 18 years, as proposed by the Onofri report, was not included in the final reform package.

Despite these concessions unions’ support was not sufficient to guarantee the political feasibility of the reform package. The Communist Reconstruction Party (*Rifondazione Comunista*), upon whose votes the left-centre minority government was dependent in Parliament, announced to block the finance law in Parliament. The *Rifondazione Comunista (RC)* criticized that the government had largely ignored its

proposals, concerning among others the reduction of working time and the reform of the pensions system. This triggered a serious crisis within the government and led even to the temporary resignation of the Prime Minister. Moreover, the negotiations with the social partners were suspended. The crisis was solved after negotiations between the government and the RC, which gave up its resistance to the finance law after the Government has made a number of concessions. For instance, the agreement included the introduction of the 35-hour working week (a move that was opposed both by employers and trade unions as an undue state intervention into the sphere of collective agreements between the social partners). With respect to pensions, the RC reached its target to leave pensions of blue-collar workers untouched. This group would have been most affected by the envisaged accelerated increase in the retirement age. As soon as the government had achieved the Communists' approval to the 1998 finance act, it resumed negotiations with the social partners. This resulted in an agreement between the government and the three major trade union confederations in November 1997, whereas the employers' confederation voiced criticism as it considered the measures as insufficient. The content of this agreement was approved by Parliament with only limited changes (Eiroline 1997a; Trentini 1997).

The final legislation included the following measures (OECD 2000b):

- An quicker harmonization of private and public sector pensions and the abolition of other special pension provisions
- A gradual increase of contribution rates for the self-employed to 19%
- A quicker phasing out of seniority pensions for white-collar workers (leaving seniority pensions for blue-collar workers untouched)
- Suspension of automatic inflation-indexing for pensions above 3.5 Million Lira in 1998 and a lowered adjustment coefficient in the following three years
- A three-months freeze of inflows into retirement

The Italian trade unions supported the reform for a number of reasons. On the one hand, the reform has achieved greater equity between public and private sector workers and reduced the privileges of certain other categories. On the other hand, unions welcomed the fact that blue-collar workers - who would have been most seri-

ously penalized if the retirement age had been increased – remained unaffected by the new restrictions on retirement age. In addition, trade unions acknowledged their deliberate inclusion in the political reform process as such (Trentini 1997).

The government's concessions to both the trade unions and the RC weakened the savings volume originally envisaged by the government. Originally, the government had intended to cut pension spending in 1998 by 6,000-7,000 billion lire. By the end of September, negotiations with the trade unions had led to a reduction of the envisaged savings volume to 5,000 billion lire. In response to the demands raised by the RC the expected savings on pensions were further scaled down to around 4,000 billion lire. Moreover, the financial contribution made by current pensioners was limited to the suspension of indexation on high pensions. However, albeit modest in scope, the reform became immediately effective and contributed to a reduction of the budget deficit from 1998 onwards by about 0.2% of GDP (D'Ercole and Terribile 1998).

After the Prodi amendments no significant no significant cost containment measures were legislated in pension policy. The current right-wing government, again led by Silvio Berlusconi, has announced, however, to proceed with pension reform. Most recently, the government presented the guidelines for a further major pension reform. These include among others a liberalization of the retirement age allowing employees the continuation of work beyond the regular retirement age (60 for women, 65 for men), improved possibilities to combine seniority pensions with income from work, a reduction of employer contributions by 3 to 5% for employees hired on open-end contracts and the dissolution of the severance payment system, the resources of which are to be used to promote the establishment of supplementary pension funds.

Trade unions are critical of the proposed measures as they see the fiscal balance of the public pension system threatened. However, they acknowledged that the bill does not imply further constraints on seniority pensions. Given the outright failure of his unilateral attempt at pension reform in 1994, it appears that this time Berlusconi is less radical in his reform approach and more reluctant to enact single-handedly a pension reform package that again may be fiercely opposed by all three major trade union confederations alike. Strangely enough, Berlusconi even increased public pension spending most recently through an increase of minimum pensions from about

360 to 516 Euro per month for about 2.2 million people, a measure that he had announced in his election platform (EIRR 2002; Pedersini 2002).

A number of further measures were implemented most recently in order to strengthen the role of supplementary pensions. In particular, tax incentives for contributions allocated from the end-of-service allowance to supplementary pension funds based on collective agreements were massively improved by a legislative decree adopted in February 2000 (Eiroline 2000a; Paparella 2001). Thus far, however, the expansion of fully-funded old-age provision has only proceeded at a very slow pace. According to calculations of the Brambilla Commission conducted in October 2001, the real take-up ratios fall clearly short of the original expectations. Due to the Dini reform, it was expected that the volume of supplementary pension funds would amount to more than 1800 billion Lira (about 0.9 billion Euro), whereas the most recent figures only indicate a volume of 360 billion Lira⁸⁰.

In sum, the attempts of successive Italian governments in the 1990s to reform the economically unsustainable public pension system have been at least partly successful. Since 1992 Italy has been able to bring the dynamic of unchecked benefit expansion to an end. Moreover, Italian pension policy-makers have successfully set in motion a process, which will lead to a more sustainable and equitable pension system, in which undue privileges for certain occupational groups (most notably public sector employees) will no longer exist. However, the bulk of these changes will only be fully effective in the remote future leaving current pensions as well as pensions for middle-aged and older workers largely untouched. Hence cuts in current pensions have contributed comparatively little to the solution of Italy's budgetary problems in the 1990s, let alone to a significant reduction of current levels of non-wage labor costs. By the same token, the content of recent changes in pension policy is hard to justify from the point of view of intergenerational equity, as the burden of adjustment will be first and foremost imposed on the younger generations, who will face a sharp deterioration of their future pensions. Finally, as noted above, the steps to promote supplementary pension funds have so far proven to be insufficient.

⁸⁰ E-mail communication to Matteo Jessoula.

Explanatory factors for Italy's mixed reform record

Italy's mixed record in pension policy cannot be attributed to a single explanatory factor. Instead, we must focus on specific aspects of the overall reform record and try to identify the various factors that have either facilitated or hampered policy adjustment in a particular case or aspect. In the following, I will briefly recapitulate the most salient policy outcomes that were brought about by recent pension reforms and that are in need of explanation.

The most striking explanandum refers to Italy's radical turnaround in pension policy after 1992, when a multitude of reforms were launched to contain spiraling pension costs discontinuing the previous phase of uncontrolled benefit expansion. Obviously, the political conditions for a large-scale restructuring of the pension system have changed radically since 1992. This was facilitated by a number of partly interrelated factors:

First, the old clientelistic parties (which were the main culprits for Italy's overblown pension system) had been seriously weakened or even replaced by more reform-oriented parties. By the same token, quite a number of leading politicians in the 1990s such as Dini and Prodi (as well as numerous ministers in the Amato cabinet) enjoyed strong reputation as relatively independent economic experts with no linkages to the old corrupt party establishment. Moreover, the Dini government was a caretaker government, whose incumbency was a priori limited and which therefore was not concerned about its re-election. Thus, these governments were able to partly dissociate themselves from the arena of party competition. In combination with changed parliamentary rules providing the executive with greater control over the budgetary process these factors diminished the opportunities of various interest groups to block legislative decisions (Gohr 2001a, b).

Second, throughout the 1990s, the dynamics of European integration (in particular the fiscal pressure imposed by the EMU criteria) and its beneficial impact on the political discourse at the national level has been an important driving force behind the reform of the Italian welfare state in general. Given two-digit budgetary deficits in the early 1990s, the Maastricht Treaty forced Italy to adopt an extraordinary tight fiscal policy, which also had to tackle a reform of Italy's public pension system with its immense chronic deficit. Moreover, several European countries had declared their attention to block Italy's entrance into the monetary union if pension reform remained

undone (Cioccia et al. 2001). Thus, in contrast to other countries eager to join the EMU, pension reform itself was an inevitable precondition for Italy's EMU membership.

As Pitruzello (1997) has argued, the Maastricht Treaty represented a legally binding obligation for Italian governments, exerting powerful pressures within a relatively short time horizon. While it is true that the pressures from international capital markets to reduce public deficits had already been strong in the 1980s, these pressures did not enforce compliance with a concretely quantified deficit criterion at a concrete point in time. This difference matters, if politicians have a very short time horizon like in Italy, where the frequency of changes in government has been very high by international standards. As long as the binding criteria of the Maastricht treaty did not force the short-lived Italian governments to adopt tight fiscal policies in a very short time frame, they could easily shift the task of balancing the deficit and securing the fiscal viability of public pensions to subsequent governments. When the tight constraints imposed by the Maastricht treaty did no longer allow the postponement of painful reforms, the political discourse about the necessity of pension reform (and welfare reform, in general) changed fundamentally.

Moreover, the project of European integration enjoys extraordinarily strong support within the Italian public. Most notably, Europe is seen as a proper device to overcome the indiscipline and clientelism of domestic party politicians (Featherstone 2001). In addition, Italy's membership in the European monetary union also promised substantial economic and fiscal benefits, as the high level of interest rates in Italy would be brought down to the lower level in other European countries. This again would stimulate investment and considerably diminish expenditures on public debt service.⁸¹ These prospects also fostered a high willingness among political actors to reform Italy's highly unsustainable and inequitable pension system. By the same token, pressure from the EMU allowed successive Italian prime ministers to spread an understanding of the costs of non-adjustment, pointing to the necessity of sacrifices in the short-run (such as benefit cuts) in exchange for the promise of future benefits.

⁸¹ In 1992 the level of long-term interest rates in Italy scored still at 13.3% and thus 3.3 percentage points higher than the average for the Euro area and 5.4 percentage points higher than in Germany. In the mean time the Euro zone (including Italy) displays a long-term interest rate of about 5% only. This decline had a very positive impact on Italy's outlays for public debt service which fell from 11.8% of GDP in 1993 to less than 6% in 2001 (as compared to a more or less stable level in countries such as Austria, France or Germany (OECD 2001)).

This also helped to reduce the electoral costs usually associated with the retrenchment of highly popular welfare programs. (Pitruzello 1997; Ferrera and Gualmini 2000a; Ferrera and Gualmini 2000b; Gohr 2001a/b).

What is more, dramatically rising fiscal pressures went in hand with an increasing influence of the Prime Minister Office and the Ministry of Treasury on the development of pension policy proposals and a less dominant role of the Labor Ministry than in the 1980s (Franco 2000).

The pressure for reform was strongly amplified by the currency crises in 1992 and 1995 leading to Italy's temporary exit from the European Monetary System. It needs to be recalled, that one of the Maastricht criteria refers to the stability of exchange rates, requiring a national currency to remain within the stipulated bandwidth of the European Monetary System for at least two years. Italy would not have been allowed to enter the Monetary Union in the first stage, if the currency crisis of 1995 had been repeated one or two years later.

Italian trade unions have by and large played a supportive and constructive role in the process of pension reform. They were well aware of the distributional flaws and the financial unsustainability of the old pension regime. Equally important, they had had come to realize that retention of the status quo in pension policy also would jeopardize Italy's membership in the EMU. Against this background, Italian trade unions at least in principle acknowledged the necessity of pension reform.

Unions' support was crucial in order to sustain the political feasibility of pension reform in Italy. One reason is, that a sufficiently stable consensus on pension reform is difficult to achieve in the arena of party politics. The persistent fragmentation and instability of Italy's multi-party government coalitions as well as the high degree of electoral competition strongly hamper consensus-building within the government (let alone a consensus across the political camps). Even in those cases where opposition parties offered their support to the government (as Berlusconi did in 1997⁸²), alternating majorities would be the likely result. This again would endanger the internal cohesion of government coalitions.

Against this background, alliances between government and trade unions are the only alternative to arrive at a stable political basis for pension reform. As Baccaro

⁸² Personal communication to Antonia Gohr

(2000) aptly remarks, *"in Italy, the presence of quarrelsome governmental coalitions based on a multiplicity of parties in constant competition with one another and relying on slim parliamentary majorities (or even, as in the case of the "technocratic" governments of the early- to mid-1990, devoid of clear and stable majorities) rendered interest-group inclusion in all major policy reforms, not just pension reform, almost a functional necessity"*.

The effective inclusion of trade unions in a policy reform implying tangible losses to large parts of their rank-and-file was facilitated by their relatively encompassing organizational structure. Italian trade unions are organized on the basis of confederations that represent simultaneously both white- and blue-collar workers in all economic sectors. To that extent, Italian trade unions possess the strategic capacity to sacrifice the interests of some members for the greater benefit of the collectivity. This explains why they have supported the large-scale harmonization of the hitherto strongly fragmented pension system and accepted the abolition of pension privileges for public sector employees. Moreover, while the traditional ideological cleavages between the three major trade union confederations (reinforced by strong ties to their respective allies in the partisan arena) have led to a high degree of inter-union competition and thereby restricted their capacity of coordinated action, Italian trade unions have shown that they are in principle able to overcome internal divisions. This has been regularly the case during the crisis situation of the 1990s. Most importantly, by putting aside their internal differences, Italian trade unions found it easier to persuade their rank-and-file about the necessity of unpopular reforms, as they have done in the case of the Dini reform (Regini 1997; Culpepper 2000).

In this case, the compliance of union members as well as of workers in general was also facilitated by the application of binding referenda among the workforce. The divergent pension policy interests within the trade union camp were effectively aggregated by a democratic majority vote at the grass-roots level rather than by hierarchical decision of trade union leaders, which used to be the traditional mode of interaction within Italian unions. The key problem associated with the traditional hierarchic mode of decision lies in the fact that the potential losers may reject this decision on the grounds that it (allegedly) does not reflect the will of the majority of workers. In the past, this perceived lack of democratic legitimacy often gave rise to local strike actions, the decision over which is taken by local unions rather than union leaders at

the peak level. This time, however, even the union members that were strongly opposed to the reform content acknowledged the procedural justice of the vote and therefore abstained from strikes. This procedure also explains why even those occupational groups which voted by majority against the reform (such as educational workers) or which stood to lose disproportionately under the new rules (such as public sector workers) accepted the outcome. Thus, as pointed out by Baccaro (2002), the empirical instance of the Dini reform is partly at odds with traditional neo-corporatist theory suggesting that compliance of union members with loss-imposing reforms can only be achieved through a hierarchical and internally undemocratic organizational structure enabling the leaders of interest groups to impose reforms on their members to which they would not subscribe voluntarily (Schmitter and Lehbruch 1979; Streeck 1994).

However, the question arises *how* the majority of voters could be prompted to approve the Dini reform. To begin with, the referenda were preceded by thousands of workplace assemblies in which Italian unions could use their strong presence at the local level to persuade workers in a deliberative process about the necessity and fairness of the proposed pension reform. Moreover, due to its substantive policy content the Dini reform was acceptable to the majority of workers. More specifically, the decision by majority vote effectuated a constellation in which a minority of workers with an intense preference against the reform was voted down by a majority of workers, who had a positive, but less intense interest in the success of the reform plan. In that respect, a majority in favor of the reform could only be achieved if the pension entitlements of elderly workers and pensioners were largely exempted from the cut-backs (Baccaro 2001). This requirement resulted among other things from the pronounced (and steeply growing) age-bias within the membership of Italian unions. Italy stands out as a country in which nearly 50 per cent of union members are pensioners. Thus, together with the elderly workers pensioners form an extraordinarily strong majority among unions' rank-and-file (Fargion 2000)⁸³.

Finally, the cooperativeness of Italian trade unions vis-à-vis the technocratic Dini government was also motivated by the fear that a failure of the referendum might

⁸³ In Sweden, by contrast, where the new pension system will be phased-in in a much shorter time period, trade unions display a much more balanced age-structure. For instance, only 12% of LO members are pensioners (Kjellberg 1999).

prompt a subsequent, potentially more labor-hostile government to impose a much harsher reform against the trade unions (as Berlusconi had tried in 1994).

As shown before, Italy's pension reform record also displays a number of weaknesses⁸⁴. The most critical aspect of the reform measures (also compared to the Swedish reform) is the very lengthy transition period, which strongly limits their positive impact on public finances and non-wage labor costs in the short- and medium-term. Moreover, it imposes a one-sided burden on the younger generation. This, however, was the price Italian governments had to pay in order to obtain trade unions' approval. Given their pronounced age-bias Italian unions fiercely defended the interests of pensioners and elderly workers. By the same token, Italian unions mobilized massively against the Berlusconi plan, which primarily sought to achieve budgetary savings through immediate cuts in seniority pensions. While the expected budgetary savings resulting from the Dini reform were virtually equivalent to those envisaged by Berlusconi, the Dini reform envisaged more modest and gradual cuts in seniority pensions as well as higher pension revenues, in particular by extending social security coverage to atypical workers, a measure that was highly welcomed by the trade unions (Baccaro 2002). Next to the cooperative style adopted by the Dini government these aspects facilitated an amicable agreement with the trade unions. The eventual failure of the Berlusconi plan can be attributed to the weakness and ideological fragmentation of the Berlusconi government, which proved unable to withstand the fierce opposition of a unified trade union front organizing large-scale and prolonged popular protests (including strikes and mass demonstrations) against the reform.

Another shortcoming that is in need for explanation refers to the very slow expansion of supplementary pension funds. As Franco (2000) points out, excessively high contribution rates and large public deficits reduced the leeway for an expansion of the pre-funded pillar of retirement income provision. Therefore, the system of severance payments was considered the only sizeable financing source suitable for the establishment of a strong fully-funded pillar. However, even this changeover was seriously hampered by a number of factors (Eiroline 2000a; Franco 2000; Paparella 2001):

While the Dini reform created the legal possibility to establish supplementary pension funds, it provided only very limited tax incentives as the public budget was still in se-

rious dire straits at the time. Only in 2000, when the public deficit had fallen to only 0.3% of GDP, was it possible to expand massively tax deductions in order to promote supplementary pension funds.

Another factor, which retarded the expansion of supplementary pension funds, results from divisions among the social partners. Employers were unwilling to accept the loss in financial liquidity associated with the allocation of money from the severance pay system, which allows for a sizeable share of self-financing at a relatively low cost for small and medium-sized companies in an otherwise relatively underdeveloped capital market (OECD 2000b). Moreover, social partners are divided on the issue whether the changeover should be regulated by collective agreements (as suggested by CSIL, one of the major trade union confederations, and by the employer confederation Confindustria) or by law (as demanded by CGIL, another major trade union confederations)

The level of membership in supplementary pension funds is particularly low in weakly unionized sectors, most notably the service sector, where a sizeable share of workers is not covered by collective agreements.

More generally, employees' incentives to invest in pension funds are lowered by the fact that the public pay-as-you-go system continues to offer relatively high benefit levels for elderly and middle-aged workers and thereby reduces the pressure for additional pension saving.

⁸⁴ For a more detailed analysis of strengths and shortcomings see Franco (2000).

Chapter 6

Germany: From consensus towards conflict

The key features of the German pension system in the late 1980s

The German pension insurance (*Gesetzliche Rentenversicherung*) provides for old age, invalidity and survivors' pensions. It comprises institutionally distinct schemes for blue- and white collar workers with nevertheless identical provisions. Civil servants draw pensions under the tax-financed civil service scheme (*Beamtenversorgung*) providing benefits that equal 75% of final pay. Other public employees are compulsory members of a special supplementary scheme based on collective agreements (*Zusatzversorgung Öffentlicher Dienst*), designed to augment pensions under the workers' and employees' scheme, in order to provide pensions similar to those of tenured civil servants. Members of various professions are covered by self-governing compulsory insurance institutions under legislation made by the single states (*Versorgungswerke*). All dependent workers and recipients of unemployment benefits are compulsorily covered for pension insurance. Self-employed persons are usually not compulsorily covered, but may join the insurance system on a voluntary basis.

Old age pensions are earnings-related and designed to maintain the relative standard of living attained by the recipient during his working life. Entitlement to an old age pension presupposes a minimum insurance record of 5 years of contributions and attainment of the age limit of 65 years. Women and the long-term unemployed are entitled to a full pension from the age of 60. Persons with an insurance record of 35 years may opt for a pension from the age of 63, or 60 if handicapped. The amount of individual pensions basically reflects the contribution record of the insured person and the level of his/her earnings (*Lebenseinkommensprinzip*). A worker with a contribution record of forty years and life-time earnings corresponding to the average income of all insured persons will receive an old age pension equaling 60% of recent average earnings. All pensions have been indexed since 1957. The annual adjustments generally reflect the development of average gross earnings.

Pension insurance schemes are financed by earnings-related contributions which amount to 19.2% of earnings (1986). Employees and employers each pay one half of

this rate. Earnings above a certain ceiling are exempted from contributions. The federal government contributes about 20% of aggregate resources. The insurance schemes operate on a pay-as-you-go basis with a minimum reserve fund of one month's expenditure. Contribution rates must be increased if financial forecasts show that reserves will fall below one month's expenditure.

The pension insurance schemes are run by self-governing bodies under state supervision. Insured persons and employers each delegate one half of the members of the board of directors and the board of supervisors (Alber 1987).

Germany's pension reform record in the 1990s

An inspection of recent developments in German pension policies reveals a mixed record. Among the countries under study, Germany was the first to embark on a strategy of cost containment in pension policy. Ever since 1977 the German pension insurance had been subject to numerous curtailment efforts by both the Social-liberal coalition (being in office until 1982) and the Christian Democratic-liberal coalition (Alber 1998). Until the late 1980s, these measures were largely aimed at the short-term stabilization of contribution rates in the face of rising unemployment and low wage growth. As a result of these efforts, the pension expenditure ratio could even be slightly reduced throughout the 1980s. Among the countries under study only in Germany pension spending decreased between 1980 and 1992 (by about 0.6% of GDP), although this development was also favored by a falling old-age dependency ratio. At the same time, pension outlays increased significantly in most other OECD countries (OECD 2001).

From 1989 onwards a number of more incisive and long-term oriented reforms have been initiated in order to reduce the increase of pension costs that will result from demographic aging. Due to these reforms, pension expenditures (and thus contribution levels) will increase much more slowly than was projected originally. Prior to the "big" 1992 reform contribution rates (amounting to 18.7% in 1990) were projected to reach a level of more than 36% in 2030. Currently, it is expected that contribution levels will not exceed 22% until 2030 (see table 6.1), albeit this assumption may turn out to be somewhat too optimistic.

Table 6.1: Projected contribution rates for statutory pension insurance*

Projection made in	1990	2000	2010	2020	2030
1989 (without '1992 Reform')	18.7	22.0	24.5	28.1	36.4
1989 (with '1992 Reform')	18.7	20.3	21.4	22.8	26.9
1994	-	19.7	21.5	23.1	27.0
1996	-	20.4	21.6	23.2	26.2
1996 (with WFG measures) ¹	-	20.1	20.6	22.6	25.5
1996 (with '1999 Reform') ²	-	19.7	19.1	20.0	22.4 ²
2000	-	19.3	19.6	20.5	23.6 ²
2000 (with 'Riester Reform')	-	-	18.7	19.7	21.9

* Contribution rates required to balance the budget and to meet reserve requirements of the scheme. Note that this scheme does not include civil servants pensions. Until 1989 projections only refer to West Germany. Source: compilation by the author, based on Bönker and Wollmann (2001).

¹ Wachstums- und Beschäftigungsförderungsgesetz

² In 1999 the Pension Reform Act 1999 was suspended, which led to a temporary increase in the projected contribution rate.

However, Germany's achievements with respect to the containment of public pension costs in the long-term do not appear to be particularly impressive when compared to the other countries. Based on the standard scenario calculated by the Economic Policy Committee (2001), Germany is expected to face a stronger increase in pension expenditures over the next 50 years (4.9% of GDP between 2000 and the expected peak year) than Austria (4.2%), France (4%), Sweden (2.6%) and Italy (2.1%), albeit from a substantially lower starting level than Austria and Italy (see also table 2.2). In contrast to Sweden and Italy, Germany has not implemented a complete switch towards a defined-contribution system, albeit important steps in that direction have been undertaken. Quite remarkably, however, the most recent reform is geared toward establishing a multi-tiered pension system, in which private and occupational pensions will partly substitute the pension payments out of the public scheme. However, German pension policy makers failed in their attempt to make private old-age provision compulsory. Instead, the 2000 pension reform tries to promote private pension insurance efforts by way of direct subsidies and tax incentives. A major weakness of German pension policy – in particular in comparison with the successful ef-

forts in Austria and Italy - is that only limited efforts were made to harmonize civil servants' pensions with the general scheme.

In this chapter I will analyze the recent German pension reforms in a chronological order. I will start with the pension reform act 1992 (*Rentenreformgesetz 1992*), which can be said to be the first big pension reform aiming at a drastic reduction of the imminent increase in pension costs.

The Pension Reform Act 1992 – a textbook example of consensual reform

In Germany, pension politics has followed a rather erratic pattern in recent years. Up to the early 1990s, all major pension reforms were – at least in the final vote in parliament – commonly supported by the two large parties CDU/CSU and SPD (Hinrichs 1998). In the 1980s, pension policy had become comparatively de-politicized in the sense that the issue of pension reform was largely kept out of the electoral arena. This - albeit fragile - consensus between the major political parties was also backed by the social partners. In terms of policy substance, this consensus revolved around the idea that the statutory pension insurance (*Gesetzliche Rentenversicherung, GRV*) has to at least approximately maintain the previous living standard during retirement. Moreover, the community of pension policy-makers agreed that necessary reforms should be made within, rather than outside, the public system (Nullmeier/Rüb 1993; Hinrichs, 1998). The Pension reform act 1992 (RRG92), legislated in 1989 and being in force as of 1992, is a textbook example of this approach. The key features of this reform were:

- A switch from gross to net wage indexation
- A phased increase of the retirement age to 65 years with actuarial reductions in the case of early retirement (to be implemented from 2001 onwards)
- The curtailment of non-contributory benefits (exception: improved credits for child rearing)
- An increase of the federal subsidy (*Bundeszuschuss*) to a constant share of 20% of total expenditures

This reform generated remarkable savings particularly in the long-term. It has been estimated that without this reform the pension contribution rate would have increased from a level of 18.7% in 1990 to more than 36% in 2030 instead of only 27% after the

reform (see table 6.1). Nevertheless, the reform did not change the net replacement rate for a fictitious standard pensioner⁸⁵ (70% of earnings). However, by changing indexation from gross to net earnings the reform effectively prevented a situation in which after-tax pensions rise more quickly than the take-home pay of wage earners. At the time policy makers acted on the assumption that the overall tax wedge would continue to increase even in the long run. In this case retaining gross wage indexation would have led to an ever stronger divergence between net wages and net pensions to the benefit of the latter. Given that net wages had been virtually stagnating in real terms since the early 1980s (VDR 2001), pension policy-makers (even within the trade unions) considered this scenario unacceptable. Thus, this element of the reform had been largely uncontested from the outset (Nullmeier and Rüb 1993:231).

By contrast, the issue of increased retirement ages was highly controversial among the actors involved and even threatened to thwart the cross-party consensus. While the government parties (in particular the Liberals) sought to implement an increase in age limits at a relatively early stage, the Social Democratic opposition (along with the trade unions) demanded that this measure is postponed as long as unemployment remained high. Nevertheless, the SPD acknowledged the fact that retirement ages needed to be raised in response to the long term changes in the population's age structure. In the final compromise the Social Democrats achieved that the increase of age limits would be postponed by eight years compared to the original government plan (Nullmeier and Rüb 1993).

The negotiation process behind this reform included several stages. In 1985 a working group composed of representatives of the employer organization BDA, the German trade union confederation DGB, and the white-collar union DAG as well as a commission chaired by the VDR⁸⁶ (the peak association of all the public pension funds) was set up which successfully paved the way for a consensus among the social partners about the main principles of a reform (albeit the issue of increased retirement ages remained contested). In 1987 a working group comprising the coalition partners and representatives of the Labor Ministry was created to work out a government proposal on pension reform, which then became the negotiation basis with the Social Democratic opposition. These negotiations led to a commonly supported

⁸⁵ The standard pensioner (*Eckrentner*) refers to a person with a contribution record of 45 years and an average earnings level.

⁸⁶ Verband Deutscher Rentenversicherungsträger

legislative proposal in March 1989, which was eventually adopted without major modifications (Nullmeier and Rüb 1993). While the agreement among the social partners in the preliminary stages of the negotiation process was clearly highly conducive to a corresponding agreement in the partisan arena (Niemeyer 1990), the final consensus was primarily based on a compromise between the Christian-Liberal government and the Social Democratic opposition.

Which factors account for the development of such a broad cross-party pension consensus?

Pension policy-makers from all major political parties shared the conviction that an unaltered status quo in pension policy would be fiscally and economically unsustainable in the long run. Moreover, for reasons of intergenerational equity they considered an equal distribution of the rising demographic burden between contributors and pensioners as necessary.

At the same time, both the Social Democrats and large sections of the coalition parties shared the view that the basic structure of the existing pension system needed to be preserved. Even within the government parties, demands for a radical change of the system such as a changeover from an earnings-related towards a tax-financed basic pension were not capable of winning a majority. Thus, government and opposition parties (except the Greens which pleaded for a universal minimum pension) advocated changes *within* the public system.

On the part of the government coalition a powerful motive to seek the consent of the Social democrats was its interest in sharing the blame for unpopular pension cuts with the largest opposition party in order to minimize electoral retribution. Norbert Blüm, the Christian Democratic Labor Minister in charge of the reform, had a further motive to bring the SPD on board. Belonging to the employee-wing of the CDU, Blüm advocated a more modest reform than his party's liberal coalition partner and the strong market-liberal forces within his own party. As Nullmeier (1996) points out, the traditional split in pension and social policy issues between the labor wing (*Arbeitnehmerflügel*) and the business wing (*Wirtschaftsflügel*) of the Christian Democrats favored a constellation in which both sides sought to incorporate the interests of a third party into a pension compromise in order to strengthen their own standing within the party. The business wing attached great importance to the market-liberal demands of the coalition partner FDP. By contrast, the Christian Democratic Party's

labor wing advocated a pension consensus with the SPD in order to compensate its own intraparty weakness. Consequently, the concessions necessary to obtain the consent of the SPD brought the final reform outcome actually closer to Blüm's own ideal point than it would have been the case, had the reform been negotiated only within the government coalition.

The Social Democratic opposition was very confident of winning the next election at that time, and thus had only limited incentives to launch an election campaign against a pension reform which it actually favored in its main features. By agreeing to a compromise with the government the party was able to move the reform outcome closer to its own ideal point. At the same time, the Social Democrats could expect that the delicate issue of pension reform would be cleared out of the way by the time they take office⁸⁷.

Finally, trade union leaders informally encouraged the Social Democratic negotiator, Rudolf Dressler, to sign the pension contract with the government. Trade unions had reason to fear that a withdrawal of the SPD from the bargaining table would result in even harsher cutbacks and a faster increase in retirement ages and thus lead to a less favorable outcome from trade unions' point of view. Given the at least tacit support from the trade unions Dressler eventually went for a pension pact with the government.

In a nutshell, this consensus became possible because the policy positions of the signatory parties were sufficiently similar to arrive at a substantive agreement over pension reform, while competitive incentives between government and opposition were not sufficiently strong to thwart a policy-oriented bargaining process.

The fading away of the pension consensus in the 1990s

The 1992 reform was designed to supersede the established practice of relatively arbitrary short-term adjustments. To that end, the reform aimed at stabilizing the system at least until 2010 rendering further legislative interventions largely superfluous (Nullmeier and Rüb 1993). However, the terms under which this reform had been

⁸⁷ Note that the reform was legislated before German reunification. Opinion polls at the time suggested an election victory for the Social Democrats and their imminent return to government. Although the Social Democrats' expectations were thwarted by German reunification my interviews with German pension policy makers clearly confirm my assumption about the strategic reasoning of the then Social Democratic leadership.

adopted changed fundamentally with German reunification, which – directly and indirectly – put the public pension system under increasing fiscal strain.

For one, from 1992 onwards the West German pension system was extended to the East German Länder, a measure that was still supported by all major parties. As a consequence, the pension level for East German pensioners increased steeply, an increase that quickly diminished the benefit gap towards West German retirees. Moreover, due to the higher labor market participation of women in the former GDR, benefit claims for women in the new federal states were higher than in West Germany. Most importantly, the collapse of the East German economy led to a sharp decline in employment levels. Due to these developments, the shortfalls for East German pension insurance bodies grew rapidly. As a result of these developments the East German pension insurance funds accumulated a deficit of about 75 billion Deutschmark for the period between 1991 and 1997 (Meinhardt 1997). In response, West German pension bodies had to channel considerable financial transfers to East Germany (Ney 2001b).

In addition, even in West Germany steeply rising unemployment (and a concomitant explosion of early retirement) as well as the growing significance of atypical employment (at the time not subject to mandatory social insurance contributions) amplified fiscal pressures on the pension system. Since no additional funds had been diverted into the statutory pension insurance, the contribution rate had to be adjusted on several occasions. Between 1993 and 1997, pension contribution rates increased from 17.5 to 20.3% (VDR 2001). Moreover, the combined social insurance contribution rate even increased by seven percentage points, from a low of 35.1% in 1990 to 42.1% in 1997 and thus surpassed the politically sensitive threshold of 40%. Consequently, the reduction of non-wage labor costs below 40% became increasingly salient in the government program (Nullmeier 1996; Hinrichs 1998). At the same time, the public budget, still displaying a surplus of 0.1% of GDP in 1989 had turned into a deficit of 3.4% in 1996 (OECD 2001). Given the 3.0% deficit criterion stipulated by the EMU, this constrained the possibilities to increase the federal subsidy to the pension system in order to reduce contribution levels.

In response to those pressures, the government sought, among other things, to discontinue the increasingly costly use of early retirement options. At the same time, the leader of the powerful metal-workers trade union *IG Metall* had submitted the pro-

posal of a tri-partite “Alliance for Jobs” (*Bündnis für Arbeit*) as a way of addressing the problem of mass unemployment in a joint effort of the government and the social partners. Initially the Kohl government seemed to be quite open-minded about this idea. In February 1996 the tripartite negotiations yielded an agreement about the introduction of an “elderly part-time work” scheme (*Altersteilzeit*). This reform aimed at containing the increasing misuse of legal early retirement options while at the same time sought to reduce youth unemployment. The new scheme encourages part-time work for employees older than 55 years and refunds a certain share of employers’ social insurance contributions to firms that hire a previously unemployed worker or a former apprentice. In order to contain pension costs the age limit for this type of pension will be gradually lifted from 60 to 63 years with a reduction of 3.6% for each year of early retirement. However, as a concession to union demands the higher age limit will not apply to unemployed persons which at the time of legislation were older than 55 (Nullmeier 1996; Hinrichs 1998).

Interestingly, the Social Democratic opposition was entirely excluded from this tripartite agreement. Likewise, the representatives of the SPD parliamentary group were also shut out of the similar talks about tax, pension and labor market issues. This triggered serious tensions between the trade unions and leading SPD politicians, which accused the trade unions of currying favor with the Kohl government. In response, the leader of the German chemical workers trade union IG Chemie, Hubertus Schmoldt, argued, that the trade unions could not consider election dates when dealing with the problem of unemployment (cited from Geissler 1998:79). This suggests that even a left opposition will have a hard time denouncing social policy reforms as labor-hostile when these are being developed in close coordination with the trade unions.

However, within the bourgeois coalition government strong disagreements persisted about the question whether concertation with the trade unions was an appropriate strategy to bring about substantial social policy reforms. While the Christian Democratic labor wing continued to advocate a concerted approach, the market-liberal forces within the coalition more strongly than ever called for unilateral action as a way to achieve quicker and more far-reaching adjustments. The latter position gained the upper hand when the employers declared to quit the “Alliance for Jobs”, which they had increasingly perceived as a rather useless institution, and after the coalition

parties won three *Länder* elections in March 1996, where especially the liberal FDP could strengthen its position. Shortly after the elections, the government took a clearly less conciliatory attitude vis-à-vis the trade unions and adopted a reform package unpalatable to the trade unions.

The Growth and Employment Promotion Act (*Wachstums- und Beschäftigungsförderungsgesetz*) among other things intended to cut sick pay from 100 to 80% and to lower employment protection rules, two measures that were absolutely unacceptable to the trade unions (Nullmeier 1996; Geissler 1998). With respect to pension policy this reform entailed further cuts in non-contributory benefits and an accelerated phasing-out of all early retirement options without permanent benefit reductions. In particular, the plan to increase women's regular pension age from 60 to 65 between 1997 and 2001, rather than between 2000 and 2012 as envisaged by the 1992 reform, triggered fierce criticism by the SPD and the trade unions, all the more as this measure was not accompanied by improved credits for child rearing (as had been demanded in a 1992 decision by the constitutional court). This reform element triggered vigorous protests. In the Pension Reform Act 1992 the increase of the retirement age for women had been made contingent on the labor market situation in 1997. The reasoning then was that a higher retirement age is not desirable in a situation of high unemployment. Given that by 1996 unemployment had increased (rather than decreased), the SPD and the unions saw this step as a clear breach of the 1989 cross-party agreement. In response to their massive protests, the government postponed this measure for three years (Nullmeier 1996).

The cutbacks proposed in the Growth and Employment Facilitation Act not only led to the breakdown of the "Alliance for Jobs", but also provoked a massive counter-mobilization by the trade unions. In June 1996, the German trade union confederation DGB launched the hitherto largest demonstration (with about 350.000 participants) against the welfare cuts by the Kohl government. Moreover, this reform put an end to the pension consensus in the partisan arena. In May 1996, the social policy spokesman of the SPD, Rudolf Dreßler, officially revoked the present pension consensus with the government parties and refused participation in the government's pension reform commission, which was to draw up further reform measures. At the time the Social Democratic opposition considered pension cuts unnecessary and pleaded instead for a refinancing of non-contributory benefits (including the additional

burden for the statutory pension insurance resulting from German reunification) out of the federal budget (Nullmeier 1996; Hinrichs 1998).

It is noteworthy that the government passed this law without consulting the Social Democrats, let alone seeking their consent (Ney 2001b). In hindsight, a case can be made that at the time the government underestimated the political risks associated with its unilateral approach. In doing so, the government faced a broad alliance of reform opponents (including the parliamentary opposition, the trade unions and – to a certain extent – the churches), which could successfully exploit the widespread rejection of welfare cuts (in particular pension cuts) among the electorate. For instance, the government's decision to increase the regular retirement age for women more quickly than planned in the 1992 reform strongly harmed the Christian Democrat's electoral standing among women aged 45 to 59. In the 1998 federal election the CDU/CSU suffered the strongest decline precisely within this group (see table 6.2). According to Heiner Geißler (1998:81), a leading Christian Democratic politician, the decision to enforce important social policy and labor market reforms through a hegemonic rather than concerted approach inevitably destroyed the "Alliance for Jobs" and paved the way for the subsequent defeat of the Kohl government.

The Pension Reform Act 1999 (Rentenreformgesetz 1999)

Despite the fierce political controversy triggered by the Growth and Employment Promotion Act, the impact of this reform on the long-term development of pension contributions is very limited (see table 6.1). Moreover, the reform did not even prevent a further increase of contribution levels in the short run. In 1997 the pension contribution increased from 19.2 to 20.3% and threatened to rise to a further all-time high of 21% in 1998 (Hinrichs 1998). Against this backdrop, the Kohl government decided to take further and more far reaching measures in pension policy still before the federal election in 1998. In 1997 it adopted a major reform of the public pension insurance (Pension Reform Act 1999). The key elements of this reform were:

- A lower adjustment of pensions due to the introduction of a demographic factor into the pension formula. This will lead to a reduction of the standard pension level from 70 to 64% (for both current and future pensioners)
- Tighter eligibility criteria for disability pensions

- Improved credits for child rearing (to be credited *in addition* to employment-related entitlements)
- A higher federal grant aimed at covering non-contributory benefits and financed by a 1 percentage point increase in the VAT rate
- Improved conditions for the development of occupational old-age provision through various labor law measures (Niemeyer 1998; Arbeiterkammer Bremen 2000).

According to official estimations the 1999 reform would have dampened the long term increase in contribution rates by about three percentage points (see table 6.1). Moreover, by raising the VAT rate from 15 to 16% and channeling the additional revenues into the public pension insurance the reform allowed for a short-term stabilization of the contribution rate at the 1997 level (20.3%). However, apart from the latter measure, the reform never became effective, as the red-green government, shortly after it had assumed office in 1998, suspended its implementation. In the following section, I will briefly portray the decision-making process leading to the adoption as well as to the subsequent suspension of the Pension Reform Act 1999.

As mentioned above, in May 1996 the Kohl government had charged a commission, chaired by Labor Minister Blüm, with the task of preparing an encompassing pension reform. Initially the commission was supposed to comprise representatives of all major parties and relevant interest groups. However, from the outset the Social Democrats refused their cooperation and set up their own pension commission. The government commission also was supposed to represent a broad spectrum of pension experts including those who favored a radical restructuring of the pension system. However, the majority of commission members (more or less determined by the Labor minister) advocated incremental reforms *within* the existing system. Hence, not very surprisingly, the final report (published in January 1997) recommended that the basic principles of the statutory pension insurance (e.g. equivalence principle, pay-as-you-go financing) should be maintained. The commission proposed the introduction of a demographic factor in the pension formula that will gradually reduce the net

replacement ratio for a standard pensioner (for both current and future pensioners) from about 70 to 64% until 2030 (BMAS 1997; Richter 2001)⁸⁸.

Within the government parties the reactions to this report were mixed. Even within the CDU the proposals by the expert commission were contested. Representatives of the business wing in particular pressed for a quicker reduction of the pension level and demanded an increase in the regular retirement age, a measure that had been considered unnecessary by the expert commission. Kurt Biedenkopf, the government leader of Saxony and member of the party's pension commission put forward a more radical reform proposal and called for a universal public basic pension to be complemented by private old-age provision. However, these positions did not obtain a majority within the CDU. Finally, the proposal presented by the expert commission was largely accepted by the party's own pension commission and by the national executive committee (*Bundesvorstand*) of the CDU/CSU. However, the CDU commission modified the proposal insofar as it suggested an increase of the federal subsidy to the pension system to cover a higher share of non-contributory benefits (to be financed by higher taxes). This modification was primarily enforced by Blüm and his allies from the party's employee-wing against the resistance of the Finance Minister. It needs to be emphasized that the interest aggregation within the CDU's pension commission was achieved by majority vote rather than by negotiation⁸⁹. As a consequence, the official position of the CDU did not take into account the minority interest of the party's business wing and therefore largely reflected the positions of the Labor minister (Richter 2001).

The liberal coalition partner, by contrast, was rather critical of the expert commission's recommendations from the outset. The Liberals demanded a stronger and quicker reduction of the pension level as well as a higher retirement age. These measures were intended to keep the necessary contribution rate constantly below 20%. Moreover, the FDP decidedly rejected the plan to extend social insurance coverage to various forms of atypical employment (e.g. low-paid jobs and pseudo self-employed), a suggestion made by the expert commission and seized by the CDU.

⁸⁸ Only one commission member (Meinhard Miegel) executed a dissenting declaration and pleaded for the introduction of a universal tax-financed basic pension as a substitute to earnings-related social insurance.

⁸⁹ Among the 20 members of the party commission, ten approved the proposals of the expert commission, six voted against and four abstained (Richter 2001:88).

The FDP also fiercely opposed the idea to increase the federal subsidy to pension insurance (Richter 2001).

In April 1997 the government parties formed a joint working group (*Koalitionsarbeitsgruppe*), which by and large agreed on the model proposed by the CDU (including the increase of the federal subsidy financed by a one-percentage increase of the value-added tax). However, as a concession to the FDP, it withdrew the plan to extend social insurance coverage. In principle, the decision-making procedures within the coalition working group largely followed a pattern of 'negative coordination' (Scharpf 1997b). Each party entered the negotiations with a fixed catalogue of single demands and sought to block every proposal that would run counter its own interests. This procedure tended to favor the actor whose policy position was closest to the status quo, i.e. the Christian Democrats. By contrast, the FDP seeking more far reaching changes to the status quo, had a much weaker bargaining position, the more so as it was the smaller partner within the coalition (Richter 2001).

After the coalition parties had worked out a common reform concept, they tried to obtain the approval of the Social Democratic opposition. The SPD, however, was unwilling to cooperate with the government. The Social Democrats had set up their own pension commission, whose reform proposals primarily addressed the revenue side of the pension insurance. According to these proposals no benefit cuts were needed to consolidate the pension system. Instead, certain groups of hitherto non-covered employees were to be made liable for mandatory insurance. Moreover, the report advocated the financing of all non-contributory benefits through general taxes, rather than through wage-based contributions (SPD 1997).

However, the SPD's "official" position in pension policy obscured significant disagreements within the party. Its status as an opposition party prevented the emergence of intra-party conflicts between "traditionalists", eager to reject demands for benefit cuts, and "modernizers", basically acknowledging the indispensability of curtailments. In the absence of government responsibility these disagreements could be more or less kept under control. At the same time, both wings shared a common interest in defeating the Kohl government in the imminent federal election. Given the strong electoral salience of the pension issue, the SPD decided to launch an election campaign against the government's pension cuts. Consequently, the SPD de-

nounced the benefit curtailments as “indecent” and announced to reverse the pension reform after a return to government (Reuber 2000).

In May 1997 the Labor Minister offered talks to the social partners. It was only at this point, that the social partners attained direct access to the decision-making process. However, Blüm was largely bound to the decisions made by the coalition partners and therefore had only marginal leeway for concessions. At the same time, trade unions were unwilling to accommodate the government in the absence of substantial concessions. Furthermore, the chances for an amicable agreement between the government and the trade unions had been radically diminished through the most recent measures adopted in the Growth and Employment Promotion Act. These measures had seriously poisoned the mutual relations and thereby impeded a policy-oriented bargaining process, even if the unions might have accepted modest pension cuts in principle. Consequently, trade unions did not achieve significant modifications to the 1999 pension reform.

A case can be made that the preceding conflicts with the Kohl government had altered trade unions’ interaction orientation vis-à-vis the government. The German unions saw themselves confronted with a – from their viewpoint - increasingly hostile stance of the government in labor and social policy issues. As a consequence, they decided to forego minor concessions in the bargaining arena and instead embarked on a confrontational strategy vis-à-vis the Kohl government. In doing so, they contributed to the electoral defeat of the bourgeois government and its displacement by a more labor-friendly alternative. As a part of this strategy, German trade unions supported the election campaign of the Social Democratic opposition with generous donations in the hope that the Social Democrats would undo the social policy and labor market reforms adopted by the Kohl government. In hindsight unions’ mobilization strategy against the Kohl government turned out to be successful.

In its initial version the pension bill worked out by the government parties required the approval by the upper house (*Bundesrat*) to become effective. However, the majority in the *Bundesrat* was held by the Social Democrats at the time, who would definitely have blocked the overall reform package. To circumvent the institutional veto power of the *Bundesrat* the government decided to split the reform package into two separate parts. The first part comprised the actual pension reform law, which did not require the consent of the *Bundesrat*. The second part concerned the increase of the

value added tax from 15 to 16%. This money was supposed to be used to channel additional resources into the pension system in order to avoid rising pension contribution rates. The second part could only be adopted with the approval of the SPD-led *Länder* in the upper house. The split of the reform package confronted the Social Democrats with a dilemma. On the one hand the SPD itself had repeatedly called for a higher federal subsidy to the pension insurance as a means to finance non-contributory benefits. On the other hand the Social Democrats feared that the public may misconceive the SPD's approval to this part of the reform in the sense that they might also hold the SPD responsible for the pension cuts. After protracted negotiations in the mediating committee (*Vermittlungsausschuß*) the SPD decided to approve this bill without major modifications. Without its approval in the *Bundesrat* the SPD would have brought about an increase in the pension contribution rate from 20.3% in 1997 to 21% in 1998, a development for which it did not like to be held responsible (Hinrichs 1998; Richter 2001).

The imminent increase in the contribution rate, which loomed after the late summer 1997, also caused renewed tensions between the coalition partners. Initially the entire reform was supposed to become effective from 1999 onwards. However, in response to the immediate threat of rising contributions the executive committee of the CDU, supported by the FDP, decided to implement the reform already in 1998. This again was fiercely opposed by the CSU, which was determined to avoid a non-increase of pensions amidst an election year. Only after protracted controversies within the government could a compromise be reached. While the increase in the value-added tax (needed to stabilize the contribution rate) and the enhanced credits for child-rearing would become effective in April 1998, the reduction of the pension level would only begin from 1999 onwards (Richter 2001).

By and large, however, the reform concept decided by the coalition working group was legislated without substantial modifications. Even in the formal legislative process the bill was only amended marginally. The final reform outcome, comprising relatively modest benefit cuts without any changes in the architecture of the overall pension system, primarily reflects the pension policy positions of Labor minister Blüm. Backed by chancellor Kohl, Blüm controlled the political decision-making process from the outset and was able to contain the influence of market-liberal forces within his own party. In particular, Blüm effectively prevented his intra-party opponents from

joining forces with the liberal coalition partner thereby marginalizing the business-wing within his own party.

The issue of pension cuts can hardly be overestimated as a key factor behind the disastrous defeat of the Kohl government in the 1998 election. An overwhelming majority of German voters considered the securing of pensions as one of the most pressing political problems in the run-up to the 1998 election. According to an opinion poll conducted by the opinion research institute FORSA (1998), 60.1% of respondents regarded this task as being personally “very important”, 35.9% as “important”. Thus, this issue was highly salient among German voters (Klein and Ohr 2001). At the same time, many voters had lost their trust in the Christian Democrats’ capacity of preserving pensions. While in 1989 about one third of voters were believed that the CDU/CSU would be the most competent party with respect to the preservation of the pension system, less than 20% of voters were still of this opinion in 1997 and 1998. By contrast, the corresponding share for the Social Democrats still scored above 30% (Forschungsgruppe Wahlen). These factors combined to contribute to the dramatic electoral defeat of the Christian Democrats, who had achieved their worst election result since 1949. Table 6.2 displays the changes in vote shares for the government parties and for the SPD differentiated according to age and gender. A number of interesting findings emerge:

First, the vote losses of the Christian Democrats reveal a pronounced age-specific pattern. To a significant extent, the Christian Democrats suffered these losses among persons in retirement age (60 years or older), who lack the capacity to compensate for cuts in public pensions through increased private saving. Within this group the vote share of the CDU/CSU fell by 6.2 percentage points. The losses are even more pronounced among the age cohorts close to retirement, i.e. persons between 45 and 59 years (9%). Like pensioners, this age group has only limited possibilities to balance lower public pensions by means of more private old-age provision. In addition, their pension entitlements enjoy a lower degree of legal safeguard than is true for current pension payments. By the same token, the increase in the legal retirement age legislated in 1996 was of great concern for this age cohort, whereas it was irrelevant for current pensioners. Hence, it should not come as a surprise that elderly workers were most likely to change their voting behavior in response to the pension cuts adopted by the Kohl government. By contrast, the Christian Democratic losses

were relatively modest among younger voters, in particular within the age group below 25 years (1.7%), for which pension cuts are not critical to their voting decision.

Table 6.2: Change in vote shares at the federal election 1998 (compared to 1994 election)

Age cohort	Total			Women only		
	SPD	CDU/CSU	FDP	SPD	CDU/CSU	FDP
18-24	1.0	-1.7	-0.4	0.3	-0.3	-0.9
25-34	2.3	-3.5	0.7	-0.7	-2.0	0.7
35-44	4.7	-6.8	-1.5	5.3	-8.3	-1.3
45-59	6.0	-9.0	-0.5	7.2	-10.4	0.0
60+	5.8	-6.2	-1.1	8.6	-8.8	-0.9
<u>All</u>	<u>4.5</u>	<u>-6.2</u>	<u>-0.7</u>	<u>5.3</u>	<u>-7.4</u>	<u>-0.5</u>
Share	40.9	35.2	6.2	41.2	34.8	6.1

Source: Emmert et al. 2001

A further indication of the electoral salience of the pension issue in the 1998 election is the fact that the age-specific profile of the voter drain from the CDU/CSU is most pronounced among women. As pointed out above, the swift increase in the retirement age for women from 60 to 65, that had been legislated in 1996 and became effective as of 2001, may explain the fact that the Christian Democrats suffered particularly strongly losses among women aged between 45 and 60 (10.4%). What is more, as a rule woman's pensions are considerably lower than those of men. Hence, pension cuts are likely to be more tangible for women. This may explain the fact, that the losses of the CDU/CSU were higher among female pensioners (8.8%) than among male retirees (5.1%).

Finally, the Liberals only suffered a minor electoral decline compared to the Christian Democrats. Moreover, their losses do not reveal a clear age-specific pattern. This suggests that the core clientele of the FDP, to a great extent consisting of high-income earners with a sizeable share of private retirement income, is only modestly affected by public pension cuts. Thus, from a vote-seeking perspective market liberal parties advocating pension curtailments are likely to take a considerably lower electoral risk than is true for Christian Democratic parties.

By contrast, the SPD achieved its largest gains among elderly voters. The Social Democrats not only succeeded in enhancing the electoral salience of the pension issue, but also in undermining the government's reputation as a trustworthy defender of the existing public pension system. Moreover, the SPD successfully presented itself as a credible alternative in that respect and attracted the lion's share of voters dissatisfied with the Kohl government's pension cuts. At the same time, it was able to fully mobilize its own core voters. These trends are among others reflected in the fact that the voter turnout in 1998 (82.2%) was significantly higher than in the previous federal election in 1994 (79%). Consequently, for the first time in its history the SPD attained a massive lead of 5.7% to the Christian Democrats (Emmert et al. 2001).

Three factors account for the sweeping success of the Social Democratic pension campaign. First, since the SPD as an opposition party could not be held responsible for the pension cuts legislated in the 1990s its reputation as defender of the public pension system was still largely intact in 1998. Second, the SPD was massively supported by the trade unions, which also had fiercely opposed the benefit curtailments enacted by the Kohl government. Clearly trade unions' support helped the SPD to mobilize its key constituency. Third, the pension reform 1999 was adopted at a relatively late stage of the legislative term, which made it additionally difficult for the government to keep this issue out of the federal election campaign.

Pension politics under the red-green government

Shortly after their election victory in 1998, the Social Democrats stuck to their campaign promise and suspended the demographic factor as well the reform of invalidity pensions⁹⁰. Moreover, the red-green government enacted a number of measures to strengthen the revenue basis of the statutory pension insurance. In particular, it extended the coverage of social insurance with respect to certain forms of atypical employment. In addition, the Schröder government further increased the federal subsidy to the pension scheme, largely financed by a newly increased tax on energy consumption. These measures helped to lower the pension contribution rate from 20.3% in April 1999 to 19.1% in January 2001 (Bönker and Wollmann 2001).

⁹⁰ Note, however, that the Schröder government did not undo the pension cuts enacted in 1996, such as the advanced increase of the retirement age for women (although this step had been fiercely criticized by the then Social Democratic opposition).

However, these reforms largely exhausted the political and legal leeway for an enhancement of the federal grant within the logic of the existing system, revolving around the principle of contributory social insurance (Bönker and Wollmann 2001). The federal grant now covers virtually all non-contributory benefits, including credits for child rearing and costs caused by re-unification. Even the public pension insurance funds, which had hitherto repeatedly called for an extension of the federal grant, now share this view (Standfest 1999). These reforms were adopted without major conflicts within the government coalition, all the more since these steps had already been propagated by the SPD prior to the election.

Beyond these measures, however, no consensus whatsoever existed within the Social Democratic Party over the further course in pension policy⁹¹. The hitherto suppressed differences of policy positions between “traditionalists” and “modernizers” were now about to break out openly. Within the government, the latter group had gained the upper hand after 1998. Gerhard Schröder, being himself a clear exponent of the modernizers’ wing, appointed another modernizer, Walter Riester, the former vice chairman of the IG Metall, as his Minister of Social Affairs (rather than the ‘traditionalist’ Rudolf Dreßler, who had been the party’s social policy spokesmen for many years). Moreover, in spring 1999 Oskar Lafontaine, exponent of the party’s left-wing, suddenly and unexpectedly resigned as party chairman and Finance Minister. In the latter function he was replaced by Hans Eichel, an outspoken proponent of a tight fiscal policy. Thus, within the SPD leadership the center of gravity clearly shifted in favor of the more reform-oriented forces. Social and fiscal policy increasingly concentrated on the goal of stable contribution rates and of a balanced public budget.

However, this reorientation, in combination with the persistent financial problems of the public pension system, confronted the SPD with a dilemma of its own making. Any significant cut in pensions would violate voters’ as well as unions’ expectations for the less painful reform, that the SPD had announced in its election campaign. Moreover, by not co-operating with the Kohl government in 1997 the SPD had clearly diminished its chances of attracting the support of the Christian Democrats for a broad cross-party consensus (Anderson and Meyer 2002).

⁹¹ The following analysis largely draws on newspaper coverage of the *Handelsblatt* and on Dünn and Fasshauer (2001).

From the outset, the Schröder government was aware that an incisive cost containment reform in the pension system was needed, which would take the place of the demographic factor. Moreover, as a consequence of the shift towards a tight fiscal policy, the statutory pension insurance again became a primary target for retrenchment for the purpose of budgetary savings. In an effort to gain time for a more encompassing pension reform, the Schröder government took a number of – immediately effective - emergency measures aimed at cutting rising pension costs (and thus lowering the burden on the public budget). One of the most important – albeit largely ignored - savings measures concerns the drastic reduction of the assessment basis for pension contributions on grounds of periods of military/civilian service and receipt of unemployment assistance⁹². This measure immediately relieved the federal budget (due to lower state contributions to the pension insurance) but will also entail correspondingly reduced pension entitlements for the groups concerned.

What is more, in striking contrast to its promise given only a few months earlier, in June 1999 the Schröder government decided to suspend the indexation to net wages for two years and to switch to consumer price indexation instead⁹³. Due to lower taxes and improved child benefits, net wages increased strongly at that time. Had the indexation to the development of net wages been retained, this would have caused a sharp increase of pension outlays and thus a higher contribution rate. In order to prevent this, the government temporarily switched to price indexation. Interestingly, the short-term effects of this measure on the net replacement ratio were estimated to exceed those of the suspended demographic factor by far. According to calculations by the Labor Ministry the pension level would fall from 70 to 67.6% within two years only (Handelsblatt, 19/20th June 1999)⁹⁴.

This measure triggered widespread public criticism even within the Social Democratic party. The unions, too, rejected this measure fiercely. The opposition parties accused the government of having breached its election promise and fooled pensioners

⁹² For periods of military/civilian service the assessment basis is reduced from 80 to 60% of average gross wages. For recipients of unemployment assistance the basis is reduced from 80% of last *gross* wages up to 50% of last *net* wages.

⁹³ Later, this measure was limited to one year.

⁹⁴ Social Democratic Labor Minister Walter Riester himself was fully aware of this fact, as the following quotation illustrates: *“Durch die Beschränkung der Rentensteigerungen auf den Inflationsausgleich in diesem und nächstem Jahr entlasten wir die Rentenkasse stärker, als es die Opposition mit ihrem demographischen Faktor getan hätte“* (By restricting pension increases to the rate of inflation this year and next year, we will achieve a greater relief of pension finances than would have been possible through the demographic factor proposed by the opposition, M.S.) (Reuber 2000).

through arbitrary pension cuts⁹⁵. The Christian Democrats picked the arbitrary pension cuts as a major theme in the subsequent elections at the *Länder* level. In a letter to all German pensioners they denounced the cuts as “*the greatest election fraud in the history of the FRG*” (Süddeutsche Zeitung, 17th June 1999).

According to Wolfgang Schäuble, the then party leader of the Christian Democrats, this campaign met with a far bigger response in the public than the party had hoped (Schäuble 2001). Consequently, the SPD suffered a dramatic decline in its trustworthiness as a defender of pensioners’ ‘acquired’ rights. According to an opinion survey conducted in September 1999 only 18% of voters were still of the opinion that the SPD was the most credible party in the current pension debate (FORSA 1999a). The government’s unexpected pension cuts also contributed to the disastrous electoral defeat of the SPD in the following elections at the local and at the *Länder* level. In some of these elections the Social Democrats suffered a two-digit decline in their vote shares. The reason is that many traditional Social Democratic core voters abstained from voting or – in East Germany – switched to the post-communist PDS (Universität Kassel 2002). However, with the exception of Thuringia the CDU was unable to attract a major share of these voters. In three elections even the CDU suffered absolute vote losses (albeit not as dramatically as the SPD). Arguably, the German Christian Democrats owe their *relative* success in these elections to the fact that they could undermine the reputation of the SPD on salient issues such as pension policy. The Social Democrats on their part had a very difficult time to mobilize their traditional core voters. However, the CDU/CSU largely failed to attract Social Democratic swing voters, as the curtailments in pension policy and other areas of welfare spending enacted by the Kohl government did not allow them to present themselves as a credible alternative to these voters. This interpretation is consistent with the empirical finding that the decline of the SPD’s credibility in pension policy is not matched by a commensurate increase for the Christian Democrats⁹⁶.

⁹⁵ In the parliamentary debate, Friedrich Merz, the deputy chairman of the Christian Democrats’ parliamentary group, quoted Rudolf Dreßler, the former social policy spokesmen of the SPD, with the vitriolic remark: “*Wenn die alte Koalition solche Vorschläge gemacht hätte, wie es jetzt die rot-grüne Regierung getan hat, dann hätten wir den Dritten Weltkrieg ausgerufen*” (CDU-Bundesgeschäftsstelle 1999). If the old (bourgeois, M.S.) coalition had made such proposals like the red-green government has made now, then we would have declared the third world war (Translation by the author).

⁹⁶ In the above-cited opinion survey from 1999 only 19% shared the view that the CDU/CSU was the most credible party in the then pension debate (FORSA 1999).

Parallel to temporarily suspending net-wage indexation the Labor Ministry put forward the guiding ideas for a major pension reform (see also table 6.3). Riester's proposals envisaged among other things:

- the introduction of a supplementary pension pillar on a mandatory and fully-funded basis financed by contributions of workers amounting to 2.5% of gross earnings
- the introduction of a tax-financed and means-tested minimum protection *within* the statutory pension insurance
- the creation of independent (rather than derived) pension claims for married women
- a reform of disability pensions

Moreover, about one year later the government put forward further proposals to contain pension expenditures. Apart from cuts in widow pensions for people below 40 years of age the reform draft presented in May 2000 proposed a radical reduction of benefit levels for future pensioners. The idea behind this so-called offset factor (*Ausgleichsfaktor*) is to make the benefit level in the public pillar dependent on the specific capacity of each age-cohort to set up old-age provision on a private basis. Current pensioners lacking the capacity to offset pension curtailments through increased individual retirement provision would be spared from a reduction of the pension level. By contrast, younger age-cohorts, capable of pursuing individual old-age provision over a long time-horizon, would have to accept a substantially lower pension from the public scheme. Age-cohorts retiring in 2050 would therefore only receive a standard pension level of 54% rather than 70%. Perhaps, the government also hoped that the reform would be politically more feasible if current pensioners were exempted from the cutbacks. Interestingly, these reform plans went far beyond the plans of the preceding bourgeois government, which only had envisaged a reduction of the standard pension level to 64% and largely had confined itself to reforms *within* the existing pension system.

The Schröder government had to overcome many political obstacles and was forced to modify the original reform package over and over again in almost every respect. Table 6.3 gives an impression about the multiplicity of changes made in response to

various political objections. From the outset, virtually all reform proposals presented by the red-green government were fiercely criticized on several fronts:

The concept of a private mandatory pillar became the first victim of widespread public criticism. Apart from the employers all relevant actors opposed the idea of making private old-age provision obligatory. The Christian Democratic opposition criticized that this plan would boil down to a one-sided burden of low-wage earners. Similarly, the trade unions were critical of the idea to partly replace public pensions by private old-age provision and regarded this as turning away from the principle of parity financing between employers and employees, a principle that is deeply entrenched in the German social insurance system. In the eyes of the trade unions a substantial shift towards private old-age provision would distribute the rising financing burden for old-age provision solely onto the shoulders of the wage earners rather than equally between employees and employers. Even within the government parties serious concerns were raised against this proposal, in particular by the green coalition partner, who objected this measure as a form of “paternalistic social policy” (*bevormundende Sozialpolitik*). Moreover, from a constitutional point of view it was unclear whether a private mandatory solution would fall into the legislative competency of the federal state (Dünn and Fasshauer 2001). Most importantly, BILD, the largest German tabloid, massively campaigned against this plan, denouncing it as “*Zwangsrente*”. This campaign shifted the balance within the government such that it withdrew this plan only a few days later (Reuber 2000). In the view of disastrous opinion poll data and facing a number of important *Länder* elections, the government apparently feared negative electoral repercussions and therefore opted for a voluntary solution supported by state subsidies.

Another contentious point was the reduction of pension level associated with the introduction of the offset factor. The main point of critique towards the offset factor focused on the gradual transformation of the statutory pension insurance into a basic pension which would also undermine the legitimation basis of the system. This criticism was not only shared by the trade unions, but also by the Christian Democratic opposition and the pension funds' peak association VDR as well as by a large section within the SPD, in particular from the party's left wing (only the employers and the market-liberal FDP regarded this concept with favor). Thus, here again the government was soon forced to reconsider its proposals (see below).

Finally, the governmental plan to establish a system of minimum protection within the public pension system met with considerable political resistance, in particular by the bourgeois opposition parties, the employers, and the VDR. The common line of criticism centered on the idea that the separation between contribution-related pension insurance and means-tested social assistance geared towards poverty prevention was to be maintained at all costs. The critics of this reform element also feared that an institutional blurring of the difference between social insurance and social assistance may give rise to an expansion of the black economy and further undermine the acceptance of the statutory pension insurance (Ruland 1999; Bönker and Wollmann 2001; Dünn and Fasshauer 2001).

The widespread criticism and fierce protests triggered by the proposed reform package may result in part from the fact that the Ministry of Labor developed the reform guidelines more or less single-handedly, without appropriate preparation and without major consultation of the social partners and the pension funds' associations VDR and BfA (the white collar workers' pension fund, *Bundesversicherungsanstalt für Angestellte*)⁹⁷. Faced with such a broad front of critics both within and outside the government, Labor Minister Riester offered a number of far reaching substantive changes to the original reform concept. These changes were primarily aimed at meeting the demands put forward by the Christian Democrats. The government had at least three powerful reasons to seek their approval. First, given the potential electoral salience of the pension issue, the government sought to share the political costs associated with highly unpopular pension curtailments. Second, by forging an alliance with the opposition, Schröder tried to limit the influence of trade unionists and leftist reform opponents within his own party. By striking a pension deal with the Christian Democrats, the 'modernizers' within the government would be able to achieve a more far reaching reform than it would be politically feasible if the interests of trade unionists and leftist forces within the party needed to be taken into account. Third, parts of the reform required the approval by the *Bundesrat*, in which the SPD-led *Länder* lacked a clear majority.

The government made concessions to the Christian Democrats in virtually all aspects, the Christian Democrats had criticized. The original plan of a private manda-

⁹⁷ One interview partner even claimed: "I never have seen a reform that was prepared as badly as this one".

tory pension pillar and of a minimum protection within the pension insurance (both elements had been strongly opposed by the CDU/CSU) was dropped at a relatively early stage. Moreover, they did retain the offset factor, which had been subject to so much criticism, but modified it so that the standard pension level would not fall below 64% even beyond 2030 (in September 2000 the government also announced the return to net wage indexation for the year 2001). In addition, the government made concessions in the area of widow pensions. Most importantly, the government – against the bitter resistance of the Finance Minister - even over-fulfilled Christian Democratic demands for a substantial extension of state subsidies and tax relief to private old-age provision, in particular for families with children (Reiermann and Sauga 2000).

Despite these numerous and far reaching concessions on the part of the government, the Christian Democrats continued to reject a common pension reform with the red-green coalition. A strong case can be made that the Christian Democrats did not oppose the reform on grounds of policy content. To a large extent they shared the principles underlying the government's reform proposal. Like the government, they acknowledged the need for cuts in the pension level and advocated a move to a multi-pillar system (Bönker and Wollmann 2001). It appeared that the Christian Democrats were internally split in the question whether they should back the government or not. In the end the opponents of a consensual solution gained the upper hand, which again led to a break-down of the extra-parliamentary compromise talks in October 2000. Perhaps, the successful Social Democratic pension campaign against the Kohl government in 1997 and 1998 had considerably diminished the government's prospects for attracting the support of the opposition for a cross-party consensus (Anderson and Meyer 2002). Now it was the Christian Democrats who sought to exploit the pension issue in the electoral arena. They also had a strong competitive interest that the intra-governmental conflicts over pension reform would persist, which again would harm the government's electoral position. A swift agreement with the government would most likely put an end to the quarrels within the Social Democracy and thus – albeit indirectly - diminished the electoral standing of the Christian Democrats.

Interestingly, that the oppositional FDP appeared to be much more willing to arrive at a pension consensus with the government than the Christian Democratic opposition.

After the Christian Democrats had left the extra-parliamentary consensus talks with the government parties, the FDP continued the cross-party negotiations, in which the key guidelines for a reform of the pension system were worked out. Leading Liberals publicly acknowledged the compromise orientation of the red-green coalition, whereas they blamed the Christian Democrats for thwarting a cross-party consensus (Handelsblatt, 13th July 2000/ 16th August 2000). Given that the FDP tends to take pronouncedly market-liberal positions in social and economic policy, its pension policy positions were by no means congruent with those of the government. However, the FDP had only limited incentives to exploit the pension issue in the electoral arena. More specifically, in contrast to the Christian Democrats, the Liberals cannot seriously hope to attract a significant share of swing voters alienated by the pension cuts adopted by a left government. However, by offering its cooperation to the red-green government it sought to move the final reform outcome closer to its own ideal point and by this strengthen its attractiveness vis-à-vis its own core voters, who are likely to accept pension cuts in exchange for lower taxes and contributions. Finally, the degree of positional conflict with the SPD was softened by the fact that the FDP had an interest in presenting itself as a potential coalition partner to the SPD after the election. Yet, an agreement with the Schröder government was doomed to fail as soon as the government was forced to make substantial concessions to the trade unions and thereby removed itself again from the policy positions of the FDP.

Without the backing by the Christian Democratic opposition the government critically depended on the unconditional support of its own deputies in order to obtain a majority in parliament. However, the SPD faced massive difficulties to align trade unionists and representatives of the left wing of the party. Initially, Riester was successful in averting amendments put forward by these groups. In the party executive, nine members, largely union representatives and left wingers, voted against his reform concept but were overruled with a majority of 19 votes. Even within the parliamentary group the concept was approved with a majority of 70% (Handelsblatt, 5th July 2000). However, in the autumn of 2000, about 30 Social Democratic deputies publicly announced to vote against the bill, unless the government would substantially modify its reform concept. Without their votes Riester's reform plan would lack a parliamentary majority.

As a consequence, the government had to make substantial concessions to the Social Democratic left-wingers and to the trade unions, which used their influence within the SPD parliamentary group as a bargaining chip vis-à-vis the government. Only after a number of their key demands had been fulfilled, did the unions give their consent. In response to these pressures the government once more changed its pension plans. First, the offset factor which was supposed to gradually reduce the standard pension level as of 2011 for newly granted pensions (while leaving current pensions untouched) was relinquished. Instead, unions pushed through an alternative indexation factor (affecting current and future pensioners alike), which will reduce the future pension level to a lesser extent than would have been the case with the offset factor. Unions' success in overthrowing the offset factor was facilitated by the fact that numerous other actors both within and outside the government (such as the Greens, the opposition parties, the main pension insurance institutions VDR and BfA, the VdK⁹⁸, employers' organizations, the churches, as well as the overwhelming majority of academic pension experts) also opposed the offset factor. They all were critical of the idea that the pension level should become dependent upon the point in time at which a person retires and thus entail benefit cuts for those retiring after 2011. This method would impose an undue burden on the younger generation and hence violate intergenerational equity. At a public hearing held in December 2000 the offset factor was met with almost unanimous criticism (Deutscher Bundestag 2000).

Second, unions achieved that collectively-agreed pension provision will take precedence over private provision (*Tarifvorbehalt*). This will give the unions a say in the area of fully-funded supplementary old-age provision⁹⁹. The unions were able to achieve these modifications by forging a strategic alliance with the left wing of the SPD. As Andrea Nahles (2001), a prominent representative of the left-wingers in the party, pointed out, this alliance gave the reform opponents a strong veto power: "For

⁹⁸ The VdK represents the interests of pensioners and disabled persons.

⁹⁹ Under the new regime workers are entitled to convert parts of their remuneration to an occupational pension (*Entgeltumwandlung*), as long as there is a corresponding provision by a collective agreement between the employer and the union (*Tarifvorbehalt*). In the first years, tax incentives for these occupational pension schemes will be much more favorable than for private pension plans. From 2002 onwards, 4% of the income limit for chargeable contributions by wage and salary earners (currently about 55 000 Euro per year) can be converted tax- and contribution-free (the exemption from payroll taxes, however, will only be possible until the end of 2008). By contrast, tax breaks and allowances in favour of private old-age provision will be phased in gradually and reach their full effect only from 2008 onwards. Moreover, contributions to these schemes will not be exempted from social insurance contributions (BMAS 2001). Thus, the majority of wage earners are likely to make use of the right to remuneration conversion, which again will promote the expansion of occupational pension schemes.

strategic reasons, the SPD leftists needed the trade unions and their backing in society as leverage. Conversely, trade unions would not have been able to exert such a large influence without the blocking power of the left-wing within the party's parliamentary group" (translation by M.S).

After the protracted conflicts between the government and the trade unions were settled, it was still unclear whether the pension bill would pass the *Bundesrat*, where the Social Democratic *Länder* lacked a clear majority. Therefore the government decided to split the reform package into two parts. One part, concerning the reform of the statutory pension insurance, did not require the approval by the second chamber. Apart from a significant last-minute modification¹⁰⁰, this part of the reform passed the legislative process largely unaltered.

The other part concerning the promotion of private provision and the new regulations for a means-tested basic security for disabled and elderly persons within the framework of social assistance, could only become a law if a majority in the *Bundesrat* would vote in favor of the bill. A number of contested issues still had to be solved in order to muster this majority. For instance, the financing of the pension reform was a highly controversial subject between the *Bund* and the *Länder*. Even the SPD-led *Länder* were concerned about huge expenditures associated with the administration of the private system and the introduction of the means-tested basic security and about overly strong tax shortfalls resulting from the promotion of private pensions. Hence, they pressed for a stronger financial engagement of the *Bund*.

Moreover, the SPD and the Greens did not have a majority in the *Bundesrat*. The government could not count on the support of the *Länder* governed by the Christian Democrats (or by a conservative-liberal coalition), who would most likely block the reform and who demanded higher subsidies for low-income earners, the withdrawing the cuts in widows' pensions and the including home ownership into the catalogue of products of old-age provision that were to profit from state subsidies. Against this background, the government depended on the additional support of at least two of the *Länder* where the SPD formed a government with either the CDU (Brandenburg,

¹⁰⁰ At the last minute, trade unions threatened to withdraw their support unless the reform was changed to commit the government to ensure that the standard pension level would not fall below 67% ("*Niveausicherungsklausel*"). Contrary to previous agreements with the trade unions the bill only stipulated 64% rather than 67%. In order to prevent SPD deputies associated with the trade unions from voting against the bill, this clause was changed through a separate amendment ("*Entschließungsantrag*").

Berlin, Bremen), the FDP (Rhineland-Palatinate) or the post-communist PDS (Mecklenburg - Western Pomerania). In the first round, the *Bundesrat* rejected the pension bill and commissioned the reconciliation committee (*Vermittlungsausschuß*) to hammer out a compromise.

After protracted negotiations the Schröder government finally achieved the approval by the *Bundesrat* in May 2001. This success was largely based on a deal between the federal government and the two *Bundesländer* Berlin and Brandenburg, both of which faced extraordinarily strong budgetary pressures. This deal envisioned that the new agency for the administration of the state subsidies to private old-age provision would be placed in Berlin and Brandenburg, which will create about 1000 new jobs for a region suffering from very high unemployment. As a further concession to the Christian Democrats, the government also agreed to moderate the envisaged curtailments of widows' pensions, although this reform element did not actually require the approval by the *Bundesrat*. Furthermore, the social-liberal coalition in Rhineland-Palatinate approved the compromise, after the government had included home ownership into the catalogue of products of old-age provision to be subsidized. Finally, the government also offered increased financial compensations to the *Länder*.

The final pension legislation adopted in 2001 deviates strongly from the original reform concept in almost every respect:

First, the volume of curtailments will be considerably lower than initially envisaged. Cuts in widows' pension will be far less severe, and the standard pension level will not fall below 67%¹⁰¹, whereas the offset factor – in its first version – would have led to a standard pension level of 54% in 2050. Nevertheless, the overall effects of this reform on future contribution rates will be at least as strong as those of the suspended 'demographic factor' introduced by the Kohl government¹⁰². Moreover, two thirds of these cutbacks will become effective before 2005 (Hain and Tautz 2001), a finding which is at odds with the idea that pension reforms are likely to be designed in

¹⁰¹ This 67% correspond, however, to 64% according to the previous pension formulae due to a changed definition of the net wage. The "modified net adjustment formula" ensures that changes in income taxes, child benefits and contribution rates to unemployment insurance will no longer affect the pension level. Henceforth, only contributions to the statutory pension insurance and (notional) contributions to private old-age provision will be taken into account. As the latter will increase to 4%, the calculated net wage will be correspondingly lower (Fehr and Jess 2001).

¹⁰² According to a simulation study by Fehr/Jess the necessary contribution rate would – in the medium and long-term - have been more than one percentage point higher if the demographic factor was

a way that the bulk of savings will only accrue in the remote future and leave current pensioners – or, like in Italy, even the majority of current wage earners - largely untouched.

Second, the fully-funded pension pillar will be voluntary, not mandatory. Moreover, in contrast to the original concept the public promotion of private old-age provision will not be confined to relatively modest subsidies for low-wage earners but include either subsidies or tax incentives for all wage earners at a very generous level. In addition, the current reform offers strong incentives to strengthen occupational pensions on the basis of collective agreements, whereas the initial plan focused exclusively on private old-age provision.

Third, there will be no minimum needs-based standard of benefit for the elderly within the statutory pension insurance. The final law only states that needy pensioners no longer have to rely on alimonies from their children before they can claim social assistance.

Characteristic features of German pension politics and their relevance for reform outcomes

A number of facts are puzzling about the German reform process. Most importantly, it is noteworthy that the reform aspirations of the red-green Schröder government were clearly more far reaching than those of the bourgeois Kohl government. Not only did the Schröder government envisage much more incisive pension cuts than its predecessor. It also pursued forcefully the partial privatization of the German pension system, whereas the 1999 pension reform was only a reform *within* the existing public system. In that sense the pension reform agenda put forward by the Social Democratic government can be said to have a much stronger neo-liberal imprint than is true for the reform attempts by the previous Christian-liberal coalition. As Hering (2002:46) correctly points out, the German case is symptomatic for the phenomenon that it is increasingly difficult to derive the policy preferences of governments from their membership in a particular party family. This is especially true for governments led by Social Democratic and Christian Democratic parties, both of which must incorporate relatively heterogeneous social policy interests. Under these conditions the

retained (Fehr and Jess 2001). Following a study by Hain and Tautz (2001), the corresponding difference would be smaller and oscillate between 0 and 0.5 percentage points between 2010 and 2030.

preferred policy outcome will not primarily depend on the general ideological orientation of the government parties as such, but more specifically on the ideas and interests of the crucial pension policy-makers within the government, most notably the Labor and the Finance Minister and the government leader. Under the Kohl government pension policy was strongly shaped by a Labor Minister from the traditionalist camp, who favored incremental and modest reforms within the public system, an approach that was by and large also supported by chancellor Kohl himself. By contrast, the terms of pension policy under the red-green government were – at least in the beginning - largely formulated by Walter Riester, whose approach was a rather pragmatic one and whose primary objective were stable contribution rates. Moreover, after the leftist Finance Minister Oskar Lafontaine had resigned, Riester's retrenchment efforts were not only backed by chancellor Schröder, but also by the new Finance Minister Hans Eichel, whose primary aspiration was to balance the public budget.

However, although the Social Democratic 'reformer' Walter Riester had much more ambitious reform goals than his 'traditionalist' Christian Democratic predecessor Norbert Blüm, the 2001 pension reform was only slightly more effective with respect to the goal of stabilizing contributions than Blüm's demographic factor. In the case of the 1999 pension reform, the market-liberal forces within the bourgeois Kohl government could not enforce a more radical reform against the resistance of Labor Minister Blüm, who had a strong influence on the formulation of the government's pension policy proposals and who could effectively veto overly ambitious retrenchment efforts. By contrast, Riester was forced to water down his far reaching retrenchment plans in the face of massive resistance by left-wingers and trade unionists within his own party, who could exercise their parliamentary veto power. In other words, Blüm was not only the crucial agenda setter in the reform process, but also - in contrast to Riester – an outspoken defender of the existing pension system and thus of the status-quo, a position in which he had a powerful strategic advantage vis-à-vis his intra-governmental opponents.

While Riester largely missed his target to stabilize contribution rates in the long term, he was more successful in accomplishing the goal of establishing a private and fully-funded pension pillar. The Schröder government's move towards a partial privatization of the pension system was at least partly driven by an electoral dilemma of its

own making. While facing the necessity of dampening the growth of pension expenditures the Schröder government was also bound to its election promise of replacing the 'unsocial' demographic factor with a reform approach more palatable to wage earners and pensioners. Quite obviously, only replacing the demographic factor by an alternative indexation factor with a similar or even stronger impact on benefit levels would hardly have sufficed to convey the image of a truly innovative and at the same time more equitable reform concept.

Against this background, the creation of a private pillar of old-age provision pointed the only way out of this dilemma. First, this approach would not only reduce the increase in social insurance contributions but (if successful) also help to secure the living standard for future pensioners.

Second, by generously promoting private retirement savings the government could greatly enhance citizens' willingness to devote a higher share of their income to old-age provision, in particular as low-income earners with many children will profit disproportionately from state subsidies. In contrast to benefit cutbacks as well as in contrast to mandating private old-age provision the promotion of private and occupational pensions through generous allowances and tax incentives is an opportunity for credit claiming. Public promotion of private old-age provision can be framed as a benefit for rather than an additional burden on wage earners. This finding is clearly confirmed by recent German opinion polls. Only a small number of German citizens (between 14 and 27% depending on the specific design of the opinion survey) would favor a mandatory solution, whereas a clear majority (between 60 and 78%) is against it. However, 59% support the idea that contributions to private old-age provision should be tax-free, whereas only 28% disagree (FORSA 1996; FORSA 1999b; FORSA 2000a). This suggests that the political costs of a voluntary solution are considerably lower than those of mandatory solution.

Third, the promotion of private pension plans offered the opportunity to switch to a less generous indexation mechanism without a lowering of the formal replacement rate. As (voluntary) contributions to private old-age provision will henceforth be taken into account for the calculation of net wages and by this of the yearly pensions adjustments, the formal standard pension will remain at an optically higher level than with the demographic factor. This, the government hoped, would appease pensioners.

Finally, the large-scale subsidization of private and occupational pensions was motivated by the government's desperate effort to obtain the consent of the parliamentary opposition and, after this had failed, of the trade unions. As noted above, the Christian Democratic opposition had pressed for a massive expansion of financial incentives to private old-age provision. In an attempt to pave the way for a pension consensus with the CDU/CSU, Schröder decided to meet this demand. The decision to spend up to 10 billion Euro for the subsidization of supplementary old-age provision was maintained, although the Christian Democrats continued to refuse to cooperate. After it had recognized that the Christian Democratic opposition would oppose the pension reform anyway, the government intensified its efforts to bring at least the trade unions on board. To that end, it changed the reform concept in line with unions' demands. In particular, it took steps to strengthen occupational pensions within the framework of collective agreements between the social partners.

This brings us to a further puzzle concerning the German case. In recent years trade unions have fundamentally altered their attitude concerning the role of collectively-agreed retirement provision in the German pension edifice. Occupational pensions traditionally played only a marginal role for employees in the private sector and were in most branches provided as a voluntary fringe benefit by the employers and thus not regulated through collective agreements between the social partners. German trade unions used to consider old-age provision first and foremost as a function to be performed by the statutory pension insurance. Occupational pensions were primarily regarded as a possible supplement rather than as a substitute for the state pillar. Meanwhile, however, German trade unions have come to accept that occupational pensions based on collective agreements must be created in order to compensate for the cuts in the public pension tier:

First, German unions became increasingly aware of the fact that they would not be able to prevent a decline of benefit levels within the public pension tier in the long run, all the more as they lack the powerful mobilizing capacity of their French and Italian counterparts. Against this background, they considered the expansion of occupational pensions through collective agreements as a necessary step to compensate for the eroding income replacement function of the public pillar. As opposed to an expansion of private forms of old-age provision, collective solutions would achieve a broader coverage among low-income earners and comprise solidaristic elements of

redistribution between occupational groups with different risk profiles. Moreover, only collective solutions create the opportunity that the symbolically important principle of parity financing between employers and employees can be retained.

Secondly, German trade unions recognized that the regulation of occupational pension within the framework of collective agreements would also lie in their organizational self-interest. As German enterprises have become increasingly reluctant to accept wage settlements established by collective agreements in recent years, German unions see their institutional role as bargaining partner at the industry level seriously threatened. Hence, trade unions saw the shift of occupational retirement provision into the collective bargaining arena also as a strategy to reinvigorate the dwindling impact of collective agreements in the German system of industrial relations. For this reason, it was mainly the collective bargaining experts in trade union organizations which supported the new approach. By contrast, social policy experts within the German trade unions were more skeptical of an expansion of occupational pensions at the expense of the statutory pension insurance. In particular they feared a financial erosion of the social insurance system since contributions to occupational pension schemes would be partly exempted from social contributions. However, even within the powerful metalworkers' union *IG Metall*, where the social policy department traditionally holds a strong position, the collective bargaining experts gained the upper hand, after the Schröder government had offered very attractive tax incentives for occupational pension plans. Moreover, the trade unions in the chemical branch (*IG BCE*) and in the public sector (*ÖTV*) had negotiated industry-wide supplementary pensions at an earlier stage and therefore strongly supported the governmental plans to forcefully promote occupational pensions (Hering 2002).

The generous promotion of occupational pension plans prompted the unions to accept a significant reduction of the public pension level, a reduction which they had opposed in connection with the 1999 pension reform. We can interpret the growing interest of both governmental pension policy makers and trade unions in collectively negotiated pension arrangements as the result of a learning process in which both sides detected a potential – but so far largely overlooked – win-win solution to the pension problem in Germany.

While Germany has started to rapidly expand the private/occupational pillar of its pension system, the basic features of the main scheme, the statutory pension insur-

ance, has been remarkably resilient. Unlike in Sweden and Italy, Germany did not introduce a completely new public pension system, but only adopted minor reforms *within* the public system. Any attempts to establish a means-tested minimum pension within this system were blocked. The same is true for efforts to radically scale down the standard pension level or replacing the contributory system by a tax-financed basic pension. The pension formula is still strictly based on lifetime earnings. Even the attempt to introduce a differentiation of the benefit level between existing pensions (*Bestandsrentner*) and newly granted pensions (*Zugangsrentner*) through an offset factor, as applied in Italy and Sweden, failed. Moreover, the statutory pension insurance continues to be predominantly catered to blue- and white-collar employees, with self-employed and civil servants still covered by separate schemes with entirely different benefit regulations. For instance, civil servants' pensions in Germany will remain based on the last salary, whereas in Italy and Austria they will be gradually aligned to the general scheme in Italy and Austria¹⁰³. In sum, the key features of Germany's public pension system remained extraordinarily stable. This remarkable institutional resilience results from the interplay of different factors:

First, the link between earnings and contributions was already very close in the German system. In contrast to the other countries under study, the principle of lifetime earnings had been established from the outset. As a consequence, Germany lacked the need to change two central parameters of the pension formula, i.e. the reference salary and the period of assessed contributions. By the same token, however, these parameters could not be altered in order to achieve savings (Anderson and Meyer 2002). German pension policy-makers had to rely on changes of the accrual factor in order to achieve substantial savings. This again will inevitably boil down to an across the board reduction of the benefit level for all pensioners. The political problem is that this sort of retrenchment is likely to be less acceptable than the more targeted and selective cutbacks resulting from changes such as an increase in the number of 'best years'. The latter approach was frequently applied in other Bismarckian countries and could be more easily legitimized on the ground that this would enhance the distributive equity within the system (Myles and Quadagno 1997).

¹⁰³ By and large, however, the measures adopted within the statutory pension insurance were - often with some time lag - also applied to the civil servants' scheme (Battis 1998; Färber 1998).

Second, the number of partisan and institutional veto players in the German political system is relatively high. Typically, Germany is ruled by multi-party governments with relatively weak parliamentary majorities. To that extent that pension reforms entail legislative changes that affect the fiscal interests of the *Länder*, governments depend on the approval by the *Bundesrat*, which again may be dominated by the parliamentary opposition. Moreover, a powerful constitutional court watches over the compliance with constitutional rules, which also implies that changes in pension legislation must not violate the property rights associated with contributory pension entitlements. Similarly, a reform of civil servants pensions towards the principle of lifetime earnings would require a change of the constitution, which again would necessitate a two-third majority in both the *Bundestag* and the *Bundesrat*. Due to these multiple veto points, the defenders of the existing pension system are in a strategically advantageous position.

A further stabilizing factor is the deep ideological entrenchment of the equivalence principle in the 'cognitive maps' of German pension policy-makers. One of the strongest proponents of this principle is the pension funds' peak association VDR, which not only incorporates the interests of the social partners but also continues to play a dominant role as one of the main think tanks in German pension policy. On several occasions, the VDR could exert a powerful influence on the preference formation of pension policy-makers and by this also defend the traditional core principles of the statutory pension insurance.

Moreover, the political price that German governments have to pay for unpopular and unilaterally imposed measures in pension policy is perhaps higher than in most other countries. In Germany two traditional welfare state defenders, the Social Democrats and the Christian Democrats, are the key competitors in the electoral arena (Kitschelt 2001). In addition, frequent elections at the *Länder* level with a potentially powerful impact on the majorities in the *Bundesrat*, amplifies the political risks of pension retrenchment.

Finally, the strong alignment of party competition towards two powerful welfare state parties (*Sozialstaatsparteien*) makes it more difficult even for a left government to maintain the acquiescence of trade unions to their reform policies. Union members and executives may expect that an alternative bourgeois government does not necessarily pursue a more market-liberal social policy than a Social Democratic govern-

ment. Hence, they may punish liberal reforms launched by a left-wing government with political defection (Kitschelt 2002).

To some extent, concertational strategies may overcome the political barriers to a major reform of the pension system. As the 1992 Pension Reform Act has shown, both the partisan and the corporatist arena constitute a potential basis for a broad consensus on pension reform. However, the German case also illustrates that the political conditions for negotiated adjustment in pension policy may change considerably over time. Thus, it appears that in Germany situational rather than structural factors explain the success or the failure of concertational strategies in pension policy. It remains to be seen whether Germany will be able to resume the tradition of a broad political consensus in pension policy.

Table 6.3: The German pension reform 2001 - the major stages of the reform process

	Draft by the BMAS ¹⁰⁴ / Cabinet decision	Draft by the coalitional working group (" <i>Eckpunkte-papier</i> ")	Concept paper by the coalitional working group	Concept paper by the coalitional working group	Legislative draft	Changes in response to public hearings in the <i>Bundestag</i>	Further changes in the final legislative acts
Date	17 th June 1999/ 23 rd June 1999	15 th January 2000	30 th May 2000	18 th July 2000	14 th November 2000	11 th -13 th December 2000/ 19 th January 2001	26 th January 2001 11 th May 2001
Indexation	Net wage indexation replaced by consumer price inflation in 2000 and 2001				Return to net wage indexation in 2001		
Pension formulae	-	-	Compensation factor I: Level of newly granted pensions will be gradually lowered from 70 to 54% (until 2050). Modified net wage indexation for current pensions	Compensation factor II: Level of pensions granted from 2011 onwards will be gradually reduced to 64% ¹⁰⁵ until 2030. Modified net wage indexation for current pensions.	Compensation factor replaced by more modest cuts affecting both current and newly granted pensions.	<i>"Niveausicherungsklausel"</i> Pension level not allowed to fall below 67% of net wages	
Fully-funded old-age provision	Private mandatory old-age provision (2.5% of gross wage)	Voluntary. State subsidies for low-wage earners (2.5% of gross wage).	Voluntary. State subsidies for low-and middle-wage earners (4% of gross wage).	Voluntary. State subsidies or tax reliefs for all wage earners (4% of gross wage). Special supplements for families with children Entitlement to convert 4% of gross wage into an occupational pension	Tax-free allowance for private/occupational pensions stipulated at 4% of contribution ceiling Promotion of home ownership Introduction of pension funds		
Minimum protection	Tax-financed means-tested minimum protection within the GRV ¹⁰⁶		Eased eligibility criteria for pensioners claiming social assistance				
Old-age provision for women	<i>"Optionsmodell"</i>	Limited <i>"Optionsmodell"</i>	Cuts in widows' pensions with child-related supplements (later amended by the option to split entitlements between spouses)		Cuts in widow pensions softened Pension splitting confined to persons with at least 25 contribution years	Cuts in widow pensions further softened	

Source: Compilation by the author based on Dünn and Fasshauer (2001)

¹⁰⁴ Ministry of Labor and Social Order

¹⁰⁵ Corresponding to 61% according to the old formulae

¹⁰⁶ Statutory pension insurance

Austria: Reform blockage by the trade unions

The key features of the Austrian pension system in the late 1980s

The Austrian old-age pension system closely resembles the German system although the equivalence principle is weakened by a number of strong redistributive elements. Like in Germany, there are two major pension schemes for blue- and white-collar workers, which are institutionally distinct but identical in their material provisions. Self-employed in trade and commerce as well as farmers are compulsorily covered in separate schemes.

Pension regulations for civil servants differ from those of private and public employees; the latter are covered by the general schemes for dependent workers. Like in Germany, civil servants draw their pensions under a separate and completely tax-financed scheme. The calculation base is 80% of the last gross monthly salary, reached after 35 years' service.

All gainfully employed (except civil servants) are compulsorily insured under the general schemes granting old age, survivor and invalidity benefits. Entitlement to old age pensions requires at least 15 years of contributions. In addition, entitlement to benefits is conditional on payment of 12 monthly contributions within the last 36 months. Persons satisfying the contribution requirements are entitled to draw regular old age pensions from the age of 65 (men) or 60 (women). Unemployment pensions may be paid to unemployed persons from the age of 60 (men) or 55 (women), on condition that they have been in receipt of unemployment benefits for the preceding 52 weeks. Early retirement pensions are payable from the age of 60 (men) or 55 (women). The necessary insurance period is 35 years, and the insured must have paid 24 monthly contributions within the last 36 months. Pension payments are based on average gross earnings over the last five years. The full pension at standard retirement age corresponds to 79.5 per cent of assessed earnings after 45 years of contribution. The accrual factor corresponds to 1.9 per cent per year for the first 30 insurance years, and 1.5 per cent for the following insurance years. If the old age pension is below 50% of the calculation base, social insurance administration may decide to pay additional benefits up to a maximum of 10% of the calculation base. If the old age pen-

sion (together with income from other sources) is below a legally fixed minimum, the difference is paid in form of supplementary benefits (*Ausgleichszulage*).

Pension schemes operate on a pay-as-you-go basis and are financed by earnings-related contributions (insured persons 10.25% of gross earnings, employers 12.45% of payroll up to a certain ceiling). The government covers any deficits as well as the costs of the income-tested allowance.

The pension schemes are run by pension insurance institutes through a central office and provincial offices. These offices have a board consisting of two delegates from the insured employees and two from employers, and one institute staff member. Case decisions are taken unanimously or, where no agreement is reached, by the administration (Weigel and Amann 1987).

Austria's pension reform record in the 1990s

Austria has thus far made comparatively limited progress in pension reform. The series of incremental reforms implemented since 1985 had a significant impact on public pension spending and will also dampen the future increase of pension costs. Nevertheless, without further reform outlays for public pensions, which are among the highest OECD countries, are likely to rise substantially in the medium and long-term (see table 2.2). Projections by the Economic Policy Committee (2001:22) indicate that public pension expenditures in Austria – despite their very high starting level – are likely to increase more strongly (about 4.2% of GDP from 2000 until the peak year) than is true for the average of EU countries (3.2%)¹⁰⁷. In contrast to Italy and Sweden, Austria has not transformed its statutory pension insurance into a (notional) defined-contribution scheme. It extended the “number of best years” marginally up to 18 years in the general scheme, but did not establish the principle of life-time earnings in the calculation of public pensions. What is more, many changes, such as the higher retirement age for women, will be phased in extremely gradually. Moreover, fully-funded pension plans remain still massively underdeveloped by international standards. Quite remarkably, however, Austria has managed to extensively harmonize the benefit levels between the general scheme and the scheme for civil servants

¹⁰⁷ While Tálós and Wörster (1998) correctly argue that the process of pension retrenchment has gained momentum since the mid 1990s due to tighter fiscal constraints, most authors diagnose only modest pension cuts in Austria if contrasted with pension reforms in other countries (Alber 1998; Mantel 2001).

by altering the calculation basis for the latter from last salary towards the 18 best salary years (Tálos and Wörister 1998; Lißner and Wöss 1999; Prinz and Marin 1999).

Pension policy until the early 1990s

Since the mid 1980s Austrian pension policy-makers have adopted a number of reforms that sought to address the financial problems of the public pension system primarily (but not exclusively) through expenditure cuts, albeit these cuts were accompanied by a number of selective expansionary measures, such as improved credits for child rearing. As a consequence, the rapid increase of pension costs and contribution rates was largely brought to a halt after 1985. Moreover, between 1987 and 1994 the level of state subsidies to the public pension insurance could be stabilized between 44 and 48 billion Austrian Schilling (Tálos and Wörister 1998).

Nevertheless, the pension reforms adopted in the second half of the 1980s and in the early 1990s entailed only very incremental changes at the margins of the public pension system. As budgetary pressures remained comparatively modest until the early 1990s, these half-hearted measures were sufficient to stabilize the pension system in the short term. However, they did not solve the long-term challenges to the Austrian pension system, in particular with regard to demographic developments. Most importantly, only marginal steps were taken to increase the actual retirement age, which still is very low by international standards. Even the 1993 pension reform, explicitly designed to tackle the problems resulting from demographic ageing, comprised only a few significant adjustments, such as a change of indexation from gross to net wages, which soon proved to be insufficient.

By and large, these adjustments were adopted without overly serious conflicts. Both the government parties and the social partners generally agreed to the goal of fiscal consolidation. Dissension only revolved around the most appropriate strategy to accomplish this goal. While both government parties¹⁰⁸ (in particular the ÖVP) as well as the employer organizations advocated expenditure-related consolidation measures, Austria's trade union confederation ÖGB pleaded for an additional strengthening of the revenue side (Tálos and Kittel 1999). In line with the Austrian tradition of social partnership ("*Sozialpartnerschaft*") these conflicts were solved through intense

¹⁰⁸ Between 1987 and 2000 Austria was ruled by a 'grand coalition' between the Socialist SPÖ and the bourgeois Austrian People's Party (ÖVP).

and compromise-oriented negotiations between the ruling parties and the social partners. As a rule, the social partners initiated and negotiated proposals for pension reform before they were submitted to Parliament by the Social Ministry. Institutionally, the model of social partnership is reflected in the privileged participation of the social partners' peak associations in the formulation and implementation of social and economic policy¹⁰⁹. This corporatist framework also includes the so-called chambers, statutory bodies with compulsory membership: The Federal Economic Chamber (WKÖ), representing Austria's independent entrepreneurs, the Chamber of Labor (BAK), which represents the interests of employees, and the Chamber of Agriculture (LWK) representing the country's farmers. While the ÖGB and the BAK are traditionally linked to the Socialist party, the WKÖ and the LWK have tight links to the Austrian People's Party ÖVP (Linnerooth-Bayer 2001; Pernicka 2001a). In many cases there are multiple office-holdings, i.e. one and the same person performs key functions in both a political party and an employee or employer interest association. For instance, in the early 1990s still more than one third of SPÖ deputies were trade union functionaries (see table 7.1). Until recently social partnership constituted an informal veto point in the Austrian political system because no major decision in economic and social policy has been taken against one of the social partners (Obinger 2001). In this constellation trade unions were able to exert massive influence also on the formulation of pension policy (Tálos and Kittel 1999; Linnerooth-Bayer 2001; Tálos and Kittel 2001). As a consequence, only marginal adjustments were made to the Austrian pension system until the early 1990s. However, the very incremental nature of Austrian pension reforms until the early 1990s was also facilitated by the fact that the fiscal situation did not necessitate drastic savings measures at the time.

The failed "Sparpaket" of 1995

This situation changed rapidly in the first half of the 1990s. After 1992 the budget deficit increased from 2 to 5% of GDP within two years only (OECD 2001). This development coincided with Austria's aspiration to join the EMU, which necessitated a quick and substantial reduction of the public deficit. At the same time, employment in the business sector deteriorated rapidly. Against this background, an increase of

¹⁰⁹ For instance, until recently the Ministry of Social Affairs was de facto under the control of the Austrian trade union confederation ÖGB (Obinger 2001).

pension contribution rates would have further aggravated the problematic situation on the labor market.

Hence, in the mid 1990s Austria was forced to adopt a very tight fiscal policy, which would also necessitate significant cuts in the pension system. Against this background, the government in 1994 single-handedly proposed a package of budgetary emergency steps without prior consultation of the social partners. This procedure clearly deviated from the traditional pattern of corporatist concertation, because the social partners were now asked to negotiate a consensus on a reform that they had not initiated (Linnerooth-Bayer 2001). The originally proposed savings package, largely worked out by the Finance Minister, envisioned a multitude of spending cuts in virtually all governmental departments and in most items of the social policy budget. With respect to pensions, the governmental program included among others the introduction of actuarial reductions in the case of early retirement (Sebald 1998).

Table 7.1: Share of trade union functionaries in the Austrian parliament

	SPÖ		ÖVP		FPÖ		Plenum	
	abs.	%	abs.	%	abs.	%	abs.	%
1987	33	41.3	13	16.9	-	-	46	25.1
1991	30	37.5	7	11.7	1	3.0	38	21.0
1998	19	26.8	1	1.9	2	4.8	22	12.2
2000	12	18.5	1	1.9	1	1.9	14	7.3

Source: Tálos and Kittel 2001:73

The consolidation package was met with fierce criticism, in particular by the trade unions. Both the ÖGB and the BAK argued that the package would impose a one-sided burden on wage earners and criticized the overly strong emphasis on expenditure-related consolidation measures. Instead they called for measures that would strengthen state revenues. Moreover, the trade unions fiercely criticized the fact that the savings package was only discussed at the party level without involvement of the social partners. The tensions between the SPÖ and the ÖGB reached a peak, when

the leader of the Metal Workers Union and of the *Fraktion Sozialdemokratischer Gewerkschafter* left under protest the SPÖ bargaining committee. At the same time, the Socialist Federal chancellor Vranitzky made clear that he was willing to implement the consolidation program also against trade unions' resistance if necessary (Sebald 1998).

The parliamentary opposition, too, attacked the proposed savings measures fiercely. The Austrian Freedom Party FPÖ, a populist right-wing party, spearheaded this criticism. After 1986 this party had improved its electoral position dramatically at the expense of both the SPÖ and the ÖVP. In the 1994 election, the FPÖ already achieved 22.5% of votes. The electoral success of the Freedom party can at least partly attributed to the unrestrained populism of its charismatic leader Jörg Haider, a populism that was exclusively motivated by the goal to maximize votes rather than by a coherent programmatic profile. Hence, the FPÖ, while located at the right end of the political spectrum, also sought to exploit the issue of pension cuts in the electoral arena. For instance, Haider denounced the 1995 savings package as "unsocial" and "irresponsible" (Sebald 1998:13). By the same token, he fuelled widespread public dissatisfaction with the government's decision to increase pensions only modestly in 1995 (Neue Züricher Zeitung, 10th November 1994). Thus, the "grand coalition" government between the socialist SPÖ and the bourgeois ÖVP was confronted with a powerful and protest-oriented opposition party, a constellation which tended to amplify the electoral costs associated with unpopular welfare reforms.

After protracted conflicts, in particular between the SPÖ and the ÖGB, the government finally caved in and made numerous concessions to the trade unions. As Sebald (1998:101) points out, the SPÖ eventually proved unable to withstand persistent political pressures from the trade unions especially after trade unionists in parliament had threatened to vote against the bill. Given the numerical strength of trade unionists in the Austrian parliament, in particular within the SPÖ parliamentary group (see table 7.1), unions' threat potential was extraordinarily strong. In order to obtain unions' consent the government watered down the austerity package substantially. Among other things, it withdrew the planned reductions for early retirement pensions. While the initial savings plan sought to achieve the envisaged budgetary savings almost exclusively through expenditure cuts, the revised package, adopted in the spring of 1995, achieved almost 60% of the envisaged savings volume through reve-

nue-sided measures. Moreover, the overall savings volume turned out to be considerably lower than originally planned by the government. Initially, about 250 billion Schillings were supposed to be saved by 1998. A few months later, the government only expected to be able to save between 50 and 60 billions (Sebald 1998).

The successful “Sparpaket” of 1996

The 1995 savings package had proven to be largely ineffective with respect to the goal of fiscal consolidation. In 1995 the public deficit reached a peak of 5.2% of GDP (OECD 2001). Moreover, official forecasts by the government indicated that the budget deficit would reach about 8 per cent of GDP in 1997 without further fiscal action (OECD 1996). Thus, only a few months after the adoption of the previous savings package in spring 1995 the government reinvigorated its efforts to improve the dire budgetary outlook.

This time, however, the government embarked on a concertational strategy vis-à-vis the social partners. At a very early stage the social partners were asked to participate in the formulation of savings measures. In doing so, the government sought to avoid another clash with the trade unions, which had seriously disturbed the traditionally strong ties between the SPÖ and the ÖGB and eventually led to the failure of the previous *Sparpaket*. Now, the social partners themselves were asked to put forward proposals for a primarily expenditure-related reduction of the public deficit (Sebald 1998).

After protracted negotiations the social partners achieved a compromise and presented a joint report, which contained a catalogue of budgetary proposals. With respect to pensions the ÖGB was initially able to avert a number of benefit cuts proposed by the WKÖ, such as an increase of the legal retirement age or actuarial deductions for beneficiaries of early retirement pensions. In return, the ÖGB abandoned its demands for the introduction of a solidarity tax and an increase of capital taxes. Instead the social partners agreed on a number of measures aimed at improving incentives for people to work longer. However, these proposals were very vaguely formulated and underachieved the government's savings targets.

This again provoked serious conflicts within the government. The ÖVP pressed for a more severe and strictly expenditure-related consolidation policy. In the area of pen-

sions the ÖVP called for a number of incisive benefit cuts, such as an increase in the early retirement age by two years in combination with an increase in the number of minimum contribution years from 35 to 37.5. In addition, actuarial deductions should be introduced for all early retirement pensions. Given the dire situation on the labor market the SPÖ fiercely rejected these proposals and instead advocated a reduction of the federal grant to the pension schemes for farmers and self-employed, which would have resulted in a drastic increase of pension contributions for those groups. Thus, each of the parties pressed for savings, which would primarily affect the clientele of the coalition partner. Despite minor concessions from both sides the budgetary negotiations eventually failed – in particular due to the conflicts over pension policy – and led to early elections in December 1995. A case can be made that intense political competition between the two parties had hampered a policy-oriented bargaining process. “Caught” in an unloved “grand coalition” government, both the SPÖ and the ÖVP had to suffer severe losses of votes to the populist Freedom Party FPÖ after 1986. As a consequence, both parties had an overwhelming interest in strengthening their electoral standing. Each party therefore sought to sharpen its policy profile at the expense of the coalition partner by pursuing clientelistic interest politics rather than searching for solutions acceptable to both sides.

The consolidation of the public budget also became the major theme in the election campaign. The SPÖ primarily sought to present itself as the key defender of Austria’s welfare system and mobilized against proposals to cut pensions, which was one of the most sensitive issues of the election. Apparently this strategy proved to be very successful as the SPÖ was the clear winner of the election and increased its vote share from 34.9 to 38.1%. In particular, the Socialists managed to mobilize previous non-voters and to claw back a sizeable share of voters which it previously had lost to the Freedom Party (Sully 1996).

After the election the negotiations were reassumed. However, the ÖVP made clear that it would only form a new government with the SPÖ, if both parties agreed beforehand on a budget bill for the years 1996 and 1997. This agreement should specify the overall volume of budgetary consolidation and focus on measures that first and foremost address the expenditure-side of the budget. With respect to the former aspect an agreement was achieved relatively easily. Moreover, the SPÖ hesitatingly approached the ÖVP and signaled its readiness to concentrate the budgetary meas-

ures on the expenditure side. In February 1996 both parties compromised on a four-year consolidation program of about 100 billion Austrian Schilling (for the Federal government), of which only one third was to be achieved through increased revenues. This program was concerted with the social partners and further elaborated in the draft budgets for 1996 and 1997 (OECD 1996; Sebald 1998).

In the area of pensions the negotiations proved to be particularly difficult. After a protracted bargaining process ÖVP and SPÖ achieved a certain rapprochement of their policy positions. The ÖVP accepted the retention of the early retirement age, whereas the SPÖ agreed on tighter eligibility criteria for early retirement. Moreover, against the fierce resistance of the ÖVP, the SPÖ asserted itself with a reduction of the federal grant to the pension schemes for farmers and self-employed. In addition, the consolidation program envisaged a number of other measures, most of which were explicitly aimed at increasing the actual retirement age. For instance, the degressive design of the accrual rate (i.e. the percentage of assessed earnings paid for each year of contribution), granting a higher value to the first 30 insurance years than to the subsequent insurance years, was moderated. Henceforth, the first 30 insurance years would be credited at 1.83% (instead of 1.9%), the subsequent insurance years at 1.675% (instead of 1.5%). This change was supposed to enhance incentives to stay longer in work. In addition, pension entitlements were reduced for persons claiming more than one pension or having additional income from employment. Moreover, years in education would no longer be automatically counted as insurance years.

Even after the presentation of the consolidation program different policy positions persisted with respect to the number of insurance years necessary for eligibility to early retirement. The ÖVP could achieve that the number of minimum contribution years would be raised from 35 to 37.5. In return, it had to accept that this measure would only become fully effective from 2001 onwards. Together with the proposals put forward in the consolidation program this measure was incorporated in a draft by the Social Ministry. By and large, both social partners accepted the measures set out in the ministerial draft. Although they were not directly involved in the negotiations, they were constantly informed and consulted by their respective allies in the partisan arena.

Severe criticism was only raised by organizations representing the interests of women. They claimed that the new pension insurance regulations would primarily affect women, who typically have less insurance years than men and who therefore stood to lose disproportionately by the envisaged increase in the number of minimum contribution years. However, their objections were not taken into account. In sum, the pension policy proposals were adopted largely unaltered by the government parties in the Austrian Parliament (OECD 1996; Sebald 1998; Lißner and Wöss 1999)¹¹⁰. Among the parliamentary opposition parties it was again the right-wing FPÖ, which voiced the harshest criticism against the savings package.

The volume of curtailments in the area of pensions (as well as in the realm of social security as a whole) that was finally achieved by the 1996 austerity package clearly went beyond the savings measures proposed in the joint report of the Austrian social partners a few months earlier. By the same token, the volume of savings was much larger than in the 1995 austerity package. In the area of pensions, the overall consolidation effect resulting from the 1996 *Sparpaket* amounted to 0.6% of GDP by 2000 (see table 7.2). With respect to the scope and composition of the savings measures, the ÖVP could largely assert itself against the SPÖ. However, the ÖVP proved unable to launch a more far reaching reform of the pension system including an increase in the age limit for early retirement.

The inclusion of the social partners in the reform process (at least at an informal level) helped to sustain the political acceptance and thereby the political feasibility of welfare retrenchment. This becomes particularly evident if we compare the two austerity packages launched in the mid 1990s with respect to the role of the trade unions in the process of policy formulation. In both cases the trade unions had the same fundamental interest in Austria to join the European Monetary Union. Moreover, in 1996 they had agreed on a consolidation package that was tougher than the governmental savings proposals which they still had fiercely opposed one and a half year earlier. As Scharpf (2000:121a) has pointed out, trade unions' opposition to the first attempt of unilateral retrenchment was not primarily driven by disagreement over the substance of government's policy proposals but by their institutional self-interest in maintaining their corporatist control over the economic and social-policy choices of

¹¹⁰ The final savings package also included a suspension of yearly pension adjustments for 1997. Civil servants' pensions were even frozen for two years (1996 and 1997). Moreover, civil servants' pensions are reduced for those retiring before 60 years of age by 2% per year - up to a maximum of 18%.

the government. Therefore, the government failed in its effort to impose an austerity package without concertation of the social partners. By contrast, in preparation of the 1996 austerity package the government asked the social partners to put forward own proposals for a drastic consolidation of the public budget. The measures proposed in the social partners' report were subsequently further specified and substantially extended at the government level. These amendments, however, were still made in permanent consultation with the social partners' associations. Throughout this process, the SPÖ leadership successfully mastered the delicate task of mediating between the interests of the ÖGB (and thereby large sections of its own party) on the one hand and the more far reaching policy positions of its conservative coalition partner on the other (Sebald 1998).

The watered-down pension reform of 1997

Only a few months after the commencement of the 1996 austerity package, the government announced a major overhaul of the pension system in order to secure the financial viability of the system in the medium and long-term. Moreover, it envisaged a greater harmonization of the different pension schemes. To that end, the government had commissioned the German pension expert Bert Rürup (1997) to put forward proposals for an overhaul of the Austrian pension system. The commissioning of an external and independent expert was probably motivated by the attempt to limit the influence of pension experts associated with the social partners already at the stage of problem definition. In doing so the government hoped to obtain a realistic picture of the pension system's weaknesses, which again would create a more favorable political climate for more incisive reforms¹¹¹.

The Rürup report presented worrying forecasts for the financial viability of Austria's pension system in the face of demographic ageing. If current benefits in the public pension insurance (excluding civil servants) were to remain the same until 2030, the 'mixed contribution rate'¹¹² would increase from 22.35% to 24.88% (in 2030), while the federal subsidy would increase from 2.59 to 6.06% of GDP. In response to the looming financial problems of the pension system the Rürup report presented a number of different reform options, which would significantly dampen the growth of public

¹¹¹ In the past, pension reforms were typically preceded by expert reports issued by the social partners (Tálos and Kittel 2001).

pension expenditures in the future. With an implementation of Rürup's proposals the 'implicit contribution rate'¹¹³ would only have increased from 30.21% in 1995 to about 35% in 2030 (rather than to 42.75% as forecasted in the status quo scenario). The cost containment effects should be primarily achieved through a strengthening of the actuarial fairness of the system and through the insertion of a demographic component in the calculation of the yearly pension adjustments. In addition, Rürup proposed to start with the increase in women's retirement age as early as 2005¹¹⁴ and to include all employed persons into the social insurance system (Rürup and Schröter 1997).

Initially, the government seemed willing to implement this reform concept without substantial modifications. In June 1997 it announced (without prior consultation of the social partners) a big pension reform, which should be adopted still in the same year (together with the 1998 budget) and which should largely follow the recommendations made in the Rürup report (Tálos and Kittel 1999). Although the government did not embrace Rürup's proposal to increase women's retirement age from 2005 onwards, it set out a number of other controversial measures, which were supposed to become gradually effective from 2000 onwards (EIRR 1997a):

- An increase in the reference salary from the best 15 to the best 20 years (until 2012)
- A reduction of the pension level for men (women) retiring before the age of 65 (60) with 2% per year
- A change in the reference salary for civil servants pensions from final salary to the last 15 years
- A new adjustment formula (reducing the value of state pensions by 2-3%)
- An extension of pension insurance coverage

Apart from the latter proposal the government's pension plan was fiercely opposed by the trade unions, in particular by the public sector union GÖD (*Gewerkschaft Öffentlicher Dienst*) representing civil servants' interests. Given their support to the vo-

¹¹² Weighted average of contribution rates across different pension schemes

¹¹³ Contribution rate required if there was no state subsidy

¹¹⁴ In 1992, the Austrian constitutional court declared the different retirement age for men and women unconstitutional. Shortly thereafter, the government adopted a constitutional law according to which the retirement ages for women will be aligned to those of men. However, this would only become effective between 2018 and 2034.

luminous *Sparpaket* adopted one year before, the unions were not inclined to accept that the government would push through further substantial pension cuts in a record time for the purpose of budgetary savings. As a consequence, a serious clash emerged between the government and the trade unions, which was also accompanied by union-led demonstrations against the governmental plans. Despite concessions by the government the negotiations with the social partners were extremely protracted and did not produce any result. In the process, a number of leading politicians mainly from the ÖVP called for a pension reform without the social partners. However, they proved unable to assert themselves within the government. Once again, the veto power of Austrian trade unions vis-à-vis an internally estranged SPÖ/ÖVP government became evident. Given their numerical weight in the SPÖ faction (see table 7.1) the trade unionists within parliament could credibly threaten to block the reform in the parliamentary vote. At a certain point, they even threatened to launch a vote of no confidence against the Socialist chancellor if the government refused to withdraw its reform plans. In a last-minute deal the social partners and the government agreed on a drastically watered-down version of the original reform plan. Thus, in the bargaining process Austrian trade unions were quite successful in defending the status-quo in pension policy. In November 1997 the pension reform was passed with the votes of the government parties (Tálos and Kittel 1999; Rürup 2000; Tálos and Kittel 2001).

In virtually every respect the government was forced to make far reaching concessions. Initially, the government had planned to increase the number of “best years” from 15 to 20, beginning in the year 2000 and to be fully implemented until 2012 (only for those taking early retirement). According to the final law, there will only be an increase to 18 years, to be phased in between 2003 and 2019. Moreover, it was stated that the individual benefit reduction must not exceed 7%. With respect to the actuarial benefit reduction for persons retiring prior to the regular retirement age a maximum ceiling of 10% was established, rather than 15% as originally envisaged. Finally, the plan to modify the adjustment formula by the introduction of a demographic factor (taking into account rising life expectancy) was postponed (Die Presse, 21st January 2000). The cost containment effects of the 1997 reform are further diminished by the fact that the new rules even entail a number of benefit expansions. For instance, credits for child rearing were improved. Moreover, the accrual factor

was harmonized at an even more generous level than before (2% instead of 1.75%). As a consequence, a full pension of 80% can henceforth be achieved after 40 rather than 45 years.

Despite this reform, pension expenditures for the general scheme were projected to rise from 10.4% of GDP in 2000 to 13.7% in 2030. In 2030, this will be only 0.5% (sic!) less than it would have been without the reform (see also table 7.2)¹¹⁵. As Rürup points out, this reform realized less than 20% of the cost containment effects (in the general pension insurance) than would have been possible if one of the policy options laid out in the Rürup report (and initially aspired by the government) had been adopted (Rürup 2000)¹¹⁶. Moreover, these calculations did not take into account the long-term financial effects resulting from the extension of the state pension scheme to the entire working population. While this measure strengthens the financial basis of the pension system in the short-term (through a broadening of the revenue basis), it also leads to new benefit entitlements and thereby to higher expenditures in the future. Therefore, it might be possible that the 1997 reform will make the Austrian pension insurance even more expensive in the long run (Marhold 1997:505).

It needs to be emphasized, however, that the 1997 pension reform achieved more far reaching adjustments with respect to civil servants' pensions. The calculation basis of civil servants' pensions will be altered from last salary to the salary of the 18 best years (like in the general pension insurance). This measure will be gradually introduced between 2003 and 2020 (initially this change should be phased-in more quickly). In the long term, this will lead to significant budgetary savings (Marhold 1997; EIRR 1998). It is expected that the 1997 reform will reduce expenditures on civil servants' pensions by 0.2 percent of GDP in the year 2030 as compared to the baseline scenario (see table 7.2). As Rürup (2000) points out, this element of the 1997 pension reform can be seen as an exemplary contribution to the harmonization of public pension schemes.

It soon turned out, that the 1997 reform would contribute very little to the containment of rising pension expenditures. More specifically, it did not seriously address the

¹¹⁵ It needs to be noted that the saving effects would amount to 1.5% of GDP in 2030 if increasing life expectancy was taken into account in the annual adjustment formula. This had been agreed upon in principle, but has not yet been implemented (Buczolich et al. 2002).

problem of an overly low actual retirement age. Against this background, the issue of pension reform did not disappear from the political agenda. Only two years after the adoption of the 1997 pension reform, following the general election in October 1999, the Socialist chancellor Viktor Klima announced further pension reform plans. After protracted talks the SPÖ and the ÖVP agreed on a coalition agreement in January 2000, which envisaged among other an increase in the early retirement age by two years to be implemented within a relatively short time period. This plan triggered fierce protests by the trade unions and aggravated the existing tensions between the ÖGB and the SPÖ as well as within the SPÖ. These developments contributed to a massive crisis within the government. Under these conditions, Wolfgang Schüssel, the leader of the ÖVP, was unwilling to continue the coalition with the SPÖ and finally went for a government coalition with the right-wing FPÖ in February 2000 (Eiroline 2000b)¹¹⁷.

Pension policy under the right-wing government

In contrast to the 'grand coalition' between the SPÖ and the ÖVP the right-wing ÖVP/FPÖ government was more strongly oriented towards market-liberal ideas in social and economic policy. Pressed by the Maastricht treaty it was determined to balance the budget, which still displayed a deficit of more than 2% of GDP in 1999, in a very short time (OECD 2001). By the same token, this government showed a greater readiness to adopt tangible and short-term effective benefit cuts in pensions and other social programs than its predecessor (Obinger 2001; Tálos 2001). This also holds true for the Freedom party, whose programmatic profile in social policy is basically characterized by demands for greater self-responsibility and less state influence. Its earlier attacks on the saving packages adopted by the previous government must be interpreted as an opportunistic effort of a highly populist opposition party to attract potential protest voters.

In their coalition agreement of February 2000 both parties announced a major reform of the pension system. In addition, the government appointed two commissions that

¹¹⁶ The statement of a pension policy actor within the Austrian People's Party ÖVP is telling: "*I've often said in interviews that for me the biggest disappointment ever was the pension reform of 1997*" (Linnerooth-Bayer 2001:30).

¹¹⁷ It is an open question, however, whether the quarrels over pension reform were the real reason or only a pretext for Schüssel to quit the coalition with the SPÖ.

should put forward proposals for a far reaching reform of the pension insurance and of civil servants' pensions. Within these commissions the social partners were no longer the dominating force (traditionally they used to take the chair), but one actor among others. In particular, independent pension experts played a greater role in these commissions than hitherto (Linnerooth-Bayer 2001; Tálos and Kittel 2001). In April 2000 the coalition partners presented the crucial elements of its pension reform package (Die Presse, 3rd April 2000):

- An increase in the early retirement age from 55 to 56.5 years for women and from 60 to 61.5 years for men, with a benefit reduction of 3% per year (hitherto 2%) for workers retiring prior to the normal retirement age (to be implemented from October 2000 until October 2002)
- An increase in civil servants' retirement age from 60 to 61.5 years (to be implemented from October 2000 until October 2002)
- A reform of widows' pensions: From October 2000, widows will receive between 0% and 60% of the deceased spouse's pension (hitherto 40-60%). This measure only applies to newly granted widows' pensions.

These proposals were met by vigorous opposition from the trade unions and the parliamentary opposition. In particular, they denounced the quick increase of the early retirement age as a "breach of confidence" in the existing regulations. By the same token, they announced to bring this issue to the constitutional court.

Shortly after the presentation of the proposals the government entered into negotiations with the social partners. However, these negotiations were virtually doomed to failure. Both sides accused one another to not negotiate sincerely. The government seemed unwilling to make any significant concessions to the trade unions. In particular, it refused to negotiate about the speed and the financial volume of the envisaged pension cuts and declared that it would put through the pension reform even against trade unions' resistance if necessary. In response, the trade unions sought to mobilize their members and the general public and launched various protest actions against the governmental reform plans (including a protest strike by transport workers) (Tálos and Kittel 2001). However, lacking the powerful mobilizing capacity of their French or Italian counterparts, unions' protests went largely unheeded by the general public.

At the same time, the trade unions tried once again to use their party channels in order to prevent a parliamentary majority for the government's retrenchment plans. This time, however, their parliamentary power resources were much weaker. Under the new government constellation the ÖGB could no longer rely on a sizeable number of trade union functionaries within the government factions. Instead, the ÖGB pressed the employee organization of the ÖVP (*Österreichischer Arbeiter- und Angestelltenbund, ÖAAB*) to side with the trade unions in the issue of pension reform. To a certain extent, the representatives of the ÖAAB shared the objections that the trade unions raised against the envisaged reform package. Most importantly, the ÖAAB had raised serious concerns with respect to the constitutionality of the governmental pension plans. In particular, it claimed that an increase in the early retirement age without significant interim regulations would constitute a "breach of confidence" and might therefore be rejected by the constitutional court (*Die Presse*, 17th June 2000). In response to these concerns, the government included a number of temporary exception provisions for certain groups into the final law. For instance, men with 45 contribution years and women with 40 contribution years were exempted from the increase of the early retirement age for a five-year transitional period. However, the government did not change the overall time schedule of the reform, and most regulations entered into force as early as October 2000.

In the run-up to the final vote in Parliament the trade unions called upon the 24 ÖAAB deputies to vote against the pension reform, in which case the government would have missed a parliamentary majority¹¹⁸. However, all ÖAAB deputies except one voted in favor of the bill, after the government had made a number of minor concessions (*Die Presse*, 8th July 2000). Apparently the MP's affiliated to the ÖAAB attached a greater value to their loyalty vis-à-vis the government than to their policy interest in a more modest reform approach. Moreover, the ÖAAB had a competitive interest in dissociating itself from the Socialist trade unionists. The latter were portrayed as "fundamentalist" opponents of reform, who could only be found on the streets, while the ÖAAB presented itself as the true representative of workers' interests, which would use serious bargaining to achieve real improvements (6th June 2000).

¹¹⁸ It needs to be noted, however, that the government still would have had a slight relative parliamentary majority vis-à-vis the opposition parties if all ÖAAB deputies would abstain from voting (this would be more likely than a scenario in which all ÖAAB deputies would vote against their own government).

A case can be made that the ÖVP/FPÖ government had no serious interest in bringing the unions and the opposition parties on board. In particular the populist FPÖ appeared to be determined to replace the traditional procedures of concertation entrenched in the system of social partnership (from which the FPÖ used to be completely excluded) by a more hierarchical approach (Obinger 2001). Through its repeated calls for a dismantling of corporatist structures and its attacks on the Austrian system of “favoritism” (*Günstlingswirtschaft*), associated with organizational privileges held by trade unions and their functionaries, the FPÖ had dramatically expanded its electoral support basis after 1986. By the same token, the FPÖ continued to press strongly for a weakening of trade unions’ institutional power basis. For instance, the competencies for labor law and labor market policy were devolved from the Ministry of Social Affairs to the newly created Ministry for Economy and Labor in order to restrict the traditional channels of influence for the ÖGB. It is remarkable, that the FPÖ chairman Jörg Haider even tried to make the adoption of the pension reform contingent on a 40% reduction of the compulsory levy to the Chamber of Labor (a public corporation, de facto managed by the trade unions). In doing so, the FPÖ sought to curb unions’ institutional influence. However, the ÖVP rejected this package deal (Tálos 2001).

The SPÖ opposition not only voted against the reform in parliament, but also started constitutional proceedings against parts of the reform, in particular the reform of widow pensions and the increase in the early retirement age. However, its main criticism was primarily directed against the extremely short transition rules, which were denounced as a breach of confidence. In principle, however, the SPÖ did not deny the necessity of a further pension reform. Only a few months earlier it had signed a coalition agreement with the ÖVP according to which the early retirement age was to be increased even by two years. This made it more difficult for the SPÖ to exploit the pension issue in the electoral arena.

It is noteworthy that the overall volume of pension cuts realized by the 2000 reform is roughly equivalent to the expenditure cuts decided in the 1997 pension reform, both with respect to the general scheme and with respect to pensions for civil servants. However, while the measures adopted by the 1997 reform will unfold their full effect only from 2030 onwards, the measures of the 2000 pension reform will be fully im-

plemented as early as 2003 and thus achieve the envisaged savings effect in a much shorter time period (see table 7.2).

Table 7.2: Cost containment effects of recent Austrian pension reforms

	1996 Savings package	1997 Pension reform	2000 Pension reform
Saving effects in the general scheme	0.6% of GDP until 2000	0.5% of GDP until 2030	0.5% of GDP until 2003
Saving effects in civil servants pensions scheme		0.2% of GDP until 2030	0.2% of GDP until 2003

Source: Buczolich et al. (2002)

The ÖVP/FPÖ coalition also took cautious steps to strengthen fully-funded forms of old-age provision. Most importantly, it reformed Austria's statutory severance pay system¹¹⁹ and – like in Italy - introduced an option of using the severance payments to fund occupational pensions as a supplement to the public pillar. The reform entails the following changes:

- All private sector employees are entitled to severance pay from the first day of employment (hitherto only after three years of service with their current employer)
- Entitlement will apply regardless of the reason for the termination of the employment relationship (hitherto only in the case of dismissal by the employer)
- Employers are obliged to pay 1.5377% of employees' wages to a central fund, from the time that they are first employed until the time that they leave/retire. The maximum level of severance pay will be reached after 37 years. Thus far, individual employers had to make provisions in their accounts for at least half the severance pay entitlements that could fall due. These entitlements amounted to two months' worth of final pay after three years' service, three months' pay after five years' service, four months after 10 years, six months af-

¹¹⁹ Austrian employment legislation states that severance pay must be granted to private sector employees if the employment relationship is terminated by the employer.

ter 15 years, nine months after 20 years and a maximum of 12 months after 25 years of service.

- In principle, an employee leaving his/her company can either choose to take the severance payment at once or to save the entitlement for a future pension.
- As before, contributions to severance pay remain liable to a flat-rate income tax of 6% only and are exempted from social security contributions. However, no income tax will be levied if the severance pay is invested into a pension fund, thereby providing a tax incentive for private old-age provision.

Interestingly, in the reform of severance pay the ÖVP/FPÖ coalition deviated from its previous policy of curtailing the influence of social partnership (in particular of the trade unions). The reason is that the coalition parties were unable to agree whether the entitlement to severance pay should be granted from the first day of employment – as preferred by the FPÖ (a position also shared by the Social Democratic opposition) – or – as demanded by the ÖVP – only after one year of service for the same employer. Against this background, the government decided to delegate the drafting of a new severance scheme to the social partners, which achieved a relative quick compromise. After the government had accepted the social partners' proposals without major modifications, the reform was unanimously adopted by parliament in June 2002.

The main advantage of the modified scheme is the expanded scope of entitlement to severance pay in comparison to the former legislation, since virtually all employees (including employees on unpaid leave) are now eligible for severance pay contributions. This element had been a key demand of the trade unions. It is estimated that about 800,000 new employees are now covered by severance pay. However, the individual amount of the severance payments provided under the new legislation is significantly lower than under the former law. This was the main concession to employers, which had a strong interest that the extension of severance pay coverage to all employees in the private sector would not boil down to a higher financial burden on employers (Gächter 1998; Pernicka 2001b; Traxler 2001; Adam 2002; Arbeiterkammer Österreich 2002).

The reform of severance payments is only a rather limited step towards fully-funded old-age provision, especially if compared with other countries under study. Both in

Germany and Italy wage earners are able to divert a considerably higher share of their income tax-free into private or occupational pension plans than in Austria. Moreover, the still very generous benefits provided by the public system and the very half-hearted measures to curb public pension spending in the future diminish the individual incentives for increased private retirement savings. On the one hand, the high level of contributions needed to finance public pensions restricts the capacity of individual households to pursue private old-age provision. On the other hand, the political attempt to ensure a high income replacement level within the public pension system even in the long-term may raise the expectation among the public that enhanced private old-age provision is not needed to maintain the individual living standard after retirement.

Pension politics in Austria – the conditional impact of the trade unions on reform outcomes

Table 7.3 summarizes in a highly stylized fashion the fundamental transformation of the political decision making process in Austrian pension policy since the late 1980s. In a nutshell, this transformation is characterized by a gradual decline of trade unions' influence. We can distinguish three different phases in Austrian pension politics, which are marked by varying degrees of unions' influence.

As pointed out above, ever since the mid 1980s Austrian pension policy makers have been concerned with the goal of cost containment. However, until the early 1990s cost containment reforms were still largely developed within the traditional framework of social partnership. Pension reforms were typically initiated and negotiated by the social partners, or at least worked out in close concertation between the government and the social partners. To that extent, the trade unions could exert a powerful influence on the process, the content and the timing of pension reforms. At a very early stage, the trade unions participated in the formulation of policy proposals. This was based on a relatively strong political consensus that no major decision in social and economic policy should be made without or even against the social partners. At the same time, the pressures for budgetary consolidation were still comparatively modest. These factors combined to favor an extremely incremental reform process. For instance, a constitutional law adopted in 1993 envisaged a harmonization of regular retirement ages for men and women (by raising women's retirement age from 60 to

65), which would, however, only be implemented between 2018 and 2034¹²⁰.

Table 7.3: Unions' influence on political decision making in Austrian pension policy

Period	Government constellation	Pressures for budgetary consolidation	Do unions have...		Degree of adjustment/ Speed of implementation
			..proposal formation power?	...political veto power?	
1987 - 1993	SPÖ/ÖVP	Medium	Partly	Yes	Incremental/ Very Slow
1994 - 2000	SPÖ/ÖVP	Very strong	No	Yes	Incremental/ Rather slow
2000 -	ÖVP/FPÖ	Strong	No	No	Modest/ Very rapid

In the mid 1990s this constellation changed. Faced with extraordinarily strong budgetary pressures (reinvigorated by the 3% deficit criterion laid down in the Maastricht treaty) the SPÖ/ÖVP coalition sought to get a tighter grip on the reform process. In particular, the government henceforth tried to determine the content as well as the timing of reforms (Tálos and Kittel 1999). Most importantly, it unilaterally established tight guidelines with respect to the overall volume of expenditure cuts to be made in the pension system. In two cases (1994 and 1997) it proposed major changes to the pension system without prior consultation of the social partners. By the same token, in striking contrast to the consensual tradition of social partnership, it even considered the adoption of reforms against trade unions' resistance. Clearly, the unions had lost in influence with respect to the formulation of policy proposals through corporatist bargaining. Instead, they tried increasingly to exert influence by way of lobbying and sought to block legislative changes that were to their disadvantage through their parliamentary representatives. Due to their strong numerical weight within the parliamentary group of the SPÖ, they were still able to exercise a strong veto power. Therefore the internally divided SPÖ/ÖVP government proved unable to put through pension reforms against trade unions' resistance. Thus, until recently Austrian pension policy still proceeded at a rather slow and incremental pace. A textbook example of this in-

¹²⁰ The German government adopted a very similar law in 1996. However, in sharp contrast to the corresponding law in Austria, this measure is becoming effective already between 2000 and 2004.

cremental reform approach is the 1997 pension reform, which for instance envisaged only a tiny increase in the number of “best years” (from 15 to 18). Moreover, this increase will only become fully effective in 2019¹²¹.

Only in cases where the trade unions themselves acknowledged the necessity of quick and far reaching savings measures was the government able to speed up the pace of reform. However, this appears to be the exception to the rule. Only in the mid 1990s, when the deficit criteria imposed by the European Monetary Union required the adoption of a very tight austerity policy, approved the trade unions tangible and immediately effective short-term pension cuts as a temporary consolidation measure (e.g. a freeze in pensions for one year). Another area where Austrian trade unions have shown remarkable willingness to reform concerns the partial harmonization of civil servants’ pensions with the (less generous) benefit rules applying to the general scheme.

Both instances shed light on the strategic capacity of the Austrian trade unions, resulting from their highly centralized organizational structure. In the Austrian case this capacity became evident in different dimensions. The first instance reveals its intertemporal dimension. Given the potential gains in the future (associated with Austria’s membership in the EMU) Austrian trade unions proved able to forgo present satisfaction and accepted temporary losses for their rank-and-file including pension cuts. The second instance reveals its interpersonal dimension. Since their power resources are highly concentrated at the peak rather than at the branch level, Austrian trade unions have the capacity to sacrifice the interests of some occupational groups (e.g. of civil servants) for the greater benefit of the collectivity, which has an interest in a more efficient and equitable pension system. Nevertheless, unions’ willingness to cooperate with the government in a pension reform entailing losses for (parts of) their rank-and-file also rests upon a cognitive dimension. Only if unions *believe* that sacrifices are necessary to obtain larger overall gains (or to avoid larger losses) will they be prepared to deliver these sacrifices. Thus, even encompassing trade unions are likely to oppose pension retrenchment, as long as they cannot recognize the long-term benefits associated with it.

¹²¹ It needs to be reminded that a country like Sweden will implement a full change-over to lifetime earnings within about the same time period.

Under the incumbency of the centre-right ÖVP/FPÖ government trade unions' influence on social and economic policy has eroded further. As noted above, this government made little efforts to bring either the Social Democratic opposition or the trade unions on board, after it had announced the quick implementation of a major pension reform in its coalition agreement. In particular, it appeared to be unwilling to make significant concessions to the trade unions or the SPÖ. Instead, the government was adamant that the final pension reform yield the envisaged substantial savings for the public budget within a very short time. Under this condition, it was unlikely that the trade unions (and the parliamentary opposition) would cave in, because their cooperation would not have changed the final reform outcome significantly. In other words, neither the unions nor the SPÖ would have realized significant policy gains through cooperation with the government. At the same time, they would have been forced to share the political costs associated with the adoption of a highly unpopular reform package. Institutionally, the unilateral approach adopted by the bourgeois government was facilitated by the fact that it had a solid parliamentary majority and that the trade unions – under this government constellation - were no longer able to drive a wedge between and into the government parties. As a consequence, the pension reform 2000 entailed more incisive benefit cuts than its predecessors. For instance, it completely abolished all newly granted widows' pensions for retirees, whose own pension entitlements exceed a certain income limit. Moreover, while its long-term effects are still comparatively modest (as its primary intention were short-term budgetary savings), this pension reform envisages much shorter transition clauses than the previous reforms had. For instance, the legislated increase of the early retirement age was implemented only a few months later and became fully effective in October 2002.

In the case of the most recent pension reform a number of favorable and partly extraordinary conditions created a "window of opportunity" for the government to pursue its unilateral policy of pension retrenchment without overly great political risks. Since the reform was adopted at the very beginning of the legislative term the danger of electoral retribution was limited. Moreover, Austrian trade unions have only a limited capacity of counter-mobilization in terms of mass demonstrations and strike actions. Perhaps most importantly, the government enacted the reform at a time when the sanctions of other EU member countries against the Austrian government clearly

dominated the public debate and pushed other controversial issues into the background. This may explain why the government's policy interest in balancing the public budget clearly prevailed over concerns for electoral losses possibly associated with unpopular pension cutbacks. Apparently the government considered the electoral risks of the pension reform to be comparatively limited and thus had no powerful motive to make significant concessions to the trade unions, which would compromise the government's budgetary goals.

Chapter 8

France: Adverse prerequisites for a pension consensus***Key features of the French pension system in the late 1980s***

The French pension system comprises a large number of pay-as-you-go financed and categorically fragmented schemes with private funded schemes only being of subordinate importance. Private sector employees (65% of the insured population) are covered by the *régime général*. For public sector employees (20%) and the self-employed (12%) a plurality of separate schemes exist side by side according to employer and profession. Retirement age, contribution rates and calculation of benefits vary greatly from one scheme to another (Bonoli 2000). Private sector pensions are essentially based on a two-level structure with a number of compulsory occupational schemes complementing the general scheme. Public sector pensions, by contrast, are usually provided within one tier (for an overview see table 8.1).

The *régime général* is financed through employers' and employees' contributions (8.2 and 6.4%, respectively, up to a certain contribution ceiling). A contribution record of 37.5 years is necessary to receive a full pension corresponding to 50% of the salary over the last 10 years. The retirement age for both genders is 60 years. Apart from contributory pensions, the general regime also provides means-tested benefits (*minimum viellesse*) for elderly persons with insufficient resources.

Table 8.1: The basic structure of the French pension system

	Basic insurance	Complementary schemes	
Private sector employees	Régime général: 14 million contributors, 9.2 million retirees	ARCCO: 15 million contributors, 9 million retirees	AGIRC (for executives): 3 million contributors, 1.6 million retirees
Public sector employees	Special schemes: 4.7 million contributors, 3.5 million retirees		
Self-employed			

Source: Neumann (1999); Veil (2000a)

As already noted, French employees in the private sector are also compulsorily covered by complementary schemes topping up the benefits out of the general scheme. The ARCCO scheme covers virtually all private sector employees, whereas AGIRC provides a supplementary benefit for executives only. For an average worker the combined replacement rate from the general and the complementary scheme roughly corresponds to 70% of previous wages. However, while the complementary schemes operate on a pay-as-you-go basis, they are (in contrast to the general scheme) of the defined-contribution type. Hence, there is no fixed replacement rate and benefits will be adjusted downward whenever contributions fall below the level that is needed to maintain the scheme's fiscal equilibrium. In contrast to the general scheme, ARCCO (*Association des régimes de retraites complémentaires*) and AGIRC (*Association générale des institutions de retraite des cadres*) were established through collective agreements and are exclusively managed by the social partners (Gillion et al. 2000).

Typically, the separate schemes for public sector employees (*régimes spéciaux*) provide more generous benefits than those for private sector employees. For instance, in the scheme for civil servants benefits are calculated on the basis of the last salary (rather than the salary of the last 10 years as in the general scheme) and the regular retirement age may also be substantially lower than in the private sector (Bonoli 2000).

France's pension reform record in the 1990s

Among the five countries under study France shows altogether the greatest deficits in placing its pension system on a more sustainable footing. While the 1993 reform of private sector pensions will generate substantial savings in the medium term, contribution rates are still likely to rise considerably over time. Moreover, while the reform tightened the link between contributions and benefits was significantly, it did neither bring about a full changeover to the principle of lifetime earnings in the calculation of benefits nor provide for a higher regular retirement age. The meager reform record is further tarnished by the failure of the Juppé government in 1995 to implement an analogous pension reform of public sector employees. It was calculated that their pensions will account for over 50% of the total deficit of the overall pension system, although they account for less than a quarter of all insured (Taverne 2000). Finally,

the plan to establish a new pillar of private and fully-funded pensions launched by the Juppé government in 1997 was stalled by the subsequent Socialist government, which instead only introduced a small reserve fund within the public system to cover future pension costs. Beyond that, the Jospin government has so far largely avoided grappling with the issue of pension reform. As a consequence, without further reform, contribution rates are projected to rise from 13.76% up to 25.9% in 2030 (Taverne 2000).

Until the early 1990s pension costs increased more rapidly in France than in the other countries under study. Only in Italy grew public pension expenditures at a faster pace. Between 1980 and 1993 public pension spending in France rose almost continuously from 9.5 to 12% of GDP. Only after 1993 were pension outlays more or less stabilized at this level (OECD 2000a). Moreover, from the mid-1980s to the early 1990s the general scheme displayed a chronic fiscal deficit, which had to be (temporarily) made up with government money. These financing problems were largely driven by a sharp decline in the labor force participation of elderly workers. The labor force participation rate among men aged between 55 and 64 years, still scoring about 70% in the late 1970s had fallen continuously until the mid-1990s and reached an all-time low of 41.5% in 1995, a decline that was more pronounced than in most other OECD countries (OECD Labor Force Statistics, various issues). At the same time, French pension policy-makers have done very little to curb rising pension costs. Instead, they repeatedly increased contribution levels in order to limit the shortfalls. At the time, an increase of contribution rates appeared to be a politically more feasible adjustment strategy than the adoption of pension cuts (Bonoli 2000).

Pension policy until the early 1990s

The absence of significant cost containment reforms until the early 1990s is all the more astonishing, as altogether seven official reports on pensions were commissioned between 1985 and 1993. Most of them entailed rather worrying projections about the financial viability of the public pension system in the long run. By the same token, these reports arrived at broadly similar policy recommendations. For instance, a White Paper published by the government in 1991 projected an increase of the average contribution rate from a level of 18.9% (in 1990) to more than 30% in 2030 even under favorable demographic and economic conditions, if the status quo re-

mained unchanged. Like previous reports, the White Paper proposed a number of measures to curb pension spending such as a tighter link between contributions and benefits and a longer qualifying period for a full pension (Livre Blanc sur les retraites 1991). Against this background all major parties except the Communists arrived at the insight that benefit cuts were needed to restore the fiscal balance of the public pension system and to secure its long-term viability in the face of demographic ageing. In response to the rising fiscal pressures pensions had been regularly adjusted according to prices (rather than wages) after 1987, with *ad hoc* legislation being passed by parliament every year (Bonoli 2000). However, prior to 1993, different political factors impeded any efforts to adopt more far reaching reforms, whose necessity was basically uncontested in the partisan arena.

As Bonoli (2000) points out, governments of all partisan stripes have been equally afraid of the public's and in particular trade unions' reaction to pension cuts. This also holds true for the bourgeois government under Jacques Chirac being in office from 1986 until 1988. The Chirac government organized a major convention on the future of French social security leading to the publication of an expert report in autumn 1987, which highlighted the necessity of substantial cost containment measures in the area of pensions. However, given his intention to run for the 1988 presidential election Prime Minister Chirac shied away from the political risk of a highly unpopular pension reform, all the more since he had already suffered important setbacks in previous efforts to implement neo-liberal reforms. For instance, he withdrew his plan of a partial privatization of the higher education system in the face of large-scale strikes and demonstrations initiated by students' organizations (Bonoli 2000).

The political conditions for a major reform of the pension system became even more unfavorable under the incumbency of socialist governments between 1988 and 1993. French trade unions¹²² continued to reject any curtailments of public pensions. More-

¹²² In France, the labor movement is traditionally divided along ideological lines. There are five major national federations operating independently from each other. The *Confédération Générale du Travail* (CGT), covering about 23% of all union members (in 1995) is closely allied to the Communist party through personal ties and by ideology. The *Force Ouvrière* (FO) originated from a division within the CGT in 1947 and is not related to any party in particular, but still belongs to the more radical section of the French labor movement. It represents about 17% of unions' total rank-and-file. The *Confédération Française des Travailleurs Chrétiens* (CFTC) is a federation of Catholic unions, which is, however, only of minor importance, as less than 5% of all union members are affiliated. The *Confédération Française Démocratique des Travailleurs* (CFDT), situating itself close to the Socialists, emerged from a division of the CFTC and covers about one quarter of all union members. In recent years it has been more reform-oriented and co-operative vis-à-vis the government than its counterparts. Finally, the CFE-CGC (*Confédération Française de l'Encadrement - Confédération Générale des Cadres*)

over, the Socialist government was reliant on the external support of the Communist party, which was unwilling to support any governmental initiative at pension retrenchment. Thus, before 1993 the delicate issue of pension reform had been repeatedly postponed (Bonoli 2000).

The successful Balladur reform

The general election in 1993 resulted in an overwhelming parliamentary majority for the bourgeois parties (79.7% of the seats). Consequently, the Socialist government was replaced by a centre-right coalition government under Edouard Balladur. Thus, in contrast to its predecessor Balladur did not face any parliamentary obstacles to the adoption of a controversial pension reform. At the same time, the economic recession amplified the need for fiscal consolidation and thereby the necessity of cost containment measures in the public pension system. From 1990 to 1993 the general budget deficit had increased from 2.1 to 6% of GDP (OECD 2001). In part, this was caused by huge shortfalls in the public pension system. Within the *régime général* the financial deficit grew from 6.6 billion Francs in 1990 to 39.5 billion in 1993 despite a still comparatively favorable demographic structure (Bonoli 2000). Moreover, the strong resolve on the part of the government to pave the way for France's entry into the EMU added to the pressures for fiscal consolidation.

In April 1993 the Balladur government announced a major reform of the pension system. To a large extent Balladur picked up reform proposals that had been made in the White paper published by the previous Socialist government in 1991. The main elements of the proposed reform package, which only should apply to the *régime général*, were (Vail 1999):

- the extension of the qualifying period for a full pension from 37.5 to 40 years (to be phased in from 1994 until end of 2002)
- an increase in the number of 'best years' from 10 to 25 as the reference period for the calculation of benefits (to be phased in from 1994 until 2008)
- the indexation of pensions according to prices rather than wages for a five-year period (to be based on a government decree rather than a parliamentary vote)

represents the interests of managers (Visser 2000). Apart from the CGT all trade union federations typically interdict the cumulation of political mandates and mandates within the trade union organiza-

- the creation of an “Old Age Solidarity Fund” (*Fonds de solidarité vieillesse, FSV*) to cover non-contributory benefits and to be financed by an increase in the *contribution sociale (CSG)* from 1.1 to 2.4%, an earmarked tax on all incomes (including income on capital and property) and duties on all alcoholic and some non-alcoholic drinks.

From the outset the government sought to ensure at least the acquiescence of the French trade union movement. It needs to be emphasized that a fully consensual solution including unions’ formal approval of pension cuts would have been extremely unusual in the French context (Bonoli 2000). As Culpepper (2000) points out, French unions lack the organizational capacities to mobilize consent for unpopular reform measures among their rank-and-file. Under these circumstances Balladur was keen to avoid large-scale public protests against his reform plans in order to bring himself into a more favorable position for the 1995 presidential election. Hence, he employed a bundle of strategies to prevent the unions from mobilizing against the envisaged pension cuts (Vail 1999; Bonoli 2000; Levy 2000; Palier 2000; Bozec and Mays 2001):

First, Balladur adopted a deliberate and non-confrontational policy style vis-à-vis the trade unions. He attached great importance to consultation with the trade unions and invited them to a conference where his pension proposals were to be discussed. Moreover, informal negotiations took place between the Ministry of Social Affairs, the employers’ association and the trade unions throughout April and May 1993.

Second, the reform package included important concessions to the trade unions aimed at securing their role in the management and control over pensions. By creating the Old Age Solidarity Fund Balladur fulfilled a key demand of trade unions. This measure relieved the financial pressure on the *régime général* by reducing the deficits within the system. In addition, it shifted parts of the overall costs of the pension system from wage earners to the broader population. Most importantly, through the organizational and financial separation of contributory and non-contributory elements the government de facto acknowledged the managerial role played by the trade unions in the field of earnings-related social insurance. Thus, the creation of the FSV

can be seen as a quid pro quo for unions' tacit acceptance of pension cuts¹²³. Furthermore, the limitation of price indexation to five years¹²⁴ and the avoidance of a direct increase in the formal retirement age¹²⁵ rendered the overall reform package more palatable to the trade unions. Moreover, the Balladur proposal deviated from the suggestions made in the White Paper insofar as it envisaged a more modest extension of the qualifying period for a full pension (40 instead of 42 years). Thus, Balladur's reform agenda was not overly ambitious in comparison to the proposals made in previous government reports. Instead, the Balladur reform was designed to mitigate political resistance through the inclusion of various concessions to the trade unions.

Third, by confining the reform to the *régime général* Balladur avoided a potential clash with the French labor movement in the public sector where union density rates as well as unions' mobilizing power is much stronger than in the private sector¹²⁶. In other words, Balladur sought to exploit an institutionalized divide between the public and the private sector resulting from the existence of a categorically fragmented pension system (Vail 1999).

Through his distinct approach in policy style and policy content Balladur tried to obtain the acquiescence of at least parts of the French labor movement. According to a civil servant from the Ministry of Social Affairs who took part in the negotiations with the social partners, the two confederations CFDT and FO were the key targets of his attempt:

"It was important for us to gain the approval of the CFDT because we knew that FO and the CGT would be hostile anyway. ... We needed at least the neutrality of the other confederations. It was also important to avoid that FO would adopt too a violent position. In fact they were against, but did not react as they did in

¹²³ The following citation of an official at the French Old Age Insurance Fund underscores the importance of this motive: *"The introduction of the Fonds de Solidarité Vieillesse was a skilful move, because it reduced the deficit of the old age insurance budget in a way that was acceptable to the trade unions. It showed that the State was making an effort. In fact the FSV had been carefully designed in order to be able to attract the approval of the social partners"* (cited from Bonoli2000:148).

¹²⁴ According to a high civil servant preparing the reform this temporal limitation was crucial to obtain CFDT's implicit support (Bruno Palier, personal communication).

¹²⁵ A frequently applied strategy of French governments is to let journalists publish information on extremely controversial proposals (such as an increase in the legal retirement age from 60 to 65 years) and then present a softer reform proposal which appears more acceptable to potential reform opponents (Bruno Palier, personal communication).

¹²⁶ Figures compiled by Visser (2000) indicate a unionization rate of 19.2% in the public and of 3.4% only in the private sector (1993).

1995 against the Juppé plan. They did not mobilize their members saying that the new legislation was shameful” (cited from Bonoli 2000:139).

Officially, the French trade unions rejected the proposed reform package. The communist CGT even threatened to call a general strike. Even after the promised series of consultations the major trade union leaders continued to oppose the reform and criticized that Balladur - despite his rhetoric emphasis on consultation and cooperation - de facto imposed a reform against the trade unions (Vail 1999).

However, unions' actual position towards the Balladur reform was more differentiated or at least less hostile than was proclaimed officially. The proposal was subject to a vote at the administration board of the basic pension scheme, the *Caisse Nationale d'Assurance Vieillesse* (CNAV), an agency in which both the trade unions and employers are represented. The social partners were asked to vote separately on the two elements of the reform, the cutbacks of pension benefits and the creation of the FSV. With respect to the curtailments, only employers and the Catholic CFTC voted in favor. By contrast, the set-up of the solidarity fund was supported by CFDT, FO, CFTC (and thus by the majority of French unions) and employers. Although this vote did not entail any legal consequences, the government interpreted it as a clear indication of unions' true position towards the entire pension reform package. Most importantly, the vote signaled the tacit support by the CFDT, the largest and relatively moderate trade union federation. Consequently, the government decided to go ahead, and adopted the reform without major changes on 22 July 1993 (law) and on 27 August (decrees). The reform became effective in 1994 and will be gradually phased-in until 2008 (Bonoli 2000).

At the same time, even the most radical federation, the communist CGT (which fiercely rejected the entire reform package) failed to mobilize its members – let alone the public at large - against the reform. Despite their hostile proclamations the leaders of the CGT did not bring about a large-scale protest movement (Le Monde, 30th august 1993, p.1). To a great extent, this may be accounted to the fact that the Balladur reform only affected workers in the virtually non-unionized private sector.

The 1993 reform will improve the financial outlook of the *régime général* significantly, although it will not prevent a substantial rise of contribution rates in the medium and long term. As shown in table 8.2, the medium-term effects of the reform on the projected contribution rate hinge very much on the development of employment and real wage growth. Moreover, they also depend on whether or not pensions would continue to be indexed in line with prices. In the former case¹²⁷ the increase in contribution rates between 1993 and 2010 will turn out to be lower (between 1 and 5.2%) than would be the case if pensions are adjusted according to wage developments (between 3.5 and 8%). Without the 1993 reform contribution rates would have grown between 6.5 and 10.3% until 2010. It has been estimated that in 2040 the contribution rate will be about 7% lower as a result of the 1993 reform (Office for Official Publication of the European Communities 1996:65).

Table 8.2: Projected development of the equilibrium contribution rate¹ to the general regime before a after the 1993 reform

	Before 1993 reform		After 1993 reform			
	Favorable scenario ²	Unfavorable scenario ³	Wage indexation		Price indexation	
			Favorable scenario ²	Unfavorable scenario ³	Favorable scenario ²	Unfavorable scenario ³
1993	18%	18%	18%	18%	18%	18%
1995	18.5%	18.3%	18.4%	18.3%	18%	18%
2000	20.2%	21.1%	19.8%	20.6%	18.3%	19.5%
2005	21.6%	23.8%	20.6%	22.6%	18.3%	20.8%
2010	24.5%	28.3%	22.5%	26%	19%	23.2%

¹ Contribution rate required to finance all current expenditure from a uniform contribution levied on labor income.

² Employment growth = 1% p.a., real wage growth = 1.5% p.a.

³ Employment growth = 0% p.a., real wage growth = 1% p.a.

Source: Office for Official Publication of the European Communities (1996:64)

¹²⁷ In 1998 the Socialist government decided to continue with price indexation (OECD 1999).

The failed reform of public sector pensions

As pointed out above, the Balladur reform only concerned the *régime général* covering employees in the private sector. It did not entail a reform of public sector pensions. This may partly result from the existence of the specific entitlement rules for public sector employees and of specific working conditions of certain categories of public sector workers (such as miners and rail workers), which differ from those in the private sector. This was also the official reason why both reforms were dealt with separately. Perhaps more importantly, however, successive French governments hesitated to tackle the politically sensitive problem of public sector pensions. As pointed out above French unions are much more powerful in the public than in the private sector, both with respect to the degree of unionization and with respect to their mobilizing capacity. Workers in the public sector had repeatedly organized prolonged strikes and other protest actions (Bonoli 2000).

However, the rising outlays for public sector pensions increasingly strained the public budget, partly because employment-related contributions cover only a limited share of total costs, whereas the lion's share is financed out of the state budget. For instance, civil servants only have to pay a pension contribution rate of 6%, while the bigger part of pension outlays for civil servants is financed by the government (Wischeropp 1999). At the same time, overall budgetary pressures remained strong. In 1995, the public deficit still amounted to 5.6% of GDP (OECD 2001). Thus, an extraordinarily tight fiscal policy was required to meet the 3%-deficit criterion of the Maastricht treaty in 1997. These pressures amplified the need to complement Balladur's reform of private sector pensions by a similar reform of public sector pensions.

Moreover, after the presidential election the political power constellation was more conducive to a major overhaul of public sector pensions than before. In May 1995 the Conservative Jacques Chirac was elected as President, who again appointed Alan Juppé as Prime Minister. The election of Jacques Chirac terminated the division within the French executive (typically denoted as *cohabitation*) between a Socialist President (François Mitterrand) and a conservative Prime Minister (Edouard Balladur) that had existed after 1993. Although the French President lacks any formal competencies in the realm of pension policy, his legal power to dismiss the government and to dissolve the parliament at will enhances the political risks for a government belonging

to the opposite political camp associated with the adoption of unpopular policies. Moreover, in contrast to his predecessor Juppé faced only limited electoral constraints to the adoption of liberal welfare reforms because the next election was some three years away. At the same time, Juppé inherited an extraordinary comfortable parliamentary majority of 79.7% and presided over an ideologically cohesive two-party government (Bonoli 2000).

Moreover, in contrast to his Italian counterpart, the French prime minister has significant power over the appointment of ministers, which tend to implement his policy choices. In addition, he disposes of a highly centralized policy-making apparatus and faces no institutional veto points, as is typically the case for German governments, which are often dependent on the support of the *Bundesrat*. Hence, Juppé faced no institutional constraints in defining and implementing the content and the method of pension reform (Pitruzello 1997).

However, he faced the problem that the adoption of welfare cuts would necessarily run counter to the promises made by Jaques Chirac in the presidential election. Among other things, Chirac had declared to cut taxes and to leave social benefits untouched. Initially, the government honored several of its electoral promises. For instance, the statutory minimum wage and minimum pensions were raised generously in June 1995. However, in an effort to reduce the public-sector deficit (another promise made in the election campaign), the government quickly changed the direction of its policy and announced a major reform of the social security system, which suffered from a huge structural deficit (Vail 1999; Bonoli 2000).

The preparation of the reform blueprint lasted until November 1995. The precise content of the reform was kept secret until the day it was presented to parliament. The so-called Juppé plan was conceived and prepared only by four selected social advisors and high-level civil servants, the Prime Minister and the President. Quite remarkably, the government at large was excluded as was the Minister of Social Affairs within whose purview the reform actually fell. While the CGT and the FO were never contacted during the formulation process, even the leader of the moderate and relatively reform-oriented CFDT was informed of the reforms' details only a few days in advance. However, even then the envisaged reform of public sector pensions was strictly kept under closure. Apparently this issue was regarded as the politically most sensitive one. It was highly contested within the government, whether the reform of

public sector pensions should be included in the overall reform package. The government had good reasons to fear the reactions of the trade unions. On 10 October 1995 a massive and large-scale strike took place against the governmental plans to freeze public sector wages in 1996, and – for the first time since 1978 – the leaders of the seven union federations marched together. Initially, the Minister responsible for public sector employment, Jean Puech, fearing the political repercussions of such a move, had managed to convince Juppé to drop plans for public sector pension reform. As a consequence, trade unions were informed, on an unofficial basis, that this controversial item was not included in the final reform package. In fact, Juppé changed his mind on the night before the publication of the plan. In response to the pressure by his predecessor and his fellow party member, Edouard Balladur, who demanded a tighter stance in fiscal policy, Juppé finally decided to incorporate the pension issue in his reform plan (Pitruzello 1997; Bouget 1998; Vail 1999; Bonoli 2000).

On 15 November 1995 Juppé presented his plan in Parliament. It included mainly the following elements (Bonoli 2000):

- The introduction of a universal health insurance scheme
- The reform of public sector pension schemes (*régimes spéciaux*). Basically, it was intended to (at least partly) harmonize pensions in the public sector with those in the private sector. This would include the extension of the qualifying period for a full pension from 37.5 to 40 years, the introduction of a minimum retirement age of 60 (some civil servants are allowed to retire as early as age 50) and the calculation of benefits on the basis of the best 25 years (in the public sector, pensions are often calculated on the basis of last salary).
- The freeze of family benefits in 1996 and their taxation after 1997
- The partial shift of health insurance financing from employment-related to general contributions levied on all incomes
- The increase of health insurance contributions for unemployed and retired people by 1.2 per cent in 1996 and in 1997 (at that time at 1.4 per cent, or 5.4 percentage points below the standard contribution rate for those in work)

- The introduction of a new tax, levied at a rate of 0.5 per cent on all revenues, earmarked for the repayment of the debt accumulated by the social security system
- The introduction of a constitutional amendment which allows Parliament to vote on the social security budget.

In parallel, Juppé sought to restructure the loss-making national railway company SNCF, a move which was likely to trigger protests among railway workers.

While the Juppé plan was welcomed by French employers and by international economic organizations such as the IMF, it was rejected by the trade unions and the Socialist opposition. It is interesting to note, however, that the Socialists were initially divided. While they condemned the plan through their official spokesmen, individual party representatives actually took a quite positive stance vis-à-vis the reform plan¹²⁸. Only after a while, the Socialist leader, Lionel Jospin, was able to unite the party against the Juppé plan. However, the main criticism was directed against the hegemonic approach of the government rather than against the content of the plan as such. In fact, many elements of the reform package (including the realignment of public sector pensions) had also been favored by previous Socialist governments only a few years earlier (Bonoli 2000). This fact clearly restricted the Socialists' capability to exploit the pension issue politically, all the more so as the next election would only take place some three years later. In addition, Juppé requested legislative authorization to adopt the reforms by government decrees, thereby combining the issue with a vote of confidence. Given a parliamentary majority of almost 80% this procedure was politically unriskey and prevented parliamentary debates as well as potential obstructionism on the part of the Socialist opposition (Pitruzello 1997). Thus, the rejection of the reform by the parliamentary opposition did not pose a crucial political threat to the government.

This cannot be said with respect to the trade unions and their powerful mobilizing capacity in the public sector. All trade unions denounced the unwillingness of Juppé to enter into negotiations about the content of his reform package. Even Nicole Notat, leader of the moderate CFDT, criticized that she had "*never seen a government according so little importance to consultation*" (Vail 1999:323). However, while CGT and

FO condemned the whole program, the moderate CFDT refused only the reform of public sector pensions while largely supporting most other aspects of the Juppé plan. A case can be made that the unanimous rejection of the planned changes to public sector pensions by the trade unions results from the dominant role of public employees within the trade union organizations¹²⁹. As a consequence, none of the major trade union federations can afford to act against the interests of public sector employees.

With respect to those parts of the Juppé plan that were unrelated to public sector pensions, unions' positions deviated significantly from one another. This is especially true for the constitutional amendment allowing Parliament to fix annual spending limits and the introduction of a universal health care system combined with a gradual shift in financing structures from employment-related contributions to general contributions. These measures were opposed by FO and CGT, which feared an increasing control over social insurance by the government and a concomitant reduction of their own influence on the system of social security. These measures threatened to undermine the organizational power basis especially of the FO, which used to have a dominant position in the parity-based management of the national health insurance fund (EIRR 1996b). The following citation of the FO leader Marc Blondel illustrates the importance of this motive (cited from Bonoli 2000:145):

{the Juppé Plan} is the biggest theft in the history of the French Republic. It is the end of the Sécurité sociale. By deciding that Parliament is going to direct social protection, it robs the FF 2,200 billion made up of contributions paid by employers and employees. We were told that we needed to act in order to save social security, but they are taking it away from us (Le Monde 17/11/95, p.12).

By contrast, the CFDT leadership took a less critical or even positive stance towards these reform elements. For instance, the CFDT welcomed the replacement of employment-related contributions by a universal social contribution (CSG) in the financing of health insurance, a process which was completed by the left-wing Jospin government in 1998. In sharp contrast to the hostile reaction by the FO it lauded this move as *“a measure of equity and fairness, finally in line with the aims of the archi-*

¹²⁸ For instance, Bernard Kouchner, a former health care minister, commented that: *'it is an ambitious and courageous plan, which picks up many of our proposals'* (Le Monde 17/11/95, p.12).

¹²⁹ Within all major trade union confederations except the CGC more than 60% of members come from the public sector. Within the FO, this share even amounts to more than 73% (Visser 2000:272).

tects of social security. Everyone will contribute according to his or her income and will receive according to his or her needs” (Eiroline 1997b). Similarly, the CFDT approved the government’s effort to get a tighter grip on the massive financing problems of the social security system (Eiroline 1997c).

The gradual reorientation of the CFDT leadership towards more moderate and reformist policy positions is accompanied by the endeavor to become the privileged partner of the government and of employers in the management of social insurance funds. In principle, this strategy proved to be successful. In the re-appointment of the heads of the social insurance funds after 1995, the CFDT allied with the employers’ representatives and thereby managed to largely replace the FO, which lost all its important positions, especially at the head of the National Health Care Insurance Fund (EIRR 1996b; Palier 2000).

Against this background, the CFDT leadership initially took a less hostile position against the entire Juppé plan, which again caused serious tensions with the other trade union confederations, in particular with the FO, whose leader Marc Blondel accused his CFDT colleague of *“speaking like a minister”* (EIRR 1995b). A case can be made that the leaders of the CFDT – given their general support to the Juppé plan – might also have grudgingly accepted the envisaged cuts in public sector pensions. It is telling that the CFDT initially refused to take part in a general strike called for 28 November by the CGT and the FO. Nevertheless, the rank-and-file of all unions (including members of the CFDT) supported organized resistance against the Juppé plan. In fact, large sections of the CFDT basis did not understand how a leftist trade union could support the decision of a conservative government. As a consequence, the CFDT leadership proved unable to resist the demands for action raised by its more militant basis and hence closed ranks with the other trade unions, which henceforth formed a unified front vis-à-vis the government (Bouget 1998; Vail 1999).

In response to the Juppé plan and the Prime Minister’s refusal to accommodate their demands the French trade unions (with the CGT and FO taking a leading role) launched a number of strikes in the end of November. Within a few weeks a gigantic, albeit incoherent, protest movement emerged against the Juppé government fuelled by different societal groups. This movement reached its climax in the second week of December when hundred thousands of protestors took the streets in various French

cities¹³⁰. Initially, it was mainly railway workers who went on strike. These strikes, which effectively paralyzed large sections of the French economy, lasted for some three weeks. A few days later, other public sector workers (in areas such as gas and electricity, posts and telecommunication, air traffic, regional transport, hospitals, schools, ports and the Banc of France) went on strike as well¹³¹. Thus, French unions were extraordinarily successful in mobilizing public sector employees against the Juppé plan. Against this background, they radicalized their positions and called upon Juppé to withdraw his plans before negotiations could begin (EIRR 1996a; Pitruzello 1997; Bonoli 2000).

Initially, Juppé refused any dialogue with the unions and maintained his confrontational style. In a speech to Parliament on 5 December he confirmed his resolve to enact the reform as a necessary mean to maintain international competitiveness and to meet European commitments. However, in the face of continuing paralysis, Juppé finally offered the inclusion of the trade unions in the reform process. With respect to pensions, he commissioned his labor minister Jaques Barrot to organize a roundtable with the union leaders to discuss the implementation of the reforms. The unions rejected this invitation and continued to ask for the complete withdrawal of the reform plans. At the same time, they called for another general strike. Based on the (correct) perception that the envisaged reform of public sector pensions was the most controversial issue of his reform package, Juppé on 10 December rescinded this reform element while largely maintaining the other components of the plan, including the measures aimed at increasing government's control over social security. The decision to withdraw the planned cuts in pensions for public sector workers ended much of the strike action and took the wind out of the sails of the protest movement. In a nutshell, Juppé completely failed with his plan to impose pension cuts for public sector workers, whereas Balladur two years earlier had been quite successful in implementing similar curtailments in the private sector (Pitruzello 1997; Vail 1999; Bonoli 2000).

¹³⁰ Various estimates range from 600.000 to more than 2,000,000 participants (Vail 1999:328).

¹³¹ In addition, students took the streets demanding higher spending for education.

The reform of the complementary regimes

In the mid 1990s the complementary regimes for wage earners in the private sector, i.e. ARRCO and ARGIRC (for executives only), were reformed as well. This was done through collective agreements between the social partners without interference by the state¹³². In the 1993 and 1994 agreements trade unions and employers' associations stipulated an increase in contribution rates. Within the ARRCO schemes, for instance, the minimum contribution rate (many employers and employees pay higher contributions on a voluntary basis) was gradually increased from 4% to 6% until 1999. In 1996, another contract was signed between the social partners, which envisaged the transformation of the 46 single ARRCO schemes into a single scheme. Moreover, in order to ensure the financial equilibrium of these schemes until 2005 the agreement stipulated a further increase of contribution rates, lowered pension entitlements per contribution point and lower nominal increases in pension levels. Under the assumption that the nominal value of pension points will continue to be adjusted in line with prices and that real wages will double until 2040 this reform will result in a drastic reduction of future replacement levels. For instance, the combined gross replacement rate (general regime plus ARRCO pension) for an average blue collar worker in the private sector is projected to fall from a level of around 68% in 1996 to almost 50% in 2040. While only about 5 percentage points of this reduction results from the changes in the general regime, more than 10 percentage points can be attributed to the reform of the ARCCO scheme. The reduction will turn out even stronger for pensions from the AGIRC scheme providing supplementary benefits for executive workers. By contrast, due to the failure of the Juppé plan replacement rates for civil servants will remain unchanged in the absence of reform (see table 8.3).

The successful implementation of cost containment reforms within the complementary regimes can be attributed to at least two factors. First, as set out in chapter one the complementary regimes are based on a defined-contribution design. As a consequence, the retention of the status quo automatically boils down to a decrease in benefit levels if demographic changes lead to a rapidly growing share of pensioners. Under these conditions, trade unions will only be able to defend current benefit levels if they have the power to change (rather than only to defend) the status quo. This

again requires the approval of the employers, which will resist a drastic increase in contribution rates. Moreover, as the complementary schemes are by their very nature exclusively financed out of wage-based contributions, trade unions cannot hope that the government will take over any financial responsibilities, as it did frequently with respect to the general system. Second, the complementary regimes cover only workers in the private sector. In this area, however, trade unions' power basis is much weaker than in the public sector due to very low levels of organization. Thus, with respect to the complementary regimes the bargaining power of trade unions is comparatively limited. This may explain why French trade unions have not hesitated to sign agreements that impose tangible losses for about 14 million private sector employees, while they fiercely opposed cutbacks of public sector pensions (EIRR 1993; EIRR 1996c; Bozec and Mays 2001).

Table 8.3: Projections of gross replacement rates for three typical cases¹

	1996	2020	2040
Blue collar, private sector ²			
General regime	45.7	41.1	40.9
ARRCO	22.4	15.4	10.3
Total	68.1	56.5	51.2
Executive worker, private sector ³			
General regime	22.9	20.6	20.6
ARRCO	11.7	8.2	5.4
AGIRC	24.4	16.7	11.9
Total	59.0	45.5	37.9
Civil servant			
Total	57.8	57.8	57.8

¹ including the impact of the 1993 reform for the general regime and of planned indexation rules for the complementary schemes ARRCO and AGIRC

² Individual reaching the social security ceiling after 20 years of contributions

³ Individual at the ninetieth percentile of wage earners affiliated to the general regime

Source: Charpin (1999)

¹³² The ARRCO agreement in February 1993, the ARGIRC agreement of February 1994, and the ARGIRC and ARRCO agreements of April 1996

The Thomas Law of 1997 – a failed attempt to establish private pension funds

The Juppé government also took steps to create a third tier of pension provision – based on private pension funds- in addition to the pay-as-you-go financed basic and complementary pension schemes. To this end the French parliament adopted a bill on retirement savings funds (known as the “Thomas law”) aimed at 14.4 million employees in the private sector and agricultural workers. The establishment of these pension funds should not only make up for the reduction of public pension benefits associated with the reform of the general regime and of the complementary schemes. It also sought to strengthen the French equity market and counterbalance the growing power of foreign institutional investors¹³³.

All private sector employees can join the retirement savings funds (*plans d'épargne retraite*) on a voluntary basis. The funds can be established on the basis of a collective agreement at the company or at the sectoral level. However, if no agreement is reached after six months of negotiations, subscription to the plan may also be unilaterally decided by the employer. Moreover, employees without access to a savings plan through their employer are allowed to join a scheme of their choice. The funds were intended to provide a life annuity during retirement, which would be subject to income tax and which could be transferred to a partner or children. Both employees and employers would decide freely over the level of their contributions to these funds. These contributions will be counted as non-taxable income, up to 5% of gross salary. Moreover, employers' payments would also be exempted from social security contributions up to a certain limit (EIRR 1997c; Reynaud 1997).

The Thomas law was supported by the French bank and insurance industry and – at least in principle – by the employers' association. It is interesting to note that it was the Ministry of Economic Affairs which was in charge of applying the law rather than the Minister of Employment and Social Affairs who opposed the bill. The left-wing parliamentary opposition and the trade unions considered this as an indication of the dominance of financial interests over social concerns. By the same token, they feared a “de-solidarization” of old-age provision with only a small group of well-off employees profiting from the new private pillar. Moreover, the fact that employer payments to these pension funds would be deductible from social security contribu-

¹³³ In order to encourage the investment in shares, the law stipulates that no more than 65% of the funds should be invested in bonds.

tions was perceived as a potential threat to the financial viability of the pay-as-you-go financed pension schemes. In particular, the trade unions feared that the establishment of private pension funds (which would be run by private insurance companies rather than collectively by the social partners) may over time lead to a gradual crowding out of pensions from the complementary regimes, the management of which provides for an indispensable job and income source for union functionaries. Another objection against this legislation concerned its incompatibility with the advantage rule (*Günstigkeitsprinzip*) stipulated in employment law. The reason is that a company agreement or an employer's unilateral decision can remain in place even if a more favorable agreement is concluded at the branch level. Given these concerns, the Socialist party committed itself to repeal the Thomas law after a change in government. Thus, after the election victory of the left parties only a few months later the new government decided not to implement this piece of legislation (Reynaud 1997; Blanchet and Legros 2000).

Pension policy under the Jospin government

Although the huge right-wing majority in the *Assemblée Nationale* had still a year of its mandate left, President Chirac in April 1997 exercised his constitutional prerogative to dissolve parliament and called for early elections. This decision was based on the assumption that the electoral outlook for the bourgeois parties would further worsen in 1997 as EMU would require new unpopular austerity measures. Nevertheless, the bourgeois government parties RPR and UDF did not manage to renew their parliamentary majority. Their combined vote share fell from 39.5 to 31.5 per cent, while both the left-wing and the extreme-right opposition increased their shares substantially. The electoral defeat of the Juppé government is at least partly the consequence of Juppé's unpopular austerity policy combined with his confrontational and hegemonic policy style towards the trade unions. What is more, his austerity policy was contrary to the election promises Chirac had given in the 1995 presidential campaign. After the election, the left-wing parties accomplished an absolute parliamentary majority and formed a shaky Socialist-Green-Communist coalition headed by Lionel Jospin. With the highest share of seats since 1981 (6.6%) and two ministers in the cabinet the Communists were able to attain strong influence within the new government (Szarka 1997).

With respect to his policy style Jospin differed fundamentally from his predecessors. In contrast to the technocratic and hegemonic approach adopted by Juppé, Jospin attached great importance to negotiation and concertation with the social partners. In contrast to the post facto concertation of Balladur, Jospin sought to incorporate the social partners in an early stage of policy formulation. To this end, he applied a technique that had been used frequently by French governments until the early 1990s. He commissioned expert reports in order to test the reactions of the social partners before moving ahead with (or abstaining from) controversial reforms (Levy 2000).

With respect to pension reform Jospin's first trial balloon was the publication of the Charpin report in March 1999, delivered by France's National Economic Planning Agency in cooperation with social partners' pension experts (Charpin 1999). Although the government sought to put forward a diagnosis of the pension problem in agreement with the views of the social partners, the proposals made in the report turned out to be highly controversial. Based on a rather gloomy scenario of the financial development of public pension schemes in the medium and long term, the report proposed a gradual lengthening of the qualifying period for a full pension to 42.5 years (hitherto 37.5 years in the public and 40 years in the private sector) over the next 20 years. In addition, it recommended beefing up the newly-created reserve fund within the public pension system (see below).

While employers' associations approved the extension of the contribution period (and called for even more far reaching adjustments), unions reactions were mixed and ranged from cautious approval to open hostility. The CFDT at large shared in principle the overall philosophy of the Charpin report and called for a progressive harmonization of private and public sector pension schemes. However, powerful federations within the CFDT such as the rail workers' federation opposed this line and announced to take industrial actions against any attempts to curb their pension entitlements (which are more generous than those of the general scheme). CGT and FO also condemned the proposals made in the report. In particular, they sharply rejected an extension of the qualifying period in the context of persistently high unemployment or even called for a return to a contribution period of 37.5 years in the private sector (Sauviat 1999; Bozec and Mays 2001).

In an effort to arrive at a more promising basis for negotiations with the trade unions, the Jospin government distanced itself from the Charpin report and commissioned

the Council of economic analysis, an institution mainly composed of left-wing academics, to draft another report on the pension problem. In doing so, Jospin sought to put forward a reform concept more palatable to the trade unions. The so-called Taddéi report, published in September 1999, presented a different solution to the pension problem than the Charpin study. While rejecting the extension of the qualifying period (as proposed by Charpin), the Taddéi report advocated a more progressive transition from activity to retirement.

Only a few months later, another official study, the so-called Teulade report, was published. It was drawn up by the French Economic and Social Council (a consultative assembly provided for in the Constitution of the French Republic representing a broad array of societal interest groups), which in this case acted on its own authority rather than on the initiative of the government. Remarkably, the conclusions made in the Teulade report were diametrically opposed to those of the Charpin report. In particular, it rejected the augmentation of the contribution period, especially in the context of high unemployment. It also disapproved the harmonization of the special regimes with the less favorable rules of the general scheme. The harmonization should not entail a deterioration of the benefit rules in the special regimes but rather an improvement of those in the general system. Moreover, the Teulade report argued in favor of a return to wage indexation for private-sector pensions. Like the Taddéi report, the Teulade report advocated the limitation of early retirement options and improved incentives for companies to maintain older employees (based on training and flexible systems of progressive retirement departures). To relieve the financing problem of the pension system, the report advocated the fortification of the public reserve fund, increased state-financing with regard to non-contributory benefits and the inclusion of revenues other than wages. Above all, it underscores the necessity to foster economic and employment growth. Based on the assumption of an economic growth rate of 3.5 % per year until 2040 (sic!), the report states that the long-term viability of the pension system can be ensured without benefit cuts.

The Teulade report was heavily criticized by the employers' association and the right-wing political parties, which denounced its unrealistic assumptions. The CFDT was also critical of the report, asserting that economic growth and lower unemployment alone would not suffice to address the financing problem of the pension system. It also criticized the lack of any proposals to arrive at a greater harmonization of pen-

sion schemes. By contrast, most other trade unions supported the general orientation of the report and its emphasis on employment policy (rather than on pension cuts) as a means to consolidate the pension system. Given this strong divergence of policy positions among the key actors in French pension politics, it turns out to be virtually impossible to arrive at a broad political consensus on pension reform (Blanchet and Legros 2000; Sauviat 2000; Bozec and Mays 2001).

The fierce resistance of large sections of the French trade union movement against any form of pension retrenchment prompted the government coalition (within which a number of leftist representatives partly shared unions' concerns) to postpone this controversial issue at least after the general elections scheduled in 2002. Clearly, the big social protest movement against the Juppé plan in 1995 and the subsequent withdrawal of pension cuts in the public sector had a deterrent effect on Jospin. Moreover, the economic recovery after 1997 associated with yearly growth rates well above 3%, falling unemployment and a pronounced improvement of public finances created a situation in which pension cuts were not needed to reduce the budgetary deficit and to stabilize contribution rates in the short term. This again made it easier for Jospin to pursue a policy of non-decision with respect to a reform of the public pension system (Sauviat 1999; Bozec and Mays 2001). Jospin's only significant cost containment measure in the area of pensions was the temporary continuation of price indexation (rather than wage indexation). Recently, however, the Jospin government deviated from this course in order to improve its position in the 2002 elections. In 2001 and 2002, pensions were raised by 2.2%, an increase significantly above the inflation rate.

Jospin's wait-and-see attitude was also evident in the promotion of private pension funds. As mentioned above, the Jospin government repealed the Thomas "law" on private pension funds, which had been adopted by the preceding bourgeois government. The abrogation was primarily decided upon in response to fierce opposition by the trade unions, which criticized that such pension funds would crowd out rather than complement the existing pay-as-you-go based pension schemes and give no role to the social partners. Hence, Jospin first concentrated on the fortification of the public pension system. In November 1998 the government set up a reserve fund within the pay-as-you-go system (*fonds de reserve*) to smooth the effects of the imminent demographic shock. It has been financed among others by a "solidarity con-

tribution” levied on companies, the surpluses from the general scheme, part of a 2% tax levy on capital revenues, dividends from partly state-owned companies, the proceeds of future privatizations and the profits from the sale of UMTS licenses. The reserve fund is invested in financial markets and largely managed by the government. Clearly, the relatively favorable budgetary conditions during Jospin’s incumbency facilitated the creation of the reserve fund. With an original endowment of 2 billion Francs the fund is intended to achieve a volume of 1000 billion Francs (152 billion Euro) in 2020 (in constant prices). However, in order to stabilize the pension system in the long run the envisaged volume will have to be much higher (Sauviat 1998; Blanchet and Legros 2000; Bozec and Mays 2001; Math 2001).

The French trade unions – in contrast to the employers - in principle support the idea of a capital stock *within* the public pension pillar as a means of sustaining the financial viability of the pay-as-you-go system in the context of demographic changes. They are also in favor of the collective nature of this measure. In contrast to private pension funds a public fund would not lead to a “desolidarization” of old-age provision. Unions’ criticism mainly referred to the management and organization of the fund, characterized by a dominant role of the government with only limited influence by the social partners (Math 2001).

While the Jospin government has not ruled out the creation of private pension funds, it aims at the development of pension funds more in line with the preferences of the political left and the trade unions. Apart from the FO, French trade unions have come to accept the principle of pension funds. As against the pension funds proposed by the Juppé government, however, the trade unions call for compulsory funds, that are managed collectively by the social partners and that do not compete for funding with the pay-as-you-go systems. Jospin also promised not to authorize the establishment of private pension funds before reforms to sustain the long-term viability of the public pension system have been adopted. Hence, France still lags behind other countries with respect to the development of third-pillar pensions (Sauviat 1998; Levy 2000).

Explanatory factors for the slow pace of pension reform in France

By and large, French pension policy-makers have made only limited progress in putting the pension system on a more sustainable basis. In order to account for France’s

meager reform record in pension policy we must briefly recall the fact that the pension reform process after 1985 can be divided into four distinct phases:

- A period of non-decision until 1992, covering incumbencies of both bourgeois and Socialist governments
- The incumbency of the bourgeois Balladur government (from March 1993 until May 1995), during which France adopted a substantial reform of private sector pensions. While yielding considerable savings in the medium and long run, the reform is less ambitious than the 'big' pension reforms adopted in Sweden and Italy, both of which imply a radical shift from a defined-benefit towards a defined-contribution system. By the same token, the Balladur reform alone will not suffice to stabilize the costs of private sector pensions in the face of demographic ageing.
- The incumbency of the bourgeois Juppé government (from May 1995 until June 1997), which failed in its attempt to impose a major reform of public sector pensions.
- Finally, the incumbency of a Socialist-Green-Communist coalition government under Lionel Jospin (from June 1997 until May 2002), which again represents a period of non-decision with respect to pension reform.

Thus, for most of the time since the mid 1980s (before 1993 and again after 1997) French governments have basically pursued a policy of non-decision and refrained from launching major initiatives to reform the pension system, although they acknowledged in principle the necessity of reform. Only in three cases French governments took the chance and moved ahead with controversial pension reform plans. Two of these three attempts essentially failed, either because the government withdrew its reform plan in the face of massive social unrest (Juppé's plan to cut public sector pensions) or because the subsequent government reversed the reform (the creation of private pension funds through the Thomas law). The only successful attempt at pension reform by the French government (the Balladur reform in 1993) was not sufficient to ensure the long-term viability of the pension system and left a number of critical issues (public sector pensions, development of fully-funded pension plans) unsolved. Hence, I will first summarize those factors which explain the remarkable resilience of the French pension system. Thereafter I will briefly recapitulate

the (exceptional) conditions which facilitated the success of Balladur's reform attempt in 1993.

The phenomenon that most French governments made no serious attempts to reform the pension system suggests that these governments considered the political costs of reform higher than the costs of non-reform. This is primarily due to the fact that a broad political consensus on pension reform is extremely difficult to achieve in French politics and that the potential losers of reform may be able to mobilize effectively against the curtailment of their pension claims. The specific features of the French party system tend to impede the emergence of an alliance for pension reform across the political camps. The party system is characterized by very strong competition between the left-wing and the bourgeois bloc. This again results from the majoritarian electoral system, in which even small electoral gains for one camp may transform into a huge majority of parliamentary seats. Moreover, the French polity until recently featured a double electoral cycle (with general elections every five and presidential elections every seven years), which additionally intensified the high degree of bipolar party competition (Bonoli 2000). These factors amplify the electoral cost of pension reform and render a broad pension consensus between government and opposition parties extremely difficult even if their pension policy positions do not deviate very much from one another. Moreover, under these conditions the left-wing governments between 1988 and 1993 and between 1997 and 2002 had to rely on the parliamentary support of the Communists, who again tended to oppose significant cutbacks of public pensions as a matter of principle.

The most important impediment to effective pension reform, however, concerns the organizational structures and the mobilizing capacities of French trade unions. A number of institutional factors hamper the strategic capacity of French trade to strike package deals with the government in the area of pension policy:

First, French trade unions stand in strong competition with one another. Consequently, a trade union confederation cooperating with the government in welfare retrenchment can be easily denounced by other unions for 'selling out' workers interests and may therefore jeopardize the support of its own members (Levy 2000).

Second, French trade union confederations have little control over their sub-organizations and their rank-and-file in general, which often is able and willing to organize spontaneous strikes at the grass root level without the approval of their con-

federational leaders (Deutsch-Französisches Institut 2001). Given the categorical fragmentation of the French pension system, this favors the particularistic interests of single occupational groups (such as public sector workers) at the expense of more encompassing interests at the leadership level (such as the interest of the CFDT leadership in a greater harmonization between private and public sector pensions). Hence, French unions largely lack the strategic capacity of organizing consent for reforms which impose losses on some members to the benefit of the collectivity (Culpepper 2000).

Third, French trade unions are likely to fight any reforms which may threaten their institutional position in the administrative bodies of social insurance (including the complementary regimes). The main reason is that French unions are insufficiently funded due to very low levels of organization, especially in the private sector. Thus, their involvement in the management of social insurance bodies provides them with an indispensable job and income source for their functionaries (Bonoli and Palier 2000; Palier 2000; Ebbinghaus 2001). Hence, virtually all French trade unions were strongly opposed to the type of private pension funds established by the Thomas law. According to this legislation the management of private pension funds would primarily lie in the hand of private insurance companies rather than in the hands of the social partners. Moreover, as contributions to these funds were deductible from contributions to the public pension system, the trade unions feared a financial erosion of public social insurance and a concomitant weakening of their organizational power resources (Veil 2000a; Veil 2000b).

Against this background it is not surprising that the representatives of traditionalist, strictly status-quo oriented policy positions clearly prevail within the French trade union movement, whereas the more reformist forces have a difficult time to make themselves heard. By the same token, French trade unions show a great readiness as well as a high capacity of mobilizing their members. This is especially true for the public sector, where the level of unionization is considerably higher than in the virtually non-unionized private sector. Certain occupational groups in the public sector such as railway workers are able to carry out strike actions that effectively paralyze strategic sectors of the national economy and that may last for several weeks. As their successful protests against Juppé's attempt to cut public sector pensions have shown, French unions may assert themselves even against an institutionally strong

and ideologically cohesive government (Pitruzzello 1997). Against this background it does not come as a surprise that French governments more often than not sought to avoid a direct clash with the trade unions over the controversial issue of pension reform.

Of all French governments since 1985 it was only the bourgeois Balladur government that brought about a major reform of the French pension system. Following Vail (1999), the success of Balladur is based on the judicious choice of policy substance as well as on the policy-making style on the part of the government. Both factors ensured the tacit acquiescence of the trade unions or at least the non-appearance of a major protest movement against the reform. Concerning policy substance, Balladur confined the reform to employees in the private sector and thereby avoided a conflict with the more militant unions in the public sector. In addition, Balladur included a number of important concessions to the trade unions in his reform package, such as a shift in the financing of non-contributory benefits from social contributions towards taxes. As Bonoli (2000) points out, this measure had been a key demand of some trade unions. It relieved the financial pressure on social insurance schemes by reducing the deficits within the system. Moreover, through the separation of contributory and non-contributory elements the government de facto acknowledged the managerial role played by the trade unions in social insurance. By contrast, the Juppé reform in 1995 combined benefit cutbacks with an attack on trade unions' managerial role within the system by empowering the parliament to vote every year on the social security budget. Finally, Balladur took a deliberately non-confrontational policy style and attached great importance to intense consultations with the trade unions, whereas Juppé developed his reform plan under complete secrecy and (at least initially) rejected negotiations with the trade unions, thereby reducing the scope for an amicable agreement.

Chapter 9

Conclusion

Welfare retrenchment is a difficult undertaking. As Pierson (1997) points out, the welfare state appears to be the most resilient aspect of the postwar political economy, with pensions probably being the most resilient part of it. This is particularly true for pension systems of the Bismarckian type covering large sections of the population and granting earnings-related benefits typically perceived as “acquired rights” on the part of the beneficiaries. Nevertheless, most governments in the countries under study have sought to reform their retirement income systems in recent years. In principle, this holds true for both left and right governments, although the experiences in Austria, Germany and Sweden show that Social Democratic governments had much greater difficulties to organize support for painful pension reforms within their own party organizations than bourgeois governments. Governmental reform efforts in pension policy were mainly aimed at dampening the growth of non-wage labor costs, unburdening the public budget, establishing a tighter link between contributions and benefits, harmonizing benefit regulations between different pension schemes and stimulating the expansion of fully-funded old-age provision. As far as the goal of cost containment is concerned, the countries under study have made substantial progress since the late 1980s. Pension policy-makers in the Bismarckian countries adopted quite a few cost containment measures in recent years. As a consequence, public pension expenditures will grow much more slowly over the following decades than they would have done otherwise.

However, the comparative inspection of national developments conducted in this study also revealed substantial variations *around* the trend line. For instance, Italy and Sweden have been more successful in controlling the long-term growth of public pension outlays than Austria, France and Germany. In order to account for these differences I have analyzed the sequence of decision-making processes in pension policy within each country treating specific instances of pension reform (or non-reform) within each country as the crucial unit of analyses rather than countries as such. As we have seen, not all attempts to reform the system of old-age provision were suc-

cessful. Most countries under study have experienced successful and failed reform initiatives alike as well as periods of non-decision with respect to pension reform. Moreover, some reforms were quite far-reaching, whereas others were watered down beyond recognition. In sum, the conditions for successful adjustment in pension policy vary considerably across countries as well as over time. This study sought to explore the factors that account for these variations.

The analysis of the political decision-making process in various countries has revealed that pension politics goes beyond the functional adaptation to external pressures. To be sure, the internationalization of product and capital markets, the pressure for fiscal austerity, and especially the aging of populations constitute important driving forces for national policy-makers to place pension reform on the political agenda. In some countries, most notably Italy, the politically binding criteria of the Maastricht treaty clearly accelerated the pace of pension reform. However, even there the mere presence of European or international pressures did not guarantee the successful implementation of pension reforms. The failed pension reform plans of the Berlusconi government in 1994 provide striking evidence for this. Supranational or functionalist models of social policy reform suggesting a seamless transformation of external pressures into corresponding policy decisions by national policy makers therefore tend to neglect the importance of domestic factors.

Therefore, this analysis mainly focused on the *actors* involved in the politics of pension reform. Following the theoretical framework of actor-centered institutionalism (Scharpf 1997b), political actors are characterized by specific capabilities, specific perceptions, specific preferences and specific interaction orientations and operate in a specific institutional context. By drawing on these theoretical categories this study sought to identify the causes of different outcomes in the area of pension policy. In the following, I will briefly recapitulate in how far the approach of actor-centered institutionalism can be applied to the analysis of the politics of pension reform in Bismarckian countries.

In order to adequately understand the actor constellation within the area of pension policy, we must recall the fact that pension reform is associated with considerable political costs. Broadly speaking, pension politics these days is as much about adjusting pension arrangements to changing demographic and economic conditions as it is about overcoming widespread political resistance to reforms that impose tangible

losses on large parts of the electorate. As the ratio of pensioners to the number of employed will increase significantly in the future, pension reforms translating the secular trend of demographic ageing into legislative decisions ultimately boil down to a distribution of financial burdens. There can be hardly any doubt that pension benefits will become less generous while pension costs (including expenditures to occupational and private forms of old-age provision) will continue to rise. If current levels of financing are maintained, pension benefits are likely to fall. Conversely, if current pension levels are to be maintained, a much higher share of the gross domestic product needs to be channeled into the pension system. In other words, pension policy-makers are inevitably faced with a “tragic choice” where all alternatives (reform as well as non-reform) are painful (Bovens et al. 2001). Under these conditions pension reform is primarily an exercise in “blame avoidance” rather than in “credit claiming” and may trigger harsh political conflicts.

The potential risks for governments seeking to reduce pension costs are manifold. Potential reform opponents may have the capacity to block or to rescind pension reform initiatives in the legislative or in the judicial arena. In addition, they may mobilize their members or the public at large against the reform plans and thus enhance the political (most notably the electoral) costs of pension reform for the government. This, again, may prompt the government to withdraw its reform plans or may even lead to the government’s defeat in the electoral arena. We have seen that even left parties are not immune to these electoral risks. The dramatic decline of the German Social Democrats at the 1999 *Länder* elections and of the Swedish Social Democrats at the 1998 *Riksdag* election must at least partly be attributed to the previous cuts in pension and welfare benefits. In both cases, the Social Democrats lost most strongly among their traditional core voters, who either switched to Communist parties or abstained from voting. Hence, there is little empirical evidence for the assumption that left parties can cut more easily than market-liberal parties, as has been suggested by the proponents of the Nixon-goes-to-China thesis (see chapter 3). Even left-wing governments will have a strong interest to minimize the electoral risks of welfare retrenchment and thus seek to avoid the blame for unpopular pension cuts by bringing other key institutional actors on board with which an at least tacit consensus on pension reform can be achieved. As I have argued, a stable political support basis for pension reform typically incorporates either the parliamentary opposition or the trade

unions. In those cases where the government can rely on the support from at least one of these actors it will be in a much better position to neutralize the veto power of potential reform opponents and to contain the electoral costs associated with pension retrenchment.

This has important implications for the actor constellation in pension policy. An actor-centered analysis of pension reform processes must not be confined to the role played by actors within the government camp. It must also take into account the parliamentary opposition and the trade unions as crucial actors facilitating or impeding effective adjustment in pension policy. Each of these corporate actors has a distinct preference structure regarding pension policy:

- The government, to begin with, is the first mover and has to decide whether it puts pension reform on the political agenda or not. In the policy dimension it has an interest to implement real changes (in particular, to curb effectively the growth of pension costs). At the same time, government politicians are aware of the great electoral risks associated with unpopular measures in pension policy and thus have an interest in the approval or at least the acquiescence of those reform opponents who are capable of mobilizing large sections of the electorate against the reform. Moreover, the compliance of potential reform opponents will increase the likelihood that legislative changes in pension policy (which often unfold their full effect only after decades) will not be reversed by future governments.
- The opposition parties have to decide whether they oppose or support government's pension plans. Typically, they have ambivalent preferences towards a pension consensus with the government. As policy seekers, opposition parties have an interest to influence the contents of pension reform suggesting cooperation with the government. If an opposition party has a realistic chance to resume the office of government in the near future, its preference in pension policy will also tend towards cost containment since economic and fiscal pressures will force any government to consolidate public pension schemes primarily through savings at the expenditure side. As vote- and office-seekers, by contrast, opposition parties have a competitive interest to improve their relative position vis-à-vis the government suggesting a more conflict-oriented strategy in issues of high electoral salience such as pension reform.

- Trade unions, too, have contradictory preferences in pension policy both in the policy dimension and in terms of their organizational self-interest. In the policy dimension they have to balance their interest to stabilize the level of social contributions against their interest to maintain the level of pension benefits. However, for a number of reasons (discussed at length in chapter 3) unions are as a rule more critical of pension cuts than the government. At the same time, unions must carefully ponder whether their policy interests in the retention of pension benefits (as well as their organizational self-interests) are best served by negotiations with or by mobilization against the government.

The bottom line is that the government will always be better off if it can avoid major conflicts over pension policy. This is not necessarily true for the parliamentary opposition and for the trade unions. For these actors, consensus with the government is typically no value in itself. Their willingness to arrive at a pension consensus with the government cannot be taken for granted but will always depend on specific context factors. In the theoretical chapter I have made a number of basic assumptions about the conditions under which opposition parties and trade unions are likely to oppose or to accept a pension consensus with the government.

With respect to the conditions for a pension consensus between government and opposition I started from the theoretical assumption that the willingness of the opposition to support the government's pension policy will not only depend on the distance of policy positions but also on the intensity of positional conflict between government and opposition. More specifically, I expected that a high degree of positional conflict between government and opposition is likely to impede a pension consensus even if the policy positions are actually quite similar. I also expected that an opposition party is likely to block any pension reform initiative that is diametrically opposed to its policy interests, even in those cases where the intensity of positional conflict is low. These assumptions led to the hypothesis that a pension consensus between government and opposition will only be possible if both sides share a common policy interest in a change of the pension status-quo and if positional conflict does not prevent a policy-oriented bargaining process (see table 3.1).

My empirical findings corroborate this hypothesis. In all the countries under study both Social Democratic and bourgeois parties have come to accept the need of incisive cost containment measures in pension policy. At the same time, even market-

liberal parties have come to acknowledge that the double payment problem impedes a radical privatization of public pay-as-you-go pension systems in a stage of full maturation. As a consequence, the pension policy positions between Social Democratic and bourgeois parties have increasingly converged in recent years. From a pure policy-perspective this should facilitate consensual pension reforms in the partisan arena.

However, the (partial) congruence of policy positions is not a sufficient condition for a cross-party consensus. The empirical findings suggest that it is mainly the political competition between left and right parties rather than unbridgeable policy positions that impedes the emergence of a party-based pension consensus. The instances of pension reform based on a broad cross-party consensus appear to be exceptions to the rule. More often than not opposition parties cannot resist the temptation to exploit the pension issue in the electoral arena even when their material policy goals do not deviate radically from the government's policy positions.

Among the countries under study I found only two cases where the government and the major opposition parties arrived at a far reaching consensus on pension policy: the German 1992 pension reform and the recent pension reform in Sweden. In these cases situational factors reduced the degree of positional conflict and allowed for a relatively policy-oriented bargaining process. Most importantly, only in these two cases the (Social Democratic) opposition expected its imminent return to government and thus saw no necessity to exploit the pension issue in the electoral arena. Interestingly, the Social Democratic party leaders in both countries were willing to strike a pension deal with the bourgeois government although they had to make a number of substantial concessions. This suggests that a pension consensus in the partisan arena requires a reduced level of positional conflict between government and opposition but not necessarily an approximate identity of their policy positions.

Both reforms imply comparatively large reductions of pension costs in the medium and long run and -in the Swedish case- far reaching structural changes. In both cases the trade unions exerted some influence on the reform process through party channels but they were not directly represented at the bargaining table. Thus, the main-features of both reforms were primarily developed through cross-party negotiations rather than through negotiations between government and trade unions. Hence, the final bargaining outcome largely reflected the policy positions of the major politi-

cal parties, which favored more far reaching changes to the status quo than the trade unions. This corroborates our theoretical assumption that a party-based pension consensus typically allows for greater and faster adjustments than a consensus between government and trade unions.

It also confirms our theoretical expectation that governments will often try to first reach an agreement in the partisan arena (if this alternative is available) and only refer to the trade unions if they fail to bring about a broad cross-party agreement. In Germany, the Schröder government first concentrated its efforts on bringing the Christian Democratic opposition on board in order to sidestep the resistance of the trade unions and the leftist reform opponents within its own ranks. Only after this strategy had failed was the red-green government prepared to offer far reaching concessions to the trade unions. In Austria, too, the grand coalition between SPÖ and ÖVP initially sought to implement the 1994 savings package and the 1997 pension reform without unions' approval. Arguably, the Austrian government considered a merely party-based pension consensus to the exclusion of unions as a prerequisite for the implementation of far reaching adjustments. To be sure, in the highly fragmented and unstable Italian party system it used to be extremely difficult to sustain a broad party consensus on pension reform. In this case, consensus with the unions was the only alternative to create a stable political support basis for pension reform.

As expected, a pension consensus between government and opposition proved to be virtually impossible in those cases where the opposition generally tends to reject pension cuts. This also holds true in a context of low positional conflict, i.e. in a situation where an opposition party has no interest in the removal of the existing government. The behavior of Communist opposition parties is a case in point. As a rule, Communist parties have opposed any efforts at pension retrenchment, even in those cases where Social Democratic governments depended on their parliamentary support. Here, the emergence of consensual solutions was not primarily impeded by fierce party competition but by more or less unbridgeable differences in pension policy positions. Among the instances of pension reform investigated in this study we can only find one case, namely the 1997 amendments by the Prodi government, where a Communist party was willing to give its (grudging) acquiescence to pension cuts. However, even in this case the *Rifondazione Comunista* initially rejected the cuts, which again precipitated a veritable government crisis. Only after the Prodi gov-

ernment had offered a substantially watered-down savings package were the Italian Communists prepared to support the reform. In general, however, all Social Democratic governments relying on the parliamentary support by Communist parties were effectively restricted in their capacity to bring about substantial cost containment reforms in pension policy. Among the countries under study this was the case for French centre-left governments and for the Swedish SAP government in the 1980s.

While among the numerous pension reforms examined in this study only a few were based on a broad consensus between government and opposition parties, we find many instances of pension reform based on concertation between the government and the trade unions. To be sure, in virtually all countries the politics of pension reform has been associated with more or less intense conflicts between the government and trade unions. To some extent, this reflects the self-interest of trade union leaders, who seek to present themselves as staunch advocates of wage earners' interest in the eyes of their own rank-and-file. Nevertheless, we can still identify many cases where government and unions finally settled their conflicts and arrived at an at least implicit agreement over the pension reform package. This empirical finding is consistent with my theoretical expectations. As suggested in the theoretical framework of this study trade unions have basically no competitive incentives vis-à-vis the government. Unlike the parliamentary opposition unions are first and foremost policy seekers. Provided that they have no chance to block the adoption of the reform, they will always have a strong interest in serious negotiations with the government even if they have to accept a reform outcome that is less attractive than the retention of the status quo. In this case, unions' agreement will depend on whether or not the government is willing to reward their acquiescence with a reform package that is at least more attractive than the outcome obtained in the case of unilaterally imposed reform. Conversely, if the unions are able to prevent a reform that they consider as inferior to the status quo, it is the government that will be forced to make more far reaching concessions in order to move the effective outcome to a location that lies in the area of common attraction. Thus, irrespective of the location of the non-agreement point (retention of the status quo or imposition of a reform outcome close to the government's ideal point) we should expect that a rational government and rational trade unions should in principle be able to arrive at an amicable agreement.

A negotiated solution, however, presupposes that both sides are able to correctly assess their respective chances to come out ahead of the mutual power struggle over pension reform *beforehand*. In many concrete decision situations this condition cannot be taken for granted. As the largely failed attempts of unilateral reform by Berlusconi (Italy 1994), Juppé (France 1995) and Vranitzky (Austria 1994) suggest governments may overestimate unions' willingness to accept certain reform proposals and underestimate unions' capacity to block government initiatives in the legislative arena or to mobilize their members against these initiatives. There is strong reason to believe that the above-mentioned governments would have embarked on a more cooperative strategy vis-à-vis the unions if they had correctly judged the balance of power between themselves and the labor movement.

In those cases where government and unions reach an agreement the content of the agreement is likely to reflect the balance of power between government and trade unions. In the theoretical section I outlined the potential strategies that unions may be able to apply in order to prevent governments from enacting policies that they strongly disapprove. To begin with, unions may use their party channels in order to avert a parliamentary majority in favor of governmental reform initiatives. This strategy will be most promising in the case of ideologically fragmented governments, especially if these lack a strong parliamentary majority and if trade union functionaries control a sizeable share of key positions within the party apparatus. However, governments may compensate for their own weakness if they can rely on the support of the parliamentary opposition. In this case, the government will be able to bring about a parliamentary majority in favor of the reform even if it lacks an own majority due to dissenters in its own ranks. The recent German pension reform is a case in point. Had the red-green government succeeded in bringing the Christian-Democratic opposition on board, it could have ignored the reform opponents within the SPD parliamentary group much more easily. In Austria, however, even the grand coalition between SPÖ and ÖVP proved unable to bypass the resistance of the intra-governmental reform opponents, since trade union functionaries hold a much more powerful position within the Austrian SPÖ than within the German SPD.

Trade unions may also attempt to enhance the electoral costs of reform for the government. By signaling their strong disapproval towards a governmental pension plan trade unions may prompt their sympathizers to change their voting behavior either by

switching to opposition parties or, most notably in the case of left-wing governments, by vote abstention. The government's response to this threat will depend on its electoral vulnerability. If the next election is distant or if the opposition parties are too weak to have a chance of winning the next election, the government may ignore unions' protests. By the same token, the parties in government will withstand unions' electoral threats more easily if they enjoy the support of the parliamentary opposition. This will deprive the trade unions from the possibility to exploit the pension issue in the electoral arena. Finally, a government will be less receptive to trade unions' electoral pressure against pension cuts if the government's action alternative is equally unattractive. If benefit cuts remain undone and lead to sharply rising contribution rates and/or to an increasing budget deficit, which again may aggravate the existing employment problems, the government may generate a policy outcome that may be as harmful to its electoral prospects as a confrontation with the trade unions on the issue of pension cuts. Given high or rising unemployment and tight budgetary pressures this dilemma appeared relatively frequent in the countries under study. For instance, the pension cuts adopted by the Kohl government in 1996 and 1997 were needed to avoid a sharp increase in tax levels, which was considered as politically unacceptable in the context of rising unemployment and stagnating or even falling real wages. This scenario created a powerful countervailing pressure to unions' demands for the retention of pension benefits.

However, even governments that are less vulnerable to the risk of electoral retribution may still be confronted with a highly militant trade union movement. Some trade unions are in principle capable of organizing large-scale and long-lasting strikes that may paralyze strategic sectors of the national economy. This again may prompt the government to refrain from its policy agenda even if it had the formal power to enact it unilaterally and if it is not exposed to overly great electoral risks. It should be noted, however, that the mobilizing capacity of a specific trade union is not a constant but will depend on the political salience of the issue at stake. A case can be made that pension cuts are more likely to trigger powerful counter-mobilization than most other political issues. Here, it needs to be reminded that the French government had to withdraw the envisaged cuts of public sector pensions but largely succeeded in implementing the other parts of the Juppé plan. In sum, unions' veto power in the partisan/parliamentary arena as well as their mobilizing capacity is likely to determine

their bargaining position vis-à-vis the government. Against this background we can identify four ideal typical power configurations between government and trade unions (see table 9.1):

Table 9.1: Power configurations between government and trade unions and their likely effects on unions' bargaining position

		Institutionally strong + ideologically cohesive government AND/OR Support by parliamentary opposition	
		Yes	No
Mobilizing capacity of trade unions	High	<u>Strong bargaining position:</u> France (bourgeois governments + public sector unions), Italy (since 2001)	<u>Very strong bargaining position:</u> Italy, France (left governments + public sector unions)
	Limited	<u>Weak bargaining position:</u> Austria (ÖVP/FPÖ government), France (bourgeois governments + private sector unions), Germany (bourgeois government), Sweden	<u>Strong bargaining position:</u> Austria (SPÖ/ÖVP government), France (left governments + private sector unions), Germany (red-green government)

The bargaining power of trade unions vis-à-vis the government will be most pronounced in a constellation where an institutionally weak and internally fragmented government confronts a strong and combative union movement. Until recently we found such a power configuration in Italian politics. Faced with a highly fragmented and polarized party system and lacking stable parliamentary majorities Italian governments of all partisan stripes were unable to enact substantial pension reforms against the trade unions, which had repeatedly proven their capacity to provoke societal unrest. Berlusconi's failed attempt to impose radical pension cuts unilaterally is a case in point. His internally divided and institutionally weak government proved unable to present a unified front to the unions, which successfully launched a massive protest movement against the government's pension reform plans. Finally, Berlusconi's coalition partner *Lega Nord* broke ranks with the parliamentary majority forcing the government to withdraw the reform. French left-wing governments seeking to reform public sector pensions found themselves in a comparable situation. Given their

internal dissension over pension reform and their dependence on the parliamentary support of the Communist party Socialists governments in France dissociated themselves from controversial pension reform plans, against which the militant public sector unions were likely to mobilize.

The balance of power between government and trade unions is less clear-cut in a situation where the government is able to present a unified front vis-à-vis a trade union movement that is capable of effective counter-mobilization. Here, the number of empirical instances is too low to allow for more general theoretical conclusions. However, Juppé's withdrawn plan to reform public sector pensions suggests that even an institutionally strong and ideologically cohesive government facing only limited electoral constraints¹³⁴ may be unable to withstand a long-lasting and large-scale counter-mobilization by a powerful trade union movement.

In a number of cases trade unions largely lack the capacity of powerful counter-mobilization. In contrast to their French and Italian counterparts trade unions in Austria, Germany and Sweden have great difficulties to organize large-scale protest movements and do not share a long standing tradition of political strikes. Hence, in many cases their mobilizing potential in the public arena and their electoral threat potential may not suffice to prevent governments from enacting controversial reforms. However, trade unions in these countries unions may still try to make use of their links to political parties. This again may enable the trade unions to block the adoption of reforms in the legislative arena and thus to bring themselves in a more favorable bargaining position vis-à-vis the government. This avenue of union influence on the political process of pension reform will be most promising in those cases where the government is formed by left-wing parties and where multiple office-holdings between political mandates and mandates within the trade union organization are frequent. Such a configuration prevailed under the SPÖ/ÖVP government in Austria, which proved unable to assert itself against the resistance of numerous trade union functionaries in their own ranks. For instance, in 1994 the Austrian government sought to impose cuts in the pension system as part of a broader consolidation package against unions' resistance. However, the government had to withdraw these measures when it became clear that they would not gain a parliamentary majority without

¹³⁴ At the time of the presentation of the Juppé plan the next regular election would only take place in about three years.

the support of the many deputies closely affiliated to the trade unions. By the same token, the SPÖ/ÖVP government was only able to adopt the 1997 pension reform after it had drastically watered-down the originally planned reform package in response to strong internal pressures from trade union functionaries. Similarly, German trade unions took advantage of their “blackmail potential” vis-à-vis the red-green Schröder government. In alliance with representatives of the Social Democrats’ left-wing a group of trade union functionaries within the SPD’s parliamentary group was able to form a critical mass of deputies, which threatened to block the adoption of the Riester reform unless the government would make substantial modifications. However, as pointed out above, trade unions were only able to pose a credible threat to the government after the Christian Democratic opposition had decided to refuse its support.

Finally, unions will find themselves in a comparatively weak bargaining position if they lack both the possibility of widespread oppositional mobilization and the potential to block controversial reform initiatives in the legislative arena. Under these conditions governments will be able (but not necessarily willing) to enact relatively far reaching reforms. In Austria the trade unions lost their traditional veto power with the assumption of office by the bourgeois ÖVP/FPÖ coalition, which decided to adopt a pension reform despite unions’ disapproval. Similarly, German trade unions had neither the mobilizing capacity nor the institutional power to prevent the Kohl government from acting unilaterally in pension policy. As a consequence, the Kohl government was able to impose pension cuts in 1996 and 1997 even against unions’ opposition. As pointed out above, Swedish trade unions also found themselves in a relatively weak power position during the recent pension reform. Since the pension reform had been developed and supported by a broad party coalition, Swedish unions would probably not have been able to block the reform and hence confined themselves to exerting at least an indirect influence on the reform process through their close links to the Social Democratic party. The French pension reform in 1993 also took place in a political context where the trade unions could probably not have impeded the reform. On the one hand, the bourgeois government was internally unified and disposed of an overwhelming parliamentary majority, which gave Balladur a strong institutional power basis. On the other hand, Balladur confined the reform to the virtually non-unionized private sector. As a consequence, French unions were

more or less deprived from the opportunity to exploit the powerful mobilizing potential they had in the public sector.

Thus, only in the latter constellation has the government a very strong bargaining position towards the trade unions. Under these conditions trade unions are likely to make relatively far reaching concessions to the government. By contrast, in the other constellations governments run a great political risk if they try to impose a reform against unions' resistance, and may even fail in their reform efforts. Governments that eschew this risk will be forced to largely accommodate trade union demands.

As argued in the theoretical part the bargaining outcome between government and trade unions cannot be derived from the location of the non-agreement point alone. We also have to take into account the position of the actors' ideal points. The country reviews provide ample empirical evidence for the assumption that unions' ideal point with respect to pension cuts will always be closer to the status quo than the government's ideal point. Otherwise we would not observe the frequent and often severe conflicts between government and trade unions about this issue. For both actors, however, the location of the ideal point (reflecting the actors' reform-willingness) is a variable rather than a constant. By the same token, the distance between their ideal points varies considerably. Concerning the government our empirical findings suggest that it will aim at a volume of pension cuts that by and large corresponds to the degree of fiscal and demographic pressures to which the public budget in general and more specifically the pension system itself is exposed to. By contrast, the general political orientation of the government appears to be of subordinate importance with respect to the aspired degree of pension retrenchment. Under strong budgetary and economic pressures governments of all partisan stripes sought to contain pension spending, whereas left and right governments alike were less determined in their savings efforts if acute pressures for adjustment were absent. In several cases (such as Sweden and Germany) Social Democratic governments appeared to be even more ambitious in their efforts to control pension spending than their bourgeois predecessors.

It is a completely different question, however, whether the political constraints to pension retrenchment are different for left and right governments. As discussed above we cannot assume that the electoral costs of pension retrenchment are necessarily lower for Social Democratic governments, whose constituency tends to

strongly support existing welfare arrangements and may punish the government through their abstention from voting. Bourgeois opposition parties may have difficulties to absorb these voters, as they may lack the capacity to present themselves as a trustworthy alternative. However, they still may be able to keep the pension issue in the electoral arena (for instance, by accusing a left-wing government of having breached an election promise) in order to fuel dissatisfaction among the Social Democratic constituency. This was the case in the German *Länder* elections in 1999, when the Christian Democrats owed their electoral success largely to the fact that many displeased Social Democratic core voters stayed at home, a reaction that was at least partly triggered by chancellor Schröder's breached election promise to maintain the wage indexation of pensions.

Paradoxically, Social Democratic governments may, however, profit from the existence of a strong leftist competitor who may absorb the lion's share of dissatisfied Social Democratic core voters. As the Swedish case shows, this will lead to painful electoral losses for the Social Democrats but does not alter their pivotal position within the party system. However, irrespective of the configuration of the overall party system Social Democratic parties tend to face much greater difficulties to ensure compliance with unpopular welfare reforms within their party organizations than is true for bourgeois parties. In sum, we have little reason to assume that left governments in general can cut more easily than right governments.

Empirically, we also find considerable variation with respect to unions' preferences in pension policy. While trade union leaders typically tend to neglect the necessity of pension cuts in their official rhetoric, perhaps in order to present themselves as determined defenders of their members' interests, their actual positions may often be more moderate. The spectrum of unions' real preferences in pension policy is comparatively broad. As the country reviews have shown, trade unions differ greatly in the extent to which they consider pension cuts as necessary or even as desirable. While some trade unions, most notably in France, bluntly reject any cuts of pension benefits, others seem to acknowledge the necessity of benefit reductions under certain conditions or even welcome the curtailment of pension entitlements for certain groups of wage earners as a contribution to greater distributional justice.

The factors that affect trade unions' positions in pension policy are manifold. My empirical analysis reveals that trade unions' reform willingness does not only reflect the

strength of external pressures on the pension system but also the specific mechanisms of interest formation and interest aggregation within individual trade unions. In all countries under study trade unions were eager to ensure the long term sustainability of public pension schemes. When severe economic and fiscal pressures threatened to undermine the financial stability of the pension system, trade unions generally acknowledged the need of consolidation measures, especially in those cases where the system was already in a state of acute fiscal crisis. Under certain conditions trade unions also came to accept that the consolidation of public pension schemes cannot be achieved on the revenue side alone and must also comprise steps at cost-cutting. Since the trade unions typically face a trade-off between secure pensions and stable contribution rates they may accept at least modest pension cuts in order to avoid an excessive increase in contribution levels. For instance, without the 1992 pension reform the contribution rate in the German pension insurance was projected to reach a level between 36 and 41% in 2030. Even the trade unions considered this scenario as unacceptable, both for economic reasons and for reasons of intergenerational equity, and therefore acknowledged in principle the necessity of cost-containment measures.

In several cases, unions' support of pension curtailments was at least partly driven by the motive to fulfill the convergence criteria of the Maastricht treaty. Various pension reforms in Italy (especially in 1995 and 1997) and the Austrian savings package adopted in 1996 are cases in point. The readiness to make sacrifices for EMU membership was most pronounced in Italy (also on the part of the trade unions), which profited most strongly from falling interest rates. Moreover, other EU member accepted Italy's entry into EMU only under the condition that the country would reform its financially unsustainable pension system.

The occurrence of massive economic crises and severe imbalances in the public pension system was a necessary but not a sufficient condition for changes in trade unions' pension policy positions. It is important to note that in a number of cases even the existence of strong adaptational pressures did not prompt the trade unions to reconsider their strict rejection of benefit cuts. This is largely due to the fact that in these cases the national trade union structures impeded or at least hampered a re-orientation of policy positions. In general, trade unions based on encompassing structures showed a greater ability to adopt more reform-oriented policy positions

than highly fragmented and particularistic trade unions. The reason is that fragmented single trade unions may be tempted to improve the material position of their own members at the expense of wage earners' collective interest in, say, a more sustainable and equitable pension system (Olson 1982). Three organizational aspects appear to be particularly important with respect to their impact on the formation and aggregation of unions' interests in pension policy:

First, encompassing and highly centralized trade unions are, at least in principle, able to aggregate the multitude of heterogeneous and often divergent interests within their rank-and-file. By the same token, they have the strategic capacity to sacrifice the interests of some members for the greater benefit of the collectivity of their members. This may have important implications for their approach to pension reform in categorically fragmented pension schemes of the Bismarckian type, which often imply particularly favorable benefit rules for certain occupational groups (most notably in the public sector). The existence of an encompassing and highly centralized union confederation like the Austrian ÖGB facilitated the removal of such privileges. Under the assumption that encompassing trade unions will primarily seek to defend the interests of the working-class as a whole they are likely to approve the reduction of distributional inequalities within and across different public pension schemes.

In Italy, too, trade unions pressed for a more equitable pension system, including a gradual harmonization of pension benefits between the private and the (highly privileged) public sector. However, the mechanism of internal interest aggregation differed from the Austrian approach. In Austria, compliance of unions' rank-and-file with loss-imposing reforms was primarily achieved through a hierarchical and internally undemocratic organizational structure enabling the leaders of interest groups to impose reforms on their members to which they would not subscribe voluntarily. A similar mechanism proved a failure in Italy where local unions used to call the democratic legitimacy of this procedure into question and launched strike actions on their own account. In the 1990s, however, Italian trade unions made increasingly use of binding referenda among the workforce. This procedure was also applied to obtain union members' acceptance to the Dini reform. In this case, the (potential) losers of the reform had to cave in, because they could not seriously deny the procedural justice of the vote.

In France, by contrast, union leaders still have comparatively little control over their members, which often organize local strike committees on their own. Hence French unions are unable to aggregate particularistic interests. Against this background it turned out to be crucial that French unions have a greater mobilizing power in the public sector than in the private sector. While employees in the private sector therefore had to acquiesce the cutting of their pension claims, unions in the public sector could successfully block such attempts.

A second and interrelated factor concerns the degree of inter-union competition within a country. In Austria, Germany and Sweden inter-union competition is very low as political cleavages within the trade union movement are more or less absent. By contrast, the numerous and ideologically divided trade union federations in France find themselves in a situation of permanent competition for members. As pointed out above this structure is likely to create a situation in which unions often tend to blame each other for selling out workers' interests and are thus very reluctant to support loss-imposing reforms. Traditionally, the trade union movement in Italy is also divided along ideological lines. However, in the context of the permanent economic and political crisis situation in the early and mid 1990s Italian trade unions settled their internal conflicts at least temporarily. In doing so, the single union confederations found it easier to organize consent to controversial reforms among their members and at least temporarily assumed certain policy-making functions which the paralyzed Italian party system was unable to fulfill.

Third, in a country where union density is high, trade unions will be less given to externalize the costs of their actions. In this case, the membership structure of the national trade union movement will be more similar to the socio-economic composition of the population as a whole and hence unions' general objectives will be more in line with the public interest at large. This again seems to enhance the reform-willingness of trade unions. Most importantly, unions with an almost universal degree of organization will display a more balanced age-structure, which is roughly comparable to the age distribution of the entire workforce. Among the countries under study this is clearly the exception to the rule. In all countries except Sweden union membership is more or less strongly biased towards older wage earners, whereas younger age cohorts tend to be clearly underrepresented. As argued in the theoretical framework this factor is likely to amplify unions' preference for the maintenance of pension bene-

fits. Against this background we should expect that trade unions will be more prone to accept pension cuts if current pensioners and elderly workers were (partly) exempted from these measures. By and large, our empirical findings confirm this expectation. Unions typically pressed for lengthy periods of transitions when pension policy makers drew up reform plans that envisaged major changes in the calculation of benefits or a higher legal retirement age. The extremely slow phasing-in of new pension regimes in Italy is telling. Like in Sweden, Italy is about to gradually replace the existing defined-benefit by a defined-contribution scheme. In contrast to Sweden, however, the transition phase in which the new rules are phased-in is about 20 years longer in Italy¹³⁵. Thus, the Italian reform largely imposes the demographic adjustment burden on the younger generations, whereas in Sweden middle-aged workers and (to a lower degree) older workers also have to bear a sizeable share of these costs. I argue that the overly long transition period in Italy can be traced more or less directly to the extraordinarily strong age-bias of Italian trade unions, whose membership consists by about 50% of pensioners (Fargion 2000). It should be kept in mind that the introduction of the new Italian pension system was preceded by a referendum among trade unions' rank-and-file. Due to the preponderance of older members, a majority of unions' rank-and-file would probably have opposed the reform if the transition period had been shorter. By contrast, due to a net density of almost 90% among the gainfully employed (Ebbinghaus/Visser2000) there is no comparable age-bias within the rank-and-file of Swedish trade unions. As a consequence, the Swedish unions could accept a much shorter transition phase than their Italian counterparts.

The French case illustrates that a low degree of unionization may also favor the particularistic interests of certain occupational groups at the expense of wage earners' collective interests. The extremely low union density in the private sector did not allow French unions to press for a harmonization of private and public sector pensions, which would inevitably entail tangible pension cuts for the hitherto privileged workers in the public sector. Given their predominance within the French trade union move-

¹³⁵ In Italy, persons with more than 18 years of contribution at the end of 1995 will receive pension benefits that are to a great extent still based on the old system, whereas only persons who started to work in 1996 are entirely covered by the new system (with a "pro-rata" system applying for the intermediate age cohorts, OECD 2000). In Sweden, by contrast, only those born in 1937 or earlier are subject to the old law, while the new system will fully apply for persons born in 1954 or thereafter (with transition rules for those born between 1938 and 1953, Lißner and Wöss 1999).

ment public sector workers were able to defend their privileges despite their minority status within the French workforce. By contrast, the representatives of public sector interests' are much less dominant within the Austrian and Italian trade union movement and thus could not prevent the gradual removal of their pension privileges.

Irrespective of the issue of benefit cuts the very low level of unionization in France¹³⁶ also hampers the readiness of French unions to accept the development of private pension funds. Instead, it reinforces the organizational self-interests of French trade unions in the retention of the institutional status quo of the pension system. Due to their extremely low degree of organization, French unions can only finance a limited share of their activities from member fees. As a consequence, French unions mainly fund their functionaries through jobs in the management of social insurance bodies. By the same token, unions have a powerful incentive to defend the organizational set-up of the existing French pension system. A move towards private pension funds, as launched by the Juppé government, might over time have crowded out the pay-as-you-go based complementary pensions and thereby also endangered the management functions held by trade union functionaries within these schemes.

In a nutshell, the national trade union structures differ greatly in the extent to which they enhance or restrict both the interest and the strategic capacity of union leaders to organize consent to loss-imposing reforms among their rank-and-file. Most importantly, these structures determine the degrees of freedom of union leaders with respect to inter- and intragenerational redistribution among their constituencies. A highly fragmented and particularistic trade union landscape will it make particularly difficult for trade union leaders to accept reform-oriented pension policy positions and to legitimize them within their own organization even if the need for adjustments is inevitable. Among the countries under study it is especially the French trade unions that appear to be unable to acknowledge the necessity of cost containment reforms in pension policy and to ensure the compliance of their members to such reforms. By the same token, they lack the organizational prerequisites for encompassing package deals with the government in the area of pension policy. At the same time, the militancy of French unions especially in the public sector did not allow French governments to impose major pension reforms unilaterally or -like in 1995- forced them to

¹³⁶ With a net density rate below 10% the level of unionization is much lower than in other Bismarckian countries (Figures for 1995: Austria: 38.9%, Germany: 26.5%, Italy: 32.4%, Sweden: 87.5% of all gainfully employed; Ebbinghaus and Visser 2000)

back down. More generally, governments will be massively hampered in their efforts at pension reform if they face trade unions that are –for structural reasons- both unwilling to accept cost containment measures and capable of impeding the unilateral imposition of reforms.

Nevertheless, a number of empirical instances show that even weak governments confronting powerful and reform-unwilling trade unions may use their agenda-setting power to obtain unions' acquiescence to cuts in pension spending if they offer them attractive side payments. While trade unions may be highly critical of pension cuts they may advocate a modification of the pension status quo in other respects. In particular, unions have developed a strong interest in measures that ensure and broaden the revenue basis of contribution-based pension schemes (such as an extension of the scope of contributory persons and a shift in the financing of non-contributory benefits from social contributions towards taxes). In many cases this allowed pension policy makers in the Bismarckian countries to devise reform packages where unions accepted moderate pension cuts in return for measures that would prevent the financial erosion of the social insurance system and shift part of the pension costs from wage earners to tax payers.

Sometimes such reform packages also contained elements that were in the organizational self-interests of trade unions, which concern among other things their spheres of competence, their institutional channels of influence in the policy-making process and personal rents for union officials. In France, the Balladur government combined pension cuts in the private sector with a clearer separation of contributory and non-contributory benefits by funding the latter out of the state budget. In doing so the government implicitly acknowledged the social partners as the legitimate actors for the management of the contributory elements of the insurance schemes. In Germany, the recent pension reform adopted by the red-green government established the precedence of collective agreements in the area of fully-funded old-age provision and thereby strengthened the co-determination of unions with respect to occupational pensions. In both cases the unions remunerated the government for the consideration of unions' institutional self-interests and accepted or at least acquiesced to the final reform package.

By contrast, the unions attacked fiercely any reform attempts that threatened to undermine their organizational or institutional power basis. The Juppé plan for instance

envisaged not only cuts in public sector pensions but also intended to extend the government's grip over social security at the expense of trade unions by introducing a parliamentary vote on the social security budget. This measure clearly contributed to the bitter resistance of the French labor movement. Similarly, French unions opposed the establishment of privately managed pension funds envisaged in the "Thomas law", a reform that would have reduced the significance of the public pension schemes in the long term and thereby endangered the managerial positions held by union functionaries. Another example is the failed attempt of the Austrian government in 1994 to adopt a savings package without the prior agreement of the social partners, who defended their corporatist control over the economic and social-policy choices of the government. It is telling that the consolidation package adopted in the following year was from the outset intensely negotiated with the Austrian social partners and proved to be much more successful in its savings effects than its predecessor. Thus, the mere fact that a government recognizes the trade unions as a bargaining partner in the realm of pension policy may make it easier for the latter to accept the reform outcome. In short, governments may overcome unions' resistance by carefully designing a pension reform package that includes targeted concessions to the trade unions and takes into account their institutional self-interests.

In my theoretical framework I considered trade unions to be mere policy-seekers eager to maximize their individual self-interest. As such they would always accept large pension cutbacks in return for even tiny policy concessions provided that they cannot prevent the reform anyway. Moreover, they would do so irrespective of the government's partisanship. In the light of my empirical findings we have to modify this theoretical assumption. Severe conflicts with the government may also precipitate a general shift in trade unions' interaction orientation. When confronting an assumedly labor-hostile government, unions may change their strategy and (temporarily) switch from a merely egoistic towards a competitive interaction orientation. In this case, unions will sacrifice minor and perhaps temporary policy gains that they may achieve through negotiations with the government. Instead of stabilizing a "labor-hostile" government through their cooperation unions will concentrate their efforts on replacing it by a more labor-friendly alternative. The relationship between government and trade unions during the last two years of the Kohl government is a case in point. The 1997 pension reform was adopted in a political climate that was not conducive to policy-

oriented bargaining between government and trade unions. Through its previous (and highly contested) cutbacks in sick pay continuation and employment protection the Kohl government had triggered massive conflicts with the trade unions. These conflicts impeded a concerted compromise solution in pension policy, which might have been possible otherwise. The trade unions decided to embark on a confrontational strategy vis-à-vis the Kohl government. As a part of this strategy German trade unions massively supported the election campaign of the Social Democratic opposition in the hope that a Social Democratic government would rescind the social policy and labor market reforms of the Kohl government. This suggests that unions' may be more likely to embark on a collision course in the case of a bourgeois government (whose replacement is basically in their long-term interest). This may also explain why Austrian trade unions did not arrive at an amicable agreement with the bourgeois government over the 2000 pension reform. To be sure, trade unions will not generally seek to avoid conflicts with a Social Democratic government. However, it is not in their interest to fuel conflicts with a left-wing government until a point where the survival of the government itself is put at stake.

In the light of our empirical findings, we must modify the assumptions made in the theoretical framework in yet another respect. As we have seen, the antagonism between consensual and unilateral reforms cannot be reduced to a simple dichotomy. There is a broad and fluent spectrum of possible interaction modes lying in-between. This spectrum ranges from formal and intensely negotiated agreements on the one hand to unilaterally imposed reforms accompanied by massive political or societal conflict (such as large-scale strike actions initiated by the unions or a fully-fledged election campaign by the opposition).

Governments, to begin with, may differ in the degree to which they include opposition parties and trade unions in the reform process. They may fully incorporate trade unions or opposition parties into the decision-making process through intense negotiations at an early stage. They may even devolve part of political decision-making to the trade unions, as was the frequently the case in the Austrian model of social partnership, where economic and social policy reforms were regularly developed on the basis of negotiated agreements between employer organizations and trade unions. In a similar vein, the key elements of the 1995 pension reform in Italy were largely formulated by the trade unions. The government may also confine itself to mere consul-

tation or information procedures. At the extreme, the government may opt for a purely unilateral approach and reject any kind of involvement of other actors in the decision-making process. In France, the content of the Juppé plan was even kept secret until the day it was presented to parliament, perhaps based on the assumption that trade unions would be hostile anyway. To be sure, in a situation where opposition parties or trade unions occupy a formal veto position the government has no choice but to negotiate. This was for instance the case in Sweden, where the bourgeois minority government would most probably not have been able to implement a major reform of the pension system against the SAP. In most cases, however, governments will have certain degrees of freedom with respect to the inclusion or exclusion of other political actors from the decision-making process. For instance, the Swedish government excluded trade unions from the Pension Working Group, but still enabled them indirect access to the reform process through party channels and through procedures of consultation. In doing so, the government sought to facilitate unions' acquiescence while at the same time limiting their influence on the reform outcome.

Trade unions on their part have ample possibilities to escalate or to de-escalate the level of conflict with the government. In quite a number of cases, trade unions did not formally support governmental initiatives at pension reform but signaled their tacit agreement by keeping a relatively low profile with respect to public actions against the reform. For instance, the French CDFT officially voted against the Balladur reform but sought to avoid a clash with the government on the pension issue. A case can be made that this strategy might be motivated by the interest of trade union leaders to not appear as the government's willing executors in the eyes of their own rank-and-file but at the same time not to impede reforms that they basically consider necessary. In short, the empirically observable interactions between government and trade unions are somewhat more complex than outlined in my theoretical model.

Another aspect which is only partly addressed in the theoretical framework relates to the negotiation process within bourgeois coalition governments. It is a relatively frequent constellation in bourgeois coalition governments that the Labor minister belongs to the left wing of a Christian Democratic party while the coalition partner(s) may have a pronounced market-liberal profile in social policy. In this case the minister will often prefer a relatively modest reform outcome and will therefore have an

interest in thwarting the more radical reform plans of his coalition partner. In this case, it may be the most promising strategy from his/her point of view to ensure that the first agreement is reached within his/her own party or with the Social Democratic opposition rather than with the leadership of the coalition partner. Once such an intra-party compromise (or a compromise with the left-wing opposition) is established, the remaining leeway for further changes is restricted, and it will become much more difficult for the market-liberal coalition partner to shift the outcome closer to its own ideal point. The 1999 pension reform in Germany is a case in point. Within his own party Labor Minister Blüm was able to assert himself against the representatives of the business wing by way of a majority vote. On that basis, Blüm entered into the negotiations with the smaller liberal coalition partner, which could only achieve marginal changes to the Christian Democrats' pension concept. A case can be made, that a different sequence of negotiations may have precipitated a different policy outcome. Had Blüm started the negotiation process within the joint coalition working group rather than within the pension commission of his own party, he probably would not have been as successful, since he was up against an alliance between the Christian Democratic business wing and the liberal coalition partner. Thus, the pension policy positions of bourgeois governments may be somewhat more variable than suggested in the theoretical part, depending on the specific intragovernmental bargaining constellation.

In general, however, the empirical inspection of the political processes of pension reform in the Bismarckian countries corroborates the basic assumptions laid out in the theoretical framework about the underlying actor constellation in pension politics. As I argue, many explanatory approaches for the empirical diversity of pension reform outcomes are either too simple or overly complex with respect to the identification of the key actors in pension politics. As we have seen, we cannot simply derive pension policy outcomes from the mere presence of "functional imperatives" or from a government's policy preferences. The adoption (or non-adoption) of specific reforms in the area of pension policy will always reflect the rather complex interplay of numerous individual and corporate actors characterized by specific capabilities, perceptions and preferences. Moreover, as a rule it will be necessary to take into account the specific internal structures of corporate actors in order to account for variations in pension policy outcomes. However, the general statement that pension poli-

cies are produced by a plurality of different actors does not lead us to parsimonious and meaningful theoretical explanations. Several scholars have sought to describe the dominant pattern of governance in pension policy with reference to concepts such as “policy networks” or “policy communities” and tried to attribute changes in policy outcomes to changes in the composition of and the interactions within the underlying pension policy community. Typically, such accounts point to the fact that the pension policy community in the Bismarckian countries has become more populous and more complex in the 1990s, with new actors such as the banking and insurance industry entering the political scene (cf. Ney 2001b). By the same token, these accounts have often tried to develop maps of the national pension policy network comprising dozens of different actors that are in one way or another involved in the political process. In principle, this reflects the empirical complexity of the actor constellation in pension policy correctly. However, it is precisely this complexity that limits the explanatory power of the network approach. In particular, this approach is not suited to account systematically for variations in policy outcomes, most notably with respect to cross-country comparisons. In this work I sought to concentrate my theoretical focus on a much more limited set of actors, analyzing primarily the role of the government, the parliamentary opposition and the trade unions. I argue that this approach proved to be particularly suited to analyze the conditions under which advanced welfare states of the Bismarckian type are able to adjust their pension arrangements to changing economic and demographic contexts. At the same time, this approach sought to meet the requirement of theoretical parsimony.

This study also sought to address the question whether a consensual approach will be better suited to bring about effective reforms in pension policy than the (attempt of) unilateral imposition of pension policies by the government. In his analysis of pension reforms in the post-communist countries Orenstein (2000) concluded that the inclusion of more, and more various, political actors early in the deliberative process increases buy-in and compliance when pension reform is implemented, but at the expense of faster and greater change. This suggests that pension policy-makers face a trade-off between the legitimacy and the effectiveness of pension reforms. In other words, governments will be forced to lower their reform ambitions in order to broaden the political support basis for reform. While this argument is theoretically appealing and in many cases corroborated by empirical evidence, it needs to be modified in at

least two respects. First, within the countries under study almost every attempt by the government to impose a major reform of the pension system unilaterally was doomed to fail. In some cases the government parties proved unable to bring about a parliamentary majority in favor of the reform. In other cases they withdrew their reform plans in the face of powerful counter-mobilization by the trade unions. In still other cases pension legislation was rescinded after the previous opposition parties had taken over government. Thus, at least in the Bismarckian countries a broad political support basis can be seen as an indispensable precondition rather than as an impediment to effective adjustment in pension policy.

Second, as the Swedish experience has shown, a broad cross-party alliance may be able to implement very far reaching changes to the pension status quo even if policy positions diverge significantly. If all the parties involved are not only convinced about the necessity of reform but also share a common interest in arriving at an agreement they will be able to strike mutually acceptable and welfare-increasing package deals even if the single components of this package would, by itself, not be acceptable to at least one individual party. At the same time, a broad consensus between government and opposition parties will keep the pension issue out of the electoral arena, making it possible to adopt very unpopular measures the government parties would be reluctant to push on their own. Thus, under these conditions the inclusion of more political actors did not only facilitate the adoption of pension reform as such but even favored the adoption of more *far reaching* reforms.

Despite great political difficulties the reform progress that has already been made since the late 1980s is significant. All countries under study managed to curb the projected growth of pension costs substantially. Moreover, several reforms also entailed important structural innovations, such as the establishment of a fully-funded pension pillar in Germany and Sweden or the harmonization of pension arrangements between the private and the public sector in Austria and Italy. If major institutional change is possible in a highly path-dependent and politically salient policy area such as public pensions (most notably those of the Bismarckian type), we have reason to believe that welfare state arrangements in general (even those in Continental Europe) are not as rigid or resistant to reform as is often suggested. Nevertheless, in most advanced welfare states pension reform is still an unfinished business. It re-

mains to be seen whether these countries will be able to ensure the fiscal sustainability of their pension arrangements also in the context of a rapidly ageing society.

Appendix I: Summary description of retirement systems (1986)

A) AUSTRIA

Earnings related schemes with almost universal coverage for employed

Coverage and structure

General schemes for employees (wage and salary earners; institutionally distinct, but identical provisions), public employees (only civil servants), self-employed (small business and some liberal professions) and farmers

Special schemes for miners and notaries

Uncovered self-employed or former employees can join a corresponding scheme on a voluntary basis.

Source of funds

Insured persons: 10.25 per cent of gross earnings.

Employer: 12.45 per cent of payroll.

Government: Any deficit, also cost of income-tested allowance.

Contribution ceiling (25.800 Austrian Schilling a month) is annually adjusted with earnings index.

Contributions are not taxed; deductible from income tax base.

Eligibility conditions

a) Old-age pension

Standard pension: Age (men), 60 (women); 15 years of contributions

Long service pension: Age 60 (men), 55 (women); 35 years of contributions, including 24 months in the last three years.

Early pension for long-term unemployed: Age 60 (men), 55 (women), 15 years of contribution and in receipt of unemployment benefit, unemployment insurance or sickness benefits in preceding 52 weeks.

Further early retirement programs for special branches or arduous occupations with linkages to employees' pension scheme

b) Invalidity pension

Loss of 50 per cent of normal earnings capacity; 5 years of contributions (6 months of contributions before age 27)

c) Survivor's pension

Insured met invalidity pension requirements or was pensioner at death.

Benefit structure

a) Old-age pensions

Full pension at standard retirement age is 79.5 per cent of assessed earnings after 45 years of contribution. Assessed earnings, average (partial wage) adjusted earnings of last 10 years, or, if higher 5 years before age 45. Accrual factor, 1.9 per cent per annum for first 30 insurance years, and 1.5 per cent for 31-45 insurance years.

No spouse supplement, but child supplement and attendance allowance.

b) Disability pension

In principle as old age pension. In case of invalidity before age 50, missing contribution years are imputed up to this age.

c) Survivor's pension

60 per cent of basic pension of insured, payable to widow, and phased in over next years also to widower. 24 per cent or 36 per cent of basic pension of insured, payable to each orphan or full orphan, respectively. Maximum survivors pension, 110 per cent of pension of insured.

d) General features

Income-tested allowances (for singles, couples and children). Earnings-tested (different allowances for standard and other pensions): 14 payments a year; taxable, with special tax credit; automatic annual adjustment of benefits for changes in contribution earnings (special adjustments in calculation, since 1985 including unemployment rate).

Manual Workers' Pension Insurance Institution and Salaried Employees' Pension Insurance Institution, administration of pensions (separate institutions for public employees, railroads, mining, and agricultural and nonagricultural self-employed). Self-governing agencies, managed by elected representatives of insured persons and employers.

Sick funds collect contributions, transmit them to pension insurance institutions, and maintain contribution records for individual workers.

Equalization funds to equalize surpluses and deficits between various systems

B) FRANCE (1.1.1987)

Earnings-related schemes, and minimum old age pensions (“minimum-vieillesse”) for pensioners with low income.

Coverage and structure

Main system (concerns employees of private sector; about 70 per cent of all employees): includes two tiers called “régime général” and “régimes complémentaires”. Both are compulsory and on pay-as-you-go basis. Complementary schemes are of the defined-contribution type.

Special systems for public employees, miners, seamen, railroad workers, other public companies, agricultural self-employed, and various kinds of self-employed.

Source of funds

“Régime général”: 6.4 per cent (insured person) and 8.2 per cent (employer) of earnings. Contribution basis ceiling: 116 820 FF/year.

“Régimes complémentaires”: 1.88 per cent (insured person) and 2.82 per cent (employer) of gross-earnings (usual contribution rates for non-executive employees).

Government contribution: none for the main system; covers a large part of the cost of “minimum-vieillesse” and of some special systems (mainly agricultural self-employed, public employees, miners, and railroad workers).

Eligibility conditions

a) Old-age pension

Age 60; 37.5 years insurance for full pension.

Deferred pension: increment every three months of insurance (maximum 37.5 years)

Reduced pension: (maximum 50 per cent for age below 65 (unless disabled, deported or interned during Résistance; former soldiers and war prisoners; working mother of at least three children) or insurance gaps.

b) Disability pension

Under age 60 loss of all 2/3 normal earnings capacity (total or partial invalidity); twelve months of insurance before incapacity, 800 hours of employment in last twelve months of which 200 hours in first three months.

c) Survivor's pension

Widow's/widower's pension invalidity pension: insured was entitled to invalidity or old-age pension, survivor under age 55 and permanently incapacitated.

Widow's/widower's pension: deceased met insurance requirements or was old-age pensioner, survivor aged 55 or over and married for at least two years (income-tested).

Benefit structure

a) Old-age pensions

Full pension (for 37.5 years of insurance) in main system:

"Régime général": 50 per cent of average earnings in ten highest paid years after 1947 (past earnings being revalued for wage changes); minimum 30 258 FF; maximum 57 780 FF/year.

"Régimes complémentaires": about 20 per cent of average earnings (for non-executive), revalued as in the "régime général"¹³⁷.

Total of pensions: about 70 per cent of average earnings for non-executive. Up to 100 per cent for low income workers (because of minimum pension in the "régime général"). Only 60 per cent down to 50 per cent for executive.

Reduced pension: 1/150 of full pension times quarter of insurance (in "régime général"; about same rule in "régimes complémentaires").

Means-tested spouse supplement: 400 FF/year at age 65 if insured had 37.5 years of insurance; otherwise proportionally reduced.

Child's supplement: 10 per cent of pension if insured had or reared at least 3 children (in both "régime général" and "régimes complémentaires").

"Minimum-vieillesse" (means-tested): 31 590 FF (single) or 56 670 (married couple)/year (1987) for old-age (over 65) or invalidity pensioners with low income.

b) Invalidity pension

50 per cent (total invalidity) or 30 per cent (partial invalidity) of average earnings in ten highest paid years. Minimum pension: 13 470 FF/year ((total invalidity) or 34 668 FF/year (partial invalidity).

Constant attendance supplement: 40 per cent of pension for total disability; minimum supplement 52 747 FF/year.

Benefit for handicapped adults: Up to 29 640 FF/year.

¹³⁷ As these schemes are defined-contribution rate, there is no fixed target in terms of benefits.

c) Survivor's pension

52 per cent of main pension which insured was receiving or entitled to, or 52 per cent of husband's pension at death; Minimum pension 13 470 FF/year.

Child's supplement: 10 per cent of pension if insured had or reared at least 3 children.

Orphan's allowance: Full orphan's allowance 6 060 FF/year, half orphan's 4 545 FF/year.

Death grant: lump sum of 90 days earnings' of deceased; minimum 1 156 FF, maximum 28 890 FF (1985).

d) General features

Automatic semi-annual adjustment for changes in national wages; no automatic adjustment for national solidarity fund allowances. Family allowances payable in addition; means-tested allowance of 13 470 FF/year for low-income aged workers ineligible for pension.

Administrative organization

"Régime Général":

Organized by the state

Ministry of Social Affairs and National Solidarity, general supervision and issuance of regulations.

National Old-Age Pension Insurance Fund, administration of old-age pensions and surviving spouse's allowance.

National Sickness Insurance Fund, administration of invalidity and survivor pensions.

Contributions collected by joint collection agencies.

"Régimes complémentaires" managed by the social partners (including assignment of contribution rates)

C) GERMANY

Earnings related schemes with almost universal coverage for employed.

Coverage and structure

General scheme for employees (wage and salary earners; institutionally distinct, but identical provisions)

Special schemes for miners, public employees, self-employed and farmers

Uncovered persons such as nonworking housewives, aliens with long-term residence etc. can join corresponding scheme on a voluntary basis.

Source of funds

Insured person: 9.6 per cent of gross earnings.

Employer: 9.6 per cent of payroll.

State: Annual subsidies fixed according to variations in the average national earnings.

Contribution ceiling: 67 200 DM/year.

Contributions taxed, with general tax allowance.

Eligibility conditions

a) Old-age pension

Age 65 with at least five years of contributions paid, or age 63 (or age 60 when disabled) with at least 35 insurance years of which 15 years of contributions paid (earnings limit 1 000 DM/month) or age 60 when unemployed one year in last 18 months and at least 8 years of contributions in last 10 years (earnings limit 425 DM/month) or age 60 for women with at least 15 insurance years and at least 15 insurance years and at least 10 years of contributions paid in last 20 years (earnings limit 425 DM/month). Retirement not necessary after age 65.

b) Disability pension

General invalidity, incapacity for any gainful activity; occupational invalidity, 50 per cent reduction of earnings capacity in usual occupation. 5 years of contribution

c) Survivor's pension

Deceased had at least 5 insurance years or was pensioner at death.

Benefit structure

a) Old-age pensions

1.5 per cent of assessed earnings per insurance year; assessed earnings represent ratio of insured's earnings to national average of gross earnings multiplied by current computation base (27 885 DM/year). Deferred pension for age 65 to age 67: increment of 0.6 per cent per month. Family allowances payable in addition.

b) Disability pension

For general invalidity 1.5 per cent, for occupational invalidity 1 per cent of assessed earnings times years of insurance. In case of invalidity before 55, contribution years are imputed up to this age.

c) Survivor's pension

100 per cent of insured's general invalidity pension payable to all widows for 3 months; thereafter, 60 per cent if aged above 45, invalid, or caring for child. Otherwise, 25 per cent of occupational invalidity pension. Also payable to widower. Widow/widower pension is suspended by 40 per cent if the amount earned or own pension income exceeds an exempt amount which is indexed.

d) Orphan's pension

10 per cent (half orphan) or 20 per cent (full orphan) of general invalidity pension plus supplements for each dependent child.

e) General features

Pensions adjusted annually primarily according to wage changes; benefits partially taxable.

Administrative organization

Self-governing bodies under state supervision.

18 state and 2 special insurance institutes, administration of wage earners' program; Federal Salaried Employees' Insurance Institute, administration of salaried employees' program.

Sickness funds collect contributions.

D) ITALY

Earnings-related schemes and means-tested program with universal coverage

Coverage and structure

General scheme for private sector employees

Special schemes for public employees, railway employees, liberal professions, self-employed persons

Means-tested social pension for persons over 65 with insufficient resources and ineligible for other benefits

Source of funds

Insured person (industry): 7.15 per cent of gross earnings (1987)

Employer (industry): 17.66 per cent of payroll (1987).

Government: part of cost of minimum pension plus costs of social pension.

Contributions cover old-age, invalidity and survivor's pension; different contribution rates for other sectors.

Annual ceiling for benefit purposes 36 787 000 LIT; minimum earnings for contribution purposes 29 805 LIT/day (blue-collar workers), 31 560 LIT/day (white-collar workers) (1987).

All contributions to compulsory system are tax deductible.

Eligibility conditions

a) Old-age pension

Standard pension: Age 60 (men) or 55 (women); 15 years of contribution; retirement necessary for full pension (otherwise minimum pension).

Seniority pension: At any age after 35 years of contribution; retirement necessary.

Pre-retirement pension: Age 55 (men) or 50 (women); steel and iron industry workers, if unemployed due to economic crisis or industrial reorganization.

b) Disability pension

Invalidity allowance: Under pensionable age, loss of at least 2/3 of working capacity; five years of contributions including three years in the five years preceding claim; allowance subject to three-yearly reviews (automatically renewed after third review).

Invalidity pension: Under pensionable age, permanent total incapacity to work; five years of contributions including three years in the five years preceding claim.

c) Survivor's pension

Insured had five years of insurance and at least 5 years of contributions paid or one year of insurance and 52 weekly contributions paid if death due to occupational causes or was eligible for old-age or disability pension.

*Benefit structure**a) Old-age pensions*

2 per cent of average earnings in last five years multiplied by years of contribution (first four years are adjusted to changes in the cost of living) up to a maximum of 80 per cent of revalued earnings (40 years of contribution); minimum pension 412 250 LIT/moth (1987).

b) Disability pension

2 per cent of average earnings in last five years multiplied by years of contribution (maximum 40), plus number of contribution years intervening between date of invalidity pension and normal pensionable age (permanent total invalidity only); minimum pension: 309 800 LIT/month (1987); earnings limit for benefits; constant attendance supplement payable in addition.

c) Survivor's pension

Widow's/widower's pension: 60 per cent paid or payable to insured; minimum pension 412 250 LIT/month (1987).

Orphan's pension: 40 per cent of pension paid or payable to insured for each full orphan, up to 100 per cent; 20 per cent for half-orphans, up to 40 per cent.

Other survivor's pensions: 15 per cent of pension paid or payable to insured for each parent or other dependent relative, up to 100 per cent.

Lump sum death benefit when insured was not entitled to pension.

Means-tested *social pension*: 242 200 LIT in 1987.

d) General features

Benefits paid 13 times per year; benefits from statutory and supplementary plans are subject to normal income tax, lump sum benefits are tax free with some exceptions.

Administrative organization

Ministry of Labor and Social Welfare, and Treasury, general supervision.

National Social Insurance Institute, administration of program through its branch offices; managed by tripartite governing body.

Separate institute or funds administer special systems.

E) SWEDEN

Public two-tier scheme, consisting of universal flat-rate and earnings-related pension.

Coverage and structure

Universal scheme covers all residents; earnings-related scheme all employees and self employed over “base amount”.

Special scheme for public employees.

Virtually mandatory occupational scheme for private sector employees.

Source of funds

Insured person: No contribution from employees to universal, earnings-related and partial pension. Contributions of self-employed equal to employer’s share.

Employer: 9.45 per cent of payroll for universal, 10.0 per cent for earnings-related and 0.5 per cent for partial pension.

Government: Universal pension about 12 per cent of outlays, but no contributions to earnings-related and partial pension.

Contributions of self-employed and employers are deductible from income tax base.

Eligibility conditions

a) Old-age pension

Standard pension: Age 65 (men and women), universal pension, no contribution or income test, but required years of residence. Earnings-related pension, three years coverage with earnings above the base amount.

Actuarially reduced pension: From age 60 onward with decrement of 6 per cent per annum, for both universal and earnings-related pensions

Partial pension: Between age 60 and 64, reduced work schedule (average of five hours per week reduction and minimum work schedule of 17 hours a week), employed at least five out of twelve months before entitlement, and ten years earnings-related coverage after age 45.

b) Disability pension

Both universal and earnings-related pension, 5/6 loss of earnings capacity for full pension and at least 1/2 loss for reduced pension. Special early provision for unemployed 60 and over, out of work for 21 months.

c) Survivor’s pension

Universal pension, widow and orphans of specific age. Earnings-related pension, deceased was pensioner or had three years of coverage.

Benefit structure*a) Universal pension*

96 per cent of current base amount for single adult, or 150 per cent for aged couples. 46 or 67 per cent of base amount for orphan or full orphan, respectively (base amount for benefits in 1986: 23 300 Kronor per annum).

Various supplements, mostly expressed as percentage of base amount, for those ineligible for earnings-related pensions or without means.

b) Earnings-related pension

Old age: 60 per cent of difference between assessed earnings and base amount, based on coverage since 1960 (full benefits, 20 years coverage till 1980, thereafter increasing year by year to 30; shorter coverage, pension reduced accordingly). Assessed earnings, average adjusted pensionable earnings of best 15 years; pensionable earnings, earnings between base amount and 7.5 times base amount. Deferred pension credit, 7.2 per cent per annum until age 70. Partial pension: 50 per cent of gross earnings lost due to part time work.

Disability: 2 per cent of assessed earnings times years of coverage, with imputed years till age 65. Maximum, 60 per cent of covered earnings. Partial disability, $\frac{1}{2}$ or $\frac{2}{3}$ of pension (for 67 per cent to 83 per cent disability, $\frac{1}{2}$ for 50 per cent to 60 per cent).

Survivor's: Widow, 40 per cent of pension insured, or 35 per cent with eligible children. 15 per cent for 1st, 10 per cent for each other orphan; 40 per cent for full orphan.

c) General features

Benefits are taxable. Universal and earnings-related benefits without retirement test. Automatic adjustment of assessed earnings and pension for changes in CPI.

Administrative organization

National Social Insurance Board, supervision.

Administration of program: regional social insurance bodies.

Contributions of self-employed paid with income tax; those of employers collected by the National Social Insurance Board.

Earnings-related pension fund managed by 4 tripartite boards for public employment, for private employment by large firms, and for private employment by small firms and self-employment.

Source: US Department of Health and Human Services 1986; OECD 1988; Gillion et al. 2000

Appendix II: Chronology of national pension reforms

A) Austria

1992	<p>Verfassungsgesetz über die Angleichung des Pensionsalters der Frauen an das der Männer</p> <ul style="list-style-type: none"> - Retirement age for women aligned with those of men (to be phased in between 2018 and 2034)
1993	<p>Sozialrechtsänderungsgesetz 1993 (Pension reform 1993)</p> <ul style="list-style-type: none"> - Switch from gross to net wage indexation - Higher coefficient for persons retiring later - Basis for calculation of benefits extended to 15 best years - Introduction of partial pension for workers accepting shorter working hours - Introduction of pension credits for child rearing
1995	<p>Strukturanpassungsgesetz 1995 (Consolidation package 1995)</p> <ul style="list-style-type: none"> - No notable measures in the area of pensions (despite proposals in the original savings package)
1996	<p>Strukturanpassungsgesetz 1996 (Consolidation package 1996/97)</p> <ul style="list-style-type: none"> - Tighter eligibility criteria for early retirement pensions - General freeze of pensions for one year (two years for civil servants) - Lower credits for schooling - Lower civil servants pensions for those retiring before 60
1997	<p>Arbeits- und Sozialrechtsänderungsgesetz 1997 (Pension reform 1997)</p> <ul style="list-style-type: none"> - For early retirees, number of „best years“ on which benefits are computed increased from 15 to 18 years (to be phased in between 2003 to 2020) - Introduction of uniform accrual rate of 2 per cent of the calculation base for each year of insurance (old law: 1.9 per cent per annum for first 30 insurance years and 1.5 per cent for 31-45 insurance years). For each year of early retirement the above mentioned percentage is reduced by 2 percentage points up to a maximum 10 percentage points (valid from 2000 onwards) - Criteria for taking-up a part time pension relaxed with respect to the required reduction of hours of work. New form of part-time pension introduced, requiring a shorter contribution period - Pension credits for child rearing increased - Individuals nursing family members who give up employment can still be covered by the pension insurance under related favorable conditions - Higher contributions for self-employed and farmers - The pension base for civil servants is changed from the last salary to 18 years (to be phased in between 2003 and 2020) - Pensions for civil servants to be annually adjusted applying the adjustment factor of the general pension system - Pension coverage extended to casual jobs

2000	<p>Sozialrechtsänderungsgesetz 2000 (Pension reform 2000)</p> <ul style="list-style-type: none"> - Rapid increase of 18 months to the minimum early retirement age in the general scheme (from 55 to 56.5 years for women and 60 to 61.5 years for men) and to the retirement age in the civil servants' scheme (from 60 to 61.5 years for both sexes) - Increase in the reduction of pension payments if early retirement is taken (from 2 to 3 percentage points per year) - Reduction in survivors' pensions (old widows' pension: 40 to 60%; new widows' pension: 0 to 60%)
2001	<p>Reform of the severance pay system</p> <ul style="list-style-type: none"> - Severance pay extended to all employees in the private sector - Employers obliged to pay 1.5377% of employees' wage to a central fund - 6% income tax on contributions to severance pay abated if payments are invested into a pension fund

Source: OECD, Economic surveys, Austria, various years; Wöss (2000)

B) France

1991	Introduction of a new tax - the <i>contribution sociale généralisée</i> CSG - at a flat rate of 1.1 per cent on all incomes including pensions.
1993	<p>Reform of the régime général (Balladur reform; law no. 93-936)</p> <ul style="list-style-type: none"> - Introduction of a <i>Fonds de solidarité vieillesse</i> to finance non-contributory benefits and to repay social security debt. Financed through an increase of the CSG by 1.3 percentage points and by duties on alcoholic or non alcoholic drinks - Reference period for calculation of benefits extended from 10 to 25 best years (to be phased in until 2008) - Qualifying period for full pension increased from 37.5 to 40 years (to be phased in until 2002) - Government authorized to stipulate the amount of indexation by decree. Decree that for a five-year period pensions will be indexed to consumer prices <p>Agreement between social partners on balancing the complementary pension scheme ARRCO</p> <ul style="list-style-type: none"> - Raise in minimum contribution from 4 to 6% of pay in 1999
1995	Constitutional amendment which allows the parliament to vote on social security budget (as part of the Juppé plan)
1996	<p>Agreement between the social partners on balancing of the complementary schemes ARRCO and AGIRC until 2005</p> <ul style="list-style-type: none"> - Increases in the purchasing price of points - Less generous indexation in the nominal value of these points
1997	<p>Loi Thomas ("Thomas law")</p> <ul style="list-style-type: none"> - Framework for optional retirement savings funds managed by private insurance agencies - Up to a certain ceiling payments by both employees and employers will be exempted from income taxation and social security contributions - The law was never implemented by the Jospin government
1998	<p>Decree by government that pensions will continue to be indexed to consumer prices</p> <p>Creation of the Fonds de réserve des retraites (Pension Reserve Fund)</p> <ul style="list-style-type: none"> - Part of the public pay-as-you-go pension system - Invested in financial markets - Managed by the government

Source: Blanchet and Legros 2000; Bonoli 2000; OECD, Economic surveys, France, various years

C) Germany

1989	<p>Rentenreformgesetz 1992 (Pension Reform Act 1992)</p> <ul style="list-style-type: none"> - Pension indexation changed from gross to net wage growth - Gradual increase of early retirement age (<i>Renten für langjährig Versicherte</i>) from 63 to 65 years (as of 2001) - Gradual increase of retirement age for women and unemployed from 60 to 65 years (as of 2001) - Maximum non-contributable years for education reduced from thirteen to seven - Future pensions for immigrants from Eastern Europe with German ancestors (<i>Fremdrenten</i>) who have moved to Germany later than 1990 will be reduced by 30% - Expansion of pension credits for child-rearing - Introduction of actuarial deductions for early retirement - Federal grant increased to 20% of expenditures and linked to developments of the contribution rate
1990	<p>German Reunification</p> <ul style="list-style-type: none"> - Existing pensions in former GDR are converted from East German Mark to DM and indexed to wage increases in former East Germany
1991	<p>Rentenüberleitungsgesetz (to be effective as of 1992)</p> <ul style="list-style-type: none"> - West German pension system extended to the East Germany
1992	Implementation of parts of <i>Rentenreformgesetz 1992</i>
1996	<p>Wachstums- und Beschäftigungsförderungsgesetz (Growth and Employment Promotion Act)</p> <ul style="list-style-type: none"> - Increase of retirement ages stipulated in the Pension reform act 1992 will be phased in earlier - Maximum non-contributable years for education reduced from seven to three - Abolition of student privileges in statutory pension insurance - Future pensions for immigrants from Eastern Europe with German ancestors (<i>Fremdrenten</i>) reduced by 40%
1997	<p>Rentenreformgesetz 1999 (Pension Reform Act 1999)</p> <ul style="list-style-type: none"> - Introduction of the demographic factor into the pension formula (leading to a lowering of standard pension from 70 to 64%) - Increased and additive crediting of child-rearing - Tighter eligibility criteria for disability pensions
	<p>Dienstrechtsreformgesetz 1997 (for civil servants' pensions)</p> <ul style="list-style-type: none"> - Increase in retirement age on application (<i>Antragsaltersgrenze</i>) from 62 to 63 years and actuarial reductions in case of early retirement already phased in as of 1998 - Reduced credits for schooling

1998	<p>Increase value-added tax by 1% to avoid an increase in GRV contribution rate</p> <p>Versorgungsreformgesetz (for civil servants' pensions)</p> <ul style="list-style-type: none"> - Increase in retirement age on application (Antragsaltersgrenze) from 60 to 61 years in the areas of police, fire brigades and judiciary - Establishment of a public reserve fund financed through reduced increases in salaries and pensions (reduction of 0.2% per years accumulated between 2001 and 2015)
1999	<p>Rentenkorrekturgesetz</p> <ul style="list-style-type: none"> - Retraction of the demographic factor - Suspension of new regulations for disability pensions - Reimbursement of expenditures caused by unification by federal government in addition to federal grant <p>Gesetz zur Neuregelung der geringfügigen Beschäftigungsverhältnisse</p> <ul style="list-style-type: none"> - Expanding social insurance coverage to persons in minor employment (income less than 630 DM per month) <p>Gesetz zur Förderung der Selbständigkeit</p> <ul style="list-style-type: none"> - Fictitious self-employed included into social insurance coverage <p>Haushaltssanierungsgesetz</p> <ul style="list-style-type: none"> - Indexing of pensions to inflation rate for 2000 and 2001 - Reduced pension entitlements for periods of military service and receipt of unemployment assistance - earmarking of revenues from eco-tax for statutory pension insurance - reductions in the federal grant - reduction of contribution rate to 19,3%
2001	<p>Altersvermögensergänzungsgesetz (Old-Age Provision Extension Act)</p> <ul style="list-style-type: none"> - Lowered pension level by modified pension formula, retraction of indexation to inflation in 2001 - Increased credits for child-rearing - Tighter income-test criteria for survivors' pensions - New widow pension (including child-component) - Option of splitting pension rights between spouses - Closing legal loopholes at the beginning of the insurance history
2001	<p>Altersvermögensgesetz (Old-Age Provision Act)</p> <ul style="list-style-type: none"> - Creation of an additional funded pension promoted by tax breaks and subsidies - Individual right to an occupational remuneration-conversion pension (<i>Anspruch auf betriebliche Entgeltumwandlung</i>) <p>Altersvorsorgeverträge-Zertifizierungsgesetz (Old-Age Pension Agreement Certification Act)</p> <ul style="list-style-type: none"> - Regulations concerning the award of subsidies to old-age pension products - Improved information service to be provided by statutory pension insurance - Need-based entitlement to social assistance for elderly persons without recourse to their children

Source: Färber 1998; Arbeiterkammer Bremen 2000; VDR 2001

D) Italy

1992	<p>Amato reform (legge delega 421/1992, legge 438/1992, decreto legge 503/1992)</p> <ul style="list-style-type: none"> - Indexing of pensions to consumer prices rather than minimum wages (plus temporary suspension of indexation) - For those with more than 15 years of contributions in 1992: Reference salary for private (public) employees changed from last five years' (last month's) to 10 last years' salary - For those with less than 16 years of contributions in 1992: Shift to lifetime earnings - Years of contributions for eligibility raised from 15 to 20 years - Granting of new seniority pensions suspended for one year - Minimum years of contributions for eligibility to seniority pensions for public employees gradually raised to 35 years (old rule: between 15 and 25 years) → alignment with private employees - Progressive increase in the statutory retirement age from 60 and 55 years for men and women to 65 and 60 years, respectively (by 2002) - Tighter means-testing for minimum pensions - Improved credits for child rearing - Private pension funds introduced with 15 per cent withholding tax on funds deposited
1994	<p>Ciampi Budget Law</p> <ul style="list-style-type: none"> - Cuts in seniority pensions for public sector workers retiring with less than 35 years of contributions
1995	<p>Berlusconi Budget Law</p> <ul style="list-style-type: none"> - Increase in the statutory retirement age by 2000 (rather than 2002) - 1995 indexation delayed until January 1996 - 15 per cent withholding tax suspended
1995	<p>Dini reform (legge 335/1995)¹³⁸</p> <ul style="list-style-type: none"> - Switch from a defined-benefit to a notional defined-contribution system - Introduction of flexible retirement age between 57 and 65 years for younger workers - Years of contributions for eligibility lowered from 20 to 5 years for younger workers - Seniority pensions abolished for younger workers (Middle-aged and older workers: 57 years of age plus 35 years of contributions <u>or</u> 40 years of contributions) - Graduation of survivors' pensions according to income - Abolition of minimum pension within social insurance system → minimum security for those age 65 and over henceforth only granted by the <i>pensione sociale</i> - Improved credits for child rearing - Broadening of contribution base (extending compulsory pension insurance to special categories of self-employed workers + higher social security payments) - Earnings-ceiling for participation in public system, to favor the creation of private funds - Introduction of a framework for the establishment of voluntary supplementary pension funds

¹³⁸ Old pension formula applying to workers with more than 18 years of contributions at the end of 1995 and a weighted average of the two formulae applicable to those with less than 18 years

	<ul style="list-style-type: none"> - Tax relief on contributions to supplementary pension funds up to an annual ceiling of 2.5 million Lira
1997	<p><i>Prodi amendments (legge 449/1997, provvedimento collegata alla legge finanziaria 1998)</i></p> <ul style="list-style-type: none"> - Lowered indexation for high pensions - Acceleration of the harmonization of the public and private pension regimes - Gradual increase in the contribution rates for the self-employed to 19 per cent - Tightening of the conditions governing access to seniority pensions - Harmonization of rules for special schemes with those for private employees in terms of contribution rates, yield coefficients, and eligibility criteria on seniority pensions - Financing of assistance benefits shifted from contribution to taxes
2000	<p><i>Improved tax incentives for supplementary pension funds (Legislative decree no. 47, 18 February 2000)</i></p> <ul style="list-style-type: none"> - Tax rate on pension funds' returns set at 11% (as compared to a rate of 12.5% for other financial yields) - 12% (hitherto 6%) of income tax deductible for pension funds contributions up to an annual ceiling of 10 million Lira (about 5000 Euro; hitherto 2.5 million Lira) - Only applicable for workers who allocate parts of their severance pay allowance to funds established on the basis of collective agreements - Workers' relatives are also entitled to the 12% tax-deduction on contributions - Tax incentives for employers to recover the loss of financial liquidity resulting from the allocation of severance pay allowances to the pension funds
2001	Minimum pensions raised from about 360 to 516 Euro

Source: Klammer and Rolf 1998; OECD, Economic surveys, Italy, various years; Eiroline 2000a; Papparella 2001

E) Sweden

1990	<i>Reform of widows pensions</i> <ul style="list-style-type: none"> - Lifetime widows' pension abolished (except those whose spouse did before 1990 and for women born before 1930) - New widows pension only limited in time (one year for widows without children), means-tested and only for those aged below 65.
1992	<i>September Crisis package</i> <ul style="list-style-type: none"> - Retirement age raised from 65 to 66 (later postponed) - Base amount used to calculate ATP and basic pension (as well as other social benefits) reduced by two percent (as of 1993)
1993	<i>Reform of basic pension</i> <ul style="list-style-type: none"> - Full basic pension only available after 40 years of residence or 30 contribution years in the ATP system (previously: 5 years of residence)
1994	The age limit for part-time retirement is raised from 60 to 61 years. Replacement rate lowered from 65 to 55 per cent. <i>Major principles of the new pension system adopted by the Riksdag</i> <ul style="list-style-type: none"> - Sift from best 15 years to life-time income as base for pension entitlements - Pensions linked to income developments - Introduction of flexible pension age based on actuarial principles - Pensions linked to life expectancy at the age of retirement - Employee contributions to the old-age pension system to be introduced as of 1995 - Two percentage points are to be diverted into fully-funded individual accounts, with the contributor deciding how it will be managed (later increased to 2.5%)
1995	For calculation of the base amount only 60 or 80%, respectively, of changes in consumer prices taken into account, as long as the budget deficit is higher than 100 billion or between 50 and 100 billion Swedish crowns, respectively Introduction of 1% employees contribution
1996	Reduced basic pension for all married pensioners from 96 to 78.5% of base amount
1997	<i>Cuts in survivors pensions</i> <ul style="list-style-type: none"> - Pensions for widows below regular retirement age only for 6 rather than 12 months after spouse' death and corresponding to 90 rather than 96% of basic pension. Means-tested pension supplement increased from 55.5 to 61.5% - Introduction of means-test even for widows' pensions according to the pre-1990 rule
1998	<i>Major legislation concerning the new pension system adopted</i> <ul style="list-style-type: none"> - Pension contributions split between employers and employees (9.25% each) - Employees compensated by abolition of employees' sickness insurance contributions and reduced income taxes - Contribution to premium reserve system stipulated at 2.5% - Minimum age for old-age pension increased from 60 to 61 years
1999	2% reduction of base amount discontinued
2001	Final legislation concerning the new pension system settled
2002	Old-age pensions indexed to wage growth

Source: OECD, Economic surveys, Sweden, various years; Socialdepartementet 1999;
<http://www.rfv.se/social/forandr/index.html>

Appendix III: Glossary of terms

Accrual rate	The percentage of assessed income that enters into the pension formula (usually between 1 and 2%).
Actuarial neutrality	Used here to indicate pension arrangements which neither penalize nor unduly benefit those who retire earlier or later than the standard retirement age
Advance-funding	In an advance-funded scheme, current contributions are set aside and invested in order to finance the pensions of current contributors. Many company plans are advance-funded as are individual retirement accounts. Public pay-as-you-go pensions may be partly pre-funded when the government raises the contribution rate above that necessary to finance current benefits, in order to accumulate a fund to help pay future benefits.
Average effective retirement age	The actual average retirement age, taking into account early retirement and special regimes
Basic pension	The single person's flat rate state pension paid to all who have met the minimum national-insurance contribution requirement.
Beneficiary	A person entitled to benefit under a pension scheme or who will become entitled on the happening of a specified event.
Benefit rate	The ratio of the average pension to the average economy-wide wage or covered wage.
Beveridgian pension system	Public pension arrangement based on means-tested or universal flat-rate benefits, either contribution- or tax-financed.
Bismarckian pension system	Public pension arrangement based on earnings-related social insurance, typically financed out of wage-based contributions.
Consolidation	A fiscal policy that aims to reduce public-sector deficits, or increase public-sector surpluses, by increasing taxes or reducing public-sector expenditure, or both.
Defined-benefit plan	A pension plan where benefits are prescribed by a formula. It is in distinction to a defined-contribution plan.
Defined-contribution plan	A pension plan in which a periodic contribution is prescribed and the benefit depends on the contribution plus the investment return.
Demographic transition	The historical process of changing demographic structure that takes place as fertility and mortality rates decline, resulting in an increasing ratio of older to younger persons.
Equivalence principle	Principle according to which monthly pension payments corre-

	spend to the individual contribution record
Final pensionable earnings	The pensionable earnings, at or near retirement or leaving service, on which the pension is calculated in a final salary scheme. The earnings may be based on the average over a number of consecutive years prior to retirement.
Flat-rate benefits	These are benefits, such as pension benefits, that are related only to age and citizenship, not prior to earnings. These usually have an anti-poverty objective and are sometimes means-tested or partially recaptured through the tax system.
Full funding	Same as advance-funding.
Funding level	The relationship at a specified date between the actuarial value of assets and the actuarial liability.
Hybrid pension plan	Plan that combines some features of the defined-benefit approach and some aspect of the defined-contribution method.
Implicit contribution rate	Contribution rate required if there was no state subsidy.
Implicit public pension debt	The value of outstanding pension claims on the public sector minus accumulated pension reserves.
Indexation	A system whereby pensions in payment and/or preserved benefits are automatically increased at regular intervals by reference to a specified index of prices or earnings.
Intergenerational distribution	Income transfers between different age cohorts of persons
Intragenerational distribution	Income transfers within a certain age cohorts of persons
Legal retirement age	The normal retirement age written into pension statutes
Liabilities	Amounts which a pension scheme has an obligation to pay now or in the future
Means-tested benefit	A benefit that is paid only if the recipient's income falls below a certain level.
Minimum pension guarantee	A guarantee provided by the government to bring pensions to some minimum level.
Mixed contribution rate	Weighted average of contribution rates across different pension schemes.
Notional accounts	A centrally-managed, pay-as-you-go, notional contribution plan. In this model, each worker has an account in the central pension system institution which is credited with the contributions made

by or on behalf of the worker. Account balances are also credited with the analogue of interest payments, but typically at a rate tied to the growth of wages – either the rate of increase in the average wage or the rate of increase in total wages. At retirement, the balance in the account is converted into a life annuity based on estimates of the cohort's expected life-span. The promises under notional accounts are similar to those under the defined-contribution model.

Occupational pension scheme	An arrangement organized by an employer or on behalf of a group of employers to provide pensions for one or more employees on leaving service or on death or retirement.
Old age dependency ratio	The population aged 65 and over expressed as a percentage of the working age population, usually defined as aged 15 to 64.
Pay-as-you-go	An arrangement under which benefits are paid out of current revenues and no funding is made for future liabilities.
Pre-funding	Same as advance-funding.
Qualifying period	Number of contribution-years that are required in order to be entitled to a full pension.
Reference salary	Salary on which the calculation of pension benefits is based. The reference salary generally varies between career earnings and earnings of a number of 'best years'.
Replacement rate	The value of a pension as a proportion of a worker's wage during some base period, such as the last year or two before retirement or the entire lifetime average wage.
System dependency ratio	The ratio of persons receiving pensions from a certain pension scheme divided by the number of workers contributing to the same scheme in the same period.
System maturation	The process in which young people being eligible for pensions, in a new system, gradually grow old and retire, thereby raising the system dependency ratio to the demographic dependency ratio. In a fully mature system all old people in the covered group are eligible for full pensions.
Vesting period	The minimum of time required to qualify for full ownership of pension benefits.

Compiled on the basis of World Bank (1994), OECD (1998) and Bonoli (2000)

Bibliography

1. Periodicals and Newspapers

Der Spiegel

Der Standard

Die Zeit

Economist

European Industrial Relations Review

Från Riksdag och Departement

Handelsblatt

Le Monde

OECD, Economic surveys

Süddeutsche Zeitung

2. Other documents

- Abramovici, G. (2002). Statistik kurz gefasst. Der Sozialschutz: Rentenausgaben. Eurostat. 6/2002.
- Adam, G. (2002). Parliament passes reform of severance pay. Eiroline, European industrial relations observatory on-line (<http://www.eiro.eurofound.ie/>)
- Alber, J. (1987). Germany. Growth to Limits. The Western European Welfare States since World War II. Volume 4. Appendix (Synopses, Bibliographies, Tables). P. Flora. Berlin, Walter de Gruyter: 247-353.
- Alber, J. (1998). Recent developments in continental European welfare states: Do Austria, Germany, and the Netherlands prove to be birds of a feather? World Congress of Sociology, Montreal.
- Anderson, K. M. (1998). The Welfare State in the Global Economy: The Politics of Social Insurance Retrenchment in Sweden, 1990-1998. Dissertation. Washington.
- Anderson, K. M. (2000). The Politics of Retrenchment in a Social Democratic Welfare State. Reform of Swedish Pensions and Unemployment Insurance, Washington.
- Anderson, K. M. and T. Meyer (2002). "Social Democracy, Unions, and Pension Politics in Germany and Sweden." Journal of Public Policy, forthcoming
- Antichi, M. and F. R. Pizutti (2000). The public pension system in Italy : Observations on the recent reforms, Methods of control and their application. Social dialogue and pension reform. E. Reynaud. Geneva, International Labor Office: 81-96.
- Arbeiterkammer Österreich (2002). Alles rund um die „Abfertigung neu“.
- Arbeiterkammer Bremen (2000). Sozialpolitische Chronik. Die wesentlichen Änderungen im Bereich der Arbeitslosenversicherung, Rentenversicherung, Krankenversicherung, Pflegeversicherung und Sozialhilfe (HLU) in den vergangenen Jahren.
- Arter, D. (1999). "The Swedish general election of 20th September 1998: a victory for values over policies?" Electoral Studies 18: 296-300.
- Baccaro, L. (2000). Negotiating Pension Reform with the Unions: The Italian Experience in European Perspective. International Conference of Europeanists, Chicago.

- Baccaro, L. (2001). The Construction of "Democratic" Corporatism in Italy. Paper prepared for presentation at the Max Planck Institute for the Study of Societies. Cologne (Germany).
- Baccaro, L. (2002). "Negotiating the Italian pension reform with the unions: lessons for corporatist theory." Industrial and Labor Relations Review 55(3): 413-430.
- Bank, M. (1999). "Betriebliche Pensionsfonds." Wirtschaftswissenschaftliches Studium 28(7).
- Barr, N. (2000). The Welfare State as a Piggy Bank. Information, Risk, Uncertainty, and the Role of the State. Oxford, Oxford University Press.
- Battis, U. (1998). Beamtenversorgung. Handbuch zur Altersversorgung. Gesetzliche, betriebliche und private Vorsorge in Deutschland. J.-E. Cramer, W. Förster and F. Ruland. Frankfurt a.M.: 117-127.
- Bergmann, T. (1999). Trade-offs in Swedish Constitutional Design: The Monarchy under Challenge. Policy, Office or Votes? How political parties in western Europe make hard decisions. W. C. Müller and S. Kaare. Cambridge, Cambridge University Press: 237-257.
- Blanchet, D. and F. Legros (2000). France: the difficult path to a consensual reform. NBER-Kiel Institute conference on "Coping with the Pension Crisis - where does Europe stand?", Berlin.
- Blöndal, S. and S. Scarpetta (1998). The Retirement Decision in OECD Countries. Paris, OECD.
- BMAS, Bundesministerium für Arbeit und Sozialordnung (1997). Vorschläge der Kommission "Fortentwicklung der Rentenversicherung". Bundesarbeitsblatt.
- BMAS (2001). Key points of the pension reform. Berlin (Manuscript).
- Bönker, F. and H. Wollmann (2001). Stumbling towards reform. The German welfare state in the 1990s. Welfare states under pressure. P. Taylor-Gooby. London, Sage: 75-99.
- Bonoli, G. (2000). The Politics of pension reform. Institutions and policy change in Western Europe. Cambridge, Cambridge University Press.

- Bonoli, G. and B. Palier (2000). "How do welfare states change? : Institutions and their impact on the politics of welfare state reform in Western Europe." European Review 8(3): 333-352.
- Bouget, D. (1998). "The Juppé Plan and the future of the French social welfare system." Journal of European social policy 8(2): 155-172.
- Bovenberg, A. L. and A.S.M. van den Linden (1996). Can we afford to grow old? Adjusting pension policies to a more aged society. OECD. Paper presented at the confereneec "Beyond 2000: The New Social Policy Agenda", Paris.
- Bovens, M. and P. 't Hart, et al. (2001). Success and Failure in Public Governance. A Comparative Analysis. Cheltenham, Edward Elgar.
- Bozec, G. and C. Mays (2001). Pension Reform in France (<http://www.iccr-international.org/pen-ref/>).
- Brugiavini, A. et al. (2001). What Do Unions Do to the Welfare State? The Role of Unions in the Twenty-First Century. A Study for the Fondazione Rodolfo De-benedetti. T. Boeri, A. Brugiavini and L. Calmfors. New York, Oxford University Press: 157-253.
- Buczolich, G., B. Felderer, et al. (2002). Pension Reform in Austria (Manuscript).
- Castles, F. G. (2001). "On the Political Economy of Recent Public Sector Development." Journal of European Social Policy 11(3): 195-211.
- CDU-Bundesgeschäftsstelle (1999). Redebeitrag von Friedrich Merz in der Debatte über das rot-grüne "Spar"-Programm.
- Charpin, J.-M. (1999). L'avenir de nos retraites, rapport au premier ministre. Paris.
- Cioccia, A. et al. (2001). The Italian Pension System and Pension Reform Pathways (<http://www.iccr-international.org/pen-ref/>)
- Council of the European Union (2001). Adequate and Sustainable Pensions. A report by the Social Protection Committee on the future evolution of social protection. Brussels, Council of the European Union.
- CPB, Centraal Planbureau (1997). Challenging Neighbours. Rethinking German and Dutch Economic Institutions. Berlin.

- Culpepper, P. D. (2000). The sources of policy innovation: Sub-national constraints on negotiated reform. Annual Meeting of the American Political Science Association, Washington, D.C.
- D'Ercole, M. and F. Terribile (1998). Pension Spending: Developments in 1996 and 1997. Italian Politics. Mapping the Future. L. Bardi and M. Rhodes. Bologna: 187-207.
- Deutscher Bundestag (2000). Ausschußdrucksache 14/1080. Ausschuss für Arbeit und Sozialordnung. Berlin, Deutscher Bundestag.
- Deutsch-Französisches Institut (2001). Standortpolitik und Globalisierung: deutsch-französische Perspektiven. Opladen, Leske & Budrich.
- DIA - Deutsches Institut für Altersvorsorge (1999). Reformvorschläge zur gesetzlichen Alterssicherung in Deutschland. Ein systematischer Überblick. Köln.
- DIA - Deutsches Institut für Altersvorsorge (2000). Rentenreform und Eigenvorsorge. Mehrländerumfrage - die Ergebnisse für Deutschland. Köln.
- Downs, A. (1957). An economic theory of democracy. New York, Harper & Row.
- Ds, Departementserien (1992:89). Ett reformerat pensionssystem - Bakgrund, principier och skiss. Promemoria av Pensionsarbetsgruppen. Stockholm, Socialdepartementet.
- Dünn, S. and S. Fasshauer (2001). "Die Rentenreform 2000/2001 - Ein Rückblick." Deutsche Rentenversicherung 5: 266-275.
- Ebbinghaus, B. (2001). Reform Blockage or Self-Regulation? The Ambiguous Role of Social Partnership in European Welfare States. Paper presented at the SASE 13th Annual Meeting on Socio-Economics (Workshop on Re-thinking the Welfare State: Pension Reform in the Three Europes - II), University of Amsterdam, June 28 - July 1.
- Ebbinghaus, B. and J. Visser (2000). Trade unions in western Europe since 1945. London, Macmillan.
- Economic Policy Committee (2000). Progress report to the Ecofin Council on the impact of ageing populations on public pension systems. Brussels, European Commission.

Economic Policy Committee (2001). Budgetary challenges posed by ageing populations: the impact on public spending on pensions, health and long-term care for the elderly and possible indicators of the long-term sustainability of public finances. Brussels, European Commission.

Economist (2002). The politics of pensions. We know what's best for your old age, why can't you see it? February 27th 2002

Eiroline (2000). Le financement du syndicalisme en débat.
(<http://www.eiro.eurofound.ie/>)

Eiroline, (1997a). The government crisis and the reaction of the social partners
(<http://www.eiro.eurofound.ie/>)

Eiroline, (1997b). Law on the financing of the social security system
(<http://www.eiro.eurofound.ie/>).

Eiroline, (1997c). Sweeping changes in social insurance contributions
(<http://www.eiro.eurofound.ie/>).

Eiroline, (2000a). New tax rules aim to foster supplementary pensions
(<http://www.eiro.eurofound.ie/>)

Eiroline (2000b). "New pension reform plans heavily disputed". 289.
(<http://www.eiro.eurofound.ie/>)

EIRR, (1993). "France. Agreement on pensions." European Industrial Relations Review 230: 7.

EIRR (1994). "General strike over pension reforms." European Industrial Relations Review 250.

EIRR (1995a). "Italy: Parliament adopts pension reform." European Industrial Relations Review 260: 8.

EIRR (1995b). "France. Trade unions respond in disarray to Juppé plan." European Industrial Relations Review 263: 6.

EIRR (1996a). "Italy. Pension reform in force." European Industrial Relations Review 264: 31-34.

EIRR (1996b). "France. France racked by massive crisis over social security reforms." European Industrial Relations Review 264: 6.

- EIRR (1996c). "France. Major agreements on financing of supplementary pensions." European Industrial Relations Review 269: 5.
- EIRR (1997a). "Austria. Pension proposals unveiled." European Industrial Relations Review 285: 3.
- EIRR (1997b). "France. Bill on private pension schemes." European Industrial Relations Review 279: 6.
- EIRR (1998). "Austria. Reform of state pension system." European Industrial Relations Review 289: 30-32.
- EIRR (2002). "Italy. 2002 Budget law." European Industrial Relations Review 336: 9.
- Emmert, T. et al. (2001). Das Ende einer Ära - Die Bundestagswahl vom 27. September 1998. Analysen aus Anlass der Bundestagswahl 1998. H.-D. Klingemann and M. Kaase. Wiesbaden, Westdeutscher Verlag: 17-56.
- Esping-Andersen, G. (1990). The Three Worlds of Welfare Capitalism. London, Polity Press.
- Esping-Andersen, G. (1996). Welfare States without Work: the Impasse of Labor Shedding and Familialism in Continental European Social Policy. Welfare states in transition. National adaptations in Global Economics. G. Esping-Andersen. London, Sage: 66-87.
- Färber, G. (1998). Mittel- und langfristige Entwicklung der Beamtenversorgung. Handbuch zur Altersversorgung. Gesetzliche, betriebliche und private Vorsorge in Deutschland. J.-E. Cramer, W. Förster and F. Ruland. Frankfurt a.M.: 973-994.
- Fargion, V. (2000). Italian Reforms: Towards more Equality? Paper presented at the conference "Comparer les systemes de protection sociale en Europe". Ministère de L'Emploi et de la Solidarité. Paris.
- Featherstone, K. (2001). The Political Dynamics of External Empowerment: the emergence of EMU and the challenge to the European social model. Paper prepared for the 5th Biennial Conference of the European Community Studies Association, Madison Wisconsin, May 31- June 2.
- Fehr, H. and H. Jess (2001). "Gewinner und Verlierer der aktuellen Rentenreform." Zeitschrift der Bundesversicherungsanstalt für Angestellte 48: 165-175.

- Ferrera, M. (1987). Italy. Growth to Limits. The Western European Welfare States since World War II. Volume 4. Appendix (Synopsis, Bibliographies, Tables). P. Flora. Berlin, Walter de Gruyter: 475-528.
- Ferrera, M. and E. Gualmini (2000a). Italy: rescue from without? Diverse responses to common challenges. F. W. Scharpf and V. A. Schmidt: 351-398.
- Ferrera, M. and E. Gualmini (2000b). "Reforms Guided by Consensus: The Welfare State in the Italian Transition." West European Politics 23(2): 189-208.
- Finansdepartement (1998). AP-fonden och det reformerade ålderspensionssystemet. Stockholm.
- FORSA, Gesellschaft für Sozialforschung und statistische Analyse (1996). Meinungsumfrage zur Altersversorgung (unpublished)
- FORSA (1997a). Die Zukunft der Altersversorgung. Meinungen der Deutschen (unpublished)
- FORSA (1997b). Einheitliche Grundrente für alle Bürger? (unpublished)
- FORSA (1997c). Meinungen der Bürger zum Rentensystem (unpublished)
- FORSA (1998). Meinungen der Bürger zur Sozialpolitik (unpublished)
- FORSA (1999a). Meinungen der Bürger zur Rentendiskussion (unpublished)
- FORSA (1999b). Meinungsumfrage zur Akzeptanz einer privaten Zusatzversicherung. (unpublished)
- FORSA (2000). Meinungsumfrage zur Altersvorsorge (unpublished)
- Forschungsgruppe Wahlen (various years). "Politbarometer."
- Franco, D. (2000). Italy: a never-ending pension reform. NBER-Kiel Institute conference on "Coping with the Pension Crisis - Where Does Europe Stand?", Kiel.
- Gächter, A. (1998). Social partners discuss severance pay and holiday entitlements, Eiroline, European industrial relations observatory on-line. 1998.
- Geissler, H. (1998). Zeit, das Visier zu öffnen. Köln, Kiepenheuer & Witsch.
- Gern, K.-J. (1998). Recent Developments in old-age pension systems - an international overview. Kieler Arbeitspapiere, Nr. 863. Kieler Institut für Weltwirtschaft.

- Gillion, C. et al. (2000). Social Security Pensions. Development and Reform. Geneva, International Labor Office.
- Gilmour, J. B. (1995). Strategic disagreement : stalemate in American politics. Pittsburgh.
- Gohr, A. (2001a). Der italienische Wohlfahrtsstaat: Entwicklungen, Probleme und die europäische Herausforderung. Sozialstaat in Europa. Geschichte, Entwicklung, Perspektiven. K. Kraus and T. Geisen. Wiesbaden, Westdeutscher Verlag: 143-169.
- Gohr, A. (2001b). Maastricht als Herausforderung und Chance. Die Auswirkungen der europäischen Integration auf den italienischen Wohlfahrtsstaat. ZeS Arbeitspapier 8/01. Bremen, Zentrum für Sozialpolitik.
- Green-Pedersen, C. and M. Haverland (2002). "The New Politics of the Welfare State and the New Scholarship of the Welfare State." Journal of European Social Policy 12(1): 43-52.
- Griebeling, G. (1998). Arbeitsrechtliches Umfeld und Tendenzen. Handbuch zur Altersversorgung. Gesetzliche, betriebliche und private Vorsorge in Deutschland. J.-E. Cramer, W. Förster and F. Ruland. Frankfurt a.M.: 347-362.
- Haag, D. (2000). Die schwedische Rentenreform 1998 – Analyse eines Gesetzgebungsprozesses, Diplomarbeit, Universität Konstanz.
- Hain, W. and R. Tautz (2001). "Finanzielle Auswirkungen der Rentenreform." Deutsche Rentenversicherung 6-7: 359-377.
- Haverland, M. (2000). Constrained choices? Reforming pension systems in advanced European welfare states. XVIIIth IPSA world congress, Quebec City.
- Hering, M. (2002). The Politics of Privatizing Public Pensions: Lessons from a Frozen Welfare State. Paper prepared for delivery at the 2001 Annual Meeting of the American Political Science Association, San Francisco, August 30-September 2, 2001.
- Hicks, A. (1999). Social Democracy and Welfare Capitalism. Ithaca, Cornell University Press.
- Hinrichs, K. (1998). Reforming the Public Pension Scheme in Germany: The End of the Traditional Consensus?, ZeS Arbeitspapier 11/98, Bremen

- Hinrichs, K. (2000a). Elephants on the move. Patterns of public pension reform in OECD countries. European Review. 8: 353-378.
- Hinrichs, K. (2000b). Von der Rentenversicherungs- zur Alterssicherungspolitik. Reformen und Reformprobleme. Kontingenz und Krise. Institutionenpolitik in kapitalistischen und postsozialistischen Gesellschaften. K. Hinrichs, H. Kitschelt and H. Wiesenthal. Frankfurt a.M. /New York. 3: 291-317.
- Hohnerlein, E.-M. (2001). Alterssicherung und demographische Entwicklung in Italien. Demographischer Wandel und Alterssicherung. Rentenpolitik in neun europäischen Ländern und den USA im Vergleich. H.-J. Reinhard. Baden-Baden, Nomos Verlagsgesellschaft: 93-133.
- Huber, E. and J. D. Stephens (2001). Development and Crisis of the Welfare State: Parties and Policies in Global Markets, Chicago: University of Chicago Press.
- Immergut, E. M. (1990). "Institutions, veto points, and policy results: a comparative analysis of health care." Journal of public policy 10(4): 391-416.
- Immergut, E. M. (1992). The rules of the game: The logic of health policy-making in France, Switzerland, and Sweden. Structuring Politics. S. Steinmo et al. Cambridge. Cambridge University Press: 57-89
- Jackson, R. (2002). The Global Retirement Crisis. The Threat to World Stability and What to Do About. Washington, DC, Center for Strategic and International Studies.
- Jackson, R. and N. Howe (2002). Preliminary results from the CSIS aging vulnerability index. Washington, D.C, The Center for Strategic and International Studies.
- Jolivet, A. (2002). Active strategies for older workers in France. Active strategies for older workers in the European Union. M. Jepsen, D. Foden and M. Hutsebaut. Brussels, European Trade Union Institute: 245-275.
- Kitschelt, H. (1994). The transformation of European Social Democracy. Cambridge, Cambridge University Press.
- Kitschelt, H. (2001). Partisan Competition and Welfare State Retrenchment. When Do Politicians choose Unpopular policies? The New Politics of the Welfare State. Cambridge, Oxford University Press: 265-302.
- Kitschelt, H. (2002). Political economic Context and Partisan Strategies in the German Federal Election. Paper prepared for the workshop at the Max Planck Insti-

- tute for the Study of Societies Cologne on: "Germany Beyond the Stable State: A House United Cannot Stand?" Revised paper to appear in H. Kitschelt and W. Streeck (eds.), Special issue of *West European Politics* 2003/4.
- Kittel, B. and H. Obinger (2001). *Political Parties, Institutions, and the Dynamics of Social Expenditure in Times of Austerity*. MPIfG Discussion Paper 02/01. Cologne: Max-Planck-Institut für Gesellschaftsforschung.
- Kjellberg, A. (1999). Sweden. The Societies of Europe. Trade Unions in Western Europe since 1945. B. Ebbinghaus and J. Visser. London, Macmillan: 605-655.
- Klammer, U. (1997). Alterssicherung in der Europäischen Union II. Alterssicherung in Italien. Eine institutionelle, theoretische und empirische Analyse. Berlin, Duncker & Humbolt.
- Klammer, U. and G. Rolf (1998). "Auf dem Weg zu einer gerechten Alterssicherung? Rentenreformpolitik in Deutschland und Italien im Vergleich." Zeitschrift für Sozialreform 44(11/12): 793-817.
- Klein, M. and D. Ohr (2001). Die Wahrnehmung der politischen und persönlichen Eigenschaften von Helmut Kohl und Gerhard Schröder und ihr Einfluß auf die Wahlentscheidung bei der Bundestagswahl 1998. Analysen aus Anlass der Bundestagswahl 1998. H.-D. Klingemann and M. Kaase. Wiesbaden, Westdeutscher Verlag: 91-132.
- Korpi, W. (1983). The Democratic Class Struggle. London, Routledge and Kegan Paul.
- Krupp, H.-J. (1997). "Pro und Kontra Grundrente - Eine Analyse aus volkswirtschaftlicher Sicht." Deutsche Rentenversicherung 3-4/97: 204-219.
- Levy, J. D. (2000). France: directing adjustment? Welfare and work in the open economy (Vol. II): Diverse responses to common challenges. F. W. Scharpf and V. A. Schmidt. Oxford, Oxford University Press: 308-350.
- Lijphart, A. (1984). Democracies: Patterns of Majoritarian and Consensus Government in Twenty-One Countries. New Haven, Yale University Press.
- Lindbom, A. (2001). De borgerliga partierna och pensionsreformen. Hur blev den stora kompromissen möjlig? Politiken bakom den svenska pensionsreformen. J. Palme. Stockholm, Pensionsforum: 50-87.

- Linnerooth-Bayer, J. (2001). Pension Reform in Austria. Laxenburg, International Institute for Applied System Analysis.
- Lipset, S. M. and S. Rokkan (1967). Party Systems and Voter Alignments: Cross-National Perspectives. New York, Free Press.
- Lißner, L. and J. Wöss (1999). Umbau statt Abbau. Sozialstaaten im Vergleich. Deutschland - Österreich - Schweden. Cologne, Bund-Verlag/ÖGB-Verlag.
- Livre Blanc sur les retraites (1991). Rapports officiels. Paris, La documentation Française.
- LO, Landsorganisationen (1994). LOs yttrande över pensionsarbetsgruppens betänkande Reformrat pensionssystem (SOU 1994:20).
- Lundberg, U. (2001). Socialdemokratin och 1990-talets pensionsreform. Hur blev den stora kompromissen möjlig? Politiken bakom den svenska pensionsreformen. J. Palme. Stockholm, Pensionsforum: 8-49.
- Madeley, J. T. S. (1999). "The 1998 Riksdag Election: Hobson's Choice and Sweden's Voice." West European Politics 22(1): 187-194.
- Mantel, J. (2001). Progress Report European Pension Reforms, Merrill Lynch.
- Marhold, F. (1997). Die Pensionsreform 1997. Ziele, Maßnahmen, Ergebnisse - eine kritische Würdigung. Österreichisches Jahrbuch für Politik. A. Khol, G. Ofner and A. Stirnemann: 505-514.
- Math, A. (2001). Le nouveau projet de loi sur le fonds de réserve des retraites accueilli avec le plus grand scepticisme par les partenaires sociaux, European Industrial Relations Observatory (<http://www.eiro.eurofound.ie/>).
- Maydell, B. v. (1998). Sachgerechte Finanzierungs- und Alterssicherung (insbesondere Beitrags- und/oder Steuerfinanzierung). Handbuch zur Altersversorgung. Gesetzliche, betriebliche und private Vorsorge in Deutschland. J.-E. Cramer, W. Förster and F. Ruland. Frankfurt a.M.: 891-908.
- Meinhardt, V. (1997). Vereinigungsfolgen belasten Sozialversicherung, DIW-Wochenbericht 40/97.
- Merten, D. (1999). "Einbeziehung aller Selbständigen in die gesetzliche Rentenversicherung." Deutsche Rentenversicherung 10-11/99: 609-615.

- Miegel, M. and S. Wahl (1999). *Solidarische Grundsicherung - private Vorsorge. Der Weg aus der Rentenkrise.*
- Ministry of Health and Social Affairs (1998). *Pension reform in Sweden,* (http://social.regeringen.se/pressinfo/pdf/pensioner/pensionsreform_en.pdf)
- Möller, T. (1999). "The Swedish election 1998: A Protest vote and the birth of a new political landscape?" *Scandinavian Political Studies* 22(3): 261-276.
- Mulé, R. (2000). *Political parties, games and redistribution.* Cambridge, Cambridge University Press.
- Müller, H.-W. and R. Tautz (1996). "Ein Grundrentensystem ist teuer!" *Deutsche Rentenversicherung* 12: 770-783.
- Müller, K. (1999). *The political economy of pension reform in Central-Eastern Europe.* Cheltenham, Elgar.
- Myles, J. and P. Pierson (2001). The comparative political economy of pension reform. *The new politics of the welfare state.* P. Pierson. Oxford, Oxford University Press: 305-333.
- Myles, J. and J. Quadagno (1997). Recent trends in public pension reform. A comparative view. *Reform of retirement income policy - international and Canadian perspectives.* K. G. Banting and R. Boadway. Kingston, Queen's University: 247-272.
- Nahles, A. (2001). *Rentendiskussion endet mit Erfolg für die SPD* (<http://home.t-online.de/home/detlev.larcher/>)
- Neumann, W. (1999). *Die Zukunft unserer Renten. Reformdebatten in Frankreich und Deutschland.* Ludwigsburg, Deutsch-Französisches Institut.
- Ney, S. (2001a). *The Rediscovery of Politics: Democracy and Structural Pension Reform in Continental Europe.* The Interdisciplinary Centre for Comparative Research in the Social Sciences. Vienna.
- Ney, S. (2001b). *Pension Reform in Germany,* The Interdisciplinary Centre for Comparative Research in the Social Sciences. Vienna (<ftp://ftp.iccr.co.at/penref/d2-germany.pdf>)

- Niemeyer, W. (1990). "Die politisch wichtigen Stationen." Bundesarbeitsblatt 1: 21-24.
- Niemeyer, W. (1998). "Die Rentenreform 1999." Neue Zeitschrift für Sozialrecht, Heft 3: 103-109.
- Nohlen, D. (2000). Wahlrecht und Parteiensystem. Opladen, Leske + Budrich.
- Nullmeier, F. (1996). "Der Rentenkonsens- Eine Stütze des Sozialstaates in Gefahr?" Gegenwartskunde 45(3): 337-350.
- Nullmeier, F. and F. W. Rüb (1993). Die Transformation der Sozialpolitik: Vom Sozialstaat zum Sicherungsstaat. Campus: Frankfurt a. M.
- Obinger, H. (2001). Vetospieler und Staatstätigkeit in Österreich. Sozial- und wirtschaftspolitische Reformchancen für die neue Mitte-Rechts-Regierung, ZeS-Arbeitspapier Nr. 5/01, Zentrum für Sozialpolitik: Bremen
- OECD (1988). Reforming Public Pensions. Paris.
- OECD (1994). OECD Economic surveys. Sweden. Paris.
- OECD (1996). OECD Economic surveys, 1996-1997. Austria. Paris.
- OECD (1998). Maintaining Prosperity in an Ageing Society. Paris.
- OECD (1999). OECD Economic surveys. France. Paris.
- OECD (2000a). Statistical and Analytical Information on Ageing. Paris.
- OECD (2000b). OECD Economic Surveys 1999-2000. Italy. Paris.
- OECD (2001). Economic Outlook. Paris.
- OECD (2001). Social Expenditure Data Base (electronic source).
- Office for Official Publication of the European Communities (1996). Ageing and Pension Expenditure Prospects in the Western World, Luxembourg.
- Olson, M. (1982). The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities. New Heaven, Yale University Press.
- Olsson, S. (1987). Sweden. Growth to Limits. The Western European Welfare States since World War II. Volume 4. Appendix (Synopses, Bibliographies, Tables). P. Flora. Berlin, Walter de Gruyter: 1-64.

- Orenstein, M. A. (2000). How Politics and Institutions Affect Pension Reform in Three Postcommunist Countries, World Bank Policy Research Working Paper, Syracuse University.
- Orszag, P. R. and J. E. Stiglitz (1999). Rethinking Pension Reform: Ten Myths about Social Security Systems. Conference on "New Ideas About Old Age Security", Washington, D.C.
- Palier, B. (2000). "Defrosting' the French Welfare State." West European Politics 23(2): 113-136.
- Palier, B. (2002). Beyond Retrenchment: four problems in current welfare state research and one suggestion how to overcome them. What Future for Social Security? Debates and Reforms in National and Cross-National Perspective. J. Clasen.
- Palme, J. and I. Wennemo (1997). Swedish Social Security in the 1990s: Reform and Retrenchment (Manuscript).
- Palmer, E. (2000). Swedish pension reform - How did it evolve and what does it mean for the future? NBER-Kiel Institute conference on "Coping with the Pension Crisis - where does Europe stand?", Kiel.
- Paparella, D. (2001). Supplementary pension funds under debate, Eiroline (<http://www.eiro.eurofound.ie/>).
- Pedersini, R. (2002). Government initiatives spark major confrontation with trade unions, Eiroline (<http://www.eiro.eurofound.ie/>).
- Pernicka, S. (2001a). Future role of social partnership under dispute, Eiroline. (<http://www.eiro.eurofound.ie/>).
- Pernicka, S. (2001b). Social partners agree far-reaching reform of severance pay, Eiroline. (<http://www.eiro.eurofound.ie/>).
- Pierson, P. (1994). Dismantling of the welfare state? Reagan, Thatcher, and the politics of retrenchment. Cambridge, Cambridge University Press.
- Pierson, P. (1996). "The new politics of the welfare state." World Politics 48, January 1996: 143-79.
- Pierson, P. (1997). The politics of pension reform. Reform of retirement income policy - international and Canadian perspectives. K. G. Banting and R. Boadway. Kingston, Queen's University: 273-294.

- Pierson, P. (1998). "Irresistible forces, immovable objects: post-industrial welfare states confront permanent austerity." Journal of European Public Policy 5(4): 539-560.
- Pierson, P. and R. K. Weaver (1993). Imposing Losses in Pension Policy. Do Institutions matter? Government capabilities in the United States and Abroad. R. K. Weaver and B. A. Rockmann. Washington: 110-150.
- Pitruzello, S. (1997). "Social Policy and the Implementation of the Maastricht Fiscal Convergence Criteria: The Italian and French Attempts at Welfare and Pension Reforms." Social Research 64(4): 1589-1642.
- Pontusson, J. (1997). The limits of Social Democracy. Investment politics in Sweden. Ithaca, Cornell University Press.
- Prinz, C. and B. Marin (1999). Pensionsreformen. Nachhaltiger Sozialumbau am Beispiel Österreichs. Frankfurt a.M., Campus.
- Rahn, M. (1999). Reform der gesetzlichen Rentenversicherung in Deutschland aus rechtsvergleichender Sicht. Rentenversicherung im internationalen Vergleich. Verband Deutscher Rentenversicherungsträger. Frankfurt a.M.: 377-410.
- Regini, M. (1997). "Still engaging in corporatism? Einige Lehren aus jüngsten italienischen Erfahrungen mit der Konzertierung." Politische Vierteljahresschrift 38(2): 298-318.
- Reuber, L. (2000). Politik im Medienzirkus. Frankfurt a.M., Verlag der Universitätsbuchhandlung Blazek und Bergmann seit 1891 GmbH.
- Reynaud, E. (1997). Des fonds d'épargne retraite créés par la loi, eiroline (<http://www.eiro.eurofound.ie/>)
- Richter, S. (2001). Ideen, Interessen und Institutionen. Bestimmungsfaktoren des rentenpolitischen Entscheidungsprozesses, Diplomarbeit, Universität Konstanz.
- Roller, E. (1999). "Shrinking the Welfare State: Citizens' Attitudes Toward Cuts in Social Spending in Germany in the 1990s." German Politics 8(1): 21-39.
- Rosanelli, M. and J. Wolf (1994). Exkurs I: Die italienischen Rentnergewerkschaften. Alter und gewerkschaftliche Politik. J. Wolf, M. Kohli and H. Künemund: 97-121.
- Ross, F. (2000). "'Beyond Left and Right': The New Partisan Politics of Welfare." Governance 13(2): 155-183.

- Ruland, F. (1999). "Contra: Bedürftigkeitsorientierte Mindestsicherung." Deutsche Rentenversicherung 8-9: 480-493.
- Rürup, B. (2000). "Die Pensionsreform 1997." Versicherungsgeschichte Österreichs 6: 353-379.
- Rürup, B. and I. Schröter (1997). Perspektiven der Pensionsversicherung in Österreich. Gutachten im Auftrag des Bundesministeriums für Arbeit, Gesundheit und Soziales. Vienna.
- SACO, Sveriges Akademikers Centralorganisation (1994). Remissvar: Reformerat Pensionssystem (SOU 1994:20).
- Sauviat, C. (1998). Réforme des retraites: un premier pas du gouvernement Jospin vers une forme de capitalisation, Eiroline (<http://www.eiro.eurofound.ie>).
- Sauviat, C. (1999). Réforme des retraites: réactions des partenaires sociaux, Eiroline (<http://www.eiro.eurofound.ie>).
- Sauviat, C. (2000). Nouvel épisode du débat sur la réforme des retraites, Eiroline (<http://www.eiro.eurofound.ie>).
- Scarbrough, E. (2000). "West European welfare states: The old politics of retrenchment." European Journal of Political Research 38: 225-259.
- Scharpf, F. W. (1997a). *Balancing Sustainability and Security in Social Policy*. Paris, OECD.
- Scharpf, F. W. (1997b). *Games real actors play : actor-centered institutionalism in policy research*. Boulder: Colorado
- Scharpf, F. W. (2000a). Economic Changes, Vulnerabilities, and Institutional Capabilities. From vulnerability to competitiveness. F. W. Scharpf and V. A. Schmidt. Oxford, Oxford University Press (Volume I): 21-124.
- Scharpf, F. W. (2000b). "Institutions in comparative policy research." Comparative Political Studies 33(6/7): 762-789.
- Scharpf, F. W. and V. A. Schmidt (2000). Conclusions. From vulnerability to competitiveness. F. W. Scharpf and V. A. Schmidt. Oxford, Oxford University Press (Volume I): 310-336.
- Schäuble, W. (2001). Mitten im Leben. Gengenbach/Berlin, Goldmann.

- Schludi, M. (1997). Kürzungspolitik im Wohlfahrtsstaat - Deutschland und Schweden im Vergleich. Diplomarbeit, Universität Konstanz.
- Schmähl, W. (1999). Arbeit - Basis für die soziale Sicherung der Zukunft. Wandel der Arbeitswelt - Folgerungen für die Sozialpolitik. W. Schmähl and H. Rische. Baden-Baden: 189-226.
- Schmähl, W. (2001). Finanzverflechtung der gesetzlichen Rentenversicherung. Interner Finanzausgleich und Finanzbeziehungen mit dem Bund sowie anderen Sozialversicherungsträgern - Elemente einer Bestandsaufnahme und einige Reformüberlegungen. Finanzierungsverflechtung in der Sozialen Sicherung. Analyse der Finanzierungsströme und -strukturen. K.-D. Henke and W. Schmähl. Baden-Baden: 9-37.
- Schmitter, P. C. and G. Lehmbruch (1979). Trends toward corporatist intermediation. Beverly Hills, Sage.
- Sebald, M. (1998). Die "Sparpakete" Mitte der neunziger Jahre. Sozialpartnerschaft und Entscheidungsprozesse (unveröffentlichter Projektbericht). E. Tálos and B. Kittel. Vienna: 5-105.
- Settergren, O. (2001). "The automatic balance mechanism of the Swedish pension system - a non technical introduction." Wirtschaftspolitische Blätter 4: 339-349.
- Siebert, H. (1998). Pay-as-You-Go versus Capital-Funded Pension Systems: The Issues. Redesigning Social Security. H. Siebert. Kiel, Mohr Siebeck: 3-33.
- Siegel, N. A. (2002). Baustelle Sozialpolitik. Konsolidierung und Rückbau im internationalen Vergleich. Frankfurt a. Main, Campus Verlag.
- Sinn, H.-W. (1999). The crisis of Germany's pension insurance system and how it can be resolved. CESifo Working Paper No. 191, Munich.
- Socialdepartementet (1996). Valfärdsprojektet. Pensionärerna och den ekonomiska krisen. Stockholm.
- Socialdepartementet (1999). Sämre för mig Bättre för oss. En analys av pensionärernas ekonomiska situation under 1990-talet. Stockholm.
- SOU (1990:76). Allmän pension. Huvudbetänkande av pensionsberedningen. Socialdepartementet. Stockholm.

- SOU (1994:20). Reformerat pensionssystem. Betänkande av Pensionsarbetsgruppen. Socialdepartementet. Stockholm,.
- SPD, Sozialdemokratische Partei Deutschlands (1997). Strukturreform statt Leistungskürzungen. Vorschläge der Alterssicherungskommission der SPD zur Zukunft der Renten. Bonn.
- Standfest, E. (1999). "Zur aktuellen Lage der Rentenversicherung." Deutsche Rentenversicherung Heft 6-7: 325-334.
- Stephens, J. D. (1979). The Transition from Capitalism to Socialism. Atlantic Highlands, Humanities Press.
- Streeck, W. (1994). Pay restraint without incomes policy. Institutionalized monetarism and industrial unionism in Germany. The return to incomes policy. R. Dore, R. Boyer and Z. Mars. London, Pinter: 118-140.
- Streeck, W. (2002). Weniger ist für viele mehr. Financial Times Deutschland.
- Strøm, K. and W. C. Müller (1999). Political parties and hard choices. Policy, office, or votes? K. Strøm and W. C. Müller. Cambridge, Cambridge Univ. Press: 1-35.
- Sully, M. (1996). "The 1995 Austrian Election: Winter of Discontent." West European Politics 19(3): 633-640.
- Swank, D. (2000). Political Institutions and Welfare State Restructuring: The Impact of Institutions on Social Policy Change in Developed Democracies. The New Politics of the Welfare State. P. Pierson. New York, Oxford University Press: 197-237.
- Szarka, J. (1997). "Snatching defeat from the Jaws of Victory: The French Parliamentary Elections of 25 May and 1 June 1997." West European Politics 20(4): 192-199.
- Tálos, E. (2001). "Sozialpolitik zwischen konservativer Tradition und neoliberaler Orientierung. Eine Einjahresbilanz der ÖVP/FPÖ-Regierung." Kurswechsel 1: 17-29
- Tálos, E. and B. Kittel (1999). Sozialpartnerschaft und Sozialpolitik. Zukunft der Sozialpartnerschaft. F. Karhofer and E. Tálos. Wien: 137-164.
- Tálos, E. and B. Kittel (2001). Gesetzgebung in Österreich. Netzwerke, Akteure und Interaktionen in politischen Entscheidungsprozessen. Wien, Universitätsverlag.
- Tálos, E. and K. Wörister (1998). Soziale Sicherung in Österreich. Soziale Sicherung im Wandel- Österreich und seine Nachbarstaaten. Ein Vergleich. E. Tálos. Wien: 209-288.

- Taverne, D. (2000). Can Europe pay for its pensions? London, Cogan Page.
- Taylor-Gooby, P. (2001). "Sustaining state welfare in hard times: who will foot the bill." Journal of European Social Policy 11(2): 133-147.
- TCO, Tjänstemannens Centralorganisation (1994). Yttrande. Reformerat Pensionssystem. Betänkande av Pensions-arbetsgruppen (SOU 1994:20).
- Traxler, F. (2001). Reform of severance pay under discussion, Eiroline (<http://www.eiro.eurofound.ie>).
- Trentini, M. (1997). Welfare reform results from negotiations between government and trade unions, Eiroline (<http://www.eiro.eurofound.ie>).
- Tsebelis, G. (1995). "Decision making in political systems: veto players in presidentialism, parliamentarianism, multicameralism and multipartism." British journal of political science 25(3): 289-325.
- Tsebelis, G. (1999). "Veto players and law production in parliamentary democracies : an empirical analysis." The American political science review 93(3): 591-608.
- Universität Kassel (2002). Bilanz der Europawahl und der Landtagswahlen 1999 (<http://www.uni-kassel.de/fb5/politikwissenschaft/Demokratietheorie/wahlen99.html>).
- US Department of health and human services (1986). Social Security Programs Throughout the World. Washington, D.C.
- Vail, M. I. (1999). "The better part of valour: The politics of French welfare reform." Journal of European Social Policy 9(4): 311-329.
- VDR, Verband Deutscher Rentenversicherungsträger (2001). Rentenversicherung in Zeitreihen. Juli 2001. Frankfurt am Main.
- Veil, M. (2000a). Konfrontation oder Konsens? Rentensystem und Rentenreformen in Frankreich. Frankreich-Jahrbuch. Deutsch-Französisches Institut: 205-223.
- Veil, M. (2000b). "Reform der Alterssicherung in Frankreich - Thematisierungschancen für die Diskussion in Deutschland." WSI Mitteilungen 11/2000: 726-734.
- Visser, J. (2000). France. Trade unions in Western Europe since 1945. B. Ebbinghaus and J. Visser. London, Macmillan: 237-277.

- Wadensjö, E. (2000). Sweden: Reform of the public pension system. Social dialogue and pension reform. E. Reynaud. Geneva, International Labor Office: 67-80.
- Wadensjö, E. (2002). Active strategies for older workers in Sweden. Active strategies for older workers in the European Union. M. Jepsen, D. Foden and M. Hutsebaut. Brussels, European Trade Union Institute: 381-402.
- Wagschal, U. (2000). Schub- und Bremskräfte sozialstaatlicher Anstrengungen. Der gezügelte Wohlfahrtsstaat. Sozialpolitik in reichen Industrienationen. H. Obinger and U. Wagschal. Frankfurt a.M, Campus,,: 73–94.
- Weaver, R. K. (1998). The politics of pensions : lessons from abroad. Framing the social security debate : values, politics, and economics. R. D. Arnold, M. J. Graetz and A. H. Munnell. Washington, D.C.: 183-228.
- Weigel, W. and A. Amann (1987). Austria. Growth to Limits. The Western European Welfare States since World War II. Volume 4. Appendix (Synopses, Bibliographies, Tables). P. Flora. Berlin, Walter de Gruyter: 529-609.
- Weizsäcker, J. v. (2000). Alle Macht den Rentnern? Generationengerechtigkeit. Leitbild für das 21. Jahrhundert. W. Homolka. Frankfurt a. M., Alfred-Herrhausen-Gesellschaft für Internationalen Dialog: 39-47.
- Werding, M. (2001). Auswirkungen des demographischen Wandels auf die öffentlichen Finanzen: Modellrechnungen für die staatlichen Alterssicherungssysteme - im Auftrag des Bundesministeriums der Finanzen. München, Institut für Wirtschaftsforschung.
- Wijnbergen, C. v. (2000). Co-opting the Opposition: The Role of Party Competition and Coalition-Making in Curing the Dutch Welfare State. Paper prepared for presentation at the Second Graduate Student Training Retreat in Comparative Research, Yale University.
- Wischeropp, D. (1999). Das französische Sozialleistungssystem. Leistungen, Finanzierungsprobleme und Lösungsansätze. Soziale Leistungen und ihre Finanzierung. Länderstudien zu Frankreich, Italien und den Niederlanden. D. Döring, R. Hauser and W. Schmähl. Berlin, Duncker & Humblot: 39-188.
- World Bank (1994). Averting the Old Age Crisis. Oxford.

Wöss, J. (2000). "Gesetzliche Pensionsversicherung - Rückblick auf die letzten 30 Jahre."

(http://www.netzwerk-innovation.at/downloads/themen/balance/09GV_G_Woess.pdf)